

# METHODOLOGY

## ACT Finance | Investing



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- (see list of members and financial institutions in annex).

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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”.

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.

Regarding ACT Finance methodologies, having in mind Paris Agreement objective (see below), a specific focal has been taken where it is the financed emission (Scope 3, Category 15) that are assessed and, beyond GHG themselves, the capacity of the financial institution to reorientate financial flows where needed.

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

In order to achieve Paris Agreement objective a deep transformation of our economical and operational models (transitioning from the current highly emitting economy toward a low carbon economy) is needed. Those transformations require strong investments. The indirect yet crucial role that Finance can play is identified explicitly in the Paris Agreement, Article 2.1c, which states the objective to “[make] *financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development*”.

Regarding current landscape of finance, private finance has a significant role to play in the achievement of this orientation of the flows toward transition. As there are still revenue expectations stemming from climate-damaging activities while climate solutions require innovative thus risky solutions, reorientating financial flows is far from obvious taking into account only traditional short-term risk/profit driven approaches. Thus, it is necessary to assess financial institution climate strategy with regards to Paris Agreement achievement and provide tools enabling them to improve their practices.

Compared to other “real economy” ACT assessment methodologies, ACT Finance has developed specific features considering the indirect role they have to play in Paris Agreement’s achievement (financing necessary transformation of the economy so acting ahead of the actual occurrence of GHG emitting processes). Notably, while GHG emissions themselves remain an important component of the methodology, they are taken into account more as a “lagging” indicator allowing to check *ex post* actual decrease of emissions in real economy. The methodology focus rather on orientation of financial flows themselves as they are the one which bear the transformative power of the economy.

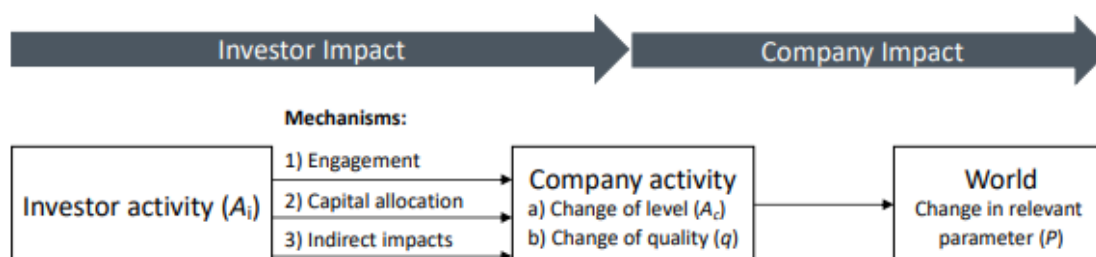
Furthermore, regarding GHG emissions, ACT Finance does not consider financial institution's own GHG emissions as it focuses on its core business that is financing<sup>1</sup>.

The approach taken by the ACT Finance methodology reflects the most advanced approaches taken by the finance sector to date ([UNEP-FI](#)<sup>2</sup>, [GFANZ](#)<sup>3</sup>, SBTi<sup>4</sup> consultation). The methodology also leverages on various open-source methodologies, initiatives, and approaches, such as PACTA, PCAF and the frameworks of the IIGCC, CBI, ... that were leveraged in the development of this assessment framework.

The methodology will capture/assess the following elements:

- i. The credibility and robustness of the financial institution's transition plan
- ii. Its contribution to financing a transitioning / low carbon economy (e.g., climate solutions financing) and stop financing climate-damaging activities, thus ultimately the impact of the financial institution in terms of contribution to bring down GHG emissions in the real economy.

“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)*

Due to specificities of various actors within the financial sphere (presence or not of voting right, nringing or not “ne money...) 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.

<sup>1</sup> To this extent, it is specified that a Financial Institution that operate or control significant emissive processes (e.g having as its own many buildings, owning a 100%-owned high-emitting companies) is invited to perform a dedicated ACT assessment given the relevant underlying sector on this specific perimeter.

<sup>2</sup> [UNEP-FI, Developing Metrics for Transition Finance, December 2023](#)

<sup>3</sup> [GFANZ, Scaling Transition Finance and Real-economy Decarbonization, December 2023](#)

<sup>4</sup> [Public Consultation on SBTi Resources for Financial Institutions, July 2023.](#)

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](#)

<b>Relevance</b> - Select the most relevant information (core business and stakeholders) to assess low-carbon transition.
<b>Verifiability</b> - The data required for the assessment shall be verified or verifiable.
<b>Conservativeness</b> - Whenever the use of assumptions is required, the assumption shall be on the side of achieving a 2° maximum global warming.
<b>Consistency</b> - Whenever time series data is used, it should be comparable over time.
<b>Long-term orientation</b> - Enables the evaluation of the long-term performance of a financial institution 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 investing activities. It includes the rationales, definitions, indicators and guidance in order to perform the assessment of performance, narrative and trend scores.

It was developed following 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.

The methodology leverages on the ACT Framework, which describes the aspects of the ACT methodologies regarding the assessment of climate mitigation that are not sector specific. Compared to other “real economy” sectoral methodologies, the structure has however been particularly modified in order to cope with the specificities of the sector: focal more on financial flows than on GHG emissions, attention given on investees and investors rather than the chain value...

## 3.2 SCOPE OF THE SECTOR

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

The ACT Finance Investing 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
Trusts, funds and similar financial entities	64.30	6430
Insurance	65.11 65.12	6511 6512
Fund management activities	66.30	6630

To be more explicit, the Investing methodology aims to assess the following actors:

1. Asset Managers (including private equity or debt investors)
2. Asset Owners (insurance company, pension funds, public entity)

The ACT Finance – Investing methodology covers various assets and business from GHG accounting, transitioning assessment, engagement... aspects. Covered elements are:

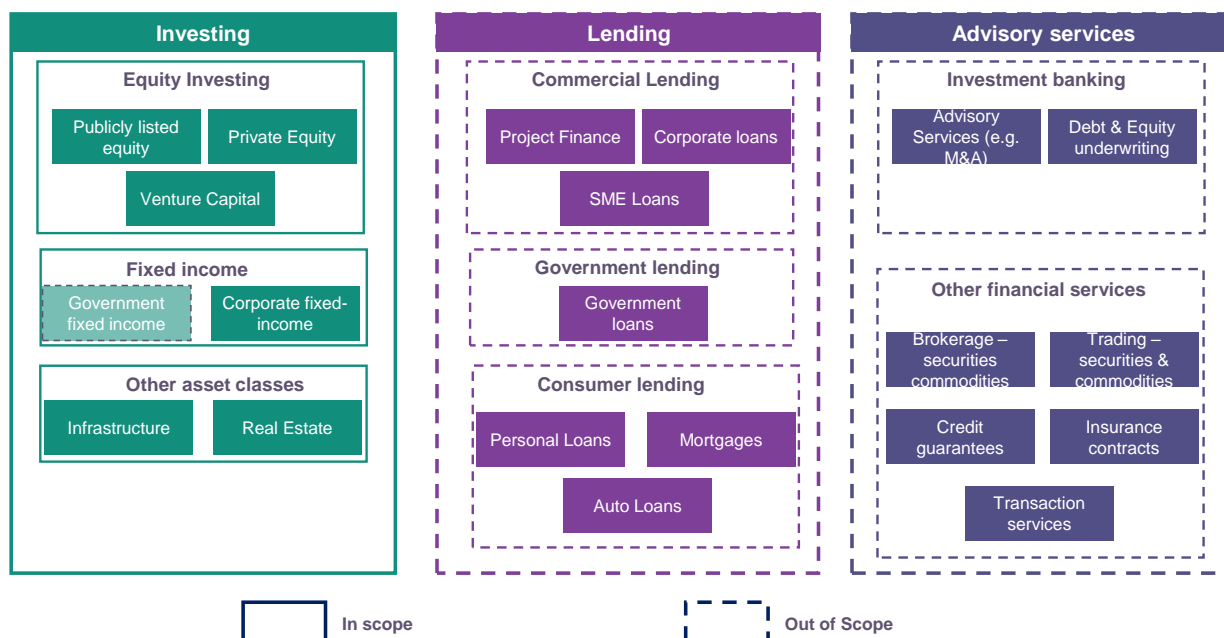
- i. **Equity (Listed and Private)**
- ii. **Debt (Listed and Private)**
- iii. **Real estate (REITS)**
- iv. **Project financing (Infrastructure)**

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 invested companies
- ◆ Ability to influence
- ◆ Timeframe of the investment
- ◆ Size of revenue of the financial institution

The following figure illustrates the perimeter covered by the methodology.

FIGURE 1: BOUNDARIES OF THE ACT FINANCE – INVESTING METHODOLOGY



**Source:** Adapted from *GHG Protocol, Guidance for the financial sector: Scope 3 accounting and reporting of greenhouse gas emissions - 2013* (5)

#### Financial institutions performing both banking and investing activities

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

## **RATIONALE FOR SCOPE DEFINITION**

### **Asset Class:**

The ACT Finance Investing methodology includes the asset class mentioned above for various reasons (please also refer to the factors mentioned above):

- Methodologies available to date to compute financed emissions
- Maturity of current carbon accounting market practice on these asset class and data availability
- Mechanisms of impact possible

The rationale for excluding the following class of the ACT Finance investing methodology is the following:

- Sovereign Bonds: no methodology has been available when developing the methodology. It might be integrated in the future methodological updates as it can represent a substantial part of some asset managers/owners' portfolio composition.
- Commodities: whereas such asset class could embed interesting issues in itself (for instance investing in rare metals or coal) this asset class hadn't been taken into account due to the complexity of the topic and lack of standards vs. the actual size of the investments made by most company in this sector compared to others.
- Derivatives: Can have direct influence on a company but highly volatile. They might be included later on (7)

### **Investors typology:**

Investors are quite active in the commitments made to align portfolios to net zero and mobilize large amounts of money for contributing to finance the transition to a low carbon economy.

Still, there is an important distinction to do among investors as their impact levers and role in the transition are not same.

### **Primary Market**

Likewise banks, some investors are operating on the primary markets, participating directly in the financing of a project or a company. Impact levers are more clear and directly impactful through the money they will invest in.

For primary markets investors, financial flows directly finance companies and/or project. As so, to be impactful in terms of GHG emission reduction in the real economy, the investment must be (i) oriented towards climate solutions, the net-zero transition of firms, the managed phaseout of high-emitting assets, and firms already aligned to net-zero (6).

Investors operating on the primary market have the ability of using direct impactful engagement levers (e.g. financial product conditionality).

## **Secondary market**

Investors on the secondary market do not directly finance companies and project. It supports the stock or market price of the instrument it holds. Impact on the company's activities is more indirect though impact levers still exist:

- Reallocate/reweight companies in their portfolio construction. Impact: price signal ('Signaling that impact matter' (1)). Evidence of impact of this action is difficult to find for single actions. It can work if a substantial portion of the market adopt the same position.

- Engagement/Vote. Can directly impact the company's decarbonization strategy (demanding transition plan, publication of science-based objectives etc..) when successful resolutions/votes (i.e. most of the time when vote has been led by collective actions) and, as a result, GHG emissions reduction in the real economy.

## **Asset Managers vs Asset Owners**

Generally speaking, most asset owners mandate asset managers to manage the money they are responsible for.

Asset managers manage and invest the money, with different approaches (asset class, geography, active or passive management (or mix)), the primary (private equity/debt) or secondary market.

Still, some asset owners have both activities: they directly invest and mandate part of their activities.

This tool takes these elements into account as well. (see section 6.2)

# 4 Boundaries

→ *NOTA BENE*

*As stated in the introduction, ACT Finance does not focus solely on GHG emissions, but rather on the orientation of financial flows, in which it differentiates itself from “real economy” sectoral methodologies.*

*While leveraging on best practices and notably PCAF framework regarding the assessment of data quality, ACT Finance does not provide tools and databases to measure and compute GHG emissions. However the GHG data quality will be subject to dedicated question in the assessment of GHG target quality (see INV 1.1). Furthermore the overall data quality is a topic tackled in the narrative score (see 7.2).*

## 4.1 GHG REPORTING BOUNDARIES

Financed emissions are included, which means in term of GHG protocol scope 3 related to ‘investments’ (category 15). This means it includes relevant scope 1, 2 and 3 of financed companies’ emissions. The data reported shall be gross emissions (no netting allowed).

A rare case could occur where the financial institution has ownership or control of a significantly emitting company (for instance an insurance company owning 70% of a cement company). In this case, according to most GHG accountability frameworks, it means that this company’s emissions are consolidated in scope 1, 2 and 3 of the financial institution itself. This is dealt from a ACT Finance perspective in the following way:

- Either this ownership is managed by the financial institution from a pure financial perspective despite this consolidation, and therefore those positions should aggregate to the 3.15 GHG emissions (ie those are also “financed” emissions);
- Either there is an actual operational management of the financial institution on this non-financial activity. In such case, the financial institution is invited to perform a dedicated ACT assessment on the sub-company perimeter following the most relevant ACT sectoral or generic policy.

In a broader way, any other emissions than financed emissions are not subject to analysis as part of this methodology. As displayed in introduction, should it be relevant, the financial institution can perform an ACT assessment on this non-financial perimeter according to the most relevant methodology (e.g. Real Estate on its own buildings, generic on various perimeters).

## 4.2 FINANCIAL PORTFOLIO BOUNDARIES

Any financial portfolio invested in assets covered by the methodology (see 3) is to be taken into account. For entities with investing subsidiaries, the assessment can be performed whether at consolidated level or at entity level. In the latter case, subsidiary shares (e.g., strategic entities) won’t be part of the assessment. Furthermore, the absence of global picture will in this case be taken into account if significant notably in the narrative score.

A "look-through" approach shall be applied for assets such as collective investment schemes or any similar kind of asset (e.g., if an asset owner detains 100m\$ of fund shares and the fund is invested 30% in Oil&Gas, 20% in Auto and 50% in other sectors, it shall report figures accordingly to its portfolio structure, here 30m\$ of Oil&Gas, 20m\$ in auto and 50m\$ in other sectors).

## **RATIONALE FOR BOUNDARY SETTINGS**

The focus of ACT Finance methodology is set on the capacity of financial institutions to contribute to Paris Agreement, meaning reorientate financial flows toward a 1.5° compatible trajectory. Thus, the methodology focuses on financial flows and, as a lagging indicator, on GHG financed emissions. Other own emissions are not part of this focus and should not be treated under ACT Finance perspective. Their materiality is most of the time insignificant. CDP mentions that financial institution's financed emissions are 700 times greater than they own emissions (scope 1 & scope 2) (7) . NZAOA mentions that the vast majority (95%-97%, (8)) of an asset owner's emissions come from its portfolio emissions for instance.

# 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. 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) with 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 investing amounts: total assets under management (whether directly hold or delegated) (in monetary terms; e.g. € or \$), by sectors (idem), or asset class (idem)
Investments flow breakdown between use of proceeds vs General Corporate Purpose financial amounts/assets under management (past 3 years) by sectors or asset class (in monetary terms, e.g., € or \$)
Financed GHG 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 & coal
Climate solutions financing
Climate policy and details regarding governance
Management incentives
Scenario testing framework
Engagement strategy & associated framework
Investees engagement policy
List of initiatives implemented to influence investors/investees
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 1Table 2.

**TABLE 2 : PERFORMANCE INDICATOR OVERVIEW**

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

## 9. BUSINESS MODEL

INV 9.1 Tools/policy facilitating investments to the transition towards a low carbon economy  
 INV 9.2 Growing climate investment in (i) low carbon, (ii) enabling activities, (iii) climate solutions and (iv) companies with a credible and robust transition plan

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 <sup>5</sup>	0	0.25	0.5	0.75	1

<sup>5</sup> In some specific cases an *ad-hoc* scoring will be displayed in order to better suit the progressivity of the approaches, see for instance Indicator 4.1.

## MODULE 1: TARGETS

This module focuses on the ambitions set by the Financial institution from a climate change mitigation perspective. As stated in introduction, finance has a very specific role in reaching Paris Agreement (financing/investing in necessary transformation of the economy so acting ahead of the actual occurrence of GHG emitting processes). Thus, Financial Institutions are expected to produce ambitions of two different kinds:

- On one hand “GHG targets” checking *ex post* that the companies/projects they invest in actually decrease their GHG emissions (indicators 1.1, 1.2, 1.3)
- On the other hand “non GHG targets”, ensuring that the Financial Institution has *ex ante* the ambition to allocate its investments consistently with Paris Agreement, meaning:
  - o (i) divesting climate-damaging activities (screening of exclusion policies, sub-parts of indicator 1.4)
  - o (ii) investing in transitioning companies (assessment of transition plan coverage target, sub-part of indicator 1.4)
  - o (iii) investing in climate solutions (indicator 1.5).

### • INV 1.1 ALIGNMENT OF SCOPE 3 (CATEGORY 15) EMISSIONS REDUCTION TARGETS

#### DESCRIPTION & INV 1.1 ALIGNMENT OF SCOPE 3 (CATEGORY 15) EMISSIONS REDUCTION TARGETS REQUIREMENTS

##### SHORT

##### DESCRIPTION

##### OF INDICATOR

A measure of the alignment of the financial institution financed sectoral emissions' reduction targets with sectoral related low-carbon benchmark pathways. The indicator will compare the trend of sectoral financed emissions targeted pathway to the trend of the relevant sectoral related benchmark and identify 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.

##### DATA

The relevant data for this indicator are:

##### REQUIREMENTS

- ◆ 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
- ◆ Share of the sectoral owned financed emissions (%)
- ◆ Base year, emissions at base year

CDP Questionnaire mapping to this indicator:

- ◆ C4.1

- ◆ C4.2
- ◆ C6.5
- ◆ C14.1
- ◆ C14.2
- ◆ C-FS14.1a
- ◆ 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)
- ◆ World Bank data on growth projections
- ◆ (Optional) – Base year, emissions at base year

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

Target type	Parameter	Metric	Methodological sources <sup>6</sup>
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

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

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
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

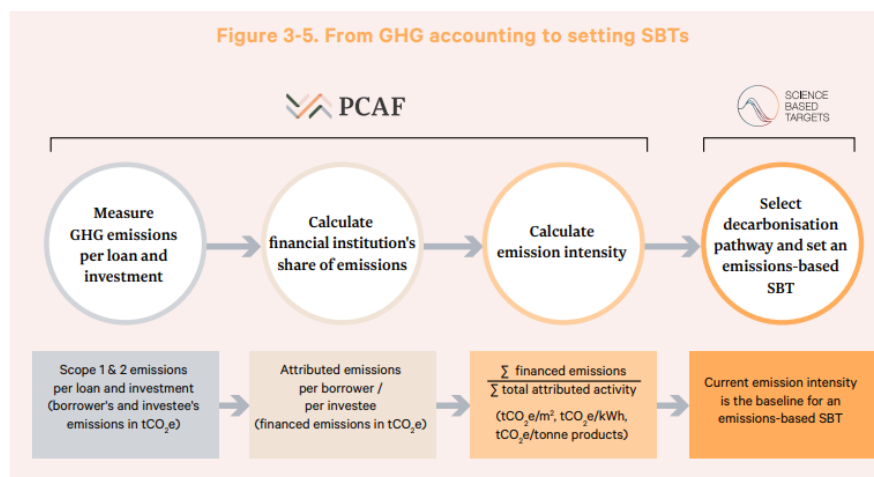
Scope 3.15 - Intensity Transport – Road (Sectoral financed emissions)	SB	gCO2/t.km (freight)	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Intensity Transport – Shipping (Sectoral financed emissions)	SB	gCO2/t.km (freight)	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Absolute Asset Class (Asset class financed emissions)	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
Scope 3.15 – Economic intensity Asset Class	ACB (Asset Class Benchmark)	% of economic intensity emissions' reduction	- SBTi ACA - World Bank data for growth

Scope 3.15 – Economic intensity General	PB (Global Portfolio Benchmark)	% of economic intensity emissions' reduction	- SBTi ACA - World Bank data for growth
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**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 NZAOA and PAII NZIF 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<sup>7</sup>



**FIGURE 1: PCAF: FROM GHG ACCOUNTING TO SETTING SBTs**

<sup>7</sup> p.31, <https://carbonaccountingfinancials.com/standard>



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

Three types of financed emissions can be used here:

- ♦ **Physical emissions intensity** (e.g., gCO<sub>2</sub>e/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.
- ♦ **Absolute financed emissions** (tCO<sub>2</sub>e), resulting in the use of the ACA approach. This is implemented through a linear evolution of -42% between 2020 or later to 2030 and -90% from 2030 to 2050. Pre-2020 base years are handled through a compounded -4.2% decrease.
- ♦ **Economic emissions intensity**, that are divided in two sub-types:
  - **GHG or carbon footprint** (e.g. tCO<sub>2</sub>e/\$mn of the value of the investments). See below for illustration purpose a calculation formula, to be adapted to relevant concrete cases.

$$\frac{\sum_n^i \frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's financed GHG emissions}_i}{\text{current value of all investments (\$mn)}}$$

- **GHG or carbon intensity** of investees companies (e.g. tCO<sub>2</sub>e/\$mn of revenues of the investees companies). See below for illustration purpose a calculation formula, to be adapted to relevant concrete cases:

$$\sum_n^i \left( \frac{\text{current value of investment}_i}{\text{current value of all investments (\$mn)}} \times \frac{\text{investee company's financed GHG emissions}_i}{\text{investee company's \$mn revenues}_i} \right)$$

For these metrics, in order to achieve absolute emissions reductions, it is necessary to correct the effects of either financial growth (increased value of investments) or inflation.

To achieve this goal, an Absolute Contraction Approach Adjusted (ACAA) has been implemented. It consists in taking over the ACA and add a corrective rate. For the sake of simplicity, a single parameter has been used, based on the [third NZAOA protocol](#). This means a single 3.2% compounded rate is added to the ACA trajectory in order to deepen the benchmark.

**Important:** Economic metrics are less relevant due to potential significant non-climate effects that can affect them, despite the economic adjustment presented above. Thus, using these metrics will downgrade the score as seen below (target category score).

**HOW THE  
ASSESSMENT  
WILL BE DONE**

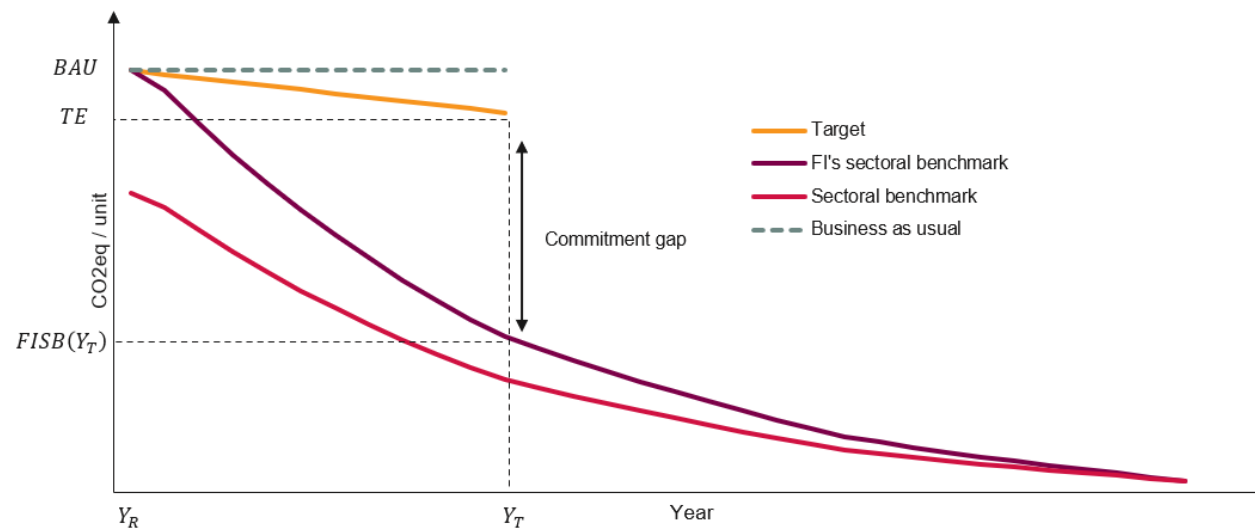
The analysis is based on the difference between the financial institution financed emissions' (physical/absolute/economic) target and the associated benchmark (sectoral (SDA) or general (ACA or ACAA) at the target year. It is done on every target, whether it is a sectoral target, asset class target or 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 and economic 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 and GHG/carbon footprint emissions will be considered and compared to a benchmark aligned with 1.5°C scenario with no or low overshoot, using an ACA approach. For GHG/Carbon intensity, the benchmark used to calculate the commitment gap is 1.5°C scenario with low or no overshoot (i.e., ACA rate, adjusted for growth), expressed as Absolute Contraction Approach adjusted (ACAA).

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. listed bonds) 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. listed bonds) 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 overshoot using an ACA approach would apply (or ACAA for carbon/GHG intensity).

### **CALCULATION OF SCORE:**

First a trend ratio is calculated to deduct a commitment score which is then weighted according to relevant dimensions (data quality, credit coverage,

GHG coverage, sectoral adjustment) to give 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 aligned to or more ambitious than the financial institution's sectoral benchmark (commitment gap  $\leq 0$ ). It achieves the minimum score if the sectoral financed emissions' target pathway is less ambitious than the business-as-usual pathway (commitment gap  $\geq$  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:

$$Final\ score = commitment\ score * AuM\ coverage\ score * GHG\ coverage\ score * data\ quality\ score * target\ category\ score * sectoral\ adjustment$$

Where for a given perimeter there are several targets (e.g. target in 2025, 2030 and 2050 for the Cement sector) the target pathway score will be the arithmetic average of the score of each individual target.

If several target pathways exist for a specific sector (e.g. one for Europe and another one for Latin America) they will be scored independently.

#### (i) AuM coverage score

The Asset under Management (AuM) coverage score takes into account the possibility that a financial institution sets reduction targets not taking into account all its portfolio. As a matter of fact, this possibility is specified by the [Financial sector science-based targets guidance](#) of the SBTi. A minimum level of coverage in term of monetary value of the portfolio must be covered<sup>8</sup>. Some parts of the portfolio 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 AuM coverage represents the share of the assets under management, in monetary terms, covered by the target. For example, a financial institution has a 10bn€ asset 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 the reporting date, the exposure to this sub-sector represents 100m€ so 1% of the global portfolio of the institution on the sector A. Therefore, the AuM coverage of the sector A is 100%-1%=99%.

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

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

With the AuM coverage thresholds defined as follows:

**TABLE 5: CREDIT COVERAGE THRESHOLD COMING FROM SBTi:**

Sector	AuM coverage threshold
--------	------------------------

<sup>8</sup> See criteria FI-C16 – Portfolio Target Boundary:.

Oil & Gas	95% of base year asset under management (AuM value)
Electric utilities	100% of base year asset under management (AuM value)
All other sectors, asset classes and global portfolio	67% of base year asset under management (AuM value)

If several targets exist for a specific sector (e.g., one target for Europe and another one for Latin America) the AuM coverage threshold will be calculated globally and then shared among the various targets according to their AuM 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 AuM coverage score regarding the Building construction sector.

The first target will get  $50\% \times 20\% / 33,5\% \sim 30\%$  of AuM coverage score while the second target will get the  $\sim 20\%$  remaining. This ensures no overlap between each target scoring.

If no data at all is provided, a by-default 50% lending coverage score will be provided, split between same-sector target if needed as seen above. In case of partial information available (e.g. amounts covered for one target available but not for the other) the 50% factor will apply to the non-identified part of the perimeter.

#### (ii) GHG coverage score

The GHG coverage score is equal to the GHG coverage of the given perimeter.

The methodology acknowledges that calculating the GHG coverage is a challenge for some sectors and part of the sectoral value chain. Therefore, when of good faith the investor does not have information related to the GHG coverage of its target, the analyst can refer to the following table as an indication of what coverage would be if a financial institution declares that its target is covering only this or this scope. Please note that this table is

indicative and relevance to the concrete case observed should be monitored and lead to adjustments if needed<sup>9</sup>:

**TABLE 6: GHG BREAKDOWN PER SCOPE AND PER SECTOR**

ACT sector	Scope 1	Scope 2	Scope 3
Agriculture & Agrifood	7%	1%	92%
Aluminium	15%	60%	25%
Building construction	7%	1%	92%
Cement	80%	5%	15%
Chemicals	20%	10%	70%
Coal	33%	2%	65%
Elec Utilities	50%	1%	49%
Glass	30%	20%	50%
Iron & Steel	70%	5%	25%
Oil & Gas	10%	1%	89%
Pulp & Paper	30%	10%	60%
Real Estate	2%	5%	93%
Transport – Auto	1%	1%	98%
Transport - Civil aviation	75%	1%	24%
Transport - Road transport	64%	3%	33%
Transport - Shipping	70%	1%	29%
z. Other Sectors	27%	3%	70%

The table is based notably on a CDP study<sup>10</sup>, complemented by other sources where needed (e.g. IAI information for Aluminium).

<sup>9</sup> In particular the underlying assumption for scope 3 is that every relevant category of GHG emissions is taken into account, which could be not consistent with some scope 3 methodologies where for instance only 1st rank providers are taken into account.

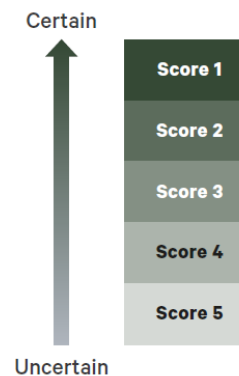
<sup>10</sup> CDP Technical Note: Relevance of Scope 3 Categories by Sector, 2022.

Furthermore for asset class and global portfolio level the by-default parameters can also be used. They result from the rounded concatenation of previous sectors weighted by the coefficient of contribution to global emissions seen below Table 7.

	Scope 1	Scope 2	Scope 3
Global portfolio and asset class GHG coverage by default parameter	27%	3%	70%

### (iii) GHG data quality score

The data quality score is based on the confidence attributed to the GHG data. 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 (13).



(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. <b>Verified emissions</b> of the company are available.
		1b	Outstanding amount in the company and EVIC are known. <b>Unverified emissions</b> calculated by the company are available.
Score 2	Option 2: Physical activity-based emissions	2a <sup>62</sup>	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 <b>company's energy consumption</b> and emission factors <sup>63</sup> 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 <b>company's production</b> 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 <b>company's revenue</b> <sup>64</sup> are known. Emission factors for the sector per unit of revenue are known (e.g., tCO <sub>2</sub> e per euro of revenue earned in a sector).
		3b	Outstanding amount in the company is known. Emission factors for the sector per unit of asset (e.g., tCO <sub>2</sub> e per euro of asset in a sector) are known.
Score 5		3c	Outstanding amount in the company is known. Emission factors for the sector per unit of revenue (e.g., tCO <sub>2</sub> e per euro of revenue earned in a sector) and <b>asset turnover ratios</b> 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 7: 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 50% for a confidence level of 5.

Weighted confidence level	Data quality score
1	100%
2	90%
3	80%
4	60%
5	50%

A linear interpolation is made where the financial institution produces an average quality score among various sources (for instance a 2.5 score will deliver a 85% scoring).

(iv) Target category score:

Several target categories are taken into account by the methodology, however they do not bear the same value in term of impact potential. Thus, “monetary” target scores (ie expressed in carbon footprint or carbon intensity) are downgraded according to the following table.

Target category	Target category score
Absolute	100%
Physical Intensity	100%
Carbon footprint (/m€ EV)	75%
Carbon intensity (/m€ Sales)	50%

(v) 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 (e.g. Oil&Gas) than on 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  $\left\{ \begin{array}{l} n: \text{the number of sectors considered} \\ s_i: \text{the sector } i \\ C: \text{the benchmark coefficient of contribution to global emissions according to the table below} \\ w: \text{the allocation within the portfolio} \end{array} \right.$

And with the benchmark coefficient of contributions defined as:

**TABLE 8: COEFFICIENT OF CONTRIBUTION OF SECTORS AND ASSET CLASSES TO GLOBAL EMISSIONS**

Sector	Benchmark coefficient of contribution to global emissions
Agriculture & Agrifood	18%
Aluminium	2%
Building construction	4%
Cement	4%
Chemicals	6%
Coal	27%
Elec Utilities	23%
Glass	0%
Iron & Steel	7%
Oil & Gas	35%

Pulp & Paper	1%
Real Estate	20%
Transport - Auto	7%
Transport - Civil aviation	2%
Transport - Road transport	12%
Transport - Shipping	2%
z. Other Sectors	2%

These parameters are based on the public sources such as “Ourworldindata” (12), 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.

#### ◆ Aggregated score

The aggregated score depends on the structure of the targets set by the institution. As financial institutions are investing in 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) AuM coverage score, (ii) GHG owned emissions, (iii) sector contribution, and (iv) data quality score.

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

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

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

**TABLE 9: SCORE'S WEIGHTINGS DEPENDING ON GRANULARITY OF TARGETS**

Combination	$w_S$	$w_A$	$w_G$	Sum of weightings
Sectors only	100%	0%	0%	100%
Aggregated asset class only	0%	50%	0%	50%
Global portfolio only	0%	0%	50%	50%
Sector + Aggregated asset class	67%	33%	0%	100%
Sector + Global portfolio	67%	0%	33%	100%
Aggregated asset class + Global portfolio	0%	25%	25%	50%
Sector + Aggregated asset class + Global portfolio	50%	25%	25%	100%

“Aggregated asset class” stands for the case of non-sectoral target setting approach. This mean the targets for the financial institution are tied to absolute or economic intensity CO2e emissions reduction and at the asset class level.

For instance: ‘Financial institution A has set a reduction target of 30% on its corporate bond asset class, from a 2021 base year and with a target date of 2030’. Where asset class targets are based on a sector (likewise in the SBTi Financial Sector Science Based Targets Guidance (August 2022): ‘Financial Institution B commits to reduce GHG emissions from the cement sector within its corporate 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 for absolute targets, carbon/GHG footprint; and ACAA annual reduction for carbon/GHG intensity.

**RATIONALE** **INV 1.1 ALIGNMENT OF SCOPE 3 (CATEGORY 15) EMISSIONS REDUCTION TARGETS**

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

**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.

#### **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.*

#### **• INV 1.2 TARGETS TIME HORIZON**

**DESCRIPTION  
&  
REQUIREMENTS**

**INV 1.2 TARGETS TIME HORIZON**

**SHORT**

**DESCRIPTION**

A measure of the time horizons of financial institution targets. The ideal set of targets is forward looking enough to reach Paris 'Agreement goal in 2050, but also includes short- and mid-term targets that incentivise action in the present and planification for near future.

**OF INDICATOR**

**DATA**

The relevant data points for this indicator are, for each target pathway:

**REQUIREMENTS**

- ◆ Target year;
- ◆ Year when the target was set (base year);

CDP Questionnaire mapping to this indicator:

- ◆ C4.1
- ◆ C-FS14.1a

**HOW THE**

**ASSESSMENT**

Each target pathway is assigned a scoring regarding its global design. Target scorings will then be aggregated into a single scoring in the same way than for 1.1. Target pathway designs are compared against the following core principles:

**WILL BE DONE**

- Key milestones are commonly set globally around 2025, 2030 and 2050<sup>11</sup>. Many national and supranational frameworks (Paris Agreement, EU climate law) take some of these milestones as references. Financial institutions should be consistent with such frameworks for the sake of consistency of the global transition.
- The “5-years” unit is a widely-accepted practice for Business plan and strategic plan durations.

The approach is sum up in the following matrix which, for the sake of clarity, is composed of:

<sup>11</sup> Cf. notably [HLAG “integrity matters” recommendations](#).

- A first line displaying the core principle underlying the level of scoring
- An illustrative example
- The wording covering each situation
- A bonus/malus system which is applied regarding the use or not of 2025, 2030 or 2050 key milestones

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low carbon aligned
<i>Associated score</i>		<i>0%</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>
<i>Target pathway timeline design</i>	<i>Core principle</i>	Only mid- or long-term targets	Only short-term targets	One short-term target and one mid or long-term target	One short, one mid and one long term target.	Succession of short-to mid-term and mid-to long-term targets
	<i>Example of target pathway timeline</i>	2040	2025	2025, 2050	2025, 2030, 2050	2025, 2030, 2040 and 2050 targets



	<i>Detailed wording</i>	No target before 2030 included.	At least one target before 2030 included. AND No target after 2030 excluded.	At least one target before 2030 included. AND at least one target after 2030 excluded	At least one target before 2028 excluded AND at least one target before 2035 excluded AND at least one target after 2045 included	From the base year, at least one target every 5 years until 2030 included AND at least one target every 10 years from the last target before 2030 included to 2050 AND at least one target after 2045 included
	<i>Bonus/Malus</i>	+5% if 2050 target	-5% if neither 2025 nor 2030 target	-10% if no 2030 target -10% if no 2050 target		

## RATIONALE INV 1.2 TARGETS TIME HORIZON

### RATIONALE OF RELEVANCE OF THE INDICATOR:

#### 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;
- ♦ Short- and mid-term commitments are needed in order to make companies and their executive accountable and ensure rapid actions.

#### SCORING RATIONALE:

Target pathway designs are compared against the following core principles:

- Key milestones are commonly set globally around 2025, 2030 and 2050<sup>12</sup>. Many national and supranational frameworks (Paris Agreement, EU climate law) take some of these milestones as references. Financial institutions should be consistent with such frameworks for the sake of consistency of the global transition.

<sup>12</sup> Cf. notably [HLAG "integrity matters" recommendations](#).

- The “5-years” unit is a widely-accepted practice for Business plan and strategic plan durations.

Assessing the timeline design of a target pathway is not obvious as two distinct rationales strike in: (i) an “absolute” rationale based on key dates (2030, 2050) and (ii) a “relative” rationale based on the base year / reporting year and the time that goes by. The methodology chooses to focus on an “absolute” rationale given the strong incentives put on key milestones, while providing flexibility for other timeline designs. As time goes by, the methodology will need to be updated in order to take care of passed milestones. However the spirit of setting short- to mid- and then long-term targets should remain the same.

### • INV 1.3 ACHIEVEMENT OF PAST AND CURRENT TARGETS

#### DESCRIPTION & REQUIREMENTS

#### 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

The relevant data for this indicator are:

#### REQUIREMENTS

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 AuM exposure at target year
- ◆ The AuM coverage at target year

- ◆ The GHG coverage at target year
- ◆ The data quality confidence at target year

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 at each target pathway level on two dimensions: previous milestones (dimension 1) and on-going milestones (dimension 2). The scores of various pathways is then aggregated just as for 1.1.

**DIMENSION 1:**

The financial institution will get all points if it has achieved all previous emissions reduction targets with a target year in the past 10 years. If not, for each past target, the achievement ratio  $a$  is computed as follows:

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

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 considered, and  $E(t_{target})$  is the effective level of emission (or relevant GHG metric) reached by the financial institution at the target year.

The achievement ratio is then converted into a score. A minimum achievement threshold is set at 50%: if the financial institution has achieved less than 50% of its own past target, it shall receive a zero score:

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 credit coverage score, the GHG coverage score and the past target normalized sectoral adjustment, which is computed just as the sectoral adjustment described in 1.1, except that relative weights are computed only for sectors with past targets:

$$\text{Dimension 1} = \text{score} * \text{credit coverage score} * \text{GHG coverage score} * \text{normalized sectoral adjustment}_{\text{past targets}}$$

In case of several past milestones, the dimension 1 is calculated as the arithmetic mean of all the scores obtained for each past milestone.

## DIMENSION 2:

For on-going milestones (e.g. 2030, 2040 from a 2023 reporting year), the same principle is adapted in order to check whether the financial institution is on track to meet its reduction targets, based on a linear proxy. Thus, the assessment is based on the progress ratio  $p$ :

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

$a$  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 same factors as above for dimension 1:

$$\text{Dimension 2} = \text{score} * \text{AuM coverage score} * \text{GHG coverage score} * \text{normalized sectoral adjustment}_{\text{existing targets}}$$

In case of several past milestones, the dimension 2 is calculated as the arithmetic mean of all the scores obtained for each on-going milestone.

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 TARGET PATHWAY 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 reporting assessment year.

##### ◆ Reporting 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.

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

##### ◆ Reporting 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.

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

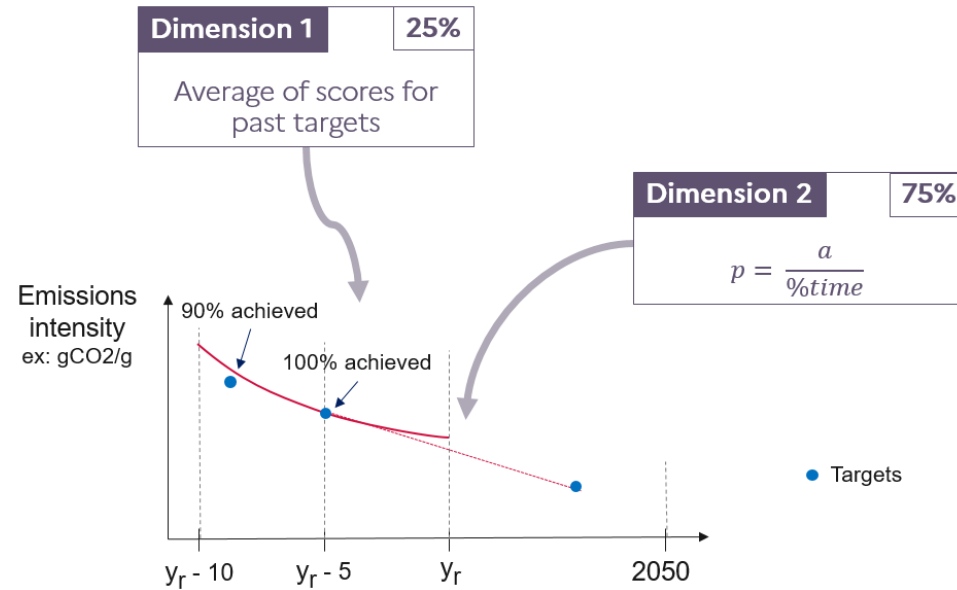


FIGURE 5: CALCULATION OF PREVIOUS TARGET ACHIEVEMENT INDICATOR

## 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.

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

With

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

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.

On the - unlikely - case where no past or on-going targets are available (typically should the financial institution has set only targets with the reporting year as a base year) the 1.3 indicator will receive no score and the associated weight will be re-balanced on indicators 1.1 and 1.2 (see 6.2).

## RATIONALE

### INV 1.3 ACHIEVEMENT OF PAST AND CURRENT TARGETS

## RATIONALE OF

### RELEVANCE OF THE INDICATOR:

## 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 the guarantee that their scoring 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.

- ◆ In order to avoid double-penalization effects, target category and GHG data quality scores have been disregarded regarding this indicator computation, and sector weights have been renormalized. However credit coverage and GHG coverage are kept in order to reflect the potential main flaws of the past target designs.

#### • INV 1.4 ENGAGEMENT TARGETS

#### DESCRIPTION & REQUIREMENTS

#### SHORT

#### DESCRIPTION

#### OF

#### INDICATOR

An assessment of the Financial institution engagement commitments, covering the “hot topics”: phase out on Coal, Oil & Gas and deforestation. In addition, assessment of targets related to the portfolio coverage ambition in term of companies with a credible and robust transition plan (see glossary). This indicator complements the pure GHG emission related targets.

#### DATA

Data for this indicator are:

#### REQUIREMENTS

#### NTS

- ◆ 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](http://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  
T WILL BE  
DONE**

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

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

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. including 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 investees 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%	
<b>Has the financial institution stopped financing new project expansion?</b>	<i>Project expansion exclusion</i>	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 developed countries and non ultra-supercritical new coal plants in developing countries	Full exclusion of new thermal coal mines and plants but potentially large exceptions	Full exclusion of new thermal coal mines and plants with CCS exception	Full exclusion of coal mines, plants and infrastructures.	<b>25%</b>
<b>Has the financial institution stopped financing companies' expansion?</b>	<i>Companies expansion exclusion</i>	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).	<b>25%</b>
<b>Has the financial institution set relative threshold?</b>	<i>Relative threshold</i>	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 investees 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	<b>10%</b>

<b><i>Has the financial institution set absolute threshold ?</i></b>	<b><i>Absolute threshold</i></b>	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	<b>10%</b>
<b><i>Does the financial institution has announced a coal phase-out ?</i></b>	<b><i>Phase-out strategy</i></b>	Has not announced a coal phase-out	Has announced a global coal phase-out by 2050 for coal mining and coal power	<p>Has announced a global coal phase-out by 2050 with the 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:</p> <ul style="list-style-type: none"> <li>– demand of an exit plan</li> <li>– decrease of exclusion threshold over time</li> </ul> <p>OR Has announced a global coal phase out by 2040 with the intermediary date of 2030 for EU/OECD for coal mining and</p>	<p>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 coal mine developers and coal plant developers</p> <p>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:</p> <ul style="list-style-type: none"> <li>– demand of an exit plan</li> <li>– decrease of exclusion threshold over time</li> </ul>	<p>FULL EXCLUSION - 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 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</p>	<b>25%</b>

				coal power; exclusion of some coal developers			
<b>What is the MRV process in place</b>	<i>Monitoring, Reporting and Verification (MRV)</i>	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	<b>5%</b>

The final score will be contextualized by two questions regarding the scope: one on the perimeter itself and the other on the existence of exceptions/loopholes to the exclusion policy. In order not to get counter-intuitive behavior where a poor scope coverage is counter-balanced by an absence of loopholes the final weighting factor is designed as the minimum between on one hand the exclusion scope score and on the other hand the geometrical mean of the two questions (ie the square root of the product of the score of the two questions)\*.

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low carbon aligned	Weighting
<b>Associated score</b>		<b>0%</b>	<b>25%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	
<b>Does the financial institution has a consistent exclusion scope?</b>	<i>Exclusion scope &amp; consistency</i>	No clear scope to the exclusion strategy AND/OR exclusion strategy applies to a marginal share of activities.	The exclusion strategy applies to >50% investing activities in terms of asset under management (including subsidiaries)	The exclusion strategy applies to >75% investing activities in terms of asset under management (including subsidiaries)	The exclusion strategy applies to >90% investing activities in terms of asset under management (including subsidiaries) AND There is a plan in order to get the full coverage by 2025.	The exclusion strategy applies to all investing activities (including subsidiaries)	<b>The score of this category will weigh the final 1.4. Coal score*</b>

<b>Does the financial institution have specific exceptions (e.g. green bonds, credible and robust transition plan.)?</b>	<i>Exceptions and loopholes among the coal policy</i>	The financial institution has very unclear and potentially large exceptions and the financial institution does not specify the process for exceptions.	The final institution has potentially large exceptions but the financial institution specifies the process to integrate exceptions	The financial institution has set limited exceptions but no reference to recognized frameworks/standards (no reference to EU Green Bond Standard or Green Bond Principles for green bonds, internal process to assess coal transition plans)	The financial institution has set very limited exceptions based on recognized frameworks/standards: Green Bond Standard or Green Bond Principles for green bonds, robust transition plan according to coal ACT standards	The financial institution does not have any exceptions. The policy applies to every coal actor.	<b>The score of this category will weigh the final 1.4. Coal score*</b>
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\*Meaning: if the financial institution scores 50% in the Exclusion, scope & consistency and 75% in the Exceptions and loopholes among the coal policy, then the final 1.4 Coal score will be  $\min(50\%; \sqrt{50\% * 75\%}) \sim \min(50\%; 61.2\%) = 50\%$  of the initial score, resulting in a -50% downgrade.

#### Oil & Gas:

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low carbon aligned	Weighting
<b>Associated score</b>		<b>0%</b>	<b>25%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	
<b>Has the financial institution stopped financing new project expansion?</b>	<i>Project expansion exclusion</i>	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	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.	<b>25%</b>

			<p>conventional and unconventional oil AND/OR gas projects: geographic disparities, potentially large exceptions, partial value chain, new fields only.</p> <p>* 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."</p>				
<b>Has the financial institution stopped financing companies expansion?</b>	<i>Expansion companies exclusion</i>	<p>No public policy. OR The policy does not explicitly mention the exclusion of companies with expansion plans.</p>	<p>Explicit exclusion of companies accounting for at least 30% of global resources under development.*</p> <p>* Each policy is assessed based on the Global Oil &amp; Gas Exit List, developed by Urgewald</p>	<p>Explicit exclusion of companies accounting for at least 50% of global resources under development. OR Exclusion of all companies developing pipelines and LNG Terminals.*</p> <p>* Each policy is assessed based on the Global Oil &amp; Gas Exit List, developed by Urgewald</p>	<p>Explicit exclusion of companies accounting for at least 80% of global resources under development &amp; some pipelines*</p> <p>* Each policy is assessed based on the Global Oil &amp; Gas Exit List, developed by Urgewald</p>	<p>Explicit exclusion of 100% of the companies with upstream and/or midstream expansion plans. OR Exclusion of all companies listed in the Global Oil &amp; Gas Exit List*</p> <p>* Each policy is assessed based on the Global Oil &amp; Gas Exit List, developed by Urgewald</p>	<b>25%</b>
<b>Has the financial institution announced an Oil &amp; Gas</b>	<i>Phase-out strategy</i>	Has not announced an oil AND/OR gas	Has announced a phase-out strategy from 3 unconventional sectors for oil and gas upstream activities by 2030	Has announced a phase-out strategy from all unconventional oil AND gas upstream activities by 2030 ; explicit	Has announced a phase-out strategy from oil AND gas upstream activities aligned with principles	Has announced a phase-out strategy from oil AND gas upstream,	<b>25%</b>

<b>phase-out strategy?</b>		phase-out.	OR has announced an incomplete phase-out strategy from oil and gas aligned with principles of equity and a 1.5°C timeline	exclusion of some companies with unconventional oil and gas expansion plans	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	
<b>Does the financial institution have a public policy regarding unconventional sectors?</b>	<i>Unconventional sectors   Artic</i>	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	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	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.	<b>5%</b>

				<p>AND midstream projects in this sector; Explicit partial exclusion of companies planning to develop new oil and/or gas capacity in this sector.</p> <p>OR has announced a phase-out strategy from oil and gas upstream OR midstream activities in this sector by 2030 AND one of the following two conditions:</p> <p>Has adopted at least a relative exclusion threshold; Partial exclusion of projects in this sector.</p>	<p>for upstream activities in this sector. AND For relevant financial institutions, exclusion of financial services dedicated to upstream and midstream projects in this sector.*</p> <p>AND Has adopted an exhaustive definition of the Arctic area: AMAP* definition or another definition covering at least 75% of the AMAP region.</p> <p>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</p> <p>* ie for insurers and investors that can invest directly in oil and gas infrastructure</p>	<p>AND for relevant financial institutions, exclusion of financial services dedicated to upstream and midstream projects in this sector.</p> <p>AND Has adopted an exhaustive definition of the Arctic area: AMAP* definition or equivalent in terms of geographical coverage.</p>	
<b>Does the financial institution have a public policy regarding unconventional sectors?</b>	<i>Unconventional sectors   Fracking</i>	<b>Same as above</b>	<b>Same as above</b>	<b>Same as above</b>	<b>Same as above</b>	<b>Same as above</b>	<b>5%</b>



<b>Does the financial institution have a public policy regarding unconventional sectors?</b>	<i>Unconventional sectors   Tar sands</i>	Same as above	Same as above	Same as above	Same as above	Same as above	5%
<b>Does the financial institution have a public policy regarding unconventional sectors?</b>	<i>Unconventional sectors   Ultra deep water</i>	Same as above	Same as above	Same as above	Same as above	Same as above	5%
<b>What is the MRV process in place?</b>	<i>Monitoring, Reporting and Verification (MRV)</i>	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%

As for Coal, the final score will be contextualized by two questions regarding the scope: one on the perimeter itself and the other on the existence of exceptions/loopholes to the exclusion policy. In order not to get counter-intuitive behavior where a poor scope coverage is counter-balanced by an absence of loopholes the final weighting factor is designed as the minimum between on one hand the exclusion scope score and on the other hand the geometrical mean of the two questions (ie the square root of the product of the score of the two questions)\*.

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low carbon aligned	Weighting
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Associated score		0%	50%	75%	90%	100%	
<b>Does the financial institution have a consistent exclusion scope?</b>	<i>Exclusion scope &amp; consistency</i>	No clear scope to the exclusion strategy AND/OR exclusion strategy applies to a marginal share of activities.	The exclusion strategy applies to >50% investing activities in terms of asset under management (including subsidiaries)	The exclusion strategy applies to >75% investing activities in terms of asset under management (including subsidiaries)	The exclusion strategy applies to >90% investing activities in terms of asset under management (including subsidiaries) AND There is a plan in order to get the full coverage by 2025.	The exclusion strategy applies to all investing activities (including subsidiaries)	<b>The score of this category will weigh the final 1.4. Oil&amp;Gas score*</b>
<b>Does the financial institution have specific exceptions (e.g. green bonds, credible and robust transition plan.)?</b>	<i>Exceptions and loopholes among the O&amp;G policy</i>	The financial institution has very unclear and potentially large exceptions and the financial institution does not specify the process for exceptions		The financial institution has potentially large exceptions, but the financial institution specifies the process to integrate exceptions.	The financial institution has set limited exceptions but no reference to recognized frameworks/standards (no reference to EU Green Bond Standard or Green Bond Principles for green bonds, internal process to assess O&G transition plans)	The financial institution has set very limited exceptions based on recognized frameworks/standards: Green Bond Standard or Green Bond Principles for green bonds, robust transition plan according to O&G ACT standards	<b>The score will weigh the final 1.4 Oil and Gas score**</b>

\*Meaning: if the financial institution scores 50% in the Exclusion, scope & consistency and 75% in the Exceptions and loopholes among the Oil&Gas policy, then the final 1.4 Oil&Gas score will be  $\min(50\%; \sqrt{50\% * 75\%}) \sim \min(50\%; 61.2\%) = 50\%$  of the initial score, resulting in a -50% downgrade.

**Deforestation activities and 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
<b>Associated score</b>		<b>0%</b>	<b>25%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	
<b>Has the financial institution defined a list of harmful deforestation activities?</b>	<i>Deforestation and degradation of natural system activity list</i>	No list		Has defined a limited list		Has defined an exhaustive list of harmful deforestation activities <sup>+</sup>	<b>15%</b>
<b>What are the deforestation requirements from</b>	<i>Requirements from</i>	No overarching	Commodity-specific	Zero deforestation	Zero deforestation/Deforestation	Conversion-free commitment OR a zero	<b>15%</b>

<b>n commitment s?</b>	<i>portfolio companies.</i>	g deforestation commitment	commitment - that does not apply to all of the commodities the company is exposed to	OR, for soy, palm oil, leather and beef companies only, no deforestation of HCV and HCS forests	ion-free commitment OR, for timber, pulp & paper companies only, commitment to well implemented sustainable forest management and no deforestation of HCV & HCS areas	deforestation/deforestation-free commitment that explicitly includes all other natural ecosystems	
<b>Which companies fall into the deforestation policy?</b>	<i>Portfolio companies' scope included.</i>	No public policy		Commitment applies to specific regions OR to specific sectors (including subsidiaries)		Commitment applies to all regions AND to all portfolio companies' operations (including subsidiaries)	<b>15%</b>
<b>Does the financial institution have announced anti- deforestation strategy?</b>	<i>Phase out strategy</i>	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.	<b>40%</b>
<b>What is the target date of the commitment s?</b>	<i>Commitment date</i>	No commitment expected / Commitment expected for 2030 or beyond	Commitment expected beyond 3 years but before 2030.	Commitment expected in more than one year and before 3 years.	Commitment expected for the next year	Already committed	<b>10%</b>
<b>What is the MRV process in place ?</b>	<i>Monitoring, Reporting and Verification (MRV)</i>	No MRV existing	Assessing/tracki ng progress made against the commitment made	Assessing/tracki ng progress made against the commitment made AND publicly disclosing it	Assessing progress against the commitment AND updating the commitment in accordance with the results AND publicly disclosing it	Assessing progress against the commitment and updating the commitment in accordance with the results AND publicly disclosing it AND impact achievement is tracked	<b>5%</b>

<b>Does the financial institution has a consistent exclusion scope?</b>	<b>Exclusion scope &amp; consistency</b>	No clear scope to the exclusion strategy AND/OR exclusion strategy applies to a marginal share of activities.	The exclusion strategy applies to >50% investing activities in terms of asset under management (including subsidiaries)	The exclusion strategy applies to >75% investing activities in terms of asset under management (including subsidiaries)	The exclusion strategy applies to >90% investing activities in terms of asset under management (including subsidiaries) AND There is a plan in order to get the full coverage by 2025.	The exclusion strategy applies to all investing activities (including subsidiaries)	<b>The score of this category will weigh the final 1.4. Deforestation score*</b>
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\*Meaning: if the financial institution scores 50% in the Exclusion, scope & consistency, then the final deforestation score will be downgraded by 50%

\*\* Sources: GFANZ (table 14 of the [recommendations and guidance on Financial institutions Net-zero Transition Plans](#)) and <https://forestsandfinance.org>

### **Portfolio transition plan coverage**

The core condition in order to achieve the transition is to transform the economic model of high-emitting sectors toward a low carbon model. This won't go without credible and robust transitioning plans setup and implemented by companies. In this context, a Financial Institution has a role to play to engage its investees in order to setup such credible and robust plans. The following maturity matrix aims at assessing commitments made in this area by Financial institutions, assessing commitments made through various dimensions: perimeter covered by the target, magnitude and timeline, quality of the underlying transition plans required, and MRV (Monitoring, Reporting and Verification) process.

Question	Basic	Standard	Advanced	Next practice	Low carbon aligned	Weighting
<b>Associated score</b>	<b>0%</b>	<b>25%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	
<b>Perimeter of the coverage targets</b>	No targets OR No high emitting sectors† covered	At least one high emitting sector† covered	All high emitting sectors† covered	Large coverage. Residual perimeters not covered are either spotted by expected targets to set in coming years either justified by a sound rationale (low interest from a climate perspective, specific	Comprehensive coverage. Some limited perimeters justified by a sound rationale (low interest from a climate perspective, specific operational burden on some limited parts of the portfolio...)	<b>10%</b>

				operational burden on some limited parts of the portfolio...)		
<b>Timeline of the coverage targets</b>	No targets OR Targets later than 2030 on every sector	2030 or earlier on highly-emitting sectors†	2030 or earlier on every sector	2025 or earlier on highly-emitting sectors† and 2030 or earlier on any other sector	2025 or earlier on every sector	<b>10%</b>
<b>Magnitude of the coverage targets</b>	No targets OR Targets < 50% on high emitting sectors†	Target > 50% on high emitting sectors†	Target > 75% on high emitting sectors† Target > 50% on other sectors if any	Target at 100% on high emitting sectors† but exceptions are possible (e.g. a company in the course of elaborating a transition plan) Target > 75% on other sectors if any	Targets set at 100% no exclusion.	<b>25%</b>
<b>Quality of the transition plans required</b>	No targets OR No minimum requirements set regarding the transition plans	The transition plans required meet at least the 1.1 principle* on a credible and robust transition plan (see below) OR A validated SBTi target is equivalent to a transition plan	The transition plans required meet at least the Tier 1 principles* on a credible and robust transition plan (see below)	The transition plans required meet at least the Tier 1 and Tier 2 principles* on a credible and robust transition plan (see below)	The transition plans required meet at least the Tier 1, Tier 2 and Tier 3 principles* on a credible and robust transition plan (see below)	<b>50%</b>
<b>Target Monitoring, Reporting and Verification</b>	No MRV existing	Assessing/trackin g 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	<b>5%</b>

†High emitting sectors: the following sectors are presumed high-emitting.

- ◆ Agriculture & Agrifood
- ◆ Coal
- ◆ Electric Utilities
- ◆ Oil&Gas
- ◆ Real Estate
- ◆ Road transport

The assessor can justify another approach depending on actual financial exposure and GHG emissions observed on the FI portfolio.

\*As described further in indicator 4.1, it is expected that a company's transition plan meet minimum requirement. Those requirements have been set in several principles classified through "Tiering". The information, available in the description of the "transitioning company assessment framework" at indicator 4.1, is reproduced below:

**TABLE 10 TRANSITION PLAN ASSESSMENT PRINCIPLES**

Principle	Tiering			
In order to assess whether a company has set a credible and robust transition plan, the following aspects should be considered.	Tier 1	Tier 2	Tier 3	Tier
<b>1. Targets:</b>				
1.1 Ambition/Targets' alignment: decarbonisation targets aligned with a 1.5°C trajectory (based on a 1.5°C scenario with no/low overshoot and a limited reliance on negative emissions). These targets must cover all significant scopes of emissions and disclose the expected contribution of negative emission technologies. They cannot rely on carbon offsets.	x			Tier 1
1.2 Time horizon of targets: The ideal set of targets is forward-looking enough to include a long-term horizon that includes the majority of a company's asset lifetimes, but also includes short- and medium-term targets that incentivize action in the present and planning of the near future.		x		Tier 2
<b>2. Decarbonation strategy</b>				
2.1 Perimeter of the transition plan: the transition plan should address all the relevant areas regarding climate issues, particularly the decommissioning of highly emissive processes and operations.	x			Tier 1
2.2 Decarbonation levers identified with key actions planned shall be provided, as well as the financial resources associated. Explanations provided regarding decarbonation levers shall be clear and credible, notably with due cautiousness regarding future technologies including carbon capture and storage. Expected contribution of negative emission technologies shall be disclosed, while transition plan cannot rely on carbon offsets. There should be an understandable linkage between financing needs and levers.		x		Tier 2

2.3 Locked-in GHG emissions: An analysis of the current company locked-in trajectory (i.e., emissions implied by its current productive assets and near-term business projections) that ensures its consistency with the proposed decarbonation pathway. Together with this analysis, the company should provide an explanation of how it will manage its highly emissive processes and operations in accordance with its targets. For activities that must be significantly scaled down or phased out, it should also provide a schedule for the closing of relevant facilities.		x		Tier 2
<b>3. Management:</b>				
3.1 Clear oversight of climate change issues (net zero transition planning) and implication (approval of transition plan) at Board Level.	x			Tier 1
3.2 Risk framework identifying the key sensitivities and risks to the transition plan that have the potential to decisively impact its delivery.		x		Tier 2
<b>4. Value chain engagement:</b>				
Defining strategy and associated actions to onboard all the value chain (clients and suppliers) in the net zero journey.		x		Tier 2
<b>5. Policy Engagement</b>				
Aligning lobbying activities with the Paris Agreement.			x	Tier 3
<b>6. Monitoring, reporting and Verification process:</b>				
6.1. Control/Validation: any element demonstrating the lack of robustness/credibility of the transition plan should be taken into account, such as for instance controversies, certification issues of the reporting related to climate topics, misalignment between lobbying activities or remuneration incentives with the goal to limit global warming to 1.5°C....			x	Tier 3
6.2. Effective implementation of the transition plan should be monitored, any overshoot needing due explanations and adaptation of the transition plan.			x	Tier 3

## **Rationale** INV 1.4 ENGAGEMENT TARGETS

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

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

**INDICATOR** 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



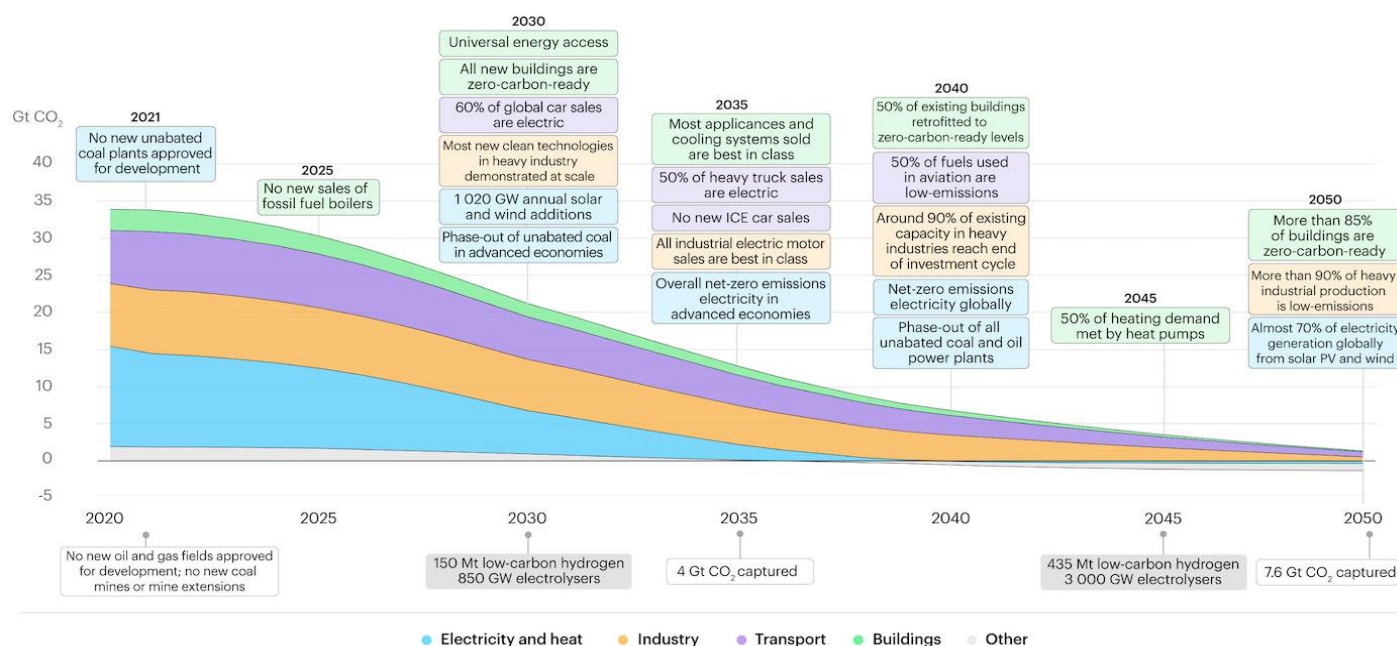
IFCs definition.” (2DII)

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 appears to be key.

### 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>

### Relevance of the deforestation sub-indicator:

Financings towards Deforestation, as a main source of carbon storage destruction (and of biodiversity, 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 objective of the number of companies with a credible and robust transition plan by a defined timeline. It can be seen as inspired by the SBTi Portfolio coverage approach but the metric used here goes beyond a coverage of companies with a science-based target as it requires a whole transition plan, not only a science-based target, which is one of the 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%
	INV 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 target setting for financial institutions and pushing credible and robust transition plan adoption by companies.

**• INV 1.5 FINANCING TARGETS**

**DESCRIPTION**    **INV 1.5 FINANCING TARGETS**  
**&**  
**REQUIREMENT**  
**S**

**SHORT****DESCRIPTION**

This indicator assesses the financial institution's roadmap on climate solutions financing.

**OF INDICATOR****DATA**

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

**REQUIREMENT**

Climate Financing roadmap

**S**

- ◆ Scope
- ◆ Timeline
- ◆ Framework used

CDP Questionnaire mapping to this indicator:

- ◆ C4.1

**HOW THE****ASSESSMENT**

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.

**WILL BE DONE**

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%	
<i>What does the financial institution include in its climate financing targets?</i>	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,	Climate solution financial sectoral targets Sectoral breakdown OR Geographical breakdown based on scientific literature (should align with the	Climate solution Financial sectoral targets Sectoral breakdown AND Geographical breakdown based on scientific literature (should	Climate solution Financial sectoral targets Sectoral breakdown AND Geographical breakdown AND technology breakdown (EV	30%

			sectors, geographies, technologies)	Paris Agreement)	align with the Paris Agreement)	batteries, Solar PV, Buildings retrofit)/investment trajectory taxonomy based on scientific literature (should align with the Paris Agreement)	
<b>What is the associated investment timescale?</b>	<i>Investment timescale</i>	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 term (reporting year + 5 year) and long term (at least 2030 or reporting year + 10)	Covers the short, medium and long term. From now until at least (RY+20 years)	<b>20%</b>
<b>What does the financial institution climate solution roadmap tell us?</b>	<i>Climate Solutions Investment roadmap framework</i>	Nor reference or unclear reference	Reference to an internal General Green Sustainable Framework	Reference to an external General Green Sustainable Framework.	<p>The climate solutions investment roadmap/framework shows compatibility with 1.5-degree trajectory, established by science, under one of the following scenarios</p> <ul style="list-style-type: none"> <li>• <b>IEA's Net Zero by 2050 (NZE2050)</b></li> <li>• NGFS' Net Zero scenarios</li> <li>• University of Technology</li> </ul>	<p>The climate solutions investment roadmap/framework is compatible with 1.5-degree trajectory, established by science, under one of the following scenarios</p> <ul style="list-style-type: none"> <li>• <b>IEA's Net Zero by 2050 (NZE2050)</b></li> <li>• NGFS' Net Zero scenarios</li> <li>• University of Technology Sydney's One</li> </ul>	<b>25%</b>

					<p>Sydney's One Earth Climate Model</p> <ul style="list-style-type: none"> <li>PRI Inevitable Policy Response 1.5°C Require.</li> </ul>	<p>Earth Climate Model</p> <ul style="list-style-type: none"> <li>PRI Inevitable Policy Response 1.5°C Required Policy Scenario</li> </ul> <p>AND is explicitly integrated/disclosed in the Financial Institution transition plan.</p>	
<b>Do the metrics used relevant?</b>	<i>Climate Solutions Metrics Relevancy*</i>	Basic (no details regarding the metric OR less than 2 of the below criteria verified)	Standard (3 of the below criteria verified)	Advanced (4 of the below criteria verified)	Next practice (5 of the below criteria verified)	Low carbon aligned (6 or all of the below criteria verified)	<b>20%</b>
<b>What is the MRV process in place ?</b>	<i>Target Monitoring, Reporting and Verification (MRV)</i>	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	<b>5%</b>
<b>How does these target fit with the current financial institutions activities?</b>	<i>Scope &amp; Consistency</i>	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 >50% of investing activities in terms of outstanding amounts (including subsidiaries)	The climate solution financing applies to >75% of investing activities in terms of outstanding amounts (including subsidiaries)	<p>The climate solution financing applies to &gt;90% of investing activities in terms of outstanding amounts (including subsidiaries)</p> <p>AND</p> <p>There is a plan in order to get the full</p>	The climate solution financing already applies to all investing activities (including subsidiaries)	<b>The score of this category will weight the final 1.5. score*</b>

					coverage by 2025.		
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\* 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 (11), 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 investment 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 investor 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**      **INV 1.5 FINANCING TARGETS**

### **THE RATIONALE OF THE INDICATOR:**

#### **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, in terms of technologies and geography (financial gaps/amounts and types of technologies needed differ from one area to another) and timeline.

## MODULE 3: INTANGIBLE INVESTMENT

### • INV 3.1 INVESTMENTS IN HUMAN CAPITAL – TRAINING

#### DESCRIPTION & REQUIREMENTS

#### INV 3.1 INVESTMENTS IN HUMAN CAPITAL – TRAINING

##### SHORT

##### DESCRIPTION

Assessment of the quality of the training framework of the Financial Institution on climate related issues.

##### OF INDICATOR

##### 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 nature (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 that apply 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 for financial institutions that indicate a higher level of maturity.

The matrix is provided below:

Question	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
<i>Associated score</i>	<i>0%</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>	
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 are level 1 and 2 people	<b>30%</b>
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 20% of training costs	<b>10%</b>
Training schemes quality	None	Information provided show isolated examples of quality training schemes as described in next levels	Training includes an assessment/verification process for the participants	Training includes an assessment/verification process for the participants AND provides applied learning experiences	Training leads to certification/label AND provides applied learning experiences	<b>20%</b>



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 OR has reorganised teams if needed to better align climate expertise and business lines specificities OR offers specific upskilling program to keep up/support the different business lines.	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 if needed to better align climate expertise and business lines specificities. AND It offers specific upskilling program to keep up/support the different business lines.	40%
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#### 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      INV 3.1 INVESTMENTS IN HUMAN CAPITAL – TRAINING**

#### **RATIONALE OF**

#### **THE INDICATOR      RELEVANCE OF THE INDICATOR:**

Investments in human capital are included in the ACT 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. (15)

In accordance with the ACT framework, we tried to gather information about R&D on sustainable finance. After our test run on multiple actors it was reported that R&D was a metric that was too complex to isolate in a financial institution running business. Research in finance comes close as fundamental research and is not a common practice for a financial institution.

## MODULE 4: PORTFOLIO CLIMATE PERFORMANCE

### • INV 4.1 FINANCIAL FLOWS TREND

#### DESCRIPTION & REQUIREMENTS

#### INV 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 investments. This is a contribution-focused indicator, meaning that it does not look at the evolution of the financed emissions at a portfolio level, but the orientation/breakdown of the financings towards (i) low-carbon activities and (ii) companies with a credible and robust transition plan. Part of the scoring highlights whether the financial institution continues new investments toward fossil fuels.

#### DATA REQUIREMENTS

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

- ◆ Existence of new investments in fossil fuel sectors
- ◆ Total AuM exposure
- ◆ The share of investments dedicated to low carbon activities / companies or transitioning companies as well as the standard followed for defining them as such.
- ◆ (as a fall-back) taxonomic reporting

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. In the tool, the “Aggregated portfolio” tab can be used to check the consistency of the granular data with the General Information data, as well as to get a wider view on the portfolio (sectors, distinction use of proceeds / general purpose...). **This module requires an extensive review of data quality in order to ensure it performs correctly** (see notably dimension 3 part f below).

CDP Questionnaire mapping to this indicator:

- ◆ C-FS4.5a
- ◆ C3.5a
- ◆ C-FS14.0

**HOW THE  
ASSESSMENT  
WILL BE DONE**

The assessment is divided in three dimensions:

- ◆ **Dimensions 1&2 (‘flow’ consideration)** are based on new investments toward respectively Coal (Dimension 1) and Oil&Gas (dimension 2 sector). On the last 3-year period, it assesses whether the financial institution still provide investments to climate-damaging activities and companies. Each dimension is weighted according to the exposure of the financial institution to the sector, with a minimum of 15% weight each.
- ◆ **Dimension 3 (‘stock’ consideration)** takes the remaining weighting (up to 70% of the indicator). It assesses the share of the portfolio dedicated to low-carbon and/or transitioning assets and companies, through both a static vision (“position score”) at the end of the reporting year and a dynamic vision by looking at the evolution of this share through the last three years.

This dimension 3 indicator will be assessed in various ways depending on the availability of the data and the maturity of the financial institution:

- Should the Financial institution have an assessment framework in order to identify low carbon / transition assets and companies of its portfolio, the low carbon/transition share will be assessed either at sectoral, asset class and/or global portfolio level depending on the availability of the data.
- Should the Financial Institution haven’t reached such maturity an assessment will still be performed as a fall-back on a “taxonomical-like” approach, leveraging on existing regulatory taxonomical reporting or any voluntary taxonomical reporting.

Final score is a simple sum of results on Dim 1 & 2 & 3.

## **DIMENSIONS 1&2: FINANCING FOSSIL FUELS**

For both dimensions, points will be provided in a binary way depending on whether the financial institution has invested in fossil fuel activities or not during the last three years. Dimensions will be weighted according to the share of the fossil fuel sector considered, with a floor at 15%. The quality of data gathering is also taken into account in order to mitigate non-conservative bias where in the absence of information it is presumed that no financing has been provided.

**It is important to underline that only that only positive fossil fuel flows are considered (new investments), not negative flows (divestments) or net flows (the balance between new investments and divestments).**

### **Dimension 1: Coal investments**

To score points on this component of the score, the financial institution should have no new investment 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 investment has been provided during the relevant period, the score is automatically set to zero. If no new investment has been made, there is a 100% score. This score will be corrected by a Coal data reliability score and weighted by the “sectoral adjustment” as presented below.

$$Dim.1\ score\ (Coal) = DRS_{coal\ flow} * SADJ_{Coal,INV\ 4.1} * \mathbb{1}_{\sum_{j=Ry-3}^{Ry} New\ investment_j = 0}$$

With:

$$\left\{ \begin{array}{l} SADJ_{Coal,INV\ 4.1} = \min \left( 15\%; \frac{1}{4} \sum_{j=Ry-3}^{Ry} SADJ_{Coal,j} \right) | \text{With } SADJ \text{ as "sectoral adjustment"} \\ DRS_{coal\ flow} \text{ computed according to the maturity matrix below.} \end{array} \right.$$

In case of lack of available data for weighting computation back-up weighting rules will apply.

The weighting mechanism ensures that a company that has no coal at all in its portfolio since four years will still be rewarded on this module 15% of the points.

Companies involved in coal can be identified based notably on the Urgewald's Global Coal Exit List (GCEL, <https://www.coalexit.org>).

The data reliability score for Coal  $DRS_{\text{Coal flow}}$  is computed according to the following maturity matrix:

Question	Basic	Standard	Advanced	Next practice	Low-carbon aligned
<i>Associated score</i>	<i>0%</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>
<i>Are the new flow data reliable for Coal sector?</i>	Strong concerns regarding reliability, given notably other contradictory sources (e.g. Urgewald)	Concerns regarding reliability, but no inconsistencies with other sources (e.g. it is known that part of the perimeter has not been checked and there are global data gathering issues).	Neither specific concerns regarding reliability nor comfort elements regarding the existence of data quality process.	There is a reliable data quality process set in order to check whether there are any new coal financing. The process covers main parts of the FI's assets, some perimeters (e.g. open funds, private equity) are missing.	It is obvious that the investment universe does not cover the sector OR There is a reliable data quality process set in order to check whether there are any new coal financing. The process covers all of the FI's assets

## Dimension 2: O&G investments

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 by assessing Oil&Gas investments in two ways:

- The first one will look at the flows in the past four years in a similar fashion as Coal in Dimension 1, except that investments that are identified as "transitioning" (see below in dimension 3) will not be penalizing.

- The second one will look at the level and dynamic of low-carbon and transitioning assets of the Oil&Gas sector in a similar way as other sectors (see below dimension 3).

The dimension 2 score implements the first mechanism. This means that if new “non-transitioning” investment has been provided during the relevant period, the score is automatically set to zero. If no new investment has been made, there is a 100% score. If only “transitioning investments” are made, the score will depend on the maturity of the transition assessment framework used to define the transition status of the invested company. Furthermore, the score will be corrected by a Oil&Gas data reliability score and weighted by the “sectoral adjustment” as presented below.

$$Dim. 2 \text{ score (Oil\&Gas)} = DRS_{oil\&gas \text{ flow}} * SADJ_{Oil\&Gas, INV 4.1} * \begin{cases} 100\% * \mathbb{1}_{\sum_{j=Ry-3}^{Ry} \text{New investments } j=0} \\ OgTAFMF * \mathbb{1}_{\sum_{j=Ry-3}^{Ry} \text{New investments non transitioning } j=0} \\ 0\% \text{ otherwise} \end{cases}$$

With:

$$\left\{ \begin{array}{l} SADJ_{Oil\&Gas, INV 4.1} = \min \left( 15\%; \frac{1}{4} \sum_{j=Ry-3}^{Ry} SADJ_{Oil\&Gas, j} \right) \mid \text{with } SADJ \text{ as "sectoral adjustment"} \\ \begin{array}{l} OgTAFMF \text{ the Oil and Gas transition assessment framework maturity factor} \\ DRS_{oil\&gas \text{ flow}} \text{ computed according to the maturity matrix below.} \end{array} \end{array} \right.$$

The **Oil and &Gas transition assessment framework maturity factor** (OgTAFMF) weights the dimension 2 score depending on the maturity – and therefore reliability of the “transition” feature of the company that has been invested. This factor is by default equal to the Transition Assessment Framework Maturity Factor (TAFMF, see dimension 3 part A below) but can be corrected by the analyst should a dedicated assessment framework be applied by the financial institution. In such case, the override will be conducted by assessing the specific framework according to the same maturity matrix as the TAFMF (see below).

In case of lack of available data for weighting computation back-up weighting rules will apply.

The weighting mechanism ensures that a company that has no Oil & Gas at all in its portfolio since four years will still be rewarded on this module 15% of the points.

Companies involved in oil & gas can be identified based notably on Urgewald’s Global Oil & Gas Exit List (<https://gogel.org/>).

The data reliability score for Oil&Gas,  $DRS_{oil\&gas\ flow}$ , is computed according to the following maturity matrix:

Question	Basic	Standard	Advanced	Next practice	Low-carbon aligned
<i>Associated score</i>	<i>0%</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>
<i>Are the new flow data reliable for Oil&amp;Gas sector?</i>	Strong concerns regarding reliability, given notably other contradictory sources (e.g. Urgewald)	Concerns regarding reliability, but no inconsistencies with other sources (e.g. it is known that information on part of the perimeter has not been checked or that there are concerns regarding the identification of transitioning assets that relies on optimistic assumptions, considering notably low carbon and transitioning assessment maturity factors determined in the context of this module.	Neither specific concerns regarding reliability nor comfort elements regarding the existence of data quality process or the identification of transitioning/low carbon assets.	There is a reliable data quality process set in order to check whether there are any new Oil&Gas financing. The process covers main parts of the FI's assets, some perimeters (e.g. open funds, private equity) are missing. There are no concerns regarding the identification process of transitioning assets satisfactory (considering notably low carbon and transitioning assessment maturity factors determined in the context of this module)	It is obvious that the investment universe does not cover the sector OR There is a reliable data quality process set in order to check whether there are any new Oil&Gas financing. The process covers all of the FI's assets The identification process of transitioning assets is of good quality (considering notably low carbon and transitioning assessment maturity factors determined in the context of this module)



### **DIMENSION 3: LOW-CARBON AND TRANSITION SHARE**

The third dimension of the indicator assesses the share of the portfolio dedicated to low-carbon and/or transitioning assets and companies, through both a static vision (“position score”) at the end of the reporting year and a dynamic vision by looking at the evolution of this share through the last three years. In order to take into account the global lack of maturity of the financial institutions on the topic of low-carbon/transitioning asset identification, the quality of the assessment framework itself is assessed in indicator 4.2.

The dimension 3 indicator will be assessed in various ways depending on the availability of the data either at sectoral, asset class and/or global portfolio level. The assessment will be done distinguishing two kind of assets (i) **Use of Proceeds** instruments that aims at financing a specific project/kind of activities (typically a green bond or a financing dedicated to an infrastructure) and (ii) **General corporate purpose** instruments that by opposition are provided to the emitting company without any condition on the use of the funds. The former can be directly mapped toward a referential such as a taxonomy in order to assess its contribution to a low-carbon economy whereas for the latter the assessment of the positioning of the company will be more complex, as detailed below.

The dimension 3 indicator is assessed primarily at “asset” level (either general purpose or use of proceeds). However, in order to take into account low data availability, a back-up assessment based on taxonomic level (ie at “activity” level) has been designed. The following parts will describe:

- a. the way to identify the low carbon/transition share of the portfolios
- b. the concepts of “position” and “trend” scores leading to compute a “trajectory assessment score” (TAS)
- c. the scoring mechanism of the dimension 3 on the main approach (“asset approach”)
- d. the taxonomical-like backup approach taking over the three components abovementioned
- e. computation of the dimension 3 score itself
- f. Some complementary operational guidance regarding the tool.

### **A. LOW CARBON AND TRANSITION ASSESSMENT FRAMEWORK**

The key concept of this module is to be able to identify assets financing activities 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. Assets are divided in two categories: use of proceeds and general purpose corporate instruments. For each category of asset there will be a dedicated methodology to assess whether the asset is included or not in the low carbon/transition share of the portfolio.

**Use of Proceeds:** these instruments directly finance an activity, which provide clarity to the financial institution on the allocation of the financial flows. Various taxonomical frameworks exist around the world in order to evaluate whether the financed activity is compatible with a low-carbon economy, using sometimes different terminologies and goals (e.g. low-carbon, aligned, enabling activities in the EU Taxonomy). For the sake of simplification, the generic term of “low-carbon” activity will be used in this methodology.

The approach taken by the ACT Finance methodology is to assess the framework itself used by the financial institution in order to identify which activities are low carbon. This assessment, described below, provides a **Low carbon activities assessment framework maturity factor** (LcAAFMF). Attention is paid to several aspects:

- Use of established standards such EU Green bond Standard<sup>13</sup> or industry principles such as ICMA or CBI ;
- Disclosure of the framework/definition used;
- Monitoring process of the information, considering that at these early stages current taxonomy standards can be applied with some discrepancies;
- Consistency between the specific project financed and the overall company’s profile

Question	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
<i>Associated score</i>	<i>0%</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>	
<i>Does the FI use and disclose an established definition of low carbon activities?</i>	No definition	The FI uses an internal definition without leveraging on next level quality definitions OR The FI uses a referential (e.g. ICMA Green Bonds Principles) without evidencing there is a	The FI uses an internal definition leveraging on science-based climate taxonomies. Taxonomies should be published by a national, regional or global governing body. However definition implementation is not publicly accessible.	The FI uses an internal definition leveraging on science-based climate taxonomies for categorizing sustainable activities. Taxonomies should be published by a national, regional or global governing body. Definition	The FI uses an internal definition leveraging on science-based climate taxonomies for categorizing sustainable activities. Taxonomies should be published by a national, regional or global governing body OR	<i>100%</i>

<sup>13</sup> [Regulation \(EU\) 2023/2631](#)

		clear link to climate topic.	OR The FI uses ICMA Green Bonds principles or equivalent referential with evidence there is a clear link to climate topic.	implementation is publicly accessible. OR The FI uses the Climate Bond Initiative framework or EU Green Bond Standard framework or other recognized equivalents	The FI uses the Climate Bond Initiative framework or EU Green Bond Standard framework or other recognized equivalents  AND  The company exercising the activity is either considered low-carbon or in transition.  Information is publicly accessible.  Information collected is challenged/verified.	
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Ideally, assessment should be done through a regulatory framework such as the EU Taxonomy<sup>14</sup> or other recognized 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>).

This matrix and the LcAAFMF will only be used in the case the financial institution is having 'use of proceeds' in its portfolios.

General corporate purpose: these instruments finance an entity and not a specific activity. An entity can be classified as either low-carbon or transitioning:

- ◆ **Low carbon companies:** Companies already compatible with a low-carbon economy, typically company having only low-carbon activities, as recognized by the financial institution through the assessment framework abovementioned (for instance a renewable energy producer that have handled all necessary "do not harm" issues regarding other environmental aspects).
- ◆ **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 existing, an "own-assessment" approach where the financial institution assesses itself if a company is in transition or not.

Other types of companies fall in the 'Not Aligned' category.

<sup>14</sup> [Regulation \(EU\) 2020/852](#).

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 companies assessment framework maturity factor** (LcCAFMF). Attention is paid to several aspects:

- Use of established standards;
- Disclosure of the framework/definition used;
- Monitoring process of the information, considering that at these early stages current taxonomy standards can be applied with some discrepancies;
- Application of DNSH principles.

Question	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
<i>Associated score</i>	<i>0%</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>	
<i>Does the FI use and disclose an established definition of low carbon companies?</i>	No definition	<p>The FI uses an internal definition without reference to taxonomies published by a national, regional or global governing body.</p> <p>The disclosure regarding the framework used by the FI is not clear.</p> <p>Information collected is not challenged/verified</p>	<p>The FI uses science-based climate taxonomies for categorizing sustainable companies. Taxonomies should be published by a national, regional or global governing body.</p> <p>Information is not publicly accessible.</p> <p>Information collected is not challenged/verified.</p>	<p>The FI uses science-based climate taxonomies for categorizing sustainable companies. Taxonomies should be published by a national, regional or global governing body.</p> <p>Information is publicly accessible.</p> <p>Information collected is challenged/verified (with an associated assurance level).</p>	<p>The FI uses science-based climate taxonomies for categorizing sustainable companies. Taxonomies should be published by a national, regional or global governing body Beyond the utilization of a 'green' taxonomy, there is a holistic examination of the activities conducted by the company, particularly those that may have adverse effects on the climate.</p> <p>Information is publicly accessible.</p>	<i>100%</i>

					Information collected is challenged/verified (with an associated assurance level).	
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Regarding **transition**, in the absence of a unique standardized approach making authority worldwide, it has been chosen to combine a “standard” approach describing what is or not a company in transition according to this methodology and, if the financial institution has reached enough maturity on the topic, an “own-assessment” approach where the financial institution assesses itself whether the company can be considered as sustainable (low carbon or in transition).

To assess the robustness and credibility of a transition plan, different climate frameworks (Climate Bonds Initiative, Standard V4.0), methodologies (ACT, CA+100, TPI) and data (World Benchmarking Alliance, CA+100) could be used. In particular, ACT methodologies and related assessments provide key elements about the credibility of the transition plan on the 14 most emitting sectors. Please refer to the WBA Benchmarks for public assessment results (22).

#### Standard approach for assessing transitioning companies:

The aim of the standard approach is to rely on existing initiatives that are assessing the performance of transitioning companies, considering that if such initiative has a positive or negative view on a given company transition plan, it is trustable and should be used directly by simplification in the indicator scoring. An ideal situation from this point of view would be that a centralized efficient stakeholder provides a global view on all the invested companies worldwide. We are far away from this point and as of today not so much initiative are covering the issue of the credibility and robustness of a transition plan, as many focus on preliminary essential steps such as disclosure or target setting.

This standard approach should be used **only if the assessor has a detailed line-by-line view of the portfolio**. If not, the assessor should rely solely on the own-assessment approach.

The current methodology relies for the standard part on [ACT](#) itself, and notably the “[ACT Assessment Categorization](#)” proposed framework. By extension the World Benchmarking Alliance ([WBA](#)) that is using the ACT methodology for assessing the climate performance of [its benchmarks](#);

“Negative” and “positive” standard approaches have been implemented, delivering a view on whether a company clearly does not have a credible and robust transition plan or indeed does have a credible and robust transition plan. In addition in the negative approach, simple criteria has been set for situations where obviously the company is not in a good transitioning position.

The companies complying with one of the following criteria **cannot be considered in transition** (negative approach):

- A company that is categorized as “not transitioning in a credible and robust way” following an ACT assessment. As described in the “ACT Assessment Categorization” proposed framework, this means broadly a company that has an audited rating below to 12C=.
- A company that does not have a disclosed and internally approved transition plan ;
- A company with a commitment gap of at least 50% or that is missing its current target by at least 50% ;

The companies respecting the following criteria can be considered in transition (**positive approach**):

- A company that is categorized as “transitioning in a credible and robust way” following an ACT assessment. As described in the “ACT Assessment Categorization” proposed framework, this means broadly a company that has an audited rating above or equal to 12C=, with some complementary safeguards on core modules.

Companies reaching intermediate categories as recognized by the “ACT Assessment Categorization”, such as companies “committed” or “performing”, should be taken into account following financial institution’s own assessment (see below).

It is further specified that assessments provided shall be up to date as far as possible (e.g. using a five-years old rating shouldn’t be relevant).

#### **Own-assessment approach for assessing transitioning companies:**

For each company that does not fall in the negative or positive scope (for instance a company with a transition plan but not covered by the abovementioned standards/a medium scoring), a dedicated assessment is needed. Mature financial institutions claiming they finance the transition **are expected to have a clear own’s definition/framework of what is a transitioning company**. This definition/framework will be assessed against sound principles extracted from recognized references:

- ACT framework<sup>15</sup>;
- UN HLEG “Integrity Matters” recommendations<sup>16</sup>;
- Climate bonds standards from the CBI<sup>17</sup>;
- IIGCC references<sup>18</sup>;
- ESRS E1 framework from EU regulation CSRD<sup>19</sup>.

The more the definition/framework of the financial institution is advanced, the more recognition will be provided to transition companies financed/facilitated by the financial institution that cannot be covered by the standard approach, resulting in a scoring improvement of the module.

In principle, a sound transition assessment framework should check minimum requirements regarding the assessed transition plan, notably:

#### 1. Targets:

1.1 Ambition/Targets’ alignment: decarbonisation targets aligned with a 1.5°C trajectory (based on a 1.5°C scenario with no/low overshoot and a limited reliance on negative emissions). These targets must cover all significant scopes of emissions and disclose the expected contribution of negative emission technologies. They cannot rely on carbon offsets.

1.2 Time horizon of targets: The ideal set of targets is forward-looking enough to include a long-term horizon that includes the majority of a company’s asset lifetimes, but also includes short- and medium-term targets that incentivize action in the present and planning of the near future.

#### 2. Decarbonation strategy

2.1 Perimeter of the transition plan: the transition plan should address all the relevant areas regarding climate issues, particularly the decommissioning of highly emissive processes and operations.

2.2 Decarbonation levers identified with key actions planned shall be provided, as well as the financial resources associated. Explanations provided

<sup>15</sup> [ACT Framework](#), March 2019, p. 13.

<sup>16</sup> [UN HLEG “integrity matters” report](#), 2023, grid for financial institution.

<sup>17</sup> [Climate Bonds standard – Checklist for entity certification](#) – April 2023, C.3 criterion.

<sup>18</sup> [Net Zero Investment framework Implementation Guide](#), March 2021, p. 17.

<sup>19</sup> [ESRS E1 Climate change proposed standard by EFRAG](#), November 2022 and [educational presentation](#) p. 7.

regarding decarbonation levers shall be clear and credible, notably with due cautiousness regarding future technologies including carbon capture and storage. Expected contribution of negative emission technologies shall be disclosed, while transition plan cannot rely on carbon offsets. There should be an understandable linkage between financing needs and levers.

2.3 Locked-in GHG emissions: An analysis of the current company locked-in trajectory (i.e., emissions implied by its current productive assets and near-term business projections) that ensures its consistency with the proposed decarbonation pathway. Together with this analysis, the company should provide an explanation of how it will manage its highly emissive processes and operations in accordance with its targets. For activities that must be significantly scaled down or phased out, it should also provide a schedule for the closing of relevant facilities.

### 3. Management:

3.1 Clear oversight of climate change issues (net zero transition planning) and implication (approval of transition plan) at Board Level.

3.2 Risk framework identifying the key sensitivities and risks to the transition plan that have the potential to decisively impact its delivery.

### 4. Value chain engagement:

Defining strategy and associated actions to onboard all the value chain (clients and suppliers) in the net zero journey.

### 5. Policy Engagement

Aligning lobbying activities with the Paris Agreement.

### 6. Monitoring, reporting and Verification process:

6.1. Control/Validation: any element demonstrating the lack of robustness/credibility of the transition plan should be taken into account, such as for instance controversies, certification issues of the reporting related to climate topics, misalignment between lobbying activities or remuneration incentives with the goal to limit global warming to 1.5°C....

6.2. Effective implementation of the transition plan should be monitored, any overshoot needing due explanations and adaptation of the transition plan.

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
<i>Associated score</i>	<i>0%</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>	
<b><i>Does the FI use an effective transition assessment framework regarding its investees?</i></b>	<p>Not using any standard or framework making it possible to identify the “Transitioning” entities of the portfolio</p> <p>OR</p> <p>The FI has a transition assessment framework that has significant loopholes regarding notably the abovementioned standards (e.g. leading to conclude that a company that has a very bad scoring considering one of the abovementioned standard is transitioning).</p>	<p>A climate framework exists for assessing counterparty’s transition plan.</p> <p>The disclosure regarding the framework used by the FI is not clear.</p> <p>The framework relies on metrics/principles whose compliance with abovementioned qualitative principles is not ensured (e.g. broad ESG scores or climate scores based on assessing only disclosure/tick the box approach).</p>	<p>A climate framework exists for assessing counterparty’s transition plan.</p> <p>The disclosure regarding the framework used by the FI is clear.</p> <p>The framework for defining a “transitioning entity” meets at least criteria 1.1, 2.1 and 3.1</p>	<p>A climate framework exists for assessing counterparty’s transition plan.</p> <p>The disclosure regarding the framework used by the FI is clear.</p> <p>The framework for defining a “transitioning entity” meets at least criteria 1, 2, 3 and 4.</p>	<p>A climate framework exists for assessing counterparty’s transition plan.</p> <p>The disclosure regarding the framework used by the FI is clear.</p> <p>The framework for defining a “transitioning entity” meets all criteria.</p>	100%

A **Global low carbon and transition assessment framework maturity factor (GAMF)** will provide a global view on the maturity of the financial institution regarding the assessment of its low-carbon / transitioning share of the portfolio. It has been chosen to set more weight on companies assessment vs. activity assessment as ultimately they are the economical actor, and to set more weight on the transitioning assessment than on the low carbon assessment as the main need is on the transition. Formula is adjusted depending on the fact that the financial institution’s portfolio includes or not

uses of proceeds:

$$GAFMF = \begin{cases} \frac{1}{3} * LcAAFMF + \frac{1}{6} * LcCAFMF + \frac{1}{2} * TAFMF, & \text{if } LcAAFMF \text{ is used} \\ \frac{1}{3} * LcCAFMF + \frac{2}{3} * TAFMF, & \text{otherwise} \end{cases}$$

Should for instance the financial institution makes a full-consistent use of EU Taxonomy framework for companies (Low carbon company assessment framework maturity factor at 100%), a full-consistent use of EU Taxonomy framework for activities but don't look at whether the company is whether low-carbon or in transition (Low carbon activity assessment framework maturity factor at 75%), and 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 71% ( $\frac{1}{3} \times 100\% + \frac{1}{6} \times 75\% + \frac{1}{2} \times 50\%$ ).

## **B. TRAJECTORY ALIGNMENT SCORE FORMULA (TAS)**

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

- The actual share of the portfolio directed towards (i) low carbon/enabling activities or (ii) companies with a credible and robust transition plan (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:

$$AS: \text{Aligned share} = \frac{AuM_{low\ carbon}^{UoP} + AuM_{low\ carbon}^{GP} + AuM_{transition, standard} + AuM_{transition, own\ assessment}}{Total\ AuM}$$

With:

$$\left\{ \begin{array}{l} AS \text{ the aligned share of the portfolio combining low carbon and transition assets} \\ AuM_{low\ carbon}^{UoP} \text{ the amount of low carbon use of proceeds in the portfolio} \\ AuM_{low\ carbon}^{GP} \text{ the amount of low carbon companies general purpose assets recognized in the portfolio} \\ AuM_{transition,standard} \text{ the amount of transitioning companies general purpose assets recognized as such through the standard approach} \\ AuM_{transition,standard} \text{ the amount of transitioning companies recognized general purpose assets as such through the own assessment approach} \\ Total\ AuM \text{ the size of the considered portfolio} \end{array} \right.$$

For example, if one focus on the automobile sector portfolio of a financial institution. On a 100 portfolio, should we have 3 of low carbon use of proceeds (e.g. invested in green bonds emitted by a company), 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 described above. This adjusted share is calculated by adjusting each exposure by its maturity factor.

$$AAS: \text{Adjusted AS} = \frac{LcAAFMF * AuM_{low\ carbon}^{UoP} + LcCAFMF * AuM_{low\ carbon}^{GP} + AuM_{transition,standard} + TAFMF * AuM_{transition,own\ assessment}}{Total\ AuM}$$

With:

$$\left\{ \begin{array}{l} AAS \text{ the adjusted aligned share of the considered portfolio.} \\ LcAAFMF \text{ the Low carbon Asset Assessment Framework Maturity Factor as described in part A.} \\ LcCAFMF \text{ the Low carbon Company Assessment Framework Maturity Factor as described in part A.} \\ TAFMF \text{ the Transition Assessment Framework Maturity Factor as described in part A.} \\ Other\ terms\ as\ seen\ above. \end{array} \right.$$

Therefore, should the Low carbon asset assessment framework maturity factor be set at 100% (e.g. the financial institution recognizes use of proceeds asset as "low carbon" if they follow the EU GBS and are issued by a transitioning company) 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:

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

*{ PS: Performance Score  
IAS: Ideal Aligned Share*

The IAS is defined as the best possible proportion of AuM allocated to transition that should be ideally reached at a defined “ideal year”. By definition, the PS cannot exceed 100%.

See table 13 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.

**TABLE 11: IDEAL ALIGNED SHARE AND THE YEAR TO REACH IT**

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	<b>2 025</b>	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 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 is calculated in two steps.

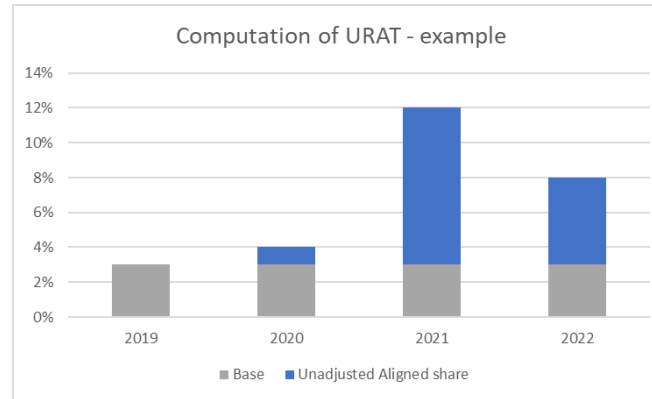
First, the *Unadjusted Realized aligned share trajectory* is provided by the following formulae:

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

Where:

- Ry is the reporting year
- p is the number of historical year looked over
- AS<sub>i</sub> 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,  $URAT_{2022,3}$  being the sum of the blue values (4%+12%+8%-3\*3% = 15%).



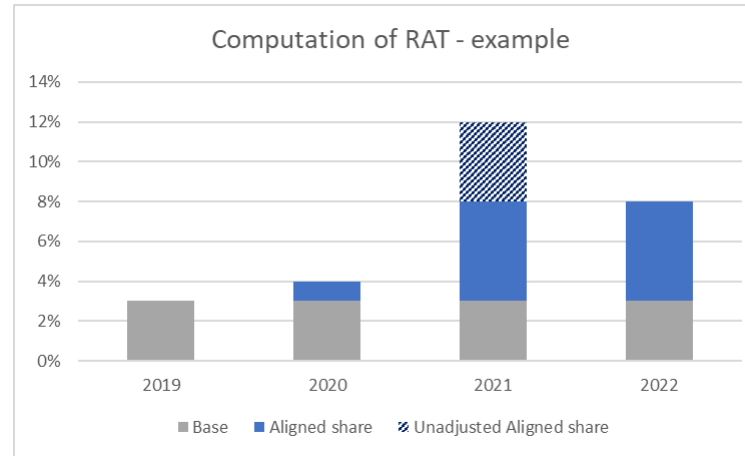
This trajectory will be “adjusted” in order to take into account not-virtuous behaviours where the financial institution has high intermediate year values but remains low on the final year. This is captured through “reshaping” the trajectory on an iterative basis making sure that each intermediate year does not exceed the next one:

$$\begin{cases} \text{Reshaped } AS_{Ry} = AS_{Ry} \\ \text{Reshaped } AS_i = \min(AS_i; \text{Reshaped } AS_{i+1}) \text{ for intermediate years } Ry - 1 \text{ and } Ry - 2 \\ \text{Reshaped } AS_{Ry-3} = AS_{Ry-3} \end{cases}$$

Then the *Realized aligned share trajectory* is provided by the following formulae:

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

An example is provided below of the effect of “reshaping” of the aligned trajectory based on the previous example. The RAT equals the blue area. Its value is (4%+8%+8%-3\*3% = 11%):



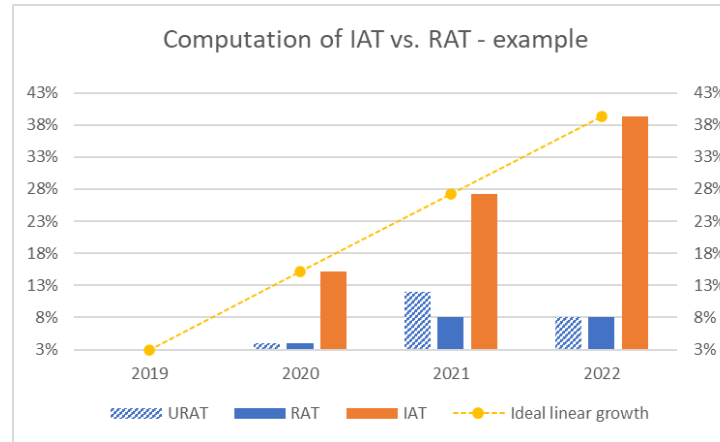
This *Realized aligned share trajectory* is compared to an “ideal trajectory” that corresponds to the ideal growth over the period remaining (i.e., between the starting  $Ry-p$  year and the ideal year  $Iy$  when the alignment should preferably be finalized and reach IAS. This Ideal aligned share trajectory (IAT) will be computed based on the underlying assumption of a linear progression, calculated thanks to the Ideal linear assessment share growth (ILAG):

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

Where:

$\begin{cases} ILAG_{Ry,p} \text{ is the Ideal linear aligned share growth, computed from the first historical year } Ry - p \\ IAT_{Ry,p} \text{ is the Ideal aligned share trajectory calculated with the same principles as the RAT, based on an ILAG annual growth.} \end{cases}$

In the abovementioned example if one considers that the ideal share of 100% is to be attained in 2030, one can deduct from 2019 an ideal growth ILAG of nearly 12% per year. The light orange line represents the linear progression (ILAG) while the deep orange histograms represent the ideal trajectory expressed in homogeneous terms with the RAT metric. Its value is nearly 12%+24%+36%=72%.



The Unadjusted Trend Score will be provided by aligned share trajectory ratio (RAT/IAT), capped between 0 and 1.

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

With:

$$\begin{cases} UTS_{Ry,p} & \text{the unadjusted trend score of the considered perimeter of assessment} \\ RAT_{Ry,p} & \text{the realized aligned share trajectory of the considered perimeter of assessment} \\ IAT_{Ry,p} & \text{the ideal aligned share trajectory of the considered perimeter of assessment} \end{cases}$$

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

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

With:



$$\left\{ \begin{array}{l} TS_{Ry,p} \text{ the trend score of the considered perimeter of assessment} \\ UTS_{Ry,p} \text{ the unadjusted trend score of the considered perimeter of assessment calculated as presented above} \\ GAFMF \text{ the General Assessment Framework Maturity Factor calculated as presented in part A} \end{array} \right.$$

In the given example the results are provided below:

RAT	11%
IAT	73%
Unadjusted Trend score (UTS=RAT/IAT)	15%
Global assessment framework maturity factor (GAFMF)	75%
Trend score (GAFMF*UTS)	<b>11,3%</b>

#### 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%) and a maximum weight set at 90% (and therefore a minimum TS at 10%).

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

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

With:

$$\left\{ \begin{array}{l} TAS \text{ the trajectory alignment score of the considered perimeter} \\ PS \text{ and } TS \text{ the position and trend score of the considered perimeter calculated as presented above} \\ w_{PS} = \min(\max(PS; 50\%); 90\%) \\ w_{TS} = 1 - w_{PS} \end{array} \right.$$

The rationale for framing the position score weigh is (i) on the minimum to ensure there is not too much weight allocated to a potentially erratic trend score at very low level and (ii) on the maximum to ensure that particular patterns such as a low carbon and transition share starting very high and finishing very

high but with poor behaviour during intermediate years are taken into account to a minimum extent.

### C. CALCULATION OF DIMENSION 3 ASSET APPROACH SCORE:

The score depends on the data availability and will combine **if needed** a sectoral score, an asset class score, and a global portfolio score, as sometimes information is available at one level only, partially or totally (e.g. for an asset owner information available at sectoral level on direct investments but only at global level for indirect investments).

Monitoring its investments 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 get more points than asset class or global one through a weighting scheme displayed below.

#### ◆ Historical data availability

The score depends on portfolio data covering the 3 years preceding the reporting year. For example, if the chosen reporting year is 2021, portfolio data from 2018, 2019, 2020 and 2021 is required. As data may be missing for the previous years, if no information is provided for a specific year, the calculation will assume that the information for this year is equivalent to the next oldest year (e.g., if data is missing for 2019, the calculation will use the same numbers as for 2018). If no previous years are available the calculation will assume that the information is equal to the next most recent year (e.g. from a 2021 reporting year standpoint, if 2019 and 2018 are missing the calculation will use the 2020 numbers for those two years). An additional haircut (H) to the score will be applied, 10% per missing year (see calculation formulae below).

#### ◆ Data reliability

Beyond the quality of the definitions set, quality of data is crucial in order to determine whether the figures of low carbon/transitioning assets are reliable or not. The assessor is therefore questioned regarding the quality of the data that has been filled in the data sheets (see F), according to the following maturity matrix.

Question	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
<b>Associated score</b>	<b>50%</b>		<b>75%</b>	<b>90%</b>	<b>100%</b>	

<b><i>Are the data provided within the portfolio split sheets reliable?</i></b>	Strong concerns regarding data reliability (e.g. inconsistency between the assessment framework and the output provided on a given name)		Some concerns regarding data reliability (e.g. part of the perimeter filled with proxies)	Neither specific concerns regarding reliability nor comfort elements regarding the existence of data quality process.	There is a reliable data quality process set in order to check that the assessment framework and the sheets have been correctly implemented.	100%
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As this factor cumulates with others on a freshly new topic (evaluation of the transition share) it has been calibrated in a less-penalising way, ranging from 50% to 100%.

#### ◆ Aggregated sectoral score

A sectoral score is the TAS regarding a given sector portfolio perimeter. The aggregated sectoral score is the aggregated weighted TAS of all sectors.

As for indicator 1.1, the score of each sector is weighted according to its importance in term of both financial and GHG exposure. The sectoral weight of a given sector  $i$  ( $w_{\text{sector } i, \text{INV.4.1}}$ ) is basically computed through an average of the historic importance of the sector in the financial institution's portfolio. However, as some data might be missing, back-up rules are implemented in the tool (typically taking only the last year) and the assessor is able if needed to implement proxies.

The aggregated sectoral score is given by the following formula:

$$\text{Aggregated sectoral score} = \text{LcTDRS} * (1 - H_{\text{Stock}}) * \sum_{i=1}^n w_{\text{sector } i, \text{INV.4.1}} * \text{TAS}_i$$

With:

$$\left\{ \begin{array}{l} H_{\text{Stock}} = 10\% * \text{Nb of years with missing information on stocks} \\ \text{LcTDRS is the Low carbon transition share data reliability score computed as presented above.} \\ n : \text{the number of sectors covered} \\ i : \text{sector } i \\ \text{TAS}_i \text{ is the Trajectory Alignment Score for the sector } i \\ w_{\text{sector } i, \text{INV.4.1}} \text{ is the weight of the sector } i \text{ calculated following the principles described above.} \end{array} \right.$$

### ◆ Aggregated Asset class score

Information can be available only at asset class level. If so, the methodology can still apply. As for the sectoral approach, an asset class score will be the TAS of a given asset class, the aggregate asset class score being the weighted average of the TAS of all asset classes times the asset class weight W.

$$\text{Aggregated asset class score} = LcTDRS * (1 - H_{Stock}) * \sum_{j=1}^m w_{\text{asset class } j, INV.4.1} * TAS_j$$

With:

$$\left\{ \begin{array}{l} H_{Stock} = 10\% * \text{Nb of years with missing information on stocks} \\ LcTDRS \text{ is the Low carbon transition share data reliability score computed as presented above.} \\ m : \text{the number of asset class covered} \\ j : \text{asset class } j \\ TAS_j \text{ is the Trajectory Alignment Score for the asset class } j \\ w_{\text{asset class } j, INV.4.1} \text{ is the weight of the asset class } j \text{ calculated following the principles described above.} \end{array} \right.$$

### ◆ Global portfolio 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.

$$\text{Global portfolio score} = LcTDRS * (1 - H_{Stock}) * TAS_{\text{Global Portfolio}}$$

With:

$$\left\{ \begin{array}{l} H_{Stock} = 10\% * \text{Nb of years with missing information on stocks} \\ LcTDRS \text{ is the Low carbon transition share data reliability score computed as presented above.} \\ TAS_{\text{Global Portfolio}} \text{ represent the Trajectory Alignment Score at the Global Portfolio} \end{array} \right.$$

### ◆ Asset approach aggregated score

In order to cover any case of information availability (sectoral, asset class, global), an aggregation of the scores through different levels is made,

weighted by the average AuM coverage of each approach.

It is specified that this should not lead to overlapping scoring of the same asset under several approaches as one line in the tool is assigned to one given methodological level. The aggregated score is calculated using the following formula:

$$\text{Asset approach aggregated score} = w_{AuM,S} * S + 85\% * w_{AuM,A} * A + 75\% * w_{AuM,G} * G$$

With, for i=S,A or G :

$$\left\{ \begin{array}{l} w_{AuM,i} : \frac{\sum_{j=Ry-3}^{Ry} AuM_j^i}{\sum_{j=Ry-3}^{Ry} AuM_j^S + \sum_{j=Ry-3}^{Ry} AuM_j^A + \sum_{j=Ry-3}^{Ry} AuM_j^G} \\ AuM_j^i = \sum \text{assets covered by the methodology } i \text{ on the year } j \end{array} \right.$$

This formula highlights that Asset class and Global portfolio approaches are less relevant than sectoral ones. Given the challenge of data gathering that is deemed highest than for module 1, the score attributed to asset class and global portfolio approaches are less penalising.

#### D. TAXONOMY-LIKE APPROACH

Identifying the low-carbon / transition share of portfolio is as of today a demanding challenge in term of both methodologies and data availability. In order to better operationalise this crucial indicator of the ACT Finance methodology, it has been chosen to setup a “back-up” approach **leveraging on pure taxonomical reporting**. The rationale is that on some jurisdictions (typically EU) there is a compulsory taxonomical reporting ensuring availability of the information. However, it is recalled that such approach is not optimal at all as a high aligned taxonomical share is not in itself a sufficient signal in order to assess that a company is in transition<sup>20</sup>. Thus, while this scoring leverages on the similar principles than the main one (combination of an assessment of the quality of the framework with the computation of trajectory alignment scores at various levels) a haircut will be applied. In the end, in order to avoid undesired edge effects and put incentive on the main approach the scoring system ensures that the maximum of both approach is taken.

In order to compute this scoring, a taxonomical reporting will be required on the same period as for the main approach (ie should the reporting year be 2020, data will be required for 2019, 2018, 2019 and 2020). Information is required ideally at sectoral level but asset class or Global portfolio level

<sup>20</sup> For instance, taking the EU Taxonomy as a referential, should an Electric Utilities company has a 60% solar / 40% coal energy mix it might be up to 60% taxonomically aligned, which is relatively high, but remain not transitioning should there be no phase out on the coal activity.

information is also possible. Information required consists in:

- Monetary exposure by sector, asset class or at global level;
- Share of “eligible” activities regarding climate mitigation objectives;
- Share of “aligned” activities regarding climate mitigation objectives.

Information is provided regarding a given taxonomical referential (e.g. the EU Taxonomy<sup>21</sup>). The assessor will evaluate the quality of the taxonomical referential chosen against the following maturity matrix, providing a **Taxonomical assessment factor** (TAF):

Question	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
<i>Associated score</i>	<i>0%</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>	
<b><i>What is the quality of the taxonomical referential used for taxonomical reporting purpose?</i></b>	No clear referential used	<p>The FI uses an internal referential.</p> <p>The disclosure regarding the framework used by the FI is not clear.</p> <p>Information collected is not challenged/verified</p>	<p>The FI uses a science-based climate taxonomy published by a national, regional or global governing body.</p> <p>AND</p> <p>It is not ensured that DNSH principles are applied/taken into account.</p> <p>AND</p> <p>It is not ensured that information collected is challenged/verified</p> <p>OR</p>	<p>The FI uses a science-based climate taxonomy published by a national, regional or global governing body.</p> <p>AND</p> <p>It is not ensured that DNSH principles are applied/taken into account.</p> <p>AND Information collected is challenged/verified.</p> <p>OR</p> <p>The FI uses an internal referential.</p>	<p>The FI uses a science-based climate taxonomy published by a national, regional or global governing body.</p> <p>This referential takes into account DNSH principles which are applied by the FI.</p> <p>Information collected is challenged/verified.</p>	100%

<sup>21</sup> [Regulation \(EU\) 2020/852](#).

			The FI uses an internal referential. AND The FI has clearly disclosed its framework. AND It is not ensured that information collected is challenged/verified	AND The FI has clearly disclosed its framework. AND This referential takes into account DNSH principles AND Information collected is challenged/verified.		
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Please note that the taxonomical referential used could be the same as for the Low carbon activities assessment framework maturity factor (see above), leading to potential different outputs as LcAAFMF takes into account the underlying company situation.

As for the main “asset” approach, a complementary haircut will be applied depending on the number of years available. Scoring at sectoral, asset class and/or global level will be computed based on the position and trend of aligned share exactly as for the transition/low carbon share, without distinction between Use of Proceeds and General Purpose.

“Raw” taxonomic-like scoring will be computed as it follows :

$$\text{Taxonomy – like aggregated score} = (1 - H_{\text{Stock}}) * TAF * TAS_{\text{Taxonomy-like}}$$

With:

$$\left\{ \begin{array}{l} H_{\text{Stock}} = 10\% * \text{Nb of years with missing information on stocks} \\ TAF : \text{taxonomy assessment factor} \\ TAS_{\text{Taxonomy-like}} \text{ the trajectory alignment score calculated following the same principles as mentioned above.} \end{array} \right.$$

## E. FINAL DIMENSION 3 SCORE

The dimension 3 score is calculated as the maximum between the main “asset approach” method and the haircutted taxonomic-like method:

$$\text{Dim.3 Score} = \max(\text{Asset approach aggregated score}; 50\% * \text{Taxonomy – like aggregated score})$$

## F. PORTFOLIO DATA INPUT WITHIN THE PERFORMANCE SCORING TOOL

Given the operational complexity of the indicator some complementary guidance are provided in this methodology regarding the use of the tool. Different Excel tabs have been designed to specifically capture the portfolio's 'stock' and 'flow' data:

### ◆ 'Stock' tabs

Four tabs called '0. Data\_ptf\_stock\_RY', '0. Data\_ptf\_stock\_RY\_1', '0. Data\_ptf\_stock\_RY\_2' and '0. Data\_ptf\_stock\_RY\_3' represent respectively the portfolio's 'stock' data for the reporting year, reporting year minus one year, reporting year minus two years, reporting year minus three years. Information can be fulfilled per asset, company or aggregated at sectoral, asset class or portfolio level. For each row, it is required to mention the 'asset assignment' (use of proceeds or general purpose) and whether it embeds a low carbon or transition feature. This feature is applicable for the whole row, meaning that, in the example below, the investment in company A, which is described as a general purpose investment and the company as completely low-carbon (not a share of its activities),

Example 1	AAAAAA_bonds_20301231_2_3_ptf		Listed Corporate Debt		General purpose	Cement	No low carbon/transition feature	
Example 2	BBBBBB_share		Infrastructure		Use of proceeds	Elec Utilities	Low carbon activity	Standard – EU Taxonomy or equivalent
Information format	Free text	Amount in reporting currency	Drop list	Free text	Drop list	Drop list	Conditional drop list	Conditional drop list
Row Id	Financial instrument name	Fair Value (MEUR)	Asset type	If other asset, please specify	Asset assignment	Sector	Low carbon/transition feature	Source of assessment
1/A		100,000	Listed Equity		General purpose	Aluminium	Low carbon company	Financial institution's assessment
2/B		200,000	Private debt		General purpose	Aluminium	Company in transition	Financial institution's assessment
3/C		300,000	Listed Equity		General purpose	Aluminium	No low carbon/transition feature	Financial institution's assessment
4/D		150,000	Listed Corporate Debt		Use of proceeds	Aluminium	Low carbon activity	Financial institution's assessment
5/E		250,000	Listed Corporate Debt		Use of proceeds	Aluminium	No low carbon/transition feature	Financial institution's assessment
6/F		175,000	Private equity		General purpose	Cement	No low carbon/transition feature	Financial institution's assessment
7/G		275,000	Listed Corporate Debt		Use of proceeds	Cement	Enabling activity	Financial institution's assessment

FIGURE 6: TOOL'S INPUT TAB FOR PORTFOLIO 'STOCK' INFORMATION

### Operational guidance:

- As it is not possible to presume a standardized format of data amongst all institutions, the tool will assume the highest details of granularity (i.e. line-by-line portfolios) and then concatenate the information in an automated way. Should the information not be available at a granular level, it is up to the assessor to fill directly aggregated lines for the sake of simplicity, paying attention to the global consistency notably regarding weights calculation.
- The tool assigns to each line of the portfolio stock a "methodological" field where the assessor can select whether the line will be



*assessed through a sectoral, asset class or global portfolio approach. Automated assumptions are made based on the completed fields, considering the most granular approach (e.g. if sector and asset class are filled, the line will be assigned to the “sectoral” approach) however it is possible for the assessor to override this automated statement in order to ensure consistency according to the global management of the portfolio (e.g. if sectoral information is available for part of the portfolio only but all the portfolio is climately managed in the same way, there should be no point to artificially split approaches between sectoral and global approach).*

#### ◆ ‘Flow’ tabs

Four tabs called ‘0. Data\_ptf\_flow\_RY’, ‘0. Data\_ptf\_flow\_RY\_1’, ‘0. Data\_ptf\_flow\_RY\_2’ and ‘0. Data\_ptf\_flow\_RY\_3’ represent respectively the portfolio’s ‘flow’ data for the reporting year, reporting year minus one year, reporting year minus two years, reporting year minus three years. It follows the exact same principles as the ‘stock’ tabs except that it refers to the portfolio’s ‘flow’ data within the fossil fuel sector. Only, **aggregated purchase data is considered and not the net flow subtracting the sales from the purchases.**

As the information collected here is then converted in a single binary value regarding the scoring (whether or not new financings have been provided to Coal or not-transitioning Oil&Gas sectors) it is advised that should there be difficulties this single information the analyst can alternatively just ask whether there have been financings in the past three years and override the tool providing – or not – associated points.

Information format	Free text	Amount in reporting currency	Droplist	Free text	Droplist	Droplist	Conditional droplist
Row Id	Financial instrument name	Amount (MEUR)	Asset type	if other asset, please specify	Asset assignment	Sector	Low carbon/transition feature
1 A		300,00	Listed Corporate Debt		General purpose	Oil & Gas	Company in transition
2 B		100,00	Private debt		Use of proceeds	Coal	

[FIGURE 7: TOOL’S INPUT TAB FOR PORTFOLIO ‘FLOW’ INFORMATION](#)

#### Operational guidance:

- *Where relevant, it is important to complete the data stating 0 investment when this is the case otherwise the data will be considered missing.*

#### ◆ ‘Taxonomy-like’approach tab

As seen in part D. above, in case the information regarding the low carbon or transition feature is not available, climate information such as taxonomy (like in the EU Taxonomy where companies report the share of their “aligned” activities and financial institutions the share of their “aligned” portfolio toward environmental objectives including the climate mitigation objective), can be used by default for the purpose of dimension 3 4.1 scoring.

On an operational basis, the information is filled within the tab ‘0. Data\_ptf\_taxo’. The information can be aggregated either at sectoral level, asset class level or portfolio level. The data required within this tab is the percentage of activities aligned with a Taxonomy (and not the percentage of companies aligned with a sustainable definition).

AuM split	2021			2020			2019			2018		
Sectoral Aggregation	Fair Value (MEUR)	% Eligible	% Aligned	Fair Value (MEUR)	% Eligible	% Aligned	Fair Value (MEUR)	% Eligible	% Aligned	Fair Value (MEUR)	% Eligible	% Aligned
Agriculture & Agrifood	100,00	80%	10%	95,00	76%	10%	90,25	72%	9%	85,74	69%	9%
Aluminium												
Building construction	300,00	70%	60%	285,00	67%	50%	270,75	63%	40%	257,21	60%	35%
Cement												
Chemicals												
Elec Utilities	200,00	90%	40%	190,00	86%	38%	180,50	81%	36%	171,48	77%	34%
Glass												
Iron & Steel												
Pulp & Paper												
Real Estate												
Transport - Auto												
Transport - Civil aviation												
Transport - Road transport	150,00	80%	80%	142,50	48%	5%	135,38	45%	5%	128,61	43%	4%
Transport - Shipping												
z. Other Sectors	800,00	10%	70%	760,00	10%	10%	722,00	9%	9%	685,90	9%	9%

**FIGURE 8: TOOL'S INPUT TAB FOR PORTFOLIO 'FLOW' INFORMATION**

## ASSESSOR'S CONSISTENCY CONTROL

Within the tool, a specific tab ‘0. Agregation\_Ptf’ is dedicated to aggregate and control the consistency of information provided in the module 4 with the information provided in the ‘General information’ tab. This is a useful control panel aggregating all the information from module 4, split by portfolio, asset type, sector and general purpose/use of proceeds consideration, and highlighting the potential gap with general information provided by the financial institution. It is important that the assessor makes sure any discrepancy is tackled in order to have the most representative score.

## **RATIONALE**      **INV 4.1 FINANCIAL FLOWS TREND**

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

#### **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 financial 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.

Hence, rather than assess the GHG portfolio footprint trajectory, it was deemed more relevant to focus this indicator on what matters and is directly linked to a financial institution's business: assessing to which extent the financial institution is financing transition, meaning either transitioning/low carbon projects or companies transitioning in a credible and robust way.

Nevertheless, not all sectors can transition or with the same priority, especially fossil fuel. That's why fossil fuel sectors are 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.

#### **SCORING RATIONALE:**

- (i) Financial flows - Fossil fuel approach – dimensions 1 and 2

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.

Thus, a simple binary approach is taken for coal, where if there have been financing in the past three years the score is 0 whereas it is 100% if there haven't been any. The initial size of the portfolio is taken into account through the weighting, reflecting the fact that a significant coal funder has more merits in switching its business by phasing out coal than a smaller player in the sector. This reflects that, based on the global state of the economy and the need to quickly shift models, it is more relevant to reward people that are moving away from coal than penalising them for their past choices. Still, a 15% minimum weight guarantee a significant reward for companies that has chosen not to finance at all Coal from the start.

For Oil&Gas, rationale is the same except that it focuses on "non transitioning" assets, recognising the primarily need for this sector to transition itself. Thus nly "non transitioning" assets will trigger a 0% score. The minimal weight is the same than for Coal (15%).

The global dynamic of the oil&gas financing will be captured in dimension 3 (see below). This aspect won't be considered for coal as it is deemed that economical structures need a total phase-out rather than just a transition.

(ii) Financial stock - Transition share approach – dimension 3

At the end of the day, the work of a financial institution is to finance – or chose not to. A financial institution that claims to be 1.5°C align shall at some point finance only companies and activities that are either already compatible with a low-carbon economy, either transitioning - at a sufficient rhythm and ambition and with sufficient credibility – toward a low-carbon state. Thus, the scoring design of the indicator will look at the share of the low-carbon/transitioning assets of the portfolio. A two-fold perspective (position share vs. an absolute ideal and trend share vs. a theoretical aligned dynamic) has been implemented in order to reflect the current state of the economy (globally insufficient transitioning) and reward the dynamic of progress of financial institutions switching their portfolios. Please find in annexe **Erreur ! Source du renvoi introuvable.** some illustrative examples on how this trend ratio works.

The implementation of this indicator faces a significant challenge as the “categorization” framework allowing to assess whether a company is low-carbon/transitioning is still emerging. A pragmatic-yet-complex approach has been taken by the methodology leveraging on the financial institution's own assessment frameworks, by weighting the scores depending on the quality perceived of the assessment framework. This part might evolve in the future should widely-used transitioning assessment standards emerge. At the moment, in order to cope with the reality of low maturity of financial institution on the topic (only few categorization frameworks have been spotted), a “back-up” solution based on taxonomical reporting has been setup. It is highlighted through the application of a haircut that this feature is non fully satisfactory as if the taxonomical reporting provide information, it is not necessarily in itself an interpretative key of whether financed activities and companies are actually transitioning or not.

Scoring associated to the quality of the assessment framework itself is handled by indicator 4.2, see below.

## • INV 4.2 PORTFOLIO ALIGNMENT MANAGEMENT

### DESCRIPTION & REQUIREMENTS

#### INV 4.2 PORTFOLIO ALIGNMENT MANAGEMENT

### SHORT DESCRIPTION OF INDICATOR

Assessment of the way the financial institution manages its portfolio from an alignment point of view.

The assessment address notably the following key questions:

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

#### **DATA**

The relevant data for this indicator are:

#### **REQUIREMENT**

#### **S**

- ◆ Portfolio alignment tool/framework used
- ◆ Outcomes expected/Engagement action plan
- ◆ Monitoring, reporting and verification process characteristics
- ◆ Outputs from 4.1 indicator regarding the quality of the definitions set for low carbon activities, low carbon companies and transitioning companies

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 management exercise, understanding if it is ambitious enough (with regards to its scope, financed emissions representativeness, and identification of relevant assets).

Given the fact that investor can either invest directly or delegate the investment through a third party (either through mandated, dedicated funds, open funds...), there are two maturity matrices, one for direct management and the other for indirect management. In presence of both types of management, a weighted average of the score is made, depending on the size of AuM in each management type.

**Direct investment (e.g. Asset Managers and Asset Owners directly investing)**

Question	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
Associated score	0%	25%	50%	75%	100%	
<b>Which metrics does the Financial Institution use for assessing and managing its portfolio alignment ?</b>	Does not/No evidence/No quantitative metrics	Use GHG metrics (absolute, monetary or physical intensity) OR Use financial metric without 1.5° alignment purpose (e.g. share of portfolio with a minimum generic environmental score)	Use non-financial alignment metrics beyond GHG metrics (e.g. Implied temperature rise, portfolio taxonomical alignment ratio) OR Use financial metrics based on partial attributes of a transition plan (e.g. share of portfolio with validated SBTi targets*)	Use financial metrics tied to a partial alignment assessment categorization of assets**, identifying "positive" categories (e.g. low carbon/transitioning companies, aligned/aligning companies, climate solutions) but missing the identification of not aligned/not transitioning, ie climate-relevant companies that are not transitioning in a credible and robust way. AND Use GHG metrics	Use financial metrics tied to a comprehensive alignment assessment categorization of assets** ranging from "positive" categories (e.g. low carbon/transitioning companies, aligned/aligning companies, climate solutions) to "negative" (to phase out, not transitioning/not aligned) AND Use GHG metrics	<b>30%</b>
<b>What are the desired outcomes/objectives of measuring portfolio alignment?</b>	None or no specific/clear reference	Risk management Internal use (whether transition and/or physical risks) OR Simple target achievement without	Identifying clients or portfolio companies that are misaligned  AND alignment metrics are used to	Measuring climate impact, managing climate related risks in its business and stakeholders  AND alignment metrics are used as a trigger for direct	Measuring climate impact, managing climate related risks in its business and stakeholders with the consequence of determining an engagement action plan: the portfolio alignment metrics are used as a tool for an engagement strategy.  AND	<b>20%</b>

		company-level / activity-level strategy and action as described by next levels	understand the impact of climate-related policies and conditions and to guide their investments	engagement with high-emitting portfolio companies	Leads to decision making such as to invest in low carbon/transitioning companies, aligned/aligning companies, climate solutions, and not invest in not transitioning/not aligned companies	
<b>What is the Portfolio coverage of the alignment metrics?</b>	Experimental status Expressed in GHG emissions, no high-emitting sectors <sup>†</sup> are covered	Only part of the main perimeter of interests are covered (e.g. Oil&Gas sector but not Electric Utilities) Expressed in GHG emissions, only some of the high-emitting sectors <sup>†</sup> are covered	Main perimeters of interest are covered (e.g. high-emitting assets) Expressed in GHG emissions, all high-emitting sectors <sup>†</sup> are covered.	Large coverage. Residual perimeters not covered are either spotted by expected improvements in coming years either justified by a sound rationale (low interest from a climate perspective, specific penibility of the application of the metric...) Expressed in GHG emissions, >67% GHG financed emissions coverage, all high-emitting sectors <sup>†</sup> being covered.	Comprehensive coverage. Some limited perimeters justified by a sound rationale (low interest from a climate perspective, specific penibility of the application of the metric...) Expressed in GHG emissions, >80% GHG financed emissions coverage, all high-emitting sectors <sup>†</sup> being covered.	<b>10%</b>
<b>Target Monitoring, Verification and Reporting</b>	No Monitoring, reporting and verification process existing		Assessing progress made through the alignment metrics		Assessing progress made through the alignment metrics and updating the objectives in accordance with the results	<b>10%</b>

<p><b><i>Disclosure &amp; Transparency on the alignment metrics</i></b></p>	<p>No information disclosed publicly on the alignment metrics/strategies used</p>	<p>Some Information &amp; results are disclosed but no/low information is given on the calculation, assumptions made, and data sources used (or conversely)</p>	<p>Results of the portfolio alignment metrics are public, encompassing variation analysis and trajectory vs. targets analysis.</p> <p>AND</p> <p>Detailed assumptions and data sources are also disclosed.</p>	<p>Results of the portfolio alignment metrics are public, encompassing variation analysis and trajectory vs. targets analysis, including clear linkage between management actions and trajectory.</p> <p>AND</p> <p>Detailed assumptions and data sources are also disclosed. Where relevant pro forma calculus are made.</p> <p>***</p> <p>AND</p> <p>Regarding GHG emissions Disclosure by sectors is provided</p>	<p>Results of the portfolio alignment metrics are public, encompassing variation analysis and trajectory vs. targets analysis, including clear linkage between management actions and trajectory as well as expected trajectory.</p> <p>AND</p> <p>Detailed assumptions and data sources are also disclosed. Where relevant pro forma calculus are made. Expected modification/improvements of the alignment management framework (methodology, coverage, targets...) are presented.</p> <p>***</p> <p>AND</p> <p>Regarding GHG emissions Disclosure by sectors is provided</p>	<p><b>5%</b></p>
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<p><b>How does the Financial Institution manage phasing out climate-damaging assets?</b></p>	<p>Does not / No evidence</p>	<p>Has climate exclusion policies related notably to fossil fuel sectors</p>	<p>Set fossil fuel finance targets according to SBTi framework* or equivalent</p>	<p>Has a categorization process of companies/assets to phase out with a clear strategy associated to this category. AND Set fossil fuel finance targets according to SBTi framework* or equivalent</p>	<p>Has a categorization process of companies/assets to phase out based on 1.5° scenarios*** AND Has a robust strategy regarding this category : - engagement strategy toward the companies pertaining to this category in order to make them set credible transition plans. - calendar to stop invest in these companies/assets, with a maximum delay of 3 years. AND Set high emitting asset / fossil fuel finance targets based on 1.5° scenarios***  OR  Has no position at all in high-emitting sectors†</p>	<p><b>10%</b></p>
<p><b>How does the Financial Institution manage low carbon activities?</b></p>	<p>Does not / No evidence OR Standard quality definition of low carbon activities without strategy</p>	<p>Has set an Advanced quality definition of Low carbon activities without clear strategy</p>	<p>Has set a Next practice quality definition of Low carbon activities without clear strategy</p>	<p>Has set a "Low carbon practice" quality definition of Low carbon activities without clear strategy OR Has set a "Next</p>	<p>Has set a "Low carbon practice" quality definition of Low carbon activities with clear strategy encompassing at least financing targets</p>	<p><b>0% ou 5%</b></p>

		OR Has set a Standard quality definition of Low carbon activities with clear strategy encompassing at least financing targets	OR Has set an Advanced quality definition of Low carbon activities with clear strategy encompassing at least financing targets	practice" quality definition of Low carbon activities with clear strategy encompassing at least financing targets		
<b><i>How does the Financial Institution manage low carbon companies?</i></b>	Does not / No evidence OR Standard quality definition of low carbon companies without strategy	Has set an Advanced quality definition of Low carbon companies without clear strategy OR Has set a Standard quality definition of Low carbon companies with clear strategy encompassing at least financing targets	Has set a Next practice quality definition of Low carbon companies without clear strategy OR Has set an Advanced quality definition of Low carbon companies with clear strategy encompassing at least financing targets	Has set a "Low carbon practice" quality definition of Low carbon companies without clear strategy OR Has set a "Next practice" quality definition of Low carbon companies with clear strategy encompassing at least financing targets	Has set a "Low carbon practice" quality definition of Low carbon companies with clear strategy encompassing at least financing targets	<b>2,5% ou 5%</b>

<b>How does the Financial Institution manage transitioning companies?</b>	Does not / No evidence OR Standard quality definition of transitioning companies without strategy	Has set an Advanced quality definition of transitioning companies without clear strategy OR Has set a Standard quality definition of transitioning companies with clear strategy encompassing at least financing targets	Has set a Next practice quality definition of transitioning companies without clear strategy OR Has set an Advanced quality definition of transitioning companies with clear strategy encompassing at least financing targets	Has set a "Low carbon practice" quality definition of transitioning companies without clear strategy OR Has set a "Next practice" quality definition of transitioning companies with clear strategy encompassing at least financing targets	Has set a "Low carbon practice" quality definition of transitioning companies with clear strategy encompassing at least financing targets	<b>7,5% ou 10%</b>
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#### Indirect investment (e.g. Asset Owners or Asset managers mandating other asset managers)

The following maturity matrix leverages on the previous one, taking into account specificities of the indirect investment. As a matter of fact, regarding indirect investment, two general strategies can be observed, that can complement each other:

- the Financial institution delegating its investment relies also on the asset managers for the climate strategy: in such case a simple application of each asset manager's framework is not sufficient: there is a need that the FI ensure a global consistency of its own framework
- the Financial Institution set its own climate strategy and infuses the constraints and concepts to its asset managers, applying sometimes a "look-through" approach on delegated perimeters in order to assess them "as if" the underlying positions (e.g. a collective investment scheme portfolio) were directly held by it.

The maturity matrix tries to cope with both approaches, thus an additional complexity compared to direct investment.

Question	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
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Associated score	0%	25%	50%	75%	100%	
<b>Which metrics does the Financial Institution use for assessing and managing its portfolio alignment ?</b>	Does not/No evidence/No quantitative metrics	<p>Use its own metrics aggregating heterogeneous metrics from various asset managers without justifications. OR Rely on the asset manager metrics without consistent approach at FI level</p> <p>AND</p> <p>Metrics used are at least standard level according to the direct investment maturity matrix.</p>	<p>Use its own metrics on a "look-through" approach of its delegated investments OR Use consistent asset managers's metrics at FI's level</p> <p>AND</p> <p>Metrics used are at least advanced level according to the direct investment maturity matrix.</p>	<p>Use its own metrics on a "look-through" approach of its delegated investments OR Use consistent asset managers's metrics at FI's level with monitoring of the consistency between metrics (e.g. assessment of category definition limited variations among various asset managers). AND Metrics used are at least next practice level according to the direct investment maturity matrix.</p>	<p>Use its own metrics on a "look-through" approach of its delegated investments OR Use consistent asset managers's metrics at FI's level with justifications of the consistency between metrics (e.g. conclusive assessment of category definition minimum quality and consistency among various asset managers). AND Metrics used are low carbon practice level according to the direct investment maturity matrix.</p>	<b>30%</b>
<b>What are the desired outcomes/objectives of measuring portfolio alignment?</b>	None or no specific/clear reference	<p>Asset manager compliance monitoring or Risk management Internal use (whether transition and/or physical risks) OR Simple target achievement</p>	<p>Identifying clients or portfolio companies that are misaligned OR Identifying asset manager's portfolio that are misaligned</p> <p>AND</p> <p>alignment metrics are used to</p>	<p>Measuring climate impact, managing climate related risks in its business and stakeholders AND alignment metrics are used as a trigger for engagement with</p>	<p>Measuring climate impact, managing climate related risks in its business and stakeholders with the consequence of determining an engagement action plan: the portfolio alignment metrics are used as a tool for an engagement strategy with asset managers directed through engagement with underlying companies.</p>	<b>20%</b>

		without company-level / activity-level strategy and action as described by next levels	understand the impact of climate-related policies and conditions and to guide their investments	asset manager regarding high-emitting portfolio companies	AND  Leads to decision making such as asset manager selection or mandate/financial product definition, with the aim to finance or enable low carbon/transitioning companies, aligned/aligning companies, climate solutions, and not financing not transitioning/not aligned companies	
<b>What is the Portfolio coverage of the alignment metrics?</b>	Experimental status, only few non-significant indirectly managed portfolio covered (e.g. <10% of GHG coverage of indirectly managed perimeter without full coverage of high-emitting sector <sup>†</sup> positions)	Only part of the main indirectly managed portfolios are covered. Expressed in GHG emissions, at least 50% of the GHG emissions of indirectly managed perimeter are covered, including at least 67% of the high-emitting sector <sup>†</sup> emissions.	Main indirectly managed portfolios are covered. Expressed in GHG emissions, at least 67% of the GHG emissions of indirectly managed perimeter are covered, including at least 90% of the high-emitting sector <sup>†</sup> emissions.	Large coverage. Residual perimeters not covered are either spotted by expected improvements in coming years either justified by a sound rationale (low interest from a climate perspective, specific operational burden on some limited parts of the portfolio...) Expressed in GHG emissions, >67% GHG financed emissions coverage of indirectly managed perimeter, all high-emitting sectors <sup>†</sup> being covered.	Comprehensive coverage. Some limited perimeters justified by a sound rationale (low interest from a climate perspective, specific operational burden on some limited parts of the portfolio...) Expressed in GHG emissions, >80% GHG financed emissions coverage of indirectly managed perimeter, all high-emitting sectors <sup>†</sup> being covered.	<b>10%</b>

<b>Target Monitoring, Verification and Reporting</b>	No Monitoring, reporting and verification process existing		Assessing progress made through the alignment metrics		Assessing progress made through the alignment metrics and updating the objectives in accordance with the results	<b>10%</b>
<b>Disclosure &amp; Transparency on the alignment metrics</b>	No information disclosed publicly on the alignment metrics/strategies used	Some Information & results are disclosed but no/low information is given on the calculation, assumptions made, and data sources used (or conversely)	Results of the portfolio alignment metrics are public, encompassing variation analysis and trajectory vs. targets analysis.  AND  Detailed assumptions and data sources are also disclosed.	Results of the portfolio alignment metrics are public, encompassing variation analysis and trajectory vs. targets analysis, including clear linkage between management actions and trajectory.  AND Detailed assumptions and data sources are also disclosed. Where relevant pro forma calculus are made.  *** AND Regarding GHG emissions Disclosure by sectors is provided	Results of the portfolio alignment metrics are public, encompassing variation analysis and trajectory vs. targets analysis, including clear linkage between management actions and trajectory as well as expected trajectory.  AND  Detailed assumptions and data sources are also disclosed, including potential justifications of consistencies between various Asset manager metrics. Where relevant pro forma calculus are made. Expected modification/improvements of the alignment management framework (methodology, coverage, targets...) are presented.  *** AND Regarding GHG emissions Disclosure by sectors is provided	<b>5%</b>

<p><b><i>How does the Financial Institution manage phasing out climate-damaging assets?</i></b></p>	<p>Does not / No evidence OR Rely on asset manager's climate exclusion policies without comprehensive assessment nor consistency.</p>	<p>Has climate exclusion policies related notably to fossil fuel sectors OR Rely on asset manager's climate exclusion policies with a comprehensive assessment ensuring minimum consistency.</p>	<p>Set fossil fuel finance targets according to SBTi framework* or equivalent  OR Rely on asset manager's categorization processes and strategies, those elements reaching at least a "Next practice" level, without ensured consistent categorization and strategy at FI's level.</p>	<p>Has a categorization process of companies/assets to phase out with a clear strategy associated to this category. AND Set fossil fuel finance targets according to SBTi framework* or equivalent  OR Rely on asset manager's categorization processes and strategies, those elements reaching at least a "Next practice" level, with monitoring of the consistency between these frameworks (e.g. assessment of category definition limited variations among various asset managers).</p>	<p>Has a categorization process of companies/assets to phase out based on 1.5° scenarios*** AND Has a robust strategy regarding this category : - engagement strategy toward the companies pertaining to this category in order to make them set credible transition plans. - calendar to stop providing services/finance/investments to these companies/assets, with a maximum delay of 3 years. AND Set high emitting asset / fossil fuel finance targets based on 1.5° scenarios***  OR Rely on asset manager's categorization processes and strategies, those elements reaching at least a "Low carbon practice " level, with monitoring of the consistency between these frameworks (e.g. assessment of category definition limited variations among various asset managers).  OR Has no position at all in high emitting sectors†</p>	<p><b>10%</b></p>
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<p><b>How does the Financial Institution manage low carbon activities?</b></p>	<p>Does not / No evidence OR Standard quality definition of low carbon activities without strategy</p> <p>OR</p> <p>Rely on asset manager's management framework, those frameworks not meeting all at least a "standard" level. OR Rely on asset manager's management framework, those management frameworks meeting all at least a "standard" level. There is however no accurate understanding by the FI nor ensured consistency between these frameworks.</p>	<p>Has set an Advanced quality definition of Low carbon activities without clear strategy OR Has set a Standard quality definition of Low carbon activities with clear strategy encompassing at least financing targets</p> <p>OR</p> <p>Rely on asset manager's management frameworks, those frameworks meeting all at least a "standard" level. There is an accurate understanding by the FI and a monitoring of the consistency between these frameworks (e.g. assessment of</p>	<p>Has set a Next practice quality definition of Low carbon activities without clear strategy OR Has set an Advanced quality definition of Low carbon activities with clear strategy encompassing at least financing targets</p> <p>OR</p> <p>Rely on asset manager's management frameworks, those frameworks meeting all at least an "advanced" level. There is an accurate understanding by the FI and a monitoring of the consistency between these frameworks (e.g. assessment of category definition limited variations among various asset managers) OR Rely on asset manager's management frameworks, those</p>	<p>Has set a "Low carbon practice" quality definition of Low carbon activities without clear strategy OR Has set a "Next practice" quality definition of Low carbon activities with clear strategy encompassing at least financing targets</p> <p>OR</p> <p>Rely on asset manager's management frameworks, those frameworks meeting all at least a "next practice" level. There is an accurate understanding by the FI and a monitoring of the consistency between these frameworks (e.g. assessment of category definition limited variations among various asset managers) OR Rely on asset manager's management frameworks, those</p>	<p>Has set a "Low carbon practice" quality definition of Low carbon activities with clear strategy encompassing at least financing targets</p> <p>OR</p> <p>Rely on asset manager's management frameworks, those frameworks meeting all at least a "low carbon practice" level. There is an accurate understanding by the FI and a monitoring of the consistency between these frameworks (e.g. assessment of category definition limited variations among various asset managers)</p>	<p><b>0% or 5%<sup>±</sup></b></p>
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		category definition limited variations among various asset managers) OR Rely on asset manager's management frameworks, those frameworks meeting all at least an "advanced" level. There is however no accurate understanding by the FI nor ensured consistency between these frameworks.	frameworks meeting all at least a "next practice" level. There is however no accurate understanding by the FI nor ensured consistency between these frameworks.	frameworks meeting all at least a "low carbon practice" level. There is however no accurate understanding by the FI nor ensured consistency between these frameworks.		
<b>How does the Financial Institution manage low carbon companies?</b>	Does not / No evidence OR Standard quality definition of low carbon companies without strategy  OR Rely on asset manager's management framework, those frameworks not meeting all at	Has set an Advanced quality definition of low carbon companies without clear strategy OR Has set a Standard quality definition of low carbon companies with clear strategy	Has set a Next practice quality definition of low carbon companies without clear strategy OR Has set an Advanced quality definition of low carbon companies with clear strategy encompassing at least financing targets  OR	Has set a "Low carbon practice" quality definition of low carbon companies without clear strategy OR Has set a "Next practice" quality definition of low carbon companies with clear strategy encompassing at least financing targets  OR	Has set a "Low carbon practice" quality definition of low carbon companies with clear strategy encompassing at least financing targets  OR Rely on asset manager's management frameworks, those frameworks meeting all at least a "low carbon practice" level. There is an accurate understanding by the FI and a monitoring of the consistency between these frameworks (e.g.	<b>2,5% or 5%<sup>±</sup></b>

	<p>least a "standard" level. OR Rely on asset manager's management framework, those management frameworks meeting all at least a "standard" level. There is however no accurate understanding by the FI nor ensured consistency between these frameworks.</p>	<p>encompassing at least financing targets  OR Rely on asset manager's management frameworks, those frameworks meeting all at least a "standard" level. There is an accurate understanding by the FI and a monitoring of the consistency between these frameworks (e.g. assessment of category definition limited variations among various asset managers) OR Rely on asset manager's management frameworks, those frameworks meeting all at least an</p>	<p>Rely on asset manager's management frameworks, those frameworks meeting all at least an "advanced" level. There is an accurate understanding by the FI and a monitoring of the consistency between these frameworks (e.g. assessment of category definition limited variations among various asset managers) OR Rely on asset manager's management frameworks, those frameworks meeting all at least a "next practice" level. There is however no accurate understanding by the FI nor ensured consistency between these frameworks.</p>	<p>Rely on asset manager's management frameworks, those frameworks meeting all at least a "next practice" level. There is an accurate understanding by the FI and a monitoring of the consistency between these frameworks (e.g. assessment of category definition limited variations among various asset managers) OR Rely on asset manager's management frameworks, those frameworks meeting all at least a "low carbon practice" level. There is however no accurate understanding by the FI nor ensured consistency between these frameworks.</p>	<p>assessment of category definition limited variations among various asset managers)</p>	
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		"advanced" level. There is however no accurate understanding by the FI nor ensured consistency between these frameworks.				
<b>How does the Financial Institution manage transitioning companies?</b>	<p>Does not / No evidence OR Standard quality definition of transitioning companies without strategy</p> <p>OR</p> <p>Rely on asset manager's management framework, those frameworks not meeting all at least a "standard" level. OR Rely on asset manager's management framework, those management frameworks meeting all at least a "standard" level. There is however no accurate understanding by the FI nor</p>	<p>Has set an Advanced quality definition of transitioning companies without clear strategy OR Has set a Standard quality definition of transitioning companies with clear strategy encompassing at least financing targets</p> <p>OR</p> <p>Rely on asset manager's management frameworks, those frameworks meeting all at least a "standard"</p>	<p>Has set a Next practice quality definition of transitioning companies without clear strategy OR Has set an Advanced quality definition of transitioning companies with clear strategy encompassing at least financing targets</p> <p>OR</p> <p>Rely on asset manager's management frameworks, those frameworks meeting all at least an "advanced" level. There is an accurate understanding by the FI and a monitoring of the consistency between these</p>	<p>Has set a "Low carbon practice" quality definition of transitioning companies without clear strategy OR Has set a "Next practice" quality definition of transitioning companies with clear strategy encompassing at least financing targets</p> <p>OR</p> <p>Rely on asset manager's management frameworks, those frameworks meeting all at least a "next practice" level. There is an accurate understanding by the FI and a monitoring of the consistency between these</p>	<p>Has set a "Low carbon practice" quality definition of transitioning companies with clear strategy encompassing at least financing targets</p> <p>OR</p> <p>Rely on asset manager's management frameworks, those frameworks meeting all at least a "low carbon practice" level. There is an accurate understanding by the FI and a monitoring of the consistency between these frameworks (e.g. assessment of category definition limited variations among various asset managers)</p>	<b>7,5% or 10%±</b>

	ensured consistency between these frameworks.	level. There is an accurate understanding by the FI and a monitoring of the consistency between these frameworks (e.g. assessment of category definition limited variations among various asset managers) OR Rely on asset manager's management frameworks, those frameworks meeting all at least an "advanced" level. There is however no accurate understanding by the FI nor ensured consistency between these frameworks.	frameworks (e.g. assessment of category definition limited variations among various asset managers) OR Rely on asset manager's management frameworks, those frameworks meeting all at least a "next practice" level. There is however no accurate understanding by the FI nor ensured consistency between these frameworks.	frameworks (e.g. assessment of category definition limited variations among various asset managers) OR Rely on asset manager's management frameworks, those frameworks meeting all at least a "low carbon practice" level. There is however no accurate understanding by the FI nor ensured consistency between these frameworks.		
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\*SBTi targets: 'Targets validated according to the [Science-Based Target initiative framework for financial institution](#).

\*\*Categorization of assets/companies regarding aligning assessment: There is no universal consensus. While the present ACT methodology leverages on the concepts of low carbon and transitioning companies (ie transitioning in a credible and robust way) there are other categorization initiatives such as for

instance GFANZ or the [CBI](#) one.

\*\*\*1.5° scenarios: As of today, the following scenarios are presumed as 1.5° credible:

- ◆ IEA's Net Zero by 2050 (NZE 2050)
- ◆ NGFS's net zero scenarios
- ◆ University of Technology Sydney's One Earth Climate Model
- ◆ PRI Inevitable Policy Response 1.5°C Required Policy Scenario

Other scenarios will need a dedicated rationale proving their credibility.

†High emitting sectors: the following sectors are presumed high-emitting.

- ◆ Agriculture & Agrifood
- ◆ Coal
- ◆ Electric Utilities
- ◆ Oil&Gas
- ◆ Real Estate
- ◆ Road transport

The assessor can justify another approach depending on actual financial exposure and GHG emissions observed on the FI portfolio.

\*The three last questions of each maturity matrix will leverage on the quality of the framework set in indicator 4.1 regarding (i) low carbon activities (ii) low carbon companies and (iii) transitioning companies recognition. The associated weight will depend on the incorporation or not of use of proceeds in the financial institution's strategy: should there be no use of proceeds, the low carbon activity concept is not usable and the weight is repercussed to the other two questions.

## INV 4.2 PORTFOLIO ALIGNMENT MANAGEMENT

### RELEVANCE OF THE INDICATOR:

#### RATIONALE OF THE INDICATOR

As of today, several metrics coexist regarding the measure of portfolio alignment. The ACT Finance methodology relies on the principle that the best way to manage one FI's portfolio alignment is, rather than getting in non-financial model-dependant metrics such as implied temperature rise, to stick on levers

homogeneous to the financial activities, meaning:

- Identifying the “good” companies/ activities to finance, enable and support
- Identifying the activities to phase out and set an associated credible and robust exit plan
- Identifying the companies that should transition but are not yet, or not enough, and develop a stringent strategy of engagement leading to exit the relationship should the company does not evolve.

The portfolio GHG emission monitoring being a “lagging” indicator necessary to monitor the success of the strategy.

The maturity matrix acknowledge that other frameworks exist and provide some partial recognition.

## MODULE 5: MANAGEMENT

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

### • INV 5.1 OVERSIGHT OF CLIMATE CHANGE ISSUES

#### DESCRIPTION & REQUIREMENTS

#### SHORT

#### DESCRIPTION

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.

#### OF INDICATOR

#### DATA

The relevant data for this indicator are:

#### REQUIREMENTS

- ◆ 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
<i>Associated score</i>	<i>0%</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>	
<i>What is the position of the employee/ committee with highest responsibility for climate change mitigation issues?</i>	No one in charge of climate change issues	Level 4 (see guidance)*	Level 3 (see guidance)*	Level 2 (see guidance)*	Level 1 (see guidance)*	<i>100%</i>

- \* 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      INV 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.



## • INV 5.2 CLIMATE CHANGE OVERSIGHT CAPABILITY

### DESCRIPTION

#### &

### INV 5.2 CLIMATE CHANGE OVERSIGHT CAPABILITY

### REQUIREMENTS

#### 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

The relevant data for this indicator are:

#### REQUIREMENTS

- ◆ Climate 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
- ◆ The reporter shall identify the expertise of the decision-making chain toward the responsible

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 strategic investment planning 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
<i>Associated score</i>	<i>0%</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>	
<b><i>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**?</i></b>	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**.  The employee/committee consults scientific committees and/or external expert advisors	<b><i>30%</i></b>

<b><i>Does the operational team dedicated to climate change issues (e.g. CSR team, sustainability department), have relevant climate change- and low-carbon transition-related expertise**?</i></b>	The team does not meet any of the characteristics of climate change- and low-carbon transition-related expertise**.	The team meets 1 of the characteristics of climate change- and low-carbon transition-related expertise**.	The team meets 2 of the characteristics of climate change- and low-carbon transition-related expertise**.		The team meets 3 or more of the characteristics of climate change- and low-carbon transition-related expertise**.	<b>70%***</b>
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\* If a committee oversees climate change, the scoring does not consider how many people meet the characteristics. For example, a company would be scored “advanced” in all the following situations:

only one out of five committee members meet two of the criteria.

two people meet two different criteria.

all five committee members meet the two same criteria.

\*\*“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.)

\*\*\*In order to cope with standards reporting (notably upcoming CSRD in EU) that at the moment requires the information at high level only, the questions related to operational teams will be taken into account only if information is available. In order to avoid information availability bias, a “maximum” feature will be setup for financial institutions where information is available.

## RATIONALE

## INV 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 that 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.

## • INV 5.3 LOW-CARBON TRANSITION PLAN

### DESCRIPTION & REQUIREMENTS

## INV 5.3 LOW-CARBON TRANSITION PLAN

### 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

The relevant data for this indicator are:

### REQUIREMENTS

- ◆ 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
<i>Associated score</i>	<i>0%</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>	
<i>Existence of a transition plan*</i>	No	Existing document listing some actions without clear relation to the aspects mentioned in the definition below*.	Yes, but it does not cover all the aspects mentioned in the definition below*.	Yes, and it covers main but not all the aspects mentioned in the definition below*.	Yes, and it covers all the aspects mentioned in the definition below*.	<i>This category will weigh the final score of this matrix</i>

<i>Scope</i>	Scope of transition plan is not defined.	The transition plan covers a certain amount of investments but there is no information as to the GHG emissions it covers	The transition plan covers a share of the portfolio responsible for 50% of GHG emissions or less	The transition plan covers a share of the portfolio responsible for more than 50% of GHG emissions	The transition plan applies to all the portfolios. Any exclusions from the plan must not be material to the organization in terms of GHG emissions.	20%
<i>Transition plan timescale</i>	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%
<i>Financial content in plan</i>	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	Description of the major financial changes to the business over all timescales.  The transition plan is integrated into the overall business strategy of the organization and linked to the profit and loss statement.  A carbon price is used. Its value is aligned with a low-carbon scenario <sup>‡</sup>	10%

				included. A carbon price is embedded in cost calculations as a financial indicator.		
<i>Short-term actions (recent past up to reporting year + 5 years)</i>	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%
<i>Long-term actions and vision (from reporting year + 5 years onwards)</i>	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%
<i>Measure of success</i>	No measure of success	At least one measure of success, but it is not SMART*	At least one measure of success which is fully SMART*		More than one measure of success which is SMART. They encompass quantitative and qualitative indicators	15%

<i>Progress reporting process</i>	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).	15%
<i>Review and update process</i>	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%

Assessor's guidance



<p>*</p>	<p>In this context, transition plan refers to a formal document which follows the CSRD requirements.</p> <p>More broadly, « a climate transition plan is a time-bound action plan that clearly outlines how an organization will pivot its existing assets, operations, and entire business model towards a trajectory that aligns with the latest and most ambitious climate science recommendations.” (CDP). In the context of this evaluation, a “transition plan” refers to the formalisation of the company’s overall approach to climate change, including the current interferences between the firm and climate change (the company’s impact on climate change and its vulnerability to climate change), the climate change strategy developed to cope with them, its objectives and action plan to achieve them. Consequently, for example a simple coal exit plan would not be considered as a transition plan as it does not set out the global transition approach and rationale of the company.</p>
<p>** A measure of success is considered “fully SMART” if it meets each of the following SMART elements :</p>	<ol style="list-style-type: none"> <li>1. Specific: the measure of success is explicit, with no room for misinterpretation.</li> <li>2. Measurable: the measure of success is measurable, and it will be clear when it has been achieved.</li> <li>3. Achievable: the measure of success is stretching and ambitious, but not so much that it is unachievable.</li> <li>4. Relevant: the measure of success contributes to the organisation’s overall objectives, and complements other measures of success.</li> <li>5. Time-bound: the measure of success has a set deadline.</li> </ol>

## RATIONALE **INV 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.

## • **INV 5. 4 CLIMATE CHANGE MANAGEMENT INCENTIVES**

### DESCRIPTION **INV 5.4 CLIMATE CHANGE MANAGEMENT INCENTIVES** & REQUIREMENTS

#### SHORT

The Board’s compensation committee has included metrics for the reduction of GHG emissions in the annual and/or long-term compensation plans of

**DESCRIPTION OF INDICATOR** 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** The relevant data for this indicator are:

- REQUIREMENTS**
- ◆ 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 set incentive compensations at both the executive and non-executive levels, 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.

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 (17).

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

<b><i>What is the type of incentive?</i></b>	<b><i>Type of incentive</i></b>	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.	<b>30%</b>
<b><i>What is the share of the climate incentive over the total incentives</i></b>	<b><i>Climate incentives share</i></b>	<= 5% or unknown	<=15%	<=30%	<=50%	>50%	<b>30%</b>

<i>Non-executive level*</i>							
<i>What is the type of incentive?</i>	<i>Type of incentive</i>	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.	<b>20%**</b>
<i>What is the share of the climate incentive over the total incentives</i>	<i>Climate incentives share</i>	<= 5% or unknown	<=15%	<=30%	<=50%	>50%	<b>20%**</b>

\*Executive level corresponds to levels 1 and 2 of seniority as described in 5.1. By opposition non-executive level are other peoples.  
 \*\*In order to cope with standards reporting (notably upcoming CSRD in EU) that at the moment requires the information at executive level only, the questions related to non-executive level will be taken into account only if information is available. In order to avoid information availability bias, a “maximum” feature will be setup for financial institutions where information is available.

**RATIONALE**      **INV 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.

• **INV 5.5 CLIMATE RISK MANAGEMENT**

**DESCRIPTION & REQUIREMENTS**      **INV 5.5 CLIMATE RISK ANAGEMENT**

**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 financing conditions (e.g., climate has a direct impact on the pricing of an asset, 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 risk management

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
<i>Associated score</i>		<i>0%</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>	
<b>Disclosure of climate related risks?</b>	<i>Disclosure</i>	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 and opportunities into their strategies, governance, and risk management.	<b>20%</b>
<b>What is the level of implementation?</b>	<i>Implementation</i>	None	Following of the climate risk exposure -	Following of the climate risk exposure -	Risk and opportunity assessment	The results of the risk and opportunity	<b>40%</b>

<i>n among the institution?</i>			informal	formal global risk appetite defined without evidence of implementation of mitigation measures	leads to the definition and implementation of isolated mitigation measures.	assessments inform the financial institution strategy (there is a clear connection between the results and the action plan)	
<b><i>What is the position of the employee/committee with highest responsibility for risk management supervision?</i></b>	<i>Roles and responsibilities oversight</i>	None	Level 4 (see guidance)*	Level 3 (see guidance)*	Level 2 (see guidance)*	Level 1 (see guidance)*	<b>40%</b>

- 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**      **INV 5.5 RISK MANAGEMENT****RATIONALE OF  
THE INDICATOR**

Climate has been explicitly identified as a financial risk for years now (37). According to European supervisors, financial institutions are not on the track to follow their climate risk exposure or managing it ('a wait-and-see approach is still prevalent) (38). Even though climate change scenario analysis and testing have become common practice (with a large heterogeneity 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 (39) (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. (40)

**• INV 5.6 CLIMATE CHANGE SCENARIO TESTING****DESCRIPTION  
&  
REQUIREMENTS**      **INV 5.6 CLIMATE CHANGE SCENARIO TESTING****SHORT**

Assessing financial institutions' climate risk stress-testing framework.

**DESCRIPTION  
OF INDICATOR****DATA**

The relevant data for this indicator are:

**REQUIREMENTS**

- ◆ 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  
ASSESSMENT  
WILL BE DONE**

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 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 investor'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
<i>Associated score</i>		<i>0%</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>	
<b><i>Does the Financial institution have a robust climate risk stress-testing framework*?</i></b>	<i>Climate stress testing framework</i>	None	Internal framework	Public internal framework	Internal framework, fully transparent with regards to the assumptions, variables and scenarios used.	Framework issued by or that is aligned with the standards set by a relevant regulatory	<b>5%</b>

<b>What is the scope of the scenario testing?</b>	<i>Scope</i>	Scope of scenario testing is not defined. Or No scenario stress testing		Scenario testing applies to a share of the portfolio.		Scenario testing applies to all portfolios	<b>25%</b>
<b>What is the timescale of the scenario testing?</b>	<i>Timescale</i>	Covers only short term, from reporting year until (RY + 3 years). OR No scenario stress testing	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.	<b>20%</b>
<b>Does the company assess the materiality of climate-related risks/opportunities**?</b>	<i>Climate-related risks/opportunities**</i>	The materiality of climate-related risks/opportunities** is not assessed. Or No scenario stress testing	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.	<b>10%</b>
<b>How many scenarios are considered?</b>	<i>Scenarios***</i>	No scenario 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).	<b>10%</b>
<b>What parameters/as assumptions are considered?</b>	<i>Parameters/as assumptions considered</i>	Considers 1-2 different parameters/as assumptions. OR		Considers 3-4 parameters/as assumptions together (multivariate)		Considers 5 or more parameters/as assumptions together, related	<b>10%</b>

		No scenario stress testing				to changing climate conditions in combination with changes in operating conditions.	
<b>Are the results† expressed in qualitative/quantitative/financial terms?</b>	<i>Results†</i>	No results available Or No scenario stress testing	Expressed only in qualitative terms	Expressed in qualitative and quantitative terms		Expressed in qualitative, quantitative and financial terms	<b>10%</b>
<b>Is a carbon price considered?</b>	<i>Carbon price</i>	No carbon price is considered. OR No scenario stress testing		A carbon price is used as one of the main parameters/as assumptions		The carbon price used is aligned with the parameters/assumptions of a low-carbon economy scenario‡	<b>10%</b>

\* Stress tests are part of the risk management strategy. A stress test stimulates extreme or unfavorable, yet plausible, conditions in order to study the consequences on the financial institution and its operations (Autorité des marchés financiers, “The use of stress tests as part of risk management”). Any other type of risk identification should be addressed in the indicator 5.5.

The participation to stress-tests organized by external actors (e.g., central banks) is to be considered in this maturity matrix.

\*\*Climate-related risk categories (18):

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 (42):

◆ 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 (19). CO<sub>2</sub> prices are displayed by world regions, predicted values in 2030 and 2050.

\*\*\*

### Comparison of key climate scenarios (30)

SOURCE	SCENARIO	SECTOR COVERAGE	TEMPERATURE OUTCOME (°C)	DESCRIPTION
<b>1.5°C SCENARIOS</b>				
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 <sub>2</sub> /year by 2050, including CO <sub>2</sub> 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."
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 <sub>2</sub> /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 <sub>2</sub> /year by 2050. There are particularly high transition costs associated with this scenario, which assumes a carbon price of ~\$630/tCO <sub>2</sub> 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.
<b>2°C CONSISTENT SCENARIOS</b>				
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.
<b>2.5+°C SCENARIOS</b>				
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****INV 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 an investor, 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 asset managers ability to address risks that might adversely impact the collective investment schemes or individual portfolios they manage (20)

It is key to integrate climate risk scenarios into 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 that help to analyse the strength of the strategies that have been put in place (20)

It is important for investors 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 investors, 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.

## MODULE 6: INVESTORS ENGAGEMENT

### • INV 6.1 STRATEGY TO INFLUENCE INVESTORS

#### DESCRIPTION & REQUIREMENTS

##### SHORT

##### DESCRIPTION OF INDICATOR

This indicator assesses the strategy put in place to influence investor's investment choices/preferences in favour of credible and robust climate funds, resulting in raising more money for climate solutions or low carbon activities. This indicator will only be used for asset managers. Asset Owner do not have "investors" since they are dealing with their own assets.

##### DATA

The relevant data for this indicator are:

##### REQUIREMENTS

- ◆ Strategy for mobilizing investors and measures of success
- ◆ 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

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

##### WILL BE DONE

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
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<i>Associated score</i>		<i>0%</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>	
<i>What is the scope of the engagement strategy with investors?</i>	<i>Scope</i>	No strategy	Strategy applies to 1%-30% of total source of fundings	Strategy applies to 31-60% of total source of fundings	Strategy applies to 61-90% of total source of fundings	Strategy applies to over 90% of total source of fundings	<b>50%</b>
<i>What action levers<sup>‡</sup> are embedded in the strategy to engage investors?</i>	<i>Action levers<sup>‡</sup> embedded in strategy</i>	No action levers <sup>‡</sup> embedded in strategy.	Strategy includes action lever(s) from one of the four engagement types. <sup>‡</sup>	Strategy includes action levers from two of the four engagement types. <sup>‡</sup>	Strategy includes action levers from three of the four engagement types. <sup>‡</sup>	Strategy includes action levers from all of the four engagement types. <sup>‡</sup>	<b>50%</b>

<sup>‡</sup> 1. Information collection

- Promote or develop tools to enable clients to understand the carbon footprint of your portfolio.
- Provide investors with climate-related risk and impact metrics of investments

2. Engagement & incentivization

- Run an engagement campaign to educate investors about climate change/GHG emissions reductions/other low-carbon transition-related topics
- Provide rationale behind climate-related investment decisions

3. Innovation & collaboration (changing markets)

- Run a campaign to encourage innovation to reduce climate change impacts
- Provide asset owners with information and analytics on net zero investing and climate risk and opportunity
- Work in partnership with asset owners on decarbonization goals, consistent with an ambition to contribute reaching global net zero emissions by 2050

- Develop incentivizing non-financial indicators (e.g., climate dividends)
  - Offer Article 9 climate funds
  - Distribute specific investment products/funds integrating climate impact objectives (i.e. contributing to the financing of a low carbon economy or helping companies in the portfolio to define their climate strategy like Fideas has been doing along with ACT Step by Step inside its fund 'ACTforClimate')
  - Develop Climate Paris Aligned indexes
  - Labeled Index (Paris aligned benchmark & Climate transition benchmark) (21)
4. Fostering internal changes (teams/tools/processes)
- Offer financial incentives for investors directing their money towards climate funds
  - Provide climate-related training, support, and best practices

## **RATIONALE INV 6.1 STRATEGY TO INFLUENCE INVESTORS**

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

**THE INDICATOR** Investors engagement module is included in this ACT methodology for the following reasons:

- ◆ Act on all the possible existing levers in the money value chain. Engaging with investors is also a great way to be part of the solution and go even beyond engagement with their investees (module 7).
- ◆ It is important to mobilize and raise more money to be vested in favour of climate solutions, low carbon/enabling activities, or companies to decarbonize.
- ◆ Asset managers can have a direct influence on investors and explain to what extent climate is a financial risk that must be taken into account when investing money in companies or financial instruments. More, it has the responsibility to explain that climate is also an investment opportunity as well. The role of asset managers (whether primary or secondary) is to mainstream climate finance investments through dedicated climate finance funds. Important: for the narrative score and the global appreciation of the score, the rationale of the climate funds/vehicle commercialized should be scrutinized to understand if the approach is about (i) alignment or (ii) impact. The guidance here is to



reward impact approaches, even though it is still difficult to evidence GHG emission reduction due to the financial institution's individual action. In this module, investors can be whether individuals, institutional or companies.

### SCORING THE INDICATOR:

Because of data availability and complexity, a direct measure of the outcome of such engagement is not very feasible currently. Because there is no global agreement on what a robust enough labelled fund is, it has not been possible to compute the total of 'green' funds out of the total funds of a defined asset manager and associate score to it. Hence, the approach of a maturity matrix has been chosen as it allows the analyst to consider multiple dimensions of investors engagement and assess them together towards a single score for Investors Engagement.

## • INV 6.2 ACTIVITIES TO INFLUENCE INVESTORS

### DESCRIPTION & REQUIREMENTS

### INV 6.2 ACTIVITIES TO INFLUENCE INVESTORS

### SHORT DESCRIPTION OF INDICATOR

This indicator assesses the actions put in practice to influence, enable or otherwise shift investor's investment choices in favour of credible and robust climate funds, resulting in raising more money for climate solutions or low carbon activities for instance. 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 investees 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

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

# WILL BE DONE

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
<i>Associated score</i>		<i>0%</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>	
<i>What is the scope of the recent and current activities in investors engagement?</i>	<i>Scope</i>	No investors engaged.	Investors engaged represent 1-30% of total source of fundings.	Investors engaged represent 31-60% of total source of fundings.	Investors engaged represent 61-90% of total source of fundings.	Investors engaged represent over 90% of total source of fundings.	<b>40%</b>
<i>What action levers* does the financial institution use in practice to engage investors?</i>	<i>Action levers* used in practice</i>	No evidence of action levers <sup>‡</sup> used.	Evidence of action lever(s) from one of the four engagement types). <sup>‡</sup>	Evidence of action levers from two of the four engagement types <sup>‡</sup>	Evidence of action levers from three of the four engagement types <sup>‡</sup>	Evidence of action levers from all of the four engagement types <sup>‡</sup>	<b>30%</b>

<b><i>How impactful has the financial institution's engagement with investors been?</i></b>	<i>Impact of engagement<sup>‡</sup></i>	No evidence of impact <sup>†</sup> of action levers used.	Some action levers used have qualitative evidence of impact <sup>†</sup> .	Almost all action levers used have qualitative evidence of impact <sup>†</sup> .	Some action levers used have quantitative evidence of impact <sup>†</sup> .	Almost all action levers used have qualitative and quantitative evidence of impact <sup>†</sup> .	<b>30%</b>
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- \* 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):

‡ 1. Information collection

- Promote or develop tools to enable clients to understand the carbon footprint of the asset managers portfolio
- Regularly provide investors with climate-related risk and impact metrics of investments

2. Engagement & incentivization

- Run an engagement campaign to educate investors about climate change/GHG emissions reductions/other low-carbon transition-related topics
- Offer financial incentives for investors directing their money towards climate funds
- Provide climate-related training, support, and best practices
- Provide rationale behind climate-related investment decisions

3. Innovation & collaboration (changing markets)

- Run a campaign to encourage innovation to reduce climate change impacts

- Provide asset owners with information and analytics on net zero investing and climate risk and opportunity
- Work in partnership with asset owners on decarbonization goals, consistent with an ambition to contribute reaching global net zero emissions by 2050
- Develop incentivizing non-financial indicators (e.g., climate dividends)
- Distribute specific investment products/funds integrating climate objectives (i.e., contributing to the financing of a low carbon economy or helping companies in the portfolio to define their climate strategy like Fideas has been doing along with ACT Step by Step inside its fund 'ACTforClimate').
- Development or use of a climate score at portfolio level and discloses it

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

- Regular staff training and upskilling on climate-related topics
- Incentivization of managers to put forward climate-positive solutions or funds

<sup>†</sup> 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:

- o Qualitative example: Feedback from investors saying that they appreciate and will use this new knowledge to start their journey on the low-carbon transition
- o Quantitative example: Number of climate vehicles/funds commercialized have risen by X%
- o Quantitative example: The percentage of engaged investors setting science-based targets has increased annually by X%

## **Rationale**

### **INV 6.2 ACTIVITIES TO INFLUENCE INVESTORS**

#### *Rationale of the indicator*

#### **RELEVANCE OF THE INDICATOR:**

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

- ◆ To act on all the possible existing levers on the money value chain. Engaging with investors is also a great way to be part of the solution and go beyond the engagement with their investees.

- ◆ It is important to mobilize and raise more money to be invested in favour of climate solutions, low carbon/enabling activities or companies to decarbonize.
- ◆ Asset managers can have a direct influence on investors and explain to what extent climate is a financial risk that must be taken into account when investing money in companies or financial instruments. More, it has the responsibility to explain that climate is also an investment opportunity. The role of asset managers (whether primary or secondary) is to mainstream climate finance investments through dedicated climate finance funds. Important: for the narrative score and the global appreciation of the score, the rationale of the climate funds/vehicle commercialized should be scrutinized to understand if the approach is about (i) alignment or (ii) impact. The guidance here is to reward impact approaches, even though it is still difficult to evidence GHG emission reduction due to the financial institution individual action.

In this module, Investors can be whether individuals, institutional or companies.

#### **SCORING THE INDICATOR:**

Because of data availability and complexity, a direct measure of the outcome of such engagement is not very feasible currently. Because there is no global agreement on what a robust enough labelled fund is, it has not been possible to compute the total of 'green' funds out of the total funds of a defined asset manager and associate score to it. Hence, the approach of a maturity matrix has been chosen as it allows the analyst to consider multiple dimensions of investors engagement and assess them together towards a single score for investors Engagement.

## MODULE 7: INVESTEE ENGAGEMENT

### • INV 7.1 STRATEGY TO INFLUENCE INVESTEE/ASSET MANAGERS

#### DESCRIPTION INV 7.1 STRATEGY TO INFLUENCE INVESTEE/ASSET MANAGERS

&

#### REQUIREMENT

S

#### SHORT

#### DESCRIPTION

#### OF INDICATOR

#### DATA

#### REQUIREMENT

S

The financial institution has an engagement strategy, ideally governed by policy and integrated into financial attribution and climate strategy, to influence, enable, or otherwise shift investee companies' strategy, business model and activities in order to reduce GHG emissions.

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
- ◆ C-FS12.1c
- ◆ 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

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

**ASSESSMENT  
WILL BE DONE**

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.

There are two maturity matrices, one for direct management and the other for indirect management. In presence of both types of management, a weighted average of the score is made, depending on the size of AuM in each management type.

**Direct investment (e.g. Asset Managers and Asset Owners directly investing)**

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
<i>Associated score</i>		0%	25%	50%	75%	100%	
<b><i>What is the scope of the engagement strategy?</i></b>	<i>Scope of companies embedded in the strategy</i>	No strategy defined.	Engage with less than 20 companies focusing on those with highest owned emissions OR those responsible for less than 33% of the portfolio's emissions (either directly, or collectively) and strategy applies to all companies from the fossil fuel sector (upstream and mistream)	Engage with 20 companies (or more) focusing on those with highest owned emissions OR those responsible for less than 65% of the portfolio's emissions (either directly, or collectively) and strategy applies to all companies from the fossil fuel sector (upstream and mistream)	Engage with 20 companies (or more) focusing on those with highest owned emissions OR those responsible for at least 65% of the portfolio's emissions (either directly, or collectively) and strategy applies to all companies from the fossil fuel sector (upstream and midstream)	Engage with 20 companies (or more) focusing on those with highest owned emissions OR those responsible for at least 80% of the portfolio's emissions (either directly, or collectively) and strategy applies to all companies from the fossil fuel sector (upstream and mistream)	<b><i>This category will weigh the final score of this matrix</i></b>

<b><i>Has the financial institution set up a structured engagement strategy?</i></b>	<i>Engagement framework</i>	No engagement policy	Sporadic references to engagement objective(s) with limited or low granularity on the engagement strategy (sectors, geography, size of the companies targeted) & timeline	Has set up a structured engagement approach: a focus is given to those generating the highest owned emissions with an associated timeline.  Has set their own outcome based KPI from its engagement framework (evidence of an existing framework must be demonstrated )		Has defined an engagement strategy & associated framework with (i) timebound engagement objectives, (ii) associated tools for measuring & tracking the engagement policy implementation, (iii) a voting policy/strategy and (iv) disclosure related to this engagement strategy	<b>15%<sup>†</sup></b>
<b><i>Does the financial institution follow recommendations on existing impact management standards?</i></b>	<i>Impact management system</i>	No evidence		Has defined an internal impact management standard. The financial institution demonstrates to be able to identify the relevant climate actions and their relative impact using the approach or metrics		Demonstrates complying/drawing on an impact-oriented framework to design its engagement strategy (e.g., ISO 14097, ISO 14001, EMAS, Climate Impact Management System (CIMS))	<b>5%<sup>†</sup></b>



				best suited to their organizational context or capabilities.			
<b>What are the objectives of this engagement strategy?</b>	<i>Objectives/ambition</i>	<p>None OR General principles such as improving dialogue and climate awareness among counterparties</p>	<p>Improving governance of climate risks/opportunities AND/OR enhance disclosure alignment of counterparties with recognized / regulatory framework (e.g. TCFD, CSRD and Taxonomy for EU)</p>	<p>Request counterparties to set GHG reduction objectives (e.g. set SBTi targets) OR Request relevant counterparties not to perform new fossil fuels production projects or coal mines</p>	<p>Request counterparties to set GHG reduction objectives (e.g. set SBTi targets) AND Request relevant counterparties not to perform new fossil fuels production projects or coal mines  OR Request counterparties to set 3rd party approved-1.5° transition plans</p>	<p>Has defined a global objective framework: Request counterparties to set 3rd party approved-1.5° transition plans AND Has a sectoral engagement policy on fossil fuels sector (upstream and midstream) including no new fossil fuels production projects or coal mines and a date for full non-aligned activities exit AND Impact the use of financings (CAPEX &amp; OPEX breakdown use) and/or its orientation</p>	<b>25%†</b>
<b>What are the characteristics of the financial institution's escalation strategy?</b>	<i>Escalation strategy</i>	<p>No evidence of an existing escalation strategy.</p>	<p>There is an escalation strategy. It doesn't embed any milestone that would lead to a financial</p>	<p>There is an escalation strategy, with gradual process encompassing milestones</p>	<p>There is an escalation strategy, with gradual process encompassing milestones ending the investing</p>	<p>The escalation strategy includes: (i) List of sanctions increasingly restrictive:</p>	<b>25%†</b>

			<p>penalisation or an end to the relationship (often referred as a 'Tea-&amp;-Cookies' engagement approach). OR such milestones exist but no clear timeline is provided in the strategy.</p>	<p>that would lead at least to a financial penalisation, but no end of the investing relationship scheduled. AND There is an associated timeline to reach this ultimate milestone</p>	<p>relationship. AND There is an associated timeline to reach this ultimate milestone</p>	<p>(ii) deadlines supported with clear criterias enabling to move to the next sanction milestone; (iii) A possibility of ending the relationship or other meaningful penalty (with a short timescale already determined) in case of failure in the dialogue, in order to prevent the engagement process from stalling; 2 years is presumed not a short timescale.</p>	
<p><b>What action levers are embedded in the financial institution's engagement strategy to encourage investees to reduce their emissions?</b></p>	<p><i>Action levers* embedded in strategy - CDP set</i></p>	<p>No action levers embedded in strategy</p>	<p>Strategy includes action lever(s) from two of the engagement types (C-FS12.1b).</p>	<p>Strategy includes action lever(s) from three of the engagement types (C-FS12.1b) and must include actions from the "Engagement &amp; incentivization" category</p>	<p>Strategy includes action lever(s) from four of the engagement types (C-FS12.1b) and must include actions from the "Engagement &amp; incentivization" category</p>	<p>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 &amp; incentivization" category</p>	<p><b>12,5%<sup>†</sup></b></p>

<b><i>To what extent are other low carbon transition related recommendations integrated in the engagement strategy?</i></b>	<i>Other low-carbon transition-related levers**</i>	<i>No other low-carbon transition related levers* included in client engagement strategy.</i>				<i>1 or more other low-carbon transition related levers* included in client engagement strategy.</i>	<b>2,5%<sup>†</sup></b>
<b><i>What is the asset manager overall approach to climate (proxy) voting?</i></b>	<i>Climate voting strategy (22)</i>	None	Evidence of integration of climate consideration in its global voting strategy.	Draws on widely recognized and accepted frameworks, such as the NZAOA, TCFD, CA+100, TPI (among other), to integrate a range of different climate-related factors for their voting strategy AND a Monitoring, reporting and verification process has been set up.	Clear Climate Voting organization AND Voting guidance by sector associated with red lines triggering sanction votes and the type of votes used  AND Involvement from climate or ESG expert (internal or external) AND Monitoring, reporting and verification process	Clear Climate-voting organization that demonstrates its capacity to identify, evaluate and execute Climate Voting  AND Voting guidance by sector associated with red lines triggering sanction votes and the type of votes used, as well as evaluation criteria considering common topics of Climate Votes (e.g., transparency, capital alignment, emission target setting, lobbying disclosure, scenario	<b>15%<sup>†</sup></b>

						<p>analyses, etc.)</p> <p>AND</p> <p>Has defined an External Climate resolutions strategy: participating in resolution deposit on climate topics and/or supporting other shareholders climate resolutions</p> <p>AND</p> <p>Has defined a strategy to integrate climate considerations to any other topics: Quitus, Accounts &amp; dividends, Board remuneration, Administrator nomination</p> <p>AND</p> <p>Monitoring, reporting and verification process</p>	
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<sup>†</sup>Weights of first questions assuming the Financial institution invests in Equity. If the Financial institution does not invest in Equities, each question weight

will be upgraded proportionally to reach 100%.

\* “Action levers” include 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 companies about your climate change performance and strategy
  - Share and disclose climate information about your portfolios and relevant certification schemes (i.e. taxonomic performance, Taxonomic Alignment Ratio, carbon portfolio performance)
  - 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
  - Integrate climate risks on asset pricing models (gives a +25% bonus points on the category assessed)
  - Engage with portfolio company, collaboratively through initiative or coalitions consistent with an ambition to reach net zero emissions by 2050
  - Engage simultaneously with numerous companies and stakeholders from the same sector or value chain (8)
  - Collaborative engagement with the management of publicly listed firms and private firms (23).
  - The asset owner, either individually or jointly with others, endorses or publishes position papers on pertinent climate topics that benefit from asset owner commitments in line with the Alliance ambitions to guide net-zero engagement activities or topics; (8)
  - Provide specific climate-related products (e.g., for an asset manager climate-thematic funds)
- Compliance & onboarding
  - Evaluate the asset manager’s climate change mitigation efforts, their management of climate risks/opportunities, and to ensure their alignment of stewardship activities and public messaging with the long-term climate interests of the Alliance (e.g., NZAOA) on climate change. (8)
  - Climate change considerations in investees management position mechanism
  - Climate-related criteria in investment selection/screening/decision
  - Enhanced climate due diligence

- Signaling effects of publicized engagement with, and/or divestment from, companies that do not adequately alter, or commit to altering, corporate practices (23).
- Information collection (understanding investee behavior)
  - Collect climate-related and emissions information from companies as part of due diligence
  - Collect climate-related and emissions information at least annually from long-term investments
- Engagement & incentivization (changing investee behavior)
  - Holding meetings with management, Meeting the chair or other board members
  - Raising key issues through a company's advisers
  - Writing letters to a company to raise concerns about climate/transition plan
  - Integration of climate considerations in other types of resolutions (lobbying, reporting, remuneration)
  - Support climate-related issues in proxy voting (the proxy voting policy draws on widely recognized and accepted frameworks, such as the TCFD, to assess a range of different climate-related factors for voting at their portfolio companies)
  - Initiate and support dialogue with investee boards to set Paris-aligned strategies
  - Vote and offer climate resolutions in favor of climate-related disclosure practices among investees
  - Vote and offer climate resolutions in favor of investees to set a robust & credible transition plan
  - Investors engage simultaneously with numerous companies and stakeholders from the same sector or value chain (8)
  - Sectoral exclusion & divestment
  - Publish its approach to integrating climate risks and opportunities (both transition and physical) across their portfolio management and stewardship team's training and activities (8)

\*\*\*“Other low-carbon transition-related recommendations” refers to key aspects of a company'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 investees increase their R&D spend in low-carbon technologies.
- Management
  - For example, the financial institution encourages its investees to conduct climate change scenario testing.

- Policy engagement
  - For example, the financial institution encourages its investees to support relevant climate policies.
- Business model
  - For example, the financial institution engages with its investees to develop new, low-carbon business models.

**Indirect investment (e.g. Asset Owners or Asset Managers mandating other Asset Managers)**

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
<i>Associated score</i>		<i>0%</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>	
<b><i>What is the scope of the engagement strategy?</i></b>	<i>Scope of asset managers embedded in the strategy</i>	No strategy defined.	Engage via asset manager with less than 20 companies focusing on those with highest owned emissions OR those responsible for less than 33% of the portfolio's emissions and strategy applies to all companies from the fossil fuel sector (upstream and midstream)	Engage via asset manager with 20 companies (or more) focusing on those with highest owned emissions OR those responsible for less than 65% of the portfolio's emissions and strategy applies to all companies from the fossil fuel sector (upstream and midstream)	Engage via asset manager with 20 companies (or more) focusing on those with highest owned emissions OR those responsible for at least 65% of the portfolio's emissions and strategy applies to all companies from the fossil fuel sector (upstream and midstream)	Engage via asset manager with 20 companies (or more) focusing on those with highest owned emissions OR those responsible for at least 80% of the portfolio's emissions and strategy applies to all companies from the fossil fuel sector (upstream and midstream)	<b><i>This indicator will weight the final score of this matrix</i></b>

<b><i>Has the asset owners set up a structured engagement strategy?</i></b>	<i>Engagement framework</i>	No engagement policy	Reference to engagement objective(s) with asset managers but with limited or low granularity on the engagement strategy (scope, sectors, geography, size of the companies targeted) & timeline	<p>Has set up a structured engagement approach: a focus is given to those generating the highest owned emissions with an associated timeline.</p> <p>Has set their own outcome based KPI from its engagement framework (evidence of an existing framework must exist)</p>		<p>Has set up a structured engagement approach that is integrated with their selection, appointment, and monitoring activities of asset managers (8).</p> <p>In other words, it has defined an engagement strategy &amp; associated framework with (i) timebound engagement objectives, (ii) associated tools for measuring &amp; tracking the engagement policy implementation, and (iii) with a defined voting policy/strategy and (iv) the transparency related to this engagement strategy</p>	<b>15%†</b>
<b><i>Does the financial institution follow recommendations on existing impact management standards?</i></b>	<i>Impact management system</i>	No evidence		Has defined an internal impact management standard. The asset demonstrates to be able to identify the		Demonstrates complying/drawing on impact-oriented framework to design its engagement strategy (e.g. ISO 14097, ISO	<b>5%†</b>



				relevant climate actions asset managers can put in place and their relative impact using the approach or metrics best suited to their organizational context or capabilities.		14001, EMAS, Climate Impact Management System (2DII))	
<b>What are the objectives of the engagement strategy?</b>	<i>Objectives/ambition</i>	None OR General principles such as improving dialogue and climate awareness among counterparties	Improving governance of climate risks/opportunities AND/OR enhance disclosure alignment of ultimate counterparties with recognized / regulatory framework (e.g. TCFD, CSRD and Taxonomy for EU)	Request ultimate counterparties to set GHG reduction objectives (e.g. set SBTi targets) OR Request relevant ultimate counterparties not to perform new fossil fuels production projects or coal mines	Request ultimate counterparties to set GHG reduction objectives (e.g. set SBTi targets) AND Request relevant ultimate counterparties not to perform new fossil fuels production projects or coal mines  OR Request ultimate counterparties to set 3rd party approved-1.5° transition plans	Has defined a global objective framework: Request ultimate counterparties to set 3rd party approved-1.5° transition plans AND Has a sectoral engagement policy on fossil fuels sector (upstream and midstream) including no new fossil fuels production projects or coal mines and a date for full non-aligned activities exit AND Impact the use of financings (CAPEX & OPEX breakdown use) and/or its	<b>25%†</b>

						orientation	
<b>What are the characteristics of the financial institution's escalation strategy?</b>	<i>Escalation strategy</i>	No evidence of an existing escalation strategy.	There is an escalation strategy. It doesn't embed any milestone that would lead to a financial penalisation or an end to the relationship with the asset manager (often referred as a 'Tea-&-Cookies' engagement approach). OR such milestones exist but no clear timeline is provided in the strategy.	There is an escalation strategy, with gradual process encompassing milestones that would lead at least to a financial penalisation, but no end of the investing relationship with the asset manager. AND There is an associated timeline to reach this ultimate milestone	Transparent and consistently implements procedures to escalate engagement. Has defined a gradual escalation process, ranging from a collaborative/"Tea & Cookies" engagement to confrontational/forceful engagement (when the asset manager do not comply with the asset owner climate policy) 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 asset manager exclusion or other meaningful penalty (with a short timescale already determined) in case of failure in the dialogue, in order to prevent the engagement process from stalling; 2 years is presumed not a short timescale.	<b>25%†</b>
<b>What action levers are embedded in the financial institution's engagement strategy to encourage investees to</b>	<i>Action levers* embedded in strategy - CDP set</i>	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	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	<b>12,5%†</b>

<i>reduce their emissions?</i>				actions from the "Engagement & incentivization" category		categories according to its business specificities and objectives i.e. the "Engagement & incentivization" category	
<i>To what extent are other low carbon transition related recommendations integrated in investee engagement strategy?</i>	<i>Other low-carbon transition-related levers**</i>	<i>No other low-carbon transition related levers* included in client engagement strategy.</i>				<i>1 or more other low-carbon transition related levers* included in client engagement strategy.</i>	<b>2,5%†</b>
<i>Does the asset owner have a climate voting strategy for its asset managers ?</i>	<b>Climate voting strategy (22)</b>	None	Has a roadmap to integrate climate change into votes	Draws on widely recognized and accepted frameworks, such as the NZAOA, TCFD, CA+100, TPI (among other), to integrate a range of different climate-related factors for their voting strategy AND a Monitoring, reporting and verification is in place.	Clear Climate Voting organization AND Voting guidance by sector associated with red lines triggering sanction votes and the type of votes used  AND Involvement from climate or ESG expert (internal or external)  AND Monitoring, reporting and verification process	Clear Climate-voting organization that demonstrates its capacity to identify, evaluate and execute Climate Voting  AND Voting guidance by sector associated with red lines triggering sanction votes and the type of votes used, as well as evaluation criteria considering common topics of Climate Votes	<b>15%†</b>

						<p>(e.g., transparency, capital alignment, emission target setting, lobbying disclosure, scenario analyses, etc.)</p> <p>AND</p> <p>Has defined an External Climate resolutions strategy: participating in resolution deposit on climate topics and/or supporting other shareholders climate resolutions</p> <p>AND</p> <p>Has defined a strategy to integrate climate considerations to any other topics: Quitus, Accounts &amp; dividends, Board remuneration, Administrator nomination</p> <p>AND</p> <p>Monitoring, reporting and</p>	
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						verification process	
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<sup>†</sup>Weights of first questions assuming the Financial institution invests in Equity. If the Financial institution does not invest in Equities, each question weight will be upgraded proportionally to reach 100%.

\* “Action levers” include 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 companies about your climate change performance and strategy
  - Share and disclose climate information about your portfolios and relevant certification schemes (i.e. taxonomic performance, Taxonomy Alignment Ratio, carbon portfolio performance)
  - 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
  - Integrate climate risks on asset pricing models (gives a +25% bonus points on the category assessed)
  - Engage with portfolio company, collaboratively through initiative or coalitions consistent with an ambition to reach net zero emissions by 2050
  - Engage simultaneously with numerous companies and stakeholders from the same sector or value chain (8)
  - Collaborative engagement with the management of publicly listed firms and private firms (23).
  - The asset owner, either individually or jointly with others, endorses or publishes position papers on pertinent climate topics that benefit from asset owner commitments in line with the Alliance ambitions to guide net-zero engagement activities or topics; (8)
  - Provide specific climate-related products (e.g. for an asset manager climate-thematic funds)
- Compliance & onboarding
  - Evaluate the asset manager’s climate change mitigation efforts, their management of climate risks/opportunities, and to ensure

their alignment of stewardship activities and public messaging with the long-term climate interests of the Alliance (here NZAOA) on climate change. (8)

- Climate change considerations in investees management position mechanism
- Climate-related criteria in investment selection/screening/decision
- Enhanced climate due diligence
- Signaling effects of publicized engagement with, and/or divestment from, companies that do not adequately alter, or commit to altering, corporate practices (23).

- Information collection (understanding investee behavior)

- Collect climate-related and carbon emissions information from companies as part of due diligence
- Collect climate-related and carbon emissions information at least annually from long-term investments

- Engagement & incentivization (changing investee behavior)

- 
- Holding meetings with management, Meeting the chair or other board members
- Raising key issues through a company's advisers
- Writing letters to a company to raise concerns about climate/transition plan
- Integration of climate considerations in other types of resolutions (lobbying, reporting, remuneration)
- Support climate-related issues in proxy voting (the proxy voting policy draws on widely recognized and accepted frameworks, such as the TCFD, to assess a range of different climate-related factors for voting at their portfolio companies)
- Initiate and support dialogue with investee boards to set Paris-aligned strategies
- Vote and offer climate resolutions in favor of climate-related disclosure practices among investees
- Vote and offer climate resolutions in favor of investees to set a robust & credible transition plan
- Investors engage simultaneously with numerous companies and stakeholders from the same sector or value chain (8)
- Sectoral exclusion & divestment
- Publish its approach to integrating climate risks and opportunities (both transition and physical) across their portfolio management and stewardship team's training and activities (8)

\*\*\*"Other low-carbon transition-related recommendations" refers to key aspects of a company'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 investees increase their R&D spend in low-carbon technologies.
- Management
  - For example, the financial institution encourages its investees to conduct climate change scenario testing.
- Policy engagement
  - For example, the financial institution encourages its investees to support relevant climate policies.
- Business model
  - For example, the finance institution engages with its investees to develop new, low-carbon business models.

**Rationale**      **INV 7.1 STRATEGY TO INFLUENCE INVESTEES/ASSET MANAGERS TO REDUCE THEIR GHG EMISSION/TO CONTRIBUTE TO GHG EMISSION REDUCTION)**

*Rationale of the indicator*

**RELEVANCE OF THE INDICATOR:**

Strategies to influence companies or asset managers 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 have an important responsibility as the financings can directly unlock project that will emit GHG emissions on a long period of time (primary market) or contribute indirectly to the attractiveness of the company by supporting its share/bond price (secondary market).
- ◆ A financial institution can have a great engagement strategy/policy and bad practices for climate (and conversely). As so, it is important to capture both aspects: strategy and actions
- ◆ A credible engagement strategy must demonstrate precise objectives with an associated timeline with possible sanctions, and with an important priority on the fossil fuel sector.
- ◆ 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:**

When an asset owner has both direct investment activities and through asset managers, the analyst will have to do the assessment for both tables. The final score will be then weighted depending on the asset under management breakdown between direct investments and delegated management.

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 investee. 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 investees' engagement.

## • INV 7.2 ACTIVITIES TO INFLUENCE INVESTEEs/ASSET MANAGERS

### DESCRIPTION

### &

### REQUIREMENT

### S

## INV 7.2 ACTIVITIES TO INFLUENCE INVESTEEs/ASSET MANAGERS

### SHORT

### DESCRIPTION

This indicator assesses the extent to which the financial institution implements activities and initiatives that help, influence or otherwise enable companies (directly, collectively or via asset managers) 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 its financing activities.

### OF INDICATOR

### DATA

The relevant data for this indicator are:

### REQUIREMENT

### S

- ◆ Activities to influence companies' GHG emissions (directly, collectively or via asset managers)

CDP Questionnaire mapping to this indicator:

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

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

### HOW THE

### ASSESSMENT

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

### WILL BE DONE

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.



There are two maturity matrices, one for direct management and the other for indirect management. In presence of both types of management, a weighted average of the score is made, depending on the size of AuM in each management type.

**Direct investment (e.g. Asset Managers and Asset Owners directly investing)**

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
<b>Associated score</b>		<b>0%</b>	<b>25%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	
<b>What is the scope of the recent &amp; current activities in the engagement strategy?</b>	Scope	No engagement activity identified.	Demonstrate to engage with less than 20 companies focusing on those with highest owned emissions OR those responsible for less than 33% of the portfolio's emissions and activities apply to all companies from the fossil fuel sector (upstream and midstream)	Demonstrate to engage with 20 companies (or more) focusing on those with highest owned emissions OR those responsible for less than 65% of the portfolio's emissions and activities apply to all companies from the fossil fuel sector (upstream and midstream)	Demonstrate to engage with 20 companies (or more) focusing on those with highest owned emissions OR those responsible for at least 65% of the portfolio's emissions and activities apply to all companies from the fossil fuel sector (upstream and midstream)	Demonstrate to engage with 20 companies (or more) focusing on those with highest owned emissions OR those responsible for at least 80% of the portfolio's emissions and activities apply to all companies from the fossil fuel sector (upstream and midstream)	<b><i>This indicator will weight the final score of this matrix</i></b>
<b>What action levers does the financial institution use in practice to encourage companies to reduce their emissions?</b>	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	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	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	<b>20%<sup>†</sup></b>

				must include action from 'Engagement & incentivization'	must include action from 'Engagement & incentivization'		
<b>How impactful has the financial institution's investees' engagement strategy been?</b>	<i>Impact of engagement**</i>	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.	<b>10%†</b>
<b>How does the financial institution promote the adoption of a transition plan from its counterparties?</b>	<i>Transition plan requirement</i>	Do not require credible and robust transition plans as a condition for investing	Require companies from Coal or Oil&Gas companies to adopt credible and robust transition plans.	Require companies from Coal AND Oil & Gas companies to adopt credible and robust transition plans.	Requires companies from all high emitting sectors it provides investing to adopt transition plans consistent with Financial Institution-specific emissions targets	Systematically require transition plans enforcement among the companies. It establishes a watchlist of companies, setting actions with an associated timeline that can lead to divestment	<b>25%†</b>
<b>How impactful is the escalation strategy/process in practice?</b>	<i>Escalation process</i>	No reference/use of escalation process	Information from disclosure show that the escalation process is not systematic AND not explicitly stated with companies	Disclose & follow evidence of the application of its escalation strategy in practice. Clear description of the expectations the asset manager has set with companies around escalation.	The escalation strategy applies to most financings. All financings are aware that the financing the financial instrument can be terminated/sold if the required sustainability performance is not met. Clear	Evidence of a systematic application of its escalation framework to current and new financings. The asset manager provides escalation case studies which are sufficiently detailed, varied and	<b>20%†</b>

					description of the expectations of the asset manager around escalation. The asset manager provides metric quantifying its escalation activity.	clearly distinguished between the engagement activity and the escalation activity.	
<b><i>Does the financial institution have a review process to track and report the outcomes of its engagement actions?</i></b>	<i>Monitoring Reporting and Verification (MRV) on Climate Actions &amp; their Outcomes</i>	None	MRV of the number of companies they have engaged with with insufficient details	MRV of the number of companies they have engaged with and relevant details, including stakeholders, focus, and outcomes of engagement	<p>Reports on the climate action's characteristics</p> <ul style="list-style-type: none"> <li>• Its modalities of implementation</li> <li>• Its intended outputs and outcomes</li> <li>• Factors that can affect its effectiveness</li> <li>• Potential unintended consequences of the action</li> </ul>	<p>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 ). The financial institution reports case studies of engagement across all asset classes in which its organisation is invested.</p> <p>Monitors the achievement of the output &amp; outcome, and explore reasons for success / failure, so as to continuously improve the strategy.</p> <p>Measure</p>	10% <sup>†</sup>

						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)	
<b>Is the analyst able to conduct a climate performance analysis of the voting actions based on public information?</b>	<i>Climate voting disclosure</i>	No evidence of any climate voting activity or no exhaustive list of individual voting	Publishing the detail individual voting activity to every General Assembly, enabling to understand the case by case position of the investor / Has published a nominative list of engaged companies	Publishing the detail individual voting activity to every General Assembly, enabling to understand the case by case position of the investor / Has published a nominative list of engaged companies  Publishing Climate resolutions and (co)-deposing climate resolutions	Publishing the detail individual voting activity to every General Assembly, enabling to understand the case by case position of the investor  Publishing Climate resolutions and (co)-deposing climate resolutions  Climate considerations publishing in other types of resolutions (lobbying, reporting, remuneration)	Voting records are published in full, in a user friendly and timely manner, and are clearly available or referred to on an asset manager's website  Voting memos/explanations are publicly posted to demonstrate the reasoning behind decisions on key Climate Votes that the asset manager finds representative or exceptionally important. The asset manager provides specific examples of voting decisions taken in the reporting period. These case studies should be as detailed as	<b>5%<sup>†</sup></b>

						possible, explaining the context for the resolution, the rationale for voting in a particular way, the outcome of the vote, and any next steps required for follow-up.	
<b>What is the climate voting performance of the asset managers?</b>	<i>Climate voting performance</i>	No evidence/Has voted consistently against key climate resolutions	Climate Voting record is consistent with climate voting guidelines	Climate Voting record demonstrates consistency with Climate Voting guidelines  Voting records provide a clear explanation for votes against directors resulting from the dissatisfaction of climate-related risk or opportunity management  When transition plans are insufficient, investors have proven to vote against the board		Climate Voting record demonstrates consistency with Climate Voting guidelines and has never voted against a climate resolution that was in line with it  Climate voting record proves to follow the "Say on climate" recommendations	<b>10%<sup>†</sup></b>

<sup>†</sup>Weights of first questions assuming the Financial institution invests in Equity. If the Financial institution does not invest in Equities, each question weight will be upgraded proportionally to reach 100%.

\*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 several engagement types (sources: 2022 CDP climate change questionnaire C12.1a (24), (25)):

- Education/information sharing
  - Run an engagement campaign to educate companies about your climate change performance and strategy

- Share and disclose climate information about your portfolios and relevant certification schemes (i.e. taxonomic performance, Taxonomic Alignment Ratio, carbon portfolio performance)
- 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
  - Integrate climate risks on asset pricing models (gives a +25% bonus points on the category assessed)
  - Engage with portfolio company, collaboratively through initiative or coalitions consistent with an ambition to reach net zero emissions by 2050
  - Engage simultaneously with numerous companies and stakeholders from the same sector or value chain (8)
  - The asset owner, either individually or jointly with others, endorses or publishes position papers on pertinent climate topics that benefit from asset owner commitments in line with the Alliance ambitions to guide net-zero engagement activities or topics; (8)
  - Provide specific climate-related products (e.g., for an asset manager climate-thematic funds)
- Compliance & onboarding
  - Evaluate the asset manager's climate change mitigation efforts, their management of climate risks/opportunities, and to ensure their alignment of stewardship activities and public messaging with the long-term climate interests of the Alliance on climate change. (8)
  - Climate change considerations in investees management position mechanism
  - Climate-related criteria in investment selection/screening/decision
  - Enhanced climate due diligence
  - Call publicly for company or sector action and systematically reinforce expectations through principle and merit-based voting as detailed here (22)
- Information collection
  - Collect climate-related and carbon emissions information from companies as part of due diligence
  - Collect climate-related and carbon emissions information from asset managers
  - Collect climate-related and carbon emissions information at least annually from long-term investments

- Engagement & incentivization
  - A track record is published and aligned with the engagement framework detailed in section 7.1 (must have to get points in this section)
  - Meeting the chair or other board members, Holding meetings with management
  - Raising key issues through a company's advisers
  - Writing letters to a company to raise concerns about climate/transition plans
  - Integration of climate considerations in other types of resolutions (lobbying, reporting, remuneration)
  - Support climate-related issues in proxy voting (the proxy voting policy draws on widely recognized and accepted frameworks, such as the TCFD, to assess a range of different climate-related factors for voting at their portfolio companies)
  - Initiate and support dialogue with investee boards to set Paris-aligned strategies
  - Vote and offer climate resolutions in favor of climate-related disclosure practices among investees
  - Vote and offer climate resolutions in favor of investees to set a robust & credible transition plan
  - Investors engage simultaneously with numerous companies and stakeholders from the same sector or value chain (8)
  - Sectoral exclusion & divestment

To check one or several of the engagement activities mentioned above, the financial institution shall be able to demonstrate it. Visuals and/or case studies are recommended.

\*\* Publish its approach to integrating climate risks and opportunities (both transition and physical) across their portfolio management and stewardship team's training and activities (8) 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 vote has led to transition plan adoption. Evidence that the engagement actions of the financial institution might be responsible for GHG emissions by X% from the company it provides fundings.

Evidence of impact should be provided through case studies. The case studies shall provide quantitative and qualitative details and put forward the initial objectives, activities and outcomes.

**Indirect investment (e.g. Asset Owners or Asset managers mandating other asset managers)**

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
<b>Associated score</b>		<b>0%</b>	<b>25%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	
<b>What is the scope of the recent &amp; current activities in investees' engagement strategy?</b>	Scope	No engagement activity identified.	Demonstrate to engage via asset managers with less than 20 companies focusing on those with highest owned emissions OR those responsible for less than 33% of the portfolio's emissions and activities apply to all companies from the fossil fuel sector (upstream and midstream)	Demonstrate to engage via asset managers with 20 companies (or more) focusing on those with highest owned emissions OR those responsible for less than 65% of the portfolio's emissions and activities apply to all companies from the fossil fuel sector (upstream and midstream)	Demonstrate to engage via asset managers with 20 companies (or more) focusing on those with highest owned emissions OR those responsible for at least 65% of the portfolio's emissions and activities apply to all companies from the fossil fuel sector (upstream and midstream))	Demonstrate to engage via asset managers with 20 companies (or more) focusing on those with highest owned emissions OR those responsible for at least 80% of the portfolio's emissions and activities apply to all companies from the fossil fuel sector (upstream and midstream)	<b>This indicator will weigh the final score of this matrix</b>
<b>What action levers does the financial institution use in its engagement strategy with asset managers and associated financed companies?</b>	Action levers* used in practice	No evidence 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 &	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 &	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 &	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	<b>20%†</b>



			incentivization).	incentivization) and must include action from "Engagement & incentivization"	incentivization) and must include action from "Engagement & incentivization"		
<b>How impactful has the financial institution's asset manager's engagement strategy been?</b>	<i>Impact of engagement**</i>	No evidence (case studies, track record) 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.	<b>10%<sup>†</sup></b>
<b>How does the financial institution promote the adoption of a transition plan from its counterparties?</b>	<i>Transition plan requirement</i>	Do not require credible and robust transition plans as a condition for investing (via asset managers)	Require companies from Coal or Oil&Gas companies (via asset managers) to adopt credible and robust transition plans.	Require companies from Coal AND Oil & Gas companies (via asset managers) to adopt credible and robust transition plans.	Requires companies from all high emitting sectors it provides investing (via asset managers) to adopt transition plans consistent with Financial Institution-specific emissions targets	Systematically require transition plans enforcement among the companies (via asset managers). It establishes a watchlist of companies, setting actions with an associated timeline that can lead to divestment	<b>25%<sup>†</sup></b>
<b>How impactful the escalation strategy/process has been in practice?</b>	<i>Escalation process</i>	No reference/use of escalation process	Information from disclosure show that the escalation process is not systematic AND not explicitly stated with both companies (via asset managers) and asset managers	Disclose & follow evidence of the application of its escalation strategy in practice (both with asset managers and companies (via asset managers). Clear description of the expectations the asset owner has set	The escalation strategy applies to most Asset Managers. All Asset Managers are aware that the mandate can be terminated/non renewed if the required climate guidelines are not respected. The asset	Evidence of a systematic application of its escalation framework (via asset managers) to current and new financings and with asset managers as well. The asset owner provides	<b>20%<sup>†</sup></b>

				with its third parties around escalation.	managers apply the escalation strategy in its financing operations. The asset owner provides metric quantifying its escalation activity.	escalation case studies which are sufficiently detailed, varied and clearly distinguished between the engagement activity and the escalation activity.	
<b><i>Does the financial institution have a review process to track and report the outcomes of its engagement actions?</i></b>	<b><i>Monitoring, Reporting and Verification (MRV) on Climate Actions &amp; their Outcomes</i></b>	<i>None</i>	MRV of the number of companies they have engaged with with insufficient details	MRV of the number of companies they have engaged with and relevant details, including stakeholders, focus, and outcomes of engagement	<p>Reports on the climate action's characteristics</p> <ul style="list-style-type: none"> <li>• Its modalities of implementation</li> <li>• Its intended outputs and outcomes</li> <li>• Factors that can affect its effectiveness</li> <li>• Potential unintended consequences of the action</li> </ul>	<p>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 ). The financial institution reports case studies of engagement across all asset classes in which its organisation is invested.</p> <p>Monitors the achievement of the output &amp; outcome, and explore reasons for success / failure, so as to continuously improve the strategy.</p> <p>Measure</p>	<b><i>10%†</i></b>

						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)	
<b><i>Is the analyst able to conduct a climate performance analysis of the voting actions based on public information?</i></b>	<i>Climate voting disclosure</i>	Disclosure do not enable any types of performance assessment	Publishing the detailed asset managers voting activity to every Annual General meeting , enabling to understand the case by case position of the investor / Has published a nominative list of engaged companies	Publishing the detailed asset managers voting activity to every General Assembly, enabling to understand the case by case position of the investor / Has published a nominative list of engaged companies  Publishing Climate resolutions and (co)-deposing climate resolutions	Publishing the detailed asset managers voting activity to every General Assembly, enabling to understand the case by case position of the investor  Publishing Climate resolutions and (co)-deposing climate resolutions  Climate considerations publishing in other types of resolutions (lobbying, reporting, remuneration)	Voting proxy records are published in full, in a user friendly and timely manner, and are clearly available or referred to on an asset manager's website  Voting memos/explanations are publicly posted to demonstrate the reasoning behind decisions on key Climate Votes that the asset manager finds representative or exceptionally important. The asset owner provides specific examples of voting decisions taken by your managers in the reporting period. These case	<b>5%<sup>†</sup></b>

						studies should be as detailed as possible, explaining the context for the resolution, the rationale for voting in a particular way, the outcome of the vote, and any next steps required for follow-up.	
<b>What is the climate proxy voting performance of the asset owner?</b>	<i>Climate proxy voting performance</i>	No evidence/Hass voted consistently against key climate resolutions	Climate proxy Voting record is consistent with climate voting guidelines	Climate proxy Voting record demonstrates consistency with Climate Voting guidelines  Voting records provide a clear explanation for votes against directors resulting from the dissatisfaction of climate-related risk or opportunity management.  When transition plans are insufficient, investors have proven to vote against the board		Climate proxy Voting record demonstrates consistency with Climate Voting guidelines and has never voted against a climate resolution that was in line with it  Climate voting record proves to follow the "Say on climate" recommendations	<b>10%<sup>†</sup></b>

<sup>†</sup>Weights of first questions assuming the Financial institution invests in Equity. If the Financial institution does not invest in Equities, each question weight will be upgraded proportionally to reach 100%.

\*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 (24), (25)):

- Education/information sharing
  - Run an engagement campaign to educate companies about your climate change performance and strategy
  - Share and disclose climate information about your portfolios and relevant certification schemes (i.e. taxonomic performance, Taxonomic Alignment Ratio, carbon portfolio performance)
  - 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
  - Integrate climate risks on asset pricing models (gives a +25% bonus points on the category assessed)
  - Engage with portfolio company, collaboratively through initiative or coalitions consistent with an ambition to reach net zero emissions by 2050
  - Engage simultaneously with numerous companies and stakeholders from the same sector or value chain (8)
  - The asset owner, either individually or jointly with others, endorses or publishes position papers on pertinent climate topics that benefit from asset owner commitments in line with the Alliance ambitions to guide net-zero engagement activities or topics; (8)
  - Provide specific climate-related products (e.g. for an asset manager climate-thematic funds)
- Compliance & onboarding
  - Evaluate the asset manager's climate change mitigation efforts, their management of climate risks/opportunities, and to ensure their alignment of stewardship activities and public messaging with the long-term climate interests of the Alliance on climate change. (8)
  - Climate change considerations in investees management position mechanism
  - Climate-related criteria in investment selection/screening/decision
  - Enhanced Climate Due Diligence
  - Call publicly for company or sector action and systematically reinforce expectations through principle and merit-based voting as detailed here (22)
- Information collection

- Collect climate-related and carbon emissions information from companies as part of due diligence
- Collect climate-related and carbon emissions information from asset managers
- Collect climate-related and carbon emissions information at least annually from long-term investments
- Engagement & incentivization
  - A track record (of third parties) is published and aligned with the engagement framework detailed in section 7.1 (must have to get points in this section)
  - Meeting the chair or other board members
  - Holding meetings with management
  - Raising key issues through a company's advisers
  - Writing letters to a company to raise concerns
  - Support (ambitious) climate-related shareholder resolutions
  - Integration of climate considerations in other types of resolutions (lobbying, reporting, remuneration)
  - Support climate-related issues in proxy voting (the proxy voting policy draws on widely recognized and accepted frameworks, such as the TCFD, to assess a range of different climate-related factors for voting at their portfolio companies)
  - Initiate and support dialogue with investee boards to set Paris-aligned strategies
  - Vote and offer climate resolutions in favor of climate-related disclosure practices among investees
  - Vote and offer climate resolutions in favor of investees to set a robust & credible transition plan
  - Investors engage simultaneously with numerous companies and stakeholders from the same sector or value chain (8)
  - Sectoral exclusion & divestment

To check one or several of the engagement activities mentioned above, the financial institution shall be able to demonstrate it. Visuals and/or case studies are recommended.

\*\* Publish its approach to integrating climate risks and opportunities (both transition and physical) across their portfolio management and stewardship team's training and activities (8) 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 vote have led to transition plan adoption. Evidence that the engagement actions of the financial institution

might be responsible for GHG emissions by X% from the company it provides fundings.

Evidence of impact should be provided through case studies. The case studies shall provide quantitative and qualitative details and put forward the initial objectives, activities and outcomes.

## **Rationale**      **INV 7.2 ACTIVITIES TO INFLUENCE INVESTEES/ASSET MANAGERS**

### *Rationale of the indicator*

#### **RELEVANCE OF THE INDICATOR:**

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

- ◆ Financial institutions have the ability to influence the climate strategy and performance of the companies its finance directly or to which the financial instruments is tied.
- ◆ 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.
- ◆ A financial institution can have a great engagement strategy/policy and bad practices for climate (and conversely). As so, it is important to capture both aspects: strategy and actions.

#### **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 considering multiple dimensions of engagement and assess them together towards a single score for a strategy related to engagement with investees/asset managers.

## **• INV 7.3 ACTIVITIES TO INFLUENCE INVESTEES/ASSET MANAGERS WITH FOSSIL FUEL AND/OR DEFORESTATION-LINK ACTIVITIES/RELATED FINANCINGS**

## DESCRIPTION & REQUIREMENTS INV 7.3 ACTIVITIES TO INFLUENCE INVESTEES/ASSET MANAGERS WITH FOSSIL FUEL AND/OR DEFORESTATION-LINK ACTIVITIES/RELATED FINANCINGS

### SHORT

### DESCRIPTION OF INDICATOR

This indicator assesses the extent to which the financial institution implements activities and initiatives that help, influence or otherwise enable fossil fuel investees' transition. What the financial institution does with Deforestation-linked activities is also studied. The indicator aims to be a holistic measure of these activities and initiatives, with evidence of implementation and outcomes in the companies' strategy, activities, and business model.

### DATA

The relevant data for this indicator are:

### REQUIREMENTS

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

CDP Questionnaire mapping to this indicator:

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

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 the companies operating in oil & gas sector and deforestation linked activities. This is expressed through a maturity matrix.

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

The maturity matrix is the same for both direct and indirect management. In the end, as for 7.1 and 7.2 indicators, a weighted average of the score through both managements is made, depending on the size of AuM in each management type.

In case the financial institution does not have any position on Coal or Oil&Gas sector, associated questions will be scored at the maximum level.



Question	Subdimension	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
<i>Associated score</i>		<i>0%</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>	
<b>What action(s) does the financial institution use in practice with coal companies/projects?</b>	<i>Actions used in practice   Coal</i>	No engagement	Has listed all financed companies active in coal (based on the Global Coal Exit List - GCEL – developed by Urgewal), 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	Has not provided (directly or through collective investment schemes) new financings or advisory 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	<p>Has not provided (directly or through collective investment schemes) new financings to companies in the GCEL, that 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.</p> <p>Has ended all types of financing to all coal activities in line with the IEA's Net Zero Emissions by 2050 scenario</p>	<b>25%</b>

<b><i>What action(s) does the financial institution use in practice with Oil &amp; Gas companies/projects?</i></b>	<i>Actions used in practice   O&amp;G</i>	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	Has not provided (directly or via asset managers) new financings or advisory 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	Has not provided (directly or via asset managers) new financings 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.	<b>25%</b>
<b><i>How does the financial institution promote the adoption of a transition plan from its fossil fuel &amp; coal investees and asset owners?</i></b>	<i>Impact of engagement   Transition plan requirement</i>	No evidence of impact of action levers used.	Has adopted guidelines that allow to identify oil & gas producers for meaningful shareholder engagement.	Request (directly or via asset managers) 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 financings (or via asset managers)	Request (directly or via asset managers) the adoption of a 1.5°C transition plan including a science-based target, clearly identified capital	<b>20%</b>

					or financial instruments associated	expenditure discipline for further oil & gas development and a diversification strategy towards zero-carbon technologies.	
<b><i>How impactful the escalation strategy/process has been in practice?</i></b>	<i>Escalation process</i>	<i>None</i>		Systematically set clear timelines, public communication. Disclose & follow evidence of the application of its escalation strategy in practice (both with asset manages and companies (via asset managers). Clear description of the expectations the asset owner/asset manager has set with its companies/third parties around escalation.		Engagement outputs show evidence (directly or via asset managers) of a confrontational approach when the companies do not respect their climate guidelines. The financial institution provides escalation case studies which are sufficiently detailed, varied and clearly distinguished between the engagement activity and the escalation activity.	<b>10%</b>

<p><b><i>Does the financial institution have a review process to track and report the outcomes of its engagement actions?</i></b></p>	<p><i>Monitoring, Reporting and Verification (MRV) on Climate Actions &amp; their Outcomes</i></p>	<p>None</p>	<p>MRV of the number of companies from the Oil&amp;Gas sector they have engaged with and relevant details, including stakeholders, focus, and outcomes of engagement</p>	<p>The financial institution reports The climate action's characteristics</p> <ul style="list-style-type: none"> <li>• Its modalities of implementation</li> <li>• Its intended outputs and outcomes</li> <li>• Factors that can affect its effectiveness <ul style="list-style-type: none"> <li>• Potential unintended consequences of the action</li> </ul> </li> </ul>	<p>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. It must be clear about what activities occurred within the reporting period.</p>	<p>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). The Asset owner explains the expectations it has set around engagement with its managers, and describe the activities done in the reporting period.</p> <p>Monitors the achievement of the output &amp; outcome, and explore reasons for success / failure, so as to continuously improve the strategy.</p> <p>Measure engagement outcomes, and</p>	<p><b>10%</b></p>
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						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)	
<b>What action(s) does the financial institution use in practice with companies/projects associated with deforestation issues?</b>	<i>Actions used in practice   deforestation</i>	<i>No engagement</i>		Has listed all investees with activities related with deforestation issues, prioritised engagement actions and has an escalation process in place and monitors actions and outcomes		<p>Has ended its investments &amp; advisory 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 chains.</p> <p>Applies to corporates with 'high forest risk commodities' in their supply chains.</p> <p>These are commodities</p>	<b>10%</b>

						whose extraction or production contributes significantly to deforestation or forest degradation in the tropics and they include palm oil and soy, cattle and rubberwood.	
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## Rationale

### INV 7.3 ACTIVITIES TO INFLUENCE INVESTEEs/ASSET MANAGERS WITH FOSSIL FUEL AND/OR DEFORESTATION-LINK ACTIVITIES/RELATED FINANCINGS

## Rationale of the indicator

### RELEVANCE OF THE INDICATOR:

Activities to influence Oil & Gas investees and deforestation-linked activities are included in this ACT methodology for the following reasons:

- ◆ Financial institutions should not provide financing to companies in the GOGEL or GCEL list.
- ◆ Financial institutions have the ability to influence the climate strategy and performance of their investees/asset managers through their investments.

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 considering multiple dimensions of engagement and assess them together towards a single score for all the activities related to engagement with investees/asset managers for Oil & Gas sector and deforestation linked-activities.



## MODULE 8: POLICY ENGAGEMENT

The indicators in the Policy Engagement module are based initially on the “Investor expectations on corporate lobbying” guide (2018)<sup>[1]</sup> 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.

<sup>[1]</sup> Available at <https://www.iigcc.org/resource/investor-expectations-on-corporate-lobbying/>

### • INV 8.1 FINANCIAL INSTITUTION POLICY ON ENGAGEMENT WITH ASSOCIATIONS, ALLIANCES, COALITIONS OR THINKTANKS

#### DESCRIPTION & REQUIREMENTS

#### INV 8.1 FINANCIAL INSTITUTION POLICY ON ENGAGEMENT WITH ASSOCIATIONS, ALLIANCES, COALITIONS OR THINKTANKS

#### SHORT

**DESCRIPTION** 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.

**OF INDICATOR**

#### DATA

The relevant data for this indicator are:

#### REQUIREMENTS

- ◆ 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 assessed entity's policy on engagement with associations, alliances, coalitions or thinktanks 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
<i>Associated score</i>		<i>0%</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>	
<b>What is the scope covered by the engagement policy? Is the policy publicly available?</b>	<i>Transparency and scope</i>	Does not have an engagement policy OR The engagement policy does not cover the entire financial institution (including all of its subsidiaries and business areas, and all	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	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		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	<b>20%</b>

		operational jurisdictions, i.e., entities within its reporting boundary) or all associations, alliances and coalitions of which it is a member.  AND The policy is not publicly available.	coalitions of which it is a member. The policy is publicly available.	which it is a member. The policy is not publicly available.		which it is a member. The policy is publicly available.	
<b>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 support?</b>	<i>Review process</i>	No process exists to monitor and review association, alliance, coalition and thinktank climate policy positions.	A process to monitor and review association, alliance, coalition and thinktank climate policy positions exists.  The process is not necessarily implemented.	A process to monitor and review association, alliance, coalition and thinktank climate policy positions exists and the review process is annual.  The process is implemented but responsibility for oversight of the process lies below Level 1*, and implementation of the process lies below Level 3*.	A process to monitor and review association, alliance, coalition and thinktank climate policy positions exists and the review process is annual.  Either responsibility for oversight of the process lies at Level 1*, or implementation of the process lies at Level 3 or above*.	A process to monitor and review association, alliance, coalition and thinktank climate policy positions exists and the review process is annual.  Responsibility for oversight of the process lies at Level 1*, and implementation of the process lies at Level 3 or above*.	<b>20%</b>

<p><b>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?<sup>†</sup></b></p>	<p><i>Action plan</i></p>	<p>No action plan exists.</p>	<p>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<sup>†</sup>.</p>	<p>Action plan includes making public statements challenging associations, alliances, coalitions and thinktanks*. Does not include either of the other actions listed<sup>†</sup>.</p>	<p>Action plan includes engaging with associations, alliances, coalitions or thinktanks to change their position<sup>†</sup>. May include making public statements, but does not include withdrawing funding for/suspending or ending membership<sup>†</sup>.</p>	<p>Action plan includes withdrawing funding for/suspending or ending membership of the association, alliance, coalition or thinktank*. May include both other actions listed<sup>†</sup>.</p>	<p><b>10%</b></p>
<p><b>Does the financial institution comply with the climate initiatives it is signatories of? (e.g. PCAF, NZAOA, NZAMI)</b></p>	<p><i>Complying with initiative requirements (50)</i></p>	<p>The financial institution is not signatory or member of any initiatives</p> <p>OR</p> <p>Evidence of non or partial compliance with requirements of the initiative it is signatory or member of.</p>	<p>Minor compliance breach acknowledged by the Financial Institution (e.g. for an initiative requiring to set target: failing to justify a part of non-coverage of the target is minor, failing to set a target is not) with fixings to come in a short term (ie within 1 year)</p>		<p>Neither explicit demonstration of the full compliance available nor information demonstrating non or partial compliance - full compliance presumed</p>	<p>Full compliance, as assessed by the Alliance or self-disclosed (with evidence) with Alliance's requirements.</p>	<p><b>50%</b></p>

\* 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: (27), (28)):
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** **INV 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.

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

**DESCRIPTION & REQUIREMENTS** **INV 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](http://www.theclimategroup.org/project/ep100))
- ◆ Low-carbon Technology Partnerships initiative ([www.wbcsd.org/Programs/Climate-and-Energy/Climate/Low-Carbon-Technology-Partnerships-initiative](http://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 (29)). (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 policy on engagement with associations, alliances, coalitions or thinktanks”).

Question	Subdimension	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
<i>Associated score</i>		<i>0%</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>	
<b>Based on public data (e.g., news articles) or public analysis (e.g., influence map, does the</b>	<i>Membership/funding</i>	The financial institution is on the board or provides funding beyond membership to associations,		The financial institution is not on the board or providing funding beyond membership of any associations,		The financial institution is not a member of or providing funding for any associations, alliances, coalitions or	<b>100%</b>

<i>financial institution support associations, alliances, coalitions or thinktanks that have climate negative activities/positions?</i>		alliances, coalitions and/or thinktanks that have climate – negative activities or positions		alliances, coalitions or thinktanks that have climate-negative activities or positions, as observed with the data available. Financial institution may be a member of these associations.		thinktanks that have climate-negative activities or positions as observed with the data available.	
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**RATIONALE**      **INV 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.

• **INV 8.3 POSITION ON SIGNIFICANT CLIMATE POLICIES & LOBBYING**

**DESCRIPTION & REQUIREMENTS**      **INV 8.3 POSITION ON SIGNIFICANT CLIMATE POLICIES & LOBBYING**

**SHORT**

**DESCRIPTION OF INDICATOR**      The financial institution is not opposed to any significant climate relevant policy and/or supports climate-friendly policies. The financial does not lobby for policies detrimental to climate.

**DATA**      The relevant data for this indicator are:

## REQUIREMENTS

- ◆ 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
<b>Associated score</b>		<b>0%</b>	<b>25%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	
<b>What is the position of the financial institution on significant climate policies?</b>	<i>Climate policy support</i>	Lobbying against/direct opposition to climate policies (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.	<b>60%</b>
<b>Does the financial institution have a monitoring and review process to ensure that its policy positions are consistent</b>	<i>Monitoring and review process</i>	No monitoring and review process to ensure that the financial institution's policy positions are consistent with the goals of the Paris Agreement	A monitoring and review process to ensure that the financial institution's policy positions are consistent with the goals of the Paris Agreement	A monitoring and review process to ensure that the financial institution's policy positions are consistent with the goals of the Paris	A monitoring and review process to ensure that the financial institution's policy positions are consistent with the goals of the Paris Agreement	A monitoring and review process to ensure that the financial institution's policy positions are consistent with the goals of the Paris Agreement	<b>40%</b>



<b>with the goals of the Paris Agreement?</b>		exists.	exists and the review process is annual.  The process is not necessarily implemented.	Agreement exists and the review process is annual.  The process is implemented, but oversight of the process lies below Level 1 <sup>†</sup> , and implementation of the process lies below Level 3 <sup>†</sup> .	exists and the review process is annual.  Either oversight of the process lies at Level 1 <sup>†</sup> , or implementation of the process lies at or above Level 3 <sup>†</sup> .	exists and the review process is annual.  Oversight of the process lies at Level 1 <sup>†</sup> , and implementation of the process lies at or above Level 3 <sup>†</sup> .	
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\* Examples of sectoral/cross-sectoral initiatives against climate change might include, but are not limited to:

- Science Based Targets initiative (SBTi)
- Net Zero Asset Owner Alliance (NZAOA)
- 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**      **INV 8.3 POSITION ON SIGNIFICANT CLIMATE POLICIES & LOBBYING**

**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 lobby against effective and well-designed regulations in these areas but should support them.

• **INV 8.4 COLLABORATION WITH PUBLIC AUTHORITIES**

**DESCRIPTION & REQUIREMENTS**      **INV 8.4 COLLABORATION WITH PUBLIC AUTHORITIES**

**SHORT DESCRIPTION OF INDICATOR**      This indicator evaluates the extent to which the financial institution collaborates with public authorities (at the most relevant scale) to achieve emissions reductions. While indicator 8.3 “Position on significant climate policies” relates to national and international policies, this indicator assesses the actions undertaken by the financial institution towards or with the public actors.

**DATA REQUIREMENTS**      The relevant data for this indicator are:

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

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 public authorities to boost the climate transition. Collaboration generally falls into two main categories, policy engagement and collective action/partnerships. Policy engagement could range from dialogue between the financial institution and public authority around the development of new climate-related policies, to participation in 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 categorised 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 considered 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.

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
<i>Associated score</i>	<i>0%</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>	
<b><i>Does the financial institution collaborate with and support public authorities to achieve climate transition in the financial sector?</i></b>	No evidence that the financial institution is collaborating with and supporting public authorities to support the climate transition, other than respecting its contractual obligations, if any.	The financial institution engages in dialogue with public authority/authorities to design future climate-related policies/partnerships	The financial institution actively participates in small-scale/pilot/short-term/one-off programs with public authority/authorities to test/implement climate-related	The financial institution is a significant partner* (alongside public authority/authorities and other stakeholders) in the implementation of long-term, climate-	The financial institution is a significant partner* (alongside public authority/authorities and other stakeholders) in the implementation of long-term, climate-	<b><i>100%</i></b>

	OR		policies/partnerships	related policies/partnerships	related policies/partnerships	
	Third-party claims are found showing that the financial institution is not complying with climate policies		.		The financial institution has a policy to increase such collaboration and is taking tangible steps towards this (e.g., engaging in dialogue, participating in pilot programs, implementing/financing policies/partnerships with other public 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.

## RATIONALE

## INV 8.4 COLLABORATION WITH PUBLIC AUTHORITIES

### RATIONALE OF THE INDICATOR

Collaboration with public authorities can be a key instrument by which financial institution can indirectly influence policy on climate. Thus, participating actively in 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 aims to assess whether financial institutions demonstrate the inclusion of criteria of analysis in their appraisal of economic value. New standard of asset value 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 the implementation of measures that aim to leverage change and transformation within the entity's activities. The analysis will consider measures at various maturity level, although the higher the maturity (scope, deployment plan) the higher will be the score.

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.

### • INV 9.1 TRANSFORMATIVE MEASURES FACILITATING CLIMATE INVESTMENT REORIENTATION & IMPACT

DESCRIPTION	INV 9.1 TRANSFORMATIVE MEASURES FACILITATING CLIMATE INVESTMENT REORIENTATION & IMPACT
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**&**

## **REQUIREMENTS**

### **SHORT**

**DESCRIPTION** The financial institution is actively developing innovative measures enabling to foster low carbon economy financing. It is demonstrating the application of these measures and anticipates their deployment.

### **OF INDICATOR**

### **DATA**

The relevant data for this indicator are:

### **REQUIREMENT**

- ◆ The financial institution's measures transforming its intrinsic way of 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**

The analysis is based on the financial institution's implementation of innovative measures within its own operations. The analyst must assess the operational levers put in place to better support activities and companies in their transition.

### **WILL BE DONE**

The analysis takes into consideration two aspects:

- ◆ Whether or not the financial institution implements at least one innovative transformative measure.
- ◆ The assessment of the measure with the highest level of maturity being implemented. 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.

Question	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
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Associated score	0%	25%	50%	75%	100%	
<b>Financial institution level</b>						
<b>Has the financial institution implemented transformative measures* aiming to facilitate climate investment reorientation &amp; impact?</b>	The financial institution has not implemented any ambitious transformative measure*		The financial institution has implemented one measure*	The financial institution has implemented more than one measure*, but their implementation is not clearly embedded in the financial institution transition strategy	The financial institution has implemented more than one measure*. The measures' design and implementation are clearly embedded in the financial institution's climate strategy. There is an overall coherence, articulation and planification of measures' deployment and the other actions geared towards the financial institution's climate transition.	<b>30%</b>
<b>Focus on the measure with the highest level of maturity</b>						
<b>What is the scope of implementation of the transformative measure (% of total financing, business units, etc.)?</b>	The scope of implementation is not known or not available to the assessor. OR The financial institution has not implemented any ambitious		The policy is only implemented onto a limited portion of the financial institution's operations.		The scope of the policy covers all the financial entity's operations	<b>40%</b>

	transformative measure*					
<b><i>To what extent has the financial institution planned the deployment of transformative measures facilitating climate investment reorientation &amp; impact?</i></b>	The financial institution does not plan the deployment of any transformative measures* (existing or not existing yet).			<p>Had the financial institution scored “advanced” or higher to the first parameter: the financial institution has planned the further deployment of the transformative measure considered (e.g., review, update of the coverage, objectives, type of tool/policy) in a time horizon in a time horizon that exceeds five years.</p> <p>OR</p> <p>Had the financial institution scored “basic” to the first parameter, the financial institution has formally planned the implementation of at least one measure* in the future.</p>	<p>Had the financial institution scored “advanced” or higher to the first parameter: the financial institution has planned the evolution of the further deployment of the transformative measure considered (e.g., review, update of the coverage, objectives, type of tool/policy) in a time horizon up to 5 years (including 5 years).</p> <p>OR</p> <p>The measure’s development is mature.</p>	<b>30%</b>

\*Examples of relevant measures for this indicator include (but are not limited to):

- ◆ Integrating climate risks into asset pricing
- ◆ Develop taxonomy-based investment product (e.g., funds with a minimum taxonomy alignment percentage (turnover, CAPEX or OPEX))
- ◆ Investment decision linked to climate criteria (e.g., taxonomic goal, x% of reduction in the investee company over the holding period)



- ◆ Climate Dividends / ecological transition Dividends (e.g. the income helps to finance sustainable projects with a bonified interest) or Carbon dividends (two different concepts) (30)
- ◆ Interest rate subsidy/special interest rate
- ◆ Sustainability linked bonds share (aligned with Climate Bonds Standard (33) or the European Green bond standard (34)).

## **RATIONALE**

### **INV 9.1 IMPLEMENTATION OF TRANSFORMATIVE MEASURES FACILITATING CLIMATE INVESTMENT REORIENTATION & IMPACT**

#### **RATIONALE OF THE INDICATOR**

The financial institution is implementing transformative innovative measures that can help modify and drive their investments in favour of a low carbon economy. All financial institutions are guided by the balance between yield & risk. Supporting measures that can influence one of these two categories can be a game changer. Investors should develop and implement such measures, inspired by existing best practices or anticipate future regulation (e.g. current discussion of the revision of the Capital Requirements Directive (CRD) (31)) in order to update their approach in the context of climate change contribution needs and related risks (popularized for almost a decade now (32) and even spotted before (e.g. Andrew Dugolecki in 2005)).

# 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 2°C 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 1.5°C 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.

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 have been updated with an IEA NZE benchmark where possible (see Table 3).

### 6.1.3 REFERENCE PATHWAYS CLASSIFICATION

A reference pathway defines the carbon intensity (tCO<sub>2</sub>/activity) pathway for homogeneous sectors or the carbon absolute emissions (tCO<sub>2</sub>) 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) (35) 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 referring to an heterogeneous sector, or not referring to a sector (absolute asset class or global portfolio targets).

### 6.1.4 AVAILABLE REFERENCE PATHWAYS

Target type	Parameter	Metric	Methodological sources <sup>22</sup>
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	tCO <sub>2</sub> /ton	- SBTi Sectoral Decarbonization Approach (SDA) - IEA NZE 2050 - IAI analysis (10)
Scope 3.15 - Intensity Building construction (Sectoral financed emissions)	SB	kgCO <sub>2</sub> /m <sup>2</sup>	- SBTi SDA - IEA NZE 2050

<sup>22</sup> For more details on each sector, please refer to sectoral ACT methodologies (<https://actinitiative.org/act-methodologies/>)

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	SB	kgCO2/m2	- SBTi SDA - IEA NZE 2050

(Sectoral financed emissions)			
Scope 3.15 - Intensity Transport - Auto (Sectoral financed emissions)	SB	gCO <sub>2</sub> /v.km (vehicle)	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Intensity Transport – Civil aviation (Sectoral financed emissions)	SB	Auto gCO <sub>2</sub> /p.km (passenger)	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Intensity Transport – Road (Sectoral financed emissions)	SB	gCO <sub>2</sub> /t.km (freight)	- SBTi SDA - IEA NZE 2050
Scope 3.15 - Intensity Transport – Shipping (Sectoral financed emissions)	SB	gCO <sub>2</sub> /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. Asset Managers

B. Asset Owners

Module	Indicator	Indicator weighting	
		Indicator weight (A)	Indicator weight (B)
Targets	INV 1.1 Alignment of scope 3 (Category 15) emissions reduction targets	7%	7%
	INV 1.2 Time horizon targets	2%	2%
	INV 1.3 Achievement of past and current targets	2%	2%
	INV 1.4 Engagement Targets	5%	5%
	INV 1.5 Financing Targets	4%	4%
		20%	20%
Intangible Investment	INV 3.1 Investments in human capital - training	2%	2%
		2%	2%
Climate Portfolio Performance	INV 4.1 Financial Flows Trend	15%	15%
	INV 4.2 Portfolio alignment management	10%	10%
		25%	25%

<b>Management</b>	INV 5.1 Oversight of climate change issues	2%	2%
	INV 5.2 Climate change oversight capability	2%	2%
	INV 5.3 Low-carbon transition plan	5%	5%
	INV 5.4 Climate change management incentives	3%	3%
	INV 5.5 Climate Risk Management	1%	1%
	INV 5.6 Climate change scenario testing	2%	2%
		<b>15%</b>	<b>15%</b>
<b>Investors</b>	INV 6.1 Strategy to influence investors	1%	0%
	INV 6.2 Activities to influence investors	2%	0%
		<b>3%</b>	<b>0%</b>
<b>Investees</b>	INV 7.1 Strategy to influence investees	4%	5%
	INV 7.2 Activities to influence investees	8%	9%
	INV 7.3. Activities to influence investees with fossil fuel and/or deforestation-link activities	8%	9%
		<b>20%</b>	<b>23%</b>
<b>Policy engagement</b>	INV 8.1 Financial institution on engagement with trade associations	4%	4%
	INV 8.2 Supported trade associations do not have climate-negative positions	2%	2%
	INV 8.3 Position on significant climate policies	2%	2%
	INV 8.4 Collaboration with local public authorities	2%	2%
		<b>10%</b>	<b>10%</b>
<b>Business model</b>	INV 9.1 Transformative measures facilitating climate investment reorientation & impact	5%	5%

		5%	5%
	<b>Total</b>	<b>100%</b>	<b>100%</b>

For Asset owners with mixed activities (direct investment and mandating asset managers), the tool has integrated intra-weighting among the sub-indicators and modules depending on the asset under management breakdown between (i) direct investments and (ii) delegated asset under management. For instance, an asset owner with 40% of AuM in category (i) and 60% in category (ii) will be considered in the scoring of the different indicators.

For an asset owner exclusively mandating asset managers, it will have only to score the indicators where specified by 'Asset Owners (mandating asset managers)'

#### • RATIONALE FOR WEIGHTINGS

The weighting attribution 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 both direct asset management (ie either asset managers or asset owners managing directly) and delegated asset management (asset owners delegating to asset manager) in order to reflect the differences between investor types.



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.

The ACT Finance Investing methodology assesses:

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 associated indicator is weighted 35% within the module. It also contains indicators that assess the time horizon design (1.2, 10%) and the current degree of completion of the targets set (1.3, 10%). In the unlikely case where there is no available past of on-going targets to assess, the weight associated to the indicator is simply re-balanced through indicators 1.1 and 1.2 at the pro-rata of their respective shares (meaning a weight of respectively 43% and 12% for indicators 1.1 and 1.2).

This structure provides a great picture of the current financial institution performance on its financed emissions reduction. As this methodology is looking to assess contribution, it is 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 is 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 emission 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.

Engagement targets are assessed through indicator 1.4, weighted 25% of the module, whereas climate solutions financing targets are assessed through indicator 1.5, weighted 20% of the module.

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), resulting in the non-consideration of these emissions in the boundary of the methodology.

## **Intangible Investment**

**2 %**

Asset managers and asset owners must raise their climate capabilities, both for better understanding the climate risk and financial flows reorientation and being able to advise their investee companies on how to best transition to meet their commitments.

Better structuring investments with climate consideration demands a specific knowledge that need to be acquired.

The weight is quite low 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. Thus, our approach is more impact driven (flow & engagement) than transition risk driven (pure GHG emissions focus).

As so, we assess in Indicator 4.1 whether the financial institution is (i) financing companies already low-carbon / with a transition plan / or activities low carbon (ii) not financing fossil fuel sector. We capture the evolution of these financing amounts (by sector) from 'Reporting Year' minus 3 years.

In Indicator 4.2 we take a step back and assess more broadly how the financial institution is amanging its portfolio alignment (using which metrics/standards, whether there is a sound action plan beyond the metrics or not).

The module combines quantitative assessment based on portfolio data (Indicator 4.1) and maturity matrices (Indicator 4.2 and quality of the assessment framework in indicator 4.1). As a matter of fact, 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.

Given the global maturity of Financial Institutions on the topic, there is as of 2024 few data available to assess successfully Indicator 4.1. Thus, with in mind the objective to encourage progress of Financial Institutions in what we consider being a sound portfolio alignment management, indicator 4.1 has a weight of “only” 15%, the remaining 10% being allocated to indicator 4.2. Hopefully in coming years convergence of approaches will allow to focus more weight on the performance itself and set the split at 20%/5%.

## **Management** **15%**

Management is a multi-faceted module that makes up 15% of the. This module incorporates many different smaller indicators that together paint a picture of the financial institution's management and strategic approach to the low-carbon transition. Hence part of the global weight (4% on 15% or 18%) is placed on the oversight of climate change issues and the climate change oversight capability, which are weighted 2% each. 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% each for an asset owner delegating to an asset manager, the weighting being of respectively 3%, 1% and 2% for a direct asset manager, the difference being linked to the application of the additional 3% weighting coming from the module 6, see below..

## **Investors engagement** **0 - 3%**

In order to decarbonize the whole economy, it is essential that all stakeholders get involved. Engaging investees to put their money in with climate goals as to be assess. For asset owners we assume no significant levers are existing to engage on this part of the value chain money.

## **Investees engagement** **20%**

This module represents 20% 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

10%

Financial institutions have a high lobbying power, that can be use either to support necessary policy transformations either to inhibit them. Ensuring that financial institutions align their policy engagement with their strategy is therefore necessary.

## Business model

5%

The module captures qualitative measures that are able to signal a business model shift toward the transitions through a different way of conducting business, build product or consider risks.

Financial institutions are mostly intermediary that flows money, therefore the impact of transition on the business model is less obvious than for a real-economy player in a high-emitting sector. Thus, the global weight is overall low.

## 6.3 DATA REQUEST

Table 1Table 12 introduces the list of information that will be requested to financial institutions through a questionnaire, as well as the corresponding indicators.

TABLE 12: 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.
		Reduction targets in sectorial intensity approach.
	1.2	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 investing 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).
		Portfolio alignment exercise outputs
	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 – Investors engagement	6.1	Engagement strategy and measures of success
	6.2	Actions implemented to influence investees. Size and Number of investees engaged
7 – Investees engagement	7.1	Engagement strategy to influence investees
		Impact Management framework
		Fossil Fuel & Deforestation engagement strategy
	7.2	Strategy to influence investees GHG emissions
		Size and number of investees 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	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:

- Performance score** as a number from 1 (lowest) to 20 (highest)
- Narrative score** as a letter from E (lowest) to A (highest)
- 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 <b>performance rating</b> of <b>20</b> : the financial institution received high scores in its assessment against the methodology indicators.
	An <b>assessment rating</b> of <b>A</b> : 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 <b>trend rating</b> of <b>+</b> : the information provided shows the financial institution will be better placed to contribute to financing a low-carbon economy in the 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 investees, investors 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 5<sup>th</sup> 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: 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:






$$Total\ Score = \sum_{i=business\ model}^{Risk} Score_i$$

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	
	16 to 20
	12 to <16
	8 to <12
	4 to <8
	0 to <4

### 7.2.3 FEEDBACK REPORT

Once the analyst has completed the Narrative scoring (and 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 13: RELEVANT PERFORMANCE INDICATORS FOR TRENDS IDENTIFICATION**

Module	Indicator
<b>Targets</b>	INV 1.1 Alignment of emission reduction target
	INV 1.2 Time horizon of targets
	INV 1.4 Engagement targets
	INV 1.5 Financing targets
<b>Portfolio Climate Performance</b>	INV 4.1 Financial Flows Trend
<b>Management</b>	INV 5.3 Low-carbon transition plan
	INV 5.6 Climate change scenario testing
<b>Savers</b>	INV 6.1 Strategy to influence investors to reduce their GHG emissions
<b>Clients</b>	INV. 7.1 Strategy to influence investee behaviour to reduce their GHG emissions
<b>Business model</b>	INV 9.1 Transformative measures facilitating climate investment reorientation & impact

This automated assessment will be complemented by a qualitative analysis regarding expected change in the portfolio alignment, business model and strategy, and the cause of changes (active vs. passive). This qualitative assessment can be guided through the following elements.

Criteria	Negative trend	Unclear trend	Positive trend
Ambition of the financial institution (related to targets) <b>WHAT</b>	Financial institution targets are not ambitious enough to diminish the gap between its performance and the one expected from them	Whatever the position of the financial institution performance in regards to the sectoral requirements, it is not possible to state whether the gap will broaden or shrink	Financial institution aims at getting closer of its sectoral low-C benchmark (or to stay aligned or better if already the case)

Alignment metrics and business strategy <b>WHY</b>	No integration of alignment metrics in the overall business strategy	Some integration of alignment metrics in the overall climate portfolio performance	Alignment metrics are fully integrated as a driver of the business strategy
Financial and human resources dedicated to financing the low-carbon transition <b>HOW</b>	Clear that resources that are needed to feed the financial institution contribution to the low carbon economy will not be provided	Not clear whether resources that are needed to feed the financial institution contribution to the low carbon economy will be provided	Resources needed to feed the financial institution contribution to the low carbon economy will be provided
Governance <b>WHO</b>	Approval, oversight, accountability partly from insufficient level within financial institution's hierarchy	Approval, oversight, accountability partly from Board / appropriate committee	Approval, oversight, accountability from Board / appropriate committee
What is the coverage of the financial institution's low-carbon strategy? <b>WHERE</b>	Low/Partial share of financial institution's portfolios/exposure AND No intention to broaden or even maintain the scope	Low/Partial share of financial institution's portfolios/exposure AND Intention to broaden the scope in limited way / Rationale explaining why the scope cannot be broaden	Majority/total share of financial institution's portfolios/exposure AND clear rationale explaining why there cannot be improvements in the coverage OR Low/Partial share of financial institution's portfolio exposure AND Intention to broaden the scope significantly
Are significant changes expected to happen fast enough to effectively and quickly put the FI on the right track and is the FI's low-C strategy looking forward enough to ensure that the financial institution will go on following the track? <b>WHEN</b>	No	Not sure	Yes

# 8 Aligned state

The table below presents the response of a low-carbon aligned financial institution 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

**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**

2

**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.**

3

**Current strategies and actions aim at reducing emissions in the real economy and leverage its market position to drive change across the companies' value chain from upstream to downstream activities.**

4

**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.**

5

**The financial institution's targets, transition plan, present and past actions show a consistent willingness to look for impact and contribute to the Paris Agreement mitigation goal.**



notably through a fossil fuel exit policy, in order to look for impact i.e. direct GHG emissions reduction in the economy and not only at portfolio level.

FIGURE 3: ALIGNED STATE FOR COMPANIES

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# 10 Glossary

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<b>ACA</b>	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)
<b>ACT</b>	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 ( <a href="#">ACT website</a> ).
<b>ACTION GAP</b>	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.
<b>ACTIVITY DATA</b>	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 ( <a href="#">UNFCCC definitions</a> ).
<b>ADEME</b>	Agence de la Transition Ecologique; The French Agency for Ecological Transition ( <a href="#">ADEME webpage</a> ).
<b>ADVANCED VEHICLE</b>	<p>Advanced vehicles include:</p> <ul style="list-style-type: none"><li>◆ <b>Plug-in hybrid vehicles (PHEV)</b></li><li>◆ <b>Battery electric vehicles (BEV)</b></li><li>◆ <b>Fuel cell electric vehicles (FCEV)</b></li><li>◆ <b>Conventional hybrids</b></li><li>◆ <b>Other high-efficiency ICE vehicles</b></li></ul> <p>Conventional hybrids and other high-efficiency ICE vehicles are advanced vehicles but they are not low-carbon vehicles.</p>

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<b>ALIGNMENT</b>	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.
<b>ANALYST</b>	Person in charge of the ACT assessment.
<b>ASSESS</b>	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.
<b>ASSET</b>	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.
<b>ASSET CLASS</b>	A group of financial instruments having similar financial characteristics. (38)
<b>ASSET UNDER MANAGEMENT</b>	In the context of the given methodology, “asset under management” refers in a single term to the asset managed in the context of an asset manager or owned in the context of an asset owner (whether they are managed directly by the asset owner or delegated to an asset manager).
<b>BARRIER</b>	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).
<b>BASE YEAR</b>	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 ( <a href="#">GHG Protocol Corporate</a>

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Standard).

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**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

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	elsewhere in the economy, where the marginal cost of decarbonization proves to be lower.
<b>CDP</b>	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 ( <a href="#">CDP website</a> ).
<b>CLIMATE CHANGE</b>	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).
<b>COMMITMENT GAP</b>	In relation to emissions performance, the difference between what a company needs to do and what it says it will do.
<b>COMPANY</b>	A commercial business.
<b>COMPANY PATHWAY</b>	A company's past emissions intensity performance pathway up until the present.
<b>COMPANY TARGET PATHWAY</b>	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.
<b>CONFIDENTIAL INFORMATION</b>	Any non-public information pertaining to a company's business.
<b>CONSERVATIVENESS</b>	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.
<b>CONSISTENCY</b>	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.
<b>CONVENTIONAL (TECHNOLOGY)</b>	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.
<b>COP21</b>	The 2015 United Nations Climate Change Conference, held in Paris, France from 30 November to 12 December 2015 ( <a href="#">COP21 webpage</a> ).
<b>CREDIBLE AND ROBUST TRANSITION PLAN</b>	A credible and robust transition plan is a transition plan which has been assessed against recognized methodologies following best standard recommendations (e.g. EFRAG, CBI) and/or methodologies (e.g. ACT assessment) and/or global initiatives (e.g. <a href="#">World Benchmarking Alliance</a> (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.
<b>DATA</b>	Facts and statistics collected together for reference and analysis (e.g. the data points requested from companies for assessment under the ACT project indicators).
<b>DECARBONIZATION</b>	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)).
<b>EMISSIONS</b>	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 ( <a href="#">GHG Protocol</a> ).
<b>ENERGY</b>	Power derived from the utilization of physical or chemical resources, especially to provide light and heat or to work machines.
<b>FINANCED EMISSIONS</b>	Emissions associated with the financing
<b>FLEET</b>	A group of vehicles (e.g. all the automobiles manufactured by an automotive manufacturing company and currently in use by private individuals).

<b>FOSSIL FUEL</b>	A natural fuel such as coal, oil or gas, formed in the geological past from the remains of living organisms.
<b>FUTURE</b>	A period of time following the current moment; time regarded as still to come.
<b>GENERAL CORPORATE PURPOSE</b>	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 purpose (on the opposite of Use of Proceeds instruments)
<b>GREENHOUSE GAS (GHG)</b>	Greenhouse gas (e.g. carbon dioxide (CO <sub>2</sub> ), methane (CH <sub>4</sub> ), nitrous oxide (N <sub>2</sub> O) and three groups of fluorinated gases (sulfur hexafluoride (SF <sub>6</sub> ), hydrofluorocarbons (HFCs), and perfluorocarbons (PFCs)) which are the major anthropogenic GHGs and are regulated under the Kyoto Protocol. Nitrogen trifluoride (NF <sub>3</sub> ) 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).
<b>GUIDANCE</b>	Documentation defining standards or expectations that are part of a rule or requirement (e.g. <a href="#"><u>CDP reporting guidance for companies</u></a> ).
<b>HORIZON GAP</b>	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.
<b>INCENTIVE</b>	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).
<b>INDICATOR</b>	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.
<b>INTENSITY (EMISSIONS)</b>	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.

<b>INTERVENTION</b>	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).
<b>LIFETIME</b>	The duration of a thing's existence or usefulness (e.g. a physical asset such as a power plant).
<b>LONG-TERM</b>	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.
<b>LOW-CARBON BENCHMARK PATHWAY</b>	Benchmark pathway (See 'Benchmark')
<b>LOW-CARBON SCENARIO (OR PATHWAY)</b>	A low-carbon scenario (or pathway) is a 2°C scenario, a well-below 2°C scenario or a scenario with higher decarbonization ambition.
<b>LOW-CARBON SOLUTION</b>	A low-carbon solution (e.g. energy, technology, process, product, service, etc.) is a solution whose development will contribute to the low-carbon transition.
<b>LOW-CARBON TRANSITION</b>	The low-carbon transition is the transition of the economy according to a low-carbon scenario.
<b>LOW-CARBON VEHICLE</b>	<p>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 &gt; 50% of their common use phase. This includes:</p> <ul style="list-style-type: none"> <li>◆ <b>Plug-in hybrid vehicles (PHEV)</b></li> <li>◆ <b>Battery electric vehicles (BEV)</b></li> <li>◆ <b>Fuel cell electric vehicles (FCEV)</b></li> </ul> <p>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</p>

	definition of an LCV.
<b>MANUFACTURE</b>	Making objects on a large-scale using machinery.
<b>MATURITY MATRIX</b>	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.
<b>MATURITY PROGRESSION</b>	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.
<b>MITIGATION (EMISSIONS)</b>	The action of reducing the severity of something (e.g. climate change mitigation through absolute GHG emissions reductions)
<b>MODEL</b>	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).
<b>PATHWAY (EMISSIONS)</b>	A way of achieving a specified result; a course of action (e.g. an emissions reduction pathway).
<b>PERFORMANCE</b>	Measurement of outcomes and results.
<b>PLAN</b>	A detailed proposal for doing or achieving something.
<b>POINT</b>	A mark or unit of scoring awarded for success or performance.
<b>POWER</b>	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.).
<b>POWER GENERATION</b>	The process of generating electric power from other sources of primary energy.
<b>PRIMARY ENERGY</b>	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.
<b>PROGRESS RATIO</b>	An indicator of target progress, calculated by normalizing the target time percentage completeness by the target emissions or renewable energy percentage completeness.
<b>RELEVANT / RELEVANCE</b>	In relation to information, the most relevant information (core business and stakeholders) to assess low-carbon transition.
<b>RENEWABLE ENERGY</b>	Energy from a source that is not depleted when used, such as wind or solar power.
<b>REPORTING YEAR</b>	Year under consideration.
<b>RESEARCH AND DEVELOPMENT (R&amp;D)</b>	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.
<b>SCENARIO</b>	The <u>Sixth Assessment Report</u> (AR6) 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.
<b>SCENARIO ANALYSIS</b>	A process of analysing possible future events by considering alternative possible outcomes.
<b>SCIENCE-BASED TARGET</b>	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 <u>Science-Based Targets Initiative</u> .

<b>SCOPE 1 EMISSIONS</b>	All direct GHG emissions ( <a href="#">GHG Protocol Corporate Standard</a> ).
<b>DIRECT GHG EMISSIONS AND REMOVALS</b>	Category 1 from ISO 14064-1:2018: <i>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).</i>
<b>SCOPE 2 EMISSIONS</b>	Indirect GHG emissions from consumption of purchased electricity, heat or steam ( <a href="#">GHG Protocol Corporate Standard</a> ).
<b>INDIRECT GHG EMISSIONS FROM IMPORTED ENERGY</b>	Category 2 from ISO 14064-1:2018: <i>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.</i>
<b>SCOPE 3 EMISSIONS</b>	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. ( <a href="#">GHG Protocol Corporate Standard</a> ). Scope 3 also encompass the emissions related to the use of sold-products.
<b>INDIRECT GHG EMISSIONS</b>	<p>ISO 14064-1:2018: <i>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.</i></p> <p><i>Category 3 : indirect GHG emissions from transportation</i></p> <p><i>Category 4: Indirect GHG emissions from products used by an organization</i></p> <p><i>Category 5: Indirect GHG emissions associated with the use of products from the organization</i></p> <p><i>Category 6: Indirect GHG emissions from other sources</i></p>
<b>SECTOR</b>	A classification of companies with similar business activities, e.g. automotive manufacturers, power producers, retailers, etc.
<b>SECTORAL DECARBONIZATION</b>	To help businesses set targets compatible with 2-degree climate change scenarios, the <a href="#">Sectoral Decarbonization Approach</a> (SDA) was developed. The SDA takes a sector-level approach and employs scientific insight to

<b>APPROACH (SDA)</b>	determine the least-cost pathways of mitigation, and converges all companies in a sector towards a shared emissions target in 2050.
<b>SHORT-TERM</b>	Occurring in or relating to a relatively short period of time in the future.
<b>STRATEGY</b>	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.
<b>STRESS TEST</b>	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).
<b>SUPPLIER</b>	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).
<b>TARGET</b>	<p>A quantifiable goal (e.g. to reduce GHG emissions).</p> <ul style="list-style-type: none"> <li>◆ The following are examples of absolute targets: <ul style="list-style-type: none"> <li>→ metric tonnes CO<sub>2</sub>e or % reduction from base year</li> <li>→ metric tonnes CO<sub>2</sub>e or % reduction in product use phase relative to base year</li> <li>→ metric tonnes CO<sub>2</sub>e or % reduction in supply chain relative to base year</li> </ul> </li> <li>◆ The following are examples of intensity targets: <ul style="list-style-type: none"> <li>→ metric tonnes CO<sub>2</sub>e or % reduction per passenger. Kilometre (also per km; per nautical mile) relative to base year</li> <li>→ metric tonnes CO<sub>2</sub>e or % reduction per square foot relative to base</li> </ul> </li> </ul> <p>metric tonnes CO<sub>2</sub>e or % reduction per MWh</p>
<b>TECHNOLOGY</b>	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).



<b>TRADE ASSOCIATION</b>	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 ( <u>CDP climate change guidance</u> ).
<b>TRANSITION</b>	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).
<b>TRANSPORT</b>	To take or carry (people or goods) from one place to another by means of a vehicle, aircraft, or ship.
<b>TREND</b>	A general direction in which something (e.g., GHG emissions) is developing or changing.
<b>VERIFIABLE / VERIFIABILITY</b>	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.
<b>WEIGHTING</b>	The allowance or adjustment made in order to take account of special circumstances or compensate for a distorting factor.












# 11 Appendix

## 11.1 MAPPING OF ACT INDICATORS WITH OTHER INITIATIVES

*I Care environnement has been chosen to conduct this analysis that aims at mapping ACT Finance:*

- *Against other Financial institution's transition plan assessment, setting or disclosure initiatives (mapping 1)*
- *Against various disclosure frameworks, whether regulatory (typically EU regulation) or privates (ie CDP, TCFD).*

# COMPARISON OF METHODOLOGICAL FRAMEWORKS AND TOOLS FOR THE FINANCIAL SECTOR

COMPARISON OF METHODOLOGICAL FRAMEWORKS AND TOOLS FOR THE FINANCIAL SECTOR			ASSESSMENT TOOLS				TARGET SETTING & IMPLEMENTATION FRAMEWORKS						DISCLOSURE & DATA COLLECTION INITIATIVES	
Name of initiative			ACT FINANCE	WRI GREEN TARGETS	WBA FSB	TPI NZBA	SBTI FOR FINANCE	NZIF	NZAGA	NZBA	RACE TO ZERO	HLEG	TCFD	CDP FOR FI
														
Scope			 Banks  Investors	 Banks	 Banks  Investors	 Banks	 Banks  Investors	 Investors	 Investors	 Banks	 Banks/Investors	 Banks/Investors	 Banks/Investors	 Banks  Investors
Theme	Component	Sub-component												
01 FOUNDATIONS	1. Defining a low carbon and just transition plan	Specific requirements for transition plan implementation		—										
		Integration of just transition into climate transition plans		—										
02 IMPLEMENTATION STRATEGY	1. Taking action on fossil fuels & deforestation	Fossil fuel policy alignment with net-zero pathways												
		Deforestation policy												
	2. Considering climate as a systemic risk	Integration of climate risks into risk management processes		—										
		Climate-risk stress testing		—										
	3. Reorienting financial flows towards climate solutions	Investment timescale												
		Climate solutions investment compatibility with 1.5°C science based scenarios												
03 ENGAGEMENT STRATEGY	1. Engagement framework	Portfolio boundary significance / significance within FTI activities												
		Definition of ambitious engagement framework and objectives		—										
		Engagement strategy		—										
		Definition of engagement action levers		—										
	2. Paris Agreement-aligned climate lobbying activities	Engagement framework		—										
		Alignment of direct and indirect lobbying activities		—										
04 METRICS AND TARGETS	1. GHG-based target : Setting credible science based targets	GHG portfolio target boundaries		—										
		Financed and facilitated emissions alignment with net zero pathways		—										
		Ambition : long-term, mid-term and short-term targets		—										
		Intervals between targets		—										
		Achievement of past and current targets		—										
	2. Non GHG-based target: setting engagement targets for «real economy» companies' scope 3 emissions	Portfolio alignment target setting		—										
05 GOVERNANCE AND CAPABILITIES	1. Incorporating climate into governance	Portfolio emissions assessment		—										
		Portfolio alignment assessment		—										
		Climate issues oversight (-ies)												
	2. Investing in climate expertise	Climate change oversight expertise												
		Recruitment												
		Skills, trainings and culture												



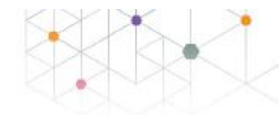
			ACT FINANCE		
			ACT BANKING / INVESTING MODULES		
Theme	Component	Sub-component	ACT FINANCE MODULES	ASSESSMENT ELEMENTS	
01 FOUNDATIONS	1. Defining a low carbon and just transition plan	Specific requirements for transition plan implementation	5.3 LOW CARBON TRANSITION PLAN	<ul style="list-style-type: none"> <li>Financial content in plan</li> <li>Short term and long term action</li> <li>Scope</li> </ul>	<ul style="list-style-type: none"> <li>Review and update process</li> <li>Progress reporting process</li> </ul>
		Integration of just transition into climate transition plans	NOT INCLUDED IN ACT'S METHODOLOGY	<ul style="list-style-type: none"> <li>Commitments</li> </ul>	<ul style="list-style-type: none"> <li>Integration of societal impacts in transition plan</li> </ul>
02 IMPLEMENTATION STRATEGY	1. Taking action on fossil fuels & deforestation	Fossil fuel policy alignment with net-zero pathways	1.4 ENGAGEMENT TARGETS	<ul style="list-style-type: none"> <li>Disclosure of financing towards fossil fuels</li> <li>Project expansion exclusion</li> <li>Companies expansion exclusion</li> </ul>	<ul style="list-style-type: none"> <li>Phase out strategy</li> <li>Policy regarding unconventional sectors (O&amp;G)</li> </ul>
		De/afforestation policy		<ul style="list-style-type: none"> <li>Deforestation commitments</li> <li>Target date of commitments</li> </ul>	<ul style="list-style-type: none"> <li>Anti-deforestation strategy</li> </ul>
	2. Considering climate as a systemic risk	Integration of climate risks into risk management processes	5.5 CLIMATE RISK MANAGEMENT	<ul style="list-style-type: none"> <li>Disclosure of climate-related risks</li> </ul>	<ul style="list-style-type: none"> <li>Level of implementation among institution</li> </ul>
		Climate risk stress testing	5.6 CLIMATE CHANGE SCENARIO TESTING	<ul style="list-style-type: none"> <li>Climate stress testing framework</li> <li>Scope</li> </ul>	<ul style="list-style-type: none"> <li>Timescale</li> <li>Climate-related risks/opportunities</li> </ul>
	3. Reorienting financial flows towards climate solutions	Investment timescale	1.5 FINANCING TARGETS	<ul style="list-style-type: none"> <li>Targets time horizons</li> </ul>	<ul style="list-style-type: none"> <li>Interval between targets</li> </ul>
		Climate solutions investment compatibility with 1.5°C science based scenarios		<ul style="list-style-type: none"> <li>Scope</li> <li>Climate solutions investment roadmap framework</li> </ul>	<ul style="list-style-type: none"> <li>Target MRV</li> </ul>
03	1. Influencing the downstream «money value chain»: clients (BAN) / investees/asset managers (INV)	Definition of ambitious engagement framework and objectives	7.1 STRATEGY TO INFLUENCE CLIENTS (BAN) / INVESTEES (INV)	<ul style="list-style-type: none"> <li>Objectives/ambition</li> </ul>	
		Engagement strategy		<ul style="list-style-type: none"> <li>Scope</li> <li>Climate voting strategy (INV)</li> </ul>	<ul style="list-style-type: none"> <li>Engagement strategy structuration</li> </ul>
		Definition of engagement action levers	7.2 ACTIVITIES TO INFLUENCE CLIENTS (BAN) / INVESTEES (INV)	<ul style="list-style-type: none"> <li>Actions levers embedded in strategy</li> </ul>	
		MRV process of recent and current activities and action levers used in practice	7.3 ACTIVITIES TO INFLUENCE CLIENTS (BAN) / INVESTEES (INV) WITH FOSSIL FUEL AND/OR DEFORESTATION-LINKED ACTIVITIES	<ul style="list-style-type: none"> <li>Scope</li> <li>Action levers used in practice</li> <li>Transition plan requirement (INV)</li> </ul>	<ul style="list-style-type: none"> <li>Climate voting disclosure (INV)</li> <li>Impact of engagement</li> </ul>
	2. Paris Agreement-aligned climate lobbying activities	Alignment of direct and indirect lobbying activities	8.1 FINANCIAL INSTITUTION POLICY ON ENGAGEMENT WITH ASSOCIATIONS, ALLIANCES, COALITIONS OR THINKTANKS	<ul style="list-style-type: none"> <li>Transparency &amp; scope</li> <li>Review process</li> </ul>	<ul style="list-style-type: none"> <li>Action plan</li> </ul>
			8.3 POSITION ON SIGNIFICANT CLIMATE POLICIES	<ul style="list-style-type: none"> <li>Climate policy support</li> </ul>	<ul style="list-style-type: none"> <li>Monitoring and review process</li> </ul>
			8.2 ASSOCIATIONS, ALLIANCES, COALITIONS AND THINKTANKS SUPPORTED DO NOT HAVE CLIMATE-NEGATIVE ACTIVITIES OR POSITIONS		



			ACT FINANCE		
			ACT BANKING / INVESTING MODULES		
Theme	Component	Sub-component	ACT FINANCE MODULES	ASSESSMENT ELEMENTS	
04 METRICS AND TARGETS	1. GHG-based target : Setting credible science based targets	GHG portfolio target boundaries	1.1 ALIGNMENT OF SCOPE 3.15 EMISSIONS REDUCTION TARGETS	› GHG coverage score › Methodology for assessing target's ambition › AUM coverage score › Targets types, metrics and benchmarks used	
		Financed and facilitated emissions alignment with net zero pathways			
		Ambition: long-term, mid-term and short-term targets Intervals between targets  Achievement of past and current targets	1.2 TARGETS TIME HORIZON  1.3 ACHIEVEMENT OF PAST AND CURRENT TARGETS	› Targets time horizons (short, medium, long-term) › Intermediate horizons  › Achievement of past and current targets	
	2. Non GHG-based target: setting engagement targets for «real economy» companies' scope 3 emissions	Portfolio alignment target setting	1.4 ENGAGEMENT TARGETS	› Portfolio transition plan coverage	
		Portfolio emissions assessment	NOT INCLUDED IN ACT'S METHODOLOGY	› Measurement of scope 3.15 emissions	
	3. Assessing climate portfolio performance	Portfolio alignment assessment	4.1 FINANCIAL FLOW TREND	› Flow and stock consideration › Definition of low-carbon based on taxonomies	
			4.2 PORTFOLIO EMISSIONS ASSESSMENT	› Disclosure of alignment metrics › Net Zero aligned activities › Alignment of transitioning activities/companies › Alignment of companies with climate solutions › Alignment of companies phasing-out high-emitting assets › Portfolio coverage › Disclosure & transparency	
	05 GOVERNANCE AND CAPABILITIES	1. Incorporating climate into governance	Climate issues oversight (roles)	5.1 OVERSIGHT OF CLIMATE CHANGE ISSUES	› Employee/committee with highest responsibility for climate change
			Climate change oversight expertise	5.2 CLIMATE CHANGE OVERSIGHT CAPABILITY	› Level of expertise for climate change issues
Remuneration			5.4 CLIMATE CHANGE MANAGEMENT INCENTIVES	› Beneficiary › Type of incentive › Share	
2. Investing in climate expertise		Skills, trainings and culture	3.1 INVESTMENTS IN HUMAN CAPITAL - TRAINING	› Training schemes › Metrics linked to training	
		R&D budget for climate	3.2 R&D FOR CLIMATE EXPERTISE	› R&D budget dedicated to climate expertise	
06 REPORTING AND AUDITS	1. Becoming transparent about climate contributions	Environmental data disclosure	NOT INCLUDED IN ACT'S METHODOLOGY	› Disclosure of climate-related matters	
		Climate-related audits	NOT INCLUDED IN ACT'S METHODOLOGY	› Incorporation of climate-related matters in financial statements	



# ACT'S ALIGNMENT WITH REGULATORY FRAMEWORKS AND INITIATIVES



	<b>EBA PILLAR 3</b> <small>EUROPEAN BANKING AUTHORITY (EBA)</small>	<b>IFRS S2</b> <small>INTERNATIONAL SUSTAINABILITY STANDARDS BOARD (ISSB)</small>	<b>CSRD-ESRS E1 CLIMATE CHANGE</b> <small>EUROPEAN UNION, EFRAG (APPOINTED AS TECHNICAL ADVISOR TO THE EUROPEAN COMMISSION DEVELOPPING DRAFT ESRS)</small>	<b>SFDR</b> <small>EUROPEAN UNION, EFRAG</small>	<b>CDP</b> <small>CDP</small>	<b>TCFD</b> <small>TCFD</small>
<b>FINANCIAL INSTITUTIONS TARGETED</b>	Credit institutions	All companies	All companies	Financial market participants and financial advisors	All types of financial institutions	All types of financial institutions
<b>LEGAL VALUE</b>	Binding (on a phase-in approach for certain disclosures)	Non-binding	Binding	Binding	Non-binding	Non-binding
<b>REGULATORY TEXT STUDIED</b>	Final Report - Final draft implementing technical standard on prudential disclosures on ESG risks in accordance with Article 449a CRR	Exposure Draft IFRS S2 Climate-related Disclosures	Draft European Sustainability Reporting Standards - ESRS E1	Regulation 2019/2088 on sustainability-related disclosures in the financial services sector	CDP questionnaire for financial services	TCFD guidance (all sectors and supplemental for financial sector)
<b>PUBLICATION DATE ; ADOPTION STATUS</b>	<b>January 2022</b> Final	<b>March 2022</b> Exposure Draft / June 2023	<b>November 2022</b> Draft	<b>November 2019</b> Adopted	Last version of questionnaire updated in <b>2023</b>	<b>June 2017</b> Last version of guidance document October 2021
<b>ACT'S CORRESPONDING FRAMEWORK</b>						
<b>ACT'S LEVEL OF ALIGNMENT WITH DISCLOSURE GUIDANCE AND REQUIREMENTS</b>						
<b>LEVEL OF CORRESPONDANCE</b>	<ul style="list-style-type: none"> <li>Medium correspondance with ACT's methodology</li> <li>Elements of correspondance: alignment metrics on scope 3, exposure on physical and transition risks, taxonomy alignment (GAR), actions put in place related to climate change, climate governance ...</li> </ul>	<ul style="list-style-type: none"> <li>High correspondance with ACT's methodologies</li> <li>Elements of correspondance (direct link between corporate requirements and FIs requirements) : Governance, climate-related risk and opportunities, strategy and decision making, metrics and targets, climate financial performance or metrics and targets</li> </ul>	<ul style="list-style-type: none"> <li>High correspondance with ACT's methodologies</li> <li>Elements of correspondance: strategy resilience, integration of climate into business models, climate targets, decarbonisation levers, change in product portfolio, risk management*</li> </ul>	<ul style="list-style-type: none"> <li>Medium correspondance with ACT's methodologies</li> <li>Elements of correspondance: risk management, stress testing, methodologies used for assessment</li> <li>Partial correspondance can be established with articles related to Principal Adverse Impacts, when considering specifically those linked to climate*</li> </ul>	<ul style="list-style-type: none"> <li>High correspondance with ACT's methodologies</li> <li>Elements of correspondance: governance, risk management, emissions reduction targets, engagement strategy, portfolio impact*</li> </ul>	<ul style="list-style-type: none"> <li>High correspondance with ACT's methodologies</li> <li>Elements of correspondance: governance, climate risks and opportunities, climate stress testing</li> </ul>
<b>LIMITS</b>	<ul style="list-style-type: none"> <li>Some elements are not considered by ACT's methodologies : exposure towards the top 20 carbon intensive firms ; information of real estate buildings energy efficiency, BTAR ratio</li> <li>Some elements are not relevant to compare such as qualitative information on social risks*</li> </ul>	<ul style="list-style-type: none"> <li>The standard is designed for corporate entities: there isn't a specific standard for financial institutions on climate change</li> </ul>	<ul style="list-style-type: none"> <li>The standard is designed for corporate entities : there isn't a specific standard for financial institutions on climate change</li> <li>Some components have a clear corporate scope, notably internal procedures on energy efficiency and are not relevant to compare with ACT's methodologies*</li> </ul>	<ul style="list-style-type: none"> <li>SFDR has a broader approach than just climate : environmental/social characteristics, sustainability factors</li> </ul>	<ul style="list-style-type: none"> <li>The questionnaire designed initially for corporate entities, with additional questions specific to financial institutions</li> <li>Some elements have a clear corporate scope, notably energy consumption, emissions methodology and breakdown*</li> </ul>	<ul style="list-style-type: none"> <li>The guidance is designed for all types of entities, additional guidance is included for financial institutions</li> <li>Framework has a clear focus on integration of climate issues in strategic decisions, climate risk management and governance, covering only parts of ACT's methodologies*</li> </ul>

Source: act.fi