Mexico

Country Progress Report

April 2022

SUPPLEMENT TO THE 2021 GLOBAL PROGRESS REPORT OF THE SUSTAINABLE BANKING AND FINANCE NETWORK

Sustainable Banking and Finance Network

IFC International Finance Corporation
WORLD BANK GROUP
Creating Markets, Creating Opportunities

Acknowledgements

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About SBFN

Established in 2012, SBFN is a voluntary community of financial sector regulators and industry associations from emerging markets committed to collectively advancing sustainable finance in line with international good practice and national priorities. As of October 2021, SBFN members represented 63 institutions, 43 countries, and $43 trillion (86 percent) of the total banking assets in emerging markets. Members are committed to i) improving the management of environmental, social, governance, and climate change risks in financial sector activities, and ii) increasing capital flows to activities with positive environmental and social impacts, including climate change mitigation and adaptation. For more information, visit www.sbfnetwork.org.

About IFC

IFC—a member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. IFC works in more than 100 countries, using its capital, expertise, and influence to create markets and opportunities in developing countries. In fiscal year 2021, IFC committed a record $31.5 billion to private companies and financial institutions in developing countries, leveraging the power of the private sector to end extreme poverty and boost shared prosperity as economies grapple with the impacts of the COVID-19 pandemic. For more information, visit www.ifc.org.

Contents

Note to the reader: All measurement results featured in this document, such as graphs and progression matrixes, are based on data collected up to July 2021. Additional activities up to the publishing date of this country report have been included in narrative form.

1. Overall country progress – Mexico

1.1 SBFN member institutions:

Mexican Banking Association (ABM)	Member Since: 2016	**Working Group:** Data and Disclosure
Secretariat of Environment and Natural Resources of Mexico (Semarnat)	Member Since: 2016	
Bank of Mexico (Banxico)	Observer	

1.2 Other key institutions and national initiatives promoting sustainable finance

Mexican Financial System Stability Council (CESF)
Ministry of Finance and Public Credit (SHCP)
The National Banking and Securities Commission (CNBV)
The National Commission for the Pension Saving System (CONSAR)
The Green Finance Advisory Council (CCFV)

1.3 Overall progress

Mexico has continued to make progress under the **"Advancing" sub-stage of the "Implementation" stage**. The initiatives promoted by the banking sector are aligned with the Sustainability Banking Protocol launched by the Mexican Banking Association (ABM) in 2016, as well as with international frameworks. In 2020, the ABM launched an ESG (environmental, social, and governance) and Climate Risk Analysis Tool. The same year, the ABM shared a proposal of criteria for the development of a green taxonomy in Mexico with regulators and other organizations in the financial system. The Bank of Mexico (Banxico) published the report Climate and Environmental Risks and Opportunities in Mexico's Financial System: from Diagnosis to Action, and has included aspects related to climate risk and ESG risks in its periodic reports on financial stability. Mexico's sustainable finance framework has a series of implementation tools in place, including guidelines, templates (for example for reporting), training, online tools, and supervision guidance on how to put these recommendations into practice. Financial institutions (FIs) have also begun reporting voluntarily on sustainable finance implementation in line with consistent reporting instructions and templates.

Figure 1: SBFN Progression Matrix - Overall Country Progress

* Countries within each sub-stage are listed in alphabetical order

1.4 Country sustainable finance journey

Figure 2: Mexico's sustainable finance journey

Policies, principles, regulations, and guidance

Research and engagement (since last SBFN progress report)

Examples of market actions and impacts

2007

ABM formed the Sustainability Committee

2015

MexiCO2: Voluntary Carbon Market, Green Bonds, Listings, Labels

First Mexican green bond issuance abroad by Nacional Financiera for $500 million

2016

ABM and Semarnat join SBFN

ABM publishes the Sustainability Banking Protocol

First green bond issuance in Mexico by Nacional Financiera for $103.4 million

Mexico City issued Latin America and the Caribbean's first municipal green bond for $48.5 million

2019

CONSAR issues ESG requirements for pensions investment (mandatory from 2022)

CCFV publishes Environmental, Social and Governance (ESG) Guide

2018

Banxico becomes an SBFN Observer

ABM launches the Social and Environmental Risk Analysis Tool (HARAS)

CCFV issues Green Bond Principles for Mexico

Banxico, in collaboration with German Agency for International Cooperation, Instituto Tecnológico Autónomo de México (ITAM), and Cambridge Institute for Sustainability Leadership, publishes Embedding Environmental Scenario Analysis into Routine Financial Decision-making in México

2017

Pilot for the Drought Stress Testing Tool

2020

ABM issues ESG and climate risk tools

ABM proposes criteria for the development of a green taxonomy

ABM releases the first sustainability report in line with the 2030 Agenda

ABM releases the first assessment report of its Sustainability Protocol implementation

ABM undertakes its first pilot exercise with a group of banks to identify green financing

CESF forms the Sustainable Finance Committee

ABM becomes a permanent observer in the Sustainable Finance Committee of the Finance Stability Council

Banxico publishes the Climate and Environmental Risks and Opportunities in Mexico's Financial System: From Diagnosis to Action

CCFV requests voluntary ESG information disclosure by public issuers

$885 million Sustainable Development Goals (SDGs) Sovereign Bond is issued, the first to be linked to the UN SDGs

$566 billion (84 percent) of banking assets are held by banks that consider ESG integration requirements, as specified in the national sustainable finance framework

$427 billion (62 percent) of banking assets are held by banks that report on overall climate risks and/or their climate risk management approach

Total national green bond cumulative issuance is valued at $3.2 trillion

1.5 COVID response

The ABM, together with the Mexican National Banking and Securities Commission (CNBV) and the Ministry of Finance and Public Credit (SHCP), helped clients economically affected by COVID-19 by offering forbearance plans in 2020. Moreover, the Mexican Central Bank offered various programs to promote the stability of financial markets and strengthen credit flows. The COVID-19 crisis highlighted the need to incorporate ESG factors in finance-related decisions, and underlined the urgency for sustainable recovery in Mexico. This led to the engagement of multiple actors within the financial system and their collaboration to prioritize the green finance agenda. As an example, the Sustainable Finance Committee was created in April 2020 by the CESF. The members of the Committee approved the creation of four working groups for the following priority areas: 1) Sustainable taxonomy, 2) Capital flow opportunities, 3) Measuring ESG risks, and 4) Disclosure of information and adoption of ESG standards.

1.6 Ambitions for next phase

The ABM is developing a sustainable finance roadmap for the Mexican banking sector and will promote voluntary pilot programs with banks every year to identify and promote sustainable finance flows, according to the ABM-GIZ taxonomy. The ABM is also encouraging more banks in Mexico to become signatories of the Sustainability Banking Protocol. Additionally, the ABM will facilitate the pilot study with the Two Degrees Investing Initiative on a group of banks to analyze the exposure of portfolios to climate scenarios. The CCFV and its members continue to encourage companies and public issuers to disclose ESG information that investors can take into account for their risk & opportunity analysis as recommended in international standards.

1.7 SBFN and IFC role

IFC has provided support to the financial sector for the sustainable finance initiatives and capacity building in the country, in partnership with CAP Green Finance. Through SBFN, the ABM has shared its experience with other SBFN members and benefited from the collective SBFN knowledge base.

> At the ABM we are convinced that collaborating with organizations such as the SBFN, authorities, trade associations, and civil society in general is key to creating joint solutions that benefit all: the economy, people and the planet. We are working on various initiatives to reach our common goals such as SDGs and the Paris Agreement.

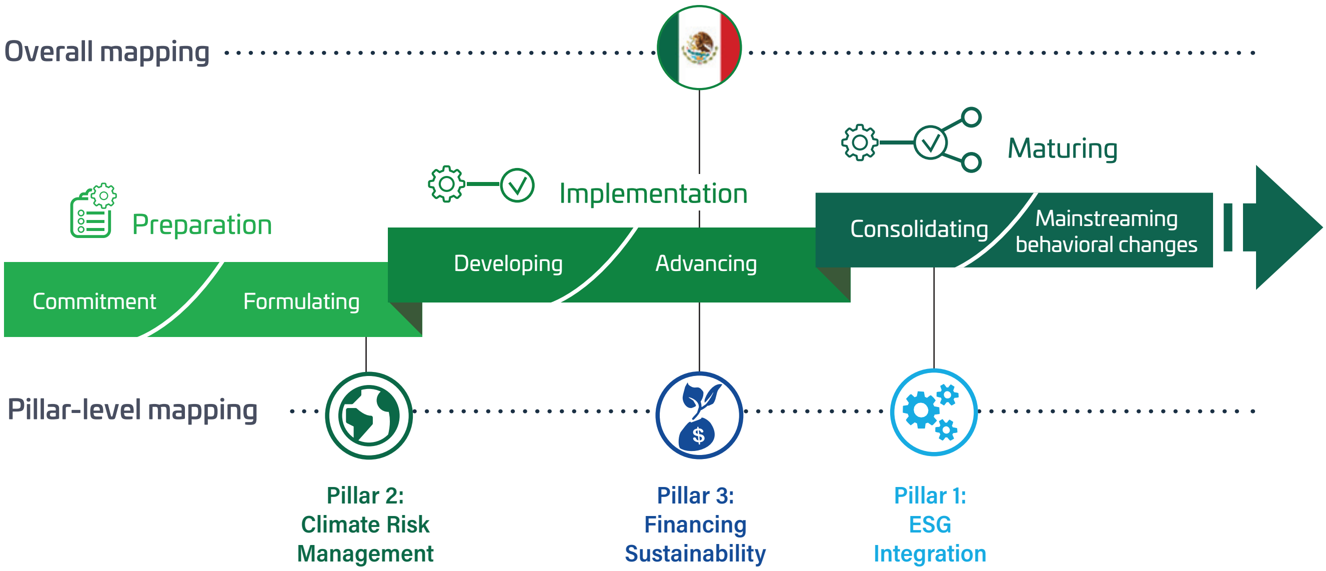
Juan Carlos Jiménez
CEO

Mexican Banking Association (ABM)

ABM ASOCIACIÓN DE BANCOS DE MÉXICO

2. Progress by three pillars

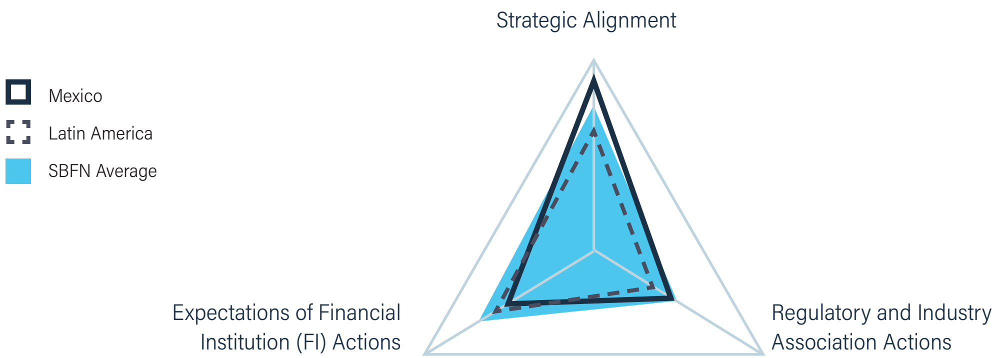
Figure 3: Mapping of overall country progress and individual pillar progress



Pillar 1: ESG Integration

Pillar Progress: Consolidating

Mexico is mapped under the **"Consolidating" sub-stage of the "Maturing" stage** for the ESG Integration Pillar. Its national framework extends beyond the banking sector and promotes ESG integration across the financial sector ecosystem. In addition to ongoing activities to raise awareness and build capacity, implementation tools and initiatives are in place, and consistent and comparable data is available on financial institutions (FIs) ESG implementation.



Sub-pillar 1: Strategic Alignment

- Mexico's national frameworks for the banking sector and nonbanking sector, such as the Sustainable Banking Protocol (ABM, 2016), ESG Guide (CCFV, 2019), and ESG information disclosure requirements for public issuers (CCFV, 2020), lay out expectations for integrating the consideration of ESG risks and performance.
- The Mexican financial sector's approach to ESG integration is in alignment with international good practices and standards; for example, Mexico's ESG integration requirements are explicitly aligned with the IFC Performance Standards and the IFC Corporate

Governance Development Framework, the Equator Principles, the Principles for Responsible Investment, the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board. The ESG requirements are also aligned with the country's national development goals and objectives.

- The framework was developed and implemented in close consultation with stakeholders. Financial authorities formed a Sustainable Finance Committee with the participation of the private sector associations, including the ABM, and a working group, which studies sustainable finance strategies to encourage FIs to incorporate ESG information into their risk analyses.

Sub-pillar 2: Regulator and Industry Association Actions

- Mexico's sustainable finance framework is supported with implementation guidance, technical tools and capacity building, including the ESG and Climate Risk Analysis Tool developed in collaboration with IDB, and an online tool (HARAS) to identify environmental and social risks.
- The implementation of the framework is regularly monitored by the ABM. The ABM developed the assessment report of the Sustainability Protocol in collaboration with
- German Corporation for International Cooperation (GIZ).
- In 2019, the National Commission for the Pension Saving System (CONSAR) issued a provision that encourages the country's pension funds to voluntarily integrate ESG factors into their investment decisions, which was mandatory from 2022.
- In April 2019, Banxico published Climate and Environmental Risks and Opportunities in Mexico's Financial System: From Diagnosis to Action, encouraging financial institutions to incorporate environmental issues into their risk assessments and corporate governance strategies, as well as to promote green finance.
- In 2020, Banxico published the 2020 Financial Stability Report, including a chapter on market assessment to identify systemic ESG risks through analysis of the portfolios, such as physical risks, impact on banks, exposure analysis, transition risks, and the effect of drought associated with extreme heat on delinquencies in agricultural businesses.

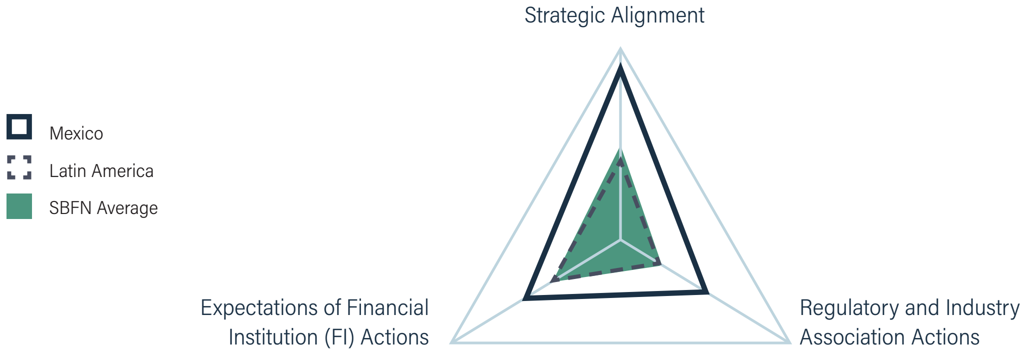
Sub-pillar 3: Expectations for FI Actions

- The Sustainable Banking Protocol encourages FIs to develop policies and procedures to manage ESG risks and performance, and report ESG performance publicly.
- In 2018 the ABM launched an online tool (HARAS) to identify environmental and social risks. It uses postcodes as the geographic unit of analysis to identify possible environmental and social risks based on Mexican legal frameworks. Only banks have access to the tool and the results obtained support FIs in making credit-granting decisions.
- In 2019, the CCFV issued the voluntary ESG Guide that encourages public issuers to conduct ESG-related disclosure aligned with TCFD and SASB.
- In 2019-2020, the ABM and IDB jointly developed and launched a voluntary ESG and Climate Risk Analysis Tool to help banks assessing their alignment to the TCFD recommendations.

Pillar 2: Climate Risk Management

Pillar Progress: Formulating

Mexico is in the **"Formulating" sub-stage of the "Preparation" stage** of the Climate Risk Management Pillar. There is an existing framework for ESG risk management that references climate change, and the Banxico has issued a report that calls for the development of approaches for financial institutions to manage the physical and transition risks of climate change and related financial impacts in line with international practices. Preparations and activities include research, surveys, and multi-stakeholder engagement and awareness raising about expectations for climate risk management.



Sub-pillar 1: Strategic Alignment

- Addressing climate change risks is a national priority as indicated in Mexico's Nationally Determined Contribution (NDC) to the Paris Agreement and national climate policies, including the General Law on Climate Change and the Energy Transition Law. In the financial sector, Banxico, the ABM, and the CCFV have developed roadmaps, voluntary protocols, and declarations for the management of climate risk.

Sub-pillar 2: Regulatory and Industry Association Actions

- In 2016, the ABM issued the Sustainability Banking Protocol, which includes references to climate and to the IFC Performance Standards and Equator Principles. In 2019, ABM's Sustainability Committee undertook a pilot assessment with a voluntary group of Mexican banks for TCFD alignment; from this, the ESG and Climate Risk Analysis Tool was developed to assist FIs assessing their alignment to TCFD recommendations.
- In 2018, Banxico, in collaboration with GIZ, ITAM, and CISL, released the Embedding Environmental Scenario Analysis into Routine Financial Decision-making in México to promote the integration of environmental scenario analysis into financial decision-making for financial institutions across the banking, insurance, and asset management sectors.
- In 2020, CCFV issued a request for companies and public issuers to expand existing ESG disclosure to include climate risk management practices in line with international standards, including TCFD.
- In 2020, Banxico (a member of the Network of Central Banks and Supervisors for Greening the Financial System, NGFS) and United Nations Environment Programme released the Climate and Environmental Risks and Opportunities in Mexico's Financial System: From Diagnosis to Action, which provides credit institutions and asset managers in the Mexican economy and financial sector an assessment of climate risk, and a roadmap for financial supervisors[1] to develop consistent guidelines and disclosure policies for climate-related risks.
- The Financial Stability Report of Banxico (2020, 2021) provide analysis to quantify climate risk exposure in financial institutions.
- Awareness raising and industry collaboration on environmental and climate risks is facilitated by the Financial System Stability Council's Sustainable Finance Committee involving financial authorities and industry associations across the financial system, including the ABM.

1 National Commission for the Pension System (CONSAR); National Securities and Banking Commission (CNBV); National Insurance and Sureties Commission (CNSF); Secretariat of Finance and Public Credit (SHCP).

- As part of future progress by Mexico, recommended areas of focus for regulatory and industry association actions include research, capacity building, technical guidance (for example, climate scenario analysis and stress testing), and development of regulatory and supervisory expectations for FIs for managing physical and transition risks of climate change and related financial impacts.

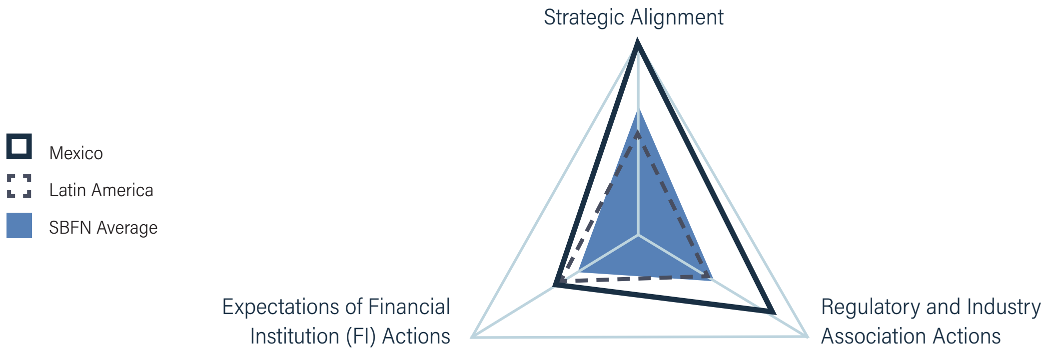
Sub-pillar 3: Sub-pillar 3: Expectations for FI Actions

- Application of the Sustainability Banking Protocol and ESG and Climate Risk Analysis Tool serves to build familiarity and capacity among Mexican banking institutions to improve climate risk management practices as part of overall ESG risk management approaches, and to promote alignment with TCFD.
- As part of the 30 by 30 Zero initiative, the IFC and World Bank are collaborating with Mexican financial authorities and the financial sector to scale climate finance, and to build the capacity of financial institutions to identify, manage, and reduce the climate and carbon-related risks in their portfolios.
- In 2021, the ABM and a group of Mexican banks participated in the pilot study of the Two Degrees Investing Initiative to analyze the exposure of portfolios under climate scenarios.

Pillar 3: Financing Sustainability

Pillar Progress: Advancing

Mexico is mapped under the **"Advancing" sub-stage of the "Implementation" stage** for the Financing Sustainability Pillar. Its national sustainable finance framework for directing financial flows into green, social, climate, and sustainability-linked projects has implementation tools and initiatives in place and FIs have started reporting ESG performance in line with consistent reporting instructions and templates. In 2020, the ABM, in collaboration with GIZ, developed the proposal of criteria for the development of a green taxonomy in Mexico, making progress in the country's taxonomy development, and aligning with international good practices and standards.



Sub-pillar 1: Strategic Alignment

- Mexico's national framework for financing sustainability covers both the banking sector and the capital markets. The Sustainability Banking Protocol (ABM, 2016) leads the banking sector; and the CCFV's Green Bond Principles for Mexico leads the capital markets. Furthermore, Banxico published the Climate and Environmental Risks and Opportunities in Mexico's Financial System: From Diagnosis to Action in 2019, stating its regulatory plans and expectations to promote climate finance.
- The Mexican financial sector's approach to promote financial flow into green and sustainability projects and sectors is aligned with international goals, good practices, and standards, such as the United Nations' SDGs, the International Capital Markets Association's Green Bond Principles, as well as with the country's national objectives.
- Mexico's national framework on financing sustainability enables the achievement of stated national objectives by guiding capital to green, social, and sustainable sectors, assets, and projects. It also promotes key stakeholder collaboration related to stimulating and monitoring sustainable finance flows , including data sharing between agencies that currently exist. For example, the Financial System Stability Council created the Sustainable Finance Committee, which includes observers such as the ABM and other associations of the Mexican financial system.

Sub-pillar 2: Regulatory and Industry Association Actions

- Mexico's framework encourages the regulator or industry association to establish mechanisms to identify and promote the allocation of capital to sustainable sectors, assets, and projects.

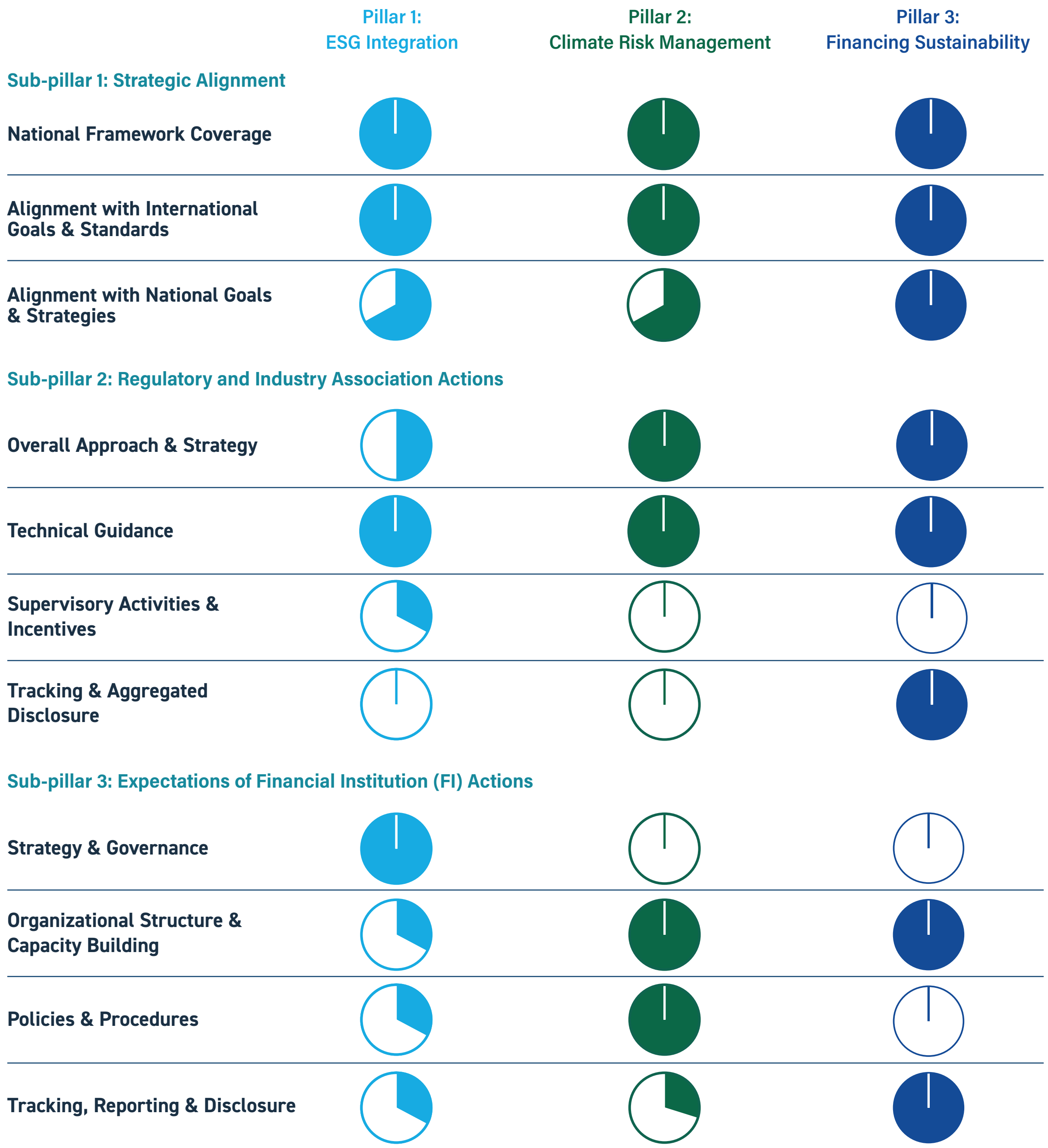
- Mexico's framework provides guidelines for green and sustainable loans and bonds. For example, the Green Bonds Principles are largely based on the ICMA's Green Bond Principles. It includes a list and samples of eligible assets and projects, and requires assurance, evaluation, proceed-management, reporting, and third-party-verification aligned with international standards.
- In 2020, Banxico published in their periodic Financial Sustainability Report on the convenience of developing sustainable taxonomy and taking advantage of opportunities to mobilize capital as part of the country's sustainable finance priorities. In 2020, the ABM, in collaboration with GIZ, created a proposal of criteria for the development of a green taxonomy in Mexico, based on best practices of the European Union's Taxonomy. The proposal was shared with regulators, institutions, and organizations in the Mexican financial system.
- In 2020, the ABM, in collaboration with GIZ, developed the first voluntary pilot study to identify sustainable finance flows in the country, based on data from 2018. Results were shared with regulators, including Banxico.

Sub-pillar 3: Expectations for FI Actions

- The Mexican Sustainability Banking Protocol sets specific expectations for banks to promote finance flows into sustainable investments, and to establish high-level strategies, define staff roles and responsibilities, and develop capacity to promote sustainable investment.
- Both the Sustainability Banking Protocol and the Green Bonds Principles encourage reporting on green finance flows and performance, with the aim of encouraging further development of green finance in Mexico. Mexico's framework encourages FIs to publish annual updates on the performance and impacts of their sustainability instruments and disclose it publicly. The framework also suggests that FIs obtain and disclose independent review of metrics reported annually in relation to the social and environmental outcomes and impacts achieved through their sustainability instruments.

3. Progress by three sub-pillars and 11 Indicators

Figure 4: Overview of Mexico's sustainable finance coverage in three framework areas



4. Library of national sustainable finance framework documents

National strategies, roadmaps, policies, voluntary principles, regulations, guidelines, research, templates, and tools that provide an enabling framework for sustainable finance

Financial Sustainability Report
(Banxico, 2020 and 2021)*

Request for voluntary ESG information disclosure by issuers
(CCFV, 2020)

ESG and Climate Risk Analysis Tool
(IDB-ABM, 2020) (limited access)*

Climate and Environmental Risk and Opportunities in Mexico's Financial System: From Diagnosis to Action
(Banxico, 2020)

Proposal of criteria for the development of a green taxonomy in Mexico
(ABM, 2020)

ESG Guide
(CCFV, 2019)

Requirement to integrate ESG factors in pensions investment decisions by 2022
(CONSAR, 2019)

Green Bond Principles for Mexico
(CCFV, 2018)

Embedding Environmental Scenario Analysis into Routine Financial Decision-making in México
(Banxico, GIZ, ITAM, and CISL, 2018)

Sustainable Banking Protocol
(ABM, 2016)

Download framework documents and check for updates at www.sbfnetwork.org/library

* Not a policy-document, but a key sustainable finance disclosure or stakeholder engagement material.

5. SBFN measurement framework and methodology

About SBFN

Established in 2012, the Sustainable Banking and Finance Network (SBFN) is a unique, voluntary community of financial sector regulatory agencies and industry associations from emerging markets committed to advancing sustainable finance in line with international best practice. SBFN is facilitated by IFC as secretariat, and supported by the World Bank Group.

As of October 2021, SBFN comprised 43 member countries representing over US$43 trillion and 86 percent of total banking assets in emerging markets. Members are committed to collectively driving measurable change.

Why a measurement framework?

In 2016, members requested a systematic comparison of country approaches to developing national sustainable finance frameworks. The SBFN Measurement Working Group was established to convene member inputs on the design of a common framework to benchmark country progress and accelerate peer-to-peer knowledge exchange. The Framework is designed to inform the biennial SBFN Global Progress Report.

An evolving framework

The SBFN Measurement Framework reflects the activities, strategies, and tools that members use to promote sustainable finance in their countries. It evolves to match advances in country initiatives. It also incorporates the latest international standards and best practices identified by members as important to their efforts.

A member-led approach

The Framework was designed with extensive member input under the leadership of the Measurement Working Group and Co-Chairs. Updates to the Framework are guided by the Measurement Working Group and agreed by all SBFN Members.

Data collection in partnership with members

As of 2021, data collection for the SBFN Global Progress Report relies on member country reporting in line with the updated Measurement Framework. Information is supported by evidence, which is verified by the SBFN secretariat in collaboration with third-party service providers. Evaluation and milestones are objective and transparent. Members approve the final Global and Country Progress Reports.

The Framework can be used as:

- a **mapping tool** to capture the dynamic interaction of collective insights, market-based actions, and policy leadership demonstrated by SBFN members as they move their financial markets toward sustainability;
- a **benchmarking tool** for SBFN members to learn from and compare peer approaches, track and review progress against global benchmarks, develop common concepts and definitions, and leverage innovations and strengths; and
- a **forward planning and capacity building tool** to identify future policy pathways and capacity building needs.

The Measurement Framework is based on three intersecting themes in sustainable finance. For each theme, it assesses regulatory guidance, supervision strategies, disclosure requirements, and voluntary industry approaches.

ESG Integration refers to the management of environmental, social, and governance (ESG) risks in the governance, operations, lending, and investment activities of financial institutions.

Climate Risk Management refers to new governance, risk management, and disclosure practices that financial institutions can use to mitigate and adapt to climate change.

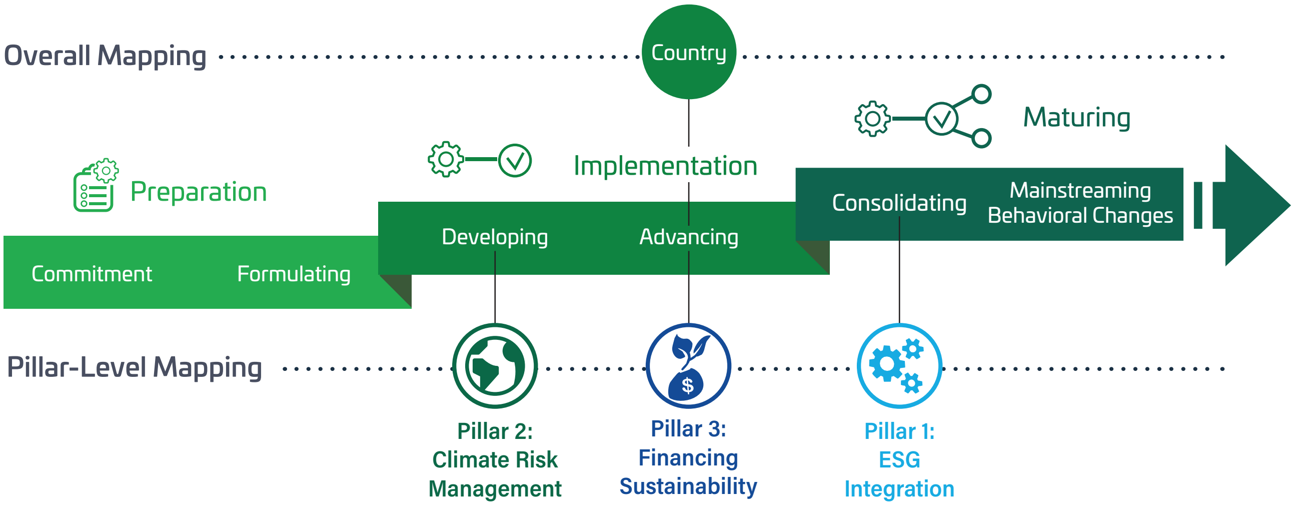
Financing Sustainability refers to initiatives by regulators and financial institutions to unlock capital flows for activities that support climate, green economy, and social goals. This includes new products like green bonds and sustainability-linked loans. Initiatives include definitions, guidance, taxonomies, monitoring, and incentives.

The Measurement Framework consists of three complementary components:

1. Progression matrices

Drawing on SBFN members' common development paths and milestones, the **SBFN Progression Matrix** provides an overview of market-wide progress for all SBFN countries across three typical stages of development. It allows each SBFN member to review its own progress and identify the strengths and weaknesses of its approach.

The stage mapping is based on qualitative milestones and quantitative analysis related to (i) progress in developing and implementing national policies and principles, and (ii) industry uptake and practices. In the 2021 report, in addition to the Overall Progression Matrix, three pillar-level matrices are added to reflect a country's development process in each of the pillar areas.



2. Pillar benchmarking

A dynamic assessment is conducted across several priority pillars of sustainable finance, using qualitative and quantitative datapoints to assess progress and allow comparison across countries. Three pillars, three cross-cutting sub-pillars, 11 cross-cutting indicators, and 75 underlying datapoints are used to objectively assess a country's sustainable finance framework(s), according to clarity, depth, and alignment to international good practice.

	Pillar 1: ESG Integration / Pillar 2: Climate Risk Management / Pillar 3: Financing Sustainability
Sub-pillar 1: Strategic Alignment	• National framework • Alignment with international goals and standards • Alignment with national goals and strategies
Sub-pillar 2: Regulatory and Industry Association Actions	• Overall approach and strategy • Technical guidance • Supervisory activities and incentives • Tracking and aggregated disclosure
Sub-pillar 3: Expectations of Financial Institution (FI) Actions	• Strategy and governance • Organizational structure and capacity • Policies and procedures • Tracking, reporting, and disclosure

3. Sector data and case studies

In 2021, data collection included an exploratory request for quantitative data points — where available — for the number and percentage of financial institutions that are implementing ESG integration as well as climate risk management and disclosure; and the total value of green, social, and sustainability bond issuance. Detailed case studies were also collected of innovative approaches by regulators and industry. Case studies will be published in a new on-line case study catalogue.

SBFN on-line case study catalogue
Coming soon

SBFN Measurement Framework pillars, sub-pillars, indicators, and underlying datapoints

Sub-pillar	Indicator	No.	Underlying datapoint
Pillar 1: ESG Integration			
Strategic Alignment	National framework[1] (e.g. policies, roadmaps, guidance, regulations, voluntary principles, templates, or tools)	1	Has the regulator or industry association published a national framework ("Framework") for the banking sector that sets out expectations for integrating the consideration of environmental, social, and governance (ESG) risks and performance?
		2	Has the relevant regulator or industry association published a Framework for capital markets, investment, insurance or other non-lending FIs that sets out expectations for integrating the consideration of ESG risks and performance?
	Alignment with international goals and standards	3	Does the Framework make reference to international sustainable development frameworks or goals?
		4	Does the Framework make reference to established international ESG risk management standards and principles for FIs?
	Alignment with national goals and strategies	5	Does the Framework make reference to specific national development objectives, plans, policies, goals, or targets?
		6	Does any cooperation exist between agencies or between the regulator and industry association with respect to policy design and/or implementation related to ESG integration?
		7	Does any inter-agency data sharing currently exist related to ESG integration by FIs?
Regulatory and Industry Association Actions	Overall approach and strategy	8	Does the Framework provide guidance on the role of the regulator or industry association with regard to assessing and managing ESG risk and performance in the financial sector?
		9	Has the regulator or industry association undertaken market assessment to identify systemic ESG risks through analysis of the portfolios of supervised entities/members and published the results?
	Technical guidance	10	Does the Framework provide technical guidance or tools to support implementation of ESG risk and performance management by the financial sector?
	Supervision activities and incentives	11	Is the implementation of the Framework regularly monitored and/or information regularly collected from FIs by the regulator and/or industry association?
		12	Does the regulator or industry association provide any financial or non-financial incentives for FIs to manage ESG performance as part of the Framework?
		13	Does the regulator or industry association apply any disincentives/penalties for non-compliance by FIs in terms of expectations from the regulator and/or industry association related to ESG risk management as part of the Framework?
	Tracking and aggregated disclosure	14	Has the regulator or industry association established a data collection approach and database to track or regularly publish data related to ESG integration by FIs as part of the Framework?
Expectations of FI Actions	Strategy and governance	15	Does the Framework require/ask the FI's board of directors (or highest governing body) to approve an ESRM and/or ESG integration strategy, and to supervise its implementation?
	Organizational structure and capacity	16	Does the Framework require/ask FIs to allocate resources/budget commensurate with portfolio ESG risks and define roles and responsibilities for ESG integration within the organization?
		17	Does the Framework require/ask FIs to develop and maintain the ESG expertise and capacity of staff commensurate with portfolio ESG risks through regular training and learning?
		18	Does the Framework require/ask FIs to create incentives for managers to reduce the ESG risk-level of the portfolio over a specified timeframe?
	Policies and procedures	19	Does the Framework require/ask FIs to develop policies and procedures to identify, classify, measure, monitor, and manage ESG risks and performance throughout the financing cycle at the client level and/or the transaction/project level?
		20	Does the Framework require/ask FIs to undertake a regular review and monitoring of ESG risk exposure at aggregate portfolio level?
		21	Does the Framework require/ask FIs to establish and maintain an external inquiry/complaints/grievance mechanism for interested and affected stakeholders in relation to ESG practices?
	Tracking, reporting, and disclosure	22	Does the Framework require/ask FIs to report ESG risks and performance to the regulator or industry association?
		23	Does the Framework require/ask FIs to report on ESG integration publicly?
		24	Does the Framework require/ask FIs to track credit risk (e.g. loan defaults) and/or financial returns in relation to ESG risk level?
Pillar 2: Climate Risk Management			
Strategic Alignment	National framework	25	Has the regulator or industry association published a national framework ("Framework") for the banking sector that sets out expectations for integrating the consideration and management of climate risks and their impact in the national economy?
		26	Has the relevant regulator or industry association published a Framework for capital markets, investment, insurance, or other non-lending FIs that sets out expectations for integrating the consideration and management of climate risks and their impact in the national economy?
	Alignment with international goals and standards	27	Does the Framework make reference to international agreements or frameworks to address climate?
		28	Does the Framework recognize or align with established regional or international good practice for climate risk management and disclosure by FIs?
	Alignment with national goals and strategies	29	Has the regulator or industry association aligned the Framework with national goals to address climate change in line with the country's Nationally Determined Contributions (NDCs) to the Paris Agreement?
		30	Does any cooperation exist between agencies, or between government and industry association, with respect to policy design or implementation related to climate risk management?
		31	Does any inter-agency data sharing currently exist related to climate risk management by FIs?

1 **National framework** refers to the collective set of policies, roadmaps, guidance, regulations, and/or voluntary principles issued by national regulators or industry associations in relation to each pillar of sustainable finance. SBFN recognizes that national frameworks for sustainable finance vary from country to country and are influenced by national priorities and characteristics. They are also often interdependent with other national roadmaps, policies, and regulations. Countries vary in their starting points and the types of documents to kickstart the enabling framework. For instance, initial frameworks could choose to focus on ESG risk management and/or sustainable finance opportunities such as green bonds. They could also focus on banking, capital markets, or institutional investors. The variety of SBFN frameworks provides a rich source of inspiration for peer learning and collaboration.

Regulatory and Industry Association Actions	Overall approach and strategy	32	Has the regulator or industry association undertaken research on historical impacts to the economy and financial sector from climate change, and/or future expected impacts resulting from physical and transition climate risks?
		33	Does the Framework identify key sources of GHG emissions – such as in particular sectors – as priorities in the proactive management of climate risks by the financial sector?
		34	Does the Framework incorporate the conservation/restoration of natural carbon sinks (such as oceans, forests, mangroves, grasslands, and soils) as an important part of reducing climate change risks (e.g., through guidelines, scenario analysis, targets, or incentives for FIs)?
		35	Has the regulator or industry association developed an internal strategy to address climate risk, and/or embedded climate risk management into its governance, organizational structures, and budget as part of the Framework?
		36	Has the regulator or industry association undertaken any activities to expand and deepen analytical understanding of national and/or cross-border physical and transition climate risks, and to raise awareness as to how these risks may transmit to, and impact, the financial sector?
Regulatory and Industry Association Actions	Technical guidance	37	Has the regulator or industry association developed risk assessment approaches, methodologies, or tools to understand and assess the financial sector's exposure to climate risk as part of the Framework?
	Supervisory activities and incentives	38	As part of the Framework, has the regulator clarified supervisory expectations with regard to climate risk management by FIs, including consideration of international good practices?
		39	Has the regulator started to explicitly embed climate-related risk in supervisory activities and review processes as part of the Framework?
		40	Is the implementation of the Framework regularly monitored and/or information regularly collected from FIs by the regulator and/or industry association?
		41	Are there any financial or non-financial incentives to encourage FIs to establish climate risk management systems?
	Tracking and aggregated disclosure	42	Does the regulator or industry association regularly collect and/or report market-level and/or FI-level data on climate-related financial sector risks as part of the Framework?
Expectations of FI Actions	Strategy and governance	43	Does the Framework require/ask FIs to establish a strategy for climate risk management with responsibility at the board of director level (or highest governing body)?
	Organizational structure and capacity	44	Does the Framework require/ask FIs to define the roles and responsibilities and related capacities of the FI's senior management and operational staff in identifying, assessing, and managing climate-related financial risks and opportunities?
	Policies and procedures	45	Does the Framework require/ask FIs to expand existing risk management processes to identify, measure, monitor, and manage/mitigate financial risks from climate change?
	Tracking, reporting, and disclosure	46	Does the Framework require/ask FIs to report on their overall approaches to climate risk management in line with international good practices (e.g. TCFD), or establish a timeline by which FIs should begin to align their reporting with such practices?
		47	Does the Framework require/ask FIs to identify, measure, and report on exposure to sectors which are vulnerable to transition risk and physical risk?
		48	Does the Framework require/ask FIs to adopt and report on performance targets to reduce portfolio greenhouse gas (GHG) emissions on a regular basis?
		49	Does the Framework require/ask FIs to adopt and report on performance targets to reduce exposure to climate change risks at the portfolio level on a regular basis?
Pillar 3: Financing Sustainability			
Strategic Alignment	National framework	50	Has the regulator or industry association published a national framework ("Framework") for the banking sector that sets out expectations for integrating the consideration of instruments, goals, and standards for financing sustainability, including requirements for ensuring credibility and managing and measuring resulting impacts in the national economy?
		51	Has the relevant regulator or industry association published a Framework for capital markets, investment, insurance, or other non-lending FIs that sets out expectations for integrating the consideration of instruments, goals, and standards for financing sustainability, including requirements for ensuring credibility and managing and measuring resulting impacts in the national economy?
	Alignment with international goals and standards	52	Has the regulator or industry association developed a strategy, regulations, or set of frameworks for stimulating the allocation of capital to sustainable assets, projects, and related sectors in line with global goals, such as the Sustainable Development Goals (SDGs)?
		53	Does the Framework recognize and/or align with existing standards, voluntary principles, or market good practices related to sustainable finance instruments?
	Alignment with national goals and strategies	54	Does the Framework enable the achievement of stated national objectives by guiding capital to sectors, assets, and projects that have environmental and social benefits in line with national sustainable development priorities, strategies, targets, and the size of sustainable investment needs, and taking into account the local barriers to scaling-up sustainable finance?
		55	Does any cooperation exist between agencies or between the regulator and industry association with respect to policy design or implementation related to sustainable finance flows?
		56	Does any inter-agency data sharing currently exist related to stimulating and monitoring sustainable finance flows?
Regulatory and Industry Association Actions	Overall approach and strategy	57	Does the Framework require/ask the regulator or industry association to establish mechanisms to identify and encourage the allocation of capital to sustainable sectors, assets, and projects?
	Technical guidance	58	Does the Framework provide definitions, examples, and/or a taxonomy (catalogue and guidelines) of sustainable finance assets?
		59	Does the Framework provide guidelines for extending green, social, or sustainability-focused loans (excluding bonds)?
		60	Does the Framework provide guidelines for issuance of green, social, or sustainability bonds?
		61	Does the Framework require/ask for external party verification to ensure the credibility of sustainability instruments?
	Supervisory activities and incentives	62	Does the regulator or industry association monitor information reported by FIs related to green/social/sustainability investment, lending, and other instruments to prevent greenwashing and social-washing?
		63	Are there any financial or non-financial incentives for FIs to develop and grow green, social, or sustainability finance instruments?
	Tracking and aggregated disclosure	64	Does the regulator or industry association collect and/or publish data from FIs or other sources about allocation of capital to green/social/sustainability assets, projects, or sectors?

Expectations of FI Actions	Strategy and governance	65	Does the Framework require/ask FIs to establish a strategy, governance, or high-level targets, including at the Board of Directors level, for capital allocation to sustainable assets, projects, or sectors?
	Organizational structure and capacity building	66	Does the Framework require/ask FIs to define internal staff roles and responsibilities to encourage finance flows to green, social, and/or sustainability-focused investments?
		67	Does the Framework require/ask FIs to develop and maintain internal staff capacity on green, social, or sustainability products through regular training and learning?
	Policies and procedures	68	Does the Framework require/ask FIs to put in place policies and procedures for defining, issuing, managing proceeds, tracking performance, and reporting on green, social or sustainability-focused products?
		69	Does the Framework require/ask FIs to appoint an independent external reviewer to confirm that the FI's internal framework meets the requirements of the recognized national framework and regulations, or aligns to international standards?
		70	Does the Framework require/ask that FIs create incentives for managers to increase sustainable loans or investments in the portfolio?
	Tracking, reporting, and disclosure	71	Does the Framework require/ask FIs to publish annual updates on the performance and impacts of the sustainability instruments in compliance with relevant national and/or international standards?
		72	Does the Framework require/ask FIs to obtain and disclose independent review of metrics reported annually in relation to the social and environmental outcomes and impacts achieved through the sustainability instruments?
		73	Does the Framework require/ask FIs to report to the regulator(s) or industry association(s) on allocation and/or outcomes of green, social, and/or sustainability loans?
		74	Does the Framework require/ask FIs to report to the regulator(s) or industry association(s) on green, social, and/or sustainability bonds or other positive impact investments?
		75	Does the Framework require/ask FIs to report publicly on their green, social, and sustainability-focused finance activities and positive outcomes or impacts (i.e. not only to the regulator or shareholders)?

Figure 5: Overall Progression Matrix Milestones

Preparation

Commitment

The financial sector regulator or industry association has announced a formal commitment to achieve progress on Sustainable Finance in the next two years.

Initial steps have been taken, such as a kick-off meeting or workshop with key stakeholders and industry.

Formulating

A formal initiative — led by a financial sector regulator or industry association or both — is in progress to develop a national roadmap, framework, policy, or voluntary industry principles on Sustainable Finance.

Preparations include research, surveys, multi-stakeholder engagement, and/or awareness raising for the financial sector.

Implementation

Developing

A first national roadmap, framework, policy, regulation, or set of voluntary industry principles on Sustainable Finance has been formally launched.

A formal taskforce or dedicated unit is leading implementation efforts — either within the regulator or industry association, or as a multi-stakeholder working group or platform.

The Sustainable Finance initiative is acknowledged or supported by both regulators and industry.

Awareness raising and capacity building have been conducted.

Advancing

Implementation tools and initiatives are in place, such as guidance, guidelines, reporting templates, training, online tools, and supervisory instructions.

The national Sustainable Finance framework covers multiple parts of the financial system.

Financial institutions report on their implementation of the roadmap, framework, policy, or voluntary principles in line with consistent reporting instructions or templates provided by the financial sector regulator or industry association.

Maturing

Consolidating

A comprehensive set of national Sustainable Finance initiatives and frameworks are in place, covering all parts of the financial system.

The national frameworks are aligned with international good practice across all three pillars of Sustainable Finance.

Consistent and comparable data is being collected by the regulator as part of supervision — or by the industry association, about implementation by financial institutions.

Mainstreaming Behavioral Changes

There is an established ecosystem of Sustainable Finance initiatives and frameworks that align and integrate with each other.

Financial institutions are required or encouraged to report publicly on their implementation of Sustainable Finance across risk and opportunity.

The regulator or industry association has multi-year data on implementation by financial institutions — including both risk and opportunity. Data includes information on the benefits of Sustainable Finance.

Figure 6: Progression Matrix Milestones – Pillar 1: ESG Integration

Preparation

Commitment

The financial sector regulator or industry association has announced a commitment to develop a policy, regulation, guidelines, or voluntary principles for the financial sector on integrating the management of environmental, social, and governance (ESG) risks and performance (ESG Integration).

A first event or workshop has been held to engage relevant financial sector stakeholders on the topic of ESG Integration for the financial sector.

Formulating

A formal initiative is in progress to develop a policy, regulation, guidelines, or voluntary principles on ESG Integration for the financial sector.

Preparations include research, surveys, multi-stakeholder engagement, and/or awareness raising for the financial sector.

Implementation

Developing

A first national policy, regulation, guidelines, or set of voluntary principles has been formally launched that sets out requirements or recommendations for financial institutions on ESG Integration.

A formal taskforce, working group, or institution is tasked with implementation and/or supervision and is supported by regulators and industry.

Activities include awareness raising and capacity building for financial institutions on the new expectations for ESG Integration.

Advancing

Implementation tools and initiatives are in place, such as guidance, guidelines, reporting templates, training, online tools, and supervisory instructions.

The ESG Integration expectations cover multiple parts of the financial system.

Financial institutions report on their implementation of ESG Integration in line with consistent reporting instructions or templates provided by the financial sector regulator or industry association.

Maturing

Consolidating

A comprehensive national initiative or set of frameworks are in place that promote ESG Integration across all parts of the financial system.

The national frameworks cover all three cross-cutting areas of ESG Integration:

1. strategic alignment,
2. regulatory and industry association actions, and
3. expectations of financial institution actions.

Consistent and comparable data are becoming available on trends in the practices of financial institutions in relation to ESG Integration and the resulting benefits.

Mainstreaming Behavioral Changes

The national frameworks for ESG Integration are aligned with international good practice and national regulations; and are consistent across different parts of the financial sector.

Local financial institutions demonstrate that they have embedded the requirements for ESG Integration and are reporting on their efforts.

Extensive data are becoming available on trends among financial institutions regarding practices in ESG Integration and the resulting benefits.

Figure 7: Progression Matrix Milestones – Pillar 2: Climate Risk Management

Preparation | **Implementation** | **Maturing**

Commitment (Preparation)

The financial sector regulator or industry association has announced a commitment to develop a policy, regulation, or voluntary principles on Climate Risk Management for the financial sector.

Initial awareness raising and knowledge sharing is being organized by the regulator or industry association.

Formulating (Preparation)

A formal initiative is in progress to develop or refine a national policy, regulation, guidelines, or voluntary industry principles on Climate Risk Management for the financial sector — either as part of an existing ESG framework or as a standalone framework.

Preparations include research, surveys, multi-stakeholder engagement and/or awareness raising for the financial sector.

Developing (Implementation)

A national policy, regulation, guidelines, or set of voluntary industry principles is in place that includes requirements and/or recommendations for the financial sector to manage climate risk — either as part of ESG Integration or as a standalone framework.

A formal taskforce, working group, or institution is taking the lead with implementation and/or supervision, and is supported by regulators and industry.

Activities include awareness raising, research, guidance and/or capacity building for financial institutions on managing climate-related physical and transition risks in line with the new expectations in the national framework.

Advancing (Implementation)

Implementation tools and initiatives are in place, such as guidance, guidelines, reporting templates, training, online tools, and supervisory instructions to help the financial sector manage climate-related physical and transition risks.

Financial Institutions report on their approach to Climate Risk Management in line with consistent reporting instructions or templates provided by the financial sector regulator and/or industry association and reflecting international practices.

Consolidating (Maturing)

A comprehensive national initiative or set of frameworks are in place aimed at supporting all parts of the financial system to manage climate risk.

The national frameworks cover all three cross-cutting areas of Climate Risk Management:

1. strategic alignment,
2. regulatory and industry association actions, and
3. expectations of financial institution actions.

Consistent and comparable data are becoming available on trends in the practices of financial institutions in relation to Climate Risk Management and the resulting benefits.

Mainstreaming Behavioral Changes (Maturing)

The national frameworks for Climate Risk Management are aligned with international good practice expectations and national climate change commitments; and are consistent across different parts of the financial sector.

Local financial institutions demonstrate that they have embedded the requirements for climate risk management and are reporting on their efforts.

Extensive data are becoming available on trends among financial institutions regarding climate risk management and the resulting benefits.

Figure 8: Progression Matrix Milestones – Pillar 3: Financing Sustainability

Preparation | **Implementation** | **Maturing**

Commitment (Preparation)

The financial sector regulator or industry association has made a public commitment to develop a policy, regulation, guidelines, or voluntary principles to promote financial flows to green or sustainability-focused projects and sectors.

Initial awareness raising and knowledge sharing is being organized by the regulator or industry association.

Formulating (Preparation)

A formal initiative is in progress to develop a policy, regulation, guidelines, or voluntary principles to promote financial flows to green, social, or sustainability-focused projects and sectors.

Preparations include research, surveys, multi-stakeholder engagement and/or awareness raising for the financial sector.

Developing (Implementation)

A national framework is in place that includes regulations or guidance for the financial sector to promote financial flows to green, social, or sustainability-focused projects and sectors.

A taskforce, working group, or institution is tasked with implementation and/or supervision and is supported by regulators and industry.

Activities include awareness raising and capacity building for financial institutions on the new expectations for Financing Sustainability.

Advancing (Implementation)

Implementation tools and initiatives are in place, such as guidance,guidelines, taxonomies, reporting templates, training, online tools, and supervisory instructions to help the financial sector promote financial flows to green, social, or sustainability-focused projects and sectors.

Financial institutions report on their approach to Financing Sustainability in line with consistent reporting instructions or templates provided by the financial sector regulator or industry association.

Consolidating (Maturing)

A comprehensive national initiative or set of frameworks are in place aimed at supporting all parts of the financial system to promote financial flows to green, social, or sustainability-focused projects and sectors.

The national frameworks cover all three cross-cutting areas of Financing Sustainability:

1. strategic alignment,
2. regulatory and industry association actions, and
3. expectations of FI actions.

Consistent and comparable data are becoming available on trends in the practices of financial institutions in Financing Sustainability and the resulting benefits.

Mainstreaming Behavioral Changes (Maturing)

The national frameworks for Financing Sustainability are aligned with international good practice expectations and national sustainable development plans; and are consistent across different parts of the financial sector.

Local financial institutions demonstrate that they have embedded the requirements for Financing Sustainability in their operations, portfolio, products, and services and are reporting their performance publicly.

Extensive data are becoming available on trends among financial institutions regarding Financing Sustainability and the resulting benefits.

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