



Minimum regulatory requirements for climate alignment disclosure and metrics for financial institutions

WWF European Policy Office
November, 2020

1. Background

This briefing provides WWF views on what regulators should include in climate alignment disclosure regulation for financial institutions. Its aim is to feed into a growing number of legislative processes on the EU and national level that require financial institutions to disclose the degree of their alignment with the objectives of the Paris Agreement, like for example the Article 4.2(d) of the EU Disclosure Regulation.

WWF believes that assessing the alignment with objectives of the Paris Agreement will help financial institutions to better understand the forward-looking climate-related risks and opportunities in their portfolios. Forward-looking climate scenario analysis has already gained major recognition and support, and there are several tools already available in the market.

This paper calls on policy makers and regulators to make the disclosure of climate alignment by financial institutions mandatory. Experience from article 173 of the French energy transition law and the currently ongoing development of Regulatory Technical Standards (RTS) for the EU Disclosure Regulation indicate that robust requirements should be included in such regulation, in order to ensure that the disclosure by financial institutions is sufficiently robust and comparable.¹

Recommendation #1

WWF recommends policy makers to include requirements in climate alignment disclosure regulations across three levels: (1) portfolio metrics and targets, (2) dynamic sector metrics and targets, and (3) strategy and activity based metrics and targets. Financial institutions should be required to disclose against all three levels, but given some degree of flexibility to decide for each level which exact metric best fits their activities. WWF argues that all the included metrics and targets must be forward-looking, and be reviewed on a regular basis (maximum five year) to take in account evolving climate science and methodology development.

This briefing paper is structured along six sections:

- Summary: overview of recommendations;
- Limitations of carbon footprinting;
- Portfolio metrics and targets;
- Dynamic sector-based metrics and targets;
- Activity and strategy-based metrics and targets;
- Overview of relevant policy files

¹ WWF notably notes that the draft RTS for the EU Disclosure Regulation poorly captured the climate alignment disclosure requirement contained in article 4.2(d) of the initial level 1 regulation, by focusing on carbon footprinting rather than forward-looking metrics and targets.

Box 1. Science-based target initiative for financial institutions

The Science Based Targets initiative (SBTi) mobilizes companies to set science-based targets and boosts their competitive advantage in the transition to a low-carbon economy. It is a collaboration between CDP, the United Nations Global Compact, World Resources Institute (WRI), and WWF.

SBTi launched a framework for financial institutions (SBT-FI) in October 2020 which includes target setting methods, target validation criteria and recommendations, a target setting tool, and a guidance for financial institutions to align their lending and investment portfolios with the ambitions of the Paris Agreement.

The framework provides a wealth of information for regulators that are developing metrics for climate alignment disclosure, and more information on specific elements of the framework are provided in box 2 and box 5 of this briefing paper.

For more information: [SBT-FI guidance document](#)

2. Summary: overview of recommendations

WWF recommends policy makers to include requirements in climate alignment disclosure regulations across three levels: (1) portfolio metrics and targets, (2) dynamic sector metrics and targets, and (3) strategy and activity based metrics and targets. Financial institutions should be required to disclose against all three levels, but given some degree of flexibility to decide for each level which exact metric best fits their activities. WWF argues that all the included metrics and targets must be forward-looking, and be reviewed on a regular basis (maximum five year) to take in account evolving climate science and methodology development.

WWF recommends regulators not to include carbon footprinting as the sole metric to measure and disclose climate alignment. Carbon footprinting can be used as a basis for forward-looking portfolio-wide target setting across asset classes.

Portfolio level	WWF recommends regulators to include three portfolio level metrics in climate alignment disclosure regulation: temperature alignment scoring, absolute CO ₂ e-emission reduction targets, and EU taxonomy based targets. Financial institutions should be required to disclose information for at least one of the three metrics.	WWF recommends regulators to include a temperature alignment scoring metric in climate alignment disclosure regulation. In order to account for the uncertainty related to temperature alignment scoring methodologies, regulators should require financial institution to ensure transparency and comparativeness by explaining: <ul style="list-style-type: none">· The scopes (1 to 3) of investee companies' emissions covered by the used methodology, as well as which data was used (e.g. self-reported data
------------------------	--	---

	<p>from CDP, etc.) and how missing data was handled;</p> <ul style="list-style-type: none"> How the methodology forecasts the future climate performance of companies; Precise information on the temperature scenario that was used (scenario name, timestamp of the scenario, scenario provider); How the methodology derives temperature benchmarks. <hr/> <p>WWF recommends regulators to include short-term (maximum 5 years) absolute climate targets on asset class level as a metric in climate alignment disclosure regulation. Financial institutions should be required to explain how their targets align with what is required under no/low overshoot 1.5°C scenarios – i.e. an absolute reduction by 25% by 2025 compared to 2020.</p> <hr/> <p>WWF recommends all regulators to include time-bound targets to increase EU Taxonomy exposure as a metric in climate alignment disclosure regulation. This requires:</p> <ul style="list-style-type: none"> EU-based regulators to refer to the investors' disclosure requirements contained in the EU Taxonomy regulation into relevant climate alignment disclosure regulation (such as the EU Disclosure Regulation RTS), Non-EU regulators to adopt the EU Taxonomy criteria and disclosure requirement into their own regulation.
<p>Sector level</p> <p>WWF recommends regulators to:</p> <ul style="list-style-type: none"> Include a list of highly material sectors in climate alignment disclosure regulation, against which disclosure by financial institutions is mandatory; Include a broader list of material sector against which disclosure by financial institutions is voluntary; Include two sector level metrics in climate alignment disclosure 	<p>WWF recommends regulators to include product/production targets for (highly) material sectors as a metric in climate alignment disclosure regulation. Financial institutions should be required to explain how their targets align with what is required under no/low overshoot 1.5°C scenarios – i.e. an absolute reduction by 25% by 2025 compared to 2020.</p> <hr/> <p>WWF recommends regulators to include economic activity based metrics in climate</p>

- regulation: product/production targets and economic activity based metrics;
- Regularly review the lists of highly material and material sectors in light of changes in the real economy: while currently material sectors (e.g. power companies and utilities) decarbonize over time, sectors that at present are not considered material (e.g. IT sector) may take up a larger share of global emissions.
- alignment disclosure regulation. In order to account for the uncertainty related to economic activity based metrics, regulators should require financial institution to ensure transparency and comparativeness by explaining:
- How the methodology forecasts the future climate performance of companies;
 - Precise information on the temperature scenario that was used (scenario name, timestamp of the scenario, scenario provider);
 - How the methodology derives temperature benchmarks.

Activity/strategy WWF recommends regulators to include the following activity and strategy based metrics in climate alignment disclosure regulation:

- Strategy. The disclosure of the strategy and transition plan the financial institutions will employ to bring its portfolio and products in line with the goals of the Paris agreement;
- Engagement. The disclosure by the financial institutions of engagement targets, the number and sectoral breakdown of engagement conducted with regard to climate change over the last 12 months, a description of how sectors/companies for engagement were identified, the climate requests towards sectors/companies, a description of the engagement escalation strategy (including the disclosure and rationale of voting on climate shareholder resolutions, votes against management for climate reason, divestment decisions in case of unsuccessful engagement, etc.);
- Investment policies. An description of the overall climate policies, sectoral policies for highly material sectors (e.g. fossil fuel policies with phase-out timelines aligned with no/low overshoot 1.5°C scenarios), green investment policies and targets (e.g. target to increase share of renewable energy in portfolio per every five years).

3. Limitations of carbon footprinting

Recommendation #2

WWF recommends regulators not to include carbon footprinting as the sole metric to measure and disclose climate alignment. Carbon footprinting can be used as a basis for forward-looking portfolio-wide target setting across asset classes.

Mark Carney stated in the foreword of a recently published [research](#) on climate metrics, which is supported by the COP26 presidency, that: *'as countries turn the Paris Agreement goals into nationally legislated objectives to achieve Net Zero, the financial sector will need to adapt and allocate capital according to their understanding of the opportunities and risks in the transition. Financial institutions will also increasingly be expected to disclose the alignment of their investments to net zero and show how clients' money is invested. Existing climate-related measures all serve an important purpose for this community, but aren't yet as forward-looking, robust, decision useful and comparable as they need to be to measure portfolio alignment'*.

WWF supports the claim that carbon footprint and intensity metrics have severe limitations, and should therefore not be used as a sole indicator for climate alignment disclosure:

- They do not provide the information whether the company is gradually aligning or not its business model with 1.5°C climate scenarios. Thus, using carbon footprint metrics does not mean that the approach is science-based: assessing the alignment with the objectives of the Paris Agreement would systematically require an additional methodological step;
- They treat low-carbon (e.g. renewables) and neutral activities (e.g. services and media) equally. As a result, some low-carbon technologies that are critical in all 2°C scenarios (such as the production at scale of electric vehicles or electricity storage) are ignored when focusing on the carbon footprint of portfolios. This is not consistent and potentially counterproductive with the objective of alignment with the Paris Agreement;
- Past GHG emissions are not a good indicator of future emission trends. GHG emission data are backward-looking, and thus will not necessarily lead to select the companies that are transitioning to a low-carbon business model, as this depends largely on their forthcoming investment plans (capex plans) – that are not captured with backward-looking data;
- 'Scope 3' emissions are usually ignored. Most carbon footprint assessments rely on corporate reporting, which usually only covers Scope 1 (direct emissions) and Scope 2 (purchased electricity). This scope is relevant for a few sectors such as power production. But in other sector it misses the bulk of emissions that are related to the use of products and supply chains (Scope 3): scope 1 and 2 roughly capture around 10% of emissions of major sectors like automobiles, energy, industrials, etc.;
- Service providers have developed approaches to estimate companies' Scope 3 emissions, but results between approaches vary widely. In addition, another methodological step is required to aggregate company emissions to the level of a financial portfolio: this attribution can also be done in a variety of ways. It can therefore be safely concluded that applying carbon footprinting as a climate metric for financial institutions is not more mature than other forward-looking – and hence more relevant – climate metrics.

4. Portfolio metrics and targets

Recommendation #3

WWF recommends regulators to include three portfolio level metrics in climate alignment disclosure regulation: temperature alignment scoring, absolute CO₂e-emission reduction targets, and EU taxonomy based targets. Financial institutions should be required to disclose information for at least one of the three metrics.

WWF believes there is a need to assess and disclose climate alignment at the portfolio level. Currently data gaps do not allow do this across asset classes, however, so the regulation should at present focus on asset class level.

4.1 Temperature alignment scoring of the investment portfolio

Recommendation #4

WWF recommends regulators to include a temperature alignment scoring metric in climate alignment disclosure regulation. In order to account for the uncertainty related to temperature alignment scoring methodologies, regulators should require financial institution to ensure transparency and comparativeness by explaining:

- The scopes (1 to 3) of investee companies' emissions covered by the used methodology, as well as which data was used (e.g. self-reported data from CDP, etc.) and how missing data was handled;
- How the methodology forecasts the future climate performance of companies;
- Precise information on the temperature scenario that was used (scenario name, timestamp of the scenario, scenario provider);
- How the methodology derives temperature benchmarks.

A trend-setting [research](#) by the Institut Louis Bachelier (ILB) has defined the goal of temperature scoring methodologies as 'estimating the temperature pathway that the relative "climate performance" of an asset, portfolio, strategy or investor is consistent with, in relation to the international objective of limiting the increase in temperature well below 2°C'. These tools will, in other words, compare the climate trajectory of a portfolio (e.g. the portfolio is on a 4°C trajectory) with a temperature benchmark (e.g. 1.5°C). The methodologies can generally be applied to corporate instruments: public equity, corporate bonds, corporate loan portfolio.

The above-mentioned ILB report finds that different temperature alignment methodologies lead to varying results. WWF believes that this is not a reason to not use such metrics, however, because:

- Forward-looking financial indicators are by definition highly uncertain, and this is generally accepted by the financial industry. Examples includes financial results (e.g. revenues, earnings/EPS, cashflow), risk metrics (e.g. Value-at-Risk and volatility), ratings (e.g. buy and sell recommendations of equities, ratings of corporate and government bonds and related products creditworthiness – expressed by S&P and Moody's as AAA, AA, A, BBB, etc.);
- Carbon footprinting methodologies that include scope 3 emissions also lead to varying results, and are hence not more mature than temperature scoring or other forward-looking metrics (see chapter above).

Regulators must ensure that financial institutions are transparent about the assumptions that were used when assessing a temperature alignment score: such requirement will create a dialogue between financial institutions and methodology developers, and drive overall transparency of the various methodologies in the market.

Box 2. SBT-FI temperature scoring tool

The SBT-FI temperature rating [methodology](#) enables the assessment of ambition of any corporate GHG emission reduction targets against a wider range of temperature outcomes and allows financial institutions to

understand the overall temperature rating of their portfolios and take actions to move portfolio companies towards a better temperature rating.

The SBT-FI temperature rating methodology is composed of three distinct components to allow Financial Institutions to quantify the temperature score of their portfolio:

- Target level protocol: the target protocol converts individual targets of various formats into temperature scores. This is achieved by generating simple regression models for estimated warming in 2100 from climate scenarios with short, medium, and long-term trends in metrics like absolute emissions or emissions intensities. Regression models are generated based on scenarios in the IPCC Special Report on 1.5°C scenario database. In addition to defining methods for disclosed targets, a default scoring approach is applied to all non-target disclosing companies;
- Company level protocol: Since companies may have multiple climate targets, covering different GHG emission scopes and timeframes, a protocol is used to aggregate all target data (scope 1 to 3) to produce scores at a company level. This protocol defines the minimum quality criteria for determining the acceptability of a target to be scored and the steps required to identify and aggregate multiple targets to produce an overall company score. Following the SBTi corporate criteria, only forward-looking ambition is considered when assessing the targets, and past performance is not credited;
- Portfolio level protocol: the company scores are then aggregated to generate scores at a portfolio level. This consists of weighting company scores on the basis of GHG emissions and economic indicators to generate an overall weighted score for a specific portfolio.

The SBT-FI temperature rating methodology differs from similar methodologies because it is forward-looking, allows to use ambitious 1.5°C scenarios by the IPCC, and is [open-source](#) and data agnostic.

4.2 CO₂e-emission reduction targets

Recommendation #5

WWF recommends regulators to include short-term (maximum 5 years) absolute climate targets on asset class level as a metric in climate alignment disclosure regulation. Financial institutions should be required to explain how their targets align with what is required under no/low overshoot 1.5°C scenarios – i.e. an absolute reduction by 25% by 2025 compared to 2020.

Financial institutions can set CO₂e-emission reduction targets by assessing financed emissions in a base year (e.g. 2020), and then commit to reduce these emissions by a target year (e.g. 2025). CO₂e-emission reduction targets can be set for all asset classes to which robust carbon accounting methodologies can be applied.²

Target-setting frameworks of the UN-convened net-zero asset owner alliance (NZOAO) and the IIGCC Paris Aligned Investment Initiative (PAII) net-zero investment framework have suggested to set short term (i.e. five year) absolute and/or intensity-based CO₂-emission reduction targets aligned with a net-zero by 2050 ambition.

² The most established carbon accounting framework for financial institutions is the Partnership for Carbon Accounting Financials (PCAF). It has developed approaches for listed equity and bonds, business loans, commercial real estate, mortgages, motor vehicle loans and project finance

Box 3. Investor-led target setting frameworks

Two investor groups have recently developed frameworks that include target-setting guidelines:

- The UN-Convened net-zero asset owner alliance published a [draft target-setting protocol](#) which includes four levels of target-setting: sub-portfolio emission target, sector targets, engagement targets and financing transition targets. For the sub-portfolio emission targets the alliance notably suggests to set ‘-16 to -29% CO₂e reduction by 2025 (per IPCC 1.5°C scenarios) on Public Equity and Corporate Debt, with the same recommended for Real Estate and/or CRREM national pathways used’;
- The IIGCC Paris Aligned Investment Initiative published a [draft net-zero investment framework](#) in which it recommends to set – amongst others ‘an initial emissions intensity reduction goal and <10-year reference target (CO₂e intensity) covering equity, fixed income, real assets in line with a net zero by 2050 pathway’ and/or ‘a reference target for total absolute CO₂e emissions reductions expected to be achieved by the assets in their portfolio over <5 years that is consistent with emissions reductions needed over time according to net zero emissions pathways.

Both frameworks were opened for consultations, and we can expect investors to start setting emission reduction targets on the basis of the final frameworks as from early 2021.

WWF supports the NZAOA and IIGCC PAIL net-zero by 2050 ambition, and agrees on the need to complement the long-term ambition with short-term targets. We notably recommend to use absolute CO₂-emission reduction targets aligned with no/low overshoot 1.5°C scenarios – notably P1 or P2 of the IPCC special report on 1.5°C global warming, which would result in a target to reduce emissions by approximately 25% by 2025 compared to 2020. An absolute target allows to avoid that total portfolio emissions increase even if the carbon intensity measure used decreases: this can appear due to volatility in the economic metric (e.g. enterprise value or market cap) that is selected as the denominator for the relative target.

4.3 EU taxonomy-based targets

Recommendation #6

WWF recommends all regulators to include time-bound targets to increase EU Taxonomy exposure as a metric in climate alignment disclosure regulation. This requires:

- EU-based regulators to refer to the investors’ disclosure requirements contained in the EU Taxonomy regulation into relevant climate alignment disclosure regulation (such as the EU Disclosure Regulation RTS),
- Non-EU regulators to adopt the EU Taxonomy criteria and disclosure requirement into their own regulation.

The EU Taxonomy regulation requires large listed companies and banks to disclose their taxonomy exposure (proportion of taxonomy-aligned activities in term of annual revenues, opex and capex). In addition, investors are required to disclose the same information for their financial products.

EU Taxonomy disclosure will enter in application early 2022: this means that 2022 can be taken as the baseline year in term of taxonomy exposure of a given financial institution. On that basis, it is possible for this financial institution to set time-bound targets for corporate instrument asset classes (public equity, corporate bonds, corporate loan portfolio) aiming at increasing its taxonomy exposure, for instance in the following way:

- Baseline year 2022: 7% climate taxonomy exposure;
- Year 2025: target of 10% climate taxonomy exposure;
- Year 2030: target of 25% climate taxonomy exposure.³

5. Dynamic sector-based metrics and targets

Recommendation #7

WWF recommends regulators to:

- Include a list of highly material sectors in climate alignment disclosure regulation, against which disclosure by financial institutions is mandatory;
- Include a broader list of material sector against which disclosure by financial institutions is voluntary;
- Include two sector level metrics in climate alignment disclosure regulation: product/production targets and economic activity based metrics;
- Regularly review the lists of highly material and material sectors in light of changes in the real economy: while currently material sectors (e.g. power companies and utilities) decarbonize over time, sectors that at present are not considered material (e.g. IT sector) may take up a larger share of global emissions.

There is an abundance of evidence that material (i.e. high carbon) sectors are exposed to significant financial risk (e.g. Banque de France, DNB, NGFS, ECB, European Supervisory Authorities, Mercer, S&P, Moody's). Not tackling these sectors as an absolute priority will also jeopardize the ability to reach climate targets (e.g. IPCC, IEA). Hence, there is a need for financial institutions to explicitly focus their action on the most material sectors in their portfolio, and for regulators to include relevant metrics in climate alignment disclosure regulation. WWF notes that sector-based metrics should ideally be coherent with the portfolio metrics, building to the extent possible on the same methodologies.

³ The suggested targets above aim to give an indication of how targets can be formulated, notably to showcase that exposure to EU taxonomy must increase. The exact percentages are not based on a detailed assessment of what is needed to align EU taxonomy exposure to Paris climate goals, which would require further forward-looking analysis.

Box 4. Identifying material sectors

Building on the work of the EC Technical Expert Group on sustainable finance and many other sources, WWF has developed two tentative complementary lists of high-carbon sectors that financial market participants should be required to provide more granular climate disclosure against.

The first list, using NACE codes provided by Eurostat, defines high-carbon sectors in a relatively extensive way (see Annex). This list includes the sectors that Banque de France-ACPR selected to assess the share of large French bank's loans exposed to climate transition and physical risks. This list is also consistent with the sector identification of major climate transition risks in volume by the EC Technical Expert Group, in its final report on climate benchmarks.

The second list is more targeted and focuses only on the most risky high-carbon sectors, using additional sources on climate-related financially material risks (e.g. Moody's environmental risks heatmap, Mercer, etc.). It identifies 15 specific sub-sectors or economic activities that are deemed to be more risky than high-carbon sectors in general:

- . Coal mining;
- . Coal terminals;
- . Power companies and utilities;
- . Power generation projects (including nuclear energy);
- . Oil and gas exploration and production;
- . Oil and gas refining and marketing;
- . Metal and mineral mining (excluding coal);
- . Commodity chemicals;
- . Building materials (incl. cement);
- . Steel;
- . Aluminum;
- . Automotive manufacturers;
- . Aviation;
- . Shipping;
- . Real estate.

A complementary way to set up the list of high-risk sectors is to use the EU taxonomy, using the list of sectors and specific economic activities for which technical screening criteria have been developed (energy; high carbon industries; high-carbon transport; etc).

5.1 Product/production targets

Recommendation #8

WWF recommends regulators to include product/production targets for (highly) material sectors as a metric in climate alignment disclosure regulation. Financial institutions should be required to explain how their targets

align with what is required under no/low overshoot 1.5°C scenarios – i.e. an absolute reduction by 25% by 2025 compared to 2020.

The NZAOA has developed an approach for sectoral target setting based on product/production specific data (e.g. ton of steel produced, mega-watt hours of power produced, etc.). The framework rightly states that ‘product/production is largely independent of economic variables such as revenue and have no market or price volatility, making it easy to track the real emission reductions in isolation and across companies within a sector on a like for like basis’.

Targets should be set based on sectoral decarbonisation pathways that build on an allocation of the remaining carbon budget across economic sectors split by geographic locations until 2050 using a set of economic and technological assumptions compatible with no/low overshoot 1.5°C scenarios. Metrics for target setting could be – for instance:

- Power utilities (t CO₂e/MWh, mio. t CO₂/PJ);
- Oil&gas (mio.tCO₂e/PJ, tCO₂e/TJ);
- Transport (g CO₂/pkm, MJ/pkm, g CO₂/tkm, MJ/tkm);
- Steel (tCO₂/ton steel).

5.2 Economic activity based metrics

Recommendation #9

WWF recommends regulators to include economic activity based metrics in climate alignment disclosure regulation. In order to account for the uncertainty related to economic activity based metrics, regulators should require financial institution to ensure transparency and comparativeness by explaining:

- How the methodology forecasts the future climate performance of companies;
- Precise information on the temperature scenario that was used (scenario name, timestamp of the scenario, scenario provider);
- How the methodology derives temperature benchmarks.

Some methodologies, most notably Paris Agreement Capital Transition Assessment (PACTA) developed by 2° investing Initiative, measure climate alignment via economic activity based metrics. They assess a financial institution’s exposure to high-carbon sectors in terms of economic activity (e.g. installed power generation capacity, number of electric vehicles produced, etc.) based on the companies held in the portfolio, and compare this to the required economic outputs under a Paris aligned scenario.

Box 5. Paris Agreement Capital Transition Assessment

[PACTA](#) is a forward-looking climate scenario analysis tool for equity and corporate bond portfolios. It measures the climate alignment of portfolios by comparing them with different climate scenarios of the International Energy Agency (IEA).

PACTA has a global scope and provides results for climate-relevant technologies in the following eight sectors: power (renewables²⁹, hydro³⁰, coal, gas, nuclear), upstream oil and gas, coal mining, automotive (electric, hybrid, fossil fuel light duty vehicles), steel, cement, shipping and aviation. The methodology has four steps:

- Build production databases that link assets to financial instruments. Asset-level data are harvested from databases (e.g. Globaldata for the power sector), providing production capacity at asset level (e.g. megawatt for power plants) and ownership information. In a first step, production capacity is allocated to each owner depending on the ownership share in the asset. In a second step, the production is rolled up to its ultimate owner along company ownership trees and connected to financial instruments;
- Translation of decarbonisation roadmaps. The IEA models the evolution in production levels (e.g. coal power capacity or number of electric vehicles produced) for the climate-relevant technologies covered by PACTA. The rate of change in production levels is applied to public equity and corporate bond markets in order to reflect the role of companies in deploying these technologies as well as energy production in different geographies. This provides a climate benchmark that represents a market aligned with the chosen IEA scenario;
- Technology exposure. The current and future exposure of the listed equity or corporate bond portfolio to the climate-relevant technologies is assessed. First, the portfolio is connected to the production database via the financial identifiers. Second, its exposure is calculated based on ownership in/financing of the companies;
- Gap analysis. The technology exposure of the assessed portfolio can be compared to that of the global public equity/corporate bond market or to a climate benchmark. WWF deems a portfolio aligned when it is on the same or a better path than the climate benchmark. This suggests over-exposure to low carbon technology and under-exposure to high-carbon technology.

Thus far, PACTA has been used by over 1,500 financial institutions worldwide, as well as by supervisors and central banks to assess their regulated entities (e.g. European Insurance and Occupational Pensions Authority (EIOPA), California Department of Insurance, Bank of England, and more). On average, more than 600 portfolios are tested every month using PACTA.

6. Activity and strategy-based metrics and targets

Recommendation #10

WWF recommends regulators to include the following activity and strategy based metrics in climate alignment disclosure regulation:

- Strategy. The disclosure of the strategy and transition plan the financial institutions will employ to bring its portfolio and products in line with the goals of the Paris agreement;
- Engagement. The disclosure by the financial institutions of engagement targets (see Box 4), the number and sectoral breakdown of engagement conducted with regard to climate change over the last 12 months, a description of how sectors/companies for engagement were identified, the climate requests towards sectors/companies, a description of the engagement escalation strategy (including

the disclosure and rationale of voting on climate shareholder resolutions, votes against management for climate reason, divestment decisions in case of unsuccessful engagement, etc.);

- Investment policies. An description of the overall climate policies, sectoral policies for highly material sectors (e.g. fossil fuel policies with phase-out timelines aligned with no/low overshoot 1.5°C scenarios), green investment policies and targets (e.g. target to increase share of renewable energy in portfolio per every five years).

WWF believes that not all relevant activities by financial institutions can be covered by portfolio and sector targets and metrics. Hence, regulators should consider adding activity and strategy based metrics and targets.

Box 6. Engagement targets

The SBT-FI framework has developed two target setting methodologies that facilitate investor engagement with portfolio companies on setting science-based emission reduction targets:

- Under the portfolio coverage method an investor commits to having a portion of their investees set their own SBTi-approved science-based targets such that the financial institution is on a linear path to 100% portfolio coverage by 2040 (in consistent emissions or monetary terms). An example of a target set on the basis of this methodology is: 'Investment Firm A commits that 30% of its equity portfolio within the asset class/sector by total assets will have science-based targets by 2025';
- The temperature rating approach enables financial institutions to determine the current temperature rating of their portfolio and take actions to align their portfolios to ambitious long-term temperature goals by engaging with portfolio companies to set ambitious targets. An example of a target set on the basis of this methodology is: 'Investment Firm A commits to align its scope 1 + 2 portfolio temperature score within the asset class or sector from 2.6°C in 2018 to 1.75°C by 2025. Investment Firm A also commits to align their scope 1 + 2 + 3 portfolio temperature score within the asset class or sector from 3.1°C in 2018 to 2°C by 2025'.

Box 7. Sectoral investment policies

WWF has published a range of [asset owner guides](#) that explore how investors can devise investment policies that bring their investments in material sectors (coal mining, power utilities, oil&gas producers) in line with the Paris climate goals.

The guides argue for investors to develop an assertive engagement strategy to ensure that high-carbon portfolio companies, in the very near term, publish time-bound 1.5°C transition plans (i.e. achieving net-zero by 2050) and climate science-based targets, and deliver TCFD-aligned reporting. For most investors this will mean acting in collaboration with like-minded peers. To that end, we have developed:

- Objective criteria that allow investors to assess whether companies are willing and able to timely shift their business model in line with the requirements of meeting net-zero by 2050, and on that basis decide which companies to engage with or divest from;
- Questions that investors should ask portfolio companies they engage with, and recommendations for how they can set in place an escalation strategy.

7. Overview of relevant policy files

EU Disclosure Regulation

Review of article 173 of the French energy transition law

EU Benchmark regulation

EU Taxonomy regulation

EU Non-Financial Reporting Directive

EU CRR/CRD

Annex. List of high-carbon sectors using NACE codes

A - Agriculture, forestry and fishing

A.01 - Crop and animal production, hunting and related service activities

A.02 - Forestry and logging

A.03 - Fishing and aquaculture

B - Mining and quarrying

B.05 - Mining of coal and lignite

B.06 - Extraction of crude petroleum and natural gas

B.07 - Mining of metal ores

B.08 - Other mining and quarrying

B.09 - Mining support service activities

C - Manufacturing

C.10 - Manufacture of food products

C.11 - Manufacture of beverages

C.12 - Manufacture of tobacco products

C.13 - Manufacture of textiles

C.14 - Manufacture of wearing apparel

C.15 - Manufacture of leather and related products

C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials

C.17 - Manufacture of paper and paper products

C.19 - Manufacture of coke and refined petroleum products

C.20 - Manufacture of chemicals and chemical products

C.21 - Manufacture of basic pharmaceutical products and pharmaceutical preparations

C.22 - Manufacture of rubber and plastic products

C.23 - Manufacture of other non-metallic mineral products

C.24 - Manufacture of basic metals

C.25 - Manufacture of fabricated metal products, except machinery and equipment

C.26 - Manufacture of computer, electronic and optical products

C.27 - Manufacture of electrical equipment

C.28 - Manufacture of machinery and equipment n.e.c.

C.29 - Manufacture of motor vehicles, trailers and semi-trailers

C.30 - Manufacture of other transport equipment

D - Electricity, gas, steam and air conditioning supply

D.35 - Electricity, gas, steam and air conditioning supply

E - Water supply; sewerage; waste management and remediation activities

E.36 - Water collection, treatment and supply

E.37 - Sewerage

E.38 - Waste collection, treatment and disposal activities; materials recovery

E.39 - Remediation activities and other waste management services

F - Construction

F.41 - Construction of buildings
F.42 - Civil engineering
F.43 - Specialised construction activities

G - Wholesale and retail trade; repair of motor vehicles and motorcycles

G.45 - Wholesale and retail trade and repair of motor vehicles and motorcycles
G.46 - Wholesale trade, except of motor vehicles and motorcycles

H - Transporting and storage

H.49 - Land transport and transport via pipelines
H.50 - Water transport
H.51 - Air transport
H.52 - Warehousing and support activities for transportation

J. Information and Communication

J.58 - Publishing activities
J.59 - Motion picture, video and television programme production, sound recording and music publishing activities
J.60 - Programming and broadcasting activities
J.61 - Telecommunications
J.62 - Computer programming, consultancy and related activities
J.63 - Information service activities

K. Financial and insurance activities

K.64 - Financial service activities, except insurance and pension funding
K.65 - Insurance, reinsurance and pension funding, except compulsory social security
K.66 - Activities auxiliary to financial services and insurance activities

L - Real estate activities

L.68 - Real estate activities



Working to sustain the natural world for the benefit of people and wildlife.

together possible wwf.eu

For more information

Sample Name

Title

sname@wwfint.org

Sample Name

Title

sname@wwfint.org

WWF European Policy Office,
123 rue du Commerce, 1000 Brussels, Belgium.

WWF® and ©1986 Panda Symbol are owned by WWF. All rights reserved.