European Bank
for Reconstruction and Development

Approach to the Paris Agreement alignment of the EBRD's internal activities

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European Bank
for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) is committed to aligning all of its activities with the goals of the Paris Agreement on climate change.

The EBRD's approach to alignment with the Paris Agreement is guided by an implementation approach agreed by the multilateral development banks (MDBs). This approach has six "building blocks": (1) alignment with mitigation goals; (2) adaptation and climate-resilient operations; (3) accelerated contribution to the transition through climate finance; (4) engagement and policy development; (5) reporting; and (6) alignment of internal activities.

This document sets out how the EBRD operationalises building block 6 of the MDB implementation approach. It presents an approach for Paris alignment of the EBRD's own operations, Treasury activities and retirement plans, as well as an overall governance framework for Paris alignment at the Bank.

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Introduction

Context

1.1 The Paris Agreement is an international treaty with the goal of "holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels".[1]

1.2 All of the economies in which the European Bank for Reconstruction and Development (EBRD) invests have endorsed the Paris Agreement.[2] It also has the support of the Bank's shareholders.

1.3 At the 2021 Annual Meeting, the EBRD's Board of Governors committed to aligning all of the Bank's activities with the goals of the Paris Agreement by the end of 2022. Paris alignment is an integral part of the Bank's work to support the climate action of the economies in which it operates. It builds on the Bank's commitment to promoting "environmentally sound and sustainable development" in the full range of its investment and technical cooperation activities.[3]

1.4 The Paris alignment of the EBRD's financial flows is anchored in Article 2.1(c) of the Paris Agreement, which commits signatories to making "finance flows consistent with a pathway towards low greenhouse gas (GHG) emissions and climate-resilient development". Its alignment, therefore, refers to both the mitigation and adaptation goals of the Paris Agreement. In this methodology, low GHG emissions' development, or a "low-carbon economy", means to transition towards economic activities that produce low GHG emissions, in line with the goal of the Paris Agreement to limit the increase in global average temperature to 1.5°C above pre-industrial levels. It is a precursor to the ultimate goal of achieving a "net zero" carbon economy by around mid-century.[4]

Purpose and scope

1.5 This document sets out the EBRD's approach to ensuring the Paris Agreement alignment of its internal activities. This document covers the sixth building block of the MDBs' framework for alignment with the objectives of the Paris Agreement.[5]

1.6 The remaining parts of this document focus on the Bank's approach to Paris alignment of four core elements of internal activities (as shown in Figure 1.1):

[1] See United Nations (2015a). Adopted pursuant to Decision 1/CP.21 of the 21st session of the Conference of Parties to the United Nations Convention on Climate Change.

[2] Despite formally endorsing the goals of the Paris Agreement, Kosovo is not a signatory to the Paris Agreement, as it is not a party to the United Nations Framework Convention on Climate Change. All other economies in which the EBRD invests have signed and ratified the agreement.

[3] See EBRD (2019, 2020; 2021a).

[4] The Paris Agreement aims to strengthen the global response to the threat of climate change in the context of sustainable development and efforts to eradicate poverty. All of the EBRD's activities seek to make economies more competitive, well-governed, green, inclusive, resilient and integrated. These six transition qualities are aligned with the 2030 Agenda for Sustainable Development (United Nations, 2015b), which was adopted by all United Nations member countries in 2015, and its accompanying Sustainable Development Goals (SDGs).

[5] The joint MDB approach to alignment with the objectives of the Paris Agreement was presented at the United Nations Climate Change Conference (COP24) in 2018 (EBRD, 2018). The approach has six "building blocks" or "BBs" for Paris alignment: (BB1) alignment with mitigation goals; (BB2) adaptation and climate-resilient operations; (BB3) accelerated contribution to the transition through climate finance (in the EBRD's case, GET finance); (BB4), engagement and policy development support; (BB5) reporting; and (BB6) alignment of internal activities (for example, administration, procurement and treasury). Therefore, Paris alignment has a project-screening element (BB1 and BB2), a climate finance and policy element (BB3 and BB4) and a corporate element (BB5 and BB6). Complementing the MDB approach for climate change, MDBs are also working together on enhancing the way that broader environmental considerations are built into decision-making (see for example, the MDB Joint Nature Statement (MDBs, 2021)). The MDBs are the African Development Bank, the Asian Development Bank, the Asian Infrastructure Investment Bank, the EBRD, the European Investment Bank, the Inter-American Development Bank Group, the Islamic Development Bank, the New Development Bank and the World Bank Group (International Finance Corporation, the Multilateral Investment Guarantee Agency and the World Bank).

a. **Own operations:** The approach focuses on reducing GHG emissions from the EBRD's buildings, mobility and procurement. It is made up of five components: (i) continued assessment and reporting of the EBRD's own emissions; (ii) a proposal to set emissions reduction targets; (iii) a set of actions to significantly reduce the Bank's environmental footprint; (iv) an approach to carbon credits; and (v) regular reviews and revisions.

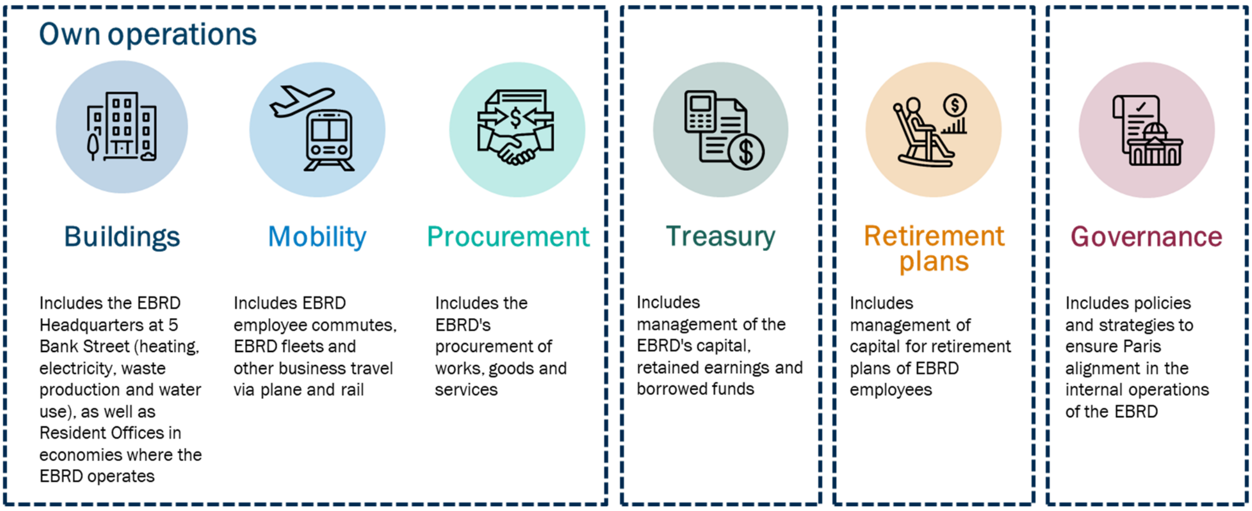
b. **Treasury activities:** The approach to Paris alignment is made up of three components that are assessed through a survey: (i) an analysis of the commitment to the goals of the Paris Agreement by counterparties to Treasury exposures; (ii) an assessment of how each counterparty understands, manages and quantifies climate change-related risks; (iii) an understanding of the counterparty's strategy on climate risks and opportunities. Following a baseline assessment, counterparties' progress will be subject to regular monitoring to assess progress towards Paris alignment, with an expectation of improved counterparty practices over time.

c. **Retirement plans:** The approach to Paris alignment is made up of three components: (i) to undertake climate change-related impact assessments of the Bank's retirement plan investments; (ii) to shift financial flows towards Paris-aligned investments; and (iii) the regular monitoring of climate-related impacts to inform future investment strategies.

d. **Governance arrangements:** The Bank's implementation of its Paris Agreement alignment commitment is governed in line with the Bank's broader governance structure. Given their differing nature, each of the building blocks has a separate governance framework.

1.7 The approach will be reviewed regularly and updated as required. Updates will reflect (i) lessons learned from applying the approach; (ii) the experience of other institutions with regard to the Paris alignment of internal activities; and (iii) external tools and references developed in relation to topics covered in this document.

Figure 1.1. Components of a Paris alignment approach for internal activities



2

Approach to the Paris Agreement alignment of the EBRD’s own operations

Management approach

2.1. In line with the EBRD's commitment to ensure that its own activities are Paris aligned, the Bank will transparently disclose and reduce its GHG footprint over time. The EBRD's approach to managing the Paris alignment of its own operations is based on a five-step process:

1. assess and report: assess GHG emissions at least annually and report the results publicly
2. set targets: set ambitious targets to reduce its own footprint
3. take action: take action to reduce emissions through its corporate policies and approaches
4. use of carbon credits: the role of carbon credits linked to EBRD's organisational emissions
5. review and revise: regularly review its targets and performance, and adjust them as necessary to ensure that they remain relevant, credible and ambitious.

2.2. The approach and actions set out in this section are primarily focused on climate mitigation and reducing the Bank's GHG footprint.

2.3. Alignment with the adaptation goals of the Paris Agreement are equally important, but in some cases, likely to be less relevant than mitigation considerations. In line with the future activities set out below, the Bank will assess the relevance of adaptation to its own operations and include measures as appropriate.[6]

Assess and report

2.4. The EBRD has been assessing and reporting the GHG footprint of its own operations since 2017, when the Bank committed to purchasing carbon offsets to cover the Bank's operational footprint. The EBRD's emissions inventory for its own operations is compiled in line with the GHG protocol.[7] Emissions, split into scope 1, 2 and 3, are disclosed in the EBRD's annual *Global Reporting Initiative* (GRI) report and set out in Box 2.1.[8] The scope of the GHG emissions covered by this section is the Bank's buildings, including regional offices, travel and procurement related to its own operations (see Box 2.1). This section does not cover any GHG emissions associated with EBRD's financing of investment projects.[9]

2.5. The EBRD will carry out an updated and more detailed GHG assessment of its own operations by the end of Q2 2023. This exercise will establish a new baseline that reflects the impact of the Bank's new headquarters and provides more detail on emissions associated with the purchase of goods and services.

[6] The EBRD has assessed the locations of its Headquarters and some of its largest offices and no climate change adaptation issues were identified.

[7] For more details, see Greenhouse Gas Protocol (2015).

[8] For more details, see EBRD (2022a).

[9] GHG assessments of the Bank's investment projects are undertaken in line with the requirements of the Bank's Environmental and Social Policy. Therefore, Financed emissions do not fall within the scope of the approach here, but are instead addressed through EBRD's approach to the Paris alignment of its investments. For more details, see EBRD (2022b).

Box 2.1. The EBRD's GHG footprint

Total GHG emissions from the EBRD's own operations were 12.8 kt CO_2e in 2021, the last full year of assessment. This is lower than normal, due to the pandemic and the associated significant reduction in business travel. In contrast, in 2019, the Bank's total emissions were 21.5 kt CO_2e.[10]

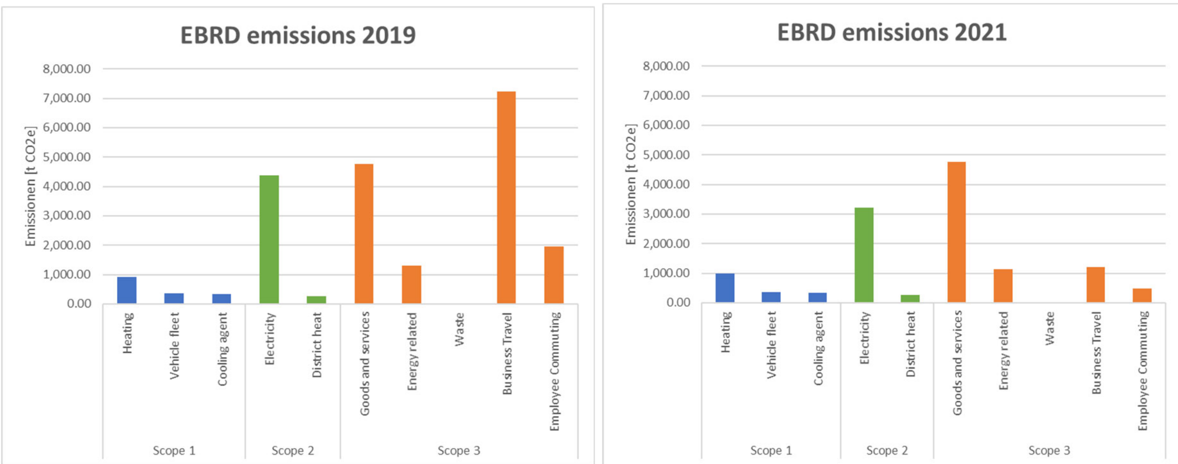
The charts below present the EBRD's GHG emission sources for 2019 and 2021.

a. Scope 1: As the EBRD has limited on-site heating and cooling generation and a small vehicle fleet, Scope 1 emissions are relatively low (8 per cent of emissions from own operations in 2019).

b. Scope 2: These are associated with electricity consumption and are significant (22 per cent of emissions from own operations in 2019).

c. Scope 3: These are the most significant source of operational emissions, resulting, in particular, from the procurement of goods and services and business travel.

The EBRD's scope 1, 2 and 3 emissions from own operations: 2019 and 2021



Setting targets

2.6. Following the completion of the updated baseline GHG assessment, the EBRD will set targets for reducing emissions from the Bank's own operations. The EBRD will use leading target-setting guidance to sets its target.[11] These targets will be agreed by Bank Management before the end of 2023.

2.7. In line with good practice, linked to its own operations, the EBRD is likely to:

a. establish targets for the end of 2025 and 2030 that reflect a low-carbon pathway, which is, in turn, consistent with the mitigation goals of the Paris Agreement

b. develop separate targets for Scope 1 and 2 emissions and for Scope 3 emissions

c. apply any targets to reductions in emissions prior to the use of carbon credits (see below).

[10] GHG estimates are taken from a tool developed in 2018 as part of a third-party footprint assessment commissioned by the EBRD. This assessment will be updated in 2023.

[11] For example, the Science Based Targets initiative (SBTi) has published guidance on setting science-based targets for companies (SBTi, 2021) and financial institutions (SBTi, 2022).

Taking action

2.8. The EBRD will develop actions plans to reduce its GHG emissions in buildings, procurement and mobility. These actions will be set out by the end of 2023.

Buildings

2.9. The Bank employs around 4,000 people, approximately 2,700 of whom are based at its London headquarters, with the remainder working from smaller offices in the economies where it operates. Since 2022, the Bank has adopted hybrid working practices, with staff splitting their working time between the office and home.

2.10. In 2022, the EBRD's London office moved to 5 Bank Street, Canary Wharf. The EBRD occupies 12 floors of a newly built office building. Environmental and climate considerations were embedded in the design and fit-out of the new offices. The building is rated BREEAM (Building Research Establishment Environmental Assessment Method) "outstanding" and, therefore, recognised for its excellent environmental and energy performance. Regional offices are typically rented single floors in office blocks.

2.11. As far as building-related emissions are concerned, the largest component is associated with the purchase of electricity, with the rest related to on-site heating and cooling. Actions related to buildings will take into account the Bank's status as a tenant and contractual arrangements for the purchase of electricity and other services (including waste and recycling).

Procurement

2.12. Goods and services purchased for the EBRD's own use include office equipment, IT and other support services and advisory services that support the Bank's business and policy engagement. GHG emissions associated with goods and services have so far been calculated using proxies based on total expenditure.

2.13. The Bank's procurement policy will be revised early in 2023. This revision will include a commitment to consider the climate change aspects of procurement, consistent with the Bank's overarching commitment to Paris alignment.

2.14. The Bank's procurement framework will identify and prioritise those procurement segments with the greatest need for immediate focus to mitigate the largest sustainability impacts in a phased approach. In developing this, the EBRD will take into account the waste hierarchy and aim to reduce its use of consumables, such as paper, before implementing re-use and recycling options.

Mobility

2.15. Mobility covers all aspects of work-related travel, including commuting, business-related rail and air travel, and the operation of the Bank's own vehicles. As an international development organisation, travel is an important component of the EBRD's ability to deliver its mission. It will continue to be necessary for EBRD staff to visit clients and projects sites and to meet with national governments, policymakers, civil society and other financial institutions. The Bank recognises that travel should be justified, proportionate and that less carbon-intensive options should be used where possible (see Box 2.2).

2.16. The EBRD will update its travel policy in 2023. When revising the policy, the EBRD will consider how to lower travel-related emissions (for example, prioritising lower-carbon alternatives to flying).

Box 2.2. The EBRD's travel GHG emissions

Prior to the pandemic, business travel, predominantly flying, was responsible for around one-third of the EBRD's total emissions from own operations, around 7,000 tonnes of CO_2e annually. In 2019, EBRD staff flew a total of around 40 million kilometres. In 2021, the total distance was around 10 per cent of that. Business-related travel has begun to increase again in 2022, but the new steady state is not yet clear.

Employee commuting was estimated to contribute just over 1,000 tonnes of CO_2e in 2019. Operation of the Bank's vehicle fleet contributed around 350 tonnes of CO_2e.

Use of carbon credits

2.17. Since 2018, the EBRD has purchased carbon credits to offset its organisational emissions (Scope 1, 2 and 3). To date, the bank has procured "Gold Standard" carbon credits on the voluntary market. This approach was in line with good practice at the time it was adopted. Current advice from the SBTi and the recent United Nations High-Level Expert Group on the Net-zero Emissions Commitments of Non-state Entities is that carbon offsets should not count towards decarbonisation commitments. Instead, organisations should purchase GHG removals to counterbalance residual or unabated emissions.[12]

2.18. In line with these recommendations and in light of emerging guidance, the EBRD is currently reviewing its approach to carbon credits. The Bank will set its new approach by the end of 2023.

Review and revise

2.19. The EBRD will assess its GHG footprint annually and publish the results. The Bank will also publish details of progress against other elements of this framework as they are developed.

[12] For more details, see SBTi (2021, 2022) and United Nations High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities (2022).

3

Approach to the Paris Agreement alignment of the EBRD's Treasury activities

Purpose and scope

3.1. The Bank's Treasury activities serve three main objectives:[13]

a. the provision and preservation of liquidity to support the Bank's business plan and operations
b. the management of the capital of the Bank, retained earnings and borrowed funds, and
c. local capital-market development and the provision of local currency funding.

3.2. This section sets out the EBRD's proposed approach to ensuring the Paris alignment of its Treasury exposures. Specifically, this refers to an assessment of Treasury counterparties, except in the case of "Use of Proceeds" instruments, such as Green, Social or Sustainability Bonds, where the assessment will primarily focus on the underlying investments.

3.3. The aim of this approach is to ensure that all counterparties to which Treasury has exposure will, over time, have institutional practices aligned with the aims of the Paris Agreement.

3.4. From 1 January 2023, all Treasury counterparties that are not subject to alignment determination under the Bank's Paris alignment methodology for its investment projects will require a current baseline assessment of Paris alignment to be undertaken using this approach.

3.5. The approach for Treasury exposures will apply to existing, active counterparties for Treasury exposures, as well as to new Treasury exposures. The approach will apply to Treasury counterparties, regardless of their size or geography.

3.6. The approach focuses on determining the alignment of counterparties to Treasury exposure and seeks to understand their incorporation of the goals of the Paris Agreement into their corporate strategies, as well as the degree to which they are making credible progress on aligning their financial flows with the mitigation and adaption goals of the Paris Agreement. This will be assessed over time against a baseline that will be established through engagement with Treasury counterparties, including through a survey (see Annex 1 for the survey the EBRD will use).

Considerations for determining the alignment of the EBRD's Treasury exposures

3.7. The nature of Treasury exposures requires the Bank to determine the alignment of the wider activities of the counterparty. This is because, with the exception of "Use of Proceeds" bonds, such as Green Bonds, the financial flow is linked to the counterparty's general asset pool.

3.8. While there is no single and consistent global standard for the Paris alignment of counterparties, the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), which focus on the financial risks associated with climate change, are emerging as a useful framework for indicating greater likelihood of Paris alignment at institutional level.[14] The recommendations focus on institutions' reporting of their management of emissions reductions, as well as their transition and physical climate risks. The fourth *TCFD Status Report* of October 2021 states that the recommendations have been adopted by more than 2,600 financial and non-financial companies in around 90 countries.[15]

[13] The Bank's Treasury is organised into six main business areas: Funding, Portfolio Management-Credit, Hard Currency Balance Sheet Management, Local Currency Balance Sheet Management, Client Solutions Group and Equity Capital Markets. Further information can be accessed here: https://www.ebrd.com/pages/workingwithus/capital/treasury.shtml.

[14] See TCFD (2021a) and TCFD (2021b).

[15] See TCFD (2021c).

3.9. In contrast to the EBRD's development-related exposures, nearly all Treasury exposures are to major and well-rated counterparties, and longer-term exposures can be sold, reversed or hedged. This creates a counterbalance to the fact that, also unlike most development-related investments, Treasury exposures require quick, market-based decision-making and, thus, an expedited Paris alignment assessment outcome.

3.10. The determination of Paris alignment does not aim to create a Treasury portfolio of "net zero" assets, but rather seeks to understand each counterparty's current climate footprint (including related business practices) and commitment to the Paris alignment goals. This will create a baseline for assessing the credibility and implementation of their environmental policies and strategy in order to track their transition over time.

3.11. While the information collected may be used in future to grade or compare different institutions with the potential for a resultant adjustment to the term or size of the credit line, the approach recognises that counterparties may currently be at different stages of their transition journeys, and that robust and ambitious strategies and commitments adopted by organisations over the next few years may see current laggards accelerate their progress towards the goals of the Paris Agreement. This approach recognises both the challenges of making a definitive assessment, especially for global institutions with significant and diversified balance sheets, and the over-arching importance of engagement with counterparties that state their willingness to align with the goals of the Paris Agreement.

Assessment approach

3.12. The EBRD's approach to the Paris alignment of its Treasury exposures is as follows:

a. A small percentage of Treasury exposures are to bank counterparties in countries where the EBRD operates in pursuit of the Bank's mandated commitment to the development of local capital markets, as well as the reduction of risks for the Bank's clients by offering local-currency loans, To avoid duplication, the Bank will exclude from its assessment those Treasury counterparties that are also EBRD Banking clients for whom a Paris alignment counterparty assessment has been carried out.[16]

b. Treasury exposures to governments that are signatories to the Paris Agreement will be determined to be automatically aligned, as will exposures to those governments' agencies and MDBs.

c. Treasury exposures to corporates whose business activities include the production of fossil fuels (including thermal coal, peat, oil and/or gas) will be determined automatically to be non-aligned and will, therefore, be excluded from investment.

d. All other counterparties will be subject to the five-pillar assessment framework. For all remaining counterparties to Treasury exposures, a further assessment will be undertaken.

Five-pillar assessment framework for Treasury counterparties

3.13. Anchored in the recommendations of the TCFD, the EBRD's approach to determining the Paris alignment of Treasury exposures not determined to be automatically aligned or excluded comprises five pillars:

Pillar 1: an assessment of a counterparty's explicit or implicit commitment to the goals of the Paris Agreement

Pillar 2: a determination of the degree to which the counterparty seeks to understand, quantify and manage climate-related risks from both a physical risk and transition risk perspective

[16] See EBRD (2022b). Where Treasury's local currency exposures are not to Banking clients, the EBRD, in line with the five-pillar framework, will engage with the counterparty to assess its Paris alignment.

Pillar 3: an understanding of the counterparty's strategy to address climate risks and opportunities and the organisational structure involved in its adoption, dissemination and implementation

Pillar 4: a baseline measure of the counterparty's exposure to high emission sectors, and any short-, medium- and longer-term targets to reduce such exposures

Pillar 5: a baseline measure of the counterparty's exposure to green investments and any short-, medium- and longer-term targets to scale up such exposures.

3.14. The EBRD will seek to assess the commitment of all counterparties to whom it has exposure to support the goals of the Paris Agreement and their strategy on climate-related risks and opportunities through their responses to a survey (see Annex 1). Such information may also be supplemented by assessments made by third parties, such as ratings agencies.

3.15. It may be that Treasury counterparties are not, at present, subject to any regulatory requirements linked to climate or implementing corporate climate governance in line with leading market practice. In such circumstances, the EBRD will assess the likelihood and timing of a move towards business practices consistent with the aims of the Paris Agreement.

3.16. Having established a baseline assessment through the survey, progress against the counterparty's commitments will be monitored on at least a biennial basis, comparing current practice with their baseline and the milestones set out in their response to the survey. There is an expectation of improved counterparty practice over time.

3.17. In the medium term, the outcome of the reassessment will result in one of three outcomes:

a. A determination of continued alignment with the EBRD Paris alignment approach (that is, progress milestones are being met and the counterparty is aligning practices with the aims of the Paris Agreement).

b. A determination that progress towards transition has slowed or is uncertain; where progress is determined to be uncertain, this may be reflected in the term or size of Treasury counterparty limits.

c. A determination of non-alignment (that is, progress milestones are not being met in a satisfactory way). Where there is a determination of non-alignment, the EBRD will no longer add new exposures to such counterparties. Furthermore, existing exposures will be liquidated if a counterparty's exposure to high-emitting sectors, is (a) more than 20 per cent of their annual turnover based on their latest reporting period or (b) more than 20 per cent of their new investments.[17]

3.18. Where the assessment relates to the EBRD's local-currency exposures (that are not to Banking clients), the EBRD, in line with the five-pillar framework, will engage with the counterparty to assess its Paris alignment. However, the Bank has limited influence over the small number of counterparties that can perform this business-critical local-currency role, and the exposures are typically short dated and *de minimis*. Accordingly, if the counterparty is unresponsive or determined to be non-aligned with the goals of the Paris Agreement, the EBRD may still maintain an exposure to this counterparty on the basis that:

a. its ability to offer local-currency lending is deemed dependent on such exposures;

b. the exposures are *de minimis* and short dated

c. the exposures are to financial institutions that are not direct emitters nor directly responsible for reducing physical and transition climate risks

d. the funds will eventually be used for Paris-aligned Banking operations.

[17] As set out in the survey, these sectors are: coal, oil, gas, metals and mining, chemicals, building construction, management and development, transportation associated with fossil fuels (air, rail, road and shipping), industrial-scale agriculture, and plastics, paper and forestry products.

4

Approach to the Paris Agreement alignment of the EBRD’s retirement plans

Purpose and scope

4.1. This document sets out the approach the EBRD will take to ensure the Paris alignment of its Final Salary Plan (FSP or retirement plan). The FSP is funded entirely by contributions from the Bank and provides a lump sum based on a percentage of final salary and tenure. This Plan is designed to provide lump-sum benefits after an EBRD employee leaves the Bank and is intended to be used to provide an income during retirement.[18]

4.2. For the purposes of its retirement plan, Paris alignment is defined as the set of actions the Bank will take to ensure related investments are aligned with the mitigation and adaptation goals of the Paris Agreement. These actions are expected to evolve over time as market and regulatory practice emerge, in turn informing the Bank's approach. From 1 January 2023, the Bank's retirement plan activities will be managed in accordance with the overarching approach set out here, including a set of specific actions in 2023 and monitoring implementation from 2024.

4.3. The scope of the approach is limited to investments made by the Bank linked to the FSP. The Bank funds its obligations under the FSP through investments following a "pooled fund" approach, so the Paris alignment approach applies to the investments of that pool. As of 30 September 2022, its value was £536 million, primarily invested in (global) equities.

4.4. The approach also includes other supplementary information relevant to its application. These are included separately in annexes to this note – an overview of the Bank's retirement plans (Annex 2) and a list of high-emitting activities jointly agreed with other MDBs (Annex 3).

4.5. The approach will be reviewed and updated as required. These updates will reflect, among other things, lessons learned by using the approach for different types of asset class in the Bank's retirement plans, the experience of other institutions (including other MDBs) with regard to Paris alignment, and the development of external tools and reference works.

Considerations in determining the alignment of the EBRD's retirement plans

4.6. The Bank's retirement plan is invested with the aim of making a financial return.[19] The funds are predominantly passively managed (as opposed to actively managed), so do not allow for the elimination or replacement of non-performing investments. In passively managed funds, the fund manager generally buys and holds securities so that the fund matches the performance of a benchmark index.

4.7. The retirement plan takes a "pooled fund" approach. Professionally managed pooled funds aggregate capital from a number of investors, giving them access to opportunities of scale typically available only to large institutional investors. The FSP is invested in equities, government/corporate bonds and a fund of hedge funds following such a pooled fund approach. In other words, the Bank's exposure to its investments is indirect.

4.8. The Bank's retirement plan investments face inherent challenges, which are important in defining the Bank's approach to Paris alignment. These are:

a. The Paris alignment of investment strategies for fund managers is still in its infancy. At present, there are very few fund options that meet Paris alignment requirements.

[18] The Bank separately provides eligible employees with a Money Purchase Plan (MPP), which is funded by both the Bank and the EBRD employee. The MPP provides its participants with a range of investment options they can choose from. It is excluded from the scope of this approach, as investment decisions in the MPP are made exclusively by its participants and are, therefore, not considered financing activities of the Bank. The Bank will, however, seek to offer a Paris-aligned fund option to MPP participants when feasible.

[19] The EBRD is restricted in its ability to select investment options for its retirement plan due to the unique nature of the plan. The FSP is, unlike other UK-based organisations' pension schemes, not registered with the UK Government. Moreover, the assets are not held in a separate, legally identifiable entity, as is common for pension schemes, so the FSP's financial assets sit on the EBRD's balance sheet.

b. The Paris Agreement has specific goals related to both mitigation and adaptation. However, investment strategies focusing on climate change mitigation are much more prevalent and advanced than those focused on adaptation.

c. There are currently few companies that can be considered Paris aligned today, so investing ultimately relies on investing in companies that are in transition, which in turn requires an assessment of whether their transition is credible.

d. The exclusion of certain activities (for example, fossil fuels) is not immediately practical because of the pooled, passively managed fund approach.

4.9. All of this means that the approach the EBRD takes to the Paris alignment of its retirement plan will need to evolve as the market and regulatory options it can use become available.

Assessment approach

4.10. Informed by discussions at the MDB level on the topic of Paris alignment for pensions, and in addition to the considerations set out above, the EBRD's approach to the Paris alignment of its retirement plan comprises three pillars (see Figure 4.1):

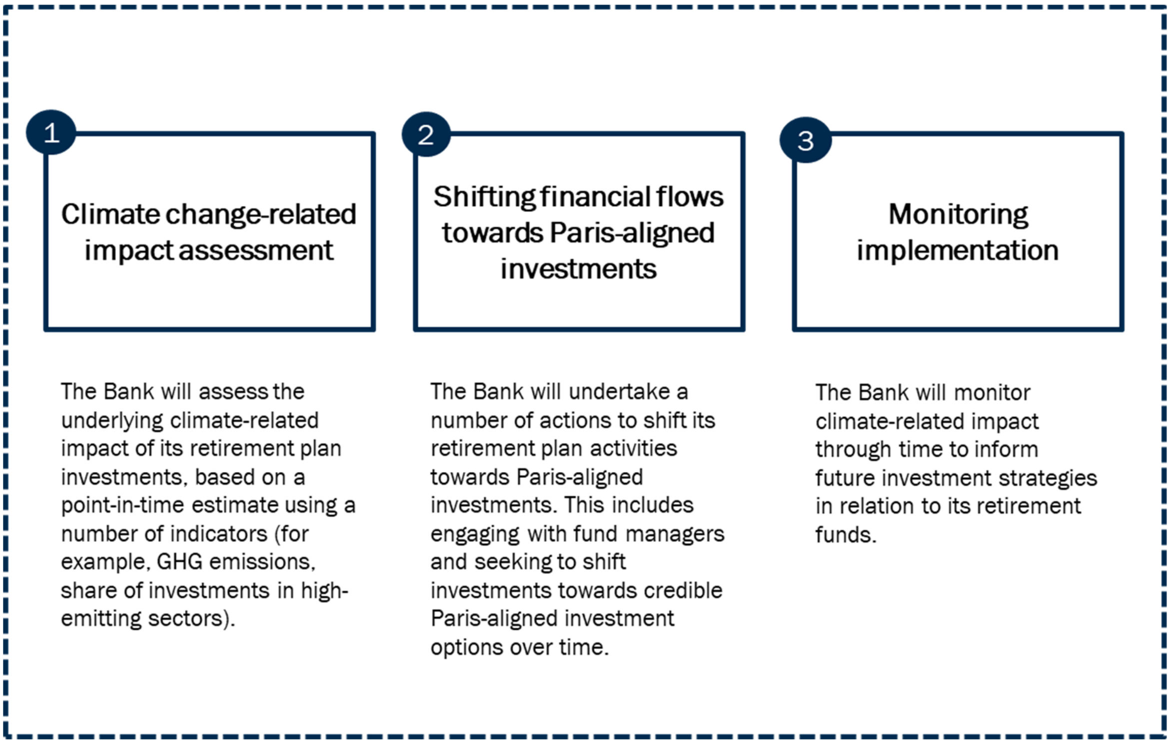
Pillar 1: Climate-related impact assessment. The Bank will assess the underlying climate-related impact of its retirement plan investments, based on a point-in-time estimate using a number of indicators (for example, GHG emissions, share of investments in high-emitting sectors).

Pillar 2: Shifting financial flows towards Paris-aligned investments. The Bank will undertake a number of actions to shift its retirement plan activities towards Paris-aligned investments. This includes engaging with fund managers and seeking to shift investments towards credible Paris-aligned investment options over time.

Pillar 3: Monitoring implementation. The Bank will monitor climate-related impact over time to inform future investment strategies in relation to its retirement plan.

Each of the three pillars is explained in more detail below.

Figure 4.1. EBRD approach to the Paris alignment of its retirement plan



Pillar 1: Climate change-related impact assessment

4.11. The Bank will assess the climate change-related impact of its FSP investment holdings based on the following approach. It will identify:[20]

a. An estimate of the GHG footprint of its portfolio – in line with best practice and the Bank's GHG protocol. The purpose of this is to determine the carbon footprint of the EBRD's investments against which progress can subsequently be measured.[21]

b. Holdings in high-emitting sectors. This is based on a list of activities agreed with the MDBs (see Annex 3). This will allow the tracking of such exposures over time.

c. High-emitting holdings have been deemed by leading external organisations, such as the Science Based Targets Initiative (SBTi) and Transition Pathway Initiative (TPI), to be aligned with the mitigation goals of the Paris Agreement. The purpose of this is to assess such holdings against certain alignment metrics over time.

d. Whether any holding has any public policy disclosure related to climate change, including the share of its investment in climate-related activities (informed by credible reporting requirements, such as those required by the European Union). This would ensure alignment with existing and future reporting requirements and expectations as they develop over time.

4.12. Based on this assessment, the EBRD will identify high-emitting sectors and companies. The Bank will then review the extent to which underlying investments pose a risk of financing investments that are not aligned. The outcome of this assessment will inform subsequent steps under pillar 2.

Pillar 2: Shifting financial flows towards Paris-aligned investments

4.13. Informed by the analysis under pillar 1, the Bank will:

a. Engage with fund managers to better understand their approach to the alignment of their portfolios with the objectives of the Paris Agreement. This will include engagement with the Bank's existing fund managers and others to request details of how they are incorporating climate-related considerations into their fund management activities.

b. Seek to shift investments towards credible Paris-aligned investment options over time.

   i. This will include shifting investments to fund managers with a good governance approach to climate change, in line with leading market approaches.

   ii. Redeploy FSP investment holdings into pre-defined and credible Paris-aligned funds.[22] This includes influencing fund managers' investment decisions towards sustainable finance (for example, looking to increase the share of labelled green bonds in investments over time).

[20] This will be applied where it is practical to do so. For example, it is not expected to apply to holdings of government bonds by governments that are signatories to the Paris Agreement.

[21] See the EBRD protocol for assessing GHG emissions here: https://www.ebrd.com/documents/admin/ebrd-protocol-for-assessment-of-greenhouse-gas-emissions.pdf.

[22] There are a limited number of Paris-aligned fund options for the Bank's investments in global equities currently. These include the LGIM ESG Paris Aligned World Equity Index Fund, the BlackRock iShares MSCI World Paris-Aligned Climate UCITS ETF and the SSGA Sustainable Climate World Equity Fund. No suitable Paris-aligned fund option has been identified for emerging-market equities.

Pillar 3: Monitoring implementation

4.14. Over time, through the implementation of pillar 2, the EBRD expects: (1) its fund managers to incorporate climate change considerations into their investment decisions in line with best practice and (2) that investments will be shifted towards investments that can demonstrate credible support for the goals of the Paris Agreement.

4.15. To monitor implementation of its overall approach, the following indicators will initially be tracked to understand:

a. the GHG footprint of the Bank's FSP investment holdings[23]

b. the share of high-emitting sectors and companies in the investment portfolio

c. any public assessments of the climate action of companies in which the EBRD holds an investment

d. fund managers' explicit commitment to the goals of the Paris Agreement

e. fund managers' approach to understanding climate risks and opportunities and the organisational structure involved in its adoption, dissemination and implementation (this will draw on leading market practices and regulatory requirements)

f. fund managers' strategy to reduce their funds' climate change impact and invest in climate change solutions.

4.16. Monitoring implementation will take place periodically and will cover market experience, regulation and best practices as they emerge. Decisions on the Bank's FSP holdings (pillar 2) will be made in the context of this evolving landscape, which may similarly inform changes to the approach over time.

Priority actions for 2023

4.17. The following actions have been identified as immediately relevant to the implementation of the approach in 2023. Monitoring implementation (pillar 3) will start from 2024.

Pillar	Activity in 2023
1 – Climate change-related impact assessment	Overview of FSP investment holdings, with investments assessed for risk of Paris non-alignment risk
	Assessment of underlying climate-related impact of retirement plan investments
2 – Shift financial flows towards Paris-aligned investments	Engagement with fund managers on Paris alignment to: (a) understand their ability to exclude certain sectors/companies where practical and (b) identify fund managers with a best-practice climate governance approach
	Set out options for the Retirement Plan Investment Committee (RPIC) to invest in Paris-aligned funds
3 – Monitoring implementation	Finalise monitoring and reporting framework

[23] This will first be undertaken in 2023 and will be repeated periodically in support of pillar 3 assessment (monitoring implementation).

5

Governance of Paris Agreement alignment at the EBRD

Paris alignment and the governance structure of the EBRD

5.1 The EBRD is owned by 71 countries, the European Union and the European Investment Bank. Each shareholder has an individual representative on the EBRD's Board of Governors, which has overall authority over the Bank and is responsible for approving its strategic direction.

5.2 The Board of Governors delegates most powers to the Board of Directors. The Board of Directors approves the EBRD's high-level policies, its overall resources and its country, sectoral and thematic strategies.

5.3 The President is elected by the Board of Governors. The President and other members of Management are advised on Paris alignment matters by the following committees:

a. The Executive Committee advises the President on all matters of strategic importance to the Bank. This includes the Bank's overall Paris alignment ambition.

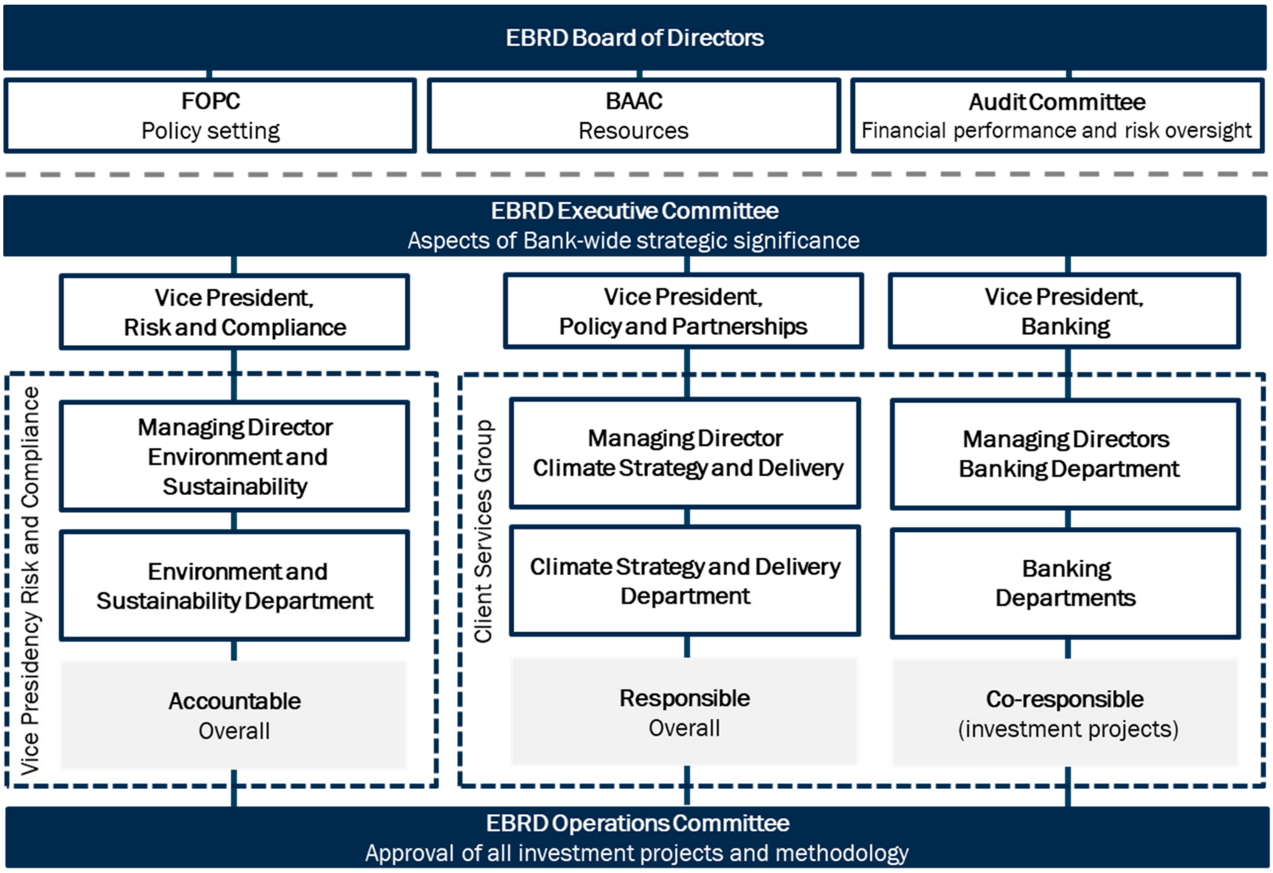
b. The Operations Committee considers matters related to the Bank's investment operations, including the Paris Agreement alignment assessment of individual investments.

c. The Audit Committee oversees the Bank's performance against its institutional objectives, including Paris alignment.

5.4 Given their differing nature, each of the building blocks has a separate governance framework, explained below.

5.5 See Figure 5.1 for a summary of the EBRD's governance framework.

Figure 5.1. EBRD governance framework for Paris alignment matters



Governance for the six building blocks of the joint-MDB Paris Agreement alignment framework

Building Blocks 1, 2 and 3: Alignment with mitigation goals, adaptation and climate-resilient operations, and accelerated contribution to the transition through climate finance

5.6 The EBRD has adopted internal governance measures to verify compliance with the requirements of Paris alignment in its investment operations. This is guided by its *Methodology to determine the Paris Agreement alignment of EBRD investments.*[24] As the first line of defence, the Bank's Climate Strategy and Delivery (CSD) Department is responsible for the implementation of the methodology. It works closely with the Banking departments, which take the lead on investment preparation. As the second line of defence, the Environment and Sustainability Department (ESD) is accountable for independently verifying that the alignment determination of EBRD investments, including any requirements following investment signing, is in line with the methodology. The Internal Audit Department independently assesses the effectiveness of the processes within the first and second lines of defence. The work of the Internal Audit Department is complemented by that of the Evaluation Department, which independently evaluates the performance of the Bank against its mission and development objectives, including Paris alignment.

5.7 The same governance structure is in place for the Bank's attribution of climate finance for its investment projects. CSD is responsible for supporting Banking departments in project origination and assessments relating to climate finance in investment projects, and the ESD is accountable for independently verifying climate finance attribution.

5.8 Matters relating to the Paris alignment and climate finance of EBRD investment projects are part of the documentation submitted to the Bank's Operations Committee. If and when approved by the committee, the information is submitted to the Board of Directors, which ultimately approves projects. Depending on project size and type, some projects are delegated to other approvers.

Building Block 4: Strategy, engagement and policy development

5.9 The CSD department is responsible for technical assistance and policy dialogue with respect to climate-related business operations under the Bank's Green Economy Transition approach. It works closely with Banking and other departments to deliver these objectives. The Vice President for Policy and Partnerships is accountable.

Building Block 5: Reporting

5.10 ESD is responsible for preparing and issuing the Bank's flagship publication on sustainability matters, the Sustainability Report, on an annual basis. It liaises with all other parts of the Bank in preparing its content. The report is approved by the Bank's Strategy and Policy Committee for transmission to the Financial and Operations Policies Committee (FOPC) for information before the report is published on the Bank's website. The report includes relevant information on the Bank's progress on Paris alignment across its six building blocks.

5.11 Risk Management is responsible for preparing an annual report based on the voluntary reporting framework of the TCFD. This includes elements and disclosures related to Paris alignment. Risk Management liaises with other parts of the Bank in preparing its content. The report is approved by RiskCom (at Management level) for transmission to the Audit Committee (at Board of Directors level) for information before the report is published on the Bank's website.

[24] See EBRD (2022b).

Building Block 6: Align internal activities

5.12 The responsibility and accountability for building block 6 is under review and will be clarified early in Q1 2023, in line with the overall RACI (responsible, accountable, consulted, informed) matrix for Paris alignment.

5.13 Responsibility for the alignment of Treasury activities with the goals of the Paris Agreement lies with the Bank's Treasury Department (with support from CSD), while ESD is accountable.

5.14 Responsibility for the alignment of the retirement plans with the goals of the Paris Agreement lies with Human Resources (with support from CSD), while ESD is accountable. This area is also overseen by the Bank's Retirement Plan Investment Committee.

Supplementary material

Annex 1. The Paris alignment survey sent to Treasury counterparties

A1.1. Commitment: Has your institution publicly committed to aligning your business strategy and/or your lending and investment portfolios with the low-carbon, climate-resilient economy required by the Paris Agreement?

- If yes, please provide links to any publicly available information, such as a net zero or Paris alignment pledge.
- If no, please explain the current climate-related approach.

A1.2. TCFD: Have you published a TCFD report that details your approach to managing climate-related risks?

- If yes, please provide links to your most recently published TCFD report.
- If no, do you plan to publish a TCFD report in the next 12 months? Yes/No.
- If no, please explain how climate-related risk assessments are undertaken to assess both the existing portfolio and new investments and loans from both a physical risk and transition risk perspective.

A1.3. Governance: Does your institution have Board-level involvement in developing and approving policies and targets related to climate risk?

- If yes, please summarise Board-level involvement.
- If no, do both the Risk and Audit Committees address climate risk?
- If no, how are climate-related risks ad opportunities disseminated across your organisation?

A1.4. Assets ratios and targets (high-emission sectors): For the latest available reporting period, what were the total amounts of assets linked to each of the high-emission sectors listed below? What percentage of total assets do they represent? What short-, medium- and long-term targets have you set for reducing such financing?

- Coal
- Oil
- Gas
- Metals and mining
- Chemicals
- Building construction, management and development
- Transportation associated with fossil fuels (air, rail, road and shipping)
- Industrial scale agriculture
- Plastics, paper and forestry products

Please provide any publicly available links to information that supports your response, as well as to any sector strategies you have set for minimising associated risks.

A1.5. Asset ratios and targets (low-carbon and environmentally sustainable sectors): For the latest available reporting period, what were the total amounts of assets linked to each of the low-carbon and environmentally sustainable sectors listed below? What percentage of total assets do they represent? What short-, medium- and long-term targets have you set for scaling up such financing?

- Renewable energy
- Green buildings
- Low-emission-transport
- Investments focused on biodiversity and reforestation
- Climate-resilient investments
- Circular economy investments

Please provide any publicly available links to information that supports your response, as well as to any sector strategies you have set.

A1.6. Disclaimer: Please note any data limitations due to current methodologies, assumptions and/or any omitted information.

Annex 2. Overview of the EBRD's retirement plans

A2.1. The EBRD provides eligible employees with two complementary retirement plans: (i) the FSP and (ii) the MPP. On leaving the Bank, plan participants will receive a lump sum amount from these plans, intended to be used to provide an income during retirement.[25]

A2.2. The FSP is funded entirely by the Bank and provides a defined-benefit lump sum calculated on the basis of a percentage of final salary and tenure. The MPP is a defined contribution arrangement funded by both Bank and employee contributions, which are invested in the employee's chosen MPP funds. Participants in the MPP have a choice of 18 funds to invest in, including a default fund (SSGA's UK Biased Blended Fund). The value of the benefit depends on variables such as the amount paid in, investment choices and the performance of the underlying funds. As such, participants in the MPP are exposed to market/investment risk, which is the main distinguishing feature from the Bank's FSP.

A2.3. The assets of the retirement plans are kept and invested separately from all other Bank assets and are used solely to provide the benefits and pay the expenses (if any) of the retirement plans.

Governance

A2.4. The plans are governed by a number of committees. The Retirement Plan Committee (RPC) has overall responsibility for carrying out the rules of the Bank's retirement plans. The President (Chair), First Vice President and Head of Client Services Group (Vice Chair), Vice President Finance, two Directors of the Bank named by the Board of Directors, the Managing Director of Human Resources, the Secretary General and General Counsel of the Bank sit on the RPC. In addition, two staff members are elected to represent staff at the RPC. The RPC decides all matters of a general policy nature relating to the retirement plans. The RPC appoints a Retirement Plan Administration Committee (RPAC) and a Retirement Plan Investment Committee (RPIC).

A2.5. The RPAC consists of three people appointed by the RPC, on nomination by the President. The RPAC is responsible for the administration of the retirement plans and payment of benefits.

A2.6. The RPIC consists of up to seven people appointed by the RPC, on nomination by the President. The RPC designates a member of the RPIC as Chair (currently Vice President Finance). The RPIC determines and directs the management and investment of the assets of the retirement plans. This includes determining the investment strategy of the FSP, determining the MPP funds available for plan participants to invest in, and choosing the MPP default fund.

Holdings in the FSP

A2.7. The Bank's FSP consisted of the following investments as of 30 September 2022:

Fund allocation	Investment value (£ million)	Share (percentage)
Global equities (UK, North America, Japan, Europe ex-UK and Asia Pacific ex-Japan)	237.7	45.1
Emerging-markets equity	49.9	9.5
Fund of hedge funds	48.2	9.1
Index-linked Gilts	200.2	37.9
Total	**536.1**	**100**

Source: Mercer (September 2022). Note: Figures may not add up to the total due to rounding.

[25] Or earlier in the case of the MPP for specific purposes (such as the purchase of a house or for education) and only after having completed three years' MPP service.

A2.8. Equities make up the largest share of the Bank's FSP holdings (about 55 per cent). Around 45 per cent of these are in global equities and a further 10 per cent or so in emerging-market equities.

A2.9. The fund of hedge funds includes asset classes such as derivatives and other (frequently traded) financial instruments for which, save for excluding such assets from the scope of the approach, there are currently no Paris-aligned alternatives. The Bank's investment in the fund of hedge funds amounts to around 10 per cent.

A2.10. The Bank's exposure to UK government bonds or Gilts is about 35 per cent. The UK is a signatory to the Paris Agreement and is committed to achieving its objectives, as most recently reconfirmed by its Nationally Determined Contribution (NDC). The UK has committed to reducing its emissions by at least 68 per cent by 2030 from 1990 levels and also has a net-zero emissions target for 2050 enshrined in law (Climate Change Act 2008 (2050 Target Amendment) Order 2019). The Bank's ability to influence the Paris alignment of government bonds is low. The Bank can, however, assess and track the issuing government's NDC and progress over time to ensure climate action is being taken in line with the Paris Agreement.

A2.11. The Bank's equity and gilts portfolio is invested through State Street Global Advisors (SSGA), while its fund of hedge funds holding is with Blackstone.

MPP

A2.12. The Bank's MPP provides plan participants with the option to invest in 18 funds managed by SSGA. The default option is SSGA's UK Biased Blended Fund, in which 36 per cent of MPP assets are invested.[26] UK government bonds account for a 30 per cent share of the UK Biased Blended Fund, while 20 per cent is invested in cash, meaning that close to 24 per cent of MPP investments is invested in UK government bonds and cash combined (when allowing for investments in the separate UK bond and sterling cash funds. as well as investments through the UK Biased Blended Fund).[27]

[26] As at 30 September 2022.

[27] Including a direct 0.5 per cent share.

Annex 3. High-emitting sectors

A3.1. With other MDBs as part of technical discussions in the MDB Paris Alignment Working Group, the following sectors have been identified as high emitting. The sectors represent a shared view as of December 2022 and will be revised and updated in consultation with other MDBs on a regular basis. The sectors are:

a. fossil fuel-dependent industries and activities: operations whose economic feasibility depends on external fossil fuel exploitation, processing, and transport activities; operations whose economic feasibility depends on existing fossil-fuel subsidies; operations that rely significantly on the direct utilisation of fossil fuels.[28]

b. fossil fuel-based industries: gas production, oil and gas distribution, power generation, heat supply.

c. energy-intensive industries or high-emission industrial processing: chemicals, hydrofluorocarbons, iron and steel, pulp and paper, non-ferrous metals (such as aluminium, copper), non-metal minerals (such as cement, lime, glass).[29]

d. aviation: understood as aircraft manufacturing and operations, aircraft leasing, airline operations, airport operations, air-freight transport of goods and products.

e. shipping and other forms of transport as a core business.[30]

f. animal products: ruminant livestock supply chain and non-ruminant livestock with non-negligible GHG emissions, both including feed supply.

g. sectors or activities that may directly lead to expansion or promote expansion into areas of high-carbon stocks or high biodiversity areas (such as soybean, palm oil, sugar, cacao, wood products, buildings).[31]

[28] To be defined by the MDB in terms of the specific production conditions of the counterparty.

[29] The EBRD's interpretation of energy-intensive industries is: base chemicals manufacturing, cement manufacturing, glass manufacturing, lime manufacturing, pulp and paper making, primary aluminium and copper smelting, iron and steel smelting.

[30] For example, shipping companies or companies that depend on shipping for their business model. Other forms of transport include, for example, car rental companies.

[31] Excluding counterparties that have third-party certification or evidence that they are not expanding or promoting expansion into areas of high carbon stocks or high biodiversity areas. In interpreting the scope of this provision, the EBRD will be guided by the definitions and requirements of the Bank's Environmental and Social Policy, particularly in relation to supply chains and the protection and conservation of biodiversity, priority biodiversity features and critical habitats (EBRD, 2019).

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