Impact Analysis Regional Implementation Support Session
Europe: Focus on ESRS

27th September 2023
Agenda

1. **Case study:** Banco Santander’s experience of coupling UNEP FI impact analysis & ESRS impact materiality assessment
   - Marta Garcia De Oteyza Kindelan, Director, Responsible Banking, Banco Santander

2. **Demo** - Comparing ESRS 1+2 to PRB Requirements / UNEP FI holistic impact methodology & Translating UNEP FI impact analysis results into ESRS impact materiality disclosures
   - Careen Abb, Alexander Stopp and Costanza Ghera, Impact Team, UNEP FI

3. **Call for interest:** WG to develop an ESRS module within the UNEP FI Impact Analysis Tool for Banks
   - Careen Abb & Daniel Bouzas, Regional Coordinator for Europe, UNEP FI
1. Case Study: Banco Santander
Background & rationale

• Preparing ahead the **Materiality assessment** requirements in **CSRD** (2024FY)

• Understanding of **key evolutions needed** over NFRD & GRI materiality assessments:
  1. ESRS topic taxonomy
  2. Quantitative assessment when possible – scale
  3. Robust model with defined parameters (scale, scope, irremediability, thresholds,…)

• Seek **resources** (tools & databases) to support **quantification at topic level**

• **Impact tool UNEP FI** for calculating impact materiality → also useful for PRB
Process

1. Using the tool
   - User friendly
   - Data demanding → engagement with other areas needed
   - Context based
     As granular as possible

2. Translating results
   - Key design choices:
     - Mapping to ESRS topics
     - Scales to quantify (key associations, all associations,…)
     - Results to materiality impact

3. Engaging with UNEP FI
   - Reviewed mapping
   - Reviewed methodology
   - Support reading across ESRS topics & methodology
Results & conclusions

• **1st results** on impact materiality assessment
  - Coherence with previous understanding
  - Usefulness by providing the total picture and understanding on the relative relevance of the rest of the topics

• **Starting conversations with auditors**, some questions arises:
  - Components of the model – what is behind? (scale, scope irremediability)
  - Mapping – how is it made?

It would be ideal to validate Impact tool for the usage to calculate impact materiality. This would ease CSRD implementation for banks, while promoting consistency. To foster convergence in terms of impact calculation across all corps, it could be useful to engage with other sectorial organizations and understand approaches.
2. Demo: Comparing ESRS 1+2 to PRB Requirements / UNEP FI holistic impact methodology & Translating UNEP FI impact analysis results into ESRS impact materiality disclosures
Overview of CSRD vs PRB

**CSRD**
- General Requirements
- General Disclosures
- Climate change
- Pollution
- Water and marine resources
- Biodiversity and ecosystems
- Resource use and circular economy
- Own workforce
- Business conduct

**PRB**
- Alignment
- Impact and target-setting
- Clients & customers
- Stakeholders
- Governance and culture
- Transparency & accountability

ESRS
- 1-2
- E1-5
- S1-4
- G1

UNEP FI
Weight of impact materiality analysis relative to financial materiality analysis?

3. Double materiality as the basis for sustainability disclosures
   3.1 Stakeholders and their relevance to the materiality assessment process
   3.2 Material matters and materiality of information
   3.3 Double materiality
   3.4 Impact materiality
   3.5 Financial materiality
   3.6 Material impacts or risks arising from actions to address sustainability matters
   3.7 Level of disaggregation

43. A sustainability matter is “material” when it meets the criteria defined for impact materiality […] or financial materiality […] or both.

32. If the undertaking concludes that climate change is not material and therefore omits all disclosure requirements in ESRS E1 Climate change, it shall disclose a detailed explanation of the conclusions of its materiality assessment […] including a forward-looking analysis of the conditions that could lead the undertaking to conclude that climate change is material in the future. If the undertaking concludes that a topic other than climate change is not material and therefore it omits all the Disclosure Requirements in the corresponding topical ESRS, it may briefly explain the conclusions of its materiality assessment for that topic.
Zooming in on Impact Materiality Analysis

ESRS 1
General Requirements

ESRS 2
General Disclosures

UNEP FI Holistic Impact Methodology

- Impact Protocol for Banks
- Impact Radar & Mappings
- Impact Management Tool
### Key segments of ESRS 1 +2

<table>
<thead>
<tr>
<th>ESRS 1 – General Requirements</th>
<th>ESRS 2 – General Disclosures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>3. Double materiality as the basis for sustainability disclosures</strong></td>
<td><strong>3. Strategy</strong></td>
</tr>
<tr>
<td>• Stakeholders and their relevance to materiality</td>
<td>• Strategy, business model, value chain</td>
</tr>
<tr>
<td>• Impact materiality</td>
<td>• Interests &amp; views of stakeholders</td>
</tr>
<tr>
<td>• Level of disaggregation</td>
<td>• Material impacts, risks and opportunities and their interaction with strategy &amp; business model</td>
</tr>
<tr>
<td>• Processes to identify and assess material impacts, risks and opportunities</td>
<td>• Processes to identify and assess material impacts, risks and opportunities</td>
</tr>
<tr>
<td>• Policies adopted to manage material matters</td>
<td>• Policies adopted to manage material matters</td>
</tr>
<tr>
<td>• Actions and resources in relation to material matters</td>
<td>• Actions and resources in relation to material matters</td>
</tr>
<tr>
<td><strong>5. Metrics and targets</strong></td>
<td><strong>5. Metrics and targets</strong></td>
</tr>
<tr>
<td>• Metrics in relation to material matters</td>
<td>• Metrics in relation to material matters</td>
</tr>
<tr>
<td>• Tracking effectiveness of policies and actions</td>
<td>• Tracking effectiveness of policies and actions</td>
</tr>
</tbody>
</table>
ESRS 1 – General Requirements
(pp.1-35)
39. In identifying and assessing the **impacts, risks** and **opportunities** in the undertaking’s **value chain** to determine their **materiality**, the undertaking shall focus on areas where impacts, risks and opportunities are deemed likely to arise, based on the nature of the activities, business relationships, geographies or other factors concerned.

63. The information [...] shall be extended to include information on the material impacts, risks and opportunities connected with the undertaking through its direct and indirect business relationships in the upstream and/or downstream value chain [...].

**Observations:**
For banks this means that disclosure is *not* limited to operations, the bulk of impacts being associated to its portfolio. This make the UNEP FI methodology and resources (focused specifically on portfolios) uniquely adapted to the requirements.
30. When the undertaking concludes that a sustainability matter is material as a result of its *materiality* assessment, […] it shall:

(a) disclose information according to the Disclosure Requirements […] related to that specific sustainability matter in the corresponding topical and sector-specific ESRS; and

(b) disclose additional entity-specific disclosures […] when the material sustainability matter is not covered by an ESRS or is covered with insufficient granularity.

**Observations:**

While the list of ESRS topics (as per AR16) is less comprehensive than those covered by the UNEP FI Impact Radar, ESRS 1 clearly states that topics beyond AR16 are not outside scope. UNEP FI’s resources can therefore play an important role in ensuring there are no gaps here.
Draft ESRS-Impact Radar Map V3

About:
This worksheet presents the mapping between the European Sustainability Reporting Standards (ESRS) with its subsequent structure and the Impact Topics and Impact Areas of the UNEP FI Impact Radar (2022 edition). The mapping is presented from the ESRS “Sub-topic” level to the “impact topic” level of the UNEP FI Impact Radar. These are determined through the “Topic”, “Sub-topic” and the “Sub-sub topic” of the ESRS to the closest association of the “impact topic” level of the Impact Radar. To note, the “Sub-sub topic” is not presented in the mapping below, but was used to inform for the translation to the UNEP FI Impact Radar.

<table>
<thead>
<tr>
<th>European Sustainability Reporting Standards (ESRS)</th>
<th>Maps to...</th>
<th>Main equivalences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Draft ESRS</td>
<td>Topic</td>
<td>Sub-topic</td>
</tr>
<tr>
<td>E1</td>
<td>Climate change</td>
<td>Climate change adaptation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Climate change mitigation</td>
</tr>
<tr>
<td></td>
<td>Energy</td>
<td>Resource intensity</td>
</tr>
<tr>
<td>E2</td>
<td>Pollution</td>
<td>Pollution of air</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pollution of water</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pollution of soil</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pollution of living organisms and food resources</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Substances of concern</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Substance of very high concern</td>
</tr>
</tbody>
</table>

Observation:
Radar is broader than list of EU topics, but EU pre-acknowledges the non-exhaustive nature of their list and the need to factor this into impact materiality analysis.
### In sum:
- Broader social issues scope
- Consideration of enabling economic considerations

<table>
<thead>
<tr>
<th>Impact topic</th>
<th>Impact area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare &amp; sanitation</td>
<td>Availability, accessibility, affordability, quality of resources &amp; services</td>
</tr>
<tr>
<td>Connectivity</td>
<td>Availability, accessibility, affordability, quality of resources &amp; services</td>
</tr>
<tr>
<td>Mobility</td>
<td>Availability, accessibility, affordability, quality of resources &amp; services</td>
</tr>
<tr>
<td>Finance</td>
<td>Availability, accessibility, affordability, quality of resources &amp; services</td>
</tr>
<tr>
<td>Sector diversity</td>
<td>Healthy economies</td>
</tr>
<tr>
<td>Flourishing MSMEs</td>
<td>Healthy economies</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Infrastructure</td>
</tr>
<tr>
<td>Socio-economic convergence</td>
<td>Socio-economic convergence</td>
</tr>
</tbody>
</table>
24. Engagement with affected **stakeholders** is central to the undertaking’s on-going due diligence process (see chapter 4 *Due diligence*) and sustainability **materiality** assessment. This includes its processes to identify and assess actual and potential negative impacts, which then inform the assessment process to identify the material impacts for the purposes of sustainability reporting (see section 3.4 of this Standard).

**Observations:**
While tone appears to align with traditional GRI approach to materiality analysis (different to UNEP FI Holistic Impact Methodology), it is apparent that stakeholder identification and engagement is not considered the single basis / starting point for impact materiality analysis.
45. […] For actual negative impacts, materiality is based on the severity of the impact, while for potential negative impacts it is based on the severity and likelihood of the impact. Severity is based on the following factors:
(a) the scale;
(b) scope; and
(c) irremediable character of the impact.

Observations:
In the UNEP FI Sector / Impact Map likelihood, scale & irremediable character are treated via the 1 (not key) & 2 (key) rankings, while scope is addressed once the Map is overlaid with the banks sector exposures via the Identification Module.
56. Where data from different levels, or multiple locations within a level, is aggregated, the undertaking shall ensure that this aggregation does not obscure the specificity and context necessary to interpret the information. The undertaking shall not aggregate material items that differ in nature.
ESRS 2 – General Disclosures
pp. 35-66
51. The undertaking shall disclose its process to identify its impacts, risks and opportunities and to assess which ones are material.

[...] 
(a) a description of the methodologies and assumptions applied in the described process;
(b) an overview of the process to identify, assess, prioritise and monitor the undertaking’s potential and actual impacts on people and the environment [...]
40. The undertaking shall disclose [...] (a) a description of: 
   i. significant groups of products and/or services offered, [...];
   ii. significant markets and/or customer groups served[...];
   iii. headcount of employees by geographical areas; and
   iv. where applicable and material, products and services that are banned in certain markets;
Strategy, business model, value chain

**Institutional Banking/Identification Module – Portfolio composition tab**

<table>
<thead>
<tr>
<th>Sector</th>
<th>General purpose (amount)</th>
<th>General purpose (%)</th>
<th>Indicated (amount)</th>
<th>Indicated [%]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Utilities</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Utilities</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Utilities</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

**Breakdown by country**

<table>
<thead>
<tr>
<th>Country</th>
<th>% of country</th>
<th>% of country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>70.00%</td>
<td>70.00%</td>
</tr>
</tbody>
</table>

**Breakdown of products/services**

**Consumer Banking/Identification Module – Portfolio composition tab**

- Low-income populations
- Middle-income populations
- High-income populations

**Breakdown of sectors**

**Breakdown of customer groups**
ESRS 2 – Relevant features & data points 3/5

3. Strategy
   - Disclosure Requirement SBM-1 – Strategy, business model and value chain
   - Disclosure Requirement SBM-2 – Interests and views of stakeholders
   - Disclosure Requirement SBM-3 - Material impacts, risks and opportunities and their interaction with strategy and business model

4. Impact, risk and opportunity management
   4.1 Disclosures on the materiality assessment process
      - Disclosure Requirement IRO-1 - Description of the processes to identify and assess material impacts, risks and opportunities
      - Disclosure Requirement IRO-2 – Disclosure requirements in ESRS covered by the undertaking's sustainability statement

46. The undertaking shall disclose its material impacts, risks and opportunities and how they interact with its strategy and business model.

48. The undertaking shall disclose:
   (a) a brief description of its material impacts, risks and opportunities resulting from its materiality assessment [...], including a description of where in its business model, its own operations and its upstream and downstream value chain these material impacts, risks and opportunities are concentrated;

Material impacts

Observations:
The data visualisations produced by the UNEP FI Impact Analysis tools to determine most significant impact areas/topics (material impacts):

- Spider chart of all associated impact areas
- Heatmap of associations and exposures per business line and country (sector based)
- Summary table to determine most significant areas
Material impacts

Spider chart of all associated impact areas

Heatmap of associations and exposures per business line and country (sector based)

Determination of most significant impacts (= material impacts)
64. [...] provide an understanding of the **policies** that the undertaking has in place to prevent, mitigate and remediate actual and potential **impacts**, to address **risks** and to pursue **opportunities**.

67. [...] provide an understanding of the key **actions** taken and/or planned to prevent, mitigate and **remediate** actual and potential **impacts**, and to address **risks** and **opportunities**, and where applicable achieve the objectives and **targets** of related **policies**.

**Observations:**
The UNEP FI Impact Protocol and all UNEP FI topical target-setting guidance sets out four categories of actions banks can take to manage their impacts:
- Policies and processes
- Portfolio composition
- Client engagement
- Advocacy & partnerships
Policies, Actions

2. BASELINES AND TARGETS (PRACTICE & IMPACT)
   b. Practice

   i. Portfolio composition & financial flows

<table>
<thead>
<tr>
<th>Sector</th>
<th>General Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISIC Industry Classification</td>
<td>Base year</td>
</tr>
<tr>
<td>Manufacturing of office furniture</td>
<td>N/A</td>
</tr>
</tbody>
</table>

   PRACTICE:
   Assess current practice & set targets; 4 categories of actions to manage impacts may be considered.
74. […] provide an understanding of the **metrics** the undertaking uses to track the effectiveness of its **actions** to manage material **sustainability matters**.

79. […] provide for each material **sustainability matter** an understanding of:
(a) whether and how the undertaking tracks the effectiveness of its **actions** to address material **impacts, risks** and **opportunities**, including the **metrics** it uses to do so; […]

**Metrics & Targets**

Observations:
The PRB and the UNEP FI Impact Protocol require the identification of indicators and the setting of targets vis a vis at least 2 most significant impact areas/topics. The UNEP FI Impact Analysis Tool /Assessment Module enables the determination and tracking of multiple metrics and targets.
## Metrics & Targets

### Institutional Banking/ Assessment Module – Impact Area tab

<table>
<thead>
<tr>
<th>Sector</th>
<th>Data collection</th>
<th>Engagement practices</th>
<th>Advisory services &amp; tailored products</th>
<th>Other</th>
<th>Circular Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISIC Industry Classification</td>
<td>Indicator</td>
<td>Baseline</td>
<td>Baseline year</td>
<td>Target</td>
<td>Year</td>
</tr>
<tr>
<td>307 Manufacture of other food products</td>
<td>Use the column to capture relevant</td>
<td>Use this column to indicate your target</td>
<td>Use the column to capture relevant</td>
<td>Use this column to indicate your target</td>
<td>Use the column to capture relevant</td>
</tr>
<tr>
<td>301 Manufacture of motor vehicles</td>
<td>Key clients in</td>
<td>15%</td>
<td>2023</td>
<td>30%</td>
<td>2026</td>
</tr>
<tr>
<td>511 Manufacture of jewellery and related articles</td>
<td>Increase to</td>
<td>15%</td>
<td>2023</td>
<td>30%</td>
<td>2026</td>
</tr>
<tr>
<td>41 Construction of buildings</td>
<td>62 Civil engineering</td>
<td>7092 Research and experimental development for non-polluting and resource-saving technologies</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Translating UNEP FI tool results into ESRS disclosures

(identification & context modules)

- **Step 1-3**: translation of tool «heatmap» (portfolio exposures per impact topic) to heatmap based on ESRS topics

- **Step 4-8**: translation of heatmap results into ESRS characteristics of «likelihood» and «severity» (negative impacts) & «likelihood», «scale», «scope» (positive impacts) + inclusion of contextual information

- **Step 9-10**: visualisation of (impact) material topics
Zoom on translation of «likelihood» and «severity»

STEP 4
Exposures per ESRS topic and key sector associations

| NEGATIVE |
|------------------|------------------|------------------|------------------|------------------|
| Sectors          | ESRS sub-topics  | Climate change adaptation | Climate change mitigation | Energy | Pollution of air |
| total association (ESRS scope) | negative impacts | 70% | 100% | 90% | 6.7% |
| key association (ESRS likelihood, scale & irremediable character) | yes | yes | yes | yes | yes |

Exposures = scope

Key Sectors =
- Highly likely
- Typically on a large scale, possibly irremediable

STEP 5
Division into quintiles to match the proposed 1-5 scoring system i.e. the higher the exposure, the higher the ranking

<table>
<thead>
<tr>
<th>scores</th>
<th>interval size (positive)</th>
<th>cutoff points (positive)</th>
<th>interval size (negative)</th>
<th>cutoff points (negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>20%</td>
<td>0%</td>
<td>20%</td>
<td>0%</td>
</tr>
<tr>
<td>1</td>
<td>20%</td>
<td>20%</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>2</td>
<td>40%</td>
<td>60%</td>
<td>60%</td>
<td>60%</td>
</tr>
<tr>
<td>3</td>
<td>60%</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
</tr>
<tr>
<td>4</td>
<td>80%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>5</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

STEP 6
Translate sector %s into the 5 scores considering the quintiles
Visualisation of material (ESRS) topics (most granular level)

**STEP 9**
Establishing the threshold: if a topic has at least a 3 score (either positive or negative), it is considered to be material

<table>
<thead>
<tr>
<th>Materiality assessment</th>
<th>Scores</th>
<th>UNEP FI main parameters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not material</td>
<td>0</td>
<td>No Impact</td>
</tr>
<tr>
<td>Not material</td>
<td>1</td>
<td>Minimal</td>
</tr>
<tr>
<td>Material</td>
<td>2</td>
<td>Informative</td>
</tr>
<tr>
<td>Material</td>
<td>3</td>
<td>Important</td>
</tr>
<tr>
<td>Material</td>
<td>4</td>
<td>Significant</td>
</tr>
<tr>
<td>Material</td>
<td>5</td>
<td>Critical</td>
</tr>
</tbody>
</table>

- **total association (ESRS scope)**
- **key association (ESRS likelihood, scale & irreparable character)**
- **context (country priorities)**

**STEP 10**
Material ESRS topics: driven by negative associations (orange) or by positive associations (blue)
Work in progress

- Treatment of **actual impacts**
- Relatedly, use of **due diligence data**
- Materiality **scoring system** (1-5)
- **Level of aggregation** (disaggregated data (positive and negative), geographies and business line)
- Up-dating of **Indicator Library** of with ESRS metrics

- Work is still underway to issue further guidance on materiality assessment (EFRAG indicative content)
- UNEP FI Secretariat is exchanging with EFRAG to cross-check approaches
- UNEP FI Secretariat has submitted an application to join the Banking Expert Panel
3. Call for interest: WG to develop an ESRS module within the UNEP FI Impact Analysis Tool for Banks
Develop an ESRS module within the Portfolio Impact Analysis Tool for Banks?

Impact management process

1. Scoping
2. Impact Identification
3. Performance measurement and assessment
4. Target-setting
5. Monitoring

Context Module
- Identification Modules
  - Consumer Banking
  - Institutional Banking

Assessment Modules
- Consumer Banking
- Institutional Banking

Portfolio impact analysis tool

Generic Monitoring Module
- EU CSRD Module
Objectives

- **Facilitate implementation** of EU CSRD ESRS 1&2 requirements, especially as regards impact materiality assessment

- **Facilitate usage of FI resources** and tools for the purpose

- **Create a level playing field** for banking producers and enable reliability and comparability of information for users
Key features

The Module could:

• Collect all ESRS relevant data from the different modules in one place
• Translate the UNEP FI Impact Radar areas and topics into the ESRS topics (where applicable)
• Translate UNEP FI Impact Analysis results into the corresponding ESRS disclosure points
• Enable further input and explanations as needed

An accompanying User Guide would be developed and would include a transparent description of the underlying comparative analysis (UNEP FI / ESRS).
Working Group ToR Outline

Work with the UNEP FI Secretariat to:

• Refine the underlying comparative analysis
• Review, test and comment on mock-ups and iterations of the module
• Review and comment on the accompanying User Guide
• Promote the Module and User Guide once completed, among peers and internally among colleagues

Estimated time commitment:

• WG meetings (virtual): max 10 sessions, between 45-75 minutes each (variable)
• Document review (User Guide): 2 rounds, approx 1h each
• Tool review and testing: 3 rounds, approx 1.5h each
Questions

- Is the idea of a dedicated Module appealing? Why / why not?
- If yes, what would be the best time frame in which to complete the module (start and finish)?
- Who else do you think should be involved beyond UNEP FI Secretariat and Members?
Thank you

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