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Financial Sector Guidance Scoping Workshop
February 25, 2013

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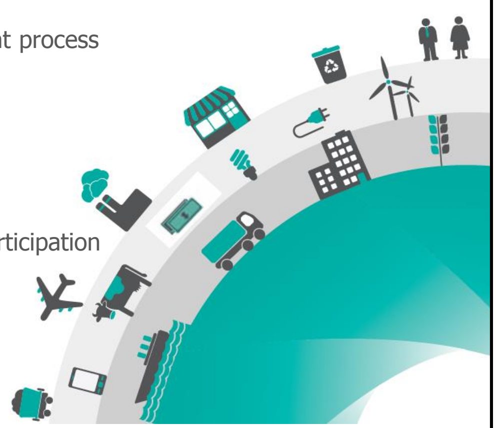
Agenda

- What is GHG Protocol
- Current activities
- Standards and guidance development process
- Financial sector guidance
  - Background
  - Objectives
  - Process and opportunities for participation
- Questions and answers



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About the Greenhouse Gas (GHG) Protocol

The GHG Protocol was launched in 1998 by

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Multi-stakeholder partnership of businesses, NGOs, governments and others

GHG Protocol's Vision: Empower the world to avoid and respond to climate change through the wide use of internationally accepted greenhouse gas standards and practices

GHG Protocol's Mission: Provide the foundation for comprehensive measurement and management strategies to reduce emissions and drive more efficient, resilient, and profitable businesses and organizations

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GHG Protocol Approach

Offers full suite of freely available GHG Standards

Provides sector guidance, tools and training

International, inclusive and balanced stakeholder process

Road tested by diverse group of companies

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GHG Protocol Standards

Corporate Standard

Product Life Cycle Standard

Project Protocol

Corporate Value Chain (Scope 3) Standard

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Building Capacity and Adoption

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World Business Council for Sustainable Development

GHG Protocol Standards

International Organization for Standardization

CARBON DISCLOSURE PROJECT

CLIMATE LEADERS
U.S. Environmental Protection Agency

The Consumer Goods FORUM

Programa Brasileiro GHG Protocol

SUSTAINABILITY CONSORTIUM

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Standards and Guidance under Development

	Agriculture Guidance	Scope 2 Guidance	Mitigation Accounting Standard	City Accounting Standard	Financial Sector Guidance
overview	How to account for emissions from agriculture companies	How to account for renewable energy purchases and related instruments	How to account for reductions from mitigation policies and actions	How to account for full value chain emissions from cities	How a financial company accounts for investments and lending
anticipated availability	Sept 2012	Spring 2013	Early 2014	Late 2013	Late 2014
how to participate	Membership in stakeholder group; road-test	Membership in stakeholder group	Membership in stakeholder group; road-test standard	Membership in stakeholder group; road-test standard	Membership in TWG or stakeholder group; road-test guidance

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Additional Sector Guidance Development

- ICT sector guidance for product GHG inventories in partnership with Carbon Trust and the Global e-Sustainability Initiative (GeSI)
- WBCSD-led Scope 3 chemical sector guidance
- UK NHS Pharmaceutical and Medical Device Sector Guidance for Product Accounting
- Product Rule for Concrete led by University of Washington and the Carbon Leadership Forum

BUILT ON GHG PROTOCOL

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Example of a Process Underlying the Development of GHGP Standards

2300+	*Participants in the stakeholder process*
169	*Sets of written comments received*
60	*Number of road testers*
55	*Countries represented*
12	*In –person stakeholder events*
3	*Years spent completing the standards*

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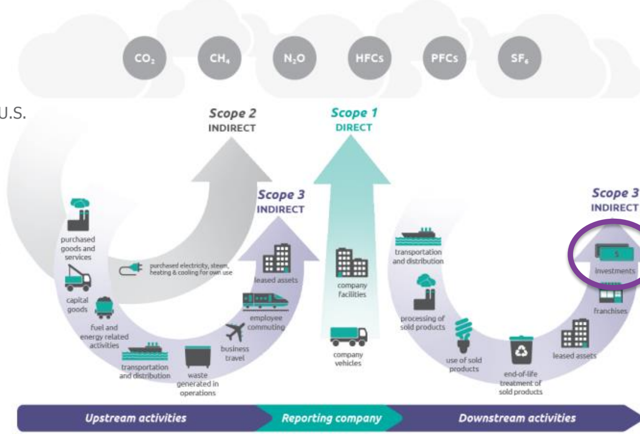
Financial Sector Guidance

- The GHG Protocol Scope 3 Standard provides a framework for reporting value chain emissions, including emissions from lending and investments
- A financial sector workgroup was engaged in Scope 3 Standard development
  - Barclays Capital
  - Citi
  - Credit Suisse
  - Export-Import Bank of the U.S.
  - IDB
  - IFC
  - KFW Development Bank
  - National Australia Bank
  - PaxWorld Management LLC
  - Sovereign



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Scope 3 Standard Business Goals

1. Identify and understand risks and opportunities
2. Identify reduction opportunities, set reduction targets and track performance
3. Engage value chain partners
4. Enhance stakeholder information and corporate reputation

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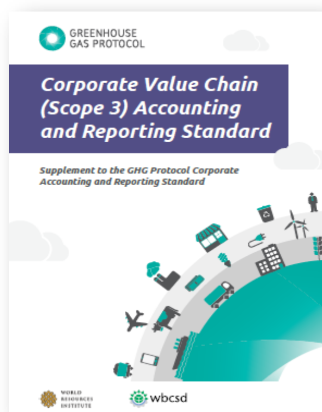
Why is Financial Sector Guidance a High Priority?

- Majority of financial sector emissions are associated with investments
- Increasing external pressure on banks to account for emissions from lending and investments
- Scope 3 provides a framework for reporting emissions from investments
- Stakeholders have indicated that more sector-specific guidance is needed to enable financial institutions to report on the full impacts from investments



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In the Scope 3 Standard, some investments types are required to be reported and others are optional

Required to be reported in Scope 3:

- ***Equity investments made using the company's own capital*** (including investments in subsidiary companies; associate companies; joint ventures; and investments made using the company's own capital where the investor has neither financial control nor significant influence)
- ***Debt investments with known use of proceeds*** (including corporate debt holdings and commercial loans with known use of proceeds, i.e., where the use of proceeds is identified as going to a particular project, such as to build a specific power plant)
- ***Project finance*** (long term financing of projects as either sponsor or financier)

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In the Scope 3 Standard, some investments types are required to be reported and others are optional

Optional in Scope 3:

- ***Debt investments without known use of proceeds*** (general corporate purposes debt holdings, such as bonds or loans, held in the reporting company's portfolio where use of proceeds is not specified)
- ***Managed investments and client services*** (including investment and asset management – equity or fixed income funds managed on behalf of clients, using clients' capital)
- ***Other investments or financial services***

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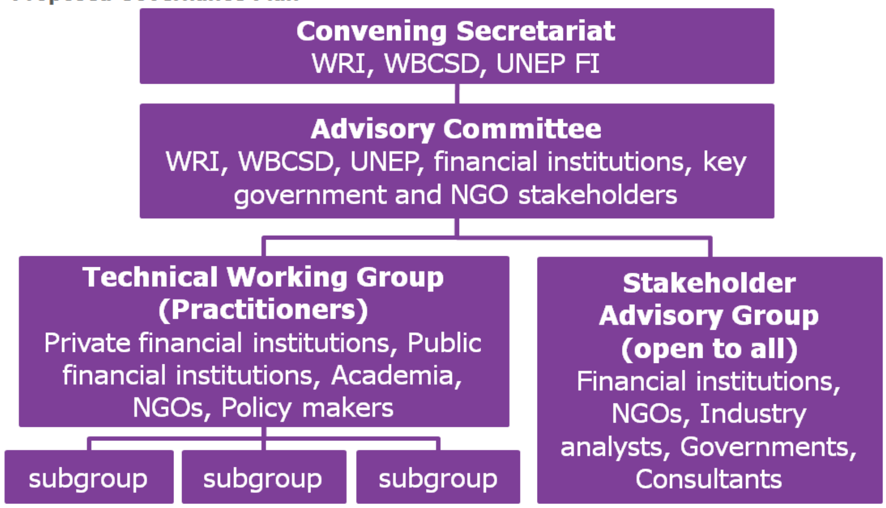
Proposed Governance Plan



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Options for Participation

- Technical Working Group participation
- Road testing draft guidance
- Stakeholder Advisory Group participation
- Contribute funding

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Thank You

Questions?

Contact info:

Cynthia Cummis
ccummis@wri.org

GHGprotocol.org

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UNEP Finance Initiative
Innovative financing for sustainability

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Financial Sector Guidance

Results of the scoping survey

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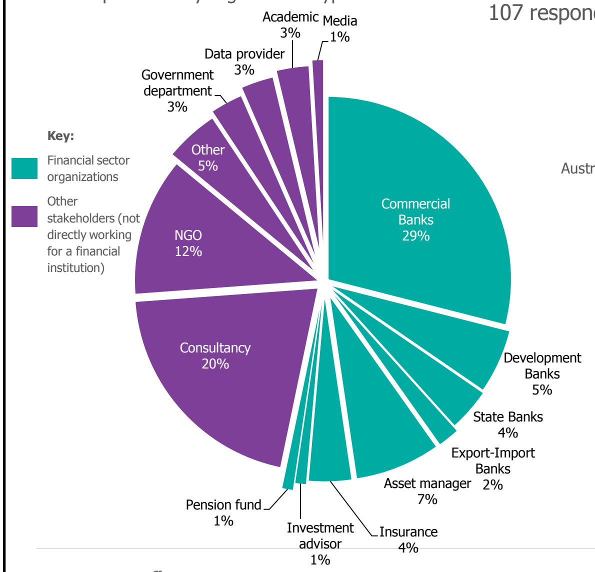
Who responded to the survey?

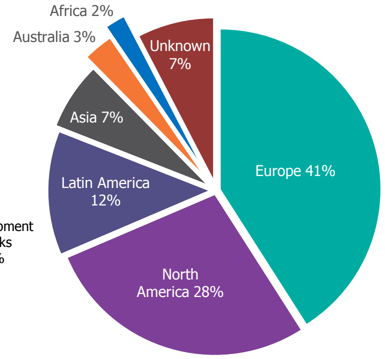
UNEP Finance Initiative
Innovative financing for sustainability

Respondents by organization type:



107 respondents completed the survey

Respondents by region:



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Who responded to the survey?

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Innovative financing for sustainability

2° Investing Initiative
5th PL
Achmea
Allianz SE
ASN Bank
Banco do Brasil, S.A.
Banco General, S.A.
Banco Pichincha C.A.
BankTrack
Beco, (part of Ernst & Young)
Bicbanco - Banco Industrial e Comercial
Bloomberg LP
BSR
Carbon Disclosure Project
CBRE
Ceres
CIRAIG
Citi
Climate Focus
Crédit Andorrà
Credit Suisse
Defra
Desjardins Group
Earth Capital Partners
EBRD
Ecocentric Carbon Management
EFIC
Emporiki Bank of Greece
Environmental Investment Organisation
Environment Agency Active Pension Fund
ERM
Ethical Markets Media
Export Development Canada
Factor CO2
Fira Banco de Mexico
FMO
GFAI Investimentos
Helm Bank
HSBC
IDLC Finance Limited
Inter-American Development Bank (IDB)
International Rivers
Itau Unibanco
JPMorgan Chase
Land Bank of the Philippines
London School of Business and Finance
MAPFRE
Myclimate
National Australia Bank
ODI
Oeco Capital Lebensversicherung AG
Pax World Management LLC
PE INTERNATIONAL
Portigon AG
Preventable Surprises
PricewaterhouseCoopers
Profundo
Rainforest Action Network
RBS
Royal Bank of Canada
S2 Sustainability Consultants
Santam Ltd
SEB
Second Nature
Shareholder Association for Research and Education (SHARE)
Singapore Management University
South Pole Carbon
Standard Bank
Start2see
State Street Corporation
SulAmérica Seguros, Previdência e Investimentos
TD Bank Group
The Carbon Accounting Company
The CMG Consultancy
The Pembina Institute
Trucost Plc
UniCredit SpA
Verco
Wells Fargo
Westpac Bank
Wipro
WSP Environment & Energy
WWF Germany
WWF Sweden
YES BANK Ltd.

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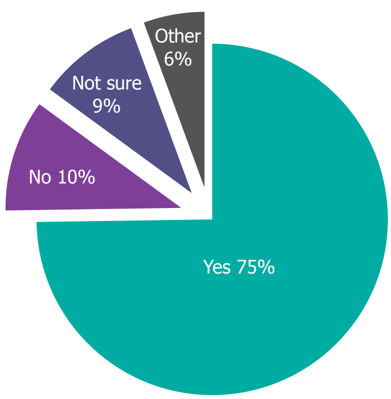
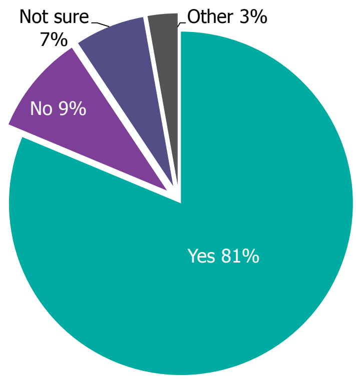
Key question 1: Is measuring and reporting emissions associated with lending and investments an important business issue?



Key question 2: Is there a significant and long-term need for standardized methodologies/guidance for measuring financed emissions?



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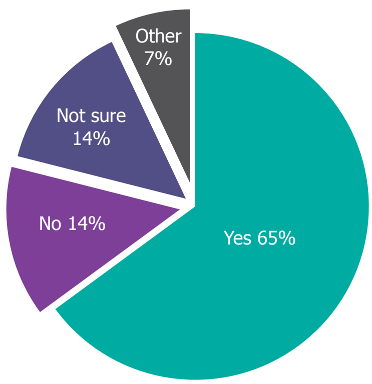
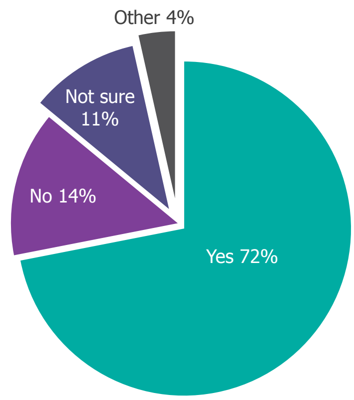
Key question 1 (FIs only):
Is measuring and reporting emissions associated with lending and investments an important business issue?



Key question 2 (FIs only): Is there a significant and long-term need for standardized methodologies/guidance for measuring financed emissions?



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UNEP Finance Initiative
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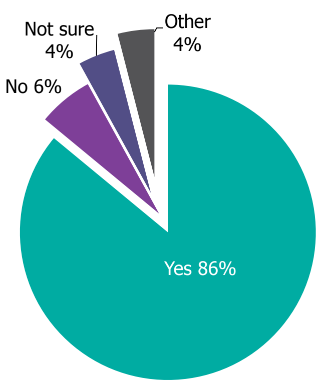
Key question 1 (non-FIs only): Is measuring and reporting emissions associated with lending and investments an important business issue?



Key question 2 (non-FIs only):
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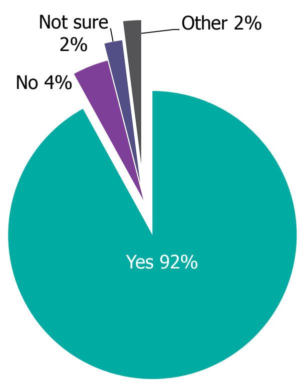

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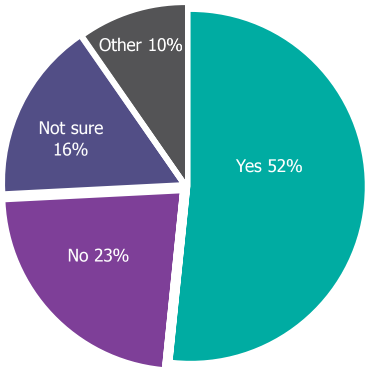
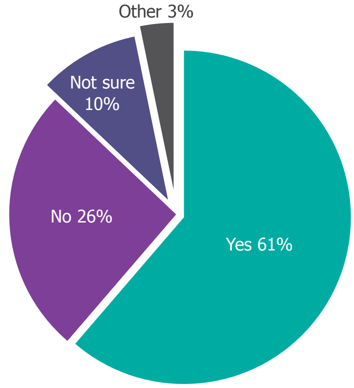
Key question 1 (commercial banks only): Is measuring and reporting emissions associated with lending and investments an important business issue?



Key question 2 (commercial banks only): Is there a significant and long-term need for standardized methodologies/guidance for measuring financed emissions?



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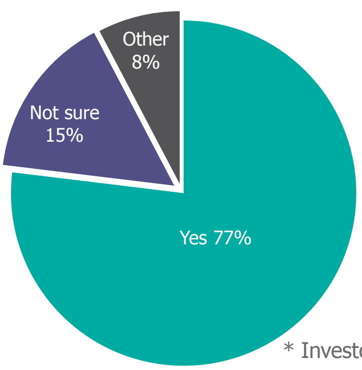
Key question 1 (investors* only): Is measuring and reporting emissions associated with lending and investments an important business issue?



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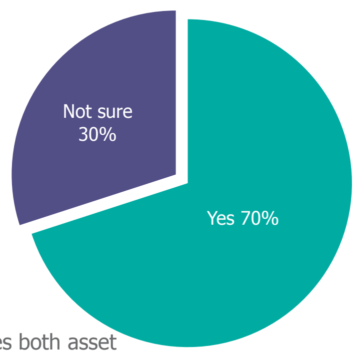

* Investors includes both asset managers and asset owners

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Reasons why respondents said this is an important business issue and that there is a need for guidance

- Risk management
- To identify business opportunities and GHG reduction opportunities
- To facilitate target setting/track reductions
- To enhance accountability/transparency (and reputation)
- To enable comparability/benchmarking
- To harmonize proliferating methodologies
- To harmonize information requested of investees/borrowers
- To increase reliability/credibility of the methods
- Guidance would assist financial institutions that are undertaking this complex task
- To prevent "greenwashing"

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Reasons why respondents said this is not an important business issue and that there is not a need for guidance

- Emissions should be measured and managed at source, not by lenders/investors
- Measuring financed emissions is prohibitively complex and time-intensive
- No link established between measuring financed emissions and risk assessment frameworks
- Financial institutions should focus on other, more useful risk assessments
- Prefer to focus on advising clients on more substantive strategies to reduce emissions

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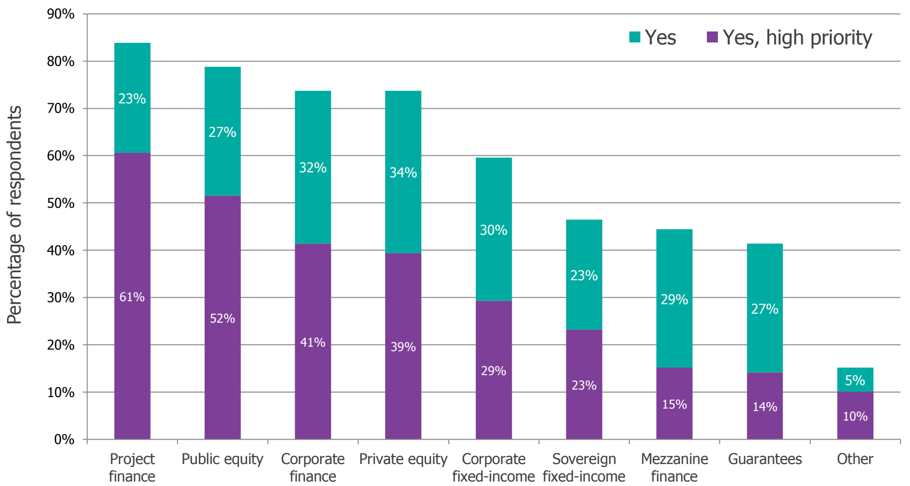
Key question 3: Should the following investment types be included in the guidance? What types should be highest priority?



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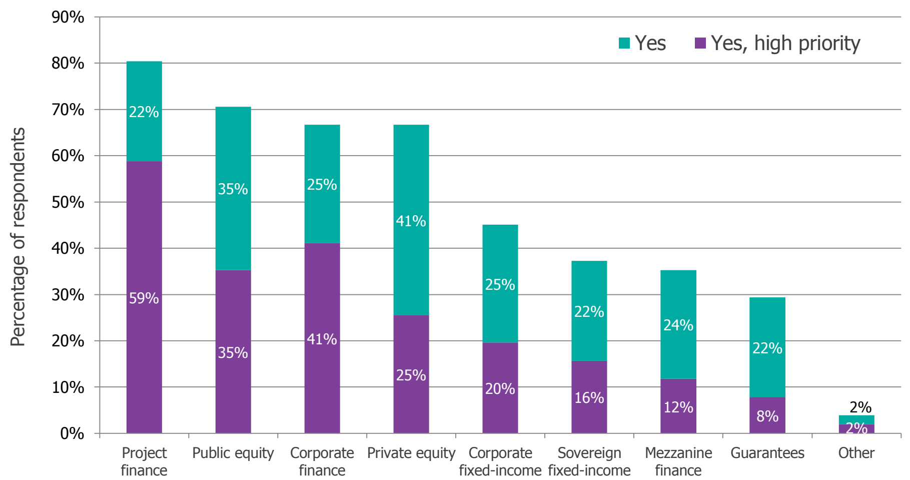
Key question 3 (among all FIs): Should the following investment types be included in the guidance? What types should be highest priority?



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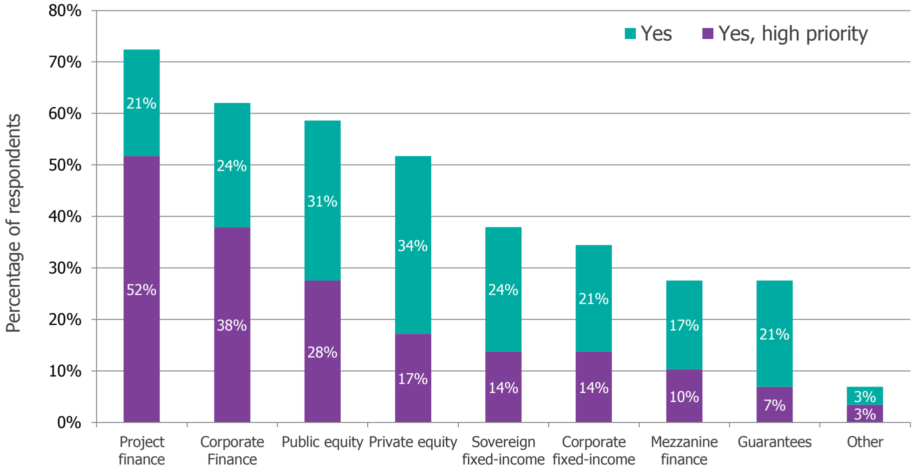
Key question 3 (among commercial banks): Should the following investment types be included in the guidance? What types should be highest priority?



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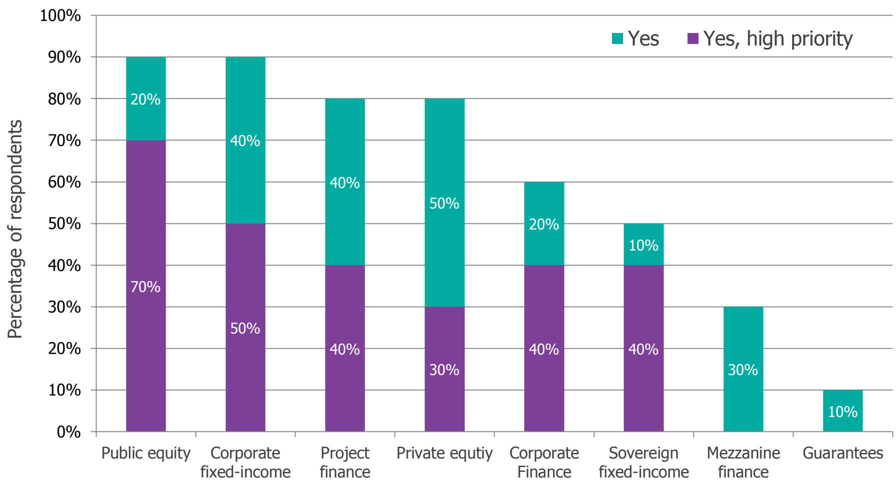
Key question 3 (among investors): Should the following investment types be included in the guidance? What types should be highest priority?



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Factors considered by respondents when prioritizing lending/investment types:

- Level of risk
- Size of GHG emissions of the asset class
- Size of the market
- Relevance for the financing of companies
- Ability to influence

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Challenges ahead

- Data availability and quality
- Normalizing emissions to enable comparison of companies
- Time and resources required
- Methodological concerns (e.g., avoiding double counting)
- Protecting client confidentiality
- Ensuring consistency between different financing activities
- Interpretation of results (unclear what the resulting figures mean)
- Lack of senior management buy-in (and resulting lack of any sanctions for non-compliance)

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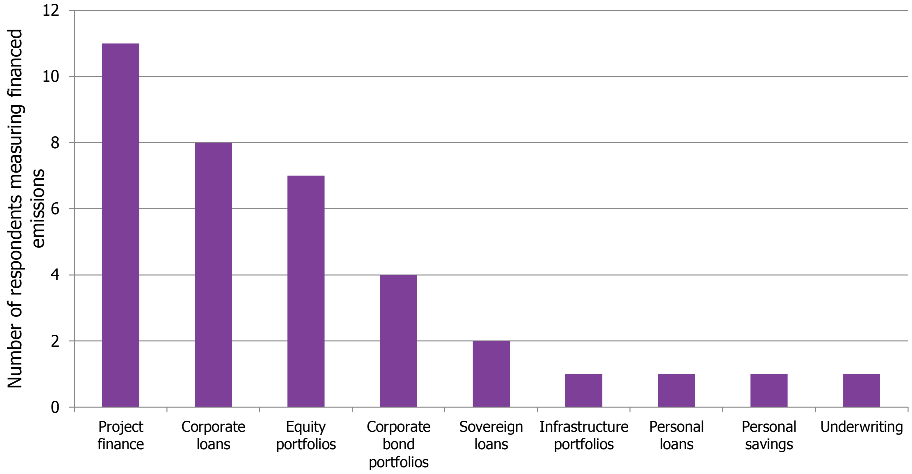
Experiences measuring financed emissions

26 of the respondents said they have measured financed emissions.



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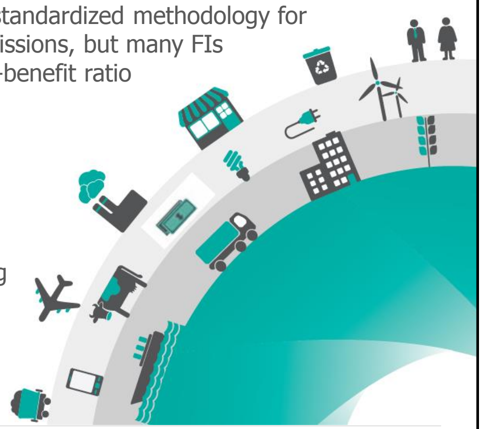
Conclusions

- Broad interest in better understanding, measuring and managing financed emissions
- Broad interest in the availability of a standardized methodology for measuring and reporting financed emissions, but many FIs concerned about complexity and cost-benefit ratio
- Understanding business risk and opportunity is the key driver to measure financed emissions
- Complexity and cost-benefit of measuring emissions varies depending on financing/investment activity



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London workshop attendees

Private sector financial institutions

1. Allianz Climate Solutions GmbH
2. American Express Company
3. ASN Bank
4. Australia and New Zealand Banking Group
5. AXA Group
6. Bank of America Merrill Lynch
7. Credit Agricole
8. Credit Suisse
9. Deutsche Bank
10. Hermes Fund Managers
11. HSBC
12. Midven Ltd/Rainbow Seed Fund
13. Nordic Environment Finance Corporation (NEFCO)
14. Royal Bank of Scotland
15. Societe General
16. UniCredit

International financial institutions

1. EBRD
2. European Investment Bank
3. FMO
4. French Development Agency

Others (e.g., NGOs and consultancies)

1. 2 Degrees Investing Initiative
2. Bank Track
3. Carbon Tracker
4. CDP
5. CPSL Banking Environment Initiative
6. Profundo
7. Trucost
8. Verco

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UBS | UBS Americas | Internal

GHG Scope 3: The Asset Management Perspective

Bruno Bertocci
Managing Director

Head of Sustainable Investors

February 25, 2013

Sustainability: Corporate Commitment

We demonstrate and actively pursue our beliefs through a range of internal and external commitments and initiatives

Internal Commitments

- Environmental and social stewardship are part of our core values at UBS
- Robust environmental policy that covers five core principles

- Strong track record in managing environmental challenges
  - **Responsible Supply Chain Guideline** introduced in 2008
  - **UBS Climate Change Strategy** implemented since 2006
  - **UBS Statement on Human Rights** adopted in 2006
  - **UBS Position on Controversial Activities** adopted in 2011

External Commitments

- Participant in the **UN Global Compact** since its inception in 2000
- Founding member of the **Wolfsberg Group** in 1999
- Independent assurance of the **GRI** (Global Reporting Initiative) based sustainability disclosure
- Founder of the **UBS Optimus Foundation**
- First environmental certification **(ISO 14001)** in 1999
- Member of **Eurosif** and founding signatory of the **Carbon Disclosure Project (CDP)**
- One of the first signatories of **UN Environment Program Finance Initiative** (UNEP FI) in 1992
- Member of the **Dow Jones Sustainability Index** and **FTSE4Good Index** since their inception
- UBS Global Asset Management signatory to **UN Principles for Responsible Investment** (UN PRI)
- GISR **Global Initiative for Sustainability Ratings** steering committee
- **Sustainability Accounting Standards Board**™

UBS

Asset Management vs. Asset Owner

- Measurement is most effective by ownership
- Asset owners can set policy directives, asset managers can only work at the behest of the owners
- Asset managers should educate and inform asset owners
- Asset managers should implement the PRI by integrating sustainability data in the decision-making process

UBS

UBS Activities

- Strong suite of sustainable investment options allow our clients to implement policies
- Internal sustainable KPI database (SASB-inspired) being developed to inform investment decision-making firm-wide
- Value-based investment group in the process of rating every investment option for our WM platform on sustainability criteria
- Ipad app for individual clients to help frame the sustainability discussion

UBS

What are our enlightened clients are doing

- Moving to implement their asset allocation objectives using sustainable options
- Requiring every manager to rate every investment (at the security level) on a set of sustainability and risk criteria
- Using their findings to inform investment policy as well as to make manager selections
- Beginning to aggregate data about holdings (early days yet)

UBS

February 2013

IFC Greenhouse Gas Emission Estimation Initiative

Lucas Bossard
Climate Business Group – Finance and Policy

IFC Portfolio GHG Accounting

IFC Management Group endorsed a proposal for implementation of portfolio GHG accounting:

- As of February 1, 2009, all new real sector projects require a GHG footprint before approval

Purpose:

- For internal decision making
- To be an additional form of business risk analysis
- Understand the development-GHG emission trade-off
- Stakeholders initially internal (management, strategy) and eventually public

GHG Accounting Implementation

Process:

1) Notification email to project teams at concept stage
2) GHG data collected during project appraisal
3) Staff upload GHG calculation prior to approval

GHG data collected and enforced systematically

Responsibility rests with the investment team-> CBGSM role is one of support, monitoring, and verification

CBGSM designed the IFC Carbon Emissions Estimator Tool (CEET), based on common data available during appraisal

IFC follows the “WBCSD/WRI GHG Protocol: A Corporate Accounting and Reporting Standard”

IFC International Finance Corporation World Bank Group

3

Status Report

Initial objective was data collection

- Portfolio data for FY10-12
- Undertook backfill for FY09 data (only active projects): 1,300+ projects

GHG analysis now moving into other areas:

<u>GHG reductions:</u>
To measure and report mitigation impact of climate-related projects

<u>GHG intensity analysis (piloting over next 2 years):</u>
Measure GHG emission improvement in across IFC portfolio

GHG accounting will go public as part of IFC Development Goals

GHG accounting were input to 2012 IFC Performance Standards Update

IFC International Finance Corporation World Bank Group

4

Key Challenges

Data availability is biggest challenge

Staff can view as additional work

Data interpretation and/or corporate goals may lead to unintended incentives

Initial costs can be significant

Ex ante data collection is easier than ex post follow-up

Some Successes

CEET standardized internal GHG calculations

Integrating into business cycle was a essential

- ✓ 60-70% of necessary data already collected during appraisal
- ✓ Automated data collection and enforcement improved reporting

IFC capacity building

- ✓ Design enabled non-GHG specialists to undertake calculations
- ✓ Investment teams learning carbon accounting and common sectoral emission sources

GHG accounting can be important appraisal tool

Helps identify low-cost mitigation opportunities

Thank you!

Lbossard1@ifc.org

http://www.ifc.org/ghgaccounting

Stanislas Dupré, 2° Investing Initiative

Prezi presentation (with audio comments):

http://2degrees-investing.org/#!/page_Resources

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Financial Sector Landscape

Mapping out the landscape and prioritizing within the financial sector

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Financial Sector Products and Services Landscape

Investing

Equity investing
- Publicly listed equity
- Private equity
- Venture capital

Fixed-income investing
- Government fixed-income
- Corporate fixed-income

Other asset classes
- Infrastructure
- Real estate

Lending

Commercial lending
- Project finance
- Corporate loans
- SME loans

Government lending (lending to governments)
- Government loans

Consumer lending
- Personal loans
- Mortgages
- Auto loans

Advisory services

Investment banking
- Advisory services (e.g., M&A)
- Debt & equity underwriting

Other financial services
- Brokerage – securities commodities
- Trading – securities & commodities
- Credit guarantees
- Insurance contracts
- Transaction services

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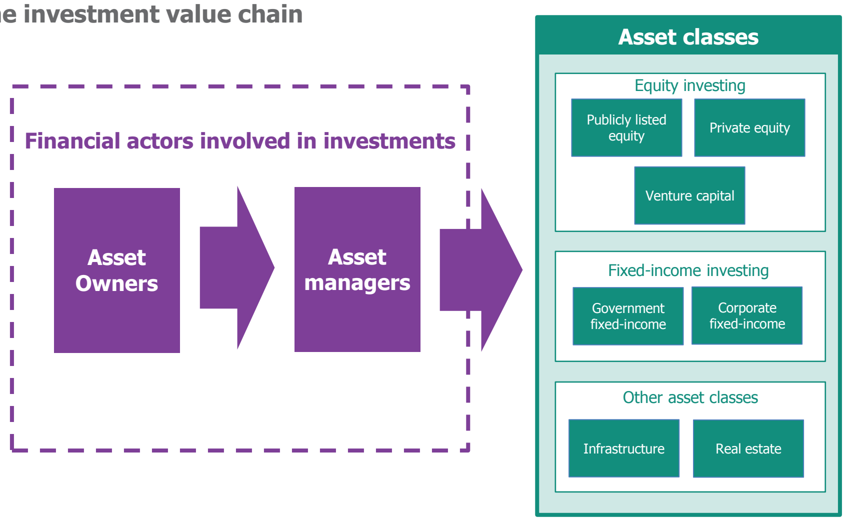
The investment value chain



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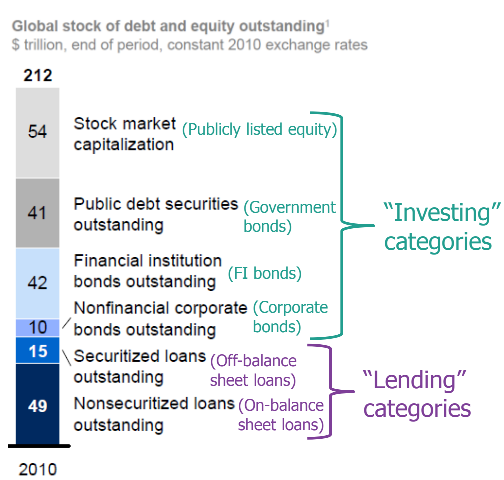
Global stock of debt and equity

- Total global stock of securities was $147 trillion in 2010
- Publicly listed equity is the single largest component (>25%)
- Total global stock of loans outstanding was $64 trillion in 2010 (30% of total global financial stock)
- 77% of these loans ($49 trillion) are non-securitized (i.e., on-balance sheet)



Source: McKinsey Global Institute, 2011

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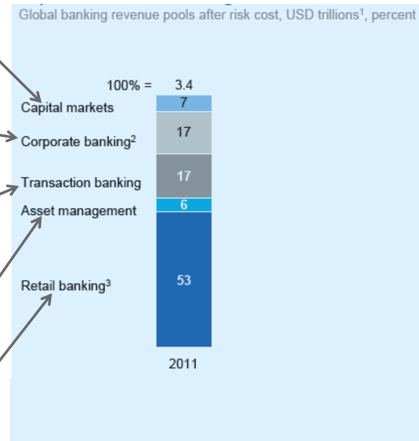
Global financial sector revenues by business segment

- Includes underwriting, advisory services (including M&A), brokerage, trading, → Capital markets
- Includes corporate lending → Corporate banking
- Includes cash management (deposits and payments), clearing/settling, trade finance, card payments, etc. → Transaction banking
- Includes "investing" categories from asset manager perspective → Asset management
- Includes consumer lending → Retail banking



Source: McKinsey Global Institute, 2012

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Summary of On- and Off-Balance Sheet Items

ON-BALANCE SHEET:

1. **Loans outstanding** (loans to commercial, consumer and government clients)
   - $49 trillion (23% of total global financial stock)
2. **Securities** (equity and fixed-income investments held on bank balance sheets)

OFF-BALANCE SHEET:

1. **Securitized loans** ($15 trillion)
2. **Underwriting; advisory services; brokerage; trading**
   - 10% of sector's revenue ($340 billion in 2011)
   - $2.1 trillion of equity & debt issued in 2010
3. **Asset management**
   - 6% of sector's revenue ($208 billion in 2011)
4. **Other services, including transaction services**

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