ACT

Assessing low-Carbon Transition

ACT Finance | Banks

Draft – Road-test

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1 Introduction

In 2015, the “Paris Agreement” consolidated under one agreement the urgent necessity for all stakeholders of the global economy to act on climate change to limit global warming to well-below 2°C above pre-industrial levels. In the years since, science and policy have continued to evolve, and it is now understood that warming should be limited to 1.5°C, which is often referred to as “net zero by 2050”.

As such, over the coming decades, the global economy must radically and rapidly transition from a high volume of carbon-intensive activities towards a mix of lower-emissions activities which are holistically aligned with net-zero by 2050 pathways.

The “Assessing low-Carbon Transition” (ACT) initiative measures a company’s alignment with a future low-carbon world. The goal of the initiative is to drive action by companies and encourage businesses to move to a well-below 2°C compatible pathway (striving for 1.5°C) in terms of their climate strategy, business model, investment decisions, operations and GHG emissions management. In the case of financial institutions, the primary focus is on financed emissions (Scope 3, Category 15) in order to reflect a financial institution’s highest impact area.

1.1 WHY IS AN ACT METHODOLOGY REQUIRED FOR THE FINANCE SECTOR?

As providers and facilitators of capital, financial institutions have a key role to play in this transition, both in terms of supporting companies which are transitioning and shifting capital towards climate solutions.

While the emissions of a financial institution’s business operations and value chain have an overall impact in terms of emissions, the most material impact of a financial institution comes from their financed emissions. Over the last decade, methodologies and initiatives have progressively and rapidly evolved to reflect market understanding of financed emissions and support the development of calculation and attribution approaches and relevant metrics. Recent initiatives which have catalysed commitments made by financial institutions include the Glasgow Financial Alliance for Net Zero (GFANZ) and other net zero alliances such as the Net Zero Banking Alliance (NZBA) or the Net Zero Asset Owner Alliance (NZAOA).

A key challenge of the finance sector is defining and assessing what is within the scope of the financial institution’s control and what is “fair” to assess. How does one track the impact of strategic decisions made by the financial institutions on their clients, customers or assets? How does one measure multiannual progress in view of portfolio turnover? How does one compare, for example, the impact of climate-positive stewardship over a decade with a high-carbon client and a decision to reduce financing to a carbon-intensive sector?

The approach taken by the ACT 4 Finance methodology reflects general approaches taken by the finance sector to date, which focus on a combination of sector-specific and institution-wide strategies and targets regarding main activities of financial institutions. Open-source methodologies, initiatives,

and approaches, such as SBTi-FI, PACTA, PCAF and the frameworks of the GFANZ, NZBA, NZAOA, NZAMI, IIGCC were leveraged in the development of this assessment framework.

The methodology will basically try to capture/assess the following elements:

i. The credibility and robustness of the financial institution's transition plan

ii. The impact of the financial institution in terms of contribution to bring down GHG emissions in the real economy (1).

'"Impact" […] designates a causal, demonstrable relationship between a financial institution's action and a real-world change – in the case of climate change, a change in GHG emissions.'

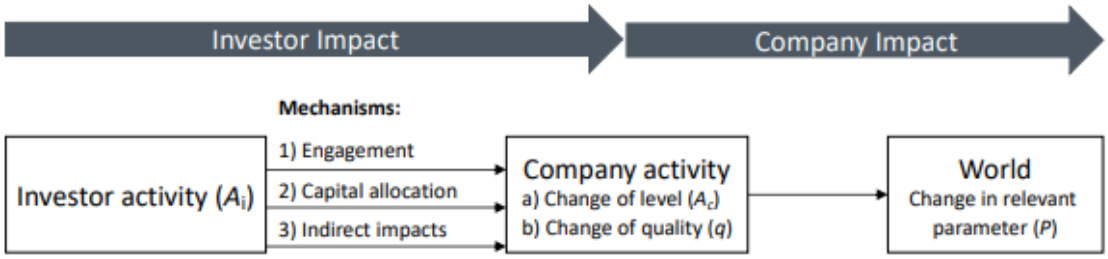


Figure 1: Key Concept and Mechanisms (2)

iii. Its contribution to financing a low carbon economy (e.g. climate solutions financing)

Due to the abovementioned specific challenges related to the financial sector, the methodology cannot cover/cover in the same way all activities performed by financial institutions that are relevant from a low-carbon transition standpoint. It has been decided to split the methodology into two sub-methodologies representing two main activities of the sector: banking (encompassing associated services such as capital market activities) and investing. Some other activities (trading, brokerage, insurance coverage) have been disregarded due to complexity, lack of expertise, data or methodology at the time. Further works may be contemplated in the future in order to enhance this framework.

2 Principles

The selection of principles to be used for the methodology development and implementation is explained in the general Framework. Table 1 recaps the adopted principles that were adhered to when developing the methodology.

TABLE 1 : PRINCIPLES FOR IMPLEMENTATION

Relevance - Select the most relevant information (core business and stakeholders) to assess low-carbon transition.
Verifiability - The data required for the assessment shall be verified or verifiable.
Conservativeness - Whenever the use of assumptions is required, the assumption shall be on the side of achieving a 2° maximum global warming.
Consistency - Whenever time series data is used, it should be comparable over time.
Long-term orientation - Enables the evaluation of the long-term performance of a company while simultaneously providing insights into short- and medium-term outcomes in alignment with the long-term.

3 Scope

3.1 Scope of the document

This document presents the ACT assessment methodology for lending and capital market activities. It includes the rationales, definitions, indicators and guidance for the sector-specific aspects of performance, narrative and trend scorings, and is specific to the banking methodology.

It was developed in compliance with the ACT Guidelines for the development of sector methodologies which describe the governance and process of this development, as well as the required content for such documents.

It is intended to be used in conjunction with the ACT Framework, which describes the aspects of the methodology that are not sector specific.

3.2 Scope of the sector

This section on the scope specifies which type of Financial Institution this methodology can assess.

The ACT 4 Finance Lending methodology aims at assessing financial institution on an international level. The methodology should be used to assess financial institution with the following NACE or ISIC codes:

Perimeter	NACE Rev. 2 (3)	ISIC Rev. 4
Other monetary intermediation	64.19	6419
Other credit granting	64.92	6492
Other financial service activities, except insurance and pension funding n.e.c.	64.99	6499

To be more explicit, the Lending methodology aims to assess banks whose business model is mainly focused on lending activities and associated services (capital market), therefore:

1. **Retail & Commercial banks** (or Consumer banking, Saving banks)
2. **Institutional banking** (Capital Market activities (Equity & Bonds operations))

The ACT 4 Finance – Banking methodology covers the following lending types:

i. **Corporate loans**

ii. **Real estate (commercial & residential)**

iii. **Consumer lending (including Mortgages and Auto loans)**

iv. **Project financing**

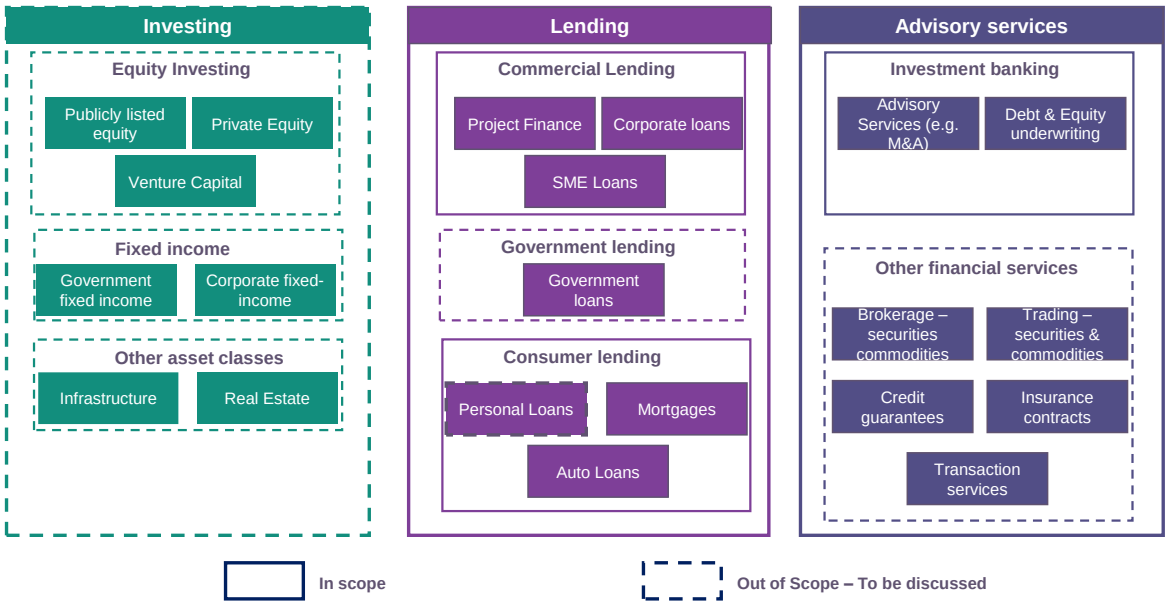
The following activities are also covered:

Capital market activities: Debt & Equity underwriting (M&A is optional and only included in module 4 and not including in the scoring)**.**

Factors that were considered for the inclusion of these asset classes (4):

- Level of risk
- Size of GHG emissions of the asset class
- Size of the market
- Relevance for the financing of companies
- Ability to influence
- Timeframe of the loan
- Size of revenue of the financial institution

FIGURE 1: BOUNDARIES OF THE ACT 4 FINANCE – LENDING METHODOLOGY



***Source*: GHG Protocol,** *Guidance for the financial sector: Scope 3 accounting and reporting of greenhouse gas emissions - 2013*

Where a financial institution has both lending and investing activities, assessors should conduct two different assessments. One using the ACT Finance Banking methodology and one using the ACT

Finance Investing methodology. Our next work regarding the methodology is notably to find robust methodological choices making it possible to aggregate the two scores in a global one.

RATIONALE FOR SCOPE DEFINITION

Lending activities.

Actors of the 'primary market' banks directly finance companies or activities. Responsibility and impact are direct in the companies and activities emissions.

These actors have an important economic role and a major one to play in the financing of the transition.

Generally speaking, banks play a pro-cyclical role (as opposed to public development bank having a contracyclical or a-cyclical action) in the financing of the economy. Our indicators have been designed to always consider the total amount and the relative evolution, making it possible to compare different years.

Advisory services

This terminology, inspired from GHG protocol guidance (4), encompasses actually several financial activities including broadly services, advisory and others (e.g. underwriting services) as well as other activities such as trading, brokerage, insurance coverage. At first, the ACT 4 Finance Lending methodology has been designed to assess the climate commitments of banks through assessment of the climate strategy.

Still, as a matter of fact, advisory services represent an important part in the bank activities. Proof of that can be found in the important part of revenues they represent at a banking group level. These activities directly high emitting sectors to access finance.

As such, we have integrated indicators capturing the climate performance of some advisory services.

- Activities included: Capital market/underwriting activities (Equity and bond operation)

i. Underwriting is the point of maximum information in the market, and therefore potentially the point of most influence. (5)
ii. It was also noted that currently there is a lack of transparency in this area, so any increased visibility would be beneficial. (5)
iii. Capital market activities are essential to the climate transition as they are directly contributing to providing funding (6) and unlocking non- Paris-aligned projects.

Is excluded:

- Trading & Brokerage: the goal of such activities is to help the asset to be more easily exchanged, enhancing its liquidity. As liquidity is a significant investment criterion it therefore enhances ultimately the ability of the issuer to finance its activity. However, such activities are not taken into account in this methodology due to problems regarding GHG accounting and complexity of such activities (notably for trading where "long" and "short" positions are compensated).

- Insurance & credit guarantees: although such activities can sometimes be significant in order to ensure the issuer's activity, it will be integrated in an extended version.

4 Boundaries

→ NOTA BENE

Hereafter, the term "emissions" will refer to all GHG emissions (not only CO_2), which shall be measured in CO_2 equivalent.

ACT provides guidelines concerning the scope and boundaries of the sectors covered by this methodology to determine which types of GHG emissions are included or excluded. However, it does not provide tools and databases to measure and compute these emissions. In particular, the choice of emission factors does not fall under the responsibility of the ACT methodology. The methodology will not require the use of specific emission factors. However, emission factors should be consistent with emission factors and GWP's used to compute the reference emissions pathways and benchmark scenarios for the quantitative indicators in order to be relevant.

4.1 Reporting Boundaries

For any financial institutions, scope 3 related to 'investments' (category 15) are included. This means, we include financed emissions in the boundary. That will also include also relevant scope 1, 2 and 3 (where significant) for financed companies' emissions. The data reported shall be gross emissions to be comparable with the IEA benchmarks.

RATIONALE FOR BOUNDARY SETTINGS

Lending activities.

Downstream activities of banks – lending & advisory services – are significant GHG emitting activities and over 700 times greater than they own emissions (scope 1 & scope 2) (7) . Another source mentions that the vast majority (95%-97% (8)) of an asset owner's emissions come from portfolio emissions for instance. This major source of GHG emissions is called 'financed emissions'. As mentioned by PCAF, financed emissions are a necessary input for climate scenario analysis. In this methodology, financed emissions are an important metric for the target module.

Capital Market activities

These are off-balance sheet activities but still can represent an important or a larger amount in terms of revenues than the lending activities. Facilitated emissions will be included in the methodology and our methodological choices partly refer to the PCAF proposed methodology (2022) (6).

5 Construction of the data infrastructure

5.1 Data sources

In order to carry out a financial institution level assessment, many data points need to be gathered which can be sourced from various sources. Principally, ACT relies on the voluntary provision of data by participating financial institutions. These data points can be: amounts of financing, financed emissions intensities, facilitated emissions (intensity or absolute), stress testing framework etc. Next to this however, external data sources (e.g., Asset Resolution, Rystadt, Wood MacKenzie, etc.) might be consulted where this would streamline the process, ensure fairness, and provide additional value for verification and validation. In addition to data collection from financial institutions, an interesting source of data can be found in the World Benchmarking Alliance (WBA) benchmarks. Shareaction, Climate Action +100 and other initiatives have also produced benchmarks (whether on corporates and financial institutions) wit valuable data/outputs for the ACT Finance assessment. . The CDP questionnaire is another potential source. The FI sector includes all sub-categories within Financial services from the CDP Activity Classification System (CDP-ACS). This includes Asset Managers, Banks, Insurance and Real Estate Investment Trusts.

5.2 Financial institution Data request

The data request will be presented to financial institution in a comprehensive data collection format. The following data will be requested:

Data requested to the financial institution
Global Financing amounts: total outstanding loans (in monetary terms, e.g., € or $), by sectors or asset class (in monetary terms, e.g., € or $)
Financing flow breakdown between use of proceeds vs General Corporate Purpose amounts (past 3 years) by sectors or asset class (in monetary terms, e.g., € or $)
Capital market activities (if relevant): - Total number of Deals and associated value (in monetary terms, e.g., € or $) - Total revenue from activity - Breakdown between deals with use of proceeds (taxonomic criteria) and general corporate purpose

Financed GHG emissions: global (absolute), by sectors (absolute or physical intensity) or asset class (absolute or physical intensity)
Facilitated emissions: global (absolute), by sectors (absolute or physical intensity) or asset class (absolute or physical intensity)
Reduction targets (absolute and intensity)
Transition Finance Guide/Framework / Taxonomy used
Exit policy regarding oil, gas and coal
Climate solutions financing
Environmental policy and details regarding governance
Management incentives
Scenario testing framework
Engagement strategy with clients & associated framework
Savers engagement strategy
List of initiatives implemented to influence client to reduce their GHG emissions
Financial institution policy on engagement with trade associations
Position of the financial institution on significant climate policies (public statements, etc.)
Financial amount of low carbon or transitional activities/climate solutions or entities financed
Tools & policies facilitating channelling credits to the transition towards a low carbon economy

5.3 PERFORMANCE INDICATORS

The performance indicators have been conceived following the main principles described in Table 2.

TABLE 2 : PERFORMANCE INDICATOR OVERVIEW

		LENDING			
			Past	Present	Future
Core business performance		1.TARGETS		BAN 1.3 Achievement of previous targets	
				BAN 1.1 Alignment of scope 3 (category 15) financed and facilitated emissions' reduction targets BAN 1.2 Time horizon of targets BAN 1.4 Engagement targets BAN 1.5 Financing targets	
		2. MATERIAL INVESTMENT			
		3. INTANGIBLE INVESTMENT		BAN 3.1 Investments in human capital – trainings BAN 3.2 R&D for climate expertise	
Core business performance	Investment	4 PORTFOLIO CLIMATE PERFORMANCE		BAN 4.1 Financial and facilitated Flows Trend BAN 4.2 Portfolio emissions alignment assessment	
		5. MANAGEMENT		BAN 5.1 Oversight of climate change issues BAN 5.2 Climate change oversight capability BAN 5.4 Climate change management incentives BAN 5.5 Climate Risk management	BAN 5.3 Low-carbon transition plan BAN 5.6 Climate change scenario testing
		6. SAVERS ENGAGEMENT		BAN 6.2 Activities to influence savers to reduce their GHG emissions	BAN 6.1 Strategy to influence savers to reduce their GHG emissions
		7. CLIENTS ENGAGEMENT		BAN 7.2 Activities to influence clients to reduce their GHG emissions BAN 7.3. Activities to influence clients with fossil fuel and/or deforestation-link activities	BAN 7.1 Strategy to influence clients to reduce their GHG emissions
		8. POLICY ENGAGEMENT		BAN 8.1 Financial Institution policy on engagement with trade associations BAN 8.2 Trade associations supported do not have climate-negative activities or positions BAN 8.3 Position on significant climate policies BAN 8.4 Collaboration with local public authorities	

9. BUSINESS MODEL	BAN 9.1 Tools/policy facilitating channelling credits to the transition towards a low carbon economy BAN 9.2 Financial flows reorientation towards (i) aligned or (ii) transitional entities or (III) climate change solutions

For qualitative scoring, maturity matrices will be used. A maturity matrix contains five levels of evaluation that are associated with scores given to the financial institution for each indicator. Depending on the indicator, it might be possible to obtain only part of the score. Some indicators might be divided into sub-dimensions that are evaluated individually before the score is aggregated to obtain the indicator score.

Evaluation level	Basic	Standard	Advanced	Next practice	Low-carbon aligned
Score	0	0.25	0.5	0.75	1

MODULE 1: TARGETS

This module focuses on assessing whether the financial institution has targets on (i) reducing its financed emissions (1.1, 1.2, 1.3) and (ii) financing reduced emissions (1.4, 1.5).

● BAN 1.1 ALIGNMENT OF SCOPE 3 (CATEGORY 15) EMISSIONS' REDUCTION TARGETS

DESCRIPTION & REQUIREMENTS

BAN 1.1 ALIGNMENT OF SCOPE 3 (CATEGORY 15) EMISSIONS' REDUCTION TARGETS

SHORT DESCRIPTION OF INDICATOR

A measure of the alignment of the financial institution scope 3 (category 15) sectoral emissions' reduction targets with sectoral related low-carbon benchmark pathways. The indicator will compare the trend of the sectoral financed emissions targeted pathway to the trend of the relevant sectoral related benchmark and identifies the gap between both pathways at the target year, which is expressed as the financial institution's commitment gap. Where only global portfolio or non-sectoral asset class targets exist, the trend will be compared to a reference absolute contraction scenario.

The indicator also measures the capital market targets (when such activities exist). The indicator will compare the trend of the sectoral aggregated facilitated and financed emissions targeted pathway to the trend of the sectoral related benchmark and identify the gap between both pathways at the target year, which is expressed as the financial institution capital market activities' commitment gap. Where only global capital market activities or non-sectoral asset class targets exist, the trend will be compared to a reference absolute contraction scenario.

DATA REQUIREMENTS

The relevant data for this indicator are:

- Targets information for each relevant sector, asset class or global portfolio (Target year, emission reduction between base year and target year, coverage)
- Sector and/or asset class portfolio allocation (in monetary terms)
- Financed emissions
- Facilitated emissions
- Capital Market deal value for Bonds and Equity operations (in monetary terms)
- Share of the sectoral owned financed emissions (%)
- (Optional) Base year, emissions at base year

CDP Questionnaire mapping to this indicator:

- C4.1
- C4.2
- C6.5
- C-FS14.1
- C-FS14.1a
- C-FS14.1c
- C-FS14.2.

External sources of data used for the analysis of this indicator are:

- IEA ETP background scenarios data - SDA (9) Sectoral Decarbonization Approach - specific benchmark pathway definition
- ACA - Absolute Contraction approach - targets information for each relevant GHG financed emissions sources (Target year, emission reduction between reporting year and target year, coverage)
- (Optional) – Base year, emissions at base year

Reminder: retail exposures (consumer loans) are taken into account by the methodology according to the details provided in the section 3 (Scope). They shall be mapped as it follows:

Consumer loan type	Sector
Residential Mortgages	Real Estate
Motor vehicle Loan	Transport - Auto

TABLE 3 SECTOR, ASSET CLASS AND GENERAL TARGET TYPES | BENCHMARK INVOLVED

Target type	Parameter	Metric	Methodological sources[1]
Scope 3.15 - Absolute Agriculture & Agrifood (Sectoral financed emissions)	SB (Sector Benchmark)	% of absolute emissions' reduction	- SBTi Absolute Contraction Approach (ACA) - 1.5°C IEA Scenario
Scope 3.15 - Intensity Aluminium (Sectoral financed emissions)	SB	tCO2/ton	- SBTi Sectoral Decarbonization Approach (SDA) - IEA NZE 2050 - IAI analysis (10)
Scope 3.15 - Intensity Building construction (Sectoral financed emissions)	SB	kgCO2/m2	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Intensity Cement (Sectoral financed emissions)	SB	tCO2e/ton	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Absolute Chemicals (Sectoral financed emissions)	SB	% of absolute emissions' reduction	- SBTi ACA - 1.5°C IEA scenario

[1] For more details on each sector, please refer to sectoral ACT methodologies (https://actinitiative.org/act-methodologies/)

Scope 3.15 - Intensity Electric Utilities (Sectoral financed emissions)	SB	gCO2/kwh	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Intensity Glass (Sectoral financed emissions)	SB	tCO2/ton	- SBTi Sectoral Decarbonization Approach (SDA) - IEA ETP 2020 - SDS
Scope 3.15 - Intensity Iron & Steel (Sectoral financed emissions)	SB	tCO2/ton	- SBTi Sectoral Decarbonization Approach (SDA) - IEA NZE 2050
Scope 3.15 - Intensity Oil & Gas (Sectoral financed emissions)	SB	tCO2e/TJ	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Intensity Pulp & Paper (Sectoral)	SB	tCO2/ton	- SBTi (SDA) - IEA ETP 2020 - SDS
Scope 3.15 - Intensity Real Estate (Sectoral financed emissions)	SB	kgCO2/m2	- SBTi SDA - IEA NZE 2050

Scope 3.15 - Intensity Transport - Auto (Sectoral financed emissions)	SB	gCO2/v.km (vehicle)	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Intensity Transport – Civil aviation (Sectoral financed emissions)	SB	Auto gCO2/p.km (passenger)	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Intensity Transport – Road (Sectoral financed emissions)	SB	gCO2/t.km (freight)	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Intensity Transport – Shipping (Sectoral financed emissions)	SB	gCO2/t.km (freight)	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Absolute Asset Class (Asset class financed emissions)	ACB (Asset Class Benchmark)	% of absolute emissions' reduction	- SBTi ACA - 1.5°C IEA scenario
Scope 3.15 - Absolute General (Global Financed emissions)	PB (Global Portfolio Benchmark)	% of absolute emissions' reduction	- SBTi ACA - 1.5°C IEA scenario

Guidance: in the data collection for target setting, please refer to each specific ACT methodology, notably in section '6.1 Sector Benchmark', to check the boundary of each sector.

The sectors above have been chosen in this methodology as they are considered as the most emissive one and, as a result, are covered by the ACT sectoral methodologies. It goes beyond the coverage recommendation of the NZBA (11) in terms of sector coverage as the ACT initiative has been producing expertise on all the most emissive sectors.

To understand the journey from calculating financed emissions to setting Science Based targets, please refer to the following standard[2]

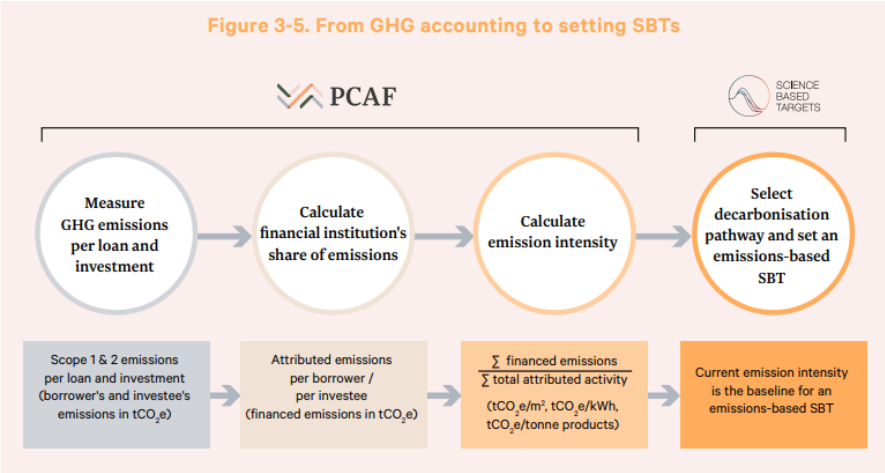


FIGURE 1: PCAF: FROM GHG ACCOUNTING TO SETTING SBTS

Financed emissions are the key information to enable the commitment gap assessment and thus the 1.1 sub indicator scoring.

Two types of financed emissions can be used here:

- Physical emissions intensity (e.g., gCO2/kwh), resulting in the use of the SDA approach for measuring sectoral commitment gaps. The benchmarks associated to calculate the commitment gap are described in the Table 1 (above). Several metrics can exist for a specific sector. Priority will have to be put on those capturing the significant direct and indirect emissions of the sector. Important: economic emissions intensity

[2] p.31, https://carbonaccountingfinancials.com/standard

has been a metric accepted but will lead to downgrade the score in the data quality score (page 15) for various reasons (12).

- Absolute financed emissions (tCO2e), resulting in the use of the ACA approach. The benchmark used to calculate the commitment gap is 1.5°C scenario with low or no overshoot (i.e. a 4.2% annual linear reduction).

Facilitated emissions must also be calculated when a Bank has Capital Market activities. The financial institution should also follow the recommendations of PCAF on how to calculate it (6).

Figure 1: Recommended approach for calculating facilitated emissions using league table credit

$$Facilitated\ emissions = \sum_{c} \frac{Facilitated\ amount_c}{EVICc} \times Annual\ emissions_c$$

$$(Facilitated\ amount = league\ table\ credit \times total\ raised\ amount \times weighting\ factor)$$

$$(Attribution\ factor = league\ table\ credit \times weighting\ factor)$$

HOW THE ASSESSMENT WILL BE DONE

Important: in this module, financed and facilitated emissions shall be aggregated for target setting to make the SDA/ACA approaches possible.

The analysis is based on the difference between the financial institution financed emissions' (physical or absolute) target and the associated benchmark (sectoral (SDA) or general (ACA)) at the target year. It is done on every target, whether it is a sectoral target, asset class target or global portfolio target and aggregated into a final score applying weightings on the type of targets (sectoral targets are emphasized as it can really help to pilot the business areas transition).

We will focus here on sectoral intensity targets, but the same method applies for absolute targets.

The sectoral target pathway is the decarbonization over time, defined by the financial institution scope 3.15 sectoral financed emissions reduction target. To compute it, a straight line has been drawn between the starting point of the analysis and the financed emissions target endpoint.

The financial institution's sectoral pathway selection will depend on the sectoral target (e.g., Electric Utilities).

See section 6.1 for details on the computation of this pathway. The indicator compares TE (Target Emissions) to FISB (Financial Institution Sectoral Benchmark) at the target year (Y_T), by assessing the difference between these pathways. The pathways are expressed in the sector related intensity

metric.

The result of the comparison is the *commitment gap*. To assign a score to this indicator, the size of the commitment gap shall be compared to the maximum commitment gap, which is defined by the business-as-usual pathway (BAU). BAU is defined as an unchanging (horizontal) intensity pathway, whereby the emissions intensity is not reduced at all from the reporting year.

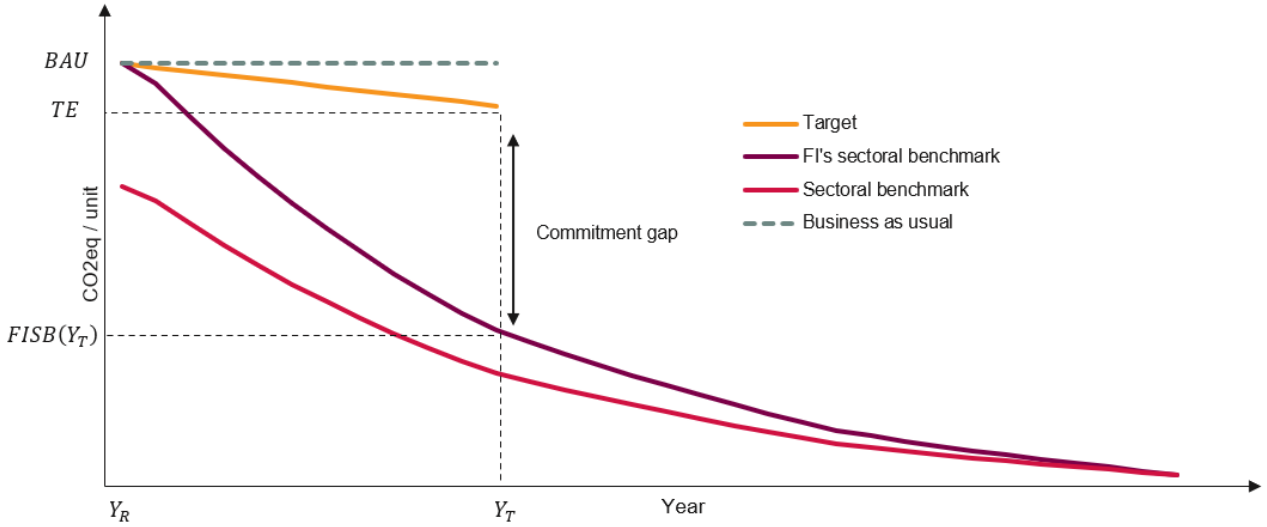


FIGURE 2: TREND RATIO AND COMMITMENT GAP

For the global portfolio target, the absolute financed emissions will be considered and compared to a benchmark aligned with 1.5°C scenario with no or low overshot, using an ACA approach.

For asset class targets, we have two options depending on the way the institution has set targets:

- The target is focusing on an asset class (e.g. corporate loan) but will be associated to a sector (e.g. Buildings): the benchmark will then be the same as the sector associated to the asset class target;

- The target is focusing on an asset class (e.g. corporate loan) but without any reference to a specific sector: the benchmark will then be non-sectoral and a 1.5°C scenario with no or low overshot using an ACA approach would apply.

CALCULATION OF SCORE:

First a trend ratio has to be calculated to allow the commitment score computation, which is then weighted according to relevant dimensions (data quality, credit coverage, GHG coverage, sectoral adjustment) to get the final score.

- **Trend ratio**

The trend ratio is calculated by dividing the financial institution's commitment gap by the maximum commitment gap:

$$Trend\ ratio = \frac{TE - FISB(Y_T)}{|BAU - FISB(Y_T)|}$$

- **Commitment score**

The financial institution sectoral target achieves the maximum score if the sectoral financed emissions' target pathway is more ambitious than the financial institution's sectoral benchmark (commitment gap <= 0). It achieves the minimum score if the sectoral financed emissions' target pathway is less ambitious than the business-as-usual pathway (commitment gap >= maximum commitment gap). In between, the commitment score is inversely proportional to the commitment gap. The score is calculated as follows:

TABLE 4: COMMITMENT SCORE CONDITIONS

Conditions	Score
$Trend\ ratio \geq 1$ The commitment is less ambitious than the business-as-usual pathway	0%
$Trend\ ratio \leq 0$ The commitment is more ambitious than the financial institution's sectoral benchmark pathway	100%
$0 \geq Trend\ ratio > 1$ The commitment is below the business-as-usual pathway but not yet aligned to the financial institution's sectoral benchmark pathway	$1 - trend\ ratio$

- **Final Score**

The final score assigned to the indicator is weighted by different factors:

$$Final\ score = commitment\ score * credit\ coverage\ score * GHG\ coverage\ score * sectoral\ adjustment * data\ quality\ score$$

If several targets exist for a specific sector (e.g., one target for Europe and another one for Latin America the final score of the sector will be the sum of the final score of each target. The tool has been designed to ensure no overlap when scoring such targets.

(i) Credit coverage score / Deal value coverage score (when relevant)

The credit coverage score takes into account the possibility that a financial institution sets reduction targets not taking into account all its portfolio credit lines and facilitated deals. As a matter of fact, the possibility of not having a full coverage is specified by the Financial sector science-based targets guidance of the SBT. A minimum level of coverage in terms of monetary value of the portfolio has to be covered[3]. Some credit lines and facilitated deals can be excluded by the financial institution in the target boundary for various reasons: desire to focus on most significant emitters or on a dedicated sub-sector, difficulty to access the data on a part of the perimeter. These minimum requirements (see table 5) have been integrated in the methodology and associated tool.

The credit coverage represents the share of the credit lines and facilitated deals, in monetary terms, covered by the target. The credit coverage is sectoral.

$$Credit\ coverage = \frac{\sum_{Ry} credit\ lines\ covered\ by\ the\ target_i + \sum_{Ry} facilitated\ deals\ covered\ by\ the\ target_i}{\sum_{Ry} credit\ lines_i + \sum_{Ry} facilitated\ deals_i}$$

For example, regarding a bank having only a lending activity, a financial institution has a 10bn€ loans portfolio on sector A. It has set a target that excludes exposures to a small specific sub-sector that is deemed too complex to handle due to lack of data/methodologies. At reporting year, the exposure to this sub-sector represents 100m€ so 1% of the global portfolio of the institution on the sector A. Therefore, the credit coverage of the sector

[3] See criteria FI-C16 – Portfolio Target Boundary.

A is 100%-1%=99%. Should this bank also have capital market activities not covered at all by the target, with a deal value amount of 1bn€, the credit coverage will be: (10bn€-100m€)/(10bn€+1bn€)=90%

The credit coverage score is obtained by comparing the credit coverage to a minimum threshold that should be met. As mentioned above, those thresholds come from the SBTi framework.

$$Credit\ coverage\ score = MIN(\frac{credit\ coverage}{credit\ coverage\ threshold}; 100\%)$$

With the credit coverage thresholds defined as follows:

TABLE 5: CREDIT COVERAGE THRESHOLD COMING FROM SBTI:

Sector	Credit coverage threshold
Oil & Gas	95% - of base year corporate lending (loan value) - of base year capital market activities (deal value)
Electric utilities	100% - of base year corporate lending (loan value) - of base year capital market activities (deal value)
All other sectors, asset classes and global portfolio	67% - of base year corporate lending (loan value) - of base year capital market activities (deal value)

If several targets exist for a specific sector (e.g., one target for Europe and another one for Latin America) the total lending (and facilitated if any) amount coverage threshold will be calculated globally and then shared among the various targets according to their total lending (and facilitated if any) amount coverage weight. For instance, if on the Building Construction sector there is one target (e.g. on EU area) covering 20% of the assets and another (e.g. on US area) covering 13,5%, global covering is 20%+13.5% = 33.5% which grants 50% of total lending amount coverage score regarding the Building construction sector.

The firs target will get 50%*20%/33,5% ~ 30% of lending coverage score while the second target will get the ~20% remaining. This ensure no overlap between each target scoring.

(ii) GHG coverage score

The GHG coverage score takes into account the possibility that a financial institution set emissions reduction targets without taking into account all sources of emissions. Data, methodologies and complexity do not always make it possible to measure 100% of the GHG financed emissions associated with a given loan.

For instance, when a financial institution set a target where it intends to reduce by 50% its financed emissions of a given sector B, it can exclude some part of the sectoral value chain and emissions. Assuming it would represent 20% of the total GHG emissions, the GHG coverage would be 100%-20%=80%. The methodology acknowledges that collecting GHG data is a challenge for some sectors and part of the sectoral value chain. Therefore, instead of weighting the score directly by the GHG coverage, it is weighted by a GHG coverage score associated to different level of coverage as follows:

TABLE 6: GHG COVERAGE SCORE ARRAY

GHG coverage range	GHG coverage score
[75%; 100%]	100%
[50%; 75%[	50%
[0%; 50%[	0%

In our example, the GHG coverage score of sector B would be of 100%.

(iii) Sectoral adjustment:

As sectors have a different contribution to the global emissions of GHG, it is considered more important to set targets on a primary energy sector (eg Oil&Gas) than an end use one (e.g., Pulp&Paper). Contribution of each sector to the global scoring will therefore be corrected in order to take into account these differences. Therefore, a specific parameter is calculated as follows:

$$SADJ_{s_i} = \frac{w_{s_i} * C_{s_i}}{\sum_{i=1}^{n} w_{s_i} * C_{s_i}}$$

With $\begin{cases} n: the\ number\ of\ sectors\ considered \\ s_i: the\ sector\ i \\ C: the\ benchmark\ coefficient\ of\ contribution\ to\ global\ emissions\ according\ to\ the\ table\ below \\ w: the\ allocation\ within\ the\ portfolio\ (money\ breakdown\ \%\ (outstanding\ loans\ (lending)\ or\ deal\ value\ (capital\ markets\ activities))) \end{cases}$

And with the benchmark coefficient of contributions defined as:

TABLE 7: COEFFICIENT OF CONTRIBUTION OF SECTORS AND ASSET CLASSES TO GLOBAL EMISSIONS

Sector	Emission category	Benchmark coefficient of contribution to global emissions
Agriculture & Agrifood	End use	18%
Aluminium	End use	2%
Building construction	End use	4%
Cement	End use	4%
Chemicals	End use	6%
Coal	Primary energy	27%
Elec Utilities	Secondary energy	23%
Glass	End use	0%
Iron & Steel	End use	7%
Oil & Gas	Primary energy	35%
Pulp & Paper	End use	1%
Real Estate	End use	20%
Transport - Auto	End use	7%
Transport - Civil aviation	End use	2%
Transport - Road transport	End use	12%
Transport - Shipping	End use	2%
z. Other Sectors	NA	2%

These parameters are based on the public sources such as “Ourworldindata” (13), GIEC reports or IAE. They aim to representing the influence of each sector based on the world global emission of GHG. The reason for having a >100% sum is that sectors are inter-connected and looked at a different level of the energy value chain. For example, O&G is a primary energy, and its emissions will embed some secondary energy emissions and end-use emissions. This reflects the accountability of investing in the O&G sector as we can’t deny responsibility on what it will be used for: if a financial institution finances an oil extraction platform, not only would it have participated in the platform’s emissions but would also contribute to making oil barrels available that would be use for transportation and chemicals for example. The responsibility embeds the whole value chain.

(iv) Data quality score

The data quality score is based on the confidence attributed to the GHG data used for financed and facilitated emissions. The confidence level follows the PCAF data quality scoring system and ranges from 1 (certain data) to 5 (uncertain data).

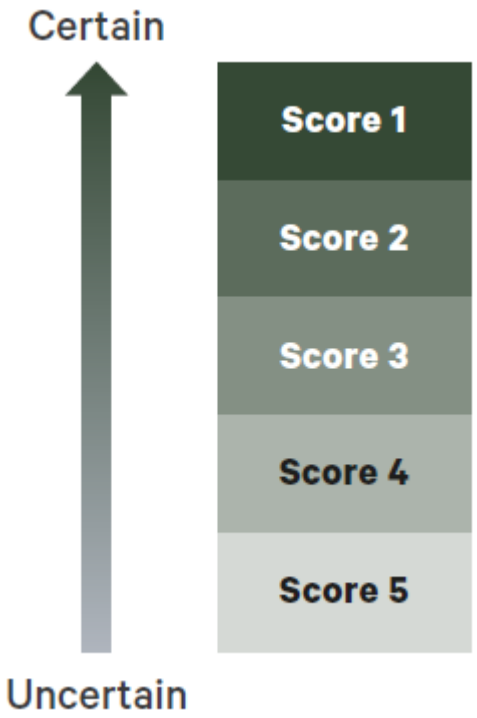


FIGURE 3: PCAF DATA QUALITY SCORE

We support the extensive description of levels that PCAF defines for each asset class. See below the example for listed equity and corporate bonds and for others it can be referred to their official standard (14).

(score 1 = highest data quality; score 5 = lowest data quality)

Data Quality	Options to estimate the financed emissions		When to use each option
Score 1	**Option 1: Reported emissions**	**1a**	Outstanding amount in the company and EVIC are known. **Verified emissions** of the company are available.
Score 2		**1b**	Outstanding amount in the company and EVIC are known. **Unverified emissions** calculated by the company are available.
	Option 2: Physical activity-based emissions	**2a**[62]	Outstanding amount in the company and EVIC are known. Reported company emissions are not known. Emissions are calculated using primary physical activity data of the **company's energy consumption** and emission factors[63] specific to that primary data. Relevant process emissions are added.
Score 3		**2b**	Outstanding amount in the company and EVIC are known. Reported company emissions are not known. Emissions are calculated using primary physical activity data of the **company's production** and emission factors specific to that primary data.
Score 4	**Option 3: Economic activity-based emissions**	**3a**	Outstanding amount in the company, EVIC, and the **company's revenue**[64] are known. Emission factors for the sector per unit of revenue are known (e.g., tCO_2e per euro of revenue earned in a sector).
Score 5		**3b**	Outstanding amount in the company is known. Emission factors for the sector per unit of asset (e.g., tCO_2e per euro of asset in a sector) are known.
		3c	Outstanding amount in the company is known. Emission factors for the sector per unit of revenue (e.g., tCO_2e per euro of revenue earned in a sector) and **asset turnover ratios** for the sector are known.

FIGURE 4: PCAF GENERAL DESCRIPTION OF THE DATA QUALITY SCORE TABLE

FOR LISTED EQUITY AND CORPORATE BONDS

For asset classes not falling into PCAF's scope, the following interpretation is used:

TABLE 8: CONFIDENCE LEVEL'S DESCRIPTION

Confidence level	Description
1	Audited GHG emissions data or real primary energy data
2	Non-audited GHG emissions data or other primary data
3	Average data that's peer or sector-specific
4	Proxy data based on region or country
5	estimated with limited support

The confidence level is then converted into a percentage data quality score which reaches a maximum of 100% for a confidence level of 1 and a minimum of 20% for a confidence level of 5.

$$Data\ quality\ score = 1 - \frac{Confidence\ level - 1}{5}$$

- **Aggregated score**

The aggregated score depends on the structure of the targets set by the institution. As financial institutions are lending to various high emitting sectors, sector specific targets should ideally be set. Therefore, it has been decided to provide less weight for targets set in a less ambitious way. The consolidation of the scores assigned to each target is the sum of the commitment gap given the fact that each commitment gap is already adjusted by (i) credit coverage score, (ii) GHG owned emissions, (iii) sector contribution, and (iv) data quality score.

$$Aggregated\ score = w_S * \sum_{i=1}^{n} Sector_i\ score + w_A * \sum_{j=1}^{m} Asset\ class_i\ score + w_G * Global\ portfolio\ score$$

$$\text{With} \begin{cases} w_S : weight\ of\ the\ Sectoral\ score \\ w_A : weight\ of\ the\ Asset\ class\ score \\ w_G : weight\ of\ the\ Global\ ptf\ score \\ n: : number\ of\ sectors\ considered \\ m: number\ of\ asset\ class\ considered \end{cases}$$

And the weights being defined depending on the combination of targets.

TABLE 9: SCORE'S WEIGHTINGS DEPENDING ON GRANULARITY OF TARGETS (APPLIES FOR LENDING & CAPITAL MARKETS ACTIVITIES)

Combination	w_S	w_A	w_G	Sum of weighting
Sectors only	100%	0%	0%	100%
Aggregated asset class only	0%	50%	0%	50%
Global portfolio only	0%	0%	5%	5%
Sector + Aggregated asset class	70%	30%	0%	100%
Sector + Global portfolio	95%	0%	5%	100%
Aggregated asset class + Global portfolio	0%	45%	5%	50%
Sector + Aggregated asset class + Global portfolio	70%	25%	5%	100%

"Aggregated asset class" stands for the case of non-sectoral target setting approach. This means the financial institution targets are tied to absolute CO2e emissions reduction and at the asset class level.

For instance: 'Bank B has set a reduction target of 30% on its corporate loan asset class, from a 2021 base year and with a target date of 2030'. When asset class targets are based on a sector (likewise in the SBTi Financial Sector Science Based Targets Guidance (August 2022): '*Financial Institution A commits to reduce GHG emissions from the steel sector within its corporate lending portfolio X% per ton of cement by 2030 from a 2018 base year*')

then it falls under the ‘Sectors only’ category of the table above.

Important difference is that asset classes referring to a sector will have associated decarbonization pathway using (except for Chemicals and Agri & Agro sectors) an SDA approach (when relevant), and for aggregated asset classes it will automatically be using an ACA 4.2% annual reduction.

Important: when a bank has both lending and capital market activities (see Section 6.2), the 1.1 indicator score will be the sum of the two different score, with each part being weighted by the revenue breakdown of each activity.

Example: Bank A has both lending and capital markets activities. The revenue of all these activities equal 100%. If lending activities represent 20% of the total revenue and capital market activities represent 80% then the 1.1 score will be: Lending targets score *20% + Capital Market targets*80%.

Important: according to PCAF guidance, facilitated emissions shall be reported separately from financed emissions. Following on this recommendation, target setting for Financed and facilitated emissions shall be separated. Reason for such recommendation is the perspective of piloting in a relevant way the transition of the different activities and making it possible to track targets in a granular way.

RATIONALE

BAN 1.1 ALIGNMENT OF SCOPE 3 (CATEGORY 15) EMISSIONS REDUCTION TARGETS

RATIONALE OF THE INDICATOR

RELEVANCE OF THE INDICATOR:

Alignment of inclusive scope 3.15 emissions reduction targets are included in this ACT methodology for the following reasons:

- Targets are the first step to commit to contributing to the GHG reduction objective of 1.5°C degree and start the journey to operationalize these commitments and manage its impact.
- It is an interesting metric both for designing an impactful (GHG reduction) internal strategy but also for stakeholders and civil society to understand whether the financial institution has started its journey to Net Zero.
- Targets are one of the few metrics that can predict a financial institutions long-term plan beyond that which can be projected in the short-term, satisfying ACT’s need for indicators that can provide information on the long-term future of a Financial Institution.
- For the financial sector, indirect/financed emissions represent a high source of emissions. A GHG emissions reduction target should be assigned to them.

Capital Markets targets have been included in the targets module assessment as it often represents a substantial amount of revenues for some banks in comparison with lending activities. Capital market activities directly participate to unlock project financing and notably emissive ones. As highlighted by PCAF, 'Capital markets issuances in one year will have a climate impact in many years that follow'. (15) 'Although capital markets activities don't appear on a bank's balance sheet (as the banks don't take on credit risk), it underplays transition risks to banks as the investment banking division can earn significant fees from capital markets underwriting'. (16)

SCORING RATIONALE:

Targets are quantitatively interpreted and directly compared to a low-carbon benchmark built from the current level of sectoral financed emissions at reporting year and converging toward the 2050 value of the sectoral benchmark relevant for this source.

Comparing the trends gives a direct measure of the commitment gap of the financial institution sectoral targets. It was chosen for its relative simplicity in interpretation and powerful message. Financial institutions' portfolio being heterogeneous, there is no existing benchmark for this industry. The approach followed in this methodology allows to score separately each individual target and aggregate their score. The emphasis is on sectoral targets as they can be directly related to the decarbonisation efforts needed by sectors.

NB: In previous ACT methodologies, the calculation was based on the difference between the company's target and the company benchmark 5 years after the reporting year. The analysis is now based on the difference between the financial institution's target and the financial institution's benchmark at the target year. The previous version assumed that the emission reduction would be linear between reporting year and reporting year + 5, which could affect the result as the low-carbon pathway is not linear, the new version avoids this assumption by using data at target year.

Regarding the Capital Market inclusion in the targets module & scoring, the Capital Market Instruments Discussion Paper 2021 and the Capital-market-instruments-proposed-methodology-2022. have been both important sources for our methodological choices.

The first important choice has been the responsibility of the arranger/facilitator and allocation approach for capital markets facilitation:

(i) in the tool, arrangers/facilitators have been allocated 100% of the issuance, *according to the Capital-market-instruments-proposed-methodology-2022.* As mentioned by PCAF, 'the facilitators are key to unlocking the capital by facilitating/arranging the transaction as banks over time have evolved to specialize their services as critical intermediaries and therefore also gatekeepers to capital markets and negotiators between the providers of capital and those seeking financing'.

(ii) Regarding the period of allocation, various methodological choices are possible: flow, stock, average flow, amortized stock (15). In the Capital-market-instruments-proposed-methodology-2022 PCAF recommends the ''flow' method whereby facilitation activity is only

accounted for in the year the facilitation occurs'. ACT 4 Finance methodology has been following this approach.

One limitation of facilitated emission is the pro-cyclical profile of Capital market activities which would imply a high volatility in terms of facilitated emissions reporting. This could be a problem when scoring the commitment gap at a target year when capital market activities experience the consequence of a sluggish economy i.e. less financing through capital markets. We have addressed this problem by recommending and rewarding the use of intensity targets tied to the intensity of facilitated emissions instead of using absolute targets/facilitated emissions. The advantage with this approach is that it unbiased the problem of volume discrepancies/volatilities from one year to another in facilitated emissions.

It is important to onboard capital markets activities in this methodology as it has a role to play in the transition and currently play a role in unlocking high-emitting projects. In the *Share Action Banking Survey 2022*, ShareAction stated that 'between 2016 and 2021, 57 per cent of the financing provided to the top 50 upstream oil & gas expanders was in the form of capital markets underwriting'.

17 ● **BAN 1.2 TARGETS TIME HORIZON**

DESCRIPTION & REQUIREMENTS	**BAN 1.2 TARGETS TIME HORIZON**
SHORT DESCRIPTION OF INDICATOR	A measure of the time horizons of financial institution targets (lending and capital market activities (when existing)). The ideal set of targets is forward looking enough to reach a long-time horizon compatible with sectoral productive assets' lifetime and capex plan, but also includes short-term targets that incentivise action in the present.
DATA REQUIREMENTS	The relevant data points for this indicator are: ♦ Target year; ♦ Year when the target was set (base year); ♦ Sector or asset class the target was set for. CDP Questionnaire mapping to this indicator: ♦ C4.1 ♦ C-FS14.1a

Another important proxy defined in this methodology is the sector's lifespan against which target horizons will be compared to. It represents the average lifespan of the sector's underlying productive assets. The reason for choosing the underlying productive assets' lifespan is to match the credit lines directly to what it helps to finance rather than to the credit duration. Indeed, financial institutions should be accountable for the whole lifespan of the underlying productive asset they help to finance.

Furthermore, if a financial institution is financing the construction of a new factory with a 5 year-loan that does not stop it from emitting afterwards. Therefore, reduction targets should be in line with the lifespan of what it finances in order to efficiently manage its financed emissions and its asset to finance selection. From another perspective, if the financial institution continues renewing its financing to the same company operating the same productive asset it has helped to finance in the first place, the induced emissions can't reduce until it is renewed or replaced at the end of its lifespan. That's why target time horizon should be in line with the reality of the real economy. The sector's lifespan parameter comes from existing underlying ACT methodologies on each relevant sector, see table below.

TABLE 10: SECTORS' LIFESPAN

Sector	Lifespan (years)^	Source
Agriculture & Agrifood	10	Please refer to each specific ACT methodology for the lifespan rationale https://actinitiative.org/act-methodologies/
Aluminium	30	
Auto	15	
Cement	30	
Chemicals	30	
+ Building construction	Defined as an endpoint in 2050	
Elec Utilities	25	
Glass	20	
Iron & Steel	30	
*Oil & Gas	Defined as an endpoint in 2050	
+Retail	Defined as an endpoint in 2050	
Pulp & Paper	15	
Real Estate	25	
Transport – Civil Aviation	30	
Transport – Road Transport	10	
Transport – Shipping	30	

^ As 2050 is a global reference for any sectoral roadmap, it is specified that when considering the ideal target endpoint, it is always the smaller value

between 2050 and base year + lifespan that is taken into account, see below details on Ha parameter calculation.

*For the Oil & Gas sector, the ACT O&G methodology has been considering 2050 as an endpoint because 'Setting 2050 as the horizon is consistent with a low carbon scenario timeline and with the fact that the average lifetime of upstream portfolio assets is usually more than 30 years'.

+ Assuming that the lifetime of a building is around 50 years, the target endpoint is compared to the long-term point (LT), which is fixed at 2050 minus the reporting year, aligned with 2°C scenario.

TABLE 11: OTHER

Other	Lifespan (years)	Source
Asset classes	15	TWG
Global Portfolio	15	TWG
Capital Market (whether sectoral, asset class and global target)	15	Default

With a default lifespan of 15 years for asset classes, global portfolio and capital market.

HOW THE ASSESSMENT WILL BE DONE

The analysis has two dimensions, each weighted at 50%:

- A comparison of: (a) the longest time horizon of each financial institution's sectoral, asset class or global portfolio targets, and (b) their underlying sector's average productive asset lifespan Ha;
- Each target has interim targets that ensure both short and long-term targets are in place to incentivise short-term action and communicate long-term commitments.

To ease the understanding, the explanation will follow the example of a financial institution's sectoral target but the methodology applies to asset class and global portfolio targets too.

DIMENSION 1 – TARGET ENDPOINT:

The sectoral target endpoint (Te) is compared to the ideal horizon set considering the asset lifespan (Ha).

Ha is the smaller value between the asset lifespan (see table above) and the number of years ranging from the base year to the 2050 global endpoint.

$$Ha = \min\,(2050 - base\ year; asset\ lifespan_{sector})$$

For instance, if a target is set in 2021 regarding the Cement sector, Ha will equal to 2050-2021=29 instead of 30. Where the asset lifespan itself is defined according to the 2050 reference point, the value will be identifical in both terms of the formula.

The sectoral target endpoint (Te) is equal to the longest time horizon among the same target pathway, minus the base year:

$$Te{=}Longest\ target\ time\ horizon - \text{base}\ year$$

For instance, if a financial institution commits to decrease its GHG financed cement intensity by 10% from 2021 to 2030 and then by -25% from 2021 to 2040, Te will equal to max(2030;2040)-2021=19.

The analysis compares the financial institution's target endpoint (Te) to Ha. This analysis measures the horizon gap:

$$Horizon\ gap{=}Ha{-}Te$$

Following on the previous example, the Horizon gap is 29-19=10.

The financial institution's target endpoint is compared to Ha. A maximum score of 50% is attained if Te equals or exceed Ha, in which case the horizon gap is zero or negative. A zero score is awarded if the horizon gap is too high, meaning greater than 2/3 of Ha or, put into a different perspective, that the sectorial target endpoint Te is smaller than the third of the sector productive asset lifespan (for instance if the sector productive asset lifespan is of 30 years and the longest time horizon is no more than 10 years after the base year where the target was set). Eventually an intermediate percentage score is awarded for any target that is between these two points, proportional to the size of horizon gap.

TABLE 11 : TARGET ENDPOINT'S SCORE CONDITIONS

Conditions	Score
$Horizon\ gap \geq \frac{2}{3} Ha$	0%
$Horizon\ gap \leq 0 \Leftrightarrow Te \geq Ha$	50%

In between	$50\% * \left(1 - \frac{Horizongap}{\frac{2}{3}Ha}\right)$

Following on the previous example the Horizon gap=10 and Ha=29, the score will be: 50%*(1-10/(2/3*29)) ~ 24%.

DIMENSION 2 – INTERMEDIATE HORIZONS:

Each sectoral targets and their endpoints are calculated and plotted. The ideal scoring sector that provides a maximum 50% score does not have intervals between target endpoints larger than 5 years from the base year.

Measurements are done in five-year intervals between the base year and Te.

The sectoral targets are compared according to the following scoring table:

TABLE 12: INTERMEDIATE HORIZON SCORING CONDITIONS

Conditions	Score
No gaps of more than 5 years during Te	50%
No gaps of more than 5 years during 80% of Te	40%
No gaps of more than 5 years during 60% of Te	30%
No gaps of more than 5 years during 40% of Te	20%
No gaps of more than 5 years during 20% of Te	10%
There are gaps of more than 5 years before 20% of Te	0%

An example is illustrated in Figure 5 (below).

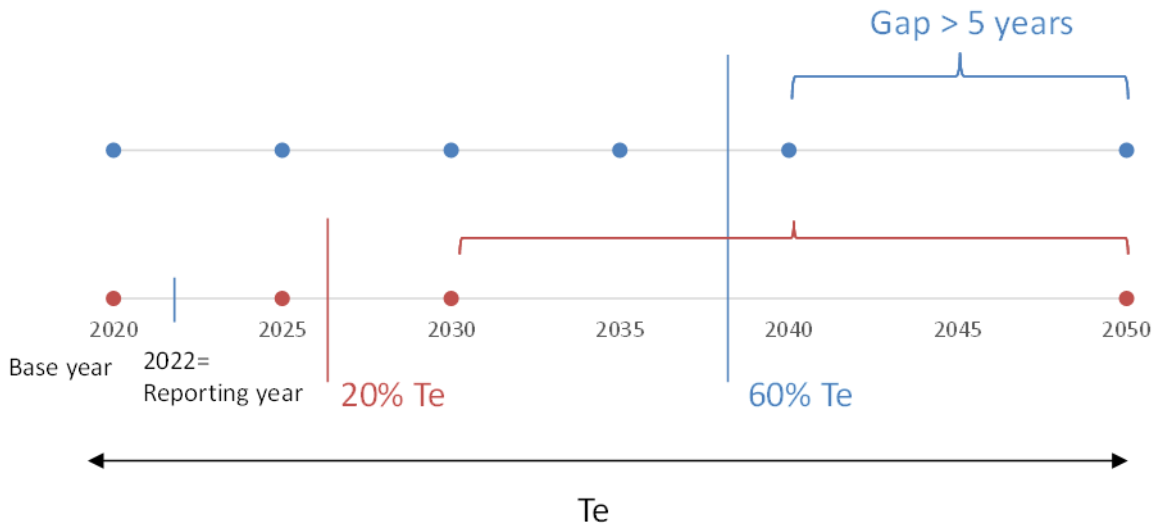


FIGURE 5: EXAMPLES OF INTERMEDIATE TARGETS HORIZONS SET FOR THE SECTOR AND CORRESPONDING SCORES ON DIMENSION 2 OF THE INDICATOR 1.2

FOR ALL CALCULATIONS:

- If the financial institution enters the sentence 'a target year has been set' in the data request cell, then the calculations may be redone using this as the baseline instead of the reporting year. The financial institution's sectoral target can attain up to 80% of the maximum score with this alternative calculation. The baseline that results in the higher score will be used for the final score.

Note: When several targets are assessed, the aggregation of the scores will be a weighted average of the target scores, based on the share of emissions covered by the targets, the credit coverage, the data quality score, the sectoral contribution.

CALCULATION OF SCORE:

For each sectoral target the final time horizon score is defined as follows:

$$Final\ score = (dimension\ 1 + dimension\ 2) * credit\ coverage\ score * GHG\ coverage\ score * sectoral\ adjustment * data\ quality\ score$$

And the aggregated score for the financial institution:

$$aggregated\ score = w_S * \sum_{i=1}^{n} Sector_i\ score + w_A * \sum_{j=1}^{m} Asset\ class_i\ score + w_G * Global\ portfolio\ score$$

$$\text{With} \begin{cases} w_S : weight\ of\ the\ Sectoral\ score \\ w_A : weight\ of\ the\ Asset\ class\ score \\ w_G : weight\ of\ the\ Global\ ptf\ score \\ n: : number\ of\ sectors\ considered \\ m: number\ of\ asset\ class\ considered \end{cases}$$

With $credit\ coverage\ score$, $GHG\ coverage\ score$, $sectoral\ adjustment$, $data\ quality\ score$, w_S, w_A, w_G being the same as parameters defined in the 1.1 indicator calculation.

RATIONALE

BAN 1.2 TARGETS TIME HORIZON

RATIONALE OF THE INDICATOR

RELEVANCE OF THE INDICATOR:

The time horizon of targets is included in the methodology for the following reasons:

- The target endpoint is an indicator of how forward looking the financial institution's transition strategy is;
- The long-expected time horizon of productive assets means that by financing sectors 'enable' a large amount of GHG emissions into the future, which requires targets that have time horizons that are aligned with this reality;
- Aside from communicating long-term commitments, short-term action needs to be incentivised. Therefore short-time intervals between targets are needed.

SCORING RATIONALE:

The score of this indicator is tied to how the target timeline compares to the lifetime of the sectoral productive assets (which are directly or indirectly benefitting from the financial institution's financing). The financial institution has a 'horizon gap' if its targets do not go up to this lifetime.

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19 ● **BAN 1.3 ACHIEVEMENT OF PAST AND CURRENT TARGETS**

DESCRIPTION & REQUIREMENTS	**BAN 1.3 ACHIEVEMENT OF PAST AND CURRENT TARGETS**
SHORT DESCRIPTION OF INDICATOR	A measure of the financial institution's historic target achievements and current progress towards active emission reduction targets. The ambition of the target is qualitatively assessed and is not included in this performance indicator. Though, it is quantitatively assessed in the performance indicator 1.1.
DATA REQUIREMENTS	The relevant data for this indicator are: For each target set in the past 10 years: ♦ Base year ♦ Reporting year ♦ Target year ♦ Percentage of reduction target from base year ♦ The base year's GHG emissions and metric ♦ The reporting year's GHG emissions in the same metric ♦ The credit exposure the year the target was set ♦ The credit coverage the year the target was set ♦ The GHG coverage the year the target was set ♦ The data quality confidence the year the target was set CDP Questionnaire mapping to this indicator: ♦ C4.1 ♦ C-FS14.1 (a,b ,c) ♦ C-FS14.2 (a-d)

How the assessment will be done

For the performance score, this indicator is assessed on two dimensions, whereby financial institutions achieve the maximum score if:

Dimension 1:

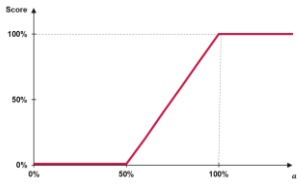
The financial institution has achieved all previous emissions reduction targets with a target year in the past 10 years. If all past targets are indeed achieved, the highest score is obtained. If not, the achievement ratio a is computed as follows:

$$a = \frac{achieved\ reduction}{targeted\ reduction} = \frac{E(t_{base}) - E(t_{target})}{E(t_{base}) - T(t_{target})}$$

where $E(t_{base})$ is the level of emissions of the financial institution on the base year, $T(t_{target})$ is the target the financial institution has set at the target year), and $E(t_{target})$ is the effective level of emission reached by the financial institution at the target year.

A threshold is set for scoring at 50%: if the financial institution has achieved less than 50% of its own past target, it shall receive a zero score.

If the financial institution has several past targets over the last 10 years, the ratio a shall be computed for each target.

Achievement ratio	Score	
$a \geq 100\%$	100%	
$50\% < a < 100\%$	$\frac{a}{50\%}$-1	
$a \leq 50\%$	0%	

The score is then weighted by the different factors as defined in 1.1:

$$Dimension\ 1 = score * credit\ coverage\ score * GHG\ coverage * normalized\ sectoral\ adjustment_{past\ targets} * data\ quality\ score$$

The difference being the sectoral adjustment that is renormalized in order to take into account only the weights associated to past targets.

Dimension 2:

The financial institution is currently on track to meet an existing emissions reduction target. The assessment is based on the progress ratio p:

$$\mathrm{p} = \frac{a}{\%\ time}$$

a being defined in dimension 1 and the past time ratio $\%time$ defined as follows:

$$\%time = \frac{t_{base} - t_{reporting}}{t_{base} - t_{target}}$$

Where

- t_{base} is the year during which the target was set
- $t_{reporting}$ is the reporting year
- t_{target} is the year of horizon of the target

The highest score is attained if $p \geq 1$. A percentage score is assigned for any value between 0 and 1.

Progress ratio	Score
$p \geq 1$	100%
$0 < p < 1$	p
$0 \leq p$	0%

The score is then weighted by the different factors as defined in 1.1:

$$Dimension\ 2 = score * credit\ coverage\ score * GHG\ coverage * normalized\ sectoral\ adjustment_{existing\ targets} * data\ quality\ score$$

The sectoral adjustment has been renormalized in order to take only into account the weights of existing targets.

For this second dimension, target year must be at least one year after reporting year, and target base year must be at least one year before reporting year.

FINAL SCORE:

As the maturity between financial institutions and companies target setting is higher for companies (the topic is more recent for financial institutions but it is no surprise as emissive sector target setting methodology needed to be achieved), the two dimensions will be considered differently over time.

The topic being more recent for financial institutions almost no financial institutions have already set targets in the past that we can assess. However, the different decarbonization initiatives (e.g., NZBA, SBTi) recommend reporting the first result in 2025 the latest. In order to take this into account, the 1.3 score is calculated differently depending on the assessment year.

- Assessment year before 2025 (included)

As the financial institution might not have past set targets, dimension 1 will only be considered if it improves the score. Current targets are also more considered compared to past targets as they are still ongoing targets.

$$Final\ score = MAX(25\% * dimension\ 1 + 75\% * dimension\ 2; dimension\ 2)$$

- Assessment year after 2025 (excluded)

After 2025, as financial institutions are expected to have delivered their first results, they must have had past set targets. Therefore, dimension 1 will always be considered. Current targets are also more considered compared to past targets as they are targets that can still be managed.

$$Final\ score = 25\% * dimension\ 1 + 75\% * dimension\ 2$$

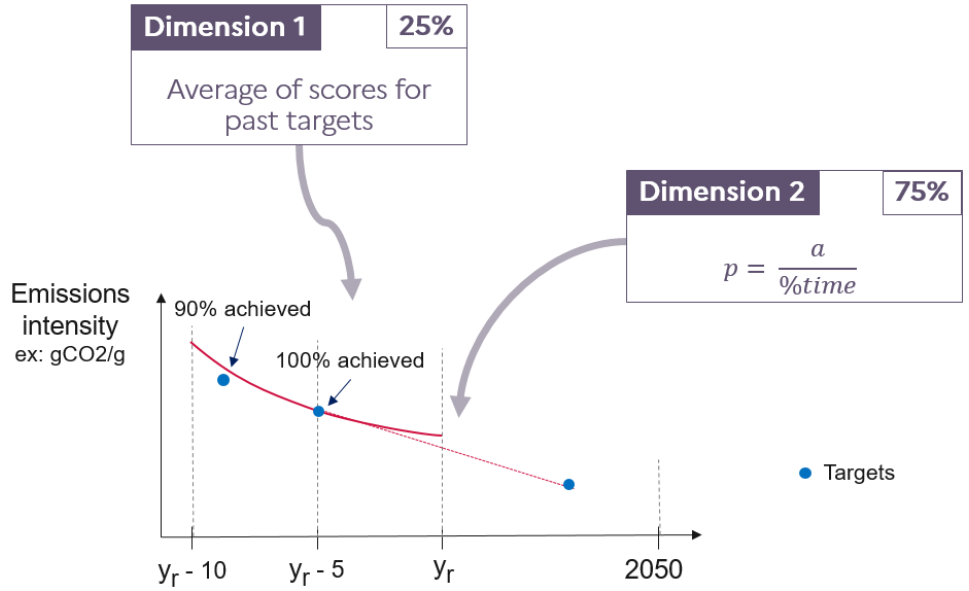


FIGURE 6: CALCULATION OF PREVIOUS TARGET ACHIEVMENT INDICATOR

AGGREGATE SCORE

The score is calculated for the global portfolio, asset class and sectoral targets and aggregated depending on the combination of target types chosen by the financial institution.

$$aggregated\ score = w_S * \sum_{i=1}^{n} Sector_i\ score + w_A * \sum_{j=1}^{m} Asset\ class_i\ score + w_G * Global\ portfolio\ score$$

$$\text{With } \begin{cases} w_S : weight\ of\ the\ Sectoral\ score \\ w_A : weight\ of\ the\ Asset\ class\ score \\ w_G : weight\ of\ the\ Global\ ptf\ score \\ n: : number\ of\ sectors\ considered \\ m: number\ of\ asset\ class\ considered \end{cases}$$

With w_S, w_A, w_G being the same as parameters defined in the 1.1 indicator calculation.

FOR ALL CALCULATIONS:

The performance score does not assess the ambition level of previous targets, and therefore dimension 1 has only a low weight in the final performance score. This information is also qualitatively assessed in the narrative analysis, which will take another look at the following dimensions:

- Achievement level: To what degree has the financial institution achieved its previously set emissions reduction targets.
- Progress level: To what degree is the financial institution on track to meet its currently active emissions reduction targets.
- Ambition level: What level of ambition do the previously achieved emissions reduction targets represent.

RATIONALE

BAN 1.3 ACHIEVEMENT OF PAST AND CURRENT TARGETS

RATIONALE OF THE INDICATOR

RELEVANCE OF THE INDICATOR:

- Beyond the ambition and the suitability of a decarbonation target, handled by indicators 1.1 and 1.2, it is important to assess its credibility. To that

extent, the most robust way to do so is to look at the institution's track record: an institution that has met its previous commitments and that is well on track for its future ones should be rewarded, compared to another one.

SCORING RATIONALE:

- Two situations can occur: (i) targets when the final horizon date is overdue (this should increasingly happen as time goes by) and (ii) target currently on-going. Both are relevant indicator regarding credibility. The indicator is therefore based on two dimensions: dimension 1 on the past and dimension 2 on the on-going targets.

- It has been decided to set a higher weighting for dimension 2 (current targets) as they should be the most relevant due to increasing knowledge and awareness of institutions regarding climate transition. Regarding dimension 1, a 2025 limit date has been set in order to take into account that target setting is still new in the climate strategy of financial institutions. Financial institutions having set targets at an early stage will not be penalized for this, despite a potentially not-well performing achievement of the target.

- Regarding past targets (dimension 1) it is considered that partially but significantly achieved targets (ie at least 50% of the target achieved) should still be partially scored, fully achieved or over-achieved target getting maximum score. Current targets achievement (dimension 2) is assessed through a simple ratio sourced from existing CDP data points (CC 3.1e). The implicit hypothesis is that the reduction should occur linearly over time. When the ratio *p* obtained is lower than 100%, the financial institution is not on track to deliver its target on time and needs to accelerate its reduction, therefore only part of the points is granted.

20 ● **BAN 1.4 ENGAGEMENT TARGETS**

DESCRIPTION & REQUIREMENTS	**BAN 1.4 ENGAGEMENT TARGETS**
SHORT DESCRIPTION	The Financial institution retirement commitments on the Coal, Oil & Gas and deforestation sectors. It eventually analyses the portfolio coverage ambition

OF INDICATOR

regarding the % of companies with a credible and robust transition plan. This indicator completes the pure GHG emission related targets.

DATA REQUIREMENTS

Data for this indicator are:

- Global Coal, Oil & Gas & deforestation policy from the Financial Institution (Strategy, Targets, Scope, Threshold (revenues), Timeline, Monitoring, Verification and Reporting process)
- % of companies with a transition plan targeted and Target Year.

Suggestion of external sources:

- Global Oil & Gas exit list (GOGEL) (gogel.org)
- Global Coal Exit List (https://www.coalexit.org/)
- Urgewald
- Oil & Gas Policy Tracker and Coal policy tool from Reclaim Finance

CDP Questionnaire mapping to this indicator:

- C4.1
- C-FS3.6b
- C4.2b
- C4.3b
- C12.3a
- C-FS14.0
- FW-FS2.2
- FW-FS3.3
- FW-FS3.4

HOW THE ASSESSMENT WILL BE DONE

The analyst will determine if the fossil fuels phase out & deforestation strategies are ambitious enough meaning that banking activities will not contribute to unlock projects that are not compatible with keeping global warming below 1.5°C (e.g., new credit lines to oil & gas production).

As so, this indicator will assess the coal, oil & gas and deforestation commitments/policies adopted by banks.

For Coal and Oil & Gas sectors, the indicator will assess:

- The exclusion (or not) of financing new expansion projects
- The exclusion (or not) of current companies' expansion
- The Relative & Absolute Threshold (Metrics are tied to the level of production & power generation (GW) (for Coal only)
- The Phase out strategy (timeline, geography, conditions of financing)
- Target Monitoring, Verification & Reporting process
- The Exclusion scope & consistency as the policy should apply to all financing activities (e.g., Capital Market activities)

For the Oil & Gas sectors further elements have been integrated on the unconventional fossil fuels sectors such as Artic, Fracking, Tar Sands and Ultra Deep Water. Several conditions have to be met, similar to what has been mentioned above: threshold criteria (revenues, production), timeline, new project expansion and financing exclusion.

Eventually, the analyst will assess the financial institution's capacity to push borrowers and clients to adopt robust & credible transition plan.

The following Coal and Oil & Gas matrices are based on the work done by Reclaim Finance in the *Oil & Gas Policy Tracker* and *Coal policy tool*

The matrix is provided below:

Coal:

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low carbon aligned	Weighting
Associated score		***0%***	***25%***	***50%***	***75%***	***100%***	
Has the financial institution stopped financing new	*Project expansion exclusion*	No policy or partial exclusions of coal mines or coal plants.	Exclusion of all new thermal coal mines OR Exclusion of all new coal plants in	Full exclusion of new thermal coal mines and plants but potentially large exceptions	Full exclusion of new thermal coal mines and plants with CCS	Full exclusion of coal mines, plants and infrastructures.	***25%***

project expansion ?			developed countries and non ultra-supercritical new coal plants in developing countries		exception		
Has the financial institution stopped financing companies' expansion ?	*Companies expansion exclusion*	No exclusion of companies because of coal development plans	Limited exclusion of some companies planning the development of new coal projects or coupled with another criteria.	Exclusion of companies planning the construction of more than 300 MW of new coal power capacity	Exclusion of companies planning the construction or building of new coal mines/plants (>100 MW planned)	Exclusion of companies developing their coal capacity (because of construction plans of new coal mines/plants/infrastructures); purchase of existing coal assets without clear commitment to close it by the deadlines indicated by climate science (2030/2040); selling equipment for new coal projects).	***25%***
Has the financial institution has set relative threshold?	*Relative threshold*	No exclusion of companies because of their relative exposure to coal or limited exclusions for coal mining OR coal power companies	Limited exclusion for existing clients for both coal mining and coal power companies	Exclusion of companies > 30 % coal share of revenues (CSR) / coal share of power production (CSPP)	Exclusion of companies > 20% csr / cspp.	Exclusion of companies > 10 % csr / cspp	***10%***
Has the financial institution set an absolute threshold?	*Absolute threshold*	No exclusion of companies because of their absolute exposure to coal	Exclusion of mining companies producing more than 50 MT coal a year	Exclusion of mining companies producing at least 20 MT coal a year and some power companies based on some absolute criteria	Exclusion of mining companies > 20 MT and power companies > 10 GW	Exclusion of mining companies > 10 MT and power companies > 5 GW	***10%***
Has the financial institution announce	*Phase-out strategy*	Has not announced a coal phase-out	Has announced a global coal phase-out by 2050 for coal	Has announced a global coal phase-out by 2050 with the	Has announced a global coal phase-out by	FULL EXCLUSION - Has announced a global coal phase-out by 2040 with the intermediary date of 2030	***25%***

d a coal phase-out?			mining or coal power	intermediary date of 2030 for EU/OECD, or a global coal phase-out by 2040, for coal mining and coal power; exclusion of some coal developers; at least one of these 2 elements: – demand of an exit plan – decrease of exclusion threshold over time OR Has announced a global coal phase out by 2040 with the intermediary date of 2030 for EU/OECD for coal mining and coal power ; exclusion of some coal developers	2040 with the intermediary date of 2030 for Europe/OECD for coal mining and coal power; exclusion of coal mine developers and coal plant developers OR Has announced a global coal phase-out by 2040 with the intermediary date of 2030 for Europe/OECD for coal mining and coal power; exclusion of all coal plant developers; at least 1 out of these 2 elements: – demand of an exit plan – decrease of exclusion threshold over time	for EU/OECD for coal mining and coal power; exclusion of all coal developers; demand of a closure plan and exclusion process if companies fail to adopt a closure plan OR decrease of exclusion threshold over time	

What is the MRV process in place?	*Target Monitoring, Verification and Reporting*	No MRV existing	Assessing/tracking progress made against the targets set	Assessing/tracking progress made against the targets set AND publicly disclosing it	Assessing progress against the targets AND updating the target in accordance with the results AND publicly disclosing it	Assessing progress against the targets and updating the target in accordance with the results AND publicly disclosing it AND impact achievement is tracked	***5%***
Does the financial institution have a consistent exclusion scope?	*Exclusion scope & consistency*	No clear scope to the exclusion strategy AND/OR exclusion strategy applies to a marginal share of activities.	The exclusion strategy applies to a majority of lending activities in terms of outstanding amounts (including subsidiaries)	The exclusion strategy applies to all lending activities (including subsidiaries)	The exclusion strategy applies to all lending activities (including subsidiaries) AND has made a commitment for full coverage by 2025 (for relevant financial institutions) to the majority (in terms of revenue) of Advisory services activities (debt and equity underwriting, AND the institution has made a commitment for full	The exclusion strategy already applies to all lending activities (including subsidiaries) AND (for relevant financial institutions) advisory services activities (debt and equity underwriting)	***The score of this category will weigh the final 1.4. Coal score****

					coverage by 2025.		

*Meaning: if the financial institution scores 50% in the Exclusion, scope & consistency, then the final 1.4 Coal score will be downgraded by 50%

Oil & Gas:

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low carbon aligned	Weighting
Associated score		***0%***	***25%***	***50%***	***75%***	***100%***	
Has the financial institution stopped financing new project expansion?	*Project expansion exclusion*	No public policy	Exclusion of financial services dedicated to all unconventional* oil AND gas upstream projects. OR Exclusion of financial services dedicated to upstream and midstream (infrastructure exclusively or mostly dedicated to unconventional) projects in 3/4 unconventional sectors* OR Exclusion of some conventional and unconventional oil AND/OR gas projects: geographic disparities,	Exclusion of financial services dedicated to oil and gas upstream projects. OR Exclusion of financial services dedicated to oil OR gas upstream and midstream projects.	Exclusion of financial services dedicated to oil and gas projects: upstream projects and midstream projects.	Exclusion of financial services dedicated to oil and gas projects: upstream projects, midstream projects, refineries, oil-fired power plants and gas power plants.	***25%***

			potentially large exceptions, partial value chain, new fields only. * unconventional oil and gas refers to Arctic oil and gas, tar sands, shale oil and gas, ultra-deep water oil and gas, extra-heavy oil and coalbed methane."heavy oil and coalbed methane."				
Has the financial institution stopped financing companies expansion?	*Expansion companies exclusion*	No public policy. OR The policy does not explicitly mention the exclusion of companies with expansion plans.	Explicit exclusion of companies accounting for at least 30% of global resources under development.* * Each policy is assessed based on the Global Oil & Gas Exit List, developed by Urgewald	Explicit exclusion of companies accounting for at least 50% of global resources under development. OR Exclusion of all companies developing pipelines and LNG Terminals.* * Each policy is assessed based on the Global Oil & Gas Exit List, developed by Urgewald	Explicit exclusion of companies accounting for at least 80% of global resources under development & some pipelines* * Each policy is assessed based on the Global Oil & Gas Exit List, developed by Urgewald	Explicit exclusion of 100% of the companies with upstream and/or midstream expansion plans. OR Exclusion of all companies listed in the Global Oil & Gas Exit List* * Each policy is assessed based on the Global Oil & Gas Exit List, developed by Urgewald	***25%***
Has the financial institution announced an Oil & Gas	*Phase-out strategy*	Has not announced an oil AND/OR gas phase-out.	Has announced a phase-out strategy from 3 unconventional sectors for oil and	Has announced a phase-out strategy from all unconventional oil AND gas	Has announced a phase-out strategy from oil AND gas	Has announced a phase-out strategy from oil AND gas upstream,	***25%***

phase-out strategy?			gas upstream activities by 2030 OR has announced an incomplete phase-out strategy from oil and gas aligned with principles of equity and a 1.5°C timeline	upstream activities by 2030 ; explicit exclusion of some companies with unconventional oil and gas expansion plans	upstream activities aligned with principles of equity and a 1.5°C timeline, with an intermediate date of 2030 for all unconventional oil AND gas ; explicit exclusion of all companies with unconventional oil and gas expansion plans. OR Has announced a phase-out strategy from oil AND gas upstream, midstream and downstream activities aligned with principles of equity and a 1.5°C timeline ; explicit exclusion of all companies with expansion plans.”	midstream and downstream activities aligned with principles of equity and a 1.5°C timeline, with an intermediate date of 2030 for all unconventional oil AND gas ; explicit exclusion of all companies with expansion plans ; demand of a closure plan and exclusion process if companies fail to adopt a closure plan	

Does the financial institution have a public policy regarding unconventional sectors?	*Unconventional sectors | Artic*	No public policy regarding this sector	Very partial exclusion of oil AND/OR gas activities in this sector: relative or absolute threshold too high, phase-out date too far away, no exclusion of companies with expansion plans and limited exclusion of projects in this sector, etc.	One of the following four conditions: Exclusion threshold below 10% of revenues or any equivalent cumulative threshold for upstream AND midstream activities in this sector; Exclusion threshold below 20% of reserves or production or any equivalent cumulative threshold for upstream activities in this sector; Complete exclusion of financial services dedicated to upstream AND midstream projects in this sector; Explicit partial exclusion of companies planning to develop new oil and/or gas capacity in this sector. OR has announced a phase-out strategy	Two of the following three conditions: Exclusion of some companies planning to develop new oil AND gas capacity in this sector; Has announced a phase-out strategy from oil and gas upstream AND midstream activities in this sector by 2030; Exclusion threshold below 10% of reserves or production or any equivalent cumulative threshold for upstream activities in this sector. AND For relevant financial institutions, exclusion of financial services dedicated to upstream and midstream	Exclusion of all companies planning to develop new oil AND gas capacity in this sector : upstream AND midstream. AND Has announced a phase-out strategy from oil and gas upstream and midstream activities in this sector by 2030. AND For relevant financial institutions, exclusion of financial services dedicated to upstream and midstream projects in this sector. AND Has adopted an exhaustive definition of the Arctic area: AMAP* definition or equivalent in terms of geographical coverage.	***5%***

				from oil and gas upstream OR midstream activities in this sector by 2030 AND one of the following two conditions: Has adopted at least a relative exclusion threshold; Partial exclusion of projects in this sector.	projects in this sector.* AND Has adopted an exhaustive definition of the Arctic area: AMAP* definition or another definition covering at least 75% of the AMAP region. OR Exclusion of all companies planning to develop new upstream oil AND gas capacity in all unconventional sectors according to the Global Oil and Gas Exit List or any equivalent database * ie for banks, insurers and investors that can invest directly in oil and gas infrastructure		

Does the financial institution have a public policy regarding unconventional sectors?	*Unconventional sectors | Fracking*	Same as above	Same as above	Same as above	Same as above	Same as above	***5%***
Does the financial institution have a public policy regarding unconventional sectors?	*Unconventional sectors | Tar sands*	Same as above	Same as above	Same as above	Same as above	Same as above	***5%***
Does the financial institution have a public policy regarding unconventional sectors?	*Unconventional sectors | Ultra deep water*	Same as above	Same as above	Same as above	Same as above	Same as above	***5%***
What is the MRV process in place?	*Target Monitoring, Verification and Reporting*	No MRV existing	Assessing/tracking progress made against the targets set	Assessing/tracking progress made against the targets set AND publicly disclosing it	Assessing progress against the targets AND updating the target in accordance with the results AND publicly disclosing it	Assessing progress against the targets and updating the target in accordance with the results AND publicly disclosing it AND impact achievement is tracked	***5%***
Does the financial institution have a consistent exclusion scope?	*Exclusion scope & consistency*	No clear scope to the exclusion strategy AND/OR exclusion	The exclusion strategy applies to a majority of lending activities in terms of outstanding	The exclusion strategy applies to all lending activities (including subsidiaries)	The exclusion strategy applies to all lending activities (including	The exclusion strategy applies to all lending activities (including subsidiaries) AND	***The score of this category will weigh the final 1.4. Oil &***

		strategy applies to a marginal share of activities.	amounts (including subsidiaries)		subsidiaries) AND has made a commitment for full coverage by 2025 (for relevant financial institutions) to the majority (in terms of revenue) of Advisory services activities (debt and equity underwriting) with no exceptions regarding the exclusion thresholds adopted and divestment of existing holdings	(for relevant financial institutions) advisory services activities (debt and equity underwriting)	***Gas score****

*Meaning: if the financial institution scores 50% in the Exclusion, scope & consistency, then the final 1.4 Oil & Gas score will be downgraded by 50%

Deforestation related activities:

- illegal logging
- logging of primary forest (including tropical
- moist forests, temperate, and boreal forests)
- unsustainable harvesting/harvesting of rare species
- extraction from officially protected areas, high conservation value forests, high carbon stock forests, or those deemed environmentally sensitive
- land clearance by burning/fire

- extraction and sale of native tropical wood species
- palm oil, soy, cattle, and timber production that converts biodiverse forests into pasture or single-crop plantations
- clearance or extraction of, or new plantation development on, forested peatlands
- zero-deforestation and no-conversion of natural forests and ecosystems.
- must not drain or degrade wetlands and peatlands.
- must not convert or degrade High Carbon Stock (HCS) tropical forest areas.
- must not operate in, or have negative impacts on, protected areas.
- must identify and protect High Conservation Value (HCV) areas under their management.
- must not use fire for land clearing activities and fight fires.
- must minimize their impacts on groundwater levels and water quality.
- must not harvest, nor trade in, endangered species and must protect the habitats of endangered species.
- must not use nor introduce genetically modified species or invasive alien species into the environment.
- must minimize or eliminate the use of pesticides.

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low carbon aligned	Weighting
Associated score		***0%***	***25%***	***50%***	***75%***	***100%***	
Has the financial institution defined a list of harmful deforestation activities?	*Deforestation and degradation of natural system activity list*	No list		Has defined a limited list		Has defined an exhaustive list of harmful deforestation activities[+]	***15%***
What are the deforestation commitments?	*Requirements from portfolio companies.*	No overarching deforestation commitment	Commodity-specific commitment that does not apply to all of the commodities the company is exposed to	Zero deforestation OR, for soy, palm oil, leather and beef companies only, no deforestation of HCV and HCS forests	Zero deforestation/Deforestation-free commitment OR, for timber, pulp & paper companies only, commitment to well implemented sustainable forest management and no deforestation of HCV &	Conversion-free commitment OR a zero deforestation/deforestation-free commitment that explicitly includes all other natural ecosystems	***15%***

					HCS areas		
Which companies fall into the deforestation policy?	*Portfolio companies' scope included.*	No public policy		Commitment applies to specific region OR to specific sectors (including subsidiaries)		Commitment applies to all regions AND to all portfolio companies' operations (including subsidiaries)	***15%***
Has the financial institution announced anti-deforestation strategy?	*Phase out strategy*	No strategy.	Has publicly announced deforestation requirements.	Demands a sourcing change plan to companies involved in deforestation.	.	Demands a sourcing change plan to companies involved in deforestation AND has excluded all companies with plans to expand their sourcing involved in deforestation.	***40%***
What is the target date of the commitments?	*Target date*	2027 or beyond	2026	2025	2024	2023 and before	***9%***
What is the MRV process in place?	*Target Monitoring, Verification and Reporting*	No MRV existing -	- Assessing/tracking progress made against the targets set	- Assessing/tracking progress made against the targets set AND publicly disclosing it	-Assessing progress against the targets AND updating the target in accordance with the results AND publicly disclosing it	-Assessing progress against the targets and updating the target in accordance with the results AND publicly disclosing it AND impact achievement is tracked	***6%***
Does the financial institution have a consistent exclusion scope?	*Exclusion scope & consistency*	No clear scope to the exclusion strategy AND/OR exclusion strategy applies to a	The exclusion strategy applies to a majority of lending activities in terms of outstanding amounts	The exclusion strategy applies to all lending activities (including subsidiaries)-	The exclusion strategy applies to all lending activities (including subsidiaries) AND has made a commitment for full coverage by 2025 (for relevant financial institutions) to the	The exclusion strategy applies to all lending activities (including subsidiaries) AND (for relevant financial institutions) advisory services activities (debt and equity	***The score of this category will weigh the final 1.4. Deforestation score****

		marginal share of activities	(including subsidiaries)-		majority (in terms of revenue) of Advisory services activities (debt and equity underwriting) with no exceptions regarding the exclusion thresholds adopted and divestment of existing holdings	underwriting)	

*Meaning: if the financial institution scores 50% in the Exclusion, scope & consistency, then the final 1.5 deforestation score will be downgraded by 50%

[+] Sources: GFANZ and https://forestsandfinance.org

Portfolio transition plan coverage

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low carbon aligned	Weighting
Associated score		***0%***	***25%***	***50%***	***75%***	***100%***	
What is the portfolio coverage target for transition plans?	*Transition plan*	No targets		50 - 75% of exposure to large corporate customers in climate-vulnerable sectors to be covered by transition plans by 2025 or earlier		Most (>75%) of exposure to large corporate customers in climate-vulnerable sectors to be covered by approved 1.5°C transition plan aligned by 2025 or earlier (framework/metrics/certification assessment or process should be disclosed)[&]	***95%***
What is the MRV process in place?	*Target Monitoring, Verification and Reporting*	No MRV existing	Assessing/tracking progress made against the targets set	Assessing progress against the targets and updating the target in accordance with the results	Assessing progress against the targets and updating the target in accordance with the results AND impact achievement is	Assessing progress against the targets and updating the target in accordance with the results and publicly disclosing it	***5%***

					tracked		

[&] Cf. Glossary and module 4.1 for more insights on what a robust and credible transition plan is.

*Meaning: if the financial institution scores 50% in the Exclusion, scope & consistency, then the final 1.4 Portfolio transition plan coverage score will be downgraded by 50%

Rationale

BAN 1.4 Engagement targets

Rationale of the indicator

Relevance of the indicator:

Only setting GHG emission targets is not sufficient to capture the impact of a financial institution.

The issue with GHG emissions related targets, for a financial institution, is that it only focuses on the portfolio emissions. Setting GHG emission reduction target at portfolio level (sectoral or by asset class) is only tied to the financed emissions. The problem is that reducing portfolio emissions does not mean reducing GHG emissions in the real economy.

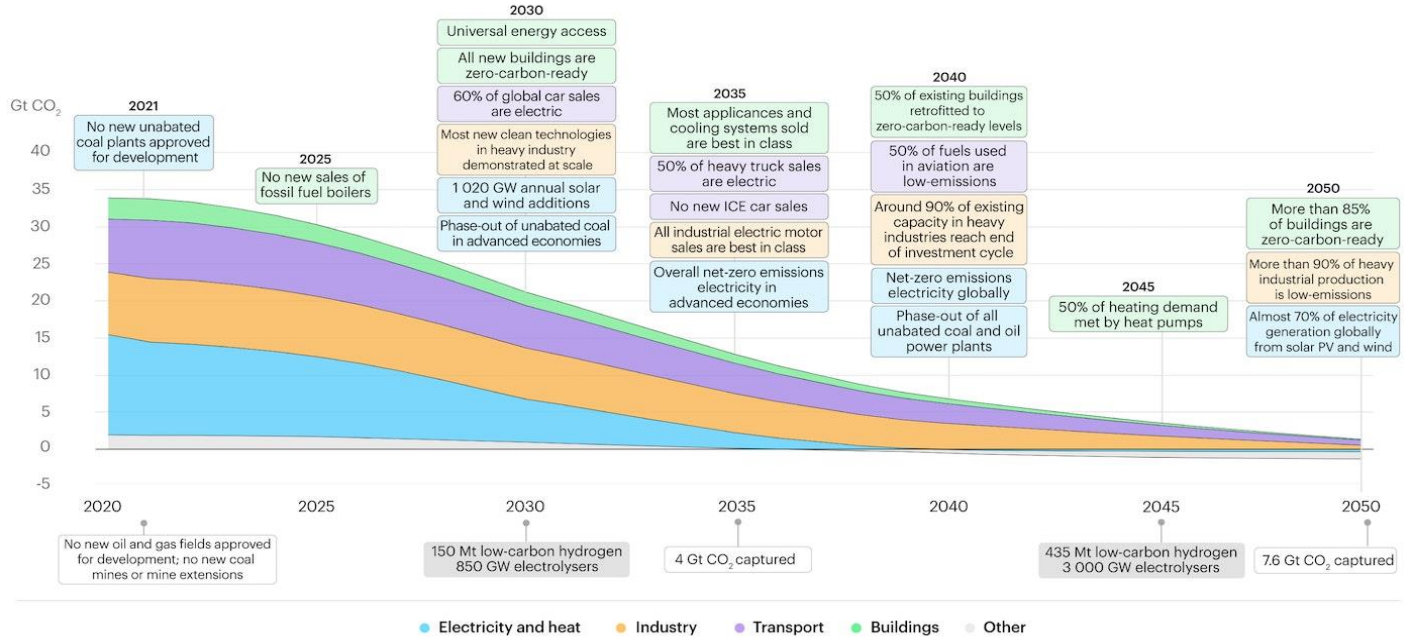
''Investor impact [is] the change that investor activities achieve in company impact' (Kolbel et al, 2019) through various mechanisms (engagement, capital allocation, indirect impacts), as opposed to the impact of the companies in the portfolio. It is consistent with previous research (Brest et al, 2018) and the IFCs definition.'' (2DII)

Other definition can be found through the **ISO14097 as 'FIs climate contribution** accounts for **the effects caused by their climate actions** and is **expressed in GhG emissions units i.e in the real economy'. (PACTA, RMI)**

Engagement is known to be one of the most impactful mechanisms for Financial Institutions Climate impact. Therefore, assessing the commitments associated with fossil fuel sectors, deforestation activities and companies with a transition plan is key for a global target setting approach.

Relevance of the Coal and Oil & Gas Sub-indicators:

Fossil fuel combustion is the principal source of anthropogenic GHG emissions worldwide and an impactful sector to drive the transition. As testified by the Net Zero 2050 roadmap **There is no need for investment in new fossil fuel supply in our net zero pathway.** More explicitly stated:



https://www.iea.org/reports/net-zero-by-2050

'Beyond projects already committed as of 2021, there are no new oil and gas fields approved for development in our pathway, and no new coal mines or mine extensions are required' (p. 14, Summary for Policy Makers).

Relevance of the deforestation sub-indicator:

Financings towards Deforestation, as a main source of carbon storage destruction (and of biodiversity loss, but it is not in the scope of the methodology) has to be stopped.

Combining a phasing out strategy on both fossil fuels sectors & deforestation appears to be an impactful assessment mix.

Relevance of the portfolio coverage sub-indicator:

The portfolio coverage target setting is an interesting non GHG based target (GHG emissions reduction targets have been assessed in 1.1). This approach completes the GHG based approach as it aims to assess the coverage target which is about the number of companies with a credible and robust transition plan by a defined timeline. It is clearly inspired by the SBTi Portfolio coverage approach, but the metric used here is not the number of companies with a science-based target but the number of companies with a credible and robust transition plan (which is ambitious as science-based target is only one key aspect of a transition plan).

SCORING RATIONALE:

	Weighting	Score (example)
Coal	40%	21%
Oil & Gas	40%	15%
Deforestation	10%	25%
Portfolio transition plan coverage	10%	51%
	BAN 1.4 Score	22%

Stopping financing Coal and Oil & Gas is the first direct and tangible step for a financial institution to prevent enabling projects that are discrediting the possibility of reaching Net Zero. Therefore, it should have more importance in the scoring.

Deforestation is also a critical topic but the focus we wanted to shed light on is on fossil fuels.

Portfolio transition plan is an interesting metric to measure when we talk about non GHG based target setting for financial institutions.

● BAN 1.5 FINANCING TARGETS

DESCRIPTION & REQUIREMENTS	**BAN 1.5 FINANCING TARGETS**
SHORT DESCRIPTION OF INDICATOR	This indicator assesses the financial institution roadmap on climate solutions financing.
DATA REQUIREMENTS	Relevant and external sources of data used for the assessment of this indicator: Climate Financing roadmap ♦ Scope

- Timeline
- Framework used

CDP Questionnaire mapping to this indicator:

- C4.1

HOW THE ASSESSMENT WILL BE DONE

Analysing the climate financing roadmap of the financial institution. The analyst will have to assess the description of the related strategy and the evidence of approved strategy and budget for climate solution roadmap over the next decade and further.

The matrix is provided below:

Climate solution financing targets:

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low carbon aligned	Weighting
Associated score		***0%***	***25%***	***50%***	***75%***	***100%***	
What does the financial institution include in its climate financing targets?	*Scope*	None/No information or explicit reference of a climate solution investment roadmap	Global climate solution financial targets with general purpose amount of financing (no reference to taxonomies, sectors, geographies, technologies)	Climate solution financial sectoral targets Sectoral breakdown OR Geographical breakdown based on scientific literature (should align with the Paris Agreement)	Climate solution Financial sectoral targets Sectoral breakdown AND Geographical breakdown based on scientific literature (should align with the Paris Agreement)	Climate solution Financial sectoral targets Sectoral breakdown AND Geographical breakdown AND technology breakdown (EV batteries, Solar PV, Buildings retrofit..)/investment trajectory taxonomy based on scientific literature (should align with the Paris Agreement)	***30%***
What is the associated investment	*Investment timescale*	None	Covers only short-term (< 5 years)	Covers only medium term (reporting year + 5 year)	Covers only 2 of the following 3: short term (<5 years), medium	Covers the short, medium and long term. From now until at least (RY+20 years)	***20%***

timescale?					term (reporting year + 5 year) and long term (at least 2030 or reporting year + 10)		
What does the financial institution climate solution roadmap tell us?	*Climate Solutions Investment roadmap framework*	Nor reference or unclear reference	Reference to a General Green Sustainable Framework (both internal or external)	The climate solutions investment roadmap/framework shows compatibility with 1.5-degree trajectory, established by science, under one of the following scenarios • IEA's Net Zero by 2050 (NZE2050) • NGFS' Net Zero scenarios • University of Technology Sydney's One Earth Climate Model • PRI Inevitable Policy Response 1.5°C Require	The climate solutions investment roadmap/framework is compatible with 1.5-degree trajectory, established by science, under one of the following scenarios • IEA's Net Zero by 2050 (NZE2050) • NGFS' Net Zero scenarios • University of Technology Sydney's One Earth Climate Model • PRI Inevitable Policy Response 1.5°C Required Policy Scenario AND is explicitly integrated/disclosed in the Financial Institution transition plan	The climate solutions investment roadmap/framework is based on sectoral scenario/benchmark (no or limited overshoot scenarios with a >50% probability of limiting global warming to 1.5°C by the end of the century. There may be instances where selecting alternative regional sectoral scenarios is appropriate, such as when regional scenarios provide greater regional granularity of the sphere in which clients operate, though this should only occur where regional scenarios are demonstrably equivalent to, or more ambitious than alternative available pathways derived from net-zero targets. Current publicly available scenarios which are accepted include: • IEA's Net Zero by 2050 (NZE2050) • NGFS' Net Zero scenarios	***25%***

						• University of Technology Sydney's One Earth Climate Model • PRI Inevitable Policy Response 1.5°C Required Policy Scenario The above list however is not exhaustive and doesn't include sector-specific or country-specific scenarios) AND is explicitly integrated/disclosed in the Financial Institution transition plan AND is based on regional taxonomies	
Are the metrics used relevant?	*Climate Solutions Metrics Assessment*[+]	0% - 11 %	12% - 33%	34% - 56%	57% - 78%	79%-100%	***20%***
What is the MRV process in place ?	*Target Monitoring, Verification and Reporting*	No MRV existing	Assessing/tracking progress made against the targets set	Assessing progress against the targets and updating the target in accordance with the results	Assessing progress against the targets and updating the target in accordance with the results AND impact achievement is tracked	Assessing progress against the targets and updating the target in accordance with the results and publicly disclosing it	***5%***

How does these target fit with the current financial institutions activities?	*Scope & Consistency*	No clear scope of business activities to the climate solution financing AND/OR the climate solution financing applies to a marginal share of activities	The climate solution financing applies to a majority of lending activities in terms of outstanding amounts (including subsidiaries)	The climate solution financing applies to all lending activities (including subsidiaries)	The exclusion strategy applies to all lending activities (including subsidiaries) AND has made a commitment for full coverage by 2025 (for relevant financial institutions) to the majority (in terms of revenue) of Advisory services activities (debt and equity underwriting, AND the institution has made a commitment for full coverage by 2025.	The exclusion strategy already applies to all lending activities (including subsidiaries) AND (for relevant financial institutions) advisory services activities (debt and equity underwriting)	***The score of this category will weigh the final 1.5. score****

***** Meaning: if the financial institution scores 50% in the Exclusion, scope & consistency, then the final 1.5 deforestation score will be downgraded by 50%

[+] The following list of 7 criteria will help to assess each climate solutions related metric. If several metrics exist, then the score is the average of the individual average score.

These 7 criteria are based on the IIGCC report on Climate Transition (18), who has built upon the criteria used by the Portfolio alignment team.

- 'Additional: delivers an additive effect in terms of directing financing to meet climate goals, in a way that is not achievable through current portfolio alignment metrics alone.
- Easy to understand: is simple to understand and communicate.
- Science based: is built upon the latest peer reviewed science and is logically and analytically sound.
- Incentive-optimal: directs lending to assets that either deliver, will deliver, or enable the delivery of climate solutions in proportion to their overall contribution to net zero. Equally does not create unintended negative consequences if widely applied. For example, metrics could recognize differences between sectors and regions in classifying a 'climate solution'.
- Decision-useful: can be implemented in the near term to guide lending decisions.
- Aggregable: provides individual company level scores that can be seamlessly aggregated upwards into a portfolio-level answer.

- Measurable: is based on data that is measurable, even if data is not available today.

Rationale

BAN 1.5 Financing targets

Rationale of the indicator

Relevance of the indicator:

There are major financing gaps in climate solutions technologies, whether it be enabling, transitional or aligned. Financing climate solutions is essential both for the global transition and for the financial institution impact by financing positive impact activities. There is a significant need for the scaling up of green finance. Often, it is publicly communicated in vague way like: 'we will finance more than 100BN in sustainable finance by 2025'. Here again, the goal is to assess the commitments made and their ambition on financing climate solutions and managing a new financing roadmap, both in terms of technologies and geography (financial gaps/amounts and types of technologies needed differ from one area to another) and timeline.

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Module 3: Intangible investment

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BAN 3.1 Investments in human capital – training

Description & Requirements

BAN 3.1 Investments in human capital – training

Short description of indicator

Assessment of the employees and board of management training levels on climate related issues.

Data requirements

Relevant and external sources of data used for the assessment of this indicator:

- Total number of employees
- Number of employees receiving climate-related training
- Total costs of employees' training

- Costs of climate-related training
- Climate training specificities (informative vs. certification, remote vs. presential)
- Pedagogical/climate training capabilities roadmap
- Board members trained

HOW THE ASSESSMENT WILL BE DONE

Dimensions assessed:

- The share of employees receiving a climate-related specific training
- The share of training costs relative to climate-related training
- Climate-related plan and upskilling program.

Some examples of climate-related trainings are given in the following list:

- Training on carbon risk assessment
- Training on key metrics to assess and appraise a credible and robust climate strategy
- Training on climate-change general issues The best score is obtained if climate-related specific training is available broadly in the financial institutions for the majority of its employees
- Training on current and future regulations applying to financial institutions and companies on climate.

The analyst will seek evidence of an ambitious climate training strategy, in order to assess both climate training quality and ambition (e.g., development & upskilling programs for the different business lines of the financial institution).

The ratio will be compared to the maturity matrix developed to guide the scoring and a greater number of points will be allocated to financial institution that indicate a higher level of maturity.

The matrix is provided below:

Question	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
Associated score	***0%***	***25%***	***50%***	***75%***	***100%***	

Share of employees receiving climate-related specific training	Below 10% of employees	Between 10% and 20% of employees and must include Level 1 people	Between 20% and 30% of employees and must include level 1 people	Between 30% and 50% of employees and must include level 1 and 2 people	Above 50% of employees and most include level 1 and 2 people	***30%***
Share of training costs for specific climate-related training, compared to total training costs	Below 5% of training costs	Between 5% and 10% of training costs	Between 10% and 15% of training costs	Between 15% and 20% of training costs	Above 25% of training costs	***30%***
Training schemes quality	None	Remoted trainings and include an assessment/verification process for the participants	Training is face-to-face and include an assessment/verification process for the participants	Training is face-to-face and include an assessment/verification process for the participants AND provides applied learning experiences	Lead to certification/label Applied Training Face-to-face interaction mode	***10%***
Development plan	None	Has identified knowledge and skill gaps to address to drive the transition	Has a comprehensive development plan of capabilities including internal staff training, recruiting experts	Has a comprehensive development plan of capabilities including internal staff training, recruiting experts, AND has allocated technical and financial resources to it	Has a comprehensive development plan of capabilities including internal staff training, recruiting experts, AND has allocated technical and financial resources to it AND has reorganised teams to better align climate expertise and business lines specificities (e.g., Energy team instead of separated Oil & Gas and Electric	***30%***

					utilities team). It offers specific upskilling program to keep up/support the different business lines.	

Level 1

- Highest level of accountability or decision-making within the organization, with responsibility for overall organizational or corporate strategic direction.
- Examples: Board of management, sub-set of the Board, Chief Executive Officer (CEO)

Level 2

- Person/committee that is one step in the corporate structure from the highest level of decision-making of the organization (i.e. reports to or is accountable to Level 1). Inputs into organizational strategy but does not make decisions on it.
- May have responsibility and accountability for business unit strategy formation and implementation of one or more business units.
- Examples: Vice President, Director, other C-Suite officer (e.g., Chief Financial Officer (CFO), Chief Procurement Officer (CPO), Chief Risk Officer (CRO), Chief Operating Officer (COO), Chief Sustainability Officer (CSO), other committee appointed by the Board, etc.

Level 3

- Person/committee that is two steps in the corporate structure from the highest level of decision-making of the organization. May have responsibility and accountability for business unit strategy formation and implementation for one business unit.
- Examples: Manager, Senior Manager

Level 4

- Person/committee that is three or more steps in the corporate structure from the highest level of decision-making of the organization. No responsibility or accountability for business unit strategy development.

Examples: Officer, Senior Officer

RATIONALE

BAN 3.1 INVESTMENTS IN HUMAN CAPITAL – TRAINING

RATIONALE OF THE INDICATOR

RELEVANCE OF THE INDICATOR:

Investments in human capital are included in the ACT 4 Finance assessment for the following reasons:

- Financial institutions need to onboard their teams in order to increase their probability of having impact through their business activities
- GHG reductions in the real economy can be obtained through a better understanding from all employees and the consequences (positive or negative) of their operations, and training is needed to change practices and mentalities.
- Training teams on climate-related subject can empower them to better operationalize the commitments made at the Board level.
- Training should be available broadly in the financial institution to engage everyone and build a common purpose within the financial institution.
- Not only at the Board level, but at all operational levels (front office), financial institutions need important new capabilities through both upskilling and hiring. (19)

29 ● **BAN 3.2 R&D FOR CLIMATE EXPERTISE**

DESCRIPTION & REQUIREMENTS

BAN 3.2 R&D FOR CLIMATE EXPERTISE

SHORT DESCRIPTION OF INDICATOR

A measure of the ratio of the R&D budget dedicated to climate expertise. The indicator will identify the ratio between the financial institution's R&D budget out of the total spent in the past three years.

DATA REQUIREMENTS

Relevant and external sources of data used for the assessment of this indicator:

- Total R&D budget for the last three years (Reporting Year and the two years before)
- Total R&D budget dedicated to climate topics, tools, studies, expertise

HOW THE

ASSESSMENT WILL BE DONE

Examples of activities to include in the R&D budget for climate expertise:

- Portfolio alignment analysis
- Taxonomic studies or fund labelling
- Partnerships
- Recruitment for climate expertise (internal or external)
- Carbon accounting method development
- Impact measurement
- Reporting compliance
- Climate integration in product offering pricing (e.g., integrating climate and transition analysis in credit scoring)
- Climate risk modelling
- Transition plan assessment
- IT capacity developments

Salary expense of the Full Time Employees dedicated to climate-related works can be included in the numerator ratio (i.e., R&D climate budget).

Scope exclusion:

- Budget dedicated to training

The matrix is provided below:

Question	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
Associated score	***0%***	***25%***	***50%***	***75%***	***100%***	
Average share of R&D budget dedicated to climate expertise	Below 5%	Between 5% and 10%	Between 10% 20%	Between 20% and 30%	Above 30%	***100%***

Rationale

BAN 3.2 R&D for climate expertise

Rationale of the indicator

Relevance of the indicator:

The R&D budget for climate expertise is included as it is key for a financial institution to upskill its climate capabilities and integrate and adopt climate-related tools enabling notably to answer the ACT modules of this methodology (e.g. target setting, taxonomic share, portfolio alignment, impact measurement, financed & facilitated emissions computation).

Scoring rationale:

The final score will be the one given to the highest ratio in the past three years. The financial institution should not be penalized if it has not a high ratio level on a specific year as these R&D investments depend on specific/cyclical needs.

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MODULE 4: PORTFOLIO CLIMATE PERFORMANCE

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BAN 4.1 FINANCIAL FLOWS TREND

DESCRIPTION & REQUIREMENTS

BAN 4.1 FINANCIAL FLOWS TREND

SHORT DESCRIPTION OF INDICATOR

An analysis of the financial institution's contribution to financing the transition of the real economy through the perspective of its past and current financings as well as its capital market activities. This is a contribution-focused indicator, meaning that it does not look at the financed or facilitated emissions evolution at the portfolio level, but the orientation/breakdown of the financings/underwritings towards taxonomic activities and companies with a credible and robust transition plan.

DATA REQUIREMENTS

The relevant data for this indicator are (for the reporting years and all the three previous years):

- New credit lines and new facilitated deals in fossil fuel sectors
- Total credit line exposure and total capital market's deal values
- Breakdown amount between 'Use of proceeds' and 'General corporate purpose' financing instruments and facilitated deals (capital market) by sector or (if not available) by asset class or at a global level
- The share of outstanding credit lines and facilitated deals dedicated to low carbon activities / companies or transitioning companies as well as the standard followed for defining them as such.
- Considering the high level of granularity of information as well as the fact that some information might be new (transitioning/low carbon assessment), it is possible to provide the detailed portfolio with relevant data and then making an aggregation at tool level.

CDP Questionnaire mapping to this indicator:

- C-FS4.5a
- C3.5a
- C-FS14.0

HOW THE ASSESSMENT WILL BE DONE

In the following explanations, facilitated deals are incorporated as well as credit lines in an aggregated way as both are contributing and relevant to either contribution to transition / low carbon economy or to the perpetuation of a carbonated economy. This is a quantitative indicator that will assess the share evolution in the past three years from reporting year in two categories:

(i) **'Use of proceeds' instruments** that fall under the scope of a taxonomic mitigation activities (aligned/low carbon or enabling) (versus non taxonomic activities);

(ii) **'General corporate purpose' instruments** associated with companies with a credible and robust plan (see definition in glossary).

Two aspects will be considered in this, the 'flow' and the 'stock' approach:

- **New financings ('flow' consideration)**: assessment of the share of new credit lines towards sustainable activities and companies. It aims to captures the dynamic of new capital allocation and help to understand investments are oriented towards activities or companies. that are not contributing to a low carbon economy.

- **Total exposure ('stock' consideration)**: assessment of the portfolio at the end of the reporting year. It captures the portfolio's inertia and ideally, it should gradually reach a state of having only financings directed towards the transition (see table 13 and 14 below for the ideal share of financings dedicated to the transition).

The 'flow' consideration will be only applied to the fossil fuel sectors. Indeed, scientific reports are very clear on that, to limit global warming to 1.5°C with no or low overshoot, there can't be any expansion or exploration projects financed and fossil fuel use should decrease as quick as possible. As so, new financings in this sector should only be towards taxonomic-compliant activities or companies with a robust and credible transition plan. For other sectors, there is no clear benchmark on financings needs and orientation with enough granularity to compare new financings to. Therefore, only the total exposure (the 'stock' consideration) will be assessed, as it should overall increase its transition financing share.

LOW CARBON AND TRANSITION ASSESSMENT FRAMEWORK

The module will collect information on the share and trend of assets that are already compatible with a low carbon economy or that are issued by a company transitioning toward a low-carbon economy in a credible way. The key concept of this module is to be able to identify such assets. This is done in the following way.

For Use of Proceeds: these instruments directly finance an activity. Several types of activities can be classified as sustainable. Based on the EU taxonomy there are:

- **Low carbon activities**: Economic activities that make a substantial contribution based on their own performance. Activities already compatible with a net zero economy limited to a 1.5°C warming with no or low overshoot.
- **Aligned activities**: Economic activities that are not yet low carbon but that are decarbonizing at a pace compatible with efforts need to reach a net zero economy limited to a 1.5°C warming with no or low overshoot or activities contributing to transition to a Net Zero economy.
- **Enabling activities**: Activities enabling, through their products or services, a substantial contribution to be made in other activities.

The framework used by the financial institution in order to identify which activities are low carbon is itself assessed according to the following maturity matrix, that provides the **Low carbon assessment framework maturity factor (LcAFMF)**:

Question	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
Associated score	***0%***	***25%***	***50%***	***75%***	***100%***	

Does the FI use and disclose an established definition of low carbon companies/activities (e.g. the EU Taxonomy)?	No definition OR It only has an internal definition without reference to taxonomies published by a national, regional or global governing body OR Reference to taxonomies/external definitions has significant consistency issues regarding FI's activities.		The FI uses established definitions of low carbon companies/activities based on taxonomies published by a national, regional or global governing body but there might be few significant inconsistencies regarding its activities / the disclosure is not fully clear (e.g. no clear Framework or Guide).		The FI uses and discloses established definitions of low carbon companies/activities based on taxonomies published by a national, regional or global governing body consistent with its activities.	***100%***

Ideally, assessment should be done through a regulatory framework such as the EU Taxonomy4 or other recognized any equivalent framework (e.g., Climate Bonds Initiative taxonomy, please also refer to work done by the BIS, 'A taxonomy of sustainable taxonomies https://www.bis.org/publ/bppdf/bispap118.pdf).

For General corporate purpose: these instruments, finance an entity and not a specific activity. An entity can be classified as sustainable whether it is already sustainable (low carbon companies) or transitioning (companies in transition).

- **Low carbon companies**: Companies having only low-carbon activities, as recognized by the financial institution through the assessment framework abovementioned. These types of companies already have 'near zero' emissions.
- **Companies in transition:** Companies with evidence of a robust and credible transition plan.

Defining what is a company in transition is a key concept that is tackled combining a “standard” approach describing what is or isn’t a company in transition according to this methodology and, if the financial institution has reached enough maturity on the topic, a “own-assessment” approach where the financial institution assesses itself if a company is in transition or not.

To assess and certificate/validate the robustness and credibility of a transition plan, different frameworks (Climate Bonds Initiative, Standard V4.0), methodologies (ACT, CA+100, TPI) and data (World Benchmarking Alliance, CA+100) can be used.

ACT methodologies and assessments provide key elements about the credibility of the transition plan on the 14 most emitting sectors (22). Please also refer to work of EFRAG in the ESRS E1:

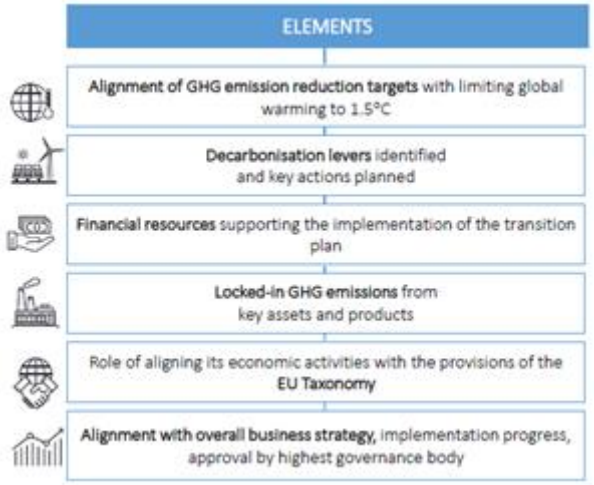


FIGURE 7: EXPOSURE DRAFT ESRS E1

Standard approach:

The following companies **cannot be considered in transition** (negative approach):

- A company that does not have a disclosed and internally approved transition plan;
- A company that is missing its targets by at least 50%;
- A company that is rated below or equal to 10C= regarding the ACT evaluation framework;

- A company that is assessed by the Climate Action 100 + and has:
    - At least one indicator at « N » (no criteria meet at all regarding this indicator)
    - Less than 3 indicators at « Y » (all criteria meet regarding this indicator), including at least 2 indicators out of indicators 2, 3 and 4[5].
- A company that is assessed in the World Benchmarking Alliance regarding Climate and Energy benchmarks with a score smaller or equal to 28/42 or 66/100.
- The following companies can be considered in transition (positive approach):
- A company that is rated at least 12B= regarding the ACT evaluation framework
- A company that is assessed by the Climate Action 100 + with:
    - No « N » (no criteria meet at all regarding this indicator)
    - « Y » at the following indicator:
        - Indicator 1 (GHG ambition)
        - Indicator 3 or 4 (short or medium term target) at « Y »
        - Indicator 5 (Decarbonation strategy)
        - Indicator 6 (Capital alignment)
- A company that is assessed in the World Benchmaring Alliance regarding Climate and Energy benchmarks with a score greater or equal than 28/42 or 66/100.

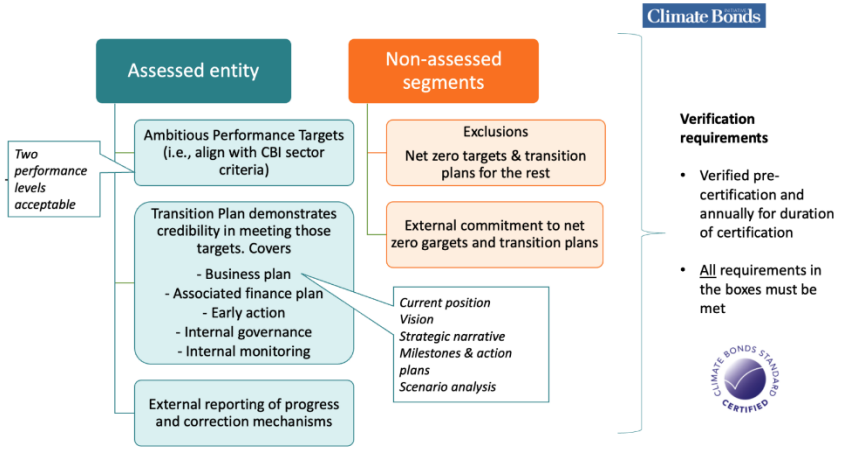
Assessment approach:

For each company that does not fall in the negative or positive scope (for instance a company with a transition plan but no assessment/a medium

scoring), a dedicated assessment will be needed. The transition plan should meet minimum requirement, regarding:

- Ambition of the target set that should align with Paris agreement ;
- Perimeter of the transition plan: the transition plan should tackle all the relevant areas regarding climate issues, particularly the run-off of highly emissive processes and operations.
- How the transition will be implemented: an explanation of the decarbonation levers identified with key actions planned shall be provided, as well as the financial resources associated. These explanations should be clear and credible (notably with due cautiousness regarding future technologies). There should be an understandable linkage between financing needs and levers.
- Consistency with locked-in emissions: an analysis of the current company locked-in trajectory (i.e., emissions implied by its current productive assets and near-term business projections) should be consistent with the proposed decarbonation pathway.
- Control/Validation: any element demonstrating the lack of robustness/credibility of the transition plan should be taken into account, such as for instance controversies or certification issues of the reporting related to climate topics.
- Effective implementation: last but not least the actual implementation of the transition plan should be monitored, any overshoot needing due explanations and adaptation of the transition plan.

The analyst, and the financial institution, can refer to the recommendations of the Climate Bonds Initiative Standard V4.0 which provides key elements for a credible transition plan certification:



https://www.climatebonds.net/climate-bonds-standard-v4

The quality of the financial institution assessment framework regarding whether a company is transitioning or not is itself assessed according to the following maturity matrix, that provides the **Transition assessment framework maturity factor (TAFMF):**

Question	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
Associated score	***0%***	***25%***	***50%***	***75%***	***100%***	
Does the FI use an effective transition assessment framework regarding its investees?	No framework regarding investee's transition assessment. OR The FI has a transition assessment framework that has significant loopholes regarding notably the abovementioned standards.		The FI has a sound transition assessment framework that however meets only a part of the abovementioned standards.		The FI uses an effective transition assessment framework following all the abovementioned standards	*100%*

A Global low carbon and transition assessment framework maturity factor (GAMF) will provide a global view on the maturity of the financial institution on the topic, by weighting 50% each the Low carbon assessment framework maturity factor and Transition assessment framework maturity factor:

$$GAFMF = 50\% * LcAFMF + 50\% * TAFMF$$

Should for instance the financial institution makes on one-hand a full-consistent use of EU Taxonomy framework (Low carbon assessment framework maturity factor at 100%) and on the other hand has set a transition assessment framework that partially complies with the required standards (Transition assessment framework maturity factor at 50%) the Global low carbon and transition assessment framework maturity factor will be at 75%.

TRAJECTORY ALIGNMENT SCORE FORMULA (TAS)

The Trajectory Alignment Score (TAS) is made of 2 dimensions reflecting:

- The actual share of the portfolio directed towards low carbon/enabling activities or companies in transition (the Perf Score, PS);
- The growth rate of this share over the past 3 years (the Trend Score, TS).

The Trajectory Alignment Score will apply a different weight to PS and TS depending on the PS. Each sub-score will take into account the maturity of the financial institution regarding its low carbon and transition assessment framework.

The Perf Score (PS)

The aligned share of a portfolio is the combination of low carbon and transition asset share of the portfolio:

$$AS: Aligned\ share = \frac{Fin_{low\ carbon} + Fin_{transition,standard} + Fin_{transition,own\ assessment}}{Total\ Fin}$$

For example, on a 100 automobile equity portfolio, should we have 3 of low carbon assets (e.g. invested in a company which activities are fully compatible with the EU taxonomy on the topic), 2 transitioning through standard approach (e.g. a company that has been well rated on ACT

methodology) and 15 through the financial institution's own assessment, whereas the 80 remaining are invested in companies with no/insufficient transition plans, the AS will be of (3+2+15)/100=20%.

Given the fact that the financial institution might have an assessment framework not fully mature yet, an adjusted aligned share is computed, recognizing assets accordingly to the maturity of the underlying framework:

$$AAS: Adjusted\ AS = \frac{LcAFMF * Fin_{low\ carbon} + Fin_{transition,standard} + TAFMF * Fin_{transition,own\ assessment}}{Total\ Fin}$$

Therefore, should the Low carbon assessment framework maturity factor be set at 100% (the financial institution make full use of EU Taxonomy) and the Transition assessment framework maturity framework be at 50% (e.g. some standards required are not yet) the AAS of the former example will be of: (3*100%+2+15*50%)/100 = 12,5%).

Then, the performance score will be calculated by comparing this adjusted aligned share to an ideal aligned share:

$$PS = MIN(100\%; \frac{AAS}{IAS})$$

$$\begin{cases} PS: Performance\ Score \\ IAS: Ideal\ Aligned\ Share \end{cases}$$

The IAS is defined as the best possible proportion of credits allocated to transition. By definition, the PS cannot exceed 100%.

See table 13 and 14 below for the Ideal Aligned Share and its associated ideal year that must be reached, per sector. This associated ideal year is used for the calculation of the Trend Score, see below. It is also declined by instrument type as the calculation will be made on both "use of proceeds" and "general corporate purpose" instrument types.

TABLE 13: IDEAL ALIGNED SHARE AND THE YEAR TO REACH IT FOR (I) USE OF PROCEEDS INSTRUMENTS

Target type	Ideay year to reach Ideal Aligned Share (IAS)	Ideal Aligned Share (IAS) metric
Agriculture & Agrifood	2 030	80%
Aluminium	2 030	80%
Building construction	2 030	80%
Cement	2 030	80%
Chemicals	2 030	80%
Coal		
Elec Utilities	2 030	80%
Glass	2 030	80%
Iron & Steel	2 030	80%
Oil & Gas	2 025	80%
Pulp & Paper	2 030	80%
Real Estate	2 030	80%
Transport - Auto	2 030	80%
Transport - Civil aviation	2 030	80%
Transport - Road transport	2 030	80%
Transport - Shipping	2 030	80%
z. Other Sectors	2 030	80%
Default	2 030	80%

TABLE 14: IDEAL ALIGNED SHARE AND THE YEAR TO REACH IT FOR (II) GENERAL CORPORATE INSTRUMENTS

Target type	Ideay year to reach Ideal Aligned Share (IAS)	Ideal Aligned Share (IAS) metric
Agriculture & Agrifood	2 030	100%
Aluminium	2 030	100%

Building construction	2 030	100%
Cement	2 030	100%
Chemicals	2 030	100%
Coal		
Elec Utilities	2 030	100%
Glass	2 030	100%
Iron & Steel	2 030	100%
Oil & Gas	2 025	100%
Pulp & Paper	2 030	100%
Real Estate	2 030	100%
Transport - Auto	2 030	100%
Transport - Civil aviation	2 030	100%
Transport - Road transport	2 030	100%
Transport - Shipping	2 030	100%
z. Other Sectors	2 030	100%
Default	2 030	100%

As there is a commonly and widely accepted milestone of 2030 with a target of reducing at least 50% (55% in Europe) of its fair share of emissions (comparing to 1990), the ideal year to reach the ideal aligned share is set as 2030. Indeed, as first key results shall materialise by 2030 it is assumed that all sectors should already be at least on a transition phase. For general corporate purpose instruments, the ideal aligned share is 100%, meaning that companies should at least have a transition plan compatible with a global warming of 1.5°C with no or low overshoot. For use of proceeds instruments, as we acknowledge that the proceeds could be directed towards economic necessities with no climate materiality (e.g., operational expenditures), the ideal aligned share is set to 80%. For oil & gas, as there is a necessity to not burn and extract the remaining allocated fossil fuel carbon budget to keep a 1.5°C warming trajectory and an urgency to act, the ideal year to reach an ideal alignment share is set as 2025.

For coal there is no parameter as there shall be no more coal activities in a decarbonated economy.

The Trend Score (TS)

The Trend is captured by comparing the realized trajectory of investments contributing to a low-carbon economy with an ideal trajectory. By opposition to the performance score computation, it is not possible to apply maturity factors within the calculation due to consistency issue. Therefore, calculations are

made based on the unadjusted aligned shares through time, a weighting being ultimately applied at the final TS.

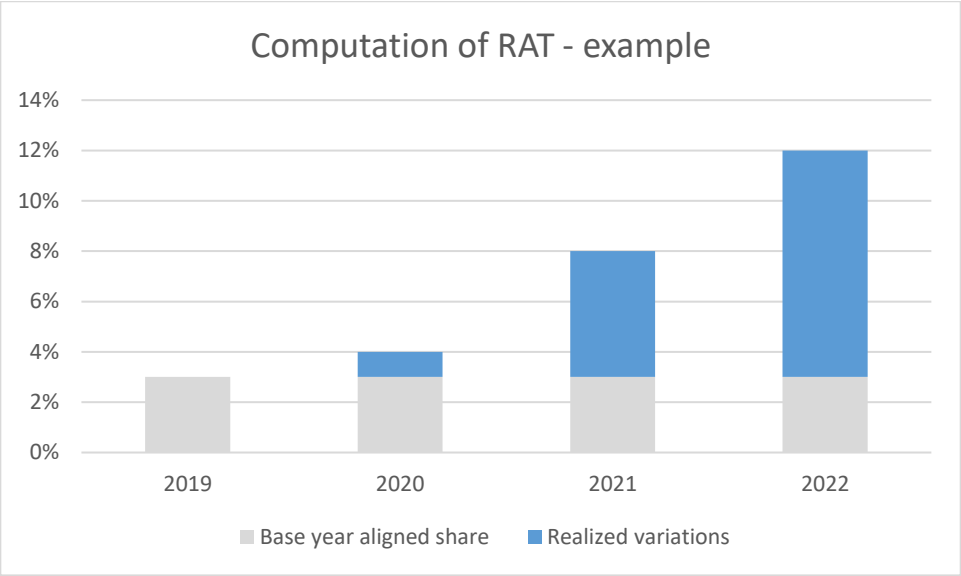
The realized trajectory is captured by looking at the compounded variation of the aligned share in a recent history (typically from three years in the past to know). This metric, named hereafter “Realized aligned share trajectory” is provided by the following formulae:

$$RAT_{Ry,p} = \sum_{i=Ry-p+1}^{Ry} \left(AS_i - AS_{Ry-p}\right) = \sum_{i=Ry-p+1}^{Ry} AS_i - p * AS_{Ry-p}$$

Where:

- Ry is the reporting year
- p is the number of historical year looked over
- ASi the aligned share of the year i
- $RAT_{Ry,p}$ is the Realized aligned share trajectory for the reporting year Ry looking p years in the past.

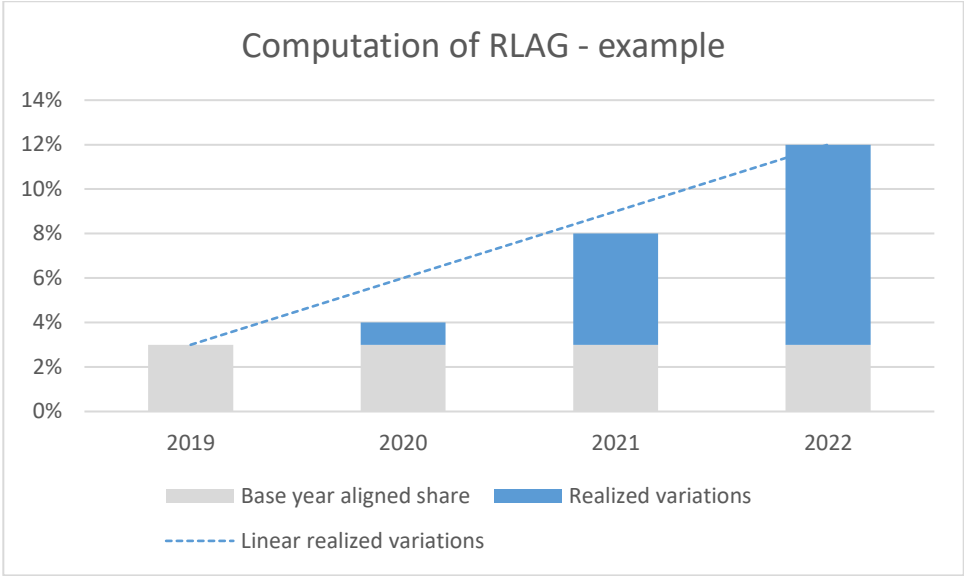
An illustrative example is provided below, $RIT_{2022,3}$ being the sum of the blue values (4%+8%+12%-3*3% = 15%).



As it will be presented below, we will also look at the linear computation between year Ry-p and Ry.

$$RLAG_{Ry,p} = \frac{AS_{Ry} - AS_{Ry-p}}{p}$$

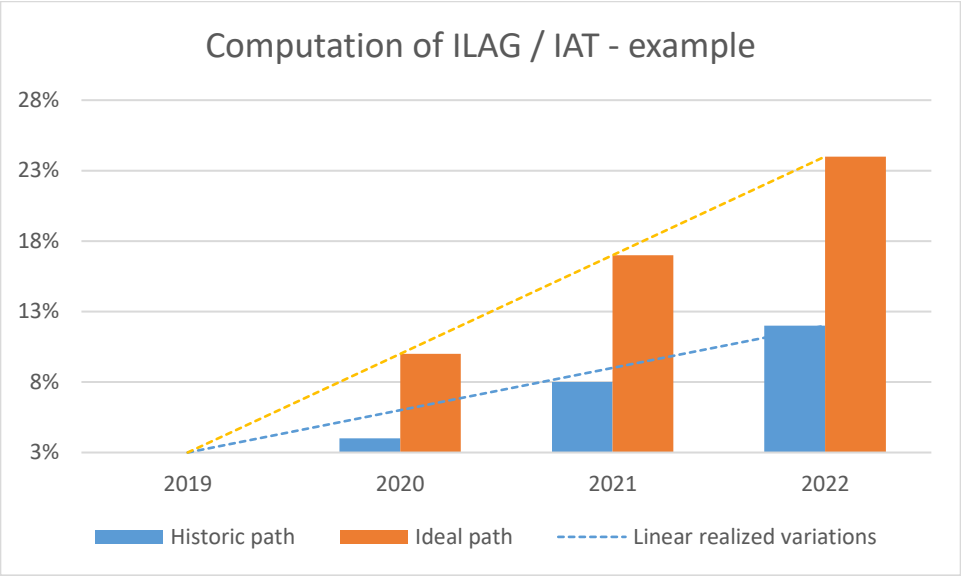
The abovementioned example implies a 3%/year linear progression:



This situation is compared to an “ideal trajectory” that corresponds to the ideal growth over the period remaining (i.e., between the starting Ry-p year and the ideal year Iy when the alignment should preferably be finalized and reach IAS). This will be looked (i) through a linear ratio as the one computed for the realized pathway and (ii) through a scoring homogeneous to the realized aligned share trajectory.

$$\begin{cases} ILAG_{Ry,p} = \dfrac{IAS - AS_{Ry-p}}{Iy - Ry + p} \\ IAT_{Ry,p} = \dfrac{p(p+1)}{2} ILAG_{IT\,Ry,p} \end{cases}$$

In the abovementioned example if one considers that the ideal share should be 80%, to be attained in 2030, one can deduct from 2019 an ideal growth of 7% per year. The light orange line represents the linear progression (ILAG) while the deep orange histograms represent the trajectory expressed in homogeneous terms with the RAT metric. Its value is: 7%+14%+21%=42%.



The Unadjusted Trend Score will be provided by the minimum between on one hand the aligned share trajectory (RAT/IAT) and on the other hand the linear ratios (RLAG/ILAG). The ratio is capped between 0 and 1.

$$UTS_{Ry,p} = MIN\left(MAX\left(MIN\left(\frac{RAT_{Ry,p}}{IAT_{Ry,p}}; \frac{RLAG_{Ry,p}}{ILAG_{Ry,p}}\right); 0\%\right); 100\%\right)$$

The Trend Score will then be deducted by applying the Global Assessment framework maturity factor to the Unadjusted trend score:

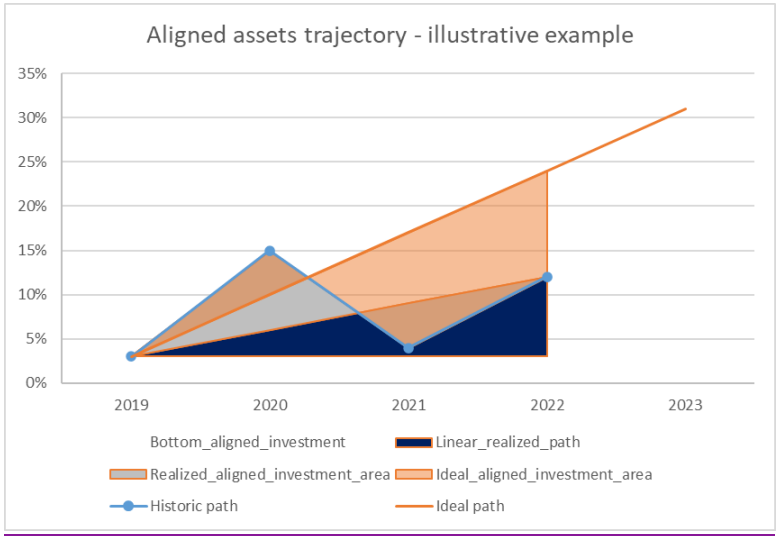
$$TS_{Ry,p} = GAFMF * UTS_{Ry,p}$$

In the given example the results are provided below:

	Realized	Ideal	Ratio
Aligned share trajectory	15%	42%	36%

Linear aligned share trajectory	3%	7%	43%
Unadjusted Trend score			36%
Global assessment framework maturity factor			75%
Trend score			**27%**

The aim of the linear aligned share trajectory feature is to prevent situations where the institution makes no recent progress or has erratic behaviour, such as in the example below:



	Realized	Ideal	Ratio
Aligned share trajectory	22%	42%	52%
Linear aligned share trajectory	3%	7%	43%
Trend score			43%

As a result, an institution with a large increase in its credit dedicated to the transition could still obtain a low trend score if the ideal growth in credit is very large (i.e., if the efforts to be provided are very large). Conversely, an institution with a low growth of credit dedicated to the transition could still have a high trend score if the ideal growth is not very high (i.e., if the institution initially started with a good credit allocation).

The Trajectory Alignment Score (TAS)

The TAS is obtained through a weighted combination of the performance and the trend score. The relative weight of each score varies as for a portfolio already well aligned the trend score won't be as important as for a portfolio that still have a significant gap before reaching the ideal aligned share. Therefore, the PS weight fluctuates depending on the level of the PS, with a minimum weight initially set at 50% (and therefore a maximum TS at 50%). However, this level can be further downgraded as it shall be taken into account on specific cases where the aligned share is already above the IAS but with a negative trend. A weighting adjustment has therefore been implemented where PS= 100% (meaning AS>= IAS) but the trend over the past years is descending (R_CAGR<0%). The formulae implemented is:

$$w_{PS} = MAX(50\%; UPS) + w_{PS_{adj}}$$

Where UPS is the unadjusted performance score calculated as presented above using the aligned share without any adjustments linked to the maturity of the financial institution's assessment framework:

$$UPS = MIN(100\%; \frac{AS}{IAS})$$

$$w_{PS_{adj}} = \begin{cases} MIN(0\%; RLAG_{Ry,p} * (Iy - Ry) + AS - IAS) & if\ UPS = 100\%\ and\ RLAG_{Ry,p} < 0\% \\ 0\%\ otherwise \end{cases}$$

$$w_{TS} = 1 - w_{PS}$$

The following example will provide details on the wPSAdj weighting adjustment mechanism. Let's consider a situation where AS=95%, IAS=80% and where RLAG=-3% with 9 years to reach the ideal target year. PS is therefore of 100% and without the adjustment, the company would get the maximum points while its past trend is not good, which is counter intuitive. The adjustment reflects the fact that, should the negative past trend continue in the future, the asset share would fall eventually below the IAS. In this example, this would mean that, after 9 years continuing with the same trend (assumed linear in the formula for the sake of simplicity), the AS would go down by -3%*9 years = -27%, hence from 95% to 68%. This means that there would be a -12% gap with the IAS. The application of the adjustment will lower the performance weighting (from 100% pre-adjustment to 88% post-adjustment and complementarily highlight the importance of the trend score from 0% to 12%.

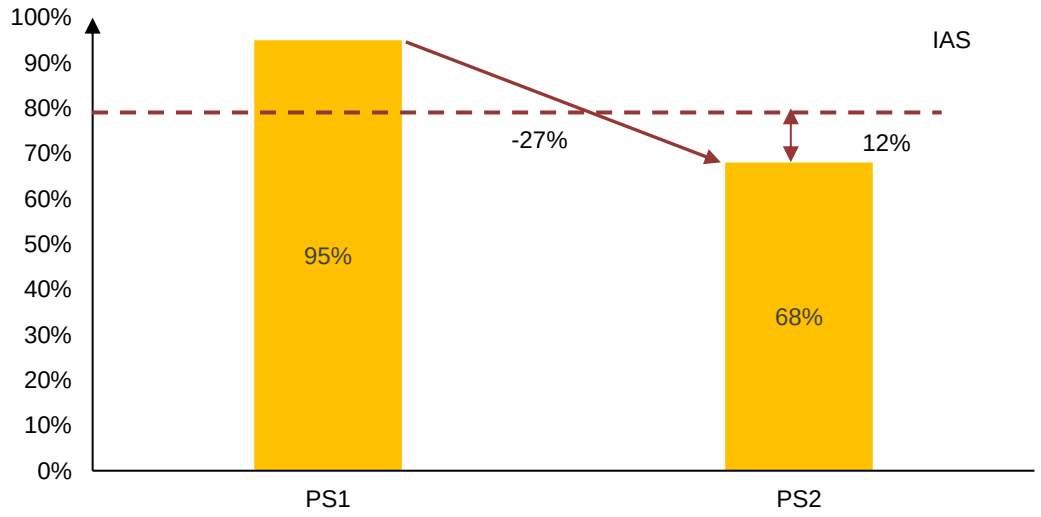


FIGURE 7: ILLUSTRATION OF THE TRAJECTORY ALIGNMENT SCORE'S WEIGHTING MECHANISM

The trajectory alignment score is thus a weighted combination of the performance score and the transition score:

$$TAS = w_{PS} * PS + w_{TS} * TS$$

CALCULATION OF SCORE:

As for the module 1, the score depends on the data availability and will combine, **if needed**, a sectoral score, an asset class score, and a global portfolio score, where available. Monitoring its financings at the sector level, compared to portfolio or asset class levels, helps to foster decarbonization action as each sector has its own levers. This allows the financial institution to pay more attention on those and be more specific and granular in its efforts. This is the reason why the sectoral score will be preferred in the scoring sector through a higher weighting.

- **Sectoral score**

The sectoral score is structured along three dimensions with their own calculation: the first considers the fact that there were no new coal financings, the second that financings for Oil & Gas are only directed to the transition of the sector ("flow" rationale, the variation of new financings), and the third considers the speed of the growth of the share of financings dedicated to the transition in other high emitting sectors ("stock" approach, the variation of the share of the transition financings within the total exposure). All dimensions consider use of proceeds as well as general purpose financings.

Dimension 1: coal financing

To score points on this component of the score, the lender should have no new financing at all in coal. This financial constraint reflects the real economy needs, as recommended by the science, to keep the coal unexploited in order to meet the 1.5°C global warming limitation objective. If new funding has been provided during the relevant period, the score is automatically set to zero. If no funding has been made, the 100% score is multiplied by the "sectoral adjustment" SADJ.

$$Sectoral\ score\ (Coal) = SADJ_{Coal,LBAN4.1} * \begin{cases} 100\% * \ if \left(\sum_{j=Ry-3}^{Ry} New\ financing_j \right) = 0 \\ 0\%\ otherwise \end{cases}$$

With:

$$SADJ_{Coal,BAN\ 4.1} = \min \left(15\%; \frac{1}{4} \sum_{j=Ry-3}^{Ry} SADJ_{Coal,j} \right)$$

The minimum feature in the calculation of the sectoral adjustment ensures that a company that has no coal at all in its portfolio since 4 years will still be rewarded on this module 15% of the points.

Companies involved in coal are defined based on the Urgewald's Global Coal Exit List (GCEL, https://www.coalexit.org).

Dimension 2: O&G financing

If the phase out from the oil & gas industry is not expected to be as steep as the coal's one, scientific recommendations to meet the global warming limitation objective are to stop any new exploration and extraction of oil & gas fields and to transition the industry towards low carbon intensive energies. This will be represented in the score with a2-step approach:

New Finance score (NFS): as there shall not be any new financing to develop the use of oil & gas, all new financings should be transition-oriented or low carbon to transform the sector. Should there be any new credit line that is not transition-oriented, the rationale will be the same as for coal and no points are granted at all.

Trajectory Alignment Score (TAS): as financial institutions' balance sheet might be locked with some oil & gas financing for some years, the idea of this sub-dimension is to reflect the support of the sector's transition by gradually increase the share of transition-oriented financing. This is presented with a TAS as defined above. The score is split between the use of the product and the company's overall objective and weighted by their share of total outstanding loan amount exposure (average share over the last 3 years

The aggregated score is the average of the two subdimensions adjusted by the "sectoral adjustment".

$$Sectoral\ score\ (O\&G) = NIS * [(TAS_{UOP} * SUOP) + (TAS_{GP} * SGP)] * SADJ_{Oil\&Gas,BAN\ 4.1}$$

With:

$$NFS\ = \begin{cases} 100\% * \ if \left(\sum_{j=Ry-3}^{Ry} Share\ of\ new\ financings\ dedicated\ to\ transition_{\ j} \right) = 4 \\ 0\%\ otherwise \end{cases}$$

$$\begin{cases} UOP : Use\ Of\ Proceeds\ financings \\ GP : General\ Purpose\ financings \\ SUOP : Share\ of\ UOP = \dfrac{UOP\ credit}{Total\ credit} \\ SGP : \dfrac{GP\ credit}{Total\ credit} \\ 4\ being\ the\ number\ of\ reporting\ years\ considered \end{cases}$$

$$SADJ_{Oil\&Gas,BAN,4.1} = \min\left(15\%; \frac{1}{4}\sum_{j=Ry-3}^{Ry} SADJ_{Oil\&Gas,j}\right)$$

UOP and SUOP are calculated as an average through the 4-years historical data. The minimum feature in the calculation of the sectoral adjustment ensures that a company that has no Oil & Gas at all in its portfolio since 4 years will still be rewarded on this module 15% of the points.

Companies involved in oil & gas are defined based on Urgewald's Global Oil & Gas Exit List (https://www.coalexit.org).

Dimension 3: other high emitting sector financing

The score on the share of financings dedicated to the transition in other high emitting sectors The score is a weighted average of the TAS for the proportion of Use of Proceeds financing (SUOP) and General Corporate Purpose financing (SGP) in overall financing. In order to keep the sum of the weight of all sectors at 100%, the sectoral adjustments of each non fossil fuel sectors have been recomputed to renormalize them.

$$Sectoral\ score\ (Non\ fossil\ fuel\ sectors) = [(TAS_{UOP} * SUOP) + (TAS_{GP} * SGP)] * SADJ_{sector,LEN4.1}$$

Aggregated score

The aggregate score is a straightforward addition of the scores of the three dimensions.

$$Aggregated\ sectoral\ score = \sum_{i=1}^{n} Sectoral\ score(s_i)$$

With:

$$\begin{cases} n : the\ number\ of\ sectors\ covered \\ s_i : sector\ i \end{cases}$$

- **Asset class score**

Information can be available only at asset class level. If so, the methodology can still apply. The aggregate asset class score is a weighted average of the TAS for the proportion of Use of Proceeds instruments (SUOP) and general corporate purpose instruments (SGP) in overall investments.

$$Asset\ class\ score\ = [(TAS_{UOP} * SUOP) + (TAS_{GP} * SGP)] * AADJ$$

With AADJ, the Asset class adjustment, being the average asset class allocation over 4 years:

$$Aggregated\ asset\ class\ score = 50\% * \sum_{i=1}^{n} Asset\ class(a_i)$$

With:

$$\begin{cases} n : the\ number\ of\ asset\ classes\ covered \\ a_i : asset\ class\ i \end{cases}$$

As displayed below, a global discount of 50% will apply should the information be available at asset class level only.

- **Global score**

Where data is only available at the aggregate portfolio level, the score is calculated on the basis of the weighted average of the TAS of the portfolio for the proportion of Use of Proceeds financing (SUOP) and general corporate purpose financing (SGP) in overall financing.

$$Global\ portfolio\ score\ = [(TAS_{UOP} * SUOP) + (TAS_{GP} * SGP)]$$

As displayed below, considering the setup not ideal, a global discount of 5% will apply should the information be available at asset class level only.

- **Aggregated score**

Where all information is available at several level (sectoral, asset class and/or global level), the scoring shall apply **on a sectoral basis only**. However should the information be partially available at each level (e.g., there is a sectoral split on equities but only an aggregated information on bonds portfolio and a global information on assets detained indirectly through collective investment schemes) an aggregation of the scores can be made, weighted by the average credit coverage of each approach.

It is specified that this should not lead to overlapping scoring of the same asset under several approaches. This sum up in the following formula:

$$Aggregated\ score = \left(w_{AuM,S} * S + 50\% * w_{AuM,A} * A + 5\% * w_{AuM,G} * G\right)$$

With, for i=S,A or G :

$$\begin{cases} w_{AuM,i} : \dfrac{\sum_{j=Ry-3}^{Ry} AuM_j^i}{\sum_{j=Ry-3}^{Ry} AuM_j^S + \sum_{j=Ry-3}^{Ry} AuM_j^A + \sum_{j=Ry-3}^{Ry} AuM_j^G} \\ AuM_j^i = \sum assets\ covered\ by\ the\ methodology\ i\ on\ the\ year\ j \end{cases}$$

RATIONALE **BAN 4.1 FINANCIAL FLOWS TREND**

RATIONALE OF THE INDICATOR **RELEVANCE OF THE INDICATOR:**

When a company changes its production process and business model it can be linked directly to a material impact on the real economy. The difference with a lending institution is that it doesn't directly control productive assets and it relies on the underlying use of its financing. While the act of producing have a direct impact on the climate outcomes, the act of financing is indirect and more complex to materialise. Stopping financing a company doesn't mean its production will stop if it can find financings elsewhere. However classic portfolio accounting will only take into consideration the portfolio allocation which is much more liquid than a productive asset for a corporate. Taking out of a company from a portfolio will take out the related financed emissions but not the company emissions while a corporate improving its processes will. Hence, this indicator will be tied to the financing's flows rather than its strict associated emissions (which are by the way already considered in the module 1) and assess it is directed towards supporting corporate to transition. Nevertheless, not all sectors can transition or with the same priority, especially fossil fuel. That's why it is treated differently to reflect science recommendation to stop the use of coal and to transition the soonest the oil & gas industry with at least no new exploration or extraction financed.

Our approach in this 'Climate Performance Module' is that we are not assessing the GHG emissions of the Financial Institution tied to its counterparties/activities financed. What we want to measure is the contribution of the financial institution to financing the decarbonization of the economy. Currently, a 1.5°C aligned portfolio has a low real economy impact: it means that it finances pure players/climate best in class companies (cherry picking) and/or taxonomic activities while the main challenge is to finance the transition of high emitting sectors' companies. Conversely, a portfolio with high financed emissions but proving to help high emitting sectors decarbonize has more impact in GHG emission in the real economy.

SCORING RATIONALE:

As a general meaning we use financings directed to the transition as the ones made in:

- Low-carbon activities, aligned activities and enabling activities (as defined at the beginning of this section) for use of proceeds instruments;
- Low-carbon companies, companies in transition or enabling companies (as defined at the beginning of this section) for general corporate purpose instruments.

There is no distinct indicator for 'low-carbon' and 'in transition' as both are needed, and we underline the role of financial institutions to support the real economy transition. It should finance both with no preference giving its business model flexibility.

(i) New financings are only considered for fossil fuel

Effectively, the 'flow' consideration will be only applied to the fossil fuel sector. Indeed, scientific reports are very clear on that, to limit global warming to 1.5°C with no or low overshoot, there can't be any expansion or exploration projects financed and fossil fuel use should decrease as quick as possible. New capital allocation in this sector should only be towards the transition. For other sectors, there is no clear benchmark with enough granularity to compare new financings to. Therefore, only the total exposure (the 'stock' consideration) will be assessed, as it should increase its financing share towards the transition. For coal, the total credit exposure is not taken into consideration as the climate issues topic is less mature in the financial sector than in other industries. That's why the past financing (older than 3 years) will not be penalised however there a strict no new financing approach. For the oil & gas, new financings are allowed but only when they support the transition of the industry. The total credit exposure is also taken into consideration with an expectation to increase over time.

The 15% minimum scoring for companies not investing at all each in Coal and Oil&Gas is globally consistent with the weighting attributed to these specific topics in the module 7 related to engagement.

(ii) Total exposure evolution on the past three years towards the transition

As stated in the previous paragraph, coal is not assessed within this indicator as it is not considered as a sector that could transition. Hence, the important assessment is whether new capital has been allocated to it or not ('flow' rationale). For oil & gas both the 'flow' and the 'stock' rationale are assessed but that doesn't lead to scoring redundancy as they reflect different aspects: the 'flow' approach is about capital allocation and the 'stock' approach is about the price signal (that could be reflected in the credit rating). For the other sectors, there is no data available now allowing to provide at

a sector level what should be a fair share of financing that should be directed towards the transition every year. That's why new financings are not considered but only the total credit exposure which is expected to increase over time towards the transition

Please find in annexe 11.3 some illustrative examples on how the trend ratio works.

34 ● **BAN 4.2 PORTFOLIO EMISSIONS ASSESSMENT**

DESCRIPTION & REQUIREMENTS

BAN 4.2 PORTFOLIO EMISSIONS ASSESSMENT

SHORT DESCRIPTION OF INDICATOR

Assessment of the portfolio emissions alignment exercise and expected outcome.

The assessment answers the following questions:

- Is the financial institution is able to identify the relevant assets for phasing-out/supporting the transition?
- Does the exercise lead to a determined engagement action plan?

DATA REQUIREMENTS

The relevant data for this indicator are:

- Portfolio alignment tool/framework used
- Outcomes expected/Engagement action plan
- Monitoring, reporting and verification process characteristics

CDP Questionnaire 2022 mapping to this indicator:

- C-FS14.1
- C-FS14.1a
- C-FS14.1b
- C-FS14.2
- C-FS14.2b

- C-FS14.2c
- C-FS14.2d
- C-FS14.3
- C-FS14.3a

How the assessment will be done

The analyst conducts a comprehensive analysis of the portfolio alignment exercise, understanding if it is ambitious enough (with regards to its scope, financed emissions representativeness, and identification of relevant assets).

Question	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
Associated score	***0%***	***25%***	***50%***	***75%***	***100%***	
Does the Financial Institution use alignment Metrics?	No evidence	Yes, and the metrics fall into at least one of the following categories (binary, ITR, benchmark divergence, maturity scale)	Yes, and it describes the extent to which their lending and other financial intermediary business activities, where relevant, are aligned with a below 2 degrees C-aligned benchmark scenario, using the approach or metrics best suited to their organizational context or	Yes, and determines portfolio exposures to high-risk sectors in a granular way, such that: • Exposure covers all high-risk sectors across its lending portfolio, including a sub-sector breakdown. • The levels of physical and transition risk by sub-sector are included. • Exposure to high-risk sectors is disclosed (in	Yes, and determines portfolio exposures to high-risk sectors in a granular way, such that: • Exposure covers all high-risk sectors across its lending portfolio, including a sub-sector breakdown. • The levels of physical and transition risk by sub-sector are included. • Exposure to high-risk sectors is disclosed in (in	***10%***

			capabilities	monetary terms) as a percentage of total lending exposure, total funded, and percentage of funded exposure. AND metrics assess historic and/or forward-looking performance with climate scenarios consistent with the Paris Agreement (i.e. based on one of the following sectoral scenario/benchmark (no or limited overshoot scenarios with a >50% probability of limiting global warming to 1.5°C by the end of the century. Current publicly available scenarios which are accepted include: • IEA's Net Zero by 2050 (NZE2050) • NGFS' Net Zero scenarios • University of Technology Sydney's One Earth Climate Model • PRI Inevitable Policy Response 1.5°C	monetary terms), as a percentage of total lending exposure, total funded, and percentage of funded exposure. AND metrics is computing alignment over short and medium-term time horizons, supplemented with longer-term time horizons (e.g., 2050 and beyond) with climate scenarios consistent with the Paris Agreement (no or limited overshoot scenarios with a >50% probability of limiting global warming to 1.5°C by the end of the century.) Current publicly available scenarios which are accepted include: • IEA's Net Zero by 2050 (NZE2050) • NGFS' Net Zero scenarios • University of Technology Sydney's One Earth Climate Model • PRI	

				Required Policy Scenario)	Inevitable Policy Response 1.5°C Required Policy Scenario)	
Does the Financial Institution measures alignment of Net zero-aligned activities/companies?	No evidence		Yes but no evidence to what the definition of net zero aligned companies (or similar term) refers to (Taxonomy, Internal Transition Guide)		Yes, and discloses its definition of green activities and align green finance definitions with taxonomies published by a national, regional or global governing body.	***10%***
Does the Financial Institution measures alignment of transitioning activities/companies	No evidence		Yes but no evidence to what the definition of net zero aligned companies (or similar term) refers to (Taxonomy, Internal Transition Guide)		Yes, and disclose its definition of green activities and align green finance definitions with taxonomies published by a national, regional or global governing body.	***10%***
Does the Financial Institution measures alignment of companies with climate solutions activities?	No evidence		Yes but no evidence to what the definition of net zero aligned companies (or similar term) refers to (Taxonomy, Internal Transition Guide)		Yes, and disclose its definition of green activities and align green finance definitions with taxonomies published by a national, regional or global governing body.	***10%***

Does the Financial Institution measures alignment of for companies phasing out high emitting assets	No evidence		Yes but no evidence to what the definition of net zero aligned companies (or similar term) refers to (Taxonomy, Internal Transition Guide)		Yes, and disclose its definition of green activities and align green finance definitions with taxonomies published by a national, regional or global governing body.	***10%***
What are the desired outcomes/objectives of measuring portfolio alignment?	None	Risk management - Internal use only (whether transition and/or physical risks)	Identifiying clients or portfolio companies that are misaligned AND alignment metrics are used to understand the impact of climate-related policies and conditions and to guide their lending or capital market activities (when relevant)	Measuring climate impact, managing climate related risks in its business and stakeholders AND alignment metrics are used as a trigger for direct engagement with high-emitting portfolio companies	Measuring climate impact, managing climate related risks in its business and stakeholders with the consequence of determining an engagement action plan (further assessed in module 7.Clients engagement): the portfolio alignment metrics are used as a tool for an engagement strategy. AND Leads to decision making such as to finance or enable climate solutions, the net-zero transition of firms, the managed phaseout of high-emitting assets, and firms already aligned to net-zero	***15%***

What is the Portfolio coverage?	Low/no significant	Financed emissions cover only fossil fuel sector	Financed emissions calculations cover all high-risk sectors	Financed emissions calculations cover all high-risk sectors and cover more than 2/3 (67%) of the portfolio emissions	Financed emissions calculations cover more than 80% of the portfolio emissions, including all high emissive sectors	***10%***
Disclosure & Transparency	No information disclosed publicly on the alignment metrics used	Some Information & results are disclosed but no/low information is given on the financed emissions calculation, assumptions made**,** and data sources used (or conversely)	Results of the portfolio alignment are made public (communicated to internal and external stakeholders the alignment of their lending, and underwriting activities with a below 2 degrees C-aligned benchmark scenario for external stakeholders) AND Detailed assumptions and data sources are also disclosed.	Results of the portfolio alignment are made public (communicated to internal and external stakeholders the alignment of their investments, lending, and underwriting activities with a 1.5 degrees C-aligned benchmark scenario for external stakeholders). AND Detailed assumptions and data sources are also disclosed as well as discloses exposure to high emissions sectors AND Financed emissions are quantified (in absolute or intensity emissions	Results of the portfolio alignment are made public (in other words, communicated to internal and external stakeholders the alignment of their lending and underwriting activities with a 1.5 degrees C-aligned benchmark scenario for external stakeholders). AND Detailed assumptions and data sources are also disclosed as well as exposure to high-risk sectors, from all of its material financing activities, on an emissions or a portfolio basis AND	***10%***

				(capacity/physical-based)) and transparently disclosed as well as the assumptions and variables used in this carbon accounting approach.	Financed emissions are quantified (BOTH in absolute AND intensity emissions (capacity/physical-based)) and transparently disclosed as well as the assumptions and variables used in this carbon accounting approach. **** As recommended by the TCFD, the following information are also available: - Industry – Geography – Credit quality (e.g., investment grade or non-investment grade, internal rating system) – Average tenor	
Target Monitoring, Verification and Reporting	No Monitoring, reporting and verification process existing		Assessing progress against the objectives		Assessing progress made through the alignment metrics and updating the objectives in accordance with the results	***5%***

Metrics Assessment decision usefulness*	0% - 11 %	12% - 33%	34% - 56%	57% - 78%	79% - 100%	***10%***

*the metrics assessment shall be based on the following criteria coming from Table 2 of the GFANZ report on 'Measuring portfolio Alignment: driving enhancement, convergence; and Adoption (November 2022)) **(23)**

- Ease-of-use
- Transparency
- Scientific robustness
- Aggregable
- Suitability to direct Capital

To calculate the %, the analyst must score the metric through these 5 criteria. The result out of 5 gives a %. If several metrics exist, the analyst shall conduct the analysis on each metric and calculate the average score.

Rationale

Rationale of the indicator

BAN 4.2 Portfolio emissions management

Relevance of the indicator:

Even though portfolio alignment outputs give low information in terms of impact, for building/designing an engagement strategy, these outcomes are key. The score of this module will reflect whether the financial institution is conducting this exercise with methodological rigor and able to determine who is responsible for its financed emissions, which is the first step enabling to start looking for impact actions (through engagement).

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36 # Module 5: Management

37 The indicator assesses the incorporation of climate strategy into its governance structure, remuneration policies and risk management.

38 ● **BAN 5.1 Oversight of climate change issues**

DESCRIPTION & REQUIREMENTS

BAN 5.1 OVERSIGHT OF CLIMATE CHANGE ISSUES

SHORT DESCRIPTION OF INDICATOR

The financial institution discloses that responsibility for climate change mitigation within the financial institution lies at the highest level of decision-making within the financial institution structure.

DATA REQUIREMENTS

The relevant data for this indicator are:

- Climate policy and details regarding governance
- The reporter shall provide details on where the highest level of direct responsibility for climate change within the organization is

CDP Questionnaire mapping to this indicator:

- C1.1
- C1.1a
- C1.1b
- C1.1c
- C1.2
- C1.2a
- C1.1b

External sources of data may also be used for the analysis of this indicator.

HOW THE ASSESSMENT WILL BE DONE

The benchmark case is that climate change is managed within the highest decision-making structure within the financial institution.

The position at which climate change is managed within the financial institution structure is determined from the financial institution data submission and accompanying evidence. If the corporate structure does not match the structure of the maturity matrix, the analyst should assign a score based on the financial institution's specific hierarchy (i.e., if responsibility for climate change mitigation lies at the highest level of decision-making within the organization, award "Low-carbon aligned". If responsibility lies one level below the highest level, award "Next practice", etc.). The maturity matrix used

for the assessment is the following:

Question	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
Associated score	***0%***	***25%***	***50%***	***75%***	***100%***	
What is the position of the employee/ committee with highest responsibility for climate change mitigation issues?	No one in charge of climate change issues	Level 4 (see guidance)*	Level 3 (see guidance)*	Level 2 (see guidance)*	Level 1 (see guidance)*	***100%***

* Further guidance for each level of seniority is given below:

    - Level 1

- Highest level of accountability or decision-making within the organization, with responsibility for overall organizational or corporate strategic direction.
- Examples: Board, sub-set of the Board, Chief Executive Officer (CEO)

    - Level 2

- Person/committee that is one step in the corporate structure from the highest level of decision-making of the organization (i.e. reports to or is accountable to Level 1). Inputs into organizational strategy but does not make decisions on it. May have responsibility and accountability for business unit strategy formation and implementation of one or more business units.
- Examples: Vice President, Director, other C-Suite officer (e.g., Chief Financial Officer (CFO), Chief Procurement Officer (CPO), Chief Risk Officer (CRO), Chief Operating Officer (COO), Chief Sustainability Officer (CSO), etc.), other committee appointed by the Board

    - Level 3

- Person/committee that is two steps in the corporate structure from the highest level of decision-making of the organization. May have

responsibility and accountability for business unit strategy formation and implementation for one business unit.

- Examples: Manager, Senior Manager

    - Level 4

- Person/committee that is three or more steps in the corporate structure from the highest level of decision-making of the organization. No responsibility or accountability for business unit strategy development.
- Examples: Officer, Senior Officer, Front Officer

RATIONALE

BAN 5.1 OVERSIGHT OF CLIMATE CHANGE ISSUES

RATIONALE OF THE INDICATOR

Successful changes within a financial institution, such as the transition to a low-carbon economy, requires strategic oversight and buy-in from the highest levels of decision-making within the financial institution. Evidence of how climate change is addressed within the top decision-making structures is a proxy for how seriously the company takes climate change, and how well-integrated it is at a strategic level. High-level ownership also increases the likelihood of effective action to address the low-carbon transition.

Changes in strategic direction are forward-looking, which fits with the long-term orientation principle of the ACT initiative.

Managing oversight of climate change is considered as a good practice.

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40 ● **BAN 5.2 CLIMATE CHANGE OVERSIGHT CAPABILITY**

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DESCRIPTION & REQUIREMENTS

BAN 5.2 CLIMATE CHANGE OVERSIGHT CAPABILITY

SHORT DESCRIPTION OF INDICATOR

The financial institution's board or executive management has expertise on the science and economics of climate change, including an understanding of policy, technology drivers that can disrupt current business. This expertise is used by the individual or committee to inform high-level decision-making within the financial institution.

The employees, receive specific and adapted climate training to align their business activities with financial institutions climate objectives.

DATA REQUIREMENTS

The relevant data for this indicator are:

- Environmental policy and details regarding governance
- The reporter shall identify the position of the individual or name of the committee with this responsibility and outline their expertise regarding climate change and the low-carbon transition

CDP Questionnaire mapping to this indicator:

- C1.1
- C1.1a
- C1.1b
- C1.1c
- C1.1d
- C1.2
- C1.2a
- C1.1b

External sources of data may also be used for the analysis of this indicator.

HOW THE ASSESSMENT WILL BE DONE

The presence of expertise on topics relevant to climate change and the low-carbon transition at the level of the individual or committee with overall responsibility for it within the company is assessed. The presence of expertise is the condition that must be fulfilled for points to be awarded in the scoring.

The analyst determines if the financial institution has expertise as evidenced through a named expert biography outlining capabilities. A cross-

check is performed against 5.1 on the highest responsibility for climate change, the expertise should exist at the level identified or the relationship between the structures/experts identified should also be evident. To be awarded Low-carbon aligned, the financial institution must provide examples of how the individual or committee's expertise has informed credit allocation and/or decision-making processes.

The maturity matrix used for the assessment is the following:

Question	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
Associated score	***0%***	***25%***	***50%***	***75%***	***100%***	
Does the individual or committee with oversight of climate change issues (as reported in indicator 5.1) have relevant climate change- and low-carbon transition-related expertise*?	The employee/committee does not meet any of the characteristics of climate change- and low-carbon transition-related expertise*.	The employee/committee meets 1 of the characteristics of climate change- and low-carbon transition-related expertise*.	The employee/committee meets 2 of the characteristics of climate change- and low-carbon transition-related expertise*.	The employee/committee meets 3 or more of the characteristics of climate change- and low-carbon transition-related expertise*.	The employee/committee meets 3 or more of the characteristics of climate change- and low-carbon transition-related expertise*. Expertise systematically informs credit allocation /decision-making processes.	***70%***
The presence of expertise on relevant topics to climate change and low-carbon transition within the individual or committee with overall CC responsibility?	No evidence		Use of scientific committees and external expert advisors		Proven expertise along the decision-making chain with efficient and regular processes of information transmission and organisational relationships	***30%***

- “Characteristics of climate change- and low-carbon transition-related expertise” include:
    - Academic/professional qualification related to climate change and the low-carbon transition, including an understanding of the impacts and risks, and the solutions to implement (e.g., Bachelors, Masters, Doctorate, professional certification, diploma, etc.)
        - A purely energy-related background with no relationship to climate change and the low-carbon transition is not enough to qualify as expertise.
    - Recent (i.e., within last 10 years) professional experience related to climate change and the low-carbon transition (e.g., previous employment in climate change/low-carbon transition-related role, or with a climate change/low-carbon transition-related organization, etc.)
    - Recent (i.e., within last 10 years)/active membership of organization(s) driving corporate knowledge and action on climate change and the low-carbon transition (e.g., World Business Council For Sustainable Development, Solar Energy Industry Association, etc.)
    - Technical knowledge related to climate change and the low-carbon transition, evidenced through recently (i.e., within last 10 years) published outputs written by the individual/committee (e.g., statements, reports, etc.)

RATIONALE **BAN 5.2 CLIMATE CHANGE OVERSIGHT CAPABILITY**

RATIONALE OF THE INDICATOR

Effective management of the low-carbon transition requires specific expertise related to climate change and its impacts, and their likely direct and indirect effects on the business. The presence of this capability within or closely related to the decision-making bodies that will implement the low-carbon transition both indicates the financial institution’s commitment to transition and increases the likelihood of success.

Even though financial institutions are managing climate change at the Board level or equivalent level, a lack of expertise could be a barrier to successful management of the low-carbon transition.

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43 ● **BAN 5.3 LOW-CARBON TRANSITION PLAN**

DESCRIPTION & RATIONALE **BAN 5.3 LOW-CARBON TRANSITION PLAN**

Requirements

Short description of indicator

The financial institution has a plan on how the financial institution can contribute to financing the transition towards a low-carbon economy

Data requirements

The relevant data for this indicator are:

- Climate policy and details regarding governance
- The reporter should provide the following description of the transition plan including the following details:
- Whether the transition plan exists in a documented form and whether that document is public
- Who has responsibility for its implementation (at the strategic, not operational, level)
- How the results of scenario testing influenced the transition plan
- Scope and timescale for implementation of the transition plan
- Who has responsibility for its implementation (at the strategic, not operational, level)
- How successful implementation of the plan will be measured and monitored. (Should include details of any linked targets, emissions reduction or energy efficiency targets, or KPIs.)
- The role of a carbon price in the plan.

CDP Questionnaire applying to this indicator:

- C1.1
- C1.1a
- C1.1b
- C1.1c

  C1.1d
- C1.2
- C1.2a
- C1.1b

How the assessment will be done

Subdimension	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
Associated score	***0%***	***25%***	***50%***	***75%***	***100%***	
Measure of success	No measure of success		At least one measure of success which is fully SMART* and contains both qualitative and quantitative elements.		More than one measure of success. All measures of success are fully SMART*, contain both qualitative and quantitative elements, and are aligned with a low-carbon scenario.	***10%***
Financial content in plan	No financial content	Financial projections, cost estimates or other estimates of financial viability are described but not quantified.	Financial projections, cost estimates or other estimates of financial viability are quantified in some detail.	Quantitative estimations of how the business will change in the future are included. Costs associated with the plan (e.g., write-downs of stranded assets, Risk Weighted Asset increase, contract penalties, regulatory costs) are included.	Description of the major financial changes to the business over all timescales is comprehensive and aligned with other indicators. The transition plan is integrated into the overall business strategy of the organization and linked to the profit and loss statement.	***10%***

Short-term actions (recent past up to reporting year + 5 years)	Contains no discussion of short-term actions.		Contains examples of short-term actions the financial institution expects to implement.		Contains detailed descriptions of relevant and achievable short-term actions the FI expects to implement to make the transition a reality.	***10%***
Long-term actions and vision (from reporting year + 5 years onwards)	Contains no discussion of long-term actions or vision.		Contains descriptions of long-term actions the financial institution expects to implement to make the transition a reality.		Contains descriptions of long-term actions the FI expects to implement to make the transition a reality. Contains a vision of what the far-future FI could look like in terms of physical assets and business model.	***10%***
Scope	Scope of transition plan is not defined.	Transition plan applies only to specific business units/operations (representing less than 50% of company's GHG emissions).	Transition plan applies only to specific business units/operations (representing more than 50% of company's GHG emissions).	Transition plan applies to all business units/operations.	Transition plan applies to all the FI's business lines (banking book, trading book, off-balance sheet activities, etc..). Any exclusions from the plan must not be material to the organization in terms of GHG emissions.	***10%***

Implementation of results of scenario testing	The results of the FI's scenario testing (as assessed in Indicator 5.5 – Scenario testing) have not informed the development of the FI's transition plan..				The results of the FI's scenario testing (as assessed in Indicator 5.5 – Scenario testing) have informed the development of the FI's transition plan.	***10%***
Transition plan timescale†	Covers only short term, from reporting year until (RY + 3 years)	Covers only short and medium term, from reporting year until (RY + 4 to 10 years)	Covers short, medium and long term, from reporting year until (RY + 11 to 20 years)	Covers short, medium and long term, from reporting year until (RY + 21 years to 2049)	Covers short, medium and long term, from reporting year until 2050 or beyond	***10%***
Review and update process	No transition plan review and update process is in place.	Commitment to review and update transition plan, but no defined timescale or process.	Commitment to review and update transition plan, with either a defined timescale or process.	Commitment to review and update transition plan less often than every 5 years, with a defined process.	Commitment to review and update transition plan at least every 5 years for continuous relevancy and efficacy, with a defined process.	***10%***
Progress reporting process	No transition plan progress reporting process is in place.	Commitment to report progress against the transition plan and any material changes, but no defined timescale or stakeholder feedback process (e.g., shareholders and AGMs).	Commitment to report progress against the transition plan and any material changes, with either a defined timescale or stakeholder feedback process (e.g., shareholders and AGMs).	Commitment to report progress against the transition plan and any material changes less often than annually, with a defined stakeholder feedback process (e.g., shareholders and AGMs).	Commitment to report progress against the transition plan and any material changes annually, with a defined stakeholder feedback process (e.g., shareholders and AGMs).	***10%***

The role of a carbon price in the plan	No carbon price is considered.	Internal studies have been conducted regarding a carbon price, but this has not been used to guide decisions.	A carbon price is used only qualitatively by the company.	A carbon price is embedded in cost calculations as a financial indicator.	The carbon price value is aligned with a low-carbon scenario‡ and is integrated into the financial scenario used for making key business decisions.	***10%***

RATIONALE

BAN 5.3 LOW-CARBON TRANSITION PLAN

RATIONALE OF THE INDICATOR

All the sectors, including the finance one, will require substantial changes to their business to contribute to a low-carbon economy, over the short, medium and long term, whether it is voluntarily following a strategy to do so or is forced to change by regulations and structural changes to the market. It is better from a risk perspective and impact approach that the changes tied to the transition occur in a planned and controlled manner.

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45 ● **BAN 5. 4 CLIMATE CHANGE MANAGEMENT INCENTIVES**

DESCRIPTION & REQUIREMENTS

BAN 5.4 CLIMATE CHANGE MANAGEMENT INCENTIVES

SHORT DESCRIPTION OF INDICATOR

The Board’s compensation committee has included metrics for the reduction of GHG emissions in the annual and/or long-term compensation plans of senior executive and front office employees. The company provides financial incentives for the management of climate change issues as defined by a series of relevant indicators.

DATA REQUIREMENTS

The relevant data for this indicator are:

- Management incentives
- The reporter shall report whether the company provides incentives for the management of climate change issues, including the attainment of targets
- The reporter shall provide details on the incentives provided for the management of climate change issues
- The reporter shall provide details on the activities that are usually rewarded by incentives in the company

CDP Questionnaire mapping to this indicator:

- C1.3
- C1.3a

HOW THE ASSESSMENT WILL BE DONE

The analyst verifies if the financial institution has compensation incentives set for senior executive compensation and/or bonuses, that directly and routinely reward specific, measurable financing reduction emissions and/or the future attainment of emissions reduction targets, or other metrics related to the financial institution's low-carbon transition plan. For cases in which the financial institution's structure does not match the one of the maturity matrix, the assessor should assign a score based on the financial institution's specific hierarchy (i.e., if climate change management incentives are awarded to the highest level of decision-making within the organization, award "Low-carbon aligned". If incentives are available one level below the highest level, award "Next practice", etc.).

Note: the wording of the "What is the type of incentive" is based on the Executive Compensation Guidebook for Climate Transition developed by Willis Towers Watson, in partnership with the Climate Governance Initiative, a project in collaboration with the World Economic Forum (24).

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
Associated score		*0%*	*25%*	*50%*	*75%*	*100%*	

Who is entitled to benefit?	*Who is entitled to benefit?*	Any other answer	Level 4 (see guidance)*	Level 3 (see guidance)*	Level 2 (see guidance)*	Level 1 (see guidance)*	***50%***
What is the type of incentive?	*Type of incentive*	No incentives	The FI has annual bonuses (or other short-term incentive plans).tied to climate metrics (key performance indicators (KPIs)), including metrics related to GHG emissions reductions, climate solution financing, engagement and impact.		The FI has long-term incentive plan tied to climate metrics (key performance indicators (KPIs)), including metrics related to GHG emissions reductions, climate solution financing, engagement and impact.	The FI has long-term incentive plan tied to climate metrics, (key performance indicators (KPIs)), including metrics related to GHG emissions reductions, climate solution financing, engagement and impact. This plan aligns with the timescale and content of the FI's transition plan and emissions reduction targets.	***30%***
Share of the climate incentive over the total incentives	*Climate incentives share*	<=5%	<=15%	<=30%	<=50%	>50%	***20%***

- Further guidance for each level of seniority is given below:
  - Level 1
    - Highest level of accountability or decision-making within the organization, with responsibility for overall organizational or corporate strategic direction.
    - Examples: Board, sub-set of the Board, Chief Executive Officer (CEO)
  - Level 2
    - Person/committee that is one step in the corporate structure from the highest level of decision-making of the organization (i.e. reports to or is accountable to Level 1). Inputs into organizational strategy but does not make decisions on it. May have responsibility and accountability for business unit strategy formation and implementation of one or more business units.
    - Examples: Vice President, Director, other C-Suite officer (e.g., Chief Financial Officer (CFO), Chief Procurement Officer (CPO), Chief Risk Officer (CRO), Chief Operating Officer (COO), Chief Sustainability Officer (CSO), etc.), other committee appointed by the Board
  - Level 3
    - Person/committee that is two steps in the corporate structure from the highest level of decision-making of the organization. May have responsibility and accountability for business unit strategy formation and implementation for one business unit.
    - Examples: Manager, Senior Manager
  - Level 4
    - Person/committee that is three or more steps in the corporate structure from the highest level of decision-making of the organization. No responsibility or accountability for business unit strategy development.
    - Examples: Officer, Senior Officer

RATIONALE

BAN 5.4 CLIMATE CHANGE MANAGEMENT INCENTIVES

RATIONALE OF THE INDICATOR

Executive compensation should be aligned with overall business strategy and priorities. As well as commitments to action the company should ensure that incentives, especially at the executive level, are in place to reward progress towards low-carbon transition. This will improve the likelihood of successful low-carbon transition.

Monetary incentives at the executive level are an indication of commitment to successful implementation of a strategy for low-carbon transition.

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48 ● **BAN 5.5 CLIMATE RISK MANAGEMENT**

49

DESCRIPTION & REQUIREMENTS

BAN 5.5 CLIMATE RISK MANAGEMENT

SHORT DESCRIPTION OF INDICATOR

The financial institution is fully considering climate as a systemic risk. As a result, it is integrating climate in its own risk management process, informing its global strategy, and impacting its granting conditions (e.g., climate has a direct impact on the pricing of a loan, Green/Brown Supporting Factor)

DATA REQUIREMENTS

The relevant data for this indicator are:

- The reporter shall provide the details and supporting documents on the organization's climate change scenario testing

CDP Questionnaire mapping to this indicator:

- C1.1
- C1.1b
- C2.1
- C2.2
- C-FS2.2b
- C-FS2.2c
- C-FS2.2d
- C-FS2.2e

HOW THE ASSESSMENT WILL BE DONE

The analyst evaluates the description and evidence of the integration of climate risk in its risk management process and strategy

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low carbon aligned	Weighting

Associated score		*0%*	*25%*	*50%*	*75%*	*100%*	
Disclosure of climate related risks?	*Disclosure*	None	Reports partially the results and metrics used e.g., quantitative metrics are disclosed but without any explanations/contextualisation	Transparent about its risk management strategy, the scenario, variables, and sources used.	Disclose the results of its exercises, including quantitative results AND mitigations actions taken following the analysis Disclose key assumptions and variables used, and report on the key risks and opportunities identified	Disclose the results of the exercises and how it will incorporate climate-related and environmental risks/opportunities into their strategies, governance, and risk management.	***20%***
What is the level of implementation among the institution?	*Implementation*	None	Climate risk exposure following	Has defined risk analysis tools (apart from climate change scenarios). It informs & Influences strategy & financial planning & operations	Risk management is included in the decision-making process on pricing (credit risk management), granting loans or investing in certain business areas	Integrate climate risks into strategies, governance and risk management arrangements. Incorporate climate risk into its stress-testing framework and internal models.	***40%***
What is the position of the employee/ committee with highest responsibility	*Roles and responsibilities oversight*	None	Level 4 (see guidance)*	Level 3 (see guidance)*	Level 2 (see guidance)*	Level 1 (see guidance)*	***40%***

for risk management supervision?							

- Level 1
  - Highest level of accountability or decision-making within the organization, with responsibility for overall organizational or corporate strategic direction.
  - Examples: Board, sub-set of the Board, Chief Executive Officer (CEO)
- Level 2
  - Person/committee that is one step in the corporate structure from the highest level of decision-making of the organization (i.e. reports to or is accountable to Level 1). Inputs into organizational strategy but does not make decisions on it. May have responsibility and accountability for business unit strategy formation and implementation of one or more business units.
  - Examples: Vice President, Director, other C-Suite officer (e.g., Chief Financial Officer (CFO), Chief Procurement Officer (CPO), Chief Risk Officer (CRO), Chief Operating Officer (COO), Chief Sustainability Officer (CSO), etc.), other committee appointed by the Board
- Level 3
  - Person/committee that is two steps in the corporate structure from the highest level of decision-making of the organization. May have responsibility and accountability for business unit strategy formation and implementation for one business unit.
  - Examples: Manager, Senior Manager
- Level 4
  - Person/committee that is three or more steps in the corporate structure from the highest level of decision-making of the organization. No responsibility or accountability for business unit strategy development. Examples: Officer, Senior Officer

RATIONALE

BAN 5.5 CLIMATE RISK MANAGEMENT

RATIONALE OF THE INDICATOR

Climate has been explicitly identified as a financial risk for years now (25). According to European supervisors, financial institutions are not on the track to follow their climate risk exposure and managing it ('a wait-and-see approach is still prevalent') (26). Even though climate change scenario analysis and testing have become common practice (with a large heterogeneity (27) in its exercise but this will be the topic of the next section 5.6), climate risk

management itself is still lagging in terms of best practice (28) (definition of a climate risk strategy, deployment and implementation, governance, allocation of roles & responsibilities associated with it).

Expectation: 'Institutions are expected to incorporate climate-related and environmental risks as drivers of existing risk categories into their risk management framework, with a view to managing, monitoring and mitigating these over a sufficiently long-term horizon, and to review their arrangements on a regular basis.[3]

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53 ● **BAN 5.6 CLIMATE CHANGE SCENARIO TESTING**

54

DESCRIPTION & REQUIREMENTS	**BAN 5.6 CLIMATE CHANGE SCENARIO TESTING**
SHORT DESCRIPTION OF INDICATOR	Assessing bank's climate risk stress-testing framework.
DATA REQUIREMENTS	The relevant data for this indicator are: ♦ The reporter shall provide the details and supporting documents on the organization's climate change scenario testing CDP Questionnaire mapping to this indicator: ♦ C3.1a ♦ C3.1d ♦ C3.1e ♦ C3.2
HOW THE	The analyst evaluates the description and evidence of the climate scenario testing for the presence of best-practice elements and consistency with the other reported management indicators. The financial institution description and

ASSESSMENT WILL BE DONE

evidence are compared to the maturity matrix developed to guide the scoring and a greater number of points is allocated for elements indicating a higher level of maturity.

Best-practice elements to be identified in the test/analysis include:

- full coverage of the bank's boundaries
- timescale from present to long-term (2035-2050)
- results are expressed in value-at-risk or other financial terms
- multivariate: a range of different changes in conditions are considered together
- changes in conditions are specific to a low-carbon climate scenario
- climate change conditions are combined with other likely future changes in operating conditions over the timescale chosen

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low carbon aligned	Weighting
Associated score		***0%***	***25%***	***50%***	***75%***	***100%***	
Does the bank has a robust climate risk stress-testing framework?	*Climate stress testing framework*	None	Internal framework, no clear purpose evidenced	Measure and manage climate risk, closing the current data gaps and adopting good practices that are already present in the sector	Defining quantitatively the institution's potential exposure to transition and physical risks and qualitatively the reputational risks	Aligned with the guidance and pilot programmes of relevant regulatory authorities and central banks	***10%***
What is the scope of the scenario testing?	*Scope*	Scope of scenario testing is not defined.		Scenario testing applies to the entire banking book		Scenario testing applies to all business lines of the bank	***20%***
What is the timescale of the scenario	*Timescale*	Covers only short term, from reporting	Covers only short and medium term,	Covers short, medium and long term, from	Covers short, medium and long term,	Covers short, medium and long term, from	***20%***

testing?		year until (RY + 3 years).	from reporting year until (RY + 4 to 10 years).	reporting year until (RY + 11 to 20 years).	from reporting year until (RY + 21 years to 2049).	reporting year until 2050 or beyond.	
Does the company assess the materiality of climate-related risks/opportunities*?	*Climate-related risks/opportunities**	The materiality of climate-related risks/opportunities* is not assessed.	The materiality of 1 category of climate-related risks/opportunities* is assessed.	The materiality of 2 categories of climate-related risks/opportunities* is assessed.	The materiality of 3 categories of climate-related risks/opportunities* is assessed.	The materiality of 4 categories of climate-related risks/opportunities* is assessed.	***10%***
How many scenarios are considered?	*Scenarios***	No scenarios are considered.	Considers 1 scenario.	Considers 2 scenarios, one in different category		Considers 3 or more scenarios among each one of the category, including a low-carbon economy scenario (1.5°C with no or low overshoot).	***10%***
What parameters/assumptions are considered?	*Parameters/assumptions considered*	Considers 1-2 different parameters/assumptions.		Considers 3-4 parameters/assumptions together (multivariate)		Considers 5 or more parameters/assumptions together, related to changing climate conditions in combination with changes in operating conditions .	***10%***

Are the results† expressed in qualitative/ quantitative/ financial terms?	*Results†*	No results available	Expressed only in qualitative terms	Expressed in qualitative and quantitative terms	Expressed in qualitative, quantitative and financial terms	Expressed in qualitative, quantitative and financial terms and results are translated into value-at-risk	***10%***
Is a carbon price considered?	*Carbon price*	No carbon price is considered.		A carbon price is used as one of the main parameters/assumptions		The carbon price used is aligned with the parameters/assumptions of a low-carbon economy scenario‡	***10%***

* Climate-related risk categories (29):
    1. Market and Technology shifts
    2. Reputation
    3. Policy and Legal
    4. Physical Risks

† Results of stress testing should be presented as business impacts which can include consideration of[4]:

- Scale: What is the order of magnitude of the potential impact?
- Timeframe: What can I conclude about the possible timescales over which this will emerge?
- Asset classes and sectors: What does my analysis tell me about the differential impact of climate change on different asset classes and/or sectors?
- Valuation: Can I draw out lessons from the way I value individual companies or assets (quantitative or qualitative)?
- Trends and drivers: What does the analysis tell me about the signals to watch for in order to track climate risks in specific asset classes, sectors or companies?

‡ Refer for instance to International Energy Agency (IEA), World Energy Outlook 2019, Annex B, p 758 (30).

[4] Navigating climate scenario analysis: A guide for institutional investors, p.51

CO_2 prices are displayed by world regions, predicted values in 2030 and 2050.

***

Comparison of key climate scenarios[5]

SOURCE	SCENARIO	SECTOR COVERAGE	TEMPERATURE OUTCOME (°C)	DESCRIPTION
1.5˚C SCENARIOS				
IEA	Net Zero Emissions by 2050 (NZE)	Energy sector (excludes AFOLU)	1,4	Assumes higher shares of carbon sequestration to achieve net zero, with approximately 7.6Gt CO_2/year by 2050, including CO_2 removal from bioenergy with carbon capture and storage (BECCS) and DACCS. 49% of final energy demand comes from electricity generation in 2050, and hydrogen use is 20EJ/year.[xx]
NGFS	Orderly: Net Zero 2050	All sectors	1,5	Assumes stringent climate policies are introduced early and a high innovation environment is cultivated, limiting warming to 1.5°C. Electricity provides 53% of final energy demand in 2050 while hydrogen use is 18EJ/year. CCS delivers around 8.5Gt CO_2/year by 2050.
NGFS	Disorderly: Divergent Net Zero	All sectors	1,5	Assumes policies are delayed and divergent across countries, but sufficiently stringent to reach 1.5˚C. 58% of final energy comes from electricity in 2050 while hydrogen use is 16EJ/year. CCS delivers around 6Gt CO_2/year by 2050. There are particularly high transition costs associated with this scenario, which assumes a carbon price of ~$630/t$CO_2$ per year (2020 real prices).
IRENA	1.5°C Scenario (1.5-S)	Energy sector (excludes AFOLU)	1,5	Assumes relatively higher renewable penetration and hydrogen deployment to reduce emissions.
PRI	Inevitable Policy Response: Required Policy Scenario	All sectors	1,5	IPR's assessment of future policy developments needed to accelerate emissions reduction and hold the global temperature increase to a 1.5 degree outcome.
2˚C CONSISTENT SCENARIOS				
IEA	SDS	Energy sector (excludes AFOLU)	1,6	Assumes actions are taken to meet the energy- related UN Sustainable Development Goals by 2030, leading to significant reduction in global warming.
NGFS	Orderly: Below 2°C	All sectors	1,7	Assumes climate policies are introduced early and gradually become more stringent, leading to reduced transition costs compared to the NGFS's delayed transition scenario.
NGFS	Disorderly: Delayed transition	All sectors	1,8	Assumes that policies are delayed and divergent across countries and sectors leading to higher transition risks of reducing global warming to below 2˚C.
PRI	Inevitable Policy Response: Forecast Policy Scenario	All sectors	1,8	IPR's assessment of what is anticipated, in terms of future policy developments and the subsequent impact on emissions reduction and temperature outcomes.
2.5+˚C SCENARIOS				
IEA	STEPS	Energy sector (excludes AFOLU)	2,6	Assumes current policies and commitments, including NDCs and stimulus packages in response to COVID-19.
NGFS	Hot house world: NDCs	All sectors	~2.5	Assumes that some climate policies are implemented in some jurisdictions, but globally efforts are insufficient to halt significant global warming.
NGFS	Hot house world: Current Policies	All sectors	3.0+	Assumes that climate policies are implemented in some jurisdictions, but globally efforts are insufficient to halt significant global warming.
IEA	Announced Pledges	Energy sectors (excludes AFOLU)	2,1	Assumes current policies and commitments, including NDCs and stimulus packages in response to COVID-19, plus all high-level announced pledges are achieved.

RATIONALE

BAN 5.6 CLIMATE CHANGE SCENARIO TESTING

RATIONALE OF THE INDICATOR

There are a variety of ways of analysing the potential impacts of climate-related changes on a bank, whether these are slow and gradual developments or one-off "shocks". Supervisors are increasingly calling for techniques such as use of an internal price on carbon, scenario analysis and stress testing to be implemented to enhance banks' ability to assess climate-related risk.

[5] https://www.iigcc.org/media/2022/04/JC0426_IIGCC_Climate-Transition-Report_FINAL.pdf

To date, around 60% of European banks do not yet have a climate risk stress-testing framework (31). It is key to integrate climate risk scenarios into their stress-testing models, with both physical and transition risks, as well as long-and short-term horizons. Scenario stress testing is an important management tool to account for various transmission channels and asset classes. It is important for financial institution to understand the businesses likely to be strongly affected by climate change impacts (both direct and indirect).

As this practice is still to be fully onboarded by banks, the ACT methodology thus provides a broad definition of types of testing and analysis which can be relevant to this information requirement, to identify both current and best practices and consider them in the analysis.

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MODULE 6: SAVERS ENGAGEMENT

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BAN 6.1 STRATEGY TO INFLUENCE SAVERS

DESCRIPTION & REQUIREMENTS

BAN 6.1 STRATEGY TO INFLUENCE SAVERS

SHORT DESCRIPTION OF INDICATOR

This indicator assesses the strategy put in place to influence savers' choices and behaviors in order to reduce:

- Their GHG emissions tied to their banking account
- Their GHG emissions tied to their own activities i.e. their business activities for a company or their individual lifestyle for consumers.

DATA REQUIREMENTS

The relevant data for this indicator are:

- Methods for engaging with savers, strategy for prioritizing actions and measures of success, especially for savers with a high level of savings
- Data on savers' GHG emissions and climate change strategies
- CDP Questionnaire mapping to this indicator:
  -
  - C-FS12.1b

External sources of data may also be used for the analysis of this indicator.

HOW THE ASSESSMENT WILL BE DONE

The assessment will assign a maturity score based on the financial institution's formalized, written strategy regarding its engagement with its savers(corporates and individuals), expressed in a maturity matrix.

A financial institution that is placed in the 'Low-carbon aligned' category will receive the maximum score. A financial institution which is at a lower level will receive a partial score, with 0 points awarded for having no engagement at all.

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
Associated score		***0%***	***25%***	***50%***	***75%***	***100%***	
What is the scope of the savers' engagement strategy?	*Scope*	No strategy applied to any savers.	Strategy applied to up to 30% of total savings	Strategy applied to 31-60% of total savings	Strategy applied to 61-90% of total savings	Strategy applied to over 90% of total savings	***50%***
What action levers‡ are embedded in the company's strategy to engage savers?	*Action levers‡ embedded in strategy*	No action levers‡ embedded in strategy.	Strategy includes action lever(s) from one of the engagement types (Information collection, Engagement & Incentivisation, Innovation & collaboration, Fostering internal changes) used.‡	Strategy includes action levers from two of the four engagement types (Information collection, Engagement & Incentivisation, Innovation & collaboration) used, Fostering internal changes) used.‡	Strategy includes action levers from all of the four engagement types (Information collection, Engagement & Incentivisation, Innovation & collaboration, Fostering internal changes) used.‡	Strategy includes action levers from all of the four engagement types (Information collection, Engagement & Incentivisation, Innovation & collaboration, Fostering internal changes) used.‡ Must include 'staff	***50%***

						training'(4.) and 'carbon tool' actions (1.)	

Indicative (non-exhaustive) list to help in the matrix assessment:

‡ 1. Information collection (understanding savers behavior)

- Collect climate change and carbon criteria at least annually from savers to promote sustainable financial products matching with client climate requirements

- Promote or develop tools to enable clients calculate the carbon footprint of their lifestyle/activities or assess their contribution to Paris Agreement mitigation goal (for corporates e.g. ACT Step by Step or ACT assessment)

2. Engagement & incentivization (changing savers behavior)

- Run an engagement campaign to educate savers about climate change/GHG emissions reductions/other low-carbon transition-related topics for their saving schemes

- Offer financial incentives for savers directing their savings towards climate solutions/low carbon activities/helping companies to transition

- Provide climate-related training, support, and best practices

- Directly work with savers on climate-related topics, such as defining common GHG emission reduction plans for their saving schemes

- Promoting sustainable consumption

3. Innovation & collaboration (changing markets)

- Run a campaign to encourage innovation to reduce climate impacts on products and services

- Collaborate with savers on innovative low-carbon/transition savings products

- Report on savings schemes' climate performance to savers

4. Fostering internal changes (teams/tools/processes)

- Regular staff training and upskilling on climate-related topics and related saving schemes

- Incentivization of relationship managers to put forward climate-positive solutions or funds

RATIONALE

BAN 6.1 STRATEGY TO INFLUENCE SAVERS

RATIONALE OF THE INDICATOR

RELEVANCE OF THE INDICATOR:

Deposits are a key financial resource for many credit institutions. The deposit relationship, whether with a corporate or a retail (consumer) saver, is often one entry point for the institution to then provide other products and services. Savers engagement is included in this ACT methodology for the following reasons:

- It is important to act on all the possible existing levers. Engaging with savers is also a great way to be part of the solution and go even beyond the engagement with their clients.

Savers can be whether corporates or consumers:

- For corporates, it is a great opportunity for the bank to raise climate change issues and orientate & influence the commercial relationship in favour of climate discussions and to highlight sustainable financial products which may finance the decarbonization strategy of the corporate.
- For individuals, depending on the strategy defined, it can also be an opportunity to help them orientate their savings towards sustainable financial products and funds and to make them understand how the money they put at the bank can directly or indirectly finance high emitting sectors. Providing a carbon footprint tool, whether for their personal lifestyle or for their banking account emissions, can be very useful to understand the environmental impact of their choices.

SCORING THE INDICATOR:

Because of data availability and complexity, a direct measure of the outcome of such engagement is not very feasible at this time. Because there are no taxonomic labelled fund savers (individuals or corporates) could place their money in or because the additionality of the engagement actions made with corporates or individuals is not measurable, the approach of a maturity matrix allows the analyst to consider multiple dimensions of savers engagement and assess them together towards a single score for Savers Engagement.

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BAN 6.2 Activities to influence savers

Description & Requirements

BAN 6.2 Activities to influence Savers

Short description of indicator

This indicator assesses the extent to which the financial institution implements activities and initiatives that help, influence or otherwise enable savers to reduce their GHG emissions. The indicator aims to be a holistic measure of these activities and initiatives, with evidence of implementation and outcomes.

Data requirements

The relevant data for this indicator are:

- List of activities implemented to influence savers to reduce their GHG emissions, track record
- CDP Questionnaire mapping to this indicator:
  - C-FS12.1b

External sources of data may also be used for the analysis of this indicator.

How the assessment will be done

The assessment will assign a maturity score based on the financial institution's demonstration of recent and current activities with its savers, expressed in a maturity matrix.

A financial institution that is placed in the 'Low-carbon aligned' category will receive the maximum score. A company which is at a lower level will receive a partial score, with 0 points awarded for having no engagement at all.

This maturity matrix is indicative but does not show all possible options that can result in a particular score. The financial institution's responses will be scrutinized by the analyst and then placed on the level in the matrix where the analyst deems it most appropriate.

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting

Associated score		***0%***	***25%***	***50%***	***75%***	***100%***	
What action levers* does the financial institution use in practice to engage savers?	*Action levers* used in practice*	No action levers‡ embedded in strategy.	Evidence of financial institution using action lever(s) from one of the engagement types (Information collection, Engagement & Incentivisation, Innovation & collaboration, Fostering internal changes).‡	Evidence of financial institution using action lever(s) from two of the engagement types (Information collection, Engagement & Incentivisation, Innovation & collaboration, Fostering internal changes).‡	Evidence of financial institution using action lever(s) from three of the engagement types (Information collection, Engagement & Incentivisation, Innovation & collaboration, Fostering internal changes).‡	Evidence of financial institution using action lever(s) from all of the engagement types (Information collection, Engagement & Incentivisation, Innovation & collaboration, Fostering internal changes).‡ Actions must include 'staff training'(4.) and 'carbon tool' actions (1.)	***30%***
What is the scope of the recent and current activities in supplier engagement?	*Scope*	No savers engaged.	Savers engaged represent up to 30% of total savings.	Savers engaged represent 31-60% of total savings.	Savers engaged represent 61-90% of total savings.	Savers engaged represent over 90% of total savings.	***40%***

How impactful has the company's supplier engagement been?	*Impact of engagement†*	No evidence of impact† of action levers used.	Some action levers used have qualitative evidence of impact†.	Almost all action levers used have qualitative evidence of impact†.	Some action levers used have quantitative evidence of impact†.	Almost all action levers used have qualitative and quantitative evidence of impact†.	***30%***

* Action levers must be presented as examples of past/present actions/initiatives, and not be theoretical/embedded in a strategy document (such examples should be scored in indicator 6.1). "Action levers" include, but are not limited to, the following examples, which are grouped into four engagement types (sources: 2022 CDP climate change questionnaire C12.1):

Indicative (non-exhaustive) list to help in the matrix assessment:

1. Information collection (understanding savers behavior)

- Collect climate change and carbon criteria at least annually from savers to promote sustainable financial products matching with client climate requirements

- Promote or develop tools to enable clients to calculate the carbon footprint of their savings/activities or assess their contribution to Paris Agreement mitigation goal (for corporates e.g. ACT Step by Step or ACT assessment)

2. Engagement & incentivization (changing saver behavior)

- Run an engagement campaign to educate savers about climate change/GHG emissions reductions/other low-carbon transition-related topics for their saving schemes

- Offer financial incentives for savers directing their savings towards climate solutions/low carbon activities/helping companies to transition

- Provide climate-related training, support, and best practices

- Directly work with savers on climate-related topics, such as defining common GHG emission reduction plans for their saving schemes
- Promoting sustainable/low-carbon consumption

3. Innovation & collaboration (changing markets)
- Run a campaign to encourage innovation to reduce climate impacts on products and services
- Collaborate with savers on innovative low-carbon/transition savings products
- Report on savings schemes' climate performance to savers

4. Fostering internal changes (teams/tools/processes)
- Regular staff training and upskilling on climate-related topics and related saving schemes
- Incentivization of relationship managers to put forward climate-positive solutions or funds

† 'The metric used to measure impact depends on the action lever the metric refers to. Examples of “evidence of impact” might include, but are not limited to:
  - Qualitative example: Feedback from savers e.g. consumers finding insightful to get insights on their behaviors or saying that they appreciate and will use this new knowledge to start their journey on the low-carbon transition
  - Quantitative example: Increase of X% in sustainable financial products/preferences
  - Quantitative example: Increase of X% in savers conducting a carbon accounting assessment

Rationale

BAN 6.2 Activities to influence savers

Rationale of the indicator

Relevance of the indicator:

Savers engagement is included in this ACT methodology for the following reasons:

♦ It is important to act on all the possible existing levers. Engaging with savers is also a great way to be part of the solution and go even beyond

the engagement with their clients.

Savers can be whether corporates or consumers:

- For corporates, it is a great opportunity for the bank to raise climate change issues and orientate & influence the commercial relationship in favour of climate discussions and for instance highlight sustainable financial products which may finance the decarbonization strategy of the corporate.
- For individuals, depending on the strategy defined, it can also be an opportunity to help them orientate their savings towards sustainable financial products and funds and to make them understand how the money they put at the bank can directly or indirectly finance high emitting sectors. Providing a carbon footprint tool, whether for their personal lifestyle or for their banking account emissions, can be very insightful to understand the environmental impact of their choices. Promoting sustainable.

SCORING THE INDICATOR:

Because of data availability and complexity, a direct measure of the outcome of such engagement is not very feasible at this time. Because there are no taxonomic labelled fund savers (individuals or corporates) could place their money in or because the additionality of the engagement actions made with corporates or individuals is not measurable, the approach of a maturity matrix allows the analyst to consider multiple dimensions of savers engagement and assess them together towards a single score for Savers Engagement.

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MODULE 7: CLIENTS ENGAGEMENT

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BAN 7.1 STRATEGY TO INFLUENCE CLIENTS

DESCRIPTION & REQUIREMENTS	**BAN 7.1 STRATEGY TO INFLUENCE CLIENTS**
SHORT DESCRIPTION	The financial institution has an engagement strategy, ideally governed by policy and integrated into business decision making, to influence, enable, or otherwise shift clients' business model/activities in order to reduce GHG emissions.

OF INDICATOR

DATA REQUIREMENTS

The relevant data for this indicator are:

- The financial institution shall disclose details on its engagement strategy (objectives, levers) & associated framework.

CDP Questionnaire mapping to this indicator:

- C-FS2.2f
- C-FS3.6
- C-FS3.6b
- C-FS12.1b
- FW-FS3.3
- FW-FS3.3a
- FW-FS3.4

External sources of data may also be used for the analysis of this indicator.

HOW THE ASSESSMENT WILL BE DONE

The assessment will assign a maturity score based on the financial institution's formalized, written strategy regarding its engagement with its counterparties, expressed in a maturity matrix.

A financial institution placed in the 'Low-carbon aligned' category will receive the maximum score. Conversely, a financial institution at a lower level will receive a partial score, with 0 points awarded for having no engagement at all.

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
Associated score		***0%***	***25%***	***50%***	***75%***	***100%***	
What is the scope of the borrower's engagement strategy?	*Scope*	No strategy applied to any clients.	Strategy applied to all clients from the fossil fuel sector (upstream and midstream)	Strategy applied to all clients from the fossil fuel sector (upstream and midstream) and other clients counting for up	Strategy applied to all clients from the fossil fuel sector (upstream and mistream) and other clients counting for 61-90% of the financed emissions	Strategy applied to all clients from the fossil fuel sector (upstream and midstream) and other clients counting for at	***This indicator will weigh the final score of this matrix***

				to 60% of the financed emissions and 60% of the facilitated emissions	and 61-90% of the facilitated emissions	least 90% of the financed emissions and encompass the capital market activities (bonds & equity deals)	
Does the financial institution have a structured engagement strategy/approach ?	*Engagement strategy structuration*	No engagement policy	Details on how it has selected and prioritized counterparties to engage with.	Has set up a structured engagement approach: a focus is given to those generating the highest owned emissions. Has set their own outcome based KPI from its engagement framework (evidence of an existing framework must exist)		Has defined an engagement strategy & associated framework with (i) objectives with a due timeline, (ii) associated tools for measuring & tracking the engagement policy implementation, and (iii) the transparency related to this engagement strategy	***20%***
Does the financial institution follow recommendations on existing impact management standards?	*Theory of change*	No evidence		Has defined an internal impact management standard. The financial institution identifies the relevant climate actions and their relative impact using the approach or metrics best suited to their organizational context or		Demonstrates complying/drawing on impact-oriented framework to design its engagement strategy (e.g., ISO 14097, ISO 14001, EMAS, Climate Impact Management System (CIMS)))	***15%***

				capabilities.			
What are the objectives & related outcomes of this engagement strategy/framework?	*Objectives/ambition*	None	Improving dialogue and climate awareness among counterparties	Improving governance of climate risks/opportunities AND/OR enhance disclosure alignment with recognized framework (e.g. TCFD)	Has defined: - General Climate Objectives: Reduce GHG corporate client's emissions & tracking it. - Sectoral objectives: has a sectoral engagement policy on the fossil fuels sector (upstream and midstream) including no new fossil fuels production projects or coal mines, including in the capital market activities -Paris Agreement alignment criteria: Impact the use of financings (CAPEX & OPEX breakdown use) and/or its orientation	Has defined: - Science based Climate objectives: reduce GHG corporate clients emissions across the value chain (on significant direct & indirect scope emissions), consistent with a 1.5°C scenario & tracking it - Sectoral objectives: has a sectoral engagement policy on fossil fuels sector including no new fossil fuels production projects or coal mines and a date for full exit including in capital market activities - Paris Agreement alignment criteria: Impact the use of	***15%***

						financings (CAPEX & OPEX breakdown use) and/or its orientation AND - an associated timeline	
What are the characteristics of the financial institution's escalation strategy?	*Escalation strategy*	No evidence of an existing escalation strategy.	The escalation strategy shows evidence of a collaborative approach without confrontational milestones (often referred as a 'Tea-&-Cookies' engagement approach) and without an associated timeline		Has defined a gradual escalation process, ranging from a collaborative/'Tea-&- Cookies' approach to confrontational/forceful engagement with an associated timeline.	The escalation strategy includes: (i) List of sanctions increasingly restrictive; (ii) deadlines supported with clear criteria enabling to move to the next sanction milestone; (iii) A possibility of ending banking relationshipor other meaningful penalty (with a short timescale already determined) in case of failure in the dialogue, to prevent the engagement process from stalling;	***15%***

What action levers† are embedded in the financial institution's engagement strategy to encourage clients to reduce their emissions?	*Action levers† embedded in strategy*	No action levers† embedded in strategy	Strategy includes action lever(s) from two of the engagement types (C-FS12.1b).	Strategy includes action lever(s) from three of the engagement types (C-FS12.1b) and must include actions from the "Engagement & incentivization" category	Strategy includes action lever(s) from four of the engagement types (C-FS12.1b) and must include actions from the "Engagement & incentivization" category	Strategy includes action lever(s) from all engagement types (C-FS12.1b) with prioritization among the most impactful categories according to its business specificities and objectives i.e. the "Engagement & incentivization" category	***20%***
To what extent are other low carbon transition related recommendations * integrated in client engagement strategy?	*Other low-carbon transition-related recommendations**	No other low-carbon transition related recommendations* included in borrower engagement strategy.				1 or more other low-carbon transition related recommendations* included in borrower engagement strategy.	***15%***

* "Other low-carbon transition-related recommendations" refers to key aspects of a counterparty's low-carbon transition, beyond emissions reductions and targets, that financial institutions can engage them on. These aspects can include performance indicators from any ACT performance modules, such as:
    - Intangible investment
        - For example, the financial institution recommends that its clients increase their R&D spend in low-carbon technologies.
    - Management
        - For example, the financial institution encourages its borrower to conduct climate change scenario testing.
    - Policy engagement
        - For example, the financial institution encourages its borrower to support relevant climate policies.
    - Business model

        - For example, the financial institution engages with its clients to develop new, low-carbon business models or activities.

- Action levers must be embedded in a strategy document, and not be presented as examples of past/present actions/initiatives (such examples should be scored in indicator 7.2). “Action levers” include but are not limited to the following individual action levers, which are grouped into five engagement types (sources: 2022 CDP climate change questionnaire CDP 12.1b (C-FS12.1b) (Banking/Asset manager):

    - Education/information sharing
        - Run an engagement campaign to educate counterparties about your climate change performance and strategy
        - Run an engagement campaign to educate counterparties about climate change
        - Share information about your carbon portfolio performance and relevant certification schemes (i.e. taxonomic performance, BTAR)
        - Provide corporates with information and analytics regarding their business specific climate risks and opportunities

    - Collaboration & innovation
        - Run a campaign to encourage innovation to reduce climate change impacts (e.g., climate solutions)
        - Work in partnership with corporates on decarbonization goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets
        - Making lending conditional on the adoption of sustainable practices and engage collaboratively with company management while negotiating future funding agreements (32)
        - Provide specific climate-related products (e.g., sustainability linked loans)

    - Compliance & onboarding
        - Include climate change considerations in borrower’s client management mechanism
        - Use of climate covenants in business relationship
        - Enhanced Climate Due Diligence
        - Sectoral exclusions related to GHG emissions
        - Restrictions on lending to unsustainable projects (32)

    - Information collection (understanding client behavior)

- Collect climate change and emissions information at least annually from long-term clients

- Engagement & incentivization (changing client behavior)

  Providing non-banking solutions such as:
  - Engage with clients on measuring exposure to climate-related risk
  - Support clients in their decarbonization journey (e.g. carbon footprint assessment, help defining a climate strategy (see ACT Step by Step))
  - Require better climate-related disclosure practices
  - Require clients to set a credible and robust transition plan

  Providing banking solutions such as:
  - Provide specific climate-related products
  - Dedicate bonified credit lines specifically to climate solutions
  - Offer financial incentives to counterparties for reducing their significant direct & indirect GHG emissions significantly.

Rationale

BAN 7.1 STRATEGY TO INFLUENCE CLIENTS

Rationale of the indicator

RELEVANCE OF THE INDICATOR:

Strategies to influence counterparties are included in this ACT methodology for the following reasons:

- For financial institutions engagement is considered as the most impactful/tangible lever for direct GHG emissions reduction in the economy.

- Financial institutions shall not be spectators and simply respond to the financial needs of the private sector. It has an important responsibility as the financings can directly unlock project that will emit GHG emissions over a long period of time. In other words, operating on what is called the "primary market" must directly contribute to the transition as it brings additional capital to enable/unlock new projects (including green or decarbonization one or, on the opposite, ceasing the financing of new O&G expansion projects for instance. The downstream money value chain represents the largest source of emissions and risks for financial institutions and must be addressed through a proper ambitious engagement

strategy.

SCORING THE INDICATOR:

Because of data availability and complexity, a direct measure of the outcome of such engagement is not very feasible at this time. It is often challenging to quantify the emission reduction potential and outcome of collaborative activities with the borrower. Therefore, the approach of a maturity matrix allows the analyst to consider multiple dimensions of engagement and assess them together towards a single score for a strategy related to engagement with clients.

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65 ● **BAN 7.2 ACTIVITIES TO INFLUENCE CLIENTS**

DESCRIPTION & REQUIREMENTS

BAN 7.2 ACTIVITIES TO INFLUENCE CLIENTS

SHORT DESCRIPTION OF INDICATOR

This indicator assesses the extent to which the financial institution implements activities and initiatives that help, influence or otherwise enable clients to reduce their GHG emissions. The indicator aims to be a holistic measure of these activities and initiatives, with evidence of implementation and outcomes in the clients value chain across all products/services.

DATA REQUIREMENTS

The relevant data for this indicator are:

- Activities to influence clients GHG emissions
- % of products/services
- Data on clients' choices and preferences towards reducing GHG emissions

CDP Questionnaire mapping to this indicator:

- C-FS2.2f
- C-FS3.6
- C-FS3.6b
- C-FS12.1b

External sources of data may also be used for the analysis of this indicator.

HOW THE ASSESSMENT WILL BE DONE

The assessment will assign a maturity score based on the financial institution's demonstration of recent and current activities and initiatives with its clients, expressed in a maturity matrix.

A financial institution that is placed in the 'Low-carbon aligned' category will receive the maximum score. A financial institution which is at a lower level will receive a partial score, with 0 points awarded for having no engagement at all.

This maturity matrix is indicative but does not show all possible options that can result in a particular score. The financial institution' responses will be scrutinized by the analyst and then placed on the level in the matrix where the analyst deems it most appropriate.

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
Associated score		***0%***	***25%***	***50%***	***75%***	***100%***	
What is the scope of the recent & current activities in borrower's engagement strategy?	*Scope*	No clients engaged	All clients from the fossil fuel sector (upstream and midstream) have been engaged	All clients from the fossil fuel sector (upstream and midstream) and other clients counting for up to 60% of the financed emissions and 60% of the facilitated emissions have been engaged	All clients from the fossil fuel sector (upstream and midstream) and other clients counting for 61-90% of the financed emissions and 61-90% of the facilitated emissions have been engaged	All clients from the fossil fuel sector (upstream and midstream) and other clients counting for at least 90% of the financed emissions and encompass the capital market activities (bonds & equity deals) have been engaged	***This indicator will weigh the final score of this matrix***

What action levers* does the financial institution use in practice to encourage clients to reduce their emissions?	*Action levers* used in practice*	No evidence (case studies, track record) of action levers* used in practice.	Evidence (case studies, track record) of FI using action lever(s) from TWO of the five engagement types* (Education/information sharing, Collaboration & innovation, Compliance & onboarding, information collection, Engagement & incentivization).	Evidence (case studies, track record) of FI using action lever(s) from THREE of the five engagement types* (Education/information sharing, Collaboration & innovation, Compliance & onboarding, information collection, Engagement & incentivization) and must include action from "Engagement & incentivization"	Evidence (case studies, track record) of FI using action lever(s) from FOUR of the five engagement types* (Education/information sharing, Collaboration & innovation, Compliance & onboarding, information collection, Engagement & incentivization) and must include action from "Engagement & incentivization"	Evidence (case studies, track record) of FI using action lever(s) from ALL of the engagement types* with prioritization among the most impactful categories according to its business specificities and objectives	***20%***
How impactful has the financial institution's client's engagement strategy been?	*Impact of engagement†*	No evidence of impact† of action levers used.	Some action levers used have qualitative evidence of impact†.	Almost all action levers used have qualitative evidence of impact†.	Some action levers used have quantitative evidence of impact†.	Almost all action levers used have qualitative and quantitative evidence of impact†.	***15%***
How does the financial institution promote the adoption of a transition plan from its counterparties?	*Transition plan requirement*	Do not require that financed companies provide transition plans as a condition for receiving financing.	Requires transition plans from coal companies, but not from other high-risk sectors	Requires transition plans from coal and Oil & Gas companies, but not from other high-risk sectors	Requires companies from all high emitting sectors it provides funding to adopt transition plans consistent with bank-specific emissions targets	Systematically apply financing conditions to ensure that client transition plans are enforced. It establishes a watchlist of clients, setting exclusionary loan terms (e.g. suspending or phasing out disbursement)	***40%***

						and providing climate-linked credit lines explicitly aimed at accelerating clients' transitions.	
How impactful the escalation strategy/process has been in practice?	*Escalation process*	No reference/use of escalation process	Information from disclosure show that the escalation process is not systematic AND not explicitly stated with counterparties	Disclose & follow evidence of the application of its escalation strategy in practice	The escalation strategy applies to most financings. All financings are aware that the financing can be terminated/non renewed if the required sustainability performance is not met. Clear description of the expectations of the bank around escalation. It provides metric quantifying its escalation activity.	Evidence of a systematic application of its escalation framework to current and new financings. The bank provides escalation case studies which are sufficiently detailed, varied and clearly distinguished between the engagement activity and the escalation activity.	***15%***
Does the financial institution have a review process to track and report the outcomes of its engagement actions?	***Monitoring, Reporting and Verification process on Climate Actions & their Outcomes***	*None*	MRV of the number of companies they have engaged with and relevant details, including stakeholders, focus, and outcomes of engagement	The financial institution reports on the climate action's characteristics • Its modalities of implementation • Its intended outputs and outcomes • Factors that can affect its effectiveness • Potential	Declaring, monitoring and reporting on the climate actions that are deployed as part of their climate contribution strategies, and how these are meant to serve their ambition. Monitor and hold to account stewardship activities based on the expectations set.	The financial institution reports on the implementation of the action at a later stage and justifies their accomplishment (i.e., demonstrates that the "contribution"	***10%***

				unintended consequences of the action		objectives (7.1.) have been reached). Monitors the achievement of the output & outcome, and explore reasons for success / failure, so as to continuously improve the strategy. Measure engagement outcomes, and to what extent it is consistent with the IPCC's Special Report on 1.5°C, in particular in terms of escalation engagement strategy (specifically on unresponsive companies)	

* Action levers must be presented as examples of past/present actions/initiatives, and not be theoretical/embedded in a strategy document (such examples should be scored in indicator 7.1). “Action levers” include but are not limited to the following individual action levers, which are grouped into four engagement types (sources: 2022 CDP climate change questionnaire C12.1a (33), (34):

    - Education/information sharing

        - Run an engagement campaign to educate counterparties about your climate change performance and strategy
        - Run an engagement campaign to educate counterparties about climate change
        - Share information about your carbon portfolio performance and relevant certification schemes (i.e. taxonomic performance, Target Alignment Ratio)
        - Provide corporates with information and analytics regarding their business specific climate risks and opportunities

    - Collaboration & innovation
        - Run a campaign to encourage innovation to reduce climate change impacts
        - Work in partnership with corporates on decarbonization goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets
        - Makie lending conditional on the adoption of sustainable practices and can also engage collaboratively with company management while negotiating future funding agreement (32).
        - Provide specific climate-related products

    - Compliance & onboarding

        - Included climate change considerations in clients client management mechanism
        - Use of climate covenants in business relationship
        - Enhance Climate Due Diligence
        - Sectoral exclusions related to GHG emissions
        - Restrictions on lending to unsustainable projects (32)

    - Information collection (understanding client behavior)
        - Collect climate change and emissions information at least annually from long-term clients

    - Engagement & incentivization (changing client behavior)
        Providing non-banking solutions such as:
        - Engage with clients on measuring exposure to climate-related risk
        - Support clients in their decarbonization journey (e.g. carbon footprint assessment, help defining a climate strategy (see ACT Step by Step))

- Require better climate-related disclosure practices
- Require clients to set a credible and robust transition plan

Providing banking solutions such as:

- Provide specific climate-related products
- Dedicate bonified credit lines specifically to climate solutions
- Offer financial incentives for counterparties reducing their significant direct & indirect GHG emissions

* The metric used to measure impact depends on the action lever the metric refers to. Examples of "evidence of impact" might include, but are not limited to:
    - Qualitative example: Feedback from clients saying that they appreciate and will use this new knowledge to start their journey on the low-carbon transition
    - Quantitative example: Evidence that engaged clients have reduced their use-phase GHG emissions by X%

Rationale

BAN 7.2 Activities to influence clients

Rationale of the indicator

Relevance of the indicator:

Activities to influence clients are included in this ACT methodology for the following reasons:

- Financial institutions have the ability to influence the climate strategy and performance of clients through their financial products or services (capital market).
- The downstream money value chain represents the largest source of emissions and risks for financial institutions and must be addressed through a proper ambitious engagement strategy.

Scoring the indicator:

Because of data availability and complexity, a direct measure of the outcome of such engagement is not very feasible at this time. It is often challenging

to quantify the emission reduction potential and outcome of engagement activities. Therefore, the approach of a maturity matrix allows the analyst to consider multiple dimensions of engagement and assess them together towards a single score for a strategy related to engagement with clients.

66 ● **BAN 7.3 ACTIVITIES TO INFLUENCE CLIENTS WITH FOSSIL FUEL AND/OR DEFORESTATION-LINKED ACTIVITIES**

DESCRIPTION & REQUIREMENTS

BAN 7.3 ACTIVITIES TO INFLUENCE CLIENTS WITH FOSSIL FUEL AND/OR DEFORESTATION-LINKED ACTIVITIES

SHORT DESCRIPTION OF INDICATOR

This indicator assesses the extent to which the financial institution implements activities and initiatives that help, influence or otherwise enable Coal and Oil & Gas client's transition. The indicator aims to be a holistic measure of these activities and initiatives, with evidence of implementation and outcomes in the clients 'value chain across all products/services.

DATA REQUIREMENTS

The relevant data for this indicator are:

- Fossil Fuel exit policy and associated actions
- Actions in favour of ceasing deforestation activities exit

CDP Questionnaire mapping to this indicator:

- C-FS2.2f
- C-FS3.6
- C-FS3.6b
- C-FS12.1b

External sources of data may also be used for the analysis of this indicator.

HOW THE ASSESSMENT WILL BE DONE

The assessment will assign a maturity score based on the financial institution's demonstration of recent and current activities and initiatives with its clients operating in oil & gas sector and deforestation linked activities, expressed in a maturity matrix.

A financial institution that is placed in the 'Low-carbon aligned' category will receive the maximum score. A financial institution which is at a lower level will receive a partial score, with 0 points awarded for having no engagement at all.

This maturity matrix is indicative but does not show all possible options that can result in a particular score. The financial institution's responses will be scrutinized by the analyst and then placed on the level in the matrix where the analyst deems it most appropriate.

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
Associated score		***0%***	***25%***	***50%***	***75%***	***100%***	
What action(s) does the financial institution use in practice with coal companies/projects?	*Actions used in practice | Coal*	No engagement	Has listed all financed companies active in coal (based on the Global Coal Exit List - GCEL – developed by Urgewald), prioritised engagement actions, and monitors actions and outcomes	Sets restrictions on financing any thermal coal operations aside from requesting enhanced due diligence and legal compliance	Demonstrates it has not provided new financings or capital market services to companies in the GCEL, that companies in portfolio have started to phase-out and there is evidence it is related to the coal policy	Demonstrates it has not provided new financings or capital market services to companies in the GCEL andthat companies in portfolio have started to phase-out in line with a 1.5°C scenario (with no or low overshoot) and there is evidence it is related to the coal policy Has ended all types of financing to all coal activities in line with the IEA's Net Zero Emissions by 2050 scenario	***25%***

What action(s) does the financial institution use in practice with Oil&Gas companies/projects?	*Actions used in practice | O&G*	No engagement	Has listed all financed & advised companies active in O&G (based on GOGEL), prioritised engagement actions, has an escalation process in place and monitors actions and outcomes	Sets restrictions on financing any O&G operations aside from requesting enhanced due diligence and legal compliance	Demonstrates it has not provided new financings or capital market services to companies in the GOGEL, that companies in portfolio have started to phase-out and there is evidence it is related to the O&G policy	Demonstrates it has not provided new financings or capital market services to companies in the GOGEL, that companies in portfolio in line with a 1.5°C scenario (with no or low overshoot) have started to phase-out and there is evidence it is related to the O&G policy Has ended financing activities that aim to explore or develop new oil and gas fields in line with the IEA's Net Zero Emissions by 2050 scenario.	***25%***
How does the financial institution promote the adoption of a transition plan from its fossil fuel & coal counterparties?	*Impact of engagement | Transition plan requirement*	No evidence of impact of action levers used.	Has adopted guidelines that allow to identify oil & gas producers suited for meaningful shareholder engagement.	Request oil & gas producers to adopt and publish time-bound 1.5°C transition plans	Has defined clear guidelines that guarantee tight implementation of the policy for oil & gas producers through its financing or advisory services	Request the adoption of a 1.5°C transition plan including a science-based target, clearly identified capital expenditure discipline for further oil & gas	***20%***

						development and a diversification strategy towards zero-carbon technologies.	
How impactful the escalation strategy/process has been in practice?	*Escalation process*	*None*		Systematically set clear timelines, public communication,		Engagement outputs show evidence of a confrontational approach when the companies do not respect their climate guidelines: public letter/non renewed credit lines/exclusion	***10%***
Does the financial institution have a review process to track and report the outcomes of its engagement actions?	*Monitoring and Reporting on Climate Actions & their Outcomes*	*None*	MRV of the number of companies from the Oil & Gas sector they have engaged with and relevant details, including stakeholders, focus, and outcomes of engagement	The financial institution reports the climate action's characteristics • Its modalities of implementation • Its intended outputs and outcomes • Factors that can affect its effectiveness • Potential unintended consequences of the action	Declaring, monitoring and reporting on the climate actions that are deployed as part of their climate contribution strategies, and how these are meant to serve their ambition. Monitor and hold to account stewardship activities based on the expectations set.	The financial institution reports on the implementation of the action at a later stage and justify of their accomplishment (i.e., demonstrates that the "contribution" objectives (7.1.) have been reached). Monitors the achievement of the output & outcome, and	***10%***

						explore reasons for success / failure, so as to continuously improve the strategy. Measure engagement outcomes, and to what extent it is consistent with the IPCC's Special Report on 1.5°C, in particular in terms of voting activities and escalation engagement strategy (specifically on unresponsive companies)	
What action(s) does the financial institution use in practice with companies/projects associated with deforestation issues?	*Actions used in practice | deforestation*	*No engagement*		Has listed all financed companies with activities related to deforestation issues, prioritised engagement actions and has an escalation process in place and monitors actions and outcomes		Has ended its provision of finance & capital market services to corporates involved directly, or indirectly via the supply chain, in forest or peatland conversion. applies to customers with 'high forest risk commodities' in their supply	***10%***

						chains. Applies to corporates with 'high forest risk commodities' in their supply chains. These are commodities whose extraction or production contributes significantly to deforestation or forest degradation in the tropics and they include palm oil and soy, cattle and rubberwood.	

Rationale

BAN 7.3 Activities to influence clients with fossil fuel and/or deforestation-linked activities

Rationale of the indicator

Relevance of the indicator:

Activities to influence fossil fuel clients and deforestation-linked activities are included in this ACT methodology for the following reasons:

- Financial institutions should not provide credit lines or capital market activities to companies in the GOGEL or GCEL list.
- Financial institutions have the ability to influence the climate strategy and performance of clients through their financial products or services (capital market).

- The downstream money value chain represents the largest source of emissions and risks for financial institutions and must be addressed through a proper ambitious engagement strategy.

SCORING THE INDICATOR:

Because of data availability and complexity, a direct measure of the outcome of such engagement is not very feasible at this time. It is often challenging to quantify the emission reduction potential and outcome of engagement activities. Therefore, the approach of a maturity matrix allows the analyst to consider multiple dimensions of engagement and assess them together towards a single score for all the activities related to Client Engagement for Oil & Gas sector and deforestation linked-activities.

In the case where the financial institution has no exposure to fossil fuel activities, nor through capital market activities, the tool will put more weight on the 7.1 and 7.2 indicators and 7.3 will account for 2% of total module 7 weighting, instead of 8%. 7.1 and 7/2 indicators weight will respectively be 7% and 11%.

In the case where the financial institution has no exposure to deforestation linked activities, nor through capital market activities, the tool will put more weight on the 7.1 and 7.2 indicators and 7.3 will account for 6% of total module 7 weighting, instead of 8%. 7.1 and 7.2 indicators weight will respectively be 5% and 9%.

MODULE 8: POLICY ENGAGEMENT

The indicators in the Policy Engagement module are based initially on the "Investor expectations on corporate lobbying" guide (2018)[i] developed by IIGCC and have adapted for financial institutions. This module demonstrates compliance with other framework than address the topic of policy engagement: the Global standard on responsible corporate climate lobbying (Appendix I) and the Investment and Stewardship Policy Reporting Framework (section ISP 23 & 24). Feel free to refer to these guides for additional context and rationale behind the indicators. This module assesses whether lobbying activities align with the Paris Agreement.

● BAN 8.1 FINANCIAL INSTITUTION POLICY ON ENGAGEMENT WITH ASSOCIATIONS, ALLIANCES, COALITIONS OR THINKTANKS

DESCRIPTION & BAN 8.1 FINANCIAL INSTITUTION POLICY ON ENGAGEMENT WITH ASSOCIATIONS, ALLIANCES, COALITIONS OR THINKTANKS

Requirements

Short description of indicator

The financial institution has a policy on what action to take when associations, alliances, coalitions or thinktanks of which it is a member or to which it provides support are found to be opposing “climate-friendly” policies.

Data requirements

The relevant data for this indicator are:

- Public climate change policy positions
- Description of this policy (scope & boundaries, responsibilities, process to monitor and review)
- Associations, alliances, coalitions or thinktanks that are likely to take a position on climate change legislation
- External sources of data shall also be used for the analysis of this indicator (e.g. RepRisk database, InfluenceMap, press news, actions in standard development)

CDP Questionnaire mapping to this indicator:

- C12.3

External sources of data may also be used for the analysis of this indicator.

How the assessment will be done

The analyst will evaluate the description and evidence of the policy on trade associations and climate change for the presence of best practice elements and consistency with the other reported management indicators. The financial institution description and evidence will be compared to the maturity matrix developed to guide the scoring and a greater number of points will be allocated for elements indicating a higher level of maturity. Maximum points are awarded if all these elements are demonstrated.

Best practice elements to be identified in the test/analysis include:

- A publicly available policy is in place
- The scope of the policy covers the entire financial institution and its activities, and all associations, alliances, coalitions or thinktanks of which it is a member or to which it provides support. (Consideration should be given as to whether these associations, alliances, coalitions and thinktanks in turn are members of or otherwise support other such organizations that have climate-negative activities or positions).
- The policy sets out what action is to be taken in the case of inconsistencies
- Action includes option to terminate membership of the associations, alliances, coalitions or thinktanks
- Action includes option of publicly opposing or actively countering the association, alliance, coalition or thinktank’s position

- Responsibility for oversight of the policy lies at top level of the organization, and implementation lies at senior management level
- There is a process to monitor and review association, alliance, coalition and thinktank positions

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weightings
Associated score		***0%***	***25%***	***50%***	***75%***	***100%***	
What is the scope covered by the engagement policy? Is the policy publicly available?	*Transparency and scope*	Does not cover the entire financial institution (including all of its subsidiaries and business areas, and all operational jurisdictions, i.e., entities within its reporting boundary) or all associations, alliances and coalitions of which it is a member. Is not publicly available.	Does not cover the entire financial institution (including all of its subsidiaries and business areas, and all operational jurisdictions, i.e., entities within its reporting boundary) or all associations, alliances and coalitions of which it is a member. Is publicly available.	Covers the entire financial institution (including all of its subsidiaries and business areas, and all operational jurisdictions, i.e., entities within its reporting boundary), and all associations, alliances and coalitions of which it is a member. Is not publicly available.		Covers the entire financial institution (including all of its subsidiaries and business areas, and all operational jurisdictions, i.e., entities within its reporting boundary), and all associations, alliances and coalitions of which it is a member. Is publicly available.	***20%***
Does the financial institution have a review process of associations, alliances, coalitions or thinktanks of which it is a member or to which it provides	*Review process*	No process to monitor and review association, alliance, coalition and thinktank climate policy positions exists.	A process to monitor and review association, alliance, coalition and thinktank climate policy positions exists and the review process is annual.	A process to monitor and review association, alliance, coalition and thinktank climate policy positions exists and the review process is annual.	A process to monitor and review association, alliance, coalition and thinktank climate policy positions exists and the review process is annual.	A process to monitor and review association, alliance, coalition and thinktank climate policy positions exists and the review process is annual.	***20%***

support?			The process is not necessarily implemented.	The process is implemented, but responsibility for oversight of the process lies below Level 1*, and implementation of the process lies below Level 3*.	Either responsibility for oversight of the process lies at Level 1*, or implementation of the process lies at Level 3 or above*.	Responsibility for oversight of the process lies at Level 1*, and implementation of the process lies at Level 3 or above*.	
Does the financial institution have an action plan addressing what action to take when associations, alliances, coalitions or thinktanks of which it is a member or to which it provides support are found to be opposing "climate-friendly" policies?†	*Action plan*	No action plan exists.	Action plan sets out which actions are to be taken when associations, alliances, coalitions or thinktanks are found to be opposing "climate-friendly" policies. Action plan does not include any of the actions listed†.	Action plan includes making public statements challenging associations, alliances, coalitions and thinktanks*. Does not include either of the other actions listed†.	Action plan includes engaging with associations, alliances, coalitions or thinktanks to change their position†. May include making public statements, but does not include withdrawing funding for/suspending or ending membership†.	Action plan includes withdrawing funding for/suspending or ending membership of the association, alliance, coalition or thinktank*. May include both other actions listed†.	***10%***
Does the financial institution comply with the climate initiatives it is signatories of? (e.g. PCAF, NZBA)	*Complying with initiative requirements* (35)	Evidence of non or partial compliance with requirements of the initiative it is signatory or member of.				Full compliance, as assessed by the Alliance or self-disclosed (with evidence) with Alliance's requirements.	***50%***

* Further guidance for each level of seniority is given below:
    - Level 1
        - Highest level of accountability or decision-making within the organization, with responsibility for overall organizational or corporate strategic direction.
        - Examples: Board, sub-set of the Board, Chief Executive Officer (CEO)
    - Level 2
        - Person/committee that is one step in the corporate structure from the highest level of decision-making of the organization (i.e. reports to or is accountable to Level 1). Inputs into organizational strategy but does not make decisions on it. May have responsibility and accountability for business unit strategy formation and implementation of one or more business units.
        - Examples: Vice President, Director, other C-Suite officer (e.g., Chief Financial Officer (CFO), Chief Procurement Officer (CPO), Chief Risk Officer (CRO), Chief Operating Officer (COO), Chief Sustainability Officer (CSO), etc.), other committee appointed by the Board
    - Level 3
        - Person/committee that is two steps in the corporate structure from the highest level of decision-making of the organization. May have responsibility and accountability for business unit strategy formation and implementation for one business unit.
        - Examples: Manager, Senior Manager
    - Level 4
        - Person/committee that is three or more steps in the corporate structure from the highest level of decision-making of the organization. No responsibility or accountability for business unit strategy development.
        - Examples: Officer, Senior Officer

† Actions a financial institution can take when associations, alliances, coalitions or thinktanks of which it is a member or to which it provides support are found to be opposing “climate-friendly” policies follow a hierarchy of severity, as follows (source: (36), (37)):

1. Making public statements challenging associations, alliances, coalitions and thinktanks
    - For example, the company speaks out, publicly distancing itself from statements or lobbying against climate policy by associations, alliances, coalitions or thinktanks of which it is a member or to which it provides support. The company explains how these statements or lobbying are inconsistent with its own emission reduction goals and with its support for climate policy.
2. Engaging with associations, alliances, coalitions or thinktanks to change their position.
    - For example, the company works to end lobbying against climate policy through transparent and time-bound

engagement with those organizations.

3. Withdrawing funding for/suspending or ending membership of the association, alliance, coalition or thinktank.
    - For example, where attempts to change an association's position prove ineffective or insufficient, the company discontinues its membership or withdraws funding from the association.

RATIONALE	**BAN 8.1 FINANCIAL INSTITUTION POLICY ON ENGAGEMENT WITH ASSOCIATIONS, ALLIANCES, COALITIONS OR THINKTANKS**
RATIONALE OF THE INDICATOR	Associations, alliances, coalitions and thinktanks are a key instrument by which financial institution can indirectly influence policy on climate. Thus, when associations, alliances, coalitions and thinktanks take positions, which are negative for climate, financial institutions need to take action to ensure that this negative influence is countered or minimized. This indicator is consistent with the ACT Framework and ACT Guidelines and common to the other sectoral methodologies. Update has been made on the addition of a new category dealing with the compliance if the financial institution with the climate initiatives it is member or signatory of. To date, climate initiatives or alliances do have a lot of members and have active positions in favour of climate. Still, actions by the members themselves sometimes lag behind. The idea is to assess the potential greenwashing of some actors.

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76 ● **BAN 8.2 ASSOCIATIONS, ALLIANCES, COALITIONS AND THINKTANKS SUPPORTED DO NOT HAVE CLIMATE-NEGATIVE ACTIVITIES OR POSITIONS**

DESCRIPTION & REQUIREMENTS	**BAN 8.2 ASSOCIATIONS, ALLIANCES, COALITIONS AND THINKTANKS SUPPORTED DO NOT HAVE CLIMATE-NEGATIVE ACTIVITIES OR POSITIONS**
SHORT DESCRIPTION OF INDICATOR	The financial institution is not on the Board of, providing funding beyond membership to, or otherwise supporting any associations, alliances, coalitions or thinktanks that have climate-negative activities or positions.
DATA	The relevant data for this indicator are:

REQUIREMENTS

- The reporter shall provide details of those associations, alliances, coalitions and thinktanks that are likely to take a position on climate change legislation [C12.3c]
- The financial institution should attach supporting documentation, if this exists, giving evidence [C12.3d]

External sources of data shall also be used for the analysis of this indicator:

- RepRisk database,
- Climate Action 100+
- Ellen Macarthur Foundation
- Press news
- EP100 – Climate Group (www.theclimategroup.org/project/ep100)
- Low-carbon Technology Partnerships initiative (www.wbcsd.org/Programs/Climate-and-Energy/Climate/Low-Carbon-Technology-Partnerships-initiative)

CDP Questionnaire mapping to this indicator:

- C12.3

External sources of data may also be used for the analysis of this indicator.

HOW THE ASSESSMENT WILL BE DONE

The list of associations, alliances, coalitions and thinktanks declared in the CDP data and other external sources relating to the company is assessed against a list of associations, alliances, coalitions and thinktanks that have climate-negative activities or positions (InfluenceMap is usually used for this (38)). (Consideration should be given as to whether these associations, alliances, coalitions and thinktanks in turn are members of or otherwise support other such organisations that have climate-negative activities or positions.) Such activities or positions could include lobbying against climate policies and practices. The results will be compared to any policy described in 8.1 (“Financial institution on engagement with associations, alliances, coalitions or thinktanks”).

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
Associated score		***0%***	***25%***	***50%***	***75%***	***100%***	

Does the financial institution support associations, alliances, coalitions or thinktanks that have climate negative activities/positions?	*Membership/funding*	The financial institution is on the board or provides funding beyond membership to associations, alliances, coalitions and/or thinktanks that have climate – negative activities or positions		The financial institution is not on the board or providing funding beyond membership of any associations, alliances, coalitions or thinktanks that have climate-negative activities or positions. Financial institution may be a member.		The financial institution is not a member of or providing funding for any associations, alliances, coalitions or thinktanks that have climate-negative activities or positions	***100%***

RATIONALE **BAN 8.2 ASSOCIATIONS, ALLIANCES, COALITIONS AND THINKTANKS SUPPORTED DO NOT HAVE CLIMATE-NEGATIVE ACTIVITIES OR POSITIONS**

RATIONALE OF THE INDICATOR

Associations, alliances, coalitions and thinktanks are key instruments by which financial institution can indirectly influence policy on climate. Thus, participating in associations, alliances, coalitions and thinktanks which actively lobby against climate-positive legislation is a negative indicator and likely to obstruct low-carbon transition.

77 ● **BAN 8.3 POSITION ON SIGNIFICANT CLIMATE POLICIES**

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DESCRIPTION & REQUIREMENTS **BAN 8.3 POSITION ON SIGNIFICANT CLIMATE POLICIES**

SHORT DESCRIPTION

The financial institution is not opposed to any significant climate relevant policy and/or supports climate-friendly policies/climate-relevant financial regulation

OF INDICATOR

DATA REQUIREMENTS

The relevant data for this indicator are:

- The financial institution should attach supporting documentation, if this exists, giving evidence on the position of the company on significant climate policies (public statements, etc.).
- The financial institution shall disclose details of the issues on which it has been directly engaging with policy makers and its proposed legislative solution.

CDP Questionnaire mapping to this indicator:

- C12.3

External sources of data shall also be used for the analysis of this indicator (e.g. RepRisk database, press news, actions in standard development)

HOW THE ASSESSMENT WILL BE DONE

The analyst evaluates the description and evidence on financial institution position on relevant climate policies for the presence of best practice elements, negative indicators and consistency with the other reported management indicators. The financial institution description and evidence will be compared to the maturity matrix developed to guide the scoring and a greater number of points will be allocated for elements indicating a higher level of maturity.

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
Associated score		***0%***	***25%***	***50%***	***75%***	***100%***	
What is the position of the financial institution on significant climate policies?	*Climate policy support*	Direct opposition to climate policies (e.g. climate-relevant financial regulation) (including where third-party claims are found).	No reported direct opposition to climate policies.	Publicly supports significant climate policies.	Publicly supports significant climate policies. Publicly commits to international low-carbon commitments, such as the Paris Agreement.	Publicly supports significant climate policies. Publicly commits to international low-carbon commitments, such as the Paris Agreement. Actively participates in/leads sectoral/cross-sectoral initiatives	***60%***

						against climate change*.	
Does the financial institution have a monitoring and review process to ensure that its policy positions are consistent with the goals of the Paris Agreement?	*Monitoring and review process*	No monitoring and review process to ensure that the financial institution's policy positions are consistent with the goals of the Paris Agreement exists.	A monitoring and review process to ensure that the financial institution's policy positions are consistent with the goals of the Paris Agreement exists and the review process is annual. The process is not necessarily implemented.	A monitoring and review process to ensure that the financial institution 's policy positions are consistent with the goals of the Paris Agreement exists and the review process is annual. The process is implemented, but oversight of the process lies below Level 1†, and implementation of the process lies below Level 3†.	A monitoring and review process to ensure that the financial institution's policy positions are consistent with the goals of the Paris Agreement exists and the review process is annual. Either oversight of the process lies at Level 1†, or implementation of the process lies at or above Level 3†.	A monitoring and review process to ensure that the financial institution's policy positions are consistent with the goals of the Paris Agreement exists and the review process is annual. Oversight of the process lies at Level 1†, and implementation of the process lies at or above Level 3†.	***40%***

* Examples of sectoral/cross-sectoral initiatives against climate change might include, but are not limited to:
  - Science Based Targets initiative (SBTi)
  - Net Zero Banking Alliance (NZBA)
  - Race to Zero
  - Glasgow Financial Alliance for Net Zero (GFANZ)

† Further guidance for each level of seniority is given below:
  - Level 1
    - Highest level of accountability or decision-making within the organization, with responsibility for overall organizational or corporate strategic direction.

        - Examples: Executives, Board, sub-set of the Board, Chief Executive Officer (CEO)
    - Level 2
        - Person/committee that is one step in the corporate structure from the highest level of decision-making of the organization (i.e. reports to or is accountable to Level 1). Inputs into organizational strategy but does not make decisions on it. May have responsibility and accountability for business unit strategy formation and implementation of one or more business units.
        - Examples: Executives, Vice President, Director, other C-Suite officer (e.g., Chief Financial Officer (CFO), Chief Procurement Officer (CPO), Chief Risk Officer (CRO), Chief Operating Officer (COO), Chief Sustainability Officer (CSO), etc.), other committee appointed by the Board
    - Level 3
        - Person/committee that is two steps in the corporate structure from the highest level of decision-making of the organization. May have responsibility and accountability for business unit strategy formation and implementation for one business unit.
        - Examples: Manager, Senior Manager
    - Level 4
        - Person/committee that is three or more steps in the corporate structure from the highest level of decision-making of the organization. No responsibility or accountability for business unit strategy development.
        - Examples: Officer, Senior Officer

RATIONALE **BAN 8.3 POSITION ON SIGNIFICANT CLIMATE POLICIES**

RATIONALE OF THE INDICATOR

Policy and regulation that acts to promote transition to a low-carbon economy is key to the success of the transition. Financial institutions should not oppose effective and well-designed regulations in these areas but should support them.

79 ● **BAN 8.4 COLLABORATION WITH LOCAL PUBLIC AUTHORITIES**

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DESCRIPTION & **BAN 8.4 COLLABORATION WITH LOCAL PUBLIC AUTHORITIES**

Requirements

Short description of indicator

This indicator evaluates the extent to which the financial institution collaborates with local public authorities to achieve local emissions reductions. While indicator 8.3 “Position on significant climate policies” relates to national and international policies, this indicator assesses the financial institution’s engagement with sub-national public authorities, both in terms of climate-related policy engagement and the establishment of climate-related partnerships.

Data requirements

The relevant data for this indicator are:

- Participation in meetings/collaborations with public authorities/local actors
- Contracts with public authorities/local actors

CDP Questionnaire mapping to this indicator:

- C12.3

External sources of data shall also be used for the analysis of this indicator.

How the assessment will be done

The analyst evaluates the description and evidence of the financial institution’s collaboration with local authorities for the presence of best-practice elements. Collaboration generally falls into two main categories, policy engagement and collective action/partnerships. Policy engagement could range from dialogue between the financial institution and local authority around the development of new climate-related policies, to participation in local pilot programs to finance these policies, to large-scale support for and implementation of these policies. Collective action/partnerships could range from participation in working groups, roundtables, ongoing initiatives, events and/or platforms for local authorities and companies to advance specific issues related to climate change/emissions reduction, to large-scale public-private partnerships (PPPs) with a climate change/emissions reduction focus.

In general, a partnership can only be classed as such if it goes beyond a mere contract between the public authority and the financial institution. It must be a collaboration that works to improve the current system/process and displays additionality (the collaboration reduces GHG emissions beyond business as usual, meaning the reductions would not have happened had the collaboration not been implemented). For example, a contract between a transport operator and a public authority would not be enough to be classed as a partnership by itself, whereas a partnership to reduce local GHG emissions by increasing the share of electric/hybrid/hydrogen buses and promoting greater uptake of public transport within the local area would be sufficient.

While the thematic areas of these collaborations will vary depending on the sector assessed, they should generally fall into one or more of four broad

categories:

1. Electrification and energy (including demand management and grid flexibility)
2. Transport
3. Circular economy
4. Buildings

In each case, the level of maturity will depend on the level of commitment from the financial institution, and whether there is evidence that the collaboration has been successful in achieving local emissions reductions.

The financial institution description and evidence are compared to the maturity matrix developed to guide the scoring and a greater number of points are allocated for elements indicating a higher level of maturity.

Question	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
Associated score	***0%***	***25%***	***50%***	***75%***	***100%***	
Does the financial institution collaborate with and support local authorities to achieve local emissions reductions?	No evidence that the financial institution is collaborating with and supporting local authorities to achieve local emissions reductions, other than respecting its contractual obligations, if any. Or Third-party claims are found showing that the financial institution is not complying with local climate policies	The financial institution engages in dialogue with local authority/authorities to design future climate-related policies/partnerships	The financial institution actively participates in small-scale pilot/short-term/one-off programs with local authority/authorities to test/implement climate-related policies/partnerships.	The financial institution is a significant partner* (alongside local authority/authorities and other stakeholders) in the implementation of long-term, climate-related policies/partnerships. The financial institution has measured and disclosed the emissions reduction as a result of the policy/partnership being	The financial institution is a significant partner* (alongside local authority/authorities and other stakeholders) in the implementation of long-term, climate-related policies/partnerships. The financial institution has measured and disclosed an emissions reduction as a result of the policy/partnership being	***100%***

				financed/implemented.	financed/implemented. The financial institution has a policy to increase such collaboration in more of its operational jurisdictions, and is taking tangible steps towards this (e.g., engaging in dialogue, participating in pilot programs, implementing/financing policies/partnerships with local authorities).†	

* A financial institution can be classed as a “significant partner” if the policy/partnership would not exist, or be significantly smaller/less successful, without the financial institution’s involvement/financings. The financial institution must be one of the few largest or most invested stakeholders in the policy/partnership.

† Analysts should consider the size of the financial institution assessed. For example, financial institution operating in a single jurisdiction are not expected to be involved in collaboration with public authorities outside of that jurisdiction, and could still score Low-carbon aligned if they met each of the other criteria (for example, if they had demonstrated emissions reductions as a result of the policy/partnership being implemented/financed, and had a policy to become involved in more collaboration within their operational jurisdiction).

RATIONALE

BAN 8.4 COLLABORATION WITH LOCAL PUBLIC AUTHORITIES

RATIONALE OF THE INDICATOR

Collaboration with local authorities can be a key instrument by which financial institution can indirectly influence policy on climate in their territory. Thus, participating actively in local dialogues shows leadership in climate actions and can significantly help climate policies enforcement.

MODULE 9: BUSINESS MODEL

A financial institution may transition its business activities to other areas to remain profitable in a low-carbon economy. The financial institution's future business model should enable it to decouple financial results from GHG emissions, in order to help companies meet the constraints of a low-carbon transition while continuing to generate value. This can be done by developing activities outside the core business of the financial institution.

This module will aim to assess whether financial institutions demonstrate the inclusion of criteria of analysis in their appraisal of economic value. New standard of credit risk analysis shall also be assessed and rewarded in this module.

This module aims to identify both relevant current business activities and those still at a burgeoning stage. It is recognised that transition to a low-carbon economy, with the associated change in business models required to companies, will take place over a number of years. The analysis will thus seek to identify and reward project financings at an early stage as well as more mature business activity financings, although the latter (i.e. substantially sized, profitable, and/or expanding) business activities will be better rewarded.

The present module has been driven notably by the following considerations:

- Focus on new business activities (climate solutions)
- High emissive / involved in high emissive activity companies should be benchmarked by quantitative modules (not in business model module)
- Score will be based on long-term viability of the financial institution's financings towards business activities compatible with/contributing to a the low-carbon economy
- Do the financings help to bridge the climate finance gap?
- Is there a need to change the fundamental business activities? e.g. no longer provide financings to fossil fuel companies or provide bonified loan to green project or transitioning companies or penalize high emissive companies.
- How does the emissive activities/sectors link with the financings?
- Financing new business models vs. transitioning existing business model
- We shouldn't penalise financial institutions who can't shift their financings as they are not financing high emitting sectors

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105 ● **BAN 9.1 TOOLS/POLICY FACILITATING CHANNELLING CREDITS TO THE TRANSITION TOWARDS A LOW CARBON ECONOMY**

DESCRIPTION & REQUIREMENTS

BAN 9.1 TOOLS/POLICY FACILITATING CHANNELLING CREDITS TO THE TRANSITION TOWARDS A LOW CARBON ECONOMY

SHORT DESCRIPTION OF INDICATOR

The financial institution is actively developing internal tools and implementing policy enabling to foster low carbon economy financing. It is demonstrating the application of tools & policies through its portfolio mix composition, its loan granting process, or capital market services. The innovative tools are used in key strategic sectors (high emissive or green) and make it possible for the financial institution to boost its contribution to low carbon economy financing.

DATA REQUIREMENT

The relevant data for this indicator are:

- The financial institution policies or tools modifying its intrinsic way of granting credit lines and making business.

CDP Questionnaire mapping to this indicator:

- C-FS14.3a
- C3.5

External sources of data may also be used for the analysis of this indicator.

HOW THE ASSESSMENT WILL BE DONE

The analysis is based on the financial institution tools or policies degree of integration in its business activities. The analyst must assess the operational levers put in place to better support activities and companies in their transition.

The analysis is based on (up to) five tool or policy categories proposed by the financial institution. The analyst evaluates the business model shift through a maturity matrix.

If several tools or policies are applicable in this section, the final score will be the one given to the most mature activity (usually the one scores best). The financial institution should not be penalized if it has built a mature business model but also continues to explore other avenues of business model (which would be scored with a lower score) compared to another financial institution having only one mature business model.

Relevant activity areas for this indicator include:

- Integrating climate risks into credit risk assessment
- Climate criteria tied to decision process/granting process
- Interest rate subsidy/special interest rate
- Green Weighting/Brown weighting factor
- Integrating Climate-related Risks into Capital Requirements
- Mobilizing savers (consumers or even companies) to finance the transition (e.g. Public Private Partnership, citizen-co-financed wind energy, priority sectors or asset classes)
- Credit sectoral policies
- Alternative climate-related retribution schemes (e.g., climate dividends)
- Climate Dividends (39) / ecological transition Dividends (e.g. the income helps to finance sustainable projects with a bonified interest) or Carbon dividends (two different concepts)

Question	Basic	Advanced	Low-carbon aligned	Sub score
Associated score	**0%**	**50%**	**100%**	
Profitability of business model*	Non- estimated or in a very early stage of development (research or conception stage)	Mature business model but not the main source of income	Mature and profitable business model	25%
Size of business model*	Non- estimated	Limited size for the Financial Institution (% of total financing, activities, fees, deal value, etc..)	Substantial size for the Financial Institution (% of total financing, activities, fees, deal value, etc..)	25%

Growth potential of business model	Non-estimated or exploration of the business model interrupted	Scheduling next development steps	Scheduling the expansion of the target or size of the business model	25%
Deployment schedule of business model	Non- scheduled	Deployment scheduled with a 2-year horizon or less	Deployment scheduled with a 2-year horizon or more	25%

* Example: a 12% of Total revenue from green loans gives a 50% score for Profitability of financing activity which means 'Mature business activity but not the main source of income or in a development stage (e.g. test)'

Question	Basic	Advanced	Low-carbon aligned	Sub score
Associated score	**0%**	**50%**	**100%**	
Profitability of financing activity ***Criteria:*** ***% of Total Revenue or % of Total Fees***	<=5%	<=20%	>20%	25%
Size of financing activity ***Criteria: % of total Financing or % of Total Deals***	<25%	<=50%	>50%	25%

RATIONALE

BAN 9.1 TOOLS/POLICY FACILITATING CHANNELLING CREDITS TO THE TRANSITION TOWARDS A LOW CARBON ECONOMY

RATIONALE OF THE INDICATOR

The financial institution is developing tools and implementing policies that can help modify and drive their lending in favour of a low carbon economy. All financial institutions are guided by the balance between yield & risk. Enhancing policies or tools that can influence one of these two categories can be a game changer. All banks should for instance integrate climate risks into the credit risk analysis, and, as a result, score, whether before granting the loan, but also when conducting the credit risk analysis review during the loan period. Banks should create internal tools, inspired by existing best practices or anticipate future regulation (e.g. current discussion of the revision of the Capital Requirements Directive (CRD) (40)) in order to update their approach in the context of climate change contribution needs and related risks (popularized for almost a decade now (41) and even spotted before (e.g. Andrew Dugolecki in 2005).

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107 ● **BAN 9.2 FINANCIAL FLOW REORIENTATION TOWARDS (I) ALIGNED OR (II) TRANSITIONAL ENTITIES OR ACTIVITIES OR (III) CLIMATE CHANGE SOLUTIONS**

DESCRIPTION & REQUIREMENTS

BAN 9.2 FINANCIAL FLOW REORIENTATION TOWARDS (I) ALIGNED OR (II) TRANSITIONAL ENTITIES OR ACTIVITIES OR (III) CLIMATE CHANGE SOLUTIONS

SHORT DESCRIPTION OF INDICATOR

This indicator measures the financial institution contribution through the share of its lending towards (i) aligned or (ii) transitional entities or activities or (iii) climate change solutions versus the total outstanding loan amount. The goal is to capture the share of low-carbon activities/companies financed and its growth potential.

Low-carbon activities or associated financial products are defined according to the EU Green taxonomy.

HOW THE ASSESSMENT WILL BE DONE

Best practice elements to be identified in the test/analysis include:

- the business activity part in the of revenue (fees) (see maturity matrix);
- the business activity share in the total financings;
- the business activity future expansion;
- the expansion will occur on a defined timescale;

CDP Questionnaire mapping to this indicator:

- C-FS14.3a

- C3.5

The analysis is based on (up to) five financing activities towards (i) aligned entities or activities, (ii) transitional or (iii) climate change solutions proposed by the financial institution. The analyst evaluates the business activities shift through a maturity matrix.

If several financing activities for transition are applicable to this section, the final score will be the one given to the most mature activity (usually the one scores best). The financial institution should not be penalized if it has built a mature business model but also continues to explore other avenues of business model (which would be scored with a lower score) compared to another financial institution having only one mature business model.

Best practice elements to be identified in the test/analysis include:

- Green loans complying with a sustainable taxonomy criterion
- Sustainability linked loans tied to a science based GHG emission reduction KPI
- Climate solution financing (18)
- High emitting asset phase-out
- Sustainability linked bonds with conditions in line with a 1.5°C scenario
- Any financial product linked to KPIs incentivizing clients to foster their decarbonization
- EMDE Climate finance
- Climate-related Public Private Partnership financing

The maturity matrix is provided below:

Question	Basic	Advanced	Low-carbon aligned	Sub score
Associated score	**0%**	**50%**	**100%**	

Profitability of business activity*	Non- estimated or in a very early stage of development	Mature business activity but not the main source of income or in a development stage (e.g. test)	Mature and profitable business activity	25%
Size of business activity*	Non- estimated	Limited size of activity for the Financial Institution (% of total financing, activities, fees, deal value, etc..)	Substantial size of activity for the Financial Institution (% of total financing, activities, fees, deal value, etc..)	25%
Growth potential of business activity	Non- estimated or exploration of the business model interrupted	Scheduling next development steps	Scheduling the expansion of the target or size of the business activity	25%
Deployment schedule of business activity	Non- scheduled	Deployment scheduled with a 2 years horizon or less	Deployment scheduled with a 2 years horizon or more	25%

* To score the 'Profitability of financing activity' and 'Size of financing activity' categories, the analyst shall refer to the following matrix:

Question	Basic	Advanced	Low-carbon aligned	Sub score
Associated score	**0%**	**50%**	**100%**	

Profitability of financing activity ***Criteria:*** ***% of Total Revenue or % of Total Fees***	<=5%	<=20%	>20%	25%
Size of financing activity ***Criteria: % of total Financing or % of Total Deals***	<25%	<=50%	>50%	25%

Example: a 12% of Total revenue from green loans gives a 50% score for Profitability of financing activity which means 'Mature business activity but not the main source of income or in a development stage (e.g. test)'

Rationale

BAN 9.2 Financial flows reorientation towards (i) aligned entities or activities, (ii) transitional or (iii) climate change solutions

Rationale of the indicator

This indicator is for financial institutions financing emitting activities or companies (e.g. companies operating on emissive value chain, upstream of an intensive activity, supplying part of the final product (e.g. transport equipment manufacturer)). A financial institution that finances part of a highly emitting final product bears some responsibility for the emissions linked to this product but is also at risk in a low carbon world. This indicator aims to capture the evolution of a financial institution's loan mix towards low-carbon activities and companies. For example, a bank granting a loan to a company that produces equipment for the automotive sector can help increase its share of products for electric vehicles, thus contributing to the promotion of low-carbon vehicles and reducing its risk linked to internal combustion engine (ICE) in a low-carbon world.

There is still a huge gap of financing in climate solutions financing and financial institutions have the power to bridge part of this gap (along with other actors). Banks must align their business practices with Paris Agreement mitigation goals and contribute to reducing GHG emissions in the real economy.

6 Assessment

6.1 Sectoral Benchmarks

6.1.1 Description of the benchmarks

The fundamental target to achieve for all organizations is to contribute to not exceeding a threshold of 2ºC global warming compared to pre-industrial temperatures. This target has long been widely accepted as a credible threshold for achieving a reasonable likelihood of avoiding climate instability, while a 1.5ºC rise has been agreed upon as an aspirational target.

Therefore, low carbon scenarios used for the benchmarks are Well Below 2°C scenarios or 1.5°C scenarios.

Every financial institution sectoral financed emission shall be benchmarked according to an acceptable and credible benchmark that aligns with spatial boundary of the methodologies.

6.1.2 Mechanisms to compute the sectoral financial institution benchmark

The sectoral financial institution benchmark is the financial institution sectoral allocated decarbonization pathway. The financial institution is allocated this pathway from the sector decarbonization pathway, of which there are different pathways for different countries and regions. The extent to which a financed company is tied to a scenario in any one country is proportional to its sales in that country, thus the financial institution sectoral benchmark is geographically weighted.

Two types of benchmarks will be used depending on the type of sectors.

The first type of benchmark is a convergence approach for homogeneous sectors (e.g. cement, electric utilities). The allocation mechanism is taken from the sectoral decarbonization approach (SDA (11)) to science-based targets.

The allocation mechanism, as defined by the SDA (see Glossary), is the convergence mechanism. This allocation takes the financial institution's sectoral financed intensity emissions in the base year and converges it to the related sector's emissions intensity in 2050. Thus, sectoral financed emissions starting from a lower intensity will have a shallower decarbonisation pathway than sectoral financed emissions starting from a higher intensity. In this way, past action or in-action to reduce intensity is incorporated.

The second type of benchmark is the absolute contraction method from SBTi. It is used for heterogeneous sectors (Agri & Agro, Chemicals).

Benchmarks to be updated with an IEA NZE benchmark where possible by March 2023 (before roadtesting). This table and the associated tool will be updated.

6.1.3 Reference pathways classification

A reference pathway defines the carbon intensity (tCO2/activity) pathway for homogeneous sectors or the carbon absolute emissions (tCO2) trajectory for heterogeneous sectors (e.g. Chemicals).

In order to allocate decarbonization pathway to the financial institution, two options were decided with the technical working group:

1. Use the Sectoral Decarbonization Approach (SDA) of the Science Based Target initiative (SBTi) (42) when targets are tied to sectors (and when applicable to the sectors (i.e. homogenous sectors such as Cement, Real Estate, Electric Utilities)).

2. Use an existing generic method such as the Absolute Contraction Approach (ACA) of the Science Based Target initiative (SBTi) for targets not referring to a sector (absolute asset class targets) and/or being global (absolute portfolio targets).

6.1.4 Available reference pathways

Target type	Parameter	Metric	Methodological sources[6]
Scope 3.15 - Absolute Agriculture & Agrifood (Sectoral financed emissions)	SB (Sector Benchmark)	% of absolute emissions' reduction	- SBTi Absolute Contraction Approach (ACA) - 1.5°C IEA Scenario
Scope 3.15 - Intensity Aluminium (Sectoral financed emissions)	SB	tCO2/ton	- SBTi Sectoral Decarbonization Approach (SDA) - IEA NZE 2050 - IAI analysis (10)
Scope 3.15 - Intensity	SB	kgCO2/m2	- SBTi SDA

[6] For more details on each sector, please refer to sectoral ACT methodologies (https://actinitiative.org/act-methodologies/)

Building construction (Sectoral financed emissions)			- IEA NZE 2050
Scope 3.15 - Intensity Cement (Sectoral financed emissions)	SB	tCO2e/ton	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Absolute Chemicals (Sectoral financed emissions)	SB	% of absolute emissions' reduction	- SBTi ACA - 1.5°C IEA scenario
Scope 3.15 - Intensity Electric Utilities (Sectoral financed emissions)	SB	gCO2/kwh	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Intensity Glass (Sectoral financed emissions)	SB	tCO2/ton	- SBTi Sectoral Decarbonization Approach (SDA) - IEA ETP 2020 - SDS
Scope 3.15 - Intensity Iron & Steel (Sectoral financed emissions)	SB	tCO2/ton	- SBTi Sectoral Decarbonization Approach (SDA) - IEA NZE 2050
Scope 3.15 - Intensity Oil & Gas (Sectoral financed emissions)	SB	tCO2e/TJ	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Intensity Pulp & Paper (Sectoral)	SB	tCO2/ton	- SBTi (SDA) - IEA ETP 2020 - SDS

Scope 3.15 - Intensity Real Estate (Sectoral financed emissions)	SB	kgCO2/m2	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Intensity Transport - Auto (Sectoral financed emissions)	SB	gCO2/v.km (vehicle)	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Intensity Transport – Civil aviation (Sectoral financed emissions)	SB	Auto gCO2/p.km (passenger)	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Intensity Transport – Road (Sectoral financed emissions)	SB	gCO2/t.km (freight)	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Intensity Transport – Shipping (Sectoral financed emissions)	SB	gCO2/t.km (freight)	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Absolute Asset Class (Asset class financed emissions)	ACB (Asset Class Benchmark)	% of absolute emissions' reduction	- SBTi ACA - 1.5°C IEA scenario
Scope 3.15 - Absolute General (Global Financed emissions)	PB (Global Portfolio Benchmark)	% of absolute emissions' reduction	- SBTi ACA - 1.5°C IEA scenario

IMPORTANT:

For some sectors, most recent scenarios do not exist such as Glass, Pulp & Paper & Aluminium.

IMPORTANT: please note that it is possible to change the background scenarios in the tool. Here are some recommended pathways following the GFANZ Paper 'Guidance on Use of sectoral Pathways for Financial Institutions: OECM (One Earth Climate Model) scenarios, NGFS (Network for Greening the Financial System). Sector specific scenarios can also be used: CCREM for commercial real estate, Poseidon Principles and Sustainable Steel Principles.

6.2 WEIGHTINGS

A. Commercial and Retail banks (lending activities to corporates and/or consumers)
B. Commercial and Retails banks (idem) + capital market activities (equity and bonds underwriting)

Module	Indicator		
		Indicator weight (A)	Indicator weight (B)
Targets	BAN 1.1 Alignment of scope 3 (Category 15) emissions reduction targets	7%	7%
	BAN 1.2 Time horizon targets	2%	2%
	BAN 1.3 Achievement of past and current targets	2%	2%
	BAN 1.4 Engagement Targets	5%	5%
	BAN 1.5 Financing Targets	4%	4%
		20%	**20%**
Intangible Investment	BAN 3.1 Investments in human capital – training	2%	2%
	BAN 3.2 R&D for climate expertise	1%	1%
		3%	**3%**
Climate Portfolio Performance	BAN 4.1 Financial Flows Trend	20%	20%
	BAN 4.2 Portfolio emissions alignment	5%	5%
		25%	**25%**

Management	BAN 5.1 Oversight of climate change issues	2%	2%
	BAN 5.2 Climate change oversight capability	2%	2%
	BAN 5.3 Low-carbon transition plan	5%	5%
	BAN 5.4 Climate change management incentives	3%	3%
	BAN 5.5 Climate Risk Management	1%	1%
	BAN 5.6 Climate change scenario testing	2%	2%
		15%	**15%**
Savers	BAN 6.1 Strategy to influence savers	1%	1%
	BAN 6.2 Activities to influence savers	1%	1%
		0% - 2%*	**2%**
Clients	BAN 7.1 Strategy to influence clients	4%- 5%	4%
	BAN 7.2 Activities to influence clients	8% - 9%	8%
	BAN 7.3. Activities to influence clients with fossil fuel and/or deforestation-link activities	8%	8%
		20% - 22%*	**20%**
Policy engagement	BAN 8.1 Financial institution on engagement with trade associations	2%	2%
	BAN 8.2 Supported trade associations do not have climate-negative positions	1%	1%
	BAN 8.3 Position on significant climate policies	1%	1%
	BAN 8.4 Collaboration with local public authorities	1%	1%
		5%	**5%**
Business model	BAN 9.1 Tools/policy facilitating channelling credits to the transition towards a low carbon economy	5%	5%

	BAN 9.2 Financial flow reorientation towards (i) aligned entities or activities, (ii) transitional or (iii) climate change solutions	5%	5%
		10%	**10%**
	Total	**100%**	**100%**

* weighting variation depending on the existence of saving deposits (2%) or not (0%). If there is no saving deposit then these 2% have been allocated to the module 7. Clients engagement (1% for 7.1 and 1% for 7.2).

● RATIONALE FOR WEIGHTINGS

The selection of weights for both the modules and the individual indicators was guided by a set of principles (see the ACT framework document for more information). These principles helped define the weighting scheme of the modules and indicators.

Principle	**Explanation**
Value of information	The value of the information that an indicator gives about a financial institution's outlook for the low-carbon transition is the primary principle for the selection of the weights.
Impact of variation	A high impact of variation in an indicator means that not performing in such an indicator has a large impact on the success of a low-carbon transition, and this makes it more relevant for the assessment.
Future orientation	Indicators that measure the future, or a proxy for the future, are more relevant for the ACT assessment than past & present indicators, which serve only to inform about the likelihood and credibility of the transition.
Data quality sensitivity	Indicators that are highly sensitive to expected data quality variations are not recommended for a high weight compared to other indicators, unless there is no other way to measure a particular dimension of the transition.

The weightings have been designed for two types of financial institutions covered in this ACT 4 Finance methodology in order to reflect the strategic stakes which are different from a bank to another.

Targets 20%

Represents an important part of the performance score as it counts for 20%. Target-setting is the first key step in the journey to Net Zero. It is a key milestone in the climate strategy of a financial institution as it gives the path to follow regarding the companies and sectors to finance in their decarbonization journey.

We assess:

GHG emissions targets. We will assess the commitment gap of the Financial Institution between their objectives and sectoral/global science-based scenarios (IEA ETP 2017 (to be updated by NZ IEA 2050) or OECM pathways). We will use the SDA/ACA target setting method in the different categories (Global, Sectoral and/or Asset class). The latter do not have the same weightings as we want to reward sectoral and asset class target setting approaches (please refer to the module 'Scoring' to have an overview of the weighting breakdown). The module also contains metrics that assess the current degree of completion of the targets set. Thus, it provides a great picture of the current financial institution performance on its financed emissions reduction. As this methodology is looking to assess contribution, it not a sufficient robust approach to assess the climate performance of a financial institution: portfolio can decarbonize by reallocation while not leading to GHG reduction in the real economy. This why this it includes non-GHG based targets on fossil fuels sectors, deforestation, companies with a transition and climate solution financing (as there is still a huge financing gap to bridge).

Non GHG emissions targets. Assessing the engagement & financing targets in order to capture the objectives of the financial institution in terms of contribution to the transition (the present performance on these topics will also be assessed in either Climate performance module (#4), Investees engagement (#7) and/or Business model (#9)). We have been including the engagement targets on Oil & Gas and Coal as we consider it to be a first/priority approach as a credible net-zero aligned strategy. Capturing sectoral targets on Fossil Fuels and deforestation are quite an innovative update as it was not existing in the previous methodologies. As mentioned in the document, it is not possible to have a robust and credible transition plan without an explicit, transparent and scientific aligned targets (i.e. exit and exclusion strategy) on these sectors.

These non GHG emission-based targets are qualitative, meaning that we have created categories of best practices level based on scientific recommendations.

Material Investment 0%

This module assesses the current and projected emissions associated with scope 1 and scope 2 emissions. This is the reason why it is not a relevant module for this methodology. The emissions associated with the financings are much higher and key for this sector. The ACT methodology follow the recommendations of the ISO 14064-1 in terms of boundary applicable to GHG reporting: all direct and indirect significant emissions must be reported. Emissions from scope 1 and scope 2 do not represent significant emissions of a financial institution (7).

Intangible Investment 3%

Banks must raise their climate capabilities, both for better understanding the climate risk and financial flows reorientation and being able to support companies on how to best transition, in order for banks' lending portfolio to meet their commitments.

Better structuring loans with climate consideration demands a specific knowledge that need to be acquired.

The weight is quite low notably because these intangible investments in human capital are quite difficult to quantify and evaluate.

Portfolio Climate Performance 25%

This module represents 25% of the assessment as it the core performance module of the tool.

Our approach in this 'Climate Performance Module' is that we are not assessing the GHG emissions of the Financial Institution tied to its counterparties/activities financed. What we want to measure is the contribution of the financial institution to financing the decarbonization of the economy. Currently, a 1.5°C aligned portfolio has a low real economy impact: it means that it finances pure-players/climate best in class companies and/or taxonomic activities while the main challenge is to finance the transition of high emitting sectors' companies. Conversely, a portfolio with high financed emissions but proving to help high emitting sectors decarbonize has more impact in GHG emission in the real economy.

As so, we assess whether the financial institution is financing (i) companies with a transition plan or not (for General corporate purpose instruments) and (ii) enabling/transitional/aligned activities or not (for Use of Proceeds instruments). We capture the evolution of these financing amounts (by sector) from 'Reporting Year' minus 3 years.(Indicator 4.1)

This indicator is completed by a maturity matrix. Given the heterogeneity in terms of portfolio alignment metrics and outputs, it has been out of reach to draft a unique way of assessing the portfolio alignment of a financial institution. Relevant tools exist today but always have bias preventing from benchmarking financial institution's portfolio alignment from another. It aims to capture the relevancy of the portfolio alignment exercise done by the Financial Institution. This exercise must be conducted in order to identify the companies to engage with. Basically, this exercise should lead to an engagement action plan. This is what we assess in this second indicator (4.2), notably through different categories: Desired outcomes of the exercise, Disclosure & Transparency, Metrics usefulness (among other).

Our approach is more impact driven (flow & engagement) than transition risk driven (pure GHG emissions focus).

Management 15%

Management is a multi-faceted module that makes up 15% of the score, because it incorporates many different smaller indicators that together paint a picture of the financial institution's management and

strategic approach to the low-carbon transition. Some weight is placed on the oversight of climate change issues and the climate change oversight capability, which are weighted 2%. These two indicators measure the ability of the financial institution to integrate sustainability to its strategy and to embrace the main challenges related to low-carbon transition. Besides, according to the principle of future orientation, the transition plan provides more information on how this company will specifically deal with the transition, and has a weight of 5%.

The remaining indicators (climate change management incentives, Climate Risk Management and climate change scenario testing) have a weight of 3%, 1% and 2% as they can either strengthen or undermine the financial institution's ability to carry out the transition plan and meet ambitious science-based targets. Given the specificity of the finance actor, the Climate change management incentives have been updated to 3% as if all front office employees have a direct remuneration with climate deals, it demonstrates the operational declination of the climate strategy.

Savers engagement 0 - 2%

To decarbonize the whole economy, it is essential that all stakeholders get involved. Deposits are a key financial resource for many credit institutions. The deposit relationship, whether with a corporate or a retail (consumer) saver, is often one entry point for the institution in order to provide other product and services. Given the proximity of some retail banks with corporates and/or consumers, a real dialogue on climate and transition can happen and trigger changes. Depending on the size of deposits compared to the balance sheet of the financial institution, the module will apply or not. In the latter case, the associated weighting (2%) is repercussed to the following module.

Clients engagement 20%-22%

This module represents 20% (22% if the Saver's engagement module does not apply, see above) as engagement with counterparties is essential for boosting GHG emissions reduction in the real economy. After having reoriented part of its financial flows (module 4) the financial institution must also take actions with the counterparties it finances in order to help them decarbonize. As a money provider, it has important responsibility for the consequence of the GHG emissions it unlocked. Various levers exist. The idea is to assess the robustness of the engagement framework and to understand whether the engagement strategy is tied to an impact management system standardize or if it follows in internal theory of change, leading to the possibility of defining by its own what is impactful or not.

Policy engagement 5%

In line with the rationale for the management indicators of low weight, the policy engagement indicators are also contextual aspects which tell a narrative about the financial institution's stance on climate change and how the financial institution expresses their engagement with policy makers and trade associations.

Business model **10%**

The module captures many elements and aspects that cannot otherwise be captured in any of the other modules. It includes those aspects that are important to trigger a change in the business activities of a financial institution. It is future oriented by asking the financial institution on its narrative on certain future directions it can/has to take to enable the transition.

6.3 DATA REQUEST

Table 1Table 15 introduces the list of information that will be requested to financial institutions through a questionnaire, as well as the corresponding indicators.

TABLE 15: DATA REQUEST PER INDICATOR

Module	Indicators	Data request
1 - Targets	1.1	Total financed/facilitated GHG emissions or intensity by sector/asset type. Total financed/facilitated amounts by sector/asset type.
	1.2	Reduction targets in sectoral intensity approach
		A comparison of: (a) the longest time horizon of the financial institution sectoral targets, and (b) the long-term point fixed by ACT assessment methodology.
		The financial institution has interval (<=5years) targets that ensure both short and long-term targets are in place to incentivize short-term action and communicate long-term commitments.
	1.3	Base year
		Reporting year
		Target year
		Percentage of reduction target from base year in absolute emissions
		Percentage of reduction target achieved in absolute emissions
		Percentage of reduction target from base year in emissions intensity
		Percentage of reduction target achieved in absolute emissions intensity
	1.4	Coal and Oil & Gas Exit policy. Phase-out date, exclusion scope.
		Deforestation financing exclusion policy. Phase-out date, exclusion scope
		Portfolio coverage target year, Scope/Portfolio coverage target on transition plan.
	1.5	Climate financing roadmap/framework
3 - Intangible investment	3.1	Total number of employees, Number of employees receiving climate-related trainings. Total costs of employees' trainings, costs of climate-related trainings.
		Pedagogical/climate training capabilities roadmap.
	3.2	R&D Budget and budget dedicated to climate topics

4 - Portfolio Climate Performance	4.1	Detail/Total lending/capital market activities portfolios regarding relevant data: monetary amount, asset type, asset assignment (use of proceeds vs. general purpose), sector, investment year, qualification as aligned/low carbon/enabling activity/company, or company having robust and credible transition plan (cf. methodology for details on the concepts used).
	4.2	Portfolio alignment exercise outputs
5 - Management	5.1	Climate policy and details regarding governance
	5.2	Climate policy and details regarding governance
	5.3	Climate policy and details regarding governance
	5.4	Management incentives
	5.5	Climate risk management framework/strategy
	5.6	Scenario testing
6 - Savers engagement	6.1	Engagement strategy and measures of success
	6.2	Actions implemented to influence savers to reduce their GHG emissions Size and Number of savers engaged
7 - Clients engagement	7.1	Engagement strategy to influence clients GHG emissions
		Impact Management framework
		Fossil Fuel & Deforestation engagement strategy
	7.2	Strategy to influence clients GHG emissions
		Size and number of clients engaged
	7.3	Fossil Fuel & Deforestation engagement actions implemented
8- Policy engagement	8.1	Public climate change policy positions
		Description of this policy (scope & boundaries, responsibilities, process to monitor and review)
		Trade associations that are likely to take a position on climate change legislation
	8.2	Company policy on engagement with associations, alliances, coalitions or thinktanks
	8.3	Position of the company on significant climate policies (public statements, etc.).
	8.4	Public climate change policy positions
		Description of this policy (scope & boundaries, responsibilities, process to monitor and review)
9 - Business Model	9.1	Description of the tools and policies implemented to change the structural financing approach and other ways of appraising economic value.
		Size of implementation. Deployment schedule. Growth potential. Profitability.
	9.2	Amount of Low carbon share of financings
		Profitability of business model
		Size of business model
		Growth potential of business model
		Deployment schedule of business model

7 Rating

The ACT rating shall comprise:

→ A performance score
→ A narrative score
→ A trend score

These pieces of information shall be represented within the ACT rating as follows:

a. **Performance score** as a number from 1 (lowest) to 20 (highest)
b. **Narrative score** as a letter from E (lowest) to A (highest)
c. **Trend score** as either "+" for improving, "-" for worsening, or "=" for stable.

In some situations, trend scoring may reveal itself to be unfeasible depending on data availability. In this case, it should be replaced with a "?".

The highest rating is thus represented as "20A+", the lowest as "1E-" and the midpoint as "10C=".

TABLE 6: HIGHEST SCORE FOR EACH ACT SCORE TYPE

The highest available ACT rating is 20 A +	A **performance rating** of **20**: the financial institution received high scores in its assessment against the methodology indicators.
	An **assessment rating** of **A:** the information reported by the financial institution and available from public sources was consistent and showed that the financial institution is well aligned to contribute to financing a low-carbon economy
	A **trend rating** of +: the information provided shows the financial institution will be better placed to contribute the financing a low-carbon economy in future.

Each financial institution assessed using an ACT methodology received not only an ACT rating but a commentary on their performance across the three aspects of the rating. This gave a nuanced picture of the financial institution's strengths and weaknesses. Detailed information on the ACT rating is available in the ACT Framework document.

7.1 PERFORMANCE SCORING

Performance scoring shall be performed in compliance with the ACT Framework.

7.2 NARRATIVE SCORING

7.2.1 PURPOSE AND APPROACH

The narrative scoring is primarily a sense-making exercise. Using Pirolli and Card's framework for sense-making (2005) through their bottom-up approach, an ACT assessment can be viewed as a set of sequential tasks, starting with *information development* (gathering company and sector pathway data from both publicly available and directly reported sources), followed by *schema development* (the "representation of gathered information in a schema that aids analysis", i.e., the organisation of collected data according to the ACT methodologies). The next stage in Pirolli and Card's process is *insight development*. In the ACT assessment context, this includes the analysis of performance modules and generation of the performance score, but crucially is followed by the creation of a holistic narrative that seeks to capture the overall meaning and make sense of the information collected about the company.

To achieve the above, the most important purpose of the narrative scoring is to enable the analyst to prepare the feedback report for the financial institution, evaluating the its overall readiness to transition to a low-carbon economy and whether there are any gaps in that readiness that were not picked up in the performance scoring. Therefore, the narrative assessment does not rely solely on analysis of the results of the performance modules, but also information related to reputation, risk, data quality and overall consistency and credibility.

To carry out the narrative scoring, the analyst extracts cues from both the performance score results and additional narrative criteria by asking a set of guiding questions for each criterion. This helps to link information about a financial institution's environmental performance to a broader network of meaning, i.e., the company's overall readiness to transition. This overall sense of the company's direction is then captured in a narrative account that tells a story of the company's past, present and future journey, based on the five ACT guiding questions (presented in 5.1 Assessment Framework). This is captured in the feedback report for the company.

Further, the narrative scoring summarises the full conclusions of the analysis, including performance score results and additional narrative criteria in a single letter from A (highest) to E (lowest).

7.2.2 GUIDANCE TO THE NARRATIVE SCORING

● GENERAL NARRATIVE SCORING ASSIGNMENT PROCESS

The narrative scoring has 3 steps:

a. **The performance score insights** summarize why a certain score has been assigned to each module/indicator, and focus on the lower module scores where the most improvement can be gained.
b. **Narrative indicators and accompanying data**. This consists of a review of the data available on the company. The considered data includes the data gathered for the performance scoring, as well as data from other sources, such as annual reports and investment analysis prepared by third parties, external media sources and platforms such as RepRisk.

c. Finally, the information gathered through the performance score insights and narrative indicators should be analysed with the following five criteria in mind:
    A. *Business model and strategy*
    B. *Consistency and credibility*
    C. *Data quality*
    D. *Reputation*
    E. *Risk*

The analyst shall develop a **narrative analysis**, in which the five ACT guiding questions (presented in 5.1 Assessment Framework) shall be addressed, and assign the associated **narrative score**, ranging from A to E.

DETAILED NARRATIVE SCORING CRITERIA DESCRIPTION

To develop the narrative analysis and establish a score, the analyst shall review the data that is available on the financial institution according to the 5 criteria described in this section.

In general, the 5 criteria have the same importance in the analysis. However, there may be certain situations where one of the 5 criteria should be assigned a higher weight than the others because there is evidence of critical issues that could seriously hamper the financial institution's climate performance. It is up to the analyst to consider each specific case and adjust the calculated score if needed by, for example, increasing the weight of one particular criterion.

➔ FOR EXAMPLE

A serious fraud event, which could affect the credibility of the company's management, could make the reputation criterion more impacting than the others.

I. BUSINESS MODEL AND STRATEGY

The Business Model and Strategy criterion will explore whether the financial institution is successfully running a profitable business with low-carbon financing activities and is adapting its business model to mitigate climate change.

Although other uses of the term exist, "business model" in the *narrative scoring* context could be thought of as a value-creation model covering the *whole* of the financial institution:

"*An organization's system of transforming inputs through its business activities into outputs and outcomes that aims to fulfil the organization's strategic purposes and create value over the short, medium and long term.*" (The International Integrated Reporting Council, 2021) (emphasis added)

The Business Model and Strategy criterion should assess the extent to which the financial institution's overall organizational business model and strategy is aligned with the low-carbon transition.

The overarching question analysts should ask to guide their assessment in this section is:

- ***To what extent is the financial institution's organizational business model and strategy aligned with the low-carbon transition?***

Specific questions to be asked are the following:

- Is the financial institution's short-, medium- and long-term strategic direction significantly influenced by decarbonization efforts?
- To what extent is the financial institution's current core business model aligned with, or threatened by, the low-carbon transition? If relevant, is the financial institution strategically repositioning itself?
- To what extent are the company's decarbonization targets aligned with the low-carbon transition?
- What are the foreseeable implications of meeting these targets? Do they pose significant challenges either operationally, technologically, financially or other?
- To what extent is the low-carbon transition prioritised and integrated into the financial institution's management and governance structures?
- Does the financial institution's portfolio and intangible investment suggest alignment with the low-carbon transition?
- Do the company's saver, client and policy engagement strategies suggest alignment with the low-carbon transition?
- Is there any other reported or external evidence to suggest that the financial institution's overall business model and strategy is aligned/misaligned with the low-carbon transition?

II. CONSISTENCY AND CREDIBILITY

The Consistency and Credibility criterion relates to the 5th guiding question of the ACT Assessment framework (presented in 5.1 Assessment Framework), "How do all these plans and actions fit together?" Consistency refers to the overall coherence of different elements of the financial institution's business model and strategy. Credibility refers to how believable – or not – the financial institution's ambition towards achieving its low-carbon transition is. Evidence of consistency and credibility may be based on analysis of the performance score results, as well as any additional external information about the financial institution.

The overarching question analysts should ask to guide their assessment in this section is:

- ***Are there any major aspects of the financial institution's business model and strategy that are inconsistent with each other, or with external information about the financial institution? Are there any major aspects of the financial institution's business model and strategy that are not credible?***

Specific questions to be asked are the following:

- Are there any major aspects of the **financial institution**'s business model and strategy that are inconsistent with each other?
- Are there any major aspects of the **financial institution**'s business model and strategy that are inconsistent with external information about the **financial institution**? (For example, do the **financial institution**'s recent public actions, including new financings, product/service offerings, public announcements, etc., show alignment with the data reported by the **financial institution**?)

- Are there conflicting incentives in place that discourage a low-carbon transition in certain parts of the **financial institution**?
- Does the group (that the **financial institution** is part of) have any conflicting activities that undermine its ability to transition?
- Are there any major aspects of the **financial institution**'s business model and strategy that are not credible? (For example, is the **financial institution** unlikely to achieve its targets based on its locked-in emissions?)

III. DATA QUALITY

The Data Quality criterion evaluates the quality of the data used for the ACT assessment, based on six widely accepted dimensions of data quality: Accuracy, Completeness, Uniqueness, Consistency, Timeliness and Validity (GOV.UK). Since the ACT assessment covers more than just GHG emissions and targets, and also assesses other activities (e.g. R&D, strategies, management and business models), the benchmark for quality, and relative importance of the data quality dimensions, vary depending on the type of data. For example, GHG emissions and targets should be verified by a third party using an accepted standard (based on the CDP list of accepted verification standards) to be considered highly accurate. Meanwhile, data related to low-carbon R&D expenditure, for example, will have a lower benchmark for quality, since it is not yet common practice to disclose this data. As such, accuracy is somewhat assumed, while completeness takes on greater importance. The narrative assessment for this criterion should express any significant concerns around data quality.

In cases when **financial institution** feedback reports are confidential, but the ACT rating is publicly available, the Data Quality narrative should be presented alongside the public ACT rating as a standalone commentary. This is because it is imperative that data users have access to information around data quality in order to interpret results.

The overarching question analysts should ask to guide their assessment in this section is:

- ***Are there any major concerns around the quality of the reported data?***

Specific questions to be asked are the following:

- Are there any major concerns around the accuracy of any elements of the reported data?
- Are there any major concerns around the completeness of any elements of the reported data?
- Are there any major concerns around the uniqueness of any elements of the reported data? (For example, are there duplications that reduce trust in the data?)
- Are there any major concerns around the consistency of any elements of the reported data? (For example, are there any elements of the reported company data that conflict with or contradict other aspects?)
- Are there any major concerns around the timeliness of any elements of the reported data? (For example, does all the reported data relate to the correct time period?)
- Are there any major concerns around the validity of any elements of the reported data?

IV. REPUTATION

To define reputation, we take the 2005 definition of corporate reputation offered by Barnett et. al.: “Observers’ collective judgments of a corporation based on assessments of the financial, social, and environmental impacts attributed to the corporation over time.” A **financial institution**’s reputation is therefore considered from the perspective of its stakeholders. For the purposes of an ACT assessment, any major reputational concerns, especially in the realm of environmental, financial and governance-related issues, have the effect of reducing the perceived likelihood of that **financial institution**’s ability to successfully complete its low-carbon transition. As such, companies with major reputational concerns are penalised in the Narrative assessment.

The Reputation criterion will explore whether there are any serious reported events or controversies in the company’s recent history that may lower the credibility of its reported commitments to the low-carbon transition, or call into question the credibility of the data provided for the ACT assessment. The analyst should refer to external data from media sources or reputation platforms (e.g. RepRisk). Reputational concerns relating to data credibility are also mentioned on page [15] above, which discusses the rationale behind data sources.

The overarching question analysts should ask to guide their assessment in this section is:

- ***Are there any major reputational concerns that call into question the financial institution's ability to achieve its low-carbon transition?***

Specific questions to be asked are the following:

- Is there evidence (from news sources, RepRisk, etc.) of **financial institution** involvement in any significant recent incidents, related to relevant ESG issues, that call into question the credibility of the **financial institution**’s low-carbon strategy and commitments?
- Are there serious issues that call into question the credibility of data reported? This relates to the overall credibility of any data reported by the **financial institution**, which could be damaged by incidents such as accounting scandals or evidence of fraud.
- Has the **financial institution** previously made any public announcements/commitments on which it has failed to deliver, namely announcements/commitments related to climate and environmental performance?
- If major reputational concerns exist, to what extent is the **financial institution** addressing/has the company addressed these concerns?

V. RISK

The ISO 31000:2018 Risk management guidelines define risk as the “effect of uncertainty on objectives”. It is “the combination of opportunities, threats and future uncertainty” (International Organization for Standardization, 2021). As such, risk does not have exclusively negative connotations: “It can be positive, negative or both, and can address, create or result in opportunities and threats.” (ISO 31000 Risk management). For the purposes of the ACT assessment, however, we consider only the negative risks facing *financial institutions*, as these can result in threats/barriers to achieving the low-carbon transition . Risks identified can occur over the short, medium or long term.

The overarching question analysts should ask to guide their assessment in this section is:

- ***Are there any major existing or potential risks that call into question the financial institution's ability to achieve its low-carbon transition?***

Specific questions to be asked are the following:

- Does the financial institution's asset base/product portfolio show a lock-in to high carbon impact technologies that is not consistent with the transition plan? Is there a risk of stranded assets and how significant is this?
- How reliant is the financial institution on high-carbon activities for its profits?
- Are there major potential or existing market risks that may block the successful implementation of a particular strategic low-carbon direction?
- Are there major potential or existing policy and legal risks that may block the successful implementation of a particular strategic low-carbon direction?
- Is the financial institution's technological direction high-risk/unproven/unidirectional/dependent on future innovation that is yet to be realized?
- Are there major potential or existing acute/chronic physical risks that could prevent the financial institution from successfully implementing some aspect of its low-carbon transition?
- If major risks exist, to what extent is the financial institution taking action to mitigate these risks? (For example, if there is a major risk of the unsuccessful development of new technologies, to what extent is the financial institution investing in R&D for low-carbon technology to tackle this risk? Or, if there is a major risk that there will be low demand for low-carbon products, to what extent is the financial institution working to reduce the price/increase marketing of its low-carbon products?)

• QUANTITATIVE APPROACH FOR NARRATIVE SCORING BASED ON 5 CRITERIA

This section proposes a method for assigning the narrative score. The purpose is to improve fairness and comparability of scores assigned by different analysts.

To produce the narrative scoring, the analyst should use the maturity 5-level matrix proposed in *Appendix 3:*

Maturity matrix on narrative scoring criteria. The matrix will help to evaluate the maturity of the financial institution's low-carbon transition strategy across the 5 criteria.

The financial institution's maturity for each of the 5 criteria is then evaluated based on 5 levels defined as follows:

a. **BASIC**: the level of maturity is unsatisfactory; it seems that very important efforts are needed and there is no evidence the financial institution is taking any action.
b. **STANDARD**: the level of maturity is not yet satisfactory but there is evidence that the financial institution is considering putting in place mechanisms to improve the situation.
c. **ADVANCED**: the level of maturity is satisfactory; the financial institution is heading in the right direction but still needs to demonstrate its capacity to transition.
d. **NEXT PRACTICE**: the level of maturity is very good, the financial institution has implemented good practices, showing signs of transformation toward low-carbon trajectories.
e. **LOW-CARBON TRANSITION ALIGNED**: the level of maturity is outstanding, there is reliable evidence that the financial institution's performance is and will be aligned with a low-carbon trajectory.

Each criterion in the maturity matrix should receive a score from 0 to 4 according to the assigned maturity level (*Basic* = 0; *Low-carbon alignment* = 4) and the total score should be calculated as the sum of the scores individually retained for each criterion:

$$Total\ Score = 1.25 * \sum_{i=business\ model}^{Risk} Score_i$$

With this approach, the maximum achievable score is 20.
In specific situations where criteria should not be considered with equal importance for the narrative scoring, the above formula may be adapted.

The alphabetical score can then be derived according to the table below, which illustrates how to convert the total numerical score, as calculated above, to the retained letter-based ACT narrative score.

TABLE 7: DERIVING THE FINAL NARRATIVE SCORE BASED ON A LINEAR QUANTITATIVE SCORE WITH A MAXIMUM OF 20 POINTS.

	QUANTITATIVE SCORE REQUIRED
A	16 to 20
B	12 to <16
C	8 to <12
D	4 to <8
E	0 to <4

7.2.3 FEEDBACK REPORT

Once the analyst has completed the Narrative scoring (and also Performance and Trend scoring) a Feedback Report should be prepared. Templates will be available to assist with this, however, the most important purpose of the feedback report is for the analyst to identify the financial institution's overall readiness to transition to a low-carbon economy and whether there are any gaps in that readiness, with such readiness and any gaps evidenced through *textual commentary*. Analysts should find that their investigation of the questions asked above in the Narrative scoring criteria should inform much of the textual commentary.

7.3 TREND SCORING

Scoring shall be performed in compliance with the ACT Framework.

To apply the trend scoring methodology presented in the ACT Framework, the analyst should identify the trends from the existing data infrastructure based on the data points and/or indicators that can indicate the future direction of change within the company.

The table below includes an overview of which indicators/data points could possibly have valuable information about future directions.

TABLE 16: RELEVANT PERFORMANCE INDICATORS FOR TRENDS IDENTIFICATION

Module	Indicator
Targets	BAN 1.1 Alignment of emission reduction target
	BAN 1.2 Time horizon of targets
	BAN 1.4 Engagement targets
	BAN 1.5 Finaning targets
Portfolio Climate Performance	BAN 4.1 Financial Flows Trend
Management	BAN 5.3 Low-carbon transition plan
	BAN 5.6 Climate change scenario testing
Savers	LEN. 6.1 Strategy to influence suppliers to reduce their GHG emissions
Clients	LEN. 7.1 Strategy to influence customer behaviour to reduce their GHG emissions
Policy engagement	BAN 8.4 Collaboration with local public authorities
Business model	BAN 9.1. Tools/policy facilitating channelling credits to the transition towards a low carbon economy BAN 9.2. Financial flows reorientation towards (i) aligned or (ii) transitional entities or (III) climate change solutions

8 Aligned state

The table below presents the response of a low-carbon aligned company of the sector to the 5 questions of ACT:

→ What is the financial institution planning to do? [Commitment]
→ How is the financial institution planning to get there? [Transition Plan]
→ What is the financial institution financing at present? [Present]
→ What has the financial institution financed in the recent past? [Legacy]

→ How do all of these plans and actions fit together? [Consistency]

1	2	3	4	5
The financial institution 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 based emissions targets, and notably on fossil fuel exit, in order to look for impact i.e. direct GHG emissions and not only at portfolio level.	The financial institution understands its financed emissions are the main source of emissions. Therefore, the financial institution discloses a transition plan that details strategy & operation steps to achieve their objectives.	Current strategies and actions aim at reducing emissions in the real economy and leverage its market position to drive change across the value chain from upstream to downstream activities.	Clear evidence of reducing financed emissions, and a strong track record of successful engagement actions with counterparties that highlights the financial institution's ability and will to enact change beyond its direct emissions.	The financial institution's targets, transition plan, present and past actions show a consistent willingness to look for impact and contribute to the goals.

FIGURE 3: ALIGNED STATE FOR COMPANIES

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10 Glossary

2 DEGREES (2°C)	A political agreement was reached at COP21 on limiting global warming to 2°C above the pre-industrial level (**COP21: Why 2°C?**). A 2°C scenario (or 2°C pathway) is a scenario (or pathway) compatible with limiting global warming to 2°C above the pre-industrial level.
ACA	Absolute Contraction Approach. 'The absolute contraction approach is a method for companies to set emissions reduction targets that are aligned with the global, annual emissions reduction rate that is required to meet 1.5˚C or WB2˚C.' See Foundations of Science-based Target Setting from SBTi (2019)
ACT	The Assessing low-Carbon Transition (ACT) initiative was jointly developed by ADEME and CDP. ACT assesses how ready an organization is to transition to a low-carbon world using a future-oriented, sector-specific methodology (**ACT website**).
ACTION GAP	In relation to emissions performance and reduction, the action gap is the difference between what a given company has done in the past plus what it is doing now, and what has to be done. For example, companies with large action gaps have done relatively little in the past, and their current actions point to continuation of past practices.
ACTIVITY DATA	Activity data are defined as data on the magnitude of human activity resulting in emissions or removals taking place during a given period of time (**UNFCCC definitions**).
ADEME	Agence de la Transition Ecologique; The French Agency for Ecological Transition (**ADEME webpage**).
ADVANCED VEHICLE	Advanced vehicles include: ♦ **Plug-in hybrid vehicles (PHEV)** ♦ **Battery electric vehicles (BEV)** ♦ **Fuel cell electric vehicles (FCEV)** ♦ **Conventional hybrids** ♦ **Other high-efficiency ICE vehicles** Conventional hybrids and other high-efficiency ICE vehicles are advanced vehicles but they are not low-carbon vehicles.

ALIGNMENT	The ACT project seeks to gather information that will be consolidated into a rating that is intended to provide a general metric of the 2-degree alignment of a given company. The wider goal is to provide companies specific feedback on their general alignment with 2-degrees in the short and long term.
ANALYST	Person in charge of the ACT assessment.
ASSESS	Under the ACT project, to evaluate and determine the low-carbon alignment of a given company. The ACT assessment and rating will be based on consideration of a range of indicators. Indicators may be reported directly from companies. Indicators may also be calculated, modelled or otherwise derived from different data sources supplied by the company. The ACT project will measure 3 gaps (Commitment, Horizon and Action gaps – defined in this glossary) in the GHG emissions performance of companies. This model closely follows the assessment framework presented above. It starts with the future, with the goals companies want to achieve, followed by their plans, current actions and past actions.
ASSET	An item of property owned by a company, regarded as having value and available to meet debts, commitments, or legacies. Tangible assets include 1) fixed assets, such as machinery and buildings, and 2) current assets, such as inventory. Intangible assets are nonphysical such as patents, trademarks, copyrights, goodwill and brand value.
ASSET CLASS	A group of financial instruments having similar financial characteristics. (44)
BARRIER	A circumstance or obstacle preventing progress (e.g. lacking information on supplier emissions and hotspots can be a barrier to companies managing and reducing their upstream indirect emissions).
BASE YEAR	According to the GHG Protocol and ISO14064-1, a base year is “a historic datum (a specific year or an average over multiple years) against which a company’s emissions are tracked over time”. Setting a base year is an essential GHG accounting step that a company must take to be able to observe trends in its emissions information (**GHG Protocol Corporate Standard**).
BENCHMARK	A standard, pathway or point of reference against which things may be compared. In the case of pathways for sector methodologies, a sector

	benchmark is a low-carbon pathway for the sector average value of the emissions intensity indicator(s) driving the sector performance. A company's benchmark is a pathway for the company value of the same indicator(s) that starts at the company performance for the reporting year and converges towards the sector benchmark in 2050, based on a principle of convergence or contraction of emissions intensity.
BOARD	Also the "Board of Directors" or "Executive Board"; the group of persons appointed with joint responsibility for directing and overseeing the affairs of a company.
BUSINESS MODEL	A plan for the successful operation of a business, identifying sources of revenue, the intended client base, products, and details of financing. Under ACT, evidence of the business model shall be taken from a range of specific financial metrics relevant to the sector and a conclusion made on its alignment with low-carbon transition and consistency with the other performance indicators reported.
BUSINESS-AS-USUAL	No proactive action taken for change. In the context of the ACT methodology, the business-as-usual pathway is constant from the initial year onwards. In general, the initial year – which is the first year of the pathway/series – is the reporting year (targets indicators) or the reporting year minus 5 years (performance indicators).
CAPACITY (POWER)	In relation to power generation, nameplate capacity is the power output number, usually expressed in megawatts (MW), and registered with authorities for classifying the power output of a power station.
CAPITAL EXPENDITURE	Money spent by a business or organization on acquiring or maintaining fixed assets, such as land, buildings, and equipment.
CARBON CAPTURE AND STORAGE (CCS)	The process of trapping carbon dioxide produced by burning fossil fuels or other chemical or biological process and storing it in such a way that it is unable to affect the atmosphere.
CARBON OFFSETS	Carbon offsets are avoidance of GHG emissions or GHG suppressions made by a company, sector or economy to compensate for emissions made elsewhere in the economy, where the marginal cost of decarbonization proves to be lower.

CDP	Formerly the "Carbon Disclosure Project", CDP is an international, not-for-profit organization providing the only global system for companies and cities to measure, disclose, manage and share vital environmental information. CDP works with market forces, including 827 institutional investors with assets of over US$100 trillion, to motivate companies to disclose their impacts on the environment and natural resources and take action to reduce them. More than 5,500 companies worldwide disclosed environmental information through CDP in 2015. CDP now holds the largest collection globally of primary climate change, water and forest risk commodities information and puts these insights at the heart of strategic business, investment and policy decisions (**CDP website**).
CLIMATE CHANGE	A change in climate, attributed directly or indirectly to human activity, that alters the composition of the global atmosphere and that is, in addition to natural climate variability, observed over comparable time periods (UNFCCC).
COMMITMENT GAP	In relation to emissions performance, the difference between what a company needs to do and what it says it will do.
COMPANY	A commercial business.
COMPANY PATHWAY	A company's past emissions intensity performance pathway up until the present.
COMPANY TARGET PATHWAY	The emissions intensity performance pathway that the company has committed to follow from the initial year on until a future year, for which it has set a performance target.
CONFIDENTIAL INFORMATION	Any non-public information pertaining to a company's business.
CONSERVATIVENESS	A principle of the ACT project; whenever the use of assumptions is required, the assumption shall err on the side of achieving 2-degrees maximum.
CONSISTENCY	A principle of the ACT project; whenever time series data is used, it should be comparable over time. In addition to internal consistency of the indicators reported by the company, data reported against indicators shall be consistent with other information about the company and its business model and strategy found elsewhere. The analyst shall consider specific, pre-determined pairs of data points and check that these give a consistent measure of

	performance when measured together.
CONVENTIONAL (TECHNOLOGY)	In relation to automobiles and emissions, conventional internal combustion engines (ICE) are those that generate motive power by burning fossil fuels, as opposed to advanced (low-carbon) vehicle engines such as battery electric vehicles or hydrogen fuel cells.
COP21	The 2015 United Nations Climate Change Conference, held in Paris, France from 30 November to 12 December 2015 (**COP21 webpage**).
CREDIBLE AND ROBUST TRANSITION PLAN	A credible and robust transition plan is a transition plan which has been assessed again recognized methodologies following best standard recommendations (e.g. EFRAG, CBI) and/or methodologies (e.g. ACT assessment) and/or global initiatives (e.g. World Benchmarking Alliance (WBA), Climate 100+). Please see module 4.1 for more insights on how to assess whether a company has a credible and robust transition plan.
DATA	Facts and statistics collected together for reference and analysis (e.g. the data points requested from companies for assessment under the ACT project indicators).
DECARBONIZATION	A complete or near-complete reduction of greenhouse gas emissions over time (e.g. decarbonization in the electric utilities sector by an increased share of low-carbon power generation sources, as well as emissions mitigating technologies like Carbon Capture and Storage (CCS)).
EMISSIONS	The GHG Protocol defines direct GHG emissions as emissions from sources that are owned or controlled by the reporting entity, and indirect GHG emissions as emissions that are a consequence of the activities of the reporting entity, but occur at sources owned or controlled by another entity (**GHG Protocol**).
ENERGY	Power derived from the utilization of physical or chemical resources, especially to provide light and heat or to work machines.
FINANCED EMISSIONS	Emissions associated with the financing
FLEET	A group of vehicles (e.g. all the automobiles manufactured by an automotive manufacturing company and currently in use by private individuals).
FOSSIL FUEL	A natural fuel such as coal, oil or gas, formed in the geological past from the

	remains of living organisms.
Future	A period of time following the current moment; time regarded as still to come.
General corporate purpose	When a financing has been directed towards a general corporate purpose instrument, it means that the purpose of the financings is not explicitly targeted for a specific use (as opposed toUse of Proceeds instruments)
Greenhouse gas (GHG)	Greenhouse gas (e.g. carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O) and three groups of fluorinated gases (sulfur hexafluoride (SF_6), hydrofluorocarbons (HFCs), and perfluorocarbons (PFCs)) which are the major anthropogenic GHGs and are regulated under the Kyoto Protocol. Nitrogen trifluoride (NF_3) is now considered a potent contributor to climate change and is therefore mandated to be included in national inventories under the United Nations Framework Convention on Climate Change (UNFCCC).
Guidance	Documentation defining standards or expectations that are part of a rule or requirement (e.g. **CDP reporting guidance for companies**).
Horizon Gap	In relation to emissions performance, the difference between the average lifetime of a company's production assets (particularly carbon intensive) and the time-horizon of its commitments. Companies with large asset-lives and small-time horizons do not look far enough into the future to properly consider a transition plan.
Incentive	A thing, for example money, that motivates or encourages someone to do something (e.g. a monetary incentive for company board members to set emissions reduction targets).
Indicator	An indicator is a quantitative or qualitative piece of information that, in the context of the ACT project, can provide insight on a company's current and future ability to reduce its carbon intensity.
Intensity (emissions)	The average emissions rate of a given pollutant from a given source relative to the intensity of a specific activity; for example, grams of carbon dioxide released per MWh of energy produced by a power plant.
Intervention	Methods available to companies to influence and manage emissions in their value chain, both upstream and downstream, which are out of their direct control (e.g. a retail company may use consumer education as an

	intervention to influence consumer product choices in a way that reduces emissions from the use of sold products).
LIFETIME	The duration of a thing's existence or usefulness (e.g. a physical asset such as a power plant).
LONG-TERM	Occurring over or relating to a long period of time; under ACT this is taken to mean until the year 2050. The ACT project seeks to enable the evaluation of the long-term performance of a given company while simultaneously providing insights into short- and medium-term outcomes in alignment with the long-term.
LOW-CARBON BENCHMARK PATHWAY	Benchmark pathway (See 'Benchmark')
LOW-CARBON SCENARIO (OR PATHWAY)	A low-carbon scenario (or pathway) is a 2°C scenario, a well-below 2°C scenario or a scenario with higher decarbonization ambition.
LOW-CARBON SOLUTION	A low-carbon solution (e.g. energy, technology, process, product, service, etc.) is a solution whose development will contribute to the low-carbon transition.
LOW-CARBON TRANSITION	The low-carbon transition is the transition of the economy according to a low-carbon scenario.
LOW-CARBON VEHICLE	Vehicles described as low-carbon (LCV) are defined as vehicles that have a drivetrain that have the potential to operate on non-fossil energy sources for at least > 50% of their common use phase. This includes: ♦ **Plug-in hybrid vehicles (PHEV)** ♦ **Battery electric vehicles (BEV)** ♦ **Fuel cell electric vehicles (FCEV)** Conventional hybrids are excluded from the definition of low-carbon vehicles. Because conventional hybrids do not eschew fossil fuels (aside from the minor addition of biofuels into the fuel mix), they are not qualified for the definition of an LCV.

Manufacture	Making objects on a large-scale using machinery.
Maturity matrix	A maturity matrix is essentially a “checklist”, the purpose of which is to evaluate how well advanced a particular process, program or technology is according to specific definitions.
Maturity progression	An analysis tool used in the ACT project that allows both the maturity and development over time to be considered with regards to how effective or advanced a particular intervention is.
Mitigation (emissions)	The action of reducing the severity of something (e.g. climate change mitigation through absolute GHG emissions reductions)
Model	A program designed to simulate what might or what did happen in a situation (e.g. climate models are systems of differential equations based on the basic laws of physics, fluid motion, and chemistry that are applied through a 3-dimensional grid simulation of the planet Earth).
Pathway (emissions)	A way of achieving a specified result; a course of action (e.g. an emissions reduction pathway).
Performance	Measurement of outcomes and results.
Plan	A detailed proposal for doing or achieving something.
Point	A mark or unit of scoring awarded for success or performance.
Power	Energy that is produced by mechanical, electrical, or other means and used to operate a device (e.g. electrical energy supplied to an area, building, etc.).
Power generation	The process of generating electric power from other sources of primary energy.
Primary energy	Primary energy is an energy form found in nature that has not been subjected to any conversion or transformation process. It is energy contained in raw fuels, and other forms of energy received as input to a system. Primary energy can be non-renewable or renewable.

Progress ratio	An indicator of target progress, calculated by normalizing the target time percentage completeness by the target emissions or renewable energy percentage completeness.
Relevant / Relevance	In relation to information, the most relevant information (core business and stakeholders) to assess low-carbon transition.
Renewable energy	Energy from a source that is not depleted when used, such as wind or solar power.
Reporting year	Year under consideration.
Research and Development (R&D)	A general term for activities in connection with innovation; in industry; for example, this could be considered work directed towards the innovation, introduction, and improvement of products and processes.
Scenario	The **Fifth Assessment Report** (AR5) of the Intergovernmental Panel on Climate Change (IPCC) presents the results of an extensive climate modelling effort to make predictions of changes in the global climate based on a range of development/emissions scenarios. Regulation on climate change-related issues may present opportunities for your organization if it is better suited than its competitors to meet those regulations, or more able to help others to do so. Possible scenarios would include a company whose products already meet anticipated standards designed to curb emissions, those whose products will enable its clients to meet mandatory requirements or those companies that provide services assisting others in meeting regulatory requirements.
Scenario analysis	A process of analysing possible future events by considering alternative possible outcomes.
Science-Based Target	To meet the challenges that climate change presents, the world's leading climate scientists and governments agree that it is essential to limit the increase in the global average temperature at below 2°C. Companies making this commitment will be working toward this goal by agreeing to set an emissions reduction target that is aligned with climate science and meets the requirements of the **Science-Based Targets Initiative**.
Scope 1 emissions	All direct GHG emissions (**GHG Protocol Corporate Standard**).

Direct GHG emissions and removals	Category 1 from ISO 14064-1:2018*: Direct GHG emissions and removals occur from GHG sources or sinks inside organizational boundaries and that are owned or controlled by the* [reporting] *organization. Those sources can be stationary (e.g. heaters,electricity generators, industrial process) or mobile (e.g. vehicles).*
Scope 2 emissions **Indirect GHG emissions from imported energy**	Indirect GHG emissions from consumption of purchased electricity, heat or steam (**GHG Protocol Corporate Standard**). Category 2 from ISO 14064-1:2018: *GHG emissions due to the fuel combustion associated with the production of final energy and utilities, such as electricity, heat, steam, cooling and compressed air* [imported by the reported company]. *It excludes all upstream emissions (from cradle to power plant gate) associated with fuel, emissions due to the construction of the power plant, and emissions allocated to transport and distribution losses.*
Scope 3 emissions **Indirect GHG emissions**	Other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g. T&D losses) not covered in Scope 2, outsourced activities, waste disposal, etc. (**GHG Protocol Corporate Standard**). Scope 3 also encompass the emissions related to the use of sold-products. ISO 14064-1:2018: *GHG emission that is a consequence of an organization's operations and activities, but that arises from GHG sources that are not owned or controlled by the* [reporting] *organization. These emissions occur generally in the upstream and/or downstream chain.* *Category 3 : indirect GHG emissions from transportation* *Category 4: Indirect GHG emissions from products used by an organization* *Category 5: Indirect GHG emissions associated with the use of products from the organization* *Category 6: Indirect GHG emissions from other sources*
Sector	A classification of companies with similar business activities, e.g. automotive manufacturers, power producers, retailers, etc.
Sectoral Decarbonization Approach (SDA)	To help businesses set targets compatible with 2-degree climate change scenarios, the **Sectoral Decarbonization Approach** (SDA) was developed. The SDA takes a sector-level approach and employs scientific insight to determine the least-cost pathways of mitigation, and converges all companies in a sector towards a shared emissions target in 2050.

SHORT-TERM	Occurring in or relating to a relatively short period of time in the future.
STRATEGY	A plan of action designed to achieve a long-term or overall aim. In business, this is the means by which a company sets out to achieve its desired objectives; long-term business planning.
STRESS TEST	A test designed to assess how well a system functions when subjected to greater than normal amounts of stress or pressure (e.g. a financial stress test to see if an oil & gas company can withstand a low oil price).
SUPPLIER	A person or entity that is the source for goods or services (e.g. a company that provides engine components to an automotive manufacturing company).
TARGET	A quantifiable goal (e.g. to reduce GHG emissions). ♦ **The following are examples of absolute targets:** → **metric tonnes CO_2e or % reduction from base year** → **metric tonnes CO_2e or % reduction in product use phase relative to base year** → **metric tonnes CO_2e or % reduction in supply chain relative to base year** ♦ **The following are examples of intensity targets:** → **metric tonnes CO_2e or % reduction per passenger. Kilometre (also per km; per nautical mile) relative to base year** → **metric tonnes CO_2e or % reduction per square foot relative to base** **metric tonnes CO_2e or % reduction per MWh**
TECHNOLOGY	The application of scientific knowledge for practical purposes, especially in industry (e.g. low-carbon power generation technologies such as wind and solar power, in the electric power generation sector).
TRADE ASSOCIATION	→ Trade associations (sometimes also referred to as industry associations) are an association of people or companies in a particular business or trade, organized to promote their

	common interests. Their relevance in this context is that they present an "industry voice" to governments to influence their policy development. The majority of organizations are members of multiple trade associations, many of which take a position on climate change and actively engage with policymakers on the development of policy and legislation on behalf of their members. It is acknowledged that in many cases companies are passive members of trade associations and therefore do not actively take part in their work on climate change (**CDP climate change guidance**).
TRANSITION	The process or a period of changing from one state or condition to another (e.g. from an economic system and society largely dependent on fossil fuel-based energy, to one that depends only on low-carbon energy).
TRANSPORT	To take or carry (people or goods) from one place to another by means of a vehicle, aircraft, or ship.
TREND	A general direction in which something (e.g., GHG emissions) is developing or changing.
UNDERWRITING	
VERIFIABLE / VERIFIABILITY	To prove the truth of, as by evidence or testimony; confirm; substantiate. Under the ACT project, the data required for the assessment shall be verified or verifiable.
WEIGHTING	The allowance or adjustment made in order to take account of special circumstances or compensate for a distorting factor.

11 Appendix

11.1 TWG MEMBERS

This ACT methodology has been developed with inputs and feedbacks of the Technical Working Group, which met 7 times over the course of the development phase.

TABLE 17: LIST OF TWG MEMBERS

ORGANISATION	REPRESENTATIVES
ADEME	Romain Poivet, Mathieu Garnero, Anatole Métais-Grollier, Kim Nguyen-Huu, Stanislas Ray
CACIB	Paula Dias Barata
Influence Map	Eden Coates
La Banque Postale	Anne Laure Bousquet, SkenderSahiti Manzoni
Fédération Bancaire Française	Karen Degouve
Banque de France	Judicael Arnoult
WWF	Cécile Rachetin, Antoine Pugliese
Reclaim Finance	Paul Schreiber
I4CE	Julie Evain, Clara Calipel
CDP	Jacob Buckton, Russell Rolls
World Benchmarking Alliance	Bruno Besek, Charlotte Gregory
Deloitte	Anne-Sophie Goll, Paul Madoz
Icare	Amaury de Balincourt
2DII	Antoine Lalechere
KPMG	Erwan Devillers
1Planet Advisory	Simon Messenger

Other	Other financial institutions (7) and contributors (e.g. EFRAG) have been assisting periodically to the technical working groups and

11.2 Financial institutions involved in the roadtest

TABLE 18: LIST OF FINANCIAL INSTITUTIONS INVOLVED IN THE ROADTEST

Financial institutions
1. TBC
2. TBC
3. TBC
4. TBC
5. TBC
6. TBC
7. TBC

8. TBC
9. TBC
10. TBC

11.3 PEDAGOGICAL GRAPHS FOR 4.1'S TREND RATIO

Illustration of the different cases

CASE 1

Conditions	Score
$FI's\ sectoral\ trend > 0$ Increase in FI's sectoral emissions intensity	0%

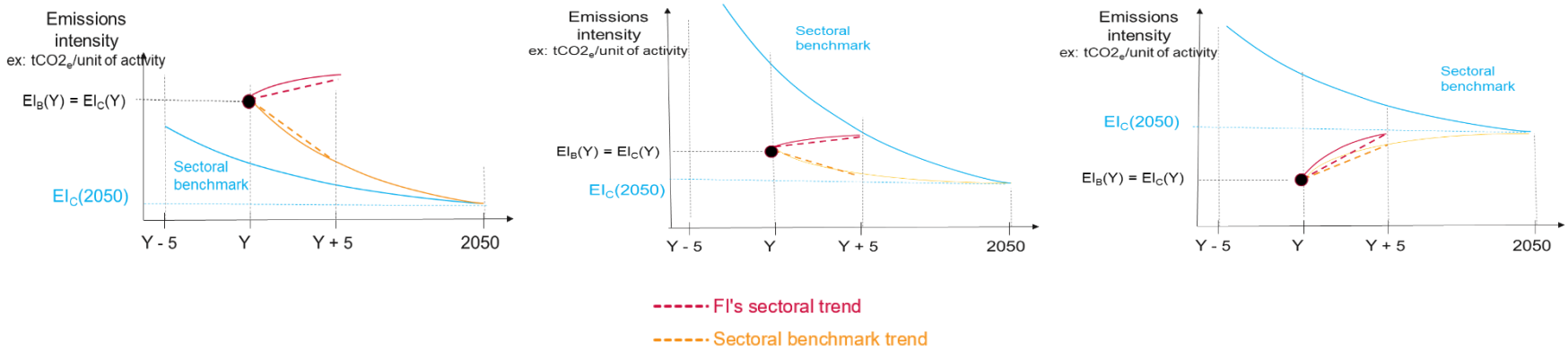

FIGURE 8: TREND RATIO - CASE 1

CASE 2

Conditions	Score

$FI's\ sectoral\ trend \leq 0$ and $EI_C(Y_R) \geq EI_B(2050)$ $0 \leq trend\ ratio \leq 1$ Decrease in FI's sectoral emissions intensity but its pathway does not go beyond the sectoral benchmark ambition	$Trend\ ratio \times 100\%$

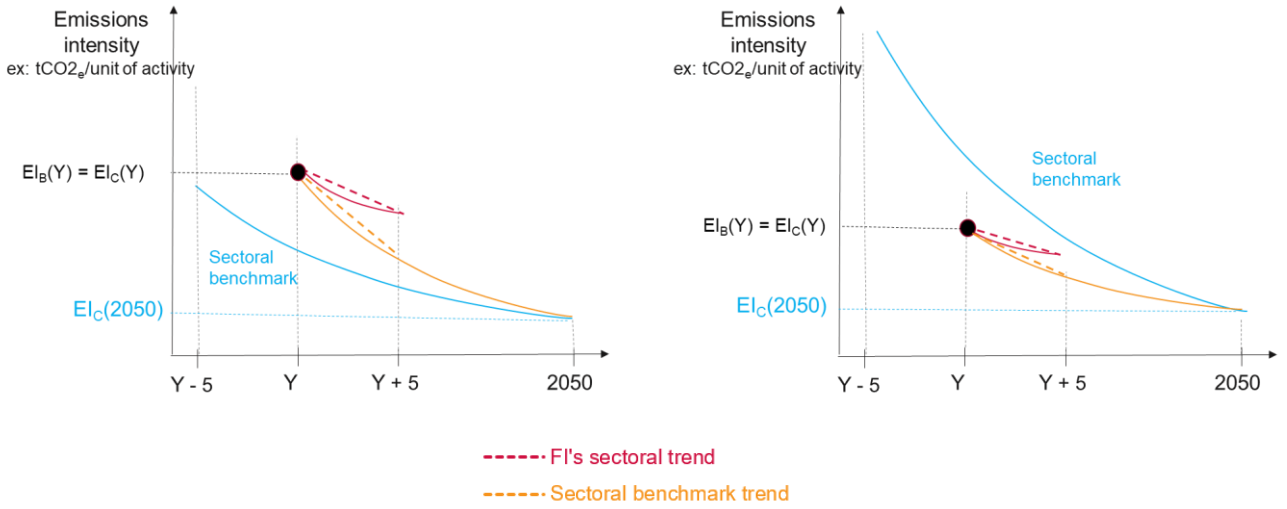

FIGURE 9: TREND RATIO - CASE 2

CASE 3

Conditions	Score
$FI's\ sectoral\ trend < 0$ $trend\ ratio > 1$	100%

Decrease in FI's sectoral emissions intensity and its pathway equals or exceeds the sectoral benchmark ambition	

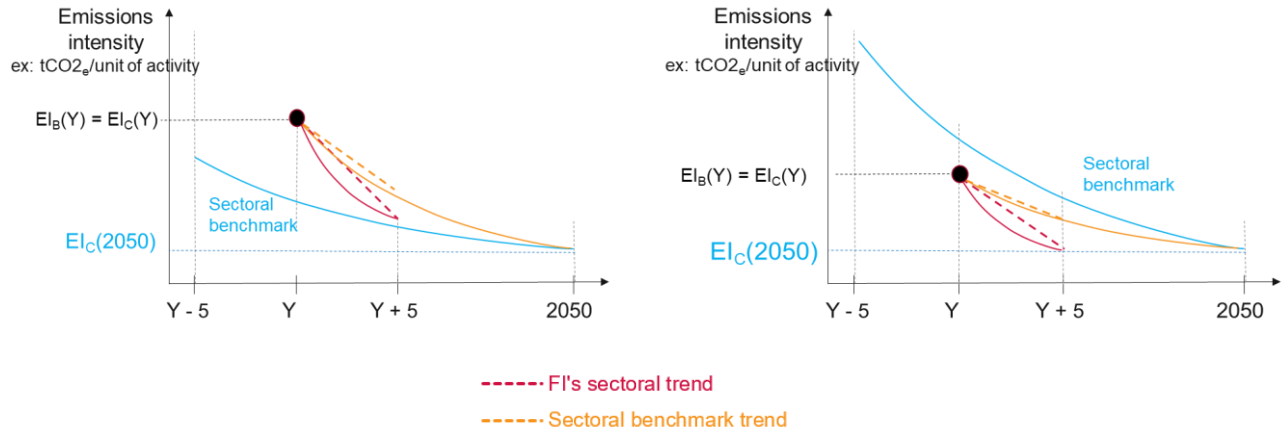

FIGURE 10: TREND RATIO - CASE 3

CASE 4

Conditions	Score
$FI's\ sectoral\ trend \leq 0\ and\ EI_C(Y_R) \leq EI_B(2050)$ No increase in FI's sectoral emissions intensity and its emissions intensity is already below the sectoral benchmark ambition for 2050	100%

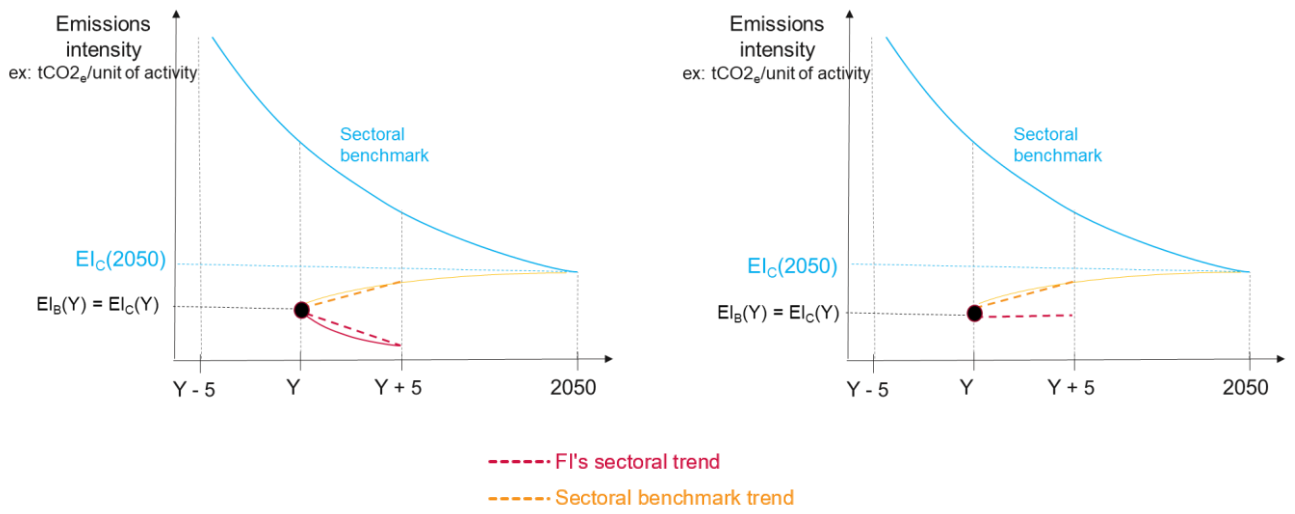

FIGURE 11: TREND RATIO - CASE 4

11.4 ACT 4 FINANCE MAPPING WITH OTHER INITIATIVES

I Care environnement has been chosen to conduct this analysis which should be integrated in this document by September 2023.

[i] Available at https://www.iigcc.org/resource/investor-expectations-on-corporate-lobbying/