

Sustainable Development Labeling of banking products

Initial methodological approach (V1, June 2008)



This methodology has been produced by the Groupe Caisse d'Epargne and the consultancy Utopies, with contributions from a stakeholder panel representing ADEME (the French Environment and Energy Management Agency), Friends of the Earth (France), Testé Pour Vous and the WWF.

Project coordination

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Sébastien Godinot on behalf of Friends of the Earth (France)

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Section I. SECURITY labeling of products for personal customers

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Utopies:

Founded in 1993, Utopies is France's leading consultancy in corporate social responsibility.

Utopies jointly developed the labeling methodology presented in this report and advised the Caisse d'Epargne on preparing and implementing the concept.

Stanislas Dupré, Véronique Cailliau, Jean-Luc Denis and Benjamin Enault contributed to the methodological work.

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Statement from the stakeholder panel on the methodology for banking products' labeling
Paris, Wednesday June 18th 2008.***The first steps***

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For the ADEME this labeling project for banking products is an opportunity to improve the channeling of information to individuals so as to raise their awareness about the impact of their daily actions on climate change. For Friends of the Earth France, this world premiere is opening the way towards greater transparency of banks regarding their investments, notably towards individuals. The methodology developed also the first step towards a general evolution of banking products and services.

Testé pour Vous, who are particularly watchful of the various risks associated with each banking product, were interested in the wider approach put forward by the project.

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For all stakeholders, making the methodology available to other banks is an essential component of the project: the efforts made must serve the whole banking sector.

Stakeholder engagement process

Our mission consisted in providing a fresh and external look at the project. Several methodologies were introduced to us along the project timeline. We were able to express our opinion regarding the directions to prioritize.

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Practically speaking, we did not directly develop the methodology, but we were consulted at each stage of its development, in complete transparency. We had access to every document we asked for and every product-rating file, even though we did not systematically check the latter.

Our opinion on this first step

We fully endorse this version of the methodology, which should reach its first target: the raising of customer awareness. This version of the methodology is a good compromise between quick and easy implementation, methodological rigor and easy understanding by the bank's customers.

We are aware of the innovation brought through this pilot-project and we think that the various limits at this stage were well identified. Each of these limits is explained in the methodology, which suggest possible areas of improvements.

Next steps

The public release of the methodology applied to savings products is only a first step. We are expecting the Caisse d'Epargne to continue applying the methodology to other product ranges, to its subsidiaries, as well as to rollout the approach to its staff.

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I. The banking product sustainability labeling project

I.1. Objectives

The role of a bank is to invest the funds entrusted to it by its customers in order to fund economic activities in the form of company operations, public borrowings, personal lending and so on.

The nature of these activities varies from product to product, and has significant consequences:

- For the customer, who is exposed to a varying degree of financial risk (SECURITY), as well as
- For society and the planet as a whole, since the activities funded may be more or less desirable from a social (RESPONSIBILITY) and ecological (CLIMATE) viewpoint.

As part of its sustainable development program, and to provide its customers with more information, the French banking group Caisse d'Epargne launched a sustainable-development labeling system for private customers in June 2008, based on these three criteria.

Under this system, each product is given a rating and compared with the rest of the range. A label giving the rating and a text explanation appear in sales brochures and on the website.

All products are rated.

I.2. Overview of the methodology

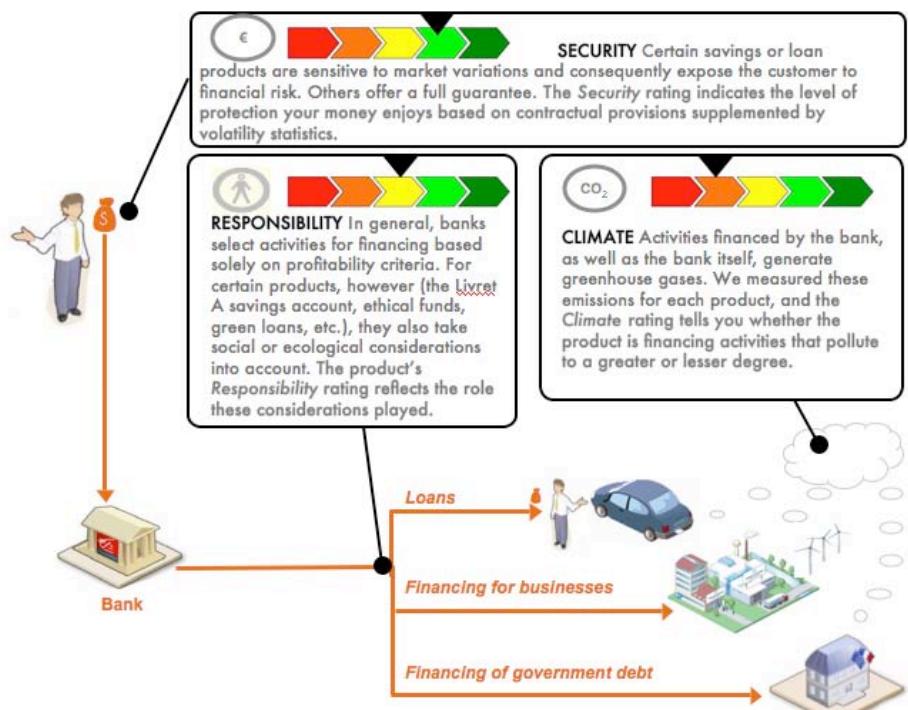
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stakeholder panel (from the WWF, Friends of the Earth, Testé Pour Vous and ADEME), which assisted the project team in defining the broad outlines of the system and validating the methodology.

Panel members were consulted at every stage of the methodology's preparation process via monthly meetings and direct contact.

They had access to auditable files containing all data for each product and the calculation software used.

The final elements of the methodology will be **published on the Internet** and made freely available for use by other banks.



At this stage, the methodology has been developed for use with savings products and will be adapted for use with other product families (insurance, loans, banking services etc.) by late 2008.

I.3. Reading guide

The assumptions and limitations of the methodology are addressed in a separate chapter at the end of this document, and are indicated throughout the text by a footnote in Roman numerals and the following symbol:



II. SECURITY labeling

II.1. Background

Consumers, often acting through increasingly organized consumer associations, are drawing attention to the failure of banks to explain, in adequately clear terms, the potential financial risks and disadvantages of their products.

The Markets in Financial Instruments Directive (MiFID), the Delmas-Marsalet Report on the need to provide advice and information to consumers regarding financial issues, and France's DDAC Act governing the insurance industry have all helped to prompt discussion on methods of labeling these risks.

II.2. Objectives

Consumers and consumer groups expect transparency, and the SECURITY component of the label should be designed to help meet this expectation. It should include the primary criteria for making a decision based on the risk of potential expenditures or loss of earnings, whether resulting from market risks or risks inherent in customer use of these products (potential fees etc.).

The label should enable consumers to compare products in the same family.

Given the complexity of the risks posed by these products, the initial version of the label will address only the financial risk.¹

III. Definitions

III.1. Financial risks

Financial risk includes:

- Capital risk: the risk of loss of capital (invested savings).
- Yield/cost risk: the risk of depreciation for savings products and the risk of additional costs for variable-rate loans, by comparison with investments offering guaranteed returns or fixed-rate loans.

Note: risks arising from dysfunctional bank operations (such as account fraud or poor operation of a website) are excluded from the scope of the study.

III.2. Volatility

Volatility measures the range of fluctuation in a value, market or index. In mathematical terms, volatility is expressed as a variance or standard deviation. In a market economy, it provides a measure of the risk associated with an investment: the more risky a financial investment, the more volatile its price, and vice versa.

III.3. Value at Risk

Value at Risk (VaR) represents an investor's maximum potential loss on the value of an asset or portfolio of financial assets, based on the investment timeframe and a confidence interval. It is calculated using a sampling of historical data or deduced from normal statistical laws.

III.4. Caps

The cap is the fixed ceiling rate in a contract that an adjustable rate may not exceed, regardless of the change in its benchmark index.

¹ The appendix contains a definition of the risks posed by use of these products and proposed methodologies for V2.

IV. Methodological principles

IV.1. Rating

The principle adopted

The products are rated:

- **On the basis of the provisions defined in the various contractual and sales documents.**

- o For loans: contractually guaranteed and capped rate.
- o For savings: guaranteed capital (after fees), guaranteed yield.

*Example: for a sustainable-development savings account (Livre de Développement Durable), the bank offers a guarantee that account holders will receive immediate repayment of their net deposits, euro for euro (**guaranteed capital**), plus interest calculated in accordance with the terms and conditions set forth in Article x (**guaranteed yield**). This product therefore receives a good score.*

- **On the basis of historical volatility**

For savings products, when the capital is not contractually guaranteed, the product's past volatility can be used to evaluate financial risk.

Between the Value at Risk and volatility measurements, volatility has been adopted for reasons of efficiency and simplicity of use.

IV.2. Calculation of volatility

The principle adopted

Historical volatility is calculated over a five-year period.

IV.3. Guaranteed minimum yield

The principle adopted

The Livret A savings account, which is indexed to inflation but for which the rate has remained relatively stable, will serve as a reference. In order to be considered, the guaranteed yield must be at least two-thirds the rate offered by the Livret A account during the current year.

Below that level, the product is deemed to offer an inadequate guarantee regarding yield.

IV.4. Capital guarantee and liquidity

The principle adopted

The categories adopted here do not address the issues of liquidity, fees for using the product, or capital guarantees in the event of death.¹

Example: a life insurance product offering a capital guarantee at maturity is evaluated on the basis of compliance with the recommended holding period.



V. The rating of banking products

V.1. Rating savings products

The rating table is inspired by a recommendation found in the Delmas-Marsalet Report:

The information given to the customer before a contract is signed must specify whether or not recovery of the capital invested is unconditionally guaranteed.

This table can be used to score an individual investment vehicle.

Level 1	Level 2	Level 3	Level 4	Level 5
Category D: Products that pose a risk beyond the invested capital.	Category C: Products that pose a moderate to high capital risk.	Category B: Products that pose a limited risk to capital.	Category A: Products offering a full capital guarantee.	Not included in the Delmas-Marsalet table.
Products for which losses can exceed the amount of capital invested. Volatility is greater than 5.	Products posing a moderate to high capital risk for which losses may not exceed the total capital invested. Volatility is greater than 5.	Two types of product: 1) Products carrying an unconditional, partial contractual guarantee regarding the invested capital (after fees). This guarantee is either permanent or effective at one or more maturity dates known to the customer. The partial guarantee must apply to a significant portion of the invested capital; otherwise, the product is deemed to fall into Category 2. 2) Products that do not offer a contractual capital guarantee but are based on underlying investments that have a reasonably limited risk. Volatility is less than 5.	Products offering a full and unconditional guarantee of the invested capital. This guarantee is permanent or effective at one or more maturity dates known to the customer. The guarantee applies to the amount invested, after fees.	Products that offer: A. A full capital guarantee: a complete, unconditional capital guarantee (after fees) that is permanent or effective at one or more maturity dates known to the customer; and B. 1) A rate of return, before tax and social charges, that is guaranteed at the time the product is subscribed for AND is at least two-thirds the rate offered by the Livret A account, OR 2) A guaranteed minimum rate of return, before tax and social charges, that is at least two-thirds the rate offered by the Livret A account for the current year, OR 3) A rate of return, before current tax and social charges, that is at least two-thirds the rate offered by the Livret A account. ²
Example: Complex financial instruments (ABS etc.).	Example: Bond funds, money market funds and equities.	Example: Bond funds and money market funds posing a moderate risk.	Example: Structured funds with guaranteed capital on maturity.	Example: Passbook accounts, savings plans, euro life insurance.

For multi-vehicle products, each vehicle must be rated separately.

The final rating reflects the range of SECURITY scores for the various vehicles.

Note: in a subsequent version, the package options may constitute a factor in the rating process.

² Example: the yield on the Livret A account for 2007 was 3%. In order to fall into Category 5, the products must have had a guaranteed minimum yield of at least 2%. In February 2008, the interest rate on the Livret A account rose to 3.5%. In order for the product to remain in Category 5, its guaranteed minimum yield would have to rise to 2.33%.

V.2. Rating of loans

Level 5, the safest level, includes all fixed-rate loans, which carry no financial risk.

Level 1 corresponds to variable-rate loans with no cap or a cap that offers no protection.

Given current financing arrangements and the development of new, more complex products (such as loans that combine a fixed rate and variable rate), it seems appropriate to have two separate levels (3 and 4) for capped loans or loans that offer additional guarantees if rates increase.

Level 1	Level 2	Level 3	Level 4	Level 5
Variable-rate products that offer no guarantee or have a cap that provides no real protection against higher rates	"Moderately" capped variable rate (capped at two points or more)	Combined fixed/variable product for which the variable portion is capped and/or restricted (cap, timeframe or variable-rate portion of the financing to be defined)	"Tightly" capped variable rate (capped at one point or less)	Fixed-rate loan

VI. Appendices

VI.1. Risks inherent in use

Definition:

- a. Capital risks related to complexity: the risk of a capital loss or yield loss prompted by unforeseen events **and** by a poor understanding of how the product operates (such as tax aspects, savings products that require decisions during the life of the product, and property insurance).
- b. Liquidity risks: funds that are fully locked in or entail a surcharge (fixed-maturity savings plans, ideal-term savings funds, early repayment penalties on loans, and reimbursement timeframes for insurance).
- c. Risk of "unanticipated" fees: fees on voluntary transactions or imposed in certain involuntary circumstances (fees on current accounts that are not part of a service package, insurance deductibles, and brokerage fees).
- d. Risk of fees for unused services: fees for services that have already been paid for or will probably not be used (overlapping insurance, unused paid services in product packages etc.).

Some risks are inherently associated with certain product families. For example, an invested savings product is associated with a yield risk. However, no given risk can be associated exclusively with one specific product family. This same yield risk may occur with variable-rate loans, for example. Each product can be associated with various types of risk, and each risk can be assigned to several products, but every risk is not applicable to every product.

Moreover, some risks may act as aggravating factors for other risks, or they may exist independently. For example, liquidity risk is exacerbated if the customer does not have a proper understanding of the product he or she has purchased.

VI.2. Identification of risks by product family

VI.2.1. General typology

	Capital/yield	Unanticipated fees	Fees for unused services	Complexity	Liquidity
Liquid savings	Anniversary dates Adjustable rate				Anniversary dates
Contractual savings	Lower yield if term commitment not met Taxation			Term commitment	Fees Taxation Lower yield
Invested savings		Brokerage fees, withdrawal fees etc.		Matches capital with yield + Taxation	Matches fees to yield
Fixed-rate loan		For early repayment, changes to payment periods or monthly payments		Related to unanticipated fees	Related to unanticipated fees (in the case of early repayment)
Variable-rate loan	Risk of higher cost, depending on rate changes	For early repayment, changes to payment periods or monthly payments		Related to unanticipated fees	Related to unanticipated fees (in the case of early repayment)
Property and casualty insurance		Deductible	Overlapping insurance	Gap between actual coverage and insured's understanding of coverage	Period of time after claim is filed before insurance takes effect
Deposit accounts	Adjustable rate for interest-bearing deposit account	Transaction fees, default/overdraft charges etc.			
Deposit-account service packages	Adjustable rate for interest-bearing deposit account	Fees on transactions included in the package, default/overdraft charges etc.	Unused paid services Overlapping insurance based on card type		



Low risk
Moderate risk
High risk



Intuitive perception (not based on any calculation)

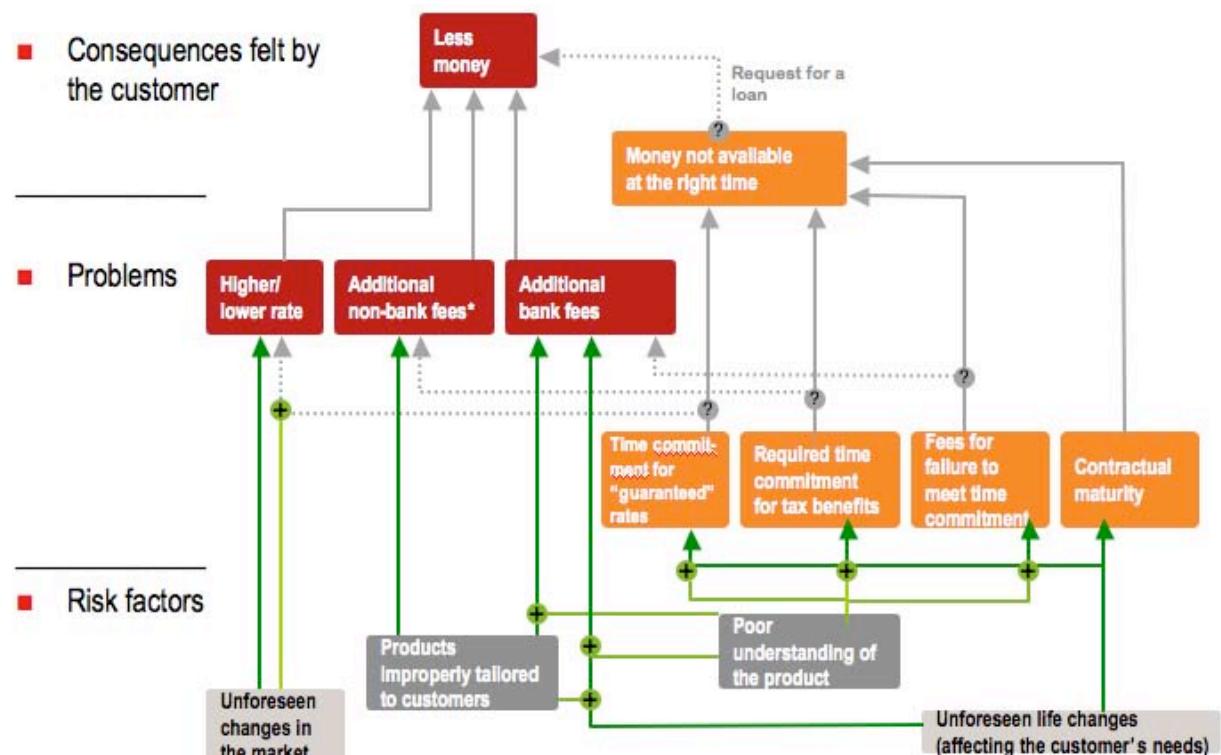
VI.2.2. Logical chain of risks

As we researched these calculations, it became apparent that the complexity risk and liquidity risk often encompassed other risks, particularly the risk of fees and yield risks. The network of relationships shown below will provide a better understanding of the interaction among these various types of risk.

The customer perceives two types of risk:

- A lack of money (losses, lost earnings, cost), shown in red below.
- The unavailability of his or her money (lack of liquidity attributable to various factors, shown in orange below).

The risk of unavailability can be eliminated. In that case, it changes into other types of risk (taxation, fees, yield loss etc.), indicated by the dotted arrows.



The table below indicates the type of risk for each family of products.



	Liquid savings	Contractual savings	Invested savings	Variable-rate loan	Fixed-rate loan	Deposit account	Deposit service + payment methods	Property and casualty insurance
Higher/lower rate	1.					2.		
Additional non-bank fees								
Additional bank fees								
Time commitment for "guaranteed" rates								
Required time commitment for tax benefits								
Fees for failure to meet time commitment								
Contractual maturity	1.							
Products improperly tailored to customers								
Poor understanding of the product								
Unforeseen changes in the market								
Unforeseen life changes affecting the customer's needs								

1. Adjustable rate and anniversary dates; limited risk.
2. Interest-bearing deposit accounts include a "liquid savings" component, so risks inherent to that product category should be included.

 Scope of V1.

 For further action in V2

A method for evaluating composite products (service packages for current accounts, loans with supplemental insurance etc.).

Initially, we propose to evaluate each component of the product. The combination of these various elements once again raises the issue of aggregate risk.

VII. Assumptions and limitations of the methodology

ⁱ Assumptions and limitations: the issue of liquidity

The proposed methodology for savings products does not incorporate the liquidity of the various products. As a result, the rating does not reflect the fact that the risk attaching to some investments, especially equity investments, diminishes significantly the longer they are held.

Section II. RESPONSIBILITY labeling of products for personal customers

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I. The banking product sustainability Labeling Project

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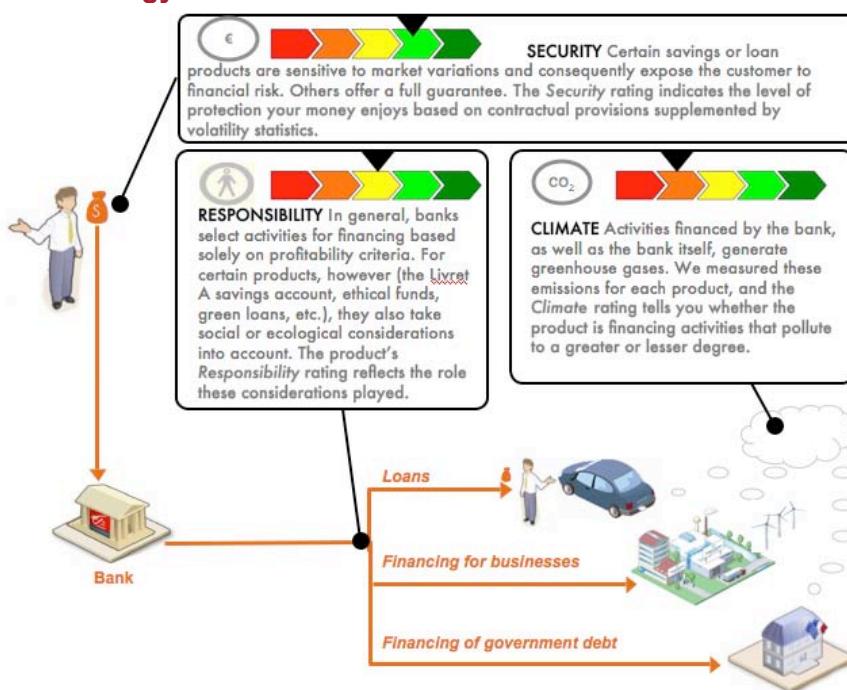
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The final elements of the methodology **will be published on the Internet** and be available freely for use by other banks.

At this stage, the methodology has been developed for use with savings products, and will be adapted for use with other product families (insurance, loans, banking services, etc.) by the end of 2008.



I.3. Reading guide

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II. RESPONSIBILITY labeling

II.1. Background

According to a survey report published at the end of 2005, 42% of those interviewed said that they would be prepared to buy solidarity saving products even if such products provided a lower level of return¹. Furthermore, the French market for SRI (funds, company savings schemes, asset management, etc.) was valued at €16.6 billion at the end of 2006, compared with €8.8 billion a year earlier, nearly doubling in just 12 months².

However, the emergence of funds created by banks for purely marketing purposes may make it harder for customers to understand the various products on offer. This is why consumers say that they are ready to receive information about these issues: they are interested in the advertising produced by retailers (82% of respondents) and manufacturers (87%) concerning their environmental and social policies.

A UNEP/Utopies report of 2005³ lists the principal barriers to more responsible consumption, as perceived by consumers: **lack of information** and awareness, lack of confidence in the claims made, unfashionable, poor quality/fitness for purpose, lack of availability and too expensive.

II.2. Objectives

The bank aims at improving customers awareness and making it easier for them to choose responsible banking products.

The RESPONSIBILITY section of the label must highlight "**the incorporation of social and environmental criteria into product design**".

II.3. Approach

The methodology for this section has been developed on the basis of benchmarking best banking practice in France and a number of other OECD countries, as well as by surveying those "green" and socially-responsible products already available in the market.

It reflects the French regulatory framework.

It is also based on work done by the ORSE (the French Study Center for Corporate Social Responsibility), Novethic, the Boston College Institute for Responsible Investment and other bodies. These are specified as and when they occur in the document.

¹ *Les Français et l'épargne solidaire* (The French and socially-responsible savings), conducted by IPSOS for Finansol in November 2005

² Novethic survey conducted in 2007 on the basis of available data for 2006.

³ UNEP, the UN Global Compact Office and Utopies, *Talk the walk, Advancing sustainable lifestyle through marketing and communications*, 2005

III. Definitions

III.1. The social and environmental criteria

The social and environmental criteria cover all those initiatives designed to ensure that the product concerned contributes to the general good.

For example: environmental protection, human rights, product accessibility, etc.

This scope excludes initiatives that contribute only indirectly to the general good by promoting the interests of the bank and/or its customers (e.g.: cheaper products).

III.2. The concept of product design

Product design covers all those aspects capable of being modified or influenced by choices made prior to the marketing of the product.

e.g.: product-related administrative and purchasing tasks, the activities funded as a result of the product and the product pricing and marketing criteria.

III.3. The concept of incorporation

Incorporation means the consideration and inclusion of those aspects identified positively as improving the product in relation to the average market position.

The following are excluded from this scope:

- Actions intended to align the product with average market practices or to make it compliant with a regulation due to be introduced in the near future
- Actions that set too low a demand threshold to bring about any significant change to the practices concerned
- Actions whose effectiveness seems doubtful on the basis of the information available
- Practices that are "better than the market average" as a result of considerations other than product design choices

Regulatory provisions are incorporated only if they enable differentiation of products in the same family.

e.g.: savings deposited in Livret A savings accounts are centralized in the Caisse des Dépôts et Consignations and are used partly to fund social housing. This regulatory obligation is incorporated (and rated positively) inasmuch as not all savings accounts are subject to it.

III.4. The extrafinancial screen

The extrafinancial screen criterion is used to evaluate the incorporation of the social, environmental and governance-related commitments, implemented policies and performance of a company.

III.5. Socially Responsible Investment: SRI

In the methodological context, SRI includes all those practices designed to maximize the social and environmental influence of the funds entrusted to the bank.

IV. Methodological principles

IV.1. Scope

Social and environmental responsibility includes many disparate challenges.

In order to build a comprehensive rating criterion appropriate to the banking industry, challenges have been defined specific to individual product families.

These challenges were validated by the Panel and allocated to 5 categories, each exerting a different weighting influence on the rating.

The principles adopted

The RESPONSIBILITY criterion comprises product-specific challenges, adapted to the banking industry.

These challenges are divided into weighted categories:

- **Cat.1: Process design**
- **Cat.2: Socially Responsible Investment**
- **Cat.3: Customer incentives**
- **Cat.4: Accessibility**
- **Cat.5: Solidarity**

IV.2. Rating

The principle adopted

The 5 categories of challenges are evaluated product-by-product and on the basis of product characteristics.

These product characteristics defined as:

- **Written contractual or regulatory engagements**

Example:

- *The rules governing the allocation of funds held in Caisse Des Dépôts Livret A savings accounts.*

- **Written rules contained in the product manager documentation**

Example:

- *The type of SRI screen applied to a fund.*

- **Observable practices assessed as stable**

Example:

- *The bank prints all its product literature on recycled paper.*

- **The general policy rules of the bank are not incorporated unless they impact directly on the product.**

Examples:

- *The fact that the bank's head office complies with Haute Qualité Environnementale (HQE) (High Environmental Quality) criteria has no impact on the product.*

- *Conversely, a responsible paper purchasing policy could have an impact on the product if it applies to the product sales documentation.*

IV.3. Allocation of funds (SRI)

The allocation of funds is a characteristic common to all savings products.

The principle adopted

The rating applies not to the practice of fund allocation, but to the rules governing that allocation.

A neutral rating is applied to products with no strict rules.

As soon as more precise rules are defined, they are incorporated!



IV.4. Weighting and calculation method

Each product family has its own predominant challenges, and these represent the *basis of rating*, whilst others are *bonuses* that add to the final rating when incorporated.

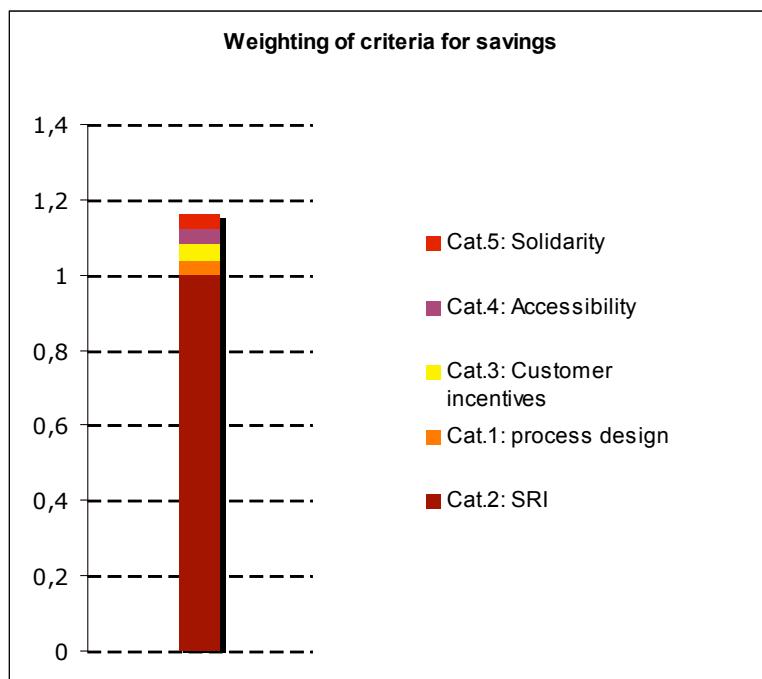
In savings, the SRI challenge is therefore the basis of product rating, and accounts for 100% of it: category 2 is therefore the basis of product rating for the RESPONSIBILITY section. Its weighting is 1. Additional bonus points may be attributed to the product in respect of other categories, in accordance with the following weighting structure:

- Cat.1: Process design: 0.2
- Cat.3: Customer incentives: 0.2
- Cat.4: Accessibility: 0.2
- Cat.5: Solidarity: 0.2

RESPONSIBILITY rating = (note cat.1 x cat.1 weighting) + (cat.2 rating x cat.2 weighting) + (cat.3 rating x cat.3 weighting) + (cat.4 rating x cat.4 weighting) + (cat.5 rating x cat.5 weighting)

$$\text{i.e. } \underbrace{(\text{cat.1 rating} \times 0.2)}_{\text{Process}} + \underbrace{(\text{cat.2 rating} \times 1)}_{\text{SRI}} + \underbrace{(\text{cat.3 rating} \times 0.2)}_{\text{Incentive}} + \underbrace{(\text{cat.4 rating} \times 0.2)}_{\text{Accessibility}} + \underbrace{(\text{cat.5 rating} \times 0.2)}_{\text{Solidarity}}$$

Criterion	Calculation method	Weightings and ratings
Cat.1: process design - Customer Reporting - Management of mailings and advertising inserts	Average of the various sub-criteria. rating calculation p.7	Weighting: 0.2 Ratings: 0 to 0.2 Bonus: 0 to 0.04 additional points.
Cat.2: SRI - - Type of fund (+ type of loan) - Sector/country - Extrafinancial screen	Sliding weighting scale: cf. p.8-9 Rating tables p.10 Rating tables p.11-12 Rating tables p.11 to 18. The extrafinancial screen is evaluated on the basis of a range of criteria applied in combination.	Weighting: 1 Notes: 0.3 to 1 Rating of 0.35 to 0.5 Ratings from 0 to 0.8
- Governance	The voting policy evaluated on the basis of a range of criteria. Transparency accounts for one-third of the rating, whilst the CSR aspects of the voting policy and the associated resources account for two-thirds.	Ratings from 0 to 0.8
Cat.3: Customer incentives	Not applicable to savings	N/A
Cat.4: Accessibility	Average of the various sub-criteria. Rating table p.20	Weighting: 0.2 Ratings: 0 to 0.2 Bonus: 0 to 0.04 additional points.
Cat.5: Solidarity	Average of the various sub-criteria. Rating table p.21	Weighting: 0.2 Ratings: 0 to 0.2 Bonus: 0 to 0.04 additional points.



V. The rating of banking products

V.1. Rating Cat.1 Process design

In savings, the environmental challenges perceived by customers have been set as priorities. This is why the methodology proposes to evaluate customer reporting documents, mailings and advertising inserts. A later version of the methodology may provide the option to incorporate a wider and more detailed range of environmental and social challenges into the processesⁱⁱ.

The rating for this category is the average of the two sub-criteria.



Criteria		0.1	0.15	0.2
Customer reporting documents	No formal criterion is predefined. No environmental clauses	Printing on both sides of the page OR at least 50% recycled paper or paper produced using wood from sustainably-managed forests (FSC or PEFC certified) OR digital versions offered without incentive	Printing on both sides of the page AND at least 50% recycled paper or paper produced using wood from sustainably-managed forests (FSC or PEFC certified) AND digital versions offered without incentive	Previous criteria AND Digital versions offered with incentive.
Mailings and advertising inserts	No environmental clause and no reduction scheme	Barely-restrictive environmental clause (applied randomly to certain documents)	Recycled paper or demanding environmental clauses systematically applied OR Customer given the option to decline mailings and inserts	Recycled paper or demanding environmental clauses systematically applied AND Customer given the option to decline mailings and inserts

Where outsourcing is used, the supplier specification must be evaluated.

V.2. Rating Cat.2 SRI

The category of challenges used to evaluate Socially Responsible Investment is itself sub-divided into 4 groups.

Nature of the funds	Sector / Country Allocation	Extrafinancial Screen (selection of financed organizations)	Governance (Organizational incentives)
A	B	C	D
Equities Large & mid cap.	Sector	Listed companies	Shareholder commitment
Equities Small cap.	Sector	Listed companies	Shareholder commitment
Equities Micro & Nano cap. Private equity	Sector	Listed companies	Shareholder commitment
Equities & holdings Property & real estate investment	Sector	Property investment	Shareholder commitment
Asset class			
Loans & Bonds			
Government bonds / Monetary funds		Governments / Local authorities	
Local authority/ municipal bonds		Governments / Local authorities	
Project financing	Sector	Country	Projects
Corporate bonds	Sector		Listed companies
Loans to SMEs	Sector		Loans to SMEs
Loans to orgs. promoting the general interest	Sector		Loans to assoc.
Loans to professionals	Type of loan		Prof. loans Personal loans
Personal loans	Type of loan	Products	Prof. loans Personal loans

These 4 groups are referred to as A, B, C and D for the remainder of this document.

- Group A: type of fund
- Group B: sector/country of allocation
- Group C: extrafinancial screen
- Group D: governance.

V.2.1. Weighting of cat.2 SRI

The weighting applied to each of these rating elements is determined in relation to the others using a sliding weighting scaleⁱⁱⁱ.

Group A rating = A' (A rating x 1)

Group B rating = B' (B rating x B weighting), etc.

The weighting applied to each group incorporates the rating for the previous group.

The weighting applied to B is 1-A'

The weighting applied to C is 1-(A'+ B')

The weighting applied to D is 1-(A'+B'+C')

The weighting factors therefore make it possible for all asset classes to achieve the maximum rating. For example, a Large Cap share in a high-risk sector that achieves an excellent result after application of the extrafinancial screen will be highly-rated, because the filter ratio (group C) will be high.

Examples of ratings

Example 1: SRI equity fund

A – Type of fund: large & mid caps

B – Sector allocation: sectors funded: all => neutral rating

C - Extrafinancial screen: high

D - Governance: formal voting policy but with low commitment to environmental and social issues.

A = 0.35

B = 0.1

C = 0.8

D = 0.2

$$\boxed{\text{Example 1} = 0.35 + 0.1 \times (1-0.35) + 0.8 \times (1-0.35-0.065) + 0.2 \times (1-0.35-0.065-0.468)}$$

The weighting of 1 is applied to the "type of fund" rating, which is 0.35. The weighting then applied to the sector allocation rating is 1-0.35, i.e. 0.65, and so on.

	Type of fund	Sector allocation	Extrafinancial screen	Governance	
Gross rating per criterion	0.35	0.1	0.8	0.2	
Weighting	1	0.65	0.585	0.117	
Net rating	0.35	0.065	0.468	0.0234	0.9064

Example 2: CleanTech Private Equity

A - Type of fund: Private Equity

B – Sector allocation: positive

C - Extrafinancial screen: none

D - Governance: no particular practice observed.

A = 0.5

B = 0.9

C = 0

D = 0

$$\boxed{\text{Example 2} = 0.5 + 0.9 \times (1-0.5) + 0 \times (1-0.5-0.45) + 0 \times (1-0.5-0.45-0.05)}$$

	Type of fund	Sector allocation	Extrafinancial screen	Governance	
Gross rating per criterion	0.5	0.9	0	0	
Weighting	0.5	0.5	0.05	0.05	
Net rating	0.5	0.45	0	0	0.9500

The gross rating per criterion has been calculated and refined by calibrating the system using 50 standard products.

Examples:

- The gross ratings per criterion for a project funding package in a high-risk sector and high-risk country put the product at the lower limit.
- The gross ratings per criterion for an equity fund investing in positive sectors and with an SRI screen put the product at the upper limit.



V.2.2. Group A: type of fund^{iv}

This criterion is used to evaluate the bank's contribution to funding the economy. The investment will be assessed more positively if it is targeted at smaller companies.

On the one hand, smaller companies find it more difficult to secure funding than large companies. The sustainable development savings account (Livret de Développement Durable), a regulated savings product where the money invested is used to fund SMEs, is designed partly to offset this situation through tax breaks and a higher interest rate. On the other hand, they often have close local associations, and contribute to the growth and dynamism of the local economy. The majority of the French workforce works in companies employing fewer than 100 people (55.2% in 2006⁴). The majority of new jobs created in recent years have been in these small and medium-sized companies: 55% of all new jobs created in 2006 were in businesses employing between 10 and 99 people⁵.

The importance of providing funding and support for small companies is not unique to France. In the USA, the *Small Business Act* of 1953 recognizes not only the essential role played in the American economy by small businesses, but also their social role: re-employment of Second World War and Korean War veterans, bringing women into the workplace, etc. The *Community Reinvestment Act* is designed to encourage the fair distribution of loans to all communities within a given area. Here again, US legislation underlines the social and economic importance of local investment.

Rating table:

Level	Neutral (0.35)	Average (0.4)	Positive (0.45)	Very positive (0.5)
Justification	The investment funds economic growth	The investment funds economic growth, with the emphasis on small listed companies and high-risk projects with a major local impact	The investment funds economic growth, with the emphasis on businesses involved in local economic growth and expenditure on projects beneficial to the general interest	The investment funds economic growth with the emphasis on sectors with restricted access to financial markets
Equity investment (high risk)	Large & Mid Cap equities (> \$10 billion)	Small Cap equities (\$2-10 billion) Investment in real estate and land		Micro & Nano Cap equities (< \$2 billion) Private equity holdings
Debt funding (moderate risk)	Loans to major corporates (LC & MC) Corporate bonds Government bonds/Monetary funds	Project funding	Local authority/municipal bonds Personal loans	Loans to SMEs Loans to Professionals Loans to organizations promoting the general interest

⁴ UNEDIC (the French national unemployment insurance scheme) statistics at December 31, 2006:

<http://info.assedic.fr/unistatis/travail/documents/statan06.pdf>

⁵ As above.

Funds converted to personal loans:

Where funds are converted to loans, we examine not only the funded entity, but also the nature of the loan granted. In practice, some products expose customers to a high risk of overindebtedness, whilst others encourage access to the banking system. The nature of the loan may impose a significant risk on the financial and social stability of households and national economies, as has been recently demonstrated by the subprime crisis.

Level	At risk (-0.75)	Average (0.2)	Positive (0.4)	Very positive (0.95)
Justifications	High-risk loans to vulnerable groups	Significant-risk loans to vulnerable groups	Moderate-risk loans	Loans making a positive contribution to encouraging access to the banking system
Type of loan	Revolving credit Subprime lending	Variable rate	Fixed rate	Microcredit

V.2.3. Group B: sector/country allocation

The investment is seen in the context of the business sector in which it is made, and (where projects are concerned) the country in which it is made.

"High-risk" sectors are those identified as such by the international NGO network BankTrack in its *Mind the Gap* report of December 2007⁶. They have been identified on the basis of their high potential impact on 7 challenges identified as key by the survey: biodiversity, climate change, human rights, indigenous peoples, labor, taxation and toxics.

The positive sectors have been selected as such either because of the tax and/or regulatory incentives offered in France to encourage inward investment in these sectors (e.g.: Livret A savings and social housing) or because activity in these sectors include intrinsic environmental and social considerations. Those sectors included in this second category have been selected mainly on the basis of the Novethic survey of green funds⁷.



Sector table^v

High-risk sectors (-0.55)	Neutral sectors (0.1)	Positive sectors (0.3)	Very positive sectors (0.9)
<ul style="list-style-type: none"> • Military industry and arms trade • Agriculture • Dams • Fisheries • Forestry • Mining • Oil and gas 	<ul style="list-style-type: none"> • All except those listed elsewhere • Biomass (except the exemplary projects detailed in list of very positive sectors) • Non-specific loans and auto loans 	<ul style="list-style-type: none"> • Real estate loans • Residential real estate 	<ul style="list-style-type: none"> • Clean energy and green technologies: Wind power, solar power, water power, biomass not using foodstuffs and/or increasing the pressure on arable land (e.g.: methane production from agricultural and urban waste) and energy efficiency (measurement, insulation, etc.) • Social entrepreneurship and associations: employment opportunities and job creation, ecology, culture, North-South cooperation, training/education, fair trade and organic agriculture • Social housing

⁶ Report available at: <http://www.banktrack.org/>

⁷ The new territories of SRI: Green Investments with claims to SRI, Novethic surveys, October 2007. This survey is available at <http://www.novethic.fr/novethic/site/novethic/nov-etudes-investment-socialement-responsable-isr.jsp>

Country table:

This table has been prepared on the basis of the following indicators:

- World Bank index of national governance, as reported in *Governance Matters III: Governance Indicators for 1996-2002*, by Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi⁸
- Transparency International corruption index: *2007 Transparency International Corruption Perceptions Index*⁹
- Freedom House index of civil and political rights¹⁰

Using these indicators at the starting point, each country is awarded a rating of between 1 and 3. Countries rated at 3 are considered to have low exposure, those between 2 and 3 to have medium exposure and those of 2 below to have high exposure.



This table is used only for the purposes of project funding, where it is possible to identify clearly the country that will benefit from the project.^{vi}

Countries with high exposure (-0.75)	Countries with medium exposure (0.1)	Countries with low exposure (0.4)
Afghanistan, Albania, Algeria, Angola, Antigua and Barbuda, Armenia, Azerbaijan, Bangladesh, Belarus, Bolivia, Bosnia-Herzegovina, Burkina Faso, Burma, Burundi, Cambodia, Cameroon, Central African Republic, Chad, China, Comoros, Congo (Brazzaville), Congo (Kinshasa), Côte d'Ivoire, Cuba, Djibouti, Ecuador, Egypt, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Guatemala, Guinea, Guinea-Bissau, Haiti, Honduras, Iran, Iraq, Kazakhstan, Kenya, Kyrgyzstan, Laos, Lebanon, Liberia, Libya, Macedonia, Madagascar, Malawi, Maldives, Mauritania, Micronesia, Moldova, Mozambique, Nepal, Nicaragua, Niger, North Korea, Oman, Pakistan, Papua New Guinea, Paraguay, Philippines, Qatar, Russia, Rwanda, Saudi Arabia, Sierra Leone, Solomon Islands, Somalia, Sri Lanka, Sudan, Swaziland, Syria, Tajikistan, Tanzania, Thailand, Gambia, Togo, Tonga, Tunisia, Turkmenistan, Uganda, Uzbekistan, Venezuela, Vietnam, Yemen, Zambia, Zimbabwe	Argentina, Bahrain, Belize, Benin, Bhutan, Botswana, Brazil, Brunei, Bulgaria, Cape Verde, Colombia, Costa Rica, Croatia, Cyprus, Czech Republic, Dominica, Dominican Republic, East Timor, El Salvador, Estonia, Fiji, Georgia, Ghana, Greece, Grenada, Guyana, Hungary, India, Indonesia, Israel, Italy, Jamaica, Jordan, Kiribati, Kuwait, Latvia, Lesotho, Lithuania, Macao, Malaysia, Mali, Malta, Marshall Islands, Mauritius, Mexico, Mongolia, Morocco, Namibia, Panama, Peru, Poland, Portugal, Romania, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and Grenadines, Samoa, Sao Tome and Principe, Senegal, Serbia and Montenegro, Seychelles, Singapore, Slovakia, Slovenia, South Africa, South Korea, Suriname, Taiwan, Trinidad and Tobago, Turkey, Ukraine, United Arab Emirates, Uruguay, Vanuatu	Andorra, Australia, Austria, Bahamas, Barbados, Belgium, Canada, Chile, Denmark, Finland, France, Germany, Hong Kong, Iceland, Ireland, Japan, Liechtenstein, Luxembourg, Monaco, Nauru, Netherlands, New Zealand, Norway, Palau, San Marino, Spain, Sweden, Switzerland, Tuvalu, United Kingdom, United States

V.2.4. Group C: the extrafinancial screen

This criterion is used to rate the quality and degree of stringency of the extrafinancial screens used by managers.

The scales are derived from a number of different sources:

- The criteria adopted by Novethic for its classification of SRI funds, as described on its web site^{11vii}
- Novethic survey of SRI and fixed-income securities: *The new territories of SRI: where now for SRI policy on fixed-income securities?*, published February 2007
- Criteria published by the CIES (the French Inter-Union committee on Employee Savings)
- Finansol accreditation criteria¹²
- *Guide to social analysis organizations* published by the ORSE, EPE and ADEME
- Analysis of questionnaires used by the leading extrafinancial ratings agencies (SAM, Vigeo, EIRIS, etc.)
- *Handbook on Responsible Investment across Asset Classes* survey conducted by the Boston College Institute for Responsible Investment¹³

⁸ http://papers.ssrn.com/sol3/papers.cfm?abstract_id=405841

⁹ http://www.transparency.org/policy_research/surveys_indices/cpi

¹⁰ <http://www.freedomhouse.org/template.cfm?page=365&year=2007>

¹¹ http://www.novethic.fr/novethic/site/placements/methodo_fe.jsp

¹² www.finansol.org

¹³ Available at: <http://www.bcccc.net/index.cfm?fuseaction=document.showDocumentByID&nodeID=1&DocumentID=1170>

Some of these tables also reflect the outcome of discussions held with Steve Lydenberg, Chief Investment Officer of Domini Social Investments, and Laura Donovan, former Institutional Relations Manager at Storebrand Investments.

The screens differ slightly, depending on whether they are applied to a company, country, local authority, project or loans.

All the sub-criteria (the aspects of sustainable development addressed by the screen, the adaptation of analytical frameworks to suit individual sectors, the incorporation of company performance data, etc.) are essential components for reliable extrafinancial screens. This is the reason why the sub-criteria are used in combination. Failure to apply any one sub-criterion therefore produces a zero rating for the entire screen.

This approach has been adopted in order to ensure consistency by, for example, making it impossible to construct a strict methodology and screen that has little impact on fund content (zero or little selectivity).

The extrafinancial screen rating tables contain a number of sub-criteria, which vary depending on the type of fund. This is the reason why there are 5 sub-criteria for companies, but only 3 for countries. Nevertheless, a very effective screen, whether for countries or companies, should result in the same rating. This is why the weighting (shown in brackets) varies depending on the number of criteria examined.

Examples

Very good company screen: $0.956 \times 0.956 \times 0.956 \times 0.956 \times 0.956 = 0.8$

Very good country screen: $0.93 \times 0.93 \times 0.93 = 0.8$



Listed companies table^{viii}

The criteria are combined.

Criterion	Not applied (0)	Average (0.73)	Good (0.83)	Very good (0.956)
Aspects of SD addressed	Financial criteria only	<ul style="list-style-type: none"> The extrafinancial criteria focus exclusively on issues relating to the direct interest of the shareholder The interests of other stakeholders are addressed only in terms of seeking financial stability and ensuring the company's long-term future. <p>e.g.: Funds indexed against a corporate governance rating</p>	<ul style="list-style-type: none"> The extrafinancial criteria are focused on issues related to sustainable development or a group of stakeholders. Multiple areas of sustainable development are not addressed. <p>e.g.: Funds indexed against a company environment rating</p>	<ul style="list-style-type: none"> The extrafinancial criteria address the majority of sustainable development issues. <p>e.g.: Funds indexed against a full company SD rating</p>
Incorporation of sector challenges		<ul style="list-style-type: none"> The evaluation criteria are identical for all sectors. <p>e.g.: funds based on signature of the Global Compact</p>	<ul style="list-style-type: none"> Sector criteria are applied only to selected high-risk sectors OR Sector criteria-based ratings represent a very small proportion of the final rating (e.g.: less than a quarter of the rating relates to challenges significant to the sector). <p>e.g.: Funds with special criteria applying only to the Mining sector</p>	<ul style="list-style-type: none"> Each sector has a specific table addressing the key challenges AND Sector criteria-based ratings represent a significant proportion of the final rating.
Incorporation of company performance		<p>Rating based on the sector in which the company operates AND/OR its geographical location AND/OR The existence of public commitments</p> <p>e.g.: Funds based on the exclusion of weapons companies</p>	<ul style="list-style-type: none"> Rating addressing the relevance of policies and their implementation via dedicated management systems However, the process of incorporating actual performance is limited to a few aspects that are unrepresentative of the company's overall performance relative to the challenges concerned. <p>e.g.: Funds based on the multiple-choice questionnaire rating of companies</p>	<ul style="list-style-type: none"> Rating addressing the relevance of policies and their implementation via dedicated management systems And a significant part of the rating is based on actual evaluation of process and product performance <p>e.g.: Funds based on company rating followed by benchmarking of the results obtained for the key aspects</p>
Resources used for company rating		<ul style="list-style-type: none"> Rating based on analyzing the documents published by the company But: <ul style="list-style-type: none"> No detailed discussion entered into as a matter of course with the companies evaluated No significant cross-referencing of data with external sources 	<ul style="list-style-type: none"> Rating always based on the response to a multi-choice questionnaire and/or meetings with management But no systematic and significant gathering of external data concerning the practices of the rated company 	Rating always based on: <ul style="list-style-type: none"> Detailed discussion with the management of the rated companies Cross-referencing of information with external sources
Selectivity ratio	SRI monitoring with no impact on funds	<p>The extrafinancial screen filters out only the worst-rated companies (e.g.: 10% of companies or companies rated at below one-third of the sector best)</p> <p>OR</p> <p>Excellent financial criteria or status as part of a business sector where it is possible to under-weight the importance of the extrafinancial criteria.</p>	<p>The extrafinancial screen filters out between 50% and 70% of the initial total of companies</p> <p>AND</p> <p>The extrafinancial criteria outweigh or prevail over the financial criteria</p> <p>e.g.: an un-rated or neutral-rated company may be retained.</p>	<p>The extrafinancial screen filters out over 70% of the initial total of companies</p> <p>AND</p> <p>The extrafinancial criteria prevail over the financial criteria.</p> <p>A very good financial case may not make up for a poor extrafinancial rating, although an excellent extrafinancial case may make up for a neutral or precarious financial rating.</p>

N.B.: This table was designed for listed companies, but may equally be used for private equity investments. It then becomes slightly more demanding, although this effect is reduced by the sliding weighting scale, which gives a lower weighting to the extrafinancial screen for private equity investments.

!

Table for national governments and local authorities^{ix}

SRI policies are much less well-advanced for fixed-income securities, but research is being done in this area. The Novethic survey emphasizes that "The range of SRI-based fixed-income securities (excluding diversified funds) has (...) grown considerably in France to the point where it accounted for over 30% of all SRI assets at the end of 2006. At the end of 2003, the figure was barely 15%. The amount invested has grown by 720 million to 3.6 billion"¹⁴.

Given the importance of bonds in French savings, and the rise of SRI, the methodology must offer an analytical table, although no industry consensus has yet emerged.

The following table is based mainly on the Novethic survey into the range of current practices, and on the Institute for Responsible Investment survey, *Handbook on Responsible Investment across Asset Classes*.

The criteria are combined.

Criterion	Not applied (0)	Average (0.585)	Good (0.735)	Very good (0.93)
Aspects of SD addressed	<ul style="list-style-type: none"> Table based on credit risk only direct interest of the borrower (stability) The interests of other stakeholders are addressed only in terms of the central and local government quest for macroeconomic balance and political stability. The criteria are applied uniformly. e.g.: G7 member states, rating related to national governance (corruption, transparency, etc.) 	<ul style="list-style-type: none"> The extrafinancial criteria focus exclusively on issues relating to the direct interest of the borrower (stability) The interests of other stakeholders are addressed only in terms of the central and local government quest for macroeconomic balance and political stability. The criteria are applied uniformly. e.g.: G7 member states, rating related to national governance (corruption, transparency, etc.) 	<ul style="list-style-type: none"> Some extrafinancial criteria related to sustainable development are taken into account. BUT the analytical table does not take account of national features and/or the relevance of individual challenges to individual countries. <p>e.g.: Countries that have signed certain conventions, HDI level, percentage of GDP applied to healthcare, etc.</p>	<ul style="list-style-type: none"> The extrafinancial criteria address the majority of sustainable development issues (at least one environmental indicator, one social indicator or public interest indicator and one governance indicator). AND the criteria adopted or their desired level are selected with reference to the stage of economic development reached by the country and its specific features.
Incorporation of governmental performance and implementation resources	<ul style="list-style-type: none"> Rating based on the existence of formal public commitments (Kyoto protocol, Global Compact, etc.) or membership of an international organization, grouping, etc. <p>e.g.: Funds based on the exclusion of countries yet to sign the Kyoto Protocol and local authorities with no Agenda 21 commitment</p>	<ul style="list-style-type: none"> Rating based on the existence of formal public commitments (Kyoto protocol, Global Compact, etc.) or membership of an international organization, grouping, etc. <p>e.g.: Funds based on the exclusion of countries yet to sign the Kyoto Protocol and local authorities with no Agenda 21 commitment</p>	<ul style="list-style-type: none"> Rating based on the existence of public commitments or membership of an international organization or grouping AND on the resources implemented to ensure delivery of these commitments (budgets, communication about follow-up and monitoring, etc.) OR on the level of social and environmental indicators However, the process of incorporating actual performance is limited to few aspects, not representative of the overall performance of the central government or local authority e.g.: OECD country and healthcare budget above x% of GDP. 	<ul style="list-style-type: none"> A rating that takes account of the resources allocated to delivering of public commitments and sustainable development And a significant part of the rating is based on actual evaluation of performance of the central government or local authority and public policies via a set of indicators collected from a range of information sources (NGOs, free databases, government documents, requested ratings, etc.)
Selectivity	<p>The screen only monitors, and has no direct impact on the bonds selected.</p>	<p>The screen is used to choose between bonds of the same Investment Grade rating.</p>	<p>The screen is a tool to help in the diversification of bonds based on CSR criteria within different Investment Grade ratings (e.g.: emerging country bonds selected on the basis of CSR indicators).</p>	

¹⁴ Novethic survey of February 2007: "The new territories of SRI: where now for SRI policy on fixed-income securities?", p.3.



Real estate investment table^x

As was highlighted by the *Grenelle de l'environnement* (the French President's multi-party environmental debate between government and public and private organizations), the construction sector (residential and commercial) is the source of nearly a quarter of all CO2 emissions in France,¹⁵ and has a significant impact on quality of life (environmentally and socially). Nevertheless, the roles and responsibilities of the various parties (developers, construction companies, investors, occupants, etc.) are intertwined, making it difficult to ensure responsible investment in the real estate market.

The *Construire Durable : une question d'énergie et de financement* (Sustainable Construction: a question of energy and funding) survey conducted jointly by Novethic and the ADEME and published in May 2007 makes the case for an in-depth analysis of what could be termed "responsible investment" in real estate, and offers some examples of best practice.

In the USA, where this issue is the focus of many working groups and much research work, the Responsible Property Investing Center (RPIC) published its first information newsletter *Responsible Property Investing: defining the field* in the Fall of 2007. A second newsletter to be published this summer will address the problem of defining the indicators and measurement systems required to measure responsible real estate investment.

The best practices examined in building this table include the Morley Igloo Fund and the dedicated PRUPIM Fund from the UK.¹⁶

The criteria are combined.

Criteria	Not applied (0)	Average (0.585)	Good (0.735)	Very good (0.93)
SD criteria addressed		The extrafinancial criteria addressed focus exclusively on issues relating to the direct interest of the owner. e.g.: building lifespan.	The extrafinancial criteria are focused on issues related to sustainable development or a group of stakeholders, but exclude some major issues. e.g.: addressing building energy performance, but ignoring the challenges of social mix.	The extrafinancial criteria address the majority of sustainable development issues (social, societal, financial, environmental challenges, etc.). e.g.: Addressing building financial and ecological performance, durable urban planning, etc.
Resources used to value real estate assets		Systematic request for proof of regulatory compliance, but no more.	Only one source of information is used, but not checked. e.g.: extrafinancial ratings of companies (developers, construction companies, etc.) OR building certification.	Cross-referencing of external ratings and in-house reference bases AND regular audits (every year or every 2 years)
Selectivity of the criteria used to identify assets eligible for inclusion in the fund		Building performance monitoring. Negative screening of new assets (to exclude less sustainable buildings).	Less stringent positive or negative screening of buildings joining the portfolio. Overall progress targets set for part of the portfolio.	Stringent positive screening of buildings joining the portfolio. Overall progress targets set for the rest of the portfolio AND ambitious (dated and quantified) building performance improvement targets for part (10%) of the portfolio. e.g.: reducing consumption by x% within 3 years, etc.

¹⁵ Summary of the *Amélioration du parc de logements existants* (Improving our current housing stock) report published by the French Ministries of State, Ecology, Sustainable Development and Planning, September 2007.

¹⁶ To find out more about the PRUPIM portfolio and/or the Morley Igloo, please refer to the *Construire Durable : une question d'énergie et de financement* survey published by Novethic and the ADEME.



Project table^{xi}

Projects include project funding where this requires the formation of project companies, and loans granted to local authorities and companies for a pre-defined purpose (renovation of school, infrastructure development projects, etc.).

This table is based freely on the Equator Principles, which apply only to very large projects in the most sensitive sectors.

The criteria are combined.

Criterion	Not applied (0)	Average (0.67)	Good (0.795)	Very good (0.945)
Aspects of SD addressed		<ul style="list-style-type: none"> The extrafinancial criteria focus exclusively on issues relating to the direct interest of finance providers 	<ul style="list-style-type: none"> The extrafinancial criteria are focused on issues related to sustainable development or a group of stakeholders. OR the extrafinancial criteria address the majority of SD issues, but only where the project budget is over \$10 million (Equator Principles). 	<ul style="list-style-type: none"> The extrafinancial criteria address the majority of sustainable development issues, regardless of project value.
Incorporation of sector challenges		<ul style="list-style-type: none"> The evaluation criteria are identical for all sectors. 	<ul style="list-style-type: none"> Sector criteria are applied only to selected high-risk sectors 	<ul style="list-style-type: none"> The rating table varies from project-to-project, and is based on World Bank or IFC guidelines
Incorporation of project participant performance and implementation resources		<p>Rating based On sector and project location OR On the existence of public commitments made by the leading companies. Rating based on analyzing the documents published by the project company</p>	<ul style="list-style-type: none"> Rating addressing the relevance of policies and their implementation via dedicated management systems But the rating is not based on a detailed audit No overall action plan. 	<ul style="list-style-type: none"> Published overall action And the relevance of this action plan and its implementation via existing dedicated management systems is reviewed by an independent expert AND the overall action plan has been published AND there is independent expert monitoring and reporting. Reports are published.
Project selectivity		<p>The screen only monitors, and has no direct impact on the projects funded</p>	<p>The screen is used to identify the environmental and social conditions to be complied with in order to secure funding, but there are no long-term controls in place.</p>	<p>Too low a rating results in the systematic rejection of the project as it stands, regardless of the projected return.</p>

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Table for personal and professional loans^{xii}

This table is based on the prior benchmarking of best practices. Eco-prêts™, the comparator created by the ADEME and Testé pour Vous, has also been analyzed.

Criterion	Negative screen (-0.5)	Not applied (0)	Average (0.2)	Good (0.4)	Very good (0.8)
Evaluation of the benefits offered: incorporating the performance of the asset acquired in the process of defining the loan offer	<ul style="list-style-type: none"> Promotional offer directly related to the purchase of polluting goods 	<ul style="list-style-type: none"> Offer based on credit risk alone 	<ul style="list-style-type: none"> A small incentive (e.g. no administration fee) is sometimes offered by the bank for the purchase of goods recognized to be less polluting than the average (category A or B vehicle, HQE compliant building, etc.) BUT <ul style="list-style-type: none"> no systematic procedure No impact on the offer 	<ul style="list-style-type: none"> A small incentive is ALWAYS offered for the purchase of goods recognized to be less polluting than the average (category A or B vehicle, HQE compliant building, etc.) BUT no impact on the offer 	<ul style="list-style-type: none"> Reduced interest rate for the purchase of goods recognized to be less polluting (x% lower than traditional loans) OR A life-cycle cost procedure is used to calculate the total amount of the loan (taking account of the savings delivered by the green benefits of the goods purchased) OR An incentive proportional to the ecological benefits (e.g.: interest rate reduced by 0.05% for ecological loans, and by 0.1% for loans intended to fund exemplary projects, such as energy-positive homes)

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Table for loans to SMEs^{xiii}

The criteria are combined.

Criteria	Not applied (0)	Average (0.45)	Good (0.635)	Very good (0.894)
Incorporation of extrafinancial criteria by the company when granting the loan	The extrafinancial criteria are not taken into account	<ul style="list-style-type: none"> The extrafinancial criteria are taken into account at the margins to guarantee the quality of the products sold and ensure consumer satisfaction The interests of other stakeholders are addressed only inasmuch as they contribute to the future of the company <p>e.g.: customer and supplier loyalty measurement</p>	<ul style="list-style-type: none"> Some extrafinancial criteria are taken into account, especially where the challenges are high (regulatory pressure, pressures imposed by customers or neighbors). <p>e.g.: managing noise around a manufacturing plant and maintaining a dialogue with local bodies.</p>	<ul style="list-style-type: none"> The company seems to address sustainable development issues in its long-term targets and strategy. <p>e.g.: the publication of annual customer and employee satisfaction surveys, energy saving plans, paper consumption reduction plans and purchasing policies that contain long-term targets.</p>
Level of incentive given by the bank to the most responsible companies	Offer based on credit risk alone	<ul style="list-style-type: none"> A small incentive (e.g. no administration fee) is sometimes offered by the bank for investments that promote social or environmental interests (e.g. construction of HQE compliant buildings, etc.) <p>BUT</p> <ul style="list-style-type: none"> no systematic procedure No impact on the offer of credit 	<ul style="list-style-type: none"> The bank always offers a small incentive (e.g. no administration fee) for investments relating to environmental protection, adapting workstations for use by disabled staff, etc. <p>BUT</p> <ul style="list-style-type: none"> No impact on the offer (interest rate or amount) 	<ul style="list-style-type: none"> Preferential rates granted on the basis of sustainable development criteria substantiated in writing (number of jobs created, energy savings made, etc.). OR a life-cycle cost procedure is applied in calculating the offer AND the bank plays a role in advising on the long-term management of the company

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Table for loans to associations^{xiv}

	Not applied (0)	Average (0.2)	Good (0.4)	Very good (0.8)
Bank incentive level	Offer based on credit risk alone	<ul style="list-style-type: none"> A small incentive (e.g. no administration fee) is sometimes offered by the bank for investments that promote social or environmental interests (e.g. construction of HQE compliant buildings, etc.) <p>BUT</p> <ul style="list-style-type: none"> • no systematic procedure • No impact on the offer of credit 	<ul style="list-style-type: none"> The bank always offers a small incentive (e.g. no administration fee) for investments relating to environmental protection, adapting workstations for use by disabled staff, etc. <p>BUT</p> <ul style="list-style-type: none"> • No impact on the offer (interest rate or amount) 	<ul style="list-style-type: none"> • Preferential rates granted on the basis of sustainable development criteria substantiated in writing (number of jobs created, energy savings made, etc.). • OR a life-cycle cost procedure is applied in calculating the offer • AND the bank plays a role in advising on the long-term management of the organization

V.2.5. Group D: governance and voting policy in relation to CSR issues

This criterion applied on to equity investments and holdings.

Not applied or not applicable?

In order to avoid penalizing entities that do not have this extra route to improving their performance (loans, bonds, etc.), they are attributed the 0.1 rating, which corresponds to category NA (not applicable).

On the other hand, if this option does exist but is not used, then the rating is 0 (not applied).

Governance is evaluated on the basis of the formal structure and transparency of the voting policy, the sustainable development issues addressed and the resources committed.

The rating calculation has been constructed on the basis of:

- the practices set out in the ORSE (Study Center for Corporate Social Responsibility) guide to social ratings agencies
- SRI policy evaluation sources (Novethic, Mistras, etc.)
- conversations with Steve Lydenberg, Chief Investment Officer of Domini Social Investments, and Laura Donovan, former Institutional Relations Manager at Storebrand Investments.

The voting policy formalization and transparency criterion accounts for 1/3 of the final rating, whilst the average of criteria 2 and 3 account for the remaining 2/3.

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Rating table for listed companies^{xv}

In France, management companies are currently obliged to exercise the voting rights they hold in the mutual funds they manage *"solely in the interest of the holders of shares or units in these mutual funds"*, and are further obliged to *"report on their voting rights practices in accordance with the conditions imposed by the General Regulations of the 'AMF'"* (the French market regulator)¹⁷. It is specifically stated that where management companies do not exercise these voting, *"they must explain their reasons to mutual fund share holders and unit holders"*. Articles 332-75 and subsequent of the AMF General Regulations oblige the management company to produce a formal voting policy document setting out the conditions under which it intends to exercise its voting rights, and an annual

¹⁷ Cf. press release of June 2, 2005 "The AMF clarifies the conditions governing the application of the provisions contained in its General Regulations regarding the exercise of voting rights by management companies" and the summary of the Voting Policies and Exercise of Voting Rights Practices of Management Companies in 2005 survey published in the monthly review of the Autorité des Marchés Financiers issue 34, March 2007

report stating the conditions under which it has exercised its voting rights.

This table is therefore particularly well suited to mutual fund management companies.

Criterion	Not applied (0)	Average (0.2 for criterion 1; 0.45 for criteria 2 and 3)	Good (0.4 for criterion 1; 0.64 for criteria 2 and 3)	Very good (0.8 for criterion 1; 0.9 pour criteria 2 and 3)
1. Voting policy: formalization and transparency	N/A	<ul style="list-style-type: none"> There is a formal document setting out the general guidelines (e.g.: we evaluate all challenges on a case-by-case basis, we vote in the best interest of shareholders, etc.) BUT not sufficiently precise to provide significant guidance for actual practices. 	<ul style="list-style-type: none"> There is a formal document setting out specific guidelines in relation to most issues, and general guidelines in relation to CSR issues <p>Mutual fund management companies make this document available via the Internet</p>	<ul style="list-style-type: none"> There is a formal document setting out specific guidelines in relation to most issues, including CSR issues¹⁸., AND (for mutual fund management companies) clarifications of the scope (thresholds, geographical limits, etc.) and systematic application of these guidelines AND publication of this document in the web site in such a way as to ensure ease of access.
2. Voting policy: Aspects of SD addressed	N/A	<ul style="list-style-type: none"> The extrafinancial criteria addressed in guiding voting are either defined OR focus principally on issues relating to the direct interest of the shareholder (impact on share value, risk to company image, etc.) The interests of other stakeholders are addressed only in terms of seeking financial stability and ensuring the company's long-term future. 	<ul style="list-style-type: none"> The extrafinancial criteria are specified, but are focused on issues related to sustainable development or a stakeholder group other than shareholders (e.g. impact on biodiversity). Multiple areas of sustainable development are not addressed. 	<ul style="list-style-type: none"> The extrafinancial criteria are specified and address the majority of sustainable development issues.
3. Commitment resources: the use made of the vote and recommendations to companies	N/A	<ul style="list-style-type: none"> Systematic use made of voting rights within the scope defined AND commitment to specific CSR-related challenges (e.g. analysis of the animal testing policy, but not a major incentive campaign to boost company growth), although the work involved is not very visible to shareholders 	<ul style="list-style-type: none"> Annual reporting to shareholders on how voting rights have been used (<i>a legal obligation in France</i>) AND visible participation in shareholder pacts regarding CSR issues in at least 10 companies or 10% of the portfolio OR major incentive campaigns designed to persuade companies to change their CSR practices 	<ul style="list-style-type: none"> Taking a leading role in negotiating with companies or in shareholder pacts regarding CSR issues OR Systematic commitment and recommendations to companies (over 10% of the portfolio) wishing to make progress on CSR issues, where the initiatives involved are highly visible to shareholders

V.3. Rating Cat.3 Customer incentives

This category of challenges evaluates the levels of incentives offered by the bank (other than legal incentives) to ensure that savings are used responsibly by the customer.

Currently, no savings product or bank offers such mechanisms. In its current state, this category is not applicable for the rating of savings products, but could be developed in a later version of the methodology, if these practices emerge.

e.g.: a mechanism offering a higher return if the savings concerned are used to fund the installation of insulation.

¹⁸ A sample voting policy with specific guidelines on the social and environmental responsibility challenges facing companies is available online at <http://www.domini.com/common/pdf/ProxyVotingGuidelines.pdf>

V.4. Rating Cat.4 Accessibility

This category of challenges highlights the actions taken by the bank, over and above its regulatory obligations, to facilitate access to its products for all customers. To achieve this, it seeks to identify any obstacles to such access and the groups of people concerned.

Products whose design explicitly includes a mechanism to support vulnerable groups will be rated positively on the accessibility criterion.

This requires:

- A problem in accessing the service concerned
- A product offering ease of access to the vulnerable group
- Measures implemented by the company over and above its regulatory obligations.

e.g.: the "debit card with customer-defined PIN" service will be rated positively in the accessibility category.

No socially-related (vulnerable group) access problem has been identified in respect of savings products. The *Livret A* savings account is a savings product accessible to all, with deposits and withdrawals subject to a minimum amount of only €1.50.

There are physical obstacles for unsighted and partially-sighted customers, especially in respect of contract documentation and account statements.

The criteria are combined.

Criteria	0	0.05	0.1	0.15	0.2
Specially-adapted documentation	No formal criterion is predefined.	No formal criterion is predefined.	A restricted number of documents have been adapted	The key documents enabling product operation and monitoring have been adapted.	All documents sent to customers have been adapted.
Resources and extent of the procedure	No formal criterion is predefined.	There are pilot projects, but nothing at Group level.	Solutions may be offered, but only at additional cost. OR the service is available only in a restricted number of branches (less than 50%)	Only one free solution is offered (e.g.: braille statements, but no synthesized voice service, etc.) AND The service is available in the majority of branches	Several adapted solutions are offered free of charge (Calls to the finance center, statements in braille or oversize print, etc.) AND Services are available at Group level.

V.5. Rating Cat.5 Solidarity

This category of challenges analyzes the redistribution of a proportion of bank (or customer) revenue to support public interest causes.

Donations and profit shares are evaluated on the basis of the social and environmental relevance of the projects concerned and organizations supported, as well as the extent of the solidarity mechanism (the proportion redistributed, frequency of redistribution, etc.). The methodology is based chiefly on the criteria applied by the Finansol labeling scheme, and on an analysis of existing practices.

N.B.:

The carbon offsetting projects supported by NGOs are not treated as solidarity initiatives^{xvi}.



Efforts must be focused primarily on reducing greenhouse gas emissions and combating deforestation, with offsetting becoming relevant only after major reductions efforts have been implemented.

This point may be reviewed in a future version of the methodology.

Sample rating table:

The criteria are combined.

Criteria	0	0.05	0.1	0.15	0.2
Selection of not-for-profit associations	No formal criterion is predefined.	The funds relate to a program managed by the company or one of its subsidiaries, with no formal policy in place to manage conflicts of interest. OR As long as the not-for-profit association is described as such, its purpose need not be specified.	Only those not-for-profit associations or foundations recognized as of public benefit or working in education, development aid, environmental protection, employment promotion or job creation are selected.	Level 2 + web-based publication of information concerning the operation of management and control bodies and the way in which funds are collected and allocated. AND at least 70% of resources are applied to the association's programs and missions.	Level 3 + targets set for the resources collected by the banking product and monitoring system.
Solidarity mechanism	No formal criterion is predefined.	The product structure facilitates donations or points sharing in the absence of any specific incentive mechanism implemented by the bank.	The solidarity mechanism can only be used once (when applying for the product, for example) and represents only a small amount (€1 or less than 1% of the cost of the product or savings deposit) AND the bank incentivizes the customer (reduced rate, contribution by the bank, etc.)	The solidarity mechanism enables an amount to be paid regularly to a selected association AND the bank is committed to promoting this product (commitment to the number of contracts, amounts under management, etc.)	The solidarity mechanism enables a large amount (at least 25% of savings income or 0.25% of card expenditure) to be paid AND the customer has the option to increase that amount. AND the bank contributes this sum OR offers a generous incentive (e.g.: higher savings rate for higher savings, cheaper rates on affinity cards, etc.)

VI. Assumptions and limitations of the methodology

On the life of the methodology

- The methodology must be adapted to reflect national best practices.
- It must be updated every year to incorporate any changes in these best practices and in the regulatory and/or legal frameworks.
- Wider consultation may result in changes to the weightings adopted by the project team.

On the implementation of the evaluation

- The methodology is based on written rules and practices believed to be stable. The correlation between these and actual operational practices is difficult to assess.
- Part of the evaluation is based on confidential data that may not be made public.
- Where SRI is very closely integrated with financial management, it may be difficult to determine the selection rate, and therefore to attribute a rating.

On the results

i Assumptions and limitations: evaluation of the rules (and not rating an observable event)

The methodology takes account only of the formalized rules, so any *de facto* allocation of responsible assets will not be evaluated. This approach may disadvantage highly-integrated informal procedures, but it will avoid a positive rating being attributed to opportunist management methods that may prove to be responsible only by chance.

This principle encourages the formalization of practices that may be widely used by some asset managers, but could disappear completely if the asset managers concerned leave the company.

It may however result in a difference between the rating (based on formalized management rules) and the reality of the funds concerned.

ii Assumptions and limitations: process design

The current methodology proposes the evaluation of only a small number of processes. Future developments may enable the inclusion of more criteria, with particular emphasis on the bank's responsibility for telemarketing and other outsourced processes. These issues may be addressed as part of adapting the methodology for individual services. The small number of savings fields covered does not affect the final result, since the weighting is very slight and the number of related best practices restricted.

iii Assumptions and limitations: SRI category rating and the selection of values

The values attributed to each situation have been refined on the basis of "pure" test cases (high-risk sector-specific funds, large caps, without screening; high-risk sector-specific funds with average screening; with stringent screening; positive sector-specific SME loan without screening, etc.), resulting in a gradual progression of the ratings.

Since the actual products are not as diverse as the test cases, the resulting ratings are more condensed.

Furthermore, the principles applied to the uprating or downrating of individual categories have been selected on the basis of objective issues, but the ratings themselves have been selected subjectively by the authors on the basis of existing international best practices; the ultimate aim being the ability to discriminate between savings products.

iv Assumptions and limitations: type of fund

Equities and government bonds.

The methodology adopted does not evaluate risk taking. Equities and bonds are not addressed by this criterion, since they are addressed in the Security section of the label.

Although public expenditure is intended in principle to contribute to the public interest, the methodology does not treat government funding as more virtuous than major corporate funding. There are several reasons for this:

- on the one hand, the methodology focuses on the size of the entities concerned. On the basis of this criterion, it is logical to evaluate large corporates and governments in the same way.
- on the other hand, public expenditure is also used to fund national borrowing, which allows for no distinction to be made between investment in education or in weapons.

Private Equity

In many instances, the social practices of Private Equity involve risk. However, Private Equity investments involving individuals are very few and far between at present, and relate chiefly to the *clean tech* industries that the methodology is required to evaluate. This point may be reviewed if such personal products were to develop significantly.

^v Assumptions and limitations : the sector-based approach

The sector-based approach has only a weak consensus internally. There are many reasons for this:

- On the one hand, the number of sectors is relatively small. They are most applicable to project funding, where the sector concerned is easily identifiable. Conversely, this criterion is difficult to apply to large corporates, which are likely to operate in many sectors.
- On the other hand, the majority of savings products do not include sector-based fund allocation rules.
- Lastly, the risks identified are rarely consistent across the entire sector, but tend to be concentrated at certain stages or in specific components. The classification does not offer this degree of targeting accuracy.
e.g.: all oil companies will be poorly rated as a matter of course, regardless of whether they market gasoline or have major involvement in drilling operations and pipeline construction, which pose a very high social and environmental risk.

^{vi} Assumptions and limitations: geographic considerations

Country evaluation criteria (corruption, governance, HDI) do not reflect the contribution made by the project to national economic development. This point will require very detailed investigation on a case-by-case basis for each project and each country, which the rule-based approach cannot accommodate.

Furthermore, this criterion does not apply to non-project investments. In practice, it may not be able to apply the concept of a geographical location for major corporates without conducting detailed on each company. Rating Total as a French company on the basis that its head office is in France would not make a great deal of sense, since this Group operates in so many regions worldwide.

Lastly, this screen cannot be applied to sovereign bonds, despite the fact that the issuing country is easily identified. To do so would be to favor the OECD countries that already account for the great majority of sovereign bonds included in products distributed to personal customers. The reasons for this are more to do with financial security than social and environmental responsibility.

^{vii} Assumptions and limitations: evaluation of the extrafinancial screens applied to the various asset classes

This evaluation was conducted using many different sources not directly related to Novethic, which is the acknowledged expert in this field. One of the directions for developing the methodology will be to harmonize the evaluation sub-criteria of the extrafinancial screens with those of Novethic.

^{viii} Assumptions and limitations: evaluation of extrafinancial screens and calculation methods

Currently, all the sub-criteria are combined, since each is an essential element in stability, and all must be able to interact simultaneously.

Since it is used to evaluate the impact of the screen on the actual contents of the assets concerned, the "selectivity rate" sub-criterion must take precedence to avoid the development of screens that work in theory, but do not impact effectively on the process of asset selection.

However, the diversity of the methodologies applied makes it difficult to evaluate this criterion objectively, quantitatively and systematically. Neither is this sub-criterion over-weighted at present.

Furthermore, the methodology does not enable the positive rating of "integrated" approaches, which make no distinction between financial and extrafinancial ratings and include extrafinancial criteria in their financial analyses.

^{ix} **Assumptions and limitations: extrafinancial screen and the table for national governments and local authorities**

This table is designed for the evaluation of bond-issuing entities, and not the purpose of the funding. It is therefore particularly well-suited to the evaluation of bonds issued to fund non-hypothesized government or local authority debt. For hypothesized bonds, it is better to use the "project" entry point.

A second methodological limitation is imposed by the stringency imposed by this table. In practical terms, the criteria required to achieve a very high level of screening are considerably more stringent and narrower than the criteria required to obtain an equivalent level for equities. That said, the use of a screen is less relevant for this asset type: on the one hand, the extrafinancial criteria are closely-linked to the financial criteria (political stability and economic stability go hand-in-hand); on the other hand, the incentive aspect (choosing between the bonds issued by the most responsible States) is much less important than for equities.

^x **Assumptions and limitations: extrafinancial screen and table for real estate investments**

One of the difficulties of sustainable real estate investment is the necessity to evaluate the various players involved as well as the buildings themselves, and to do so on the basis of a large number of criteria that can range from building energy performance to public transportation services, rent setting policy and tenant selection.

Since the methodology is based on principle of rules evaluation (rather than on-site factual information), it is difficult to enter the full diversity of indicators using generic categories. The methodology may develop as practices become more consistent.

^{xi} **Assumptions and limitations: extrafinancial screen and table for projects**

The analytical table of extrafinancial screens for projects must be able to be applied to project finance in the proper sense of the term (complex deals, formation of project companies, etc.) and to loans earmarked for specific purposes (e.g. school renovation, etc.), regardless of whether the project is being carried out in France or abroad.

The ideal solution would be the ability to evaluate project relevance and the value of the public benefit created (positive economic and social spinoffs, etc.) by each project. However, this analysis should be conducted on a case-by-case basis to incorporate local needs, the national regulatory framework and local development priorities. The methodology cannot currently offer a generic tool applicable to every project type and capable of linking any impact studies conducted with the extrafinancial criteria taken into account by the investor.

^{xii} **Assumptions and limitations: extrafinancial screen and table for personal loans**

The current methodology is based on savings products. This table is therefore intended to be used when deposits are converted into loans, as is the case with customer deposits. However, the current level of detail available on the conversion of customer deposits by type of loan is not sufficient to enable use of this table. Furthermore, the best practices observed have not yet enabled the construction of a more accurate system.

^{xiii} **Assumptions and limitations: extrafinancial screen and table for loans to SMEs**

This table has not been used in the rating of products. It is therefore highly theoretical and will undoubtedly be adapted at a future time.

^{xiv} **Assumptions and limitations: extrafinancial screen and table for loans to associations**

The same comments apply as for personal loans and loans to SMEs: the level of balance sheet detail and the absence of specific practices mean that it has not been possible to use these tables in the rating of products.

^{xv} **Assumptions and limitations: evaluating governance for Private Equity**

We have yet to bring together sufficient elements to create a Private Equity table capable of evaluating the sustainable development aspects of investor influence policy: the regulations concerning voting at general meetings of shareholders do not apply to non-shareholder investors, even though they can exert significant informal influence on decision-making and the choice of investments.

Most Private Equity investments will therefore receive a 0 rating using the table as currently proposed. However, as the rating example on page 8 shows, investments in positive sectors will not be penalized by this zero rating.

xvi **Solidarity and carbon offsetting**

This issue has been the subject of several discussions within the panel, which is keen to dispel the notion that carbon offsetting is a universal solution. The diversity of offsetting mechanisms and standards has been a strong argument in favor of excluding donations specific to offsetting projects from evaluation in the first version.

This position has been adopted following a vote taken amongst panel members.

Section III - CLIMATE labeling of products for personal customers

Initial methodological approach (V1, June 2008)



This methodology has been produced by the Groupe Caisse d'Epargne and the consultancy Utopies, with contributions from a stakeholder panel representing ADEME (the French Environment and Energy Management Agency), Friends of the Earth (France), Testé Pour Vous and the WWF.

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Panel members:

Mathieu Wellhoff on behalf of ADEME

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Olivier Eon on behalf of Testé Pour Vous

Cécile Ducrot-Lochard on behalf of WWF France

Groupe Caisse d'Epargne:

The Caisse d'Epargne is one of France's largest commercial banks. As a pioneer in introducing SRI funds and supporting research into Socially Responsible Investing, the Caisse d'Epargne set an objective in June 2007 of applying a sustainability label to all of its products targeted to individual consumers by the end of 2008. This commitment is part of the bank's Bénéfices Futur programme, and more specifically its Responsible Marketing and Climate components.

Contact: Marie-Christine Korniloff, Deputy Director, Sustainable Development and Public Interest, Caisse Nationale des Caisses d'Epargne.

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Utopies:

Founded in 1993, Utopies is France's leading consultancy in corporate social responsibility.

Utopies jointly developed the labeling methodology presented in this report and advised the Caisse d'Epargne on preparing and implementing the concept.

Stanislas Dupré, Véronique Cailliau, Jean-Luc Denis and Benjamin Enault contributed to the methodological work.

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Statement from the stakeholder panel on the methodology for banking products' labeling Paris, Wednesday June 18th 2008.

The first steps

One year ago, the Groupe Caisse d'Epargne asked for our participation in this project. We accepted as it held promises of innovation, and provided a framework for multistakeholder debates, aiming at a solid and visible objective.

For the ADEME this labeling project for banking products is an opportunity to improve the channeling of information to individuals so as to raise their awareness about the impact of their daily actions on climate change. For Friends of the Earth France, this world premiere is opening the way towards greater transparency of banks regarding their investments, notably towards individuals. The methodology developed also the first step towards a general evolution of banking products and services.

Testé pour Vous, who are particularly watchful of the various risks associated with each banking product, were interested in the wider approach put forward by the project.

Finally, WWF, a partner of the Group since 2003, recognized in this project the significance of the step taken.

For all stakeholders, making the methodology available to other banks is an essential component of the project: the efforts made must serve the whole banking sector.

Stakeholder engagement process

Our mission consisted in providing a fresh and external look at the project. Several methodologies were introduced to us along the project timeline. We were able to express our opinion regarding the directions to prioritize.

The main exchanges took place between July 2007 and April 2008, during a dozen meetings, in plenary session. We were sometimes called upon individually by phone or email. Our comments were heard by the project team, which took them into account when drafting the final version of the methodology. When full agreement could not be reached between us, we proceeded to vote and the outcome was always respected.

Practically speaking, we did not directly develop the methodology, but we were consulted at each stage of its development, in complete transparency. We had access to every document we asked for and every product-rating file, even though we did not systematically check the latter.

Our opinion on this first step

We fully endorse this version of the methodology, which should reach its first target: the raising of customer awareness. This version of the methodology is a good compromise between quick and easy implementation, methodological rigor and easy understanding by the bank's customers.

We are aware of the innovation brought through this pilot-project and we think that the various limits at this stage were well identified. Each of these limits is explained in the methodology, which suggest possible areas of improvements.

Next steps

The public release of the methodology applied to savings products is only a first step. We are expecting the Caisse d'Epargne to continue applying the methodology to other product ranges, to its subsidiaries, as well as to rollout the approach to its staff.

Moreover, we would like to invite other banks to join us in this adventure. We remain fully available to handle the evolution of the methodology, and accompany the process.

Cécile Ducrot-Lochard, Senior Development
Manager
Foundation WWF-France

Sébastien Godinot, Financial players campaign
Friends of the Earth France

Olivier Eon, Production and test Manager
Testé Pour Vous

Mathieu Wellhoff, Observation, economy and
evaluation
ADEME

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I. The banking product-sustainability labeling project

I.1. Objectives

The role of a bank is to invest the funds entrusted to it by its customers in order to fund economic activities in the form of company operations, public borrowings, personal lending and so on.

The nature of these activities varies from product to product, and has significant consequences:

- For the customer, who is exposed to a varying degree of financial risk (SECURITY), as well as
- For the planet as a whole, since the activities funded may be more or less desirable from a social (RESPONSIBILITY) and ecological (CLIMATE) viewpoint.

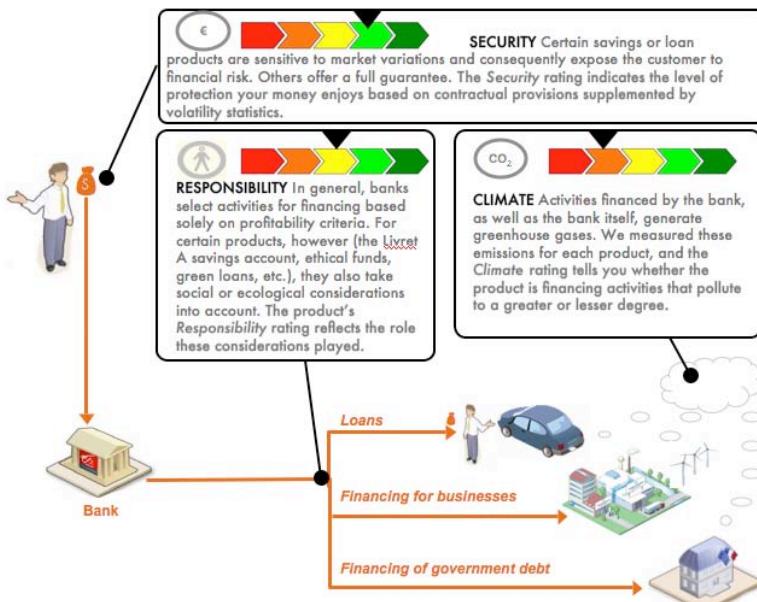
As part of its sustainable development program, and to provide its customers with more information, the French banking group Caisse d'Epargne launched a sustainable-development labeling system for private customers in June 2008, based on these three criteria. Under this system, each product is given a rating and compared with the rest of the range. A label giving the rating and a text explanation appear in sales brochures and on the website.

All products are rated.

I.2. Overview of the methodology

The methodology has been developed by the Caisse d'Epargne and the consultancy Utopies in cooperation with a **stakeholder panel** (from the WWF, Friends of the Earth, Testé Pour Vous and ADEME), which assisted the project team in defining the broad outlines of the system and validating the methodology. Panel members were consulted at every stage of the methodology's preparation process via monthly meetings and direct contact. They had access to auditable files containing all data for each product and the calculation software used. The final elements of the methodology **will be published on the Internet** and made freely available for use by other banks.

At this stage, the methodology has been developed for use with savings products and will be adapted for use with other product families (insurance, loans, banking services etc.) by late 2008.



Focus on the CLIMATE criterion

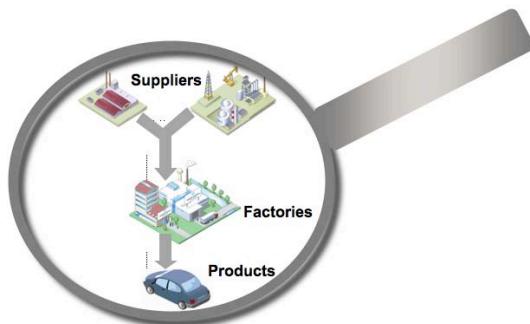
The bank and the activities it funds all emit greenhouse gases. Every €10,000 invested can result in the same volume of emissions as a car.

For example:

For companies, we look at the list of shares held and their respective emissions.

We then add in the emissions produced by the company's plants, its suppliers and the use of the products sold.

These calculations are based on business-sector emissions statistics supplied by Centre Info (for listed companies) and information from existing databases. If the investment represents **1% of the funding** for the company concerned, then **1% of the company's annual emissions** will be attributed to this investment. The same procedure is applied to public-expenditure funding.



I.3. Reading guide

The assumptions and limitations of the methodology are addressed in a separate chapter at the end of this document, and are indicated throughout the text by a footnote in Roman numerals and the following symbol:



II. CLIMATE labeling

II.1. Background

- Public and consumer opinion is growing increasingly sensitive to climate change and the impact of consumer practices, as reflected in online calculators, emission-offsetting programs, individual quota schemes championed by think tanks and more.
- Environmental organizations are mounting campaigns that call on development banks to consider environmental impact, and in response banks are developing initiatives like the guidelines from the World Bank and the Equator Principles.
- The number of financial products designed to incorporate environmental criteria is multiplying to include SRI funds, green loans (with environmental conditionality) and the like.
- Carbon-labeling initiatives are emerging for consumer products, including those from Tesco GB (70,000 products), Casino France (3,000 products), E. Leclerc du Nord (50,000 products) and the UK's Carbon Trust (10+ companies that conduct testing), spurred by Jean-Louis Borloo's announcement in early October ¹that carbon labeling on 90,000 consumer products will become mandatory in three years.
- A carbon solutions provider has developed assessments of annual CO2 emissions produced by equity funds, including those from the publication of annual fund rankings and portfolio evaluation by asset managers.
- ADEME (the French Environment and Energy Management Agency) has developed the Bilan Carbone® methodology for grading direct CO2 emissions by companies.

II.2. Objectives

One major criticism of carbon reporting from experts and environmental NGOs is that it does not reflect the impact of a company's products, although these products very often make up a highly significant portion of the company's contribution to climate change.

This objection is also leveled against the banking sector: environmental experts believe that indirect emissions from banks (i.e. emissions generated by the economic activities they finance) have a much greater impact than direct emissions.

Consequently, the method proposed here is to incorporate an assessment of financed emissions in addition to the bank's direct emissions by attempting to trace the bank's use of the funds it collects.

In order to measure the climate impact of a banking product, the method draws on the banking concept of conversion on the basis of workforce resources.

Using this principle, the rating assigned to savings products can incorporate these "financed" emissions.

¹ www.liberation.fr/actualite/evenement/evenement1/283948.FR.php?rss=true.

III. Definitions

To calculate the greenhouse-gas emissions attributable to an entity:

1. We calculate the **carbon balance sheet** for its activities. This includes emission inventories within **three different scopes** that correspond to various levels of influence.
2. We use the notion of a product's **life cycle** to identify emissions generated by purchases and products.
3. CO₂ emissions are then allocated to various sources using the **emission factors** that are characteristic of the activities in question.

III.1. The carbon balance sheet

This is an inventory of the emissions caused by a given activity, broken down by source.

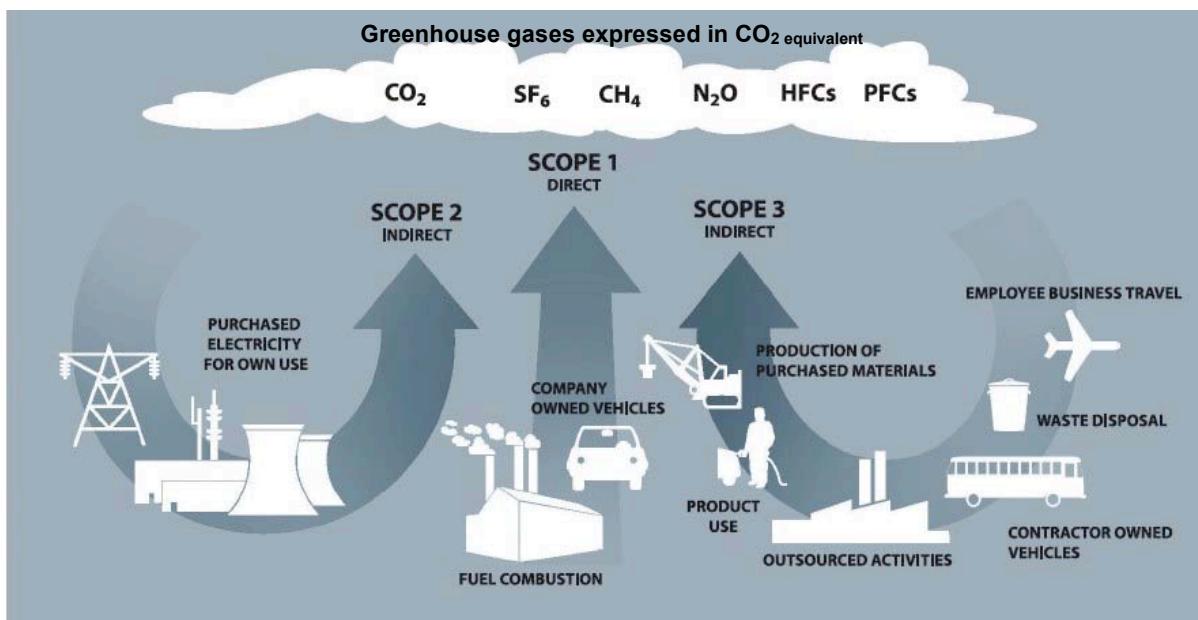
The greenhouse gases (GHGs) accounted for are primarily those that are the subject of an international accord (CO₂, CH₄, N₂O, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride), along the lines of the reporting standards for climate impact.

The GHG Protocol (Chapters 1 and 4) and the Bilan Carbone® (pages 9-13) propose a definition of the scope of the inventory that will serve as a basis for the methodological approach used here.²

This inventory includes emissions generated by processes:

- ✓ *Controlled by the operator*, like production, logistics and office heating, and
- ✓ *Influenced by the operator*, through purchasing and product design.

By convention, the *carbon balance sheet*³ refers to the inventory of all sources of emissions.



² Note: a caveat should be raised, however, regarding the definition given in the Bilan Carbone®, which defines the scope of the inventory as "greenhouse-gas emissions generated by all of the physical procedures that are necessary for an activity's existence." In fact, if we use this method only those emissions from processes that are controlled or significantly influenced by the organizations being evaluated are taken into account. Emissions arising from employees' housing or food consumption are not included, even though they are necessary to the activity's existence. We will therefore be adopting the approach taken in Chapter 4 of the GHG Protocol.

³ Note: the concept generally used in France is the Bilan Carbone. This term has not been adopted in this document for two reasons: first, because it corresponds to a method trademarked by ADEME (Bilan Carbone®) that is just one method among several used in Europe for applying the GHG Protocol, and second, because the notion of a 'bilan' (or 'balance sheet') may prove misleading to readers in a banking context insofar as the Bilan Carbone more closely resembles an income statement. Certain items in a financial income statement will not be reflected in a carbon balance sheet, to the extent that the company exerts no influence over the corresponding activities, which include wages paid to employees, tax paid to the government and payroll charges. Finally, as with a financial income statement, entities will generate a carbon 'result' that corresponds to their emissions over a year-long cycle.

III.2. Scope

To identify emissions over which the entity under evaluation exerts either direct control or influence, the GHG Protocol draws on the notion of its "scope."⁴⁵ This scope has three levels:

- ✓ **Scope 1** includes emissions that are internal to the company and corresponds to a highly normed approach similar to the definitions used in regulatory texts.
- ✓ **Scope 2** includes emissions relating to energy produced outside the company (electricity) but consumed by the company and therefore under semi-control.
- Scopes 1 and 2 are generally included in the company's reporting.
- ✓ **Scope 3** includes all other emissions affected, for which no very precise definition is given in either the GHG Protocol or the Bilan Carbone®. In practical terms, the emissions to be included are, to a very large extent, left to the discretion of each company.

Very few businesses provide a comprehensive accounting of Scope 3.

Scope	Scope 1	Scope 2	Scope 3
Definition	Emissions from fixed and mobile sources owned by the company	Emissions from the production of electricity and steam consumed by the entity	All other emissions affected.
Examples	Boiler Vehicles	Power consumption	<ul style="list-style-type: none"> • Production and end-of-life of products and services purchased. • Production of amortized goods. • Utilization and end-of-life of products sold.⁶

In this methodology, each scope is defined with reference to Chapter 4 of the GHG Protocol, in particular page 30 with regard to Scope 3.

Emissions included in Scope 3 must meet one or more of the following criteria:

- ✓ Their CO2 impact must be significant by comparison with Scopes 1 and 2.
- ✓ They must be perceived as significant and related to the stakeholders' activities (i.e. in the opinion of the panel).
- ✓ It must be possible to measure these emissions in a way that isolates the contribution by the bank's product or policy.
- ✓ They must have a link to the financial risk tied to the product or activity.

III.3. The life cycle of a product or service

The life cycle of a product includes all "consecutive and interlinked stages of a product system, from raw-material acquisition and generation of natural resources to final disposal."⁷

It corresponds to the notion of a value chain applied to flows of energy and materials.

For many products, their principal climate impact derives from the materials mobilized for their production or during their use.

For example, if an automobile's production accounts for 500 kg of CO2 equivalent, the use of the automobile may represent several metric tons of CO2 annually, depending on the model.

III.4. Emission factors and uncertainties

To catalogue an activity's emissions, we use emission factors that allow us to allocate emissions to flows expressed in volume of activity.

⁴ This term is usually translated into French as "périmètre." However, the English term is being used in the French document to prevent any confusion with other references to a "périmètre."

⁵ This concept is similar to that used in the ISO 14064 standard and the ISO materials drawn from the Bilan Carbone®; see the Methodological Guide on page 85.

⁶ When applying this principle to a retailer, emissions tied to the production and use of all products sold, even those produced by third parties, must be included.

⁷ This definition was adopted by the ISO 14040 standard on life-cycle assessment.

Emission factors include a fairly significant degree of uncertainty arising from the accuracy of the data on which they are based.

In general, the factors given for an expenditure or income amount are less precise than the factors given for physical amounts (kilos of material, kWh of energy etc.), and may involve uncertainty with respect to the exchange rate used or the inflation or eco-efficiency of a market when drawn from old data.

Any uncertainties arising from assessments should be taken into account when comparing different funds or products in order to assign them a score.

This point will be addressed in more detail in a later version of the document, when scales for use in "ranking" the products will be proposed.

IV. Methodological principles

IV.1. Actual emissions

The principle adopted:

 **The CLIMATE rating is based on actual emission volumes.ⁱ**

In order to be able to combine or compare carbon intensity for different asset classes, the principle used is to quantify the emissions from financed activities as an absolute value.

Using this method, we can combine the emissions obtained for different asset classes and thereby propose a rating for diversified portfolios (like mutual funds that combine equities and bonds, and the bank's asset portfolio).

In order to determine the "financed" scope to be taken into account, maximum attention should be paid to what is being financed.

For example, the carbon intensity of a property loan is measured on the basis of the actual emissions of the housing purchased.

 In the case of a claim on a business (a loan or bond), precise information on the investments actually financed may be difficult to obtain, in which case the company's full scope of activity will be used to estimate the emissions related to that claim.ⁱⁱ.

IV.2. Emissions on an annual basis

The principle adopted:

All emissions are calculated on an annual basis.

In order to have a standard measurement of the various emission sources related to the bank's activity and the activities and products it has financed, all emissions will be calculated on the basis of:

- One year of activity by a company or central government, and
- One year of use of a financed product (housing, vehicle, household equipment etc.).

This year of activity or use will be examined with respect to:

- A one-year deposit for savings products.
- One year of financing for loan products.
- One policy year for insurance products.
- One year's use of banking services.

By adopting a standard of this kind, we can evaluate the various banking products on an identical basis and capitalize on a full range of resources (including annual reports and environmental databases) in order to make the calculations necessary for arriving at a rating.

IV.3. Emissions across the entire value chain and life cycle

The principle adopted:

Financed emissions are evaluated with reference to the entire value chain of the financed activity or product (i.e. its life cycle).

For each financed activity, GHG emissions will be calculated by applying simplified versions of internationally recognized calculation standards, across the most comprehensive scope possible regarding the activity.

Thus, the greenhouse-gas emissions taken into account for a given activity will include emissions that were necessary for the activity (upstream emissions), those of the activity itself (direct emissions) and those prompted by the activity (downstream emissions).

So, for example, the WBCSD/WRI GHG protocol will be applied for businesses and similar entities (governments, associations), incorporating:

- Emissions tied to purchases and investments required for the activity.
- Emissions from the activity tied to the company's energy consumption and specific processes.
- Emissions arising from the distribution, use and end-of-life of the activity's products.

When financing involves a product (notably in the case of loan products), the calculation principle used in the ISO 14021 standard for life-cycle analyses will be applied, with attention to:

- The emissions required in order to extract, process and assemble the product's components.
- The emissions required in order to transport and market the product.
- The emissions tied to the use and end-of-life of the product.



In order to estimate these emissions, we will draw on the following resources:ⁱⁱⁱ

- Each company's environmental report (for Scopes 1 and 2 in particular).
- Each company's response to the Carbon Disclosure Project (Scopes 1 and 2).
- National statistical databases for the sector.
- The various life-cycle assessment databases (for purchases, use and end-of-life in Scope 3 in particular).
- Economic and environmental I/O databases.

IV.4. "Bank" and "financed" emissions

The principle adopted:

The CLIMATE rating is an aggregate of two major types of emission: bank emissions and financed emissions.

- By "bank emissions" we mean emissions by the bank and its partners for the purpose of marketing and managing the product:
 - For all products (savings, loans, insurance and banking services), these "direct emissions" include all emissions generated by the consumption of energy, products and services as needed in order to market and manage the products.⁸
- "Financed emissions" refers to emissions from activities financed by the bank and its partners as part of their use of the funds they collect:
 - In the case of a savings product, the rating reflects the greenhouse-gas emissions of activities financed by the funds collected (financing for major corporations, governments, SMEs, entrepreneurs and individuals through loans and the purchase of bonds or shares).
 - In the case of a loan product, the rating represents the greenhouse-gas emissions of the goods financed by the funds that were lent.
 - In the case of an insurance product, the rating will refer to the greenhouse-gas emissions of activities financed by the investments made by the insurer using reserves for outstanding claims.

For a comprehensive overview of emissions sources included in "bank emissions," please refer to the description provided in the appendix (cf. VI).

For savings, loan and insurance products, "bank emissions" are minor in comparison with "financed emissions." Consequently, "bank emissions" for these product families will be estimated according to a breakdown of the bank's carbon balance sheet or that of its partners, using the workforce allocated to each banking product as the determining factor in the breakdown.

Orders of magnitude for Livret B savings accounts administered by savings banks:

The Livret B involves approximately 300 full-time equivalent (FTE) employees for about 1 million accounts managed (and some 100,000 new accounts opened in 2006). Source: Monaco database.

According to the Bilan Carbone™ conducted by the savings banks in 2007, the emissions factor per FTE is on the order of 7 metric tons of CO₂ equivalent/FTE/year.

⁸ For insurance products, "bank emissions" include emissions generated by services covered by the insurer when claims are filed (repairs, visits by experts etc.).

Depending on the rule defined, the bank is estimated to generate (7*300/1,000,000) metric tons of CO2 equivalent annually per Livret B account managed, i.e. 2 kg of CO2e per year.

The financed emissions for this same Livret B account will be approximately 1 metric ton of CO2e/year for each 10,000 euros invested over the course of a year.

Note: the concept of financed emissions does not apply to banking service products that can be considered transaction support (e.g. Carte Bleue debit cards, securities accounts and online banking services).

The rating of these products will be based solely on the bank's direct emissions, which will be assessed in more detail than with other product families by analyzing the emissions tied to their production, marketing and management.

IV.5. Financed emissions: the Carbon Consolidation rule

This section describes the methodological adaptations that have made it possible to define a rule for allocating the emissions of a financed activity to the investment or loan that makes the activity possible.

IV.5.1. Methodological basis

The GHG Protocol proposes two approaches for consolidating the greenhouse-gas emissions⁹ of a group's subsidiaries:

- ✓ The Control approach: 100% of a facility's emissions are included if it is under the group's control.¹⁰
- ✓ The Equity Share approach: the group consolidates facility emissions based on its economic interest in the operation.¹¹

Control approach

Used to allocate emissions tied to subsidiaries within an industrial group

Emissions attributed to the shareholder

=

100% of annual emissions from activities under control

+

0% of annual emissions from activities not under control

Equity Share approach

➤ Used to consolidate holdings and rate CO2 emissions tied to an equity fund

Emissions attributed to the shareholder

=

Company's annual emissions

X

Value of equity held

—

Capitalization of the company

Both the GHG Protocol and the Bilan Carbone® leave the choice of approach to the evaluator's discretion, but the equity share approach is the most pertinent for the financial sector.¹²

The equity share method is used by a number of asset managers to assess equity portfolios. CO2 emissions derived from equity in the companies that make up the portfolio are added together to calculate the fund's annual emissions. In other words, the companies are "consolidated" as if the fund were a holding company for which the subscriber would be the shareholder.

We intend to extend this logic to other financing methods.

⁹ See Chapter 4 of the GHG Protocol and page 17 of the *Designing a Customized Greenhouse Gas Calculation* guide (WRI).

¹⁰ This category is subdivided into operational control (the group is responsible for managing the facility) and financial control (the group controls the governing bodies).

¹¹ In most cases, the percentage of economic interest is the same as the equity share in the entity held by the group.

¹² See page 49 of the Bilan Carbone methodological guide and page 21 of the *Hot Climate Cool Commerce* guide (WRI).

IV.5.2. The "credit share" approach

Strict application of the equity share approach makes it impossible to define a greenhouse-gas emissions counterpart for the role of loan-based financing (bonds, lines of credit). To date, the authors have not identified any method of determining the share of emissions to be attributed to a lender. All emissions are assigned to the shareholders (both majority and minority).

Nonetheless, environmental NGOs, regulatory incentives and certain financial institutions all recognize the lender's power to influence the financed entity's CO₂ emissions. The Bilan Carbone® methodological guide poses the problem in these terms:

"The use of sold products will pose a significant methodological problem. In theory, emissions from the operation of products purchased by means of loans should be included. Among consumer loans, those used for the purchase of a car, for a home that lacks insulation or for travel will necessarily carry an added emissions burden. This is a typical scenario wherein an additional extraction may be created in order to distinguish between emissions directly attributable to the bank's day-to-day operations and those attributable to its customers' buying habits. The bank's customers may borrow the same amount while still reducing their emissions, simply by altering the nature of the purchase funded by the loans in question."¹³

The principle adopted:

The equity share approach, which applies to financing via possession of shareholders' equity, is extended to loan-based financing (bonds and lines of credit).

By convention, this principle is described as the "credit share approach."

In other words, in addition to the equity percentage represented by the shares held, this approach also considers the share of investments or claims held on total *shareholders' equity + bonds + debts to loan institutions* appearing as liabilities on the financed entity's account balance.¹⁴

Current practice

- **Equity Share** approach
- Used to consolidate holdings and rate CO₂ emissions tied to an equity fund

Emissions attributed to the shareholder¹

$$= \frac{\text{Company's annual emissions}}{\text{Value of equity held}} \times \text{Capitalization of the company}$$

What we are proposing

- **Credit Share** approach
- Can be used to allocate emissions tied to a minority stake, securities held (equities, bonds) and loans

Emissions attributed to the "financier"¹

$$= \frac{\text{Annual emissions from the activity²³⁴⁴}}$$

1. This may involve a bank, through the use of its own funds, or an individual owning shares in the company (either directly or via a mutual fund). The financing may involve an equity interest or a loan.
2. The activity may be a company or the use of an item.
3. Securities are expressed at face value.
4. Only those debts financed by banks and securities are included. Supplier and tax debts do not appear, since they do not accumulate interest. Shareholders' equity is expressed at book value.

IV.5.3. Adjusting the share extended to various types of financing

The credit share approach can be used to decide on a ratio for allocating GHG emissions when companies are financed via a loan or the acquisition of securities (equities and bonds).

In what follows, we describe how this approach can be adapted to financing for government bodies and to the financing of goods through credit.

Application to government financing

For government accounting, we cannot think in the same terms of shareholders' equity and financial debt that we use for companies to arrive at a value for financed assets.¹⁵

¹³ Bilan Carbone® v5.0 (p. 106).

As shown in the table below, government accounting does not show shareholders' equity among balance sheet liabilities:

Assets	Liabilities
Non-financial assets (NFA)	
Financial assets (FA)	Financial liabilities (FL) Net value = (NFA+FA-FL)
TOTAL: NFA + FA	TOTAL: NFA + FA

Thus, when applying the principle of equity share allocation to government financing, we will use the following aggregates to indicate the government's assets: *Non-financial assets + Financial assets or Financial liabilities + Net value*.

The ratio for allocating a government body's emissions to a security issued by that body is as follows:

Face value of the bond/(Financial assets + Non-financial assets)

Or

Face value of the bond/(Financial liabilities + Net value)

It is important to note that in this case, contrary to the logic applied in the business world, the emissions of the GHG-emitting body are not 100% allocated across all of the securities issued. In one sense, a portion of the government body's emissions is assigned to the country's citizens, who are then considered "owners" of the body's assets at their net value.



Given current practices in government accounting and international reporting, no reliable statistics are available on non-financial government assets.^{vi} We have therefore been forced to prepare estimates for approaching the ratios. These estimates are detailed in the document on emission factors.

The following consolidated emissions by government bodies must be incorporated within the scope of the rating:

- Direct and indirect emissions tied to the government body's activity (Scopes 1, 2 and 3).
- Direct and indirect emissions of companies in which the government body holds an interest.

General government emissions:

In contrast to emerging practices in the corporate world, governments and government bodies do not report on their greenhouse-gas emissions.

As a result, these emissions will be estimated on the basis of total government expenditure, which includes both consumption expenditure and investment expenditure by governments.

Ideally, these expenses will be estimated by function and assigned intensity factors that reflect the sector and the country's economy.

Emissions attributable to economic activities held wholly or in part by the central government:

In this case, the public sector will be considered a holding company and assigned the emissions from activities it holds, in accordance with the credit share allocation rule. The emissions taken into account will be those defined earlier for company financing.

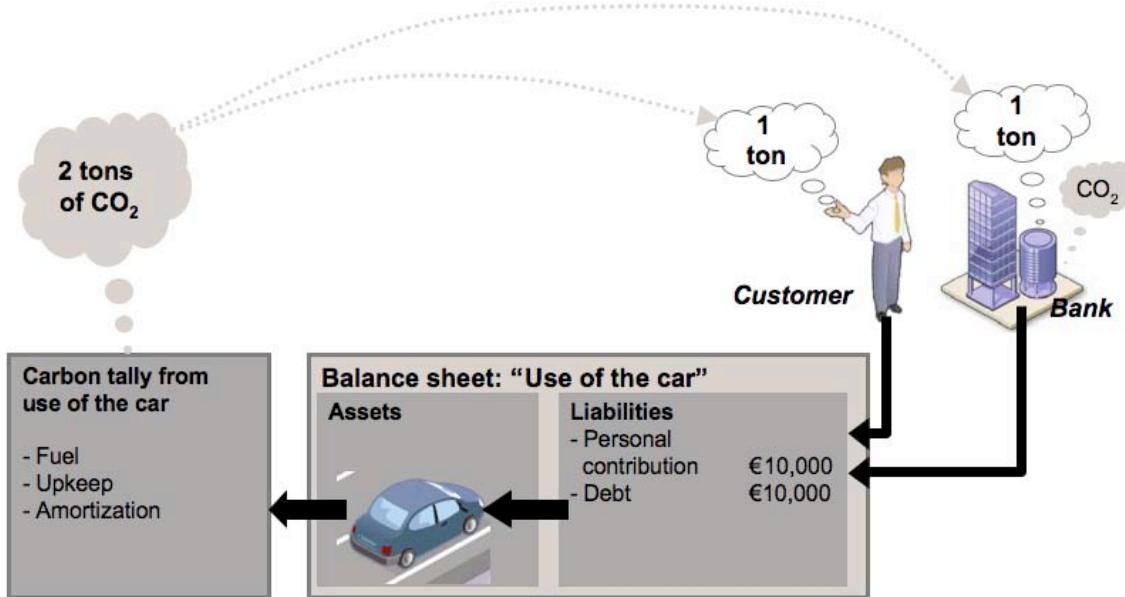
In the absence of detailed information on the exact stake held by the government, we can use the value of the financial assets in the government's possession and assign them the emission factor for a diversified securities portfolio.

Application to loan-based financing of goods

For businesses, the total "shareholders' equity + financial debt" represents the value of the assets financed. When the purchase of a product is financed via a loan, the value of the financed assets is directly represented by the product's acquisition value.

This logic applies to property loans and consumer loans used to purchase durable goods (automobiles, household equipment etc.).

Note that this equivalence is apparent if individuals are viewed as microbusinesses:



The allocation ratio is thus expressed as *Outstanding debt/Acquisition value*.

In accordance with the general principles governing the methodology, the emissions associated with various goods extend across their entire value chain.

For further action:

It is possible that a portion of any consumer credit extended will not finance the acquisition of durable goods by the bank's customers, but will instead serve as a cash advance enabling those customers to finance their routine spending.

This scenario will be described in further detail in a subsequent version of this document.^{vii}



IV.6. Summary

The table below shows the major sources of emissions and the emission-allocation rules for the principal asset classes incorporated into the methodology. Note: derivatives (options, futures etc.) have not been incorporated into the current version of the methodology.

Asset class	Target of financing	Credit share	Scope of emissions	Scope 1	Scope 2	Scope 3
Equities	Companies	Face value/(Shareholders' equity + gross financial debt) [at book value]	Company operations	Gas and/or fuel-oil combustion	Production of electricity and steam consumed	Products and services purchased
Bonds	Companies		Special company processes			Use of products sold
Unallocated credit	Companies					
Bonds	Government bodies	Face value/(Financial assets + Non-financial assets)	Total spending by the government body	Gas and/or fuel-oil combustion	Production of electricity and steam consumed	Products and services purchased
			Emissions tied to waste management			Investment in buildings and infrastructure
			Gas and/or fuel-oil combustion	Production of electricity and steam consumed	Products and services purchased	
			Special company processes			Use of products sold
Property loan	Housing	Debt held/Acquisition value	Use of the housing	Gas and/or fuel-oil combustion	Production of electricity and steam consumed	Emissions tied to the production of fuel oil and/or gas
						Construction-related emissions
						Materials production and end-of-life
Automobile loan	Automobile	Debt held/Acquisition value	Use of the vehicle	Fuel combustion		Fuel production
						Vehicle manufacture
						Vehicle end-of-life
Household equipment loan	Equipment	Debt held/Acquisition value	Use of the equipment	Gas and/or fuel-oil combustion (if any)	Production of electricity consumed	Vehicle upkeep
						Goods production and end-of-life

IV.7. Double counting



Integrating the product's procurement and use phases into the emissions inventory leads to problems of double counting.^{viii}.

Double counting may be a factor:

- In emissions upstream of the activity (procurement and purchasing). For example, this will be the case with a cement manufacturer's emissions, which will be counted as its own production emissions but also as emissions by other companies during their purchasing and investment phases.
The principle of neutralization involves identifying, within a given portfolio, all mutual exchanges between companies being rated and removing them from the companies' total emissions.
- In the product use phase. For example, emissions generated by use of an automobile manufacturer's products coincide, in part, with an oil company's use emissions: both include vehicle fuel combustion in their product use phase.
In this case, the principle of neutralization will dictate that, rather than combining their emissions, the maximum value from the use phases of two different companies should be retained.

V. The rating of banking products

V.1. Savings products

Savings products can be divided into three groups:

- Savings accounts and similar products.
- Mutual funds.
- Life insurance products.

The CLIMATE rating for these products will include the bank's own emissions and emissions financed by the sums collected.

For all three product families, the bank's total emissions (e.g. its Bilan Carbone™) are proportionally allocated to a product based on the workforce assigned to that product.

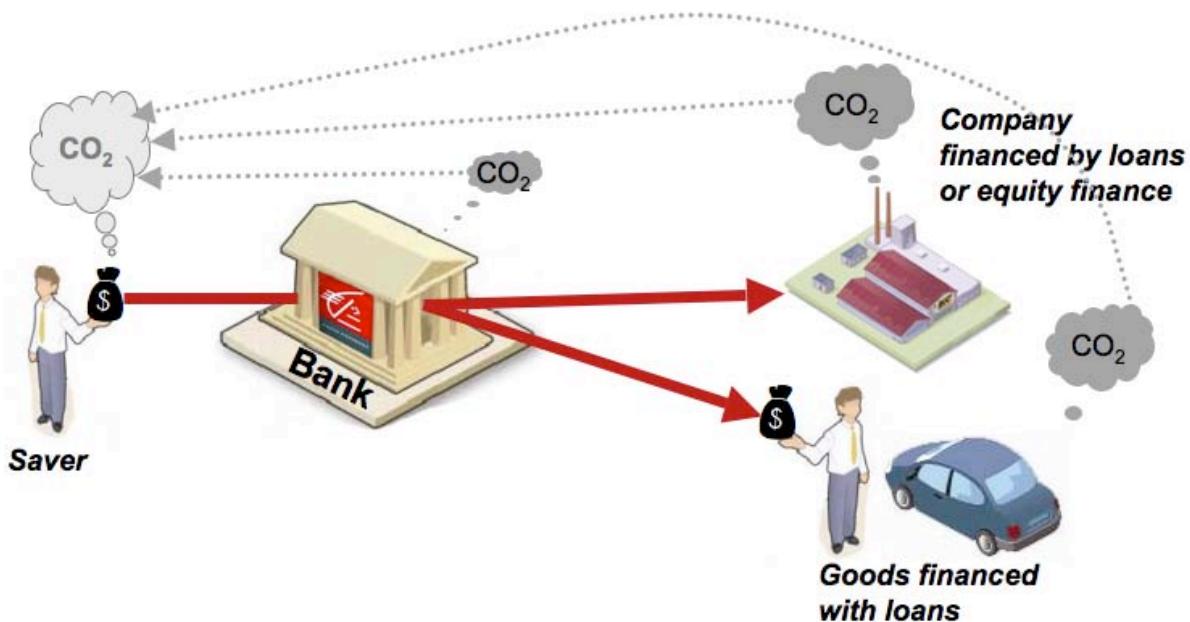
Emissions financed by the bank are calculated in accordance with specific rules for each of the three major product families. These rules are detailed below.

V.1.1. Savings accounts and similar products

Sums collected through savings accounts constitute a portion of the resources posted to a bank's liabilities, principally within customer resources (as well as for certain specific products within shareholders' equity or financial resources).

The bank converts its resources into applications (loans to customers, interbank loans, transferable and non-transferable investments) and thereby finances economic and private activities.

Thus, the sum held in a savings account will be assigned emissions from activities financed by the bank's assets in proportion to its contribution to financing that asset (apart from central resources).



As a result, an assessment of the emissions from the bank's assets must be available. This figure is calculated as the total emissions attributable to each component of the bank's assets (excluding central applications, which are treated separately, and tangible and intangible fixed assets, for which the emissions are already included among the bank's emissions).

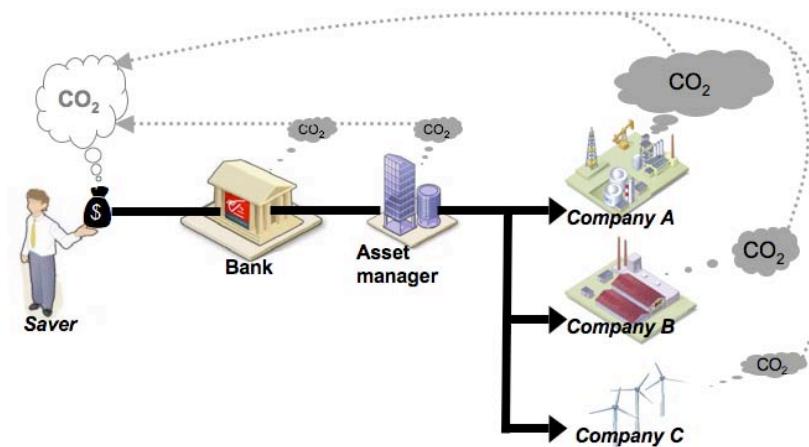
The emissions generated by each item are calculated by applying the principles described in the introduction to this document (the credit share principle and life cycle/value chain).

Setting aside technical accounts, the bank's balance sheet can be summarized as follows:

Assets	Liabilities
Fixed assets: <ul style="list-style-type: none"> Share investments Tangible and intangible fixed assets Customer applications: <ul style="list-style-type: none"> Real-estate loans Consumer loans Loans to professionals Loans to businesses Financial applications: <ul style="list-style-type: none"> Interbank loans Transferable investments Non-transferable investments 	Shareholders' equity, including: <ul style="list-style-type: none"> Shares held by customers Customer resources: <ul style="list-style-type: none"> Sight deposits Term accounts Non-centralized portions of regulated products Financial resources: <ul style="list-style-type: none"> Interbank borrowing Borrowing from customers
Central applications via savings funds held by the Caisse des Dépôts: <ul style="list-style-type: none"> Loans for social housing and urban policy Funding for SMEs (via the OSEO agency and regional development companies) Transferable investments 	Centralized customer resources: <ul style="list-style-type: none"> 100% of Livret A tax-free savings accounts Portion of Livret B tax-free savings accounts Portion (85%) of LEP (<i>Livret d'épargne populaire</i>) savings accounts Portion (minimum 6.5%) of LDD (<i>Livret de développement durable</i>) sustainable development savings accounts

Emissions financed by the centralized resources of the Caisse des Dépôts will be estimated on the basis of the activities financed by its Savings Fund, in proportion to their contribution to the fund's liabilities. Particular use will be made of the data provided by the Caisse des Dépôts in its annual report on the savings fund.

V.1.2. Mutual funds



The mutual fund inventory (i.e. the fund's asset items) is used to calculate emissions financed by savings invested in mutual funds.

Each item will be evaluated on the basis of the emitting company's or government body's emissions for that asset item, under the credit-share rule.

Once all of the lines have been evaluated, double counting is neutralized to yield all of the annual emissions financed by the fund.

Underlying funds:

Mutual funds can invest a portion of the funds in mutual fund securities. The actual percentage is governed by regulations specific to the type of mutual fund.

In order to limit cumulative rating, the rule that has been adopted is that, if the fund held does not exceed 3% of the rated mutual fund's assets, its carbon intensity may, under the methodology, be estimated using the carbon intensity for a fund of the same type (same asset class, same geographical area, same type [general, sector-specific] and so on).

In each case, a fund's carbon intensity will be considered "label-able" beyond a coverage rate of 85% of the fund's assets, on the condition that no component in the remaining 15% suggests the possibility of markedly higher carbon intensity.

Thus, in order to label a mutual fund, the following information must be available:

- A list of the assets held, and for each asset:
- The book value of the bonds or equities held.
- The book value of the company's shareholders' equity or, for a government body, its financial and non-financial assets.
- The company's gross financial debt.

V.1.3 Life insurance

Life insurance products are wrappers that generally include a euro fund and several unit-linked contracts.

Each policyholder can define his or her own investment profile, and there can be no country-wide standard label that represents every investment profile.

The rating to be used on the label will be based on a typical investment profile that allocates the savings collected among several unit-linked contracts that are representative of the actual distribution of amounts outstanding.

The CLIMATE rating for the life insurance product will then be the average climate rating of each unit-linked contract used, weighted to reflect the distribution of amounts outstanding used for the standard profile.

Thus, in order to label a life insurance product, the following information must be available:

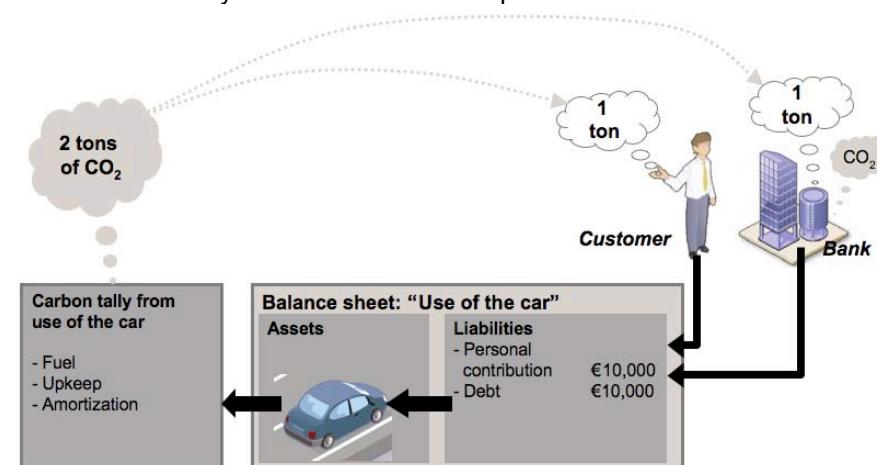
- The distribution of amounts outstanding across the various vehicles.
- The items needed for rating the vehicles (cf. mutual funds).
- The workforce allocated to the product.

V.2. Loan products

For loans granted to an individual, the financed emissions will depend on the item financed by the loan.

The task will be to determine the annual emissions generated by use of the item (for example, in the case of a car, the emissions generated by the vehicle's fuel consumption, upkeep and amortization).

Using the credit share approach, the share of the emissions allocated to the sums loaned by the bank will be indicated by the ratio of debt to acquisition value.



Emissions tied to the financing cycle for loan products will therefore depend on the items financed. It will not be possible to have a standard country-wide CLIMATE label that is appropriate to all loan-financed projects.

The rating will be based on a typical example that is representative of the average loan lent by the bank.

This typical profile may be based on national averages (e.g. for an auto loan, on the price and emissions of the "average" vehicle sold in France).

Advisers or customers themselves can calculate the emissions that are specific to the item actually being financed using an online calculator. This will provide:

- A customized label that can be printed for the customer.
- Maturing data that can be incorporated into the bank's carbon use account.

This calculator can also include additional functions with which to incorporate the impact of energy consumption by the item (house, car) into its overall cost, and thus the level of risk to which the customer is exposed.

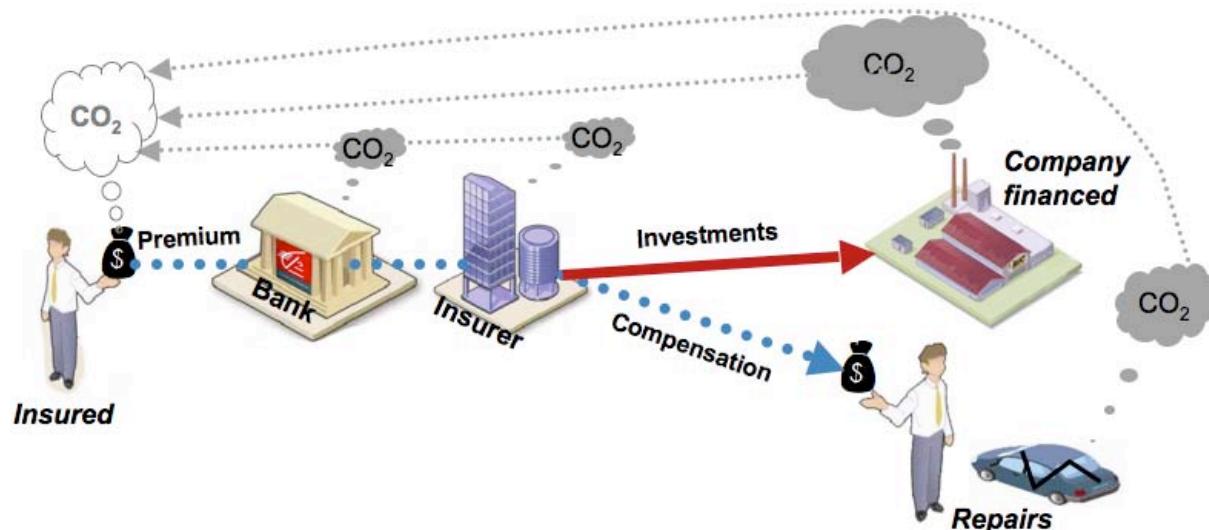
Thus, in order to label a loan product, the following information must be available:

- The nature of the items financed.
- The bank's workforce allocated to the product.

V.3. Insurance products

With regard to insurance products, the premium paid by the policyholder finances two items:

- A portion of the indemnity for damages incurred by the insured (and thus the emissions associated with repairs to vehicles or homes, medical care etc.).
- The activities financed with the funds invested by the insurance company.



Accordingly, apart from emissions by the bank and the insurer, the primary forms of emissions are as follows:

- Emissions caused by claims:

These are emissions prompted by claims, from the time the claim is acknowledged by the insurer until the file is closed. These do not include the personnel costs associated with claims management (e.g. call-centre personnel), since these personnel are already included under the insurer's direct emissions.

Emissions associated with claims will depend on the claim itself, the coverage in place and the services provided. For example, in the case of automobile insurance, emission factors relating to repairs, loaned vehicles and so on will be assigned to the claims. For health insurance,

emission factors relating to products (medications, equipment and accessories etc.) and medical care (doctor visits, surgical procedures, hospitalization etc.) covered under the policy will be assigned to the reimbursed expenses.

- Emissions financed by the insurer's investments:

This refers to the percentage of emissions by companies that are financed by the insurer's investments using its reserves for outstanding claims. These emissions will depend on the frequency of claims with regard to policy guarantees, the insurer's payout policy and the components that make up the company's overall assets.

Note: our concern here is with emissions financed by premiums paid by the policyholder. Emissions arising from use of the item (an automobile, for example) are not included, since they are not financed by the insurer.

Thus, in order to label an insurance product, the following information must be available:

- The average premium paid.
- The components of a standard contract (average level of coverage).
- An estimated carbon balance sheet for the insurer and the bank (CO2/workforce).
- The average number of employees per contract and by type of activity (sales, administration, claims management).
- The load factor.
- The claims rate.
- The ratio of sums paid out yearly to annual premiums.
- The probability of claims.
- The list of procedures and average claim costs.
- The composition of the insurer's assets.

VI. Appendix: Calculating the carbon balance sheet¹⁴

The tables below provide an overview of the emissions sources to be taken into account when calculating the greenhouse-gas emissions of a bank branch, using the method proposed by the GHG Protocol (or the Bilan Carbone®) without incorporating emissions related to financing.

The principal corresponding emission factors for a banking network located in France may be obtained from ADEME (refer to the Bilan Carbone® Emission Factor Guide). Additional sources of information are indicated in the tables. However, users are free to employ more precise data and specify their sources in the published document.

Energy consumption

This refers to energy consumed by branches and head offices. Internal information may be based on supplier invoices.

Emissions source	Internal information needed	Source for emission factors	Emissions taken into account		
			Scope 1	Scope 2	Scope 3
Boilers	To be completed	ADEME	Emissions tied to gas and/or fuel oil combustion		Emissions tied to fuel production
Air conditioning systems	To be completed	ADEME	Emissions tied to fluid leakage		Emissions tied to fluid production
Electricity and steam consumption	To be completed	ADEME		Emissions tied to production and line losses/leaks	

Internal transport

This refers to emissions arising from employee travel for professional purposes. Information will be needed on the vehicles in question and the distances traveled.

Emissions source	Internal information needed	Source for emission factors	Emissions taken into account		
			Scope 1	Scope 2	Scope 3
Savings bank auto fleet	Composition and mileage	ADEME	Vehicle emissions		• Emissions tied to fuel production
Auto leasing	Composition and mileage	ADEME		Vehicle emissions	
Employee vehicles	Mileage (expense claims forms)	ADEME		Vehicle emissions	
Taxis	Purchases in euros	Module developed by the savings banks (to be attached)			• Vehicle emissions • Emissions tied to fuel production
Trains	Journeys				Emissions tied to electricity production
Planes	Journeys				• Aircraft emissions • Emissions tied to fuel production
Employee travel between home and work	To be completed	To be completed			• Vehicle emissions • Emissions tied to fuel production

General purchases and amortizations of fixed assets

This refers to emissions arising from purchases by branches and head offices. The necessary information will generally be available from the departments responsible for purchasing and property-asset management. They correspond to the purchases and amortizations appearing in the balance sheet.

¹⁴ Branch offices, headquarters of the Caisse Régionales and the Caisse Nationale des Caisse d'Epargne.

Emissions source	Internal information needed	Source for emission factors	Emissions taken into account		
			Scope 1	Scope 2	Scope 3
Branch buildings	Number of branches	Elan study			Emissions tied to production and end-of-life
Head office buildings	sq.m per building type	ADEME			Emissions tied to production and end-of-life
Computer hardware	Number of hardware items	ADEME			Emissions tied to production and end-of-life
Consumption of supplies	Purchases in euros	ADEME			Emissions tied to production and end-of-life
Consumption of services	Purchases in euros	ADEME			
Shipments by post to customers	To be completed	To be completed			<ul style="list-style-type: none"> • Vehicle emissions • Emissions tied to fuel production
Production of sales materials	To be completed	ADEME			<ul style="list-style-type: none"> • Emissions tied to the production of materials (paper in particular) • Emissions tied to the end-of-life of materials

Consumption of distributed products and services

This table includes all emissions occurring at the customer's site that are required for consumption of the products and services. Appropriate studies should be conducted to determine the volumes in question.¹⁵.

Emissions source	Internal information needed	Source for emission factors	Emissions taken into account		
			Scope 1	Scope 2	Scope 3
End-of-life of sales materials	See table above	ADEME			<ul style="list-style-type: none"> • Emissions tied to the end-of-life of materials
Customer travel ¹⁶	To be completed	ADEME			<ul style="list-style-type: none"> • Vehicle emissions • Emissions from fuel production
Correspondence and remote orders sent by customers	Orders via the Internet, telephone and post	To be completed			<ul style="list-style-type: none"> • Emissions tied to the production of electricity used by telecommunications • Emissions tied to the production and end-of-life of correspondence and deliveries by post

In practical terms...

This step is currently being carried out by the Sustainable Development and General Interest Department: Bilans Carbone® have already been conducted by several regional Funds. However, the interim versions of these Bilans Carbone® do not include every source of emissions (notably customer travel). Additional work will be needed.

To be developed...

An application guide for handling travel between home and work, the purchase of services by the bank and emissions tied to the consumption of products and services by customers.

➔ Result:

The carbon balance sheet for a branch (excluding the impact from financing).

Order of magnitude: 5-8 metric tons of CO₂ equivalent per employee per year (excluding consumption of products)

¹⁵ The sources shown below will not be included in the Bilan Carbone® published by the Caisse d'Epargne in 2008.

¹⁶ Will not be included in the Bilan Carbone® published by the Caisse d'Epargne (since there is no major tool for action), but a special study is being planned by the Geomarketing department.

VII. Assumptions and limitations of the methodology

ⁱ Assumptions and limitations: actual emissions

In order to ensure that measurements across the various asset classes comprising a banking product can be aggregated, the methodology is based on tallying the actual emissions of the financed underlying products.

With this method, it is impossible to take into account any emissions prevented by the company's activity (e.g. an insulation manufacturer will continue to generate emissions) or emissions prevented by the company's high level of efficiency in comparison with industry peers (a "good" cement manufacturer will continue to generate considerably higher emissions than a "bad" service provider).

Moreover, it is important to emphasize that when we apply this notion of prevented emissions, we run into another, more practical problem, as will be described below: there is currently no consensus regarding the methodology for tallying prevented emissions, nor is there any reliable, objective means of measuring associated volumes.

It should be noted that the carbon intensity of an activity does not necessarily tell us anything about the activity's financial exposure to the "carbon/climate" constraint (development of regulations, meteorological effects prompted by climate change, changing consumption patterns and changing markets, for instance).

As a consequence, the climate rating does not convey anything to investors who wish to limit their exposure to the financial risks posed by climate change.

ⁱⁱ Assumptions and limitations: purpose of the financing

In the case of companies and central governments, the precise purpose of the financing is not routinely identified and is treated as financing of the business or activity by the organization making the investment. Thus, the bond for a fossil-fuel energy provider will be included in the financing of its activity, even if the funds raised will be used, for example, to finance a solar-energy plant as part of a diversification policy.

ⁱⁱⁱ Assumptions and limitations: calculation estimates and biases

a. Uncertainties

The databases and studies used when calculating emission factors and a company's carbon intensity do not routinely draw attention to the uncertainties inherent in these measurements.

This is particularly true of Carnegie Mellon's EIOLCA database, which was used by the service provider that evaluated "corporate" asset portfolios in the first wave of ratings and which is also used to assign emission volumes to government expenditures when rating government investments.

b. Macroscopic estimates

Emission volumes for certain assets have been estimated on the basis of averages, since neither itemized information nor the necessary tools are available. For example, the emissions for equity and investment holdings by governments (government bonds) and savings banks (balance sheet reserves) have been estimated on the basis of averages obtained by the Centre Info for assets of that type. Similarly, emissions connected with outstanding property loans, consumer credit, loans to SMEs and social housing loans, for example, have been estimated on the basis of country-wide sector statistics that are occasionally quite extensive.

c. Exchange-rate effect

Estimates of emissions by governments and businesses are based on metrics expressed in dollars. As a result, these metrics introduce an exchange rate bias that cannot be eliminated unless expenditures and income are available in each local currency.

d. Timeliness of data

Several emission factors are based on data that become available at various times. In government accounting, for example, indicators regarding the rate of health-care expenditure, social-welfare spending and military spending are not systematically submitted to the OECD and the World Bank at the same time.

Similarly, certain "rules of three" applied when calculating emission factors are based on statistics that may go back a decade in the absence of more recent government statistics.

e. Non-financial government assets

The methodology requires that users have access to an accounting profile of non-financial government assets. This concept has only recently emerged in government accounting, and very few governments provide a public accounting of such non-financial assets.

Moreover, when governments actually do place a value on their non-financial assets, the valuation is generally considered unreliable for the most part. In addition to the recognized problem of quality in inventories of public assets, the valuation method is subject to debate among experts.

As a result, the calculations are based on approximations that must be treated as orders of magnitude rather than duly reliable estimates. These orders of magnitude nonetheless yield measurements that are consistent overall.

f. Impact of the energy mix in each country

Measurements obtained using the data provided in the Carnegie Mellon database (which reflects the economic input/output of the US economy in 1997) were modified by applying the following ratio: $\text{GDP}(\text{country})/\text{CO}_2(\text{country}) \times \text{CO}_2(\text{US})/\text{GDP}(\text{US})$.

Applying a more rigorous method that takes greater account of the actual difference between a country's energy mix (e.g. the origin of electricity produced) and the structure of its economy (e.g. in health-care funding, the building's economic impact in terms of energy, wages and equipment) was unrealistic, given the scope of the project.

While it does not provide for a rigorously detailed assessment, the macroscopic use of a ratio that reflects variations in carbon intensity among different economies appears to be an acceptable compromise.

g. Neutralizing double counting

Any assessment of the entire value chain of goods or a company will necessarily lead to double counting. In the case of mutual funds, double counting has been neutralized using the methodological approach described in the body of the document.

This neutralization is based on exchanges among business sectors, which are themselves estimated on the basis of the economic input/output of the US economy in 1997 rather than the actual flows among the companies held in the portfolio.

This process of neutralizing double counting is applied only to mutual fund portfolios; it is not applied to savings products or composite products.

h. The "product use" phase in the financial sector

The unique value of the project is that it provides a measurement of the use phase of financial products. Therefore, when calculating the estimated value of an investment portfolio, the use phase of banking products should be taken into account, in accordance with Scope 3 of the GHG Protocol for companies in the sector.

The work currently underway with Centre Info has not yet yielded a satisfactory method for accomplishing this (one that is consistent with all of the work performed and can be applied on a broad scale using data published by the banks).

As a result, the decision was made to value monetary funds and euro-based life insurance funds on the basis of the ratio obtained for savings funds: an intensity of 220 tonnes of CO₂ equivalent per million euros outstanding.

The research being conducted with Centre Info will ultimately allow us to assess the bias introduced by this arbitrage.

The work now underway with Centre Info is based on:

1) The breakdown of activity profiles among banks into four major profiles:

- Credit (business and personal loans).
- Investment (market-based investment activity).

- Financing (financing of major projects).
- Services (services to individuals and professionals, i.e. banking and related services).

- 2) The valuation of the use phase through application of the CO2/GDP ratios calculated by the savings funds.
- 3) The accounting of use-phase emissions, based on the breakdown of banking activity by profile for the portfolio in question.
- 4) The neutralization of double counting, based on the "banking consumption" profiles of non-financial companies in the portfolio in question

^{iv} **Assumptions and limitations: undifferentiated allocation of emissions to different financiers**

The methodology assigns 100% of a company's emissions to its financiers, regardless of whether the financier holds a line of credit, a bond or an equity share. Thus, this method does not recognize the concept of governance, since it assigns the same financing role to equities and bonds (having the same nominal value). However, since a share confers ownership, it provides access to the company's governance and intrinsically carries a higher level of responsibility.

^v **Assumptions and limitations: application to government accounting**

With regard to government bonds, the absence of equity capital required that, instead of measuring financing volume on the basis of accounting liabilities, we use asset valuation. The gap between assets and liabilities yields an "invisible" form of financing for governments. This can be expressed in conceptual terms as citizen ownership of the State.

^{vi} **Assumptions and limitations: non-financial government assets**

The methodology requires that users have access to an accounting profile of non-financial government assets. This concept has only recently emerged in government accounting, and very few governments provide a public accounting of such non-financial assets.

Moreover, when governments actually do place a value on their non-financial assets, the valuation is generally considered unreliable for the most part. In addition to the recognized problem of quality in inventories of public assets, the valuation method is subject to debate among experts.

As a result, the calculations are based on approximations that must be treated as orders of magnitude rather than duly reliable estimates. These orders of magnitude nonetheless yield measurements that are consistent overall.

^{vii} **Assumptions and limitations: application to outstanding personal loans**

In the case of outstanding personal loans, the scope of emissions to be considered is determined by the nature of the product in question. For example, the methodology for an automobile loan assigns emissions arising from the vehicle's production, use and end-of-life rather than all of the emissions attributable to the loan recipient (consumer spending, energy spending etc.).

One could argue that the methodology is more favourable to outstanding personal loans than to business loans, for which the emissions inventory includes emissions generated by the company's operating expenses. Conversely, if individual emissions were to be taken into account in the case of a personal loan, individual spending by a company's employees and shareholders would have to be taken into account for a business loan as well.

^{viii} **Assumptions and limitations: neutralizing double counting**

Any assessment of the entire value chain of goods or a company will necessarily lead to double counting. In the case of mutual funds, double counting has been neutralized using the methodological approach described in the body of the document.

This neutralization is based on exchanges among business sectors, which are themselves estimated on the basis of the economic input/output of the US economy in 1997 rather than the actual flows among the companies held in the portfolio.

This process of neutralizing double counting is applied only to mutual fund portfolios; it is not applied to savings products or composite products.

Other assumptions and limitations regarding the calculation methods

In general, it should be borne in mind that carbon accounting is based on recent concepts and academic research in economics and management, and should be viewed in light of decades of studies and changing business-management practices, which today give us a better understanding of the notion of value-added and wealth creation.

a. Unresolved accounting guidelines

In the absence of a clear consensus among all those involved (businesses, governments and NGOs in particular) regarding certain significant concepts in carbon accounting, a number of issues have been set aside with respect to the current methodology:

b. Prevented emissions

Apart from more general methodological considerations described in the first section, this methodology does not explore the concept of the emissions prevented through the use of certain products. To do so, we would have to rely on a clear methodological consensus and related metrics. For example, what is the volume of emissions prevented per metric ton of insulating material produced?

Another commonly cited example is the lagging effect of savings on consumption, which is said to be comparable to the notion of prevented emissions. This would mean that any emissions thereby prevented would be deducted from the emissions associated with a savings product.

Given the complexity involved in adapting the principle of prevented emissions to the various sectors of the economy, the concept has been left out of the initial version of the methodology.

c. Carbon credits

This issue has not been addressed in depth in the current methodology. A manufacturer that invests in clean development projects in Annex II countries, for example, would not see a corresponding decrease in the emissions attributed to it.

Similarly, organizations that adopt a strategy of carbon neutrality using the offsetting options available on the market would not necessarily see a decrease in their actual emissions.