Federal Ministry Agriculture and Forestry, Climate and Environmental Protection, Regions and Water Management Republic of Austria







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I-PEPs Methodology Standard

New KPI set to steer the portfolio decarbonisation of financial companies



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Purpose





Scope of application

The I-PEPs KPI set enables different financial companies to use customised metrics for numerous asset classes and business areas.





I-PEPs KPI set		
(7)		(7)
Metrics based on absolute GHG emissions		Metrics based on physical emission intensities
Metrics Inve	estment & lend	ding _{Metrics}
 Investments in equities & corporate bonds (CPEP) Corporate lending (LPEP) Investments in sovereign bonds (SPEP) 	portfolio	 Mortgages (MPEP) Commercial real estate (CREPEP) Project finance – Electricity production (EPEP) Equities & corporate bonds in GHG intensive sectors (CPEP_{sector}) Corporate lending in GHG intensive sectors (LPEP_{sector})
Aggregated metric		Aggregated metric
Aggregated Portfolio-related absolute Emission Performance (APEP _{abs})		Aggregated Portfolio-related Emission Intensity Performance (APEP _{int})
Metric	Underwriting	Metric
Underwriting of corporate clients (UPEP)	portfolio	Underwriting of corporate clients in GHG intensive sectors (UPEP _{sector})



I-PEPs: Methodology standard



Methodology in a nutshell

Calculation outline



- The methodological approach provides a standardised framework for all I-PEPs.
- Adaptation to the characteristics of the respective application area is achieved by:
 - \circ \quad Determination of the calculation basis for the emission performance.
 - Determination of the weighting approach to define weighting factors.

The significance of the emission performance is ensured by using only **reported GHG emissions** to calculate I-PEPs. The use of estimated values is not intended, as this would lead to result distortions!



Methodology: Overview of the three weighting approaches





Methodology: Determination of the weighting approach





Assignment of KPIs to weighting approaches

Metric	Availability of absolute GHG emissions*	Impact potential	Weighting approach
CPEP und CPEP _{sector}	available	rather not possible partly possible rather possible	PA BA EA
SPEP	available	rather not possible	PA
LPEP und LPEP _{sector}	available	partly possible	BA
CREPEP	not available	-	PA
MPEP	not available	-	PA
EPEP	not available	-	PA
UPEP und UPEP _{sector}	available	rather not possible	PA

*Simplified categorisation in "available" and "not available".



Methodology: Weighting of the portfolio positions

Step 1: Calculation of shares in the portfolio volume* and in the emission volume for each portfolio position

 $\omega_{i_P} = \frac{V_i}{V_P}$

 ω_{i_P} ... share in the portfolio volume – portfolio position i V_i ... outstanding portfolio volume – portfolio position i V_P ... total analysed portfolio volume Note: "V" refers to the monetary portfolio volume (e.g. in Euro) $\omega_{i_E} = \frac{E_i}{E_P}$

 ω_{i_E} ... share in the emission volume – portfolio position i E_i ... absolute GHG emissions – portfolio position i E_P ... sum of absolute GHG emissions from all portfolio positions Note: "E" refers to the emission volume in weight units (e.g. kg or tonnes)

Step 2: Calculation of the Combined Weighting Factors for each portfolio position

 $CWF_i = \omega_{i_P} * GWF_P + \omega_{i_E} * GWF_E$

 CWF_{i} ... Combined Weighting Factor for portfolio position i \rightarrow It always applies: GWF_P + GWF_F = 100%

*For the two underwriting portfolio metrics UPEP und UPEP_{sector}, the analysed gross written premium in the reporting year is used instead of portfolio volumes.



Methodology: Emission performance Calculation basis: <u>absolute GHG emissions</u>

Step 1: Calculation of the portfolio position-specific emission performance

$\rho_i = \frac{E_{i,t+1}}{E_{i,t}} - 1$

 E_{i} ... absolute emissions – portfolio position i in the reporting(t+1) / previous(t) year ρ_{i} ... emission performance of portfolio position i

Step 2: Calculation of I-PEPs

$$\rho_P = \sum_i (CWF_i * \rho_i)$$

 $ho_{
m P}...$ emission performance of the portfolio (I-PEPs)

... aggregating the results obtained by multiplying them with the corresponding Combined Weighting Factors.

... calculating the emission performance per portfolio position and...











Methodology: Emission performance Calculation basis: physical emission intensities

Step 1: Calculation of emission intensities (portfolio level)

Reporting year: $EI_{P,t+1} = \sum_{i} (CWF_{i,t+1} * EI_{i,t+1})$ (t+1):

Previous year: (t)

$$EI_{P,t} = \sum_{i} (CWF_{i,t} * EI_{i,t})$$

 $EI_{\mathrm{P}}\,...$ emission intensity of the portfolio

 $EI_{i} \mbox{...}$ emission intensity of portfolio position i

Step 2: Calculation of I-PEPs

$$\rho_{P} = \frac{EI_{P,t+1}}{EI_{P,t}} -$$

 $ho_{
m P}...$ emission performance of the portfolio (I-PEPs)



... and then comparing the results with each other.

I-PEPs are determined by...

... calculating the portfolio-related emission intensity for the previous and the reporting year ...



I-PEPs: Main characteristics (1/3)

No result adjustments needed

There is no need for an elaborate adjustment of results as there are no significant unwanted influencing factors.

Resistance

No influence of unwanted, external factors that could distort significantly the results.

Robustness

Significance

I-PEPs measures what it promises: explicitly the portfolio decarbonisation and implicitly that of its position.

Attribution analysis

Influencing factors can be identified with a simple attribution analysis.



I-PEPs: Main characteristics (2/3)





I-PEPs: Main characteristics (3/3)





I-PEPs: Target setting







Step 1: Define base year

The base year is the year that is used as the basis for the targets. The following aspects should be taken into account when setting targets:

- **Data availability**: sufficient availability of meaningful GHG data.
- **Representativeness**: GHG data in the base year should reflect reality (negative example: 2021 COVID-pandemic).
- **Regulation**: consideration of possible regulatory requirements.
- **Recency**: selection of a reference period as close in time as possible (best mirror image for portfolio).



Step 2: Define target year

In order to operationalise the climate targets in the best possible way, it should be ensured that the short to medium term time horizon is covered when defining the target years. The following aspects should be taken into account:

- **Regulation:** consideration of possible regulatory requirements.
- **Consistency:** alignment with other climate-, environment- and company-related targets.
- **Maturity:** coverage of a strategically relevant time period (e.g. 3 to max. 15 years).
- **Data availability:** necessity of respective data when applying climate scenarios.



Step 3: Determine reference climate scenario

I-PEPs are climate scenario-agnostic, however the following general aspects should be taken into account when selecting a climate scenario:

- **Adequacy of granularity:** the climate scenario should be as congruent as possible with the portfolio structure (e.g. regional exposure)
- **Coherence of ambition:** the climate scenario assumptions should be as coherent as possible with the own ambition level (i.e. the voluntary commitment).
- **Consistency:** if several climate scenarios are used for different, heterogeneous sub-portfolios, the different scenario assumptions (e.g. macroeconomic parameters) should be as consistent as possible.



4. Schritt: Determine decarbonisation trajectory



Determination of decarbonisation trajectory (=yearly reduction target)

• Using GHG emission values of reference climate scenario for base year and target year.

• Using GHG emission values of reference climate scenario for target year and of portfolio for base year.

Scope of application according to calculation basis

✓ Absolute GHG emissions/physical emission intensity

 \checkmark Physical emission intensity



Tracking annual progress with I-PEPs



The financial company's aim is to achieve an average I-PEPs development that corresponds to at least the yearly reduction target of the decarbonisation trajectory.



I-PEPs: Influencing factors



Influencing factors and their relevance for I-PEPs





Influencing factors on the individual emission performance



For a meaningful performance assessment, coherency of GHG emission data across periods is crucial!

Note: Influencing factors and uncertainties regarding the reliability of reported emission data of portfolio positions affect **all emission-based performance** indicators, not just the I-PEPs methodology.



Decision tree: Handling of influencing factors





Influencing factors on the individual weighting factor



An attribution analysis can be used to decompose the factors influencing the I-PEPs result.

Note: An attribution analysis is only used to better understand the influencing factors. Therefore, although the use of an attribution analysis is useful and recommended, it is **not a mandatory requirement**.



Overview of influencing factors

Portfolio position existent/considered?

Impact on the Combined Weighting Factor?

Previous year	Reporting year	g Possible influencing factors	Emissions-based Approach	Balanced Approach	Portfolio-centric Approach
x	\checkmark	New business (lending), new investments, inclusion in the I-PEPs calculation	yes	yes	yes
 Image: A start of the start of	x	Matured business, divestments, exclusion from the I-PEPs calculation	yes	yes	yes
	\checkmark	Change in relative portfolio share (driven by dynamics in the individual or total portfolio volume)	no	yes	yes
\checkmark	 ✓ 	Change in relative emission share (driven by dynamics in the individual or total GHG emissions)	yes	yes	no



List of abbreviations

APEP _{abs}	Aggregated Portfolio-related absolute Emission
	Performance

- APEP_{int} Aggregated Portfolio-related Emission Intensity Performance
- BA Balanced Approach
- CPEP Corporate Investment Portfolio-related Emission Performance
- CPEP_{sector} Corporate Investment Portfolio-related Emission Intensity Performance (sector)
- CREPEP Commercial Real Estate Portfolio-related Emission Intensity Performance
- CWF Combined Weighting Factor
- EA Emissions-based Approach
- EPEP Electricity Production Portfolio-related Emission Intensity Performance
- GWF_E General Emissions Weighting Factor

GWF _P	General Portfolio Weighting Factor
I-PEPs	Indicators for Portfolio-related Emission Performance
LPEP	Lending Portfolio-related Emission Performance
LPEP _{sector}	Lending Portfolio-related Emission Intensity Performance (sector)
MPEP	Mortgage Portfolio-related Emission Intensity Performance
UPEP	Corporate Underwriting Portfolio-related Emission Performance
UPEP _{sector}	Corporate Underwriting Portfolio-related Emission Intensity Performance (sector)
PA SPEP	Portfolio-centric Approach Sovereign Bond Portfolio-related Emission Performance



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