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Greenhouse gas management and related activities — Framework including principles and requirements for assessing and reporting investments and financing activities related to climate change

Gestion des gaz à effet de serre et activités associées — Cadre comprenant les principes et les exigences pour l'évaluation et la déclaration des investissements et des activités de financement au regard du changement climatique

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Foreword

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The procedures used to develop this document and those intended for its further maintenance are described in the ISO/IEC Directives, Part 1. In particular, the different approval criteria needed for the different types of ISO documents should be noted. This document was drafted in accordance with the editorial rules of the ISO/IEC Directives, Part 2 (see www.iso.org/directives).

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For an explanation of the voluntary nature of standards, the meaning of ISO specific terms and expressions related to conformity assessment, as well as information about ISO's adherence to the World Trade Organization (WTO) principles in the Technical Barriers to Trade (TBT), see www.iso.org/iso/foreword.html.

This document was prepared by Technical Committee ISO/TC 207, *Environmental management*, Subcommittee SC 7, *Greenhouse gas management and related activities.*

Any feedback or questions on this document should be directed to the user's national standards body. A complete listing of these bodies can be found at www.iso.org/members.html.

Introduction

0.1 The impact of financiers' actions on the achievement of climate goals

Every financing or investment decision has an impact, whether positive or negative, on the climate and/or can in turn be affected by climate change. This dual impact is considered as a "double materiality", i.e. how climate change affects the value of a company and how a company's activities have an impact on the climate by reducing greenhouse gas (GHG) emissions in the real economy, reducing vulnerability to the impacts of climate change and increasing resilience.

To achieve the goals of the 2015 Paris Agreement[12] and to maintain stability in the financial system, the world needs to transition to a low-carbon and climate-resilient economy. To support this transition, there is a need to undertake a vast reallocation of the investee capital from high-carbon to low-carbon assets, assets with negative emissions and assets that are resilient in the short, medium and long term.

In addition to promoting financing for an already de-carbonized or low carbon activity (e.g. in the area of renewable energy), it is important to promote financing for transition actions towards the de-carbonization of GHG emitting industries and sectors as well, as a part of climate finance contributing to the mitigation of climate change. Climate transition finance should be considered as financing for businesses on a transition path towards achieving the ambition of the Paris Agreement and the reduction target of each country based on the Paris Agreement. While green investments expand across borders worldwide, transition pathways aligned with the Paris Agreement can differ from region to region and from country to country, depending on the industrial structure, and/or the role played in the overall global value chain. Therefore, "financing for a transition" should adopt an inclusive and flexible approach that can be applied to various circumstances of countries and regions without excluding specific sectors, industries or technologies from its scope, and further details should be considered by each country or region based on its respective circumstances.

Financiers have a key role to play in this transformation because their day-to-day decisions can influence the behaviour of "investees" (e.g. companies, clients, borrowers) in the real economy. Such an influence can include capital and research and development expenditure plans, the decision to retire (or not) high-carbon assets, or other aspects of corporate strategies. Similarly, financiers can influence the investment decisions of their clients due to their potentially broad-ranging roles as creditors, financial advisors or asset managers. The day-to-day decisions of financiers can have both positive and negative consequences on the achievement of climate goals.

Most financiers manage their assets without an explicit objective or specific strategy related to climate change. These financiers' decisions and related actions can affect investees that have an impact on the climate and can be exposed to climate-related risks. Any resulting effect, which can be thought of as unintentional, can have positive or negative consequences both for the climate and for the assets of the financiers. This document refers to these financiers as "financiers without climate objectives".

In contrast, some financiers explicitly aim to support climate goals either by setting explicit objectives or by creating specific strategies related to climate change. This document refers to these financiers as "financiers with climate objectives". These financiers influence investees through "climate actions" that will lead to mitigation of climate change or enhancement of adaptation, including but not limited to:

— the use of voting rights associated with share ownership;

— the use of influencing power as creditors;

— setting conditionality associated with lending or security issuance;

— making preferential financing available for targeted activities that face a financing gap;

— conducting policy advocacy.

The finance sector's active role in supporting the global concerted efforts to achieve international climate goals has been acknowledged in Article 2.1c of the Paris Agreement[12] and by the following non-exhaustive list of organizations and initiatives:

— the United Nations (United Nations Environmental Programme Inquiry, Non-state Actors Zone for Climate Action platform hosted by UN Climate Change);

— the Organization for Economic Cooperation and Development (OECD):

— the G20 (Green Finance Study Group);

— the European Commission through the Action Plan on Financing Sustainable Growth (2018)[16]; the Guidelines on Reporting Climate-related Information (2019)[17], the Non-Financial Reporting Directive (2014)[18] and the Non-Binding Guidelines on Non-Financial Reporting (2017)[19];

— various financial supervisors and central banks across the world who joined forces in the Network for Greening the Financial System (NGFS);

— the UN Principles for Responsible Banking;

— the UN-convened Net-Zero Asset Owner Alliance.

In this context, this document provides principles, requirements and guidance to define, monitor, assess and report on financial institutions' actions related to climate change and their respective contribution to the achievement of the climate goals. The framework can be applied by financiers who undertake deliberate climate actions, as well as by financiers without climate objectives or strategies.

For financiers with climate objectives, the framework is built around the theory of change (TOC) approach, illustrated in Figure 1.

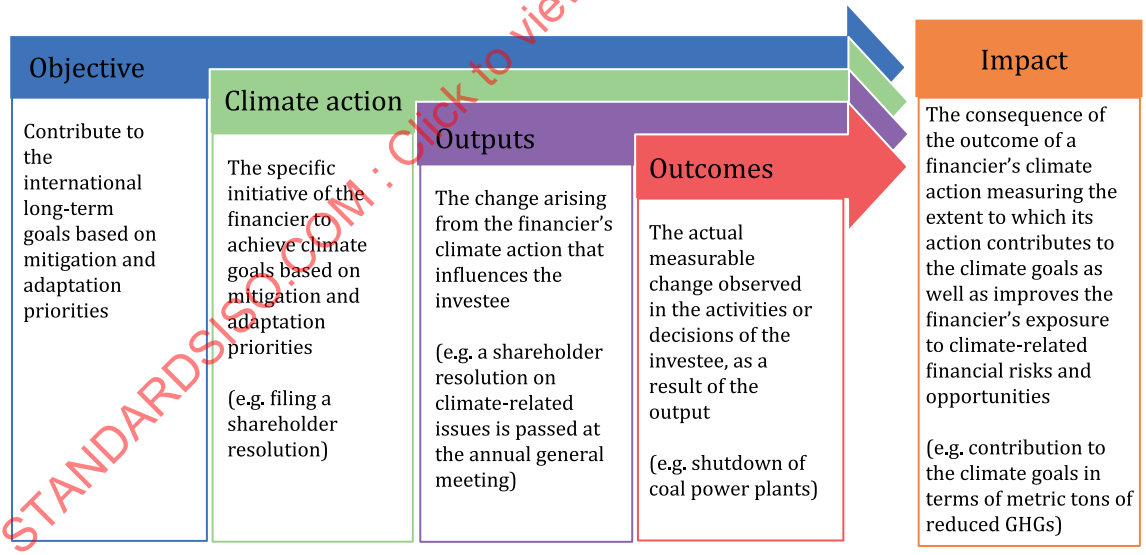


Figure 1 — Theory of change approach

The TOC process depends on defining all of the necessary and sufficient conditions required to bring about a given long-term outcome and impact. The TOC explains the intended path the climate action will take to achieve the (expected) impact. This is done by describing the causal linkages between the objective established by the financier, the climate action the financier plans to take to achieve the objective, the output(s) of the action and finally the outcome that will lead to the impact.

For financiers without climate objectives, the framework describes how to disclose on the GHG emissions changes of investees in their financial portfolio and the decisions and actions taken that can relate to the investees who are responsible for an increase or decrease in emissions.

0.2 The financial implications of climate change for the finance sector

For the finance sector, both the transition to a low-carbon emission and climate-resilient economy and the negative impact arising from environmental upheavals and civil society preferences can influence asset valuation and thus result in risks and opportunities for financiers.

In 2016, the G20's Financial Stability Board (FSB) initiated a private sector-led group, the Task Force on Climate-Related Financial Disclosures (TCFD), which explored these climate-related risks and opportunities and developed a set of high-level recommendations regarding their disclosure of the assessment and management of climate-related risks and opportunities.

These climate-related risks and opportunities for the finance sector have also been acknowledged by many financial regulators and supervisory authorities across the world, including the European Commission, the G20 and the NGFS.

Following the release of the TCFD recommendations in 2017[13], a number of methodological, reporting and disclosure frameworks have been and are in the process of being produced by various organizations to facilitate stakeholders to measure and report on climate-related risks and opportunities.

In this context, this document contributes to the implementation of the TCFD recommendations[13], by providing guidance on the disclosure of the identification, assessment and management of climate-related risks and opportunities and related climate actions.

This document can also be used to correlate climate performance and financial performance.

0.3 How to approach this document

As mentioned, a financier has financial and other objectives underpinning its business activities. In relation to climate change, the financier can have different motivations for integrating climate-related issues in its investment and lending processes. Objectives can include, but are not limited to:

a) understanding and managing climate change risks and leveraging opportunities;

b) contributing to the achievement of climate goals through the influence they have on investees.

This document provides the following requirements and related guidance for the processes implemented to achieve these objectives. Depending on its objectives, the financier applies the clauses indicated for the following purposes:

— Managing climate change risks and leveraging opportunities: Clause 5 provides requirements and guidance on the identification, assessment and disclosure of climate change risks and opportunities.

— Understanding its contribution to the achievement of climate goals: Clause 6 provides a framework to identify, monitor and assess the impact of climate action and estimate the GHG emissions associated with investment, as well as for financing activities related to investees for which no climate action is carried out.

NOTE See Annex A for a flow chart on the different clauses and subclauses of this document.

A financier's business decisions can be driven only by financially related objectives (or at least no climate objectives). However, these financier decisions can also have an impact on the climate and, consequently, on the achievement of its climate goals, as well as exposing its business to climate-related risks. In this instance, the financier shall follow Clause 7 to understand the GHG emissions changes and trends associated with the investees in its portfolio and Clause 5 for disclosing climate-related risks.

Since the framework can be used for a variety of purposes, and also by financiers without climate objectives or strategies, it is important to note that conformity does not equate to high ambition or success with regard to climate actions. Users of the framework are encouraged to observe this caveat in their reporting to third parties.

Clause 9 recommends verification and validation as the preferred approaches for conformity assessment.

Greenhouse gas management and related activities — Framework including principles and requirements for assessing and reporting investments and financing activities related to climate change

1 Scope

This document specifies a general framework, including principles, requirements and guidance for assessing, measuring, monitoring and reporting on investments and financing activities in relation to climate change and the transition into a low-carbon economy. The assessment includes the following items:

— the alignment (or lack thereof) of investment and financing decisions taken by the financier with low-carbon transition pathways, adaptation pathways, and climate goals;

— the impact of actions through the financier's investment and lending decisions towards the achievement of climate goals in the real economy, i.e. mitigation (greenhouse gas emissions) and adaptation (resilience);

— the risks to owners of financial assets (e.g. private equities, listed stocks, bonds, loans) arising from climate change.

To support the financier's assessment of the impact of investment and lending decisions, this document provides guidance for the financier on how to:

— set targets and determine metrics to be used for tracking progress related to the low-carbon transition pathways of investees;

— determine low-carbon transition and adaptation trajectories of investees;

— document the causality or linkage between its climate action and its outputs, outcomes and impacts.

This document is applicable to financiers, i.e. investors and lenders. It guides their reporting activities to the following third parties: shareholders, clients, policymakers, financial supervisory authorities and non-governmental organizations.

2 Normative references

There are no normative references in this document.

3 Terms and definitions

For the purposes of this document, the following terms and definitions apply.

ISO and IEC maintain terminological databases for use in standardization at the following addresses:

— ISO Online browsing platform: available at https://www.iso.org/obp

— IEC Electropedia: available at http://www.electropedia.org/

3.1
climate goals
international long-term goals based on mitigation and adaptation priorities

Note 1 to entry: International climate goals are defined under the Paris Agreement.

Note 2 to entry: The Paris Agreement defines the following mitigation and adaptation goals: a) holding the increase in the global average temperature to well below 2 °C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1,5 °C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of *climate change* (3.2); b) increasing the ability to adapt to the adverse impacts of climate change and foster climate *resilience* (3.5) and low greenhouse gas emissions development, in a manner which does not threaten food production; c) making finance flows aligned with a pathway towards low greenhouse gas emissions and climate-resilient development.

[SOURCE: Paris Agreement[12], Article 2.1]

3.2
climate change
change in climate that persists for an extended period, typically decades or longer

[SOURCE: Intergovernmental Panel on Climate Change (IPCC)[15], modified]

3.3
climate change mitigation
human intervention to reduce the emission sources or enhance the sinks of greenhouse gases (GHGs)

[SOURCE: ISO 14080:2018, 3.1.2.1, modified — The word "emission" has been added to the definition.]

3.4
climate change adaptation
adaptation to climate change
process of adjustment to actual or expected climate and its effects

EXAMPLE Changes to human infrastructure and/or some natural systems to reduce the impacts of increased/decreased rainfall, higher temperatures, scarce water or more frequent storms.

Note 1 to entry: In human systems, adaptation seeks to moderate or avoid harm to human livelihoods or exploit beneficial economic *opportunities* (3.13).

Note 2 to entry: In some natural systems, human intervention can facilitate adjustment expected climate and its effects.

[SOURCE: ISO 14090:2019, 3.1, modified — The term "climate change adaptation" has been made the preferred term, the example has been added, and "to human livelihoods" and "economic" have been added to Note 1 to entry.]

3.5
resilience
adaptive capacity (3.6) of an organization in a complex and changing environment

Note 1 to entry: Intergovernmental Panel on Climate Change (IPCC)[15] defines resilience as "capacity of social, economic, and environmental systems to cope with a hazardous event or trend or disturbance, responding or reorganizing in ways that maintain their essential function, identity and structure, while also maintaining the capacity for adaptation, learning and transformation".

[SOURCE: ISO Guide 73:2009, 3.8.1.7, modified — Note 1 to entry has been added.]

3.6
adaptive capacity
ability of systems, institutions, humans and other organisms to adjust to potential damage, to take advantage of *opportunities* (3.13) or to respond to consequences

[SOURCE: Intergovernmental Panel on Climate Change (IPCC)[15]]

3.7
financier
investor (3.8) and *lender* (3.10)

3.8
investor
individual or organization holding equity or debt categorized as financial assets, including but not limited to asset owners (e.g. pension funds, insurance companies), asset managers and banks

EXAMPLE A fund holding an equity share is one of the investors of the company that issued the share.

3.9
investment
allocation of resources to achieve defined objectives and other benefits

Note 1 to entry: Investments relate to three different types: a) real assets (e.g. factory, mine, building); b) financial assets (e.g. any form of debt, equity or other financing); c) intangible assets (e.g. assets related to research and development).

3.10
lender
individual or organization that loans money to a borrower to finance consumption or *investment* (3.9), on the expectation of repayment on contractual terms, usually within a stated period and with interest payment

3.11
investee
organization other than *financiers* (3.7) that implements its activities using equity or debt *investments* (3.9), the latter categorized as liabilities

EXAMPLE A company issuing a bond is the investee of the bond *investor* (3.8).

3.12
client
professional or non-professional stakeholder of a *financier* (3.7) that subscribes to its financial products (e.g. *investment* (3.9)/insurance products, savings accounts) or institutional *investor* (3.8) that uses the financier's services

3.13
opportunity
situation from which an organization can derive benefit

Note 1 to entry: In this document, the focus is on opportunities that arise from *climate change* (3.2), i.e. the positive impacts related to climate change (e.g. new markets, new or improved supply chains, research and development and technology development)

Note 2 to entry: Opportunities for an organization can be a result of taking action to adapt to the physical impacts of climate change and to mitigate climate change (e.g. efforts to improve resource efficiency and cost savings, the adoption and utilization of low-emission energy sources, the development of new products and services, building *resilience* (3.5) along the supply chain).

Note 3 to entry: Opportunities for an organization can arise from the implementation of climate policy

Note 4 to entry: Opportunities for an organization can arise from expanding, evolving or emerging markets and from *contributions* (3.16) to the organization's sustainability. Opportunities can include: new products, services, customers and markets; reputational benefits; supply chain security; improved resilience; improved processes; and innovation. Opportunities can be identified across value chains and their respective enabling environments.

Note 5 to entry: Climate-related opportunities will vary depending on the region, market and industry in which an organization operates.

3.14
share in total financing
quantitative indicator measuring the weight of a *financier* (3.7) or category of financiers in the total amount of financing received by an *investee* (3.11)

Note 1 to entry: Share in total financing can relate to the share in the total debt or total liabilities accounted on the balance sheet of the investee or the share in the flow of financing received during any defined period of time.

EXAMPLE Bank A holds 80 % of the outstanding debt of a company. Bank B holds 30 % of the debt raised by the company in the past six months. The shares in total financing related to "outstanding debt of a company" and "debt raised by the company in the past six months" are respectively 80 % and 30 %.

3.15
climate action
initiative of a *financier* (3.7) to achieve *climate goals* (3.1) based on mitigation and adaptation priorities

Note 1 to entry: Climate action intends to a) reduce or prevent emissions of greenhouse gases or enhance removals, and b) reduce vulnerability, maintain and increase the *resilience* (3.5) from, and increase the *adaptive capacity* (3.6) of, human and ecological systems to adverse *climate change* (3.2) impacts.

Note 2 to entry: The initiative refers to a decision made by the financier or a group of financiers to exercise its influence in a way that aims at achieving climate goals. It can be a specific investment/lending decision, a permanent change in the investment/lending strategy, policy and processes of the financier(s), or actions that aim at mobilizing other financiers to weigh in and use their influence.

Note 3 to entry: The achievement is characterized by changes in the real economy that are aligned with climate goals.

EXAMPLE Use of shareholder voting rights to support a climate-related resolution, changes in the climate-related conditions associated with the provision of a loan (see Annex B for more examples).

Note 4 to entry: Climate action(s) can be collective or individual.

Note 5 to entry: A climate action can consist of multiple activities (e.g. providing finance, sending letters to *investees* (3.11), having bilateral meetings, exercising shareholder rights) substantiating a general action (e.g. shareholder engagement).

[SOURCE: ISO 14080:2018, 3.1.1.1, modified — The definition has replaced "initiative to achieve climate change measures or goals based on mitigation and/or adaptation priorities under climate change policies", "of greenhouse gases" has been added to Note 1 to entry, and Notes 2 to 5 to entry and the example have been added.]

3.16
contribution
overall effect of a *financier's* (3.7) actions on the achievement of *climate goals* (3.1)

Note 1 to entry: Climate contribution accounts for the effect caused by both a) climate passive decisions and b) deliberate *climate actions* (3.15) driven by an objective that supports the achievement of climate goals.

Note 2 to entry: For *climate change mitigation* (3.3), it is usually expressed in GHG emission units. For *climate change adaptation* (3.4), it may be expressed in terms of financial metrics, e.g. the reduction of the costs incurred by climate-related natural disasters.

Note 3 to entry: Contribution can be positive or negative.

3.17
output of the climate action
change(s) arising from *a financier's* (3.7) *climate action* (3.15) that influences the *investee* (3.11) decision making

Note 1 to entry: The output can be quantitative or qualitative.

EXAMPLE The available equity for an emerging clean technology is dramatically increased; a shareholder resolution on climate-related issues is passed at the annual general meeting; a legal process on climate-related issues has been started.

3.18
outcome of the climate action
actual measurable change(s) observed in the activities of an *investee* (3.11), as a result of the *output of the climate action* (3.17)

Note 1 to entry: The outcome is measured as an effect of the *financier's* (3.7) influence in the activities of the investee.

3.19
impact of the climate action
consequence of an outcome, which measures the extent to which the *climate action* (3.15) contributes to the *climate goals* (3.1)

Note 1 to entry: For mitigation, the impact of the climate action is usually measured in physical units such as tons of GHG emission reductions.

Note 2 to entry: The impact of the climate action can lead to a decrease in the *financier's* (3.7) exposure to climate-related financial risks and *opportunities* (3.13).

3.20
target
<for a financier> measurable outcome and impact a *financier* (3.7) intends to achieve with its *climate action(s)* (3.15) with the ultimate goal being to maximize the financier's impact given available market *opportunities* (3.13)

Note 1 to entry: A mitigation target for a financier is considered science-based when it aims for a change in the *investee's* (3.11) behaviour, contributing to reducing GHG emissions in the real economy at a scale and pace that is commensurate with *climate goals* (3.1).

Note 2 to entry: To achieve the target, the financier can carry out one or several climate actions.

Note 3 to entry: A target can be set at the portfolio level and cascaded into individual climate actions. It can be set for an individual climate action or a series of climate actions.

3.21
investee target
measurable outcome and impact of *investee* (3.11) activities

3.22
external factor
factor affecting outputs, outcomes and impacts, but that is beyond the scope of influence of the *climate actions* (3.15) and/or activities of a *financier* (3.7)

EXAMPLE 1 The removal of a coal-based power plant from the *investment* (3.9) plan of the *investee* (3.11) as a consequence of a new public policy prohibiting operation of coal-based power plants.

EXAMPLE 2 Non-governmental organization pressure; changes in technology prices; subsidies; natural disasters; locked out strikes.

3.23
science-based mitigation target
target (3.20) adopted by *investees* (3.11) to reduce GHG emissions in line with the scientifically defined level of decarbonization required by *climate change mitigation* (3.3) goals

3.24
trajectory
expected future outcome and GHG emissions pathway of an *investee* (3.11) against which changes in emissions or outcomes are measured

Note 1 to entry: There are different types of trajectories: a) the business as usual trajectory, which is the expected future outcome and related GHG trajectory of the investee before *climate action* (3.15) takes place; b) the targeted trajectory, which is the expected outcome and related GHG trajectory resulting from climate action; and c) the science-based trajectory, which is an expected future outcome and related GHG trajectory in line with the scientifically defined level of decarbonization required by *climate change mitigation* (3.3) goals.

Note 2 to entry: The business as usual trajectory can be considered as the baseline trajectory for comparison and monitoring purposes.

3.25
transition risk
risk related to the transition to a lower-carbon economy

Note 1 to entry: The transition risk is related to policy/political initiatives, legal and regulatory obligations, contractual obligations, technology and market changes to address mitigation and adaptation requirements related to *climate change* (3.2).

Note 2 to entry: Transition risk results in varying levels of impact on the financial performance and reputation of the *financier* (3.7).

Note 3 to entry: Transition risks are related to current and anticipated policy constraints and incentives in relevant jurisdictions, technology changes and availability, and market changes.

[SOURCE: Task Force on Climate-Related Financial Disclosures (TCFD)[13]]

3.26
physical risk
risk resulting from event-driven (acute) or longer-term shifts (chronic) in climate patterns associated with *climate change* (3.2)

Note 1 to entry: Physical risks can have financial implications for organizations, such as direct impact to assets and indirect impacts on supply chains owing to changes in water availability, sourcing and quality, food security, and for organizations' premises and operations, supply chain, transport needs and employee safety owing to extreme temperature changes.

Note 2 to entry: Acute physical risks refer to those risks that are event-driven, including increased severity of extreme weather events, such as cyclones, hurricanes or floods.

Note 3 to entry: Chronic physical risks refer to longer-term shifts in climate patterns (e.g. sustained higher temperatures) that can cause sea-level rise or chronic heat waves.

3.27
climate change risk
risk related to *climate change* (3.2) that includes, but is not limited to, *transition risk* (3.25) and *physical risk* (3.26)

3.28
validation
process for evaluating the reasonableness of the assumptions, limitations and methods that support a statement about the outcome of future activities

[SOURCE: ISO 14064-3:2019, 3.6.3]

3.29
verification
process for evaluating a statement of historical data and information to determine if the statement is materially correct and conforms to criteria

[SOURCE: ISO 14064-3:2019, 3.6.2]

3.30
material
information capable of influencing the decisions of intended users

[SOURCE: ISO 14064-3:2019, 3.6.8]

3.31
disclose
reveal data to those not routinely authorized to have it

Note 1 to entry: Disclosure is the act or an instance of disclosing.

[SOURCE: ISO/TS 14265:2011, 2.13, modified — Note 1 to entry has been added.]

4 Principles

4.1 General

The principles are the basis for, and will guide the application of, the requirements and guidance in this document.

4.2 Description of principles

4.2.1 Relevance

Activities, data, information, scenarios and methodologies used are appropriate for assessing and disclosing the impact of the financier's climate action, its related portfolio targets, and its exposure to climate-related risks and opportunities.

4.2.2 Consistency

Apply, use and/or disclose assumptions, methodologies, current and historical data, and scenarios in a way that enables comparable results over time and meaningful monitoring of the outputs, outcomes and impacts of the financier's climate action, the portfolio targets its climate action is supporting, and the reporting on climate-related risks and opportunities.

4.2.3 Completeness

Include all relevant climate actions that contribute (positively or negatively) to the achievement of climate goals and/or the mitigation of climate-related risks.

4.2.4 Conservativeness

When the use of assumptions is required, measure or define the output, outcome and impact of the climate action, such that assumptions do not overestimate positive impact and do not underestimate negative impact, and that the assessment of comparable alternatives produces a result that is cautiously moderate.

4.2.5 Long-term orientation

The understanding of the financier's contribution and awareness of climate-related risks and opportunities takes into account long-term climate goals while considering short- and medium-term implications.

4.2.6 Transparency

Make available all relevant and complete information for verification purposes and, when required or requested, to complement public reporting.

4.2.7 Verifiability

All relevant information (e.g. assumptions, methods, indicators, metrics, current and historical data, scenarios) is capable of verification.

4.2.8 Accuracy

All information reported and documented (including assumptions, methodologies, current and historical data, and scenarios) has limited bias and uncertainties in order to minimize misleading communication.

4.2.9 Synergy

Adaptation actions do not undermine mitigation objectives and mitigation actions do not undermine adaptation objectives.

4.2.10 Coherence

The output of both individual and collective climate actions supports the objective(s) and target(s).

4.2.11 Ability to influence

Influence is leveraged when implementing climate actions that aim to change the behaviour or decisions of investees or other relevant stakeholders.

4.2.12 Effectiveness

Decisions taken by investees are influenced by the financier's climate action and result in a measurable net positive climate impact on the real economy.

4.2.13 Evidence-based

Claims of influence of climate actions are substantiated through collected evidence.

4.2.14 Goal-oriented

Climate actions undertaken by the financier follow a management system (e.g. climate action plan) that is guided by an objective (e.g. to have a positive contribution to the achievement of the climate goals) and targets (e.g. reducing the carbon intensity of the capex investment plans of investees in an investment portfolio) and that management system is regularly assessed for its effectiveness, with shortcomings identified and the approach improved in-line with the latest research available.

4.2.15 Additionality-based

The impact claimed by the financier is additional to what would have happened without its climate action. A financier does not automatically take credit for the investee's climate actions (i.e. changes in

GHG emissions in the real economy) if the financier's climate action was not one of the main drivers or was the only driver for the GHG emissions change.

5 Framework for disclosing a financier's climate change risks and opportunities

5.1 General

The financier shall document a general framework to ensure that the material risks and opportunities of investees are identified.

In order to identify, assess and manage the climate change risks and opportunities, the financier shall address in the framework the following:

— investees' climate change risks and opportunities;

— internal evaluation of climate change risks and opportunities;

— targets related to climate change risks and opportunities;

— changes in these areas over time.

5.2 Financier's business strategy and financial planning over the short, medium and long term

5.2.1 Identification of climate change risks and opportunities over the short, medium and long term

The financier should identify and disclose:

— the types of climate change risks considered, concentrations of climate change risk exposure and expected opportunities;

— the sectors, business model(s) and entire value chain identified (both international and national), related to its investees most at risk with regard to climate change over the short, medium and long term;

— the sectors, business model(s) and entire value chain identified (both international and national), related to its investees with opportunities over the short, medium and long term;

— the climate change risks and opportunities identified associated with the portfolio over the short, medium and long term;

— the process carried out to identify the climate change risks and opportunities of its portfolio and its investees.

NOTE Annex E provides examples for opportunities.

5.2.2 Financiers' governance of climate change risks and opportunities

The financier should determine and disclose:

— how climate change risks are related to its portfolio, products, capital allocation and/or underwriting activities;

— how the board and management address transition and physical risks and opportunities, including:

  — setting strategic objectives;

  — the processes and frequency by which the board needs to be, and is informed to ensure their optimal involvement;

  - the decisions and direction related to climate change risks and opportunities when reviewing and guiding:
    - strategy;
    - risk management policies;
    - setting the financier's performance objectives;
    - overseeing major capital expenditures;
    - acquisitions;
    - progress towards targets;
    - monitoring climate change risks and opportunities;
    - investments;
- how financier's policies and procedures relating to its internal procedures address the need for board involvement in actions relating to the identified climate actions;
- the resilience of the strategies to climate change risks over the short, medium and long term by performing sensitivity tests with different scenarios, including the 1,5 °C scenario, 2 °C or lower scenario and, where relevant, increased physical climate change risk scenarios of more than 3 °C.

5.2.3 Influence of climate change risks on financier's business and strategy

The financier should determine and disclose how climate change risks and opportunities influence its business and strategy over the short, medium and long term in the following areas:

- investment and lending policy;
- products and services;
- core business;
- investment chain;
- value chain;
- adaptation activities;
- mitigation activities;
- capital allocation.

Investors, and in particular asset managers, should determine and disclose:

- how climate change risks and opportunities are factored into relevant investment strategies for various asset classes over the short, medium and long term;
- how climate change risks and opportunities are factored into relevant products;
- how the investment strategy or products can be affected by the transition to a low-carbon economy over the short, medium and long term.

Asset owners should determine and disclose how climate change risks and opportunities are included in the mandate of their asset managers.

5.2.4 Investees' climate change risks and opportunities

The financier shall take into account the impact and risks to climate change of investees and the impact of climate change on each investee.

The financier should take into account the concept of monetization when evaluating financial rates of return. Both climate mitigation and adaptation actions taken by investees can benefit them financially.

NOTE Examples of monetization include shadow pricing, carbon credits or offsets and valuing natural assets. Other standards such as ISO 14007, ISO 14008, the ISO 14064 series and ISO 14067 can help the financier in making its evaluation.

The financier should determine and disclose:

— how its investees have recognized their exposure to the transition and physical risks over the short, medium and long term and whether they have specified these risks;

— how it engages with investees to improve the quality of information related to climate change risks and opportunities and data availability, as applicable;

— the investee's information on climate change risks and opportunities and how the quality has been assessed.

5.3 Targets related to climate change risks and opportunities

The financier should determine and disclose:

— its portfolio and investee targets related to climate change risks and opportunities;

— how the target is consistent with the climate goals;

— how the target is a science-based target;

— qualitative and quantitative indicators, such as:

  — GHG emissions over the short, medium and long term;

  — financial goals;

  — the financial loss tolerance;

  — the time frame over which the targets apply;

  — the base year from which progress is measured;

  — key performance indicators used to assess progress against targets;

— the actions taken to achieve the target;

— the changes in strategy that are supporting the achievement of the targets.

5.4 Managing climate change risks

The financier shall determine and disclose how it operationally and strategically manages climate change risks, including how it makes decisions to:

a) mitigate;

b) transfer;

c) accept;

d) control climate change risks.

The disclosure shall include:

— physical risks over the short, medium and long term;

— transition risks over the short, medium and long term;

— liability risks over the short, medium and long term;

— for cases where the financier fails to manage a risk type, a comprehensive justification why this risk category is not addressed by the financier;

— the provisions for the risks of litigation;

— how the climate change risks and opportunities of the investees are assessed in the short, medium and long term;

— how the climate change risks and opportunities of the portfolios are assessed in the short, medium and long term;

— how climate change risks are going to be managed over the short, medium and long term, including the management tools;

— how the management of climate change risks is integrated into the financier's overall risk management processes and/or policies;

— whether engagement with the investees is included as part of the climate change risk policy;

— how such engagement will affect the climate change risk exposure.

Insurers should determine and disclose:

— the processes of climate change risk management on insurance and reinsurance portfolios by:

  — geography;

  — business division;

  — product segments;

— the range of climate-related events considered;

— how the potential impacts of climate-related risks influence the selection of client, cedent or broker;

— whether climate-related products or competencies are under development, such as the insurance of green infrastructure, specialized climate-related risk advisory services, and climate-related client engagement, over the short, medium and long term.

Investors should determine and disclose how they manage climate change risks for each product or investment strategy.

5.5 Metrics and methodologies used over the short, medium and long term

The financier shall determine and disclose the metrics and methodologies used to assess and manage climate change risks. The disclosure shall address the following information:

— methodologies used and explanations for why these methodologies are selected;

— the percentage of coverage of its portfolio(s), products or underwriting activities;

— the time frame of the data and of the analysis;

— the risk terminology used or references to existing risk classification;

— the results of the scenario analysis, including a well below 2 °C goal;

— a description, including the assumptions of the scenarios as well as the underlying time horizon used to inform the financier's strategy and financial planning over the short, medium and long term;

— whether the metric is a result of a stress test, including a description of the stress test used;

— a description of the monitoring process, including metrics over the medium and long term;

— a description of the industries and geographies covered by the methodology and, if applicable, an explanation of why the relevant industries and geographies identified in 6.6 were not included;

— the asset classes covered by the methodology, including a justification of why material asset classes were not assessed;

— whether the use of metrics has changed over time;

— whether the results of a metric have changed over time;

— whether the metrics use available data, estimated data or both.

Insurers should determine and disclose their aggregated risk exposure to weather-related catastrophes.

Investors should determine and disclose the metrics used to assess climate change risks in each fund, product or investment strategy.

6 Framework for assessing, monitoring and reporting the impact of a financier's climate action on climate goals

6.1 General

This clause provides a general methodological framework for assessing the impact of a financier's climate action(s) on the achievement of climate goals. A non-exhaustive list of climate actions is presented in Annex B.

6.2 Climate strategy and policy

The financier shall establish and document a strategy and a policy demonstrating its commitment to:

— ensuring the consistency of financial flows with climate goals;

— measuring the extent to which its climate action(s) contribute(s) to achieving the climate goals.

The financier shall describe and document a plan to achieve its strategic objectives. The plan shall describe the means that will be mobilized to achieve the objectives. It shall include:

a) how strategic objectives are translated into portfolio target(s);

b) how portfolio targets are translated into specific investee target(s);

c) whether or not the targets set in a) and b) are science-based targets;

d) the climate actions that will be used to meet the portfolio target(s) and the investee target(s);

e) the method(s) in place to establish the causal relationship or linkage between the climate action(s), the means mobilized, and its strategic objectives and targets, which shall:

   1) address how the expected outputs and outcomes will be considered in the process of substantiating the actual impact of the climate action (see Annex A);

   2) include the processes to collect data, the type of data needed, data and information sources, and the frequency of monitoring the climate actions.

   NOTE A method can be established for multiple climate actions.

6.3 Climate action planning and documentation

6.3.1 General

This subclause addresses how the financier documents and describes:

— how the climate action it undertakes (the action) is expected to be a lever to influence the decision-making of an investee (the output) and affect the activities of the investee (the outcome), in order to contribute to mitigation, adaptation or both (the impact);

— the expected causal relationship among the elements given in 6.3.2, 6.3.3, 6.3.4 and 6.3.5 and the conditions and external factors considered at each stage that result in the achievement of the next stage (e.g. outputs leading to outcomes): for cases where direct causality cannot be established, an explanation of the linkage between the stages is required.

The financier shall have in place a plan to periodically review, during its implementation and whenever feasible improve and increase, the ambition of the output, outcome and impact. This review shall take into account at least the latest IPCC reports.

NOTE Following the findings of the latest IPCC reports is the minimum requirement to determine the ambition of the theory of change approach. However, to define outputs, outcomes and impact, the financier is encouraged to consult state of the art research as appropriate.

6.3.2 Defining attributes of the climate action taken

The financier shall define the attributes of the climate action to be undertaken, including:

a) the portfolio target that the climate action is supporting and how the action can contribute to achieving the target of the financier;

b) the asset class(es) concerned;

c) the tenure(s) of the financial asset;

d) the target investee or category of investees;

e) the decisions to be made by the investee(s) that the financier wants to influence include, as applicable:

   1) capital expenditure plans;

   2) research and development expenditure plans;

   3) early retirement of high-carbon assets;

   4) product design or production plans;

   5) operational procedures;

   6) supply chain management;

   7) the selection and deployment of products and services;

   8) conformity to relevant standards;

f) the financier's lever(s) of influence on the investee(s) mobilized include, as applicable:

   1) its ability to submit a resolution and vote as a board member;

   2) its ability to submit a resolution and vote as a shareholder;

   3) its soft power as a shareholder (engagement, including escalation techniques and private, multi-investor dialogue or speech at the annual general meeting);

4) its soft power as a bond investor (engagement);

5) its ability to exert significant influence over the strategy and management of an investee as a private equity shareholder (e.g. leveraged buyout, venture capital, distressed funding);

6) its ability to set debt covenants as a lender; these may be restrictive or affirmative in nature and apply to debt instruments (e.g. loans, bonds);

7) the allocation of capital to financial instruments with certain characteristics (e.g. green bonds financing new renewable energy projects);

8) its ability to make use of legal channels;

9) others;

10) multiple.

6.3.3 Defining the climate action

The financier shall document and describe the following elements:

a) the potential climate actions it can implement with the target investee and/or with other investees;

b) the action planned: the description of the planned climate action should include the means mobilized, the timing of activities, the milestones, the resources mobilized or to be mobilized, and the approach by which the financier collaborates with relevant third parties;

c) the reason(s) why it selected such action over other possible actions;

d) how the climate action relates to its investment and/or financing mandate, strategy, targets, policies and processes in order to demonstrate the clear link with the financier's objective and decisions taken;

e) whether the action is intended to be a one-time initiative or a systematic practice;

f) if the climate action is individual or collective: for a collective action, the financier shall explain its role;

g) whether the success of the action depends on the undertaking of similar or supporting actions by other financiers, and to what degree;

h) its exposure to the targeted investee for the asset classes in which it is implementing the climate action: the financier should explain how this exposure fluctuates over time or is likely to fluctuate during the course of the climate action; if the climate action is collective, the financier should specify the other financiers' exposure to the targeted investees involved in this particular climate action;

i) the levers of influence available and the level of influence that it exercises over the targeted investee(s) in the normal course of business, including its share in total financing of the investee and, if applicable, its voting power: it should document how its level of influence is likely to evolve during the course of the climate action;

NOTE The voting power measures the specific influence a financier has in the governance of an investee through the amount and type of equity it holds or represents.

j) the lever(s) of influence that will be used for the climate action: it may quantify the weight of its influence factor(s) in the decision-making process of the investee;

k) the external factors that can lead to a change in the investees' behaviour.

The financier may specify the main external driver(s) that led to the decision to undertake the climate action, including, as applicable:

— peer pressure;

— requests from the government and/or supervisors;

— pressure from stakeholders such as communities, residents, indigenous people and activist groups;

— request from shareholders and/or debt investors;

— expectations from clients, customers and beneficiaries.

6.3.4 Expected outputs of the climate action

The financier shall document, describe and, where possible, quantify the expected output, including the following:

a) why the expected output of the climate action is a relevant factor for it to influence the decision-making of the investee(s) regarding its expected outcome: the financier should document the analysis with evidence and specify all sources of data used (external and internal);

b) the conditions and external factors that are necessary to deliver the expected output: in this process, the financier should specify the assumptions made regarding these external factors and the rationale, supporting evidence and sources; the financier shall specify if these external factors are being used to induce behavioural change of the investee;

c) the timeline for the output of the climate action to materialize.

NOTE As non-exhaustive examples, the output can take the form of, but not be limited to:

— a climate-related resolution that is approved by shareholders;

— an increase of equity for a resilient low-carbon technology due to the decision of a group of private equity investors mobilizing capital;

— a definition of loan conditions and scope of clients covered.

6.3.5 Expected outcomes of the climate action

6.3.5.1 General

The financier shall document and describe the expected outcome, and related decisions and actions of investees that the financier intends to influence.

In documenting and describing the expected outcome of the climate action, the financier shall do the following.

— Quantify, and when not possible describe the outcomes or resulting changes in the activities of the investee that are expected. The quantification shall be forward looking to the extent possible and can include several points in time. If the expected outcome cannot be quantified, the financier shall explain why.

— Specify the scope of the expected outcome(s), namely the technologies, geographies, operating sites and/or products concerned. To improve the accuracy of the estimation of the expected outcome, it shall be characterized by technology type (e.g. on-shore wind, gas, coal), when applicable and available.

— Provide a timeline for the outcome of the climate action to materialize (e.g. the expected outcome is anticipated to be achieved in a specific year or throughout a series of years). To more accurately determine the progress of a particular outcome, the financier should define relevant intermediate steps that can affect the expected outcome.

— Identify and consider the external factors affecting the achievement of the expected outcome(s) of the climate action. In doing so:

  — the financier should:

    — specify the assumptions made regarding these external factors providing the rationale;

    — collect and provide supporting evidence and the data/information sources used;

  — the financier may:

    — describe how the timeline and the expected outcomes can be affected if its assumptions turn out to be incorrect;

    — carry out a sensitivity analysis for the key assumptions.

NOTE The outcomes of the climate action can relate to multiple categories including changes in capital expenditure plans, research and development expenditure plans, early retirement of high-carbon assets, product design and production plans, operational procedures and/or supply chain management. The outcome can include multiple technologies (e.g. renewable power, gas power, oil power).

The financier shall present the expected outcome(s) in the context of climate goals.

6.3.5.2 Outcomes related to climate change mitigation

For outcome(s) related to climate change mitigation, the financier shall document and describe:

a) how the expected outcome supports the target of the financier and is intended to help it achieve its target;

b) a qualification of how the expected outcome aligns (or not) and with a science-based mitigation target applied to the investee that is consistent with the climate goals;

   NOTE In the absence of a science-based mitigation target, the financier can adopt an indicative target and explain why it is consistent with the climate goals.

c) a qualification of the gap between the business as usual trajectory of the investee's outcome(s), the expected trajectory of the outcome (i.e. provided the expected outcome materializes) and the science-based trajectory of the outcome [i.e. following b)].

In doing b) and c), the financier shall document:

— the methodological framework used for scenario analysis;

— the scenario selected (see Annex C for guidance on scenario selection);

— the key assumptions made;

— the GHG emission factors applied (if applicable);

— the data sources (e.g. annual reports, asset level databases, announcements) used to define the business as usual and expected outcome trajectory of the subject activities performed by the investee's organization.

The business as usual trajectory shall be considered as a baseline trajectory, which will be used to compare changes resulting from the implementation of the climate action. This baseline can, however, be updated for cases where the financier observes changes of the outcome that occurred due to external factors (see the related requirement in 6.3.5.1).

NOTE Refer to Annex D for guidance on how to estimate the trajectory of the science-based mitigation target as well as the business as usual trajectory.

6.3.5.3 Outcomes related to climate change adaptation

For outcome(s) related to climate change adaptation, the financier shall document and describe:

a) how the expected outcome supports the targets;

b) how the expected outcome aligns (or not) with the climate change adaptation pathway (setting targets in the short, medium and long term) applied to the investee: in the absence of a science-based adaptation pathway, the financier may adopt indicative targets consistent with the climate goals and explain why they are consistent;

c) the business as usual and expected levels of climate resilience development in the short, medium and long term: it shall document the methodological framework used, key assumptions made, and data sources used.

6.3.5.4 Outcomes related to multiple periods of time

For cases where the expected outcome concerns multiple periods of time, the financier shall apply 6.3.5.2 a) to c) and 6.3.5.3 a) to c) accordingly.

6.3.6 Expected impact of the climate action

For mitigation actions, the expected impact of the climate action is defined as the difference between the expected GHG emissions trajectory of the investee as a result of the expected outcome and the baseline emissions trajectory.

The baseline emissions trajectory shall be estimated by translating the business as usual trajectory of the investee's behaviour or activities (i.e. outcome) to GHG emissions before the climate action starts to take place.

EXAMPLE Expected changes in capacity addition plans for power producers (expected outcomes) can be translated into changes in GHG emissions associated with the total expected production capacity of the investee.

The financier shall provide a timeline for the impact of the climate action to materialize.

For cases where the outcome is associated with multiple technologies, the financier shall include all the technologies in the GHG emissions calculation.

To demonstrate the progress required to meet the climate goals, the financier shall compare the expected GHG emissions trajectory of the investee with the expected science-based GHG emissions trajectory (if applicable).

The financier shall document any changes implemented to the criteria specified in 6.3.5.2 b) and any additional assumption used to estimate the trajectory of the investee under a science-based mitigation target and the baseline emissions trajectory.

Where the expected impact is considered as material but cannot be quantified, e.g. in some cases of research and development expenditures on low-carbon technologies (for mitigation) or climate-resilient infrastructure (for adaptation), the outcome of the climate action together with a description of the expected impact can suffice provided the reason(s) for not quantifying the expected impact is explained.

In the case of adaptation actions, the financier shall estimate and describe the expected levels of climate resilience development in the short, medium and long term compared to resilience if no action was taken.

The financier shall describe how the expected impact is intended to help the achievement of its targets and strategic objectives.

NOTE 1 See Annex D for guidance on how to estimate the baseline emissions trajectory and the expected science-based emissions trajectory.

NOTE 2 Existing GHG quantification standards in the standards on environmental management developed by ISO/TC 207 (notably ISO 14064-1, ISO 14064-2 and ISO 14067) currently do not address the forward-looking trajectory calculations that are required for the implementation of this document.

6.4 Monitoring of the climate action and respective outputs, outcomes and impacts

6.4.1 Monitoring plan

The financier shall develop an internal monitoring plan. The monitoring plan shall specify:

a) the process and instruments(s) used to periodically monitor differences between the initial activities' expected outputs, outcomes and impacts and the actual activities' expected outputs, outcomes and impacts of the climate action;

b) the nature and source of information being monitored and the related indicators (e.g. investee announcements, reporting);

c) the periodicity of the monitoring exercise (the financier shall conduct the monitoring exercise at least once a year);

d) the staff involved in the monitoring process (i.e. who is responsible for collecting and analysing the information).

6.4.2 Documentation of expected outputs, outcomes and impacts

When documenting the monitoring results and assessing progress, the financier shall include updated values of the expected output, outcome and impact and any changes in the timing for the materialization of the expected output, outcome and impact.

The documentation of the expected output and outcome shall include:

a) a description of the internal organizational and/or operational factors of the financier leading to the change;

b) a description of the internal organizational and/or operational factors of the investee leading to the change;

c) a description of the external factors (i.e. not within the control of either the financier or the investee) leading to the change;

d) changes in the investee's initial outcome(s) and related trajectory [i.e. as observed in 6.3.5.3 c)] resulting from the influence of the external factors not related to the climate action;

e) changes in assumptions made and/or new assumptions introduced to determine the new expected output and outcome.

For mitigation actions, the documentation of the expected impact shall include any changes in the baseline emissions trajectory and the reasons why it has changed. The quantification of the expected impact should therefore consider the difference between the baseline GHG emissions of the investee and the GHG emissions of the investee after the implementation of the outcome.

As specified in 6.3.4, a financier whose expected outcome concerns exclusively zero carbon technologies, should measure changes and track progress in terms of outcome and not in terms of GHG emissions.

Once the actual output and outcome are observed, the financier shall assess the progress made and include results in its documentation:

— a comparison between the initial expected and the actual output and outcome (as established in 6.3.4 and 6.3.5);

— a comparison between the revised outcome and actual outcome [established in point e) above].

For climate change adaptation, the documentation of the expected impact shall include any changes in the climate change adaptation pathway and the reasons why it has changed.

6.5 Assessment of the impact of the financier's climate action

The impact of the financier's climate action is understood as the GHG emissions reduction or the increasing resilience in the short, medium and long term resulting from the influence the financier had on the investee, or both. The documentation of impact shall therefore include at least three types of information:

— a quantification of GHG emissions reduction in absolute and percentage terms [see item a) 3) in the list below];

— a description of the increase in resilience in the short, medium and long term;

— a description of the causal relation or linkage between the climate action and the actual output, outcome and impact.

For outcomes that relate only to negative or zero-carbon technologies, the use by the financier of 6.3.6 is optional.

The financier should request that investees evaluate the impact of their decisions or activities on the achievement of the climate goals. The information used shall be consistent with the indicator used to measure the outcome.

Where the information cannot be provided by the investee, the financier shall use other sources of information to estimate that impact. The financier shall, in this case, document the process to estimate the impact and the sources used.

To assess the impact of the financier's climate actions, the financier shall:

a) for climate change mitigation:

   1) quantify the GHG emissions associated with the actual outcome;

   2) compare the results with:

      i) the GHG emissions trajectory in accordance with the science-based mitigation target applied to the investee in 6.3.5 (if applicable): the financier shall document any changes implemented to the criteria specified in 6.3.5.2 b) and any additional assumption used to estimate the trajectories of the investee;

      ii) the baseline emissions trajectory of the investee;

   3) estimate the difference between the actual GHG emissions trajectory of the investee and the baseline emissions trajectory: this difference shall consider the period of the climate action and include any future periods for which the outcome can continue to lead to emissions reductions;

b) for climate change adaptation, the financier shall establish how the outcome has led to the investee's climate resilience development in the short, medium and long term.

For both climate change mitigation and adaptation, where possible, the financier shall establish and document the causal relation between the climate action and the actual output, outcome and impact. The financier shall list all the relevant factors that demonstrate such causality. If such causality cannot be demonstrated, the financier shall describe the linkage between the climate action and the actual output, outcome and impact and provide the reasons which prevent it from proving causality.

Where the actual impact cannot be quantified, the financier shall substantiate the outcome with a description of the actual impact, including the reason(s) for not quantifying the actual impact.

The financier shall describe how the actual impact helped the achievement of its climate targets and strategic objectives.

6.6 Reporting on the financier's climate action(s)

6.6.1 General

The financier shall report on its climate action(s) by publishing a standalone report or integrating it into other reports such as its annual financial filings, annual reports, corporate sustainability report or other periodical reports or filings. The report shall meet the minimum requirements specified in 6.6.2. The financier can choose how to present the information (e.g. by action, type of action, investee, type of investee).

The financier may also report on the items in 6.7.

6.6.2 Required information

6.6.2.1 Financier's general information

The report shall include:

a) the type of financier (e.g. bank, pension fund, asset manager, insurance company);

b) whether the financier represents a group of organizations or a single organization;

c) the department, division, business unit or team leading the action(s) of relevance for its climate impact (if applicable);

e) the departments, divisions, business units and/or teams supporting the identification, monitoring, assessment and reporting associated with the action(s) of relevance for its climate impact (if applicable).

6.6.2.2 Climate strategy

The report shall include:

a) the climate strategy of the financier;

b) the action plan to achieve its strategic objectives;

c) the portfolio target(s) and investee target(s) associated with the strategic objectives, indicating whether the targets are science-based or not;

d) the climate actions selected to meet the portfolio and the investee target(s), indicating changes with respect to the previous reporting and reasons for the changes;

e) the approach to monitoring climate actions;

f) whether the financier carries out the climate action at the request of its client(s);

g) whether the financier carries out the climate action(s) at the group, division, business unit, department or product level;

h) whether the financier carries out the climate action(s) of relevance for its climate impact at the global, regional, national or local level.

6.6.2.3 Climate action

The report shall include:

a) the entity or group that has carried out the climate action;

b) the asset class(es) concerned;

c) the tenure of the holding or financial asset;

d) an indication of the period of time over which the climate action has been carried out;

e) an indication of the type and number of activities carried out with the investee that substantiate the climate action;

f) an indication of whether the action is an individual or collective action, or a combination of both;

g) the targeted investee or category of investees;

h) an indication of how the financier's action has progressed over time, considering new knowledge on the rate of climate change and the evolution of the impacts;

i) an indication of how the climate action relates to the financier's investment and/or financing mandate, strategy, policies and/or processes;

j) where applicable, the portfolio target(s) the climate action is supporting, indicating whether the target is science-based or not;

k) the financier's financial stake in the investee at the time when the climate action was initiated and concluded;

l) an indication of whether the climate action is a one-time initiative or a systematic change in the financier's practices.

6.6.2.4 Output of the climate action

The report shall include:

a) the levers of influence used;

b) the level of influence on the investee at the time when the climate action was initiated and concluded;

c) the actual output of the climate action and an indication of whether it is a relevant factor to influence the decision-making of the investee regarding its outcome;

d) the external factors that materialized and helped deliver the output.

6.6.2.5 Outcome of the climate action

The report shall include:

a) the expected outcome at the time when the climate action was initiated and its trajectory throughout the period in which the climate action was carried out and, when available, in future periods of time;

b) an indication of whether or not the expected outcome occurred and the date it was achieved;

c) the actual outcome and the corresponding trajectory throughout that period of time and, when available, in future periods;

d) the baseline trajectory of the outcome;

e) an indication of how the actual outcome supports the portfolio level, investee target(s) and/or strategic objectives of the financier;

f) the gap between a) and c) with an explanation of the deviations observed, in particular if the actual outcome is higher than the one that was expected;

g) a description of the changes in the activities of the investee that have led to c), including the decisions made by the investee under the influence of the financier as well as the decisions made under the influence of the external factors considered in 6.3;

h) in the case of mitigation, the difference between the actual trajectory of the investees outcome(s) and the trajectory under the science-based mitigation target, the indicative target or the scenario analysis that considers the climate goals;

i) in the case of mitigation, an indication of whether the methodological framework for scenario analysis was developed in-house or by a third party, the scenario selected, the key assumptions made in the scenario, and an indication of whether the scenario was peer reviewed;

j) the external factors necessary that materialized and helped deliver the actual outcome;

k) in the case of adaptation, the climate change adaptation pathway selected and the key assumptions made when developing it.

6.6.2.6 Climate impact of the investee

The report shall include:

a) the GHG emissions reduction or increase associated with the actual outcome and the expected outcome;

b) the GHG emissions trajectory in accordance with the science-based mitigation target applied under 6.3.5: if the science-based mitigation target adopted under 6.3.5 has changed, the financier should report the science-based mitigation target adopted and explain the reasons for the change;

c) the actual GHG emissions trajectory;

d) the baseline emissions trajectory;

e) any changes introduced to the methodological framework for the scenario analysis reported under 6.6.2.5 i);

f) the change in resilience in the short, medium and long term associated with the actual outcome and the expected outcome;

g) any changes in the climate change adaptation pathway reported under 6.6.2.5.

6.6.2.7 Actual impact of the financier's climate action

The report shall include:

a) a description of the causal relationship or linkage between the financier's climate action and the actual output, outcome and impact: if causality cannot be established, an indication of the factors not allowing its determination;

b) an indication of how the actual impact supports its target(s) and strategic objectives;

c) an assessment of the effectiveness of the climate actions mobilized, acknowledgement of the shortcomings and the strategy to improve over time, the approach itself and the collection of evidence supporting its relevance for impact.

6.7 Recommended information

6.7.1 General

The financier should describe in the reporting of its climate action the elements given in 6.7.2 to 6.7.5.

6.7.2 Defining the climate action

The report should include:

a) the reason(s) why the financier targeted the specific climate action and not other possible actions;

b) the timing of activities and milestones;

c) for collective actions, the list of the participants;

d) the role that other participants had on the climate action;

e) the fluctuation of the exposure during the period the climate action was implemented;

f) for collective actions, the exposure to the targeted investee of the other financiers involved in the action;

g) the reasons why the financier targeted certain investees and not others.

6.7.3 Expected output of the climate action

The report should include:

a) all other levers of influence available to the financier and not used in the climate action, including an explanation of why they were not used;

b) the relevance of the expected output to influence the activities of the investee;

c) the expected output;

d) the external factors necessary to deliver the expected output;

e) the main assumptions associated with the external factors considered and related sources.

6.7.4 Expected outcome of the climate action

The report should include:

a) the decisions or activities of the investee the financier intends to influence;

b) a timeline for the materialization of the expected outcome;

c) the external factors that are needed for the expected outcome to materialize;

d) the main assumptions and respective sources used to determine the external factors.

6.7.5 Expected impact of the investee's actions on the achievement of the climate goals

The report should include:

a) the GHG emissions trajectory of the investee in accordance with the science-based mitigation target or indicative target applied, related to the expected outcome;

b) the impact of the investees on the development of climate resilience in the short, medium and long term.

To demonstrate how the outcome improves climate resilience and its development towards resilience, the financier should document:

— the methodological framework used for assessing investees current resilience;

— the climate change adaptation strategies and pathways;

— the key assumptions made and information sources used;

— financial flows contributing to resilience in the short, medium and long term.

7 Assessing and reporting the GHG emissions associated with the actions of the financier without climate objectives

The day-to-day actions of the financier without climate objectives and related actions can directly or indirectly support the activities, announcements or perspectives of investees regarding climate or broader environmental and social issues. This financier has the potential to carry out climate action either because it wants to contribute to the Paris Agreement goals or because it wants to mitigate its exposure to climate-related risks. It is therefore relevant for it to understand which investees in its portfolio are significantly increasing or reducing GHG emissions and the related actions that have been taken.

A financier without climate objectives shall estimate and disclose the GHG emissions reductions or increase of the investees in its portfolio on a yearly basis, covering a one-year time frame that is consistent with the reporting cycle of the organization. The financier shall report emissions changes in absolute terms (e.g. tonnes of CO_2 or tonnes of CO_2 equivalent) and in percentage terms. The disclosure of the emissions shall include the scope of emissions considered, the time frame and portfolios considered, the universe covered (in percentage) and, if applicable, the reasons why full emissions and full portfolio are not covered.

The financier shall list the investees with most significant increases or decreases in GHG emissions, including the percentage and absolute change in emissions, the reason for the change and any action taken in relation to that investee. These actions can relate to, among others, capital allocation, changes in mandates and proxy voting on governance topics.

The financier shall clearly state that the figures provided do not indicate any measure of impact it has had in the real economy. If the financier states otherwise, it shall provide evidence that backs up its statement.

The financier shall report any intention it has to carry out climate action or integrate climate change considerations in the future, with a proposed timeframe.

A financier without climate objectives should ask investees in its portfolio to provide GHG emissions estimates, including key information on how they were estimated (e.g. scope considered, key assumptions). Where the information is not provided by the investee, the financier can use other sources of information to estimate the GHG emissions, provided that the process to estimate them and the sources used are documented.

8 Document retention and record-keeping

The financier shall develop, establish and maintain procedures for document retention and record-keeping.

The financier shall retain and maintain all documentation supporting the determination, monitoring, assessment and reporting of the climate action for verification needs. The documentation, whether in paper, electronic or other format, shall be handled in accordance with the financier's information management procedures for document retention and record-keeping.

The financier may follow the principles and guidance provided in ISO 15489-1.

9 Verification and validation

The financier shall ensure the accuracy of historical information and the reasonableness of forecast or projected information. A programme of verification and validation should comprise an element of

the financier's quality assurance and quality control procedures. The financier should include in its programme of verification:

a) results of the financier's climate action;

b) required disclosures.

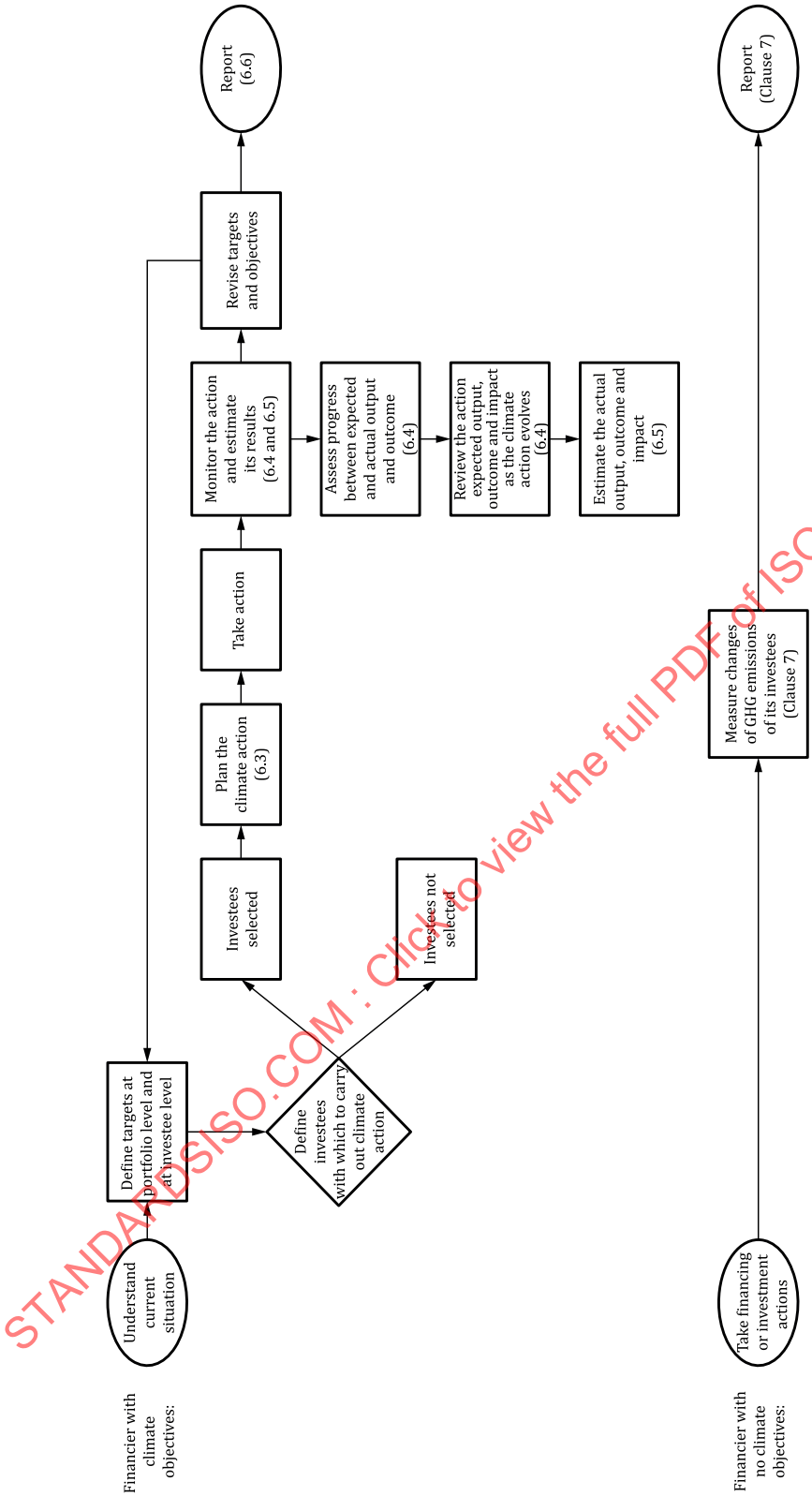
Information that is forecast or projected should be validated.

NOTE Further information about verification and validation can be found in ISO 14064-3:2019.

Annex A
(informative)

Flow chart of the relationship between Clauses 6 and 7

Figure A.1 illustrates the relationship between Clauses 6 and 7.



Key

oval	represents the start and end of a process	arrow	represents the flow-chart path
rectangle	represents any step in the process	diamond	represents a decision

NOTE Numbers in boxes refer to clauses in this document. Boxes with no clause specified relate to steps in the process that are not addressed by this document. Some of these steps are addressed by market initiatives.

Figure A.1 — Flow chart of the relationship between Clauses 6 and 7

Annex B
(informative)

Indicative list of actions for the financier

Table B.1 — Indicative list of actions

Assets	Action	Example and associated impact
Equity investments in venture capital, private equity, social venture, real assets (e.g. infrastructure, real estate)	Exclusion list/limit exposure to certain projects with negative climate impact	An investment policy that prohibits investment in real estate projects with an estimated energy efficiency being X % higher than the national or regional standard. The energy efficiency thresholds are in line with the one of a climate scenario that meets the climate goals enshrined in the Paris Agreement. This action can help investors to align their portfolio with the goals of Paris Agreement (as they will continue to invest in projects of higher energy efficiency) but can result in limited or no impact as real estate firms will not necessarily change their project pipeline due to this exclusion requirement adopted by one financier on the market.
	Invest more in certain projects with positive climate impact	An investor decides to invest in a new low-carbon technology that doubles the energy efficiency of heavy-duty trucks. The investor is responsible for providing the capital required for the developer to continue providing solutions with this breakthrough technology, the application of which results in a considerable emissions reduction.
	Set climate-related conditions (e.g. limit the profit margin threshold enhancing environmental impact)	The majority shareholder of a venture capital firm decides to lower its returns provided that a percentage decrease is invested in energy efficiency programmes. The impact of this shareholder decision is reflected in the resultant amount of emissions associated with the real estate projects in which the firm invests.
Listed equities	Reduce exposure to certain stocks with negative climate impact	An investor decides to reduce its portfolio exposure by selling all the stocks from all companies in hard to abate sectors. This action helps the investor to align its portfolio with the temperature rise target enshrined in the Paris Agreement but results in an impact only if the companies do not continue their normal operations.

Table B.1 *(continued)*

Assets	Action	Example and associated impact
	Invest more in certain stocks with positive climate impact	An investor decides to invest in an initial public offering of shares of a utility company, which will be used to fund research and development and capital expenditures for new renewable energy projects. The impact associated with the action is the release of new capital for financing renewable energy projects and, subsequently, other emerging technologies.
	Engagement with investees on their activities	An investor has a bilateral engagement with an investee company to persuade it to increase the scale of its investment plans on renewable technologies. This investor also votes on a shareholder resolution aiming to require the company to set science-based targets against which to develop its climate strategy. The impact of this series of actions relates to possible changes in investment plans of this investee company.
Bonds	Divest/reduce exposure to certain bonds with negative climate impact	An investor decides to divest from all the companies in its portfolio in hard to abate sectors. This action helps the investor to align its portfolio with the temperature rise target enshrined in the Paris Agreement goal and can result in an impact only if the companies do not continue their normal operations.
	Invest more in certain bonds with positive climate impact	An investor decides to invest in the bond of a utility company whose proceeds will be used to refinance existing projects on low-carbon technologies. The impact of this investment cannot be determined because there is no clarity as to whether the investee is using the new debt instrument for any additional low-carbon technology projects. The bond is not meant to help the company increase its capex investment plans in low-carbon technologies.
	Favour bonds associated with climate-related actions by the issuer	A company has issued five different green bonds in the market. An investor decides to invest in a particular bond that does not yield the highest returns because the proceeds of this bond will be used to finance a new renewable energy project. The impact of this decision will be the emissions reductions attributable to the project being financed.
	Engagement with investees on their activities	A bond holder has a bilateral engagement with an investee company to persuade it to increase the scale of its capex investment plans on renewable technologies. The bond holder requires capex investments plans to be scaled before maturity, otherwise it will not renew its position or invest in new bonds. The impact of this action relates to possible changes in the capex investment plans of this investee company.
Loans	Limit lending to certain activities/organizations	A bank decides not to open a new credit line to a company because this company cannot demonstrate any efforts being made to align its business strategy with the climate goals enshrined in the Paris Agreement. The impact of this action is uncertain as the company can ask another bank for a new credit line.

Table B.1 *(continued)*

Assets	Action	Example and associated impact
	Set above-market or preferential conditions for lending to certain climate-friendly activities or organizations to increase investment volume (e.g. first-loss debt)	A bank decides to partner with a development finance institution to offer concessional loans for companies engaged in renewable energy investment projects and the development finance institution agrees to subsidize the interest rate for borrowers. The impact of this decision is demonstrated through the increased amount of capital available for commercial capex investment in renewables and the potential future emissions reduction associated with those commercial investments.
	Define climate-related conditions for lending to certain activities or organizations	A bank decides to offer a preferential interest rate to companies in a particular sector that have more than 80 % of their capital expenditures devoted to low-carbon technologies. The impact of this decision is the increasing number of companies availing more capital for projects on low-carbon technologies in order be eligible for the preferential rate.

NOTE 1 ISO 14030-1 specifies requirements for the issuance of green bonds.

NOTE 2 ISO 14030-2 specifies requirements for the origination of green loans.

NOTE 3 ISO 14030-3 provides a classification of environmentally beneficial projects, assets and activities.

Annex C
(informative)

Guidance on the selection of scenarios

C.1 General

In the selection of a scenario, the financier should consider the following factors:

— ambition (see C.2);

— speed (see C.3);

— boundaries (see C.4);

— granularity (see C.5);

— time horizon (see C.6);

— parameters (see C.7);

— assumptions (see C.8).

C.2 Ambition

The financier should consider a scenario that is consistent with the climate goals. Where applicable and possible, the financier should use a scenario consistent with the most ambitious of the climate goals (e.g. in the case of the Paris Agreement, this should be at least a well below 2 °C scenario).

C.3 Speed

The scenario speed relates to the disruptiveness or non-linearity of the transition. When available, the organization should consider using scenarios with more sudden or abrupt impacts as these are likely to create more significant risks.

The organization should clearly identify and communicate on the speed of the scenario selected in order to understand if the time frame used in the analysis captures the most abrupt impacts.

C.4 Boundaries

The organization should select a scenario in which geographic boundaries are consistent with the geographical scope of the investee targeted by the climate action.

Three different geographical scopes for scenarios can be considered: global level, regional level and country level.

The selection of the scope should be consistent with the following:

a) scenarios at the global level should be selected when the activity or outcome is part of a global market (e.g. production of vehicles);

b) scenarios at the regional or country level should be selected when the activity or outcome is of the local market (e.g. electricity capacity generation).

The scenario selected should have full coverage of the activities of the investees. If it is not the case, the financier should understand and communicate on the implications of the missing scope.

C.5 Granularity

The financier should use a scenario at the highest geographical, sectoral and technology level of differentiation available to clearly determine the outcome trajectory of the investee targeted by the climate action.

Country level scenarios (e.g. Mexico, China) are preferred to regional level scenarios (e.g. Latin America and the Caribbean, Europe). Scenarios that provide information at a technology level (e.g. production of electric vehicles, internal combustion engine and/or hybrid) are preferred to scenarios that provide information at economic activity level (e.g. production of vehicles).

C.6 Parameters

Scenarios should include parameters in line with the relevant transition factors identified. The scenario should include at least two of the following types of parameters:

a) macroeconomic trends (e.g. growth in gross domestic product, discount rates, potential economic shocks);

b) policy costs and incentives (e.g. feed-in tariff, carbon tax);

c) production and technology (e.g. oil production, power generation, electric vehicle sales).

The organization should understand and communicate the narrative that is driving changes across time on the parameters included in the scenario.

C.7 Time-horizon

The financier should select a scenario with a time horizon spanning the length of time over which the climate action is meant to last.

C.8 Assumptions

The organization should select scenarios in which underlying assumptions are in line with its beliefs and where levels of confidence are known. These assumptions are embedded in the scenario parameters and include changes in technology deployment (e.g. nuclear, electric vehicle), including technology with negative emissions (e.g. carbon capture and storage), enactment of policies, price of commodities and technology, the scenario speed, and the probability of occurrence of the modelled ambition (e.g. 2 °C).

The assumptions of the scenarios should be documented and the key assumptions disclosed.