

CLIMATE PRINCIPLES PROGRESS REVIEW

January 2010

THE °CLIMATE GROUP

Report by

PRICEWATERHOUSECOOPERS 



**THE
CLIMATE
PRINCIPLES**
A FRAMEWORK FOR THE
FINANCE SECTOR



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FOREWORD

Finance was the big success story of the United Nations Climate Change Summit in Copenhagen.

The unanimous agreement on a fast-start fund of \$30 billion over the next three years and total support of \$100 billion a year for developing countries by 2020 was a remarkable achievement.

That consensus was achieved on financing in Copenhagen is all the more surprising given the economic backdrop. Many of the countries that pledged new funding support are still recovering from one of the worst economic downturns in the last fifty years.

The speed and global nature of the response to the economic crisis has proved to be an ally in the fight against climate change. The sheer size of the economic collapse meant people quickly came to terms with a scale of economic infusion never imagined before. It got people comfortable with the size of the world economy and what was needed to put it back on track. Since then, discussing the \$100–200 billion needed to mitigate dangerous climate change seems far more probable.

On top of the \$100 billion to support developing nations, approximately \$20 billion has been made available to support first generation carbon capture and storage projects globally and \$3.5 billion has been committed by Australia, France, Japan, Norway, the United Kingdom, and the United States as 'fast-start' financing for rainforest countries to build capacity and reduce emissions through forest conservation.

Yes, there are many questions that still need to be answered. What will the sources of these funds be? What will the balance be between public and private financing? And what are the most effective delivery mechanisms of this critical funding?

But the leading financial services companies that have adopted the Climate Principles are in a strong position to provide answers. Their expert research and development teams have been gathering information about the risks and opportunities in a low carbon future. These banks and reinsurers are positioning themselves to roll out the kinds of products and services their clients and consumers are beginning to demand.

The first Review of the Climate Principles clearly demonstrates the enormous opportunity for banks and insurance companies in a low carbon future. However, the Review also indicates that companies in the financial service sector need to move faster. For example, they need to support the power sector as it adopts and scales-up cleaner, greener technologies. And we need them to do so at a much accelerated rate.

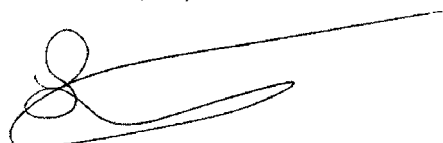
The latest announcements about public sector spending should stimulate private sector investment. This will also create opportunities for new public-private sector partnerships. We hope the Climate Principles' adoptors will play a significant role in shaping policy and providing support for these critical low carbon projects.

This Review also shows how retail customers have largely been neglected in the discussion about the new energy economy. We believe there is a huge opportunity for financial service products to help consumers make smarter choices and reduce their own carbon footprint.

2010 is poised to be an exceptional year for the low carbon economy. And the finance sector will be at the center of the transition. The Climate Principles' adopting institutions have positioned themselves at the forefront of this financial revolution.

Make no mistake: we will challenge ourselves and each of our partners to act swiftly and decisively on the recommendations outlined in this Review. But we will also continue to identify the enormous opportunities awaiting companies that move us boldly towards a clean, green and prosperous future.

STEVE HOWARD, CEO, THE CLIMATE GROUP



EXECUTIVE SUMMARY

In December 2008, Crédit Agricole, HSBC, Munich Re, Standard Chartered Bank and Swiss Re adopted the Climate Principles (the Principles – see Annex II for an overview), the first comprehensive framework to help financial institutions manage the key opportunities and risks of climate change (an initiative led by The Climate Group).

One year on, PricewaterhouseCoopers LLP (PwC) independently reviewed how adopting institutions are fulfilling their commitments to these Principles. The assessment was based on information available in the public domain backed up with supplementary interviews with the institutions.⁶¹ The extent of implementation of the Principles is categorized into four levels, as shown in the table below.

LEVELS OF IMPLEMENTATION	DESCRIPTION
Not Applicable	Institution is not involved in the specific business activity defined by the Principle.
Understanding Approaches	Institution is at an early stage of understanding the issue and determining the best approach to be taken.
Testing Approaches	Institution has developed approaches and is testing them across a limited part of the institution and/or product/service range.
Implementing Programs	Institution has agreed to an approach and is rolling it out across the relevant business areas.
Mature Programs	Institution has fully implemented the approach and is using results and findings to the advantage of the business, its clients and customers.

THE ADOPTING INSTITUTIONS HAVE MADE SIGNIFICANT PROGRESS AND IN SOME AREAS ARE LEADING THEIR SECTOR.

PROGRESS AND FOCUS FOR ACTION

In Section 1.0 of the Principles, institutions demonstrated that they are meeting all commitments, with activities categorized as either at the level of 'mature programs' or 'implementing programs'. This is as expected given that the management of direct operational impacts on climate change (e.g. buildings, fleets, business travel), and employee engagement are prerequisites for adoption of the Principles. The main focus for continued improvement in this area is on increasing the clarity of how commitments on climate change are managed across the business's operations – for example by stipulating roles and responsibilities across business divisions and geographies and increasing the use of metrics to demonstrate progress.

The adopting institutions have also made good progress on engaging with external stakeholders such as policy makers. In Section 3.0 of the Principles, 87% of the commitments are at the 'mature programs' or 'implementing programs' stages – the two highest levels of implementation. The key recommendation for improving performance in this area is for adopting institutions to provide more detailed disclosure on the purpose and outcomes of their engagement activities. This could include providing more information on climate change policy outcomes that the institution has influenced, or detailing any changes in supplier working practices resulting from engagement efforts to encourage reduction of carbon emissions.

Section 1.0 and 3.0 of the Principles cover activities typically managed through central teams focused on climate change and are aligned with other aspects of sustainability and corporate social responsibility programs.

⁶¹ PwC did not verify the data collected as it was outside the scope of work agreed

Section 2.0 of the Principles is where the most meaningful aspects of a financial institution's impact on climate change are addressed, requiring climate change to be factored into day-to-day business activities, products and services. There are several strong examples of good and leading practice but overall more needs to be achieved to ensure that the adopting institutions manage the risks and take full advantage of the opportunities in the financial services sector as climate change considerations become more important for their clients and customers.

MORE NEEDS TO BE ACHIEVED TO ENSURE THAT ADOPTING INSTITUTIONS MANAGE THE RISKS AND TAKE FULL ADVANTAGE OF THE OPPORTUNITIES IN THE FINANCIAL SERVICES SECTOR.

Institutions demonstrate strong progress in the areas of research and insurance/reinsurance (Sections 2.1 and 2.4 of the Principles) where 60% and 50% of commitments respectively are at the 'mature programs' level. The development of innovative insurance and reinsurance products has been driven by learning from research activities and used to commercial advantage—products include Swiss Re's catastrophe bonds and Munich Re's performance guarantee cover for photovoltaic modules. This approach is starting to evolve in other domains of financial services. HSBC's specialist research team has supported the development of their Climate Change Index which tracks the performance of businesses set to be winners in a climate-constrained economy. Standard Chartered Bank and Crédit Agricole have also recognized the business opportunity for low carbon investment. Standard Chartered Bank's Renewable Energy and Finance business has already provided over \$7 billion in capital and Crédit Agricole's venture capital fund has \$157 million under management for investment in renewable energy. Continued use of research findings to develop new and innovative financial products and services which address climate change remains an imperative for the transition to a low carbon economy. Adopting institutions will need to stay focused in the area of research to guarantee a leadership position in the marketplace.

Project finance (Section 2.7 of the Principles) is the area where least progress is currently documented. This is primarily a disclosure issue, rather than one of management. Most of the banks involved in project finance have some approaches in place for engaging with project sponsors on projects which generate high emissions—measured as greater than 100,000 tons of CO₂ equivalent per annum. However, there is little discussion of such approaches in the public domain, in particular relating to expectations for energy efficiency and carbon intensity of new projects, emissions reduction technology required and guidance for investment decisions where climate change considerations are a crucial part of the process. Institutions should also increase focus on the opportunities for investment in low carbon technologies. This is also relevant in other areas of corporate and investment banking, covered by commitments outlined in Sections 2.5 and 2.6 of the Principles.

Developing products and services that support retail customers to address climate change (Section 2.3 of the Principles) is another area that is still in the early stages of development. The majority (83%) of commitments are still in the 'testing approaches' stage—the second level of implementation. Banks have had difficulty engaging retail consumers on climate change and are unclear about the types of products that might be attractive to them. Studies indicate consumers are most likely to take action where product offerings are simple and effective and it is recommended that institutions partner with organizations that are more closely aligned with carbon issues in consumers' minds—such as energy or offset companies—to co-launch products and services that can encourage consumers to reduce energy consumption and change their behavior. Linking personal finance with addressing climate change is a largely untapped market opportunity for retail banks. Market research on customers and climate change is needed to gain valuable insight for developing attractive and commercially viable products and services.

LOOKING AHEAD

In addition to the key findings and specific areas for action already noted, there are broader improvements that can be made by The Climate Group and the adopting institutions. This combined effort will help to enhance the relevance of the Principles and the overall role of the sector in transitioning to a low carbon economy. While the current adopting institutions are leading the climate change agenda, there are other financial institutions with similar ambitions. The Climate Group and current adopting institutions should encourage other financial services companies to adopt the Principles, enhancing the ultimate role that the group can have as a leading force in demonstrating best practice and promoting change. More active engagement between adopting institutions and other similar stakeholder groups is also important, in particular the Equator Principles, the United Nations Environment Programme Finance Initiative (UNEP FI), ClimateWise and the United Nations Principles for Responsible Investment (UNPRI), to ensure goals are aligned across the sector.

Adopting institutions generally had difficulty demonstrating the true nature and extent of the engagement that they undertake with clients (whether corporate clients, consumers or investors). More clarity about how stakeholders are engaged, the topics that are discussed, how frequently this occurs and what changes are made as a result would be useful to demonstrate the role the financial sector can play in addressing climate change.

There are also ways to improve the effectiveness of the Principles. An indicative list of disclosure requirements has been developed to guide adopting institutions in fulfilling their commitments. This has been formally agreed for operational issues (Section 1.0) and reinsurance and insurance (Section 2.4). The Climate Group should lead the development of disclosure requirements for the remainder of the Principles in a way that balances pragmatism and ambition. Adopting institutions should also provide more information on 'why' and 'how' action has been taken, to meet the commitments in the Principles, and present the information that is more accessible for stakeholders. This need not be a stand-alone report, but could initially take the form of a summary text box within the institution's Sustainability Report or website which directs the reader to the relevant information, similar to the approach taken by the Global Reporting Initiative.

Finally, there should be a regular review of the content of the Principles to ensure they provide goals for the finance sector that are in line with emerging science and international policy commitments.

INCREASING THE NUMBER OF ADOPTING INSTITUTIONS WILL ENHANCE THE ROLE OF THE GROUP AS A LEADING FORCE IN DEMONSTRATING BEST PRACTICE AND PROMOTING CHANGE.

SECTION ONE: MANAGING OPERATIONAL EMISSIONS

Commercial and residential buildings generate 16.5%⁰² of global greenhouse gas emissions, a result of heating, cooling, lighting and the use of electrical equipment, while 14.3%⁰³ of global emissions come from transportation. Financial services companies can reduce emissions in both of these areas. Being significant employers — over half a million people work for the five institutions that have adopted the Principles — they can also have a positive result in raising awareness and encouraging individuals to take action.

1.0 WE HAVE A ROBUST LOW CARBON STRATEGY OR POSITION AND ARE MANAGING OUR OPERATIONAL CARBON EMISSIONS.

PRINCIPLE

1.1 We have issued a strategy or position that indicates how we undertake our business in a way that reduces the climate and operational carbon impact of our activities.

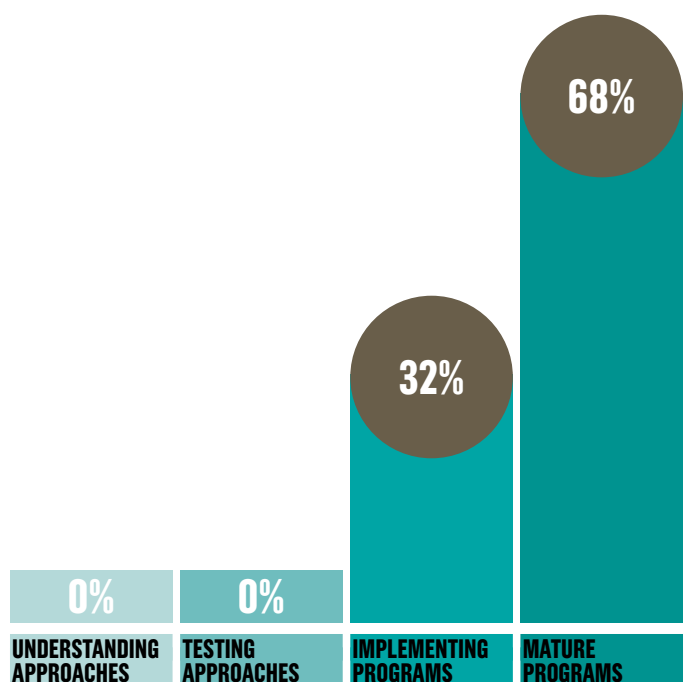
1.2 We have board level commitment for the strategy or position and a named senior executive who has responsibility for implementing it across our organization and for ensuring that decisions taken are consistent with it. This executive has the necessary resources to meet the commitments contained in our strategy or position.

1.3 We have measured a significant proportion of our operational GHG emissions using an internationally recognized or equivalent domestic standard and we disclose this information.

1.4 We have issued clear and challenging, yet achievable, targets for making reductions in our operational GHG emissions.

1.5 We engage our employees on our commitment to addressing climate change and support them in playing an active role in meeting this commitment.

FIGURE 1⁰⁴: THIS PRINCIPLE IS APPLICABLE TO ALL FIVE ADOPTING INSTITUTIONS.



⁰² World Greenhouse Gas Emissions in 2005 - World Resources Institute

⁰³ World Greenhouse Gas Emissions in 2005 - World Resources Institute

⁰⁴ See Annex I for an explanation of percentage calculations, and Annex III for a full breakdown of performance across the group

PROGRESS

All adopting institutions have made significant progress in improving energy efficiency. In some cases actual emissions have risen, mainly due to growth of the business. All adopting institutions purchase carbon credits in part or in full to offset certain emissions that have not been reduced through energy efficiency programs and renewable energy procurement.

They have all developed some form of climate change strategy to reduce operational carbon emissions. For example Crédit Agricole will integrate sustainable construction into new build projects, such as the future Le Credit Lyonnais Head Office that will be constructed to the French standard for high environmental quality (HQE), which minimizes energy and water use, and waste. Swiss Re has developed efficiency programs, including technical operations management, new build efficiency standards and procurement of green energy that has led to a 30% reduction in emission intensity, as against 2003.

The institutions all have board level commitment to climate change objectives. At Munich Re, the CEO of the reinsurance group is responsible for climate change risks, while at Standard Chartered Bank overall responsibility for the bank's sustainability and climate change strategy is guided by the 'Sustainability and Responsibility Committee', which is a Board appointed committee and chaired by an Independent Non-Executive Director.

The adopting institutions are all reporting carbon emissions from electricity use and fuel consumption. However, there is no standardized approach to calculating or reporting emissions that are generated along the supply chain or from travel. For example, HSBC discloses emissions data from business travel and from external distribution and logistics, while Standard Chartered Bank has set a target for CO₂ consumption and air travel. Munich Re reports on emissions from energy consumption and business travel and also calculates carbon emissions from the water and paper they use, and from the waste they produce.

The group of adopting institutions has developed some innovative ways to encourage their employees to take action on climate change. Those engagement initiatives that are most successful include a combination of consultation, capacity building, practical and readily accessible tools for carbon footprint reduction and performance recognition. Standard Chartered Bank developed the 'My Environment' tool to educate staff on the environmental impact of their everyday activities, and launched 'Greenstorming', an internal environmental social networking portal. Crédit Agricole has established an online portal that actively encourages and facilitates their car-sharing scheme. Swiss Re has a program called 'COYou2' that raises awareness by subsidizing employee investments in personal carbon reducing projects. The HSBC Global People Survey found that 70% of employees believed that they were being actively encouraged to take part in environmental and community initiatives.

FOCUS FOR ACTION

Climate change strategies should be better aligned to business priorities. In particular, institutions should focus on improving articulation of how climate change-related key performance indicators (KPIs), targets and programs link to broader strategic goals. This information will enable stakeholders to gain a deeper understanding of the commitment of institutions to tackling climate change. Investors are specifically looking for evidence that climate change informs management and makes up an integral part of business decision-making across the institution.

Most institutions demonstrate reasonable levels of engagement with employees on climate change issues but there is evidence that some efforts are the result of ad hoc approaches, rather than the product of a uniform strategy or program for employee engagement. A more cohesive and strategic approach to employee engagement would help ensure that:

- All efforts are aligned to the institution's climate change strategy and plan, thereby helping to deliver against it;
- There is a platform or mechanism for sharing information on what is working and what is not; and
- A common set of the most successful initiatives can be rolled out on a larger scale, bringing consistency of approach, but also efficiencies of scale.



CLIMATE CHANGE STRATEGIES SHOULD BE BETTER ALIGNED TO BUSINESS PRIORITIES.

SECTION TWO: DEVELOPING APPROACHES THAT INTEGRATE CLIMATE ISSUES INTO BUSINESS ACTIVITIES

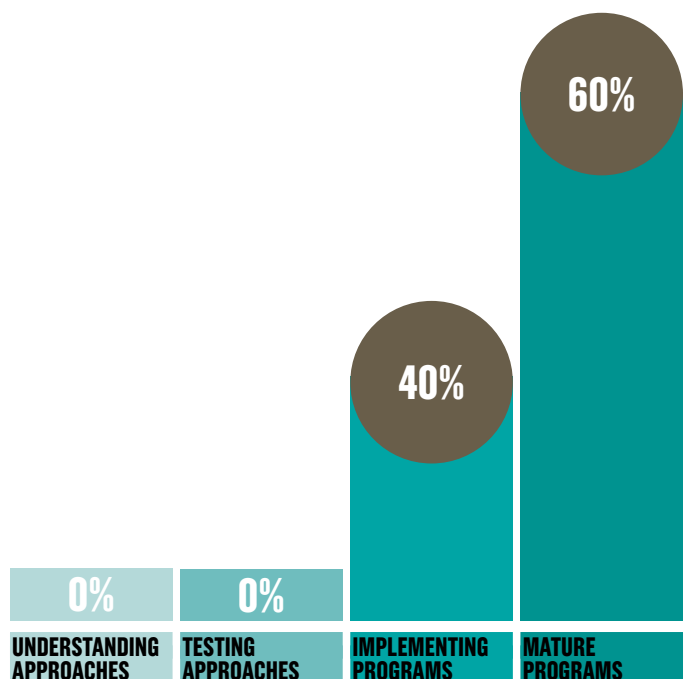
2.1 RESEARCH ACTIVITIES

Financial services companies need to understand the financial implications of climate change risk and opportunities. Some of these risks need to be managed to reduce costs, others can be turned into commercially viable opportunities. A key challenge facing financial services companies is to leverage internal research activities in developing tailored financial solutions to meet their clients' needs across diverse sectors.

PRINCIPLE

2.1.1 We will incorporate climate and carbon issues into our research activities and, where relevant, will utilize the findings to develop products and services.

FIGURE 2: THIS PRINCIPLE IS APPLICABLE TO ALL FIVE ADOPTING INSTITUTIONS.



RESEARCH FINDINGS SHOULD GENERATE NEW PRODUCTS AND SERVICES.

PROGRESS

All adopting institutions have made strong progress in this area; they all make information publicly available on a range of climate change issues and the implications they have on the economy.

Understanding and quantifying climate risk is crucial for insurance and reinsurance companies. The research teams at Munich Re and Swiss Re publish an array of product and sector-specific papers, many of which provide clear links to their underwriting, risk management and hedging strategies. Their approach to evaluating risks and opportunities is a good approach for other companies to consider.

The most sophisticated incorporation of climate and carbon issues is seen where there is an explicit link between research and company revenue. HSBC's Equity Quantitative Research Group developed a commercially successful Climate Change Index which tracks the performance of 300 companies positioned to take advantage of a low carbon future (see the case study in 2.2 for more detail). Clients of HSBC's Climate Change Index product (e.g. licensees) are able to develop funds focused on investing in the low carbon sector.

Many research activities involve partnerships with external research centers, member associations, non-profit institutions and think tanks. These multi-disciplinary efforts engage broader skill sets and expertise to produce high quality research that successfully contributes to the raising of general awareness. Calyon, Crédit Agricole's Corporate Investment and Banking arm, has partnered with Paris Dauphine University to research the nexus between sustainable development, climate change and finance. The aim is to develop innovative client solutions by involving both academic and finance specialists. In 2008, Munich Re started a partnership with the London School of Economics that focuses on the economic impacts of climate change with respect to all aspects of the insurance industry.

Innovative, sector-specific research has focused not only on climate change impacts, but also on related issues of water and human health. For example, Swiss Re and Standard Chartered Bank collaborated in a joint working group that included the Global Environment Facility, McKinsey and the Rockefeller Foundation. They produced a study on 'The Economics of Climate Adaptation' with the aim of providing the necessary tools for local decision-makers to develop climate adaptation strategies to make their societies more economically resilient in the face of climate change (see the case study).

FOCUS FOR ACTION

Although there is a considerable amount of sophisticated research being done it is crucial that it is used to develop products and services that generate revenue for the institution. Some departments have a financial incentive to introduce new products that facilitate low carbon development and this is one way to encourage direct links between research activities and core operations. The group of adopting institutions currently does a good job of providing information on research activities, but there needs to be a clearer explanation of how research drives revenue and product development, and finally how climate change research is incorporated into investment decisions. This is important so that stakeholders can appreciate the relevance of the research that is being done and how it helps the company to mitigate risks and take advantage of the opportunities presented by climate change. This could be achieved by explaining the process by which research has led to revenue and product development, and/or the additional (commercial and other) benefits generated from a specific research initiative.

CASE STUDY

CLIMATE RESEARCH – A FUNDAMENTAL STRATEGY TO BUSINESS SUCCESS

Munich Re and Swiss Re stand out in terms of the breadth, depth and quality of climate research they have produced. Since 1970, 36 of the largest 40 insurance losses were due to weather-related events. Both organizations therefore see the effects of climate change as deeply influencing their core business of reinsuring natural catastrophes; each has pioneered the field of climate research.

Munich Re established a Geo Risks Research Centre as early as 1974. Today the Centre is instrumental in managing natural hazard risk, with specific attention to the application of increasingly sophisticated natural catastrophe risk models. Climate change is a strategic topic for Munich Re, which follows an holistic, strategic approach that includes risk management, asset management and business development in new markets and products. Collaboration with various scientific institutes such as the London School of Economics underlines these research activities.

Swiss Re has undertaken similar groundbreaking research, aiming to deepen the organization's knowledge of climate change risks, including the quantification of risks, and using this knowledge to feed into products and services. In 2009, Swiss Re, together with Standard Chartered Bank and as part of The Economics of Climate Adaptation Working Group, issued a report entitled 'Shaping Climate Resilient Development'. The Report presents a methodology which determines the risks of climate change impacts on economies, applying its model to eight case studies and identifying cost-effective adaptation measures.

2.2 ASSET MANAGEMENT

Understanding how environmental and social impacts should be taken into account by financial services companies is an area of much debate and activity. The fundamental challenge is the lack of financial value placed on many of these effects. Regulation, taxation and other mechanisms are sometimes applied with positive effect, but generally, it is at the discretion of investors to decide whether their financial returns outweigh potential environmental or social consequences.

Socially responsible investment (SRI) has led the way in demonstrating how environmental, social and corporate governance (ESG) information, including that related to climate change, can be integrated into mainstream investment decisions. There has also been a notable shift to products and services that focus on the opportunities presented by climate change (rather than mitigating risks). These developments signal that the asset management sector is responding to the climate change challenge. The sector can provide key levers for reallocating capital flows to support the transition to a low carbon economy.

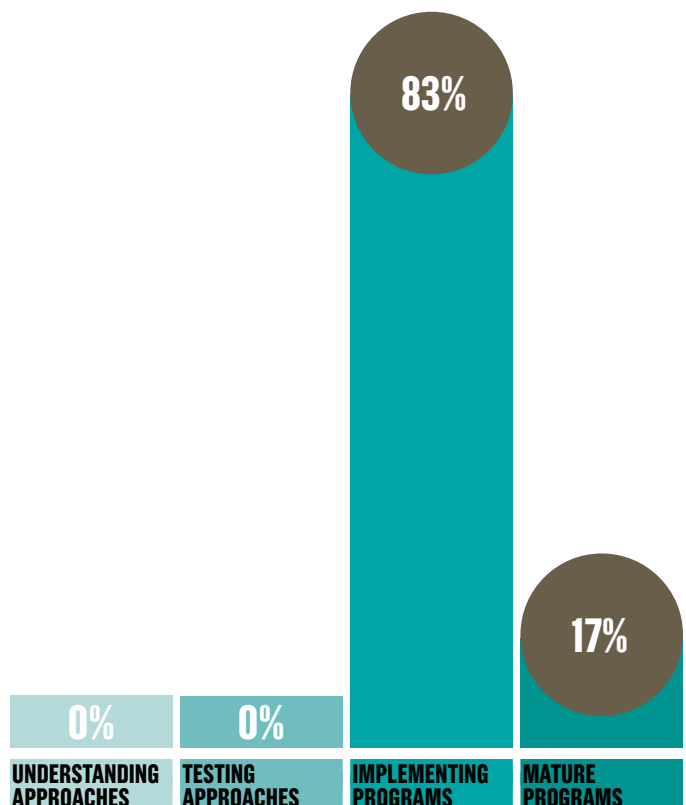
PRINCIPLE

2.2.1 We will enable our analysts to incorporate carbon and climate risks and opportunities into their research and investment decisions where relevant.

2.2.2 We will engage our clients to understand the carbon and climate change risks and opportunities relevant to them and we will develop products and services that support them in managing those risks and exploiting those opportunities.

2.2.3 Where consistent with our fiduciary responsibilities, we will engage with the companies our clients invest in to understand how they are minimizing the risks and maximizing the opportunities presented by climate change and climate policy. We will also encourage these companies to improve their governance and disclosure of climate risks and opportunities.

FIGURE 3: THIS PRINCIPLE IS APPLICABLE TO CRÉDIT AGRICOLE, HSBC, MUNICH RE AND SWISS RE, BUT THIS FIGURE ONLY INCLUDES DATA FROM CRÉDIT AGRICOLE AND HSBC. COMPARISON BETWEEN BANKS AND REINSURANCE COMPANIES WAS NOT MEANINGFUL BECAUSE OF THE DIFFERENT PURPOSES OF ASSET MANAGEMENT WITHIN THOSE INSTITUTIONS. NEVERTHELESS, THE FINDINGS BELOW MAKE REFERENCE TO ACTION TAKEN BY ALL FOUR INSTITUTIONS.



INVESTORS ARE CRITICAL STAKEHOLDERS FOR DRIVING PROGRESS.

PROGRESS

Specialist teams provide detailed information on environmental and social risks and opportunities associated with investments, but it is unclear how many trained analysts are available to assess climate risks and opportunities. HSBC provides all analysts and portfolio managers with ESG awareness training that includes climate change issues. Crédit Agricole has established an internal tool that provides all managers with ESG ratings of companies or countries. These carry equal importance to the recommendations made by financial and credit analysts and thereby facilitate informed decision-making.

Institutions have introduced good examples of tailored products for clients. They provide various examples of engagement and of collaborative initiatives that focus on investing for a low carbon economy. Crédit Agricole and HSBC have established products that relate specifically to climate change (see the case studies below). Both are also members of the Institutional Investors Group on Climate Change (IIGCC), which includes both asset managers and institutional investors. Participation in such collaborative initiatives helps the interchange between asset managers and their clients. In some cases these initiatives provide opportunities to engage directly with the investee companies; the Carbon Disclosure Project is a leading example of such an initiative. Munich Re, Swiss Re, Crédit Agricole and HSBC are signatories to the Principles for Responsible Investment (UNPRI). Additionally, HSBC and Crédit Agricole Chevreux are members of the European Social Investment Forum (EUROSIF). HSBC is also a member of the Association for Sustainable and Responsible Investment in Asia (ASRIA).

Some institutions provide guidance to fund managers and analysts that outlines the key climate change issues for different sectors. This enables them to have more focused discussions with clients that can inform investment decisions. HSBC has produced sector-specific guidelines to support dialogue with company management on how to better address the climate change (and broader ESG) risks and opportunities which they face. In extreme cases, voting rights are used to express a position, or the decision is taken to reduce or divest its stake in the business. HSBC encourages clients to move towards best practice by making specific reference to the disclosure and reduction of emissions to combat climate change and minimize their liabilities.

FOCUS FOR ACTION

Climate change considerations should be more actively mainstreamed across all investments (i.e. beyond equities and SRI). For example, reinsurance institutions invest a large portion of their portfolio in government bonds. Options for 'low carbon' or 'green' bonds may offer an acceptable alternative as they offer guaranteed returns but also support low carbon investment. This observation has also been noted in the 2009 ClimateWise Review.⁶⁵ Further, even though it is more challenging to apply the Principles to assets that are managed using a passive rather than an active investment strategy, it is nevertheless worth considering how this could still incorporate climate change considerations. There are a growing number of indices in the market that focus on climate change opportunities precisely to meet such a need. In addition to the action needed, it is also recommended that more specific guidance on implementation of, and disclosure pursuant to, this Principle be developed.

In spite of the dialogue occurring through investor initiatives and in industry forums, more can be done to engage with investors directly to help raise their awareness and understanding of climate risks and opportunities, and disclosing this activity in the public domain. Investors are critical stakeholders for driving progress in the asset management sector. An improved understanding of the risks and opportunities of climate change, and the implications for their investments, will trigger investors to seek more (and better) products, services and advice from their asset managers. This in turn will drive asset managers to: (i) incorporate climate considerations into mainstream products and services, (ii) develop tailored, theme-based investment products and services, and (iii) broaden and deepen their engagement activities with investee companies.

Institutions need more engagement with policymakers to incentivize and support investment behaviors which factor in the material implications of climate change. Clearer guidance about regulation, taxes, and financial incentives has the potential to play a major role in changing investment behavior.

The Climate Group, as Secretariat, could facilitate more active engagement between the adopting institutions and collaborative investor groups. Additionally, it could look to ensure that the requirements of the Climate Principles are consistent with other key initiatives, in particular the UNPRI, giving specific attention to developing a common roadmap for adopting institutions to develop and disclose best practices. This will ensure that parallel initiatives are aligned and moving towards a common outcome.

CASE STUDY

THE HSBC GLOBAL CLIMATE CHANGE BENCHMARK INDEX

This Index, launched in 2007, lists companies focused on developing solutions to combat climate change across many business sectors. It comprises four investable global sub-indices — HSBC Climate Change Index, HSBC Low Carbon Energy Production Index, HSBC Energy Efficiency & Energy Management Index, and HSBC Water, Waste & Pollution Control Index. HSBC has also launched a specific climate change fund (HSBC GIF Climate Change Fund) that invests in 50-70 leading stocks and is targeted at both institutional and retail investors. Recent research underpinning indices has concluded that global revenues from the low carbon economy amount to approximately \$530 billion (HSBC Climate Change September Annual Index Review, September 2009).

CRÉDIT AGRICOLE ASSET MANAGEMENT GROUP (CAAM GROUP)

The CAAM Group launched a thematic sub-fund in 2009, CAAM Funds Clean Planet, which consists of approximately 700 shareholdings in the clean technologies sector which gives investors the opportunity to support companies working in renewable energy, energy efficiency and waste treatment. It aims to achieve long-term capital growth by investing two-thirds of its assets in the shares of companies that contribute to environmental protection through the development of technologies that help to reduce carbon emissions or to use energy and resources more efficiently.

⁶⁵ ClimateWise: the 2009 review

2.3 RETAIL BANKING

Consumer studies indicate that consumers are most likely to take action where product offerings are simple and effective, and that trust, brand and relevance are important prerequisites for action. There are still only a handful of financial products for consumers which provide an opportunity to reduce carbon emissions, and fewer still that are commercially attractive.

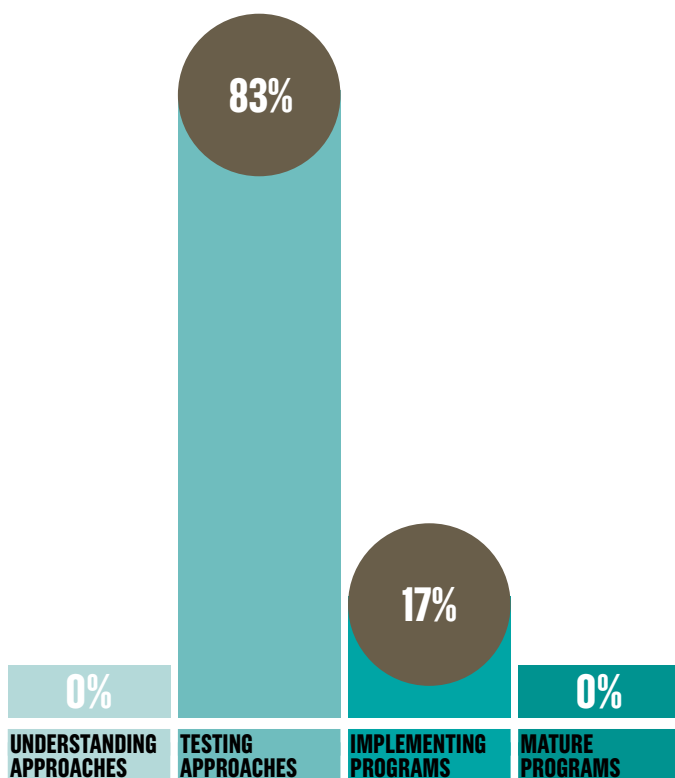
PRINCIPLE

2.3.1 We will undertake research to understand:

- i. The potential impacts of climate change and climate change policy for our customers;
- ii. The willingness of our customers to address these impacts;
- iii. The products and services that customers need to address these impacts and the barriers to addressing them;
- iv. The approaches needed to raise awareness of how our customers manage their GHG emissions and reduce their carbon footprint.

2.3.2 Based on our understanding of our customers, we will develop products, services and communication and engagement strategies to enable them to address potential impacts and reduce their carbon footprint.

FIGURE 4: THIS PRINCIPLE IS APPLICABLE TO CRÉDIT AGRICOLE, HSBC AND STANDARD CHARTERED BANK.



PROGRESS

Retail products that enable consumers to reduce their carbon footprints and to prepare for future impacts from climate change are still in their infancy within the finance sector, although significant progress has been made in other areas of retail. Retailers offering food, healthcare, clothing, electronic goods, holidays and cars are becoming conscious of the carbon footprint of manufacturing; as a result the market for 'green' products is growing.

There is limited research about consumer willingness to address climate change through their choice of financial products. A notable example of research in this area which does stand out, however, is the HSBC Climate Confidence Monitor, the third installment of which was released in 2009. The Monitor surveyed 12,000 people around the world to understand consumer attitudes to various aspects of climate change; including levels of concern, commitment to action, and optimism for the future (see the text box below).

Adopting institutions are in the early stages of engaging with retail customers on climate change. Crédit Agricole has published an educational climate change guidebook that includes the types of products and services that can help customers to reduce their climate footprint. Standard Chartered Bank has developed its own carbon calculator and made it available online for use by the public. Given the large customer-base of each adopting institution there is an opportunity to play a role in influencing, supporting and advising individuals on carbon footprint reduction. This can yield business benefits through deepening relationships, improving loyalty and strengthening brand.

Compared to other consumer products, there are few retail banking products and services currently available that help customers manage their impact on climate change. Examples include Crédit Agricole's 'Prêt d'économies d'énergie' (PEE), an energy conservation loan that provides preferential rates for carrying out energy-saving projects in old residential properties. Standard Chartered Bank's paperless campaign, which encourages customers to sign up to paperless accounts has reached 20% of customers in target markets — equivalent to timber savings of nearly 450 trees per year.

FOCUS ON ACTION

Adopting institutions should engage more directly with retail customers on climate change through a range of activities including climate change forums, customer surveys and customer outreach programs. Such engagement should be two-way, with the institution providing information on climate change, the potential impact it has on customers, and the specific activities that customers can undertake to reduce their impact on climate change. In return, customers can provide valuable input for product development.

THE CHALLENGE IS TO DEVELOP INNOVATIVE FINANCE PRODUCTS THAT SPECIFICALLY ENABLE ENERGY REDUCTION, LOW CARBON ENERGY GENERATION AND CHANGING BEHAVIORS.

Demand from retail customers for banks to provide them with climate change information has been limited and therefore financial institutions may consider integrating climate and wider sustainability issues into their brands as a means for attracting customers. It may be that customers do not view their personal finances as a key route to reducing their impact on the climate and will be unlikely to choose a retail product or service purely on its climate merits. However, they may be attracted to a financial institution with a strong reputation and credible track record of managing its impact on climate change even if they do not buy climate change related products.



The challenge is to develop innovative finance products that specifically enable energy reduction, low carbon energy generation and changing behaviors. Beyond retail investment and insurance products, financial institutions could consider how to collaborate with energy companies or the manufacturers of 'green line' products and link these products and services with financing. One such example would be offering consumer products to support financing of household solar panels and other types of energy efficiency refurbishments.

TEXT BOX

CUSTOMER VIEWS ON CLIMATE CHANGE

The third installment of HSBC's Climate Confidence Monitor (CCM) has been recently released. It is a survey of 12,000 customers across 12 key HSBC markets, 6 developed and 6 emerging, and highlights several trends in public attitudes towards climate change:

- Public concern about climate change remains high but has been somewhat overshadowed by the global economic crisis and pandemic flu.
- Levels of concern over climate change are higher in emerging economies than in developed ones. This trend may be driven by the expectations that developing countries will be more severely impacted by climate change.
- An increasing proportion of respondents state that they are making a significant effort to reduce their impact on climate change.
- Overall optimism that climate change will be managed successfully has fallen.

There may be an opportunity for financial institutions, particularly those with operations in emerging markets, to take advantage of current concerns around climate change. They could either develop climate change products and services that are informed by customer engagement, or they could widely integrate sustainability and climate issues into their brand offering.

2.4 INSURANCE AND REINSURANCE

Calculating the cost implications of events that have a detrimental effect is at the heart of the insurance industry. Decades of providing insurance against extreme weather events and changing weather patterns has meant insurance companies have a wealth of knowledge and experience when it comes to understanding how we may be affected by climate change and the cost implications of this. Following the extreme weather events of 2004 that hit the United States and Japan – leading to a record \$46 billion in property damage – the impetus to understand the financial costs of climate change impacts has increased dramatically. Not only does the insurance industry have an important role to play in disseminating information, it also has a critical opportunity for developing new and varied products that make managing these risks affordable.

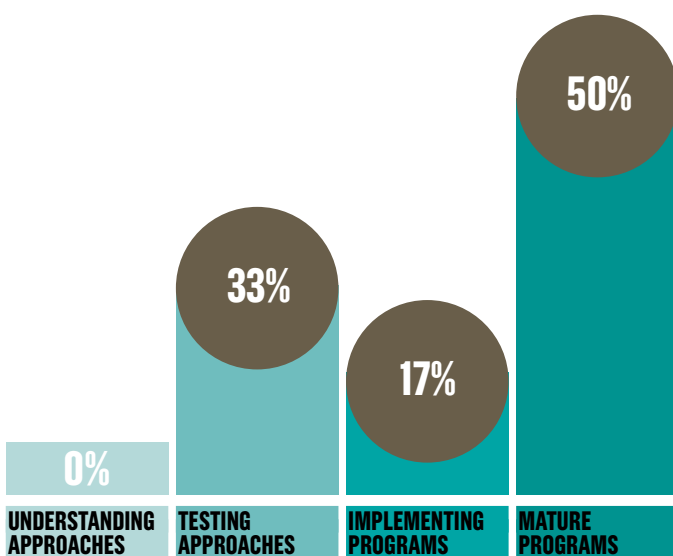
PRINCIPLE

2.4.1 We will develop the necessary knowledge, skills and tools to assess carbon and climate risks associated with our transactions and the financial implications they have for our business.

2.4.2 We will develop risk assessment techniques to assist our clients to understand better and respond to climate change.

2.4.3 We will develop insurance products and services that encourage our customers to reduce their carbon and climate risks, assist the development and adoption of GHG mitigation technologies and strategies and take advantage of the carbon market.

FIGURE 5: THIS PRINCIPLE IS APPLICABLE TO CRÉDIT AGRICOLE, HSBC, MUNICH RE AND SWISS RE.



PROGRESS

As the core business of reinsurance companies is to research and manage risk, they have naturally led progress in this area.

Tools developed by the adopting institutions help to identify emerging climate risks and factor these into transactions. Some of the best examples include Swiss Re's Emerging Risk Management Framework, which facilitates the systematic assessment of emerging risks that are inherently challenging to quantify. Another is Munich Re's Globe of Natural Hazards which, based on extensive experience, illustrates the global distribution of natural disasters (see the case study below).

Climate change has provided a need for new products and services to tackle emerging risks associated with more frequent and severe weather and changing temperature patterns. To this end, Swiss Re provides natural catastrophe cover and catastrophe bonds. Munich Re Agro's SystemAgro approach (through a public-private partnership framework) goes beyond a single yield coverage product. The system ensures that the entire agricultural value chain, starting with the grower and including agribusiness and agri-finance can sustainably withstand losses in the event of catastrophes. Similarly, Crédit Agricole has developed financing and risk management solutions to enable farmers to survive major weather impacts.

Many insurance products and services have the potential to support the transition to a low carbon economy. Munich Re provides traditional, but also innovative and tailor-made solutions for renewable energy technologies (e.g. performance guarantee cover for photovoltaic modules) as well as the Kyoto Multi-Risk Policy which targets clean development mechanism (CDM) projects. Additionally, a new global renewable energy insurance facility has been established in cooperation with other organizations⁰⁸ that undertake these types of projects. Swiss Re also provides reinsurance cover for clean-energy infrastructure such as solar arrays and wind farms. Crédit Agricole has also introduced insurance cover for solar panels. The provision of such insurance will support the growth of renewable technologies.

MANY INSURANCE PRODUCTS AND SERVICES HAVE THE POTENTIAL TO SUPPORT THE TRANSITION TO A LOW CARBON ECONOMY.

FOCUS FOR ACTION

Given the difference in their business models compared to other member institutions, it is not surprising that Munich Re and Swiss Re have some of the most advanced risk assessment methodologies. Where appropriate, banks that offer insurance products and services as part of their wider business should build on similar risk assessment methodologies to engage with insurance clients and consumers, and help them to better understand and respond to climate change.

Institutions should continue to develop innovative insurance products and services in response to climate change, possibly including carbon market insurance and forestry insurance.



CASE STUDY

MUNICH RE – GLOBE OF NATURAL HAZARDS AND WORLD MAP OF NATURAL HAZARDS

To make natural hazard risks more transparent and to share more than 35 years of Munich Re's scientific data and findings with clients, the interactive Globe of Natural Hazards DVD and World Map of Natural Hazards have been developed. The Natural Hazards DVD illustrates natural hazards and climate effects, includes hazard maps, satellite images, and background information about natural hazards, climate change and insurance. The World Map of Natural Hazards shows the distribution of climatological, meteorological and hydrological hazards and highlights the most significant events. The online application NATHAN (based on the DVD) offers clients additional insurance-relevant information such as market statistics, insured losses and insurance zones (CRESTA) as well as services for portfolio analyses (Geospatial Services).

SWISS RE – NATURAL CATASTROPHE INSURANCE PRODUCTS

Swiss Re provides insurance cover for natural hazards that are influenced by climate change such as extreme weather events or changes in average temperature. This includes the innovative use of alternative sources of funding such as the capital markets and Insurance Linked Securities (ILS) such as CatBonds. In the last decade, Swiss Re Capital Markets has played a key role in structuring and distributing approximately half of the catastrophe bonds in the ILS market. As the frequency and severity of insured events increase, the capital market is set to play an increasingly important role in providing catastrophe cover.

2.5 CORPORATE BANKING

The finance sector has a unique enabling role to play in the transition to a low carbon economy – primarily through understanding the risks and opportunities facing clients and developing new products and services that address these. This may mean supporting clients in the power and energy sector to finance new technology solutions that capture and reduce carbon emissions. Equally important is working with clients to finance development and acceleration of new low carbon technologies across the transport and logistics, information and communication technologies and utilities sectors. Financial institutions can support clients with services to identify and manage climate risks (e.g. regulatory, market or physical), or in providing financial solutions to compete in new markets.

PRINCIPLE

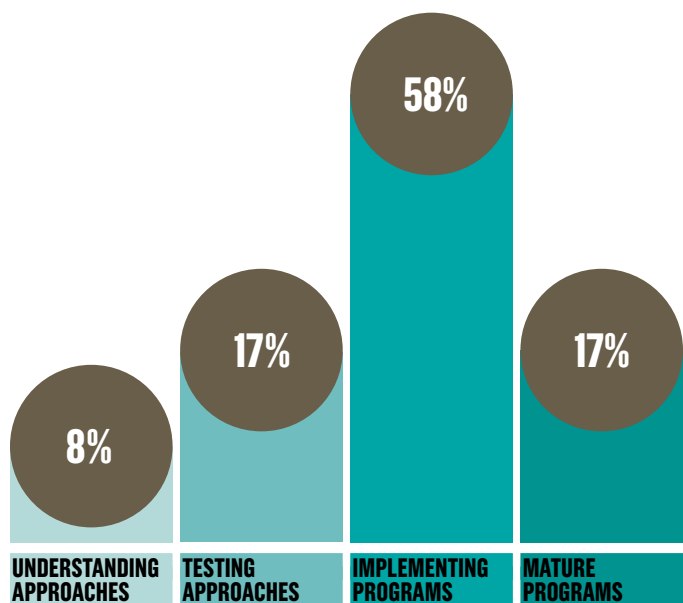
2.5.1 We will develop and implement a process to consistently assess the financial implications of carbon and climate risks relevant to our clients and will train employees to implement this assessment.

2.5.2 We will consider practical ways to assess the carbon and climate risks of our lending and investment activities. Where a feasible and relevant methodology can be found, we will develop and implement this approach.

2.5.3 We will engage our clients to understand the carbon and climate risks and opportunities associated with their business. This might include encouraging them to develop a strategy to manage these risks; to measure and disclose their carbon footprint; and, to set meaningful targets to reduce carbon emissions.

2.5.4 We will develop financing solutions to facilitate investment in low carbon technologies and GHG reduction projects.

FIGURE 6: THIS PRINCIPLE IS APPLICABLE TO CRÉDIT AGRICOLE, HSBC AND STANDARD CHARTERED BANK.



FINANCIAL INSTITUTIONS SHOULD CHALLENGE CLIENTS ON CLIMATE CHANGE ISSUES.



PROGRESS

While adopting institutions are addressing climate change in corporate banking in diverse ways, there are some notable examples of good performance.

Assessing climate risks and training employees on environmental and social risks in lending is one step that is being taken to ensure that climate change is taken into account in corporate banking decisions. Adopting institutions apply social and environmental risk screens across all corporate and investment banking operations. Transactions identified as 'sensitive' are submitted to specialist functions that provide recommendations on how to proceed. Standard Chartered Bank has developed an overarching climate change position statement that is applicable to all financing decisions. They also provide employee training on environmental and social risk (including climate change risk) as part of their core curriculum for credit officers and relationship managers in Wholesale Banking and small and medium enterprise (SME) banking, ensuring that sustainable lending practices are core to their financing decisions.

There is some progress in developing innovative tools to assess loan portfolio exposure to carbon and climate risks, but the approaches taken are not uniform and some of the adopting institutions are still in the early stages of developing their methodologies. Standard Chartered Bank has undertaken a risk assessment of its loan portfolio to identify climate change risks from the sectors and geographic areas where it has exposure. It is less clear, though, how the results of these assessments feed into overall investment decision-making. HSBC has an internal credit approval system which indicates whether a client is compliant, near compliant or not compliant with its policies.

Examples of institutions that engage proactively with clients to understand what support they need and how climate change risks and opportunities can be managed are patchy but do exist. HSBC and Standard Chartered Bank offer advisory services on sustainability issues to their clients and seek to ensure that they operate in accordance with bank policies. Where a client cannot meet the standards a credible, time-bound plan is set to achieve compliance. Standard Chartered Bank has also introduced an Environmental and Social Risk Assessment Tool (ESRAT) for its relationship managers, of which one component requires them to encourage clients to implement a climate change strategy and to monitor and disclose carbon emissions.

While these examples are good first steps, the sector as a whole could improve its record of challenging clients on issues such as climate change. The opportunities presented by climate change are very significant for some sectors and clients, and therefore the sector could be more proactive in advising in this capacity and supporting the transition to a low carbon economy.

FOCUS FOR ACTION

Even in the absence of certainty around climate regulations and policy, banks should continue to be proactive in facilitating the transition to a low carbon economy by dedicating greater amounts of finance for 'green lines'. Through greater financing opportunities, banks can further support development around renewable energy (including hydro, wind, solar and bio-mass), water and wastewater management, and sustainable agriculture. The International Energy Agency estimates that \$45 trillion in investment will be required to cut GHG emissions in half by 2050, making energy and related sub-sectors a significant commercial opportunity and priority.

Institutions should build on their commitment to engage with clients to ensure that clients develop a strategy to measure, manage and disclose their carbon footprint. This may be through a range of mechanisms such as loan covenants, client events and management workshops, or collaborative initiatives such as joint research projects. A 'shift of gear' on client engagement can help to improve client performance, deepen relationships with clients and decrease the risk for the adopting institution.

With regard to the institutions own investment activities and the incorporation of climate risk, greater disclosure is needed around the methodologies used and the outcomes that result. This could be in the form of types of risk evaluated, the timeframe applied, and the types of criteria used in undertaking a cost/benefit assessment to decide whether to carry through with an investment.

Finally, institutions should give consideration to discouraging high carbon lending. This could be achieved by incorporating relevant information into capital allocation models as is currently done for other risks to rebalance portfolios towards low carbon exposure. Further, over time, institutions should seek to make their own climate change policies consistent with international agreements and national legislation.

CASE STUDY

STANDARD CHARTERED BANK – RENEWABLE ENERGY AND ENVIRONMENTAL FINANCE

Standard Chartered Bank developed a cornerstone business strategy, expanding its renewable energy project finance arm into a Renewable Energy and Environmental Finance (REEF) business in 2008. This repositioning enabled it to place Wholesale Banking products across the whole value chain from technology providers, asset developers, operators and investors into the renewable and environmental sector. Standard Chartered Bank's REEF business has already financed over \$7 billion in capital across all segments of the renewable energy and environmental finance market, including wind, solar, biofuels, waste and water. At the international level, as part of the Clinton Global Initiative, Standard Chartered Bank has committed to finance \$8–10 billion of renewable energy and clean technology projects by 2012; having financed \$3.3 billion to date in projects in Asia, Africa, the Middle East and Europe, abating approximately 2 million tonnes of carbon emissions per year. In 2008, Standard Chartered Bank also partnered with the Asian Development Bank to support energy-efficient investment projects across China.

2.6 INVESTMENT BANKING AND MARKETS

Several areas of banking are included in this Section of the Principles. Each provides the finance sector with a unique opportunity to provide innovative ways to support low carbon growth. The size of this new market is large; estimates by Morgan Stanley suggest that the global annual revenue from clean energy-related activities could be as much as \$500 billion in 2020, increasing to \$1 trillion by 2030⁰⁷.

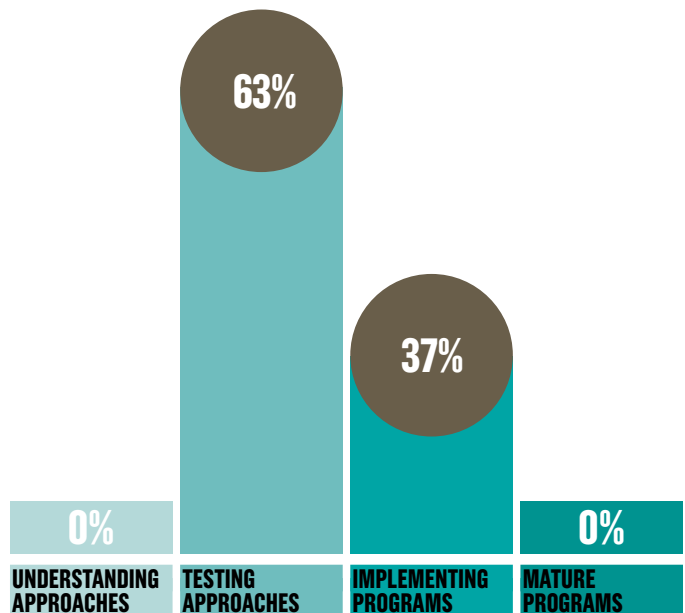
PRINCIPLE

2.6.1 Corporate Advisory — We will develop the knowledge, tools and skills necessary to advise our clients of the potential financial implications of carbon and climate risks and opportunities associated with their business transactions.

2.6.2 Structured Lending & Venture Capital — We will develop viable financing solutions to facilitate investment in low carbon technologies and GHG reduction projects.

2.6.3 Trading — We will develop expertise to support emissions trading, weather derivatives, renewable energy credits and other climate related commodities, and look for ways to play a constructive role in promoting these.

FIGURE 7: THIS PRINCIPLE IS APPLICABLE TO CRÉDIT AGRICOLE AND HSBC. SECTIONS 2.6.1 AND 2.6.3 ARE APPLICABLE TO STANDARD CHARTERED BANK AND ARE INCLUDED IN THIS FIGURE.



IN SPITE OF CARBON REGULATION UNCERTAINTY, THE CARBON MARKET CONTINUES TO OFFER OPPORTUNITIES.

⁰⁷ HSBC Global Investment Funds - Climate Change: Turning climate change from a crisis into an investment opportunity 2008



PROGRESS

Institutions have developed some approaches to deal with corporate advisory functions and climate change, though more work is needed to demonstrate this link. While adopting institutions use internal tools and processes as well as detailed research, it is less clear how clients are advised on climate risks and opportunities. The current level of implementation implies that corporate advisory services may involve climate change-related discussions and advice from time to time, but these appear to be ad hoc and therefore it is difficult to capture the totality of such advice (in terms of frequency, nature, outcomes and so forth).

Opportunities for the provision of structured lending and venture capital are beginning to emerge. HSBC and Standard Chartered Bank are exploring a range of opportunities for equity financing in renewable and infrastructure projects, while also considering stakes in technology companies. Similarly Crédit Agricole has established a venture capital fund for investment in renewables (see the case study below).

Some adopting institutions are involved in various types of carbon trading and related carbon market activities. Standard Chartered Bank operates a carbon trading desk that give clients' access to the EU-ETS, CDM, and voluntary markets. Crédit Agricole has developed a carbon trading offering which is traded by Calyon.

FOCUS FOR ACTION

In the context of ever increasing regulatory pressure, alongside greater focus on low carbon technology solutions, adopting institutions should consider how they can incorporate climate risks and opportunities into corporate advisory roles for clients as they become more material and relevant. To capture opportunities, there is need for increased venture capital, private equity and project infrastructure financing to support low carbon technology businesses and emissions reduction projects.

In spite of carbon regulation uncertainty, the carbon market continues to offer opportunities. Institutions can continue to play a proactive role in the constructive development of these new markets, giving attention to the related benefits not just in developed but also across emerging markets, where climate change will have far more severe implications.

CASE STUDY

PRIVATE EQUITY INVESTMENT IN RENEWABLES

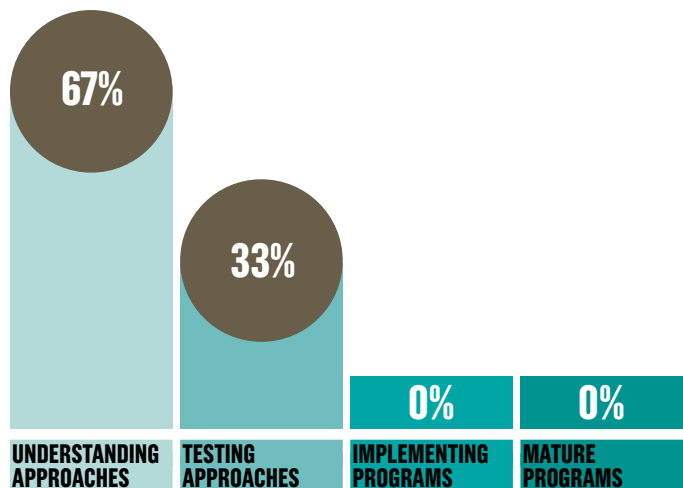
Crédit Agricole Private Equity launched the first institutional venture capital fund (FCPR) in 2006 (Capenergie) entirely dedicated to renewable energies (including wind energy, biomass, hydroelectricity, solar thermal and photovoltaic power, geothermal energy and biofuels) and operating infrastructures for the sector (including for wind energy and biomass). Since its launch, the fund has invested in 12 projects (60% of the aforementioned capital) in wind energy (60%), solar energy (20%) and hydroelectricity and biomass (20%). The fund currently has \$157 million under management.

2.7 PROJECT FINANCE

Banks often work together in syndicates to provide finance for major infrastructure projects such as power stations, gas pipelines and mines. The Equator Principles provide a framework for how banks take environmental and social considerations into account in their project finance activities. The Climate Principles look specifically at the requirements for projects that have a major impact on climate change — those that emit more than 100,000 tons of CO₂ equivalent per year. To prevent dangerous climate change, it is crucial to ensure that these utilize the most effective technologies to minimize and capture emissions.

PRINCIPLE
FOR PROJECTS THAT RELEASE OR ARE LIKELY TO RELEASE 100,000 TONS CO₂ EQUIVALENT PER YEAR (AGGREGATE EMISSIONS OF DIRECT SOURCES AND INDIRECT SOURCES ASSOCIATED WITH PURCHASED ELECTRICITY FOR OWN CONSUMPTION), EXCEPT WHERE JUSTIFIED DEVIATION IS PROVIDED, WE WILL REQUEST THE CLIENT TO:
2.7.1 Seek opportunities to reduce project-related GHG emissions in a manner appropriate to the nature and scale of project operations and impacts.
2.7.2 Quantify and disclose direct GHG emissions and indirect GHG emissions associated with the off-site production of power used by the project.
2.7.3 Monitor and report GHG emissions annually in accordance with internationally recognized methodologies.
2.7.4 Evaluate technically and financially feasible options to reduce or offset project-related GHG emissions during the design and operation of the project.

FIGURE 8: THIS PRINCIPLE IS APPLICABLE TO CRÉDIT AGRICOLE, HSBC AND STANDARD CHARTERED BANK.



IT IS VITAL THAT THE INSTITUTIONS WORK CLOSELY TOGETHER TO FACILITATE A COMMON POSITION AND A POSITIVE OUTCOME.



PROGRESS

The adopting institutions have also adopted the Equator Principles, and therefore have access to greenhouse gas emissions information on projects they finance. However, whilst these institutions are engaging with project sponsors on climate change, there is little information in the public domain regarding how. Specifically, there is limited information regarding how banks are systematically identifying projects that are likely to release 100,000 tons of CO₂ equivalent per year. It is clear from the interviews conducted as part of the Progress Review that some of the institutions are in the process of putting measures into place to disclose this information, but it is still at an early stage.

Based on the information available in the public domain it is difficult to ascertain how banks are engaging with their clients to ensure projects have emissions reduction plans; how their emissions are calculated, monitored and disclosed; and how projects are provided with the necessary support to mitigate emissions produced during their lifetime. Lack of information on such issues is in part attributable to the challenge of maintaining client confidentiality.

FOCUS FOR ACTION

Adopting institutions should explore how best to monitor and disclose on projects that release more than 100,000 tons of CO₂ equivalent per year and how these requirements complement existing policies and processes around environmental and social impact assessments. Such information is readily available and should be incorporated into project management procedures per the Equator Principles.

Institutions need to make more information publicly available to explain how they are engaging with clients involved in carbon-intensive projects, while preserving client confidentiality. Greater transparency will improve stakeholder understanding of the challenges being faced and the solutions being implemented to resolve them.

Recognizing this is a challenging task, it is vital that the institutions work together closely and collaborate beyond the Climate Principles, for example with the Equator Principles community and the International Finance Corporation (IFC).

Such collaboration is likely to be a necessary precursor to progress in this area. To demonstrate improvement before the next Review, adopting institutions should be focused on:

- (i) Standards development, alongside the IFC for example;
- (ii) Defining and agreeing best practice processes; and
- (iii) Driving uniformity on reporting.

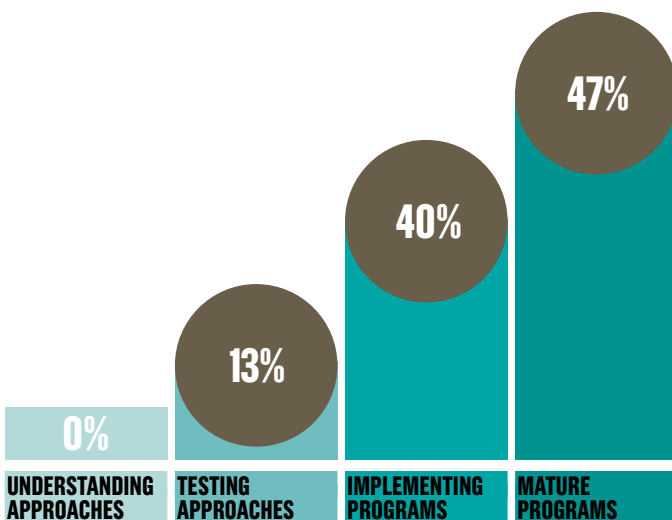
SECTION THREE: BROADER ENGAGEMENT WITH STAKEHOLDERS

3.0 WE WILL ENGAGE OTHERS TO SUPPORT THE GROWTH OF A LOW CARBON ECONOMY, WHERE CONSISTENT WITH OUR CORPORATE POLICIES ON PUBLIC ENGAGEMENT.

PRINCIPLE

- 3.1** We will disseminate information through our network of customers, suppliers, staff and other stakeholders to raise awareness about climate change and the opportunities for reducing GHG emissions.
- 3.2** We will engage our significant suppliers on climate change issues and work with them to enable us to reduce GHG emissions throughout our supply chain.
- 3.3** We recognize that tackling climate change cannot be solved through voluntary action alone and we support the adoption of effective and efficient regulation and policy to reduce GHG emissions. Such support may include engaging policy makers and/or key stakeholders on an individual basis or through relevant industry and multi-stakeholder initiatives.

FIGURE 9: THIS PRINCIPLE IS APPLICABLE TO ALL FIVE ADOPTING INSTITUTIONS.



PROGRESS

There has been good progress in this area and significant progress on supporting the development of climate change policy and regulation.

Engagement with customers, suppliers and staff on climate change is progressing, though more could be done. A good example of engaging employees is HSBC's Climate Champions program which provided 380 employees with two weeks of training on climate change and sustainability last year. A further 3,000 took part in one-day climate change field trips. In contrast to staff engagement, however, detailed information on engagement and educational initiatives with customers, clients, and the wider public is less readily available.

Information on supplier engagement to reduce greenhouse gas emissions is mixed. A strong example is Standard Chartered Bank's 'Know Your Supplier Policy', which enables it to assess the potential risk of suppliers who may be damaging the environment, which includes a reference to climate change. Crédit Agricole's supplier rating program includes lists of environmentally and socially responsible suppliers and risk profiles for different procurement areas to aid decision-making.

The adopting institutions have all made, and are continuing to make, significant efforts to support the adoption of climate change regulation and policy through mechanisms such as participation in industry initiatives and strategic partnerships. Swiss Re is a partner of the Global Risk Network of the World Economic Forum, and Munich Re initiated the Munich Climate Insurance Initiative (MCII) and the Desertec Industrial Initiative (DII GmbH). Standard Chartered Bank is a member of the UK Corporate Leaders Group on Climate Change and participates in the Catalyst Program of the ClimateWorks Foundation which undertakes government advocacy work on climate change. All examples illustrate strong advocacy partnerships that can further policy dialogue and leadership.

FOCUS FOR ACTION

Adopting institutions should ensure they are providing information on climate change and advice on carbon footprint reduction to each of their key stakeholder groups — customers, suppliers, employees and shareholders. Adopting institutions should also be clear on how they can actively support stakeholders in their efforts to understand and reduce carbon. Engagement activities should be tailored to the needs and interests of each stakeholder group to ensure relevance and maximize impact.



One key set of stakeholders are other financial institutions. As Secretariat to the Climate Principles, The Climate Group could explore how it can support broader outreach to other financial institutions to encourage them to adopt the Climate Principles. It is also important to recognize that the current adopting institutions have a role to play in this regard. This will grow the strength of the group of adopting institutions through fostering knowledge-sharing across a larger number of institutions and help the sector to move forward on the climate change agenda more quickly and more uniformly.

More broadly, the group can further support continuing efforts by governments and the UNFCCC in reaching an urgent and meaningful global agreement to commit to binding greenhouse gas emissions reductions.

The financial institutions provide some information on how climate change concerns are integrated into their procurement policies and supplier selection processes. However, there is an opportunity to move towards more in-depth supplier engagement and support for key suppliers in their efforts to manage their carbon footprint.

**THE ADOPTING INSTITUTIONS
HAVE ALL MADE, AND ARE
CONTINUING TO MAKE,
SIGNIFICANT EFFORTS TO
SUPPORT THE ADOPTION
OF CLIMATE CHANGE
REGULATION AND POLICY.**

ANNEXES

ANNEX I: METHODOLOGY FOR PRICEWATERHOUSECOOPERS' REVIEW

The process undertaken as part of the progress Review is described below.

SOURCES OF INFORMATION

(i) Company-issued information in the public domain: at present, adopting institutions do not communicate progress against the Principles through a standalone report. We therefore assessed implementation based upon information issued by the adopting institution, which was found within the public domain. Sources included:

- Responses to Carbon Disclosure Project requests;
- Company Sustainability Reports; and
- Company websites

(ii) Interviews: Following this initial data review, individual interviews were also conducted with each institution to address any information gaps, to ensure we had not misinterpreted information and to clarify remaining questions. On occasion, interviews were conducted with several individuals from one institution to ensure information provided for each of the Principles was as comprehensive and accurate as possible. Interviews provided an opportunity for the group of adopting institutions to share information regarding forthcoming disclosure within the current evaluation year, though which was not yet publicly available.

It is important to note that an institution's level of achievement was dependent on evidence in the public domain. As a result, if we were made aware of other activities underway but not discussed in the public domain, our assessment did not explicitly reference these. This approach was made clear to adopting institutions before analysis was conducted.

DEFINITION ON LEVELS OF IMPLEMENTATION

In reviewing institutions' activity against the Principles, we based our assessment of progress upon four distinct implementation levels, as set out in the table below. These levels, and their descriptions, were agreed with the group of adopting institutions in advance.

LEVELS OF IMPLEMENTATION	DESCRIPTION
Not Applicable	Institution is not involved in the specific business activity defined by the Principle.
Understanding Approaches	Institution is at an early stage of understanding the issue and determining the best approach to be taken.
Testing Approaches	Institution has developed approaches and is testing them across a limited part of the institution and/or product/service range.
Implementing Programs	Institution has agreed to an approach and is rolling it out across the relevant business areas.
Mature Programs	Institution has fully implemented the approach and is using results and findings to the advantage of the business, its clients and customers.

It is important to note that progress against the Principles has been assessed on a Section-by-Section basis and presented for the whole group of adopting institutions. Summary graphs are presented in the main part. A full overview of results for each Section of the Principles is presented in Annex III.

The content of each text box was agreed in advance with the relevant adopting institution.

SCORING

In assessing performance, each adopting institution was evaluated according to the four levels of implementation. Group performance as a whole was calculated by summing the number of institutions at each level relative to the total number of institutions within the given activity (see Annex III for a breakdown of numbers and percentages).

ANNEX II: ABOUT THE CLIMATE PRINCIPLES

The Climate Principles provide a universal approach to tackling the key climate change risks and opportunities facing the finance sector. The Principles are outlined in three Sections:

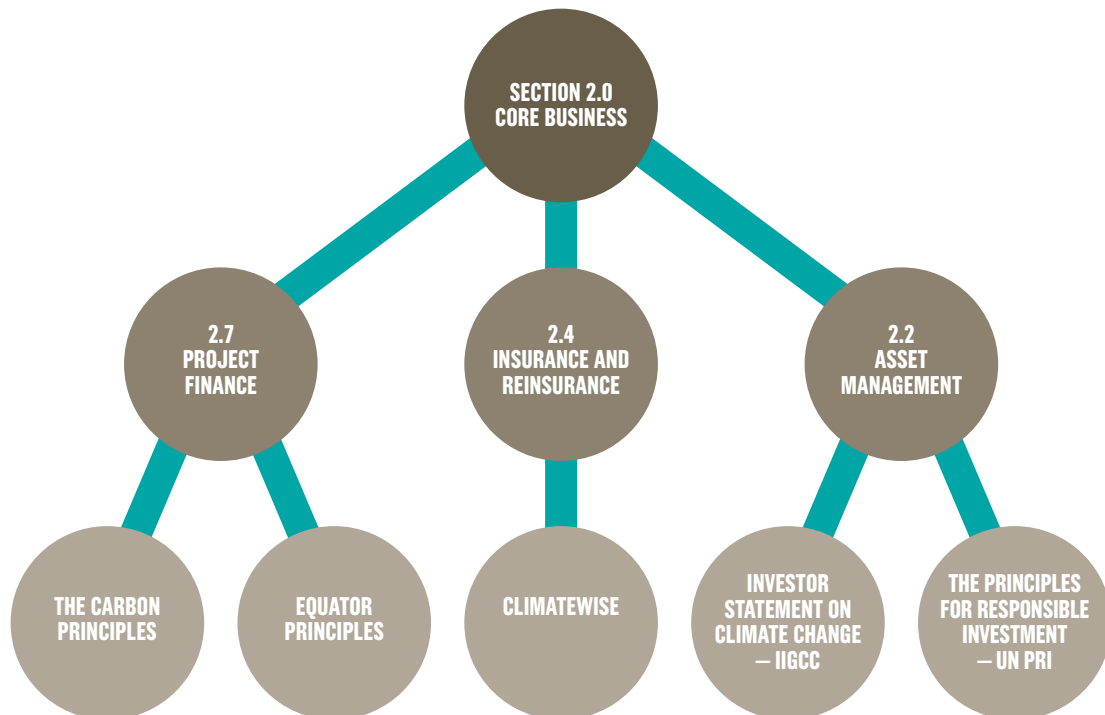
Section 1.0 provides a list of commitments that refer to an institution's own carbon footprint. Whilst it is accepted these do not make a significant difference in the case of financial services companies, it is still important that the adopting institution take charge of its own emissions and ensure that its employees understand and are engaged in reducing energy use, both in the office and at home.

Section 2.0 of the Principles outlines commitments across seven core business areas of the finance sector: research; asset management; retail banking; insurance and reinsurance; corporate banking; investment banking and markets, and project finance. In some of these areas, existing initiatives helped to inform the Principles (see the diagram below) and measures were taken to align commitments.

All institutions that adopt the Principles must meet all relevant commitments in Section 2.0. The primary focus is on building understanding of climate change issues and the financial implications it has for clients and customers and using this information to develop new products and services that can support a move to a low carbon economy. Active engagement with stakeholders as well as product innovation is needed across each core business area.

Section 3.0 of the Principles outlines the commitment that a financial institution makes to engaging and influencing external stakeholders including policy makers, peers, suppliers, industry groups and broader society.

Any financial institution can adopt the Climate Principles although it best lends itself to international, multi-functional financial institutions where all or most of the commitments are relevant. To date, the institutions that have adopted the Principles are Crédit Agricole, HSBC, Munich Re, Standard Chartered Bank and Swiss Re.



ANNEX III: RESULTS OF REVIEW OF ADOPTING INSTITUTIONS

The table below provides a detailed assessment of the level of implementation within each specific principle while also highlighting which activities were not applicable to certain institutions. This outlines performance of the group of adopting institutions. Each institution has been provided with a private assessment of their performance against the group average.

● = Adopting institution

PRINCIPLE	UNDERSTANDING APPROACHES	TESTING APPROACHES	IMPLEMENTING PROGRAMS	MATURE PROGRAMS	NOT APPLICABLE
SECTION 1.0					
1.1	We have issued a strategy or position that indicates how we undertake our business in a way that reduces the climate and operational carbon impact of our activities.			● ● ● ● ●	
1.2	We have board level commitment for the strategy or position and a named senior executive who has responsibility for implementing it across our organization and for ensuring that decisions taken are consistent with it. This executive has the necessary resources to meet the commitments contained in our strategy or position.			● ● ● ● ●	
1.3	We have measured a significant proportion of our operational GHG emissions using an internationally recognized or equivalent domestic standard and we disclose this information.		● ● ●	● ●	
1.4	We have issued clear and challenging, yet achievable, targets for making reductions in our operational GHG emissions.		● ●	● ● ●	
1.5	We engage our employees on our commitment to addressing climate change and support them in playing an active role in meeting this commitment.		● ● ●	● ●	
	Count (percentage)	0 (0%)	0 (0%)	8 (32%)	17 (68%)
SECTION 2.0					
2.1 RESEARCH ACTIVITIES					
2.1.1	We will incorporate climate and carbon issues into our research activities and, where relevant, will utilize the findings to develop products and services that benefit our customers and clients.		● ●	● ● ●	
	Count (percentage)	0 (0%)	0 (0%)	2 (40%)	3 (60%)
2.2 ASSET MANAGEMENT					
2.2.1	We will enable our analysts to incorporate carbon and climate risks and opportunities into their research and investment decisions where relevant.		● ●		● ● ●
2.2.2	We will engage our clients to understand the carbon and climate change risks and opportunities relevant to them and we will develop products and services that support them in managing those risks and exploiting those opportunities.		●	●	● ● ●
2.2.3	Where consistent with our fiduciary responsibilities, we will engage with the companies our clients invest in to understand how they are minimizing the risks and maximizing the opportunities presented by climate change and climate policy. We will also encourage these companies to improve their governance and disclosure of climate risks and opportunities.		● ●		● ● ●
	Count (percentage)	0 (0%)	0 (0%)	5 (83%)	1 (17%)

PRINCIPLE	UNDERSTANDING APPROACHES	TESTING APPROACHES	IMPLEMENTING PROGRAMS	MATURE PROGRAMS	NOT APPLICABLE
2.3 RETAIL BANKING					
2.3.1	We will undertake research to understand: 1) The potential impacts of climate change and climate change policy for our customers; 2) The willingness of our customers to address these impacts; 3) The products and services that customers need to address these impacts and the barriers to addressing them; 4) The approaches needed to raise awareness of how our customers manage their GHG emissions and reduce their carbon footprint.		••	•	••
2.3.2	Based on our understanding of our customers, we will develop products, services and communication and engagement strategies to enable them to address potential impacts and reduce their carbon footprint.		•••		••
	Count (percentage)	0 (0%)	5 (83%)	1 (17%)	0 (0%)

2.4 INSURANCE AND REINSURANCE					
2.4.1	We will develop the necessary knowledge, skills and tools to assess carbon and climate risks associated with our transactions and the financial implications they have for our business.		•	•	••
2.4.2	We will develop risk assessment techniques to assist our clients better understand and respond to climate change.		••		••
2.4.3	We will develop insurance products and services that encourage our customers to reduce their carbon and climate risks, assist the development and adoption of GHG mitigation technologies and strategies and take advantage of the carbon market.		•	•	••
	Count (percentage)	0 (0%)	4 (33%)	2 (17%)	6 (50%)

2.5 CORPORATE BANKING					
2.5.1	We will develop and implement a process to consistently assess the financial implications of carbon and climate risks relevant to our clients and will train employees to implement this assessment.		•	•	•
2.5.2	We will consider practical ways to assess the carbon and climate risks of our lending and investment activities. Where a feasible and relevant methodology can be found, we will develop and implement this approach.			••	•
2.5.3	We will engage our clients to understand the carbon and climate risks and opportunities associated with their business. This might include encouraging them to develop a strategy to manage these risks; to measure and disclose their carbon footprint; and, to set meaningful targets to reduce carbon emissions.	•		••	••
2.5.4	We will develop financing solutions to facilitate investment in low carbon technologies and GHG reduction projects.		•	••	••
	Count (percentage)	1 (8%)	2 (17%)	7 (58%)	2 (17%)

● = Adopting institution

PRINCIPLE	UNDERSTANDING APPROACHES	TESTING APPROACHES	IMPLEMENTING PROGRAMS	MATURE PROGRAMS	NOT APPLICABLE
2.6 INVESTMENT BANKING AND MARKETS					
2.6.1 CORPORATE ADVISORY We will develop the knowledge, tools and skills necessary to advise our clients of the potential financial implications of carbon and climate risks and opportunities associated with their business transactions.		● ● ●			● ●
2.6.2 STRUCTURED LENDING & VENTURE CAPITAL We will develop viable financing solutions to facilitate investment in low carbon technologies and GHG reduction projects.		●	●		● ● ●
2.6.3 TRADING We will develop expertise to support emissions trading, weather derivatives, renewable energy credits and other climate related commodities, and look for ways to play a constructive role in promoting these.		●	● ●		● ●
Count (percentage)	0 (0%)	5 (63%)	3 (37%)	0 (0%)	

2.7 PROJECT FINANCE					
FOR PROJECTS THAT RELEASE OR ARE LIKELY TO RELEASE 100,000 TONS CO ₂ EQUIVALENT PER YEAR (AGGREGATE EMISSIONS OF DIRECT SOURCES AND INDIRECT SOURCES ASSOCIATED WITH PURCHASED ELECTRICITY FOR OWN CONSUMPTION), EXCEPT WHERE JUSTIFIED DEVIATION IS PROVIDED, WE WILL REQUEST THE CLIENT TO:					
2.7.1 Seek opportunities to reduce project-related GHG emissions in a manner appropriate to the nature and scale of project operations and impacts.		● ● ●			● ●
2.7.2 Quantify and disclose direct GHG emissions and indirect GHG emissions associated with the off-site production of power used by the project.	● ● ●				● ●
2.7.3 Monitor and report GHG emissions annually in accordance with internationally recognized methodologies.	● ● ●				● ●
2.7.4 Evaluate technically and financially feasible options to reduce or offset project-related GHG emissions during the design and operation of the project.	● ●	●			● ●
Count (percentage)	8 (67%)	4 (33%)	0 (0%)	0 (0%)	

SECTION 3.0					
WE WILL ENGAGE OTHERS TO SUPPORT THE GROWTH OF A LOW CARBON ECONOMY, WHERE CONSISTENT WITH OUR CORPORATE POLICIES ON PUBLIC ENGAGEMENT.					
3.1 We will disseminate information through our network of customers, suppliers, staff and other stakeholders to raise awareness about climate change and the opportunities for reducing GHG emissions.			● ● ● ●	●	
3.2 We will engage our significant suppliers on climate change issues and work with them to enable us to reduce GHG emissions throughout our supply chain.		● ●	●	● ●	
3.3 We recognize that tackling climate change cannot be solved through voluntary action alone and we support the adoption of effective and efficient regulation and policy to reduce GHG emissions. Such support may include engaging policy makers and/or key stakeholders on an individual basis or through relevant industry and multi-stakeholder initiatives.			●	● ● ● ●	
Count (percentage)	0 (0%)	2 (13%)	6 (40%)	7 (47%)	

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