ROADTEST REPORT

ASSESSING LOW-CARBON TRANSITION

ACT Finance | Investing

APRIL 2024

ACKNOWLEDGMENTS

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Background and purpose of this document

This document is part of the Assessing low-Carbon Transition (ACT) initiative and provides the main details of the ACT Investing Road test. As part of the development of a new ACT sector methodology, this road-test has been conducted to identify strengths and weaknesses of the tested methodology, some high-level orientations on the sector positioning and insights on what has been improved in the methodology, tools and inputs used to assess companies in this sector.

The scores reflected by the methodology for each module and indicator are calibrated so it gives an indication of the actions that need to be put in place by a financial institution to set a credible and robust transition plan to a low-carbon economy.

This report aims to provide the key findings of the assessments and an overview of results for banks. Additional materials prepared during the assessment process, including detailed company data and feedback, informed the results summarised in this report but remain confidential.

The aim of this road-test report **is not** to bring an individual or collective judgement on the overall sector's performance as (i) panel is constituted with various, yet limited, volunteers and (ii) the methodology was not finalized yet, as the purpose of the exercise is to determine its areas of improvements. An ex-post exercise of re-assessing the panel following main methodological improvements has been performed. Main results are displayed in the report so as to check that they cope with global orientations determined following the road test exercise.

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1. ACT Investing Road Test

1.1. CONTEXT OF THE ROAD TEST

INVESTING SECTOR

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

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

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

The approach taken by the ACT Finance methodology reflects most relevant features of general approaches taken by the finance sector to date, which focus on a combination of sector-specific and institution-wide strategies and targets regarding main activities of financial institutions. Open-source methodologies, initiatives, and approaches, such as SBTi-Fi, PACTA, PCAF and the frameworks of the GFANZ, NZBA, NZAOA, NZAMI, IIGCC (PAII NZIF) were leveraged in the development of this assessment framework.

The methodology capture/assess the following elements:

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

ii. The impact of the financial institution in terms of its contribution to the real economy's decarbonization

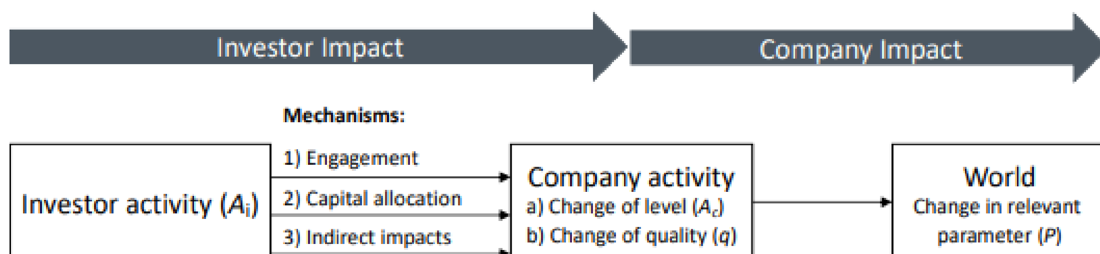


FIGURE 1: KEY CONCEPT AND MECHANISMS

iii. Its contribution to financing a transitioning / low carbon economy (e.g., climate solutions financing) and stop financing climate-damaging activities.

Due to various positioning and specificities of financial institutions, the methodology cannot cover in the same way all their activities that are relevant from a low-carbon transition standpoint. It has been decided to split the methodology into two sub-methodologies representing two main activities of the sector: banking and investing activities. Others (e.g., 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 to enhance this framework.

CONTRIBUTING TO ACT: NEW SECTOR DEVELOPMENT

Since 2015, the ACT initiative develops a mechanism for assessing companies that have set climate commitments and want to take climate action in line with the Paris Agreement. The ACT Assessment methodologies use a holistic approach to assess a company's climate strategy and determine its readiness to transition to a low-carbon economy. Ultimately, the goal is to drive action by companies and encourage them to set their business on a low-carbon compatible pathway.

ACT's ambition is to prioritise the most GHG emissions-intensive sectors. This approach implies that tools and methods must be adapted for each new sectoral development process to accurately reflect their impact on climate change. So far, main high emitting sectors of real economies are covered (see https://actinitiative.org/act-methodologies/).

The stages of methodology development are as follows:

- Stage 1: Methodology development
- Stage 2: Methodology experimentation (road test)
- Stage 3: Methodology refinements & release

Due to the above-mentioned specific challenges related to the financial sector activities, the methodology had to set innovative approaches for the financial sector compared to "real economy" ones. For example, as part of this methodology, module 1 (combination of sectoral trajectory benchmarks), module 4 (monetary allocation approach rather than carbon) and module 9 (business model) have been modified to adapt to the sector's specificities. ACT assessment rating aims at providing a detailed and nuanced view of each company's transition journey strengths and weaknesses, according to the specific challenges faced by its sector. In line with Art. 2c) of Paris Agreement, the financial sector's specific challenge is to profoundly reallocate financial flows toward transitioning and low carbon activities and companies. This implies that the optimal scenario is one in which investments are directed solely towards companies that are genuinely transitioning in a credible and robust manner, or already compatible with a low-carbon exonomy. ACT Finance methodologies evaluate financial institutions in alignment with this objective, through their various levers: engagement, exclusion, financing of climate solutions, etc.

Consequently, ratings stemming from ACT finance methodologies cannot be directly compared to ratings from other sectors. Specifically, it is not anticipated that the ACT rating of a financial institution would function as a weighted average of the ACT rating of the companies in which it has invested.

GOALS OF THE ROAD TEST

The project's objectives were:

- to experiment the ACT Investing draft methodology and supporting tools;
- to provide recommendations to improve the methodology;
- to ensure that ACT Investing is relevant and robust for the sector;

- to engage financial institutions and other stakeholders in the low-carbon transition.

The aim of this road-test report is to display strengths and weaknesses of the methodology, offer high-level insights into the sector positioning and outline areas of improvement in the methodology.

The aim of this road-test report **is not** to bring an individual or collective judgement on the overall sector's performance as (i) panel is constituted with various, yet limited, volunteers and (ii) the methodology was not finalized yet, as the purpose of the exercise is to determine its areas of improvements.

An ex-post exercise of re-assessing the panel following main methodological improvements has been performed. Main results are displayed in the report so as to check that they cope with global orientations determined following the road test exercise.

The road test for the ACT Investing Methodology has been carried out, on behalf of ACT, by I Care, Technopolis and Deloitte (referred as "the assessors" thereafter).

ASSESSED FINANCIAL INSTITUTIONS

The ACT Finance Investing methodology aims at assessing financial institutions from diverse countries. The methodology should be used to assess the ones with the following NACE or ISIC codes:

TABLE 1: NACE AND ISIC CODES IN SCOPE OF THE ASSESSMENT

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 assesses the following actors:

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

The ACT Investing methodology includes the following asset classes:

i. **Equity (Listed and Private)**

ii. **Debt (Listed and Private)**

iii. Real estate (Real Estate Investment Trusts)

iv. Project financing (Infrastructure)

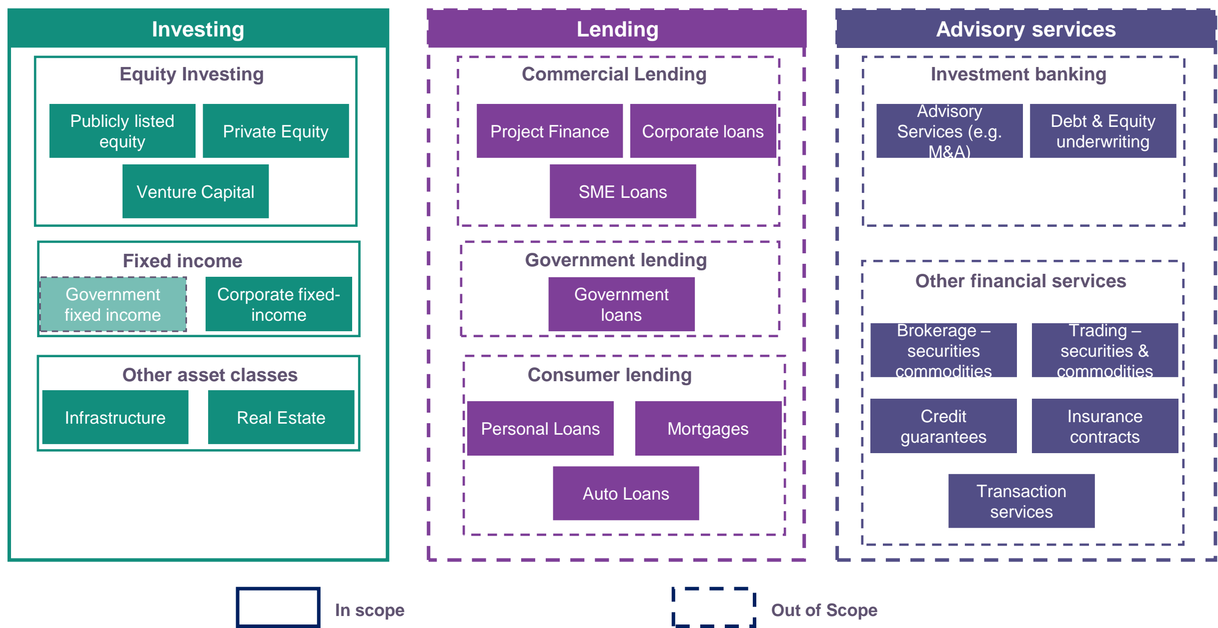


FIGURE 2: BOUNDARIES OF THE ACT FINANCE – INVESTING METHODOLOGY

The road test companies were carefully considered to ensure that different regions and business models were represented. 16 companies volunteered for the road test (see Figure 3).

FIGURE 3: COMPANIES SELECTED FOR THE ROAD TEST

ASSESSMENT PROCESS

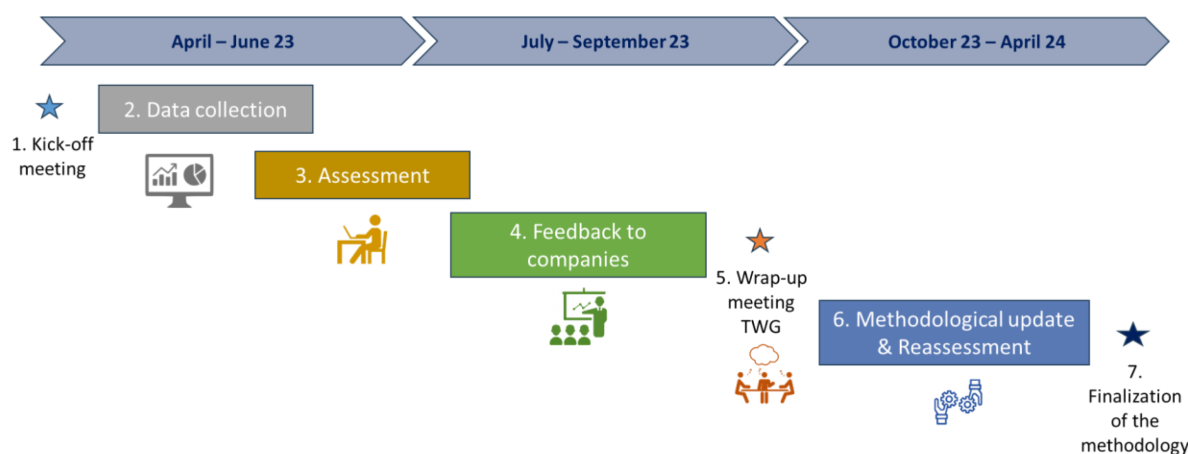


FIGURE 4: INVESTING ASSESSMENT PROCESS

The assessment involved direct engagement (following the steps described in Figure 4) with financial institutions. Assessment process was followed through monthly meetings with ACT's Finance Steering Committee. The main inputs for undertaking the assessment were provided to the assessors by way of 4 complementary files:

- **The Investing Methodology**. This document contains the scoring criteria for each of the indicators and lists how the scores are calculated and weighted. The methodology also provides relevant context for each of the indicators and an overview of the main goals of each Module.
- **The Excel Performance calculation tool**. Companies were asked to directly fill out their response in the ACT questionnaire, which is an Excel data collection tool, with the assistance of the assessor. Upon completion, assessors review and evaluate the responses according to the methodology's guidance. Subsequently, the tool directly calculates a score based on these evaluations.
- **The narrative scoring tool**. This is an Excel-based tool which includes the narrative scoring maturity matrix (as per the methodology).
- **The trend scoring tool**. This is an Excel-based tool which includes assessment guidance based on the scoring of some indicators of the ACT questionnaire.

In addition, assessors used the ACT Framework and Guidance to ensure consistency with other ACT methodologies.

The road test started with an opening webinar to introduce the tools and the key methodological aspects of the ACT Investing Methodology. This webinar provided initial guidance and explanation to interested candidates. Discussions with companies commenced with a kick off call between the companies and one of the assessors. During the one-hour call, the companies' teams were given a brief explanation of the ACT initiative, the expected timeframes, deadlines and assessment organization, a general description of the relevant inputs, and an overview of the Excel tool. Companies were subsequently sent the tool and the methodology documents and were encouraged to send questions via e-mail, through weekly follow-up meetings or ad hoc calls. Financial institutions' questions were collected in a spreadsheet accessible to all assessors to ensure shared learnings, and consistency in the responses. Regular meetings were organized to track the progress of the data collection process. They allowed the financial institutions to share their feedback and challenges regarding the data collection, the tool, and some methodological aspects.

Following data gathering, assessors reviewed the responses and began the scoring process. Assessors and financial Institutions discussed and addressed questions from both parties during weekly meetings. These questions covered clarification, interpretation, details of data, information and processes needed to score accordingly each specific criteria of the methodology. These discussions allowed to gather feedback on the relevance of criteria, the different constraint for specific type of actors, the difficulties encountered but also missing spots and arising challenges. This was ultimately shared during monthly Steering Committee meetings with ADEME, CDP, WBA, and UNEP FI to enhance the methodology and address existing issues.

After assessing all financial institutions, the results were compared during harmonization sessions to align scoring considerations, ensure consistency, accurately reflect the status of financial institutions, and identify any additional needs for methodological guidance.

1.2. THE INVESTING METHODOLOGY

It is recalled that the description hereafter describes the methodology that has been tested during the road test. A description of the modifications brought to the methodology post road-test are presented part 3.1.

GENERAL APPROACH

As for any ACT methodology, the assessment's main goal is to evaluate past, present and (anticipated) future company performance to determine the company's maturity level with respect to its transition to a low-carbon economy. The ACT initiative focuses on five guiding principles to determine company performance:

1. **Commitment:** What is the company planning to do?
2. **Transition plan**: How is the company planning to get there?
3. **Present**: What is the company doing at present?
4. **Legacy**: What has the company done in the recent past?
5. **Consistency**: How do all these plans and actions fit together?

These principles and guiding questions are assessed through a series of Modules composed of key performance indicators and sub-indicators, all of which are specifically designed for each sector. For the investing sector road-tested methodology, there were a total of 26 indicators organised into eight Modules. Figure 5 shows how these indicators assess company performance at different points in time.

	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	
	3. Intangible investment	INV 3.1 Investments in human capital -trainings INV 3.2 R&D for climate expertise		
	4 Portfolio climate performance	INV 4.1 Financial Flows Trend INV 4.2 Portfolio emissions 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
Influence	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		

FIGURE 5: INVESTING METHODOLOGY INDICATORS, MODULES AND TIME HORIZON ASSESSED

The assessment has been carried out based on the information provided for each of these indicators by the financial institution or any other relevant source for public based assessments or relevant aspects such as checking for controversies. The Investing Methodology uses a combination of quantitative and qualitative indicators. Purely quantitative indicators are scored according to automated formulae based on inputs provided. In these cases, assessors must ensure the calculation is correct and the information provided by the company is consistent and, to the extent possible, verifiable. However, given the granularity of quantitative data required and the confidentiality of this information, it has not always been possible to verify the data provided. The data quality itself is a criterion accounted in the narrative score (see below).

Qualitative indicators are evaluated by the scorer using the company responses and indicator-level maturity matrices with up to five scoring levels as displayed below. Maturity matrices provide scoring criteria per indicator for each of these levels.

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

FIGURE 6: MATURITY MATRIX WITH FIVE LEVELS OF EVALUATION

ACT INVESTING METHODOLOGY ASSESSMENT

Like all ACT assessments, the Investing Methodology generates a three-dimension score that allows companies to understand how their overall strategy is rated with reference to 1.5°C transition pathway, and if it is being effectively contributing to the real economy reaching a low-carbon pathway. The final score is described below:

1. **The performance score** ranges from 0 to 20 and is the result of the sum of all points achieved and weighted according to the financial institution's classification (Asset owner and Asset manager). Investing Methodology includes two different weighting profiles, one for each financial institution classification.
2. **The narrative score** is the result of the scorer's evaluation of the overall response, complemented by an external data review for the company in question, and graded from E (lowest score) to A (highest score). The narrative score is assessed using a maturity matrix developed by the ACT initiative and composed of 5 dimensions (Business Model and Strategy; Consistency and Credibility; Data Quality; Reputation; and Risk).
3. **The trend score** evaluates whether a company is increasingly aligning itself with or distancing itself from a low-carbon transition pathway. The trend score is indicated by a + sign (best score, reflecting increasing alignment), a – sign (worst score, reflecting reducing alignment), and an = sign (indicating no discernible projected change in its alignment). The trend score considers as a baseline a sub-set of forward-looking indicators from the performance score and interpret them using a simple grading scale from -1 to 1, providing an aggregated automated trend scoring. A complemented layer of expert judgement is applied to consider holistic information / perspectives.

On completion of the assessment, companies received two main files:

1. The Excel calculation tools with the company's response and evaluation score. Thess files include the scores per indicator and sub-indicator, as well as explanations of the scorer's rationale. These files also contain financial institution comments and questions about the methodology and the tool.

2. An ACT company feedback report (PowerPoint) summarising the results and providing a brief overview of the challenges and opportunities the financial institution may be facing. This presentation is based on a normalized template.

Both elements remain confidential.

FOCUS ON THE ACT INVESTING SCORE

Performance score

The Investing questionnaire is structured according to eight Modules presented in the table below:

TABLE 2: LIST OF MODULES IN THE ACT INVESTING ASSESSMENT

Module
1. Targets
3. Immaterial investment
4. Climate portfolio performance
5. Management
6. Investors engagement
7. Investees engagement
8. Policy Engagement
9. Business model

Modules 1 and 4 contain mostly quantitative indicators that are evaluated by the scorer based on the results of a quantitative calculation. These modules rely both on financial institutions entering internal data (financial and GHG data).

Material Investment (module 2 in other ACT methodologies), assessing the current and projected emissions associated with scope 1 and 2, **has been disregarded for ACT Finance**. As a matter of fact, ACT methodology follows the recommendations of the ISO 14064-1 in terms of boundary applicable to GHG reporting: all direct and indirect significant emissions must be reported. Therefore, only financed emissions (Scope 3.15) are taken into consideration, and not direct emissions (Scope 1, 2, and 3.1 to 3.14), as they are not considered significant[1]. Hence, this module has been deemed irrelevant regarding a financial institution's transition plan and has been disregarded in the methodology.

- **Module 1. Target** is focused on GHG emissions targets (quantitative) and non GHG emission targets (qualitative). It represents an important part of the performance score (20%) because target-setting is the first step in the journey to Net Zero. It is a key milestone in the climate strategy of a financial

[1] UNEP FI – *NZAOA Target Setting Protocol Second Edition*, CDP – *https://www.cdp.net/en/articles/media/finance-sectors-funded-emissions-over-700-times-greater-than-its-ow*)

institution as it gives the path to follow regarding the companies and sectors to invest in their decarbonization journey.

- **Module 3. Intangible investment** was focused on climate training and climate R&D investment. The weight was quite low (3%) because the quality and impact of these intangible investments in human capital are quite difficult to evaluate on an objective basis.
- **Module 4. Portfolio Climate Performance** is focused on the contribution of the financial institution to financing the decarbonization of the economy assessing (i) whether the financial institution is financing companies with a credible and robust transition plan or low carbon companies / low carbon activities and (ii) whether the financial institution continues to finance climate damaging activities (Indicator 4.1). A complementary indicator (4.2) assess qualitatively the quality of the management of the portfolio climate performance.

  This module represents 25% of the assessment as it the core performance module of the tool. The module approach is more impact driven (flow and actual financing of the portfolio) than transition risk driven (GHG emissions focus).
- **Module 5. Management** is focused on the financial institution's management and strategic approach to the low-carbon transition. Hence part of the weight is placed on the oversight of climate change issues and the climate change oversight capability. 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. The remaining indicators cover global structuring of the financial institution transition plan, climate change management incentives and climate risk, the latter making distinction between global process and a specific focus on stress testing framework.
- **Module 6. Investors engagement** is focused on the financial institution to solicitate and engage investors to redirect their investments towards climate positive ones. This module covers specifically asset managers that will engage notably asset owners in their chain value. For asset owners the methodology assumes that lower levers are existing to engage as they use their own balance sheet to invest. In this case the associated weighting (2% in the tested methodology) is repercussed to the following module.
- **Module 7. Investees engagement** is focused on financial institution ability to take actions with the counterparties it invests in to help them decarbonize. 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. This module represents 20% (22% if the Investor's engagement module does not apply, see above) as engagement with counterparties is essential for boosting GHG emissions reduction in the real economy.
- **Module 8. Policy engagement** is focused on contextual aspects which tell a narrative about the financial institution's stance on climate change and how the financial institution expresses their engagement with policy makers and trade associations (lobbying activity).
- **Module 9. Business model** individually captures the implementation of specific measures or innovative approaches designed to catalyse change and transformation within the entity's existing or emerging activities, facilitating the redirection of climate investments and impact. The analysis underlines the entity's capacity to transition and operate in a low-carbon economy.

Narrative score

The narrative score depends on five different dimension.

- **1. Business Model and Strategy** assesses the extent to which the financial institution's overall organizational business model and strategy is already aligned with the low-carbon transition.

- **2. Consistency and Credibility** assesses the overall coherence of the financial institution's business model and strategy elements, how they fit together and whether it is believable that they can be implemented.
- **3. Data Quality** evaluates the quality of the data used for the whole ACT assessment, and not only GHG emission data, based on six widely accepted dimensions of data quality: Completeness, Uniqueness, Consistency, Timeliness and Validity.
- **4. Reputation** evaluates from the perspective of its stakeholders, whether 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.
- **5. Risk** evaluates the negative risks facing by the financial institution resulting in threats/barriers to achieving the low-carbon transition. Risks identified can occur over the short, medium, or long term.

Trend score

To apply the trend scoring methodology presented in the ACT Framework, the assessor 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.

1.3. RESULTS OF THE COMPANY ASSESSMENTS

INTRODUCTION

This section presents the results of the ACT Investing methodology road test. It includes an overall comparison of results at aggregated score level and per Module. It is important to note that given the availability of data, the reporting year assessed might have differed depending on the financial institution (2021 or 2022). Policies and strategies published after the reporting year are not considered in the performance score but have been considered in the trend score.

OVERALL RESULTS

The average final score of the ACT Investing methodology road test is **6.3 B =.** It is recalled that these results are not representative of the overall investor's sector, being performed on a sub-set of volunteer companies on a non-finalized methodology.

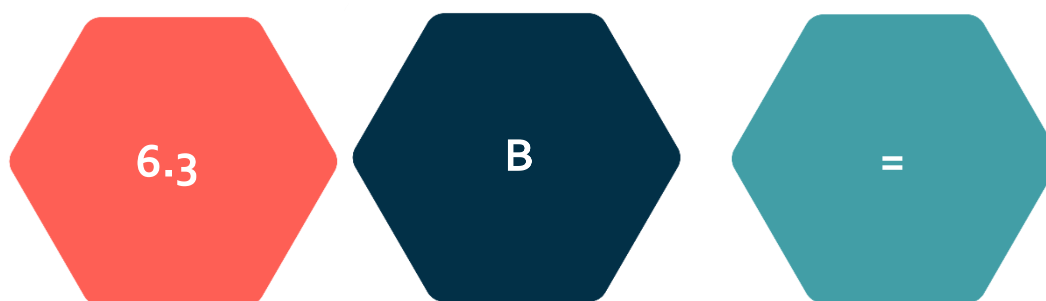


FIGURE 7: OVERALL RESULTS

The average performance score was 6.3 where 14.7 was the highest and 3.3 the lowest score. The top performer's score is driven by its effective business model and its investment thesis with support provided to the investees, both aligned with the low-carbon transition. The best scores are the result of a developed low-carbon transition plan, with investees engagement strategies and exclusion policies. The lowest scores can be due to lack of engagement strategies and low portfolio carbon performance.

Overall, most financial institutions struggled to gather data necessary to the assessment.

The average narrative score was B, on a scale ranging from A to E, indicating an overall medium alignment with a low-carbon scenario. In general, companies received lower narrative scores for the Business model and strategy dimension, where assessors noted that transition plans were not developed enough to provide evidence of strategical repositioning of the financial institutions. Reputation is the dimension with the average best score, as most of the companies were not involved to reputational concerns. The other dimensions (Consistency and Credibility, Data Quality and Risk) are all on the average around 2.4/4 because of dispersion among companies regarding maturity of data collection processes, risk management and robustness of the transition plans.

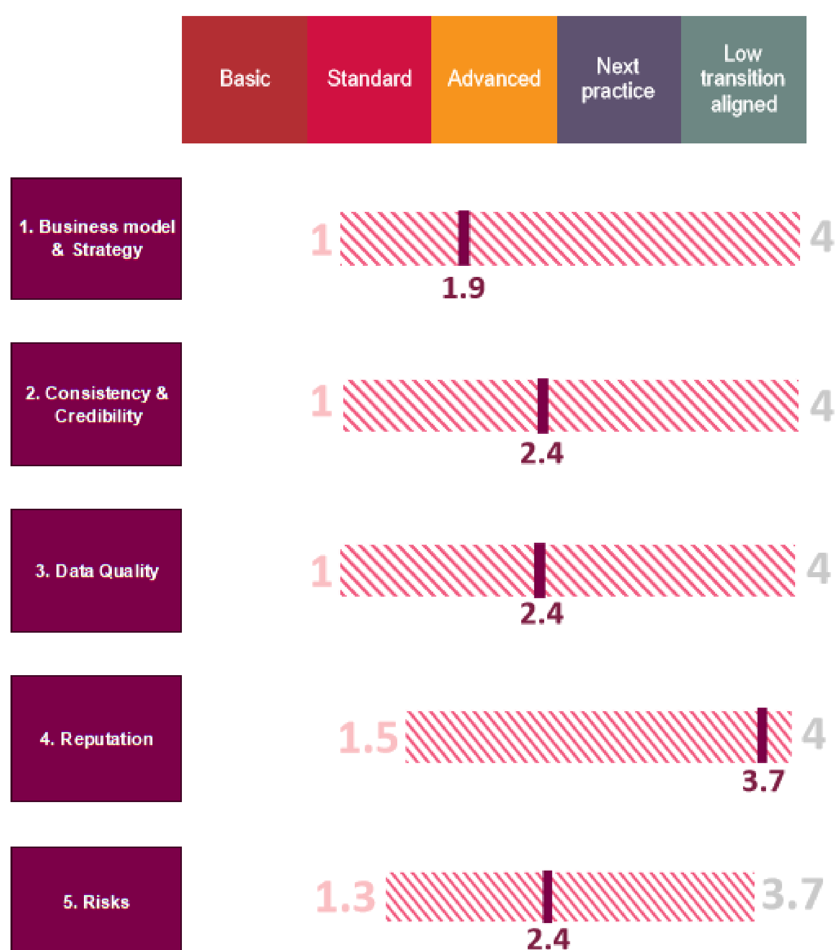


FIGURE 8: NARRATIVE SCORE RESULTS

The average trend score was rated equal (=). This score assesses whether companies are likely to receive a better (+), similar (=) or lowest (-) score if they take the assessment in a few years. The trend score considers as a baseline a sub-set of forward-looking indicators from the performance score. A supplementary layer of expert judgment is subsequently applied to take into account holistic information and perspectives. Given the high correlations with the performance score, the assessors extensively relied on the expert judgement layer. For most of the financial institutions, the low-carbon transition plans were not robust enough (lack of ambitious targets, poor coverage in engagement…) to hope a better score in the next years. Only 5 companies out of 14 obtained a positive trend score, based on strong engagement policies and targets setting strengthening their ambition.

OVERALL PROFILE OF THE 5 ACT DIMENSIONS

Like all ACT road tests, the Finance (Investing) road test provides a snapshot of panel member's performance in each of the 5 ACT dimensions (see Figure 8). The following paragraphs summarize sector-level trends and challenges in these 5 dimensions. These insights do not apply uniformly to all participant companies and should not be interpreted as indicative of company performance. This is a high-level analysis of common trends identified throughout the road test. Company-specific insights are given in the confidential company feedback reports.

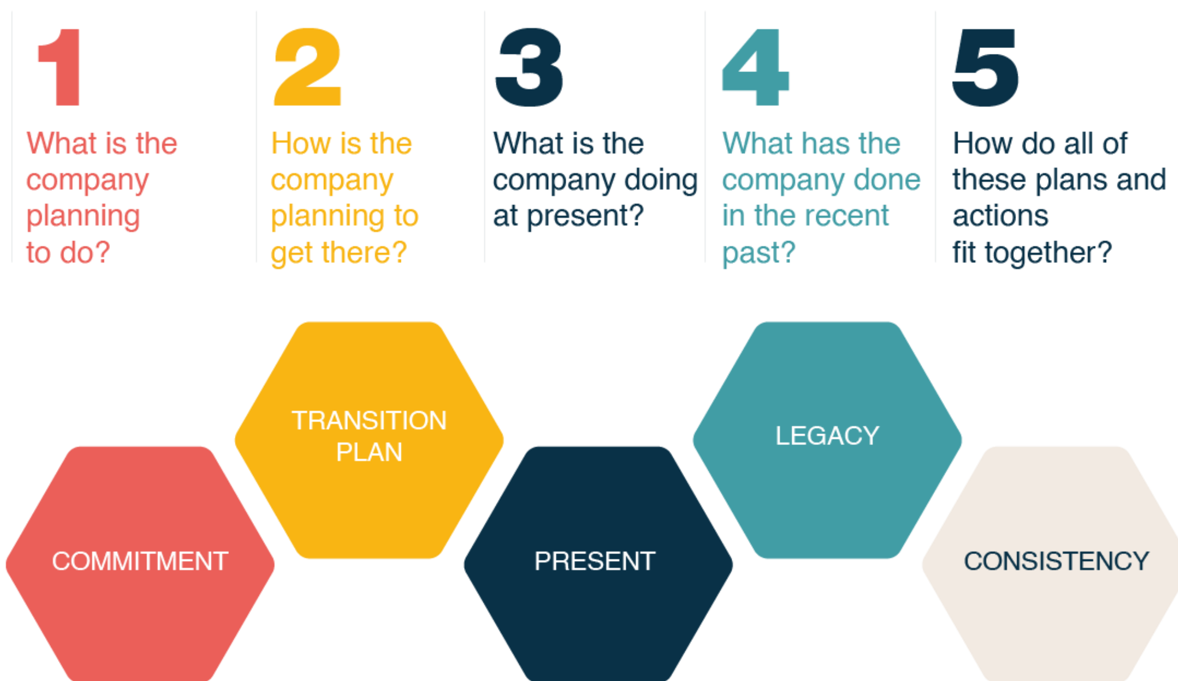


FIGURE 9: ACT ASSESSMENT FRAMEWORK

Commitment

Companies in the finance (investing) sector have set portfolio emissions reduction targets, but largely using carbon economic footprints or intensities (tCO_2e/M€ invested or invested companies' revenue) which was not considered in the road-tested scoring. As the biggest challenge for investors remains to support the real economy decarbonization, they will be challenged to set sector-level emissions reduction targets (in physical intensity), consider all the carbo-intensive ones in portfolio and to effectively be able to justify a contribution to a decrease in absolute emissions. Coal phase-out policies are broadly consistent, however oil & gas policies remain highly heterogeneous from one investor to another, which could lead to strong distinction in ambition between investors.

Transition plan

Investors have set many action levers to reach their targets, including the reinforcement of exclusion policies, investees engagement and climate metrics integration in investment processes. However, these are rather a sum of individual actions than a comprehensive and formalized strategic transition plan, which doesn't highlight how objectives will be achieved. In addition, the level of maturity varies considerably between participants, and they rarely disclose financial-related information. Investors still need to strengthen their low-carbon transition plans and monitor how their action plan contribute to their decarbonization goals.

Present

Most investors monitor current emissions against economic footprint or intensity targets (tCO_2e/M€ invested or revenue) which doesn't provide enough information on their contribution to global decarbonization efforts. In addition to that, most investors are not able to provide either how their capital allocation is directed towards supporting the transition or develop low-carbon companies. The challenge for investors will be to develop clear definitions and measurement of portfolio companies' transition level.

Legacy

Past performance varies between participants. Some investors in the road test have not yet made their low-carbon strategies public and are just starting their sustainability journey on the reporting year evaluated (policies being validated afterwards). Moreover, climate alignment standards for investors have evolved considerably in recent years, leading to several changes in the scope of actions. This results in lower historical data availability and therefore less ability to compare participants historical performance.

Consistency

Overall, assessments have revealed the presence of climate strategies at varying levels of maturity but with some inconsistencies between public commitments and actions. The latter tend to lag behind the former. This can be shown in the different modules of the performance score and is also reflected in the narrative score.

AVERAGE RATINGS PER MODULE FOR THE PERFORMANCE SCORE

Overall, the sector had a low performance in the ACT assessment (see Figure 10), with most Modules scoring below 40% on average. Only **Module 5. Management** and **Module 8. Policy engagement** had average scores above 40%. The lowest scoring Modules were **Module 1. Targets** and **Module 9. Business model**. Aside from some punctual high scores, **Module 4. Portfolio Climate Performance score is below 35%,** which is in part caused by a lack of maturity in the identification by financial institutions of low carbon/transitioning asset/companies, and thus lack of available data, especially for historical portfolio carbon performance.

Disclosure for the qualitative Modules (5-9) was more complete, because information was easier to find as financial institutions have implemented climate actions and are reporting on it, notably regarding European and French investors in the context of SFDR regulation and LEC Article 29 (the French law on energy and climate, requiring investors' climate transparency). High scores in Modules **5. Management** and **8. Policy engagement** show that the sector has begun to adopt a governance structure whereby commitments related to climate actions are addressed at the top levels of management.

Modules 1. Targets, 6. Investors Engagement and **7. Investees Engagement** low to average scores show that even though companies involved in the road-test have taken climate actions to reduce their financed footprint and engage both investors and investees, the underlying transition plan is not robust enough and/or too few data are available back it with factual actions. The road test emphasized that while public commitment appears to be the most common practice, the primary challenge for financial institutions lies in translating these commitments into tangible actions. Particularly, there is a notable lack of engagement within their value chain, encompassing both investees and clients. Finally, indicators used to establish decarbonization targets are not sufficiently robust for effective monitoring and driving global decarbonization in the real economy.

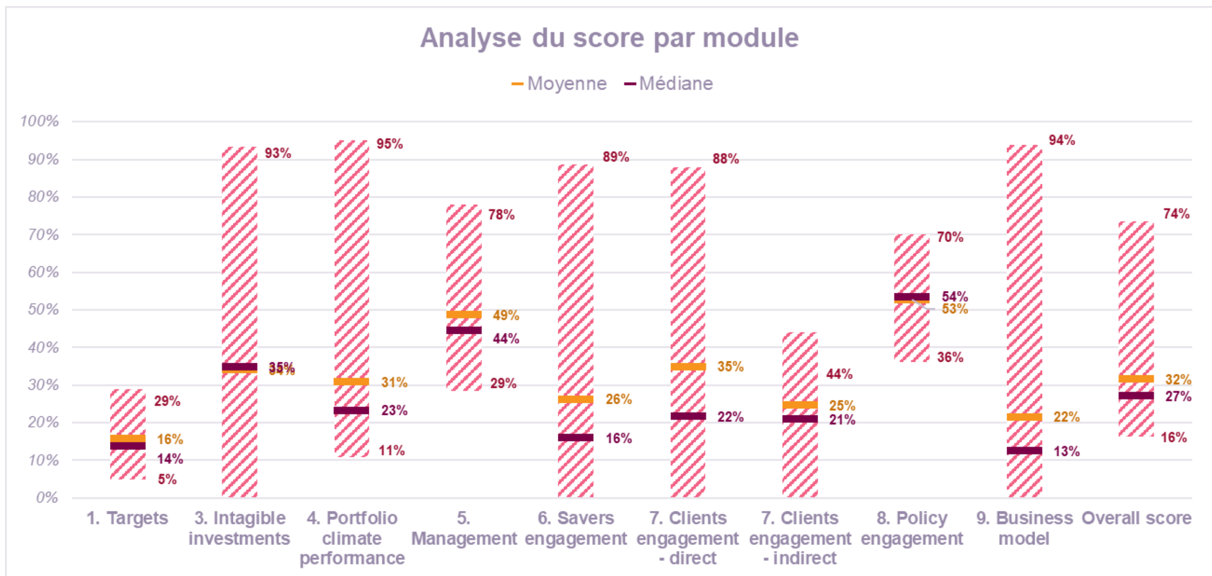
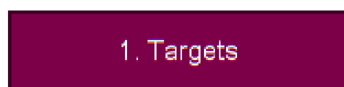


FIGURE 10: AVERAGE SCORES PER MODULE

MODULE 1. TARGETS (16%)



Module description for ACT Investing: Module 1 assesses company's targets and aims at comparing them with projected emissions values from the associated benchmarks (indicators 1.1 to 1.3). It also assesses the completeness of sectoral policies (coal, oil & gas, and deforestation) and the roadmap on climate solutions financing (indicators 1.4 and 1.5).

Materiality for investing activities: This Module is weighted 20%. It is material in the definition of a climate strategy. As financed emissions represent a high source of emissions, targets are the first step to commit to reduce GHG emissions with a 1.5°C objective. The objective of the indicator relating to the evaluation of sectoral targets is, on the one hand, to understand the robustness of these targets (alignment with low-carbon trajectories, sectoral coverage and in terms of GHG over the entire value chain of each sector, indicators 1.1 and 1.2) and, on the other hand, to evaluate the deviation of the current trajectory of emissions financed/facilitated by the bank in relation to this target (1.3).

Target's ambitions (1.1) are first scored in comparison to a benchmark trajectory. Then it is adjusted by different factors such as the allocation weighting, the credit coverage and GHG coverage of the target, and the GHG data quality.

Moreover, out of GHG targets, fossil fuel and deforestation policies and climate targets (indicators 1.4 and 1.5) are key for a global transition. It counts for almost half of the module weighting.

Main feedback / conclusions: Most companies have set targets for portfolio decarbonization but almost all of them were not expressed in absolute terms (tCO_2e) or physical intensity (tCO_2e/productive unit) but instead in monetary intensity (tCO_2e/M€ invested), that were not considered in the current state of the methodology due to their significant bias/lower power of interpretation. This explains why the average score for this module is only 16%. All the companies assessed implemented exclusion policies related to fossil fuels (coal and/or oil & gas) but few presented a developed deforestation-related policy. Also, the level of robustness of the exclusion policies differs from one institution to another. Finally, as for module 4, financial institutions lack

maturity regarding the identification of transitioning / low carbon asset/companies, thus not being able to set targets on financing targets (indicator 1.5).

While being qualitatively relevant, the methodology has been found severe regarding some haircutting effects. It has been therefore proposed to ease these effects: avoid double counting, keep with more realistic reachable levels notably in term of GHG data quality. In addition, an explicit framework should be integrated regarding carbon intensity and carbon footprint targets, providing less points than physical intensity targets due to lower relevance.

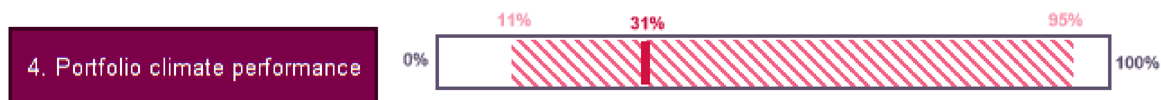
MODULE 3. INTANGIBLE INVESTMENT (34%)

Module description for ACT Investing: Module 3 measures financial institutions' intangible investments. Companies are assessed with regards to the provision of training on climate-related issues, the quality of the training and the existence of a training development plan. This module also considers how much of the R&D expenses are dedicated to developing a climate expertise.

Materiality for investing activities: Climate expertise is key for financial institutions to upskill their climate capabilities, to sensitize the employees for them to change their practices and mentalities, and to onboard everyone in the company (from the operational levels to the board) to build a common purpose within the financial institution and operationalize the commitments made at the Board level. The weight of this module is nevertheless quite low because these intangible investments in human capital are quite difficult to quantify and their tangible effects to evaluate. Consequently, this module weights 3% in the performance score.

Main feedback / conclusions: The results to this module vary widely, ranging from 0% to 93%. Three quarters of the companies score below 42%, thus overall, a moderate to low performance. Although training plans are underway for most actors, they are often limited to climate change awareness without going deep into processes and actions. Additionally, no actor clearly defines "R&D" investments, meaning they do not differentiate climate topics between regulatory, process and R&D matters. A simplification of this module is preconised to cope with this issue.

MODULE 4. PORTFOLIO CLIMATE PERFORMANCE (31%)



Module description for ACT Investing: Module 4 analyses the financial institution's contribution to financing the real economy transition through the perspective of its past and current investments. The indicator focuses on the orientation of financings towards low carbon activities and companies with robust and credible transition plans, rather than financed emissions:

- The "transition" component highlights companies in the most carbon intensive sectors that need financing to transition, and that have developed a robust and credible transition plan.
- The low-carbon angle reflects the contribution of assets to the climate transition by providing low-carbon products/solutions.

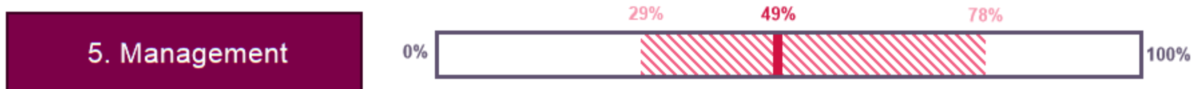
Indicator 4.1 provides the main part of the score (80% of the module) with (i) part of the points delivered for not providing new financings/services to coal and non-transitioning Oil & Gas sectors and (ii) remaining points of the indicator delivered depending on the current and trend share of low carbon/transitioning assets. Indicator 4.2 (20% of the module) is designed to assess to which extent the financial institution is monitoring its portfolio climate performance using relevant metrics.

Materiality for ACT Investing: This module represents 25% of the assessment as it is the core performance module of the tool. The historical trend and current financing towards activities that directly contribute to climate change mitigation are crucial in assessing future emissions reductions.

Main feedback / conclusions:

The average score for the module 4 (31%) is close to the average global performance score for the road test (33%). The dispersion of scoring is very high (ranging from 11% to 95%) as most of financial institutions didn't have a clear definition of "transitioning" and "low carbon" companies. In fact, several FIs were rather sceptical about this approach, deeming it not standardized enough to effectively compare the climate performance of different investors. In addition, some FIs were unable to collect historical data, which led to a trend score of 0%, thus reducing the final module 4 score. Also, there has been high heterogeneity of results between "pure players" focusing on specified sectors or companies type and traditional investors investing in the global economy.

MODULE 5. MANAGEMENT (49%)

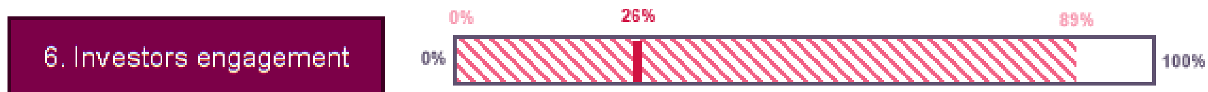


Module description for ACT Investing: Module 5 evaluates whether companies have sound policies, structures, and oversight on climate-related issues. It incorporates many sub-indicators that together draw a picture of the companies' management and strategic approach to the low-carbon transition.

Materiality for investing activities: This module assesses financial institutions' management and strategic approach to the low-carbon transition. It is therefore material with a weighting of 15%.

Main feedback / conclusions: Module 5 is the second highest-scoring module, with an average score of 49%. However, the dispersion of the score (ranging from 28% to 78%) shows that financial institutions from the road test are at different stages along their low-carbon transition journeys. Some already display active management and leadership in this area (transition plan, incentives, oversight of climate change issues, etc.), while others are further behind. We observe overall positive trends: climate topics are now often a responsibility at top level and most actors include climate into their risk management framework and policies. However, for most institutions transition plans are not clearly defined yet and, at the aggregate level, incentives and climate stress testing are the two aspects that are the most lagging behind.

MODULE 6. INVESTORS ENGAGEMENT (34%)



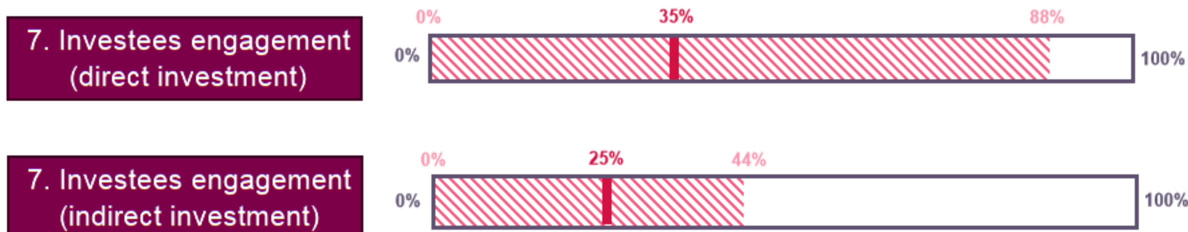
Module description for ACT Investing: This module scores financial institutions' strategies and actions to influence their investors' choices/preferences in favour of credible and robust climate funds, resulting in

raising more capital for climate solutions or low carbon activities. This module applied only for asset managers.

Materiality for investing activities: To decarbonize the economy, it is essential that all stakeholders get involved. Soliciting and engaging investors in the ecological transition or low carbon aligned projects/entities is key. However, while engaging investees (Module 7 below) includes active measures with a higher impact, to engage investors one can only mobilize measures such as sensitization, information, measuring goal's achievements. Thus, the weighting of this module, when applied, was of 2%.

Main feedback / conclusions: The dispersion of the score (ranging from 0% to 89%) and the medium-low average score (34%) shows variation in the level maturity between financial institutions. In most cases, asset managers demonstrate to their investors the interest of working on decarbonation and educate them to inspire their own policies. Nevertheless, the assessments revealed a lack of maturity among many institutions that materialize in the form of low level of formalization of a strategy and insufficient reporting (especially on activities' impact).

MODULE 7. INVESTEES ENGAGEMENT (35% FOR DIRECT INVESTMENT AND 25% FOR INDIRECT INVESTMENT)



Module description for ACT Investing: This module examines the financial institutions' engagement strategy and activities to influence and shift investees' strategy, business model and activities to reduce their GHG emissions. The performance score computes both an engagement score for direct investments (engaging with directly invested companies, either asset managers or asset owners) and for indirect investments (engaging with asset managers to whom the managing mandate has been delegated to. The indirect investment concerns mostly asset owners). The module is built around three indicators, adapted where needed for direct or indirect investment: (i) indicator 7.1 regarding the engagement strategy of the financial institution (ii) indicator 7.2 regarding the actual engagement activity performed and (iii) indicator 7.3 focus on specific "hot" topics: coal, oil & gas, and deforestation. Formalization of strategies and evidence of engagement are necessary to perform this module assessment.

Materiality for investing activities: Engaging investees is crucial to boost GHG emissions reduction in the real economy. Financial institutions can deploy various active measures, ranging in their persuasiveness, to influence their investees. In line with the importance of investees engagement in emissions reduction and the lever for action available to the financial institutions, the module represents 20% of the performance score, 22% if module 6 does not apply (see above).

Main feedback / conclusions: Overall, the assessed companies scored better in direct investments (asset managers or asset owners investing directly) than indirect investments (asset owners delegating the investment to asset managers). There is a larger variety of maturity levels among direct investments, compared to indirect investments where all scores are rather low. Indeed, regarding direct investments, the average score is 35% (25% for indirect investments) and the maximum score is 88% (44% for indirect investments) while the minimum score was 0% for both categories. This situation reflects that in the context

of delegated investment the asset owner might feel a lack of levers of influence, leading to not prioritise the topic.

Overall, financial institutions scored better on indicator 7.3 dedicated to “hot” topics (coal, oil & gas, and deforestation, 51%) than on global indicators 7.1 and 7.2 (29% and 22%).

Regarding direct investments, some financial institutions are taking concrete actions such as financing their invested company carbon footprint assessment, or request oil & gas actors to adopt and publish transition plans. However, as engagement strategies are not covered by mandatory disclosure regulations, reporting are of various quality and sometimes lacking. In absence of disclosure/formalisation, the scoring is penalized.

As for indirect investments, the road test shows that asset owners start to engage with their asset managers to implement their own Socially Responsible Investment policies to the investment decisions, but very few asset owners have a formalized engagement approach regarding their asset managers (strategy, escalation policy, tools, and support for decarbonation, vote policy).

Concrete examples to prove and illustrate the implementation of engagement strategies have rarely been provided. Only two of them provided case studies of how they engaged with specific companies (those examples were presented in financial institutions’ annual reports). Another financial institution directly provided examples of actions to the assessor, without detailing how they have been implemented nor which company was targeted by these activities.

In conclusion, there was overall a lack of substance to understand how the financial institutions’ engagement strategy can materialise. Isolated case studies should however not substitute the aggregated monitoring of actions carried out, which is key to score the global action of the financial institution towards its investees and delegated asset managers.

MODULE 8. POLICY ENGAGEMENT (53%)

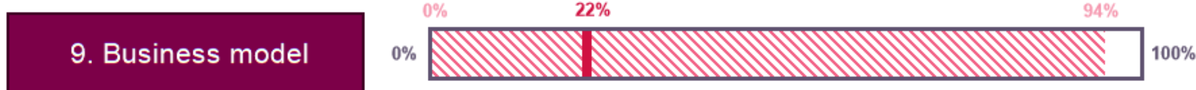
Module description for ACT Investing: The module evaluates financial institutions’ engagement with trade associations and their public positions on climate policies. Indicator 8.1 requires financial institutions to disclose their internal policies and processes for joining, interacting with, and influencing trade associations. Indicator 8.2 examines whether financial institutions support trade associations with climate-negative positions. Indicator 8.3 asks financial institutions to disclose their position on significant climate policies. Finally, Indicator 8.4 evaluates financial institutions’ involvement with public authorities to achieve emission reduction.

Materiality for investing activities: The policy engagement indicators provide a narrative about the financial institutions’ stance on climate change and how they express it in their engagement with policymakers and associations. The materiality of this module is therefore limited to a weighting of 5%.

Main feedback / conclusions: Companies performed well in this module compared to the others, with the highest average score (53%). Besides, the level of maturity of the companies is relatively homogeneous, the scores spanning from 36% to 70%, and 50% of the financial institutions score between 48% and 59%. Despite an apparent emerging engagement towards public policies, improvement areas have clearly been identified. Very few investors are proactively engaging with regulatory bodies to push for climate regulations and there is a lack of formal engagement frameworks towards public entities and associations (including the screening of the supported entities). Investors may also be members of alliances, while not complying, or partially

complying, to the associated recommendations (target settings on the most emitting sectors, engagement strategy…).

MODULE 9. BUSINESS MODEL (22%)



Module description for ACT Investing: This module assesses the development and implementation, within the financial institutions, of innovative tools and policies to foster low carbon economy financing. It considers various aspects of these innovations: their profitability, their size (be it in % of total financing, activities fees, deal values, etc.), their growth potential and deployment schedule.

Materiality for investing activities: This module is future-oriented since it asks companies about their narrative on specific changes in business models and strategy that the sector can/must take to transition and become viable in a low-carbon economy. As this is an important aspect of long-term future planning, it is material for the sector with a weighting of 10%.

Main feedback / conclusions: Overall the financial institutions assessed during the road test scored poorly, as Module 9 records the second-lowest average score (22%) and the lowest median score (13%). In parallel, it is for Module 9 that the largest dispersion of results has been observed (ranging from 0% to 94%). These low and diverse results can be attributed to two factors:

- There is overall a low level of maturity among the assessed asset owners and asset managers in the design and deployment of innovative solutions to change business models in the long run, although measures exist as reveals scores as high as 94%.
- Difficulties with Module 9 have been reported by the assessed entities. This module, that was kept with the same features as for "real economy" sectors, struggles to fit with specificities of the finance sector. Additionally, the maturity matrices appear too severe to accurately grasp financial institutions' position with regards to alternative business models, and sometimes overlaps with other modules.

AVERAGE ASSESSMENT RATING BY CRITERIA FOR THE NARRATIVE SCORE

The narrative score assesses the overall response of the company on five dimensions: Business Model and Strategy, Consistency and Credibility, Data Quality, Reputation, and Risk. Once a company's response was reviewed and scored, assessors completed the narrative score in the tool provided by ACT. This includes the scoring criteria for each dimension using the same achievement levels as other maturity matrices, from Basic (0 points) to Low-Carbon Transition Aligned (4 points).

Business Model and Strategy

To what extent is the financial institution's organizational business model and strategy aligned or misaligned with the low-carbon transition?

This dimension obtained an average score of 1.86 on 4, thus below 50% achievement and is the lowest average of all narrative dimensions. Only one investor obtained the maximum possible score, having designed a business model revolving around financing a low-carbon economy. All other investors scored 1 or 2, which indicates they are still in the early stages of their low-carbon transition.

Consistency and Credibility

Are there any 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 aspects of the financial institution's business model and strategy that are not credible?

The average score for this dimension is 2.42. Six investors have scored a 3 and above, demonstrating the robustness of their approach. Regarding the 4 investors that scored below 2 on this dimension, it is less regarding external controversies (which they are not very exposed to) than regarding the announcement of ambitious policies and targets that contrast with the actual low performance of the portfolio and operational processes to support those ambitions.

Data Quality

Are there any concerns around the quality of the reported data?

The average score for this dimension is 2.4. Data quality is rapidly increasing thanks to disclosure regulations and data providers but remains a concern for environmental indicators. This exhibits significant variability, with 3 investors scoring 4 and 2 scoring 1, demonstrating the difference of approaches and maturity on data collection.

Reputation

Are there any reputational concerns that call into question the financial institution's ability to achieve its low-carbon transition?

This is the highest scoring dimension of the narrative score, with an average of 3.7. Investors have little public exposure and overall face limited reputational risks, which explains why 13 investors have scored the maximum level of 4. One investor is lagging with a 1.5 score, mostly because of external controversies regarding its fossil fuel investments.

Risk

Are there any existing or potential risks that call into question the financial institution's ability to achieve its low-carbon transition?

The average score for this dimension is 2.3. No investor obtained the maximum possible score in this dimension and only two investors obtained a 3 and above rating. These rather homogeneous results suggest that the risks of not achieving a transition plan are very similar throughout the sector: they mostly depend on the transition of the economy and the incoming regulation.

Final narrative scores

The average narrative score obtained was 12.8/20, which is equivalent to a B letter score. The median is however at a C.

There is a relatively low variability at aggregated level, with only three investors at A and one at D, the 11 others at B and C. This suggests that a few investors are leading the way on the way to invest in a low-carbon economy, and the rest of the pack is slowly tagging along.

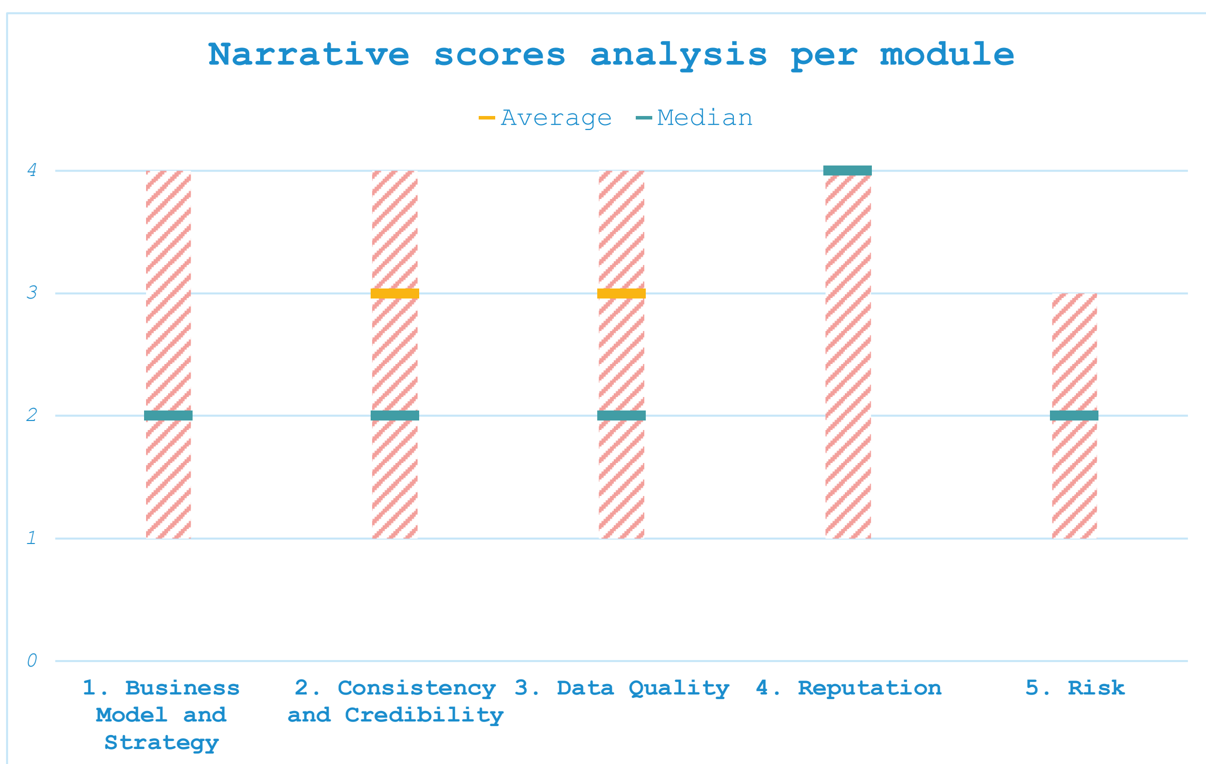


FIGURE 11: AVERAGE SCORES PER DIMENSION

TREND SCORE

This score, although guided by the assessment conducted to determine the performance score and the narrative score, predominantly relies on the judgment of the assessor responsible for the evaluation.

Five investors received a positive trend score because their core efforts to transform their business model indicates with certainty improved performance in the upcoming years.

The other ten investors received an equal trend score, suggesting that:

- They are making efforts in the right direction, with for example employee trainings, management incentives and implication in sectoral initiatives such as the NZAOA which should improve their score in the coming years.
- However, these efforts are not sufficiently significant to ensure an improvement in the alignment of their climate strategies with low-carbon pathways and practices. For example, an NZAOA involvement with no investee's engagement strategy remains an intention of decarbonizing with no planned action lever, thus no effect on the real economy.

The rapidly changing regulatory environment indicates they could perform better in the coming years.

No negative scores are present, indicating an overall engagement of actors, particularly influenced and guided, notably within the European Union, by regulations established in the past two years.

FEEDBACK FROM PARTICIPATING COMPANIES

At the end of the evaluation, assessors shared a form with participating companies to collect insights and feedback. The answers have been gathered to identify key findings. Several topics have been addressed through this form:

TABLE 3: FEEDBACK FROM COMPANIES

Key topics	Feedback from companies
Data collection process	• The time required to collect the data varied greatly depending on the financial institution (notably for module 4, some just followed ACT standards while others took time to assess the "transitional" level of their portfolio). • Historical data collection was difficult for most of the financial institutions (no historical climate data, low availability of "flows" data). • Almost every financial institution found it extremely important to have the guidance of the ACT assessor for data collection. • Timing of data collection was not ideal (for French institutions, there was an overload of work due to LEC Article 29 finalization process in the meantime).
ACT Assessment	• Scope: Scope has been clearly defined. • Results: Results were clear and consistent with expectations, action levers well-identified. • Quantitative score: For Module 1, most of FIs considered it difficult not to consider monetary targets (which should be included in the new version of the methodology). For Module 4, more guidance should be made on the transition framework, as this biases the results. • Qualitative score: FIs are generally satisfied with the qualitative modules, but many note the difficulty of extracting accurate R&D data. • Business model: Public financial institutions find it difficult to assess for them. Makes more sense for insurers, in conjunction with liability management.
ACT Methodology	• Most FIs consider the methodology quite relevant as it analyses the robustness of climate transition plans including both qualitative and quantitative data. Several of them are satisfied with the structure of the methodology and say they could potentially integrate it into the construction of their transition plan. • Some FIs indicated that the methodology could be more specific to each type of investor (notably about module 6, 7 and 8).
ACT Framework	• ACT Finance can help the sector to transition to a low-carbon economy. It gives many ideas and action levers. • Main issue is that financial institutions already have many responsibilities related to climate reporting, and the methodology is very complex to understand (e.g., Module 4). • The ACT Finance Framework will only work if many financial institutions are involved, as comparing scores is key. • The tool provides ideas of actions to improve further.

FEEDBACK FROM ASSESSORS

Assessors have a key role during the road test:

- To guide companies through data collection and provide a relevant assessment.
- To have a critical view on the methodology and provide relevant feedback on all key aspects of the ACT Finance Methodology.
- To propose solutions to improve the methodology and the data collection tool.

Therefore, assessors were asked to complete a form to give their opinion on the road test on 3 topics:

TABLE 4: FEEDBACK FROM ASSESSORS

Key topics	Feedback from assessors
Data collection process	• For most financial institutions, collecting data for Module 4. Climate Portfolio Performance Scoring was exceedingly difficult as most of them do not use a clear definition/framework of transitioning/low carbon assets/companies and therefore do not have the IT capabilities to retrieve such information. • Most companies were reactive and committed during data collection. However, the more effort the assessment takes, the less responsive the company becomes. • Important to warn the key contact person that they might need the help of other departments at the beginning of the road test. • Regular meetings are essential for coordinating the data collection process. • Methodology document is too complex, Financial Institutions should have access to a simplified document (especially for module 4). • Qualitative data was easy to collect (for French institutions notably, most of the information already existing in the LEC Article 29).
ACT Assessment	• Difficulty to master the modules 1 and 4, which are dense and somewhat complex. • Qualitative materiality matrices are easy to handle and well documented. • Narrative scoring is interesting, despite some redundancies with Performance scoring. • Current automated Trend scoring is severe (almost all FIs are negative), as it is based on a recap of the performance scoring, leaving the final score assessment to the assessor's subjectivity. • The process allows for a constructive dialogue with the financial institution. It helps to point out weaknesses and strengths from the company's climate strategy
ACT Methodology	• ACT Finance is a challenging methodology as it's a very specific industry and the assessor needs to really dive into the methodology to understand the details of the methodology (Specific sectoral training needed?) • The methodology is strict but pertinent and adapted to show the financial institutions what they need to do to implement consistent and robust actions Clearer rules should be established regarding Module 4 to ensure comparability within the sector. • R&D data was not existing for Module 3 • Module 9 was complex to assess: basic level of 0 raised several questions

2. Lessons learnt

SUCCESS OF THE ROAD TEST

- Companies involved in the road test were in the majority highly engaged and provided, in many cases, very thorough feedback on the data collection tool.

- Most participants are interested in **using the ACT tool to formalize their transition plan**.

- The road test enables climate-related subjects to be **pushed forward internally**, and the results obtained are a good lever for internal communication and mobilization for the FIs.

- The ACT data requirement was **coherent with the CDP questionnaire**. It was very helpful to use CDP questionnaire responses for investors submitting it, to alleviate data collection.

- Based on the evaluation process, the interaction with financial institutions, their underlined constraints, and the specificities of each of their activity, assessors believe that with some improvements to the tool and some methodological amendments (mainly Module 4, Module 1), the **Investing assessment will provide a fair reflection of a financial institution's readiness to transition to a low-carbon economy**.

- **Members of other initiatives within the Investing sector (for example, UNEP FI, World Benchmarking Alliance, and CDP) were invited to participate in the Steer co and Technical Working Group.** Their contributions were constructive and insightful for key methodological points, especially on Performance Score.

- **The tested assessment methodology allows financial institutions to point out with clarity where the main gaps / areas** for improvement can be found with concrete examples from maturity matrixes, and encourages much greater transparency on climate performance, strategies, and transition plans.

- **Clear process and good coordination with key actors.** The road test process has been clear and beneficial to key actors.

LIMITS OF THE ROAD TEST

- **Time spent on the data collection**: As financial institutions were involved and highly engaged in the road test, they played an important role and spent the time to understand the methodology and collect data as accurately as they could. Module 4 and the historical data required (4 years) took up a lot of their time. More qualitative modules require a lot of back-and-forth and exchanges with various FI departments and stakeholders. However, this strong involvement led to them spending more time on the project than they expected.

- **Usability of the tool:** Without making the tool more user-friendly, companies will continue to find it challenging to use the tool and provide the data needed for the assessment (specially for Module 4). Companies are expecting more guidance directly available in the tool, and a more detailed explanation as to what is expected from companies.

- **Assessor's subjectivity:** The assessors highlight the subjectivity of the scoring of some modules (essentially the qualitative modules). This limitation was addressed by harmonization meetings at the end of the road test.

MAIN CHANGES & RECOMMENDATIONS

All inconsistencies or issues experienced by the assessors and companies during the road test have been gathered in a logbook and integrated at the end of the road test after discussion with the Steering Committee and the Technical Working Group. The following points summarize the key recommendations stemming from the exercise:

- **Improve the Climate portfolio performance Assessment**: The most common feedback theme from companies and assessors participating in the road test was the difficulty to answer Module 4 (due to lack of maturity in defining what a sustainable/transitional asset is, complexity of data collection and technical complexity of the indicator). Although a clear definition of what constitutes a sustainable/transitional asset is necessary for a financial institution wishing to align itself with a 1.5°C world, the lack of global maturity and technical difficulties necessitate changes and simplifications to capture the different levels of maturity.

- **Provide a more user-friendly tool:** A common feedback theme from companies and assessors participating in the road test was that more guidelines and clarification would be appreciated to support the data collection phase. This was the case for both the quantitative and qualitative Modules. The tool needed clearer instructions and more explanation of what information is required (General Information, Module 4). This will improve companies' ability to engage with the assessment and the quality of their submission. Some amendments have been made to simplify the data collection process.

- **Enhance the coordination with other industry initiatives** to consider the methodological guidelines of other standards, such as SBTi or the NZ Alliances, especially for sectoral targets (metrics accepted in the methodology) or global reduction ones. This improvement will mainly concern module 1 "Targets", and possibly module 4 “Portfolio climate performance”.

- **Ease the impact** of the level of data quality on the scoring of module 1 and provide more guidance on the coverage of sectoral target emissions according to the parts of the value chain of the different sectors covered.

- **Provide better suggestions and consider new areas of evaluation for module 9: Business models**, hence assessing this essential module in the light of existing tools and innovations, or those currently under investigation, and thus embed the effects of climate change on business operations and balance sheet management.

- Other technical points have been gathered:
  - Lack of maturity of 3.2 indicator (Ratio of climate R&D expenditure to total R&D expenditure)
  - The weighting of governance and climate expertise, carried by one person in the tested assessment.
  - Improve the sector-classification granularity offered by the tool.
  - Review of the trend rating (+, -, =), which is too strict at this stage

3. Methodology reshape and reassessment

3.1. EVOLUTION OF THE METHODOLOGY

The lessons learnt from the road-test have been gathered with complementary elements and processed in order to improve both methodology and tool. The main changes applied to the performance score are displayed in the table below, together with the expected impact.

Module	Indicator ID	Indicator label	Changes	Expected impact
1. Targets	1.1	Alignment of inclusive scope 3.15 emissions reduction targets	Integration of monetary targets. Easing of Data quality scores and non-sectoral granularity haircuts. Guidelines on GHG coverage.	Light increase
	1.2	Time horizon of targets	Reshape: replacement of complex asset lifetime-based calculation by maturity matrix	Increase
	1.3	Achievement of previous targets	Easing of contextualizing haircuts as for 1.1	Light increase
	1.4	Engagement targets	Integration of exception policy loophole question. Reshape of transition plan coverage maturity matrix.	Decrease
	1.5	Climate solution financing targets	Almost no changes.	Neutral
	Module			Light increase
3. Intangible Investment	3.1	Investments in human capital - Training	E-learning/presential distinction removed in a post-covid era. Enrichment of question on development plan.	Uncertain
	3.2	R&D for climate expertise	Deletion as not operational enough	NA
	Module score		Increase due to low 3.2 score in road-test	Increase

Module	Indicator ID	Indicator label	Changes	Expected impact
4. Portfolio Climate Performance Scoring	4.1	Trend in past lending	Clear isolation of dimension 1 and 2 (financial flows on coal, Oil&Gas). Quality of transitoning assessment of Oil&Gas companies taken into account. Enrichment of qualitative matrices for dimension 3 FI's assessment frameworks. Taxonomical fall-back added. "Filling the holes" and associated haircuts added where historical data is missing. Simplification of granularity in the scoring process Data reliability score added.	Light increase
	4.2	Portfolio emissions management	Reshape so as to center on metrics used, integration of SBTi / GFANZ-like concepts. Explicit leveraging on quality assessment performed for 4.1.	Uncertain
	Module score		Increase due to reweighting 20/5>15/10 in favour of 4.2	Light increase
BAN 5. Management	5.1	Oversight of climate change issues	Almost no changes.	Neutral
	5.2	Climate change oversight capability	Capability assessed not only at exectuive level but also at non-exectuvie level, where information is available	Increase
	5.3	Low-carbon transition plan	Explicit weighting question added on the existence of a transition plan. Some rephrasing/reorganization	Decrease
	5.4	Climate change management incentives	Deletion of a non-discriminating question on the level of management incentivized. Incentives assessed not only at exectuive level but also at non-exectuvie level, where information is available	Decrease
	5.5	Risk management	Some rephrasing and reweights	Uncertain
	5.6	Climate change scenario testing	Almost no changes.	Neutral
	Module score			Light decrease
BAN 6. Savers Engagement	6.1	Strategy to influence savers to reduce their GHG emissions	No changes	NA
	6.2	Activities to influence savers to reduce their GHG emissions	No changes	NA
	Module score			Neutral

Module	Indicator ID	Indicator label	Changes	Expected impact
BAN 7. Clients Engagement	7.1	Strategy to influence clients to reduce their GHG emissions	Reshaping of some aspects (escalation process, objectives, scope, reweight to focus on objective and escalation process). Questions related on voting policies are conditional to actual investment in equity.	Uncertain
	7.2	Activities to influence clients to reduce their GHG emissions		
	7.3	Activities to influence clients with fossil fuel and deforestation-linked activities		
	Module score			Uncertain
BAN 8. Policy Engagement	8.1	FI's policy on engagement with associations, alliances, coalition or think tanks	Previous 0/100% question on compliance with climate initiatives enriched.	Uncertain
	8.2	Associations, alliances, colalition and think tank supported do not have climate-negative activities or positions	Almost no changes.	Uncertain
	8.3	Position on significant climate policies	Almost no changes.	Uncertain
	8.4	Collaboration with local public authorities	Almost no changes.	Uncertain
	Module score			Uncertain
9.Business Model	9.1	Transformative measures	Reshaped focusing on transformative measures.	Uncertain
	9.2	Financial flows reorientation		NA
	Module score			Uncertain
Module weights	Module 9 weight downgraded from 10% to 5% in favor of module 8 from 5% to 10%			Increase
Module weights	Module 3 weight downgraded from 3% to 2% in favor of module 6 from 2% to 3%			Uncertain
Overall score				Light increase

Some refinements has also be performed on narrative and trend score, mainly in term of clarification and usability, without significant changes expected in term of assessment..

3.2. REASSESSMENT EXERCISE

The abovementioned changes regarding the performance score have been tested through a quick reprocessing of assessments in order (i) to check whether they have the expected impact and (ii) ensure reliability of the tool.

The reassessment has been done following a fast-track process as the aim was not to perform a second in-depth assessment but provide a global picture of expected evolutions. Independently of the methodological changes, punctual evolutions of the assessment have been performed due to few operational mistakes.

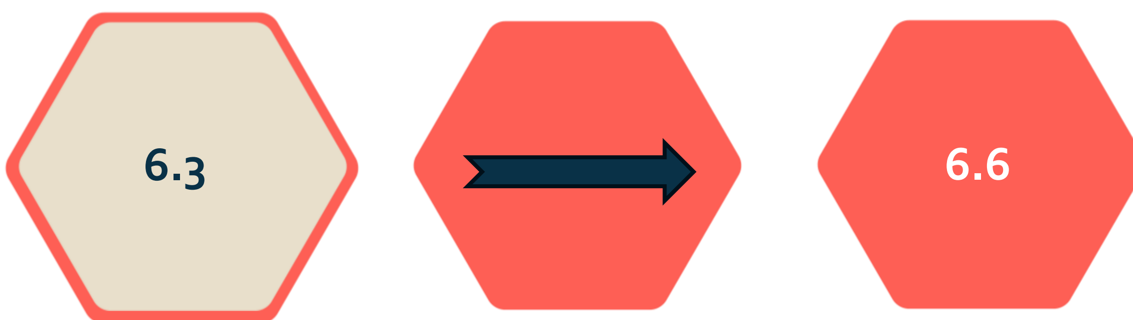


FIGURE 12: GLOBAL CHANGE

Overall, the reassessment occured a slight improvement in the rating. The detailed results are provided below.

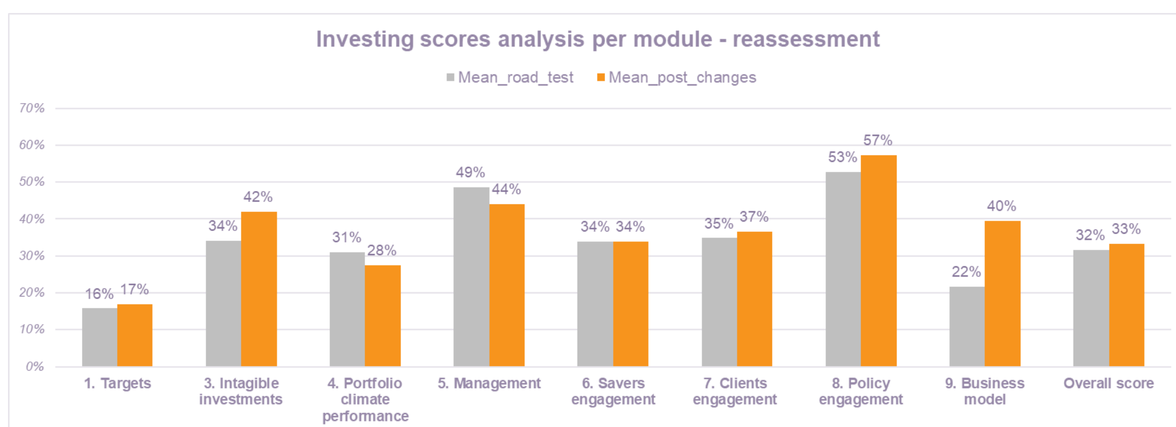


FIGURE 13: REASSESSMENT IMPACT

The overall performance score has improved (from 32% to 33% **so from 6.3 to 6.6**). This is the result of various changes. More in details:

- Targets have slightly improved mainly due to 1.2 reshape (GHG targets time horizon). Not so much investors had set GHG monetary targets that could have improved 1.1 scoring (GHG target alignment). Complementary question on loophole in exclusion policies contributed to downgrade a little bit 1.4 indicator on engagement targets.
- Intangible investment has improved due to deletion of 3.2 indicator (R&D) that was most of the time at 0%.
- Module 4 has overall decreased due mainly to identification of some loopholes in the assessment of 4.1 dimensions 1 and 2 (no financing of fossil fuel) as well as better granularity on low carbon / transitioning asset identification framework assessment, leading to downgrade some 100% score to previously non-existent 75%.
- Module 5 has decreased due to (i) the deletion of a non-discriminating question on the highest level of management incentivised on a climate topic (5.4) and (ii) an additional question regarding the existence of a formalized transition plan (5.3).
- Module 6 had no methodological changes.
- Module 7 improved following reweighting of some core questions (objective and escalation process) in 7.1 (strategy) and 7.2. (activity).

- Module 8 has improved due to more granularity on a question in 8.1 on the respect of engagement taken (previously only 0/100% were allowed) where most of companies were initially rated 0% and are now rated 75%.
- Module 9 has been globally reassessed following reshape (see above). The result is globally improving, however please note that no actual comparability can be make here.

It is recalled that module 9 weight has been decreased from 10% to 5% in favour of module 8 (from 5% to 10%) which has a global positive impact given the respective average score of those two modules.

Overall modules behave as expected. More improvements of global scoring are expected in coming years notably on indicator 4.1 due (i) to the direction taken by GFANZ and various initiatives regarding categorization framework that should be developed by Financial institutions in coming years and (ii) taxonomical fall-back set that should provide some insights for EU counterparties as regulatory reporting will be produced and provide a usable track record.

4. Conclusion and Outlook

CONTRIBUTION OF ACT TO ENGAGING INVESTORS IN THE LOW-CARBON TRANSITION

The ACT methodology is ambitious, showing how far financial players still have to go before they have a robust climate transition plan that is fully compatible with the Paris agreements. The various modules analysed, both qualitative and quantitative, provide guidance on how to move forward with this transition of business models necessary for the advent of a low-carbon economy.

Most of the investors that agreed to take part in this road-test exercise have set initial transition plans, being on the way to taking greater account of climate change in the pursuit of their activities. The development of action plans to encourage companies to reduce their carbon emissions (indicator 1.4 and module 7), the definition of a classification of financing according to their impact on the transition (indicators 1.5 and 4.1), and the extension of and compliance with ambitious sectoral targets (indicators 1.1 to 1.3) will significantly improve the overall assessment of financial institutions by the ACT methodology.