

Green Finance Alliance

I-PEPs *extended*: Expanding the KPI-sets' use cases

Supplement to the I-PEPs consultation documents

Last update: August 2024

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I-PEPs *extended*

Expanding the universe of use cases for I-PEPs

I-PEPs *extended*

- On 8th July 2024, the Green Finance Alliance has started a public consultation on a new KPI-set for steering portfolio decarbonisation and managing GHG-related transition risks, called I-PEPs.
- Stakeholder feedback so far shows high demand and positive sentiment towards I-PEPs.
- To expand the use cases I-PEPs can be applied for, some stakeholders have asked to integrate companies' GHG emission levels into the weighting mechanism.
- Since the initial use case of I-PEPs focused on measuring portfolio-centric emission performance, the different emission levels of portfolio constituents do not impact the original I-PEPs results.
- This supplement presents a simple adjustment to the I-PEPs weighting mechanism that would enable users to integrate the portfolio constituents' emission levels as an additional weighting factor.
- It is important to note that the general concept of I-PEPs is not affected by this supplement. However, I-PEPs *extended* enables users to customize the weighting mechanism to their specific use case.

I-PEPs *extended*

In addition to the portfolio weighting, I-PEPs *extended* takes into account a second weighting element that reflects the significance of the emission level of portfolio constituents (e.g. companies).

Step 1: Calculating company-specific emission performances, portfolio weights and emission weights.

Relative change of company A's GHG emissions

$$\rho_A = \frac{E_{A,t+1}}{E_{A,t}} - 1$$

E_A ... Absolute GHG emissions, company A
 ρ_A ... Emission performance, company A

Portfolio-weighting of company A

$$\omega_{AP} = \frac{V_{A,t+1}}{V_{P,t+1}}$$

V_A ... Outstanding portfolio volume, company A
 V_P ... Total analysed portfolio volume
 ω_A ... Portfolio-weighting, company A

Emission-weighting of company A

$$\omega_{AE} = \frac{E_{A,t+1}}{\sum_i E_{i,t+1}}$$

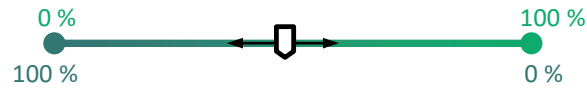
⇒ Mirrors company A's emission level in relation to the aggregated emissions of all portfolio constituents

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Step 2: Define the Combined Weighting Factors (CWF) for the constituent's emissions and the portfolio composition customised to the user's intended use case.

What influence should the portfolio composition and the portfolio constituents' absolute emissions have on the I-PEPs result?

Combined Weighting Factor
(Constituents' emission, CWF_E)



Combined Weighting Factor
(Portfolio Composition, CWF_P)

Step 3: Calculation of the Combined Weighting Factor for company A (CWF_A)

$$CWF_A = \omega_{AE} * CWF_E + \omega_{AP} * CWF_P$$

I-PEPs *extended*

Step 4: To calculate the aggregated steering indicator, the company-specific emission performances are aggregated using the respective Combined Weighting Factor (CWF_i).

Portfolio-related Emission Performance

$$\rho_P = \sum_i (CWF_i * \rho_i)$$

Summary: I-PEPs *extended*

More use cases can be covered by integrating a second weighting factor, that reflects the emission profile of investees/borrowers.

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By setting the Combined Weighting Factors, I-PEPs users can customise I-PEPs' interpretation to their use case:

The higher CWF_E is set the more the result will reflect the real-world decarbonisation contribution.

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The higher CWF_P is defined the more the result will reflect the portfolio-centric emission performance.

I-PEPs *extended*: portfolio simulation

Portfolio composition and emission data

	Absolute GHG emissions (in tCO ₂ e)			Portfolio weight
	Previous year	Reporting year	YoY change	
Company A	10	20	100%	25%
Company B	500	500	0%	25%
Company C	10,000	9,000	-10%	50%
Total	10,510	9,520	-9%	

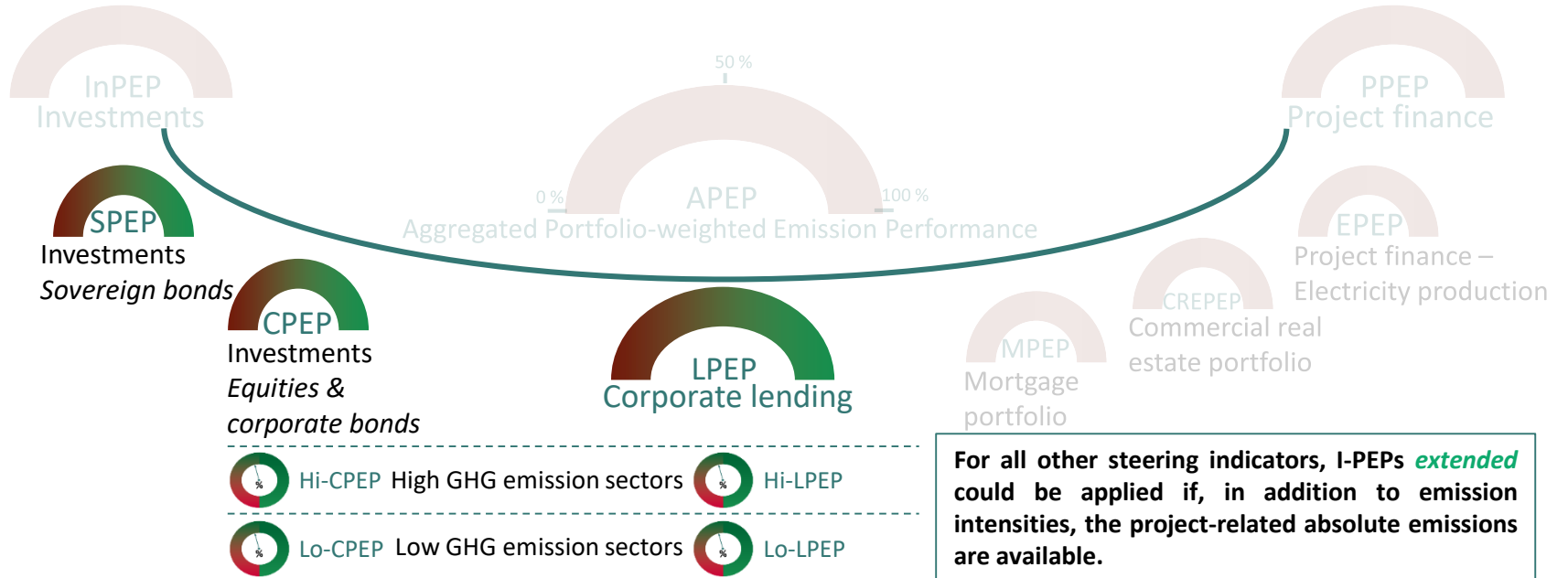
Use cases based on different CWF settings

	CWF _E	CWF _P	Use case description
Use case 1	0%	100%	Portfolio-centric emission performance view
Use case 2	50%	50%	Balanced view
Use case 3	100%	0%	Real world decarbonisation contribution view

I-PEPs *extended* results

	Use case 1 CWF _i	Use case 2 CWF _i	Use case 3 CWF _i
Company A	25,00%	12,61%	0,21%
Company B	25,00%	15,13%	5,25%
Company C	50,00%	72,27%	94,54%
I-PEPs result	20%	5%	-9,2%

I-PEPs *extended*: Application for Corporate lending & Investments



Next steps

- Due to I-PEPs *extended* public consultation has been **extended until August 30th 2024**
- Consultation documents:
 - Consultation draft
 - Presentation
 - Calculation excel
 - Feedback template
- **NEW:** Supplementary documents for I-PEPs *extended*
 - I-PEPs *extended* presentation (available in German and English)
 - I-PEPs *extended* Calculation excel

All (supplementary) consultation documents can be found on the [consultation website](#)

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