

Annex 1 Non-exhaustive list of ESG factors, indicators and metrics

This Annex proposes a non-exhaustive list of ESG factors and corresponding indicators that can help institutions and supervisors to identify ESG characteristics. They can be applied in a proportionate manner to the analysis of counterparties, such as entities, sovereigns or individuals that the institution is exposed to, and allow for the aggregation and comparability of ESG characteristics across these counterparties. The factors and indicators should be considered in the context of the ESG characteristics of the counterparty under consideration, not the institution's own performance.

The list presented is solely an illustration of some of the key factors and indicators to be considered for the management of ESG risks. It should not be understood as an exhaustive or final inventory of all relevant factors and indicators, not least because these will evolve and will need to be updated over time. The applicability of the various ESG indicators will depend on the specific nature and underlying characteristics of the given exposures, taking into account the materiality of the ESG risks. Further, the evaluation and interpretation of the metric values and outcomes will crucially depend on the exposure's nature and specific circumstances and may need to be considered on a case-by-case basis.

Information in this Annex is based on i) the regulations, standards and frameworks listed in Chapter 2 of this report, ii) different Competent Authorities' guides in respect of ESG risks, iii) national or EU-wide reports on specific ESG topics, iv) credit rating agencies' methodologies, v) responses of banks to the EBA survey on market practices, vi) the responses received to the consultation on the EBA Discussion Paper on 'Management and supervision of ESG risks for credit institutions and investment firms', and viii) information from non-financial corporates' Annual Reports and sustainability reporting.

The indicators are further refined into concrete metrics, which are both quantitative and qualitative in nature. Some define clear calculations and formulas, depending on the relevance and context, some are in the form of an absolute measure (totals), others in the form of a relative measure (ratio). Some qualitative information on ESG characteristics can also be included in the form of certifications on the observance of ESG-standards/norms by third-party verifiers (e.g. in the form of labels), which may not necessarily be included in this list.

The factors, indicators and metrics provided in this Annex can assist institutions in their approach to managing ESG risks. Large institutions are reminded that the EBA will publish later in 2021 Implementing Technical Standards to define ESG risks disclosure requirements in accordance with Article 449a of the CRR.

References for terms applied in this Annex

- (a) **‘greenhouse gas (GHG) emissions’** as defined in the GHG Protocol methodology (<https://ghgprotocol.org/calculation-tools>) or the ISO 14064-1:2018 standard and, where appropriate, in the European Commission’s Recommendation 2013/179 on the use of common methods to measure and communicate the life cycle environmental performance of products and organisations;²²⁷
- (b) **‘scope 1, 2 and 3 GHG emissions’** means the greenhouse gas emissions referred to in point (1)(e)(i-iii) of Annex III of Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds, and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014;²²⁸
- (c) **‘tonnes of CO₂’** means tonnes of carbon dioxide equivalent as defined in Article 3(j) of Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003, establishing a system for greenhouse gas emission allowance trading within the Union and amending Council Directive 96/61/EC;²²⁹
- (d) **‘carbon footprint’** is an absolute or relative measure of GHG emissions as defined in points (a) and (c);
- (e) **‘fossil fuel sectors’** relates to the production, processing, distribution, storage or combustion of fossil fuels, with the exception of investment related to clean vehicles²³⁰ as defined in Article 4 of Directive 2009/33/EC of the European Parliament and of the Council on the promotion of clean and energy-efficient road transport vehicles;
- (f) **‘national emissions reduction commitments’** for EU countries, these are obligations to reduce emissions of a given substance, specifying the minimum emission reductions that have to be achieved in the target calendar year, as a percentage of the total of emissions released during the base year (2005), as per Directive (EU) 2016/2284 of the European Parliament and of the Council of 14 December 2016 on the reduction of national emissions of certain atmospheric pollutants, amending Directive 2003/35/EC and repealing Directive 2001/81/EC (OJ L 344, 17.12.2016, pp. 1-31). For other countries, refer when available to intended nationally determined contributions to reduction in GHG emissions under the United National Framework Convention on Climate Change (UNFCCC);
- (g) **‘energy consumption intensity’** measures the energy consumption per unit of activity, output or any other metric, in the meaning of Directive ((EU) 2018/2002) amending the Energy Efficiency Directive (2012/27/EU);
- (h) **‘renewable energy sources’** means renewable energy sources referred to in Article 2(1) of Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion and use of energy from renewable sources (recast)²³¹;
- (i) **‘non-renewable energy sources’** means energy sources other than those referred to in point (h);

²²⁷ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013H0179&from=EN>.

²²⁸ OJ L 171, 29.6.2016, p. 1.

²²⁹ OJ L 275 25.10.2003, p. 32.

²³⁰ Proposal for a Regulation on the European Regional Development Fund and on the Cohesion Fund (COM(2018)372).

²³¹ OJ L 328 21.12.2018, p.82.

- (j) **‘water consumption intensity’** in the meaning of Directive 2000/60/EC of 23 October 2000 establishing a framework for Community action in the field of water policy with a view to protecting the sustainable use and environmental status of all waters;
- (k) **‘hazardous waste’** means hazardous waste as defined in Article 3(2) of Directive 2008/98/EC of the European Parliament and of the Council of 19 November 2008 on waste and repealing certain Directives²³², and radioactive waste;
- (l) **‘non-recycled waste’** means any waste not recycled within the meaning of ‘recycling’ in Article 3(17) of Directive 2008/98/EC;
- (m) **‘water pollutants’** means Direct Nitrates emissions (scope 1), Direct Phosphate emissions (scope 1), Direct Pesticides emissions (scope 1), Direct emissions of priority substances (scope 1) as defined in the Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy²³³, Council Directive of 12 December 1991 concerning the protection of waters against pollution caused by nitrates from agricultural sources (91/676/EEC)²³⁴, Council Directive 91/271/EEC of 21 May 1991 concerning urban waste-water treatment²³⁵ and Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control)²³⁶;
- (n) **‘air pollutants’** means Direct Sulphur dioxides (SO_x/SO₂) emissions, Direct Nitrogen oxides (NO_x/NO₂) emissions, Direct Ammonia (NH₃) emissions, Direct Particulate matter (PM_{2.5}) emissions, Direct Non-methane volatile organic compounds (NMVOC) emissions, Direct total heavy metals (HM) emissions as referred to in Directive (EU) 2016/2284 of the European Parliament and of the Council of 14 December 2016 on the reduction of national emissions of certain atmospheric pollutants, amending Directive 2003/35/EC and repealing Directive 2001/81/EC²³⁷;
- (o) **‘biodiversity and ecosystem services’** refers to the concept of biodiversity and ecosystem services as laid out in the global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), released in May 2019;
- (p) **‘protected area’** means an area designated under the European Environment Agency’s Common Database on Designated Areas (CDDA)²³⁸;
- (q) **‘area of high biodiversity value outside protected areas’** means an area not subject to legal protection, but recognised for important biodiversity features by a number of governmental and non-governmental organisations, including habitats that are a priority for conservation, which are often defined in National Biodiversity Strategies and Action Plans prepared under the United Nations (UN) Convention, ‘Convention on Biological Diversity’, 1992;

²³² OJ L 312, 22.11.2008, p. 3.

²³³ OJ L 327, 22/12/2000, p. 1w.

²³⁴ OJ L 375, 31.12.1991, p.1.

²³⁵ OJ L 135, 30.5.1991, p. 40.

²³⁶ OJ L 334, 17.12.2010, p.17.

²³⁷ OJ L 344, 17.12.2016, p.1.

²³⁸ <https://www.eea.europa.eu/data-and-maps/data/nationally-designated-areas-national-cdda-14>.

- (r) **‘gender pay gap’** means the difference between average gross hourly earnings of male and female paid employees for equal work or work of equal value, as a percentage gross hourly earnings of male paid employees;
- (s) **‘human rights policy’** means a policy commitment approved at highest decision-making level on human rights;
- (t) **‘workplace safety and health’** as specified in the Directive 89/391/EEC, known as the **OSH ‘Framework Directive’**, which lays down the main principles to encourage improvements in the safety and health of workers at work, and the requirements developed thereafter by the European Commission and the European Agency for Safety and Health at Work (EU-OSHA).
- (u) **‘inorganic pollutants’** means emissions within or lower than the emission levels associated with the best available techniques (BAT-AEL) ranges set out in the Best Available Techniques Reference Document (BREF) for the Large Volume Inorganic Chemicals - Solids and Others industry;
- (v) **‘soil degradation’** means the diminishing capacity of the soil to provide ecosystem goods and services as desired by stakeholders, according to the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) as referred to in paragraph 100 of Decision No 1386/2013/EU;
- (w) **‘areas of high water stress’** means regions where the percentage of total water withdrawn is high (40-80%) or extremely high (greater than 80%) in the World Resources Institute’s (WRI) Water Risk Atlas tool ‘Aqueduct’;
- (x) **‘heatwaves’** means heat or hot weather that lasts for several days, as defined in the European Environment Agency’s indicator assessment of ‘extreme temperatures and health’.
- (y) **‘water scarcity’** means pressure on the renewable freshwater sources of a defined territory during a specific period, where the percentage of total water withdrawn is high (40-80%) or extremely high (greater than 80%) in the World Resources Institute’s (WRI) Water Risk Atlas tool ‘Aqueduct’.
- (z) **‘floods’** means overflows of large amounts of water beyond its normal limits, caused by increases in mean local sea levels which can be further increased by storm surges and tidal changes, as defined in the European Environment Agency’s indicator assessment of ‘Extreme sea levels and coastal flooding’.
- (aa) **‘coastal erosion’** is the process by which local sea level rise, strong wave action, and coastal flooding wear down or carry away rocks, soils and/or sands along the coast, as defined in the US government’s Climate Resilience Toolkit.
- (bb) **‘wildfire’** is an unplanned fire that burns in a natural area such as a forest, grassland or prairie and which are often caused by human activity or a natural phenomenon, the risk of which increases in extremely dry conditions such as droughts, as defined in the European Environment Agency’s indicator assessment of ‘Forest fires’.

Table 4. Environmental factors

FACTOR	INDICATOR	METRIC
ENVIRONMENTAL FACTORS ²³⁹		
Emissions	Total GHG emissions (broken down by scope 1, 2 and 3 carbon emissions)	Tonnes of CO ₂ e (see points (a), (b) and (c) above)
	Emissions of air pollutants	Weight in tonnes of air pollutants (see point (m) above)
	Emissions of water pollutants	Weight in tonnes of water pollutants (see point (n) above)
	Emissions of inorganic pollutants	Weight in tonnes of inorganic pollutants (see point (u) above)
	Carbon footprint	Tonnes of CO ₂ (see points (c) and (d) above)
	Fossil fuel sectors	% or total (see point (e) above)
	Reduction policies or initiatives on the use and production of fossil fuels	Presence/lack of reduction policies or initiatives in place on the use and production of fossil fuels (see point (e) above)
	Compliance with Paris Agreement targets	See point (f) above
Energy efficiency	Reduction policies or initiatives on emissions	Presence/lack of reduction policies or reduction policies or initiatives in place on emissions (see points (a), (b) and (c) above)
	Energy consumption intensity	In Gigawatt hours (GWh) (see point (g) above)
	Use of renewable sources of energy	% or total (see point (h) above) Presence/lack of initiatives to reduce the use of non-renewable energy (see points (h) and (i) above)
Water usage	Water consumption intensity	% or total - weight in tonnes of water consumption (see point (j) above)
Waste production	Production of hazardous waste	% or total - weight in tonnes of hazardous waste (see point (k) above)
	Reusability/Recyclability	% or total - weight in tonnes of non- recycled waste production (see point (l) above) Presence/lack of initiatives to reduce the production of waste (see point (l) above)

²³⁹ Factors, indicators and metrics refer to the assessment of the counterparties, not the institution itself.

FACTOR	INDICATOR	METRIC
Biodiversity and ecosystems	Presence/operations (e.g. own, via value chain) in geographic areas impacted by soil degradation	% or total (see point (v) above)
	Presence/operations (e.g. own, via value chain) in geographic areas and industries that are particularly dependent on biodiversity and ecosystem services	% or total (see point (o) above)
	Presence/operations (e.g. own, via value chain) in protected areas or areas of high biodiversity value outside protected areas	% or total (see points (p) and (q) above)
	Operations (e.g. own, via value chain) affecting IUCN Red List species and/or national conservation list species	% or total (see points (p) and (q) above)
Environmental hazards	Presence/operations (e.g. own, via value chain) in areas likely to be affected by heatwaves	% or total (see point (x) above)
	Presence/operations (e.g. own, via value chain) in areas likely to be affected by water scarcity	% or total (see point (y) above)
	Presence/operations (e.g. own, via value chain) in areas likely to be affected by floods	% or total (see point (z) above)
	Presence/operations (e.g. own, via value chain) in areas likely to be affected by coastal erosion	% or total (see point (aa) above)
	Presence/operations (e.g. own, via value chain) in areas likely to be affected by wildfires	% or total (see point (bb) above)

Table 2. Social factors

FACTOR	INDICATOR	METRIC
SOCIAL FACTORS ²⁴⁰		
Community/society	Relations with local communities (networks)	Establishment of business in rural and economically and socially underdeveloped areas
	Social impact of products and services	Products' potential to reach rural areas and groups of society where development gaps exist
Employee relationships/labour standards	Freedom of association and right to organise	Observation and implementation of due diligence policies on issues addressed by ILO fundamental conventions 1 and 2
	Forced labour	Observation and implementation of due diligence policies on issues addressed by ILO fundamental conventions 3 and 4
	Minimum age and child labour	Observation and implementation of due diligence policies on issues addressed by ILO fundamental conventions 5 and 6
	Equal representation	Average ratio of female to male board members
		Average ratio of females to males in total workforce
	Equal remuneration	Observation and implementation of due diligence policies on issues addressed by ILO fundamental convention 7
		Average gender pay gap
	Average ratio of the annual total compensation for the highest individual to the median annual total compensation for all employees (excluding the highest-compensated individual)	

²⁴⁰ Social factors have been grouped on the basis of the main stakeholders of the society with which institutions may interact, namely: society as a whole, employees, customers, and all stakeholders in regard to human rights and poverty. In addition, the fundamental conventions of the International Labour Organization (ILO) have been included in the list of factors. Factors, indicators and metrics refer to the assessment of the counterparties, not the institution itself.

FACTOR	INDICATOR	METRIC
		Ratio of annual total compensation for the highest compensated individual to the median annual total compensation for all employees (excluding the highest compensated individual)
	Discrimination	Observation and implementation of due diligence policies on issues addressed by ILO fundamental convention 8
		Number of incidents of discrimination (i) reported and (ii) leading to sanctions
	Human capital management and employee relations (training and development opportunities)	Share of employees attending training courses in a given year
		Frequency of performance assessment per employee
	Workplace health and safety	Rate of accidents
		Number of workdays lost to injuries, accidents, fatalities and illness
Customer relationships	Customer protection and product responsibility	Extent to which products are monitored once introduced on the market
		Extent to which product recall procedures are in place
		Number of incidents of product recalls/withdrawals
		Handling and degree of transparency on management's actions following product recalls/withdrawals
		Lack/presence of a supplier code of conduct
	Personal data security and privacy	Number/rate of data security incidents in which personally identifiable information (PII) was at risk
		Explanation/disclosure of policies and practices relating to user privacy
		Monetary losses (total amount in EUR) incurred as a result of legal proceedings associated with user privacy
		Degree of transparency on management's approach to identifying and addressing data security risks
	Rights of customers to obtain information about ESG factors	Percentage of significant product/service categories that comply with information and labelling that includes information on sourcing, content (i.e. substances that could have an environmental or social impact), safe use of the product or service, disposal of the product and environmental or social impacts

FACTOR	INDICATOR	METRIC
		Degree of transparency on the management's approach to marketing and labelling ESG-related information
		Publication of information on ESG performance (in the form of stand-alone reports or by integration into Annual Reports)
	Quality and innovation in customer relations	Number of customer complaint incidents
Human Rights	Contribution to human rights projects	Engagement in social projects aimed at supporting and advancing human rights issues in regions of concern
		Number of cases of severe human rights issues and incidents
		Presence/lack of processes and measures for preventing trafficking in human beings
		Presence/lack of human rights due diligence
		Presence/lack of a human rights policy
Poverty/famine	Contribution to poverty reduction	Engagement in poverty reduction/aid programmes
		Employment opportunities for economically less advantaged groups

Table 3. Governance factors

FACTOR	INDICATOR	METRIC	
GOVERNANCE FACTORS ²⁴¹ ²⁴²			
Ethical considerations	Integrity of conduct/conduct frameworks	Alignment with the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights	
	Values and ethics	Alignment with the Charter of Fundamental Rights of the EU	
	Bribery and corruption		Compliance with United Nations Convention against Corruption
			Identification of insufficient actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery
			Convictions and violations of anti-corruption and anti-bribery laws (number of cases and amount of fines)
	Presence/lack of anti-corruption and anti-bribery policies		
	Accountability/rule of law	Alignment with the Worldwide Governance Indicators (World Bank)	
Strategy and risk management	Strategy implementation, operational execution and monitoring	Alignment with the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights	
	Internal controls and risk management policies and procedures	Alignment with the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights	
Inclusiveness	Discrimination	Gap between males and females or any other minority groups in the given region in education access and/or outcomes, representation in government positions and/or boards, salary income, etc.	
		Lack of a diversity strategy in place (e.g. age, gender, minority groups)	
		Percentage of employees and individuals in governance bodies as per the various diversity categories defined in GRI standard 405-1.	

²⁴¹ Governance factors have been grouped across four main subheadings by identifying a common principal feature of the underlying factors, namely: ethical considerations, sound risk management structures, organisation and functioning of the management body and transparency. Factors, indicators and metrics refer to the assessment of the counterparties, not the institution itself.

²⁴² Note that the factor 'Systemic risk management', which is used in the Sustainability Accounting Standards Board (SASB), has not been included, as it is considered that the existing prudential framework has specific provisions to address the systemic risks of institutions.

FACTOR	INDICATOR	METRIC
Transparency	Observance of disclosures of information rules and practices	Reliance on high quality, broadly recognised national, EU-based or international frameworks when preparing non-financial statements, including disclosure of the framework chosen Compliance with Non-Financial Reporting Directive