ACCELERATE ® CLIMATE TRANSITION

Low-carbon transition assessment methodology

SUMMARY

ACT Finance | Investing

VERSION 2.0
September 2024

THE ACT RATING

The ACT rating is based on 3 scores (performance, narrative and trend) as shown in the diagram below.

PERFORMANCE SCORE
Alignment measured with KPIs

20

A

=

TREND SCORE
Forecast of future rating changes

Performance KPIs & data

NARRATIVE SCORE
Summary of the whole assessment

Financial & news data

The maximum achievable rating is 20A= and the minimum is 0E=. To achieve the maximum score, a financial institution (FI) must be completely aligned with the low-carbon transition.

ALIGNED STATE FOR FINANCIAL INSTITUTIONS - INVESTING

TRANSITION PLAN

The FI understands that reallocation of financial flows is the key for contributing to Paris Agreement; Therefore, the FI leverages its transition plan on the identification of low-carbon/transitioning and non-transitioning assets and financed companies.

LEGACY

Positive dynamic on financial flow allocation to low carbon/transitioning assets and no more financial flows to non-transitioning fossil fuel sector. Achievement of GHG targets. Successful engagement process with counterparties leveraging on clear prioritisation strategy and escalation process.

COMMITMENT

The FI has set emissions reduction targets on the most effective sectors financed. These objectives are aligned with a relevant time horizon. More, these targets have been complemented with non-GHG targets, and notably on fossil fuel exit, transition plan coverage and climate solutions, looking for reallocation of financial flows.

PRESENT

Current strategies and actions aim at having an impact by reducing emissions in the real economy rather than monitoring highly model-driven technical indicators.

CONSISTENCY

There are no loopholes in the strategy perimeter and the fossil fuel exit policy is consistent with science-based transition scenarios. Reaching Paris Agreement is more important that servicing a climate-damaging client.

Context & Principles of the ACT Finance METHODOLOGY

The indirect yet crucial role that Finance can play is identified explicitly in the Paris Agreement, Article 2.1c, which states the objective to “[make] financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”. Regarding current landscape of finance, private finance has a significant role to play in the achievement of this orientation of the flows toward transition. As there are still revenue expectations stemming from climate-damaging activities while climate solutions require innovative thus risky solutions, reorientating financial flows is far from obvious taking into account only traditional short-term risk/profit driven approaches.

As so, it is necessary to assess financial institution climate strategy with regards to Paris Agreement goals. To do so, ADEME provides tools enabling them to improve their practices. Compared to other “real economy” ACT assessment methodologies, ACT Finance has developed specific features considering the indirect role they have to play in Paris Agreement’s achievement (financing necessary transformation of the economy so acting ahead of the actual occurrence of GHG emitting processes).

PERFORMANCE INDICATORS

MODULE (% = MODULE WEIGHTING)	INDICATORS*
1. TARGETS (20%)	Alignment of scope 3 (cat.15) financed and facilitated emissions' reduction targets
	Time horizons of targets
	Achievement of previous targets
	Engagement targets
	Financing targets
2. MATERIAL INVESTMENT (0%)	Non significative as it is scope 1+2
3. INTANGIBLE INVESTMENT (2%)	Investments in human capital - trainings
4. Portfolio climate performance (25%)	Financial and facilitated Flows Trend
	Portfolio alignment assessment
5. MANAGEMENT (15%)	Oversight of climate change issues
	Climate change oversight capability
	Low carbon transition plan
	Climate change management incentives
	Climate risk management
	Climate change scenario testing
6. SAVERS ENGAGEMENT (0-3%)	Strategy to influence suppliers to reduce their GHG emissions
	Activities to influence suppliers to reduce their GHG emissions
7. CLIENTS ENGAGEMENT (20-23%)	Strategy to influence clients to reduce their GHG emissions
	Activities to influence clients to reduce their GHG emissions
8. POLICY ENGAGEMENT (10%)	Financial institution policy on engagement with trade associations
	Trade associations supported do not have climate-negative activities or positions
	Position on significant climate policies
	Collaboration with local public authorities
9. BUSINESS MODEL (5%)	Revenue from low-carbon products and/or services

** More information on the indicators and module rationales are available in the full methodology.*

BENCHMARK

ACT Finance uses on one hand GHG benchmarks for the purpose of assessing GHG targets in module 1,and on another hand a specific low carbon/transitioning share of portfolio benchmark for assessing the portfolio climate performance in module 4.

Low carbon scenarios used for the GHG benchmarks are NZE scenarios, either through a convergence approach (SDA) for homogeneous sectors (e.g. cement, electric utilities) either through a contraction approach (ACA) for heterogeneous sectors (e.g. Agri & Agro, Chemicals).

”Low carbon/transitioning” benchmark leverages on a pivot year set at 2030 for most sectors (2025 for Oil&Gas) setting that 100% of the high-emissive sector companies of the portfolio shall be transitioning or low carbon. A linear increase is expected from the base year toward this milestone. To identify the low carbon/transitioning share of the portfolio against this benchmark, the methodology adopts an hybrid approach combining standards (e.g. EU GBS, ACT score) and the financial institution’s own transition/low carbon identification framework.