Financial System Benchmark Methodology

December 2021

World Benchmarking Alliance
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The world faces environmental and social challenges of unprecedented scale and urgency. We are already deviating from our aim to limit global warming to 2°C by the end of this century, putting the more ambitious target of 1.5°C even further out of reach. This deviation risks crossing a number of earth’s tipping points, with unpredictable consequences for our planet.1 We are in the middle of the sixth mass extinction in terms of biodiversity, on which half of the global economy depends. On the social front, inequality is growing for more than 70% of the population, with the world’s richest 1% having more than twice as much wealth as 6.9 billion people.2

Moreover, the COVID-19 pandemic has set back progress towards meeting the Sustainable Development Goals (SDGs), with the financing gap in developing countries estimated to have increased by 70% to some USD 4.2 trillion per year.3 These issues are not unrelated. Global warming influences nature and biodiversity, and climate change is making the world’s poorest countries even poorer, which could reverse the progress made in reducing inequality. These sustainability transitions pose immense risks to people and planet as well as to the globalised economic system.

Financial institutions are key enablers of the economic system. They serve as facilitators and intermediaries for encouraging, mobilising and allocating funds towards their most productive use. They play a critical role in diversifying and mitigating risk. They promote economic growth, drive investment and employ millions of people worldwide.

Yet financial institutions are now part of what has evolved to be a complex and opaque system, disconnected from customers, mistrusted by citizens4 and confusing the means (financial activity) with the ends (society’s needs).5 As a result, economic activity continues in ways that contribute to a number of negative social and environmental impacts and increasing systematic risks for the economy and financial institutions themselves.

Financial institutions have a responsibility to address global sustainability transitions. This is not only because of the risk these transitions pose to financial institutions or because it is an opportunity for financial institutions to demonstrate leadership and engage clients, but also because the purpose of the financial system, is to be a facilitator of economic activity ‘in ways which support an inclusive and sustainable real economy’.6 The aim of the financial system should be to serve people and planet, not the other way around.

Our vision for the financial system transformation is one in which financial institutions not only address their negative impacts, intended and unintended, but also serve the societies and ecosystems in which they operate, offering solutions and delivering positive impact. This goes beyond making net-zero commitments to reorienting capital towards a restorative, regenerative and equitable economy.
We realise that this may represent a departure in the way financial institutions currently approach sustainability. In some jurisdictions, like the United States, these issues are highly political. But this change in approach is needed to transform the financial system so that it, in turn, can finance the multiple economic and social transitions ahead.

The Financial System Benchmark will assess 400 leading financial institutions (asset owners, asset managers, banks, insurers) on their readiness to address global sustainability transitions and their contribution to the 2030 Agenda for Sustainable Development. This methodology, which was informed by extensive global consultations, presents the key topics on which stakeholders, including regulators and policymakers, expect financial institutions to act. We have distilled the vision set out above into a set of practical actions, based on the best available science and globally agreed standards on what is expected from financial institutions, including the significant regulatory changes taking place in different parts of the world. As such, the methodology is intended as a system-level tool for regulators and stakeholders to hold financial institutions to account and as a road map that could assist financial institutions in transitioning.

We will start data collection, verification and engagement with the financial institutions in the scope of the benchmark in January 2022, with the aim of publishing the full benchmark, including the ranking, by the end of 2022.
Benchmarking for a better world
The World Benchmarking Alliance (WBA) is building a movement to increase the private sector’s impact towards a sustainable future for all.

In 2015, the UN set out a supremely ambitious and transformational plan of action for people, planet and prosperity. The 17 Sustainable Development Goals (SDGs) demonstrate the scale and ambition of this agenda, stimulating action in areas of critical importance to humanity and the planet.

The private sector has a crucial role to play in advancing the SDGs and contributing to the systems transformations needed, but this requires real change in the way that the impact of business is measured to boost motivation and stimulate further action. Together with Allies from the public sector, industry, business, financial institutions, and civil society, WBA is developing transformative benchmarks to measure companies’ progress against the global challenges we all face.

The benchmarks demonstrate to companies and their stakeholders where they stand compared to peers and where they can improve. This information provides business and stakeholders with a roadmap for the transformations ahead, showing how sectors can positively leverage their influence and where action is urgent. The benchmarks are informed by best available science and build on existing norms and standards, frameworks and initiatives.

They are free for everyone to use and are continually improved through open and inclusive multi-stakeholder dialogue. By virtue of being public, the benchmarks empower all stakeholders, from consumers and investors to employees and business leaders, with key data and insights to encourage sustainable business practices across all sectors.

Seven systems transformations
WBA has identified seven systems transformations that are needed to put our society and economy on a more sustainable path (Figure 1). The transformations offer a strategic framework to develop benchmarks and identify keystone companies that are vital for achieving the SDGs.
About WBA and the seven systems transformations

WBA focuses on keystone companies (the SDG2000) with the greatest potential to positively or negatively impact the systems in which they operate. The SDG2000 span public, private and state-owned companies and represent USD 46 trillion in collective revenues. The companies are spread across 80 countries and directly employ over 100 million people, with a quarter of the companies headquartered in developing, emerging or frontier markets.

By 2023, WBA will assess and rank the performance of these 2,000 companies across the seven systems transformations.

Financial institutions play a dual role in this systems transformation framework. The first is the need for them to undergo their own transformation, which is the focus of this benchmark. The second is in terms of their influence on companies operating in the other six systems. To this end, and in addition to our benchmark methodologies and results being freely available for all to use, WBA works with investors to engage companies, using the insights provided by our benchmarks, including through cross-sector coalitions aimed at positively influencing corporate behaviour change.
The financial system is at the heart of our economy. It serves as a facilitator and intermediary for encouraging, mobilising and allocating funds towards their most productive use and plays a critical role in mitigating risk. Financial institutions are part of a system that, ideally, enables economic growth and serves society.

However today, the financial system does not systematically operate in support of a sustainable real economy. As a result, economic activity continues unchecked, contributing to multiple negative impacts on people and planet, increasing systematic risks for the economy and for financial institutions themselves.

Operating norms
There are several widespread operating norms that currently act as barriers to the financial system transformation (for more details, see the Financial System Transformation Scoping Report and Financial System Benchmark Draft Methodology).

- There is a failure to price in negative externalities and the negative impacts on nature and society, although the aggregation of these externalities across markets and over time poses a systematic risk to the market as a whole.
- There is a focus on environmental, social and governance (ESG) factors only insofar as they affect a company's or asset's financial value, often in the short term.
- Financial institutions use their own definitions of sustainability and impact, instead of aligning with international frameworks based on planetary boundaries and societal conventions.
- There is a concentration of decision making, both geographically (in North America, Europe and Asia) and socially (typically by white or Asian men).
- The financial system is characterised by a high degree of complexity coupled with a lack of transparency, contributing to a feeling of remoteness from citizens.

Levers of impact
Financial institutions are uniquely positioned to help put economic activity on a sustainable path, in line with planetary boundaries and societal conventions. They wield great power through their business activities and the decisions they make on what to finance, to insure and under which conditions, and which products and companies to invest in. They can widen access to usually excluded groups, they can divest, engage with companies and vote in favour or against board directors and company policies.

In addition, they can be instrumental in the way they engage with and lobby policymakers. They can engage with the political process, individually or collectively, and can even influence the ‘rules of the game’. This can have significant impact, as demonstrated recently by a group of banks that resisted committing to the most explicit road map for achieving net-zero greenhouse gas emissions by 2050, just weeks before the COP26 climate talks in Glasgow. Furthermore, financial institutions often have a privileged seat at the table, given their hugely influential role in driving economic activity.
Finally, financial institutions have impact through their own operations, in the way they treat their employees and contractors or manage their community relations. Although this is often considered to be financial institutions’ least significant area of impact, determinants of organisational influence start at corporate headquarters. The way financial institutions approach their ecosystem is embedded in their culture, governance and leadership and drives practice across operations and business strategies and, ultimately, outputs, outcomes and impact.

Our vision for the financial system transformation is one in which financial institutions act in ways that not only respect our finite planetary resources and leave no one behind but also offer solutions. This is aligned with UNEP FI’s view that the purpose of the financial system is to be a facilitator of economic activity ‘in ways which support an inclusive and sustainable real economy’.

It is also aligned with a system-level approach to investing (see Box 1).

BOX 1 SYSTEM-LEVEL INVESTING

System-level investing is ‘the intentional consideration by investors of the bigger-picture environmental, social or financial system context of their security selection and portfolio construction decisions’. A term coined by The Investment Integration Project (TIIP), system-level investors recognise that as a collective investment community, they can foster an environment and society that promotes long-term growth, not at the expense of long-term investment prospects but in support of them. It is the difference between focusing solely on assessing, mitigating and managing the impacts of financing individual assets or enterprises on environmental and social issues, versus seeking to assess and influence the impacts of the market on such issues. Distinct from following the market (beta) or trying to beat the market (alpha), system-level investing is action to inform and influence a better beta.

System-level investors recognise that acting to inform and influence the market in this way is central to, rather than in conflict with, enhancing long-term investment returns. System-level investing solves the major paradox of the dominant investment paradigm of modern portfolio theory (MPT). MPT assumes that investors cannot escape (or diversify away from) the impact of systemic risks embedded in social, environmental and financial systems. MPT was not designed to address the systemic and systematic risks that threaten our shared systems, from climate change and biodiversity collapse to social and economic inequalities. Yet non-diversifiable financial risks affect 75-94% of the variability of market returns.

Investors need to address these risks to fulfil their dual purpose of supporting economic prosperity through the efficient allocation of capital and helping clients and beneficiaries.
achieve their financial objectives. Indeed, acting to avoid systemic risks could arguably form part of investors’ duty to maintain market integrity.15

How can investors do this in practice? It starts with a recognition of structural impacts, positive and negative, intentional and unintentional, that asset allocations can have, examples of which are increasingly well documented.16 There are also multiple examples of investors integrating a system-level approach into their investment strategies. These include pressuring other firms to mitigate or internalise negative externalities; engaging with standard setters to inform international standards and subsequently adopting these into their own investment processes; or engaging with policymakers in order to recommend capital reforms that encourage the integration of negative externalities (for more, see the TIIP’s ten tools of intentionality).17

Such tools are not yet reflected in existing disclosure standards or frameworks. A recent mapping by the Impact Management Platform of impact-focused disclosure standards and frameworks indicates that the majority are focused on decision-making in relation to individual enterprises or funds, rather than system-level actions.18 As practice and standards evolve, we anticipate a wider set of system-level indicators will be possible.

For this first iteration of the benchmark, the methodology includes several indicators that reflect system-level thinking.

- We will be looking for evidence of system-level investing practices among asset owners and managers when assessing the impact management indicator (indicator 1). For example, investors might set system-level impact objectives in investment mandates and policies and align team incentives with such objectives.
- Being transparent about political engagement and lobbying (indicator 5).
A system-wide benchmark
The key transitions ahead and the urgency to address climate change and accelerate progress towards the SDGs require a holistic approach to the financial system. So, in assessing financial institutions on their readiness to address the sustainability transitions, we have taken a system-level approach. In order to transition finance, the Financial System Benchmark looks beyond specific industries at the influence of the 400 keystone financial institutions, which includes asset owners, asset managers, banks and insurers (see Annex 1 for the financial institutions in scope and a breakdown by geography and activity). In aiming for breadth and scale, the indicators were built on and aligned with existing topics and industry specific standards and benchmarks but were also created to be applicable to all 400 keystone financial institutions.

This system-level approach is key to driving the transformation of the financial system. In particular, although these distinct industries perform different functions in the market, they are highly interconnected. Asset owners entrust asset managers with the management of their assets. Often, asset owners are advised by investment consultants. Asset owners also invest in banks and insurance companies, which – as well as receiving deposits and insurance premiums, respectively, to help manage and mitigate risk – aggregate these resources to finance the economy. Furthermore, insurance companies insure assets and companies that investors invest in and that banks lend to. This interconnectedness means that risks and impacts similarly flow throughout the system. This interconnectedness is also why, for system transformation to happen, all elements of the system need to transition integrating consideration of their impacts – positive and negative, intended and unintended – into their actions.

In addition, many financial institutions in the benchmark scope undertake multiple financial activities, across industries, that share common characteristics. Our methodology focuses on the characteristics that are common across these industries. The first shared characteristic is that they are all intermediaries of one form or another, managing assets and liabilities. The second is that, in this capacity, they all impact people and planet, directly through their own operations, and – more significantly, often – indirectly, through their political engagement and business activities.

By taking this system-level approach and thereby providing a snapshot of global readiness for the sustainability-driven transitions underway, we seek to add to the evolving landscape of disclosure standards and accountability initiatives.

Intended use of the benchmark
The Financial System Benchmark aims to incentivise action by assessing and ranking the 400 keystone financial institutions, identifying the areas where progress and leadership is possible to influence financial system transformation. In doing so, the benchmark – like all WBA benchmarks – can act as an accountability mechanism for financial institutions. By being public and available to all, the benchmark will highlight the key
areas where action is needed to improve performance and meet societal expectations and enable stakeholders, legislators, regulators and clients to hold financial institutions accountable for their commitments and practices.

Policymakers, regulators and supervisory bodies can use the insights generated to evaluate the financial institutions’ practices and inform their policy and regulatory dialogue and choices. In addition, conscious that change can often be driven more quickly and uniformly through regulatory change, we are following regulatory developments and actively engaging with policymakers to inform their thinking and debates around the priority areas in need of change (see Box 2).

The benchmark can also serve as a road map for financial institutions so that they can take the necessary steps to contribute to the wider financial system transformation. Financial institutions will be able to use the rankings to see how they are assessed on their readiness to operate within planetary boundaries and societal conventions, and also to compare themselves to their peers and identify best practice. Given that many of these globally influential financial institutions are also each other’s clients various ways, the benchmark offers an opportunity for financial institutions to hold each other to account, with asset owners and allocators having a particularly powerful role to play.

WBA aims to play a key role in assisting financial institutions to share knowledge and expertise with one another as well as bringing together a broader set of stakeholders, such as investors, regulators, employees and civil society organisations, that can help drive impactful change in specific areas. In particular, following the publication of the benchmark, WBA plans to convene coalitions that bring together Allies and other stakeholders to mobilise coordinated, cross-sector and collaborative action based on the benchmark findings. These coalitions will focus on prioritising and taking forward key recommendations where urgent action is required by financial institutions, as evidenced by the benchmark data, with the ultimate goal of catalysing action. In doing so, we anticipate these coalitions serving as a feedback loop for financial institutions on the issues that are most critical for driving system transformation.
Over the past year, we have witnessed an explosion in policy developments related to corporate sustainability, particularly in terms of disclosure standards and reporting regulations. These developments have, in part, been motivated by scientific consensus and shifting societal expectations, and reflect the critical role regulation plays in raising the floor for corporate behaviour.

Many of these regulatory changes are in the consultation or development stage, and the expected wide-ranging implications for the financial industry, although significant, are not yet fully apparent. Broadly speaking, though, we are seeing a shift from voluntary to mandatory regimes at various regional and national levels.

In the European Union (EU), there have been concerted efforts to create a coherent strategy towards steering private capital to sustainable investment. The European Commission (EC) has taken a leading role through the renewed Sustainable Finance Strategy, promoting private investment in the just transition to a climate-neutral and resilient economy as a complement to public funding. Enhancing disclosure on sustainability has three pillars. First, the Sustainable Finance Disclosure Regulation (SFDR), already in force, sets out mandatory ESG disclosure obligations for asset managers and other financial market participants at both entity and product level. Second, the Corporate Sustainability Reporting Directive (CSRD) defines companies’ obligations to highlight specific sustainability data on risks and impacts. If the Directive is voted on in the first half of 2022, the Commission could adopt the new reporting standards under the legislation by the end of 2022, meaning companies and financial institutions would have to adhere to these standards, in practice, in 2023, as they would need to be reported against in 2024. Third, the Commission proposal on Sustainable Corporate Governance is due before the end of 2021 and is set to scrutinise European companies’ long-term business strategies with regard to impacts on people and planet.

In the United States, which dominates the global financial scene (nearly one third of the financial institutions WBA intends to benchmark are headquartered there), new rules have been proposed on climate disclosure (soon to be followed by proposed rules on board diversity, human capital management and corporate buybacks) by the Securities and Exchange Commission, though there is ongoing debate as to the probability of such rules being mandated, given strong political pressure and potential legal challenges surrounding narrow definitions of materiality. In Asia, the Association of Southeast Asian Nations (ASEAN) has announced its support for an ASEAN Taxonomy of Sustainable Finance, with national taxonomies also in development in Singapore and Malaysia.
These efforts are important but also signal the need for global standards that can ensure alignment and consistency in regional approaches, particularly given the systemic nature of the sustainability challenges faced and the global response they require. Here, work is underway by the IFRS Foundation to accelerate convergence in global sustainability reporting standards focused on meeting investors’ needs. The International Organization of Securities Commissions (IOSCO) has also called for the creation of a Sustainability Standards Board (SSB), under the governance of the IFRS Foundation, that would help to ensure international consistency of sustainability-related disclosures.

The methodology outlined in this publication closely aligns with European policy developments, given their focus on consideration of impact on people and planet. WBA will continue to track these developments closely to ensure the benchmark methodology and indicators remain complementary and additive. As accountability mechanisms raise the bar, mandatory disclosure rules will enable a raising of the floor.
A multi-stakeholder approach to benchmark development

Development of the methodology for the Financial System Benchmark was informed by two rounds of stakeholder consultations. The first round followed the publication of the scoping report in January 2021, and the second followed the publication of the draft methodology in June 2021. Over the following months, we held six roundtable discussions, each on one of the three measurement areas, in two different time zones to ensure the maximum involvement of various stakeholders and allow for enough space and time to have fruitful discussions. At the same time, we held several review sessions and bilateral discussions with specialists to address different topics.

The methodology development was overseen by an independent multi-stakeholder Expert Review Committee (ERC). The members of the ERC span multiple backgrounds and geographies (see Table 1). The group met twice during 2021 and discussed the narrative for the Financial System Benchmark as well as the key issues, scoring and structure of the methodology.

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<th>TABLE 1 MEMBERS OF THE EXPERT REVIEW COMMITTEE</th>
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<tr>
<td>• Careen Abb, Positive Impact Finance, Programme Lead, UN Environment Programme (UNEP) Finance Initiative</td>
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<tr>
<td>• Caroline Ashley, Global Director of Systems Change Programmes, Forum for the Future</td>
</tr>
<tr>
<td>• Butch Bacani, Programme Leader, UNEP’s Principles for Sustainable Insurance Initiative</td>
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<tr>
<td>• Barbara Bijelic, Legal Expert &amp; Financial Sector Lead, Responsible Business Conduct Centre, OECD</td>
</tr>
<tr>
<td>• Jean-Francois Gagnon, FSA, Partner, Strategy, Investment &amp; Sustainable Finance, Ernst &amp; Young, Canada</td>
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<tr>
<td>• Jim Hawley, Truvalue Labs, Senior ESG Advisory, Factset and Truvalue Labs, a Factset company, and Professor Emeritus, School of Business and Economics, Saint Mary’s College of California</td>
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<tr>
<td>• Dr Adriana Kocornik, Senior Manager of Metrics and Research, Global Alliance for Banking on Values</td>
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<td>• Cary Krosinsky, Author, Advisor, Lecturer, Yale and Brown</td>
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<td>• Monique Mathys, Impact Management Project [stood down September 2021]</td>
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<td>• Dr Freshia Mugo-Waweru, Kenyan Capital Markets Authority and Strathmore University Business School [joined October 2021]</td>
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<td>• Elina Rolfe, Director, Reporting &amp; Assessment, Principles for Responsible Investment</td>
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<td>• Shankar Venkateswaram, ECube Investment Advisor</td>
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In the months leading up to the benchmark publication in the fourth quarter of 2022, the ERC will review the scoring guidelines and benchmark findings.

Alignment with existing frameworks and initiatives
Alignment with existing benchmarks, accountability mechanisms and organisations is critical for our work. First, it ensures we are using a common language and contributing to alignment in the space of sustainable finance, and second, we are part of the wider movement that shares the same idea of what good looks like and voices the common expectations of the private sector and, in this case, financial institutions.

Furthermore, we aim to leverage and share data where possible and in collaboration with existing activities. Alignment on what we measure, data sharing and the use of published information are all designed to help reduce the need for financial institutions to report different information to different organisations. Below is an overview of the mapping we conducted for our methodology and the way it aligns with existing frameworks and initiatives (see Annex 3 for the full list of voluntary disclosure frameworks and Annex 4 for a Mapping of the FST Methodology to key disclosure framework).

Process and timelines
This final methodology was published in December 2021, following the publication of the scoping report in early 2021 and the draft methodology in June 2021.

Data collection for the benchmark is due to start in January 2022. We will begin researching and assessing financial institutions based on publicly disclosed information. During the research phase, we plan to hold roundtables with financial institutions to explain the methodology and criteria that need to be met to receive scores against the indicators. This is designed to assist financial institutions in understanding the
Methodology development

requirements and allowing time for them to study the methodology, hold any internal or other discussions and update disclosures if need be.

At the same time, our researchers will be analysing the data, both at an institutional and industry level, to ensure that accurate data is found for all relevant areas of the methodology and assessed in an impartial and transparent way. Scoring guidelines will be improved, if necessary, in consultation with our experts and the ERC and published with the benchmark results. In this way, all stakeholders can see not just what we assessed (the methodology) but how each score was produced (scoring guidelines).

As we finalise our assessments, we will share them with each of the financial institutions in scope and request their feedback, allowing them to have a more detailed and specific conversation on their individual assessments. All financial institutions will be repeatedly contacted and invited to comment during the research phase. Financial institutions that do not respond or decline to participate in the research phase will not be entitled to appeal their results and will have to wait for the next benchmark cycle to input information.

The first Financial System Benchmark is scheduled for publication in the fourth quarter of 2022 (see Figure 2). WBA aims to share benchmark scorecards with all financial institutions prior to the benchmark’s publication.

FIGURE 2 FINANCIAL SYSTEM BENCHMARK TIMELINE
Presentation of the results
The 2022 Financial System Benchmark will include a presentation of key findings on the main trends, leading approaches and notable conclusions, tied to industry rankings and individual scorecards for all 400 institutions. Acknowledging that financial institutions would like to understand how they are assessed against their peers, the overall ranking will be presented in such a way as to allow peer-to-peer or industry rankings, with the aim of facilitating meaningful comparisons.

Further, the benchmark will analyse and present data in several ways, such as by sector, measurement area, topic and geography, highlighting best practice through different lenses. This means that while a financial institution with the highest overall score may top an industry list, other financial institutions may lead in a specific measurement area or topic.

The performance of all financial institutions in scope will be summarised in an overall ranking. This will show aggregate company performance across the measurement areas and an overview of leading practices and key risks and opportunities.

Updating the methodology over time
We live in a rapidly changing world. This is even truer in the financial system space. In the past year, we have seen many evolving frameworks such as the TNFD (Taskforce on Nature-related Financial Disclosures), the update to the TCFD (Task Force on Climate-related Financial Disclosures) recommendations and the emerging TIFD (Task Force on Inequality-related Financial Disclosures) (for a full list of the voluntary disclosure frameworks, see Annex 3). We are following these developments and the regulatory changes closely (see Box 2) and reaching out to stakeholders and policymakers to learn, exchange views, build relationships and ensure alignment as we build a movement to deliver on the SDGs.

We will be revisiting the benchmark indicators and methodology regularly to ensure it is relevant, meaningful and impactful (see WBA’s operating principles in Annex 2). This is necessary to take into account the rapidly moving landscape of frameworks and disclosure initiatives and complementary regulatory changes but also the changing societal expectations of financial institutions. This continuous evaluation will ensure our methodology is dynamic and effective as an accountability framework.
The methodology looks at issues critical for the financial system transformation, assessing the readiness of the benchmarked financial institutions to tackle the environmental and social transitions that are underway. When we evaluate financial institutions, we will assess them at group level and consider the spectrum of their financial activities, whether that is investing, lending, investment banking, insurance underwriting or advising. We are taking this approach as stakeholders have told us that a financial institution has impact through the entirety of its activities and not only a specific arm (e.g. stewardship or active ownership). The entire institution should be held to account, not just certain business units or activities, and policies and actions should be coherent across the spectrum of activities the financial institution undertakes. One challenge we face is how to evaluate financial institutions that have several activities. In addressing this challenge, we will be guided by our ERC, conversations with experts and WBA’s own guiding principles (see Annex 2), which relate to carrying out a fair and accurate assessment of financial institutions. As such a wide-ranging assessment has never been undertaken before, we invite financial institutions to engage with us to ensure that we consider any particular circumstances (e.g. legal mandates or other restrictions) that apply to them, so that we can offer a meaningful assessment of their corporate behaviour across their business.

Ensuring a meaningful assessment
The key transitions ahead and the urgency to address climate change and accelerate progress towards the SDGs require a holistic approach to the financial system. This methodology was designed to capture the activities of financial institutions irrespective of their industry and business model. Given the role and influence that the 400 financial institutions in scope have on people and planet, these institutions all have an impact across the key topics of the financial system transformation. As such, the majority, if not all, the indicators are relevant to all financial institutions in scope.

However, we realise that certain institutions have more impact through some of their activities. The benchmark will acknowledge these differences between industries and activities.
**Approach to scoring**

A set of guidelines for each indicator will be used to score the performance of financial institutions. Each indicator has a fixed scale, whereby the financial institution receives a score depending on the scoring criteria. WBA scores have a 0–2 range: a score of 0 reflects no performance was identified from public disclosures and a score of 2 reflects best practice in line with the indicator.

Each indicator is scored against a set of predefined criteria related to the ‘elements’ outlined in the indicators section below. The elements for each indicator spell out what is expected of the financial institution and what it will be assessed and scored on. Scoring guidelines are already in development and will be published with the first benchmark results in 2022.

Core social indicators are scored differently as they were developed to apply to all 2,000 companies that WBA will benchmark by 2023. Instead, core social indicators focus on the fundamentals of responsible business conduct. They represent expectations which all companies should be meeting as the bare minimum but are not ‘leading practice’ or proxies for good performance.

As such, core social indicators are limited to 1 point and broken into the following levels:

- Met: the company met all the elements for a particular indicator (1 point)
- Partially met: the company met some elements for a particular indicator (0.5 points)
- Not met: the company did not meet any of the elements for a particular indicator (0 points).

**Approach to weighting**

Financial institutions are assessed and ranked using a weighted scorecard approach. For each measurement area, financial institutions are assessed against the indicators. Currently, there are 32 indicators. Each indicator is assigned a score according to the scoring guidelines. The individual indicator scores are aggregated per measurement area. A financial institution’s total score is the weighted sum of the scores received for each measurement area. This approach results in an overall score for each company as well as a score per measurement area (see Figure 3).

There are three measurement areas in the Financial System Benchmark. These are:

1. Governance and strategy, which carries a weight of 40% (i.e. this makes up 40% of the total score in the benchmark ranking)
2. Respecting planetary boundaries, which carries a weight of 30%
3. Adhering to societal conventions, which carries a weight of 30%
The last two measurement areas are considered equally important for financial system transformation, hence the equal weighting.

In the first measurement area, financial institutions are assessed on five indicators. The first two indicators are double weighted as they relate to key governance and strategy issues. The other three indicators are all equally weighted.

In the second measurement area, financial institutions are assessed on nine indicators, five on alignment with the Paris Agreement and four on nature and biodiversity. All indicators are equally weighted.

In the third measurement area, financial institutions are assessed on 18 indicators. These include a set of 17 core social indicators that are applied across all WBA benchmarks with a weight of 19%. Each core social indicator is singly weighted, except for indicators CSI 4 (assessing human rights risks and impacts) and indicator CSI 5 (integrating and acting on human rights risks and impacts), which receive double weighting under WBA’s core social framework. In addition, extra marks will be available for four of the core social indicators (CSI 1, CSI 3, CSI 4 and CSI 5) in the Financial System Benchmark where the scope of these indicators has been expanded to include the financial institutions’ financing activities.
FIGURE 3 THE MEASUREMENT AREAS IN THE FINANCIAL SYSTEM BENCHMARK

A: Governance and strategy
1. Impact management and strategy
2. Senior leadership accountability and remuneration
3. Gender equality and diversity
4. Engagement policy
5. Public policy engagement

B: Respecting planetary boundaries
6. Financed emissions
7. Financed emissions targets
8. Engagement aligned with a 1.5°C trajectory
9. Climate solutions
10. Approach to fossil fuel sectors
11. Nature and biodiversity-related impacts
12. Protection and restoration of nature and biodiversity through finance
13. Protection and restoration of nature and biodiversity through engagement

C: Adhering to societal conventions
15. Commitment to respect human rights (CSI 1)
16. Commitment to respect the human rights of workers (CSI 2)
17. Identifying human rights risks and impacts (CSI 3)
18. Assessing human rights risks and impacts (CSI 4)
19. Integrating and acting on human rights risk and impact assessments (CSI 5)
20. Engagement with affected and potentially affected stakeholders (CSI 6)
21. Grievance mechanisms for workers (CSI 7)
22. Grievance mechanisms for external individuals and communities (CSI 8)
23. Health and safety fundamentals (CSI 9)
24. Living wage fundamentals (CSI 10)
25. Working hours fundamentals (CSI 11)
26. Collective bargaining fundamentals (CSI 12)
27. Diversity disclosure fundamentals (CSI 13)
28. Personal data protection fundamentals (CSI 15)
29. Responsible tax fundamentals (CSI 16)
30. Anti-bribery and anti-corruption fundamentals (CSI 17)
31. Responsible lobbying and political engagement (CSI 18)
32. Financing for usually excluded groups

Assessing financial institutions
The benchmark methodology

The following section describes each indicator in the three measurement areas. The indicators follow a standard structure.

- **Topic**: a short title of the issue/topic.
- **Indicator**: sets out the topic-specific outcomes expected of the financial institution.
- **Rationale**: sets out the reason why the topic is included in the benchmark and why it is considered important for the financial system transformation.
- **Elements/metrics**: sets out the specific actions that companies will be assessed against under this indicator.
- **Sources**: where alignment is strong with initiatives reviewed (see Annex 3) and/or specific indicators within those initiatives, we reference source material accordingly.
- **Scoring note**: in some indicators that reflect more complex issues and there is room for interpretation, we have added a scoring note to signal which actions and behaviours will be rewarded and how marks will be awarded. Note that for the 17 core social indicators (see measurement area C: Adhering to societal conventions), the scoring notes are fully developed as they reflect the most advanced stage of the social transformation.

For each indicator outlined below, the financial system transformation research team will use more detailed scoring guidelines during the data collection and assessment process in 2022. These scoring guidelines, examples of which are shown in Table 2 and 3, will be published with the benchmark results in late 2022. The guidelines will reflect the elements set out for each indicator and will also recognise sub-sector-specific differences across the industry, where relevant.

**TABLE 2 FIVE-LAYER EXAMPLE OF A SCORING GUIDELINE**

<table>
<thead>
<tr>
<th>Score</th>
<th>Example scoring guideline</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>No evidence was found that the company is implementing activities relating to the indicator/The evidence found was not relevant to any of the indicator elements.</td>
</tr>
<tr>
<td>0.5</td>
<td>The company discloses information that mentions very few elements of the indicator (e.g. policy which is not company-wide, vague commitment, targets which are not time-bound).</td>
</tr>
<tr>
<td>1</td>
<td>The company discloses information that covers half of the indicator elements (e.g. company-wide policy but with missing elements).</td>
</tr>
<tr>
<td>1.5</td>
<td>The company discloses information that fulfils more than half of the indicator elements (e.g. company-wide policy, time-bound targets but on only one issue).</td>
</tr>
<tr>
<td>2</td>
<td>The company discloses information that fulfils all the indicator elements.</td>
</tr>
</tbody>
</table>
### TABLE 3 THREE-LAYER EXAMPLE OF A SCORING GUIDELINE

<table>
<thead>
<tr>
<th>Score</th>
<th>Example scoring guideline</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>No evidence was found that the company is implementing activities relating to the indicator/The evidence found was not relevant to any of the indicator elements.</td>
</tr>
<tr>
<td>1</td>
<td>The company discloses information that covers half of the indicator elements (e.g. company-wide policy but with missing elements).</td>
</tr>
<tr>
<td>2</td>
<td>The company discloses information that fulfils all the indicator elements.</td>
</tr>
</tbody>
</table>
This measurement area focuses on the integration of impact considerations and targets into financial institutions’ core strategy and governance structure. It looks at the process that financial institutions have in place to identify and prioritise their positive and negative, intended and unintended impacts on the economy, society and the environment, and it examines the related targets that financial institutions have set. It also assesses how the financial institutions’ highest governing board is responsible and accountable for progress against these targets and how remuneration is linked to progress. It includes metrics on gender equality and diversity and evaluates the engagement policy that financial institutions have in place as responsible stewards of assets. Finally, it examines how financial institutions engage with the companies they provide financing to and with policy makers.

1. Impact management and strategy

Indicator: The financial institution has impact management objectives and targets embedded in its strategy and business model.

Rationale: A financial institution that recognises its responsibility to people and planet is one that acknowledges its impacts on society and the environment, and goes beyond assessing sustainability issues through a lens of risk to the financial value of the enterprise. It has a process for identifying and prioritising its intended and unintended, positive and negative impacts on the economy, society and the environment and has a strategy to mitigate negative impacts and increase positive impacts. The financial institution thus goes beyond self-defined concepts of sustainability and towards internationally defined sustainability standards, following internationally recognised processes, such as those outlined in e.g. UNEP FI’s Principles of Positive Impact (PPI).

Elements/metrics:

a) The financial institution acknowledges its impact on society and the environment. AND
b) The financial institution discloses its process for identifying and prioritising the impacts/issues it aims to address. AND
c) The financial institution discloses time-bound targets for the impacts it has prioritised. AND
d) The financial institution tracks and reports progress against the targets it has identified.

Sources: GISD (2021); IMP Actions Wheel; OECD-UNDP Impact Standards; UNEP FI PPI (2017).

Scoring note: Although the framing may be familiar from the TCFD (governance and strategy, risk management, metrics and targets), the key differentiator here is that the focus is on the approach that the financial institution takes towards sustainability themes (society and the environment). The targets need to be aligned with scientific thresholds and international frameworks. So rather than focusing on the risks sustainability themes pose to the financial institution’s activities, the indicator examines the impact the financial institution has on them.
For the purposes of evaluating and scoring, marks will be awarded to financial institutions that either mention UNEP FI’s frameworks or have followed an impact identification process that goes beyond risk assessment and has involved external stakeholders.

2. Senior leadership accountability and remuneration

Indicator: The financial institution assigns decision-making and oversight responsibility for a strategy on impact and/or sustainability themes to the highest governing body. Board members have specific objectives and targets relating to sustainability themes (society and the environment) and remuneration is aligned with meeting these targets.

Rationale: A financial institution that acknowledges its impact on society and the environment and aims to operate within planetary boundaries and according to societal conventions has a governance system that includes board/highest level responsibility and accountability for its targets relating to sustainability themes (society and the environment). Board members have objectives and targets relating to one or more sustainability themes. This creates a strong accountability mechanism to deliver on the sustainability targets as well as addressing the practice of short-termism.

Elements/metrics:

a) The financial institution assigns decision-making and oversight responsibility for a strategy on impact and/or sustainability themes to the highest governing body (e.g. board of directors). AND

b) The financial institution links performance criteria and remuneration of the executive team to its targets relating to sustainability themes (society and the environment). AND

c) The financial institution links performance criteria and remuneration of its management teams with its targets relating to sustainability themes (society and the environment). AND

d) The financial institution discloses that at least 60% of bonuses is linked to targets relating to sustainability themes (society and the environment).

Sources: PRI ISP (2021) 6, 7, 8.2; GRI 102-22, 102-26, 102-35; UK Stewardship Code (2020) Principle 2; WEF IBC (2021) Remuneration, Governance body composition; FFGI (2021); UNGP (2011) A1.1 and A2.2; CA100+ NZ CB 8.1 and 8.3; ShareAction (2018a) G1.1; ShareAction (2018b) G1.1-G1.2; ShareAction (2020a) G1.2; ShareAction (2020b) 46 and 47; CDP C1.1, C1.2 and C1.3; WRI (2019).

Scoring note: For the purposes of evaluating and scoring, marks will be awarded to financial institutions that have specific targets relating to sustainability themes (society and the environment) and mechanisms for senior leadership oversight, even if institutions have arrived at these following a risk assessment process, rather than an impact assessment lens.
3. Gender equality and diversity

Indicator: The financial institution publicly commits to gender equality, promotes gender equality and discloses quantitative information on gender equality and women’s empowerment.

**Rationale:** Decision-making power is highly concentrated within the financial industry. This consolidation of influence is mostly in global financial centres in the Global North, where decision makers are primarily white and male. A limited diversity of views is linked to suboptimal business and financial outcomes, whereas a diversity of opinions has been proven to mitigate risk and enhance financial returns\(^2\). In addition, consolidation of influence risks a disconnect between the ethnic, gender and cultural diversity of financial professionals and that of their existing and potential client base. This may lead to biases in financing decisions and the design and availability of products and services. While recognising that diversity is multifaceted, this indicator focuses on the gender aspect of diversity as a first step towards creating more inclusive decision-making groups. Over the coming years, we will look for input on how to expand this indicator to include a broader set of diversity characteristics (e.g. ethnic), with a special consideration for differences between countries. We will also be looking at emergent diversity areas such as cognitive diversity, which examines differences in perspectives and information processing styles.\(^2\) For the time being, we are also looking at the disclosure of certain diversity characteristics in the third measurement area, under indicator 27 (Diversity disclosure fundamentals).
Measurement area A: Governance and strategy

Elements/metrics:

a) The financial institution has a public commitment to gender equality and women’s empowerment. AND
b) The financial institution discloses one or more time-bound targets on gender equality and women’s empowerment. AND
c) The financial institution has at least 40% women in the highest governance body. AND
d) The financial institution has at least 40% women in senior leadership positions. AND
e) The financial institution discloses the ratio of the basic salary and remuneration of women to men in its total direct operations workforce for each employee category, by significant locations of operation. AND
f) The financial institution discloses that it takes action to address any pay gaps.

Sources: GB 1 and 11; GRI 405-1 and 405-2; JEDI, JUST Capital; Equileap.

Scoring note: This indicator is fully met by meeting all of the elements a) to f). Element a) would be met if, for example, the financial institution is a signatory to the UN Women’s Empowerment Principles. Element a) would not be met if a financial institution’s commitment relates to specific aspects of gender equality and women’s empowerment (e.g. representation in leadership). The commitment must be broader than that and cover multiple aspects. Element b) would not be met if a target does not state the year in which the financial institution intends to achieve it. Targets could relate to representation (e.g. gender equality in leadership), closing the gender pay gap, improving women’s health and well-being and/or preventing violence and harassment.

4. Engagement policy

Indicator: The financial institution has a clear engagement policy on sustainability and impact topics.

Rationale: A financial institution that acknowledges its impact on society and the environment is a responsible steward of assets. All financial institutions manage assets and liabilities. Some financial institutions manage their own assets, some financial institutions manage clients’ assets, some a combination of both their own and external assets. A financial institution that is a responsible steward of these assets is transparent about its approach to managing assets, which is outlined in an engagement policy. The financial institution is also transparent about its engagement activities over the reporting period.

Elements/metrics:

a) The financial institution has an engagement policy that includes sustainability and impact topics. AND
b) This engagement policy includes clear frameworks with success criteria and escalation points. AND
c) The financial institution publishes an engagement/stewardship report providing evidence of how the policy is applied in practice. AND
d) The financial institution publishes case studies describing where it has engaged successfully on sustainability and impact topics. AND

e) The financial institution publishes case studies describing where it has engaged unsuccessfully on sustainability and impact topics.

Sources: GISD (2021); PRI ISP (2021); UK Stewardship Code (2020).

5. Public policy engagement

Indicator: The financial institution has a consistent policy approach in its lobbying and public policy engagement.

Rationale: A financial institution that acknowledges its impact on society and the environment also understands that change in these sustainability themes cannot come from its activities alone. It recognises that rules and regulations create boundaries and incentives for private sector activities and acknowledges that it has a role to play in directly or indirectly shaping them. A financial institution that acknowledges its impact ensures that it contributes to public policy discussion on sustainability themes. The first step in this journey is being transparent about the way in which the financial institution shapes public policy. Note that this is slightly different in focus from indicator 31 (Responsible lobbying and political engagement), which looks at political contributions and spending on lobbying activities.

Elements/metrics:

a) The financial institution discloses a list of the trade associations of which it is a member. AND

b) The financial institution discloses the positions it takes in its lobbying and political engagement activities on sustainability themes (society and the environment). AND

c) The financial institution discloses internal or third-party audits of its direct and indirect lobbying and political engagement activities to ensure alignment with its sustainability policy and commitments. AND

d) The financial institution discloses the trade associations of which it is no longer a member due to misalignment or it discloses it has influenced a trade association to change its position to be aligned.

Sources: CDP C12.3; FinanceMap Q6; CPA-Zicklin Index; CA100+ NZ CB 7.3; PRI ISP (2021) 23.2; WEF IBC (2021) Alignment of strategy and policies to lobbying; Universal Owner (2021); ShareAction (2018b) G2.4; ShareAction (2020a) G3.1, G3.3 and RM1.1; ShareAction (2020b) 31a and 34a; Transparency International.
This measurement area focuses on the actions and strategies that financial institutions undertake in order to operate within planetary boundaries.24 This includes reducing financed emissions and preventing further biodiversity loss as well as contributing to climate- and nature-positive solutions. Biodiversity and climate change are interrelated, and a financial institution that aims to operate within planetary boundaries has a clear strategy to address both. For the Financial System Benchmark, we are keeping them as two separate themes, because of the need to have a clear evaluation framework. In addition, we acknowledge that a global framework to operate within planetary boundaries on climate change is at a more advanced stage than the one on biodiversity. We are following the developments on biodiversity closely and will evolve this measurement area in future iterations of the methodology.

Alignment with the Paris Agreement and a 1.5°C trajectory
Economic activity has put the world on an unsustainable environmental path. To achieve the Paris Agreement and the target of limiting global warming to 1.5°C in this century, global greenhouse gas emissions (GHG) must be more than halved from 2010 levels by 2030 and reach ‘net zero’ by 2050.25 Limiting global warming to 1.5°C gives humanity the highest chance of avoiding catastrophic risks associated with climate change. This requires capital to be reallocated and financial institutions to align their business strategies with the Paris Agreement and a 1.5°C trajectory.26

The indicators below can give a clearer picture of whether a financial institution is on a path to align its activities with the Paris Agreement. Considering the net-zero commitments made by a growing number of financial institutions, these indicators can also serve as an accountability mechanism for whether a financial institution is translating its net-zero commitment into action.

However, it should be noted that fulfilling all the elements of the indicators in this measurement area is not proof that the financial institution is aligned with the Paris Agreement. To be able to assess to what extent a financial institution’s investment and lending portfolio is aligned with a 1.5°C pathway, WBA is partnering with the French Agency for Ecological Transition (ADEME), which is currently developing an Assessing low-Carbon Transition (ACT) methodology for financial institutions.

6. Financed emissions
Indicator: The financial institution discloses its financed GHG emissions.27

Rationale: Although it has been estimated that the finance sector funds emissions in an amount that is more than 700 times greater than its own emissions, only one quarter of financial institutions disclose their financed emissions.28 A financial institution that acknowledges its impact and is committed to aligning its business strategy with the Paris Agreement measures and discloses its financed emissions. It publicly discloses the percentage of financed emissions aligned with the Paris
Agreement, with the aim of increasing the coverage of reported financed emissions to 100%. Such a financial institution discloses the data quality underpinning emissions disclosure anywhere in the range from industry averages to actual real-world emissions.

**Elements/metrics:**

a) The financial institution discloses its financed emissions resulting from its financing activities. AND

b) The financial institution discloses the coverage of emissions and the data quality (e.g. industry averages, actual real-world emissions) across its emissions reported under a).

**Sources:** CDP C-FS14.1a; CDSB (2020) REQ-04; CPI (2021); FFGI (2021); GHG Protocol; GRI 305-3; PACTA; PCAF (2020); ShareAction (2018b) MT2.1; ShareAction (2020b) 4; ShareAction (2021); WEF IBC (2021) GHG emissions.

7. **Financed emissions targets**

   **Indicator:** The financial institution sets targets for its financed emissions, in line with a 1.5°C trajectory.

   **Rationale:** A financial institution that acknowledges its impact and aims to operate within planetary boundaries sets targets for its financing activities aligned with a 1.5°C trajectory and progresses against those targets. The targets are science-based with a specific time horizon,
including interim targets (e.g. 2025 and 2030) and a specific reduction of financed emissions by at least 45% by 2030 relative to the baseline year 2010, in line with the latest International Energy Agency report.30

**Elements/metrics:**

a) The financial institution discloses a target to reach net-zero financed emissions by 2050. **AND**
b) The financial institution discloses interim targets (e.g. 2025 and 2030). **AND**
c) The financial institution discloses a target to reduce its financed emissions by at least 45% by 2030. **AND**
d) The financial institution discloses progress towards its targets on an annual basis.

**Sources:** CA100+ NZ CB indicators 1-4; CPI (2021); FFGI (2021); GFANZ; Insurance Scorecard (2020) 3.1; IIGCC (2021); PACTA, ShareAction (2020b) 9, 11 and 41; ShareAction (2021); SBTi (2021); UNEP FI PRB (2019).

**Scoring note:** For the purposes of evaluating and scoring, marks will be awarded to financial institutions that report targets which are based on science.

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### 8. Engagement aligned with a 1.5°C trajectory

**Indicator:** The financial institution engages with companies it provides financial services to, in line with a 1.5°C trajectory.

**Rationale:** A financial institution that acknowledges its impact and aims to operate within planetary boundaries aligns its financing activities with a 1.5°C trajectory. It actively incorporates this trajectory into its engagement with the companies to which it provides financial services (investment, lending, investment banking, advisory, insurance underwriting), to ensure these companies adopt a net-zero emissions strategy. The financial institution is, thus, fully leveraging its position as an intermediary and facilitator in the system to address climate change.

**Elements/metrics:**

a) The financial institution discloses key sectors and companies it has identified as priorities to engage with on climate issues and the rationale for choosing these priorities. **AND**
b) The financial institution discloses alignment with a 1.5°C trajectory as one of its engagement topics/priorities with companies it provides financial services to. **AND**
c) The financial institution discloses that it collectively engages (e.g. through Climate Action 100+) with companies it provides financial services to on the topic of alignment with a 1.5°C trajectory. **AND**
d) The financial institution discloses that it requires companies to which it provides financial services to have a strategy aligned with a 1.5°C trajectory.
9. Climate solutions
Indicator: The financial institution discloses its level of financing for climate solutions.

Rationale: A financial institution that acknowledges its impact and aims to operate within planetary boundaries actively seeks to increase its positive impact by investing in solutions. A financial institution committed to aligning its business strategy with the Paris Agreement and 1.5°C trajectory tailors its financing activities (investment, lending, insurance underwriting, investment banking, advisory) and discloses its financing for climate solutions regularly (e.g. annually). Increasing financing for climate solutions can contribute to improving the liquidity and lowering the cost of capital for green activities. It can also increase economic resilience, contributing not only to mitigation of climate change risks but also to adaptation to any risks that may arise. The financial institution provides a definition of climate solutions, which should be aligned with internationally adopted frameworks.

Elements/metrics:

a) The financial institution discloses the aggregate amount (in monetary terms) and share (%) of its financing activities devoted to climate solutions, while specifying what those are. AND
b) The financial institution defines climate solutions according to internationally adopted frameworks (e.g. EU Taxonomy, Climate Bonds Initiative). AND
c) The financial institution discloses time-bound targets for its climate solutions. AND
d) The financial institution discloses progress against its targets.

Sources: Climate Bonds Initiative; CSLP (2020); EU Sustainable Finance Taxonomy; FFGi (2021); ICMA (2020); IIGCC (2021); PCAF (2020); SBTi (2021); ShareAction (2020b) 19; UNEP FI PSI; GISD (2021); WRI (2019); CPI (2021).

10. Approach to fossil fuel sectors
Indicator: The financial institution adjusts its activities in fossil fuel sectors, in line with the best available science.

Rationale: A financial institution that acknowledges its impact and aims to operate in line with the Paris Agreement adjusts its financing activities across the fossil fuel value chain (coal-fired power generation, thermal coal mining, tar sands oil, Arctic, offshore and fracked oil and gas, liquified natural gas, and conventional oil and gas). It has already discontinued or plans to discontinue all provision of financial services to companies that do not have a clear and explicit timeline to align with limiting global warming to 1.5°C and has stopped providing financial services (investing, lending, investment banking, advisory and insurance...
underwriting) to new fossil fuel projects, in line with the requirement of
the International Energy Agency's Net Zero by 2050 Scenario.

Elements/metrics:
a) The financial institution discloses the amount (in monetary terms)
and share (%) of financing activities linked to high-emitting sectors
and fossil fuel sectors. AND
b) The financial institution discloses that it does not provide any type
of financial service to any new fossil fuel projects (e.g. project loans)
or any type of financial service to a company undertaking new fossil
fuel projects. AND
c) The financial institution discloses an approach towards financing
activities, outlining a strategy to phase out the provision of any type
of financial service to existing projects and companies across the
fossil fuel value chain, unless they have a clear strategy aligned with
1.5°C trajectory.

Sources: CSLP (2020); FFGI (2021); Insurance Scorecard (2020); IEA
(2021); RAN (2021); ShareAction (2021); ShareAction (2020b) 4, 9 and
11; UN AOA (2020); GISD (2021); WRI (2019); CPI (2021).
Nature and biodiversity
Nature and biodiversity not only underpin human life, well-being and prosperity but also economic activities through the provision of a range of ecosystem services. According to the World Economic Forum, as much as half of global gross domestic product (USD 44 trillion) is dependent on these ecosystem services. Nature is currently experiencing dangerous and unprecedented declines due to economic activity. The world’s ecosystems have declined in size and condition by 47% compared to estimated baselines, while the continued degradation of ecosystem services corresponds to a loss of USD 479 billion annually.

Biodiversity loss is linked to climate change, and achieving global goals for addressing one is tied to achieving goals for the other. For the purposes of the benchmark’s methodology, we present them as two distinct themes. However, financial institutions that understand the interconnectedness between the two and integrate both themes into their strategy and business model would be at the forefront of their sector.

Biodiversity is defined as the variety of living organisms from all sources, including terrestrial, marine and aquatic ecosystems and the ecosystems they are part of. This encompasses diversity within species, between species and of ecosystems.

II. Nature and biodiversity-related impacts
Indicator: The financial institution identifies its impacts on nature and biodiversity and sets targets to address them.

Rationale: A financial institution that acknowledges its impact and aims to operate within planetary boundaries seeks to understand how it can accurately measure its impact on nature. Acknowledging that the metrics for biodiversity in finance are still being developed, in this iteration of the benchmark financial institutions will be assessed on whether they are taking the first steps in this journey, i.e. acknowledging their impact, understanding the metrics and setting targets to minimise negative impacts.

Elements/metrics:
- The financial institution discloses its process for identifying the nature- and biodiversity-related impacts of its financing activities.
- The financial institution is committed to minimising its negative impact on nature and biodiversity.
- The financial institution discloses targets to minimise its negative impact on nature and biodiversity.

Sources: Capitals Coalition Tool; CPI (2021); Finance for Biodiversity Pledge; IPBES; IUCN (2016); SBTN (2020); ShareAction (2020a) B S1.1; TNFD (2021); UNEP FI PRB (2021).
Scoring note: For the purposes of evaluating and scoring, under element b), marks will be awarded to financial institutions that, for instance, disclose a zero-deforestation policy. Under element c), marks will be awarded to institutions that, for example, have a target to reduce their footprint on land use, resource exploitation, biodiversity and ecosystem integrity.

12. Protection and restoration of nature and biodiversity through finance
Indicator: The financial institution adjusts its financing activities to address its nature- and biodiversity-related impacts.

Rationale: A financial institution that acknowledges its impact on nature and biodiversity and aims to operate within planetary boundaries discloses the amount (in monetary terms) and share (%) of its financing activities in sectors and geographic areas with the highest dependency and impact on nature and biodiversity (priority sectors and areas). It explains the process for identifying these sectors and discloses any financing criteria it has towards them.

Elements/metrics:
- a) The financial institution provides a definition of priority sectors and areas and the process for identifying them. AND
- b) The financial institution discloses the amount (in monetary terms) and share (%) of its financing portfolio in priority sectors and areas. AND
- c) The financial institution discloses financing criteria it has towards ensuring the protection of priority sectors and areas.

Sources: Deforestation-Free Finance (2021); ENCORE; EU SFDR; Finance for Biodiversity Pledge; GRI 304; PBAF (2020); UNEP, Natural Capital Finance Alliance (2020); UNEP FI PRB (2021).

13. Protection and restoration of nature and biodiversity through engagement
Indicator: The financial institution engages with companies it provides financial services to, in line with the nature-related commitments defined in indicator 12.

Rationale: A financial institution that acknowledges its impact and aims to operate within planetary boundaries actively engages with the companies it provides financial services to, to ensure these companies take appropriate steps to protect and restore nature and biodiversity.

Elements/metrics:
- a) The financial institution discloses nature- and biodiversity-related impacts as one of its engagement topics/priorities with companies it provides financial services to. AND
- b) The financial institution provides evidence that it requires companies to which it provides financial services to have a strategy addressing the companies’ nature- and biodiversity-related impacts. AND
c) The financial institution provides evidence that it collectively engages with companies it provides financial services to on the topic of their nature- and biodiversity-related impacts.

Sources: ENCORE; Finance for Biodiversity Pledge; ShareAction (2020a) B RM1.1.

Indicator: The financial institution has targets for nature- and biodiversity-related/regenerative solutions.

Rationale: A financial institution that acknowledges its impact and operates within planetary boundaries actively seeks to contribute to nature- and biodiversity-related/regenerative solutions. It aims to understand how to maximise its positive impact on nature and biodiversity and sets targets in line with the developing frameworks.

Elements/metrics:
  a) The financial institution discloses the aggregate amount (in monetary terms) and share (%) of its financing activities devoted to nature- and biodiversity-related/regenerative solutions, while specifying what those are. AND
  b) The financial institution has targets to contribute to nature- and biodiversity-related/regenerative solutions.

Sources: Capitals Coalition Tool; Deforestation-Free Finance (2021); Finance for Biodiversity Pledge; IPBES; IUCN (2016); SBTN (2020); TNFD (2021); UNEP FI PRB (2021).

Scoring note: For the purposes of evaluating and scoring, examples of nature- and biodiversity-related/regenerative solutions are investments in/providing finance for reforestation, sustainable agriculture, ocean conservation and the restoration of degraded land.
This measurement area is based on WBA’s social transformation framework. The framework consists of 18 core social indicators that reflect the Organisation for Economic Co-operation and Development’s (OECD) Guidelines of Responsible Business Conduct. Together, they outline the minimum societal expectations that companies should adhere to in order to leave no one behind. By respecting human rights, providing and promoting decent work, and acting ethically (the three themes of the social transformation framework), companies can support the SDGs, address inequalities and contribute to a sustainable future for all.

WBA is assessing all 2,000 keystone companies on these core social indicators, which are applied across all WBA benchmarks and represent at least 20% of a company’s final score. In the other five of WBA’s seven systems transformations, each core social indicator receives a maximum of one mark, except for CSI 4 (Assessing human rights risks and impacts) and CSI 5 (Integrating and acting on human rights risks and impact assessments), which receive two marks. Combined, the 18 core social indicators add up to 20 marks (out of 100).

For the Financial System Benchmark, we initially considered asking financial institutions to address all the core social issues in their financing activities, i.e. investing, lending, investment banking, advisory services and insurance underwriting, and including them in their stewardship activities. This is because financial institutions impact society through their financing activities and engagement with corporates and policymakers.

However, during our consultations for the draft methodology report, it became apparent that researching 400 financial institutions against the 18 core social indicators across all the institutions’ different activities would be challenging given our timelines. So, this ambition will be reconsidered for a subsequent iteration of the benchmark.

Consequently, and for this first iteration of the benchmark, we decided to expand the scope of the core social indicators to include the financing activities in the four indicators that capture the human rights due diligence process. These are CSI 1 (Commitment to respect human rights), CSI 3 (Identifying human rights risks and impacts), CSI 4 (Assessing human rights risks and impacts) and CSI 5 (Integrating and acting on human rights risks and impact assessments). These four indicators will be applied to the financial institutions’ financing activities and are weighted accordingly in our framework (see the earlier ‘Approach to weighting’ section). Furthermore, we expanded CSI 14 (Gender equality and women’s empowerment fundamentals) in line with the Financial System Benchmark’s vision for more diversity and inclusion in financial institutions’ culture and leadership composition and incorporated it into the governance and strategy measurement area.

Respecting human rights
Human rights are inextricably linked to the SDGs, with the 2030 agenda aiming to ‘realise the human rights of all’. All businesses are expected to respect human rights, which means avoiding infringing on the human rights of others as well as addressing the adverse human rights impacts.
businesses cause, contribute to or are involved in across their entire value chain. Building on the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD human rights due diligence framework, this measurement area aims to assess financial institutions’ approach to respecting human rights.

We propose to use this approach as a central pillar in our assessment of financial institutions’ commitments to societal needs more broadly. The focus of the assessment outlined in the indicators below is seen as a necessary building block for the wider system transformation sought, namely financial institutions systematically incorporating societal conventions into their decision-making and actions.

Systematically applying the steps proposed in the indicators below could also have wider implications and impacts. Embedding respect for human rights in activities such as political engagement or when determining strategic asset allocation could lead to mitigation of certain systematic risks, including rising income inequality, erosion of workers’ rights and wage depression.
15. Commitment to respect human rights (CSI 1)
Indicator: The financial institution publicly commits to respecting all internationally recognised human rights across its activities.

Elements/metrics:

a) The financial institution has a publicly available policy statement committing it to respect human rights, which is approved by the highest governance body.

Sources: CHRB A.1.1; GRI 103-2; ShareAction (2020a) HLR S2.1; UNGP 11 and 12; UNGPRF A1.

Scoring note: For the purposes of evaluating and scoring, the financial institution’s policy statement must explicitly commit to respecting human rights, or commit to respecting the rights in the Universal Declaration of Human Rights, or commit to respecting the rights in the International Bill of Human Rights, or commit to respecting all internationally recognised human rights. The focus is on workplace and financing activities. It should be noted that a policy that only covers part of the financial institution’s activities will not meet the indicator element. For financial institutions, this is a policy for the whole organisation, so a policy covering only aspects of the financial institutions’ business would not be sufficient.

16. Commitment to respect the human rights of workers (CSI 2)
Indicator: The financial institution publicly commits to respecting the principles concerning fundamental rights at work in the eight ILO core conventions as set out in the ILO Declaration on Fundamental Principles and Rights at Work. It also has a publicly available statement of policy committing it to respect the human rights of workers in its supply chain.

Elements/metrics:

a) The financial institution has a publicly available policy statement committing it to respecting the human rights that the ILO has declared to be fundamental rights at work, which is approved by the highest governance body. AND

b) The financial institution has a publicly available statement of policy that expects its direct business relationships to commit to respecting the human rights that the ILO has declared to be fundamental rights at work.

Sources: CHRB A.1.2; GRI 103-2; UNGP 12 and 16(c); UNGPRF A1.

Scoring note: For the purposes of evaluating and scoring, this indicator is fully met by meeting both of the elements a) and b). ‘Business relationships’ refers primarily to suppliers and not relationships through the financial institution’s financing activities. Indicator element a) would be met by an explicit commitment to respecting ‘the human rights that the ILO has declared to be fundamental rights at work’ collectively. It
would also be met by an explicit commitment to respect each of the human rights that the ILO has declared to be fundamental rights at work, namely: freedom of association and the right to collective bargaining, and the rights not to be subject to forced labour, child labour and discrimination in respect of employment and occupation. Indicator element b) could also be met by placing a ‘requirement’ instead of an ‘expectation’ on suppliers to respect human rights.

17. Identifying human rights risks and impacts (CSI 3)
Indicator: The financial institution proactively identifies its human rights risks and impacts.

Elements/metrics:
a) The financial institution describes the process(es) to identify its human rights risks and impacts in specific locations or activities covering its own operations. AND
b) The financial institution describes the process(es) to identify its human rights risks and impacts in specific locations or activities through relevant financing activities.

Sources: CHRB B.2.1; HRIB 1.2.1; GRI 412-1 and 414-2; OECD RBC (2019); OECD RBC (2017); UNGP 17 and 18; UNGPRF B2 and C3.

Human rights due diligence is defined as an ongoing risk management process that a reasonable and prudent company needs to follow to identify, prevent, mitigate and account for how it addresses its adverse human rights impacts. As set out in the UN Guiding Principles 17-21, this includes four key steps: identifying and assessing actual and potential human rights impacts; integrating and acting on the findings; tracking responses; and communicating about how impacts are addressed.

**Human rights risks** are defined as any risks that its operations may lead to one or more negative human rights impacts. They therefore relate to its potential human rights impacts. Importantly, a company’s human rights risks are the risks that its operations pose to human rights. This is separate from any risks that involvement in human rights impacts may pose to the enterprise, although the two are increasingly related.

**Scoring note:** This indicator is fully met by meeting both of the elements a) and b). To meet both elements, the financial institution must have a clear process or processes in place to identify its risks to and impacts on people. This could include undertaking desk-based research to identify key risks in the financial institution’s industry and the regions in which it operates and analysing its internal process(es) to understand its own human rights risks. For element a), the focus is on the financial institution’s own workers but not on their activities (i.e. granting loans, buying shares of companies etc.). For element b), the focus is on financing activities. If taking the ‘catch-all approach’, then a financial institution undertaking banking, lending, insuring, asset owning, asset managing and so on would need to demonstrate an approach to HR risk/impact as follows: banking (corporate lending) – considering the HR risks/impacts linked to activities or companies that are being
18. Assessing human rights risks and impacts (CSI 4)
Indicator: Having identified its human rights risks and impacts, the financial institution assesses them and then prioritises its salient human rights risks and impacts.

**Elements/metrics:**

a) The financial institution describes its process(es) for assessing its human rights risks and discloses what it considers to be its salient human rights issues. This description includes how relevant factors are taken into account, such as geographical, economic, social and other factors. OR

b) The financial institution publicly discloses the results of its assessments, which may be aggregated across its operations and locations.

**Sources:** CHRB B.2.2; HRIB 1.2.1; GRI 412-1 and 414-2; UNGP 17, 18 and 24; UNGPRF B1, B2 and C3; OECD RBC (2019); OECD RBC (2017).

19. Integrating and acting on human rights risk and impact assessments (CSI 5)
Indicator: The financial institution integrates the findings of its assessments of human rights risks and impacts into relevant internal functions and processes by taking appropriate actions to prevent, mitigate or remediate its salient human rights issues.

**Elements/metrics:**

a) The financial institution describes its global system to take action to prevent, mitigate or remediate its salient human rights issues, AND this includes a description of how its global system applies to its financing activities. OR

b) The financial institution provides an example of the specific conclusions reached and actions taken or to be taken on at least one of its salient human rights issues as a result of assessment processes in at least one of its activities/operations in the last three years.

**Scoring note:** This indicator is fully met by meeting one of the elements a) or b). Regarding element a), in assessing the salience of its human rights issues, the financial institution should consider scale (the gravity of the impact), scope (the number of individuals who are or could be affected) and remediability (any limits on the ability to restore those affected to a situation at least the same as, or equivalent to, their situation before the adverse impact. The focus is on workplace and financing activities.
Sources: CHRB B.2.3; GRI 103-2; OECD RBC (2019); OECD RBC (2017); UNGP 17, 19 and 24; UNGPRF C4.

Scoring note: This indicator is fully met by meeting one of the elements a) or b). Regarding element a), where the financial institution has a clear global system, it can be assumed that this system or approach is used in each particular location the financial institution operates in. The focus is on workplace and financing activities.

20. Engagement with affected and potentially affected stakeholders (CSI 6)
Indicator: As part of identifying and assessing its human rights risks and impacts, the financial institution identifies and engages with stakeholders whose human rights have been or may be affected by its activities.

Elements/metrics:
a) The financial institution discloses the categories of stakeholders whose human rights have been or may be affected by its activities. AND

b) The financial institution provides at least two examples of its engagement with stakeholders whose human rights have been or may be affected by its activities (or their legitimate representatives or multi-stakeholder initiatives) in the last two years.

Sources: GRI 102-42, 102-43 and 102-44; UNGP 18 and 21; UNGPRF C2.
Scoring note: This indicator is fully met by meeting both of the elements a) and b). In order to meet elements a) and b), identifying and engaging with stakeholders must be part of the financial institution's identification and assessment of its human rights risks and impacts. Regarding element b), engaging with potentially and actually affected stakeholders means engaging in a dialogue with the stakeholders who might be, or are, impacted by the financial institution’s activities and/or with their legitimate representatives and/or with multi-stakeholder initiatives. Depending on the nature of the company’s operations, stakeholders can include (but are not limited to) workers, their families, local communities and any other person or group of people whose life and environment may be impacted. The focus is only on suppliers.

21. Grievance mechanisms for workers (CSI 7)
Indicator: The financial institution has one or more channel(s)/mechanism(s) (its own, third party or shared) through which workers can raise complaints or concerns, including in relation to human rights issues.

Elements/metrics:
a) The financial institution indicates that it has one or more channel(s)/mechanism(s), or participates in a third-party or shared mechanism, accessible to all workers to raise complaints or concerns related to the company.

Sources: CHRB C.1; GRI 103-2; UNGP 22, 29 and 30; UNGPRF C6.1 and C6.3.

Scoring note: An explicit reference to human rights is not required, but it must be clear to stakeholders that a channel/mechanism designed to cover other topics (e.g. a corruption hotline) can be used to raise human rights complaints or concerns as well. A mechanism that is purely anonymous will not meet the indicator element as it will not necessarily provide access to remedy for affected individuals. Workers are employees and direct contractors (individual).

22. Grievance mechanisms for external individuals and communities (CSI 8)
Indicator: The financial institution has one or more channel(s)/mechanism(s) (its own, third party or shared) through which individuals and communities who may be adversely impacted by the financial institution can raise complaints or concerns, including in relation to human rights issues.

Elements/metrics:
a) The financial institution indicates that it has one or more channel(s)/mechanism(s), or participates in a shared mechanism, accessible to all external individuals and communities who may be adversely impacted by the company (or individuals or organisations acting on their behalf or who are otherwise in a position to be aware of adverse impacts), to raise complaints or concerns.
Sources: CHRB C.2; GRI 103-2; UNGP 22, 29 and 30; UNGPRF C6.1 and C6.3.

Scoring note: An explicit reference to human rights in the mechanism is not required, but it must be clear to stakeholders that a channel/mechanism designed to cover other topics (e.g. a corruption hotline) can be used to raise human rights complaints or concerns as well. A mechanism that is purely anonymous will not meet the indicator element as it will not necessarily provide access to remedy for affected individuals. For financial activities, a grievance mechanism that allows third parties to raise a grievance is not a promise by the financial institution to provide remedy. Rather, a grievance mechanism provides an avenue to reach a solution in cases where a bank and stakeholder disagree about whether the bank has contributed to an adverse impact through its client relationship or other business partners.

Providing and promoting decent work

Enabling economic growth and creating jobs are often cited as positive impacts of the financial system. However, the SDGs call for ‘sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all’. It is, therefore, imperative to ensure that jobs created through the provision of financial services to companies are decent and enable workers to realise their potential. The first step in this journey is for financial institutions to provide and promote decent work in their own workplaces.

23. Health and safety fundamentals (CSI 9)

Indicator: The financial institution publicly commits to respecting the health and safety of workers and discloses relevant data. It also places health and safety expectations on and monitors the performance of its suppliers.

Elements/metrics:

a) The financial institution has a publicly available policy statement committing it to respect the health and safety of workers. AND

b) The financial institution discloses quantitative information on health and safety for its workers. AND

c) The financial institution has a publicly available statement of policy that expects its suppliers to commit to respecting the health and safety of their workers. AND

d) The financial institution discloses how it monitors the health and safety performance of its suppliers.

Sources: CHRB A.1.2, D.1.7.a and D.1.7.b; FLA VII.HSE.3; GRI 403-9; HRIB 3 and 8.2.1; ICESCR Art. 7; SA8000 IV.3.5 and IV.3.7.

Scoring note: This indicator is fully met by meeting all of the elements a) to d). To meet element a), the financial institution’s policy statement can commit to providing a healthy and safe workplace, respecting the health and safety of its workers or equivalent language. Element b) would be met by at least disclosing information in line with GRI 403-9: the number and rate of fatalities as a result of work-related injuries, the
number and rate of high-consequence work-related injuries (excluding fatalities), the number and rate of recordable work-related injuries, the main types of work-related injuries and the number of hours worked. To meet element c), the financial institution’s policy statement must include an expectation that its suppliers commit to providing healthy and safe workplaces, respecting the health and safety of their workers or equivalent wording. The focus is on suppliers (i.e. those who have a direct contractual relationship with the financial institution).

24. Living wage fundamentals (CSI 10)
Indicator: The financial institution is committed to paying its workers a living wage and supports the payment of a living wage by its suppliers.

Elements/metrics:

a) The financial institution discloses a time-bound target for paying all workers a living wage or that it has achieved paying all workers a living wage. AND
b) The financial institution describes how it determines a living wage for the regions where it operates. AND
c) The financial institution describes how it works to support the payment of a living wage by its suppliers.

Sources: CHRB D.1.1.a and D.1.1.b; ETI 5; HRIB 2.4.1 and 8.2.3; ICESCR Art. 7; SA8000 IV.8.1; GLWC.

Living wage: There are numerous definitions of living wage but the core concept is to provide a decent standard of living for a worker and his or her family. A living wage is sufficient to cover food, water, clothing, transport, education, health care and other essential needs for workers and their family based on a regular work week not including overtime hours.

Scoring note: This indicator is fully met by meeting all of the elements a) to c). Element a) would not be met where a target does not state the year in which a financial institution intends to achieve the goals. Element b) would be met where a financial institution: describes how it works with relevant trade unions (or equivalent worker bodies where the right to freedom of association and collective bargaining is restricted under law) to determine a living wage, or describes the methodology it uses to determine a living wage (e.g. the Anker Methodology for Estimating a Living Wage or the Massachusetts Institute of Technology Living Wage Calculator). Element c) would be met where a company requires its suppliers to pay their workers a living wage, or expects its suppliers to pay their workers a living wage AND provides a description of how it works with its suppliers.
25. Working hours fundamentals (CSI 11)

Indicator: The financial institution does not require workers to work more than the regular and overtime hours and places equivalent expectations on its suppliers.

Elements/metrics:

a) The financial institution publicly states that workers shall not be required to work more than 48 hours in a regular work week or 60 hours including overtime. AND
b) The financial institution publicly states that all overtime work must be consensual and be paid at a premium rate. AND
c) The financial institution has a public expectation that its suppliers shall not require workers to work more than 48 hours in a regular work week or 60 hours including overtime.

Sources: ETI 6; FLA VIII; ILO No. 1, 14 and 106.

Scoring note: This indicator is fully met by meeting all of the elements a) to c). Element a) and c) would not be met if a financial institution’s position on a regular work week is ‘60 hours including overtime’ but excludes the key 48 hours element. This is to avoid a scenario where a financial institution defines a regular work week as 55 hours, with only five hours of premium overtime, thereby making up a total of 60 hours. The exception to this would be where a financial institution explains there is a legally defined maximum regular work week of 48 hours, or less, in every country in which both it and its suppliers operate.
26. Collective bargaining fundamentals (CSI 12)

Indicator: The financial institution discloses information about collective bargaining agreements covering its workforce and its approach to supporting the practices of its suppliers in relation to freedom of association and collective bargaining.

Elements/metrics:

a) The financial institution discloses the proportion of its total direct operations workforce covered by collective bargaining agreements.

AND

b) The financial institution describes how it works to support the practices of its suppliers in relation to freedom of association and collective bargaining.

Sources: CHRB D.1.6.a and D.1.6.b; WEF Core Dignity & Equality; WDI 9.2 and 9.5.

Collective bargaining refers to all negotiations that take place between an employer, a group of employers or one or more employers’ organisations, on the one hand, and one or more workers’ organisations, on the other, for: (a) determining working conditions and terms of employment; and/or (b) regulating relations between employers and workers; and/or (c) regulating relations between employers or their organisations and a workers’ organisation or workers’ organisations.

Collective bargaining agreements (CBA) are written agreements regarding working conditions and terms of employment concluded between one or more employers or employers’ organisations, on the one hand, and one or more representative workers’ organisations or duly elected and authorised representatives of the workers (according to national laws and regulations), on the other.

Scoring note: This indicator is fully met by meeting both of the elements a) and b). To meet element b), the financial institution should explain more than just how it observes or monitors its suppliers, as part of its work to support them in relation to freedom of association and collective bargaining. For example, with respect to its suppliers, the financial institution could provide training or conduct joint projects with them.

27. Diversity disclosure fundamentals (CSI 13)

Indicator: The financial institution discloses the percentage of employees for each employee category by at least four indicators of diversity.

Elements/metrics:

a) The financial institution discloses the proportion of its total direct operations workforce for each employee category by age group.

AND

b) The financial institution discloses the proportion of its total direct operations workforce for each employee category by gender.

AND

c) The financial institution discloses the proportion of its total direct operations workforce for each employee category by race or ethnicity.

AND
d) The financial institution discloses the proportion of its total direct operations workforce for each employee category by one or more additional indicators of diversity (e.g. disability, sexual identity and marital and family status, etc).

**Sources:** GRI 405-1; WDI 4.3 and 4.5; WEF Core Dignity & Equality.

**Scoring note:** This indicator is fully met by meeting all of the elements a) to d). Regarding elements a), b), c) and d), employee category breakdown can be by level (such as senior management, middle management) and/or function (such as technical, administrative, production). In accordance with GRI 405, the suggested age groups for reporting on this disclosure are: under 30 years old, 30-50 years old and over 50 years old. If the financial institution explains it is unable to meet element c) because of legal restrictions on the collection of ethnic or racial data in certain jurisdictions, it can still fully meet this indicator by satisfying elements a), b) and d).

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### Acting ethically

A financial institution that acknowledges its impact and aims to operate in adherence with societal conventions is committed to a number of practices like disclosing its taxes and lobbying policy, protecting personal data and prohibiting bribery and corruption.

#### 28. Personal data protection fundamentals (CSI 15)

**Indicator:** The financial institution publicly commits to protecting personal data and has a global approach to data privacy.

**Elements/metrics:**

a) The financial institution has a public commitment to protect personal data. AND

b) The financial institution has a global publicly available privacy statement in relation to the collection, sharing and access to personal data.

**Sources:** DIB U.3; GDPR Art. 13; RDR P3, P4 and P8.

**Scoring note:** A financial institution receives a full score if both elements are met. To meet element a), the financial institution could, for example, commit to respecting the right to data privacy or commit to protecting personal data or information. A financial institution would not meet element a) where it only commits to protecting the personal data of a certain group of people, such as employees, to the exclusion of other groups, like customers. A commitment to protect personal data should...
relate to all stakeholders whose personal data is being processed by the financial institution. To meet element b), the financial institution must at least disclose the types of user information it collects, disclose the types of third parties that user information is shared with and allow a user to retrieve a copy of user information collected by the financial institution.

29. Responsible tax fundamentals (CSI 16)
Indicator: The financial institution has a public global tax approach and discloses its corporate income tax payments on a country-by-country basis.

Elements/metrics:
- a) The financial institution has a publicly available global tax strategy, which is approved by the highest governance body. AND
- b) A governance body or executive-level position is tasked with accountability for compliance with the financial institution’s global tax strategy. AND
- c) The financial institution clearly discloses the amount of corporate income tax paid for each tax jurisdiction where the company is a resident for tax purposes.

Sources: B Team Responsible Tax Principle 1 and 7; GRI 207-1, 207-2 and 207-4.

Scoring note: This indicator is fully met by meeting all of the elements a) to c). For the purposes of element a), the financial institution’s tax
strategy could take various forms, including a policy, standard or code of conduct. In order to meet element c), the financial institution’s disclosures should not be spread across various reports; they need to be easily accessible and should be contained in one report, document or webpage.

30. Anti-bribery and anti-corruption fundamentals (CSI 17)
Indicator: The financial institution publicly prohibits bribery and corruption and takes steps to identify and address bribery and corruption risks and incidents.

Elements/metrics:
- a) The financial institution has a publicly available policy statement prohibiting bribery and corruption. AND
- b) The financial institution describes the process(es) to identify its bribery and corruption risks and impacts in specific locations or activities covering its own operations. AND
- c) The financial institution includes anti-bribery and anti-corruption clauses in its contracts with direct business relationships. AND
- d) The financial institution indicates that it has a confidential and anonymous channel/mechanism accessible to all stakeholders to raise bribery and corruption concerns and complaints without fear of reprisals.

Sources: GRI 205-3; TI Anti-Corruption Principles 1.1, 1.2, 1.3, 1.11, 1.12 and 1.13.

Scoring note: This indicator is fully met by meeting all of the elements a) to d). Element a) would also be met if the financial institution states that it has ‘zero tolerance for bribery and corruption’. In order for element d) to be met, the channel/mechanism must be accessible to both internal and external stakeholders. Bribery and corruption is a big issue for several of the financial institution’s activities. For element b) to be met, the financial institution should demonstrate a global approach to bribery and corruption risk management across its activities. Under element c), ‘contracts’ are defined narrowly and exclude e.g. shareholdings.

31. Responsible lobbying and political engagement (CSI 18)
Indicator: The financial institution has an approach to lobbying and political engagement and has related controls in place.

Elements/metrics:
- a) The financial institution has a publicly available policy statement(s) (or policy(ies)) setting out its lobbying and political engagement approach. AND
- b) The financial institution has a publicly available policy statement that specifies that it does not make political contributions. AND
- c) The financial institution discloses its expenditures on lobbying activities. AND
- d) The financial institution requires third-party lobbyists to comply with its lobbying and political engagement policy (or policies).
Sources: TI Political Engagement Principles, Recommendations 5, 8 and 9.

Scoring note: This indicator is fully met by meeting all of the elements a) to d). Where a financial institution allows political contributions, it would meet element (b) if it only allows them by exception and clearly states the criteria for making them.

32. Financing for usually excluded groups
Indicator: The financial institution discloses how much financing it contributes to specific groups, entities or industries that traditionally receive less financing.

Rationale: Over 80% of the USD 379 trillion in financial assets managed globally by banks, asset managers and institutional investors is held in OECD countries. Less than 4% of global wealth flows to lower- and upper-middle-income countries (excluding China), yet these comprise 50% of the world’s countries. This inequality is not only between countries but also within countries, with whole segments of societies being left behind. Further, only a small portion of the wealth generated is channelled back into the investment-oriented industries such as affordable housing, sustainable infrastructure and sustainable agriculture, which are key economic activities needed to achieve the SDGs. A financial institution that acknowledges its impact and aims to operate within planetary boundaries and societal conventions actively seeks to finance groups, entities or industries that have traditionally or are usually excluded from financing.

Elements/metrics:

a) The financial institution discloses the breakdown of clients/beneficiaries by income group/company size (e.g. by number of employees/revenue). AND
b) The financial institution discloses the amount of financing to women-owned businesses OR to another usually excluded group, defined by the financial institution itself. AND
c) The financial institution discloses the amount of financing to small- and medium-sized enterprises. AND
d) The financial institution discloses the amount of financing to low-income, developing countries.

Women-owned businesses are defined as businesses where 51% or more is owned by one or more women.34

Sources: GISD (2021).
WBA is grateful for the support of the UK Foreign, Commonwealth & Development Office’s IMPACT Programme, for funding the early stages of the Financial System Benchmark and enabling the publication of the scoping report in January 2021.

We give our thanks to the co-hosts and partners in regional consultations that took place between September and December 2020:

- Asia-Pacific: Asian Corporate Governance Association
- India: Confederation of Indian Industry
- Europe: NVB (Dutch Banking Association)
- Japan: Financial Services Agency
- Sub-Saharan Africa: Code for Responsible Investing in South Africa, and the Continental Business Network
- United Kingdom: City of London Corporation, and Impact Investing Institute
- United States: Ceres, and Institute for International Finance.

We also wish to thank the almost 300 people who took part in our scoping and methodology consultations. In addition, our thanks go to the more than 100 individuals who generously shared their time, experience and feedback as we explored the scope and measurement areas for a financial system benchmark, and to the 100 stakeholders who took time to review and provide written comments on the scoping report and draft methodology.

Moreover, we are grateful to our Expert Review Committee (ERC) for their continued guidance and support.

WBA is funded by a group of governments, foundations and philanthropic organisations that share our vision for the future, the full list of which is available on our website and on the last page of this report. We would like to thank them for their support, without which none of our work would be possible.

Our growing Alliance of more than 260 organisations represents civil society, business networks, reporting platforms, standards setters, financial institutions and multilateral organisations, with SDG 17 (partnerships for the goals) at its core. WBA would like to thank our Allies for the support and expertise they provide. We look forward to continuing our collaboration throughout the development of the first Financial System Benchmark.
The Financial System Benchmark will assess 400 of the world’s most influential financial institutions. The selection of these institutions is based on the approach that they are “keystone”, i.e. organisations with disproportionate influence on the structure and function of the systems within which they operate.

In practice, we followed these five principles:

1. The financial institution dominates global production revenues and/or volumes within a particular sector. Note that for asset managers, pension funds and sovereign wealth funds, we used assets under management instead of revenues.
2. The financial institution controls globally relevant segments of production and/or service provision.
3. The financial institution connects (eco)systems globally through subsidiaries and supply chains.
4. The financial institution influences global governance processes and institutions.
5. The financial institution has a global footprint, particularly in developing countries.

The keystone financial institutions include publicly listed, privately held and state-owned enterprises. In terms of industries, they encompass asset owners (including pension funds, development finance institutions and sovereign wealth funds), asset managers (including investment consultants), banks and insurance companies (see Figure 4).

Annex 1: Scope of the benchmark

Note: The categorisation by industry was based on the activities from which financial institutions derive most of their revenues.

In terms of geographical distribution, the financial institutions are concentrated in the world’s global financial centres (United States, Europe and East Asia), mirroring the global wealth and capital allocations (see Figure 5). However, it should be noted that the activities of the 400 keystone actors’ operations, suppliers, clients and products and services have considerable direct and indirect impact outside of these global financial centres and in multiple countries and regions.

FIGURE 4 INDUSTRY BREAKDOWN OF KEystone FINANCIAL INSTITUTIONS IN THE SCOPE OF THE BENCHMARK
Annex 1: Scope of the benchmark

FIGURE 5 GEOGRAPHIC SPREAD OF FINANCIAL INSTITUTIONS IN THE SCOPE OF THE BENCHMARK, BY HEADQUARTERS
The full list of the financial institutions in the benchmark scope is available on our [website](#).

WBA transformation benchmarks take a broad perspective, looking cross-sector and cross-industry to provide a snapshot of system-level progress. The Financial System Benchmark methodology covers the following financial industries: asset owners (including pension funds, development finance institutions and sovereign wealth funds), asset managers (including investment consultants), banks and insurance companies.35

The core activities most commonly found across these financial industries are investing, lending, investment banking, advisory services and insurance underwriting, as described below:

- **Asset owners** invest and manage assets on behalf of their beneficiaries – pension members in the case of pension funds and states in the case of sovereign wealth funds (SWF). Since investing (asset management and stewardship of those assets) is the primary activity of asset owners, we focus on this for the purposes of the benchmark.

- **Development finance institutions (DFIs)** are financed by governments to support economic development in low and low- and middle-income countries. Their beneficiaries, for the purposes of this benchmark, are classified as the national governments that finance them and the states, funds, enterprises and projects that are financed. This financing largely consists of investing and lending to public and private sector actors, and it is these activities that will be the focus of our benchmark analysis of DFIs.

- **Investment consultants** support asset owners, including insurance companies (see below), throughout the investment process. We have specifically included those investment consultants that have an ‘outsourced chief investment officer’ function and have the discretion to manage assets on behalf of their clients. This binds them to the same fiduciary duty as the asset owners whose assets they manage. For the purposes of this benchmark, we will focus our analysis on investment consultants’ role in investing and advising clients on how to manage assets.

- **Asset managers** invest assets that asset owners entrust to them, pooling assets from different asset owners into products (investment funds or vehicles). For the purposes of this benchmark, we plan to evaluate asset managers in a similar vein as investment consultants, i.e. with a focus on their investing and advisory services.

- **Banks** receive deposits from private clients and institutions, which they use to provide loans and other types of financing to (other) private clients and institutions that need funds for consumption or investment (commercial banking). Some banks act as intermediaries in the financial market by facilitating companies’ fundraising, as well as the mergers and acquisitions of companies (investment banking, merger and acquisition advisory services).
including securities underwriting and financial advisory activities). Banks are one of the most complex institutions in scope to evaluate because of their involvement in multiple financing activities. For the purposes of this benchmark, we will evaluate their role in investing, commercial banking/lending, investment banking and advisory activities, with the latter including services to banks’ clients such as wealth management.

- **Insurance companies** are the financial system’s risk managers and carriers, as they prevent and cover insured losses suffered within the economy when risks materialise. Their clients can range from individuals, businesses and governments to other financial institutions in the scope of this benchmark, including insurance companies themselves. Insurance companies also act as long-term investors, as they pool premiums paid by policyholders and invest them. We will focus on their underwriting and investing activities for the purposes of this benchmark.
WBA developed a set of principles to guide its work and reflect its values and mission. These principles were formed in collaboration with global stakeholders throughout the consultation phase and were refined using input and feedback from roundtable consultation online surveys and expert meetings. The principles are summarised in Table 4. However, as the world is rapidly changing and additional insights and perspectives emerge, these principles may evolve, in consultation with stakeholders, to reflect new needs and directions.

**TABLE 4 WBA GUIDING PRINCIPLES**

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<th>Operational principles</th>
<th>Content principles</th>
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<tr>
<td>Inclusive</td>
<td>Balanced</td>
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<tr>
<td>WBA actively engages with and involves all stakeholders in building the Alliance and the benchmarks.</td>
<td>WBA benchmarks assess both positive and negative impacts that companies might have on the SDGs.</td>
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<tr>
<td>Impartial</td>
<td>Reflective of societal expectations</td>
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<tr>
<td>WBA and its benchmarks are equally responsive to all stakeholders.</td>
<td>WBA benchmarks reflect the extent to which companies’ performance on relevant SDGs aligns with stakeholders’ expectations.</td>
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<tr>
<td>Independent</td>
<td>Forward-looking</td>
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<tr>
<td>WBA and its benchmarks are independent from the industries and companies they assess.</td>
<td>WBA and its benchmarks engage and assess companies on their current performance on the SDGs and on exposure to sustainability risks and future opportunities.</td>
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<td>Focused on impact</td>
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<td>WBA and its benchmarks promote dialogue and measure impact on the SDGs to create positive change.</td>
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<tr>
<td>Collaborative</td>
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<tr>
<td>WBA collaborates with stakeholders and Allies to enhance alignment of corporate performance with internationally agreed sustainability objectives.</td>
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</table>

**Free and publicly available**

WBA is a public good, and its benchmarks and methodologies are free and publicly available to all.

**Benchmark development principles**

- **Relevant**: WBA benchmarks focus on sustainable development issues most relevant to industries’ core businesses and on the industries and companies that can make the most significant, actionable and unique contributions to these issues.

- **Clear in method and intent**: WBA benchmarks are transparent about their methodology, development processes and results.

- **Complementary**: WBA benchmarks build upon the work done by others, adding further value with a focus on SDG impact.

- **Responsive and iterative**: WBA benchmarks are updated regularly to reflect evolving stakeholder expectations, policies, developments and company performance.

**Content principles**

<table>
<thead>
<tr>
<th>Balanced principles</th>
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<tr>
<td>WBA benchmarks reflect the extent to which companies’ performance on relevant SDGs aligns with stakeholders’ expectations.</td>
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</table>
Annex 3: Voluntary disclosure frameworks

1. Banking Environment Initiative (Cambridge Institute for Sustainability Leadership)
2. BankTrack Human Rights Benchmark
3. B Impact Assessment (B Lab)
4. Climate Disclosure Project (CDP) Questionnaire, CDP Non-Disclosure Campaign and Science-Based Targets Campaign
5. Center for Climate-Aligned Finance (Rocky Mountain Institute)
6. Center for Political Accountability CPA-Zicklin Index
7. Climate Action 100+ (including Climate Action 100+ Net-Zero Company Benchmark – CA100+ NZ CB)
8. Climate Action in Financial Institutions
9. Climate Disclosure Standards Board (CDSB)
10. Climate Finance Leadership Initiative
11. Climate Policy Initiative (CPI) Framework for Sustainable Finance Integrity
13. Climate Safe Lending Network (including Climate Safe Lending Pathway – CSLP (2020))
14. Climate Transparency Hub (ADEME)
15. ClimateWise Principles (Cambridge Institute for Sustainability Leadership)
17. Finance for Biodiversity Pledge
18. Finance Sector Roadmap Eliminating Commodity-Driven Deforestation (Deforestation-Free Finance (2021))
19. Financial Services Human Rights Benchmark (University of Sydney)
20. Financing the Transition to a Net Zero Future (World Economic Forum)
22. Future-Fit Business Benchmark
24. GSD Sector-Specific SDG-related Metrics for Corporate Reporting (GSD (2021))
25. Global Alliance for Banking on Values
26. Global Pension Transparency Benchmark
27. Global Reporting Initiative Standards (GRI)
28. Grantham Research Institute on Climate Change and the Environment’s “From the Grand to the Granular” Policy report
29. ICMA: Principles Guidelines and Handbooks (ICMA (2020))
31. IMVO-convenanten
32. InfluenceMap (including FinanceMap)
34. IRIS+ (Global Impact Investing Network)
35. MSCI SDG Tracker
Annex 3: Voluntary disclosure frameworks

37. Responsible Business Conduct for Institutional Investors (2017), and Due Diligence for Responsible Corporate Lending and Securities Underwriting (2019) (Organisation for Economic Co-operation and Development) (OECD)
38. Operating Principles for Impact Management (International Finance Corporation)
39. Paris Agreement Capital Transition Assessment (2° Investing Initiative – 2DII) (PACTA)
40. Partnership for Carbon Accounting Financials (PCAF)
41. Partnership for Biodiversity Accounting Financials (PBAF)
42. Principles for Responsible Banking (including Collective Commitment to Climate Action), Positive Impact Initiative and Principles for Sustainable Insurance (United Nations Environment Programme Finance Initiative) (PRB, PII, PSI)
43. Principles for Responsible Investment Reporting Framework (PRI)
44. Rainforest Action Network (Banking on Climate Chaos) (RAN)
45. Real Impact Tracker
46. Responsible Asset Allocator Initiative
47. Science Based Targets initiative for financial institutions (SBTi)
48. Science Based Targets Network (SBTN)
49. ShareAction: Point of No Returns (2020a), Banking on a Low-Carbon Future II (2020b), Pension Funds AODP Global Climate Index (2018b), Got it covered? Insurance in a changing climate (2018a), Insuring Disaster, and Countdown to COP26: An analysis of the climate and biodiversity practices of Europe’s largest banks (2021)
50. Social Value International Standards and Guidance (including Social Return on Investment methodology)
51. Sustainable Development Investments Asset Owner Platform
52. Sustainable Development Goals Impact Standards (United Nations Development Programme) (UNDP)
53. Sustainable Finance League Tables (Refinitiv)
55. Task Force on Climate-related Financial Disclosures (TCFD)
56. Taskforce on Nature-related Financial Disclosure (TNFD)
57. The Investor Agenda
58. The Test of Corporate Purpose Initiative
59. UNEP FI Biodiversity-related target-setting for banks report
60. United Nations Guiding Principles Reporting Framework (UNGP)
61. Universal Standards for Social Performance Management
62. Value Reporting Foundation
63. World Economic Forum Measuring Stakeholder Capitalism (WEF IBC)
64. World Resources Institute (WRI) A Tool To Compare Private Sector Banks’ Sustainable Finance Commitments
### Annex 4: Mapping of the FST Methodology to key disclosure frameworks

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A1, A2, A3, A4, A5, C32 are indicators and the rest of the columns represent groups of indicators. The larger the dot the more initiatives are aligned with the indicator or group of indicators respectively.
Annex 4: Mapping of the FST Methodology to key disclosure frameworks

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## Annex 4: Mapping of the FST Methodology to key disclosure frameworks

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References

1 Climate Change 2021: The Physical Science Basis, the Working Group I contribution to the Sixth Assessment Report.
3 OECD (2021) Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet
4 Only 52% of the general (global) population trusts the financial services sector, which has seen the most rapid drop in trust of any business sector over the past year (by five percentage points). Also of concern is the 13 point trust gap between the ‘informed public’ and the ‘mass population’. Edelman (2021) Trust Barometer: Trust in Financial Services.
6 UNEP Inquiry (2015), The Financial System We Need, p.52.
7 These have been explored in greater detail in the Financial System Transformation Scoping Report and Financial System Benchmark Draft Methodology.
8 This focus is aligned with the concept of “single materiality” which looks at sustainability issues only in so far as they are financially material to the corporation. A different perspective is the “double materiality” which looks at sustainability both from a perspective of what is material to the corporation and from the perspective of the corporation’s impact on people and the environment. There is also the concept of “dynamic materiality” which is that the material environmental, social and governance issues change over time.
9 r3.0 (2020) Blueprint 6: Sustainable Finance: Systemic Transformation to a Regenerative & Distributive Economy, Kate Raworth (2017) Doughnut Economics: Seven Ways to Think Like a 21st-Century Economist
10 The financial industry is one of the least trusted globally. Only 52% of the general (global) population trusts the financial services sector, which has seen the most rapid drop in trust of any business sector over the past year (by five percentage points). Also of concern is the 13 point trust gap between the ‘informed public’ and the ‘mass population’. Edelman (2021) Trust Barometer: Trust in Financial Services.
11 Financial Times, “Big banks resist most direct road map to net zero emissions” 11 October 2021, https://www.ft.com/content/9105cc47-58fb-47dc-8233-6b622fb56ae2
12 Financial institutions are too big to fail
13 UNEP Inquiry (2015), The Financial System We Need: Aligning the Financial System with Sustainable Development, p.52
15 The duty to maintain market integrity is the responsibility of regulators across multiple jurisdictions, and finds its way into market requirements in diverse ways. See, for example, the EU UCITS Directive, the delegated acts for which now include consideration of market integrity and consideration of principal adverse impacts in investment due diligence.


19 The 18 core social indicators have a weight of 20%, but we have incorporated CSI 14 (gender equality) into the governance and strategy measurement area).

20 This approach towards sustainability is aligned with the European Commission’s principle of “double materiality” in reporting, which means that companies have to report both about how sustainability issues affect their business and about their own impact on people and the environment. This principle is evidence in the Non-Financial Reporting Directive (NFRD) and the Corporate Sustainability Reporting Directive (CSRD).

21 Financial Times, “Big banks resist most direct road map to net zero emissions” 11 October 2021, https://www.ft.com/content/9105cc47-58fb-47dc-8233-6b622fb56ae2

22 McKinsey&Company (2018), Delivering through diversity


24 The concept of “planetary boundaries” refers to nine planetary boundaries that human activity needs to respect in order to be able to thrive in the coming years. It was developed by the Stockholm Resilience Centre in 2009. Two of them are climate change and biodiversity loss. https://www.ecologyandsociety.org/vol14/iss2/art32/

25 1.5°C trajectory refers to P1 and P2 from the 2018 Intergovernmental Panel on Climate Change report and in line with the latest report of the International Energy Agency.


27 Financed GHG emissions are emissions resulting from financing activities as defined by this report. This means they would include emissions arising from investing, lending, investment banking, advisory services and insurance underwriting.

28 CDP, 28 April 2021, “Finance sector’s funded emissions over 700 times greater than its own”, https://www.cdp.net/en/articles/media/finance-sectors-funded-emissions-over-700-times-greater-than-its-own
29 For the purposes of the Financial System Benchmark, a target is considered science-based if it sets the financial institution to be net zero in its financed emissions by 2050. While we understand that this is a simplified look at science, we continue to follow the developments in the industry on what the targets that are based on science should include. See, for instance, https://2degrees-investing.org/resource/science-based-targets-for-financial-institutions-position-consultation-deck/


31 Climate solutions could include climate-positive investments such as investment into renewable energy in emerging markets, green buildings, sustainable forestry and agriculture, green hydrogen fuel development, activities enlarging the low carbon investment universe and building solutions, UNEP FI "Inaugural 2024 Target Setting Protocol", October 2020 https://www.unepfi.org/wordpress/wp-content/uploads/2021/01/Alliance-Target-Setting-Protocol-2021.pdf p.21


33 Convention on Biological Diversity 1992

34 International Finance Corporation

35 Central banks, stock exchanges, credit rating agencies, export credit agencies all have considerable influence in the financial system, but are outside the scope of this benchmark.