Corporate Climate Transition Plans

What content? Overview of Reclaim's research and key focus points

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AGENDA

01. Exploring minimum criteria for TPs

02. What to look for in TPs?

03. Engagement from asset managers and owners

04. Q&A

01.
Exploring minimum criteria for the content of transition plans

Understanding Reclaim's approach

Great diversity of methodologies: different objectives, coverage, availability..

Emerging regulatory landscape.. Leaving much room for interpretation.

- **Selection of public methodologies according to reputation and to ensure a certain diversity**
- **Four main categories of methodologies covered** (assessment methodology / Transition plan standard or expectations / disclosure covering impact, risk and opportunities / disclosure covering risk and opportunities)

Frameworks reviewed by Reclaim Finance

General corporate	Financial institution	Type	Author	Name	Abbreviation in this document
✔	✔	TPS	United Nations High Level Expert Group on net zero	Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions / Implementation Checklist[4]	UN HLEG
✔		AM	Climate Action 100+	Net Zero Company Benchmark	CA100+
✔		TPS	International Standards Organization	Net Zero Guidelines	ISO
✔		TPS	Race To Zero	Starting Line Criteria 3.0 / EPRG Interpretation Guide V 2.0[5]	RTZ
✔		AM	Science Based Target initiative	Corporate Net Zero Standard V.1.1	SBTi
✔		AM	New Climate Institute	Corporate Climate Responsibility Monitor Methodology 2022	CCRM
✔		AM	Transition Pathway Initiative	Methodology Report: Management Quality and Carbon Performance V.4.0	TPI
	✔	TPS	Climate Policy Initiative	What Makes a Transition Plan Credible? Considerations for Financial Institutions	CPI
	✔	TPS	World Wide Fund for Nature	Criteria for Credible Climate and Nature Transition Plans for Financial Institutions	WWF
✔		TPS	Glasgow Financial Alliance for Net Zero	Expectations for Real Economy Transition Plans	GFANZ
	✔	TPS	Glasgow Financial Alliance for Net Zero	Financial Institution Net-Zero Transition Plans Fundamentals, Recommendations, and Guidance	GFANZ
✔		TPS	Institutional Investors Group on Climate Change	Corporate Climate Transition Plans: A Guide to Investor Expectations	IIGCC
✔		AM	Institutional Investors Group on Climate Change	Investor Expectations of Corporate Transition Plans: From A to Zero	IIGCC

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	✔	TPS	United Nations Environment Program Finance Initiative	High-Level Recommendations for Credible Net-Zero Commitments from Financial Institutions	UNEP FI
	✔	TPS	Climate Safe Lending	The Good Transition Plan For Banks and Lending Institutions	CSL
✔		AM	We Mean Business Coalition	Climate Transition Action Plans	CTAP
✔		TPS	Climate Bond Initiative	Guidance to Assess Transition Plans	CBI
✔		TPS	Climate Bond Initiative	Transition Finance for Transforming Companies	CBI
✔		AM	Assessing Low Carbon Transition	Generic 1.1[6]	ACT
✔		AM	As You Sow	Road to Zero Emission 2022[7]	As You Sow
	✔	TPS	United States Treasury	Principles for Net-Zero Financing and Investment	US Treasury
✔		DI	Climate Disclosure Program	Reporting Guidance 2023 / Technical Note: Reporting on Climate Transition Plans / Climate Transition Plan: Discussion Paper[8]	CDP
✔		DI	European Union	ESRS E1	ESRS
✔		DR	International Sustainability Standard Board	IFRS S2 / Accompanying Guidance[9]	IFRS
✔		DI	Transition Plan Task Force	Disclosure Framework and Implementation Guidance - Draft for Consultation[10]	UK TPT
✔		DR	Task Force on Climate-Related Financial Disclosures	Guidance on Targets, Metrics and Transition Plan / Implementation Guidelines[11]	TCFD

Note: For the sake of simplicity in this document the various frameworks from GFANZ, IIGCC and CBI considered in the research are assimilated to a single entity position. The references to these three organizations made in the footnote of the document are therefore based on an aggregation of the analysis of the framework available in full in the Transition Plan Checklist excel file.

Focus for the presentation

- Analysis grid based on 8 categories, 23 criteria and 73 sub-critera
- Summarized in 5 key steps and related recommendations
- Added in the presentation: mention of specific elements on banking targets and asset manager engagement

Overview of the content of the report

Part II: Shows how Reclaim's minimum criteria contribute to a qualitative response to regulatory and prudential requirements that remain too imprecise at this stage.

Link to the ESRS

Link to ECB supervisory expectations (preliminary analysis)

Part I: Gathers the result of the cross-analysis of existing methodologies in minimum criteria for the content of transition plans. The red lines are a summary of these criteria, focusing on high impact elements and allowing a rapid identification of major shortcomings.

“Red lines” to analyze TPs

Recommendations (Minimum criteria)

Warning:
1) This work focuses on corporate plans in general. The specificities of finance are included but in a very partial way. They are be the topic of an upcoming publication. ;
2) The recommendations are not sufficient to ensure the soundness of the plan (not exhaustive).

02.
What to look for in transition plans?



Step 1: Robust decarbonization targets

Targets must be based on absolute emissions.

Incomplete activity or GHG coverage:

- Not all activities and/or jurisdictions are included.
- Scope 1 and 2 are not fully included.
- For short term targets: Scope 3 is not included /or/ Insufficiently included.[16]
- For middle- and long-term targets: Scope 3 is not fully included.
- Carbon offsets are considered in intermediate targets and/or account for a disproportionate share of long-term targets.[17]

Irrelevant or unprecise timeline for targets:

- No short-term target is set (2025 and/or 2-5 year).
- No intermediary targets are set (2030 and 2035 and/or every 2 or 5 years after the initial target year).
- No target to reach carbon neutrality or zero GHG emissions by 2050 at the latest is set.

Dangerous baseline:

- The climate scenario used for target setting is not a 1.5°C low/no overshoot scenario with a limited level of negative emissions.
- The base year is not recent and representative.

Insufficient ambition:

- Targets are not consistent with halving emissions by 2030.
- Targets do not aim for reducing emissions by at least 90% by the defined carbon neutrality date.

Red lines

Focus on:

1. Target design: coverage, calculation, scopes
2. Scenario choice
3. Offsets in intermediary targets

Digging deeper on bank targets

https://reclaimfinance.org/site/wp-content/uploads/2024/09/Targeting-Net-Zero-Report.pdf

PCAF defines financed emissions as:

$$\text{Portfolio Financed Emissions} = \boxed{\sum_i \text{Attribution Factor}_i} \times \text{GHG Emissions}_i$$

Where attribution factor for the i^{th} constituent in the portfolio is computed as:

For listed companies:

$$\text{Attribution Factor}_i = \frac{\text{Outstanding Amount}_i}{\boxed{EVIC_i}}$$

For bonds issued by private companies:

$$\text{Attribution Factor}_i = \frac{\text{Outstanding Amount}_i}{\text{Total Equity}_i + \text{Total Debt}_i}$$

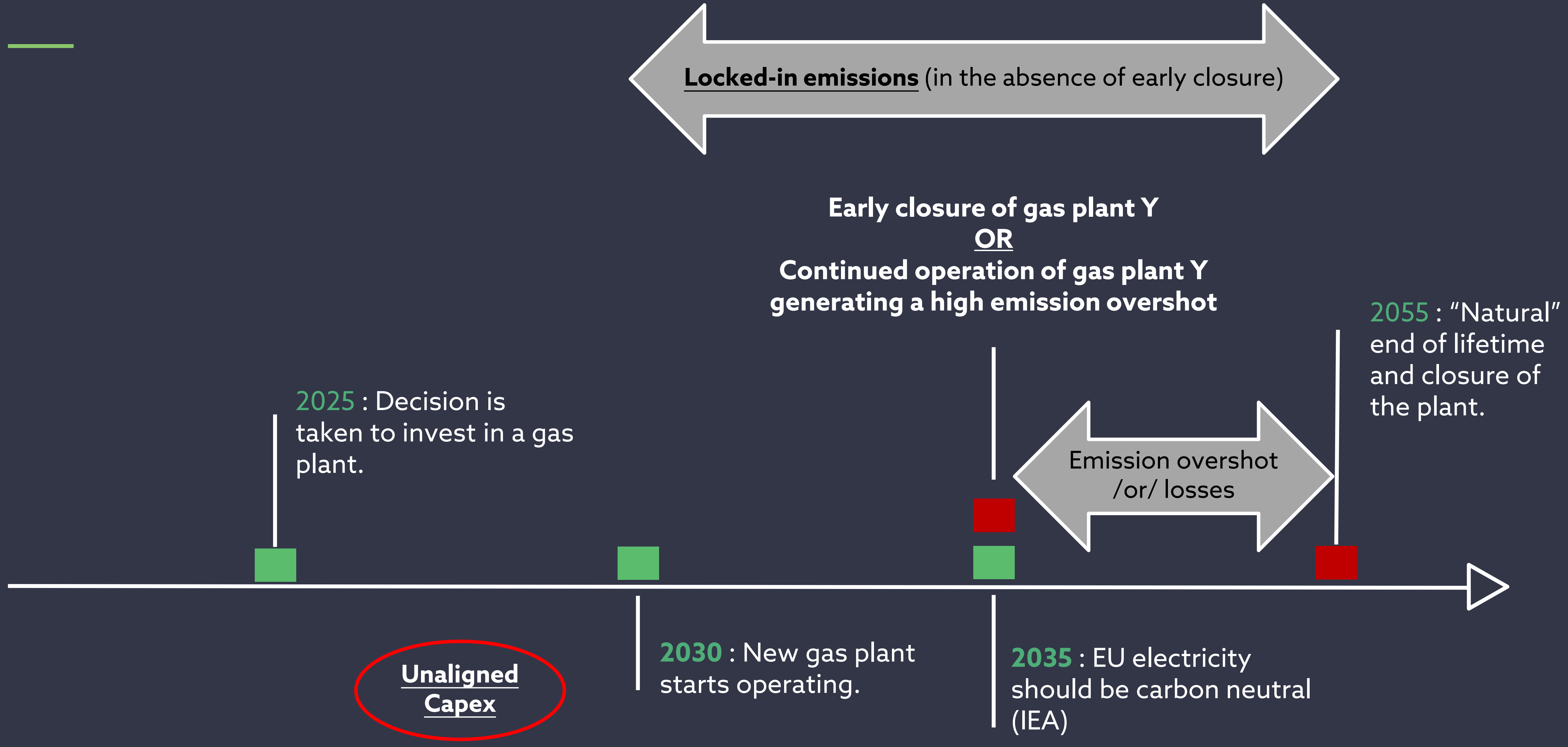
EVIC = Total Company Equity + Debt

Red lines

Focus on:

1. Fossil fuel policies
2. Actions and levers (with quantitifcation and specifically related to high carbon assets)
3. Capex and financial targets

Why capex are essential



Coal policies

44%

of the financial institutions assessed have adopted a coal policy.

41

financial institutions assessed have already adopted commitments to stop financing coal developers.

84%

of financial institutions assessed have not committed to exit thermal coal by 2030 in Europe/OECD and 2040 worldwide.

6

of the coal sector policies adopted in 2023 included commitments to limit financial support to the metallurgical coal industry.

https://coalpolicytool.org/

Oil and gas policies

69%

of financial institutions assessed still have no oil and gas policy.

9

financial institutions assessed have committed to restrict their support to oil and gas developers.

98%

of financial institutions assessed have not adopted any commitments to limit their support to the development of LNG infrastructure.

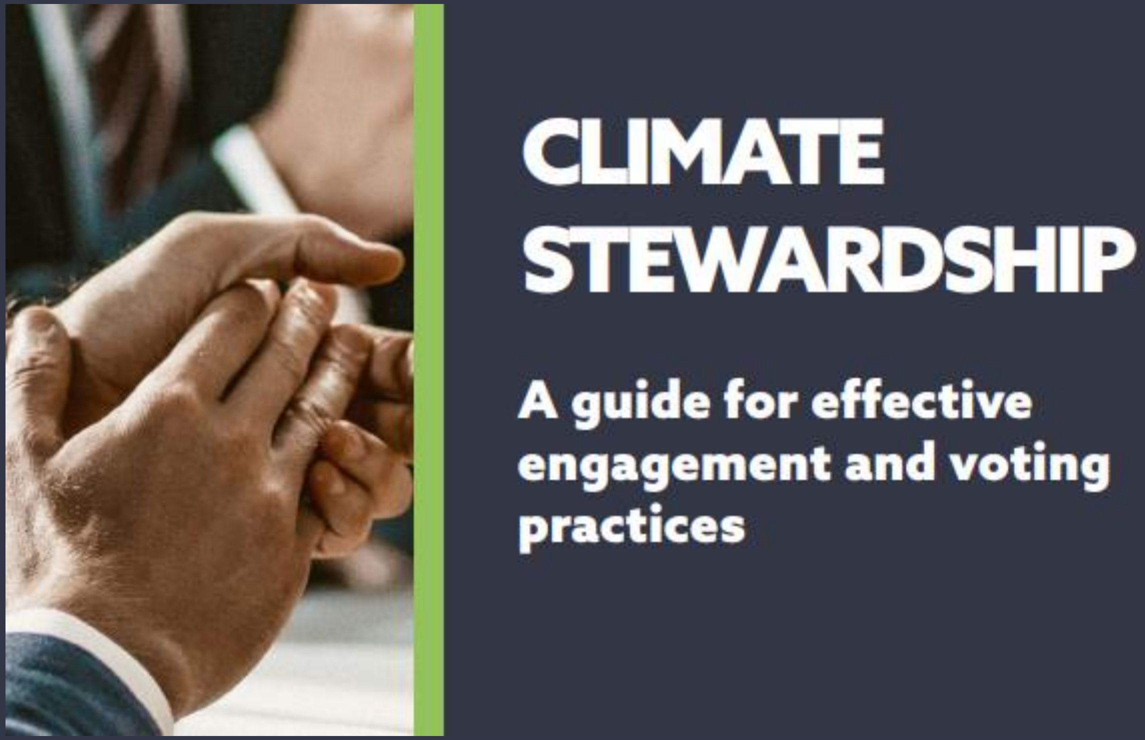
24

oil and gas policies adopted or updated since January 2023.

https://oilgaspolicytracker.org/

03.
Engagement from asset managers and owners

Stewardship Guide



https://reclaimfinance.org/site/wp-content/uploads/2023/08/Reclaim-Finance_Climate-stewardship_August-2023_VF.pdf

The engagement policy checklist

Scope of application

- Cover all asset classes;
- Publish key metrics about companies engaged;
- Prioritize companies representing highest GHG emissions for all scopes.

Goals and demands

- Specify that your key goal is limiting global warming to 1.5°C and halving emissions by 50% by 2030;
- Have public and time-bound sectoral and general demands;
- Focus demands on alignment and real-world change rather than disclosure.

Types and tools

- Combine individual and collaborative engagement;
- Use all available tools, and combine them;
- Use dedicated tools depending on asset classes.

Escalation strategy

- Link every demand with escalating sanctions;
- Apply systematic sanctions every year if demands are not met;
- Use divestment as the ultimate sanction.

Reporting

- Publish an annual report;
- Include both activity and outcome indicators;
- Include an assessment of the progress achieved.

The voting policy checklist

Scope of application

- Cover at least 90% of companies in portfolio.

Criteria and demands for each type of resolution

- Cover both routine resolutions and ESG resolutions, including shareholder-proposed resolutions
- Make criteria consistent with goals and demands defined in the engagement policy.

Reporting

- Publish an annual consolidated report;
- Disclose individual votes, every year and within one month after the AGM;
- Disclose rationales for key ESG resolutions.

Thank you

Q&A