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

ENVIRONMENT AGENCY AUSTRIA

GREEN FINANCE ALLIANCE

I-PEPs Methodology Standard

New KPI set to steer the portfolio decarbonisation of financial companies

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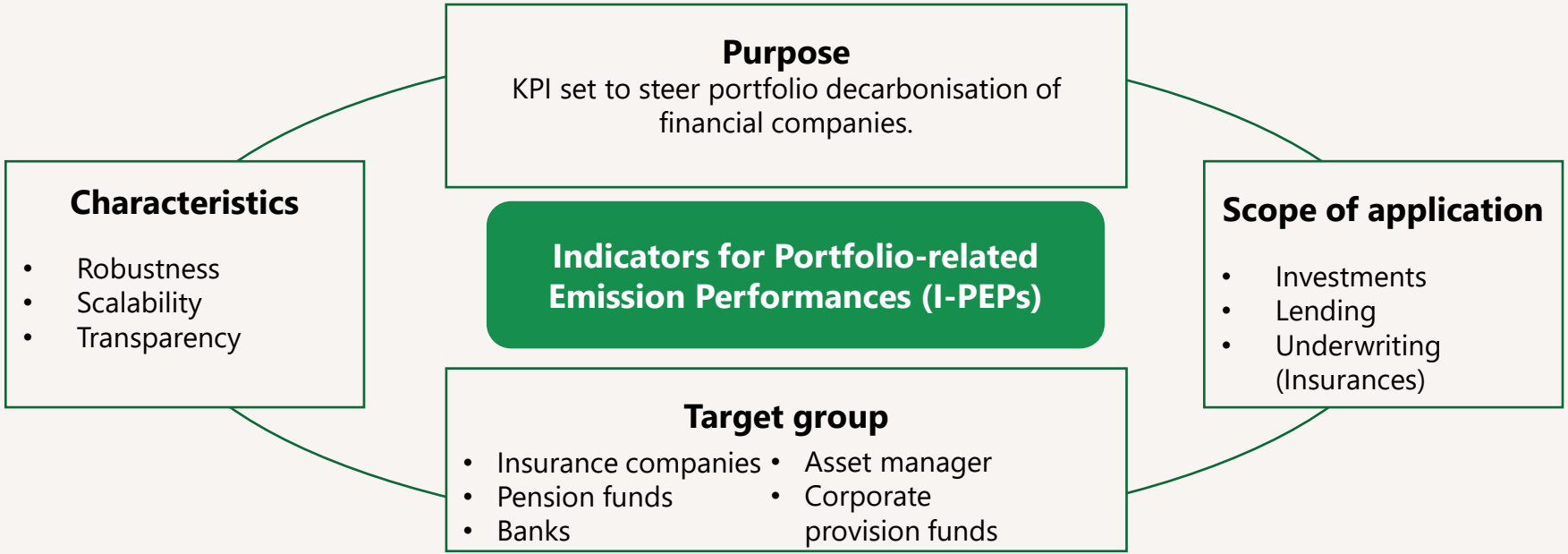
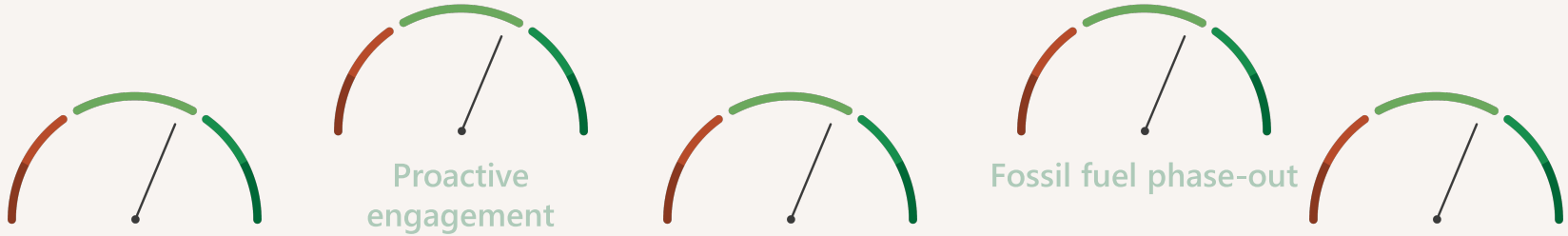
I-PEPs in a nutshell



Note: Detailed information on I-PEPs is provided in the Methodology Standard, which is publicly available on the Green Finance Alliance Coordinating Office website.

Purpose

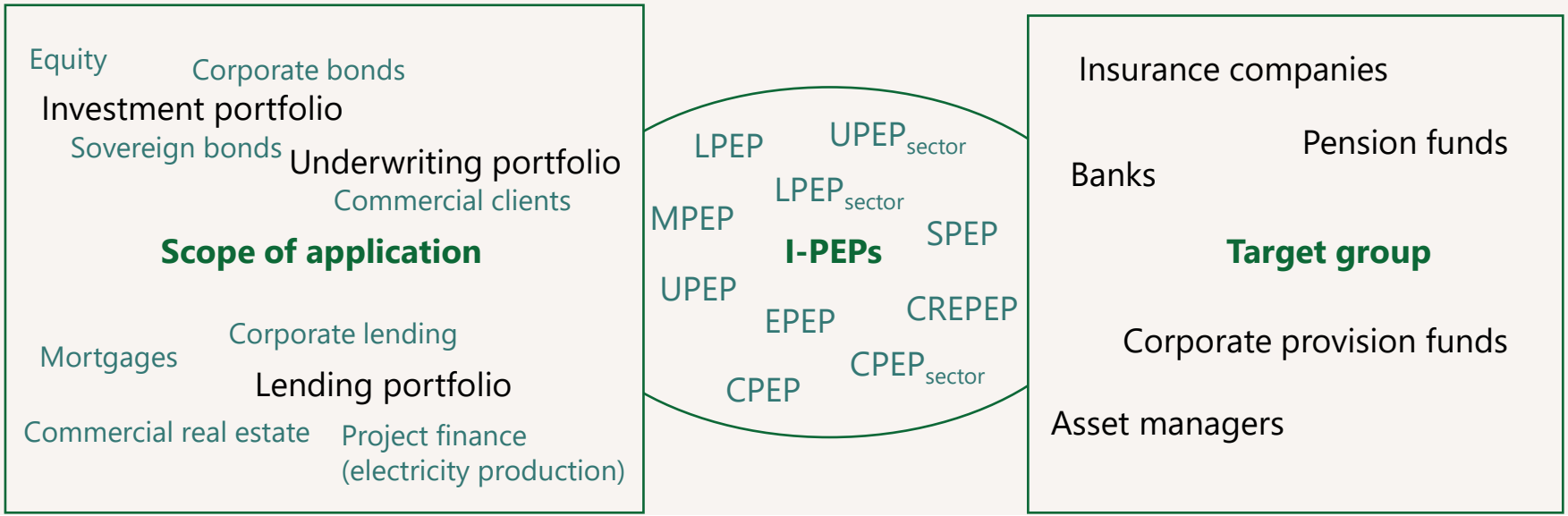
To navigate their portfolios towards their climate targets, financial companies need suitable metrics and measures for the various core themes.



I-PEPs cover the aspect of portfolio decarbonisation as part of a comprehensive climate strategy.

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

Metrics based on absolute GHG emissions

Metrics

- Investments in equities & corporate bonds (CPEP)
- Corporate lending (LPEP)
- Investments in sovereign bonds (SPEP)

Aggregated metric

- Aggregated Portfolio-related absolute Emission Performance ($APEP_{abs}$)

Metrics based on physical emission intensities

Metrics

- 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 Portfolio-related Emission Intensity Performance ($APEP_{int}$)

Investment & lending portfolio

Underwriting portfolio

Metric

- Underwriting of corporate clients (UPEP)

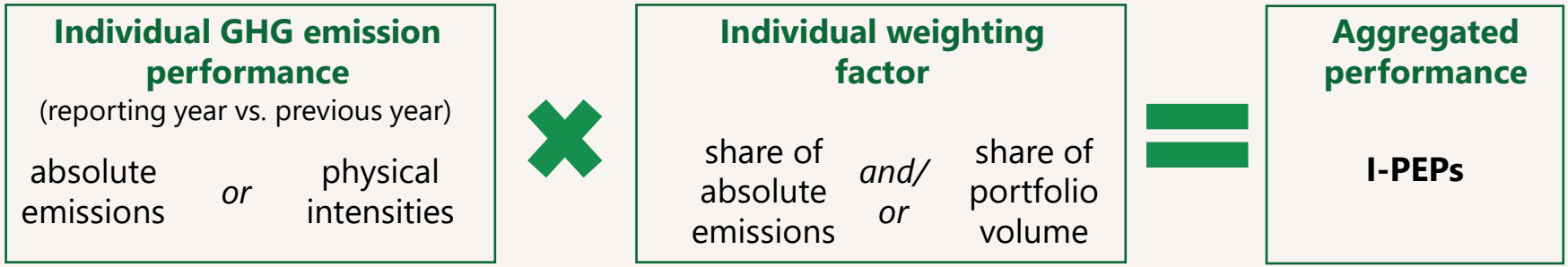
Metric

- Underwriting of corporate clients in GHG intensive sectors ($UPEP_{sector}$)

I-PEPs: Method in detail

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:
  - 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!

Three steps to calculate I-PEPs

Step 1
Determine weighting approach

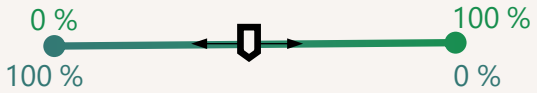
Step 2
Calculate Combined Weighting Factor

Step 3
Calculate emission performance

Step 1: Overview of the three weighting approaches

What influence should the relative level of emissions have on the weighting?

General Emissions Weighting Factor (GWF_E)

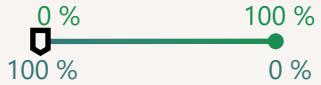


What influence should the relative portfolio volumes have on the weighting?

General Portfolio Weighting Factor (GWF_P)

$$GWF_E + GWF_P = 100\ \%$$

Emissions-based Approach (EA)

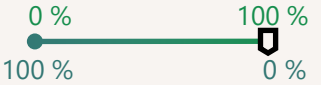


$GWF_E = 100\%;\ GWF_P = 0\ \%$

Balanced Approach (BA)

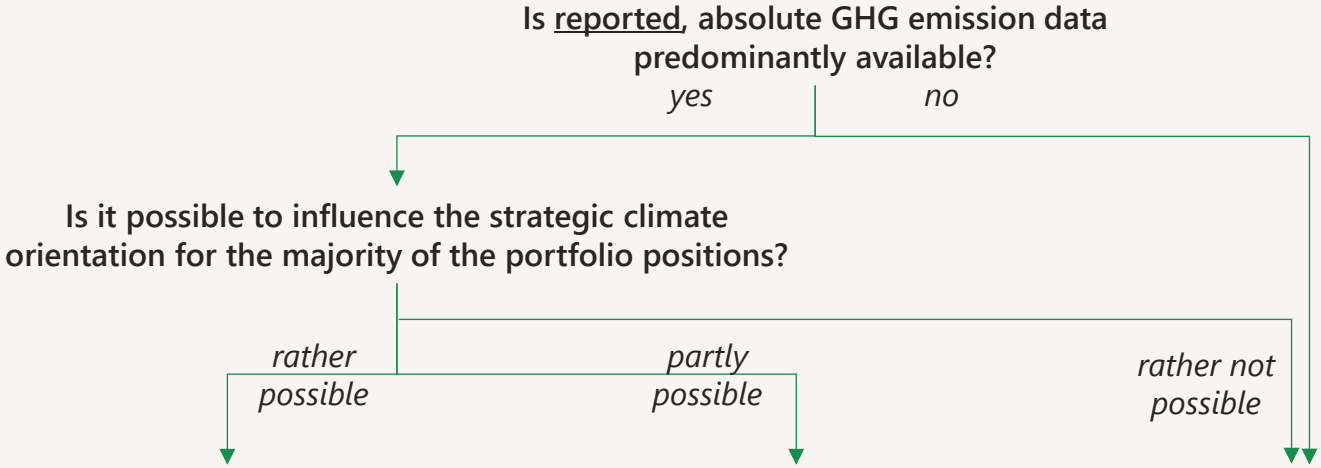
$GWF_E = 50\%;\ GWF_P = 50\ \%$

Portfolio-centric Approach (PA)



$GWF_E = 0\%;\ GWF_P = 100\ \%$

Step 1: Determination of the weighting approach



Application example:

- rather for exceptional cases
- e.g. inhouse impact funds

- Equities
- Corporate bonds
- Corporate lending

- Mortgage portfolio
- Third party funds
- Sovereign bonds

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“.

Step 2: Weighting of the portfolio positions

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)

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

→ It always applies: $GWF_P + GWF_E = 100\%$

*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.

Step 3: Calculation of the emission performance

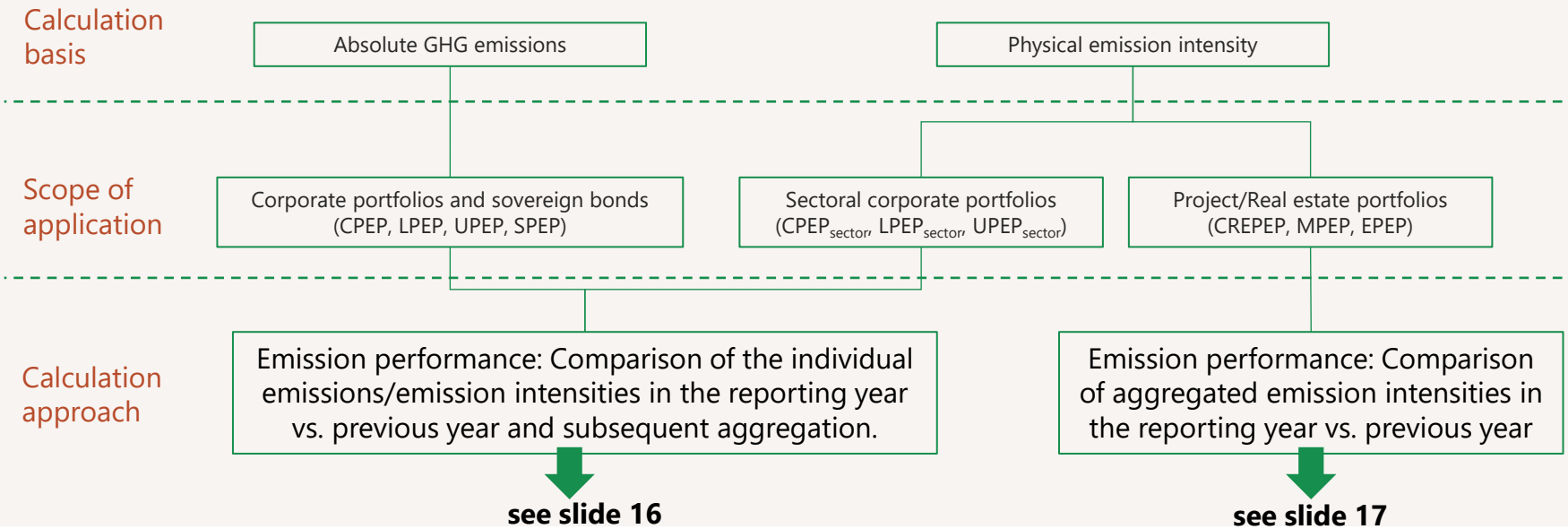
I-PEPs differentiates between two calculation approaches, depending on the calculation basis and the portfolio type.

Calculation basis	Portfolio type	
	(Sectoral) corporate portfolio	Project-/Real estate portfolio
Absolute emissions	Calculation: Emission performance on the portfolio constituents level and subsequent aggregation. *Application: CPEP, SPEP, LPEP, UPEP*	Not applicable.
Physical emission intensities	As a rule*: Calculation of the emission performance on the portfolio constituents level and subsequent aggregation. *Application: $CPEP_{sector}$, $LPEP_{sector}$, $UPEP_{sector}$*	As a rule*: Calculation of the emission performance by comparing the aggregated emission intensities in the reporting year vs. previous year. *Application: CREPEP, MPEP, EPEP*

*see chapter 2.2.3 of the I-PEPs Methodology Standard for the exception.

Calculation approaches: Emission performance

Depending on the calculation basis and the scope of application, I-PEPs distinguishes between two calculation approaches:



Calculation approach: Emission performance

Scope of application: (sectoral) corporate portfolios and sovereign bonds

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

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

I-PEPs are determined by …

… calculating the emission performance per portfolio position and…

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

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

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

ρ_P … emission performance of the portfolio (I-PEPs)

*for sectoral corporate portfolios, physical emission intensity is used in the formula instead of absolute emissions to calculate the emission performance specific to each portfolio component.

Calculation approach: Emission performance

Scope of application: Project/Real estate portfolios

Step 1: Calculation of emission intensities (portfolio level)

Reporting year: (t+1):

$$EI_{P,t+1} = \sum_i (CWF_{i,t+1} * EI_{i,t+1})$$

Previous year: (t)

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

EI_P ... emission intensity of the portfolio

EI_i... emission intensity of portfolio position i

I-PEPs are determined by...

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

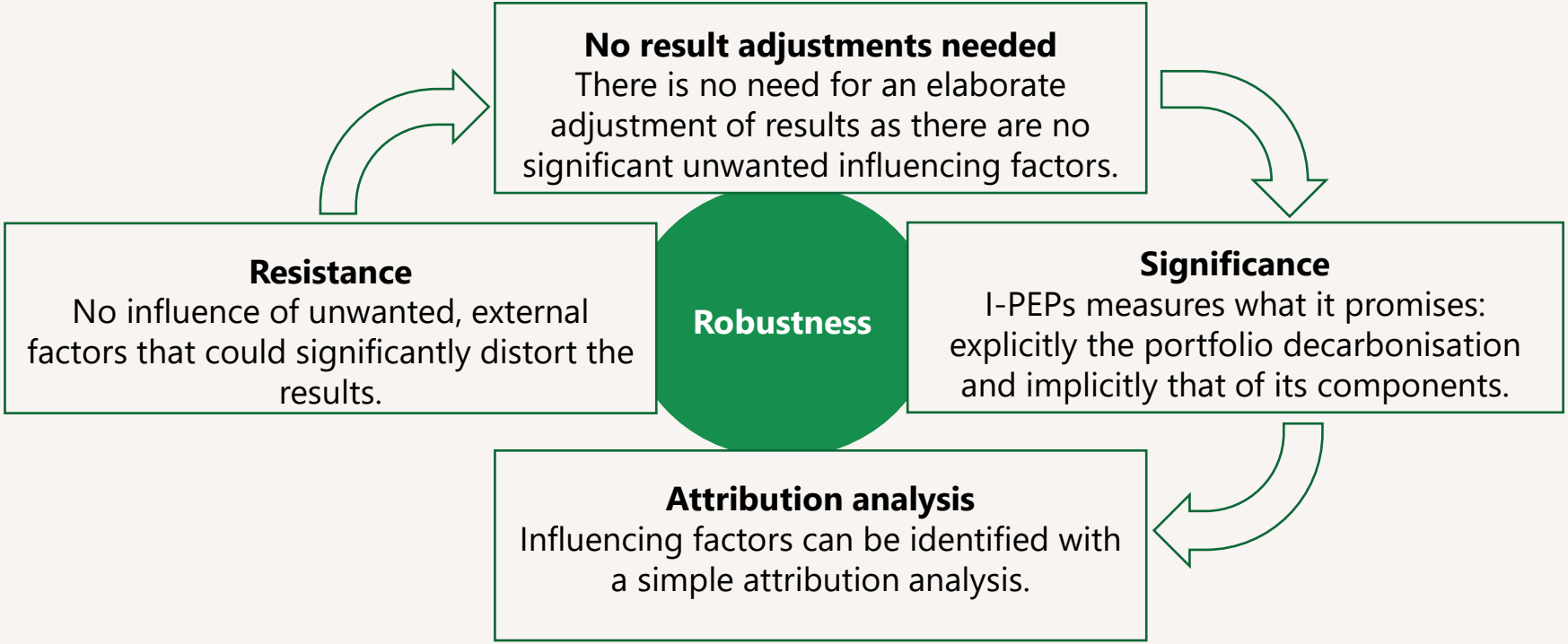
Step 2: Calculation of I-PEPs

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

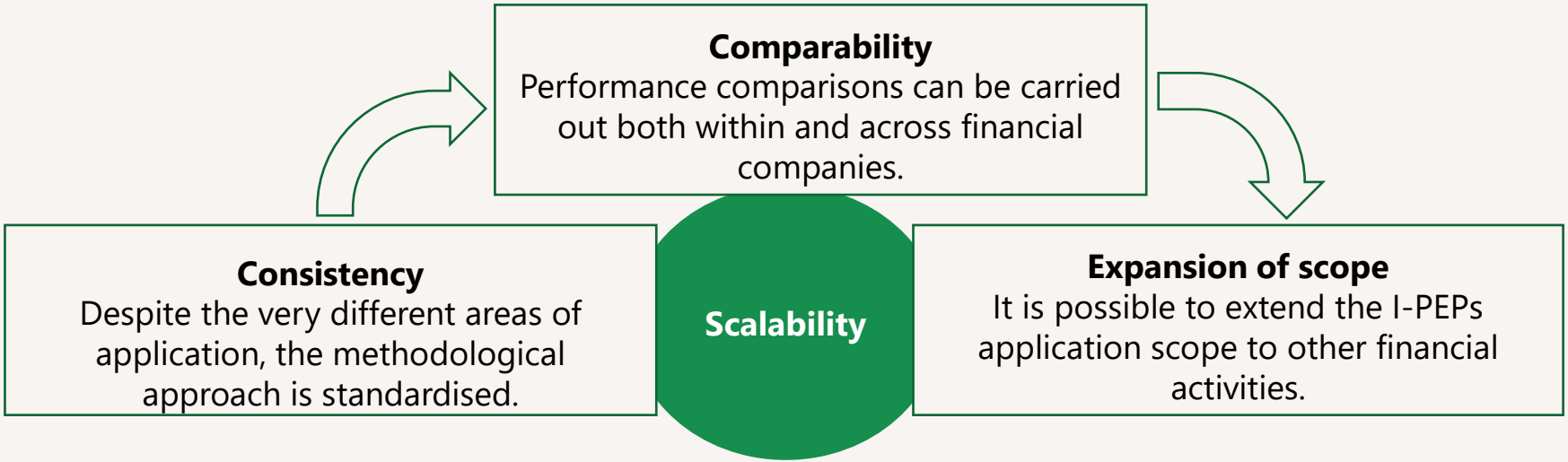
ρ_P ... emission performance of the portfolio (I-PEPs)

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

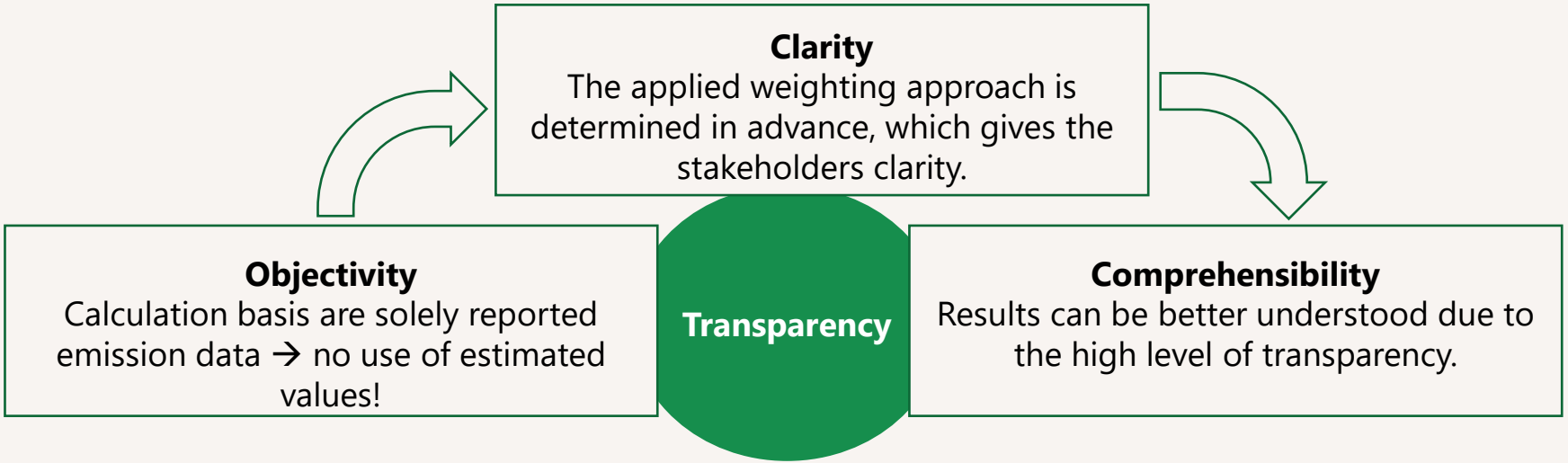
I-PEPs: Main characteristics (1/3)



I-PEPs: Main characteristics (2/3)

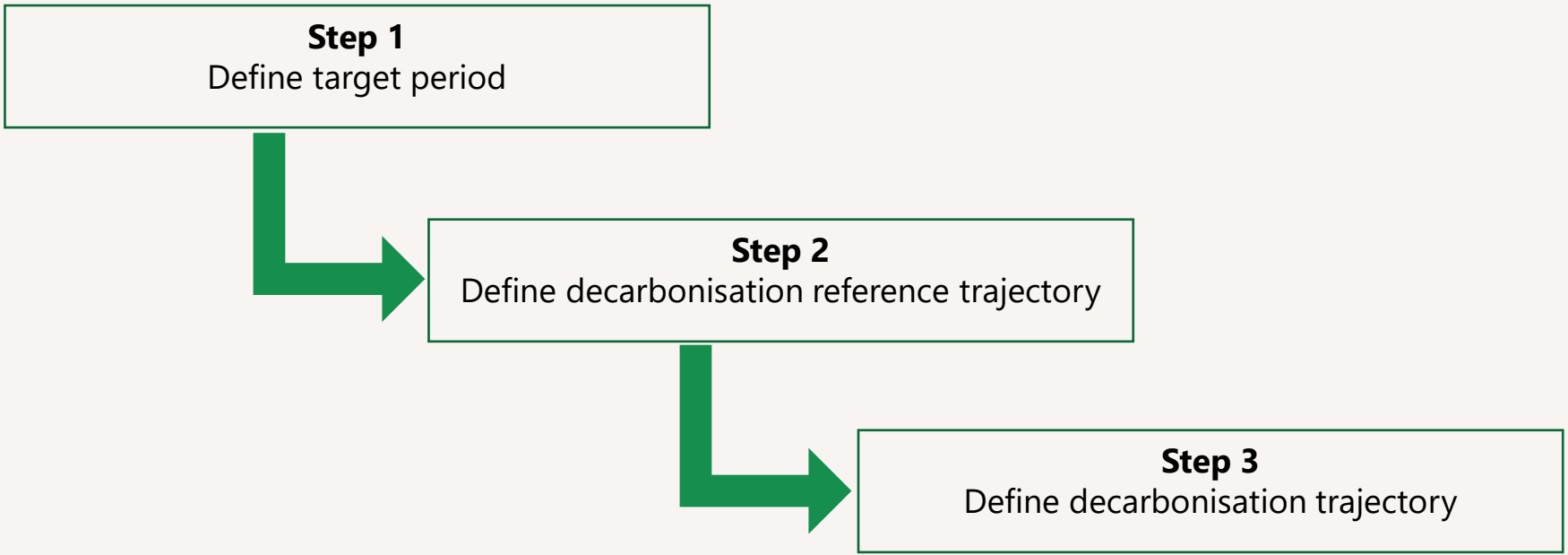


I-PEPs: Main characteristics (3/3)



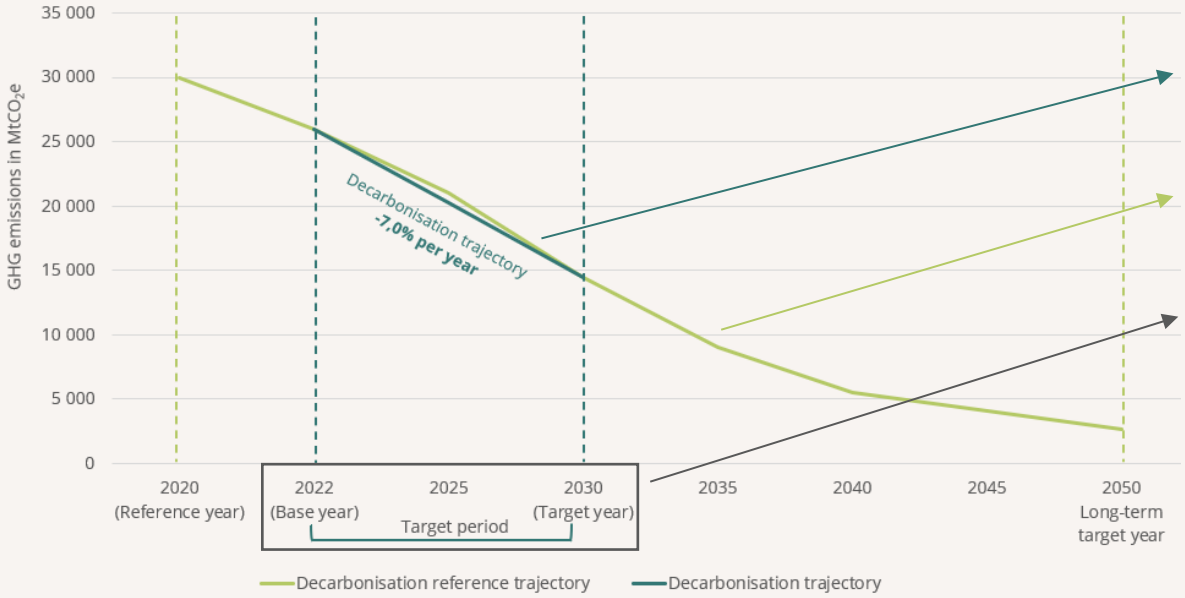
I-PEPs: Target setting

Three steps to setting targets



Terminologies and steps for target setting

Exemplary illustration



Step 3: Define decarbonisation trajectory

Step 2: Define decarbonisation reference trajectory

Step 1: Define target period

Step 1: Define target period

The target period covers a short to medium-term period and is the period for which the financial company defines its decarbonisation trajectory. This period is limited by the base year and the target year.

Important aspects to be considered:

Target period

Regulation
Consideration of regulatory requirements

Homogeneity
Consistency with other corporate targets

Maturity
Coverage of strategically important period (3-15y)

Base year

Data availability
Sufficient availability of meaningful GHG data

Representativeness
GHG data should reflect reality (neg. example: 2021)

Recency
Base year to be as recent as possible

Step 2: Define decarbonisation reference trajectory

- The basis for determining the financial company's specific decarbonisation trajectory is the selection or definition of an appropriate decarbonisation reference trajectory.
- This usually covers a longer period of time and is limited by a past reference year and a long-term target year.
- Climate scenarios are typically used as a reference, including emission values for the reference year and emission estimates for the long-term target year.
- However, apart from climate scenarios, other sources can also be used to derive the decarbonisation reference trajectory, such as:
  - national or international climate targets
  - long-term climate commitments made as part of membership in climate initiatives.

Step 2: Define decarbonisation reference trajectory

Despite the flexibility offered by the I-PEPs Methodology Standard in the selection of the reference source and its level of ambition, certain minimum requirements are nevertheless defined:

Adequacy of granularity
Best possible congruence between portfolio structure (e.g. regional exposure) and the granularity of the reference source.

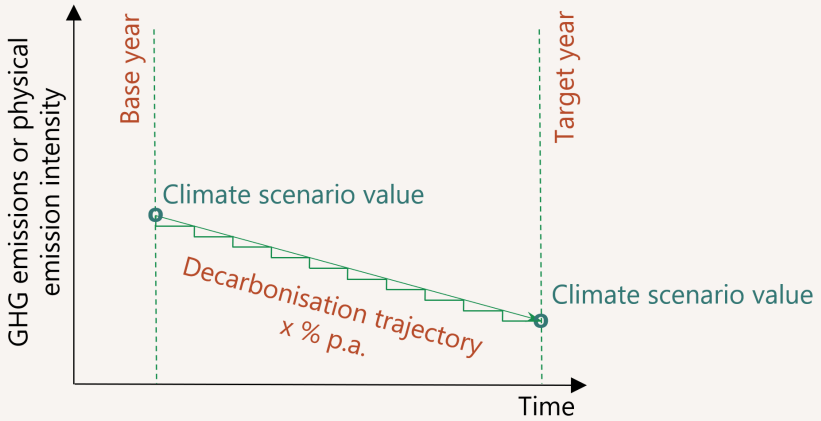
Coherence of ambition
Best possible congruence between own ambition level (=commitment) and the assumptions of the reference source.

Consistency
If multiple climate scenarios are used for different, heterogeneous sub-portfolios, the different scenario assumptions (e.g. macroeconomic parameters) should be as consistent as possible.

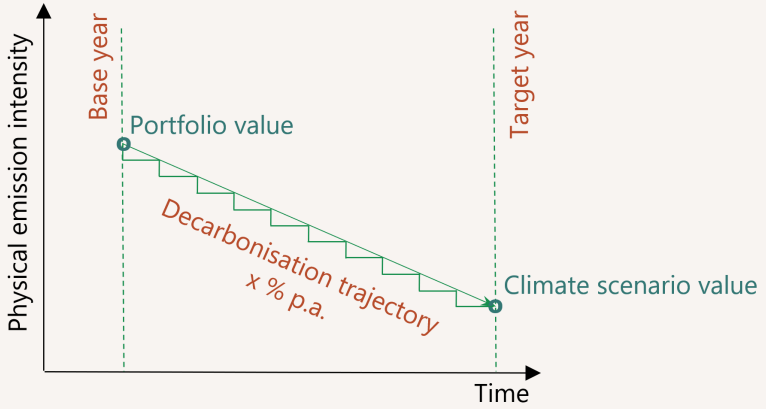
Step 3: Determine decarbonisation trajectory

Exemplary illustration based on a climate scenario

Rate of reduction approach



Convergence approach



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.

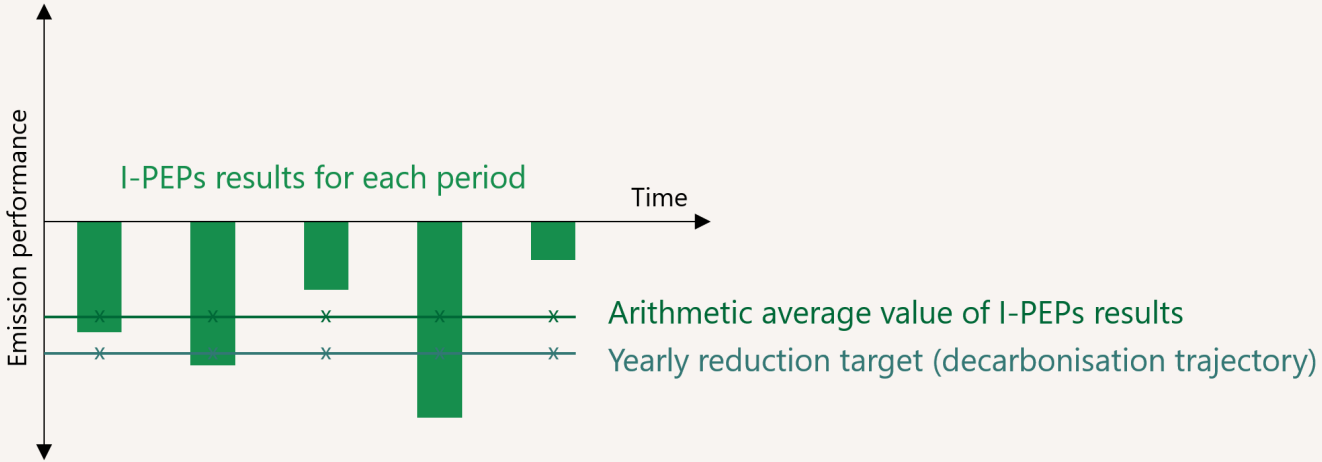
Scope of application according to calculation basis

✓ absolute GHG emissions/physical emission intensity

✓ physical emission intensity

Tracking annual progress with I-PEPs

Exemplary illustration

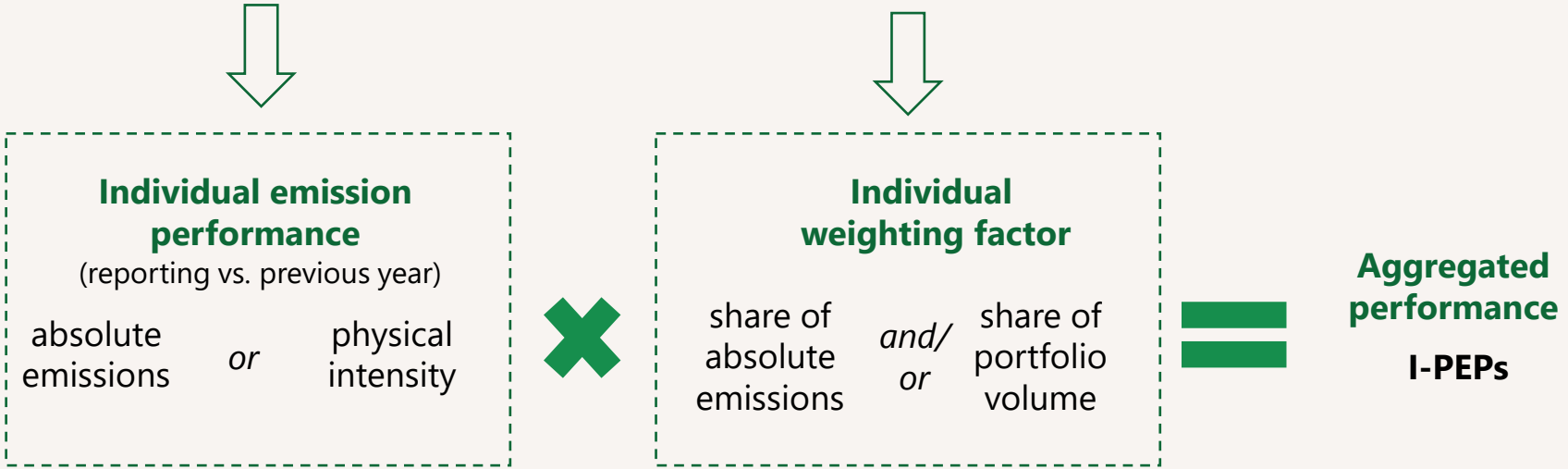


The financial company´s aim is to achieve an average I-PEPs development that corresponds to at least the yearly reduction target of the decarbonisation trajectory.

I-PEPs: Influencing factors

Influencing factors and their relevance for I-PEPs

Influencing factors affect I-PEPs on two levels



Influencing factors on the individual emission performance

Change in reported GHG emissions covered due to changes in

- data quality and quantity
- company boundaries

Individual emission performance
(reporting vs. previous year)

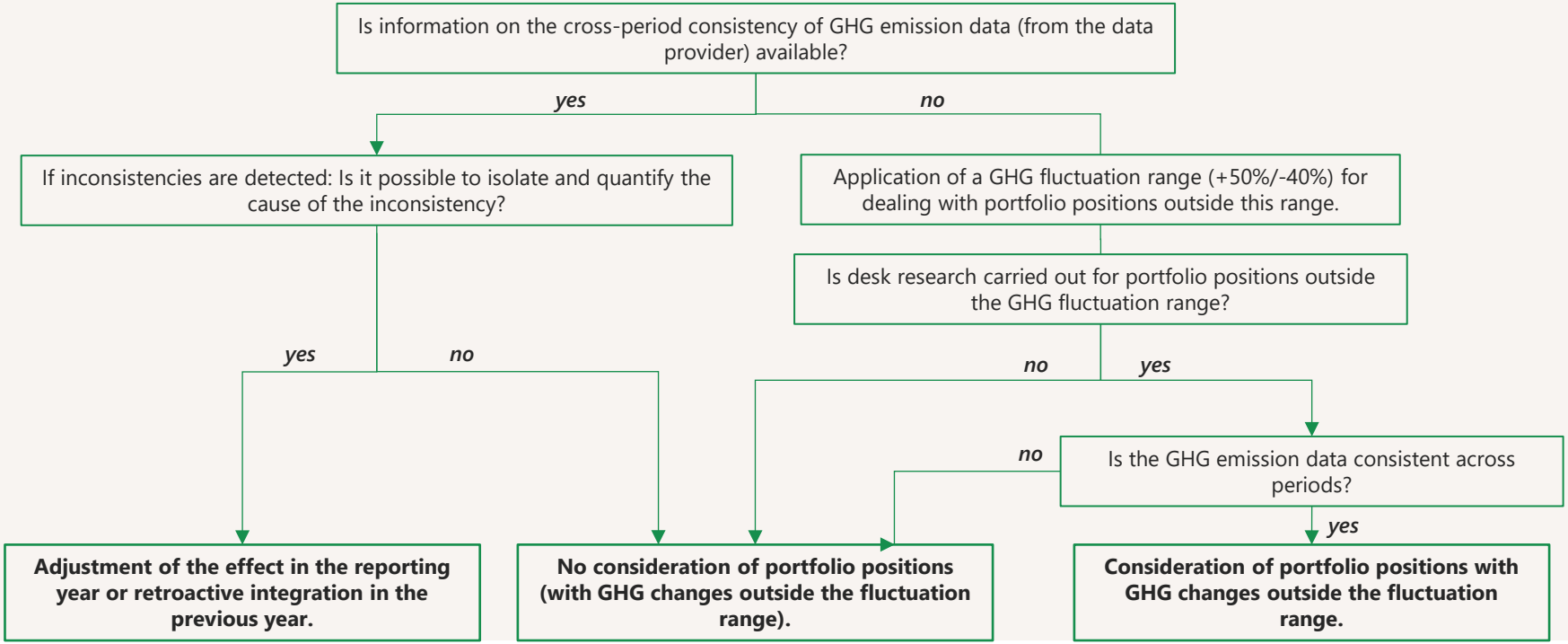
absolute emissions *or* physical intensity

Changes in the GHG accounting methodology

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

Change in the considered portfolio positions:
- New positions
- New inclusions in the calculation
- Portfolio exits
- Exclusions from calculations

Individual weighting factors

share of absolute emissions *and/or* share of portfolio volume

Changes in
- Portfolio volume
- GHG emission volume

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**	**Possible influencing factors**	**Emissions-based Approach**	**Balanced Approach**	**Portfolio-centric Approach**
x	✓	New business (lending), new investments, inclusion in the I-PEPs calculation	yes	yes	yes
✓	x	Matured business, divestments, exclusion from the I-PEPs calculation	yes	yes	yes
✓	✓	Change in relative portfolio share (driven by dynamics in the individual or total portfolio volume)	no	yes	yes
✓	✓	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	Portfolio-centric Approach
SPEP	Sovereign Bond Portfolio-related Emission Performance

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