“From Principle to Action”

An Analysis of the Financial Sector’s Approach to Addressing Climate Change

Sustainable Finance & Insurance

and

Sustainable Finance Ltd

Disclaimer

The views contained in this report are exclusively those of the authors, and should not be attributed to the Dutch Government and / or more specifically the Dutch Ministry of the Housing, Spatial Planning and the Environment (Volkshuisvesting, Ruimtelijke Ordening & Milieubeheer), which has commissioned this study.

Table of Contents

* These financial institutions have not had an opportunity to review the fact sheets developed whereby their approach to climate change has been reviewed.

Preface

It is broadly and, perhaps more importantly, scientifically accepted that global warming is a reality and that our climate will undergo potentially significant changes over the coming decades and beyond. Climate change is consequently high on the agenda of governments, the global business community, science, development institutions, and civil society as each explores both the potential risks and solutions.

There is a growing recognition that appropriate responses will require the actions of all of these stakeholders both within their respective spheres of influence, and in collaboration with each other. The appropriate response to climate change requires both mitigation and adaptation measures: a combination of regulation, incentive-based mechanisms, market-based solutions and behavioural change.

Within this context, this study focuses on the potential role that the financial community can play, with specific focus on the "indirect impacts" of its business i.e. the provision of capital and financial advice to its customers. In this light, we consider both the potential risks of climate change to the financial sector i.e. to its customers; and the position of the sector in being able to contribute to climate change solutions i.e. through financing new technologies, renewable energies and adaptation solutions.

A significant amount has already been written about climate change and the role of the financial sector. In some ways this made our task easier: we were able to gain definitive and instructive insights into the financial sector's approach to understanding and positioning itself to address the impacts of climate change to its business. At the same time, however, we were tasked with looking broadly across the financial sector; to consider the approaches and responses of commercial banks, development banks, export credit agencies and pension funds. Each will be potentially impacted in a different way depending on their business mandate, product range, client base, geography and sector exposure. This made the task of finding consistency in approach a challenging exercise.

What has become apparent to us during our research and investigations is the significance of the effort and resources being applied by financial institutions to understanding climate change, how it will impact their business, and what their appropriate response should be. Climate change is the focal point of several discussions and initiatives taking place involving the financial sector: fora such as the World Business Council for Sustainable Development and the United Nations Environmental Programme Finance Initiative financial institutions frame the discussion and the relevant considerations for the financial sector; initiatives such as the Carbon Principles and the Low Carbon Leadership Principles (currently still in discussion) focus specifically on commitments and approaches to enable the sector to better understand and manage climate change impacts within its business; there is also a nascent discussion amongst the Equator Principles financial institutions to look at ways of better integrating climate change into decision-making.

The financial sector is now actively looking at ways in which to take these contextual discussions and principal statements and turn them into more informed, practicable and integrated decision-making processes. Our analysis covers the regulatory framework, enhanced risk analysis and enhanced transparency as being collectively necessary to enable the financial sector to better integrate climate change considerations into their capital allocation and decision-making processes. As the financial sector depends on an appropriate regulatory framework being in place to enable such better integration, the focus of our report is on *how* to integrate such factors into decision-making and how to enable banks to seek out business opportunities and be part of the solution. Against that background we have given this report the title "*From Principle to Action*", and have developed a series of recommendations which are intended to point towards potential next steps for the financial sector and / or the Government in achieving this. At the same time, the outcomes of Bali can be deemed to be "principle" commitments, with the action outcomes awaited.

We hope that you will enjoy reading this report and that our analysis and recommendations will provide an insight into the financial sector and the opportunities available to enhance its understanding and management of the issues.

Acknowledgements

We would like to thank the Dutch Ministry of Housing, Spatial Planning and the Environment, who commissioned this research and entrusted us to conduct the study. We also acknowledge and appreciate the assistance of the advisory group which consisted of representatives of various Dutch Ministries, a former banker and a non-governmental organisation. Throughout the process they provided guidance which went a long way to enabling us to produce the final product before you.

We also extend our thanks to the financial institutions that participated in the process who gave us valuable input and knowledge, and who shared with us the business challenges and dilemmas they face in seeking to understand and respond to climate change. We greatly valued their openness and frankness during both interviews and discussions.

Paul Mudde & André Abadie

The authors can be reached at the following contact addresses / numbers:

Paul Mudde
paul.mudde@live.nl
+31-6-12973335

André Abadie
andre@sflnet.com
+31-6-15838311

Executive Summary

Overview and the purpose of this report

The Ministry of the Housing, Spatial Planning and the Environment of the Netherlands (VROM), has taken the initiative to commission a study to determine best practice approaches within the financial sector regarding climate change. This study focuses on the indirect climate change footprint of the financial sector i.e. the impact of the financial sector's clients on climate change. The study sets out to further the body of knowledge relating to the financial sector's approach to understanding and managing the effects of climate change on their clients' business. Specifically, it offers recommendations and potential next steps for both the financial sector and the Dutch government to enable a more focused and definitive approach to understanding, addressing and incorporating climate change considerations into decision-making procedures and policy development.

The paper comprises the following analysis:

Chapter 1 is an introduction describing why climate change is relevant to the financial sector, and introduces 18 financial institutions which were selected as the basis for the study.

Chapter 2 elaborates on challenges for the financial sector regarding the incorporation of climate change considerations into enhanced risk analysis and decision making.

Chapter 3 provides a comprehensive overview of the main international business initiatives regarding climate change and sustainability. It can be seen as a summary of Annex I to this report, which identifies which initiatives the 18 financial institutions are involved in.

Chapter 4 highlights selected best practices amongst the 18 financial institutions assessed.

Chapter 5 provides the main conclusions of the study and puts forward general and specific recommendations and potential next steps for the Dutch government and the financial sector.

The Annexes contain fact sheets containing information about the climate change strategy and main activities of these organisations.

The position and role of the financial sector in today's world: Towards an effective Regulatory Framework

By facilitating financial flows through its global lending and investment activities, the financial sector plays a key role in enabling and supporting the transition to a less carbon-reliant economy. Additionally, it is a pivotal party when it comes to supporting the development of new technologies that reduce emissions from conventional energy generation methods. At the same time, the financial sector is increasingly recognising that climate change will have potentially significant impacts on certain clients, sectors and geographies, and that there is a need to factor these impacts into lending and investment decision-making processes.

There are many challenges that face financial institutions in addressing the indirect climate change impacts of their lending and investment activities. Four barriers to action influence the way in which the financial sector has responded: cognitive; political; analytical; and market operational. These obstacles are echoed in the current uncertainty surrounding the status of international regulation and the carbon price. As a result it has been difficult for financial institutions to determine the extent to which climate change will impact a client's financial performance. Nonetheless, from our research and discussions with financial institutions, we have seen that the financial sector is increasingly focusing on increasing their understanding of the indirect climate change impacts and stepping up their actions in effectively addressing this issue.

Towards Enhanced Risk Analysis

Despite the prevalent uncertainty surrounding the regulatory framework to address climate change, the financial sector is becoming aware that inaction is not an appropriate response to the uncertainty and is being progressive in its approach to better understanding how climate change will impact its clients' business**. What is clear is that risk management – particularly understanding how climate change will impact the credit (or investment) risk of a client - is the key driver for action.** Physical risk, regulatory risk and change in market demand present the most direct and potentially most material risks to a company's business, and hence may result in significant credit or investment risk. Climate change will also have a potential large impact on sovereign credit risk (i.e. central government) and country risks.

Towards Enhanced Transparency

There are a number of international business initiatives concerning the topic of climate change, but most are broadly focused on developing and enabling a better understanding of climate change and its relevance to the business community. Underpinning such a development, however, is the need for detailed data and information on a company's direct and indirect greenhouse gas footprint, how it manages its footprint, and what the potential consequences of climate change will be on its business – whether risks or opportunities. This is also relevant for public sector entities, such as central governments and municipalities.

A concerted effort needs to be put into improving reporting standards, with particular increased focus on the risks of climate change, if such information is to inform the capital allocation decisions of financial institutions. Further work also needs to be undertaken to determine whether there is a correlation between a client's climate change (or broader sustainability) management approach and credit or investment risk.

Recommendations

Given the complexity and magnitude of the effort required to develop appropriate responses to climate change, there is a degree of urgency needed in moving towards a globally accepted regulatory framework. Our recommendations on the Regulatory Framework speak to this and should enable the business community, including the financial sector, to play a role in the transition to a less carbon-constrained economy.

Many of our recommendations on Enhanced Risk Analysis can be implemented within financial institutions individually. Climate change risks are already becoming a reality, and will continue to gain in both significance and impact. It is in the interest of the financial sector to manage climate change risks adequately and in particular to be well prepared for changes in regulations. We therefore encourage financial institutions to already take the first steps in this regard.

An appropriate response to climate change requires an enhanced understanding of the potential impacts in order to be able to put in place necessary mitigation and adaptation approaches. Our recommendations on Enhanced Transparency call for increased transparency by both private sector companies and public sector entities to enable the financial sector to factor climate change risks into their decision making and capital allocation.

We trust that our recommendations will further the insights of the government, business community and the financial sector into the possibilities available to them to contribute to addressing the challenges that lay ahead.

A. Regulatory framework.

A.1. Functioning of the carbon market: Effective regulations - Market-based solutions have to be developed within a clear, predictable and consistent regulatory framework.
A.2. Development of (inter)national accounting standards concerning emissions - Clear and internationally accepted accounting standards need to be developed to allow for a proper and common internalisation of carbon in financial accounting.
A.3. Potential improvements for officially supported export credits - The current export credit sector understanding for renewable energy can be further improved to support investments in renewable energy and energy saving projects in developing countries.
A.4. Sustainability conditions for government support - The Dutch Government could apply (more strict) sustainability criteria in providing support to the business community.

B. Enhanced Risk Analysis.

B.1. A more in-depth credit risk assessment - A more in-depth risk analysis including regulatory risks, physical risks, sovereign risk, country risks and the climate risk adaptation and mitigation strategy of a client should be developed.
B.2. A more forward-looking credit risk assessment - A more forward-looking risk analysis identifying long-term trends and the potential impacts of climate change should be developed.
B.3. Incorporation of climate change into the BIS framework - It is recommended that a study be undertaken to determine the causal link between climate change risks or broader sustainability performance and credit risks. The study should investigate whether specific solvency factors can be built into the BIS II framework to reflect climate change risks and / or sustainability performance. Such recognition

could enable enhanced capital allocation and decision-making for financial institutions.

B.4. Integration of sustainability factors in independent credit ratings - The leading credit rating agencies should be encouraged to include climate change information in their rating reports and determine the credit impacts of a company's approach to managing climate change impacts.

B.5. Climate change awareness and education of staff – Focus needs to be placed on enhancing the understanding of climate change risks within financial institutions and the government to enable better integration and more effective day-to-day decision-making.

C. Enhanced Transparency.

C.1 Development of GRI+ - Current Global Reporting Initiative guidelines should be amended to specifically address the management of climate change risks and provide insight into the climate adaptation and mitigation strategy of companies.

C.2. Obligation for GRI(+) reporting for companies that are listed on the Amsterdam stock exchange - Sustainability reporting should be made mandatory for companies that are listed on the Amsterdam stock exchange.

C.3. GRI(+) sustainability reporting by public sector entities - Governments and other public sector entitiesshould set the right example on sustainability reporting and management of CO_2 emissions and other climate change issues.

C.4. Pension funds and GRI(+) reporting - Most institutional investors do not publish sustainability reports. The two Dutch pension funds are planning to publish their first comprehensive sustainability reports in 2008.

C.5. Atradius DSB & GRI(+) reporting – Only a few Export Credit Agencies (ECAs) publish sustainability reports. Atradius DSB could follow the example of ECAs such as EDC (Canada) and OEKB (Austria).There is therefore an opportunity for Atradius for its private credit insurance activities.

C.6. Prospectuses for bond issues and equity offerings should include more substantive information on climate change performance - Prospectuses currently focus on financial performance, risks and general governance issues. It is recommended to include a description of how the company manages climate change risks and provide insight into climate adaptation and mitigation strategies.

C.7. OECD guidelines for Multinationals & Climate Change - Not many organisations mention the relevance of these guidelines to their business in sustainability reports or other publications. These guidelines include the obligation to establish and manage a solid environmental management system which should include adequate management of carbon emissions.

Introduction

Climate change is currently the predominant sustainability issue, posing a potentially serious global economic, environmental and social threat. This fact has become increasingly accepted and has been reflected in studies[1] such as the Stern Review and Al Gore's "An Inconvenient Truth", which together have substantially increased global awareness of the importance of climate change. Gore and the Intergovernmental Panel on Climate Change (IPCC) were awarded the Nobel Peace Prize for 2007 for "their efforts to build up and disseminate greater knowledge about man-made climate change and to lay the foundations for the measures that are needed to counteract such change".

According to the Stern Review[2], costs of extreme weather caused by global warming alone could reach 0.5 - 1% of world GDP per annum by the middle of the 21st century, with more extreme forecasts of 5-6°C warming resulting in as much as 5-10% loss in global GDP. This does not take into account changes in government policy or changes in consumer demand and behaviour which could further compound the impacts. Developing countries will likely bear a more significant burden, suffering costs in excess of 10% of GDP.[3] Against the backdrop of a growing global economy, which in turn is driving an increasing demand for energy and other natural resources, these more extreme forecasts could become a reality if measures are not taken to reduce greenhouse gas emissions from continued and increasing economic activity.

The recently concluded United Nations Climate Change Conference (see Box 1), held in Bali in December 2007, outlined a "roadmap" for the coming years. The broad conclusions were acceptance of the need for global cuts in greenhouse gas emissions in which all developed countries take a leading role, and developing countries make quantifiable contributions in return for assistance in technology, financing and adaptation. A commitment to address reducing emissions from deforestation was another key outcome. Further negotiations over the next two years will seek to create more definite direction and milestones, a task requiring the development of a more robust and clear global public policy framework, setting out both mitigation and adaptation solutions. There is much debate about the respective merits of mitigation and adaptation and whether they are complimentary or substitutes for one another. We would argue that they are not mutually exclusive as some level of adaptation is almost certainly required, given that a certain amount of climate change is likely to occur even if GHG emissions stopped immediately.

Box 1: Bali Conference Outcomes

The United Nations Climate Change Conference in Bali, held in December 2007, culminated in the adoption of the Bali Roadmap, consisting of forward-looking decisions to addressing climate change. The Bali Roadmap includes the Bali Action Plan, which charts the course for a new negotiating process designed to tackle climate change, with the aim of completing this by 2009. It also includes the launch of the Adaptation Fund[1], the scope and content of the Article 9 review of the Kyoto Protocol, as well as decisions on technology transfer and on reducing emissions from deforestation.

The Bali Conference also agreed on a new programme to scale up investment for the transfer of clean technologies to developing countries. It was widely agreed in Bali that for poorer countries to avoid the same development mistakes of industrialized countries, they would need newer and cleaner technologies.

Deforestation, which causes 20 per cent of all greenhouse gas emissions, also figured on the agenda in a major way for the first time in climate change discussions. Countries agreed on a range of measures to study and assess the issue, including finding out how to calculate emissions from deforestation, as well as encouraging demonstration projects that can address the needs of local and indigenous communities.

However, climate change cannot be solved by policy makers alone. Much attention is being paid to ways in which greenhouse-gas (GHG) emissions can be cut, and the Stern Review highlighted four[4] , namely:

- Reducing demand for emissions-intensive goods and services
- Increased efficiency, which can save both money and emissions
- Action on non-energy emissions, such as avoiding deforestation
- Switching to lower-carbon technologies for power, heat and transport

Achieving a switch to a less carbon-reliant economy will require both mitigation and adaptation approaches, will take time and significant investment, and will have impacts on government policy, infrastructure, consumer habits and economic growth. Investments in conventional generation will continue to be an important part of supplying reliable energy and fuel, and technologies to reduce emissions from conventional generation will continue to evolve and emerge.

The financial sector has a key role to play in enabling and supporting this transition through the facilitation of financial flows through its global lending and investment activities. As highlighted by UNEP-FI in its 2002 CEO Briefing on Climate Change, "market solutions will play a pivotal role in tackling climate change whatever the international policy framework. Financial institutions can:

- help to structure and monitor an efficient market system
- create conditions crucial to the formation of an efficient emissions trading system; and
- provide products and services that contribute towards adaptation and mitigation efforts (such as trading, banking and insurance for carbon credits; project finance for 'low-carbon' energy (e.g. renewables); weather derivatives; catastrophe bonds; micro-finance).[5]

UNEP-FI's focus in its CEO Briefing is appropriately on the enabling role the financial sector can play. What it doesn't cover explicitly is how effective risk management can underpin and support that role. As noted a recent Ceres report from January 2008 entitled "*Corporate Governance and Climate Change: The Banking Sector*", as the main providers of capital to the global economy, and with their expertise in risk management, banks can do much to combat climate change.

1. The background and purpose of this study

The financial sector is increasingly recognising that climate change will have an impact on its clients' business. Accordingly, financial institutions across the sector are undertaking various approaches to try and better understand both the consequences of climate change and how they can participate in financing solutions to try and address the issues.

Against this backdrop, the Ministry of the Housing, Spatial Planning and the Environment of the Netherlands (Volkshuisvesting, Ruimtelijke Ordening & Milieubeheer, hereafter "VROM"), took the initiative to commission a study to determine the best practice approaches within the financial sector regarding climate change, in particular in relation to the energy sector. The study was announced in the "Toekomst Agenda Milieu" and promised to the House of Parliament.

The focus of the study is the indirect climate change footprint of the financial sector i.e. the climate change impact caused by the financial sector's lending to and investment in its clients. Direct footprint issues - e.g. the energy consumption and GHG emissions of a financial institution itself are not part of this study.

The study sets out to enhance insight in the approaches of financial institutions to understand and manage their indirect footprint and the relevant international guidelines covering climate change and energy. Furthermore it leads to recommendations and potential next steps for both the Dutch financial sector and Dutch government to enable a more deliberate and definitive approach to understanding, addressing and incorporating climate change considerations into decision-making and policy development.

2. The scope of the study

The focus of the study is on determining current approaches within the financial sector to address indirect climate change impacts, and the leading international guidelines for the financial sector concerning climate change and energy.

The financial sector is diverse, covering different organisations that provide different types of financial services to different client segments. For the purpose of this study we distinguish the following five subcategories within the financial sector:

1. Commercial banks;
2. Multilateral & Bilateral Development Banks;
3. (Re-)Insurance companies;
4. Institutional investors, such as pension funds;
5. Officially supported Export Credit Agencies (ECAs).

Regular insurance and reinsurance companies have been excluded, because the nature of their business is distinct from the other types of financial institutions. Climate change is, however, a key factor for insurance and reinsurance companies, in particular the non-life insurance sector for its involvement in insuring catastrophic risks (e.g. natural disasters).

The study covers in total 18 financial institutions, covering a selection of Dutch and foreign commercial banks, a number of multilateral and bilateral development banks, the Dutch officially supported export credit business and three pension funds. These 18 organisations were selected by VROM in consultation with the advisory group of this study[6] and are:

- ABNAMRO, ING, RABO, Fortis, ASN, Triodos, Bank of America, HSBC, WestLB (all subcategory 1)
- IFC, ADB, EIB, EBRD and FMO (all subcategory 2)
- ABP, PGGM and Calpers (all subcategory 4) and
- The officially supported export credit insurance business provided by Atradius Dutch State Business (Atradius DSB; subcategory 5).

Although the activities of Atradius DSB can be characterised as insurance, this insurance activity is treated separately, because of the particularities of the credit insurance business, especially if it is officially supported. Atradius DSB provides on behalf of the Dutch government, official support to promote export of capital goods out of the Netherlands. It acts as ECA of the Dutch government.

There are certain specific topics that VROM specifically requested to be covered in this study, and we list these in Box 2. All of these topics will be addressed throughout the paper:

Box 2: Topics to be Covered

Application of guidelines
- What is the reason that a financial institution has chosen for a specific guideline?
- How does this guideline work and how is it applied by the financial institution?
- Do financial institutions evaluate the application of the guidelines?

Relationship with Sustainable Development or Corporate Social Responsibility
- What is the relationship between the international guidelines and Corporate Social responsibility?

Incentives and considerations
- What are the incentives / considerations for a financial institution to implement an environmental friendly policy?

Defensive and offensive
- When do financial institutions apply the more defensive "safeguards" and when are they more offensive in their approach to increase climate friendly capital flows or green capital flows?

Climate change part of Considerations for decision making
- Which considerations do financial institutions make in deciding upon a financial transaction?

Bottlenecks and barriers
- What are the bottlenecks and barriers that financial institutions experience in practice?

Best practices
- Which best practices can be identified?

3. Methodology

3.1 Approach

The approach we undertook for this study is threefold, namely to:

1. Research and analyse the approaches of select financial institutions in order to determine current best practice.
2. Undertake select literature research to gather an understanding of the key drivers, challenges and broad context within which the financial sector approaches its indirect climate change footprint.
3. Determine and assess the various international guidelines and initiatives relevant to climate change in order to determine what collective action (if any) is being taken by financial institutions and other sectors / players.

In the course of assessment of the various international guidelines and initiatives, we realised that statements have been drafted or principles have been developed, but in most initiatives there are no specific climate change guidelines. Given this finding we refer rather to "international business initiatives", which covers guidelines, principles or statements and various other initiatives.

3.2 Phases

The study was split into four phases, being:

- Inventory phase
- Analysis phase
- Consultation phase
- Finalisation phase

In the Inventory and Analysis phases information was gathered through internet desk research, interviews and questionnaires. In the research special attention was given to sustainability / CSR reports and information about sustainable development on the websites of the various organisations. Furthermore websites of international business initiatives such as the World Business Council for Sustainable Development (WBCSD) and the United Nations Environment Programme (UNEP) provided useful information on the current status of the debate within the business and financial communities.

In the Consultation phase, two meetings were held: the first with representatives of the Dutch government and the Dutch financial institutions; the second a three party gathering of representatives from the first consultation meeting and various non-governmental organisations (NGOs).

The Finalisation phase concludes the study, wherein feedback from the Consultation meetings is incorporated into the paper and a final version presented to VROM.

4. How to read this paper

We have structured the paper in the following chapters:

Chapter 1 is an introduction to the financial sector and climate change, describing why climate change is relevant to the financial sector.

Chapter 2 elaborates on six challenges for the financial sector regarding the incorporation of climate change risk into enhanced risk analysis.

Chapter 3 describes the main international business initiatives regarding climate change and sustainability. It can be seen as a summary of Annex I to this report, which provides a comprehensive overview of various initiatives. This annex also identifies which of the 18 chosen financial institutions are involved in the various business initiatives.

Chapter 4 highlights certain best practices amongst the 18 financial institutions assessed.

Chapter 5 provides the main conclusions of the study and puts forward general and specific recommendations and potential next steps for the Dutch government and the financial sector.

A set of annexes is added to provide more in-depth background information on the international business initiatives on climate change, BIS II regulations and specific fact sheets for the 18 organisations that have been selected for this study. The fact sheets include information about the climate change strategy and main activities of these organisations.

Chapter I Climate change and the financial sector

A. Drivers of sustainability

Introduction

During the course of our study - both in the assessment of the selected institutions and in the various research papers - we found that the financial sector's approach to addressing climate change is typically an integral part of the organisation's overall sustainability strategy. Climate change is seen as one of many sustainability (and governance) criteria to address, particularly when considering a financial institution's indirect impact.

Given this context, we will first explain how the climate change topic fits into the sustainability agenda, and will then describe the key drivers for the development and implementation of a broader sustainability strategy.

Climate change: part of an overall strategy on sustainable development

For most financial institutions, the issue of climate change is part of their overall business strategy on sustainable development or corporate social responsibility. A solid sustainability strategy commonly focuses on the following four strategic business themes:

1. **Integration of sustainability criteria in key business processes of the organisation** - financial institutions are most effective in taking commercial issues into account in their decision making processes. The key challenge is to include social and environmental considerations into decision making in such a manner as to complement this approach i.e. how does an issue such as climate change have commercial consequences or financial impact?
2. **Stakeholder engagement around various sustainability topics** - engaging in constructive dialogue with clients, shareholders, suppliers, employees, the public sector (e.g. central government), science and civil society (e.g. NGOs) to better understand each another, create mutual understanding and establish partnerships for cooperation.
3. **Transparency and accountability** - the publication of sustainability reports, the development and implementation of sustainability policies and disclosure of various sustainability issues via amongst others the company's website.
4. **Strategic issue management** - strategic issues are developments or trends that emerge from an organisation's internal or external environments that are perceived to have a potential effect on the business and overall performance of a company. The issues should be carefully mapped and investigated to see whether they form a business threat or opportunity to a company. It is through this strategic analysis that an issue such as climate change gets onto the strategic sustainability agenda of a company.

To identify business opportunities it is important to link the issue to the core competencies of the company. The majority of financial institutions assessed in this research do see climate change as a strategic issue to their organisation. The response to this strategic issue, however, varies by each organisation.

Incentives and considerations

What are the incentives / considerations for a financial institution to implement an environmental friendly policy?

Key drivers for a strategy on sustainable development (and climate change in particular)

The key drivers to respond to climate change are the same as for the development and implementation of a sustainability strategy. The following considerations have been predominant for the development of a business strategy on sustainable development:

Driver 1: The business case of sustainable development

Companies are increasingly identifying opportunities for pursuing a sustainability strategy. Apart from obvious tangible benefits such as saving energy costs and resource usage, the development of new products and services has created interesting new markets and opportunities e.g. GE's Ecomagination initiative. The range of opportunities depends very much on the sector and the depth of the market, and for financial institutions the priorities and possibilities for new products and services differ depending on amongst others the client base, the knowledge and

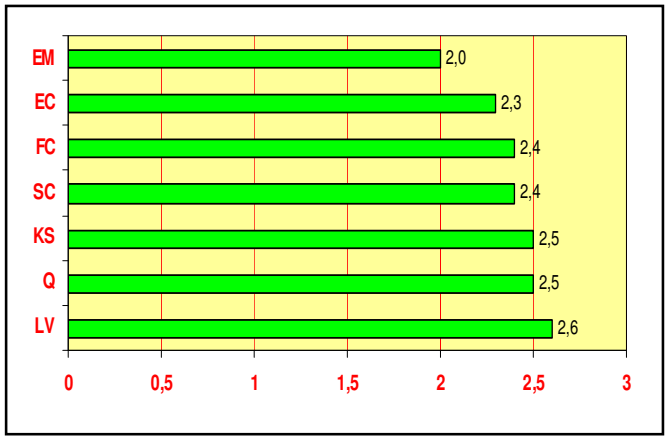
skills available in the organisation, and the mandate i.e. commercial bank or development institution.

Certainly the priorities and possibilities of an international bank with a substantial wholesale business (e.g. ING or Fortis) are different from a niche sustainability bank that is mainly active in consumer banking and SME finance (e.g. Triodos). With respect to climate change, the development of carbon credit trading and the financing of renewable energy projects are examples of new sustainability markets and opportunities that financial institutions have recognised and taken advantage of.

Box 3: Reputation Factors

According to a Cambridge University study in 2003 the reputation of a company is determined by seven factors, being 1) Leadership & vision (LV), 2) Quality (Q), 3) Knowledge & Skills (KS), 4) Social Creditability (SC), 5) Financial Creditability (FC), 6) Environmental Creditability (EC), 7) Emotional connection (EM) = Values & Business principles

The study involved the scoring of these seven factors by CEO's of Fortune 500 companies, within a range from 0 – 3 (3 being the most important). The results are shown in the graph below. It reveals that for reputation a solid performance on all dimensions of sustainability – people, planet and profit - is important. In addition it shows the relevance of an emotional connection between the organisation and its stakeholders (e.g. employees).



Driver 2: Reputation / social licence to operate.

Reputation is an important intangible asset of a company. Commercial banks in particularly rely on trust as one of the key drivers of their brand, and if their reputation is tarnished by certain events, that trust can be eroded. Reputation is closely linked to the sustainability concept of "licence to operate" and the seven factors determining reputation shown in box 3 reveal that good performance in all areas of sustainability (social (people P), Environmental (planet P) and Financial (Profit P) are important for a good reputation of an organisation. Interesting is as well is that an emotional connection between the organisation and its stakeholders is important. Here the values and business principles of an organisation come into the picture, which we further explain in driver 3 below.

The financial sector has, in recent times, faced pressure from NGOs and civil society to take more responsibility for its business decisions. Earlier this year, banks came under significant pressure from NGOs regarding the intended project financing of Texas Utilities' (TXU) planned 11 new coal-fired power plant development. The heightened attention eventually resulted in TXU being bought out by private equity houses, backed by Goldman Sachs, in the world's first "green" take-over. Box 4 overleaf provides an overview of the transaction.

Driver 3: Values and business principles of a company

In recognition of the importance of business integrity, and more recently in reaction to various corporate scandals, many companies have developed and implemented corporate values and / or business principles.

Values and / or business principles play a key role in day to day business within financial institutions. For example some banks have ethics committees where difficult and sensitive topics are judged upon taking into account the corporate values of the bank. Banks will make decisions based on such ethical considerations or business principles e.g. certain financial institutions will not finance animal testing or pornography because such business runs counter to their corporate values.

Box 4: Introduction of TXU Transaction

Project Proposal: TXU introduced an US$11 billion plan in April 2006 to build 11 new coal-fired generation units at nine sites in Texas. The project would add 9100 MW of capacity by 2010, as TXU projected that Texas needs additional power to meet peak energy demand, and avoid blackouts within two years. The new project would increase annual CO_2 emissions from 55 million tons to 94 million tons. Texas Business for Cleaner Air and Environmental Defense estimated a 78 million ton annual increase.

Market Background: Texas generates 70% of its power from natural gas, triple the US average but ranks first in the nation in CO_2 emissions according to the Energy Department. However, due to a 7.5% tax on natural gas and no corresponding tax on coal and increased market competition, TXU plans to shut down 14 gas plants and replace with coal. TXU claims its new coal plants will be 80% cleaner than today's coal plants.

Projected Energy Demand: The Electricity Reliability Council of Texas estimated grid reserve margins will drop below a comfortable threshold of 12.5% by 2010 without any additional conservation or efficiency measures. Environmental groups maintain that capacity at the time was 23% over peak summer demand.

Project Approval: Governor Perry issued an executive order to cut the annual permit process in half to fast-track six permit approvals. Several lawsuits were filed to challenge the permitting process on a variety of claims but primarily executive power and separation of powers.

Bank finance: Citigroup was mandated, along with Morgan Stanley and Merrill Lynch, to arrange the $11 billion in financing for the construction of the 11 power plants. In addition, Barclays Capital, Calyon and WestLB were named as second-tier lenders, and numerous other banks approached to join the financing syndicate, including Société Générale, Mizuho Corporate Bank, Bank of Tokyo-Mitsubishi, HypoVereinsbank, Scotiabank, ABN AMRO, Wachovia and HSBC. Opposing Arguments: National and local environmental advocacy groups, some local politicians and consumer and business coalitions asserted that the Clean Air Act requires utilities to invest in the best available technology, and that the normal permitting process is being politically bypassed. In addition, environmental groups maintained that demand was being overstated by TXU, that Texas energy demand cold be met by a mix of efficiency and renewables, and that the new plants will result in 78m tons in annual GHG emissions increases. The 78 million tons would be equivalent to the annual GHG emissions of adding 14 million new cars to U.S. roads.

Law Suits: Environmental Defense & Sierra Club filed to block the fast-track of the review process. Texans Protecting our Resources & Environment filed an injunction against the fast-track process.

Rainforest Action Network (RAN) letter to banks: RAN issued formal letters to 54 financial institutions, asking them to withhold financing for TXU's project. The letters also challenged banks to implement climate and energy policy protections that would ensure that they reduce the GHG intensity of their investments, and to support renewable energy sources such as wind and solar while shifting financial resources away from energy sources such as coal and nuclear.

Private Equity Buy-Out: In the largest-ever acquisition by private equity firms, Kohlberg Kravis Roberts (KKR) and Texas Pacific Group (TPG) agreed to purchase TXU for a record US$45 billion, in a deal that was sealed with the help of Environmental Defense and the Natural Resources Defense Council. As part of the buyout plan, TXU agreed to shelve plans to build eight of the 11 coal-fired power plants and also invest in "green" energy technology.

The buyout helped prevent the release of 56 million tons of CO_2 emissions each year. In addition, TXU will invest $400 million into demand-management efforts and new initiatives to explore alternative energy sources and technologies.

Driver 4: Risk management

During the past few years it has become increasingly common for financial institutions to take social and environmental risks into account in their overall risk assessments, whether for investments or lending transactions. Banks specialise in understanding risk in all areas of their business. The emergence of sustainability as a business imperative as well as a potentially significant risk issue has prompted the development of approaches to better understand this risk. In this area banks have developed several lending polices, criteria and standards, of which the Equator Principles are the most widely adopted and applied. Development banks and ECAs also apply their own standards for all direct project investments, and through the Enhanced Analytics Initiative, established by a group of institutional investors to take a more rounded assessment of corporate performance.

Driver 5: Legal liability?

In 2002 Friends of the Earth, Greenpeace and others launched a suit against two federal agencies, the Export-Import Bank and the Overseas Private Investment Corporation, for providing financial support "illegally" of over USD 32 billion to fossil fuel export projects without assessing their contribution to climate change in the USA.

Based on our experience, these four drivers have been among the pre-eminent reasons for the development of a more progressive sustainability approach by financial institutions. In many institutions all four drivers are constantly in consideration, as financial institutions grapple with difficult decisions and dilemmas on a daily basis.

With respect to climate change, all four of these drivers factor into the approaches and rationale underpinning the response of the financial sector. The business case for climate change action is becoming more pronounced as political and corporate action moves inexorably towards the continued development of markets for both carbon and renewable energy. At the same time, financial institutions, coming under pressure for lending to or investing in GHG intensive sectors, are considering policy approaches to ensure more informed allocation of capital decisions. These considerations are driven not only by stakeholder pressure but by the values and principles of the financial institutions: simply put, to do the right thing by ensuring that decisions to finance GHG intensive business are made with full consideration of the issues. And finally: such financing considerations depend on a more sophisticated understanding of the risks to a client's business and ultimately to the financial institution itself.

This last point is arguably the most important driver and consideration when assessing the response of the financial sector to climate change: banks will respond more definitely to the indirect emissions attributed to their financing activities where such business can be inextricably linked to commercial or business risk. The next section will introduce this topic in more detail and we go on, in Chapter 2, to consider what would be required to enable financial institutions to take climate risks into account in a more structured manner.

Credit and Equity Risk

Credit risk[7] is the main risk for the banking sector, and can be defined as the risk of non-payment or non-timely payment of the principal or interest of a loan by the borrower to the lender. Similarly, institutional investors that invest in equity of a company are exposed to equity risks, which can be defined as the risk of a decrease in the value of the stock in which the investor has invested its money. The underlying risks causing a change in the price of stock are often the same as those for credit risks. Hereafter we speak generically about credit risks, but the observations are of equal importance to equity risks.

Within the financial sector it is common to classify credit risks in various subcategories of payment risks, being commercial and non-commercial risks.

Commercial risks are payments risks on a private borrower/ buyer and these risks include:

- Insolvency (e.g. bankruptcy or a chapter 11 arrangement)
- Protracted default (e.g. a non-payment but the cause of non-payment is not due to an insolvency)

Non-commercial risks are:

- Political risks. Examples of political risks are country risks like transfer risk (i.e. the inability to transfer an amount of Euro from a developing country to the country of the lender), inconvertibility risk (the inability to convert a local currency in a developing country into the Euro), (civil) war, expropriation/ confiscation of the borrower's company by the government of the country in which the company operates.

A separate political risk is the non-payment by a public sector borrower (e.g. the central government) due to for example the lack of foreign currency reserves.

- An "Act of god" or natural disaster such as a flood or an earthquake.

With respect to climate change, one could envisage a non-payment can be due to impacts on cash flow enforced by changes in climate change legislation, the imposition of carbon taxes or new product emissions criteria. Equally, credit risk could be caused by a physical climate change risk due to changes in weather patterns, rainfall or sea level rise e.g. 20% reduction in the Kenyan tea industry due to reduction in rainfall and increased temperatures. As represented in Figure 1, we see climate risk manifesting itself across sectors and geographies through physical, regulatory, market, litigation, reputational, technology, and political risk.

Figure 1 Climate Change Risk Framework						
BUSINESS RISK CATEGORIES						
Physical Impacts	Regulatory changes	Failure to innovate and deliver on low-carbon or climate-friendly products	Technology changes	Litigation	Reputation impacts	Political risk and natural disasters

Business Risk Categories

Physical risk: Businesses are at risk from the physical impacts of climate change, including the increased intensity and frequency of severe weather events such as prolonged droughts, floods, storms and sea level rise. Among the more recent examples is the $10 billion of insured losses, including the destruction of 116 oil platforms, that offshore oil producers suffered from the 2004-2005 Gulf Coast hurricanes.

An assessment of physical risk should include the likelihood that physical assets of a company may be affected by climate change and whether adequate insurance is in place to protect the company against these risks. In the assessment of the availability of insurance financial institutions should also try to assess whether that insurance is available in the long run and at which costs. This is of particular relevance for medium and long-term financing, because insurance has to be renewed each year and the financiers of a project might over time experience a substantial increase of insurance costs. In a worse case scenario the insurance might be no longer available. If this is for example assessed at the project design phase of a project finance transaction it is advisable for financial institutions not to finance such a project.

Physical risk is relevant for all companies irrespective their GHG emissions. Financial institutions could "map" "the physical assets of their clients and determine to which extent these assets are exposed to physical risks. Information about the threatened geographical areas around the globe can assist in this process.

Regulatory risk: This is the most obvious area of impact, whether it takes the form of regulating emissions of the products a company makes (for example, automobile emission limits for carmakers) or of the manufacturing process a company uses in creating those products. Some companies in the world are already subject to the Kyoto Protocol, which aims to reduce carbon dioxide and other greenhouse gases by requiring developed countries—and, by extension, companies operating within those countries— to limit GHG emissions. It is likely that Governments will take further steps in this area by implementing more restrictive emission rights and broadening the application of Kyoto scheme to other sectors (e.g. transport).

It is clear that new and / or more strict regulations will have an impact on the corporate world. Companies that have already implemented a comprehensive GHG management system will likely suffer less from new regulations than companies that have a "wait and see" attitude. The latter may encounter substantial investments costs once new regulations come into force. Regulatory risk is therefore an integral part of credit risk. Against this background financial institutions could investigate within their client portfolio, which companies will face the biggest financial challenges as a result of new regulations. For this reason it would be appropriate to collect data about the GHG emissions and climate change adaptation and mitigation strategies of clients. This is quite a challenge given the fact that data is currently not widely available, but banks could start with data available in GRI sustainability reports and the CDP. Further the emissions of the approximately 12.000 companies that currently fall under the EU Emission regulations are known[8].

Change in Market Demand: There are two main drivers for market demand for climate friendly offerings impacting an industry sector. The first is direct consumer demand in the form of products and services marketed based on their climate friendly aspects. Given current consumer attitudes, we expect this category of market demand to be led from Northern Europe and to remain relatively small compared to global consumption over the period of this analysis. The second driver is through business to business (B2B) customer specification and requests for information on environmental characteristics of products. The model for this type of market preference was established with certified sustainable paper and wood products where a significant portion of the demand is through specifiers such as large wholesale purchasers and office supply companies using sustainable forestry

criteria and certifications for purchases. Also corporates and governments are implementing sustainable procurement policies.

Technology changes: Stricter emissions standards pose increased risks and costs for companies that do not currently possess nor have the means to acquire appropriate technology to reduce carbon emissions or enhance efficiencies,. Furthermore, those sectors or companies that do commercialise new technology may realise significant revenue growth. Companies that are able to integrate new climate friendly products and technologies in their business faster than their peers will show a better financial performance in the long run. From a credit risk perspective it is wise to know the winners and losers of tomorrow.

Litigation: Companies perceived as "dirty", particularly those operating in sectors that generate significant carbon emissions, may face the increased threat of lawsuits (including shareholder-related litigation which could lead to increased risk of personal liability for directors and officers). Swiss Re, for example, has found that such suits constitute a potential exposure in the company's directors and officers (D&O) insurance portfolio.

Reputational impacts: Companies that operate irresponsibly may encounter serious reputational problems in the near future and potential loss of their social "license to operate" (as opposed to the formal license). Obviously this will have an impact on the credit risk of the company. Similarly, companies operating in sectors that are perceived to have negative impacts on climate may face backlash at the consumer or shareholder level, particularly in environmentally sensitive or highly competitive sectors where brand loyalty is paramount.

Political risk and natural disasters: Natural disasters and systemic climate change impacts will potentially lead to social conflict in areas most acutely impacted. In certain scenarios, countries that are unable to appropriately respond, or whose budget is negatively impacted by the reallocation of resources to adaptation efforts, may experience sovereign credit risk. In worst case scenarios, this may lead to broader social, civil and potentially cross-border conflicts.

Conclusion: Of these risks, the most important for corporate credit risk are physical risk, regulatory risk and change in market demand, as we deem these to present the most direct and potentially most material risks to the ability of a company to generate cash flow. In a worst case scenario, physical risk events may even cause business discontinuity where operations are suspended or severely impacted e.g. Hurricane Katrina to offshore oil and gas development in the Gulf of Mexico.

Natural disasters such as severe drought, floods and hurricanes may have an important impact on country risks, in particular the risk of a (civil) war or other types of conflicts. It is clear that these climate change risks may pose a serious burden to the budgets of governments in countries that will be severely affected by climate change risks. The credit risks on these governments (sovereign risk) will likely increase as a result of climate change.

B. Climate change risk and the role of the financial sector

Introduction

Financial institutions act as intermediaries in the global capital and debt markets, and are responsible for transferring funds from investors to companies in need of those funds. Financial institutions facilitate the flow of monies through the global economy through their innumerable lending and investing activities.

In their role as intermediaries, financial institutions are also driven to understand the emergence of new risks and ensure that these are appropriately factored into their risk assessment and modelling and, consequently, both efficiently transferred or appropriately priced. Indeed, the appropriate allocation and management of risk is critical to the proper functioning of the global financial markets.[9] Climate change presents a potentially significant risk to the financial sector and is the focus of this chapter.

Whilst, for the purposes of our analysis, we have not covered the reinsurance sector (or for that matter the insurance sector directly), it is appropriate to note that from the perspective of assessing climate change approaches or management techniques, reinsurance companies are typically at the forefront of the financial sector in anticipating emerging risks and the development of approaches to address these risks (or take advantage of resultant opportunities).

The long-term risk analysis that is performed by the reinsurance industry often creates the framework for an approach that the rest of the financial sector takes. With respect to climate change, Chris Walker, managing director and head of sustainable business development at Swiss Re views his company as the "canary in

the mine shaft with regards to climate change"[10]. Swiss Re sees the reality of climate change as having a potentially significant impact on its business, with claims forecast to increase by 16 to 68% up to the year 2085[11].

Financing the future: the role of financial institutions in funding the transition to a less carbon-reliant economy

As discussed earlier, the financial sector provides capital to companies, assets and projects across the entire cross-section of the global economy, and has an important role to play in supporting the transition to a less carbon-reliant economy, financing and investing in both mitigation and adaptation opportunities.

Global investment in mitigation and adaptation by sectors for 2000 and 2030 is analysed in the UNFCCC paper entitled "*Analysis of existing and planned investment and financial flows relevant to the development of effective and appropriate international response to climate change*"[12]. The paper reviews and analyses existing and projected investment flows and financing relevant to the development of an effective and appropriate international response to climate change. It provides an assessment of the investment and financial flows that will be necessary in 2030 to meet worldwide requirements for mitigating and adapting to climate change under different scenarios of social and economic development, especially as they impact the well-being of developing countries. The paper estimates that global additional investment and financial flows of USD 200–210 billion will be necessary in 2030 to return global GHG emissions to current levels, whereas overall additional investment and financial flows needed for adaptation in 2030 are estimated to amount to several tens of billion United States dollars.[13]

Defensive and offensive

When do financial institutions apply the more defensive "safeguards" and when are they more offensive in their approach to increase climate friendly capital flows or green capital flows?

Some special interests groups on climate change focus their lobby efforts on the financial sector, in particular commercial banks, multilateral development banks and ECAs to encourage these institutions to invest in climate friendly projects and to stop financing carbon intensive business (e.g. oil and gas sector). Their rationale is that the financial sector plays a key role in the allocation of capital and should be accountable and responsible for the carbon footprint of the clients with whom they conduct their business. We would argue that reputational risk alone will be insufficient for banks to take a more proactive stance on managing indirect GHG emissions within their portfolios.

However, it must be noted that the financial sector is not in a position to drive or even participate in this change and enable the financial flows that are required as part of an effective international response to climate change without the appropriate regulatory framework and market based incentives. Equally, the role of the financial sector is largely limited its core activities, namely effective risk management and efficient allocation of capital. Not all approaches to managing climate change are ever going to be within the reach of the finance sector and it is implausible to burden the sector with this responsibility.

We would argue instead that the potential role of the finance sector needs to be placed in context: financing of "old economy" industries (e.g. energy, steel, and automobile manufacturers) will continue as these sectors remain an integral part of the global economy. The first responsibility for a company's direct footprint should lie with the emitter of that carbon itself. Furthermore, such continued financing should not place on banks and responsibility or liability: the "polluter pays" principle should not extend to the financial sector as this would be extending chain responsibility too far. Instead, the financial sector needs the right policy frameworks and market structures to be truly able to scale up the financial flows required to address climate change.

Instead, the UNFCCC paper rightly goes on to conclude that raising the necessary investment and financing capital will require a combination of:

- Policy frameworks that increase the economic and financial attractiveness of investments in clean energy technologies and emission reduction measures, such as carbon markets;
- Incentives and assistance to developing countries in establishing environments to channel investment and financial flows towards addressing climate change;
- Policy frameworks that regulate GHG emissions and promote their reduction;
- Options for scaling up additional financial flows, from existing and new sources, that allow adequate and sustainable financing of developing country needs, in particular in areas such as adaptation, forestry and technology deployment.[14]

Each of the four sub-categories of financial institutions researched in this paper have potentially distinctive financing roles to play in providing the necessary

investment and financing capital. Commercial banks and pension funds have perhaps a more fundamental and central role in providing mainstream debt and equity capital to companies and projects, whereas development banks and ECAs have a more focused mandate.

Role of the development banks and ECAs

Development banks and ECAs do not operate under the same market conditions as commercial banks or pension funds. Commercial banks have to perform in a solid way to ensure that their company can sustain and remains attractive to its (potential) shareholders. In this area they compete with their peers in the industry and other non financial corporations. Pension funds have to achieve good financial results to satisfy their obligations vis-à-vis their pension clients.

The competition between various pension funds in the Netherlands such as PGGM and ABP is not comparable to that within the regular corporate world, but these pension funds often operate under a specific mandate to achieve good returns on their investments and are therefore very much focused on financial risks and returns.

Public sector financiers such as multilateral and bilateral development banks and ECAs do operate in a financially solid manner, but their mandates are completely different from commercial banks and pension funds. They are owned by governments and they have been set up to fulfil a specific public interest.

For an ECA this is to promote exports from its country. Given the official support involved these ECAs have to operate within the internationally agreed framework such as in the WTO and OECD[15]. This all obviously has an impact on the (potential) role an ECA can play in the area of climate change.

Development banks have a specific developmental role and are mainly active in developing countries to combat poverty and assist in a sustainable social and economic development of the countries in which they operate. They are not driven primarily by commercial considerations, but are keen to maintain their financial credit standing. To a certain degree they have to operate "commercially" as well, but they are not exposed to the same market forces as the commercial business community.

Given the developmental mandate of these development banks, they are very well placed to take the lead in including environmental and social considerations in their business activities in developing countries. This partially explains the existence of concrete targets on financing renewable energy and energy saving projects by these development banks, which is in general not (yet) the case within the commercial financial sector.

Development banks provide financing and advice for the purpose of development, and have memberships including both developed donor countries and developing borrower countries. The UNFCCC paper contends that development banks can adjust their own investments by integrating climate change risks and costs of adaptation and mitigation into their lending practices. The World Bank has estimated that 20 to 40 per cent of Official Development Assistance (ODA) and public concessional finance (US$ 20 to US$ 40 billion per year) is subject to climate risk and only a small portion of ODA takes this risk into account in project planning. The Bank is currently developing a climate risk assessment tool to assess development projects for their potential sensitivity to climate change.[16]

UNFCCC go on to argue that shifting development bank investment and financial flows to more climate-resilient and cleaner energy can complement and reinforce development goals, and provide the following examples of recent initiatives:

- The African Development Bank is developing a Clean Energy Investment Framework that is to be combined with support to increase access to energy;
- The Asian Development Bank is supporting the development of sustainable transport systems in Asia and has developed a US$ 1 billion annual Energy Efficiency Initiative through a proposed Asia Pacific Fund;
- The Inter-American Development Bank has launched a Sustainable Energy and Climate Change Initiative to promote renewable energy and energy efficiency, bio fuels, access to carbon finance, and adaptation;
- The European Bank for Reconstruction and Development launched a Sustainable Energy Initiative to more than double its energy efficiency and cleaner energy investments to EUR 1.5 over the next three years;
- The European Investment Bank is supporting research, development and demonstration in renewable energy.[17]

As discussed in an Allianz Group/ WWF Report, *Climate Change & the Financial Sector: An Agenda for Action*, ECAs have a mandate to facilitate exports from their respective home countries, and could play an important role in financing mitigation

projects such as renewable energy in developing countries. However, Box 5 highlights the challenges and the role of the public finance sector in supporting the developing and transition economies in meeting their energy needs.

Box 5: Meeting the energy finance needs of the developing world

The International Energy Association (IEA) estimates that a total capital investment of US$8.1 trillion, equivalent to an average of US$300 billion per year (in 2005 dollars), is needed from 2003 to 2030 for the developing and transition economies to meet their energy needs. Financing for the energy supply sector comes from three sources: internal cash generation, private financing, and public funding. One challenge in the energy sector is the electricity sub-sector where the current levels of investments are about 50 percent of the needs, that is, about US$80 billion per year out of US$160 billion per year. The extent to which the huge investment gap, especially in the electricity sector, can be funded in the future would depend on a.o. policy and regulatory reform, including the measures needed to attract private sector investment in developing countries and transition economies.

On top of the significant energy needs the developing countries and countries in transition will face large financial challenges to combat climate change. According to the World Bank the incremental costs of mitigating greenhouse gas emissions is estimated to range from less than US$10 billion per year to about US$200 billion per year depending on the stabilisation target, the pathway to stabilisation, and the underlying development pathways of developing countries. The incremental annual costs to adapt to projected climate change are likely to lie in the US$10 billion to US$40 billion per year range.

All these figures clearly show the dilemma: the challenge to alleviate poverty on the one hand and combat climate change on the other. It also evident that climate change needs to be integrated into development finance policies and strategies. So the challenges that private financiers face are of equal importance to ODA and concessional financiers.

As highlighted earlier, the financial sector will continue to play a role in the continued development of old economy industries. Financing of the energy sector will remain a critical component of development finance flows. The right policy frameworks and market structures need to be put in place in the emerging markets as well in order for development finance to provide the financial flows required to address climate change.

Bottlenecks and barriers

What are the bottlenecks and barriers that financial institutions experience in practice?

The Impacts of Climate Change on the Financial Sector: Uncertainty Prevails

A UNEP-FI report from 2002, *Climate Change and the Financial Services Industry*, determined that, at the time, most mainstream financial institutions were either unaware of the business relevance of climate change or have adopted a 'wait and see' attitude[18]. The report highlighted four barriers to action that had prevented the financial sector from earlier engagement with climate change: cognitive; political; analytical; and market operational.

Box 6: Barriers to Action

Cognitive barriers

• Factors like climate change remain marginal to companies' bottom-line financial performance.

• Lack of a connection between climate change and financial risk, and the slow pace of carbon price discovery, mean the sector cannot see any monetary value in climate action.

Political barriers

• Delay in creating political conditions under which carbon management and climate adaptation measures can be assigned a durable value.

• Uncertainty about the commitment of regulators to long-term binding emissions reduction targets, and about the regulations for emissions trading systems.

Analytical barriers

• Low awareness of climate change among key finance and insurance sector advisors, resulting in insufficient analysis and information being provided.

• Poor data availability on corporate climate change strategies makes the analysis of potential company risks very difficult.

Market Operational Barriers

• Investors in clean technologies wish to see specific incentives to give the technologies a clear commercial advantage.

• Inefficiencies and complexity in the present GHG emissions trading markets are deterring financial institutions from getting more involved.

Box 6 summarises some of the key aspects of these barriers.

In addressing market operational barriers in particular, the UNEP-FI CEO Briefing on Renewable Energy calls on policymakers to create confidence in the long-term future of the renewables market, requiring "measures that appeal to the various types of financial institutions".[19] In our research and discussions with financial institutions, we determined that to a large extent these barriers still remain, and while much attention and effort is being invested to address the issues, the banks remain in a position where little can be achieved without the right regulatory regime and market signals. As Alain Grisay, Chief Executive of F&C Asset Management stated in a recent UNEP-FI bulletin, "investors and industry need certainty over what the regulatory regime will be over the next two to three decades in order to release the billions of investment capital that will finance the shift we need to make to a low-carbon energy system".

One key factor is the uncertainty around the carbon market and carbon pricing. In the UNEP-FI 2005 CEO Briefing, *"The Future of Climate Policy"*, the urgent need to establish a robust policy framework was further described:

> "In order to ensure a mid-to long-term investment horizon, and a liquid, international carbon market beyond 2012, policy makers must provide assurance as soon as possible that there will be continuity in the existing international climate policy regime."[20]

Financial institutions are still trying to determine the extent to which climate change will impact a company's financial performance, and this remains challenging due to the combination of several other factors: the carbon price is largely dependent on political action and regulation; the uncertainty of the carbon price means an inability to accurately predict financial impacts on companies; lack of information from these companies makes analysis of potential company risks difficult; and the consequence is that insufficient investment is being made to change the status quo.

Despite this prevalent uncertainty, the financial sector is increasingly becoming aware that inaction is not an appropriate response to uncertainty and is being progressive in its approach to better understanding how climate change will impact its clients' business. UNEP-FI's CEO Briefing: "*The Future of Climate Policy" states that:*

> "The financial services industry has a two-fold responsibility with respect to climate change. On the one hand, it needs to be prepared for the negative effects that climate change has on its business and its customers. On the other hand, it can significantly help the low-carbon economy to develop by providing related products and services."[21]

The report goes on to state that:

> "In their role as financiers, banks face new credit risks because emission reduction policies create costs for clients. The global carbon market also offers opportunities for banks, e.g. services for emissions trading and financing for renewable energy technologies. For asset managers, understanding the extent to which climate change will impact or enhance the value of investments is crucial, if investor value is to be protected."[22]

Further, as noted a recent Ceres report from January 2008 entitled "*Corporate Governance and Climate Change: The Banking Sector*", as the main providers of capital to the global economy, and with their expertise in risk management, banks can do much to combat climate change.[23]

<u>The Impacts of Climate Change on the Financial Sector: The Indirect Impacts</u>

The Allianz Group/ WWF Report states clearly that "climate change will increase costs for the financial sector if no action is taken. Banks and investors in particular need a clear regulatory framework on climate policy which they can adapt and base their investment and lending decisions on, while insurers face the prospect of heavy losses. Integrated financial organisations need to be aware that climate change could result in a compounding of risk across the entire business spectrum, diluting some of the benefits of diversification. For example, an insurer is exposed to property losses from extreme events, but so too is a property investor, and also a banker providing services to the property management sector. Furthermore, if the insurer seeks to reduce his risk by withdrawing cover, other stakeholders (investors, bankers etc.) are left with greater, uninsured risks. Therefore, integrated financial organizations need to develop pro-active strategies to manage the increasing risks due to climate change"[24].

As a broad starting point for the analysis of the potential indirect impacts of climate change on the financial sector, we started with an outline derived by the UNEP-FI[25] Climate Working Group, whereby the Working Group sees the financial sector (banking, insurance and asset management) broadly faces the following potential challenges and opportunities, namely: changing risk profiles of clients; products and

services for adaptation and mitigation; property losses by natural events; changing government policy (and thereby changing investment risks); and implementation of corporate environmental management.

Several of these points are interrelated, and in our assessment, the leading indicator is the changing risk profiles of clients. The risk profile of a client is determined by:

- The sector in which it operates (product type, resource use, direct emissions) - a company that is in a greenhouse gas (GHG) intensive sector will be different from that of a company with lower emissions.
- The corporate environmental management approach – both at the operational level to manage emissions and processes as well as at the corporate level to establish an appropriate climate strategy.
- Changing government policy – government climate policy is likely going to have significant impacts on energy intensive sectors[26]. Government policy will develop to address (either constrain or incentivise) such sectors and companies that cause significant GHGs to reduce their emissions, and this will in turn change the risk profile of a client. An individual company's response to changing policy will be driven by the sophistication of management and the corporate environmental management approach.
- Property losses by natural events – here again, several sectors may be more exposed to natural events (e.g. drought impact on agriculture) or geographical location (tourism in Maldives), and this forms part of the analysis of the changing risk profile of a client.

Climate change part of considerations for decision making

Which considerations do financial institutions make in deciding upon a financial transaction?

Changing Risk Profiles of Clients

The financial sector has exposure to all parts of the global economy through its lending and investment in corporate, consumer and mortgage businesses, and is therefore potentially exposed to the risks of climate change through its activities across a variety of sectors. Taken from the IPCC, Figure 1 provides an overview of the emissions intensity by industry sector i.e. those sectors which generate the most greenhouse gases and hence are primary contributors to climate change. The sectors with the highest emissions intensity are power supply (21%), industry (19%), forestry (17%), agriculture (14%) and transport (13%).

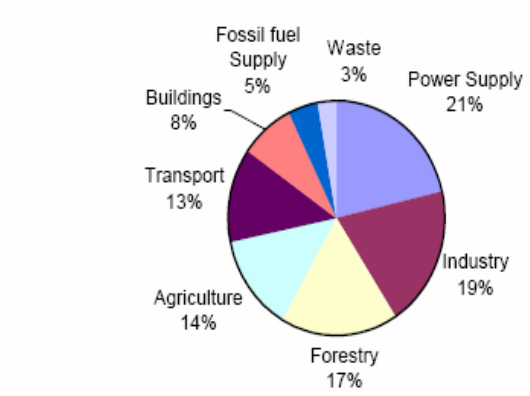
We can see from Figure 2 that certain sectors and types of industrial activity are more carbon intensive than others, and financial institutions are likely to be more exposed to those sectors which are deemed to contribute most significantly to climate change, as well as those which are likely to be most affected by climate change. In some instances these are synonymous.

Certainly as governments and regulators move towards the establishment of more stringent climate change policies, it is expected that these policies will potentially alter the economics of entire industries. The most sensitive sectors are either energy-intensive, such as cement, chemicals, and iron & steel; energy industries such as oil and gas, coal, power utilities; or energy consuming sectors such as transport.

An Allianz Group/ WWF Report, *Climate Change & the Financial Sector: An Agenda for Action,* suggests that management and investors should not assume that there will be time to react to policy when it is approaching implementation, and that the impacts could be significant. The report quotes a WWF study which found that utilities could face costs of as much as 9 percent of gross earnings, and a Dresdner Kleinwort Wasserstein study which concluded that 8 out of 18 cement companies were overvalued by up to 13 percent.[27]

As highlighted earlier, however, to appropriately determine the risk profile of a client a financial institution needs to look beyond the sector in which the client operates and consider also the client's corporate environmental approach, the possible impacts of changing government policy, and the possible impacts on the client's business from property loss.

Figure 1: Share of global greenhouse gas emissions by major sectors in 2004



Source: IPCC, 2007c.

In its report "*Navigating the Numbers: Greenhouse Gas Data and International Climate Policy*", the World Resources Institute (WRI), a Washington DC-based environmental think-tank and non-governmental agency, adds a further dimension to determining the changing risk profile of a client by considering possible sectoral cooperation on global climate change (i.e. sector-led initiatives) to address the impacts of climate change. With respect to the sectoral approach, WRI reasons that examining GHG data from a sectoral perspective "can help policymakers and investors focus on the areas of critical importance. Shaping policy and investment priorities in light of the relative contributions of different sectors is likely to bring about a more effective and efficient response to climate change[28]".

WRI considers such cooperation as being one of the key potential solutions to addressing climate change, and if undertaken in the more GHG intensive sectors, "(cooperation within) the most attractive sectors—such as steel, cement, aluminium, motor vehicles, and aircraft—suggests a coverage of about 20 percent of world emissions. Adding (land-use change and forestry) could increase this to closer to 35 or 40 percent".[29]

Changing Risk Profiles of Clients Affects Asset Quality

Lehman Brothers', in its report *The Business of Climate Change*, views impact on asset quality as the key issue for financial institutions, arguing that the appropriate minimisation and management of credit losses "will be determined by the ability of banks to anticipate the impact of climate change on their customers and therefore to reduce credit to those sectors most at risk"[30]. Simply put, Lehman goes on to state that "increased economic instability that may arise from climate change will make it more difficult for the banks to manage their credit quality, increasing the probability of credit losses".[31]

The Allianz / WWF Report echoes this contention, stating that the biggest risk to banks from climate change is credit risk. The report states that GHG reduction policies (e.g. Kyoto Protocol and the EU Emissions Trading Scheme) transfer new liabilities and therefore business risks to the economy. In turn, these policies "influence the credit quality of GHG-intensive borrowers and therefore the risks of banks".[32]

Lehman foresees the contraction of lending volumes and revenues on the back of lower levels of economic activity, but expects that bank profitability is likely to remain stable through support of central banks / regulators (as most recently witnessed with the sub-prime mortgage credit squeeze). At the same time, though, Lehman contends that the full extent of climate change impacts on asset quality is difficult to predict as different segments of banking may experience differing effects i.e. the geographical impact is perhaps easier to predict than the effects on retail, corporate and investment banking.[33]

On the opportunity side, however, Lehman goes on to argue that "the capital markets, in their role as allocators of capital, will likely benefit from any rapid technological change and associated investment that takes place to address the impact of climate change"[34], whilst in the "secondary markets, investment banks will also gain from new trading markets, e.g. carbon emissions, weather futures etc, not least given the central role envisaged for market prices in addressing the impact of climate change"[35]. Consistent with the recent steps taken by central banks to ward off the potential onset of recession due to the sub-prime mortgage crisis, Lehman further points out that monetary authorities may substantially loosen monetary policy

(cutting interest rates and increasing liquidity) to offset any economic dislocation, with the result that trading revenues will likely benefit[36].

Adapting to the Emerging Climate Change Risks and Opportunities

The Allianz / WWF Report determined that the emergence of climate risk will require financial institutions to adapt their internal processes and policies and products and services to meet the challenges clients face as well as to safeguard their own viability[37]. The report went on to set out several key action points for commercial banks who want to take a leadership role on climate change, but perhaps the two most significant points were the following:

1. Review and optimise carbon risk management and (further) develop assessment tools applied to carbon risks and carbon risk reduction strategies (e.g. by using carbon related economic analysis for sectors or companies and / or by developing climate change related risk matrixes)
2. Define clear risk requirements for clients regarding carbon risk reduction and market strategies (e.g. by discussing rating requirements with clients)[38]

In our discussions with the commercial banks selected for the purposes of this study, one of the current key focus areas is indeed to better enhance their understanding of climate change / carbon risks within their portfolios, and determine appropriate climate reduction strategies and requirements for their clients.[39]

The same can be said for pension funds and other institutional investors. Both commercial banks and pension funds should assess the degree to which a client's exposure to climate change risks can be correlated with credit or investment risk - the client's gross GHG emissions, GHG management practices, climate regulations, and any physical property risks, all need to be taken into account. In a January 2007 publication *"Climate Risk Disclosure by the S&P 500"*, Ceres and Calvert focused on the climate change disclosure of US-listed companies, and stated:

> "Investors have long recognized that companies with significant greenhouse gas (GHG) emissions and energy-intensive operations face risks from emerging climate regulations. As a result, a growing number of investors in the $3.7 trillion Investor Network on Climate Risk have been pressing electric power, oil and other energy-intensive businesses to improve their analysis and disclosure of climate-related risks. Dozens of shareholder resolutions requesting climate risk reports are now being filed with companies each year.
>
> But lower-emitting sectors and companies also face potential risks from new regulations, physical changes, and other climate-related impacts. Just as power and oil companies are improving their climate disclosure, retailers, banks and telecommunication companies should also provide shareholders with more analysis and disclosure on climate risks and corporate strategies for managing or mitigating those risks."[40]

Determining a financial institution's attributable indirect footprint

WRI is currently working on developing an indirect GHG accounting methodology for banks who want to determine the indirect GHG emissions within their portfolios. This work has been requested and commissioned by certain US financial institutions and follows on from WRI's previous work in developing the Greenhouse Gas Protocol (GHG Protocol) in partnership with the World Business Council for Sustainable Development. The GHG Protocol is the most widely used international accounting tool for government and business leaders to understand, quantify, and manage greenhouse gas emissions.

The question of attribution is the most important one to consider in the development of this methodology, and there are two aspects to be considered, namely:

1. Are financial institutions responsible for the indirect emissions of their financing?
2. If so, what proportion can be attributed to their financing activities?

The first question is one that cannot be answered definitively and will raise competing views from both within and without the financial sector. In response to an NGO report attributing to the Royal Bank of Scotland a portion of emissions caused by its project financing activities, the Chairman Tom McKillop was quoted as saying:

> "The report said we should be held responsible for the carbon footprint of every activity that we have been involved in financing in some way. Are we really saying that banks should take on the entire carbon footprint of the world? It's preposterous."[41]

ABN AMRO, in its 2006 Sustainability Report, made the following remark, when considering the carbon emissions from a specific project:

> "…who has ownership of and therefore potential liability for that carbon? If we are funding a power plant, who holds responsibility for the carbon? Is it the equity owner of the plant, the fuel supplier, or the purchaser of the electricity who is responsible for the facility's greenhouse gas emissions? If we were to measure the carbon footprint of a project, what share would we as a lender be responsible for? Surely a bank's responsibility does not extend beyond managing the potential financial risks in the projects themselves?"[42]

For us the question is less about responsibility for the indirect emissions of its financing activities, and more about being prepared for the negative effects of climate change. 'Being prepared' is best interpreted as understanding both the risks and opportunities that climate change will bring, and should be based off of a sound and robust assessment and understanding of potential exposures within a financial institution's portfolio. The WRI work is important in this context, as financial institutions are beginning to explore ways in which to better understand their indirect emissions.

At the same time financial institutions need to be cognisant of the limits of that responsibility. A financial institution cannot be responsible for the entirety of a client's emissions, or those of a specific asset or project. Further, the fact that financial institutions fund various parts of the global economy, for instance the energy supply chain, means that careful calculation and quantification needs to be applied to avoid double or triple counting.

We expect that the work that WRI is currently involved in will lead to more informed and sophisticated risk and portfolio management approaches amongst the leading commercial banks. However, the banks can only make decisions based on sound data, and will therefore be largely dependent on two key factors: (1) the extent to which their clients are transparent in reporting not only their GHG emissions but also how their business stands to be impacted by physical, regulatory, market, litigation, reputational, technology, and political risk, and (2) the extent to which it can be determined that there is a correlation between a clients climate change management approach and credit risk.

In Chapter II, we look in further detail at the possible options for more effective accounting for climate change impacts by considering BIS solvency ratings, credit ratings and the accounting of emissions. We also consider the need of more in-depth and forward looking credit assessments.

Corollary: we do expect that, even if banks are not able to determine that there is a significant impact on the credit risk of climate change at a client or loan level, there will be adjustments in portfolios where banks deem certain sectors to be more risky than others. Both the Allianz / WWF Report and the work done by WRI point towards certain sectors being affected by climate change in different ways. The response from commercial banks will be dependent on the extent to which these risks can be managed, reduced or addressed.

Climate Change impacts on Pension Funds and Asset Management

As with the commercial banking sector, climate change considerations have still not been properly incorporated into mainstream investment practices or considerations. Institutional investors or pension funds have a "fiduciary duty to their pension fund beneficiaries to ensure that they act in the best, long-term interests of plan members and beneficiaries by maximising the returns of the pension fund assets entrusted to them. In fulfilling this responsibility, trustees must maintain maximum diversification and have an understanding of the risks their assets are exposed to and manage them accordingly"[43]. The Allianz / WWF report goes on to point out that the majority of institutional investors are finding it difficult to make the link between climate change risk and investment risk and consequently they are not actively instructing their fund managers to take the issue into consideration in the running of their assets[44].

Furthermore, the long term nature of climate change is at odds with a world of investor short-termism, since climate change risks are usually talked about in the space of decades. With the growing threat that climate change will present to the global economy and financial markets, pension funds are looking for appropriate tools to help them understand the implications of climate change on their investments and instruct their asset managers accordingly.[45]

According to the Lehman report, climate change should be a significant consideration for the investment management industry as regulatory changes in response to public sentiment regarding climate change can create a significant liability for a business or, at a minimum, increase the cost of doing business.

Certainly, Lehman continues, companies which are aware of the impact their business practices have on the overall environment, including climate change, and proactively take actions to mitigate any unfavourable impact, may create a significant competitive advantage compared with companies which, through a lack of awareness, become blindsided by regulations[46].

Similar to the need for commercial bankers to understand climate change impacts of their clients from a credit risk perspective, Lehman contends that it is crucial for it and for its clients to understand its implications from both an industry and company perspective. To properly analyse and assess the implications of GHG policies, investors should consider how companies respond competitively to these policies and ultimately how this affects cash flows. This needs to be integrated into an investment framework that provides a structure for analysing a company's progress and in determining whether a company's share price offers an attractive risk / reward opportunity. Lehman is convinced that, given the size of the asset management industry, investment companies are in a strong position to influence business managers to focus on these issues.[47]

According to the Allianz / WWF report, barriers exist in the lack of understanding of the implications and uncertainty around climate change policy and regulation. The report goes on to recommend that pension fund managers should:

- Evaluate their client portfolios for climate change risks and opportunities in order to be able to respond to changes in climate change policy and legislation;
- Engage with company management to understand how climate change is impacting their business and what strategies they are employing to minimise its risks or maximise opportunities from it;
- Educate clients about the benefits and processes being used to incorporate extra-financial issues in the management of their assets;
- Request and reward research providers to produce consistent, quality, long-term research, which incorporates extra-financial issues such as climate change and integrate such issues into their mainstream analysis and investment decisions.[48]

Looking ahead

Market solutions will play a pivotal role in tackling climate change whatever the international policy framework and the financial sector will play a potentially significant role in this process. But this assumes that the international policy framework will allow for the development of market-based solutions. What happens beyond 2012 and Kyoto remains to be seen.

Conclusion: What is the role of the financial services industry in tackling climate change?

The financial sector has exposure to all parts of the global economy through its lending and investment in government, corporate, consumer and mortgage businesses, and is therefore potentially exposed to the risks of climate change through its activities across a variety of sectors.

In this chapter we have highlighted some of the challenges that face financial institutions in addressing the indirect climate change impacts of their lending and investment activities. Four barriers to action were highlighted that that have influenced the way in which the financial sector has responded: cognitive; political; analytical; and market operational. These obstacles represent the current uncertainty in the status of international regulation and the carbon price as a result of which it has been difficult for financial institutions to determine the extent to which climate change will impact a company's financial performance. Nonetheless, from our research and discussions with financial institutions, we have seen that the financial sector is increasingly focusing on better understanding and addressing indirect climate change impacts.

Lehman Brothers views impact on asset quality as the key issue for commercial banks, arguing that the appropriate minimisation and management of credit losses will be determined by the ability of banks to anticipate the impact of climate change on their customers and therefore to reduce credit to those sectors most at risk. Similarly, within the pension fund industry, Lehman contends that climate change should be a significant consideration for the investment management industry as regulatory changes in response to public sentiment regarding climate change can create a significant liability for a business or, at a minimum, increase the cost of doing business.

Chapter II Challenges of taking climate impacts into account.

Introduction

In Chapter I we introduced the concept of financial institutions taking climate change into account in decision-making and capital allocation. In our research and discussions with the commercial banks, this issue has come up as one of the most important issues to address. In this chapter we will assess six options relating to how climate change - or broader sustainability - can be better integrated into financial and credit modelling and accounting.

As described in the previous chapter credit risk[49] is the main risk for the financial sector, and can be defined as the risk of non-payment or non-timely payment of the principal or interest of a loan by the borrower to the lender. The key question is whether climate change can be more explicitly "internalised" in credit risk. The six options or challenges we assess are the following:

1. A more in-depth credit risk assessment.
2. A more forward-looking credit risk assessment
3. BIS solvency regulations and climate change
4. Credit ratings and climate change
5. The accounting of emission rights in corporate balance sheets
6. Improving transparency on carbon emissions and climate change strategies.

1. A more in-depth credit risk assessment

In Chapter 1 we introduced the various ways in which climate risk can manifest itself, namely physical, regulatory, market, litigation, reputational, technology, and political risk. There exists a need to better integrate these risks into decision-making, determining for each the extent to which the risk is relevant to a client's business depending on the sector and geography within which the business takes place. The risks will manifest themselves in different ways depending on the location and activity of the client, and in some instances will have material physical impacts (e.g. the effects of drought and changes in rainfall patterns on agriculture in Southern Africa) and in other instances material regulatory impacts (e.g. coal-fired power in the US).

Conclusion: The assessment of these specific climate change risks in the context of credit risk is not (yet?) a common feature within the financial sector. We therefore recommend the development of a more in-depth credit risk assessment system.

2. A more forward-looking credit risk assessment

Most financial institutions (and for that matter credit rating agencies) primarily base their corporate credit risk assessments on financial statements of the company. A number of balance sheets and profit and loss accounts are analysed for that purpose. However, financial statements primarily focus on the past (performance) of a company, and credit risk assessment is therefore too often backward looking.

The past may - to a certain degree - be an indication for future performance, but it is not the most optimal picture of the future. A more forward looking risk assessment and credit rating methodology is needed. Important indicators that can be used are the following:

- Approaches that have been determined by the company to meet changing climate regulation: Companies that will be impacted by changes in regulation relating to mandatory emissions reductions, carbon taxes and / or market-based instruments will experience variable cost increases at the multinational, national or local levels. The extent to which such companies can adjust and change production approaches and reduce emissions will be better placed than their competitors.
- Utilisation of natural resources such as energy, water and raw materials: Companies that are very efficient in the utilisation of scarce resources will likely be the winners of tomorrow, because they will be able to produce at lowest costs. Competitors that are not efficient may in the long run experience financial problems, because they will no longer be able to produce at lowest costs. Another factor is that customers are increasingly looking for goods that are produced in an eco-efficient manner, which is already being recognised by various companies such as Toyota and Philips.
- Climate change adaptation and mitigation strategies of a company: In industries where physical risk is likely to be material e.g. coastal real estate development, Southern African agriculture, the first movers will likely be a

better credit risk than the laggards. Taking the example of Southern African agriculture, a first mover would look to ensure the availability of water through developing irrigation systems, or vary planting and harvesting times in order to coincide with rainfall patterns and temperature increases.

Conclusion: Together with a more in-depth credit risk assessment we recommend the development of a more forward-looking credit risk assessment system.

3. BIS solvency regulations & Climate Change: What is the BIS?

The Bank for International Settlements (BIS) is an international organisation which fosters international monetary and financial cooperation and serves as a bank for central banks. Promoting monetary and financial stability is one key objective of the BIS.

One of the most important committees is the Basel Committee on Banking Supervision. This committee was responsible for the development of the so-called Basel II Framework (BIS II), which describes a more comprehensive measure and minimum standard for capital adequacy that national supervisory authorities have been implementing into their national banking systems. BIS II aligns regulatory capital requirements more closely to the actual underlying risks that banks face. In addition, the BIS II Framework is intended to promote a more forward-looking approach to capital supervision, one that encourages banks to identify the risks they may face, today and in the future, and to develop or improve their ability to manage those risks. As a result, it is intended to be more flexible and better able to evolve with advances in markets and risk management practices. A brief outline of the current BIS II framework can be found in annex 2.

Why are these BIS II rules so important for the banking sector?

Basically the BIS II rules prescribe the amount of capital a bank has to set aside as reserves for the risks it absorbs in doing business. The higher reserves a certain risk requires the higher the costs of such a risk. For example a loan to a AAA borrower (highest credit rating by Standard & Poor's) leads to a lower solvency requirement and therefore a lower interest rate than a loan to a borrower with a lower credit rating (e.g. BBB) resulting in a higher solvency requirement and a higher interest rate.

The main risks in the BIS II Regulations

In the context of this study it would be unnecessary to explain the entire BIS II Framework, but it is important to know that the arrangements for minimum capital requirements for credit risk in Pillar I are split in three alternatives. Individual banks can – with approval of their supervising central bank - choose one of these alternatives to determine the minimum capital requirements for its operations. The three alternatives are the following:

1. The Standardised approach
2. The Foundation internal ratings-based approach
3. The Advanced internal ratings-based approach

In the standardised approach the minimum solvency requirements for credit risk are determined by external ratings from reputable credit rating agencies such as Standard & Poor's, Moody's and Fitch. In the two internal ratings-based approaches the solvency requirements are based upon historical loss parameters from an individual bank. The advanced approach is the most sophisticated, whereas in the foundation approach some loss parameters are set by the Central Bank.

BIS II and climate change risks

The BIS has not defined environmental risks or social risks to which a bank is exposed. Nor does BIS II address climate change risk.

Would it make sense to incorporate climate change risk into capital adequacy rules?

It is expected that the only approach which would potentially lead to changes in capital adequacy to account for climate change would be based upon an empirical study whereby the interrelationship between climate risks and credit risk is determined. There would need to be demonstrable evidence of the causal relationship between climate change and financial risk. However, it should be noted that the full impacts of climate change are only likely to be truly understood and felt over the coming decades. For example, physical risk, depending on the type of risk being considered, is projected to only occur towards the middle of this century. Waiting for empirical evidence of the causal connection between climate change and capital adequacy will be akin to the metaphor of the frog in the boiling water: it

may be too little too late. Similar to our description of the need for a more forward looking risk analysis, a study into potential changes to BIS should contemplate scenarios of future potential impacts to the extent that this is practicable.

Sustainability performance and solvency

During the past few years various benchmark studies of companies with and without a solid sustainability strategy have been conducted. These studies show there is growing evidence that corporate leaders in sustainability are in general financially better performers than their "non-sustainable" peers. In 2006 Innovest conducted a benchmark study based upon a hypothetical investment portfolio that would have invested evenly in a group of top 100 corporate sustainability leaders over a five year period (from December 1999 to December 2005). The study back-tested this hypothetical portfolio against the MSCI World Index and found that the Global 100 outperformed the broader index by 7.11% over the five year period.

This is a clear indication that the investment / credit risk on a sustainable leader is a lower risk, than on an average performing company. In our view this could imply a lower solvency surcharge. We would recommend further study into this, with the ultimate goal being to integrate sustainability performance explicitly into the capital adequacy framework, which could lead to a better alignment between solvency requirements and corporate or industry sustainability risk. .The study should cover in addition to the financial performance of a company or an industry sector all environmental, social and governance (ESG) factors that are currently high on the agenda of various institutional investors. The probability of success of introducing sustainability risk as factor in capital adequacy determinations may be higher than a specific inclusion of climate change risks in capital adequacy calculations.

We know that, during the development of the BIS II framework, commercial banks lobbied for a special solvency treatment for project finance. Project finance is a method of funding in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as security for the exposure. This type of financing is usually for large, complex and expensive installations that might include, for example, power plants, chemical processing plants, mines, transportation infrastructure, environment, and telecommunications infrastructure. In project finance transactions, the lender is usually paid solely or almost exclusively out of the money generated by the contracts for the facility's output, such as the electricity sold by a power plant. The borrower is usually a Special Purpose Company (SPE) that is not permitted to perform any function other than developing, owning, and operating the installation. The consequence is that repayment depends primarily on the project's cash flow and on the collateral value of the project's assets.

Commercial banks active in project finance felt that an initial BIS proposal to apply the standard solvency requirements for corporate exposure also to project finance did not adequately reflect the (lower) risk of project finance. Their lobby included the collection of data about the financial performance of the project finance portfolios of various international banks. The information collected proved indeed that project finance transactions are in general of a better risk quality than regular corporate lending exposure. It ultimately led to specific more favourable solvency rules for "specialised lending", which amongst others included project finance.

We also know that the BIS II-accord caused some concerns about its' potential negative impact on lending to the SME sector. The concern was that the SME sector might face higher solvency requirements than under BIS I with potential negative consequences for the availability and costs of bank financing to the sector. In particular the German government has been quite active in lobbying for more favourable solvency rules for the SME sector. This lobby has been successful and led to some amendments in the BIS II framework. We have the impression that this decision was very much politically motivated, because the changes made in the BIS II system for SMEs were not based upon any statistical evidence.

What would be the advantages of incorporating sustainability in the capital adequacy requirements in the BIS framework?

In our view it would help in further integrating sustainability into the banking system. A lower solvency requirement for sustainability leaders would be a financial incentive for banks to enhance their overall credit risk assessment and clearly distinguish sustainability leaders from sustainability laggards. Some banks may argue that sustainability is already factored in implicitly in the assessment of credit risk. This is true, but by more explicitly determining the capital adequacy consequences of sustainability performance / non-performance and attaching solvency consequences to it, there will be a financial incentive for banks to further

enhance the integration of sustainability into their risk assessments. A formal recognition of sustainability performance in the BIS framework will make it easier for banks to enter into a dialogue with their clients on Environmental, Social and Governance issues (ESG risks) and will likely have a positive effect on the sustainability performance of the clients of banks. This concept may also help in bringing the current two separate worlds of credit ratings and sustainability ratings together (see also below concerning credit ratings).

We therefore recommend the Dutch Ministry of Finance together with the Dutch Central Bank and Dutch commercial banks to conduct a study into this matter. We think that a joint lobby for a special solvency arrangement for sustainability performance – in particular when it can be substantiated with statistical evidence – has a reasonable chance of success. Pension funds and insurers that do fall under other regulatory frameworks could join this study and the lobby efforts towards their supervising authorities.

Regulations in other parts of the financial sector

Pension funds, development banks and insurance companies do each fall under their own regulatory frameworks. We did not investigate these other legal frameworks, because it would go far beyond the scope of this project. However, credit risk is a major risk for these other financial sector players as well. Insurance companies and pension funds invest large sums of money (premium income) in equity or corporate bonds (debt financing). In these investments activities insurers and pension funds are exposed to more or less similar credit risks as a loan providing bank.

Several years ago the insurance sector investigated revisions to its solvency framework; Solvency II. The regulation set by Solvency II is still under discussion in the EU countries and is expected to be completed in 2009 (in the best-case scenario). Solvency II is based on a three-pillar structure, inspired by that of BIS II. It seems likely that the credit risk solvency rules of the banking sector will be integrated into the insurance industry, but this has not been investigated.

4. Credit rating agencies & Climate change risks

What is a credit rating agency?

Credit rating agencies play a key role in the financial sector. A credit rating is an evaluation of the likelihood of a borrower to default on a loan. Credit bureaus and credit rating agencies provide credit information to creditors, such as banks and businesses, to help them decide whether to issue a loan or extend credit and how to price it. This information includes among others payment history, a list of current and past credit accounts and their balances, employment, personal information, and a history of past credit problems. Standard & Poor's, Moody's and Fitch IBCA – the three most well known credit rating agencies - assign ratings in particular to large corporations, sovereign borrowers, sub sovereign entities (e.g. municipalities) and projects. Each of these rating agencies has their own rating model and classification of credit risk.

Ratings can be assigned to short-term and long-term debt obligations as well as securities, loans, preferred stock and insurance companies. Long-term credit ratings tend to be more indicative of a country's investment surroundings and / or a company's ability to honour its debt responsibilities.

The ratings lie on a spectrum ranging between highest credit quality on the one end and default or "junk" on the other. Long–term credit ratings are denoted with a letter: a triple A (AAA) is the highest credit quality, and C or D (depending on the agency issuing the rating) is the lowest or junk quality. Within this spectrum there are different degrees of each rating, which are, depending on the agency, sometimes denoted by a plus or negative sign or a number.

Box 7 provides an overview of the comparative ratings provided by Moody's and Standard & Poors.

Box 7: Moody's and Standard & Poor's Rating comparison

Bond Rating		Grade	Risk
Moody's	Standard & Poor's		
Aaa	AAA	Investment	Lowest Risk
Aa	AA	Investment	Low Risk
A	A	Investment	Low Risk
Baa	BBB	Investment	Medium Risk
Ba, B	BB, B	Junk	High Risk
Caa/Ca/C	CCC/CC/C	Junk	Highest Risk
C	D	Junk	In Default

Credit rating agencies & climate change risk

It would go beyond the scope of this study to make an in-depth study of the credit rating methodologies of various leading rating agencies and to investigate whether, and to which extent, climate risks are taken into account. None of the three leading rating agencies make reference to climate change or broader sustainability topics on their websites or rating models. It is clear that governance issues, financial transparency and disclosure do play a role but sustainability topics such as the management of environmental and social issues in the business are not taken into account.

At a UNEP FI conference in Paris in December 2003 George Dallas, Managing Director, Governance Services, Standard & Poor's said the following about this topic:

"What is the role of sustainable development in this analytical process? Thus far, this has not been a direct area of focus at Standard & Poor's, though we recognize there is analytical merit in addressing this issue from the perspective of non-financial stakeholders. We are actively exploring the broader dimensions of sustainability and corporate social responsibility with regard either to incorporate these areas into our existing analytical processes or to develop new analytical and information services".

To the best of our knowledge a solid integration of climate risk criteria into credit ratings of agencies such as Standard & Poor's and Moody's has not yet happened.

We would recommend the ratings agencies to further consider how climate risk in particular (and sustainability performance more broadly), can impact credit ratings. The broader sustainability approach would look at all relevant ESG factors as described above within the context of the BIS rules.

5. Accounting for emission credits

In our research we found out there is not yet one global accounting standard incorporating emission rights into annual financial reports (balance sheet and profit and loss). This is even the case within the European Union, which has developed the EU ETS.

According to a Deloiites report, *Accounting for Emission Rights* released in 2007, accounting for GHG emissions remains a challenge, and market participants continue to wait for clear guidance from accounting standards setters. Formative efforts on the part of those standards setters have proven unsuccessful.

The International Financial Reporting Interpretations Committee ("IFRIC") initially took on this task, and issued IFRIC 3, Emission Rights. Unfortunately, considerable pressure from both the business community and European politicians, who objected to the financial statement consequences of applying that interpretation, led to its withdrawal by the International Accounting Standards Board within a year of its issuance. In the US, the Emerging Issues Task Force ("EITF") also attempted to address the related accounting issues in EITF Issue 03-14, Participants' Accounting for Emissions Allowances under a "Cap and Trade" Program. However, it was never finalised, and ultimately removed from the EITF's agenda. More recently, organisations have been advised of informal views from both the Financial Accounting Standards Board and the Securities and Exchange Commission on the appropriate accounting for emissions allowances held, especially since EITF 03-14 was tabled. As a consequence, many companies remain confused about the appropriate accounting treatments under both International Financial Reporting Standards and generally accepted accounting principles in the United States ("US GAAP").[50]

The International Financial Reporting Interpretations Committee (IFRIC[51]) of the International Accounting Standards Board had developed in 2004 a draft common interpretation, but this interpretation has been withdrawn due to inconsistencies with other accounting guidelines. Consequently, accounting of emission rights is

determined on a national basis, giving rise to different approaches and classifications. In most countries the emission rights that have been granted are valued at historical costs price, which is zero. Therefore they do not have an impact on the financial performance of a company. For emission rights that have been bought or sold there seems to be a less serious accounting problem, because these rights can be valued at either historical cost price or at market value at the time of valuation. These traded emission rights do have an impact on the financial performance of a company.

The fact is, however, that thus far there has been limited trade of emission rights mainly as a result of the over allocation and the uncertainties beyond 2012. As a consequence emission rights do at this moment hardly have any impact on the financial performance of companies. In other words GHG emissions are not a substantial cost factor for the corporate world and not yet properly integrated into financial statements. This poses a problem for financial institutions and rating agencies to take (the financial consequences of) GHG emissions properly into account in their business decision making.

This problem may disappear when CO_2 emission rights are allocated more restrictively which will result in an increase of emission trade. It is, however, of utmost importance that CO_2 rights are properly reflected in financial statements and that current different practices at a national level are harmonised into one international standard.

6. Improving transparency on CO_2 emissions and climate change strategies

The lack of data about CO_2 emissions and climate change strategies is, next to the lack of a clear regulatory framework, one of the main barriers for the financial sector to be able to understand and incorporate climate risks into decision making. There are various international initiatives to improve transparency on CO_2 footprint and climate change strategies of companies such as the Global Reporting Initiative (GRI) and the CDP.

According to a recent report of Ceres, [52] corporate disclosure of climate change risk is growing steadily in response to investor and other stakeholder initiatives. The Ceres report describes three interesting developments in the US to further improve transparency about climate change related issues. These three developments are the following:

1. Twenty-two institutional investors and other organisations filed a petition in September 2007 requesting that the U.S. Securities and Exchange Commission issue interpretive guidance on what material climate-related information should be included in corporate disclosures.
2. Also in September, New York Attorney General Andrew Cuomo, acting to protect investors including New York state's public employees, filed subpoenas against five large U.S. power companies for failing to "evaluate or quantify" the possible effects of future GHG regulations in their most recent Form 10-K filings. "Selective disclosure of favourable information or omission of unfavourable information concerning climate change is misleading," Cuomo wrote in his letters to the companies.
3. In October 2007, the U.S. Senate Banking Committee's Subcommittee on Securities, Insurance and Investment held a hearing in which leading institutional investors reiterated their calls for more detailed climate risk disclosure in securities filings. In his opening remarks, Subcommittee Chairman Sen. Jack Reed (D-R.I.) argued that more Form 10-K disclosure would help financial markets "to price climate risks and opportunities efficiently." If the SEC fails to clarify disclosure requirements, Sen. Robert Menendez (D-N.J.) said an alternative course of action might be to insert additional language in a climate bill that the Senate is now considering.

The outcome of the SEC petition, New York subpoenas and possible legislative action all bear close watching in 2008. These developments show a trend from voluntary to mandatory reporting to force the business community to disclose their climate change footprint, physical impacts and management approach.

We include physical impacts and management approach because transparency about climate change related issues should in our view not be limited to the level of CO_2 emissions of an organisation. Organisations should also provide information about how their physical assets (e.g. buildings) are protected against climate change risks. This would include a clear description of the locations of the assets of the organisation and whether or not an adequate insurance is in place against hurricanes, flood and other natural disasters. The information should also include how the organisation is managing other climate change risks (regulatory and reputational risks).

Each organisation should clearly describe its climate change strategy with a focus on CO_2 footprint, climate change adaptation and mitigation policies.

We think that the following additional initiatives could be undertaken:

6A. Improvement of GRI, leading to GRI +

The current GRI guidelines do adequately cover the reporting of the CO_2 emissions and the usage of natural resources, but they do not give an insight into the management of various key climate change risks, such as regulatory risks, physical risks and other climate change risks. GRI also does not cover a clear description of the climate change strategy of a company and how it adapts to and mitigates climate change risks.

We think that the current GRI guidelines can be improved to specifically include a description of the management of physical risks, regulatory risks and other climate change related issues (adaptation and mitigation strategy). This can be done by integrating certain topics that are currently covered by the Carbon Disclosure Project into the GRI. These improved GRI guidelines are hereafter referred to as GRI +

Thus far GRI reporting has been done on a voluntary basis. Given the limited number of companies that currently do report in accordance with GRI and the urgency of improving transparency on climate change risks, it can be wondered whether a continued voluntary reporting will lead to the necessary transparency and ultimate improved management of climate of climate risk. We think that additional steps are required.

6B. Obligation for GRI(+) reporting for companies that are listed on the Amsterdam stock exchange

To further improve sustainability performance and transparency it could be considered to make GRI(+) reporting mandatory for the business community. We think it does make sense to focus on large corporations, hence our suggestion to limit this GRI(+) reporting requirement to companies that are listed on Amsterdam stock exchange. Amsterdam could follow the example set by the Johannesburg stock exchange in South Africa. Companies which do not yet report on sustainability should be given some time to prepare themselves to meet this requirement. From the date of announcement of this requirement a transition period of 2-3 years could be considered.

The Dutch Government could lobby for similar requirements in other countries, in particular those of the EU.

A KPMG survey, "*Reporting the Business Implications of Climate Change in Sustainability Reports"* found that while almost all companies reported on climate change in their sustainability reports, on closer examination companies reported far more on potential opportunities than financial risks for their companies from climate change. This is in stark contrast with recent new evidence that climate change presents serious global economic risks if measures are not taken. This low rate of reporting on risks from climate change may be because companies see climate change to be beyond current business planning horizons, or companies may not have identified, explored or quantified risks associated with climate change and may therefore not be in a position to report on risks. Where companies did report on business risks, this was mostly the risk of increases in the cost of energy related to climate change, reported by about one fifth of companies.[53]

In general companies did not report on the financial implications of risks or opportunities related to climate change, for example expected costs of complying with future regulations or expected profits from the sale of new climate change related products.[54]

6C. GRI(+) Sustainability reporting by public sector entities

Governments should set the right example on sustainability reporting and management of CO_2 emissions. Against that background the Dutch Government should publish a comprehensive GRI sustainability report which covers the activities of all ministries. This report should obviously include the CO_2 emissions of the various ministries and a clear description of how the various climate change risks are managed (adaptation and mitigation strategy).

The Government should also encourage non sovereign public sector entities (e.g. municipalities) to publish a sustainability report as well. In 2006 Amsterdam published its' 1st sustainability report. This example deserves to be followed by other cities.

It is important to note that sustainability reporting will also assist in the development of a more coherent Government policy on sustainable development and climate change. Furthermore it stimulates cross ministerial cooperation.

6D. Pension funds and GRI(+) reporting.

It has been noticed that GRI reporting is not yet a common feature in the world of pension funds. PGGM and ABP are likely to publish their 1st comprehensive sustainability reports in 2008. We recommend the government to encourage other pension funds to follow.

6E. Atradius (DSB) & GRI(+) reporting.

GRI reporting is not (yet) a common feature in the ECA community. Only a few ECAs do publish a sustainability report. Examples are OEKB (Austria) and EDC (Canada). Atradius DSB could follow these examples by publishing a comprehensive GRI report.

It is noteworthy that sustainability reporting is not (yet?) introduced in the private credit insurance community, which is dominated by three European insurance companies (e.g. Atradius, Coface and Euler/ Hermes). There is an opportunity for Atradius to set the example for the private credit insurance industry.

6F. Prospectuses for bond issues and equity offerings should include more substantive information on sustainability performance.

Currently these prospectuses mainly focus on the financial performance and risks and general governance issues. It is recommended to include more information about the environmental and social issues within the organisation. If available the information should include a description of how the company manages climate change risks, such as physical risks, regulatory risk and reputational risks (see above under a more in-depth credit risk assessment). Specifically, the relevant strategy on climate change adaptation and mitigation should be explained.

6G. OECD Guidelines for Multinationals & Climate Change.

The business community and the financial sector do not actively report how they do meet the obligations of OECD guidelines for Multinational Enterprises. Not many organizations mention the relevance of these guidelines to their business in their sustainability reports or any other publication (e.g. company's websites). Here lies a challenge for the business community and the Government. The guidelines refer to "environmental management" in general. It would be good to make explicit that environmental management includes as well management of climate change risks and GHG emissions. This would encourage GHG management by multinationals, not only by those that fall under the current emission regulations, but also by those that are exempted from it today (see also Chapter III).

Chapter III Climate change and international business initiatives.

Introduction

There are numerous international business initiatives covering the topic of climate change or the broader theme of sustainable development. Many initiatives have been set up at a national or regional level and some are of a global nature. In this chapter we will outline various international business initiatives which are either directly relevant to climate change, or which have components or focuses that impact on climate change. These international initiatives have in some cases led to the development of concrete guidelines or principles that are relevant to the financial sector.

It should be noted that most of these global initiatives are relevant for the business community as a whole and not just for the financial sector. There are also some sustainability or climate change initiatives that are relevant to a specific subcategory within the financial sector. For example the "Equator Principles" are relevant to certain commercial banks - namely those banks that are active in project finance - and not to pension funds or commercial banks that are not involved in project finance. Conversely, the UN Principles for Responsible Investments (UN PRI) are intended more for institutional investors among which the pension funds. A new development in the United States is the Carbon Principles, which is a due diligence framework developed by Citi, JPMorgan and Morgan Stanley to assess the risks of financing energy projects.

In Annex 1 to this report we provide a complete list of relevant international initiatives that we have examined. In the description of each initiative it has been identified whether it has relevance for climate change and the energy sector and which of the 18 financial institutions that were assessed as part of this study participate in it. The question of VROM relating to the relationship between the international guidelines and Corporate Social Responsibility (CSR) has also been covered in Annex 1.

Application of guidelines

- What is the reason that a financial institution has chosen for a specific guideline?
- How does this guideline work and how is it applied by the financial institution?
- Do financial institutions evaluate the application of the guidelines?

Relationship with Sustainable Development or Corporate Social Responsibility

- What is the relationship between the international guidelines and Corporate Social responsibility?

1. What are the most important initiatives?

From the in-depth study of the various initiatives we have concluded that climate change is clearly high on the agenda of the financial sector. In most international initiatives climate change is part of the overall sustainability agenda. Only in a few initiatives the sole focus is on climate change (e.g. Carbon Principles, Carbon Disclosure Project). The various initiatives can be categorised in the following key themes:

- Awareness raising and understanding climate change
- Transparency on GHG Emissions
- Public statements and principles
- Environmental and social risk guidelines

Awareness and understanding of climate change

Most initiatives can be seen as an effort to better understand climate change and its relevance to the business community (or certain parts of the business community). Various informative papers have been written within a broad range of working groups that assist in increasing awareness on the topic. These papers most often cover both the risks and the business opportunities of climate change. Examples can be found on the websites of the UNEP FI, the World Business Council for Sustainable Development (WBCSD), UK Business & the Environment Programme of HRH Prince of Wales (BEP, coordinated by Cambridge University), the Coalition for Environmentally Responsible Economies (CERES), the Investor Network on Climate Risk (INCR), the Global Roundtable on Climate Change (GROCC) and the Climate Group.

Transparency on GHG emissions

For transparency on climate change and CO_2 emissions in particular the work done by the Global Reporting Initiative (GRI), the Carbon Disclosure Project (CDP) and

the World Business Council for Sustainable Development (WBCSD) have been very important. The WBCSD developed together with WRI the GHG Protocol which has become the international standard for GHG reporting.

Although less commonly referred to in sustainability reports of the financial sector we think that the OECD Guidelines for Multinational Enterprises are important as well. The guidelines do not specifically refer to climate change, but contain various articles that refer to a broad range of environmental aspects of the business. This includes the obligation to establish and manage a solid environmental management system. This system should include:

- Collection of data regarding the environmental impact of the activities of a company;
- Establishment of measurable environmental objectives and targets;
- Adequate monitoring system for environmental performance;

It could be argued that this requirement includes adequate (data) management of carbon emissions given the importance of climate change. According to the commentary of the guidelines "sound environmental management" should be interpreted in the broadest sense, embodying activities aimed at controlling both direct and indirect environmental impacts of the enterprise activities in the long run. The concept of "indirect impact" is, however, not further explained. It relates to the complex issue of "chain responsibility" which is a very delicate topic in the business community.

Complaints about multinationals that do not comply with the OECD guidelines can be send to the National Contact Points (NCP) of the country in which the multinational is based. The NCP will then consult the parties concerned and advise on the matter. To the best of our knowledge the Dutch NCP has not yet received any complaints about inadequate environmental reporting by Dutch multinationals.

We think that the OECD Guidelines can be more effectively used to encourage multinationals to report on their carbon footprint. It would be good to make explicit in these guidelines that "environmental management" includes management of carbon emissions. This would encourage the development of climate change adaptation and mitigation strategies by multinationals that do not yet fall under any regulations concerning carbon emissions (i.e. Kyoto protocol). It could also substantially increase the transparency of carbon emissions.

A further interesting transparency initiative is the Enhanced Analytics Initiative (EAI). This was established in 2004 by a group of institutional investors (including asset managers and pension funds) who believe that members and clients are best served when investors take a more rounded assessment of corporate performance, and that one of the key obstacles to this is the quality and focus of current sell-side research. To address this perceived obstacle, EAI members have agreed to allocate a minimum of 5% of their broker commissions on the basis of how well brokers integrate analysis of extra-financial issues and intangibles into their mainstream (sell-side) research. Such issues typically include corporate governance, human capital management, value creation or destruction during mergers and acquisitions, or corporate performance on material environmental issues such as climate change. The EAI therefore does not have a specific climate change focus, but rather aims at more transparency on a broad range of sustainability topics.

The founding members of the EAI manage approximately EUR364 billion (£254 or US$465 billion) and anticipate allocating in the order of EUR4-5 million during 2005 to brokers demonstrating this integration. The 5% commitment is a minimum, some participants are already allocating more (e.g. one is already at 10%) and expect to review this figure in light of what brokers deliver. The initiative currently represents total assets under management of Euro 1.8 trillion (US$2.4 trillion).

It is clear that this initiative will assist in integrating sustainability factors in risk assessments and corporate business reports. In our view this is one of the key challenges of the financial sector. Credit rating (including equity investment reports) and sustainability rating are still two separate worlds. We will come back to this issue in the next chapter.

Public statements and principles

In addition to better understanding climate change some initiatives or working groups made one step further by drafting public statements and / or principles. In most cases the principles developed are of a general sustainability nature. Examples are the UN Principles for Responsible Investments (UN PRI), the London Principles and UN Global Compact. These three initiatives do not specifically address climate change.

For many organisations that have adopted these principles it is quite a challenge to implement these principles in their day-to-day business. In most sustainability

reports the adoption of certain principles is mentioned, but not often they provide information on how they are taken into account.

Climate change statements have been drafted in many different business initiatives. Examples can be found in WBCSD, UNEP FI, BEP and GROCC.

In some cases letters have sent to key politicians to encourage them to develop clear international regulations on climate change. Examples of such letters are:

- Various letters from the BEP to UK prime minister Blair and President Barroso of the European Commission
- A press release from the Investor Network on Climate Risk (INCR) that called upon US Congress to tackle global climate change.

In the Netherlands the IUCN initiated in December 2006 a letter from Dutch business leaders to Prime Minister Balkenende. This letter was signed by various representatives of the Dutch financial sector.

Environmental and social risk guidelines

- **Multilateral Guidelines & Equator Principles.**

All Multilateral development banks such as the IFC, EBRD, ADB and EIB have developed their own set of guidelines that are used in financing both private and public sector projects in developing countries. These are internal guidelines, but they play an important role in multi-sourced projects where a multilateral development bank is co-financing a project with commercial banks.

The most comprehensive set of guidelines have been developed by the World Bank / IFC and the EBRD. In particular the guidelines of the IFC are well known because they form also the basis for the Equator Principles (EP). The EP are a financial industry benchmark for determining, assessing and managing social and environmental risk in private sector project financing. The Principles apply to project financing, a method of funding in which the lender looks primarily to the revenues generated by a single project both as the source of repayment and as security for the exposure.

As mentioned the EP have been based upon the World Bank Group Environmental Health and Safety guidelines and the IFC Performance Standards. In Performance Standard 3 of the IFC Performance Standards clients of financing banks are requested to promote the reduction of project related GHG emissions in a manner appropriate to the nature and scale of the project operations and impacts. For carbon intensive projects (100,000 tons CO_2 equivalent per year) clients are required to quantify, monitor and manage their CO_2 emissions.

- **Guidelines for OECD Export Credit Agencies**

In the OECD the governments that are providing official support through their ECAs, the "Common Approaches for officially supported export credits" have been developed. The OECD common approaches are in essence more or less the same as the Equator Principles. The Common Approaches do not, however, have any reference to climate change issues.

An interesting initiative in the ECA community is the "OECD sector Understanding on export credits renewable energy and water projects". According to OECD rules the maximum credit period that can be supported by an ECA for a conventional power plant is 12 years. Prior to renewable energy sector understanding other (renewable) energy projects could benefit from a maximum repayment period of 10 years. There was previously therefore not a level playing field between renewable energy and "conventional" energy projects. The renewable energy sector understanding has lengthened this repayment term up to 15 years. Projects in the area of wind energy, wave power, solar energy, bio energy and hydro are eligible for a 15 year repayment period.

Since the inception of the sector understanding in 2004 there has been 14 notifications of renewable energy projects supported by OECD ECAs with a total value of approximately Euro 1,2 billion. In addition there have been 18 renewable energy projects supported under regular OECD Consensus terms with a value of approx. Euro 900 million. The extended credit term for renewable energy has been used for Solar Photovoltaic power, wind power and hydro power projects. The Dutch Export Credit Agency Atradius DSB has thus far not done any renewable energy project under the sector understanding.

We think there are certain areas where the sector understanding can be further improved to enhance investments in renewable energy. The current sector understanding has only led to an extension of the maximum repayment term (from 10 to 15 years) and introduced an alternative reference rate for interest rate support. In our view the OECD governments should also consider:

- Flexible repayment terms (not only for private sector project finance, but also for public sector renewable energy projects).
- Local costs support - The current limitations for local cost support could be lifted or eased[55].
- Minimum down payment of 15% - The down payment requirement could be reduced from 15% to 5%.
- Make explicit that the sector understanding could apply to all CDM and JI projects as well. Currently there is no reference at all to these type of projects.
- The sector understanding should not only apply to renewable energy projects but also to large scale energy saving projects. The current understanding does not apply to energy saving projects.

According to article 7 of this renewable energy sector understanding the financial terms and conditions shall apply for a trial period from the 1st July 2005 to the 30th June 2009. During the trial Period, the OECD Participants shall review the operation of the Sector Understanding to consider the experience gained. The specific terms and conditions for renewable energy will be discontinued at the end of the Trial Period unless the Participants agree upon one of the following:

− to continue the Trial Period, with any necessary enhancements/modifications; or

− to cement the financial terms and conditions in the Arrangement, with any necessary enhancements/modifications.

Given the above we suggest that the Dutch Government starts in 2008 a discussion in the OECD to further improve the terms and conditions for renewable energy.

- **Carbon Principles**

The Carbon Principles have been recently (February 2008) developed by three US banks. These Principles apply to the financing of energy projects (in particular coal) in the US, but will likely be adopted in an amended form by non-US banks in the near future.

The Principles and the Enhanced Diligence Process represent a first step in a process aimed at providing banks and their power industry clients with a consistent roadmap for reducing the regulatory and financial risks associated with the development of large greenhouse gas emitting projects, particularly coal-fired power plants, and thereby ensuring that responsibly structured and managed power plants can gain access to finance. The Carbon Principles cover topics such as financing energy efficiency, renewable and low carbon distributed energy technologies and conventional and advanced electricity generation.

Main Conclusions concerning international business initiatives:

From this overview of various international business initiatives regarding climate change we can conclude the following:

- Climate change is clearly high on the agenda of the financial sector. Many financial institutions are involved in different climate change initiatives. In most international initiatives climate change is part of the overall sustainability agenda. Only in a few initiatives the sole focus is on climate change (e.g. Carbon Disclosure Project, Carbon Principles).
- Most initiatives can be seen as an effort to better understand climate change and its relevance to the business community (or certain parts of the business community). Various informative papers have been written within a broad range of working groups that assist in increasing awareness on the topic. These papers most often cover both the risks and the business opportunities of climate change. In some working groups participants made one step further by drafting public statements and / or principles.
- For transparency on climate change and carbon emissions in particular the work done in the GRI, CDP and WBCSD (together with IUCN) have been important. All these transparency initiatives cover the direct footprint. Only very recently indirect footprint has been included in the CDP.
- The OECD guidelines for Multinational Enterprises are relatively unknown within the business community and the financial sector. Only a limited number of financial institutions refer to these guidelines in their sustainability report or websites. The guidelines refer to “environmental management” in general. It would be good to make explicit in these guidelines that environmental management includes as well the management of carbon emissions. This would encourage carbon management by multinationals that are not yet part of the carbon emission regulations. To our knowledge the Dutch National Contact Point has not received any complaints about inadequate environmental reporting by Dutch Multinationals. It would be interesting to investigate the experience of other NCPs.

- It is fair to say that in most international business initiatives mainly large multinational companies participate. SMEs or public sector entities are not involved in any of these initiatives.
- In most initiatives the financial sector is represented by specialised sustainability staff. For many financial institutions it is quite a challenge to get their business people more involved. Add more about capacity building and knowledge.
- It is striking to see in how many international organisations statements have been published and / or principles have been developed. Many of these statements or principles cover more or less the same topics. More cooperation and coordination between the various initiatives is warranted. The advent of the Carbon Principles is an important step in this regard.
- The various initiatives give the impression that the worlds of commercial banking, development finance, commercial insurance and institutional investments "live" more or less separately from one another. Although there is some corporation between commercial banks and development banks at a project or transaction level there is limited cooperation on issues like climate change or sustainability. The most important initiative that involves both development banks and commercial banks are the Equator Principles.
- International credit rating agencies like Standard & Poor's, Moody's and Fitch and sustainability rating agencies do not seem to be actively involved in these international sustainability or climate change initiatives.
- The ECA community has many unique particularities as a consequence of its specific export promotion role. Strategic cooperation concerning climate change or sustainability with development banks and / or commercial banks is hardly non existent. Most cooperation is transaction or project related.

Chapter IV. Best practice approaches to the management of indirect impacts

Best practices

Which best practices can be identified?

Managing Indirect Impacts: Best Practice Approaches.

Changing the way in which financial institutions make decisions and allocate capital will require structural changes at the regulatory level and will take time and commitment to implement. If the financial sector is to play a more central role in the transition to a less carbon-reliant economy, a combination of policy frameworks that provide more certainty and robustness to the carbon market and to provide incentives for investment in renewable energy, clean-technology and other solutions will need to be put in place. In turn, enhanced certainty will have an impact (whether positive or negative) on the financial performance and risk of companies and projects, and lead to financial institutions incorporating this information in their decision-making processes. This is relevant for all financial institutions that are part of this study.

In Chapter I we noted that the financial sector is a broad and diverse group of different financial institutions. Each financial institution will be potentially impacted by climate change in a different way depending on their business mandate, product range, client base, geography and sector exposure. These differences lead to different challenges and priorities in developing and implementing a comprehensive climate change strategy on indirect footprint issues. A fair comparison of the 18 organisations that are part of this study is therefore very difficult, if not impossible. Against that background we did not make an extensive comparison of the various initiatives or activities undertaken by the financial institutions that are part of this study. Instead we provide in this chapter some examples of best practices around the following themes:

1. Climate change strategy
2. Climate change & enhanced transparency
3. Climate change & enhanced risk analysis
4. Climate Change & business opportunities

1. Climate Change Strategy.

It is fair to say that all institutions involved in this study do recognise that climate change is an important strategic topic for their business. For most institutions it is part of their overall sustainability strategy, but only a few have developed a specific and comprehensive climate change strategy.

It is perhaps not surprising that some multilateral development banks have developed a climate change strategy, often combined with clear targets on financing renewable energy and energy efficiency projects. This is driven by their development mandate and the fact that in many developing countries there is a great demand for energy (projects). A relevant factor is as well that there are many opportunities to invest in energy savings projects. Too many existing energy projects (e.g. power plants) in developing countries are currently being operated in an inefficient manner.

Among the commercial banks there are only a few that have developed a comprehensive climate change strategy. Example are RABO, HSBC and Bank of America.

Commercial "green" banks" such as Triodos and ASN have developed a comprehensive sustainability strategy which ensures that they are only financing environmental friendly projects. These niche institutions do for example not invest in fossil energy projects.

Institution	Emerging best practices
ADB,IFC, EBRD, EIB	Clear and comprehensive climate change strategy and targets
RABO, HSBC, Bank of America ASN, Triodos	A clear and comprehensive climate change strategy or a clear overall sustainability profile.

2. Climate Change & enhanced transparency.

In this area the pension funds are clearly leading the process towards enhanced transparency as evidenced by their financial support for the Carbon Disclosure Project and various other initiatives to encourage the companies in which they

(potentially) invest to disclose CO_2 footprint and to provide information about how they manage climate change risks.

Institution	Emerging Best Practice
ABP, PGGM, Calpers	Encouraging clients to discloseCO_2 footprint and management of climate change risks.

3. Climate Change and enhanced risk analysis.

In order for a financial institution to more actively and effectively manage indirect GHG emissions within its business, it needs to understand the magnitude of these GHG emissions and how these can be translated to, or correlated with, credit / financial risk. This should be articulated in a climate policy with requirements for client assessment approaches contained therein.

We recognise that for both commercial banks and pension funds there is still fairly limited information available about how climate change risks impacts the credit or financial risk of an investment or loan. In the absence of such information, certain financial institutions are nonetheless requesting GHG emissions data from their clients, and there is an initiative under discussion with S&P to require reporting by listed companies in the US.

We deem emerging best practice approaches for **Policy and Client Assessment** to be *climate policies* that address the risks of climate change, *requesting GHG emissions data from their clients* in order to take this into account in their decisions. Currently few of the financial institutions have developed climate polices or statements, and those that have do not yet formally require detail on their client's management of GHG emissions. The examples of best practice are:

Institution	Emerging Best Practice
IFC, Equator adoptees	Project finance clients are required to disclose their greenhouse gas emissions and promote reductions for projects for which they seek financing.
ASN, Triodos	Companies must demonstrate that they pursue an active and integrated environmental policy, including energy consumption and disclosure on nature of the emissions released
Calpers	Companies are required to respond to the CDP questionnaire which is used to identify client engagement strategies

Once a financial institution has been able to better determine a client's GHG emissions, the next step is using that information to assess whether or not to adjust the risk rating and pricing that is applied to the client. Several commercial banks are currently investigating the extent to which there is a correlation between a client's climate change practices and exposures and credit risk - the client's gross GHG emissions, GHG management practices, climate regulations, and any physical property risks, all need to be taken into account. The Enhanced Analytics Initiative, driven by institutional investors and pension funds, similarly seeks to take into account the analysis of extra-financial issues and intangibles.

We deemed emerging best practice approaches for **Enhanced Risk Analysis** to be those institutions that have *developed or committed to develop approaches to include GHG data into their lending or investment processes* in order to take this into account in their decisions. The examples of best practice are:

Institution	Emerging Best Practice
ING	Global Round Table on Climate Change Commitment to incorporate climate change and GHG emissions into relevant business management decision making
ABP, PGGM, Robeco (Rabo)	Members of the Enhanced Analytics Initiative, which facilitates better and more detailed analysis of extra financial issues *within* mainstream research and enables to see more accurate pricing of stocks.
WestLB	Previously recognised by Enhanced Analytics Initiative as one of seven banks with the best "Extra Financial Research"

4. Business Opportunities.

All of the financial institutions researched as part of this paper are involved in the financing of, or investment in, activities that are designed to address the impacts of climate change e.g. CDM projects, renewable energy, clean-technology, carbon trading etc. These activities will, however, remain niche until such time as the uncertainties surrounding the carbon market is addressed.

We deemed emerging best practice approaches for Business Opportunities to be those institutions *who are investing in / allocating capital to climate friendly business*. The examples of best practice are:

Institution	Emerging Best Practice
ABN AMRO, Fortis, Rabo, ING, HSBC, IFC, Triodos, ASN, ABP, PGGM	Active in emission trading, financing renewable energy projects / sustainable energy finance
Bank of America	USD 20 billion commitment for "green economic growth".
EIB, EBRD	Climate Change Financing Facility, Multilateral Carbon Credit Fund

Conclusion.

It must be noted that the drivers and barriers discussed in Chapter 1 remain in place and will continue to affect more proactive response from the financial sector. The key variable in this discussion is the development of policies to support a transparent and robust carbon market, increased transparency relating to clients' emissions, physical risks and management approaches, all of which will improve a financial institution's understanding of a client's risk and thereby enable enhancements to the understanding and management of risk. In turn, this will create more certainty in lending and investment decisions.

Chapter V. Conclusions and recommendations.

Conclusions.

The financial sector is increasingly looking at ways in which to better understand and address climate change risks faced by its clients – the indirect climate change impacts of is business. Financial institutions should assess the degree to which a client's exposure to climate change risks can be correlated with credit risk - the client's gross GHG emissions, GHG management practices, climate regulations, and any physical property risks, all need to be taken into account.

Similarly, pension funds should properly analyse and assess the implications of GHG policies and consider how this affects cash flows. This needs to be integrated into an investment framework that provides a structure for analysing a company's progress and in determining whether a company's share price offers an attractive risk / reward opportunity. Development finance institutions have a significant role to play in enabling and developing the renewable energy and clean technology markets, as well as ensuring that the developing economies of the world are allowed to develop their own energy resources responsibly and in a clean environment.

Whether from a commercial bank's perspective, a development bank or a pension fund, the ability to more accurately determine and understand a client's climate change risk and management approach assumes that the client in turn has reported on its own emissions and management approaches. Without this information, it remains difficult for financial institutions to determine whether a client's climate change management approach presents a risk to that institution or not. Even assuming such corporate data would be available, work remains to be undertaken on the development of an analytical approach that will show the correlation or causality between climate change performance (or broader sustainability performance) and financial performance. This is in our view the biggest challenge for the financial sector. How does the sector move from general principles, statements or commitments on sustainability or climate change to a more proactive approach?

As we have analysed in Chapter II, there are still obstacles to the more systematic accounting and inclusion of climate change (or even sustainability) criteria in credit and risk methodology and pricing. We provide certain recommendations here below to help address this issue.

The key issue remains, however, clear and robust international regulations on climate change. Governments determine the regulatory framework within which the corporate world operates.

Recommendations.

Based on our research and analysis of the 18 financial institutions selected, we have developed the following recommendations. The recommendations are intended as possible steps that will create the framework to enable financial institutions to take the indirect emissions of their business into consideration in a more structured manner.

The recommendations below can be split into:

A. Regulatory framework
B. Enhanced Risk Analysis
C. Enhanced Transparency

In addition we have made an initial assessment on the basis of the following criteria:

1. Effectiveness of the recommendation: We have ranked each recommendation in three categories: High, Medium and Low. The assessment gives an indication how effective a certain recommendation can be to achieve the goal.
2. Priority of the recommendation: In this area we rank the recommendation into High, Medium and Low priority recommendations. Priority is closely linked to the effectiveness.
3. The time frame within which a recommendation could be implemented. Here we made a distinction between short term, which represents a period of 1-2 years and medium term which represents a period between 2- 5 years.
4. Likelihood of success. Here we assess each recommendation into three categories: High, medium and low.

Some of the recommendations are specifically of relevance for the government, others are more in the domain of the financial sector and a few recommendations are important for both the government and the financial sector. This will be mentioned for each recommendation.

A. Regulatory Framework.

A.1. Functioning of the CO_2 market: effective regulations.

Relevant for: Government.

Uncertainty about regulations and the carbon market after 2012 remains, and governments should agree as soon as possible on a stable, predictable, transparent and reliable regulatory framework beyond 2012. For many companies carbon is not (yet) a scarce commodity. Carbon price discovery has proven difficult to predict and there is volatility in carbon markets, partially caused by wrong policy signals from governments, over-allocation of carbon emission rights, and consequent insufficient trade and lack of liquidity in the carbon market. From the "make market work conference" we quote the following conclusion:

"Tight allocation of emissions allowances is critical for a well-functioning market".

No clean carbon technology package is financially viable without some combination of internalising environmental externalities into the price of energy, providing incentives for implementation and further cost-cutting research and development. Explicit valuation, within a stable market mechanism, is necessary to enable the right investment choices to be made.

In the latest proposal of the European Commission it is suggested to auction a substantial part of the emission rights. This will indeed help in further internalising CO2 pollution into the financial systems of the corporate world provided that the allocation of CO2 credits will be done in a restricted manner with clear reduction targets for each year that these credits are auctioned. If too many credits will become available the market will not be able to adequately price CO2 footprints.

Effective regulation covers more than just a new framework for emission trading. Governments should also look at the abolishment of explicit or implicit subsidies for the production or consumption of fossil energy. In this respect we refer to a report to DG environment of the European Commission "reforming environmentally harmful subsidies"[56]. This report was published in February 2007 and includes various recommendations to abolish climate unfriendly subsidies. Furthermore effective regulations should include clear and predictable CO_2 standards for certain energy intensive products.

Effectiveness:	High
Priority:	High
Time Frame:	Given the outcome of the recent climate change discussions in Bali, Indonesia it will unfortunately take two more years before a new (global) cap and trade system is developed. Measures in other areas such as a gradual abolishment of certain harmful subsidies or implementation of more restrictive emission standards for certain products (e.g. car industry) should be taken within this two years period.
Likelihood of success:	This is difficult to assess given the number of stakeholders involved. It is promising that all candidates for the US presidency seem to support the concept of a cap and trade system.

A.2. Development of (inter)national accounting standards concerning emissions.

Relevant for: Government.

According to a Deloiites report, *Accounting for Emission Rights* released this year, accounting for GHG emissions remains a challenge, and market participants continue to wait for clear guidance from accounting standards setters. Formative efforts on the part of those standards setters have proven unsuccessful. An opportunity exists to push for an accepted accounting standard that can be accepted and broadly applied.

Effectiveness:	High, given the importance to internalise the costs of CO_2 emissions in financial statements of organisations.
Priority	High
Time Frame	Short Term
Likelihood of success:	Medium given the complexity of the topic and the number of parties involved.

A.3. Potential improvements for officially supported export credits.

Relevant for: Government and Atradius DSB.

The current OECD sector understanding for renewable energy for officially supported export credits does only cover renewable energy and water projects. The new rules have only extended the maximum repayment term (from 10 to 15 years) and introduced an alternative reference rate for interest rate support (from CIRR to SCIRR).

OECD participants should consider the following suggestions:

- More favourable conditions for renewable energy projects, in particular concerning:
- Flexible repayment terms (not only for private sector project finance, but also for public sector renewable energy projects).
- Local costs support - The current limitations for local cost support could be lifted or eased[57].
- Minimum down payment of 15% - The down payment requirement could be reduced from 15% to 5%.
- Make explicit that the sector understanding could apply to all CDM and JI projects as well. Currently there is no reference at all to these type of projects.
- The sector understanding should not only apply to renewable energy projects but also to large scale energy saving projects. The current understanding does not apply to energy saving projects.

Effectiveness:	Medium
Priority:	Medium
Time Frame:	Within next two years given the fact that current sector understanding applies till 2009.
Likelihood of success:	Medium, given the number of OECD countries involved in negotiations

A.4. Sustainability conditions for government support.

Relevant for: Government.

The Dutch Government – both at sovereign and sub sovereign level - has various subsidy programs and / or tax benefits for the business community. It could be considered to apply certain specific sustainability requirements to benefit from these public sector funded support schemes.

For example the Government could introduce as a requirement GRI (+) reporting or reporting CO_2 emissions for various export promotion schemes such as officially supported export credits (Atradius DSB), tied aid program (ORET) and interest rate support. Subsidies for investments in the Netherlands could also include sustainability criteria.

It could also be considered to introduce (additional) sustainability criteria in large public sector procurements.

Effectiveness:	Medium for climate change, but high for the broader topic of sustainability.
Priority:	Medium for climate change, but high for the broader topic of sustainability.
Time Frame:	Short Term
Likelihood of success:	Medium on climate change but high for the broader topic of sustainability.

B. Enhanced Risk Analysis.

B.1. A more in-depth credit risk assessment.

Relevant for: financial sector.

The financial sector could improve its risk assessment and understanding by investigating and determining how their clients manage the climate change risks to which they are exposed in their business. This more in-depth risk analysis would for example include regulatory risks, physical risks and the climate risk adaptation and mitigation strategy of the client.

Furthermore, analysis should be undertaken on which regions (and specifically which countries) will be affected by climate risks. Climate change could have an impact on the sovereign (budget constraints) and the country risks involved. It is likely that climate change will lead to an increase of (regional) conflicts as a result of severe droughts, water shortages, floods and migration of people. A more in-depth risk assessment will help in the identification and management of these risks.

Effectiveness:	High
Priority:	High
Time Frame:	Short Term
Likelihood of success:	High given the fact that each individual financial institution can implement this within its own organisation.

B.2. A more forward-looking credit risk assessment.

Relevant for: financial sector.

Most financial institutions (and for that matter credit rating agencies) primarily base their corporate credit risk assessments on financial statements of the company. A number of balance sheets and profit and loss accounts are analysed for that purpose. However, financial statements primarily focus on the past (performance) of a company, and credit risk assessment is therefore too often backward looking. The past may - to a certain degree - be an indication for future performance, but it is not the most optimal picture of the future. A more forward looking risk assessment and credit rating methodology is needed.

Effectiveness:	High
Priority:	High
Time Frame:	Short Term
Likelihood of success:	High given the fact that each individual financial institution can implement this within its own organisation.

B.3. Incorporation of climate change into the BIS framework.

Relevant for: financial sector and government.

It is recommended to conduct an in-depth study to determine the correlation between sustainability performance and credit risk. In this study all ESG factors including all climate change risks should be taken into account. The whole process would start with the collection of empirical evidence. Commercial banks should cooperate with insurers, pension funds, the Dutch Central Bank and the Dutch Ministry of Finance. Ultimately these parties should also jointly lobby towards the BIS, the EU, other governments and the financial sector (banks, insurance & pension fund).

Effectiveness:	Medium for climate change, but high for sustainability
Priority:	Medium for climate change, but high for sustainability
Time Frame:	Medium Term, given the complexity of the topic and number of parties involved.
Likelihood of success:	Medium, given the number of parties involved and the complexity to make amendments in international legislation.

B.4. Integration of sustainability factors in independent credit ratings.

Relevant for: financial sector.

This topic is linked to the previous recommendations concerning a more forward and more in-depth credit risk assessment. It has been noticed that credit ratings (from leading rating agencies such as Standard & Poor's and Moody's) and sustainability ratings (from agencies such as SAM, Oekom and DSR) are still two completely different worlds. It is recommended to integrate various sustainability / ESG criteria (in particular environmental and social criteria) in existing credit rating models. Financial institutions that buy credit ratings from reputable credit rating agencies should require these rating agencies to include various sustainability criteria in their credit risk assessment reports.

Effectiveness:	Medium for climate change, but high for sustainability
Priority:	Medium for climate change, but high for sustainability
Time Frame:	Short Term.
Likelihood of success:	Medium, given the fact there is an increasing demand from in particular the investors community to get a better insight in the sustainability performance of companies.

B.5. Climate change awareness & education of staff.

Relevant for: financial sector and government.

Most staff within a financial institution will have a basic knowledge of climate change, but the challenge for many financial institutions is to translate the topic into relevant themes for its business and staff. What is required to get attention so that climate change issues are taken into account into the day to day business? How can climate change be integrated into the key business processes of a financial institution? Here is a substantial education challenge for people that are responsible for sustainability and risk management in financial institutions.

The focus of such an educational effort should in our view be in particular on climate change risks. Climate change business opportunities will also need attention, but the sustainability reports of financial institutions show that this topic is already getting quite some attention. This was also confirmed by recent GRI / KPMG study[58], which presented a survey on reporting the business implications of climate change in sustainability reports. The survey covered sustainability reports of the business community as a whole and not just the financial sector. It was found that while almost all companies reported on climate change in their sustainability reports, on closer examination companies reported far more on potential opportunities rather than financial risks for their companies from climate change.

Like in the financial sector the general awareness within the public sector about climate change is reasonably good, but the challenge for many government officials / civil servants is to translate the topic into relevant themes for their daily activities within a certain (department of a) ministry. How can climate change be integrated into the development of government policies in areas beyond the direct domain of the Ministry of VROM. The government faces interesting challenges in a.o. development finance for which primarily the ministries of foreign affairs and Finance are responsible.

It is recommended to include climate change or the broader topic of sustainable development specifically into government trainings such as those under the "algemene Bestuursdienst (ABD)". These trainings should focus on what climate change or sustainability means to the various policy areas of all ministries.

Effectiveness:	Medium
Priority:	Medium
Time Frame:	Short Term
Likelihood of success:	Medium

C. Enhanced Transparency.

C.1 Development of GRI+.

Relevant for: financial sector and government.

The current GRI guidelines do adequately cover the reporting of the CO2 emissions and the usage of natural resources, but it does not give an insight into the management of various key climate change risks, such as regulatory risks, physical risks and other climate change risks. It does also not cover a clear description of the climate change strategy of a company and how it adapts to and mitigates climate change risks.

We think that the current GRI standards can be improved to specifically include a description of the management of physical risks, regulatory risks and other climate change related issues (adaptation and mitigation strategy). This can be done by integrating certain topics that are currently covered by the Carbon Disclosure Project into the GRI. This would lead to reporting on the basis of GRI+ guidelines.

Effectiveness:	High
Priority:	High
Time Frame:	Short Term
Likelihood of success:	Medium

C.2. Obligation for GRI(+) reporting for companies that are listed on the Amsterdam stock exchange.

Relevant for: Government.

To further improve sustainability performance and transparency it could be considered to make GRI+ reporting obligatory for companies that are listed on Amsterdam stock exchange. Amsterdam could follow the example set by the Johannesburg stock exchange in South Africa. Companies which do not yet report on sustainability should be given some time to prepare themselves to meet this requirement. From the date of announcement of this requirement a transition period of 2-3 years could be considered.

The government could lobby internationally (e.g. in EU or OECD) to introduce this requirement also in other countries.

Effectiveness:	High on transparency on climate change related matters and the broader topic of sustainability.
Priority:	High
Time Frame:	Short Term with a transition period for companies that are already listed on the stock exchange.
Likelihood of success:	High given the fact that many stock listed companies do already publish GRI reports.

C.3 GRI(+) sustainability reporting by public sector entities.

Relevant for: Government and other public sector entities.

Governments should set the right example on sustainability reporting and management of CO_2 emissions and other climate change issues. Against that background the Dutch Government should publish a comprehensive GRI(+) sustainability report which covers the activities of all ministries. This report should obviously include the CO_2 emissions of the various ministries.

The Government should also encourage non sovereign public sector entities (e.g. municipalities) to publish a sustainability report as well. In 2006 Amsterdam published its first sustainability report. This example deserves to be followed by other cities.

It is important to note that sustainability reporting will also assist in the development of a more coherent Government policy on sustainable development and climate change. Furthermore it stimulates cross ministerial cooperation.

Effectiveness:	High on transparency on climate change related matters and the broader topic of sustainability. If the public sector sets the right example it will encourage the business community to follow.
Priority:	High, setting the right example is important.
Time Frame:	Short Term

Likelihood of success: On a voluntary basis the chance of success is medium. if it is going to be mandatory the chance of success will be high.

C.4 Pension funds and GRI(+) reporting.

Relevant for: Dutch pension funds.

It has been noticed that GRI reporting is not yet a common feature in the world of pension funds. PGGM and ABP are likely to publish their 1st comprehensive sustainability reports in 2008. We recommend the government to encourage other pension funds to follow.

Pension funds that are asking companies in which they invest to report in accordance with GRI (see also UN PRI Principle 3), should set the right example.

Effectiveness: High on transparency on climate change related matters and the broader topic of sustainability. If the pension funds set the right example it will encourage the business community to follow.

Priority: High setting the right example is important

Time Frame: Short Term

Likelihood of success: High, given the fact that the two leading pension funds ABP and PGGM will publish a GRI report in 2008.

C.5. Atradius & GRI(+) reporting.

Relevant for Government and Atradius (DSB).

It has been noticed that GRI reporting is not (yet) a common feature in the ECA community. Only a few ECAs do publish a sustainability report. Examples are OEKB (Austria) and EDC (Canada). Atradius DSB could follow these examples by publishing a comprehensive GRI report.

It is noteworthy that sustainability reporting is not (yet?) introduced in the private credit insurance community, which is dominated by three European insurance companies (e.g. Atradius, Coface and Euler/ Hermes). There is an opportunity for Atradius to set the example for the private credit insurance industry.

Effectiveness: High on transparency on climate change related matters and the broader topic of sustainability. If the ECAs set the right example it will encourage the business community to follow.

Priority: High setting the right example is important

Time Frame: Short Term

Likelihood of success: High, because concerning Atradius DSB the Dutch Government is in control.

C.6. Prospectuses for bond issues and equity offerings should include more substantive information on sustainability performance.

Relevant for: financial sector.

Currently these prospectuses mainly focus on the financial performance and risks and general governance issues. It is recommended to include more information about the environmental and social issues within the organisation. If available the information should include a description of how the company manages climate change risks, such as physical risks, regulatory risk and reputational risks (see above under a more in-depth credit risk assessment). Specifically, the relevant strategy on climate change adaptation and mitigation should be explained.

Effectiveness: High on transparency on climate change related matters and the broader topic of sustainability.

Priority: High, given the increasing demand from the investors community to get a better insight in the sustainability performance and climate change risks of companies

Time Frame: Short Term

Likelihood of success: High

C. 7. OECD Guidelines for Multinationals & Climate Change.

Relevant for: financial sector and government.

The business community and the financial sector do not actively report how they meet the obligations of the OECD guidelines for Multinational Enterprises. Not many organisations mention the relevance of these guidelines to their business in their sustainability reports or any other publication (e.g. company's websites), whereas these guidelines do provide detailed information about various obligations of the multinationals. Here lies a challenge for the business community and the Government. The guidelines refer to "environmental management" in general. It would be good to make explicit that environmental management includes as well management of climate change risks and GHG emissions. This would encourage GHG management and disclosure by multinationals, not only by those that fall under the current emission regulations, but also by those that are exempted from it today. We recommend multinationals to refer specifically to key OECD obligations in their sustainability reports.

Effectiveness:	High
Priority:	High
Time Frame:	Short Term, given the fact the OECD regulations are already in force for some time now.
Likelihood of success:	High

Annex 1. Climate Change & International Business Initiatives

Introduction

There are numerous initiatives around the world that cover the topic of climate change. Many initiatives have been set up at a national or regional level and some are of a global nature. In this chapter we will explain various international business initiatives regarding climate change. Thus any specific Dutch initiatives are excluded from this examination.

The international initiatives have in some cases led to the development of concrete guidelines or principles that are relevant to the financial sector.

It has to be said that many of these initiatives concern the broader topic of sustainable development or corporate social responsibility. This basically reflects that for most organisations climate change is part of the overall sustainability agenda.

Another important thing is the fact that most of these global initiatives are relevant for the whole business community and not just for the financial sector. There are also some sustainability or climate change initiatives that are relevant to a specific subcategory within the financial sector. For example the "Equator Principles" are relevant to certain commercial banks - namely those banks that are active in project finance - and not to pension funds or commercial banks that are not involved in project finance. Another example: The UN Principles for Responsible Investment are relevant for institutional investors and not for Development banks.

As explained in the introduction we distinguish for the purpose of this study the following subcategories in the financial sector:

- Commercial banks.
- Institutional investors (in this study only pension funds)
- Multilateral & bilateral Development banks
- Insurers and reinsurance companies (this sector is not included in this study)
- Officially supported export Credit Agencies (in this study Atradius DSB).

In the description of each of the international business initiatives it will be explained whether the initiative has relevance for climate change and the energy sector. We will also indicate which organisations that are part of this study participate in these initiatives.

1. Global Reporting Initiative (GRI).

The "Global Reporting Initiative" is a large multi-stakeholder network of thousands of experts, in dozens of countries worldwide, who participate in GRI's working groups and governance bodies, use the GRI guidelines to report, access information in GRI-based reports, or contribute to develop the reporting framework in other ways – both formally and informally.

The GRI has general reporting guidelines and sector specific guidelines. For the financial sector there are two special sector supplements, one covering the social performance of the organisation (people P) and the other one the environmental performance (planet P).

These specific environmental guidelines address indirect footprint issues such as descriptions for:

- The processes for assessing and screening environmental risks (F2)
- The threshold at which environmental risks assessment is applied for each core business line (F3)
- Monitoring clients implementation of compliance with environmental aspects raised in risk assessment processes (F4)
- Number and frequency of audits that include environmental risks (F6)
- Interactions with clients / investee companies / business partners (e.g. suppliers) around environmental topics (F7)
- Percentage and number of companies in the portfolio of the organisation with which the reporting organisation has engaged on environmental issues (F8)
- Percentage of assets subjected to positive, negative or "best in class" screening. (F9).
- Voting policy on environmental issues for shares over which the reporting organisation holds the right to vote shares or advise on voting (F10)
- Percentage of assets under management where the reporting organisation holds the right to vote shares or advise on voting (F11).

The GRI guidelines do not specifically address indirect footprint issues of climate change.

It is fair to say that the GRI are mainly of relevance to multinational companies that are listed on a stock exchange. There are not many SME's that report on the basis of GRI guidelines. Within the public sector GRI guidelines are hardly used.

1.1. GRI & Climate Change.

The GRI guidelines cover various direct footprint issues regarding climate change. Indirect climate change footprint is not specifically covered by GRI.

1.2. GRI & Energy.

The GRI are covering a broad range of sustainability topics among which the utilisation of energy by a company, energy efficiency and CO2 emissions. It all concerns the direct energy footprint of the company. Specific indirect energy issues are not covered.

1.3. Which of the 18 organisations are involved in the GRI?

The following organisations report in accordance with GRI principles::

- Commercial banks: ABNAMRO, Fortis, ING, RABO, HSBC, Bank of America, WestLB, Triodos, ASN,
- Multilateral and Bilateral Development banks: EBRD, EIB, IFC and FMO

We have been informed that both ABP and PGGM are going to publish their first sustainability reports in 2008. Both reports will be based upon GRI guidelines.

More information: www.globalreporting.org

2. Carbon Disclosure Project (CDP).

The Carbon Disclosure Project (CDP) is an independent not-for-profit organisation aiming to create a lasting relationship between shareholders and corporations regarding the implications for shareholder value and commercial operations presented by climate change. Its goal is to facilitate a dialogue, supported by quality information, from which a rational response to climate change will emerge.

CDP provides a coordinating secretariat for institutional investors with a combined $41 trillion of assets under management, among which institutional investors such as ABP, PGGM and Calpers. On their behalf CDP seeks information on the business risks and opportunities presented by climate change and greenhouse gas emissions data from the world's largest companies: 2,400 in 2007. The project is therefore relevant to the business community as a whole. In practice mainly multinational companies are involved.

Over 7 years CDP has become the standard for carbon disclosure methodology and process. The CDP website is the largest repository of corporate greenhouse gas emissions data in the world.

CDP was launched on 4th December 2000. The first cycle of the project (CDP 1) involved sending a letter and questionnaire to the FT500 largest companies in the world on 31st May 2002. This letter was signed by 35 institutional investors who collaborated to provide an efficient mechanism for disclosure of this information. The CDP 1 questionnaire focused on direct footprint topics.

The CDP 2 information request was signed by 95 institutional investors with assets of $10 trillion and sent on 1st November 2003. The responses and a report based on them were made available from the CDP website on 19 May 2004. 86% of corporations responded and 60% answered the questionnaire in full. The CDP 2 questionnaire focused on direct footprint topics.

The CDP 3 information request was signed by 155 institutional investors with assets of more than $21 trillion and sent on 1st February 2005. The responses and a report based on these responses were made available from CDP website on 14th September 2005. 89% of corporations responded and 71% answered the questionnaire in full. The CDP 3 questionnaire focused on direct footprint topics.

The CDP 4 information request was signed by 225 institutional investors with assets of more than $31 trillion and sent on 1st February 2006. The information request was sent to 2180 companies and more than 940 answered the questions. From the FT500 sample 91% of corporations responded and 72% answered the questionnaire in full. The responses and reports based on these responses were made available from the CDP website on 18th September 2006. The CDP 4 questionnaire focused on direct footprint topics.

The CDP 5 information request was signed by more than 280 institutional investors with assets of more than $41 trillion and sent on 1st February 2007. The information request was sent to 2,400 companies. The responses will be made available from

CDP web site in September 2007. For the first time this last CDP questionnaire addresses indirect footprint topics.

2.1. CDP & Climate Change.

Given the nature of the CDP it is clear that it has big relevance in creating transparency about in particular the direct footprint of the corporate business community. The CDP 5 information request contains for the first time some questions about the indirect footprint of the business community. Responses to the CDP 5 questionnaire will be published in September 2007. It is fair to say that the CDP is mainly of relevance to multinational companies that are listed on a stock exchange. SME's and public sector entities are not reporting to the CDP.

2.3. CDP & Energy.

The CDP focuses on transparency on CO2 emissions by a company. This transparency allows for the identification of best practices among reporting organisations on energy utilisation and energy efficiency. CDP does not (yet) cover indirect energy issues.

2.3. Which of the 18 organisations are involved in the CDP?

The following organisations report to the CDP:

- ABNAMRO, Fortis, ING, RABO, HSBC, Bank of America,

ABP, PGGM and Calpers, ASN bank and Triodos bank are included on the list of signatory investors of the CDP. This means that they support the CDP initiative, but that they do not report to the CDP.

It has to be mentioned that after the G8-Glenagles summit in 2005 a working group consisting of representatives of various multilateral development banks have started with a project that aims at measuring direct and indirect CO2 footprint. This project is coordinated by the World bank. A report of this initiative of the multilateral development banks is expected at the end of 2007.

More information: www.cdproject.net

3. World Business Council for Sustainable Development (WBCSD).

The World Business Council for Sustainable Development (WBCSD) is a CEO-led, global association of approximately 200 companies dealing exclusively with business and sustainable development. WBCSD provides a platform for companies to explore sustainable development, share knowledge, experiences and best practices, and to advocate business positions on these issues in a variety of forums, working with governments, non-governmental and intergovernmental organizations.

Members are drawn from more than 35 countries and 20 major industrial sectors. The Council also benefits from a global network of about 55 national and regional business councils and regional partners.

The objectives of WBCSD are to:

- Be a leading business advocate on sustainable development;
- Participate in policy development to create the right framework conditions for business to make an effective contribution to sustainable human progress;
- Develop and promote the business case for sustainable development;
- Demonstrate the business contribution to sustainable development solutions and share leading edge practices among members;
- Contribute to a sustainable future for developing nations and nations in transition.

In order to achieve this, the WBCSD focuses on four key areas:

- Energy and Climate
- Development
- The Business Role
- Ecosystems

3.1. WBCSD & Climate Change.

Climate change is one of the strategic areas upon the WBCSD focuses its work. The WBCSD published various papers to inform its members and third parties about the importance of climate change and the impact it can have on the business community.

An important initiative of the WBCSD was the development of the Greenhouse Gas Protocol Initiative (GHG Protocol). This is a joint initiative by the WBCSD and the World Resources Institute (WRI), which aims at harmonizing GHG accounting and reporting standards internationally to ensure that different trading schemes and other climate related initiatives adopt consistent approaches to GHG. The system developed has become the global accounting standard for GHG reporting.

3.2. WBCSD & Energy.

Energy is together with climate (change) one of the main working streams of WBCSD. The work done thus far did not lead to any specific energy guidelines for the financial sector.

3.3. Which of the 18 organisations are involved in the WBCSD?

ABNAMRO is a member of the WBCSD.

More information: www.wbcsd.org

4. United Nations Environmental Programme Finance Initiative (UNEP FI).

The United Nations Environment Programme Finance Initiative (UNEP FI) is a global partnership between the United Nations Environment Programme (UNEP) and the private financial sector. UNEP FI works closely with over 160 financial institutions who are signatories to the UNEP FI Statements, and a range of partners organizations to develop and promote linkages between the environment, sustainability and financial performance.

UNEP FI's strategic work programme is focused on current and emergent issues such as:

- Climate Change - Through its Climate Change Working Group, UNEP FI's work is focused on carbon finance, national and international policy and regulation debates, and renewable energy.
- Insurance - Finding innovative ways of addressing sustainability issues in the areas of products, services, investment and operational ecology.
- Investment - Exploring how material, social, environmental and governance considerations can best be incorporated into investment practice.
- Property - New building development and existing structures contribute significantly to global carbon emissions, pollution and energy use. The Property Working Group analyses the role of financial institutions in promoting sustainable development in the real estate and property finance sectors.
- Sustainability Management and Reporting. Developing the Global Reporting Initiative Financial Services Sector Supplement (Environmental Performance).
- Building the business case for Sustainability Management and Reporting in emerging economies.

More than 160 financial sector organisations are signatory of the UNEP FI statement and supporting certain recommendations that were presented to the World Summit for Sustainable Development (WSSD) in Johannesburg in 2002. Both the statement and recommendations do not cover climate change specifically, but are of a general sustainability nature. More than 50% of the signatories come from European countries.

4.1. UNEP FI & Climate Change

Within UNEP FI a special working group has been formed to exchange views and experiences on climate change. UNEP FI's Climate Change Working Group (CCWG) seeks to raise awareness and communicate the problem of climate change to financial institutions, policymakers and the public at large. The CCWG's overall mission is to:

- Identify and communicate the financial sector's role in mitigation and adaptation to climate change;

- Raise awareness of the global and regional challenges of climate change not only within the sector but across all sectors and industries, including policymakers and the public at large;
- Position the financial sector as a credible and proactive partner by catalysing concrete action within the institutions;
- Provide input to the United Nations Framework Convention on Climate Change (UNFCCC) process through support of the Kyoto Protocol flexible mechanisms – international emissions trading, Joint Implementation (JI) and the Clean Development Mechanism (CDM), and other initiatives;
- Continue to develop strategies to overcome political and regulatory barriers, which hinder a more proactive role for the finance industry on climate change issues.

Current members of the CCWG are: Aviva, Fortis, AXA, HSBC, Bank of America, Insurance Australia Group (IAG), Caisse des Dépôts, Japan Bank for International Cooperation (JIBC= a Japanese ECA), Calvert Group, Munich Re, Carbon Re, Standard Chartered, Development Bank of Japan, Sustainable Asset Management (SAM), Development Bank of Southern Africa, Swiss Re, Dresdner (Chair) and UBS.

This working group has published various studies on the topic of climate change and its relevance to the financial sector. A recent publication is the paper "Adaptation and Vulnerability to Climate Change: The Role of the Finance Sector". It was published in 2006.

In 2007 UNEP FI presented a climate change statement, which has been endorsed by many financial institutions.

4.2. UNEP FI & Energy

UNEP has dedicated staff working on the topic of energy, but this is not part of UNEP FI. There are no energy guidelines that have been specifically developed for the financial sector.

4.3. Which of the 18 organisations are involved in the UNEP FI?

The following organisations participate in the UNEP FI:

- ABNAMRO, ASN, Fortis, RABO, ING, HSBC, Bank of America, WestLB, FMO, EBRD,

Of the a.m. organisations Fortis, HSBC and Bank of America participate in the UNEP FI working group on climate change.

More information: www.unepfi.org

5. Equator Principles (EP).

The Equator Principles (EP) are a financial industry benchmark for determining, assessing and managing social & environmental risk in private sector project financing. The principles apply to project financing a method of funding in which the lender looks primarily to the revenues generated by a single project both as the source of repayment and as security for the exposure. The EP do not apply to public sector projects. The EP have been based upon the World Bank Environmental Health and Safety guidelines and the IFC performance standards.

All projects with a value beyond US$ 10 million should be screened on potential environmental and social impact. This screening leads to a classification into three environmental risk categories (high, medium and low). For high impact projects a comprehensive Environmental Impact Assessment (EIA) study is required.

5.1. EP & Climate Change.

In performance standard 3 of the performance standards clients of financing banks are requested to promote the reduction of project related GHG emissions in a manner appropriate to the nature and scale of the project operations and impacts. For CO2 intensive projects (100,000 tons CO2 equivalent per year) clients are required to quantify, monitor and manage their CO2 emissions.

5.2. EP & Energy.

According to the EP an environmental assessment should include an investigation of efficient production, delivery and use of energy.

5.3. Which of the 18 organisations are involved in the EP?

The following organisations support the EP:

- Commercial banks: ABNAMRO, Fortis, ING, RABO, HSBC, Bank of America, WestLB,
- Multilateral and Bilateral Development banks: IFC and FMO

More information: www.equator-principles.com

6. OECD guidelines for Multinational Enterprises.

The Guidelines are recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide voluntary principles and standards for responsible business conduct in a variety of areas including employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation.

6.1. OECD Guidelines & Climate change.

The guidelines do not specifically refer to climate change.

Article V. of the guidelines refers to a broad range of environmental aspects of the business. This includes the obligation to establish and manage a solid environmental management system. This system should include:

- Collection of data regarding the environmental impact of the activities of a company;
- Establishment of measurable environmental objectives and targets;
- Adequate monitoring system for environmental performance;

It could be argued that this requirement includes adequate (data) management of CO2 emissions given the importance of climate change.

According to the commentary of the guidelines "sound environmental management" should be interpreted in the broadest sense, embodying activities aimed at controlling both direct and indirect environmental impacts of the enterprise activities in the long run. The concept of "indirect impact" is not further explained.

Furthermore the guidelines deal with:

- Transparency and disclosure of environmental matters to employees and the public.
- Engagement with local communities that can be affected by the company's operations
- Assessment of environmental and social risks in its operations
- Risk management of environmental and social risks
- Maintenance of contingency plans to prevent, mitigate and control serious environmental problems
- Continuous improvement of environmental performance
- Environmental education of staff
- Contribution to the development of environmental and economically efficient public policy.

Complaints about multinationals that do not comply with the OECD guidelines can be send to the National Contact Points (NCP) of the country in which the multinational is based. The NCP will then consult the parties concerned and advise on the matter.

6.2. OECD guidelines & Energy.

The OECD guidelines do not specifically refer to energy.

6.3. Which of the 18 organisations are involved in the OECD guidelines?

The principles are relevant to all 18 organisations.

More information: www.oecd.org/daf/investment/guidelines

7. OECD Common approaches for officially supported export credits.

The common approaches are a framework to assess environmental risks in large projects that (could) benefit from official support by a export credit agency. The rules apply for all officially supported export credit schemes in the OECD.

The common approaches require the ECA to screen and classify projects into three environmental risk categories: A (high potential impact), B (medium potential impact) and C (low potential impact). Category A projects require a comprehensive Environmental Impact assessment (EIA). In environmental reviews the ECAs can take into account environmental standards as developed by a multilateral development bank (e.g. IFC, EBRD, ADB) or higher standards such as the European Community standards.

Obviously the ECA should also take into account host country standards, but if they are less stringent than the international standards, the international standards will be applied.

The OECD common approaches are in essence more or less the same as the Equator Principles. There is, however, one big difference in that the common

approaches do apply to both private and public sector projects, whereas the Equator principles do only apply to private sector project finance transactions.

7.1. OECD Common approaches & Climate Change.

The OECD common approaches are general environmental guidelines and do not specifically address the topic of climate change.

7.2. OECD Common approaches & Energy.

The OECD common approaches do not specifically address energy.

7.3. Which of the 18 organisations are involved in the OECD Common Approaches?

The common approaches apply to business supported by OECD Export Credit Agencies. The rules therefore apply only to the business of Atradius DSB. Obviously banks that are financing projects with the support of an ECA have to apply these OECD standards as well.

More information: www.oecd.org

8. OECD sector understanding on export credits renewable energies and water projects.

According to OECD rules the maximum credit period that can be supported by an Export Credit Agency for a conventional power plant is 12 years. For a nuclear power plant the maximum repayment term is 15 years. Prior to renewable energy sector understanding other (renewable) energy projects could benefit from a maximum repayment period of 10 years. There was therefore not a level playing field between renewable energy and "conventional" energy projects.

The renewable energy sector understanding has lengthened this repayment term up to 15 years. Projects in the area of wind energy, wave power, solar energy, bio energy and hydro are eligible for a 15 year repayment period.

Since the inception of the sector understanding in 2004 there has been 14 notifications of renewable energy projects supported by OECD ECAs with a total value of approx. Euro 1,2 billion. In addition there has been 18 renewable energy projects supported under regular OECD Consensus terms with a value of approx. Euro 900 million.

The extended credit terms for renewable energy has been used for Solar Photovoltaic power, wind power and hydro power projects. The supporting countries were in particular Germany, Japan, Switzerland and Canada.

The Dutch Export Credit Agency Atradius DSB has thus far not done any renewable energy project under the sector understanding.

8.1. OECD Sector understanding renewable energies & Climate Change.

Although the sector understanding does not specifically refer to climate change, it is likely that the topic has been taken into account in developing the new rules for renewable energy. Creating a level playing field between renewable energy and conventional energy has been an important factor in the development of the sector understanding.

8.2. OECD Sector understanding renewable energies & Energy.

As explained above within the OECD there are specific guidelines for various energy projects. The sector understanding for renewable energy describes the most favourable payment conditions that may be supported by OECD Governments for renewable energy projects

8.3. Which of the 18 organisations are involved in the OECD sector understanding for renewable energies?

The OECD sector understanding renewable energies apply to business supported by OECD Export Credit Agencies. The rules therefore apply only to the business of Atradius DSB. Obviously banks that are financing renewable energy projects with the support of an ECA have to apply these OECD standards as well.

More information: www.oecd.org

9. Enhanced Analytics Initiative (EAI).

The Enhanced Analytics Initiative (EAI) was established in October 2004 by a group of institutional investors (including asset managers and pension funds) who believe that members and clients are best served when investors take a more rounded assessment of corporate performance, and that one of the key obstacles to this is the quality and focus of current sell-side research. To address this perceived obstacle, EAI members have agreed to allocate a minimum of 5% of their broker commissions on the basis of how well brokers integrate analysis of extra-financial

issues and intangibles into their mainstream (sell-side) research. Such issues typically include corporate governance, human capital management, value creation or destruction during mergers and acquisitions, or corporate performance on material environmental issues such as climate change.

The founding members of the EAI manage approximately EUR364 billion (£254 or US$465 billion) and anticipate allocating in the order of EUR4-5 million during 2005 to brokers demonstrating this integration. The 5% commitment is a minimum, some participants are already allocating more (e.g. one is already at 10%) and expect to review this figure in light of what brokers deliver. The initiative currently represents total assets under management of Euro 1.8 trillion (US$2.4 trillion).

9.1. EAI & Climate Change.

The EIA is not a specific climate change initiative, but covers various general environmental, social and governance topics. Basically It stimulates research brokers to include these non-financial factors in their analysis of companies.

9.2. EAI & Energy.

The EAI does not specifically address energy.

9.3. Which of the 18 organisations are involved in the EAI?

ABP, PGGM, SNS Real Group (ASN), Robeco (RABO) are involved in this initiative.

More information: www.enhancedanalytics.com

10. The Climate Group.

The Climate Group is an independent, non-profit organization dedicated to advancing business and government leadership on climate change. The organization is based in the UK, the USA and Australia and was founded in 2004 by a diverse group of companies, governments and supporters who saw the opportunity to create new momentum in the international effort to stop climate change.

Proactive companies, states and cities around the world are demonstrating that cuts in greenhouse gases required to stop climate change can be achieved whilst growing the bottom line. Using the work of these leaders as a catalyst, The Climate Group works to accelerate international action on global warming with a new, strong focus on practical solutions.

10.1. The Climate Group & Climate Change.

The Climate Group promotes the development and sharing of expertise on how business and government can lead the way towards a low carbon economy whilst boosting profitability and competitiveness. The climate group has not developed any specific climate change guidelines for the financial sector.

10.2. The Climate Group & Energy.

The climate group has not developed any specific energy guidelines for the financial sector.

10.3. Which of the 18 organisations are involved in the Climate group?

ABNAMRO and HSBC are a member of the climate group.

More information: www.theclimategroup.org

11. Global Roundtable on Climate Change (GROCC).

The Global Roundtable on Climate Change (GROCC) brings together high-level, critical stakeholders from all regions of the world — including senior executives from the private sector and leaders of international governmental and non-governmental organizations — to discuss and explore areas of potential consensus regarding core scientific, technological, and economic issues critical to shaping sound public policies on climate change.

11.1. GROCC & Climate change.

The Roundtable has five over-arching objectives:

- To explore the potential for developing an improved global consensus on core scientific, technological, economic and policy issues related to climate change—one that simultaneously considers the need to mitigate the very significant risks posed by anthropogenic climate change and the need for economic growth and human development around the world;
- To explore technological and policy options for mitigating climate change while meeting global energy needs;
- To champion demonstration projects that test and scale sustainable energy technologies and other activities and policies that address climate change;

- To provide a unique forum for discussion, analysis and exchange of ideas among businesses from all economic sectors and all parts of the world, international institutions, non-governmental organizations, and leading academic experts; and
- To help catalyze new initiatives and interactions among Roundtable participants that address climate change mitigation and adaptation.

The GROCC has submitted an extensive general statement on climate change and it gives various commitments from participants. One of these commitments concerns the incorporation of climate change and GHG emissions into relevant business management decision making, and communicating such actions to key stakeholders, such as investors, employees, suppliers, and customers.

11.2. GROCC & Energy.

The GROCC has not developed any specific energy guidelines for the financial sector.

11.3. Which of the 18 organisations are involved in the GROCC?

ING is involved in this initiative.

More information: www.earthinstitute.columbia.edu/grocc/

12. Forest Stewardship Council (FSC).

The Forest Stewardship Council (FSC) is an international organization that brings people together to find solutions which promote responsible stewardship of the world's forests.FSC is a stakeholder owned system for promoting responsible management of the world's forests. Through consultative processes, it sets international standards for responsible forest management. It accredits independent third party organizations who can certify forest managers and forest product producers to FSC standards.

The FSC trademark provides international recognition to organizations who support the growth of responsible forest management. Its product label allows consumers worldwide to recognize products that support the growth of responsible forest management worldwide.

FSC undertakes marketing programs and information services that contributes to the mission of promoting responsible forestry worldwide.

Over the past 13 years, over 90 million hectares in more than 82 countries have been certified according to FSC standards while several thousand products are produced using FSC-certified wood and carrying the FSC trademark. FSC operates through its network of National Initiatives in 43 countries.

12.1. FSC & Climate change.

The FSC promotes and encourages the use of sustainable wood products to avoid deforestation. This initiative has a indirect positive impact on climate change.

12.2. FSC & Energy.

The FSC has not developed any specific energy guidelines for the financial sector.

12.3. Which of the 18 organisations are involved in the FSC?

According to the FSC website ABNAMRO, ING, RABO, HSBC are actively involved in the FSC initiative.

More information: www.fscnl.org

13. Roundtable on sustainable palm oil (RSPO).

RSPO is an association created by organisations carrying out their activities in and around the entire supply chain for palm oil to promote the growth and use of sustainable palm oil through co-operation within the supply chain and open dialogue with its stakeholders. Members are com

In particular, the RSPO works on the following tasks:

- Research and develop definitions and criteria for the sustainable production and use of palm oil;
- Undertake practical projects designed to facilitate implementation of sustainable best practices;
- Develop solutions to practical problems related to the adoption and verification of best practices for plantation establishment and management, procurement, trade and logistics;
- Acquire financial resources from private and public funds to finance projects under the auspices of the Roundtable on Sustainable Palm Oil;
- Communicate the Roundtable's work to all stakeholders and to a broader public.

13.1. RSPO & Climate Change.

The RSPO does not include any guidelines that specifically refer to climate change. The various initiatives that are undertaken by RTSP to stimulate sustainable palm oil production supports the avoidance of deforestation. So indirectly this initiative plays a role in combating climate change

13.2. RSPO & Energy.

RSPO has not developed any specific energy guidelines for the financial sector.

13.3. Which of the 18 organisations are involved in the RSPO?

Roundtable Members are: RABO, IFC, HSBC Indonesia & Malaysia and WestLb.

More information: www.sustainable-palmoil.org

14. Roundtable on responsible soy (RTRS).

The soy sector is one of the fastest growing industries in South America. While Soy production is one of the largest sources of income, generating development and providing employment in several countries in the region, extensive cultivation and the expansion of agricultural frontiers also entail high social and environmental costs, such as deforestation, water pollution and soil erosion. Rapid growth of soy production also signifies a threat to the rich biological diversity in the region. Brazil, Argentina, Paraguay and Bolivia, the main soy producers of South America (representing some 60% of total world production) have all suffered conversion of forests and other ecosystems to land under cultivation. In several instances, soy expansion has been the cause of social conflicts between local communities and soy producers.

Based on current trends, the soy sector is likely to continue its rate of growth. However, it is of key importance that this expansion be carried out within a sustainable framework. In order to achieve this goal, it is fundamental that a global definition on sustainable soy production be developed. It is also important that better management practices (BMPs) that address economic, social, and environmental concerns, in accordance with this definition be adopted by the soy industry. These were the main consideration for the establishment of the Global Roundtable on Responsible Soy (RTRS). Members of the RTRS are soy producing companies, companies that use soy in their products, some financial institutions and NGO's.

The RTRS pursues the following objectives:

- Reach consensus among key stakeholders and players linked to the soy industry.
- Act as Forum to develop and promote criteria for the production of soy on an economically viable, socially equitable and environmentally sustainable basis.
- Promote and replicate sustainable soy pilot projects.
- Act as an internationally recognized Forum for the monitoring of global soy production in terms of sustainability.
- Mobilize diverse sectors interested in participating in the Global Roundtable process and organize Roundtable Conferences on a periodical basis.

14.1. RTRS & Climate Change.

The RTRS does not include any guidelines that specifically refer to climate change. The various initiatives that are undertaken by RTSP to stimulate responsible soy production supports the avoidance of deforestation. So indirectly this initiative plays a role in combating climate change.

14.2. RTRS & Energy.

RTRS has not developed any specific energy guidelines for the financial sector.

14.3. Which of the 18 organisations are involved in the RTRS?

Roundtable Members are: RABO Brazil, ABNAMRO Brazil, IFC,

More information: www.responsiblesoy.org

15. UN Global Compact.

In an address to the World Economic Forum on 31 January 1999, the former Secretary-General of the United Nations, Kofi Annan, challenged business leaders to join an international initiative – the Global Compact – that would bring companies together with UN agencies, labour and civil society to support universal environmental and social principles. The Global Compact's operational phase was launched at UN Headquarters in New York on 26 July 2000. Today, thousands of companies from all regions of the world, international labour and civil society

organizations are engaged in the Global Compact, working to advance ten universal principles in the areas of human rights, labour, the environment and anti-corruption.

Through the power of collective action, the Global Compact seeks to promote responsible corporate citizenship so that business can be part of the solution to the challenges of globalisation. In this way, the private sector – in partnership with other social actors – can help realize the Secretary-General's vision: a more sustainable and inclusive global economy.

The Global Compact is a purely voluntary initiative with two objectives:

- Mainstream the ten principles in business activities around the world
- Catalyse actions in support of UN goals

To achieve these objectives, the Global Compact offers facilitation and engagement through several mechanisms: Policy Dialogues, Learning, Country/Regional Networks, and Partnership Projects.

The Global Compact's ten principles in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus and are derived from:

- The Universal Declaration of Human Rights
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption:

Thus far mainly various multinationals have adopted the global compact principles. They are less known within the SME sector. The principles are not meant to be endorsed by public sector entities.

15.1. UN Global Compact & Climate Change.

The ten principles of global compact cover various sustainability topics. The environmental principles 7 – 9 do not cover explicitly climate change.

15.2. UN Global Compact & Energy.

The ten principles of Global Compact do not specifically address energy.

15.3. Which of the 18 organisations are involved in the UN Global Compact?

Involved are: ABNAMRO, ING, RABO, Fortis, WestLB, HSBC,

More information: www.unglobalcompact.org

16. UN Principles for Responsible Investments (UN PRI).

In early 2005 the United Nations Secretary-General invited a group of the world's largest institutional investors to join a process to develop the Principles for Responsible Investment (PRI). Individuals representing 20 institutional investors from 12 countries agreed to participate in the Investor Group. The Group accepted ownership of the Principles, and had the freedom to develop them as they saw fit.

The Principles are voluntary and aspirational. They are not prescriptive, but instead provide a menu of possible actions for incorporating Environmental Social and Governance (ESG) issues into mainstream investment decision-making and ownership practices. Signing represents a commitment to the Principles, demonstrating support from the top-level leadership of the whole investment business. And applying the Principles should not only lead to better long-term financial returns but also a closer alignment between the objectives of institutional investors and those of society at large.

The process was coordinated by the United Nations Environment Programme Finance Initiative (UNEP FI) and the UN Global Compact. The PRI reflects the core values of the group of large investors whose investment horizon is generally long, and whose portfolios are often highly diversified. However, the Principles are open to all institutional investors, investment managers and professional service partners to support.

16.1. UN PRI & Climate Change.

The PRI cover a broad range of sustainability topics. There are no specific principles concerning climate change.

16.2. UN PRI & Energy.

The PRI do not cover specifically energy.

16.3. Which of the 18 organisations are involved in the UN PRI?

Involved are: ABP, PGGM, CalPERS, ABNAMRO, Robeco (part of the RABO group), HSBC,

More information: www.unpri.org

17. World Economic Forum (WEF).

The World Economic Forum is an independent international organization committed to improving the state of the world by engaging leaders in partnerships to shape global, regional and industry agendas.

Incorporated as a foundation in 1971, and based in Geneva, Switzerland, the World Economic Forum is impartial and not-for-profit; it is tied to no political, partisan or national interests. The World Economic Forum is under the supervision of the Swiss Federal Government.

17.1. WEF & Climate Change.

As part of the World Economic Forum's Environment Team, the Climate Change Initiative supports several activities, led by the Gleneagles Dialogue on Climate Change, Clean Energy and Sustainable Development, an international policy dialogue process involving G8 countries plus 12 other significant emitting countries.

Other initiatives focus on standardization, notably the Global Greenhouse Gas Register, which works towards standardization and transparency of corporate carbon footprints, and the Voluntary Carbon Standard, which addresses project-based emission reductions in unregulated markets.

17.2. WEF & Energy.

The WEF has undertaken various initiatives concerning energy. Topics that are being discussed are: energy & security, energy and poverty alleviation, energy and climate change and renewable energy.

The discussions in the WEF has not led to any specific energy guidelines for the financial sector.

17.3. Which of the 18 organisations are involved in the WEF?

The following organisations are a member of the WEF:

- ABNAMRO, Bank of America, IFC

More information: www.weforum.org

18. US Environmental Protection Agency's (EPA) Climate Leader Program.

Climate Leaders is an US industry-government partnership that works with companies to develop long-term comprehensive climate change strategies.

18.1. EPA & Climate Change

EPA partners set a corporate-wide greenhouse gas (GHG) reduction goal and inventory their emissions to measure progress. By reporting inventory data to EPA, partners create a lasting record of their accomplishments. Partners also identify themselves as corporate environmental leaders and strategically position themselves as climate change policy continues to unfold.

Climate Leaders partners represent a variety of industries and sectors, from manufacturers and energy providers to financial institutions and retailers. More than half the Partners are Fortune 500 companies.

Climate Leaders partners strive to set the standard for GHG management by agreeing to develop a corporate-wide GHG inventory and set an aggressive GHG emissions reduction goal. To assist Partners in this effort, EPA has developed several tools and services for developing their GHG inventories, reporting GHG emissions reductions, setting and tracking reduction goals, and promoting their successes. These resources include:

- Inventory Guidance Documents
- Inventory Management Plan Checklist
- Annual GHG Inventory Summary and Goal Tracking Form
- Technical Assistance
- Public Recognition

18.2. EPA & Energy.

EPA has not developed any specific energy guidelines for the financial sector.

18.3. Which of the 18 organisations are involved in EPA?

The following organisations are a partner in this US EPA initiative:

- Bank of America, HSBC North America

More information: www.epa.gov

19. UK Business & the Environment Programme of HRH the Prince of Wales (BEP).

The Business & Environment Programme (BEP) was established in 1994. It is developed and run by the University of Cambridge Programme for Industry (CPI). Although CPI runs executive programmes and policy and strategy dialogues for leaders in the private and public sectors internationally, it is fair to say that the main corporate participants are UK based companies.

The programme is now recognised as a:

- Global forum for exploring and debating the business case for sustainable development
- Unique source of leading-edge information and expertise
- Top-level international network for the exchange of ideas and best practice on sustainability.

CPI encourages sustainability awareness and action, focusing on the following six main themes.

- Sustainable Development
- Energy and Climate Change
- Poverty and development
- Partnerships Ethics and governance
- Sustainable consumption and production
- Sustainable Finance

19.1. Business & the Environment Programme & Climate Change.

Within the BEP the so-called "Corporate Leaders Group on Climate Change (CLGCC) has been formed. This group consists of 18 - mainly UK based - multinationals among which two banks, being ABN AMRO and Standard Chartered.

The first output from the CLGCC was a letter to the UK Prime Minister in the run up to the G8 Summit in Gleneagles in 2005. The letter argued that investing in a low-carbon future should be "a strategic business objective for UK plc as a whole" and pointed out that at present "the private sector and governments are in a 'Catch 22' situation with regard to tackling climate change, in which governments feel limited in their ability to introduce new climate change policy because they fear business resistance, while companies are unable to scale up investment in low carbon solutions

because of the absence of long-term policies". The group is currently working in partnership with the UK Government towards strengthening domestic and international progress on reducing greenhouse gas emissions. They are also working to engage other British businesses, the UK public, governments and businesses internationally to back this effort. In 2006 the CLGCC has also sent letters to the UK prime minister and president Barroso of the European Commission to take actions in the field of climate change.

The BEP has not developed any specific climate change guidelines for the financial sector.

19.2. Business & the Environment Programme & Energy.

In the various programs and activities of the BEP the topic of energy is linked to climate change. There are no specific energy guidelines for the financial sector.

19.3. Which of the 18 organisations are involved in the Business & Environment Programme?

Among the 18 organisations involved in the research only ABNAMRO is participating in the BEP initiative and the GLGCC.

More information: www.cpi.cam.ac.uk/bep

20. Coalition for Environmentally Responsible Economies (CERES).

Ceres is a US based national network of investors, environmental organizations and other public interest groups working with companies and investors to address sustainability challenges such as global climate change.

Ceres' mission is to move businesses, capital, and markets to advance lasting prosperity by valuing the health of the planet and its people. The work of the Investor Network on Climate Risk (INCR) is directed by Ceres (see below), which is renowned for its ability to bring diverse groups together to find positive solutions for complex environmental and social challenges.

Ceres works closely with a select group of approximately 65 companies and 85 other collation partners that have made public commitments to stakeholder engagement, public disclosure, and performance improvements.

Ceres' work falls into four main program areas:

- **Investors**

Ceres works with investors worldwide to improve corporate and public policies on climate change, as well as other environmental, social, and corporate governance issues.

- **Companies**

Over 65 companies have become "Ceres Companies" by making public commitments to stakeholder engagement, public disclosure and performance improvements through Ceres. These companies believe these actions lead to long-term business value and improved management quality.

- **Industry**

Ceres is coordinating dialogues on climate change in the electric power sector, working with oil companies to protect biodiversity and address climate change, supporting regional efforts to address climate change in North America, and working with insurance companies to adequately assess the effect of climate change in this sector.

- **Sustainability Reporting**

Since founding the Global Reporting Initiative in 1997, Ceres has promoted the adoption of the GRI by U.S. companies and has assisted many corporations in developing sustainability reports.

20.1. CERES & Climate change

Ceres does quite some research and published various reports on climate change. Furthermore it engages with companies to persuade them to develop and implement a business strategy on climate change. CERES has not developed any specific climate change guidelines for the financial sector.

20.2. CERES & Energy.

CERES has not developed any specific energy guidelines for the financial sector.

20.3. Which of the 18 organisations are involved in the CERES Network?

Of all the organisations involved in this study only the Bank of America is participating in the CERES network.

More information: www.ceres.org

21. The Investor network on climate risk (INCR).

The Investor Network on Climate Risk (INCR) is a network of institutional investors and financial institutions dedicated to promoting better understanding of the financial risks and investment opportunities posed by climate change.

INCR was launched at the first Institutional Investor Summit on Climate Risk at the United Nations in November 2003, and now includes more than 50 institutional investors that collectively manage over $4 trillion in assets. Members engage companies and policy makers through educational forums, shareholder resolutions, and other actions to ensure the long-term health of their investments.

INCR organizes summits, conferences and forums to educate pension fund managers and other investment professionals about climate risks to their portfolios. It publishes and distributes reports, such as the "Investor Guide to Climate Risk," and "Managing the Risks and Opportunities of Climate Change: A Practical Toolkit for Corporate Leaders."

21.1. INCR & Climate Change.

INCR supports and coordinates its members' engagement with their portfolio companies and policy makers on climate risks and potential business opportunities. Beyond shareholder resolutions addressing climate change, INCR members reach out to companies vulnerable to the physical risks of climate change, such as insurers and real estate investment managers. INCR members also participate in dialogues with companies in key carbon-emitting sectors, including electric power and oil & gas, which face regulatory risks.

21.2. INCR & Energy.

INCR has not developed any specific energy guidelines for the financial sector.

21.3. Which of the 18 organisations are involved in the INCR?

ABP, PGGM and Calpers are participating in the INCR network:

More information: www.incr.com

22. The Institutional Investors Group on Climate Change (IIGCC).

The Institutional Investors Group on Climate Change (IIGCC) is a forum for collaboration between pension funds and other institutional investors on issues related to climate change.

22.1. IIGCC & Climate Change.

Through cooperation in its network the IIGCC seeks to:

- Promote better understanding of the implications of climate change amongst our members and other institutional investors.
- Encourage companies and markets in which IIGCC members invest to address any material risks and opportunities to their businesses associated with climate change and a shift to a lower carbon economy.

IIGC has not developed specific guidelines for climate change.

22.2. IIGCC & Energy.

The IIGCC has not developed any specific energy guidelines for the financial sector.

22.3. Which of the 18 organisations are involved in the IIGCC?

ABP, PGGM and HSBC are involved in the IIGC.

More information: www.iigc.org

23. European Social Investment Forum (Eurosif).

The European Social Investment Forum (Euosif) is a pan-European group whose mission is to address sustainability through financial markets. Current member affiliates of Eurosif include pension funds, financial service providers, academic institutes, research associations and NGO's. The association is a not-for-profit entity that represents assets totalling over €600bn through its affiliate membership.

Eurosif has four main activities:

- EU Lobbying: Eurosif picks 1 to 2 topics to follow at the EU level and ensures that the affiliate membership's views are represented. Member affiliates are invited to attend meetings with EU actors.
- Research: Eurosif provides member affiliates with privileged access to current research on legislation, policies and practices for the integration of social, environmental, ethical and governance issues into European financial services.
- Initiatives: Eurosif participates in a number of pan European initiatives with member affiliates such as Pension Fund collaboration, Trustee education and Guideline development.
- Events/Communications: Eurosif organizes or participates in about 6 events per year on the state of SRI across Europe and invitations to international events.

23.1. Eurosif & Climate change.

Eurosif focuses on social and environmental responsible investments. Climate change is part of the overall sustainability agenda.

Eurosif has not developed any specific climate change guidelines for the financial sector.

23.2. Eurosif & Energy.

Eurosif has not developed any specific energy guidelines for the financial sector.

23.3. Which of the 18 organisations are involved in Eurosif?

Involved: ABP,ABNAMRO, Fortis, HSBC, Triodos and WestLb.

More information: www.eurosif.org

24. The International Corporate Governance Network (ICGN).

The International Corporate Governance Network (ICGN) is an unincorporated, not-for-profit association under the laws of England and Wales. It has four primary purposes:

- to provide an investor-led network for the exchange of views and information about corporate governance issues internationally;
- to examine corporate governance principles and practices; and
- to develop and encourage adherence to corporate governance standards and guidelines;
- to generally promote good corporate governance.

Membership of ICGN is open to those who are committed to the development of good corporate governance.

ICGN members are estimated to hold assets exceeding $10 trillion.

24.1. ICGN & Climate Change.

The ICGN focuses on corporate governance issues. Climate change is not covered by the ICGN.

24.2 . ICGN & Energy.

Energy is not part of the governance agenda of ICGN.

24.3. Which of the 18 organisations are involved in the ICGC?

ABP and PGGM are both involved in the ICGN.

More information: www.icgc.org

25. The Center for Environmental Leadership in Business (CELB).

Conservation International (CI) and Ford Motor Company established The Center for Environmental Leadership in Business (CELB) to engage the private sector worldwide in creating solutions to critical global environmental problems in which industry plays a defining role.

CELB works on two complementary levels—global and local. CELB convenes global dialogues to create best practices within key industries worldwide and promote effective policy solutions on issues such as global climate change. At the same time, CELB tests its' ideas in the field with businesses operating in places such as biodiversity hotspots and wilderness areas. CELB believes that both approaches are essential to ensure that conservation solutions are viable and replicable and have buy-in at both business unit and corporate levels.

25.1. CELB & Climate Change.

CELB is working with companies to encourage investments in carbon offsets projects that provide multiple benefits—carbon storage, biodiversity protection and local community development.

CELB has not developed any specific climate change guidelines for the financial sector.

25.2. CELB & Energy.

CELB has not developed any specific energy guidelines for the financial sector.

25.3. Which of the 18 organisations are involved in CELB?

Bank of America is involved in the CELB.

More information: www.celb.org

26. Environmental Bankers Association (EBA).

Environmental Bankers Association (EBA) is a non-profit trade association that represents the financial services industry, including bank and non-bank financial institutions, insurers, and those who provide services to them. It has approximately 100 members.

The EBA was established in 1994 in response to heightened sensitivity to environmental risk issues, and the need for environmental risk management and due diligence policies and procedures in financial institutions.

The EBA meets formally twice a year at a location hosted by one of its members. The meetings provide not only a forum to promote the exchange of environmental risk management and sustainable development lending information and technical expertise but also provides the opportunity for our members to network.

26.1. EBA & Climate Change

The topic of climate change is frequently discussed within the EBA. EBA did not set any climate change standards or guidelines.

EBA has not developed any specific climate change guidelines for the financial sector.

26.2. EBA & Energy.

EBA has not developed any specific energy guidelines for the financial sector.

26.3. Which of the 18 organisations are member of EBA?

ABNAMRO and Bank of America are members of the EBA.

More information: www.envirobank.org

27. European Greenlight Program.

The GreenLight Programme is a voluntary pollution prevention initiative encouraging non-residential electricity consumers (public and private), referred to as Partners, to commit towards the European Commission to install energy-efficient lighting technologies in their facilities when (1) it is profitable, and (2) lighting quality is maintained or improved. GreenLight was launched on 7 February 2000 by the European Commission Directorate General Energy & Transport.

The objective of the GreenLight programme is to reduce the energy consumption from indoor and outdoor lighting throughout Europe, thus reducing polluting emissions and limiting the global warming. The objective is also to improve the quality of visual conditions while saving money.

The core of the programme is a registration form, signed by the Partner and the Commission, in which the Partner commits to:

- For existing spaces: either upgrade at least 50% of all the eligible spaces owned or on long term leases or reduce the total aggregate lighting electricity consumption by at least 30%. Eligible spaces are those spaces where the lighting upgrades are profitable.
- For new spaces: choose new installations so that no alternative installation exists that would: maintain or improve the lighting quality provided by the chosen installation and consume less electricity and represent a supplementary investment which would be profitable.
- In addition, the Partner shall complete the upgrades within 5 years of joining the programme, send a progress report every year and appoint a Corporate Manager responsible for assuring the programme execution.

The programme is totally voluntary, which means that companies are free to decide whether they want to join or not.

The program does not focus on indirect climate change footprint.

27.1. Greenlight Program & Climate Change

The program aims at the reduction of energy consumption, which is obviously of relevance to climate change.

The program has not developed any specific climate change guidelines for the financial sector.

27.2. Greenlight Program & Energy.

The program has not developed any specific energy guidelines for the financial sector.

27.3. Which of the 18 organisations are involved in the European Greenlight Program?

ING is a partner of the European Greenlight Program.

More information: www.eu-greenlight.org

28. European Principles for the Environment (EPE).

The European Principles for the Environment (EPE) is a joint initiative, launched in May 2006, between the EIB and 4 other European-based Multilateral Development Banks in response to the drive for increased harmonisation of environmental principles, practices and standards associated with the financing of projects. The other participants in this initiative are: Council of Europe development bank, the EBRD, Nordic environment Finance corporation and Nordic Investment Bank.

The EPE promotes the EU approach to environmental sustainability, and commits the signatories to applying EU principles, practices and standards to all projects financed by the signatory institutions.

28.1. EPE & Climate Change.

EPE does not specifically address climate change.

28.2. EPE & Energy.

EPE does not specifically address energy.

28.3. Which of the 18 organisations are involved in the EPE?

EIB and the EBRD are involved in the EPE Initiative.

More information: www.eib.org/infocentre/epe/index.htm

29. London Principles

In 2002, the City of London launched the “London Principles” at the Johannesburg Earth Summit. It formed the UK financial services sector's response to the summit on behalf of the Government. The London Principles are part of a report that was published in 2002, which contains a compendium of best practice, draws out

lessons for future innovation and proposes mechanisms to ensure continual progress. The set of seven "London Principles" propose conditions under which financial market mechanisms can best promote the financing of sustainable development.

The text of the "London Principles" can be found in annex……

29.1. London Principles & Climate change.

The London principles do not specifically refer to climate change. They have been designed to promote sustainable development by the UK financial sector. There are, however, two principles that are of relevance to climate change. Principle 3 states that the cost of environmental and social risks should be reflected in the pricing of financial and risk management products. And principle 5 states that access should be provided to finance for the development of environmentally beneficial technologies.

29.2. London Principles & Energy.

The London principles do not specifically refer to energy.

29.3. Which of the 18 organisations are involved in London Principles?

From the website of the city of London it cannot be assessed which organisations have joined this initiative.

More information: www.cityoflondon.gov.uk

30. Berne Union (BU).

The Berne Union (BU), or officially, the International Union of Credit & Investment Insurers, is the leading international organisation and community for the export credit and investment insurance industry. The Berne Union and Prague Club combined have more than 70 member companies spanning the globe.

The Berne Union actively facilitates cross-border trade by supporting international acceptance of sound principles in export credits and foreign investments and by providing a forum for professional exchanges among its members.

Berne Union members occupy a key position in global trade markets, where they covered US$788 billion worth of business in 2004. This amounts to about 10% of the world's total export trade. Globally members have supported exports from 1982 - 2004 amounting to around US$8,500 billion and they have supported foreign direct investments of around US$190 billion.

The main role of Berne Union member organisations, coming from both the public and private sector, is to support exports and/or investments to both highly developed and emerging markets. They do this by providing insurance or guarantees to protect exporting companies, investors and financing banks against political and/or commercial risks.

Consistent with Berne Union's objective to work for the international acceptance of sound underwriting principles, Berne Union members are committed to conduct their business in a manner that contributes to the stability and expansion of global trade on a sustainable basis.

The BU members are committed to the following purpose / value Statement:

> *"We are committed to operate in a professional manner that is financially responsible, respectful of the environment".*

This value statement is also the basis for the BU guiding principles which have been adopted by its members in November 2006. These principles cover a broad range of sustainability topics such as: the environment, corruption, transparency and money laundering

31.1. BU & Climate change.

The guiding principles do not specifically refer to climate change.

31.2. BU & Energy.

The BU guiding principles do not specifically refer to energy.

31.3. Which of the 18 organisations are involved in the Berne Union?

Atradius is a member of the Berne Union.

More information: www.berneunion.org.uk

32. The Carbon Principles.

The Carbon Principles have been developed by three large US based banks, being Citi Bank, JP Morgan Chase and Morgan Stanley. The 3 principles provide guidance for advisors and lenders to power companies in the United States and the following:

Energy efficiency. An effective way to limit CO_2 emissions is to not produce them. The signatory financial institutions will encourage clients to invest in cost-effective demand reduction, taking into consideration the value of avoided CO_2 emissions. They will also encourage regulatory and legislative changes that increase efficiency in electricity consumption including the removal of barriers to investment in cost-effective demand reduction. The institutions will consider demand reduction caused by increased energy efficiency (or other means) as part of the Enhanced Diligence Process and assess its impact on proposed financings of certain new fossil fuel generation.

Renewable and low carbon distributed energy technologies. Renewable energy and low carbon distributed energy technologies hold considerable promise for meeting the electricity needs of the US while also leveraging American technology and creating jobs. The financials institutions will encourage clients to invest in cost-effective renewables and distributed technologies, taking into consideration the value of avoided CO_2 emissions. They will also encourage legislative and regulatory changes that remove barriers to, and promote such investments (including related investments in infrastructure and equipment needed to support the connection of renewable sources to the system). The financial institutions will consider production increases from renewable and low carbon generation as part of the Enhanced Diligence process and assess their impact on proposed financings of certain new fossil fuel generation.

Conventional and advanced generation. In addition to cost effective energy efficiency, renewables and low carbon distributed generation, investments in conventional or advanced generating facilities will be needed to supply reliable electric power to the US market. This may include power from natural gas, coal and nuclear technologies. Due to evolving climate policy, investing in CO_2-emitting fossil fuel generation entails uncertain financial, regulatory and certain environmental liability risks. It is the purpose of the Enhanced Diligence process to assess and reflect these risks in the financing considerations for certain fossil fuel generation. The financial institutions will encourage regulatory and legislative changes that facilitate carbon capture and storage (CCS) to further reduce CO_2 emissions from the electric sector.

32.1. Carbon Principles & Climate Change.

The Carbon principles have been specifically designed to take CO2 emission issues into account in financing energy projects.

32.2. Carbon Principles & Energy.

The Carbon Principles have been specifically developed for the financing of the energy sector in the US.

It is expected that these principles will be adopted by other banks in the near future

32.3. Which of the 18 organisations are involved in the IIGCC?

None of the 18 organisations involved in this study have adopted the Carbon Principles.

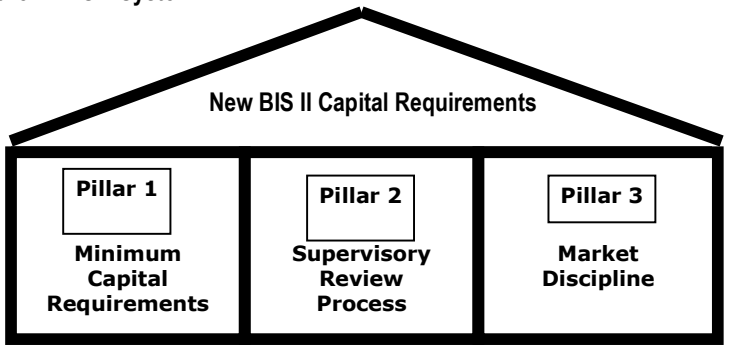
More information: www.morganstanley.com/about/press/files/carbonprinciples2.pdf

Annex 2. A brief outline of the BIS II Framework

The BIS II system is a very complex capital adequacy / risk management framework that is based upon three pillars as illustrated in the figure 1 below, and being:

1) Minimum capital requirements, which defines minimum solvency requirements for the various risks to which a bank is exposed;
2) Supervisory review, describing a.o. the exchange of information between commercial banks and the supervising central bank and the role of the supervisor;
3) Market discipline, which describes a.o. various topics that commercial banks need to disclose to the public, because transparency is key for an optimal functioning of the market.

Figure 1: BIS II System



The main risks in the BIS II Regulations

BIS II recognises the following three key risks in the banking sector:

1) Credit Risk

Credit risk is the most important risk in the banking sector. This risk has already been explained in the previous paragraphs

2) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements. Examples of operational risk are fraud by an employee (e.g. Nick Leeson and the collapse of the Barings bank) or an natural disaster affecting the bank's office (business risk).

3) Market risk

Market risk is the risk that the value of an investment will decrease due to moves in market factors. The four standard market risk factors are:

- Equity risk - or the risk that stock prices will change.
- Interest rate risk - or the risk that interest rates will change.
- Currency risk - or the risk that foreign exchange rates will change.
- Commodity risk - or the risk that commodity prices will change.

The BIS II arrangements for minimum capital requirements for credit risk in Pillar I are split in three alternatives. Individual banks can – with approval of their supervising central bank - choose one of these alternatives to determine the minimum capital requirements for its operations. The three alternatives are the following:

4. The Standardised approach
5. The Foundation internal ratings-based approach
6. The Advanced internal ratings-based approach

In the standardised approach the minimum solvency requirements for credit risk are determined by external ratings from reputable credit rating agencies such as Standard & Poor's, Moody's and Fitch. In the two internal ratings-based approaches the solvency requirements are based upon historical loss parameters from an individual bank. The advanced approach is the most sophisticated, whereas in the foundation approach some loss parameters are set by the Central Bank.

To explain the way the solvency requirements work table below shows the solvency requirements under the standardised approach.

Minimum Solvency requirement in % for credit risk

	Credit Rating				
Borrower	AAA	A+	BBB+	BB+	Not
	AA-	A-	BBB-	B-	Rated
Sovereign	0	1,6	4	12	8
Bank	1,6	4	8	12	8
Corporate	1,6	4	8	12	8

If a corporate borrower with an S&P rating of BBB receives a loan of for example EUR 100,000, the BIS solvency requirement determines that the bank involved has to reserve EUR 8,000 to protect itself against potential losses. This reserve requirement determines therefore also part of the costs of capital of a bank. The costs of capital are in turn an important component in the determination of the interest rate that is charged by the lending bank. Apart from these regulatory costs there are many other factors, such as the funding costs of a bank (the bank has to "borrow" money to on-lend), the level of competition in the bank market, the country of the borrower, the nature of the project and the quality of potential securities, that determine the overall costs to be paid by the borrower.

Annex 3

ABN AMRO Overview	
ABN AMRO is an international bank with European roots. It has a clear focus on consumer and commercial clients in its' local markets and globally it serves multinational corporations and financial institutions, as well as private clients. The bank is active in four customer segments: Personal Banking, Private Banking, Business & Commercial and Corporate & Institutional. The total assets of the bank were in 2006 Euro 987 billion, among which almost Euro 2 billion sustainable assets (e.g. ABN AMRO green bank and various SRI funds/ mandates). In 2006 ABN AMRO operated in 56 countries and had approximately 105.000 employees. In 2006 ABN AMRO made a profit of Euro 4, 7 billion. In October 2007 the bank was taken over by a consortium consisting of Royal Bank of Scotland, Fortis and Santander and further climate change efforts will be determined by the new owners. ABN AMRO is rated by various international credit rating agencies among which Standard & Poor's (AA-) and Moody's (Aa2). ABN AMRO is included in the Dow Jones sustainability index-world, Dow Jones sustainability index-Stoxx, FTSE4Good Europe 50 and FTSE4GoodWorld 100, and rated by various sustainability rating agencies among which Innovest Strategic Value Advisors and Oekom Research.	
1. Corporate Values & Business principles.	ABN AMRO has four corporate values, being: • Integrity • Teamwork • Respect • Professionalism In addition it has develop 10 business principles to guide its' daily business activities. These principles are: • We are the heart of our organisation • We pursue excellence • We aim to maximise long-term shareholder value • We manage risk prudently and professionally • We strive to provide excellent service • We build our business on confidentiality • We assess business partners on their standards • We are a responsible institution and a good corporate citizen • We respect human rights and the environment • We are accountable for our actions and open about them
2. ABN AMRO & Energy	The energy sector is important to ABN AMRO. It is one of the world's leading financiers of the energy sector. The bank has not developed a comprehensive energy policy, but various specific policies or guidelines for the following sectors: Oil & gas, Mining (including coal), Dams, Nuclear, Environmental and social risk assessment framework for Oil Sands developments. The bank finances also renewable energy projects, but has not set any publicly stated specific targets.
3. Sustainability initiatives & policies	**International initiatives / Policies:** ABN AMRO has committed itself to a number of international initiatives and policies such as: (1) GRI, (2) Carbon Disclosure Project, (3) UNEP FI (4) UN Global Compact, (5) UN PRI (6) WBCSD, (7) WEF, (8) Equator

	Principles (9) UK BEP Prince of Wales (10) FSC, (11) Climate Group (12) EBA (13) RTRS. **Internal initiatives/ guidelines:** ABN AMRO has a clear strategy on sustainable development and has developed various sector specific sustainability policies, amongst them are the ones for the energy sector mentioned under point 3 above. In addition the bank has developed a forestry policy, which applies to business engagements in the forestry and plantations sector, and to related engagements that may impact such resources. The policy excludes the bank from financing companies or projects that are involved in illegal logging, or the extraction in an unsustainable manner of primary or high conservation value forests, or that do not have an explicit policy of respecting human or indigenous rights. For client engagements, the bank seeks to ensure that adequate documentation is available to enable monitoring and certifying organisations to trace the origins of each product, and for both clients and projects seeks to ensure that a forestry management plan, a biodiversity action plan and soil and water management plan are in place.
4. Climate change policy explaining relevance of climate change for the bank and specify how the bank sees its role and responsibilities.	ABN AMRO does not have a comprehensive climate change policy. The issue is, however, seen as one of the major environmental challenges of our time and the bank considers climate change and the policy responses to climate change are becoming increasingly more important to the business community. For this reason ABN AMRO had climate change as a focus area in its Sustainability Report for 2006 and discussed dilemmas and cases related to energy and climate issues. In the sustainability review to be published in April 2008 Climate change also features prominently. There is a clear policy for the direct footprint issues of climate change. Concerning indirect footprint the focus of the bank is very much on seeking business opportunities and product development (see below point 9). Less attention is being given to the risks of climate change in doing business with clients. ABN AMRO recognises the potential impacts climate change might have to its customers. We differentiate between physical, regulatory (direct compliance costs; indirect value chain impacts) and reputational risks. The central ESE risk management function is currently undertaking projects to better assess, quantify and frame those risks with a view to develop appropriate management tools.
5. Clear reduction targets for both direct and indirect CO2 emissions.	**Direct footprint:** The bank has implemented a global energy efficiency programme, targeting a reduction of 10% in Group-wide energy consumption by 2008 (compared to its 2004 level) based on relative metrics (kWh/m^2, kWh/FTE), and with a proportionate reduction in CO_2 emissions. All Dutch offices use green electricity (this is also true of Switzerland) and the bank is investigating to do this also in other countries were feasible. **Indirect footprint:** ABN AMRO does not measure its' indirect CO2 footprint.
6. Public initiatives and NGO engagement.	ABN AMRO seeks a.o. engagement with its stakeholders and peers in the business through participation in the various international sustainability initiatives / working groups as mentioned under point 4 above. In addition ABN AMRO has frequent stakeholder engagement meetings with clients and certain NGOs. In 2006 meetings were held with various NGOs such as Amnesty, Oxfam/Novib, WWF UK, Friends of the Earth NL, Bank Track and Greenpeace. These engagements covered various sustainability topics and issues. Climate change issues being discussed as a component of ABN AMRO's overall stakeholder dialogue..

7. Climate issues taken into account in client or transaction assessments / client engagement on the issues.	In the general business specific climate issues are not yet in a standardised way taken into account in client or transaction assessments. The bank applies a client engagement tool, which includes various sustainability criteria. The overall sustainability performance of (potential) clients is taken into account. In case of poor performance on environmental or social matters (e.g. human rights, severe environmental pollution) and unwillingness to improve the bank has demonstrated its preparedness to decline the client or the transaction. For client and or transaction engagements the internal policies mentioned above are relevant. For private sector project financing the Equator Principles have been adopted as the benchmark for environmental and social assessment. The bank engages with clients around various sustainability topics. It is unknown how often the topic of climate change is discussed.
8. Develop new products to stimulate clients to reduce their CO2 emissions.	Products developed are: • The bank is active in emission trading. In addition to facilitating trading, ABN AMRO offers risk management advice to its' clients; can take custody of EU allowances or carbon credits; take on back-office administration, and can manage the positions of clients under the EU ETS. Finally, ABN AMRO also markets carbon credits from CDM and JI projects to clients under the EU ETS. • Financing renewable energy projects • Various SRI funds i.e. ABN AMRO Green Fund, which invests at least 70% of its capital in "green" projects that support the environment and contribute to climate change (e.g. wind- and solar-energy) • ABN AMRO Green Bank: issues fixed-term, fixed-rate bank bonds in the Netherlands for environmentally friendly projects; • Alternative risk transfer products such as weather derivatives, CATastrophe bonds, and commodity derivatives.
9. Report annually on direct and indirect CO2 emissions and progress towards targets (GHG Protocol or GRI).	• ABN AMRO has a solid GRI based sustainability report (prepared at GRI G3 Guidelines at A+ and also independently audited) and reports its direct CO2 footprint. Indirect footprint is not reported. • ABN AMRO reports to the Carbon Disclosure Project and was rated in the Climate Disclosure Leadership Index in CDP5 (2007).

Annex 4

ASN Overview	
ASN is largest sustainable bank in the Netherlands offering a broad spectrum of sustainable products. ASN Banks' mission is to invest exclusively in organisations which expressly take into account the interests of human rights, animal welfare and the environment.	
1. Climate change policy explaining relevance of climate change for the bank and specify how the bank sees its role and responsibilities.	ASN bank provides capital to ventures and organisations which promote a sustainable society. Companies and sectors which undermine such a sustainable society ideal are excluded. ASN bank uses sustainability criteria for all its products and services. Climate change policy is explained in ASN Bank Issue Papers Climate
2. Clear reduction targets for both direct and indirect CO2 emissions.	For direct emissions (ASN Banks' office): -5% CO2/fte in 2008 compared to 2006 For indirect emissions (Emissions related to its investments) the goal is to maximise its contribution to mitigation per invested Euro. Next step is to develop methodology to quantify this contribution
3. Public initiatives and engagement.	ASN has developed savings accounts in partnership with Greenpeace and Novib. Membership of Carbon Disclosure Project.
4. Climate issues taken into account in client or transaction assessments / client engagement on the issues.	Companies must demonstrate that they pursue an active and integrated environmental policy. The following factors will be assessed: the nature of the raw materials used; the nature of the end-products; energy consumption; use of clean water; the nature of the emissions released and the solid waste resulting from production; the scope for and the extent of recycling of the end-product. The assessment of the company will not only take into account the existing environmental situation, but also the approach by and in the company to bring about change and improvement in this respect. The selected organisations are reassessed at least once in three years.
5. Develop new products to stimulate clients to reduce their CO2 emissions.	All products are designed to maximise their contribution to mitigation per invested Euro. For Clients this means ASN Banks' savings and investment products give as low as possible carbon footprint per invested Euro.
6. Report annually on direct and indirect CO2 emissions and progress towards targets (GHG Protocol or GRI).	Sustainability report - uses GRI G3 reference index including independent external assurance. GHG protocols WBCSD are used for emissions on transport, heating and electricity. Member of CDP since 2006, ASN Bank is not selected by CDP for supplying data for its database.

Annex 5

Fortis Overview	
Fortis is an international provider of banking and insurance services to personal, business and institutional customers. Fortis ranks among Europe's top 20 financial institutions, with a market capitalisation of EUR 51 billion (15 Oct 2007), and a professional workforce of 60,000. The combination resulting from Fortis and selected ABN AMRO businesses will enjoy pre-eminent positions in all major market segments in the Benelux region and will be the third largest Western European private bank and a top-tier European asset manager. Net profit EUR 3.9 billion in 2007. EUR 875 billion assets (Oct 2007).Fortis has an Aa3 rating from Moody's, and an A+ rating from Standard & Poor's.	
1.Corporate Values & Business Principles	In an increasingly complex, yet ever more convergent world, innovation, speed and agility will be as crucial as scale, track record and reach. We will stand out as a professional international financial services brand, recognised for our ability to deliver superior and sustainable stakeholder value by constantly anticipating and surpassing the needs of customers, investors, employees, partners and communities wherever we do business. Fortis also has Principles of Business Conduct dealing with its relationship with shareholders, customers, internal, intermediaries, and communities.
2.Fortis & Energy	Fortis has dedicated teams for the complete energy value chain including a leading renewables portfolio and a multi award winning carbon desk.
3.Sustainability initiatives & policies	Fortis has the following industry and issue policies in place: shipping, defence, agri-commodities, human rights, responsible lending and sustainable procurement. International initiatives / Policies: Fortis has committed itself to a number of international initiatives and policies such as: (1) CSR Europe, (2)) UNEP FI (3) UN Global Compact. (4) Equator Principles (5) UN Principles for Responsible Investment.
4. Climate change policy explaining relevance of climate change for the bank and specify how the bank sees its role and responsibilities.	Fortis launched in 2007 its carbon neutrality programme on a global scale, through a comprehensive programme. Fortis's carbon neutrality programme comprises seven specific measures: 1. Reducing worldwide operational and travel-related energy consumption[1] by 10% per FTE by the end of 2010. 2. Switching entirely to high-quality green electricity (power from renewable sources) in Belgium in 2007, and in the Netherlands and Luxembourg in 2008. 3. Acquiring a portfolio of high-quality carbon offsets in 2007 for the significant global emissions that remain. 4. Increasing Fortis's carbon banking commitment in 2007 by means of equity investment in carbon reduction, fund or asset companies. 5. Increasing Fortis's commitment to renewable energy financing in 2007 by enhancing MLA business, advisory services, and debt and equity financing. 6. Investigating the overall carbon impact, risks and opportunities related to Fortis's lending, insurance and investment activities. 7. Drawing up a Fortis policy on climate change.

[1] Worldwide operational and travel-related energy consumption includes electricity, other energy sources, e.g. gas, oil and coal, and business travel by lease car and aeroplane (excluding commuting).

5. Clear reduction targets for both direct and indirect CO2 emissions.	Fortis aims to reduce energy consumption by 10% by 2010 in its global operations.
6. Public initiatives and engagement.	Fortis is the financial services provider for UNDP's MDG Carbon Facility. CDM projects are limited in geographic reach, restricted mainly to Asia and Latin America, and have focused primarily on 'end of pipe' technologies that generate limited benefit for long-term sustainable development. The Facility aims to address limitations by expanding the CDM's presence into countries and regions previously considered inaccessible to carbon finance.
7. Climate issues taken into account in client or transaction assessments / client engagement on the issues.	• The most direct climate change related commercial risk and opportunity comes from negative economic valuation of carbon emissions and the positive economic valuation of greenhouse gas abatement. EU ETS carbon constraint has significant consequences for a number of clients operating in energy-intensive sectors. • Fortis concentrates its emission reducing efforts on its energy and emissions intensive customers, and has made carbon as a commodity a focus point of its drive into the commodities and energy markets globally. • For its carbon banking services, the effect of (current and anticipated) GHG regulation is through changing market demand. For energy banking activities, Fortis's relationship managers take the risks and opportunities resulting from existing and proposed future relation into account in their dealings with corporate customers. Fortis believes environmental risks of a client may affect their long-term credit rating and this is taken into account next to many other corporate risk drivers. Environmental risk drivers include emissions risk, carbon allowances and regulatory risk, with a focus on current influences and potential changes in regulation on the financial risk profile of a corporate client. • Fortis includes carbon in the assessment of a transaction whether a potential borrower might be faced with a ceiling on his emissions and requiring purchase of carbon credits. In its credit due diligence, our project finance department will discuss with its borrowers whether such an eventual expenditure for carbon credits has been adequately planned for.
8. Develop new products to stimulate clients to reduce their CO2 emissions.	• Operates SRI funds and mandates for retail, private and institutional clients, with total assets under management of EUR 2.1 billion at the end of 2007. • Invested EUR 1.6 billion in the listed renewable energy companies. • In 2006 the Start Green Sustainable Innovation Fund I was launched, which helps innovative entrepreneurs in the Netherlands who have sustainable new technology ideas and are looking to start their own business. Focus on initiatives in sustainable technology within the water, energy and 'bio agri' sectors. Investments in renewable energy estimated at EUR 5 million at the end of 2006. • Fortis L Fund Equity Environmental Sustainability World in Belgian market. The fund invests in sustainable energy, water and air technologies and waste management technologies. At the end of 2006 this fund had invested EUR 25 million. Estimated 40% (EUR 10 million) is invested in renewable energy. • Carbon Trading Services - to customers to facilitate market access and reduce risk. Increases liquidity by allowing companies to trade small volumes. Fortis also provides clearing services for exchange traded energy and emissions products. • Carbon Finance Services - finance solutions to corporates and projects. Fortis Global Energy & Utilities Group (EUG) has provided EUR 2 billion of financing for 37 renewable energy projects in ten countries. Fortis now is one of the leading banks in the world in the field of renewable project financing, particularly in wind projects. Fortis currently has a portfolio of participations in wind farm loans totalling in ex-cess of EUR 300 million in over 20 projects located in France, Italy, the Netherlands, Spain,

	the UK and the US. Currently looking at solar. • Private Banking has a 50% share in Triodos MeesPierson Sustainable Investment Management. At the end of 2007 EUR 750 million was invested. • EUR 15 million investments in and co-sponsorship of the European Carbon Fund. The ECF purchases, mainly project-based, carbon assets on a forward basis from developing or transition countries. Recently signed agreement that allows for the placement of 24 million tonnes per year, apparently making it the largest liquidity agreement in the carbon market. • Carbon Trust Services - manage the financial assets borne out of the EU ETS and the Kyoto Protocol. Trustee services for the safe keeping of project emissions credits allows the seller to deposit their credits in a registry of their choice ready for sale when they wish. • Carbon Fund Services - Carbon fund services are aimed at facilitating the spread of various types of funds that will invest in clean technology and emission reductions. These include fund tailoring, custody, accounting and transfer services.
9. Report annually on direct and indirect CO2 emissions and progress towards targets (GHG Protocol or GRI).	CDP Questionnaire publicly available. Sustainability Report contains specific section on CO2. Partly uses guidelines of GHG Protocol in conversion factors for CO2 emission reports. Company reports on progress towards targets - of 10% in 2010. Sponsor of the Dutch CDP chapter.

Annex 6

ING Overview	
ING is a leading global financial services company active in insurance, banking and asset management. Its 125.000 employees serve 75 million customers in more than 50 countries worldwide. At Financial Year End 2007, ING Group's Net Profit was EUR 9,241 million. ING enjoys an S&P rating of AA-.	
1. Climate change policy explaining relevance of climate change for the bank and specify how the bank sees its role and responsibilities.	• ING believes it has a role to play by developing strategies to manage the increasing risks and opportunities from climate change (CR Report 2006). • Company efforts are focused on its own operations, commercial services for customers and advocacy. <u>Own Operations</u> • In its Business Principles, ING recognises that certain natural resources are finite and must therefore be used responsibly. • ING's Environmental Statement is a guide for business units on how to limit environmental impact from its operations. Own impact mainly derives from the energy use in buildings, paper and business travel. The Statement urges business units to address these areas, as each is key in the international debate on climate change. In 2007, ING Netherlands, Belgium, and ING Insurance in the US switched to purchasing 100% **green electricity**. In 2008 ING Direct US will follow this example. ING Netherlands signed a covenant with FSC in which it agreed to use 100% FSC certified **paper** and wood in ING offices by 2010. To reduce CO2-emissions from **business travel**, ING employees in The Netherlands may only lease energy efficient (A,B,C-labelled) cars. <u>Commercial Services</u> • In external business dealings, ING aims to anticipate developments in the environmental field related to commercial services, and to manage the environmental risks resulting from these activities. <u>Advocacy</u> On 19 February 2007, ING signed the 'Joint Statement by the Global Roundtable on Climate Change; The Path to Climate Sustainability'. Commitments mentioned in this Statement are: • Publicly supporting the global scientific processes that underpin international decision making with regard to climate change, including the IPCC. • Advocating responsible climate and energy policies, including globally agreed-upon targets for stabilizing GHG levels in the atmosphere; policies designed to achieve these targets; increased research, development, and deployment of new technologies; and enactment of supportive market mechanisms and other policies. • Helping to communicate information on climate change solutions, including energy efficiency, life-cycle thinking, and other options, to customers, suppliers, employees, and the public. • Monitoring and reporting information on our annual emissions of greenhouse gases. • Adopting clear goals and policies on our GHG emissions and engaging in appropriate GHG emissions mitigation efforts and programs, which could include participation in emissions trading schemes, offsets, CDM, or other mechanisms. • Incorporating climate change and GHG emissions into relevant business management decision making, and communicating such actions

	to key stakeholders, such as investors, employees, suppliers, and customers. • Examining the potential for advanced commercial and residential building designs and new energy technologies that result in lower GHG emissions when constructing new facilities or retrofitting existing facilities. • Providing leadership in industry associations, trade unions, and other organizations appropriate to our company or institution to promote the adoption of climate change standards in each sector. • Supporting demonstration projects and other activities that test, scale, or promote technologies, policies, or other programs that seek to mitigate climate change and its impacts.
2. Clear reduction targets for both direct and indirect CO2 emissions.	ING became carbon neutral in 2007 - increase energy efficiency, expanding purchase of green energy, reforestation.
3. Public initiatives and engagement.	ING is a member of the Global Round Table on Climate Change, an initiative of the Earth Institute at Colombia University, New York. The round table brings together high-level stakeholders to attempt to reach consensus on core scientific, economic and policy issues critical to shaping sound public policy on climate change. On 19 February 2007, ING signed the 'Joint Statement by the Global Roundtable on Climate Change; The Path to Climate Sustainability'. ING is a signatory investor to the Carbon Disclosure Project, an independent not-for-profit organisation aiming to create a lasting relationship between shareholders and corporations regarding the implications for shareholder value and commercial operations presented by climate change.
4. Climate issues taken into account in client or transaction assessments / client engagement on the issues.	Generally speaking, ING does not take GHG-emissions into account when managing proprietary or third party assets. But there are exemptions to this rule. Customers that want to take social, ethical and environmental issues into account are offered sustainable investment funds. These funds – amongst others – screen on best in class criteria for energy usage and carbon policies and partially invest in dedicated renewable energy companies. Furthermore, ING offers sustainable discretionary investment management services. No assessment of clients is undertaken at a transaction level.
5. Develop new products to stimulate clients to reduce their CO2 emissions.	ING Green Finance (Postbank Groen), financing renewable energy projects. At year end 2006, EUR 833 million was invested. Selectis Alternative Energy Growth Fund in Belgium. Value of EUR 76 million end 2006. In 2007, ING introduced its Invest Climate Focus fund. ING assists companies in developing countries to identify and structure emission reduction projects under the rules of the United Nation's Kyoto Protocol, to sell the emission reductions to buyers in industrialised countries and to negotiate the best prices and terms. In 2006, ING Car Lease started to offer its Dutch customers the opportunity to lease energy efficient (A,B,C labelled) cars. As from 2007, ING Car Lease offers its clients the possibility to fully compensate their CO_2 emissions with an investment in planting trees and sustainable energy projects.
6. Report annually on direct and indirect CO2 emissions and progress towards targets (GHG Protocol or GRI).	For the fourth year in a row, ING has been listed 'best in class' company in the Carbon Disclosure Project's Climate Leadership Disclosure Index (CDLI). The CDLI comprises 68 of the FT500 companies. CDLI members were distinguished by the disclosure of their awareness of the risks and opportunities of climate change, as well as the quality and effectiveness of programs put in place to reduce overall greenhouse gas emissions. ING scores best in class (AAA) in the Innovest's Carbon BetaTM rating. Innovest calculates the net carbon exposure of a firm, taking into

	consideration current and potential regulatory frameworks within the different countries in which a corporation operates. The concept also accounts for the different risks, at an industry-specific level, to which companies may be exposed. In addition, the rating model integrates an analysis of risk management capability and strategic profit opportunities. Sustainability Report - ING has good disclosure about progress made. In January 2007 ING issued a press release stating the company would become carbon neutral in 2007. The target has been met. The 2007 CR Report, to be issued in April 2007, will describe the way this target was met. http://www.ing.com/group/showdoc.jsp?docid=199908_EN

Annex 7

RABO Bank Overview	
The Rabobank Group comprises 188 independent local cooperative Rabobanks in the Netherlands plus their central organisation Rabobank Nederland and its subsidiaries. Rabobank serves more than 9 million private individuals and corporate clients in the Netherlands and a growing number abroad. It employs over 56,000 staff and is represented in 42 countries. Total assets of Rabo are approximately Euro 556 billion. Rabobank Nederland further acts as an (international) wholesale bank and as a bankers' bank to the Group and is the holding company of a large number of specialised subsidiaries, among which Robeco Group, ACC bank, Interpolis, Bank Sarasin , SAM , De Lage landen. Key banking services of the Rabo group are in the areas of retail banking, wholesale banking, asset management and investments. The focus of the bank is on the Food & Agri and the 'clean tech' sector. Rabo is internationally a leading bank for the food and agricultural sector. The Rabobank Group has the highest credit rating, awarded by the international rating agencies Moody's and Standard & Poor's (AAA). In terms of Tier 1 capital, the organisation ranks among the world's fifteen largest financial institutions. Rabo has high sustainability ratings from various sustainability rating agencies among which SAM and DSR/SIRI. The bank made in 2006 a profit of more than Euro 2, 3 billion.	
1. Corporate Values & Business principles.	Rabo has four corporate values, being: • Respect - The Rabobank Group works in concert on the basis of respect, appreciation and commitment. • Integrity - The Rabobank Group believes that all its activities must be carried out with honesty, sincerity, care and reliability. • Professionalism - The Rabobank Group provides its customers with high-quality expertise and facilities. It is committed to maintaining high quality - whenever possible anticipating the future needs of customers - and providing its services in an efficient manner. • Sustainability - The Rabobank Group is committed to contributing to the sustainable development of society in the financial, social and ecological sense.
2. RABO & Energy	Rabo has a focus on 'clean tech' and renewable energy but has no specific policy for the conventional energy sector. Rabo is involved in financing renewable energy and wants to be leading in 'clean tech'.
3. Sustainability initiatives & policies	**International initiatives / policies:** RABO has committed itself to a number of international initiatives and policies such as: (1) GRI, (2) Carbon Disclosure Project, (3) UNEP FI (4) UN Global Compact, (5) UN PRI (6) FSC, (7) RSPO, (8) RTRS, (9) OECD guidelines for multinational enterprises, (10) Convention United Nations Environment Programme, (11) ICC Business Charter for Sustainable Development, (12) Declaration of Principles concerning Multinational Companies and Social Policy (ILO), (13) EAI, **Internal initiatives / guidelines:** Rabo has a clear strategy on sustainable development. In 1998 Rabobank Group drafted its own general code of conduct. This code lays out a framework for employees regarding how they are expected to conduct their activities. Rabobank has also formulated other special codes of conduct in response to specific social issues, such as: Human Rights Code, Statement on Genetic Modification, Code of Conduct for the Palm Oil industry, Code of Conduct for seafood supply chain & issues list, Statement on weapon industry, Nuclear energy , Cramer Criteria for sustainable biomass production. Rabo has except for nuclear energy no specific policy for the energy sector. Rabo has a focus on financing renewable energy but has not set any specific targets.

4. Climate change policy explaining relevance of climate change for the bank and specify how the bank sees its role and responsibilities.	Rabobank took the challenge of climate change serious early on witness its investment together with 6 national governments and 17 multinationals in the World Bank Prototype Carbon Fund (PCF) founded in 1999, 6 year before the ratification of the Kyoto protocol. Rabo is one of the few banks in the world that has developed a (draft) comprehensive climate change policy which is published on its' website and covers a.o.: • Vision & Policy statement • Scope of Rabo's responsibility • Reduction of Rabo's direct CO2 footprint • New financial products & services • Indirect effect of regular financial services The full text of the draft climate change policy can be found on www.rabobank.com.
5. Clear reduction targets for both direct and indirect CO2 emissions.	**Direct footprint:** Targets concerning the direct footprint are: 1. Promoting energy and resource efficiency savings 2. Purchasing 100% renewable electricity 3. a sustainability screening of purchased good and services is standard in the procurement proces 4. Ensuring that the paper purchased is FSC certified 5. all lease cars in top 3 effcincy category 6. 2007 direct GHG footprint fully compensated on the basis of Goldstandard VER's An interesting initiative is the free offer of the NS railway card to employees that have a Rabo lease car. **Indirect Footprint:** In 2007 external consultants have determined the indirect footprint associated with Rabobank's global loan portfolio as well as all listed equity holdings. Rabobank has not defined any concrete targets for the indirect CO2 footprint. The bank is, however, very active in developing products and services that helps their customers to reduce CO2 emissions (see further point 8). According to the annual sustainability report 2006 Rabo is going to charter CO2 emissions of all corporate clients in lending by 2010. This process might lead to concrete CO2 risk and climate risk management targets in the near future. In addition Rabo is quite active in financing renewable energy projects (e.g. wind farms, solar energy, biofuels and 'clean tech').
6. Public initiatives and NGO engagement.	Rabo seeks a.o. engagement with its stakeholders and peers in the business through participation in the various international sustainability initiatives / working groups as mentioned under point 4 above.In addition Rabo has frequent stakeholder engagement meetings with clients and certain NGO's. In 2006 meetings were held with various NGO's among which Amnesty, Bank Track, Nature and Environment Foundation (stichting natuur en Milieu), WWF NL and ICCO. According to its' climate change policy Rabo frequently discusses sustainability issues with its clients, which also includes the topic of climate change. It is unknown how often the topic of climate change is discussed. Rabo's vision is that, by using dialogue, they stimulate companies to move in the direction of more sustainable operations. In advisory meetings, Rabo discusses with its' customers issues that are related to the climate problem and that affect them in particular, with respect to their country, sector or

	operations. Rabo attempts to steer customers in the direction of sustainable operations with lower CO2 emissions. In this context, Rabo makes use of criteria and indicators that clarify the risks that customers would run if, when investing, they did not pay sufficient attention to the careful use of the world's limited resources and high levels of greenhouse gas emissions.
7. Climate issues taken into account in client or transaction assessments / client engagement on the issues.	• According to its' climate change policy, climate issues are taken into account in general business. Rabo will not do business with any companies which, compared to other companies in their sector, do serious damage to the climate, are not willing to make changes to their activities and do not take their own responsibility seriously with respect to the climate problem. • For certain financial products specific climate change considerations are taken into account. Examples of these products include the climate credit card, the climate mortgage and certain green investment funds (e.g. Robeco's Clean Tech Fund). • The Equator principles play a role in private sector project finance transactions.
8. Develop new products to stimulate clients to reduce their CO2 emissions.	At present, Rabo offers various types of products and services that aim to reduce indirect CO2 emissions (customer emissions): • Retail market: offering products which compensate for the climate-related effects of consumption and stimulate sustainable consumption. Examples are: The climate Mortgage , the climate credit card (cooperation with WWF NL) • Wholesale market: investing in projects that generate sustainable energy. • Sustainable mobility: promoting and implementing variable road tax through road pricing. This is being carried out by DCSR and M-commerce. • Financial markets: facilitating the trade in emission rights, and offering structured products for mitigating the financial risks for companies and governments resulting from climate change. • Asset management: developing funds that invest in sustainable and clean technologies. Examples are: Robeco Clean Tech Fund, Robeco clean tech certificate • The creation of a Clean Tech Research Desk. This desk will support Rabo's private equity investment activities and will also offer services for the benefit of the customers. • According to the annual report 2006 Rabo will develop at least 5 new sustainable products in the next three years. • Last but not least Rabo green bank which is market leader in green financing in the Netherlands with more than € 4bn outstanding.
9. Report annually on direct and indirect CO2 emissions and progress towards targets (GHG Protocol or GRI).	• Rabo has a solid GRI based sustainability report and reports its direct CO2 footprint. The Indirect footprint is likely going to be reported in the near future as soon as accepted international reporting standards have been agreed. • Rabo supports and reports to the Carbon disclosure project since 2003

Annex 8

Triodos Bank Overview	
The Triodos Bank is a niche sustainability bank with its head office in the Netherlands. It employs approximately 350 staff and is represented in six countries (branches in the Netherlands, UK, Germany, Belgium and Spain; agency in Germany). Triodos Bank's total assets under management are approximately EUR 2.9 billion. Triodos Bank has approximately 124,000 customers that are mainly retail clients. According to the mission of Triodos Bank the bank finances companies, institutions and projects that add cultural value and benefit people and the environment, with the support of depositors and investors who want to encourage the development of socially responsible and innovative business. Triodos Bank applies high sustainability standards in its business. The value of the loan portfolio of Triodos Bank is approximately EUR 854 million. In addition Triodos Bank manages various investment funds, such as Triodos-Doen fund, Hivos-Triodos Fund, Triodos Fair Share Fund (all three: EUR 98 million), Triodos Renewable Energy for Development Fund (EUR 6 million), Triodos Green fund (EUR 440 million), Triodos Renewables Europe Fund (EUR 9 million), and Triodos Innovation Fund (EUR 11 million). Triodos Bank is not rated by any of the leading international credit rating agencies. There are no public sustainability ratings of Triodos Bank. Triodos Bank made in 2006 a net profit of EUR 6.1 million.	
1. Corporate Values & Business principles.	Triodos Bank has four key values, being: • Sustainability • Transparency • Excellence • Entrepreneurship In addition Triodos Bank is committed to the following business principles: • Promote sustainable development • Respect and obey the law • Respect human rights • Respect the environment • Be accountable • Continuous improvement
2. Triodos Bank & Energy	Triodos Bank has a policy not to invest in fossil fuel energy projects or companies. Its policy also excludes loans and investments in nuclear energy. Triodos Bank finances various renewable energy projects and Eco-efficiency projects. At the end of 2006 Triodos Bank had 188 loans outstanding to renewable energy projects and companies for a total value of Euro 164 million. This figure does not include the renewable energy investments of its investment funds (e.g. Triodos Green Fund).
3. Sustainability initiatives & policies	**International initiatives / policies:** Triodos Bank has committed itself to the GRI. Its' combined financial and sustainability report is in accordance with the GRI guidelines. Triodos Bank is a signatory to UNEP FI and the CDP but is not required to report to CDP. Triodos Bank is a member of Eurosif, Belsif (Belgium Forum for sustainable investments) and VBDO (The Dutch association of investors for sustainable development). Triodos Bank supports the aims of the United Nation's Universal Declaration of Human Rights and the conventions and recommendations of the International Labour Organization.

	Internal initiatives / guidelines: Triodos Bank was established in 1980 as a unique bank with a clear vision on sustainability and high sustainability standards in its business. The bank's Business Principles are an important anchor in the day-to-day business. In addition it has developed various policies, such as its *Sustainable Investment Policy*, which describes the strategy of Triodos Bank in investing in stock listed companies and specific lending criteria with high sustainability standards (*Triodos approach to lending*).
4. Climate change policy explaining relevance of climate change for the bank and specify how the bank sees its role and responsibilities.	Triodos Bank has high sustainability standards that apply to all its business. Triodos Bank takes climate change into account by financing renewable energy projects and companies. The CO2 implications are, however, not measured at a portfolio level. It may be taken into account in specific projects. The company is currently working on ways to measure the indirect impacts of the companies it provides loans to and invests in. This may include CO2 emissions as an indicator. Triodos Bank has comprehensive reporting on its own direct CO2 emissions. Itself, Triodos Bank is fully carbon neutral. The Bank's environmental policy is designed to reduce greenhouse gas emissions by implementing practical energy saving measures and by using energy from renewable sources where possible. Triodos Bank aims to reduce CO2 emissions by using electricity from renewable energy sources and by reducing energy consumption as far as possible. Its remaining CO2 emissions from gas consumption, paper consumption, business travel and commuting are compensated, by buying CO2 credits from a mix of tree plantations (in the Czech Republic, Uganda, the Netherlands, Malaysia and Ecuador) and renewable energy projects. As a result, Triodos Bank's activities are carbon neutral. Its green house gas emissions are calculated using the Greenhouse Gas Protocol, an initiative of the World Business Council for Sustainable Development and the World Resources Institute.
5. Clear reduction targets for both direct and indirect CO2 emissions.	**Direct footprint:** Triodos Bank has clear targets for direct CO2 footprint: It operates climate neutral by buying green energy and compensating CO2 emissions through amongst others investments in renewable energy projects. **Indirect Footprint:** Triodos Bank has not defined any specific indirect CO2 footprint targets. CO2 implications of Triodos Bank's financing are not measured at a portfolio level. However the company is currently working on ways to measure the indirect impacts of the companies it provides loans to and invests in. This may include CO2 emissions as an indicator. As part of its overall sustainability strategy Triodos Bank does not invest in polluting industries.
6. Public initiatives and NGO engagement.	Triodos Bank seeks amongst other things engagement with its stakeholders and peers in the business through participation in the various international sustainability initiatives / working groups as mentioned under point 4 above. In addition Triodos has frequent stakeholder engagement meetings with clients (for example client days) and NGOs. Dialogue with companies is important to Triodos Bank and the company has a clear voting policy and voting guidelines. It's one of the ways it differentiates its investment fund activities from other investment funds. Triodos Bank has an international independent advisory panel, which includes various sustainability experts. Triodos Bank cooperates closely with certain NGOs in some of their investments funds, such as the Triodos-Doen Fund and Hivos-Triodos Fund. Triodos Bank also works with NGOs with regard to the development of criteria and sustainability issue knowledge.
7. Climate issues taken into account in client or transaction assessments / client engagement on the issues.	In the context of its overall investment policy and Business Principles, Triodos Bank does not invest in fossil fuel energy projects or companies. In this way climate change is (indirectly) taken into account.
8. Develop new products to stimulate clients to reduce their CO2 emissions.	All products and financing of Triodos Bank has a clear link to sustainability. Interesting products are the following: • Triodos Climate Clearing House is an independent registry and trading platform for CO2- credits resulting from CO2 reduction and

	sequestration projects. Eligible project activities include a forestation, renewable energy and energy efficiency. • Triodos Renewable Energy for Development Fund provides finance to promote and support the accessibility and use of renewable energy services in developing countries. • Triodos Renewable Europe Fund invests in unlisted renewable energy producers. • Three venture capital funds among which Triodos Innovation fund. This fund invests in enterprises that are environmentally friendly, socially responsible and/or innovative. • Triodos Bank sustainable bank account & savings account.
9. Report annually on direct and indirect CO2 emissions and progress towards targets (GHG Protocol or GRI).	• Triodos Bank has a solid annual report, which is a combined financial and sustainability report (triple bottom line). The report includes direct CO2 footprint topics and is in accordance with the GRI reporting framework. • Triodos Bank does not report its indirect CO2 footprint, but as mentioned above Triodos Bank does not invest in the fossil fuel energy business. Energy investments are made in the renewable energy sector. • Triodos Bank is a signatory to Carbon Disclosure Project, however it is not required to report. • Triodos Bank uses the World Business Council for Sustainable Development's Greenhouse Gas Protocol to calculate its greenhouse gas emissions.

Annex 9

Bank of America Overview	
Bank of America is one of the world's largest financial institutions, serving individual consumers, small and middle market businesses and large corporations with a full range of banking, investing, asset management and other financial and risk-management products and services. Bank of America has 203,000 employees.	
1. Climate change policy explaining relevance of climate change for the bank and specify how the bank sees its role and responsibilities.	BofA has the responsibility to address climate change and the service sector has a role in promoting and implementing reductions of greenhouse has emissions that extend beyond its own operations, including relationships with customers and suppliers.
2. Clear reduction targets for both direct and indirect CO2 emissions.	• Direct emissions reduction of 9% by 2009. • Indirect emissions reduction of 7% until 2008 compared to 2004 in indirect emissions in accordance with the IGCC targets; beginning with assessment and reporting from the energy and utilities portfolio. • US$1.4 billion committed to achieve LEED certification in all new construction of office facilities and banking centres. • US$100 million invested in energy conservation measures for use in all company facilities. Implementing program to reduce paper usage throughout company by 40 percent per associate.
3. Public initiatives and engagement.	• Became the first financial services company to become a member of the Environmental Protection Agency's Climate Leader Program. • Sponsored and participated in the Institutional Investors Summit on Climate Risk. • Emphasized the importance of environmental awareness internally with associates. • Publicly announced our position externally with nonprofits, government agencies and businesses. • Supported a car-pooling database. • Educated associates about commuter choices and supported local transit programs. • US$50 million donated to support non-profit organizations focused on forest preservation, innovative energy conservation, developing green affordable housing and other environmentally progressive activities.
4. Climate issues taken into account in client or transaction assessments / client engagement on the issues.	Credit is committed to finding prudent ways to finance projects and companies that benefit the environment—and refrain from financing those with environmental practices that fall short of acceptable standards.
5. Develop new products to stimulate clients to reduce their CO2 emissions.	• Investment in Sustainable Commercial Real Estate Banking, Corporate and Investment Banking, Carbon Emissions Trading, Environmental Lending Consideration • Green Communities (5 yr. initiative to build 8500 environmentally friendly homes across the country), Brownfield lending (BoA evaluates financial and credit risks and differentiates between real and perceived risks. Net result is the creation of opportunities where environmental issues initially are evident but are resolved.) • Eco-friendly credit card, WorldPoints Rewards for the Environment, Green Mortgage Program, Environmental Home Equity Program, Timberland Investment Solutions, EPA Smartway Transport Program and SBA Express Loans. • BofA will direct $20 billion to help its corporate, individual and small-business customers take advantage of the business opportunities created by green economic growth. Under its environmental initiative, the Bank will emphasize the business

	opportunities created by "green" economic growth by providing critical financing to encourage the development of environmentally sustainable products and technology; accelerate the deployment of existing technology; and increase energy efficiency. Specifically: o For its corporate clients, Bank of America will commit $18 billion in lending, advice and market creation to help commercial clients finance the use and production of new products, services and technologies. o Commercial Real Estate Banking - will build upon its expertise in financing environmentally friendly development by creating customized solutions for clients who are developing and implementing environmentally sustainable designs. Areas of focus include financing real estate projects with LEED certification, improvements in energy efficiency, brownfield redevelopment, promotion of smart growth, and the use of energy-related tax credits. o Corporate & Investment Banking - will focus on financing and advisory services to clients participating in emissions offsets markets, developing energy-efficient or low-carbon technologies and helping private/public sector entities adopt green and low-emissions technology. o Carbon Emissions Trading - will launch the capability to trade carbon emissions credits in order to enable clients to achieve carbon emission neutrality through existing and emerging market mechanisms. o Environmental Lending Consideration - will give favourable consideration, among other existing underwriting criteria, to lending opportunities with clients that are creating and implementing environmentally sustainable products, services and technologies.
6. Report annually on direct and indirect CO2 emissions and progress towards targets (GHG Protocol or GRI).	• Yes, using the Global Reporting Initiative as a guideline - BoA realized a 5% reduction of direct emissions that have been realized across all facilities during 2004. For 2005, the bank set an aggressive goal of 9% by 2009. • BoA has voluntarily declared its GHG emissions reduction of 9 percent from 2004 to 2009. They are financing real estate projects with LEED certification, improvements in energy efficiency, brownfield redevelopment, promotion of smart growth, and the use of energy-related taxes

Annex 10

HSBC Overview	
Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. HSBC's international network comprises over 10,000 offices in 83 countries and territories in Europe, Hong Kong, Rest of Asia-Pacific, including Middle East and Africa; North America and Latin America. HSBC provides a comprehensive range of financial services to more than 125 million customers through four customer groups and global businesses: Personal Financial Services (including consumer finance); Commercial Banking; Corporate, Investment Banking and Markets; and Private Banking. Total operating income for the first half of 2007 was USD 42 billion.	
1. Climate change policy explaining relevance of climate change for the bank and specify how the bank sees its role and responsibilities.	• HSBC believes financial institutions can play an important role in the transition to a lower-carbon future. In recognition of this, the bank launched its Carbon Finance Strategy in 2006 to help clients respond to the challenges of creating a lower carbon economy. This seeks to develop opportunities to work with clients to promote clean energy generation, and efficient and renewable energy technologies. • HSBC states that "sustainability risk needs to be managed carefully to minimize environmental and social damage indirectly caused by financing". HSBC recognizes that climate change will affect its customers through the increase and unpredictability of droughts, floods and storms - impacting on agriculture, transportation, tourism, infrastructure, etc. This increases the risk in its commercial and property lending and insurance business. The bank wants to create a low-carbon economy and is looking at ways to include climate change solutions in its business activities.
2. Clear reduction targets for both direct and indirect CO2 emissions.	• Yes for direct emissions HSBC has committed to reduce its emissions, to buy green electricity wherever possible and to offset its remaining emissions. It became carbon neutral in 2005.

3. Public initiatives and engagement.	• HSBC has created a five-year, US$100 million partnership to respond to the urgent threat of climate change worldwide with the support of The Climate Group, Earthwatch Institute, Smithsonian Tropical Research Institute (STRI) and WWF. The HSBC Climate Partnership will:
	  • help some of the world's great cities – Hong Kong, London, Mumbai, New York and Shanghai - respond to the challenge of climate change;
	  • create 'climate champions' worldwide who will undertake field research and bring back valuable knowledge and experience to their communities;
	  • conduct the largest ever field experiment on the world's forests to measure carbon and the effects of climate change; and
	  • help protect some of the world's major rivers - including the Amazon, Ganges, Thames, and Yangtze - from the impacts of climate change, benefiting the 450 million people who rely on them
	• HSBC has become a participant in several climate change related (public) policy initiatives. 1) Member of Davos G8 Climate Change Roundtable. 2) Corporate Leaders Group on Climate Change of the Cambridge Program for Industry 3) Alliance with Tropical Forest Trust. 4) A group of 13 businesses, including HSBC, has pledged its support for Tony Blair's plans for a low-carbon future in the UK. 5) Founding member of the Bank Working Group of The Climate Group. 6) Principal sponsor of Northeast southwest. 7) HSBC announces with Newcastle University and the University of East Anglia the 'HSBC Partnership in Environmental Innovation', a programme to research climate change and other topics as well as to develop technologies to

	overcome these challenges. • HSBC has appointed Sir Nicholas Stern, the renowned academic and former World Bank Chief Economist, as Special Adviser to the Chairman on Economic Development and Climate Change. Sir Nicholas will be responsible for advising HSBC on economic development issues and the implications of climate change on the Group and its clients. • Has launched the Climate Change Confidence Index, which surveys public attitudes to climate change in 9 major countries.
4. Climate issues taken into account in client or transaction assessments / client engagement on the issues.	• Project finance clients of HSBC in emission-intensive sectors are now also required to disclose their greenhouse gas emissions and promote reductions • For clients in the energy sector, HSBC has developed a Energy Sector Policy, which encourages the reduction and disclosure of greenhouse gas emissions, and its application is mandatory when financing large projects • Has set up an internal Climate Change Centre of Excellence to provide specific climate research as part of its overall equity research capability.
5. Develop new products to stimulate clients to reduce their CO2 emissions.	• The bank's strategy focuses on low-carbon technologies that are technically and commercially viable, i.e. wind, solar, energy and transport efficiency, landfill methane gas capture, and geothermal energy. • HSBC also put a premium on working in countries where the regulatory framework and government policy support early adoption of low-carbon technology. • HSBC will continue to support traditional fossil fuel-based technologies, subject to social and environmental standards being met, and to encourage moves towards energy efficiency and lower carbon fossil-fuel technologies. • HSBC manages almost US$1.4 billion in ethical and SRI assets, which is les than one per cent of HSBC Investments' total assets under management. HSBC does not systematically apply environmental research to its other assets under management. • Exploring ways in which it can extract carbon value from its project finance capability. • Investment advisers within HSBC Private Bank Investment Group advise clients on SRI funds as well as on mainstream funds. • HSBC offers clients the opportunity to invest in a Climate Change Fund, which invests in companies best placed to benefit from solutions to the challenges presented by climate change. • HSBC has offered discounted products to its clients in a "Green Sale" in the last 2 years, with environmental charities benefiting from products sold.
6. Report annually on direct and indirect CO2 emissions and progress towards targets (GHG Protocol or GRI).	HSBC reports on its direct emissions in the following ways: • Emissions from its global operations. • Emissions from travel by its employees. • HSBC does not report on its indirect GHG emissions.

Annex 11

WestLB Overview	
WestLB AG is a European commercial bank with firm roots in North Rhine-Westphalia, Germany's largest federal state. With total assets of € 292.1 billion as at September 30, 2006, it is one of Germany's leading financial services providers. WestLB offers the full range of products and services of a universal bank, focusing on lending, structured finance, capital market and private equity products, asset management, transaction services and real estate finance. WestLB employs 5,853 staff.	
1. Climate change policy explaining relevance of climate change for the bank and specify how the bank sees its role and responsibilities.	WestLB has comprehensive targets to reduce direct carbon footprint approved by board (see below) and is developing a Carbon Management Plan for direct emissions. Preparation of a separate Climate Policy targeting indirect emissions is underway.
2. Clear reduction targets for both direct and indirect CO2 emissions.	Direct emissions: 20% CO2 reduction until 2009 (compared to 2006). WestLB's reduction target for indirect greenhouse gas emissions is currently being developed.
3. Public initiatives and engagement.	UNEPFI, Carbon Disclosure Project, UN Global Compact
4. Climate issues taken into account in client or transaction assessments / client engagement on the issues.	Some examples (see also 5.): • Climate issues are at the centre of WestLB's comprehensive sustainability management and includes project finance transactions as well as increasingly innovative equity derivatives, investment and asset management products and services. • Since April 2002 WestLB issued several Index and Basket Certificates which take sustainability aspects into account. The most recent is the WestLB Climate Change Investment Fund, which also includes floatation of a bond issue. • WestLB has won several awards for Sustainable Banking (e.g. FT and IFC Sustainable Bankers of the year 2006). The bank provides project finance in accordance with the Equator Principles, of which WestLB is a founding member. • The expertise of WestLB's Extra Financial Research Team is highly recognised in the market and evidenced for example through its citation by the Enhanced Analytics Initiative. • WestLB is also among the leading financiers for renewable energy, primarily in the form of project finance. This shows that WestLB incorporates climate change and sustainability issues in its business operations and offers innovative financial service to its clients.

5. Develop new products to stimulate clients to reduce their CO2 emissions.	Some examples (see also 4.): • The world's largest solar power plant was taken into service in Leipzig in summer 2004. The plant was funded within WestLB Group. • To achieve a clear competitive differentiation, WestLB recognizes that in future financing structures will need to demonstrate that all long-term risks – including climate risks – are fully integrated in the underlying analysis and management of business activities. This approach was exemplified in early 2007, when WestLB issued a climate protection certificate based on investments in companies with a specific commitment to climate protection. • WestLB has initiated an Extra-Financial-Risk-Index. Furthermore, even though sustainable investments (socially responsible investments — SRI) still have only a relatively small market share, WestLB considers them to be a promising growth market. The bank recognizes that its clients — including banks, savings banks, pension funds and foundations — appreciate safe long-term investments which constantly gain in value. • Innovative projects/activities that incorporate climate change/sustainability issues: • Project Finance Renewables: Geothermal for Gurmat Elektrik UretimAndasol 1: Mandated Lead Arranger of a Euro 300 million project for the world's largest (50MW) parabolic trough solar thermal power plant. • Andasol 2: Mandated Lead Arranger of the second phase of the Andasol Project which included an additional 50MW parabolic trough solar thermal power plant. • Epuron Photovoltaic Program: Sole Lead Arranger of a Euro 394 million Project Financing Framework Agreement for the development of Photovoltaic Plants up to 45 MW. in different locations in Spain. • Since the year 2000 WestLB's Extra-Financial-Research Team has set a high standard through completion of numerous surveys and studies regarding climate change/sustainability issues.
6. Report annually on direct and indirect CO2 emissions and progress towards targets (GHG Protocol or GRI).	WestLB measures progress with respect to the CO2 (equivalent) – so it's direct emissions. It does not report on its indirect carbon footprint.

Annex 12

ADB Overview	
The Asian Development Bank is a multilateral development financial institution owned by 67 members, 48 from the region and 19 from other parts of the globe. The work of the ADB is aimed at improving the welfare of the people in Asia and the Pacific, particularly the 1.9 billion who live on less than $2 a day. ADB's main instruments for providing help to its developing member countries are: policy dialogue, loans, technical assistance, grants, guarantees, and equity investments. ADB's annual lending volume is typically about $6 billion, with technical assistance usually totalling about $180 million a year. In 2007, lending and technical assistance amounted to about $10 billion and $240 million, respectively. ADB's headquarters is in Manila. In addition it has 26 representative offices in the region and some other countries around the world. ADB employees total approximately 2400. The strength of the Bank's capital and its shareholders is reflected in the ADB's credit rating of AAA from Fitch and Standard & Poor's and Aaa from Moody's. The ADB is not rated by any sustainability rating agency .ADB published its first Sustainability Report following GRI guidelines in 2007, which is available on its website.	
1. Corporate Values & Business Principles.	ADB's vision is a region free of poverty. To realize this vision, ADB focuses on encouraging pro-poor sustainable economic growth, social development, and good governance. These three core areas are complemented by cross-cutting initiatives on private sector participation, regional cooperation and integration, and environment sustainability.
2. ADB & Energy.	ADB has a comprehensive energy policy which is currently under review to sharpen focus on energy security and climate change through improved energy efficiency and greater use of low or zero carbon sources and technologies. The draft new strategy has three key pillars: (i) meeting the energy demand in a sustainable way, (ii) energy access for all, and (iii) energy sector reforms and governance. The existing energy policy dates back from 1995 and already emphasizes energy efficiency and renewable energy, but more as a means of mitigating local and national environmental impacts. A policy review in 2000 recognizes the importance of this thrust to also address regional impacts and global warming issues, although it likewise does not have specific targets. Clean energy and energy efficiency initiatives undertaken by ADB include: • Energy Efficiency Initiative (EEI) – designing and implementing innovative financing mechanisms for clean energy investments, with an annual target of $1 billion starting 2008. • Carbon Market Initiative (CMI) – through which ADB provides financial and technical support to developers and sponsors of projects with GHG mitigation benefits that can quality as a CDM project under the Kyoto Protocol. • Sustainable Transport Initiative – providing advice and financing for public transport innovations and new mobility patterns to reduce GHG and other pollution. • Energy for All – increasing access to clean and efficient forms of energy for all segments of society in Asia and the Pacific. • REACH – assisting countries with development of new policies and stronger institutions in the areas of renewable energy, energy efficiency and climate change. • Private Sector Investment – making strategic investments in Funds focusing on clean energy and energy efficiency as well as direct investment in specific clean energy projects in developing member countries (DMCs). • Knowledge Hubs – giving ADB and DMCs access to up-to-date information on best practices in all aspects of clean energy and climate change. Initially, three knowledge hubs have been established: (i) The Energy Research Institute (TERI) in New Delhi, India for Clean Energy, (ii) Tsinghua University in Beijing, PRC for Climate Change, and (iii) Asian Institute of Technology in

	Bangkok, Thailand for 3R (reduce, reuse and recycle). ADB was the first and remains the only multilateral development bank to be ISO-14001 certified, and was recently recertified after an initial 3-year period. Under its Environmental Health and Safety Program, it strives for continuous improvements in resource efficiency and waste minimization.
3. Sustainability policies.	**External policies / guidelines:** ADB has committed itself to a limited number of initiatives common to the international development community. These include efforts to improve donor harmonization under the Paris Declaration and to introduce performance/results based management approaches. As noted, ADB published its first Sustainability Report in 2007, which generally adheres to GRI guidelines. **Internal Policies / guidelines:** Like any other multilateral development bank the ADB has various sustainability policies. ADB's Environment Policy, approved in 2002, calls for promoting environmentally sustainable development to reduce poverty. The policy's five main themes are to promote environmental interventions that directly reduce poverty, help ADB countries "mainstream" environmental considerations into economic growth and planning, help maintain the global and regional life-support functions of natural environments, build partnerships to improve and preserve the environment, and integrate environmental safeguards across all ADB operations. (these bullets are consistent with those in ADB website: http://www.adb.org/Environment/default.asp) ADB applies environmental and social safeguard measures to all of its projects. These measures seek to avoid harmful environmental impacts, social costs, and the marginalization of vulnerable groups that might result from development projects. When such potential impacts cannot be directly avoided through changes in the design of the project, a plan is agreed for their mitigation. ADB's three safeguard policies cover the potentially adverse impacts of project investments on the environment, indigenous peoples and involuntary resettlement. ADB is currently in the process of updating its safeguard policies.
4. Climate change policy explaining relevance of climate change for the bank and specify how the bank sees its role and responsibilities.	ADB has no climate change policy. As outlined in a publication prepared for the Bali UN Climate Change Conference (posted on the ADB website at http://www.adb.org/Documents/Brochures/Climate-Change/default.asp.), its current approach is directed at both climate change mitigation and adaptation. It is working to fill gaps in financing, build knowledge and capacities, and foster cooperation. ADB is helping its developing member countries transition to low-carbon economies through a number of ongoing initiatives on energy efficiency, renewable energy, sustainable transport, and waste to energy, mitigation of fugitive emissions, carbon markets, and rural resources management. The recently established ADB-wide Climate Change Adaptation Program has three main thrusts: improving regional cooperation on adaptation issues, strengthening national adaptation planning, and project-level climate proofing. ADB is currently developing an action plan to further mainstream and scale up climate change considerations into its core operations to better assist developing member countries in addressing both the causes and consequences of climate change.
5. Clear reduction targets for both direct	**Direct footprint: (Corporate Footprint):** ADB is currently undertaking a comprehensive inventory of the greenhouse gas

and indirect CO2 emissions.	emissions from its corporate operations as a first step to reduce its GHG emissions. In 2003 ADB became the first multilateral development bank to be certified under ISO 14001 (covering environmental management system) and OHSAS 18001, (covering occupational health and safety standards), and remains the only one to have done so. To minimize the environmental footprint of ADB's headquarters, ADB maintains active programs to reduce use of electricity, water, and paper, as well as output of solid waste. ADB is currently exploring the use of renewable energy. **Portfolio Level Carbon Neutrality:** There are no specific targets to reduce the indirect GHG2 footprint at a portfolio level, but there is the intention to further increase lending with a focus on renewable energy and energy efficiency (see above). In certain projects of the bank the indirect GHG impact is being measured. Measurement is limited to projects where substantial GHG emission reductions can be achieved.
6. Public initiatives and engagement.	ADB seeks engagement with its stakeholders and peers in the business through participation in the various international sustainability initiatives / working groups as mentioned under point 4 above. In addition the ADB conducts discussions on environmental matters and climate change issues with several other organisations, including: • Governments in Asia and the Pacific region in the context of the development of Country Strategy Partnerships, specific Policies (e.g. The Clean Air Initiative for Asian Cities (CAI-Asia), which is a multi- stakeholder initiative committed to improving air quality management in Asia. • Governments and other stakeholders within and outside Asia-Pacific to support global agreements/initiatives on climate change • Other banks and financial institutions in particular at a project level; • Other Multilateral Development Banks at strategic and project levels (e.g Clean Energy Framework for Multilateral Development Banks). • Knowledge institutions for knowledge generation, application, and dissemination • Various NGOs concerning regional, sub regional, and country strategies, business policies and individual projects • Various stakeholders during knowledge-sharing and networking events such as the annual Asia Clean Energy Forum and Carbon Forum Asia.
7. Climate issues taken into account in client or transaction assessments / client engagement on the issues.	ADB engages with clients (among which countries) about environmental matters and climate change issues, at the local, national, sub regional, regional, and global levels. . For example, climate change risks are now being considered as part of the process whereby ADB and its DMCs develop Country Partnership Strategies governing ADB's programs. Energy sector roadmaps that are being developed for the People's Republic of China and India, for instance, both have energy efficiency and renewable energy as main thrusts. Climate change risks are increasingly considered and a Climate Change Adaptation Program was recently established to mainstream such considerations within ADB and to assist its client countries to cope with the impacts of climate change on their economies and environments.
8. Develop new products to stimulate clients to reduce their CO2 emissions.	ADB is scaling up its support for energy efficiency, renewable energy, and other GHG mitigation projects by (i) providing additional and innovative financing mechanisms that enhance viability of projects; (ii) converting future carbon revenue flow into upfront financing so that new projects can get off the ground; and (iii) helping DMCs improve their implementation capacity through provision of technical advice on project development and implementation. This is being done through its Clean Energy and Environment Program. The Clean Energy Financing Partnership Facility, with a target size of $250 million, provides guarantee products that can help companies take more risk in energy efficiency and renewable

	energy investments. CEFPF will supplement ADB's current resources including its Asian Development Fund (ADF), Ordinary Capital Resources (OCR), and Technical Assistance Special Funds to reach an annual target of $1billion starting 2008. The Carbon Market Initiative (CMI) is now fully operational with over $150 million to cofinance clean energy projects. CMI also provides experts for technical advice on project development and implementation, as well as marketing support for their carbon credits to be sold in the global carbon market, creating opportunities for governments, developers, and investors to take advantage of today's $30 billion carbon market. A complementary initiative being developed by ADB is the Future Carbon Fund, a co financing instrument to help developing countries undertake energy efficiency, renewable energy and other projects that reduce GHG emissions. Other recent initiatives that support climate change mitigation, as mentioned in item 3 above are: (i) Energy for All, (ii). Sustainable Transport Initiative and (iii) Knowledge Hubs which provide ADB and DMCs access to up-to-date information on clean energy and climate change.
9. Report annually on direct and indirect CO2 emissions and progress towards targets (GHG Protocol or GRI).	• ADB is currently finalizing a GHG inventory report on direct and indirect GHG emissions from its head office. Emissions by other ADB offices are not yet measured, but under the ISO-14001 program electricity use and other resources use patterns are closely monitored. Some events have been made carbon neutral, and a voluntary program for carbon neutral staff travel has recently been introduced. • Indirect footprint is not measured at a portfolio level. In certain projects, CO2 emissions may be measured.

Annex 13

EIB Overview	
The European Investment Bank (EIB) is the financing institution of the European Union. The task of the EIB is to contribute towards the integration, balanced development and economic and social cohesion of the member countries. EIB raises on the markets substantial volumes of funds which it directs on the most favourable terms towards financing capital projects according with the objectives of the European Union. Outside the European Union the EIB implements the financial components of agreements concluded under European development aid and cooperation policies. The EIB is the majority shareholder of the European Investment Fund (EIF) (61,9%), a public private partnership whose tripartite shareholding includes the European Commission (30%) and a number of European banks and financial institutions (8,1%). All venture capital activities are concentrated within the EIF, thereby making it one of the leading sources of venture capital within the EU. The EIF also undertakes guarantee operations involving its own resources or those of the EU budget. The EIB owns 3% of the share capital of the European for Reconstruction and Development (EBRD). The shareholders of the EIB are the 27 member states of the European Union. In total, the Bank's subscribed capital amounts to more than Euro 164.8 billion. Under its statute, the Bank may have maximum loans outstanding equivalent to two and half times its capital. <u>Within the EU</u> the EIB has 6 priority objectives for its lending activities, which are: Cohesion and Convergence, Support for small and medium-sized enterprises (SMEs), Environmental sustainability, Implementation of the Innovation 2010 Initiative, Development of Trans-European Networks of transport and energy (TENs), Sustainable, competitive and secure energy <u>Outside the European</u> Union EIB lending is determined by EU external cooperation and development policies. The EU mandates concern: • Pre-Accession:- Candidate and Potential Candidate countries of the Enlargement region • European Neighbourhood: Mediterranean Neighbourhood and Russia and Eastern Neighbours • Development: Asia and Latin America (ALA); Africa, Pacific and Caribbean (ACP), Republic of South Africa Lending under these mandates focuses on: Private sector development, Infrastructure development, Security of energy supply, Environmental sustainability. The EIB enjoys the highest credit rating by Standard & Poor's and Moody's, which too a large extent is determined by the nature of the shareholders (i.e. EU member states). EIB is not rated by any sustainability rating agency.	
1 Corporate Values & Business principles.	EIB has not defined explicitly any values or business principles that guide its' daily business.
2. EIB & Energy	Energy is at the top of the EU policy agenda, in relation to security of supply, climate change considerations and competitiveness. As an EU institution energy financing is one of the EIB strategic lending priorities in its corporate operational Plan (COP) for 2007-2009. In the field of energy the EIB has defined the following five priority areas: • Renewable energy • Energy efficiency • Research, development and innovation • Diversification and security of internal supply

	• External energy security and economic development The EIB's quantified lending targets in the energy sector are: Global annual lending in the order of EUR 4bn for projects belonging to at least one of the five priority areas; and annual sub-target of EUR 600m-800m for renewable energy projects and a relative target of 50% of EIB lending to electricity generation associated with renewable energy technologies.
3. Sustainability policies	**International initiatives / policies:** EIB has committed itself to a number of international initiatives and policies such as: (1) EPE, (2) Countdown 2010. Internal initiatives / policies: Like any other multilateral development bank the EIB has various sustainability policies.
4. Climate change policy explaining relevance of climate change for the bank and specify how the bank sees its role and responsibilities.	Mainstreaming of climate change considerations in EIB operations is an on-going process that dates back to 2001 with the development of the EIB Environmental Policy. Since then, a large number of initiatives related to policy, instruments, financing and practices have been taken. Recent internal activities include preparatory work on ways to introduce energy efficiency considerations across all sectors of Bank operations as well as methodologies to measure and benchmark the carbon emission of projects. Methodologies to include environmental externalities in economic calculations are also being regularly re-assessed and up-dated. Moreover, projects are screened for their potential to generate carbon credits in the support of the carbon market-related work of the Bank. The Bank will also progressively integrate climate change considerations in other sectors (e.g. water and waste management, industry) as policies for these sectors are reviewed and revised. The EIB has a comprehensive climate change policy. This policy describes the main climate change related activities of the EIB and is very much derived from the EU Commission's policy on climate change. The policy will be revised in 2008 in light of the developments in the field of climate change at EU and international level. The main objectives of the Policy are to: Promote low-carbon technologies, Stimulate the carbon market, Help poorer countries develop an appropriate response to climate change The environmental lending objectives of the EIB are described in its COP. The most important current environmental lending targets of the EIB are: • Environmental lending in the EU = 30-35% of total EU lending • Renewable energy lending to reach up to 50% of the Bank's total financing for new electricity generation capacity in the EU by 2008-10 • Lending for projects that result in a reduction of CO2 to be EUR 500 m in the period 2004-06 Under its environmental lending, the EIB includes projects that address a number of environmental issues. The main issues addressed by EIB in environmental lending are: • Tackling climate change, e.g. energy efficiency and renewable energy • Protecting nature and other natural resources • Reducing the impact of the environment on human health, e.g. the supply of safe drinking water and waste water treatment and improvements to air quality • Promoting the sustainable use of natural resources, e.g. waste management

	Improving the quality of life in the urban environment, e.g. urban transport and urban renewal
5. Clear reduction targets for both direct and indirect CO2 emissions.	**Direct footprint**: The aim of the EIB is to achieve carbon neutrality with its direct footprint. The EIB measures its direct footprint regarding the use of electricity, but there are not yet clear reduction targets. In the CSR report 2006 the EIB says it has the intention to put in place a policy to actively reduce the carbon emissions resulting from the bank's direct activities and to off-set these carbon emissions. **Indirect footprint:** There are no specific targets to reduce the indirect CO2 footprint, and CO2 is not measured at a portfolio level. There are, however, targets to increase environmental lending and investments in renewable energy – a practical and feasible approach and methodology is being discussed with other Multilateral Financing Institutions. The targets are:. to achieve an environmental lending target for Europe of 25-30% of the EIB's overall lending activity, irrespective of type, i.e. also including credit lines; to achieve an annual sub-target of EUR 600-800m for renewable energy (RE) projects with 50% of EIB lending for electricity generation associated with RE technologies. In certain projects of the bank the indirect CO2 impact is measured. Measurement is limited to environmental projects where substantial CO2 emission reductions can be achieved.
6. Public initiatives and engagement.	EIB seeks a.o. engagement with its stakeholders and peers in the business through participation in the various international sustainability initiatives / working groups as mentioned under point 4 above. In addition to the a.m. initiatives EIB conducts discussions on climate change issues with several other institutions, including: The European Commission – DGs Environment, Enlargement and Development on the flexible mechanisms and exploring synergies between Community and Bank finance, as well as DG Research to cooperate in the promotion of new, climate-friendly technologies; Member States to review national legal and fiscal frameworks to support country-specific climate change programmes; Large European corporations to investigate measures to meet their (voluntary or legislated) GHG commitments European venture capital firms; Other banks and financial institutions to develop climate change-related lending programmes, especially to small and medium-sized enterprises, both inside and outside the EU; Other Multilateral Development Banks at a strategic and project level (e.g Clean Energy Framework for Multilateral Development Banks). Various NGOs.
7. Climate issues taken into account in client or transaction assessments / client engagement on the issues.	All loans, apart from credit lines to financial intermediaries (e.g. local banks), are screened for environmental purposes, using EU requirements as the benchmark. For the credit line business the EIB focuses its environmental assessment on the capacity of the intermediary to carry out the environmental assessment required by the bank. It is estimated that the percentage of projects that required an EIA as a proportion of the total number of signed projects in 2006 was in the range of 15-20%. Under its environmental lending program the EIB financed in 2006 15 projects in which specific climate change considerations were taken into account. EIB engages frequently with clients and governments about environmental matters and climate change issues both at strategic level and

	project level.
8. Develop new products to stimulate clients to reduce their CO2 emissions.	The EIB launched a number of specific climate change instruments in 2004, which it started implementing in 2005. The Climate Change Financing Facility (CCFF) of EUR 1 billion was established to provide long term loan financing for projects inside and outside the EU that result in a significant reduction in greenhouse gas emissions, generate carbon credits under the Clean Development Mechanism (CDM) and Joint Implementation (JI) instruments, and help countries and/or promoters adapt to climate change. The Climate Change Technical Assistance Facility (CCTAF), in the amount of EUR 5 million, aims to promote the development of climate change mitigation projects by providing upfront finance in the form of conditional loans for the technical expertise needed to develop carbon credits under the CDM and JI project based mechanisms of the Kyoto Protocol. European Clean Energy Fund – SFF (EU and Accession Countries) The operation aims to make equity and subordinated debt investments in energy infrastructure projects with a particular focus on renewable energy, energy efficiency projects mainly in the EU and Accession countries. Facility for Energy Sustainability and Security of Supply: This EUR 3 billion Facility aims at contributing more effectively to the implementation of key EU policies and to comply with the Council Decision, to promote energy sustainability and security of supply through the financing of projects outside the EU and Pre-Accession countries over the 7-year period of the current external mandate. The EU Global Energy Efficiency and Renewable Energy Fund of a total of EUR 100 million managed by the EIF. The EIB is cooperating with several international financing institutions, with a view to establishing a number of funds as vehicles for acquiring carbon credit sales outlets for project promoters of the EIB. Two funds have been established, namely: The Multilateral Carbon Credit Fund (MCCF) developed together EBRD, which is dedicated specifically to the region of EBRD countries of operation. The Carbon Fund for Europe (CFE) developed with the World Bank has been established as a trust fund with the IBRD acting as a trustee on behalf of the public and private investors, and has a global reach, focused on CDM projects. EIB/KFW Value-Added Carbon Credit Fund: In a 50:50% partnership with KfW, establishment of a carbon credit fund that will support the development of environmentally beneficial projects, incl. energy efficiency, renewable energy, forestry and methane capture and to acquire the carbon credits during 2008-2012 period. i.e. the second phase of the EU ETS Post-2012 Carbon Credit Fund: In collaboration with a group of leading European IFIs and development banks, establishment of a carbon credit funds that acquires carbon credits generated by energy efficiency, renewable energy, forestry, and methane capture projects in the post-2012 period, i.e. after the second phase of the EU ETS and the Kyoto Compliance period.
9. Report annually on direct and indirect CO2 emissions and progress towards targets (GHG Protocol or GRI).	EIB publishes an annual Corporate Social Responsibility (CSR) report. The first report was published in June 2006 covering the year 2005. Prior to 2006 EIB published annual environmental reports. The 2006 CSR report has been based upon GRI guidelines. It met a GRI "B" application level. The reports published thus far do not cover the activities of the European Investment Fund (EIF). It is the intention to include EIF in the CSR report for 2007. In 2007 EIB will also create a dedicated CSR website. In its sustainability report EIB provides information about its direct footprint, but not about indirect footprint.

Annex 14

EBRD Overview	
The European Bank for Reconstruction and Development (EBRD) was established in 1991 when communism was crumbling in central and eastern Europe and ex-soviet countries needed support to build market economies and democracies in countries from central Europe to central Asia. The EBRD is the largest single investor in the region and mobilises significant foreign direct investment beyond its own financing. It invests mainly in private enterprises, usually together with commercial partners. It provides project financing for banks, industries and businesses, both new ventures and investments in existing companies. It also works with publicly owned companies, to support privatisation, restructuring state-owned firms and improvement of municipal services. The Bank uses its close relationship with governments in the region to promote policies that will bolster the business environment. The mandate of the EBRD stipulates that it must only work in countries that are committed to democratic principles. Respect for the environment is part of the corporate governance attached to all EBRD investments. Every EBRD investment must • Help move a country closer to a full market economy: the transition impact • Take risk that supports private investors and does not crowd them out • Apply sound banking principles Through its investments, the EBRD promotes: • Structural and sectoral reforms • Competition, privatisation and entrepreneurship • Stronger financial institutions and legal systems • Infrastructure development needed to support the private sector • Adoption of strong corporate governance, including environmental sensitivity The EBRD is owned by 61 member countries and two intergovernmental institutions, the European Union and the EIB. With a subscribed capital totalling EUR 20 billion (EUR 5 billion paid-in and EUR 15 billion callable), the EBRD has a solid capital base. The EBRD finances project lending and operational needs by borrowing funds on the international capital markets. The Bank does not directly utilise shareholders' capital to finance its loans. The strength of the Bank's capital and its shareholders is reflected in the EBRD's credit rating of AAA from Standard & Poor's and Aaa from Moody's. The EBRD is not rated by any sustainability rating agency.	
1. Corporate Values & Business principles.	EBRD has not defined explicitly any values or business principles that guide its' daily business.
2. EBRD & energy.	EBRD has a substantial set of policies regarding the energy sector. Its' 2007 sustainability report had a special focus on sustainable energy. In 2006 EBRD approved a new comprehensive Energy Policy and launched a Sustainable Energy Initiative, which set targets for helping heavy energy-use industries to save energy, and for the high-consumption natural resources industries to introduce more energy efficiency. This initiative committed the EBRD to double its financing to Euro 1,5 billion for energy efficiency and renewable energy projects between 2006 and 2008. From its launch in May 2006 to the end of 2007, EBRD SEI financing reached over €1.7 billion, already exceeding the SEI original three year target of €1.5 billion.

	In the field of nuclear energy EBRD focuses primarily on improving nuclear safety. Policy dialogues are held with various East European countries (e.g. Russia and Ukraine) and EBRD finances with its' own money and through special donor funds decommissioning of old nuclear power plants and technical assistance to improve safety.
3. Sustainability policies.	**External policies / guidelines:** EBRD has committed itself to a number of international initiatives and policies such as: (1) GRI, (2) EPE, (3) UNEP FI, (4) EITI In addition EBRD is involved in various other initiatives among which: • **Project Preparation Committee -** The Project Preparation Committee (PPC) is a network of donors, International Financial Institutions (IFIs) and partner countries that facilitates environmental investment projects in eastern and south-eastern Europe, the Caucasus and Central Asia. The PPC counts among its stakeholders the major western bilateral donors, multilateral donors such as the European Union, and international financial institutions such as the European Investment Bank (EIB), Nordic Environmental Finance Corporation (NEFCO), Nordic Investment Bank (NIB) and the World Bank group. • **Northern Dimension Environmental Partnership -** The Northern Dimension Environmental Partnership (NDEP) is a partnership between the Russian government, the donor community, and IFIs including the EBRD. It mobilises investment for priority environmental projects in north-west Russia, such as water supply, solid and waste-water treatment, energy efficiency and nuclear safety. The NDEP Support Fund is managed by the EBRD. **Internal Policies / guidelines:** Like any other multilateral development bank the EBRD has various sustainability policies. The standards in the EBRD Environmental Policy (2003) are based on national and international best practice in the areas of ecology, worker protection and local communities. These standards are applied to all projects through loan agreements and other legal documents. They are also incorporated into country and sector strategies, donor activities, and to internal EBRD operations. Where the EBRD invests directly in a project the project must comply with: • National law for environment, health, safety and employment; • European Union environment, health and safety standards, where applicable; and • The International Labour Organization's fundamental Conventions concerning the abolition of harmful child labour, the elimination of discrimination at the workplace; and the elimination of forced and compulsory labour. Where the EBRD provides financing via financial intermediaries (e.g. local banks) those intermediaries are required to comply with EBRD's environmental standards. In July 2006 it approved a new energy policy which sets a formal target for EBRD's investments in energy efficiency and renewable energy. Furthermore it commits the bank to develop carbon markets in the region. EBRD has various sector policies, which covers a broad range of sector specific topics among which environmental considerations (Agribusiness, Micro, small and medium-sized enterprises, Municipal & environmental infrastructure, Natural resources, Property, Shipping, Telecoms, informatics & media and Transport).
4. Climate change policy explaining	EBRD does not have a specific climate change policy. Climate change is, however, a topic that is taken into account in it's' energy

relevance of climate change for the bank and specify how the bank sees its role and responsibilities.	policy and will be more explicitly taken into account in its' new environmental policy that is currently being developed. This concerns a review of the existing environmental policy of 2003. The aim is to present the revised policy for Board approval by the end of 2007. The current environmental policy describes general environmental criteria and includes the screening of environmental sensitive projects in three environmental risk categories (A,B and C). Category A projects require a detailed Environmental Impact Assessment (EIA).
5. Clear reduction targets for both direct and indirect CO2 emissions.	**Direct footprint**: The EBRD measures its direct footprint regarding the use of electricity, but there are no clear reduction targets. In the CSR report 2006 the EBRD says it has the intention to put in place a policy to actively reduce the carbon emissions resulting from the bank's direct activities and to off-set these carbon emissions. The bank's energy consumption is sourced from renewable sources (hydro power). **Indirect footprint:** There are no specific targets to reduce the indirect CO2 footprint at a portfolio level, but there are targets to increase environmental lending and investments in renewable energy (see above). In certain projects of the bank the indirect CO2 impact is being measured. Measurement is limited to projects where substantial CO2 emission reductions can be achieved.
6. Public initiatives and engagement.	EBRD seeks a.o. engagement with its stakeholders and peers in the business through participation in the various international sustainability initiatives / working groups as mentioned under point 4 above. In addition the EBRD conducts discussions on environmental matters and climate change issues with several other organisations, including: Governments in Eastern Europe through the development of Country Strategy Policies International government organisations such as: a wide range of UN bodies (e.g. UNFCCC, UNEP, and UNDP), the European Union (e.g. European Climate Change Program), Other banks and financial institutions in particular at a project level; Other Multilateral Development Banks at a strategic and project level (e.g Clean Energy Framework for Multilateral Development Banks). Various NGO's concerning country strategies, business policies and individual projects.
7. Climate issues taken into account in client or transaction assessments / client engagement on the issues.	In the context of its' energy policy and the Sustainable Energy Initiative EBRD loan officers are asked to look for potential energy savings and renewable energy opportunities. In this indirect way climate issues are taken into account. The Bank screens both existing and potential projects to identify possible energy savings. Typical areas where these savings can be achieved include the upgrade or introduction of: • measurement and control systems • process heat recovery • electrical motors and transformers • space heating and lighting • onsite energy generation facilities EBRD frequently engages with clients (among which countries) about environmental matters and climate change issues, both at a strategic level and project level.
8. Develop new products to stimulate	• Together with the EIB, the EBRD has developed The Multilateral Carbon Credit Fund (MCCF), which is dedicated specifically to

clients to reduce their CO2 emissions.	the EBRD region. • Together with the Netherlands EBRD has developed one of Europe's first carbon funds. • Under the new energy policy and Sustainable Energy Initiative EBRD has committed substantial funds for renewable energy and energy savings projects for 2006 - 2009.
9. Report annually on direct and indirect CO2 emissions and progress towards targets (GHG Protocol or GRI).	• The EBRD has used the GRI 2002 guidelines for its 2006 sustainability report. It is being investigated whether ERD can report next year in accordance with GRI G3 guidelines. • In its sustainability report EBRD provides information about its direct footprint. On indirect footprint the sustainability report mentions various examples, but there is not a comprehensive measurement at portfolio level.

Annex 15

IFC Overview	
The IFC, the private sector arm of the World Bank Group, promotes sustainable private sector development in developing countries. Its particular focus is to promote economic development by encouraging the growth of productive enterprise and efficient capital markets in our member countries. IFC has around 3,000 staff, of whom 49% work at headquarters in Washington, DC, and 51% in over 80 field offices. IFC fosters sustainable economic growth in developing countries by financing private sector investment, mobilizing capital in the international financial markets, and providing advisory services to businesses and governments. IFC helps companies and financial institutions in emerging markets create jobs, generate tax revenues, improve corporate governance and environmental performance, and contribute to their local communities. The goal is to improve lives, especially for the people who most need the benefits of growth. IFC invests in enterprises majority-owned by the private sector throughout most developing countries in the world. Developing regions include: • Sub-Saharan Africa • East Asia & the Pacific • South Asia • Europe & Central Asia • Latin America & the Caribbean • Middle East & North Africa • IFC's Strategic Priorities IFC emphasises five strategic priorities for maximizing its sustainable development impact: 1. Strengthening its focus on frontier markets, particularly the SME sector; 2. Building long-term partnerships with emerging global players in developing countries; 3. Differentiating IFC from its competitors through sustainability; 4. Addressing constraints to private sector investment in infrastructure, health, and education; and 5. Developing domestic financial markets through institution building and the use of innovative financial products. For all new investments, IFC articulates the expected impact on sustainable development, and, as the projects mature, IFC assesses the quality of the development benefits realized. IFC offers an array of financial products and services to its clients and continues to develop new financial tools that enable companies to manage risk and broaden their access to foreign and domestic capital markets. IFC offers a range of advisory services in support of private sector development in developing countries. IFC has AAA ratings from both Moody's and Standard and Poor's.	
1. Climate change policy explaining relevance of climate change for the bank	To help remove barriers for clean energy technologies and services in emerging markets.

and specify how the bank sees its role and responsibilities.	
2. Clear reduction targets for both direct and indirect CO2 emissions.	To accelerate investments in renewable energy and energy efficiency to contribute to World Bank Group's target to scale up its portfolio of such investments by an annual average of 20% through 2010.
3. Public initiatives and engagement.	• IFC is leveraging its extensive project finance experience in emerging markets to identify and structure emission reduction projects to help minimize key risks associated with delivery of carbon credits. • IFC currently has about US$175 million under management in partnership with the Government of the Netherlands, through which it purchases emission reduction credits from projects eligible under the Kyoto Protocol's Clean Development Mechanism and the Joint Implementation mechanism. • IFC offers a full range of investment products and mobilized over US $ 2 billion in clean energy investment during FY 2007 • IFC oversees a diverse portfolio of more than US $ 200 9supported by GEF and other donors) dedicated to helping commercialize innovative climate friendly investment by removing barriers to market development and reducing costs to replicate transactions in the future • The International Finance Corporation, in collaboration with Paramount Pictures, is supporting a program that donates copies of Al Gore's recent documentary on climate change, "An Inconvenient Truth," to local schools and communities. IFC is also offering presentations on climate change to help raise awareness about this global issue.
4. Climate issues taken into account in client or transaction assessments / client engagement on the issues.	Larger projects are required to quantify and report GHG emissions and strategy for achieving reductions • commitment to triple clean energy investment; • pilot studies for evaluation of climate risk to investments; • commitment to pilot the use of a shadow price for carbon in our financial analysis • Recognizing a growing need for support in this area among client companies and the wider private sector, IFC works through its Social Responsibility practice area to make advice and tools available to help emerging market firms incorporate CSR into strategic business planning and communications processes.
5. Develop new products to stimulate clients to reduce their CO2 emissions.	• Sustainable energy finance, provision of support to financial intermediaries, carbon finance, advisory services and donor funding. • According to the 2005 sustainability report, IFC invested nearly $221 million in sustainable energy during FY05 and used microfinance projects to widen access to finance for the world's poorest people. • IFC invested US$1.9 billion dollars in clean energy investments in FY06. • IFC oversees a diverse portfolio of more than US$200 million provided by GEF and other donors to help commercialise innovative climate friendly technology, as well as transfer of new technologies. • IFC has made investments in wind energy, bagasse cogeneration, run-of-river hydroelectric projects, and geothermal projects. • IFC is the largest source of financing for off-grid solar businesses in the developing world, using a combination of donor resources and its own capital to test new business models, seed promising enterprises, and provide capital for business development. • IFC actively participates in the growing market for financing private power generation using grid-connected renewable energy technologies (e.g., wind, hydropower, biomass and geothermal). Such projects typically require mobilisation of both equity and

	debt financing. IFC also participates in many different types of financing operations that generate energy efficiency benefits including financing to electricity distribution companies to reduce system-wide losses, direct investments in energy service companies (ESCOs) and companies who manufacture energy efficiency equipment. • IFC's largest impact on sustainable energy investment is potentially through IFC's investments in the agribusiness, general manufacturing, and infrastructure sectors. Sustainable energy investment opportunities are embedded in many of the investments in these sectors. In FY06, IFC leveraged over $1.5 billion in sustainable energy investment through 21 such projects, ranging from biomass cogeneration facilities in sugar refineries and waste heat recovery in steel mills, cement manufacturing, to run-of-river hydro and wind power projects. IFC seeks to expand this impact through a systematic approach to adding value based on evaluating alternatives, measuring and reporting outcomes, and working with clients to promote greater developmental benefits. • IFC now also offers value-added financial products that will help mitigate risks in the carbon market by leveraging its own ability to take long-term project and credit risk in emerging markets. IFC, which is AAA-rated, now provides a Carbon Delivery Guarantee for carbon credits from projects in developing countries. This product will service those who need credits for compliance, while channelling a higher value to qualifying projects in developing countries. • IFC will also consider lending against future carbon revenues to help projects leverage their future emission reductions for financing today. • IFC plans to provide advisory services and technical assistance to its clients so they can help access the carbon markets (including the fast growing voluntary market). Besides projects, target groups will include financial intermediaries, who are the primary conduit to providing such access to SMEs, as well as municipalities that manage a diverse set of emitting assets.
6. Report annually on direct and indirect CO2 emissions and progress towards targets (GHG Protocol or GRI).	• Direct (Scope 1) and indirect (Scope 2) emissions are reported and offset annually. Methodology for measuring Scope 3 under development. • Annual report integrates sustainability and covers investments in sustainable energy. • IFC's revised performance standards require assessment of opportunities for improving energy efficiency and using renewable energy where feasible. For larger projects, it requires quantification and reporting of GHG emissions and a strategy for achieving reductions. More detailed guidelines are now being prepared for specific industries including, where appropriate, innovative technologies and for energy efficiency and GHG emission reduction opportunities.

Annex 16

FMO Overview	
FMO supports the private sector in developing countries and emerging markets in Asia, Africa, Latin America and CE Europe. The goal is to contribute to the structural and sustainable economic growth in these countries. FMO offers a full range of financial instruments for the benefit of private companies and financial institutions in developing economies. FMO is active in some 40 countries in the regions of Africa, Asia, Europe & Central Asia and Latin America & the Caribbean. Per country, the role FMO is able and willing to play has been defined, and the products for which there is the greatest need have been identified. FMO has 224 staff, and its net profit in 2006 was EUR 134 million. FMO enjoys an AAA rating from Standard and Poor's.	
1. Climate change policy explaining relevance of climate change for the bank and specify how the bank sees its role and responsibilities.	FMO does not have a policy for its indirect carbon footprint.
2. Clear reduction targets for both direct and indirect CO2 emissions.	Since 2004, FMO's goal has been to become CO2 neutral. In 2006, the bank achieved 'CO2 neutrality' by buying 7,013 tons carbon credits to offset negative impact from both (air) travel and our overall operations (incl. commuting) over the period 2004-2006.
3. Public initiatives and engagement.	See 5 below.
4. Climate issues taken into account in client or transaction assessments / client engagement on the issues.	Though FMO does not specifically identify climate change risks, the bank integrates environmental risks and opportunities into its financing process. The IFC Performance Standards require that projects in the emerging markets are assessed for their GHG emissions.
5. Develop new products to stimulate clients to reduce their CO2 emissions.	FMO takes leading positions in wind and biofuel projects in Africa and Eastern Europe / Central Asia through structuring projects in a 'template' manner (portfolio approach). FMO focuses on sustainable renewable CDM projects (private sector only) in (non-exclusive) co-operation with the Dutch Ministry VROM. In return for the carbon credits of a project VROM contemplates to fund upfront the net present value of 25% of 70% of the carbon credits cash flow. The other 75% of the 70% are paid against delivery of the carbon credits in the future. The upfront amount need not to be paid back when the rights accompanying this payment are actually delivered. VROM obtains a purchase option for the remainder 30% of the future carbon credits. Contractual period is preferably 7 or 14 years.
6. Report annually on direct and indirect CO2 emissions and progress towards targets (GHG Protocol or GRI).	FMO reports on its direct GHG emissions. The bank states that it is committed to monitoring and mitigating the negative impact of their GHG emissions and report annually on progress. It does not make any reference to its indirect carbon footprint.

Annex 17

Atradius Dutch State Business Overview	
Atradius Dutch State Business (Atradius DSB)[2] is part of the global credit insurance company Atradius. This company has basically two insurance activities, namely pure commercial credit insurance (including debt collection and business information) and officially supported export credit insurance. Commercial credit insurance is a global business activity and consists mainly of Short Term credit insurance (up to 2 year risk). In this field Atradius is one of the world's leading providers of credit management solutions. It has a global market share of 31%. The company has more than 90 offices in 40 countries across the globe. Annual insured turnover is approximately Euro 465 billion, leading to annual revenues (mainly premium income) of Euro 1,8 billion and a profit of Euro 105 million (2006). Customers of Atradius have access to a database with credit information about more than 52 million companies worldwide. The credit ratings of Atradius are 'A' (stable) from S&P and 'A2' (stable) from Moody's. Atradius does not have any sustainability ratings and it does not publish a sustainability report. The officially supported export credit insurance business is done by Atradius DSB. In this area the Dutch Government (i.e. the Ministry of Finance) provides support by means of re-insurance to Atradius DSB, which enables Atradius DSB to support the financing of exports of capital goods and constructional works out of the Netherlands. This support is provided by means of insurance cover for Medium & Long Term (MLT) export finance and investment insurance. Many other capital goods exporting countries have a similar export promotion scheme as The Netherlands. Each OECD country (and also many non OECD countries) has its own Export Credit Agency (ECA). It is quite a unique public sector activity which is governed by various international regulations in the EU, WTO and OECD. In 2006 Atradius DSB received 278 applications for cover (2005: 314) and the number of policies issues were 152 (2005: 200). The value of all policies issued was in 2006 Euro 2,4 billion (2005: Euro 2,3 billion). In 2006 premium income was Euro 82 million (2005: Euro 42 million), claims paid were Euro 17 million (2005: 39 million) and recoveries received were Euro 880 million (2005: Euro 549 million).	
1. Corporate Values & Business principles.	Atradius DSB is a member of the Berne Union and subscribes the Berne Union (BU)l guiding principles, which a/o states that BU members are sensitive about environmental issues and that they take such issues into account in the conduct of business (principle 6). Climate change is not as such separately addressed in these principles.
2. Atradius DSB & Energy	Atradius DSB has a limited exposure in the energy sector. This includes a few projects in the field of gas and oil exploration as well as renewable energy projects. Credit insurance is merely a facilitating business. The number of applications for renewable energy projects highly depends on the demand In the past a workshop has been held, organised by VROM, to promote the use of credit insurance. In the renewable energy sector. There are specific rules in the OECD for officially supported export credits about maximum credit terms and other financing conditions that apply to energy projects (e.g. conventional power plants, nuclear power plants and renewable energy). For renewable energy special more flexible conditions apply (e.g. max. credit period of 15 years).
3. Sustainability initiatives & policies	**International initiatives / policies:** For Atradius DSB important sustainability guidelines have been developed in the OECD community, such as:

1. In this document Atradius DSB refers to the entity that provides coverage on behalf of the Dutch state. Atradius refers to the commercial credit insurance company that operates without government support.

	OECD common approaches on environment and officially supported export credits. Based upon these OECD guidelines Atradius DSB screens all applications on environmental impact and performs environmental assessments on export transactions and investments that are to be reinsured by the Government of more than EUR 10 million. If it is clear that a transaction or project under the EUR 10 million-threshold will result in major environmental damage, the application will also have to be analysed for environmental impact. The same applies to works in or near risk areas. Projects are classified into three environmental risk categories: A (high potential impact), B (medium potential impact) and C (low potential impact). Category A projects require a comprehensive EIA. OECD sector understanding on export credits, renewable energies and water projects: According to OECD rules the maximum credit period for a conventional power plant is 12 years and for a nuclear power plant the max repayment term is 15 years. Prior to this sector understanding other (renewable) energy projects could benefit from a maximum repayment period of 10 years. The sector understanding has lengthened this repayment term up to 15 years. Projects in the area of wind energy, wave power, solar energy, bio energy and hydro are eligible for a 15 year repayment period. Since the inception of the sector understanding in 2004 there has been 14 notifications of renewable energy projects supported by OECD ECAs with a total value of approx. Euro 1,2 billion. In addition there has been 18 renewable energy projects supported under regular OECD Consensus terms with a value of approx. Euro 900 million. The extended credit terms for renewable energy has been used for Solar Photovoltaic power, wind power and hydro power projects. The supporting countries were in particular Germany, Japan, Switzerland and Canada. Atradius DSB has not done any renewable energy project under the sector understanding as there is a limited number of exporters to emerging markets making use of export credits in this trade sector. OECD guidelines for multinational enterprises: In accordance with OECD regulations applicants for cover have to give an undertaking to comply with the OECD guidelines for multinational enterprises. These guidelines address in para V all issues regarding environment (including climate change issues). OECD anti bribery measures: Applicants have to state that the contract concerned has not been and will not be obtained by bribery. Atradius is not involved in specific international climate change initiatives. **Internal Policies/ guidelines:** An extensive brochure about environmental policies by Atradius DSB is available. Obviously in supporting exports from the Netherlands for the account of the state relevant government policies are taken into account (e.g. export licence for military equipment).
4. Climate change policy explaining relevance of climate change for the bank and specify how the bank sees its role and responsibilities.	Atradius DSB has no specific climate change related policy or statement.
5. Clear reduction targets for both direct and indirect CO2 emissions.	**Direct footprint**: Atradius DSB has no specific policy on direct footprint issues.

	Indirect footprint: Atradius DSB has no specific policy on indirect footprint issues. It has no set specific targets regarding its indirect CO2 footprint and indirect CO2 footprint is not measured.
6. Public initiatives and engagement.	As an advisor to the Dutch government on officially supported export credit issues Atradius DSB is involved in general export credit discussions in the EU and the OECD. In addition Atradius is a member of the Berne Union. Most ECAs, including Atradius DSB, employ environmental specialists, who discuss environmental issues in special sessions of the Export Credit Group in the OECD. This includes discussions on environmental impact, relocation, indigenous populations and cultural heritage. Climate change as such is not as a separate issue on the agenda of the ECA community, but forms part of the overall environmental impact, transactions might have. There are no discussions with clients or other stakeholders about this topic solely, but Atradius DSB has periodical meetings with certain NGOs in the Netherlands and the OECD about various sustainability issues that are relevant to the OECD ECA business community. Main topics that are discussed are environmental issues (including all issues that can effect the environment, under which climate change) in (potential new) transactions, ant-bribery issues, debt relief and debt sustainability.
7. Climate issues taken into account in client or transaction assessments / client engagement on the issues.	Specific climate change issues are not standard taken into account, but are treated in the assessment of the overall environmental impact of a specific transaction.
8. Develop new products to stimulate clients to reduce their CO2 emissions.	Atradius's insurance products are available to all types of export including environmental friendly industries and services, renewable energies or financiers of these exporters.
9. Report annually on direct and indirect CO2 emissions and progress towards targets (GHG Protocol or GRI).	• Atradius DSB has its own "annual review", which covers the overall business of the officially supported export credit scheme. This report contains a two page paragraph about various CSR topics such as the number of projects that required an EIA. • Sustainability is not separately reported. • Atradius DSB does not report to the Carbon disclosure project.

Annex 18

ABP Overview	
The "Stichting Algemeen Burgerlijk Pensioenfonds" (ABP) is the pension fund for employees in service of the Dutch government and the educational sector. All of its 2,6 million customers have the assurance of income security against disability, death and pension. The services provided by ABP are all based on solidarity and non-profit. ABP is one of the largest pension funds in the world with more than Euro 210 billion of assets, of which 54% equities and alternative investments, 43% fixed income investments and 3% other investments. Annually it pays out Euro 6,1 billion of pensions. The ABP has its head office in Heerlen, the Netherlands.	
1 Corporate Values & Business principles.	ABP has not published explicitly any corporate values that guide its daily business. There is, however, a statement about its investment principles that was published in 2005. This statement describes a.o. the link between ABP's investments and pension obligations and provides guidance for the investment activities. The principles are: • Investment risk should be rewarded • Diversification is a "free Lunch" • Alpha[3] provides a valuable contribution to investment return • A premium should be paid for illiquidity • Innovation and speediness in action do reward • Investment for the long term rewards • Environment, society and corporate governance are important issues. ABP is due to publish a revised Responsible Investment Policy in March 2008. This refers to climate change as one of a number of important issues within its overall approach. In addition ABP has played an important role in the development of UN PRI.
2 ABP & Energy	ABP has no specific policy for investments in the energy sector. It has investments of several hundred million euros in renewable energy but has not set any specific targets.
3 Sustainability initiatives & policies	**International initiatives / policies:** • ABP has committed itself to a number of international initiatives and policies such as: (1) UN PRI , (2) IIGCC (3) Eurosif (4) EITI, 5) Enhanced Analytics Initiative • ABP supports the GRI initiative, and plans to publish its first GRI sustainability report in May 2008. • ABP is a signatory to the Carbon Disclosure Project CDP and sponsors the initiative. **Internal initiatives / policies:** • ABP has developed a clear ESG policy covering environmental, social and governance (ESG) topics in its investment business. ABP is committed to integrating ESG factors across all its investments. • ABP has developed a statement on its investment principles. ABP's Responsible Investment Policy, due to be published in March 2008, refers to climate change as one of a number of important issues within its overall approach.

[3] Alpha refers to an active investment strategy to outperform market performance

4 Climate change policy explaining relevance of climate change for the bank and specify how the bank sees its role and responsibilities.	• ABP does not have a comprehensive climate change policy. ABP perceives climate change as a very important issue for its own investments and for the investment community more widely. • ABP supports the Carbon Disclosure Project to stimulate companies (in which it (could) invest to disclose their CO2 footprint and other climate change-related risks and opportunities.
5 Clear reduction targets for both direct and indirect CO2 emissions.	**Direct footprint:** ABP has not yet defined clear targets regarding its direct CO2 footprint. Currently data are being collected about a.o. energy consumption, lease cars and air flights by personnel to allow ABP to report its direct footprint in accordance with GRI guidelines in 2008. ABP has undertaken various initiatives internally to save energy and reduce CO2 emissions. A new initiative that is currently being developed is the heating and cooling of its head office in Heerlen with water that is pumped out of old coal mines. **Indirect footprint:** ABP does not measure its indirect CO2 footprint in its investment portfolio.
6 Public initiatives and engagement.	ABP seeks a.o. engagement with its stakeholders and peers in the business through participation in the various international sustainability initiatives / working groups as mentioned under point 4 above. In addition ABP is active in engagement with companies around various environmental, social and governance (ESG) issues. These engagements cover sometimes also climate change business strategies of companies in CO2 intense business sectors, such as electricity production, automotive industry and the oil & gas sector. ABP holds regular discussions with NGOs both in the Netherlands and internationally on a range of sustainability issues, including climate change. ABP was a signatory in November 2007 to a statement by a group of leading pension funds and companies calling on governments at the Bali climate change summit to adopt a clear, strong and predictable international policy framework on climate change to succeed the Kyoto Protocol. ABP is also a member of the P8 group of the world's largest pension funds that is collaborating actively on various dimensions of climate change.
7 Climate issues taken into account in client or transaction assessments / client engagement on the issues.	The key responsibility of ABP is to achieve a good return on its investments. ABP believes that responsible use of natural resources is an important factor for the long term performance of companies. Companies within a given sector (e.g. energy) are compared with one another to assess "best in class" performance on a.o. environmental matters. This assessment of companies may include CO2 footprint if sufficient data is publicly available, as well as companies' exposure to the physical risks of climate change and business opportunities created by the provision of climate change solutions..
8 Develop new products to stimulate clients to reduce their CO2 emissions.	• ABP has developed together with PGGM a clean technology private equity fund of in total Euro 500 million. Each pension fund is investing Euro 250 million in this fund. This fund is managed by Alpinvest. • In July 2007 ABP has made an investment of Euro 60 million in the Global Solidarity Forest Fund (GSFF). This fund invests in various sustainable forest projects in Mozambique. • In October 2007 ABP has – together with PGGM and teh insurance company Delta Lloyd invested Euro 100 million in a sustainable infrastructure fund which will invest in wind energy and biomass projects in Northern Europe. • ABP has invested approx. US$ 363 million in the so-called Carbon II fund of Climate Change Capital. This group invests in clean energy and a low carbon economy fund invests in projects that lead to a reduction of CO2 emissions.

	The total investments of ABP in Co2 reduction and emission rights amounts approx. Euro 500 million.
9. Report annually on direct and indirect CO2 emissions and progress towards targets (GHG Protocol or GRI).	ABP supports the GRI initiative, and plans to publish its first GRI sustainability report in May 2008. ABP is a signatory to the Carbon Disclosure Project (CDP) and sponsors the initiative.

Annex 19

PGGM Overview	
PGGM administers the pension scheme and manages the assets of Pensioenfonds Zorg en Welzijn. PGGM currently has EUR 88 billion under management for over two million employees and former employees in the healthcare and social work sector. PGGM is based in Zeist, The Netherlands and has more than 1,000 employees.	
1. Corporate Values & Business principles.	• PGGM's corporate values that guide its daily business are *integrity, trust, dedication* and *sustainability* (unofficial translation of Integriteit, vertrouwen, toewijding en duurzaamheid). In addition, PGGM describes its investment philosophy, which guides the daily business of the investment organisation. • As one of the founding investors, PGGM has played an important role in the development of UN PRI.
2. PGGM & Energy	PGGM has no specific policy for its business with the energy sector. It has substantial investments in renewable energy but has not set any specific targets.
3. Sustainability policies	**Internal initiatives / policies:** PGGM has developed three key investment policies, being: • Listed Equity Ownership Policy, describing its Voting Policy and Guidelines, Engagement Policy and Shareholder Litigation Policy • Exclusions Policy (controversial weapons, human rights and the subjects of the engagement policy (last resort)). • Responsible Investment Policy: Key factors that are taken into account in its general investment policy are: human health & medicines, human rights, weapons, corporate governance and climate change. PGGM has chosen to use the UN PRI as the central framework for its' responsible investment policy. There is no policy that specifically describes criteria and/ or principles concerning climate change. These investment policies are the umbrella for all responsible investment activities, including commitment to and active participation of several international initiatives and policies. **International initiatives / policies:** PGGM has committed itself to a number of international initiatives and policies such as: (1) UN PRI (2) IIGCC (3) Eumedion (4) CDP (5) EAI (6) IGCN
4. Climate change policy explaining relevance of climate change for the organisation and specify how the organisation sees its role and responsibilities.	• PGGM perceives climate change as an important issue for the investment community. • PGGM supports the Carbon Disclosure Project to stimulate companies in which they (could) invest to disclose their CO2 footprint. • Recently PGGM has conducted an internal study about the potential impact of climate change on its' investment portfolio. The results of this study were described in the Responsible Investment Annual Report 2006. • Within the IIGCC, PGGM actively aims for clear and firm policy making, in Europe as well as globally.
5. Clear reduction targets for both direct and indirect CO2 emissions.	**Direct footprint:** PGGM has not defined clear targets regarding its' direct CO2 footprint. PGGM has undertaken various initiatives internally to save energy consumption and reduce CO2 emissions.

	Indirect footprint: In 2006 a pilot project was run concerning the indirect footprint of PGGM 's investment portfolio. This led to an internal report. Information about indirect footprint has been made public in the Responsible Investment Annual Report 2006.
6. Public initiatives and engagement.	• PGGM seeks a.o. engagement with its stakeholders and peers in the business through participation in the various international sustainability initiatives / working groups as mentioned under point 4 above. • In addition PGGM is quite active in engagement with companies around various environmental, social and governance (ESG) issues. These engagements cover sometimes also climate change business strategies of companies in CO2 intense business sectors, such as electricity production, automotive industry and the oil & gas sector. PGGM works closely with Dutch Sustainability research to assess the sustainability performance of companies in which PGGM (could) invest and with F&C on engagement with companies about various environmental and social issues. • PGGM has some engagements with the NGO community around human rights (Amnesty), biodiversity (IUCN) and sustainable investments in general (VBDO). Thus far there have been no specific engagements with NGOs about climate change.
7. Climate issues taken into account in client or transaction assessments / client engagement on the issues.	The key responsibility of PGGM is to achieve a good return on its' investments. PGGM believes that responsible use of natural resources is an important factor for the long term performance of companies. Acting on PGGM's behalf, F&C engaged in dialogue on climate change with 97 companies in 2006. PGGM is seeking to encourage them to measure and disclose their production of greenhouse gases. Companies operating in sectors that have a severe environmental impact are stimulated to shed some light on their climate change strategies. Governments were also encouraged to develop long-term policies for migration to an economy that is less dependent on fossil fuels. Lastly, regulators have been addressed. For example, it has called on the chairman of the SEC to require companies to be more transparent regarding the effects of climate change on their business prospects.
8. Develop new products to stimulate clients to reduce their CO2 emissions.	• PGGM has developed together with ABP a clean technology private equity fund of in total Euro 500 million. Both pension funds contribute Euro 250 million to this fund. This fund is managed by Alpinvest. • PGGM has invested Euro 250 million in a Climate Change capital fund. This fund is managed by Climate Change capital and invests in various CDM and JI projects. • PGGM participates in the Ampère Equity Fund. Together with other partners, PGGM will invest up to half a billion Euros in sustainable energy projects.
9. Report annually on direct and indirect CO2 emissions and progress towards targets (GHG Protocol or GRI).	• PGGM publishes a social report which covers various topics regarding its' employees. PGGM does not publish a comprehensive sustainability report, but will likely publish such a report in 2008 (covering 2007). • PGGM publishes a responsible investment annual report. The first report was published in 2007, covering 2006. • PGGM does not report to the Carbon Disclosure Project. It is, however, a supporter of this initiative (signatory).

Annex 20

CalPERS Overview	
The California Public Employees' Retirement System (CalPERS) provides pension fund, healthcare and other retirement services for approximately 1.5 million California public employees. It owns $240 billion worth of stock, bonds, funds, private equity and real estate. It is the largest pension fund in the United States. CalPERS provides benefits to all state government employees and, by contract, to local agency and school employees.	
1. Climate change policy explaining relevance of climate change for the bank and specify how the bank sees its role and responsibilities.	None specifically focussed on climate change. "We have a strong track record of mobilizing financial capital in new and innovative ways, consistent with the highest fiduciary standards. We are just starting to explore ways in which it can marry the jet stream of finance and the capital markets with public purpose. Our goals are to achieve positive financial returns, while fostering energy savings, sustainable growth and sound environmental practices."
2. Clear reduction targets for both direct and indirect CO2 emissions.	• Direct- construction of the new CalPERS building in Sacramento focused on conservation of energy, use of renewable resources and a commitment to meeting LEED certification requirements for a sustainable design. • Indirect- through investments in sustainable business and companies that implement sustainable practices.
3. Climate issues taken into account in client or transaction assessments / client engagement on the issues.	• Policies focusing on investment in alternative and renewable energy (clean energy), water technologies (clean water), advanced materials or nanotechnology (clean material), air purification technologies (clean air), and transitional infrastructure opportunities. • By asking companies to respond to the CDP questionnaire and encouraging companies to improve disclosure. The CDP questionnaire is used to identify client engagement strategies. • By earmarking money for investment in stock portfolios that use environmental screens.
4. Develop new products to stimulate clients to reduce their CO2 emissions.	• AIM Environmental Technology Program- US$200 million program board targets investments in technology solutions that are more efficient and less polluting (i.e. recycling, minimizing use of natural resources, reducing emissions, refuse and contamination to air, water , and land). • CalPERS controls assets exceeding $245 billion, including $19.5 billion in real estate, has also been a leader in energy management and sustainability issues in the buttoned-down world of institutional investment. CalPERS last year launched a $100 million "green fund" to invest in LEED-certified buildings with partner Hines Interests LP. • US$200 million to AIM Environmental Technology Program.
5. Report annually on direct and indirect CO2 emissions and progress towards targets (GHG Protocol or GRI).	CalPERS encourages companies to improve their disclosure of environmental risks through the application of CDP and GHG reporting.

Annex 21

Endnotes:

[1] Examples are: The Stern Review on the economics of climate change (2007), World Energy Council "Energy and Climate Change" (2007) and Association of British Insurers "Financial risks of climate change"
[2] Stern Review: The Economics of Climate Change, page viii
[3] Ibid, page ix
[4] Ibid, page xii
[5] UNEP-FI CEO Briefing on Climate Change, 2002
[6] Members of the Advisory group were Inge Lardinois, Corine van As, Stefan van der Esch (all Ministry of VROM), Kees Schultz, Willemijn Verdegaal (both Ministry of Finance), Mattheus van der Pol and Marieke Pondman (both Ministry of Economic Affairs), Jan Peter Mout and Piet Klop (both Ministry of Foreign affairs), Frans van Loon (ex ING Bank) Johan Frijns (Banktrack).
[7] Institutional investors that invest in equity of a company are exposed to equity risks, which can be defined as the risk of a decrease in the value of the stock in which the investor has invested its money. Obviously the underlying risks causing a change in the price of stock are often the same as those for credit risks. Hereafter we speak about credit risks, but the observations are of equal importance to equity risks.
[8] Dutch companies can for example be found on the website of the Ministry of VROM.
[9] Witness the recent sub-prime debt failings and responses by central banks in key financial centres (i.e. US, Germany) and it is evident that an economy depends on a healthy financial sector in order to be able to effectively and accurately price and allocate risk.
[10] http://www.news.com/Smart-money-eyes-climate-change/2100-11746_3-6091772.html
[11] The effects of climate change: Storm damage in Europe on the rise; Swiss Re Focus Report, 2006. page 2
[12] Analysis of existing and planned investment and financial flows relevant to the development of effective and appropriate international response to climate change, UNFCCC, 2007, page 23
[13] Ibid, page 193-197
[14] Ibid, page 215
[15] The most relevant rules for ECA business can be found in the WTO concerning export subsidies and the OECD arrangement for officially supported export credits. There are also certain specific rules within the EU.
[16] Ibid, page 204
[17] Ibid, page 204-5
[18] *Climate Change and the Financial Services Industry*, UNEP-FI CEO briefing, 2002
[19] UNEP-FI CEO Briefing on Renewable Energy, page 6
[20] UNEP-FI CEO Briefing: "The Future of Climate Policy", December 2005, page 6
[21] Ibid, page 4
[22] Ibid
[23] Corporate Governance and Climate Change: The Banking Sector ,January 2008. page 12, Lead Author: Douglas G. Cogan A Ceres Report
[24] Climate Change & the Financial Sector: An Agenda for Action, Allianz Group/ WWF Report, June 2005, page 7
[25] United Nations Environment Programme – Financial Institutions
[26] In its July 2007 publication "*Coal: Missing the Window*", Citigroup see "(coal) company productivity / margins (as) likely to be structurally impaired by new regulatory mandates applied to a group perceived as landscape-disfiguring global warming bad-guys."
[27] *Climate Change & the Financial Sector: An Agenda for Action*, Allianz Group/ WWF Report, June 2005, page 6
[28] WRI: *Navigating the Numbers: Greenhouse Gas Data and International Climate Policy*, page 53
[29] Ibid, page 58
[30] Lehman Brothers, The Business of Climate Change, February 2007, page 73
[31] Ibid
[32] *Climate Change & the Financial Sector: An Agenda for Action*, Allianz Group/ WWF Report, June 2005, page 33
[33] Lehman Brothers, The Business of Climate Change, February 2007, page 74
[34] Ibid
[35] Ibid, page 74
[36] Ibid, page 74
[37] *Climate Change & the Financial Sector: An Agenda for Action*, Allianz Group/ WWF Report, June 2005, page 7
[38] Ibid, page 8

[39] We know of a UK-based commercial bank which has recently undertaken an assessment of the potential for climate change risk across its entire business portfolio.
[40] Climate Risk Disclosure by the S&P 500, Ceres and Calvert in Association with the Carbon Disclosure Project Secretariat, January 2007, page i
[41] http://ca.biz.yahoo.com/ft/070710/fto071020071725353966.html?.v=1
[42] http://www.abnamro.com/com/about/sr2006en.pdf, page 36
[43] *Climate Change & the Financial Sector: An Agenda for Action*, Allianz Group/ WWF Report, June 2005, page 38
[44] Ibid
[45] Ibid
[46] Lehman Brothers, The Business of Climate Change, February 2007, page 59
[47] Ibid
[48] Ibid, page 44
[49] Institutional investors that invest in equity of a company are exposed to equity risks, which can be defined as the risk of a decrease in the value of the stock in which the investor has invested its money. Obviously the underlying risks causing a change in the price of stock are often the same as those for credit risks. Hereafter we speak about credit risks, but the observations are of equal importance to equity risks.
[50] http://www.deloitte.com/dtt/cda/doc/content/us_er_Accounting%20ForEmission%20Rights_0220_2007.pdf
[51] IFRIC reviews accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching consensus on the appropriate accounting treatment. In developing interpretations, the IFRIC works closely with similar national committees. The IFRIC addresses issues of reasonably widespread importance, not issues that are of concern to only a small minority of entities. The interpretations cover both newly identified financial reporting issues not specifically dealt with in IFRSs; or issues where unsatisfactory or conflicting interpretations have developed, or seem likely to develop in the absence of authoritative guidance, with a view to reaching a consensus on the appropriate treatment.
[52] The Ceres report Corporate Governance and climate change: The banking sector, published in January 2008.
[53] A survey conducted by the Global Reporting Initiative and KPMG's Global Sustainability Services, 2007, page 33
[54] Ibid, page 33
[55] As per January 2008 the OECD local costs rules have been increased from 15% to 30%. OECD ECA's are now allowed to support up to 30% of local costs in an export transaction
[56] IEEP et al (2007) *Reforming environmentally harmful subsidies* Final report to the European Commission's DG Environment, March 2007.
[57] See footnote 53.
[58] The report "the business implications of climate change in sustainability reports" was published in July 2007 and can be downloaded from the websites of GRI and KPMG.