INTERNATIONAL CLIMATE REPORTING AWARDS

EVALUATION CRITERIA

2021

Liberté • Égalité • Fraternité
RÉPUBLIQUE FRANÇAISE

MINISTÈRE
DE LA TRANSITION
ÉCOLOGIQUE
ET SOLIDAIRE

ADEME
French Environment &
Energy Management Agency

2° investing initiative

GUIDELINES

CRITERIA GUIDELINES

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Context and ambition

The Paris Agreement signed at the Conference of the Parties (COP) 21 in December 2015 recognized for the first time that the financial sector is a key actor to address climate change, namely in its article 2.1 c *“Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”*.

From the fossil fuels divestment campaigns from United States’ endowments to the Europeans’ investors pledging to exit coal, initiatives to address climate risk have proliferated over the last few years. Furthermore, an increasing number of financial institutions are committed to increasing transparency and climate action, by signing or being members of the Climate Action 100+ initiative, the Carbon Disclosure Project (CDP), the Asset Owners Disclosure Project (AODP), among others.

In July 2015, France became the first country to introduce mandatory climate-related reporting for institutional investors: reporting obligations are set out under Article 173 of France’s *Law for the Energy Transition and Green Growth*. The impact of Article 173 was felt beyond France and contributed to increasing international demand for climate-related data of companies.

In the same year, the Financial Stability Board (FSB) launched the Task Force on Climate-related Financial Disclosures (TCFD) in order to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. The premise is that companies may not be accurately capturing the magnitude and implications of climate change risk in disclosures to investors and, as consequence, the latter may be doing too little too late to prepare for these risks. In its final report (June 2017), the TCFD recommended[1] that financial disclosures should include metrics on the physical and transition risks and opportunities of climate change, among others.

The TCFD drew from the work of existing voluntary and mandatory climate-related reporting frameworks, including those developed by the Carbon Disclosure Project (CDP), the Climate Disclosure Sustainability Board (CDSB), the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), Principles for Responsible Investor (PRI), and the International Integrated Reporting Council (IIRC).

Some underlying principles shared among these frameworks pointed that disclosures should represent relevant information, be specific, complete, clear, balanced and understandable. Disclosures should be consistent over time and comparable among companies within a sector, industry, or portfolio. Finally, disclosures should be reliable, verifiable, objective and be provided on a timely basis[2].

All of the above guiding principles for effective disclosures are integrated in the evaluation criteria of the Climate Awards.

The Awards aims to support financial institutions in aligning their disclosures with the above-mentioned initiatives and regulations, as well as other international actions, such as the EU Action Plan on Sustainable Finance adopted in 2018.

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[1] Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures (June, 2017)

[2] CDSB Foundational Concepts

Objectives of the awards

The Awards recognize good practices in climate-related reporting of financial institutions, as well as build on the ongoing work of the European Commission (EC) and other governments and initiatives.

The Climate Awards 2021 support the implementation of the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations, the EU Non-Financial Reporting Directive and equivalent global reporting requirements and initiatives, and support the implementation of the Article 173-VI of the Law on Energy Transition for Green Growth (LTECV) in France. It builds on the 2016, 2019 and 2020 editions of the Awards, with updates developed for the 2021 criteria and scoring system to improve transparency and drive good practices.

The Awards are international and not restricted to French or European institutions.

In addition to rewarding strongest disclosures, the 2021 edition has three primary goals:

1. To reinforce awareness and promote the recent developments and good practices in climate-reporting;
2. To provide the opportunity for applicants to receive feedback on their current reporting; and
3. To highlight ongoing progress in reporting, build capacity, share expertise and identify key remaining reporting challenges.

It provides an opportunity for financial institutions to showcase best practices, share common challenges and identify climate-reporting leadership.

Judging criteria

The criteria assessment is based on four pillars:

I. Governance and climate strategy
II. Climate issues' impact on investments
III. Investments' impact on climate issues
IV. Transparency and communications efforts

In 2019, the criteria underwent an exhaustive public consultation, with over 70 points of feedback received and acted upon. As the overarching structure of the pillars and criteria has not changed in 2020, it was decided not to conduct another public consultation/review before this edition.

For the 2021 edition, a consultation/review was conducted by Steering Committee members, allowing a validation of the changes and modifications.

● NEW DEVELOPMENTS IN THE MATRIX

Following the analyses of the 2020 exercises, the criteria matrix has been revised to support transparency and monitoring of practices, to integrate regulatory changes, to better reflect differences in the maturity of practices and to facilitate compliance. This update is the result of the work of the CTH team, fed by a period of open consultation and exchange with the consortium members on a first draft of the matrix.

The 2021 matrix presents a set of refined, clarified and reorganised criteria as well as 84 new sub-criteria. These adjustments were made in response to three issues identified in the first analysis period:

- Better reflect the diversity of practices

The first period of analysis via the 2020 Matrix highlighted discrepancies with reality and the multitude of targeted practices, making it difficult to analyse them properly. A set of criteria were reorganised and added to better observe and identify varied, complex and different practices.

⇨ New criteria to observe the state of practices

- Facilitating the comparability of practices

Some of the overly focused or precise criteria of the 2020 Matrix proved problematic in order to be able to place different practices of the same nature or purpose side by side. The 2019 Characterised Reports have provided formatting solutions to facilitate these comparisons (see analysis tables and detailed criteria). A set of criteria have been redesigned and added to better gather and contrast differences in data and explanations on the same types of practices (e.g. analysis of the same risk, calculation of induced emissions, alignment strategies).

⇨ New criteria for the comparability of practices
⇨ Pushing the cutting edge practices

The update of the Matrix allowed for the refinement of some criteria and the addition of others to better identify the most mature, innovative and experimental practices on issues that are still on the fringes of commonly deployed practices or that are starting to be integrated into regulatory frameworks (Decree 29-LEC, SFDR Regulation).

⇨ New criteria from good practices identified in the 2019 Characterised Reports or from the 29-LEC Decree

● MAIN CHANGES

Mapping TCFD and Decree 29-LEC

Addition and modification of criteria to allow full compatibility with the final recommendations of the TCFD (representing 7% of the sources of new criteria).

Addition and modification of criteria to allow for anticipation of the new French regulatory framework resulting from Decree 29-LEC (29% of new criteria are based on the new Decree 29-LEC).

This mapping is highlighted in the Matrix

Anticipating SFDR

The requirements of the SFDR Regulation (notably Articles 8 and 9), and its implementing technical standards (RTS), will be integrated in a future update of the Criteria Matrix. We are waiting to see how financial institutions appropriate these distinctions for art 8 and art 9 financial products that would particularly address climate issues (promotion of climate-friendly characteristics/sustainable investments). While waiting for this integration, some criteria of the 2021 Matrix echo the SFDR regulation by trying to observe practices halfway to the application of its requirements such as:

Pillar 1, sub-criterion 1.2.1 "List of assets/products cited by the entity as supporting the Transition", in particular to observe whether these financial products are categorised as financial products under Article 8 or 9 of the SFDR.

Pillar 1, sub-criterion 4.1.2 "Integration of risks/opportunities into activities, products and services" to observe the description given, if any, of these products, in line with Article 4.2d) of the SFDR.

Pillar 4, criterion 2.2 "Climate-related products & services" to observe the practices on this subject in anticipation of the coordination of SFDR and MiFID 2.

General

The Pillars have been reorganised to bring planning-related information into Pillar I and to dedicate Pillars II and III to climate analyses of investments (and loans where applicable). Elements relating to the entity's impact strategy have been integrated into the "Climate Strategy" section in Pillar I (Section 3). Elements relating to the integration of results into management and planning have been integrated into the section "Building long-term resilience" (Pillar I, Section 4).

Creation of iterative criteria in Pillars II and III, so that the different climate analyses reported by the entity can be analysed individually from the same perspective. These are the explanation sections specific to each risk/opportunity analysed, alignment analysis, impact estimates, etc.

These sections are the explanatory sections for each risk/opportunity analysed, the alignment analysis, the impact estimates of the issuers and the impact estimates of the entity (Pillar II, Section 2, Pillar III, Sections 3, 4 and 5)

Pillar I

Addition of a new section "Assets and activities", introductory to Pillar I to give an overall view of the institution's assets/activities considered in the exercise: typology of financial assets/products, perimeter of climate analyses, and finally putting into perspective the products cited by the entity as supporting the Transition with the

Taxonomical green share and the fossil share as defined by decree 29-LEC.

Reorganisation of Section 2 "Governance of climate issues" to better reflect the different responsibilities and the organisational and hierarchical relationships between the different bodies responsible for preparing, steering or supervising the climate strategy.

Suggestion to present the climate objectives in a table format to facilitate transparency and monitoring: target, tracking KPIs, unit of measurement, timeframe, intermediate steps, scientific support, explanation of choices, levers for achieving them, consistency with the overall investment strategy and the objectives of the Paris Agreement objectives. (Pillar I, Section 3, criterion 3.4)

Pillar II

Introduction of an "Identification" section (Section 1) to better focus and isolate the steps preceding the climate analyses. This section aims to better highlight the transition from identification to the choice of methods and indicators, potentially including a prioritisation of the identified risks and opportunities in relation to the entity's investment horizon and its assets and/or products. This section concludes with summary tables of methods and analysis data, already included in the 2019 Characterised Reports for comparability purposes.

The former separate sections dedicated to the analysis of physical, transitional, general or specific risks give way to a single iterative section: "Explanation specific to each risk/opportunity analysed" (Section 2). It focuses on the risk analyses communicated in the reports showing a certain level of detail (mature practice). It brings together and reorganises a set of criteria from the first matrix by sorting them into explanations of methods (Criterion 2.1), data (2.2), and results (2.3).

It follows the same procedure as in the first analysis session: observing the analyses one by one and reporting on them separately. The annual report will compare the different analyses targeting the same dimensions (aggregate physical risk, aggregate transition risk, each specific transition and physical risk).

Pillar III

Introduction of an "Identification" section (Section 1), similar to that of Pillar II and with the same purpose of use. To do this, it isolates all reported exposures to climate-related energies or sectors, as well as explanations and choices on the subject. Often used as an indication of exposure to a risk, opportunity, or potential contribution or alignment, exposure is not a risk, opportunity, alignment or contribution analysis per se.

However, it remains a key step in the analysis of the impact of investments/loans on climate issues, both as a preliminary benchmark for the choice of analysis and methods, and as input to the analysis tools themselves (sub-criterion 1.1.1. therefore targets the use made of the measure); hence the choice to isolate these elements in this introductory section.

Addition of a "Induced emissions" section (Section 2), in order to isolate all the measurements and estimates relating to the emissions of the issuers in the portfolio. This information, included in the criteria for the alignment analysis methods in the first matrix, was isolated as such in the first analysis session, so that these measures could be reported and compared independently of their use in the alignment analysis tools.

Addition of a section targeting entity impact estimates. In order to explicitly distinguish between the impact of the issuer (relatively quantifiable, in products/services or by estimating the emissions avoided by them) and the impact of the financer/entity (more difficult to prove, track and quantify). Very advanced practice, the objective will be to be able to identify and analyse its occurrences.

Pillar IV

Highlighting the efforts made by financial institutions on format and reporting to encourage harmonisation of presentation formats and improve transparency of information in terms of clarity, accessibility and monitoring.

- **SCORING METHODOLOGY**

The scoring methodology is based on the 4 thematic areas with their respective weighting as shown below:

PILLAR 1 GOVERNANCE & CLIMATE STRATEGY	PILLAR 2 CLIMATE ISSUES' IMPACT ON INVESTMENTS	PILLAR 3 INVESTMENT'S IMPACT ON CLIMATE ISSUES	PILLAR 4 TRANSPARENCY AND COMMUNICATION
30% 7 sections	**30% 4 sections**	**30% 6 sections**	**10% 2 sections**
FIs are expected to detail their **climate strategies** (coverage, alignment and impact strategies, main objectives…) and the **governance around it** (supervision entity, role of the board, etc.).	FIs are expected to **identify all risks and clarify the methodology for each risk's analysis**. They may also report about their stress-tests methodologies and their results.	FIs are expected to clarify their **methodologies on induced emissions calculations, alignment estimations, as well as impact measurement.**	The goal of this last pillar is to assess the FIs' transparency by clarifying their reporting formats and communication strategies around climate impact.

Each pillar is composed of sections that are divided into criteria and sub-criteria. Below, the illustration for Pilar IV:

PILAR	SECTION	CRITERIA	SUB-CRITERIA
Pillar IV: Transparency and communication efforts *On climate issues, to clients and beneficiaries*	1. Format and presentation efforts for the exercise	1.1 Consolidation of climate-related information	1.1.1. Form of the report
			1.1.2. Report by fund
			1.1.3 Dissociation between climate and ESG
		1.2 Structure of information publication	1.2.1 Standard plan
			1.2.2 Concordance table
		1.3. Summary of KPIs, results and objectives	1.3.1. Consolidated list / table of suppliers & consulting firms
			1.3.2. List / table of KPIs and analysis results
			1.3.3. List / table of objectives
		1.4. Visualization of issues and structures	1.4.1. Assets
			1.4.2. Governance
			1.4.3. Strategy & objectives
		1.5. Pedagogy	1.5.1. On climate issues
			1.5.2. On the tools and methods deployed
	2. Communication on climate issues	2.1. Climate-related communication strategy	2.1.1. Communication strategy
			2.1.2. Communication levers
			2.1.3. Checking for understanding
		2.2. Climate-related products & services	2.2.1. Client relations
			2.2.2. Awareness of client preference
			2.2.3. Products and services transparency

The scoring methodology is based on the following rules:

- A monitoring system for ESG controversies is set up by organisers and jury members. In the event of a controversy, jury members may disqualify a financial institution.
- A number of 'core criteria' have been identified (e.g. *body responsible for supervision of climate issues*, *climate in voting policy…*). A minimum percentage of these criteria will have to be met to qualify for the shortlist.
- One criterion will equate to 1 point. In order to get this point, institutions will have to fulfil all the sub-criteria.
- Within a criterion, the sub-criteria are equally weighted.
- Some sub-criteria have been considered as 'non-binary'. It will therefore be possible to score 0, half or all points for these sub-criteria.

- Two criteria are not applicable to all categories (*delegated management*, *thematic investment*). We will adjust the weights according to these categories in case it is not applicable.
- An overall score is calculated for each pillar, according to the weighting of the criteria. A global score is then calculated by aggregating the pillar scores according to the following weighting: 30% pillar 1, 30% pillar 2, 30% pillar 3, 10% pillar 4.

Note: For each criterion, participants are required to both briefly contextualize their positioning and/or indicate the source/public document containing the information to validate the condition(s) of the criterion.

Although the contextualization part is necessary and important to ensure the jury's correct comprehension, the only information considered for validation of a criterion is the one contained in public documents supporting that point. It is therefore essential for participants to specify as precisely as possible the location of information in the supporting documents provided with the application.

The following compares the 2021 and 2020 editions:

	2020	2021
Number of pillar	4	4
Number of section	27	19
Number of criterion	85	57
Number of of sub criterion	157	159

In 2020, a total number of points lower than the minimum required led to the elimination of the financial institution. In 2021, a number of “core criteria” have been identified. A minimum percentage of these criteria need to be met by financial institutions to qualify for the shortlist.

In 2020, sub criteria were not equally weighted (*For each criterion, a score is attributed which reflects the number of sub-criteria points which are covered. These sub-criteria points are weighted in function of their perceived materiality.*). In 2021, we propose the principle of equi-weighting in order to ensure objectivity.

In 2020, all sub criterion were considered as binary.

Eligibility. The Awards are international, and all types of financial institution can participate.

Award Categories. The Jury will grant:

- An award for the best disclosure for each financial institution category: Banks, Asset Managers and Asset Owners
- An overall “Jury’s Prize” will be awarded at the discretion of the jury

Awards will be granted to the individual entity which has applied e.g. Entity Alpha Asset Manager, which is a subsidiary of Entity Alpha Ltd., wins an award. The award will be granted to the Entity Alpha Asset Manager, not Entity Alpha Ltd.

The jury reserves the right to identify additional awards categories if required, as well as the right to decline awarding awards for any of the above categories if the overall quality is not sufficient, or there are not enough applicants in the category.

Participation in the French observatory on climate reporting practices. The criteria of the awards are being used as the underlying structure of the new French National Reporting Observatory, which is under development as part of the EU-financed *Finance ClimAct* project. The Observatory will track financial institutions' progress in implementing key climate reporting frameworks, notably French Article 173, forthcoming EU requirements, as well as the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD). Once completed, it will help financial institutions further improve their climate reporting processes.

French participants are encouraged to join the Observatory's initiative and allow their applications' information to be shared with the Observatory in the context of the Observatory's first exploratory work for 2020.

Composition of the jury. The jury of 15 to 20 members is made up of four constituent groups.

The full list of members, selected by the Steering Committee and the organisers, will be made public before the end of the submission period[3] and will be composed of members from:

- Public institutions;
- Investor coalitions and industry experts;
- NGOs; and
- Academics.

The Jury will be selected to avoid conflict of interests and measures will be put in place where conflict may occur and confirmed prior to the end of the application period.

Application and deliberation process. The submission period will be from June 2021 to 31 July 2021.

ADEME and 2° Investing Initiative will conduct an initial analysis of the applications and put forward a shortlist of candidates to the jury, who will grant the awards. The full list of submissions, initial analysis and associated reports will be made available to the jury.

Communication. The names and details of applicants will be confidential and only the names of award winners will be disclosed. Consolidated information will be communicated (e.g. the total number of applications, their geographical origin, the breakdown between types of institutions etc.). No individual analyses, nor the name of the candidates will be made public without prior written consent.

[3] For more information about the Jury's members, please visit www.climatereportingawards.org.

● EVALUATION CRITERIA GUIDELINES

This section details the pillars, sections and criteria to be used when assessing and scoring the applications. The pillars are based on key reporting requirements from international reporting standards and frameworks, including the TCFD, but are not specifically aligned to any individual framework in order to reflect the breadth of international reporting requirements.

All types of reports will be assessed as part of the evaluation. However, the assessment will highlight examples of good practice where material disclosures are clearly integrated into the narrative of the organization’s annual report. For the purpose of the sections and criteria, all reports are referred to as “the report”.

The assessment seeks to recognize good practices and identify financial actors which are integrating climate risks and opportunities into their investment/lending decision making.

These guidelines highlight how the scoring will be based on transparency and completeness of information regarding the work being conducted by each candidate in this challenging and fast evolving field. It is important to mention that the Climate Awards do not intend to evaluate the climate performance of investments themselves.

Marketing and pure communication exercises will not be rewarded. The quantity of information provided is not part of the evaluation per se, and assessments will be made based on the quality of the information provided.

The methodology respects the different nature and business activities of each financial institution type, in view of the myriad of assets, type of management and business units. In this sense, some sub-criteria apply most specifically to certain financial institution types. This will be considered in the review of each application to ensure fairness. The ambitious nature of part of the criteria aims to drive best practice as well as capture progress during following editions of the Awards.

Following the Climate Awards 2021, all applicants will receive an individual feedback report, indicating the key strengths and weaknesses of their climate-related disclosures, in the most reasonable and customized approach possible.

1. GOVERNANCE AND CLIMATE STRATEGY

Financial institutions should provide a description of the overall approach to integrating climate considerations into their investment/lending strategy and engagement practices.

This pillar will focus on climate-related disclosures regarding governance, management's role and responsibilities, as well as the integration of climate-related considerations into overall strategy, policies and operations.

The pillar is subdivided into 7 sections:

- Assets and activities
- Governance of climate issues
- Climate strategy
- Building long-term resilience
- Integrating climate into investment
- Climate-related shareholder engagement practices
- Development of internal expertise

Section 1.1 Assets and activities

This introductory section aims:

1) to provide an overview of the institution's assets and/or activities considered in the reporting exercise both:

- from a general point of view, if they are dealt with in the exercise (over all or part of the exercise)

- from a detailed point of view, if they are the subject of a specific analysis

2) to understand the classification of presentation of the financial supports chosen by the entity.

3) to group together the investments considered by the entity as supporting the ecological transition, and the share of "green" assets as in the European taxonomy as well as the fossil share as in the Art 29 LEC.

This section includes 3 criteria

Criteria	# of sub criteria
Assets and activities covered in the climate reporting exercise	3
Assets supporting the transition as defined by the entity	1
Taxonomy-compliant green share and fossil share (regulatory anticipation)	2

Section 1.2 Governance of climate issues

This section focuses on all elements related to the implementation of governance regarding climate issues. The criteria aim to highlight the role of governance bodies, management and risk management in relation to these issues. It also includes collective initiatives related to climate action, as listed and explained by the entity.

Criterion 2.2, based on good practices identified in the 2019 reports, aims to isolate the milestone committees, specialised on climate issues, which may have various roles adapted to the specificities of the entity such as

- participating in the exchange of information between the various governance bodies (acting as a link between the management and supervisory bodies on climate issues)

- accompanying or being responsible for the preparation or monitoring of the alignment strategy, action plans, or the definition of climate objectives.

This section includes 5 criteria

Criteria	**# of sub criteria**
Supervision	3
Preparation and monitoring	4
Management	3
Climate risk management	2
Memberships	2

Section 1.3 Climate strategy

This section focuses on all elements related to the integration of climate issues into the entity's strategic planning. This may include an explicit strategy for alignment with the Paris Agreement objectives, exclusion policies, contribution strategies, as well as targets set by the entity. The details of the monitoring of the targets through climate analysis and indicators are targeted by pillars II and III. The details of the means implemented can be found in section 4. of this pillar.

This section includes 4 criteria

Criteria	**# of sub criteria**
Strategy of alignment with the objectives of the Paris Agreement	3
Climate-related exclusion policies	2
Impact strategy to contribute to the transition to a low carbon economy	3
Objective set	3

Section 1.4 Building long-term resilience

This section focuses on the consideration and integration of climate issues as risks and opportunities, as communicated by the entity. The aim here is to identify the risk and opportunity of activities, products and services, and then highlight how these issues are integrated into management, planning and, where appropriate, business strategy. The detailed identification of risks & opportunities is addressed as the first section of Pillar II (Climate Issues' Impact on Investments: Risk and Opportunity Analysis).

This section includes 3 criteria

Criteria	# of sub criteria
Identification and integration of risks and opportunities into activities/products/services	3
Consideration in strategic and financial planning	3
Transparency on the resilience of the organisation’s investment strategy	2

Section 1.5 Integrating climate into investment

This section aims to isolate the elements of climate-related investment screening and selection in extra-financial analysis processes, in the monitoring of delegated management, or in thematic investment. Particular attention is therefore paid to the role of climate-related criteria in extra-financial ratings, to potential rules derived from these ratings, and to the selection and monitoring processes of "green" loans and bonds.

This section includes 3 criteria

Criteria	# of sub criteria
Climate in ESG	4
Delegated management	2
Thematic investing	4

Section 1.6 Climate-related shareholder engagement policies

This section focuses on information of shareholder engagement practices on the topic of climate change. It focuses on each specific procedure and outcome on the topic, whether it is voting at general meetings or engagement with issuers.

This section includes 2 criteria

Criteria	# of sub criteria
Voting rights exercise	2
Engagement with issuers	2

Section 1.7 Development of internal expertise

This section brings together elements relating to training and resources implemented to increase understanding of climate issues. Based on Decree 29-LEC, particular attention is paid to the communication of technical, human and financial resources dedicated to this purpose.

This section includes 3 criteria

Criteria	# of sub criteria
Competence and skills development of staff and administrators	2
Efforts made	3
Development plan	2

2. CLIMATE ISSUES'S IMPACT ON INVESTMENTS

Since the Paris Climate Agreement, investors have been facing increasing expectations from governments, regulators and the overall civil society, to manage climate risks and opportunities in their portfolios.

Financial institutions are, in some jurisdictions, required to disclose to what extent their portfolios are consistent with goals to limit warming to well below 2°C, and the use of scenario analysis is a recommended best practice by the TCFD.

Under this pillar, the main focus is on risk exposure and risk management strategy, in particular transition and physical risks as identified by the TCFD.

As defined by the TCFD[4], climate-related risks are categorized as follows:

Physical:

- **Acute** (e.g. risks from the increased severity of extreme weather events such as cyclones, extreme heat and floods)
- **Chronic** (e.g. risks from longer-term shift events observed such as extreme variability in weather and precipitation patterns, rising mean temperatures and rising sea levels)

Transition:

- **Policy and legal risks** (e.g. carbon tax, increasing regulation of existing high-carbon products and services, exposure to litigation, etc.)
- **Technology related risks** (e.g. changes in energy efficiency norms, new technologies, costs to transition to lower emissions technologies, etc.)
- **Market risks** (e.g. increased cost of raw materials, changing customer behaviour/shift preferences, etc.)
- **Reputation risks** (e.g. shifts in consumer preferences, stigmatization of sector, increased stakeholder concerns, etc.)

Transition and physical risks are different in nature and require different methodologies and indicators. Performing both transition and physical impact scenarios is encouraged as the interplay between scenarios provides a more complete risk exposure and resilience of the assets under management. Each entity is expected to run its climate risk assessment in light of their business models, portfolio composition, customers and beneficiaries.

Sections to be assessed under this pillar are:

- Identification
- Explanations specific to each impact analysed
- Financial impacts and stress testing transparency
- Continuous improvement plans

Section 2.1 Identification

This section provides the basis for observing and characterising risk and opportunity analyses, i.e. reflecting on and estimating the impact of climate issues on investments. It identifies the various preliminary steps for identifying the different types of risks and opportunities, their time horizons and their materialisation. It aims to highlight the ways of thinking and reflection that were included in the

[4] More details described in Appendix 1 (Table A1) of TCFD Report "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures" (June, 2017).

analysis. It also summarises all the methods and results communicated in the context of risk and opportunity analyses.

This section includes 2 criteria

Criteria	# of sub criteria
Identified risks and opportunities	3
Analysed risks and opportunities	3

Section 2.2 Explanations specific to each impact analysed

These sections target all the elements of explanation and precision on the climate analysis communicated (completing the summary in 1.2.1.). These iterative sections (used independently on each analysis when the detail allows it) focus on these clarification elements in order to be able to clearly identify for each analysis: the detail of the methods, the scenarios used, the choices, the data coverage, the explanations of the latter, and the results.

This section includes 3 criteria

Criteria	# of sub criteria
Methods and indicators	3
Data	3
Results	3

Section 2.3 Financial impacts and stress testing transparency

This section brings together all the elements relating to the analysis of the financial impacts, whether they are the conclusion of risk and opportunity analysis methods or stress test exercises implemented by the entity. The aim here is to identify advanced climate analysis practices and, where appropriate, to highlight the explanations provided.

This section includes 4 criteria

Criteria	# of sub criteria
Estimated financial impacts	2
Stress-testing methodology	3
Stress-testing data	3
Stress-testing results	3

Section 2.4 Continuous improvement plans

This section concludes the observation of the climate analyses (Pillar II and III). It brings together all the elements relating to the limitations and improvement of the analyses, as identified by the entity. It allows to observe in detail and side by side the perspectives and reflections implemented to strengthen the climate analyses.

This section includes 2 criteria

Criteria	**# of sub criteria**
Limits	3
Areas for improvement	3

3. INVESTMENTS' IMPACT ON CLIMATE ISSUES

Increasing the ambition of climate actions is critical to meeting the goals of the Paris Agreement. Under this pillar, financial institutions will be assessed for the description of their alignment with a well below 2°C scenario, with a particular focus on the climate impact of actions in the real economy.

During the 2019 UN Climate Action summit, in NYC, the financial industry faced a key point in the fight against climate change and the contribution to the Paris Agreements goals, notably illustrated by the launch of the United Nations-convened Net-Zero Asset Owner Alliance. The members of the Alliance, by committing to transition their investment portfolios to net-zero GHG emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial temperatures, are setting the standard in terms of developing the best approaches to set targets and measure their impact in the real economy.

The suite of tools and framework, as well as reporting and communication efforts on these matters are at the forefront of the climate actions related discussions.

Sections to be assessed under this pillar are:

- Identification
- GHG emissions associated with investments
- Explanations specific to each alignment analysis
- Explanations specific to each issuer's impact estimate
- Explanations specific to each entity's impact estimate
- Continuous improvement plan

Section 3.1 Identification

This section opens the observation and characterisation of alignment and contribution analyses, i.e. the reflection and estimation of the impact of investments on climate issues. It details the various preliminary steps for identifying the different exposures to energy and sectors with greater climate challenges. It aims to highlight the considerations that informed the analysis. It also summarises all the methods and results communicated during the alignment and contribution analyses.

This section includes 3 criteria

Criteria	# of sub criteria
Exposure to climate-related activities/energies	3
Details specific to each exposure studied	3
Analysed impacts	3

Section 3.2 GHG emissions associated with investments

This section brings together all of the estimates on GHG amissions associated with investments. It also provides all the explanatory and clarifying elements related to these estimates. Central to the climate analysis, the estimation and analysis of emissions frequently feeds into the risk, opportunity, alignment and contribution analyses. It can therefore be cross-referenced from other sections of Pillars II and III.

The terms scope, coverage and application are used for specific purposes and are not interchangeable. The scope of investment-induced emissions refers to the reporting scope at the issuer level, i.e. the direct (Scope 1) and indirect (2 & 3) emissions of the issuers in the portfolio. Data coverage is the proportion of issuers in the asset class studied for which GHG emissions have been measured or estimated. The numerical result (absolute or in intensity) at the asset class level is therefore the sum or weighted average of this quantifiable proportion: it does not cover non-covered emitters. As for the application, it is the purpose of the analysis: the asset classes, funds or other portfolio segments whose induced emissions are analysed, representing a weight in relation to the total assets held or managed by the entity.

This section includes 3 criteria

Criteria	# of sub criteria
GHG emissions	4
Explanation of data	3
Monitoring and analysis	3

Section 3.3 Explanations specific to each alignment analysis

These sections target all the elements of explanation and precision on the climate analyses communicated (completing the summaries in 1.2.1.). These iterative sections (used independently on each analysis when the detail allows it) focus on these clarification elements in order to be able to clearly identify each analysis: the details of the methods, the scenarios used, the choices, the data coverage, the explanations of the latter, and the results.

This section includes 3 criteria

Criteria	# of sub criteria
Methods and indicators	3
Data	3
Results	3

Section 3.4 Explanations specific to each issuer's impact estimate

These sections target all the elements of explanation and precision on the climate analyses communicated (completing the summaries in 1.2.1.). These iterative sections (used independently on each analysis when the detail allows) focus on these clarification elements in order to be able to clearly identify for each analysis: the details of the methods, the scenarios used, the choices, the data coverage, the explanations of the latter, and the results.

This section includes 3 criteria

Criteria	# of sub criteria

Methods and indicators	3
Data	3
Results	3

Section 3.5 Explanations specific to each entity’s impact estimate

This section aims to understand how the impact of the financial institution on issuers through the climate actions it undertakes (see definitions) is analysed. It is a very advanced practice - the challenge here is to identify and analyse the means deployed to attempt to quantify/verify the impact of the investment.

This section includes 2 criteria

Criteria	**# of sub criteria**
Definition of theories of change specific to the desired impacts (ex-ante evaluation)	3
Results and monitoring (ex-post evaluation)	3

Section 3.6 Continuous improvement plan

This section concludes the observation of the climate analyses (Pillar II and III). It brings together all the elements relating to the limitations and improvement of the analyses, as identified by the entity. It allows to observe in detail and side by side the perspectives and reflections implemented to strengthen the climate analyses.

This section includes 2 criteria

Criteria	**# of sub criteria**
Limits	3
Areas for improvement	3

4. TRANSPARENCY AND COMMUNICATION EFFORTS

This pillar addresses disclosures that are often not in the scope of climate-related reports. Although the climate-related section of an annual report, or a stand-alone report, constitutes in itself an important source of information and communication tool with clients and beneficiaries, this pillar relates to climate-related information embedded in products' marketing and legal documentation (e.g. funds and financial products' KID/KIID[5], and other communication material). It will also assess how financial institutions are anticipating upcoming disclosures obligations in this field.

EU financial regulatory reform calls for increasing obligations regarding the integration of non-financial consumer preferences, with consumers' protection and responsible marketing of "green products" being key priorities. In 2020 the forthcoming EU regulation on the labelling of financial services and investment strategies will enter into force, with new rules that will strengthen the disclosure of "green" information by manufacturers of financial products and financial advisors towards end-investors.

To cope with retail investors' increasing interest in the impact of their products in the real economy[6], and institutional investors in impact investing, financial institutions will need to put efforts in addressing this quest for "impact". Among others, financial institutions will need to develop effective communication strategies to ensure that the integration of climate considerations into products and investments is understood by clients and beneficiaries. Furthermore, a commitment to communicate on the impact of those products in the real economy will become a requirement for retail investors.

Sections to be assessed under this pillar are:

- Format and presentation efforts for the exercise
- Communication on climate issues

Section 4.1 Format and presentation efforts for the exercise

This section gathers and provides information on the choices made regarding the form of the exercise and the presentation of the information, reinforcing the accessibility and transparency of the exercise. It therefore identifies the type of report, the dissociation of climate information, but also all the elements that facilitate understanding, whether it be the choice of a standard plan, summary tables, lists, diagrams or even educational efforts for the most technical information.

This section includes 5 criteria

Criteria	**# of sub criteria**
Consolidation of climate-related information	3
Structure of information publication	2
Summary of KPIs, results and objectives	3
Visualisation of issues and structures	3
Pedagogy	2

[5] Key Information Document (KID) and Key Investor Information Document (KIID), according to PRIIPS and UCITS regulation

[6] Natixis Global Asset Management survey (2017) of 7,000 respondents in 22 countries found that social and environmental objectives are an important factor for around 70% of retail investors.

Criterion 4.2 Communication on climate issues

This section isolates the information relating to communication on climate issues, as provided in the reporting exercise. It therefore does not focus on contractual documents or documents for clients, but on the details provided on the subject by the entity as part of its annual reporting exercise.

This section includes 5 criteria

Criteria	# of sub criteria
Climate-related communication strategy	3
Climate-related products & services	3