Leveraging UNEP FI / PRB processes & resources EU CSRD / ESRS Implementation

Interoperability Guide
V.1

2 April 2024
Disclaimer

This Interoperability Guide was developed to help UNEP FI members leverage their PRB implementation work, namely via the UNEP FI Impact Protocol and Impact Management Tools, for CSRD /ESRS compliance purposes.

This first iteration (V1) is intended for piloting, in the early years of implementation of the ESRS framework and will be reviewed / updated based on learnings from reporting institutions. Revisions will also be informed by the further evolution of the ESRS framework (further standards and guidance are still under construction) and any amendments to the PRB framework and UNEP FI Impact Protocol and Impact Management Tools (which also undergo regular reviews and updates).

For further information and to provide feedback, please contact us via: https://www.unepfi.org/impact/contact-us/
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1. **Background & Objectives**
   - This section clarifies the scope and objectives of this Guide

2. **Alignment between CSRD/ESRS and UNEP FI/PRB**
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   - Scope
   - Approach
   - This sections provides a high level comparative overview between the frameworks

3. **Leveraging UNEP FI / PRB in practice**
   - PRB Reporting
   - Impact Analysis Tool
   - This section indicates how to use UNEP FI materials and process for ESRS compliance

4. **Peeking into the interoperability kitchen**
   - Terminology
   - Sustainability topics
   - Materiality thresholds
   - Other concerns
   - This section provides insights into the technical interpretations behind the proposed interoperability solutions
1. Background & Objectives
The Corporate Sustainability Reporting Directive (CSRD)

- The Corporate Sustainability Reporting Directive (CSRD) modernises and strengthens the rules concerning the social and environmental information that companies have to report. The first companies will have to apply the new rules for the first time in the 2024 financial year, for reports published in 2025.

- The CSRD requires that sustainability reporting shall be based on double materiality assessment. A sustainability matter can be material from an impact perspective or from a financial perspective or from both.

- For each material matter, the undertaking determines the information to be reported in accordance with the cross-cutting or topical standards.
UNEP FI / PRB requirements and impact management methodology

- With over 330 signatory banks representing over half of the global banking industry, the Principles for Responsible Banking are the world’s foremost sustainable banking framework.
- Through the Principles, banks take action to align their core strategy, decision-making, lending and investment with the UN Sustainable Development Goals, and international agreements such as the Paris Climate Agreement.
- To fulfil their commitment to the Principles, banks are required to undertake a holistic impact analysis of their portfolios, set targets in relation to their most significant impact topics and report publicly on their actions and progress.
- The Impact Protocol provides a step-by-step overview of how to analyse and manage bank portfolio impacts as per UNEP FI’s holistic impact approach and in conformity with the requirements of the Principles for Responsible Banking.
Leveraging UNEP FI / PRB processes & resources for CSRD compliance and ESRS implementation

Building on the strong alignment between CSRD/ESRS and UNEP FI / PRB requirements and impact management methodology, this guidance has been developed to facilitate implementation of CSRD/ESRS by banks using UNEP FI / PRB content.

Leveraging these resources is a **unique opportunity** to:

1. Create a **level playing field** for reporting banks
2. Promote the production of **comparable, meaningful and reliable data** for users based on a **clear audit trail**
3. Promote further **convergence and alignment** between UN / PRB impact management methodology and EU standards, as sector-specific ESRS are developed
4. **Drive progress** in managing impact and progressing the SDGs
How to use this Guidance

Alignment between CSRD/ESRS and UNEP FI / PRB

Read this to:
Gain a **high-level understanding** of how the frameworks relate to each other.

Leveraging UNEP FI / PRB in practice

Read this to:
Understand the **specific disclosure requirements and data points** for which PRB/UNEP FI resources can help you with ESRS compliance, and see what **interoperability tools** are available to facilitate this.

Peeking into the interoperability kitchen

Read this to:
Deep-dive and understand **how key ESRS concepts** (e.g. materiality criteria and thresholds) **are addressed** by PRB/UNEP FI resources and the interoperability tools.
2. Alignment between CSRD/ESRS and UNEP FI / PRB
Mapping CSRD/ESRS to PRB & the UNEP FI Impact Methodology

- **Objectives** – What is the purpose of the respective frameworks, how to they compare?

- **Scope** – What do they each cover? Which topics are in scope? What aspects of banking activity?

- **Approach** – How do the underlying methodologies compare?
Objectives

**CSRD/ESRS** is a regulatory **reporting** framework

EU law requires all large companies and all listed companies (except listed micro-enterprises) to disclose information on what they see as the risks and opportunities arising from social and environmental issues, and on the impact of their activities on people and the environment.

This is intended to help investors, civil society organisations, consumers and other stakeholders to evaluate the sustainability performance of companies, as part of the European green deal.

**PRB / UNEP FI methodology** is a management framework with an accountability mechanism

With over 330 signatory banks representing over half of the global banking industry, the UN Principles for Responsible Banking are the world’s foremost sustainable banking framework.

Through the Principles, banks take action to align their core strategy, decision-making, lending and investment with the UN Sustainable Development Goals, and international agreements such as the Paris Climate Agreement.

- Both frameworks are seeking sustainability results
- Their respective focus on reporting and management means PRB/UNEP FI can be an input to and support CSRD/ESRS
Scope / Topics

The ESRSs focus on a specific set of Environmental, Social and Governance issues but require reporting entities to consider all material sustainability issues.

The PRB / UNEP FI methodology requires a holistic consideration of sustainability topics across the environmental, social and socio-economic pillars of sustainable development.

The UNEP FI Impact Radar deconstructs the SDGs into 32 discreet impact topics and forms the basis of UNEP FIs Impact Mappings and Tools.

- Both frameworks aim for a holistic approach, UNEP FI’s resources are more comprehensive
- Differences in nomenclature & categorisation exist; an interoperability mapping is available online
Scope / Banking Activities

The scope of ESRS is:
• Aligned with the scope of financial reporting
• Inclusive of both the undertaking’s direct and indirect business relationships in the upstream and/or downstream value chain

The scope of the PRB / UNEP FI is the banking entity as a whole but with a specific focus on the entity’s portfolio.

• Both frameworks are placed at the institution-wide level, however PRB focuses most strongly on portfolio analysis and management (i.e. downstream impacts as opposed to impacts linked to operations)
Impacts in the Banking Value Chain

Inputs
- Physical supplies (e.g. IT, electricity, etc.)
- Financial inputs (e.g. bank to bank loans)
- Other (e.g. data & analytics)

Outputs
- Banking products & services used by all types of economic actors for a range of purposes
- Investments made by the bank

Scope of CSRD/ESRS & PRB UNEP FI at a glance

Denotes where the bulk of the impact associations are

UPSTREAM
- Facilities
- Employees

DOWNSTREAM

Covered by ESRS
Covered by PRB

Contingent on value chain and materiality assessment
Approach

Materiality assessment, covering both financial and impact materiality, is the basis for CSRD/ESRS disclosures.

Impact analysis is the founding step for PRB implementation.

- Both frameworks require a holistic review of the company’s impacts. ESRS 1 & 2 with a view to identifying material disclosure topics, PRB/ UNEP FI with a view to identifying strategic priorities.
High level mapping of CSRD/ESRS to PRB

- **General Requirements**
  - General Disclosures

- **ESRS 1-2**
  - Climate change
  - Pollution
  - Water and marine resources
  - Biodiversity and ecosystems
  - Resource use and circular economy
  - Own workforce

- **ESRS E1-5**
  - Workers in the value chain
  - Affected communities
  - Consumers and end-users

- **ESRS S1-4**
  - Business conduct

- **ESRS G1**
  - Impact and target-setting

- **P1 Alignment**
  - Clients & customers

- **P2**
  - Stakeholders

- **P3**
  - Governance and culture

- **P4**
  - Transparency & accountability
High level mapping of CSRD/ESRS to UNEP FI impact methodology

- General Requirements
- General Disclosures
- Climate change
- Pollution
- Water and marine resources
- Biodiversity and ecosystems
- Resource use and circular economy
- Own workforce
- Business conduct
- Workers in the value chain
- Affected communities
- Consumers and end-users

Step 1: Scoping
Step 2: Impact identification
Step 3: Performance measurement and assessment
Step 4: Target-setting
Step 5: Monitoring
Mapping ESRS Materiality Assessment to UNEP FI Impact Analysis

**A. Understanding the context**
- Scoping and context
- Impact identification
- Impact Assessment

**B. Identification of the actual and potential impacts, risks and opportunities related to sustainability matters**
- a) Activities and business relationships
- b) Other contextual information
- c) Understanding of affected stakeholders

**C. Assessment and determination of material impacts, risks and opportunities related to sustainability matters**
- Impact materiality assessment
- a) Financial materiality assessment
- b) Consolidation of the outcome of the impact and financial materiality dimensions

**Double Materiality Assessment**

**1. Scoping**
- Identify core business activities
- Identify main geography(ies)

**2. Impact Identification**
- Understand context (country/local/global level)
  - Status of needs
  - Policy & regulation
  - Trends & scenarios
- Review portfolio composition & associated impacts
  - Consumer banking products/services and type of customers
  - Business, Corporate and Investment Banking sectors/industries and type of clients
- Cross data to determine & prioritise most significant impact areas
  - Portfolio composition and associated impacts (positive and negative)
  - Context

**3. Performance Measurement & Assessment**
- Review practice
  - Portfolio composition/financial flows
  - Client engagement
  - Internal policies and processes
  - Advocacy and partnerships
- Measure impacts
  - (in relation to the prioritized impact areas)

**4. Target setting**
- Make alignment choices
  - International, regional or national policy frameworks
- Understand baseline
  - Based on prior performance measurement/assessment and on alignment choices
- Define SMART targets
  - Practice targets
  - Impact targets
- Define Action Plan
  - In relation to the four categories of practice
  - Considering human resource and data system needs

**5. Monitoring process**
- Monitor practice
- Monitor impact
Two main differences...

- ESRS requires financial materiality analysis (in addition to impact)
- UNEP FI requires more contextual analysis

Step included in both frameworks
- 1. Scoping
  - Identify core business activities
  - Identify main geography/ies

Step included in only one framework
- 2. Impact Identification
  - Understand context (country/local/global level)
    - Status of needs
    - Policy & regulations
    - Trends & scenarios
  - Review portfolio composition & associated impacts
    - Consumer Banking: products/services and type of customers
    - Business, Corporate and Investment Banking: sectors/industries and type of clients
  - Cross data to determine & prioritise most significant impact areas
    - Portfolio composition and associated impacts (positive and negative)
    - Context

- 3. Performance Measurement & Assessment
  - Measure impacts (in relation to the prioritised impact areas)
  - Review practice
    - Portfolio composition/financial flows
    - Client engagement
    - Internal policies and processes
    - Advocacy and partnerships

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  - Make alignment choices
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    - Based on prior performance measurement/assessment and on alignment choices
  - Define SMART targets
    - Practice targets
    - Impact targets
  - Define Action Plan
    - In relation to the four categories of practice
    - Considering human resource and data system needs

- 5. Monitoring process
  - Monitor practice
  - Monitor impact
In sum...

- There is a **high degree of alignment** between the PRB Framework and supporting Impact Protocol and the CSRD / ESRS requirements, in particular as regards the requirement for impact materiality analysis.

- The **data from the UNEP FI Impact Analysis Tools can be used to respond to ESRS impact materiality assessment requirements** as regards the bank’s value chain (downstream).

- **Many data points from the PRB reporting template correspond with ESRS data points**, including but also beyond the impact materiality analysis.

However, neither PRB disclosures nor the Impact Tool will provide data for:

- The impacts of the bank’s own operations (facilities, employees, suppliers)
- The impacts of non-business activities (typically philanthropic ventures)

Also the PRB framework and supporting Protocol and Tools provide only partial financial materiality insights.

> See Data Points Mappings and Conversion Tool + section 4 of this deck.
> See section 4 of this deck.

Click [here](#) to go back to home page.
3. Leveraging UNEP FI / PRB in practice
Two main sources of data-points can be leveraged:

**PRB Reporting Template**
(disclosure)

**Impact Analysis Tool**
(management/implementation)
Mapping of UNEP FI resources to ESRS data points with the UNEP FI-ESRS Data Points Mappings

Scope:
- ESRS 2 and ESRS E1 only for now (further ESR Standards will be mapped over time)
- Both mandatory and voluntary datapoints included

Format:
- The mapping was done directly using EFRAG Implementation Guidance 3 (IG3), an excel-based compilation of all ESRS data points.

Methodology:
Two types of matches were identified:

Direct matches are cases where the information disclosed in PRB can be directly reutilized to report to ESRS.

Partial matches on the other hand provide only part of the information and may help companies answer to a specific disclosure requirement, although not covering it.

See Excel file for point by point mapping
3.1 PRB Reporting Template
Mapping ESRS 2 (General Disclosures) data points to PRB

Matches ESRS 2 / PRB

- **No match**: 39
- **Direct match**: 26
- **Partial match**: 88

**Covered (direct match)**
Data points on the interests and views of stakeholders and the statement on due diligence.

**Partially covered (partial match)**
Data points on strategy and business model, materials impacts, risks and opportunities and some governance-related disclosure requirements, including integration of sustainability-related performance in incentive schemes.

**Left out or mostly left out (no match)**
Disclosure requirements specific to the CSRD’s sustainability statement, governance requirements related to description of own workforce and absolute revenue figures in relation to specific sectors.

ESRS 2 covers all the DRs that apply to all the undertakings regardless of their sector of activity and apply across all sustainability topics.
Mapping ESRs 2 Minimum Disclosure Requirements (MDRs) to PRB

- The PRB reporting template covers most of the MDRs related to targets as well as the actions and resources in relation to sustainability matters, except for expenditures (Opex and Capex). It also covers several MDRs on policies and metrics.

- All the data points are at least partially covered in the case where the undertaking has not adopted policies and/or actions or set any measurable outcome-oriented targets are covered.

For each material sustainability matter, the undertaking should disclose information prescribed in topical and sector-specific ESRs related to matter and corresponding MDRs on policies, actions and targets required under ESRs 2.
Mapping ESRS E1 (Climate Change) data points to PRB

Inclusive of the indicators for climate included in the Annex of the PRB Reporting and Self-assessment Template.

<table>
<thead>
<tr>
<th>Covered (direct match)</th>
<th>Data points related to the integration of sustainability related performance in incentive scheme.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partially covered (partial match)</td>
<td>Data points related to the policies, actions and targets related to climate change, greenhouse gas emissions, and the process to identify material impacts.</td>
</tr>
<tr>
<td>Left out or mostly left out (no match)</td>
<td>Some specific data points related to climate change, including energy consumption and mix, carbon credits and greenhouse gas removals and internal carbon pricing as well as interaction of climate-related risks and opportunities with strategy and business model and anticipated financial effects from those.</td>
</tr>
</tbody>
</table>
3.2.1 UNEP FI Impact Tool
Mapping ESRS 2 (General Disclosures) data points to UNEP FI Tools

ESRS E2 / UNEP FI Tools

- No match
- Direct match
- Partial match

**Covered (direct match):**
- Business activities & significant markets, sectors, customer groups; materiality assessment process and list of material sustainability matters; link between business model and material topics; metrics, policies and actions related to material topics;

**Partially covered (partial match):**
- Description of business model and value chain; metrics and targets related to material topics; revenue-based data points; topic-specific materiality assessment processes.

**Left out or mostly left out (no match):**
- Data points specific to the sustainability statement; governance; risk assessment process and material risks and opportunities; stakeholder engagement.
Mapping ESRS 2 Minimum Disclosure Requirements (MDRs) to UNEP FI Tools

ESRS 2 MDRs / UNEP FI Tools

- **Covered (direct match)**: Baseline, targets and action plans related to material topics.
- **Partially covered (partial match)**: Details about policies, actions and data collection.
- **Left out or mostly left out (no match)**: Opex and Capex; stakeholder engagement: reasons for not having policies and actions; measurement methodologies; assurance; data points related to risks and opportunities.
Mapping ESRS E1 (Climate Change) data points to UNEP FI Tools

**Covered (direct match)**
Performance assessment and targets related to climate change.

**Partially covered (partial match)**
Details about transition plans, actions, policies; revenue-based data points; climate metrics.

**Left out or mostly left out (no match)**
Scope 1 and 2 GHG emissions; climate scenarios; climate related risks and opportunities; governance; Opex and Capex; data points related to own operations;
Data points in the UNEP FI-ESRS Conversion Tool

The data points related to the impact materiality assessment process and the prioritization of material topics can be taken directly from the UNEP FI-ESRS Conversion Tool.

This Tool translates the UNEP FI Portoflio Impact Analysis Tool for Banks data points into ESRS data points.
3.2.2 Conversion Tool (UNEP FI Impact Analysis Tool – ESRS)
UNEP FI-ESRS Conversion Tool

To help you lift the relevant data-points from the UNEP FI Impact Analysis Tool for CSRD reporting, we have created a Conversion Tool which:

- Translates from the UNEP FI Impact Radar topics to the ESRS topics
- Converts significant impact topic identification findings into material impact determinations
UNEP FI-ESRS Conversion Tool: Key Steps

### List of Worksheets

- Welcome
- Navigation
- Data IN Context
- Data IN Consumer
- Data IN Institutional
- Additional data
- PRB-ESRS conversion (Inst)
- PRB-ESRS conversion (Cons)
- ERS material topics (Inst)
- ERS material topics (Cons)
- ERS sub-topic - UNEP FI topic Map
- Irremediability Map
- Lists

#### Step 1:
Input data from Context Module and Identification Modules

#### Step 2:
Add data on scope of conversion and portfolio projections

#### Step 3:
The Tool converts data automatically

#### Step 4:
See ESRS material topics

Reference worksheets
Translating UNEP FI tool results into ESRS disclosures

• **Step 1-3:** translation of tool «heatmap» (portfolio exposures per impact topic) to heatmap based on ESRS topics
Translating UNEP FI tool results into ESRS disclosures

- **Step 4-5**: translation of heatmap results into ESRS characteristics of ‘severity’ and ‘likelihood’
Translating UNEP FI tool results into ESRS disclosures

• **Step 6**: establishment and application of thresholds to determine materiality of topic

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**ACTUAL NEGATIVE IMPACTS**

<table>
<thead>
<tr>
<th>Materiality Thresholds</th>
<th>Severity</th>
<th>Irremediable character</th>
</tr>
</thead>
<tbody>
<tr>
<td>scale</td>
<td>scope</td>
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</tr>
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<tr>
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<tr>
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<td>High</td>
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<tr>
<td>High</td>
<td>Very high</td>
<td>Very high</td>
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<tr>
<td>Medium</td>
<td>Very high</td>
<td>Very high</td>
</tr>
<tr>
<td>Very high</td>
<td>Medium</td>
<td>Very high</td>
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<td>Very high</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>NEGATIVE</th>
<th>ESRS sub-topics</th>
<th>Climate change adaptation</th>
<th>Climate change mitigation</th>
<th>Energy</th>
<th>Pollution of air</th>
</tr>
</thead>
<tbody>
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<td></td>
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<td>50%</td>
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<td>2</td>
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<td>2</td>
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</tr>
<tr>
<td>country priorities</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Assessment of SCALE criterion</td>
<td>Medium</td>
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<td>Medium</td>
<td></td>
</tr>
<tr>
<td>Assessment of IRREMEDIALITY criterion</td>
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<td>High</td>
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<td>Medium</td>
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</tbody>
</table>

Materiality determination: Material
Translating UNEP FI tool results into ESRS disclosures

- **Step 7**: visualisation of (impact) material topics 1/2

### Material ESRS topics and sub-topics

<table>
<thead>
<tr>
<th>ESRs Topics and Subtopics</th>
<th>Additional UNEP FI Topics (Not Covered by ESRS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate change</td>
<td>Consumers and end-users</td>
</tr>
<tr>
<td>Pollution</td>
<td>Business conduct</td>
</tr>
<tr>
<td>Water and marine resources</td>
<td>Sector diversity</td>
</tr>
<tr>
<td>Biodiversity and ecosystems</td>
<td>Nurturing MSMEs</td>
</tr>
<tr>
<td>Circular economy</td>
<td>Infrastructure</td>
</tr>
<tr>
<td>Own workforce</td>
<td>Socio-economic convergence</td>
</tr>
<tr>
<td>Workers in the value chain</td>
<td></td>
</tr>
<tr>
<td>Affected communities</td>
<td></td>
</tr>
<tr>
<td>Consumers and end-users</td>
<td></td>
</tr>
</tbody>
</table>

- **Climate change mitigation**: Substances of concern
  - Direct impact drivers of biodiversity loss
  - Impacts on the state of species
  - Impacts on the extent and condition of
    - Waste
  - Other work-related rights (own workforce)
  - Other work-related rights (value chain)
  - Communities' economic, social and cultural rights
  - Animal welfare
Translating UNEP FI tool results into ESRS disclosures

- **Step 7**: visualisation of (impact) material topics 2/2

Positive and negative impact at the sub-topic level

### Positive Impact

<table>
<thead>
<tr>
<th>Positive Impact</th>
<th>Severity Assessment (Scope)</th>
<th>Severity Assessment (Scale)</th>
<th>Is the Impact assessed as material?</th>
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<tbody>
<tr>
<td>Climate change mitigation</td>
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<tr>
<td>Pollution of air</td>
<td>Low</td>
<td>Medium</td>
<td>No</td>
</tr>
<tr>
<td>Pollution of living organisms and food resources</td>
<td>Low</td>
<td>Medium</td>
<td>No</td>
</tr>
<tr>
<td>Working conditions (non workforce)</td>
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<td>Medium</td>
<td>No</td>
</tr>
<tr>
<td>Working conditions (value chain)</td>
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<td>Medium</td>
<td>No</td>
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<tr>
<td>Social inclusion of consumers and/or endusers</td>
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<tr>
<td>Flourishing MSMEs</td>
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<tr>
<td>Infrastructure</td>
<td>Low</td>
<td>Medium</td>
<td>No</td>
</tr>
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</table>

### Negative Impact

<table>
<thead>
<tr>
<th>Negative Impact</th>
<th>Severity Assessment (Scope)</th>
<th>Severity Assessment (Scale)</th>
<th>Is the Impact assessed as material?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate change adaptation</td>
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<td>Very high</td>
<td>No</td>
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<tr>
<td>Climate change mitigation</td>
<td>High</td>
<td>Very high</td>
<td>Yes</td>
</tr>
<tr>
<td>Pollution of air</td>
<td>High</td>
<td>Very high</td>
<td>No</td>
</tr>
<tr>
<td>Pollution of water</td>
<td>High</td>
<td>Very high</td>
<td>No</td>
</tr>
<tr>
<td>Pollution of soil</td>
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<td>Very high</td>
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</tr>
<tr>
<td>Pollution of living organisms and food resources</td>
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<td>Very high</td>
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<td>Substances of concern</td>
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</tr>
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<tr>
<td>Water</td>
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<td>Very high</td>
<td>No</td>
</tr>
<tr>
<td>Marine resources</td>
<td>High</td>
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<tr>
<td>Direct impact assessment of</td>
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<td>Very high</td>
<td>No</td>
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</tbody>
</table>
4. Peeking into the interoperability kitchen
Zooming in …

- **4.1 Overview of Interoperability challenges**
  - 4.1.1 Actual/Potential impacts
  - 4.1.2 Context
  - 4.1.3 Sustainability topics
  - 4.1.4 Stakeholder engagement
  - 4.1.5 Materiality criteria and thresholds
    - 4.1.5a Materiality criteria
    - 4.1.5b Materiality thresholds
  - 4.1.6 Integrating data from other sources
    - 4.1.6a Other segments of the value chain
    - 4.1.6b Financial materiality
4.1 What are the main interoperability challenges?

Red = main challenges

Materiality Assessment

Impact materiality

Context

Identification*

Assessment & Determination

Topics

Criteria

Thresholds

Financial materiality

• Actual Impacts

• Potential impacts

* stakeholder engagement
4.1.1 Actual & Potential Impacts 1/2

The terms «actual impacts» and «potential impacts» are used differently by EFRAG & UNEP FI:

<table>
<thead>
<tr>
<th>Actual impacts</th>
<th>ESRS</th>
<th>UNEP FI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impacts having taken place in the current reporting period…</td>
<td>Confirmed impacts ..</td>
<td></td>
</tr>
<tr>
<td>Potential impacts</td>
<td>…vs impacts that may be expected to materialise in future reporting periods</td>
<td>…vs non-confirmed impacts (based on projections)</td>
</tr>
</tbody>
</table>
Implications:

In the case of banking, the vast majority of material impacts are downstream in the value chain, and the bank’s connection to the impacts is by «business relationship» (not «directly caused» and usually not «contributed to»). As a result:

- Most impact data banks can report will reflect «potential» rather than «actual» impacts as per UNEP FIs use of those terms.
- Both «actual» (ie current) and «potential» (ie potential future) impact data can be about «potential» (non-confirmed) as opposed to «actual» (confirmed) impacts
- «Potential» impacts as per the ESRS usa of the term is covered by considering the business and portfolio projections of the bank.
4.1.2 Context 1/2

The term «context» is used differently by EFRAG & UNEP FI:

<table>
<thead>
<tr>
<th>ESRS</th>
<th>UNEP FI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Context</strong></td>
<td>Undertaking’s business model</td>
</tr>
<tr>
<td></td>
<td>Context in which the undertaking operates; sustainability needs and priorities at different geographic levels</td>
</tr>
</tbody>
</table>
Implications:

- The business model description required of ESRS is captured by the aspects of the methodology and tool referencing the notion of «business profile».

- ESRS does make some reference to «context» as understood by UNEP FI when pointing to the legal and regulatory context (Section 3.1#68). Moreover, EFRAG guidance points to interoperability with GRI materiality assessment, where the notion of «context» as understood by UNEP FI is more fully referenced (GRI3 Step 1). As a result the context content of UNEP FI’s methodology is considered aligned and retained in the Conversion Tool.
4.1.3 Sustainability Topics

As part of «ESRS 1: Section 1 – General requirements», there contains «Appendix A: Application Requirements» which has a set of «Application requirements (ARs)» for entity specific disclosures.

AR 16 states that «When performing its materiality assessment, the undertaking shall consider the following list of sustainability matters covered in the topical sections of this ESRS. When, as a result of the undertaking’s materiality assessment (see Section 2 Disclosure Requirement 9 (IR-1) ), a given sustainability matter in this list is assessed to be material, the undertaking shall report according to the corresponding Disclosure Requirements of the relevant topical sections. Using this list is not a substitute for the process of determining material matters. This list is a tool to support the undertaking’s materiality assessment. The undertaking still needs to consider its own specific circumstances when determining its material matters.”

- AR 16 provides for a list of sustainability matters (see right), designed to quantify the different topics that need to be covered for each ESRS.
- They state that the list is not exhaustive, therefore, entities are expected to disclose on material impacts (and risks) not covered by AR 16.
Mapping the Impact Radar to AR 16 (1/4)

The UNEP FI Impact Radar holistically compiles impact topics across environmental, social and socio-economic concerns. As such it includes all topics of AR16* and goes beyond AR16, aiding with the ESRS requirement to consider all material topics regardless of explicit referencing in AR16.

A detailed mapping between Impact Areas/Topics of the Impact Radar and ESRS AR 16 has been produced. The UNEP FI-ESRS Topics Mappings include:

- A mapping showing the read-across from Impact Areas/Topics to ESRS items.
- A reverse mapping of the ESRS items mapped against the Impact Areas/Topics.
- A version of the above mappings that is designed for use in the UNEP FI-ESRS Conversion Tool.

AR16 has up to four levels (topic to sub-sub-topic level), whereas the Radar presents a maximum of three levels (pillar, area, topic).

All AR16 levels were used to inform the mappings.

* Except Animal Welfare
### Mapping the Impact Radar to AR 16 – Environmental Pillar (2/5)

<table>
<thead>
<tr>
<th>UNEP FI Impact Radar</th>
<th>Map to</th>
<th>European Sustainability Reporting Standards (E385) AR16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact Area</td>
<td>Impact Topic</td>
<td>Sub-topic</td>
</tr>
<tr>
<td>Climate stability</td>
<td>-</td>
<td>Climate change</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>Energy</td>
</tr>
<tr>
<td></td>
<td>→</td>
<td>Pollution</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>→</td>
<td>Marine plastics</td>
</tr>
<tr>
<td>Waterbodies</td>
<td></td>
<td>Water</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Water</td>
</tr>
<tr>
<td></td>
<td>→</td>
<td>Water &amp; marine resources</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Air</td>
<td>→</td>
<td>Pollution</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>→</td>
<td>Marine plastics</td>
</tr>
<tr>
<td>Soil</td>
<td>→</td>
<td>Pollution</td>
</tr>
<tr>
<td></td>
<td></td>
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<td></td>
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<tr>
<td></td>
<td></td>
<td>Direct impact drivers of biodiversity loss</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Direct impact drivers of biodiversity loss</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Direct impact drivers of biodiversity loss</td>
</tr>
</tbody>
</table>

- AR 16 has a large focus on Biodiversity & ecosystems as well as Circularity.
- All UNEP FI Environmental Impact Areas/Topics have matches with AR 16.
Mapping the Impact Radar to AR 16 – Social Pillar (3/5)

- On social topics, AR 16 can be matched to all UNEP FI Social Impact Areas & Impact Topics.
- The AR 16 sub-topic of social inclusion contains a larger number of matches with our Impact Topics than other sub-topics.
• On socio-economic topics, there are fewer topics within AR 16.
• There are a number of UNEP FI Socio-economic Impact Topics that are not included in AR 16 (see next slide).
Mapping the Impact Radar to AR 16 (5/5)
Not covered by ESRS topics & subtopics

<table>
<thead>
<tr>
<th>Impact Topic</th>
<th>Impact Area</th>
</tr>
</thead>
<tbody>
<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>

• There are a number of socio-economic Impact Topics that are not covered under the ESRS.
• The ESRS still expects these to be addressed if material.
4.1.4 Stakeholders & Stakeholder Engagement

Two Key Requirements:

- Understanding context (Step A) > who are the stakeholders
- Identification of material topics (Step B) & determination of material impacts (Step C) > stakeholder engagement

IG1 - 3. How is the materiality assessment performed? & 5.4 FAQs on stakeholder engagement
Understanding the context (Step A) – What are the banks key affected stakeholders?

**Stakeholders in the Banking Value Chain**

- **Suppliers**
  - Physical supplies (e.g. IT, electricity, etc.)
  - Financial inputs (e.g. bank to bank loans)
  - Other (e.g. data & analytics)

- **Employees**
  - HQ
  - Subsidiaries
  - Rep Offices

- **Investors**
  - Private
  - Public

- **Clients**
  - Consumers
  - Businesses
  - Other

- **Investees**
  - Private
  - Public

Denotes where the bulk of the impact associations are

Denotes where the bulk of affected stakeholders are

For Institutional Banking, impacts are indirect

Covered by UNEP FI Impact Methodology & Tools
# Zoom on downstream stakeholders

## Consumers

- **Directly affected**
  - E.g. ability to finance housing, education, etc. (positive impact)
  - E.g. over-indebteness / lack of financial health (negative impact)

## Institutional Clients

- **Directly affected**
  - E.g. ability to finance business development (positive impact)
  - E.g. over-indebteness / lack of financial health (negative impact)

## Supply chain of Clients

- **Indirectly affected**
  - E.g. potential human rights abuses

## Clients of Clients

- **Indirectly affected**
  - E.g. product safety and/or environmental-freindliness

## Clients’ affected Communities

- **Indirectly affected**
  - E.g. health hazards

## Environment

- **Indirectly affected**
  - E.g. pollution
Stakeholder engagement for the identification of material topics (Step B) and determination of material impacts (Step C) 1/4

IG1 - 5.4 FAQs on stakeholder engagement

• FAQ 15: Do the ESRS mandate to actively engage in dialogue with affected stakeholders for the materiality assessment process?

• 186. The ESRS require disclosure on the assessment and its outcomes but do not mandate specific behaviour on stakeholder engagement or the due diligence process.

• 187. [...] In addition, ESRS 1 paragraph 24 points to affected stakeholders’ engagement as central to the materiality assessment. [...]
Stakeholder engagement for the identification of material topics (Step B) and determination of material impacts (Step C) 2/4

- IG2 - FAQ 3: How should the MA process be organised to properly capture material IROs in the VC?
- 2. Materiality assessment steps
  - [...] Step B. and Step C: Identification of actual and potential IROs as well as Assessment and determination of the material IROs
  - [...] 89. The undertaking should aim to gather reliable data from actors in its VC. If this is not possible after having made reasonable efforts, it may rely as appropriate on sources of secondary data. [...]
Stakeholder engagement for the identification of material topics (Step B) and determination of material impacts (Step C) 3/4

IG2 - FAQ 7: How to assess and quantify the impacts of the VC resulting from business relationships?
• 131. […] Estimates and proxies may currently be the only available solution to quantify impacts in certain cases, due to unreasonable efforts required to collect data. Examples include tier 2 or tier N suppliers; tier 1 suppliers when they are excessively high in number; customers when they are not end-users (e.g., when the undertaking delivers products or services that are further transformed before contributing to the delivery of products and services to the end-users).

These examples are based on complications with upstream data collection but are relevant for downstream data collection too.
Stakeholder engagement for the identification of material topics (Step B) and determination of material impacts (Step C) 4/4

IG2 - FAQ 8: What is ‘reasonable effort’ to collect VC data?

- 136. [...] using free and publicly available information may in some cases be considered a reasonable effort. In determining whether an action is beyond ‘reasonable effort’ and/or beyond ‘undue cost and effort’, the undertaking shall balance the reporting burden of obtaining direct data and the potential lower quality of the information resulting from not undertaking that action.

- 137. For VC data, a good starting point is a deep understanding of what, where and how the inputs for its products and/or services are sourced upstream and/or its products and services are brought to market downstream.

IG2 - FAQ 9: How can estimates be developed when primary data cannot be collected from VC counterparties?

144. Secondary data include data from indirect sources, sector-average data, sample analyses, market and peer groups data, other proxies, or spend-based data.

Examples of external data sources
- Academic institutions
- Government bodies
- Non-profit organisations
In sum...

- Stakeholders linked to the banks **own operations** are out of scope of the UNEP FI Tools.
- Stakeholders linked to the banks **value chain** are mostly down-stream.
  - For retail banking linked to consumers (physical persons) stakeholder engagement is possible in the form of client engagement; one of the practices tracked by the PRB Framework, UNEP FI Impact Protocol and the Impact Tools.

- For all other banking activities (i.e. linked to moral persons) stakeholder engagement to understand the impacts of clients’ operations, supply chains and downstream activities is complex; the value chain presents characteristics (tier 2/tier N, high numbers) suggesting alternative (i.e. secondary) sources of data for materiality assessment should be used. The UNEP FI Impact Tools draw from multiple secondary, in alignment with ESRS requirements.
4.1.5a Materiality criteria

- **Severity** (determined by the following characteristics):
  - **Scale**: how grave the impact is (i.e., extent of infringement of access to basic life necessities or freedoms (e.g., education, livelihood etc.))
  - **Scope**: how widespread the impact is (i.e., number of individuals affected or the extent of the environmental damage)
  - **Irremediable character**: the extent to which the impact can be remediated (e.g., through compensation or restitution; whether the people affected can be restored to their exercise of the right in question).

- **Likelihood**: the probability of the impact happening

**ESRS**

**UNEP FI Tools**

- **Strength of impact association** (0,1,2)
- **Country priority** (yes, no)
- **Total impact association** (proportion of portfolio)
- **Strong impact association** (key sectors / 2)
- **Degree of irremediability associated to the topic**
- **Degree of confidence in portfolio projection**
## Treatment of materiality criteria in the Conversion Tool 1/2

### ACTUAL POSITIVE IMPACTS

<table>
<thead>
<tr>
<th>Assessment of Criteria</th>
<th>Severity scale</th>
<th>severity scope</th>
<th>type of association &amp; country priority</th>
<th>total impact association</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>0/no, 0/yes</td>
<td>0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>1/no</td>
<td>0-25%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>2/no</td>
<td>25-50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>1/yes</td>
<td>50-75%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>very high</td>
<td>2/yes</td>
<td>75-100%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The **scale criterion** rises as the strength of the impact association increases, particularly when the topic is considered a priority in the country.

### ACTUAL NEGATIVE IMPACTS

<table>
<thead>
<tr>
<th>Assessment of Criteria</th>
<th>Severity scale</th>
<th>severity scope</th>
<th>Severity irremediable character</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>0/no, 0/yes</td>
<td>0%</td>
<td>0/all topics 1/all topics</td>
</tr>
<tr>
<td>Low</td>
<td>1/no</td>
<td>0-25%</td>
<td>2/low irremediable topics</td>
</tr>
<tr>
<td>Medium</td>
<td>2/no</td>
<td>25-50%</td>
<td>2/medium irremediable topics</td>
</tr>
<tr>
<td>High</td>
<td>1/yes</td>
<td>50-75%</td>
<td>2/high irremediable topics</td>
</tr>
<tr>
<td>very high</td>
<td>2/yes</td>
<td>75-100%</td>
<td>2/very high irremediable topics</td>
</tr>
</tbody>
</table>

The **scope criterion** rises as the total of impact association increases.

The **irremediable character criterion** links to key negative associations and rises as the degree of irremediability associated with the topic increases.
## Treatment of materiality criteria in the Conversion Tool 2/2

### POTENTIAL POSITIVE IMPACTS

<table>
<thead>
<tr>
<th>Assessment of Criteria</th>
<th>Likelihood</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>confidence in portfolio projection</td>
</tr>
<tr>
<td>No</td>
<td><img src="low.png" alt="Likelihood" /></td>
</tr>
<tr>
<td>Low</td>
<td><img src="medium.png" alt="Likelihood" /></td>
</tr>
<tr>
<td>Medium</td>
<td><img src="high.png" alt="Likelihood" /></td>
</tr>
<tr>
<td>High</td>
<td><img src="very_high.png" alt="Likelihood" /></td>
</tr>
<tr>
<td>very high</td>
<td><img src="very_high.png" alt="Likelihood" /></td>
</tr>
</tbody>
</table>

The **likelihood criteria** rises as degree of confidence in portfolio projection increases.

### POTENTIAL NEGATIVE IMPACTS

<table>
<thead>
<tr>
<th>Assessment of Criteria</th>
<th>Likelihood</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>confidence in portfolio projection</td>
</tr>
<tr>
<td>No</td>
<td><img src="low.png" alt="Likelihood" /></td>
</tr>
<tr>
<td>Low</td>
<td><img src="medium.png" alt="Likelihood" /></td>
</tr>
<tr>
<td>Medium</td>
<td><img src="high.png" alt="Likelihood" /></td>
</tr>
<tr>
<td>High</td>
<td><img src="very_high.png" alt="Likelihood" /></td>
</tr>
<tr>
<td>very high</td>
<td><img src="very_high.png" alt="Likelihood" /></td>
</tr>
</tbody>
</table>
4.1.5b Materiality thresholds

**IG1 (Section 3.6)**
- The undertaking should use appropriate **qualitative and/or qualitative thresholds** to assess the materiality of a sustainability matter.
- IG1 (para 114) Severity of impact is determined by the following characteristics that inform the basis for determining thresholds: **scale, scope and irremediable character**.
The combination of these criteria determine the **materiality** of sustainability topics.

For actual impacts, only severity is taken into account, for potential impacts both severity and likelihood are considered.
## Treatment of Thresholds in the Conversion Tool 2/2

### Positive Impact

<table>
<thead>
<tr>
<th>Positive Impact</th>
<th>Severity Assessment</th>
<th>Is the impact assessed as material?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate change mitigation</td>
<td>Low</td>
<td>No</td>
</tr>
<tr>
<td>Pollution of air</td>
<td>Low</td>
<td>No</td>
</tr>
<tr>
<td>Working conditions (own workforce)</td>
<td>Medium</td>
<td>No</td>
</tr>
<tr>
<td>Working conditions (value chain)</td>
<td>Medium</td>
<td>No</td>
</tr>
<tr>
<td>Social inclusion of consumers and/or end-users</td>
<td>High</td>
<td>Yes</td>
</tr>
<tr>
<td>Flourishing MSMEs</td>
<td>Low</td>
<td>No</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Low</td>
<td>No</td>
</tr>
</tbody>
</table>

### Negative Impact

<table>
<thead>
<tr>
<th>Negative Impact</th>
<th>Severity Assessment</th>
<th>Irremediability</th>
<th>Is the impact assessed as material?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate change abortion</td>
<td>Low</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Climate change mitigation</td>
<td>Medium</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Pollution of air</td>
<td>Low</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Pollution of water</td>
<td>Low</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Pollution of soil</td>
<td>High</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Pollution of living organisms and food resources</td>
<td>Low</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Substances of concern</td>
<td>Medium</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Substance of very high concern</td>
<td>High</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Microplastics</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Water</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Marine resources</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Direct impact drivers of biodiversity loss</td>
<td>High</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>
4.1.6a Determination: How to integrate UNEP FI data with data coming from other sources? 1/2

For data regarding other segments of the bank’s value chain:

Even when a topic comes up in both spheres, they will not be driven by the same activities. Therefore, the impact topics identified as material linked to the bank’s own operations and those linked to its value chain (downstream) are additional. Data on these must be accounted for independently, not aggregated.

Material topics linked to own operations
- E.g. own work force (i.e. bank’s work force)

Material topics linked to value chain (portfolio)
- E.g. own work-force (i.e. of clients), consumers & end-users (of the banks’ products and of clients’ products), climate change (linked to clients), circular economy (linked to clients), business conduct (linked to clients)
4.1.6b Determination: How to integrate UNEP FI data with data coming from other sources? 2/2

For data regarding financial materiality:

Impact topics identified as financially material, and the data supporting the financial materiality assessment (even for topics that are also material from an impact perspective), are also additional / require their own coverage.

However, it is worth noting that UNEP FI impact analysis, by virtue of its methodology can provide a valuable basis for financial materiality analysis.

Relevance of UNEP FI Impact Analysis to financial materiality assessment

UNEP FI Impact Analysis is directly based on a detailed and contextualised review of portfolio composition, as a result it can contribute to financial risk and opportunity analysis alongside other inputs such as dependency analysis.
United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilise private sector finance for sustainable development. UNEP FI works with more than 450 members—banks, insurers, and investors—and over 100 supporting institutions—to help create a financial sector that serves people and planet while delivering positive impacts. We aim to inspire, inform and enable financial institutions to improve people's quality of life without compromising that of future generations. By leveraging the UN's role, UNEP FI accelerates sustainable finance.

unepfi.org