Major changes in the 2023 FFG Methodology

Juliette Laplane

21 February 2023

Introduction

This note summarises the most important changes made to the Fair Finance Guide (FFG) Methodology during the 2023 update. The changes are listed by theme and are relative to the FFG Methodology 2021. For each theme the following changes are included in tables:

- Removed elements;
- New elements; and
- Changes in the text of elements that were marked as 'substantial'.

Smaller changes in the scoring guidelines, such awarding the adherence to new international standards and initiatives, are included in a list separate from the tables. The note summarizes the changes for the all the cross-cutting, sectoral, and operational themes in the FFG Methodology 2023.

1 Structural changes

Elements from the cross-cutting themes which were repeated in the sector themes have been deleted from the sector themes. As a result, the number of elements assessed all the sector themes has decreased, except for the sector theme 'Arms' which did not include repeated elements.

2 Changes in cross-cutting themes

1.1 Animal Welfare

No elements have been removed or added in the theme. No substantial changes have been made either, but small changes have been done to bring the criteria on farm animals more in line with the Farm Animal Responsible Minimum Standards (FARMS – developed by WAP), looking at different aspects of farm animals' lives (housing, environment, mutilations, transport, slaughter, etc.) and taking into account if FI's have criteria for specific species.

1.2 Climate Change

The theme Climate Change has undergone significant changes during the 2023 update.

Elements have been classified in different categories:

- Element related to the financial institution's internal operations;
- Elements related to the financial institution's management of its portfolio of corporate loans and investments;
- Elements related to financial institution's policy on fossil fuels;
- Elements related to expectations from the companies a financial institution invests in or finances.

In addition, elements in this theme have been reformulated to better assess financial institutions' policies on financing fossil fuels, and to align with expectations from other civil society organisations (CSOs) towards financial institutions in this field.

Table 1 Overview of removed, new, and substantially changed elements in Climate Change

Removed element	
No.	**Element text**
2	For its own internal operations, the financial institution is committed to using only renewable energy sources
8	The financial institution does not finance, or invest in, companies which are active in coal-fired power generation and/or thermal coal mining for more than 20% of their activities.
9	The financial institution does not finance, or invest in, companies which are active in fossil fuel-fired power generation and/or extraction of oil and gas for more than 30% of their activities.
10	The financial institution does not finance, or invest in, companies which are active in coal-fired power generation and/or thermal coal mining for more than 0% of their activities.
11	The financial institution does not finance, or invest in, companies which are active in fossil fuel-fired power generation and/or extraction of oil and gas for more than 0% of their activities.
15	Unabated coal-fired power generation (i.e. without operational carbon capture and storage) is unacceptable.
16	Coal-fired power generation is unacceptable.
17	Fossil fuel-fired power generation is unacceptable.
18	Thermal coal mining is unacceptable.
19	Extracting oil from tar sands is unacceptable.
20	Extracting oil and gas is unacceptable.
23	CO2-compensation is certified according to the criteria of relevant certification schemes for CO2 compensation.
New elements	
7	Companies involved in the development of new thermal coal mines are excluded from investment and financing
8	Companies involved in the development of new coal-fired power plants are excluded from investment and financing.
9	The financial institution excludes financing and investing in companies active in thermal coal mining for more than 20% of their activities.
10	The financial institution excludes financing and investing in companies active in coal fired power for more than 20% of their activities.
11	The financial institution excludes financing and investing in companies that produce more than 10Mt of thermal coal per year and/or have more than 5GW in coal power capacity.
12	The financial institution has a time-bound phase-out strategy for coal that is aligned with a 1.5-degree climate scenario.
13	The financial institution fully excludes financing and investing in companies active in thermal coal mining and/or coal fired power generation.
14	Companies engaged in new oil and gas exploration and development are excluded from investment and financing.
15	The financial institution has a time-bound phase-out strategy for oil and gas that is aligned with a 1.5 degree scenario.

16	Companies active in the extraction of oil from tar sands are excluded from investment and financing.
17	The financial institution excludes financing and investing in companies active in oil and gas extraction for more than 30% of their revenues.
18	The financial institution excludes financing and investing in companies active in oil and gas-fired power generation for more than 30% of their electricity generated
19	The financial institution fully excludes financing and investing in companies active in oil and gas extraction and/or fossil fuel fired power generation.
23	Companies have a system in place to ensure traceability of their supply chain to ensure that there is zero deforestation of primary forest.

Substantial changes to elements

No.	2021 Text	No.	2023 text
13	Companies reduce their direct and indirect greenhouse gas emissions.	21	Companies reduce their scope 1, 2, and 3 emissions in line with a 1.5-degree scenario.

Aside from these changes, the following changes marked as *small* have been made:

- Element 2 and 3: the text of the elements refers to the *absolute scope 1, 2 and 3 greenhouse gas emissions* related to the FI's financing and investment portfolio. In terms of scoring approach, if the FI reports only on emissions intensity (typically calculated asCO2e/USD million) only a basic score will be given.
- Element 5: the text explicitly refers to *absolute* reduction objectives.
- Element 20: the text refers to scope 1,2 and 3 greenhouse gas emissions.

1.3 Corruption

Table 2 Overview of removed, new, and substantially changed elements in Corruption

New elements

No.	Element text
7	The financial institution has a policy against making political contributions

1.4 Gender Equality

Table 3 Overview of removed, new, and substantially changed elements in Gender Equality

New elements

No.	Element text
3	The financial institution provides trainings to address gender-based discrimination and biases in the workplace.
9	The financial institution discloses the % of financing to women-owned businesses OR other vulnerable groups, on the total amount of financing to MSMEs.
13	Companies provide trainings to address gender-based discrimination and biases in the workplace.

1.5 Health

Table 4 Overview of removed, new and substantially changed elements in Health

Removed element	
No.	**Element text**
3	Companies work on systematically improving the health and safety of employees and develop a preventive culture in the field of health and safety.

New elements	
No.	**Element text**
3	Companies provide appropriate and gender- sensitive uniforms and/or PPE to all workers.

Substantial change			
No.	**2021 Text**	**No.**	**2023 text**
2	Companies respect labour rights concerning health and safety at work, as described in the ILO conventions and the MNE Declaration.	2	Companies have a comprehensive health and safety policy.

1.6 Human Rights

There have been no significant changes to the text of the elements included in the theme 'Human Rights'.

1.7 Labour Rights

Table 5 Overview of removed, new, and substantially changed elements in Labour Rights

New elements	
No.	**Element text**
3	The financial institution respects the ILO Maternity Protection Convention.
13	Companies respect the ILO Maternity Protection Convention
15	Companies provide decent working conditions to homeworkers.

Aside from these changes, there has been one change labelled as *small* to the text of the following element:

- Element 14 (former element 12): The element now mentions equal treatment and working conditions for migrant workers and informal workers.

1.8 Nature

Table 6 Overview of removed, new, and substantially changed elements in Nature

Removed elements	
No.	**Element text**
7	Trade in endangered plant and animal species that are on the CITES lists is unacceptable.
8	Activities in the field of genetic materials and genetic engineering only take place if they meet the permission and processing requirements as described in the UN Convention on Biological Diversity and the related Bonn Guidelines or Nagoya Protocol.
New elements	
No.	**Element text**
1	The financial institution measures and discloses the biodiversity footprint of its portfolio.
10	Deep sea mining is unacceptable.

1.9 Tax

There have been no significant changes to the text of the elements included in the theme ‘Tax’.

3 Changes in sector themes

3.1 Arms

There have been no significant changes to the text of the elements included in the theme ‘Arms’. However, as regard the approach for scoring element 1 to 7, there is now the possibility to give a ‘basic score’ if the financial institution has an exclusion policy (meeting the content of the elements) for companies that generate more than 5% of their revenue from the production of weapons (conventional and unconventional).

1.10 Fisheries

Table 7 Overview of removed, new, and substantially changed elements in Fisheries

Removed element (because it was repeated from the theme Nature)	
No.	**Element text**
2	Fishing for and trade in endangered animal species that are on CITES lists, is unacceptable.
New elements	
No.	**Element text**
10	Fishers comply with the FAO Voluntary Guidelines for Securing Sustainable Small-scale Fisheries, including promoting gender equality and ensuring equal participation of women in decision-making positions

Aside from these changes, there is one change labelled as *small* to the text of the following element:

- Element 17: To be more inclusive and recognise the variety of sustainability reporting frameworks, the text of the element now refers to ‘recognised sustainability reporting framework’ instead of ‘the (Core or Comprehensive option of) GRI Standards’.

1.11 Food

Table 8 Overview of removed, new, and substantially changed elements in Food

Removed elements (because they were repeated from cross-cutting themes)	
No.	**Element text**
2	Companies respect the ILO Declaration on Fundamental Principles and Rights at Work.
3	Companies prevent conflicts over land rights and acquire natural resources only by engaging in meaningful consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
4	Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of peoples with customary tenure rights.
5	Companies prevent negative impacts on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN) within their business operations and the areas they manage.
6	Companies prevent negative impacts on UNESCO World Heritage sites within their business operations and the areas they manage.
7	Companies prevent negative impacts on protected areas that fall under the Ramsar Convention on Wetlands within their business operations and the areas they manage.
8	Activities in the field of genetic materials and genetic engineering only take place if they meet the permission and processing requirements described in the UN Convention on Biological Diversity and the related Bonn Guidelines or Nagoya Protocol.
9	Production of, and trade in, living genetically modified organisms can only take place if permission of the importing country has been obtained and all requirements of the Cartagena Protocol have been met.
13	Companies apply a prudent use of antimicrobial medicines (antibiotics) in food-producing animals in order to minimize antimicrobial resistance.
14	Companies reduce their direct and indirect greenhouse gas emissions.
16	Conversion of peatland and high-carbon stocks for agricultural development is unacceptable.
19	Companies minimise use of water.
20	Companies prevent water pollution.
21	Companies conduct water scarcity impact assessments in water scarce regions.
22	Companies have comprehensive mitigation measures in place to address community and ecosystem water requirements in areas where environmental impact assessments identify that significant impacts to water resources are likely.

Aside from these changes, there are two changes labelled as *small* to the text of the following elements:

- Element 2 (former element 10): the text of the element now refers to the 'Five domains of animal welfare'.
- Element 11 (former element 26): To be more inclusive and recognise the variety of sustainability reporting frameworks, the text of the element now refers to 'recognised sustainability reporting framework' instead of 'the (Core or Comprehensive option of) GRI Standards'.

1.12 Forestry

Table 9 Overview of removed, new, and substantially changed elements in Forestry

Removed elements (because they were repeated from cross-cutting themes)	
No.	**Element text**
1	Companies prevent negative impacts on High Conservation Value (HCV) areas within their business operations and the forests they manage.
6	Companies prevent conflicts over land rights and acquire natural resources only by engaging in serious consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
7	Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of peoples with customary tenure rights.

In addition, there has been one change labelled as *small*:

- Element 9 (former element 12): To be more inclusive and recognise the variety of sustainability reporting frameworks, the text of the element now refers to 'recognised sustainability reporting framework' instead of 'the (Core or Comprehensive option of) GRI Standards'.

1.13 Manufacturing Industry

Table 10 Overview of removed, new, and substantially changed elements in Manufacturing Industry

Removed elements (because they were repeated from cross-cutting themes)	
No.	**Element text**
1	Companies reduce their direct and indirect greenhouse gas emissions.
2	Companies reduce their direct and indirect emission of harmful substances, such as particulate matter, nitrogen oxide and ammonia.
3	Companies restrict the use of chemicals suspected to be harmful to health in scientific literature and, if necessary, only in a responsible way (precautionary principle).
6	Companies use as little water as possible.
7	Companies prevent water pollution.
8	Companies conduct water scarcity impact assessments in water scarce regions.
9	Companies have comprehensive mitigation measures in place to address community and ecosystem water requirements in areas where environmental impact assessments identify that significant impacts to water resources are likely.
11	Companies respect the ILO Declaration on Fundamental Principles and Rights at Work.
12	Companies pay a living wage to their employees.
13	Companies work towards the systematic improvement of safety and health of employees and develop a preventative culture in the field of health and safety.

In addition, there has been one change labelled as *small*:

- Element 7 (former element 17): To be more inclusive and recognise the variety of sustainability reporting frameworks, the text of the element now refers to 'recognised sustainability reporting framework' instead of 'the (Core or Comprehensive option of) GRI Standards'.

1.14 Mining

Removed elements (because they were repeated from cross-cutting themes)	
No.	**Element text**
1	Companies prevent negative impacts on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN) within their business operations and the areas they manage.
2	Companies prevent negative impacts on UNESCO World Heritage sites within their business operations and the areas they manage.
3	Companies prevent negative impact on protected areas that fall under the Ramsar Convention on Wetlands within their business operations and the areas they manage.
5	Companies do not operate in locations where the consequences of an accident for the environment are unmanageable.
8	Companies conduct water scarcity impact assessments in water scarce regions.
9	Companies have comprehensive mitigation measures in place to address community and ecosystem water requirements in areas where environmental impact assessments identify that significant impacts to water resources are likely.
13	Companies respect the ILO Declaration on Fundamental Principles and Rights at Work
14	Companies prevent conflicts over land rights and acquire natural resources only by engaging in serious consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
15	Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of peoples with customary tenure rights.
17	Companies have processes to enable the remediation of any adverse human rights impacts which they cause or to which they contribute.
18	Companies pay the taxes owed in each country where they operate.
19	For each country in which companies operate, they report country-by-country on their revenues, costs, profits, subsidies received from governments and payments to governments (e.g. withholding taxes, payments for concessions and company tax).
20	Offering, promising, giving and requiring, either directly or indirectly, bribes and other undue advantages in order to acquire and to maintain assignments and other undue advantages, is unacceptable.
New element	
No.	**Element text**
14	Deep sea mining is unacceptable.
Substantial Change	
No.	**Element text**
15	The financial institution excludes financing and investing in companies active in thermal coal mining for more than 20% of their activities.

In addition, there has been one change labelled as *small*:

- Element 19 (former element 31): To be more inclusive and recognise the variety of sustainability reporting frameworks, the text of the element now refers to ''recognised sustainability reporting framework'' instead of ''the (Core or Comprehensive option of) GRI Standards''.

1.15 Oil and Gas

Table 11 Overview of removed, new, and substantially changed elements in Oil and Gas

Removed elements (because they were repeated from cross-cutting themes)	
No.	**Element text**
1	Companies prevent negative impacts on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN) within their business operations and the areas they manage.
2	Companies prevent negative impacts on UNESCO World Heritage sites within their business operations and the areas they manage.
3	Companies prevent negative impact on protected areas that fall under the Ramsar Convention on Wetlands within their business operations and the areas they manage.
5	Companies do not operate in locations where the consequences of an accident for the environment are unmanageable.
7	Companies include the environmental and health effects of the dismantling of production facilities, especially of offshore drilling platforms, in plans for the development of new projects.
8	Companies conduct water scarcity impact assessments in water scarce regions.
9	Companies have comprehensive mitigation measures in place to address community and ecosystem water requirements in areas where environmental impact assessments identify that significant impacts to water resources are likely.
11	Companies respect the ILO Declaration on Fundamental Principles and Rights at Work
12	Companies prevent conflicts over land rights and acquire natural resources only by engaging in serious consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
13	Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of peoples with customary tenure rights.
15	Companies have processes to enable the remediation of any adverse human rights impact which they cause or to which they contribute.
16	Companies pay the taxes owed in each country where they operate.
17	For each country in which companies operate, they report country-by-country on their revenues, costs, profits, subsidies received from governments and payments to governments (e.g. withholding taxes, payments for concessions and company tax).
18	Offering, promising, giving and requiring, either directly or indirectly, bribes and other undue advantages in order to acquire and to maintain assignments and other undue advantages, is unacceptable.
New elements	
No.	**Element text**
12	Companies phase out their oil and gas operations in line with a 1.5-degrees scenario.

Substantial changes to elements			
No.	**2021 Text**	**No.**	**2023 text**

20	Extracting oil from tar sands is unacceptable.	6	Companies active in the extraction of oil from tar sands are excluded from investment and financing.[i]

In addition, there has been one change labelled as *small*:

- Element 14 (former element 27): To be more inclusive and recognise the variety of sustainability reporting frameworks, the text of the element now refers to 'recognised sustainability reporting framework' instead of 'the (Core or Comprehensive option of) GRI Standards'.

3.2 Power Generation

Table 12 Overview of removed, new, and substantially changed elements in Power Generation

Removed elements (because they were repeated from cross-cutting themes)	
No.	**Element text**
4	Unabated coal-fired power generation (i.e. without operational carbon capture and storage) is unacceptable.
5	Coal-fired power generation is unacceptable.
6	Fossil fuel-fired power generation is unacceptable.
9	Companies prevent negative impacts on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN) within their business operations and the areas they manage.
10	Companies prevent negative impacts on UNESCO World Heritage sites within their business operations and the areas they manage.
11	Companies prevent negative impact on protected areas that fall under the Ramsar Convention on Wetlands within their business operations and the areas they manage.
12	Companies prevent conflicts over land rights and acquire natural resources only by engaging in serious consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
13	Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of peoples with customary tenure rights.
14	Companies have processes to enable the remediation of any adverse human rights impact which they cause or to which they contribute.
New elements	
No.	**Element text**
4	Companies involved in the development of new coal-fired power plants are excluded from investment and financing.
5	The financial institution excludes financing and investing in companies active in coal fired power for more than 20% of their activities.
6	The financial institution excludes financing and investing in companies active in oil and gas-fired power generation for more than 30% of their electricity generated.

[i] if the financial institution excludes financing and investing in companies that generate between less than 5% of their revenues from extraction of oil from tar sands it will receive a basic score only. To receive full score a 0% threshold must be applied.

In addition, there have been some changes labelled as *small*:

- Element 9 (former element 15): the text of the element now refers also to the Hydropower Sustainability Assessment Protocol.
- Element 13 (former element 19): To be more inclusive and recognise the variety of sustainability reporting frameworks, the text of the element now refers to 'recognised sustainability reporting framework' instead of 'the (Core or Comprehensive option of) GRI Standards'.

4 Changes in operational themes

4.1 Consumer protection

Table 13 Overview of removed, new, and substantially changed elements in Consumer Protection

Substantial changes to element(s)			
No.	**2021 Text**	**No.**	**2023 text**
8	The financial institution has clear policies/a code of conduct in order to protect consumers against over-indebtedness.	8	The financial institution commits to communicating fairly and transparently about its products and services, in plain and accessible language that considers people living with disabilities and vulnerable groups.

4.2 Financial inclusion

Table 14 Overview of removed, new, and substantially changed elements in Financial inclusion

New element	
No.	**Element text**
14	The financial institution provides products and services to improve access to banking services and finance for women and women entrepreneurs.

In addition, there has been one change labelled as *small* in the text of:

- Element 8: the text of the element now includes 'vulnerable groups'.

4.3 Remuneration

Table 15 Overview of removed, new, and substantially changed elements in Remuneration

Removed elements	
No.	**Element text**
6	At least one third of the bonus is based on non-financial criteria.
7	At least two thirds of the bonus is based on non-financial criteria.
New elements	
No.	**Element text**
6	The financial institution discloses that at least 60% of the bonus of members of the executive board is linked to sustainability (ESG) targets.
7	The financial institution discloses that at least 60% of the CEO's bonus is linked to sustainability (ESG) targets.

1.16 Transparency and Accountability

Table 16 Overview of removed, new, and substantially changed elements in Transparency and Accountability

Removed elements			
No.	**Element text**		
2	The financial institution's finance and investment framework regarding environmental and social issues is audited by a third party and the results are published.		
Substantial changes to elements			
No.	**2021 Text**	**No.**	**2023 text**
8	The financial institution publishes a breakdown of its portfolio by region, size and industry (in line with GRIs FSSD FS6).	7	The financial institution publishes a breakdown of its portfolio by region, size and industry.
19	The financial institution publishes a sustainability report that is set up in accordance with the (Core or Comprehensive option of) GRI Standards.	18	The financial institution publishes a sustainability report that is set up in accordance with the General Disclosures requirement of the GRI Universal Standard 2021 or in accordance with another recognised sustainability reporting framework.

In addition, there have been some changes labelled as *small*:

- Element 6 (former element 7): the text of the element now refers to the Equator Principles 4.
- Element 11 (former element 12): the text of the element clarifies that we are assessing the number of companies **engaged** on social and environmental topics.
- Element 12 (former element 13): the text of the element clarifies that we are researching the names of companies **engaged** on social and environmental topics.
- Element 13 (former element 14): the text of the element clarifies that we are assessing the financial institution's transparency on the **results of engagement on social and environmental topics.**
- Element 14 (former element 15): the text of the element clarifies that we are looking for the name of companies that are excluded from investment AND **financing** (when applicable) due to sustainability issues, including the reasons for this exclusion.

Finally, it has to be noted that to receive a score on element 25 (*The financial institution has set up a grievance mechanism that is accessible, and clearly explains its process for managing complaints*), the grievance mechanism should be communicated as such, meaning as **a grievance mechanism for affected individuals and communities**, and not just as a complaint mechanism that is also open to non-clients.