20 July 2023

Financial Sector Climate Commitment
Guideline on relevant financing, investments and action plans

1. Introduction

Background
In the Climate Commitment, over 50 financial institutions have taken the initiative to contribute to the goals of the Paris Climate Agreement. They have agreed, among other things, to measure the CO_2-emissions of relevant financing and investments from 2020 and to devise action plans, including reduction targets, by 2022 at the latest.

The first progress report on this was published in 2021. This report revealed differences in interpretation between institutions. Financial institutions, the government and various other stakeholders expressed a need for an explanation of the term 'relevant financing and investments'. There was also a desire to formulate a common vision of the elements forming part of an action plan and the ambition level for these plans. The first version of the 'Guideline on relevant financing, investments and action plans' was therefore published in October 2022.

Main changes in second version of the guideline
A number of changes have been made in this second version, taking into account international developments and suggestions from the financial industry and other stakeholders. The main changes from the first version are:

1. Investment institutions will also report on **government bonds** from FY2023.
2. Institutions will also report **scope 3 emissions** from FY2023 or state why this is not possible or desirable.
3. Institutions provide insight into the use of **carbon offsets** and/or **carbon credits** when reporting CO_2-emissions and presenting reduction targets.

This guideline applies to the reporting of the CO_2-emissions *of financing and/or investments for the year 2023 and adjustments to action plans in the period 20 July 2023 until the publication date of the next version of this guideline.*

Objectives of this guideline
First, this document gives financial institutions guidance on reporting CO_2-emissions and determining which elements should be included in an action plan. This guide aims to contribute to agreements in the Climate Commitment being implemented as consistently as possible. This guideline fleshes out

the original Climate Commitment and does not create any additional obligations for the signatories. The document also aims to give stakeholders a better understanding of how financial institutions can fulfill the agreements made in the Climate Commitment.

Formation

The four umbrella organizations (the Dutch Banking Association, the Federation of Dutch pension funds and the Dutch Fund and Asset Management Association) jointly worked on this guideline.

Principles

This document should be seen within the context of, and complementary to, guidelines and regulations mostly developed by or with the financial sector:

- The connection to international developments and initiatives is seen as an important overarching premise for the guide. Internationally recognized methods and standards, such as the Partnership for Carbon Accounting Financials (PCAF) and Paris Agreement Capital Transition Assessment (PACTA), form the basis for establishing CO_2-emissions for the vast majority of institutions.
- Guidance is also given on the formulation of action plans and reduction targets by organizations such as IIGCC, the Net-Zero Banking Alliance (NZBA) and the Science Based Targets initiative (SBTi).
- Finally, European regulations such as the Sustainable Finance Disclosure Regulation (SFDR), the Taxonomy Regulation, the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD) are increasingly imposing reporting requirements on financial institutions, including the climate domain.

To reduce the reporting burden, financial institutions can use existing reporting for these international initiatives and/or legislation to give substance to the Climate Commitment provided that these reports are substantially aligned to the elements in this guideline.

Annual review

Developments on how to measure (and reduce) CO_2-emissions follow each other in rapid succession. It is important that institutions keep abreast of these developments and always base their reports and action plans on the latest state of science and the best available technologies.

The guideline is reviewed annually by the umbrella organizations. A new version is published no later than the third quarter of the year so that institutions can incorporate any changes in their annual reports.

2. Diversity and comparability of the financial sector

Institutions within the financial sector have clear similarities but also some crucial differences. For instance, the main business of banks is providing loans, while institutional investors invest in stocks, bonds, mortgages, real estate, and so on. Figure 1 shows an overview of the types of financial institutions within the Climate Commitment and the sector associations they belong to.

Figure 1: Overview of types of financial institutions within the Climate Commitment

Category	Type of setting	Umbrella organisations
Banks	▪ Banks	▪ Dutch Banking Association (NVB)
Institutions with investment activities	▪ Pension funds ▪ Insurers ▪ Asset managers	▪ Federation of Dutch Pension Funds ▪ Dutch Association of Insurers ▪ Dutch Fund and Asset Management Association (DUFAS)

Diversity
Banks often have a more direct customer relationship with the party credit is extended to, while investors tend to be companies' capital providers or shareholders. There are also differences between institutional investors, mainly caused by regulations. For example, insurers invest only limited amounts in listed shares, while pension funds hold many listed shares. In contrast, the share of residential mortgages on insurers' balance sheets is higher than that of pension funds. Finally, asset managers manage the investments of individuals, companies and institutions, who themselves have an important say in how their money is invested.

The CFSK welcomes the fact that the Climate Commitment has been signed by a broad group of financial institutions. The fact is that, for now, there are differences in experience and available capacity between institutions when it comes to shaping their climate strategy. That means that institutions prioritize in different ways. The CFSK actively encourages financial institutions to follow this guidance and, where possible, to set the ambition higher.

Comparability
An important element of the Climate Commitment's agreements is to strive for harmonization and comparability of methods and results. Financial institutions are increasingly using the same international standards. This guideline helps to reflect these elements in reporting and action plans. Institutions are constantly developing methods and convergence is taking place within them.

Comparability is another important aspect of action plans. That is why the Climate Commitment website features the action plans of the institutions that have signed the Climate Commitment.

3. Further description of 'relevant financings and investments'

Prioritization based on climate impact and measurability

The Climate Commitment states that participating parties report on their c and produce action plans on all relevant financing and investments. All financing and investments are generally relevant CO_2-emissions of financial institutions. However, what they report at which priority or the subjects on which they formulate action plans can vary from institution to institution and over time. Climate impact and the measurability of sectors and asset classes provide important guidance here.

When prioritizing, it can be assumed that financial institutions will focus first on financing and/or investments with the highest climate impact. Financial institutions base this on where they expect financing or investments to make the greatest contribution to mitigating climate change.

Figure 2: An example of prioritizing

Real estate makes up only 1% of the portfolio for some financial institutions. The financial institution in question may then choose to focus on measuring and reporting its carbon footprint as a priority and formulate action plans for categories through which it expects to make a greater impact on actual carbon emissions.

Carbon can also be highly concentrated, e.g. in oil and gas and mining sector financing. In that case, 1% of the portfolio can make up a large proportion of the carbon content, and a choice can be made to report such small percentages of the portfolio. However, this is not mandatory; each institution can make its own reasoned choices in this regard.

Institutions give less priority to reporting the carbon content of cash because its climate impact is limited. Also, institutes only barely measure the carbon content of derivatives because there is no PCAF standard available for this category

The goal of prioritization is to formulate the most effective and efficient climate policy possible. A financial institution explains the prioritization choices it makes in its reports.

Opportunities for reporting and targets in financing for loan portfolios

The NZBA's guidelines specify that loans with the highest CO_2-emissions should always be included. To direct this, the NZBA has identified what the Intergovernmental Panel on Climate Change (IPCC) sees as the most emission-intensive sectors. Figure 3 shows which sectors these are for banks. The priority sectors are eligible for all steps in the Climate Commitment, i.e. measuring CO_2-emissions, setting climate targets, reporting and creating action plans.

Figure 3: Prioritizing sectors for loans

Description	Sector
Priority sectors	▪ Agriculture ▪ Aluminium production ▪ Cement production ▪ Coal ▪ Real estate ▪ Iron and steel production ▪ Oil and gas ▪ Electricity generation ▪ Transport
Other sectors	All other sectors

Opportunities for reporting and targets for investments
Figure 4 shows the options (+) institutions currently have for reporting the CO_2-emissions and setting reduction targets and action plans for each asset class. Internationally recognized standards are the main starting points in this regard.

Figure 4: Prioritization of asset classes

Investment categories	CO_2-emissions report	Formulating action plans	Issue climate targets
Listed shares	+	+	+
Corporate bonds	+	+	+
Real estate	+	+	+
Mortgages	+	+	
Government bonds	+	+	
Private equity		+	
Private debt		+	
Infrastructure		+	
Other categories		+	

The updated PCAF standard[1] has been available since the end of 2022 and includes a method for calculating CO_2-emissions of government bonds. For that reason, government bonds have been added in this 2023 version as a category under which investors can report CO_2-emissions. However, reporting emissions from government bonds leads to double-counting of emissions within a portfolio because, according to the PCAF methodology, country emissions also include emissions from companies in that country. The recommendation is therefore to report government bond issues separately.

It is not yet easily possible to formulate targets for government bonds. Methodologies in this area are in the making, and an internationally accepted standard is still lacking.

It is also difficult to set reduction targets for mortgages. Since investors have no client relationship with homeowners, it is not possible to steer CO_2-emissions in mortgage portfolios. Therefore,

[1] https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf

investors' primary focus in their mortgage investments on obtaining more CO_2-data and creating action plans. Work is underway to improve measurement methods in the PCAF context. Available data is generally at the right level for the Netherlands; it is more difficult for foreign mortgage portfolios.

For private equity[2] and infrastructure[3], IIGCC has now developed net zero guidelines, which investors can use to prepare action plans.

Pension funds, insurers and asset managers often organise their investments by asset class or investment category rather than by sector. But within investment categories, sector composition is relevant to the climate policy to be pursued, and investors also prioritise carbon-intensive sectors.

Data availability
Measuring the CO_2-emissions of the portfolio gives financial institutions and their stakeholders an insight into the total portfolio-related impact of financing and/or investments.

It is the case for all financial institutions that for some financing and investments, the measurement of CO_2-emissions is still limited due to the lack of data from companies or counterparties. Institutions are making efforts to improve data availability and measurement methods, for example through PCAF.

The availability of emissions data is expected to increase in the coming years, but for now, in some cases, it is a barrier to reporting CO_2-emissions or issuing reduction targets. Where measurability is a bottleneck, institutions can use 'best available estimates' if possible as an alternative to hard data - as long as this is permitted by (European) sustainability legislation. If estimates are used, this is stated in the institutions' reports.

Creating an effective climate policy usually requires more information than the CO_2-emissions of financing and investments. For example, several initiatives focus on measuring Paris-alignment investments, the extent to which a company's policies align with a 1.5°C scenario. Examples include PACTA, TPI and *the temperature rating* of CDP and the WWF. Financial institutions contribute to developing these tools by providing feedback on the methodologies.

[2] https://www.iigcc.org/news/new-net-zero-guideline-for-private-equity-published/

[3] https://www.iigcc.org/news/net-zero-guideline-for-infrastructure-asset-class-launched-by-iigcc/

4. Guideline for reporting the carbon content

The following guideline applies to reporting carbon content for both banks and institutions with investment activities. If institutions depart from this guideline, they will explain their reasons for this.

a) Banks report the carbon content for at least their financing and/or investments identified as priority sectors in Figure 3. Institutions with investment activities do the same for the asset classes, as shown in Figure 4.
b) All institutions report scope 1, 2 and 3 emissions from their financing and/or investments. If they do not report scope 3 emissions, they present arguments as to why this is impossible or undesirable.
c) Institutions report at least one relevant intensity measure for funding and/or investments.
d) If an institution uses carbon content estimates for a particular category of finance or investment, the report states that they are estimates. This also applies to data provided by data suppliers, to the extent known to the institution. Institutions provide insight into data quality where possible[4].
e) Institutions indicate whether there has been external assurance on the reported information.
f) Institutions indicate the role of carbon offsets[5] and carbon credits purchased by institutions on the carbon content of their portfolio. Institutions therefore also report carbon content on a gross basis, excluding the impact of *carbon offsets* and *carbon credits*.
g) Institutions use the PCAF method to calculate funded emissions.

Each year, the categorization of finance and investments is re-evaluated and established to further expand the categories reported on. Each institution chooses to develop policies on this, and all exchanges between institutions take place within the frameworks of competition law.

[4] The PCAF standard includes suggestions for reporting data quality based on a score on a scale of 1-5.

[5] The PCAF standard (see Figure 3-7) describes the different forms of carbon offsets (avoided emissions and carbon removal). The use of carbon credits by companies in a loan or investment portfolio is often not traceable and therefore does not need to be separately declared by institutions.

5. Guide to action plans and reduction targets

For both banks and institutions with investment activities, the guideline below applies for action plans and climate goals[6]. If institutions depart from this guideline, they will explain their reasons for this.

a. Banks formulate action plans for priority sectors as shown in Figure 3. Institutions with investment activities do this for the categories as indicated in the 'Formulate action plans' column in Figure 4. The action plans presented by institutions align with the Paris Agreement: no more than 1.5°C warming and net-zero emissions by 2050.
b. Banks formulate climate targets for priority sectors as shown in Figure 3. Institutions with investment activities do so for the categories indicated in the 'Issued climate targets' column in Figure 4.
c. Climate targets mean quantitative CO_2-reduction targets for 2030 or a science-based target based on internationally recognized standards.
d. Reduction targets cover at least scope 1 and scope 2 emissions. Institutions are encouraged to also set reduction targets for scope 3 emissions if feasible[7].
e. Institutions can additionally issue targets of the percentage of counterparts/companies that have issued a science-based emission reduction target in line with the Paris Agreement by 2030.
f. Institutions are encouraged to issue targets for green finance or investments in climate solutions, for example according to the definitions of the EU Taxonomy.
g. Progress on targets is monitored in the interim. Institutions describe the monitoring process they use to monitor progress on reduction targets. They analyse and recalculate outcomes and targets in light of unforeseen increases or decreases in CO_2-emissions.
h. Institutions describe the tools deployed as part of the action plans to achieve the (reduction) targets. They clarify which specific measures they choose, how they contribute to achieving the set reduction targets and how they implement them in practice. This certainly applies to the instrument of engagement[8]. Some other possibilities include internal governance, impact financing and voting at shareholder meetings.
i. If applicable, institutions indicate the expected role of carbon offsets and carbon credits purchased by institutions in achieving the formulated reduction targets.

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[6] It is not always possible for asset managers to issue action plans and targets for all managed investments because their clients have an important say in how their money is invested. That being the case, asset managers give the (targeted) percentage of assets under management in line with the Paris Agreement, based on international guidelines.

[7] Many institutions are still reluctant to formulate scope 3 targets because of low data availability and quality and possible undesirable effects of steering by downstream emissions.

[8] There are many different forms of engagement. The method of engagement depends mainly on the relationship with the funded party. It is important to good engagement to evaluate the impact and have a clear escalation strategy.