

Exploring minimum criteria for TPs

What to look for in TPs?

Engagement from asset managers and owners

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)

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. Einancial Institutions. Cities and Begions / Implementation Checklist ^a	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 2.04	RTZ
~		ΔМ	Science Based Larget initiative	Comorate Net Zew Standard V.1.1	SRTi
~		АМ	New Climate Institute	Corporate Climate Responsibility Monitor Methodology 2022	CCRM
~		АМ	Transition Pathway Initiative	Methodology Report: Management. Ouality and Carbon Performance. V4.0	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
~		АМ	Institutional Investors Group on Climate Change	Investor Expectations of Corporate Transition Plans: From A to Zero	NGCC

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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
~		АМ	We Mean Business Coalition	Climate Transition Action Plans	CTAP
~		TPS	Climate Bond Initiative	Guidance to Assess Transition Plans	СВІ
~		TPS	Climate Bond Initiative	Transition Finance for Transforming Companies	CBI
~		AM	Assessing Low Carbon Transition	Generic 1.14	ACT
•		AM	As You Sow	Road to Zero Emission 2022	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 ²	CDP
~		DI	European Union	ESRS E1	ESRS
~		DR	International Sustainability Standard Board	IFRS 52 / Accompanying Guidance4	IFRS
~		DI	Transition Plan Task Force	Disclosure Framework and Implementation Guidance - Draft for Consultation ⁸	UK TPT
~		DR	Task Force on Climate- Related Financial Disclosures	Guidance on Targets, Metrics and Transition Plan / Implementation Guidelines ²²	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 footnate of the document are therefore based on an aggregation of the analysis of the framework available in full in the <u>Transition Flan Checklist</u> excel file.

Focus for the presentation



STEP 1

Robust "science-based" decarbonization targets



STEP 2

A sound decarbonization strategy



STEP 3

A relevant engagement strategy



STEP 4

The integration in reporting and governance



STEP 5

Considering just transition and biodiversity

- 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 I: Gathers the result of the crossanalysis 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.

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).

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)

"Red lines" to analyze TPs

Recommendations (Minimum criteria)

O2. 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 longterm 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:

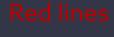
- The climate scenario used for target setting is not a 1.5°C low/no overshot scenario with a limited level of negative emissions.
- The base year is not recent and representative.

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.

Focus on:

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



Digging deeper on bank targets



TARGETING NET ZERO

The need to redesign bank decarbonization targets

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

PCAF defines financed emissions as:

$$Portfolio\ Financed\ Emissions = \sum_{i} Attribution\ Factor_{i} \times GHG\ Emissions_{i}$$

Where attribution factor for the ith constituent in the portfolio is computed as:

For listed companies:

$$Attribution \ Factor_i = \frac{Outstanding \ Amount_i}{EVIC_i}$$

For bonds issued by private companies:

$$Attribution \ Factor_i = \frac{Outstanding \ Amount_i}{Total \ Equity_i + Total \ Debt_i}$$

EVIC = Total Company Equity + Debt

Step 2: A sound decarbonization strategy

Unrealistic or insufficiently substantiated decarbonization action plan:

- No action plan is provided /or/ The action plan does not cover short-, medium- and long-term targets.
- The actions are not linked to expected quantitative GHG emissions reductions.

Unaligned financial targets:

- No financial targets including at least a capex target - have been set to increase investment in climate solutions.
- No financial targets including at least a capex target – have been set to ensure that no new investment goes to harmful activities and that the involvement in high carbon activities is progressively reduced /or/ Current capex devoted to harmful activities is too high to enable short term decarbonization or avoid locking in large emission volumes.
- No definition for climate solutions is set /or/ The definition of climate solutions includes activities tied to fossil fuel production, transport, transformation, or use.
- No or insufficient link between financial targets and the decarbonization action plan.¹⁸

Locked-in emissions are not tackled:

No qualitative and quantitative

- assessment of the potential lockedin GHG emissions is provided, or the assessment does not cover all relevant assets and all relevant emission scopes.
- No explanation is provided of plans to manage GHG/energy-intensive assets and products.

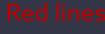
Providing the importance of the energy transition, additional red flags must be considered for entities involved in the fossil fuel value chain and financial institutions:

No robust plans to phase-out fossil fuels and stop contributing to their development:

- No immediate end to all support to the development of coal, oil and gas production projects and coal power projects, and to the companies that develop them.
- No immediate end to all support to the development of oil and gas midstream infrastructures – including LNG terminals – and to the companies that develop them.¹⁹
- No commitment to phase out thermal coal by 2030 in the OECD and 2040 worldwide.
- No plans for the decommissioning and disposal of fossil fuel infrastructure aiming for a full phase-out by 2050 at the latest.

Focus on:

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



Why capex are essential

Show the company cannot /or/ do not want to transform its business model

Locked-in emissions (in the absence of early closure)

Early closure of gas plant Y
OR

Continued operation of gas plant Y generating a high emission overshot

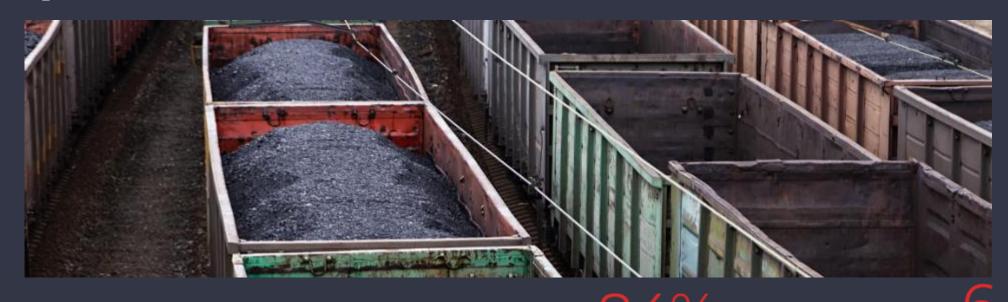
2025 : Decision is taken to invest in a gas plant.

Emission overshot /or/ losses 2055: "Natural" end of lifetime and closure of the plant.

Unaligned Capex **2030**: New gas plant starts operating.

2035: EU electricity should be carbon neutral (IEA)

Coal policies



44%

of the financial institutions assessed have adopted a coal policy.

4]

financial institutions assessed have already adopted commitments to stop financing coal developers. of financial institutions assessed have not committed to exit thermal coal by 2030 in Europe/OECD and 2040 worldwide.

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%

9

98%

24

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

financial institutions assessed have committed to restrict their support to oil and gas developers. of financial institutions assessed have not adopted any commitments to limit their support to the development of LNG infrastructure.

oil and gas policies adopted or updated since January 2023.

https://oilgaspolicytracker.org/

03.

Engagement from asset managers and owners







Stewardship Guide



CLIMATE STEWARDSHIP

A guide for effective engagement and voting practices

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

The engagement policy checklist



Scope of application



Goals and demands



Types and tools



Escalation strategy



Reporting

- Cover all asset classes:
- · Publish key metrics about companies engaged;
- · Prioritize companies representing highest GHG emissions for all scopes.
- · 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.
- · Combine individual and collaborative engagement;
- · Use all available tools, and combine them:
- Use dedicated tools depending on asset classes.

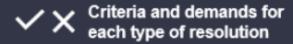
- · Link every demand with escalating sanctions;
- · Apply systematic sanctions every year if demands are not met;
- · Use divestment as the ultimate sanction.

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

The voting policy checklist



 Cover at least 90% of companies in portfolio.



- 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