



# Financial institution Assessment methodology 2017

How are the 150 financial institutions in the Forest 500 assessed and ranked?

**About the Forest 500:**

The Forest 500 is the world's first rainforest rating agency. It identifies and ranks the most influential companies, financial institutions and governments in the race towards a deforestation-free global economy.

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## INTRODUCTION

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The financial institutions included within the Forest 500 have the power to influence the sustainability of forest risk commodity supply chains through their investments and lending. By setting clear expectations and engaging with companies involved in agricultural commodity supply chains, financial institutions can help to accelerate the transition towards sustainable production and procurement. The Forest 500 identifies and ranks the 150 financial institutions that have the power to create an enabling framework where sustainable business practices are incentivised and disincentives are in place to reduce unsustainable practices.

The 150 financial institutions selected either invest directly or are at risk of investing in or lending to companies engaged in forest risk commodity supply chains. This methodology lays out the criteria which the 150 financial institutions are assessed against. Over time, as feedback is received, this methodology will be updated. Financial institutions are ranked annually and reselected biannually.

## SCORE BREAKDOWN

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There are three general categories of criteria against which financial institutions have been assessed.

POLICY AREA	MAXIMUM POINTS
Awareness, understanding, intent	15
Policy content and strength	45
Scope	20
Implementation, monitoring, and reporting	20
<b>TOTAL</b>	<b>100</b>

## CHANGES TO THE ASSESSMENT METHODOLOGY

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The methodology has been reviewed by sector experts and several questions have been refined or added to capture current thinking as to the policies that should be expected of financial institutions investing in or lending to companies involved in agricultural commodity supply chains. Financial institutions no longer receive points for general environmental sustainability policies applied to their portfolios, or procurement policies applied to their own purchasing. More details below.

NUMBER	ORIGINAL INDICATOR	CHANGE TO INDICATOR	NEW INDICATOR (IF APPROPRIATE)
1.1	The financial institution has made an overall zero deforestation pledge or a net zero deforestation pledge (not specific to commodities)	Financial institutions can earn partial points for showing an awareness of the risks of deforestation or being signed up to BEI soft commodities compact.	1.1 The financial institution has an overarching commitment to remove or reduce the amount of deforestation caused by companies in their portfolio, or a clear statement of intent to tackle deforestation, or an awareness of the impacts of deforestation.
1.2	The financial institution has an overall sustainable investment/lending policy or criteria that includes environmental considerations	Original indicator removed.	
1.3, 1.4, 1.5, 1.6	The financial institution has a specific sustainable investment or lending policy for paper, timber or pulp / soy / beef and/or leather / palm oil that applies to all of its lending and investments	Indicators are combined. Financial Institutions are still assessed for each of these four commodities but this is now achieved within one indicator	2.1 The financial institution has commodity-specific policies or explicitly states that the overarching policy applies to specific commodity supply chains
1.7	The financial institution has a specific sustainable procurement policy for its own operations that includes at least paper/packaging	Original indicator removed.	
1.8	The financial institution has developed an innovative product/service designed to help address environmental and/or social issues related to forest risk commodities?	Original indicator removed.	
2.1	The overall environmental sustainability policies or the commodity specific policies are compulsory or recommendations	This detail is now captured within other indicators for each policy aspect.	
	NEW INDICATOR		2.2 The financial institution requires companies to provide proof that their operations and business practices comply with all applicable local, national, and international laws and regulations.
2.2	The investor either requires or encourages companies that it invests in or lends to seek sustainability certification overall or for high risk commodities	Indicator combined with whether the financial institution has a policy to protect forests (2.3) and specifies an assurance method.	
2.3	The sustainable investment/lending policy excludes or recommends against investments/lending in projects or companies that source, trade or manufacture products originating from intact forest landscapes, high conservation value areas, primary forests and/or tropical natural forests - either as a general policy or for specific commodity policies	Updated to allow requirement for certification and/or traceability to score points here.	2.3 The financial institution requires that companies' business operations do not adversely impact protected areas and areas of global conservation importance including Primary/Intact/Natural/High Conservation Value/High Carbon Stock forests or require physically segregated commodities that meets these requirements.
2.5	Downstream clients or investees are required to take steps to improve traceability throughout their value chains, including at the smallholder level, to ensure the integrity of their claims regarding sourcing sustainable commodities.	Indicator combined with whether the financial institutions has a policy to protect forests and specifies an assurance method (2.3).	
	NEW INDICATOR		2.5 The financial institution has a policy that requires companies to ensure their business operations meet key labour standards
	NEW INDICATOR		2.6 The financial institution has a policy that requires companies' policies to be time-bound.
	NEW INDICATOR		3.1 The financial institution applies the policy to all financial services provided (e.g. corporate lending, project finance, asset management, advisory services).
	NEW INDICATOR		3.2 The financial institution applies the policy to all deals regardless of size.
	NEW INDICATOR		3.3 The financial institution applies the policy to companies regardless of their size.
	NEW INDICATOR		3.4 The financial institution applies the policy to companies regardless of their position in soft commodity supply chains (i.e. upstream vs downstream).
	NEW INDICATOR		3.5 The financial institution applies the policy across all priority soft commodities

	NEW INDICATOR		4.1 The financial institution has a clear, time-bound process for updating its policy.
	NEW INDICATOR		4.2 Financial institutions require companies to disclose subsidiaries operating in soft commodity supply chains.
3.1	The financial institution publicly discloses its progress against its sustainability policy or policies for specific commodities, for example by reporting against milestones and on the number or percentage of investments or lending where policies have been applied	Indicator updated to award points for reporting against soft commodity policies.	4.4 The financial institution reports the number or proportion of portfolio companies compliant with their time-bound plans or the number or proportion of companies in compliance with the financial institution's policy.
3.2	The financial institution has specific procedures to ensure new investment or lending is vetted against its sustainability policy and the procedures apply to investments in all companies or for a subset of companies based on investment size, risk factors, or position in supply chain.	Indicator combined with 3.3. Scope captured in new indicators of section 3.	4.3 The financial institution has a clear public process to identify and deal with policy non-compliance.
3.3	The investor has specific procedures to monitor investments against its sustainability policy on an ongoing basis	Indicator combined with 3.2	4.3 The financial institution has a clear public process to identify and deal with policy non-compliance.

## AWARENESS, UNDERSTANDING, INTENT

NUMBER	INDICATOR	MAX. POINTS
1.1	The financial institution has an overarching commitment to remove or reduce the amount of deforestation caused by companies in their portfolio, or a clear statement of intent to tackle deforestation, or an awareness of the impacts of deforestation.	15
Guidance	<p><i>Overarching commitments must be for their own financing, and therefore financial institutions signing up to the agreement do not receive full points for this indicator. For the purposes of this assessment, financial institutions that require zero net deforestation for companies operating in timber, pulp and paper supply chains (alongside zero deforestation across all other focal commodities) are awarded full points. Some interpretation has been required where the terms 'zero' or 'zero net' have not been used in relation to commitments, e.g. commitments to 'eliminate' deforestation have been interpreted as equal to zero net.</i></p>	<p><b>Zero: 15 pts</b>  <b>Zero net: 12 pts</b>  <b>Reduce deforestation: 10 pts</b>  <b>Statement on deforestation showing understanding of risks: 5 pts</b>  <b>Signatory to the BEI's Soft Commodity Compact or another finance sector initiative on deforestation: 5 pts</b>  <b>No overarching policy: 0 pts</b></p>

## POLICY CONTENT AND STRENGTH

NUMBER	INDICATOR	MAX. POINTS
2.1	The financial institution has commodity-specific policies or explicitly states that the overarching policy applies to specific commodity supply chains	<b>10 pts</b>
Guidance	<i>Full points are awarded if a financial institution has a policy to only invest in or lend to sustainably managed commodity operations; or if it has a policy with the goal of reducing deforestation from such a commodity; or if it has an overarching sustainability policy that clearly implies the inclusion of the specific commodity. Points are not awarded for specialised funds that have commodity-specific policies but are awarded for financial institutions who show clear evidence of engagement or divestment on forest risk commodities.</i>	<b>Yes: 10 pts</b> <b>No: 0 pts</b>
2.2	The financial institution requires companies to provide proof that their operations and business practices comply with all applicable local, national, and international laws and regulations.	<b>10 pts</b>
Guidance	<i>To be awarded points, the financial institution must require that companies in their portfolios provide evidence that all commodities that they use are legally produced along the entire supply chain. Half points are awarded if the company is only required to provide evidence that their own business is legally operated. Fewer points are awarded if the financial institution does not require evidence but does encourage companies to comply.</i>	<b>Requires: 10 pts</b> <b>Encourages: 5 pts</b>
2.3	The financial institution requires that companies' business operations do not adversely impact protected areas and areas of global conservation importance including Primary/Intact/Natural/High Conservation Value/High Carbon Stock forests or require physically segregated commodities that meets these requirements.	<b>15 pts</b>
Guidance	<i>The financial institution requires portfolio companies to prevent activities that could impact globally important landscapes. Policies should explicitly mention Primary/Natural/Intact/HCV/HCS forests. Companies can either do this directly or rely on credible certification schemes<sup>a</sup> that ensure these forest types are not impacted. Total points are constructed from whether the financial institution requires that companies prevent activities that impact all priority landscape types and specify the assurance method to ensure compliance.</i>	<b>All high priority landscapes: 5 pts</b> <b>Subset of priority landscapes: 2.5 pts</b> <b>+ Require: 5 pts</b> <b>Encourage: 2.5 pts</b> <b>+ Assurance method specified: 5 pts</b>
2.4	The financial institution requires the company to ensure the Free Prior Informed Consent of indigenous and local communities	<b>5 pts</b>

<sup>a</sup> Credible certification schemes are defined as multi-stakeholder certification schemes that include civil society in decision-making and exclude the production of commodities from intact forest landscapes, high conservation value areas, primary forests, tropical natural forests, or similar. Global schemes considered credible are FSC, PEFC, RTRS, RSPO, and Rainforest Alliance.

Guidance	<i>This could be a provision for FPIC or a similar process of stakeholder engagement for minimising negative social impacts and should apply for at least one of the commodities for which there is a policy, for the overall sustainability policy or for general lending and investment criteria.</i>	<i>Requires: 5 pts Encourages: 2.5 pts</i>
2.5	The financial institution has a policy that requires companies to ensure their business operations meet key labour standards	<b>5 pts</b>
Guidance	<i>Key labour standards include those laid out in IFC Performance Standard 2 and the following ILO conventions: ILO Convention 87 on Freedom of Association and Protection of the Right to Organize, ILO Convention 98 on the Right to Organize and Collective Bargaining, ILO Convention 29 on Forced Labor, ILO Convention 105 on the Abolition of Forced Labor, ILO Convention 138 on Minimum Age (of Employment), ILO Convention 182 on the Worst Forms of Child Labor, ILO Convention 100 on Equal Remuneration, ILO Convention 111 on Discrimination (Employment and Occupation), UN Convention on the Rights of the Child, Article 32.1 UN Convention on the Protection of the Rights of all Migrant Workers and Members of their Families. Only one of these needs to be mentioned to be awarded points.</i>	<i>Requires: 5 pts Encourages: 2.5 pts</i>
2.6	The financial institution has a policy that requires companies' policies to be time-bound.	<b>5 pts</b>
Guidance	<i>Financial institutions require that the policies that portfolio companies have in place are time-bound. Financial Institutions also score points here if their policies are prerequisites for financing, as a company's business practices need to be compliant at the time of financing.</i>	<i>Requires: 5 pts Encourages: 2.5 pts</i>

## POLICY SCOPE

NUMBER	INDICATOR	MAX. POINTS
3.1	The financial institution applies the policy to all financial services provided (e.g. corporate lending, project finance, asset management, advisory services).	<b>4 pts</b>
Guidance	<i>Policies that only apply to subsidiaries of the parent financial institution only apply to a subset of financing.</i>	<i>All financing: <b>4 pts</b> Subset of financing: <b>2 pts</b></i>
3.2	The financial institution applies the policy to all deals regardless of size.	<b>4 pts</b>
Guidance	<i>For FIs to be awarded full points, they must apply their policies to all companies that they lend or invest in. FIs that only apply policies to companies where deal size is above or below a threshold receive fewer points.</i>	<i>All financing: <b>4 pts</b> Subset of financing: <b>2 pts</b></i>
3.3	The financial institution applies the policy to companies regardless of their size.	<b>4 pts</b>
Guidance	<i>For full points, policies must apply to all companies regardless of their size. Policies that only apply to e.g. small-holders or to companies larger than a certain threshold receive fewer points.</i>	<i>All companies: <b>4 pts</b> Subset of companies: <b>2 pts</b></i>
3.4	The financial institution applies the policy to companies regardless of their position in soft commodity supply chains (i.e. upstream vs downstream).	<b>4 pts</b>
Guidance	<i>For FIs to be awarded full points, they must apply their policies to companies in all segments of the supply chain, from producers to retailers. Policies that only apply to some segments receive fewer points.</i>	<i>All companies: <b>4 pts</b> Subset of companies: <b>2 pts</b></i>
3.5	The financial institution applies the policy across all priority soft commodities	<b>4 pts</b>
Guidance	<i>Priority soft commodities, most often associated with deforestation impacts, include palm oil, soy, timber products, and cattle products</i>	<i>All commodities: <b>4 pts</b> Subset of commodities: each commodity <b>1 pt</b></i>

## IMPLEMENTATION, MONITORING AND REPORTING

NUMBER	INDICATOR	MAX. POINTS
4.1	The financial institution has a clear, time-bound process for updating its policy.	5
Guidance	<i>Half points are awarded if a financial institution's policies are not reviewed annually or more frequently.</i>	<i>Annual or more frequent review: 5 pts Timeline for review unclear: 2.5 pts</i>
4.2	Financial institutions require companies to disclose subsidiaries operating in soft commodity supply chains.	5
Guidance	<i>Half points are awarded if subsidiaries need to only be reported privately.</i>	<i>Public reporting: 5 pts Private reporting: 2.5 pts</i>
4.3	The financial institution has a clear public process to identify and deal with policy non-compliance.	5
Guidance	<i>This indicator focuses on whether a company has internal procedures to assess new investments or lending activities against their sustainability policies. Financial institutions can either specify details of a screening and monitoring process or make a time-bound non-compliance statement. If the non-compliance statement is not time-bound, then half-points are awarded.</i>	<i>Screening and monitoring process: 5pts Time-bound non-compliance statement: 5 pts General non-compliance statement: 2.5 pts</i>
4.4	The financial institution reports the number or proportion of portfolio companies compliant with their time-bound plans or the number or proportion of companies in compliance with the financial institution's policy.	5
Guidance	<i>The financial institution should report progress against its policy. For example, how many companies assessed as part of their due diligence are classified as high/low risk or how many companies have been engaged on deforestation risks.</i>	<i>Annually: 5 pts Ad hoc: 2.5 pts</i>

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