



## GENERAL RECOMMENDATIONS FOR ASSET MANAGERS

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**This document is part of a set of recommendations for asset managers to develop their climate policies. To be found [HERE](#).**

## INTRODUCTION

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Human activity has already warmed the world by about 1.1°C since pre-industrial times.<sup>1</sup>

As the IPCC has repeatedly warned, limiting global warming to 1.5°C is essential to avoiding catastrophic changes to the environment and human life. Every additional increment of global warming worsens the impact and even at 1.5°C – and even more so at 2°C – climate change will have major consequences on our societies and ecosystems. Indeed, the consequences of climate change have become painfully obvious in recent years.

However, according to the United Nations,<sup>2</sup> current policies would lead to a 2.8°C temperature rise by the end of this century and a rise of 2.4 to 2.6°C even if climate pledges are met. According to the IPCC's Sixth Assessment Report, CO<sub>2</sub> emissions must be cut by 50%, and emissions of all major greenhouse gases (GHGs) by 45% by 2030 to stay on track to limit global warming to 1.5°C.<sup>3</sup> Only an urgent system-wide transformation can deliver the necessary emission cuts.

Reducing GHG emissions requires a rapid reduction in fossil fuel supply and consumption, and a commitment to this is a key climate policy litmus test. But, achieving cuts at this scale requires breaking with current trends: governments are in aggregate planning to produce around 110% more fossil fuels in 2030 than would be consistent with limiting global warming to 1.5°C, and 190% more by 2040.<sup>4</sup> Existing and currently planned fossil fuel infrastructure alone would emit about 850 GtCO<sub>2</sub>, 350 GtCO<sub>2</sub><sup>5</sup> more than the quantity of CO<sub>2</sub> that humanity can still emit to keep global warming at 1.5°C.<sup>6</sup>

The last eight years have been the warmest year on record.<sup>7</sup> Between 1970 and 2019, 4.6 million people died in 22,300 disasters associated with natural hazards, causing US\$4.9 trillion in economic losses.<sup>8</sup> In 2021, natural disasters caused overall losses of US\$280 billion.<sup>9</sup>

If urgent action is not taken, climate change could cost the world's economy US\$178 trillion by 2070<sup>10</sup>. The cost of adapting to climate impacts is expected to grow to US\$160-340 billion per year by 2030, and US\$315-565 billion per year by 2050.<sup>11</sup> Moreover, the cost of humanitarian assistance due to the climate crisis could double by 2050 (US\$20 billion per year),<sup>12</sup> and 216 million people could be forced to migrate within their own countries by 2050.<sup>13</sup>

By contrast, bold climate action could deliver US\$26<sup>14</sup> to US\$43<sup>15</sup> trillion in economic benefits through to 2030, compared with business-as-usual.

To scale up alternatives to fossil fuels and achieve the necessary emission cuts, financial flows and services must be redirected from high-emitting activities to sustainable ones. Renewable capacity additions must quadruple between 2021 and 2030 (from 290 GW to 1,200 GW).<sup>16</sup> At least US\$4.3 trillion in annual finance flows are needed by 2030 to stay on track for 1.5°C, compared to US\$480 billion per year on average in the last decade.<sup>17</sup> Concretely, for every US\$1 spent globally on fossil fuels in 2030, more than US\$9 must be spent on “clean energy”.<sup>18</sup>

In light of the urgent situation explained above, this document lays out essential demands for asset managers to align with the international goal of limiting global warming to 1.5°C.

## GENERAL RECOMMENDATIONS

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### Climate scenarios to use to limit global warming to 1.5°C

Asset managers shall adopt a climate policy aimed at contributing to the goal of limiting global warming to 1.5°C, which entails reducing CO<sub>2</sub> emissions by about 50% by 2030 and reaching net-zero CO<sub>2</sub> emissions by 2050 at the latest. This plan must be developed based on credible and robust science-based scenarios.

Alignment and carbon neutrality commitments and pledges mean that asset managers' emissions targets are based on **no or low overshoot 1.5°C pathways with limited use of negative emissions**. Relying on large quantities of negative emissions increases the risk of overshooting the temperature target in case carbon capture technologies and solutions are not deployed or effective at scale and/or do not ensure the permanence of the GHG removals.

In the present document, the term "1.5°C scenario" is used as shorthand for low or no overshoot 1.5°C scenarios with limited use of negative emissions.

When asset managers refer to the Paris Agreement, they shall make it clear that they are aligning with the Agreement's stronger target of limiting global warming to 1.5°C, not the weaker "well-below 2°C" objective.

It is recommended to use the following scenarios for referring to 1.5°C global scenarios with no or low overshoot and limited use of negative emissions:

- [One Earth Climate Model](#) (OECM) by the University of Technology Sydney Institute for Sustainable Futures and supported by the UN-Convened Net-Zero Asset Owner Alliance (NZAOA). The OECM includes the use of nature-based removals increasing over time to 1.4 GtCO<sub>2</sub> per year by 2050 to compensate for cement process emissions. It does not use technological carbon capture and storage. It includes regional data, and [sectoral pathways](#) covering Scope 1, 2 and 3 emissions.
- The [Net-Zero Emissions by 2050](#) Scenario (NZE) by the International Energy Agency (IEA). This was first published in May 2021 and updated in the October 2023 [World Energy Outlook](#). It includes technology-based removals (direct air capture (DAC) and biomass energy with carbon capture and storage (BECCS)) ramping up to 1.5 GtCO<sub>2</sub> per year in 2050.<sup>19</sup>
- The 26 1.5°C no or low overshoot scenarios published in the IPCC's 6<sup>th</sup> Assessment Report and identified by the International Institution for Sustainable Development (IISD) as not relying on unrealistic amounts of negative emissions.<sup>20</sup>

### Decarbonization targets

Decarbonization targets adopted by asset managers shall:

- **Include interim and long-term targets** – The long-term target of net zero emissions by 2050 at the latest shall be accompanied with a target for 2030 consistent with the Race to Zero criterion of a “fair share” of the 50% global cut in CO2 emissions required by 2030. An interim target for 2025 should also be set, as is required by the NZAOA. In advance of 2030, targets should be set for 2035 and 2040.
- **Include absolute and intensity metrics** – Targets shall be set in absolute GHG emission reductions to ensure they result in real-world reductions aligned with 1.5°C pathways. Absolute targets can be supplemented with both physical- and revenue-based intensity indicators to facilitate comparisons of ambition and progress within sectors, and between portfolios, financial institutions, and regions.<sup>21</sup>
- **Cover all material emission scopes** – Targets shall cover all investee emission scopes where these are material. Where data quality is low, proxy or estimated data should be used as per the methodology of the Platform for Carbon Accounting Financials (PCAF),<sup>22</sup> and asset managers should engage with investees and regulators to promote improved disclosures. As is noted by GFANZ, “Scope 3 should be included at a minimum for high-emitting sectors, such as the priority sectors identified in the NZAOA target-setting protocol.” Among these sectors are oil and gas, utilities (including coal), transport, steel, cement, agriculture and forestry, and chemicals.<sup>23</sup>
- **Differentiate between GHGs** – Targets should be set in CO2-equivalent to measure overall warming impact with separate targets for CO2 and CH4 in the energy sector, and for other GHGs as relevant for other sectors (e.g., N2O for agriculture, and industrial gases for relevant industrial sectors). Using only CO2e targets makes it impossible to measure progress toward reducing individual gases and to compare targets and progress with scenarios based on specific gases (such as NZE which is mainly CO2 based).
- **Cover all asset classes** – Targets shall cover all asset classes for which financed emissions are material and for which methodologies exist, in particular listed equity and corporate bonds, business loans and unlisted equity, project finance and private equity.<sup>24</sup>
- **Not include offsets** – Serious methodological and conceptual problems with offsetting mean that portfolio and sectoral targets must not be wholly or partially met with the use of offsets by investees or asset managers. This is consistent with the position of the [Science Based Targets initiative \(SBTi\)](#).

- **Be transparent and accountable** – Asset manager transition plans should clearly specify target timetables, metrics, scopes, gases covered, and asset classes and sectors included. Transition plans should outline what actions will be taken to meet the targets, including engagement strategies with financial sanctions. Reporting on progress toward meeting targets should be done annually and verified by third parties. If any targets are missed, emission reductions will need to be steeper in future to compensate.

## Key alignment and company assessment resources

While assessing the decarbonisation trajectories of portfolio companies is a relevant exercise, it is only complementary to robust sectoral policies.

It is recommended to use the following resources for:

- Building financial institution transition plans in line with a *1.5 °C Scenario*:
  - The recommendations from the UN [High-Level Expert Group](#) (HLEG) on net zero, published during COP27, that provides key criteria for all carbon neutrality and alignment commitments and plans.
  - The [criteria](#) of the UN [Race to Zero Campaign](#). The Net Zero Asset Manager initiative (NZAM) is a partner of Race to Zero, as are all the sectoral alliances that make up the Glasgow Financial Alliance for Net Zero (GFANZ).
  - GFANZ's November 2022 report, "[Financial Institution Net-zero Transition Plans: Fundamentals, Recommendations and Guidance](#)."
- Assessing the credibility of the corporate and financial institution transition plans:
  - The [Science Based Targets initiative \(SBTi\)](#) and its sectoral target-setting methodologies and validation process. Science-based targets are useful to assess whether companies have set decarbonization targets aligned with the Paris Agreement, but are not in themselves sufficient to do so. They do not ensure that companies are on track to meet these targets, nor that they are implementing the changes in business models and activities that are necessary for 1.5° scenarios.
  - The [Climate Action 100 + benchmark](#) by 5 [investor networks](#) (PRI, AIGCC, Ceres, IGCC and IIGCC). This benchmark provides some useful indicators to assess the credibility of company transition plans, notably regarding carbon neutrality and intermediate decarbonization targets, climate disclosures, governance and capex allocation.
  - The [Assessing Low Carbon Transition](#) (ACT) by the French Environmental Agency (Ademe) and the CDP. The intent of this methodology is to provide a granular analysis of company transition plans and their implementation. While the overall rating attributed does not provide a clear benchmark for alignment with a 1.5°C trajectory, the methodology contains useful information and data that can be used to assess the credibility of transition plans.
  - The [PACTA](#) scenario analysis program, now hosted by RMI.
- Assessing the quality of fossil fuel policies adopted by financial institutions:

- Reclaim Finance has developed the [Coal Policy Tool](#) and the [Oil & Gas Policy Tracker](#). These analyse the quality of the policies adopted by banks, insurers, asset owners and asset managers.

[Transition Pathway Initiative \(TPI\)](#)<sup>25</sup> assessments should be used with caution as these consider that a company has a credible climate policy only by considering the date at which the level of GHG emissions reaches that of a 1.5°C scenario, whereas for a trajectory to be truly aligned, the entire projected carbon budget must be considered.

## What shall a good climate policy contain?

A credible and comprehensive climate policy must be made public and contain a range of general and sectoral measures, including commitments, restrictions, and exclusions.

The climate policy shall rely on science-based scenarios and databases.

A comprehensive climate policy shall include the following elements:

- **Decarbonization targets** for financed emissions from portfolios, asset classes, or economic sectors. These allow asset managers to align their overall activities with the 1.5°C scenarios described above, and with the 50% reduction in CO<sub>2</sub> emissions required by the Race to Zero, based on the findings in the IPCC's Special Report on 1.5°C and Sixth Assessment Report. For more information, see [Decarbonization targets](#).
- **Sectoral policies presenting expectations and restrictions**, with priority given to the most emitting sectors. Adopting decarbonization targets is by no means sufficient to ensure corporate alignment with a 1.5°C scenario. Indeed, the fight against climate change implies concrete actions with a real impact on the economy and the energy mix. Thus, the objectives of reducing GHG emissions must be associated with measures and indicators that will lead to the decline of the most polluting activities on the one hand, and the development of alternative solutions on the other. Sector policies shall clearly and precisely explain what is expected from companies active in the sector. Policies must also explain the engagement and exclusion measures that asset managers will implement in order to secure the alignment of investee companies with these expectations.
- In addition to restrictive measures, asset managers shall, through comprehensive **engagement and vote policies**, use all available levers of influence to encourage their portfolio companies to commit to credible climate transition plans in line with 1.5°C scenarios with low or no overshoot and a limited volume of negative GHG emissions. Specific engagement measures shall be also included in all sectoral policies and associated with time-bound demands and a clear and systematic escalation strategy (See "[Engagement & voting policies](#)" below).

- **Governance, executive remuneration and lobbying policies.** which must be made consistent with the overall climate policy.

## Scope of application of the climate policy

The climate policy should apply to all assets under management, including those managed by subsidiaries. This means that the policy should cover all portfolios under management, including passive funds, and including dedicated funds and third-party mandates, unless the client has given different instructions, or the fund has been exempted for risk management reasons.

For **mandates**, the climate policy shall apply by default, with an opt-out option for clients - preferable to an opt-in option<sup>26</sup>.

For **passively managed funds**, while there is less leeway for existing index funds than for actively managed funds, there is still room for action. Asset managers shall:

- ✓ Commit to not launch any new index funds that would not be able to meet the criteria of the climate policy.
- ✓ Implement several measures for **existing passive funds**, such as:
  - A commitment to not purchasing primary debt/IPO securities of the companies facing investment restrictions in active funds, until they are included in the underlying index of the relevant funds, as it would allow exposure to primary debt/IPO securities to be added to the funds via the secondary market and not the primary market.
  - The climate policy shall plan systematic and immediate voting sanctions for any companies in passive funds that are facing investment restrictions in active funds.
  - A commitment to offer incentives for asset owners to switch funds (and pick coal-free alternatives).
  - A commitment to change the indices of all passive funds by a given date, in order to use only indices that do not contain the companies excluded from active funds.
- ✓ In association with other Asset managers, require index providers to identify and exclude coal laggards from all standard indexes.

Any exceptions to the policy should be limited in scope, limited in time, publicly disclosed, justified, and detailed. They should be accompanied with a time-bound engagement period to quickly bring the portfolio company in line with the climate policy.

A list of companies benefiting from any climate policy exemptions should be published annually.



Any update of the climate policy shall be accompanied by a communication on its impact on the portfolio, notably in terms of funds, share of the portfolio and nature of the companies affected by the new exclusion thresholds, or by any change coming from the data provider.

## Engagement & voting policies

### Overall framework

Asset managers shall adopt engagement and voting policies in addition to sector policies, even though sector policies should also include engagement measures specific to the companies and issues in question.

Voting policies should be separate from engagement policies. Voting policies are necessarily very detailed - in order to foresee all the scenarios that may arise - and include considerations that are not related to the content of the engagement policy (pure governance issues, financial issues, etc.).

It is desirable to separate engagement and voting policies from engagement and voting activity reports. This good practice makes it possible to clearly differentiate between what is part of a generally applicable strategy based on objectives, criteria and processes set ex ante, and ad hoc, one-off behavior identified ex post by an investor.

### The overall engagement policy

A rigorous engagement policy must be accompanied by objectives and an evaluation framework. It is therefore necessary for the engagement policy to include:

- ✓ An assessment of the current situation of the portfolio in relation to the engagement requests. This involves setting an objective benchmark against which the implementation of the policy will be assessed.
- ✓ Quantified and time-bound targets for changing this initial situation through effective engagement.
- ✓ A clear transparency framework, including :
  - The frequency and format of publication of investor votes (and where appropriate, explicitly stating the reasons for not providing full transparency on this activity).
  - The frequency and format of publication of engagement reviews.

The credibility of the engagement policy relies on formulating public, precise and impactful demands and on the robustness of its implementation strategy. The more precise, phased and diversified the strategy, the more likely the initial dialogue will be successful. Indeed, engagement targeting the right outcomes can rapidly prove ineffective if does not follow a clear escalation strategy and can even delay climate action if it goes on for a prolonged period without achieving its outcomes.

Several levers of influence can be mobilised to ensure the asset managers exercise sufficient leverage over investees. The way in which these policy levers are used in a stopover strategy is left to the discretion of the asset managers and may change depending on the sector or geographical area targeted by the commitment.

It is recommended to include in the engagement policy the following graduated hierarchy of possible **actions**:

1. Dialogue with CSR and investor relations departments, senior management, and board members.
2. Send private letters and questionnaires.
3. Act in coalition with other investors.
4. Oral questions put to the Annual General Meeting (AGM).
5. Abstain from voting on a resolution, depending on the subject covered by the resolution.
6. Send public letters and exercise other forms of public pressure.
7. File a shareholder resolution in coalition with other investors.
8. Vote against management-led resolutions depending on the subject covered by the resolution (see details in sectoral policies).
9. Pre-declare voting intention and rationale before the AGM.<sup>27</sup>
10. Restriction of investment in companies (suspending new investment and/or divesting).
11. Total exclusion of the company by selling all shares in portfolio.
12. Litigation.

In case of dialogue failure, the engagement and voting policy shall include an escalation strategy, where requirements triggering the sanctions listed above are clearly defined. This strategy includes, at least:

- The hierarchy between the various engagement levers and sanctions, including a timeline for their implementation (Which one would be activated first? What would follow? When?)
- The conditions to be met by the investee company to escape each of the sanctions that can be activated, including the conditions to avoid the suspension of all new investment (Why and when the subsequent sanction would be activated?)

Structure of an escalation strategy:

<b>Demands</b> <i>What to expect from the portfolio company?</i>	<b>Timeframe</b>	<b>Type of action</b> <i>What is the action taken in case the demand is not met at Date X?</i>
Demand 1	From Date 1	Action 1
	From Date 2	Action 2
Demand 2	From Date 1	Action 1
	From Date 2	Action 2
	From Date 3	Action 3
Demand 3	From Date 1	Action 1

### The activity report

Asset managers shall report against the framework presented in the engagement policy. Current reporting methods, which tend to be too focused on activity indicators (number of companies involved, number of meetings held, voting rate for ESG resolutions, etc.), should be changed to a more results-oriented approach.

### Nota bene

Because effective engagement is resource-intensive and cannot be achieved with all companies, and because some companies are not particularly suited to engagement, asset managers should clarify in all policies the minimum conditions that companies must meet to be engaged.

The purpose of this engagement and voting policy is to provide systematic practices. It avoids case-by-case engagement practices through informal ad-hoc channels.

## ENERGY SECTOR IN GENERAL

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### Company databases to be used

For their sectoral **coal policies**, asset managers shall use the [Global Coal Exit list \(GCEL\)](#), updated annually by Urgewald. This list gives access to information about 2,800 companies playing a significant role in the thermal coal value chain (coal miners, coal power producers, companies involved in coal exploration, processing, trading, transport, logistics, engineering, transmission, equipment manufacturing, coal to gas/liquids production, coal-related services in operation & maintenance/mining/procurement and construction/advisory, underground coal gasification, and other coal-related activities), which meet at least one of the following criteria:

- Companies with coal power, coal mining or coal infrastructure expansion plans.
- A coal share of revenue or power production of at least 20%.
- An annual thermal coal production of at least 10 Mt.
- An installed coal-fired power capacity of at least 5 GW.

These thresholds will be lowered to 10% at the end of 2023 for the next update of the GCEL.

The GCEL includes information on companies planning the addition of an annual production of 2500 Mt of coal, and 476 GW of new coal power capacity. It also covers companies with plans to build new coal infrastructure such as ports or railways which can be instrumental in the opening of new coal basins. Companies with expansion plans shall be the first ones to be excluded since any new coal project is incompatible with a 1.5°C scenario. This allows financial players not only to take measures aimed at protecting themselves against financial risks, but also allowing them not to contribute to the aggravation of the climate crisis.

The GCEL also covers companies above a specific relative threshold, referring to the share of their activity in the coal sector, regardless of their size. The metrics used for power companies are the share of coal power generation for power companies first, the closest to the real climate impact of a company, and then the share of power capacity in the absence of the first metric. The last metric used is the share of revenues of the company, if the two first metrics are not available, because it is less relevant to the real climate impact of the company and can vary considerably from one year to another. The share of revenues is the only metric used for other coal-related companies such as coal mining or coal infrastructure companies. These different metrics are important because the use of different metrics can have an important impact on the number of companies covered by a specific threshold.

To be able to cover companies whose share of activity in the coal sector is low, but which produce large quantities of coal or coal-fired electricity in absolute terms, the GCEL also uses absolute thresholds for the coal mining and coal power sectors. The metric used for coal mining is the annual amount of coal produced in million tonnes per year (Mtpa). The metric used for coal power is the coal power capacity.

For their sectoral policies in oil and gas upstream and midstream sectors, asset managers shall use the [Global Oil & Gas Exit list \(GOGEL\)](#), updated annually by Urgewald. This database gives data on the activities of oil and gas companies according to the following criteria:

- Total oil and gas production.
- Unconventional oil and gas share of production.
- Total short-term expansion plans.
- Share of unconventional oil and gas short-term expansion plans.
- IEA NZE expansion overshoot
- Capital expenditures on oil and gas exploration.
- Fossil fuel share of revenue.
- Reputational risk projects.

Other databases provided by private market players could be used in addition to the GCEL and GOGEL, in particular to cover the downstream of the oil and gas sector. However, we recommend asset managers to use them with caution: forward-looking data about the expansion plans of companies and their activities in some unconventional oil and gas sectors might be missing, as well as granular information necessary to identify the relevant corporate level (group and subsidiaries) exposed to a specific activity. Asset managers should also make sure that the definitions used match their own policies.

### Points of attention for the oil and gas sector

In order to evaluate a company's exposure to a specific sector, its impact on that sector and its decarbonization pathways within that sector, it is recommended to use a **metric** based on absolute values (mmboe in production or in reserve, tCO<sub>2</sub>e in scope 1, 2 and 3, etc.).<sup>28</sup> Relative values (% of revenue, % of number of companies, % of GHG emissions, % of power assets fired by coal or with more than X gCO<sub>2</sub>e/kWh in average, etc.) can eventually be used as an additional indicator applicable to the whole value chain or for specialized companies (joint ventures dedicated to a specific project, oil and gas service companies, mining or coal power companies, etc.).

When asset managers have adopted measures related to unconventional oil and gas, it is recommended to use a definition matching the one used by the GOGEL, which includes the following sectors:

- Extra heavy oil (API gravity index < 15)
- Tar sands
- Coal bed methane
- Fracking
- Ultra-deep offshore oil and gas (depth > 1,500 meters)<sup>29</sup>
- Oil and gas resources located in [Arctic area](#) as defined by the Arctic Council's Assessment and Monitoring Programme (AMAP)<sup>30</sup>

Asset managers could also rely on the definition recommended by the Scientific and Expert Committee of Paris’ Observatory of Sustainable Finance<sup>31</sup>, which also includes tight oil and gas,<sup>32</sup> gas hydrates,<sup>33</sup> and oil shale.

Where the oil and gas sector policy refers to the upstream, midstream and downstream sectors, particularly in the expectations for portfolio companies’ climate transition plans, the breakdown of associated activities to which it applies shall be read as follows.<sup>34</sup>

Upstream	Midstream	Downstream
Exploration Drilling Production Processing	Transportation by rail, road, pipeline, and shipping Pure trading Storage Gas Liquefaction LNG regasification	Oil Refining Distribution Retail Use (power, heating, etc.) Energy efficiency services

Where the oil and gas sector policy refers to Scope 1, 2 and 3 GHG emissions, particularly in the expectations for portfolio companies’ climate transition plans, the breakdown of the different associated emissions sources to which it applies is as follows:

	Upstream	Midstream	Downstream
Scope 1+2 emissions	<ul style="list-style-type: none"> <li>CO2 from combustion (mobile and stationary, including flaring)</li> <li>CH4 venting and flaring</li> <li>Indirect emissions from electricity, heat and steam consumption</li> </ul>	<ul style="list-style-type: none"> <li>CO2 from combustion (mobile and stationary, including flaring)</li> <li>CH4 venting and flaring</li> <li>CH4 leaks from gas midstream logistics</li> <li>Indirect emissions from electricity, heat and steam consumption</li> </ul>	<ul style="list-style-type: none"> <li>CO2 from combustion (mobile and stationary)</li> <li>CH4 leaks from gas downstream logistics</li> <li>Indirect emissions from electricity, heat and steam consumption</li> </ul>
Scope 3 upstream emissions		<ul style="list-style-type: none"> <li>GHG emissions from Oil &amp; Gas upstream</li> <li>GHG emissions from biomass production (incl. land use change)</li> <li>GHG emissions from electricity equipment manufacturing</li> </ul>	<ul style="list-style-type: none"> <li>GHG emissions from Oil &amp; Gas upstream and midstream</li> <li>GHG emissions from biofuels and biogases production</li> <li>GHG emissions from electricity production</li> </ul>
Scope 3 downstream emissions	<ul style="list-style-type: none"> <li>Midstream logistics</li> <li>Processing of sold products</li> <li>Downstream transportation and distribution</li> <li>Use of sold products</li> </ul>	<ul style="list-style-type: none"> <li>Downstream transportation and distribution</li> <li>Use of sold products</li> </ul>	<ul style="list-style-type: none"> <li>Use of sold products</li> </ul>

.Source: [ACT Methodology for the Oil and Gas sector](#) (ADEME, CDP)

## Definitions

This section provides definitions of some important terms used in this document.

**Company in transition** – A company with a credible decarbonization plan aligned with a 1.5 °C scenario with low or no overshoot and a limited volume of negative GHG emissions, including at least a comprehensive and public climate transition plan, and respecting key milestones such as the end of fossil fuel expansion.

**Climate transition plan (for companies)** – A set of commitments, implementation and monitoring measures undertaken by a company to contribute to the fight against global warming. Such a policy must be comprehensive and credible and shall aim at contributing to limiting global warming to 1.5°C with low or no overshoot and a limited volume of negative GHG emissions. The plan should be sufficiently legible to be easily assessed by asset managers.

**Climate policy or climate transition plan (for asset managers)** – A set of general and sectoral policies adopted by asset managers to publicly detail how they intend to decarbonise their portfolios along a 1.5 °C scenario with low or no overshoot and a limited volume of negative GHG emissions. This shall include, at least, short-, medium- and long-term decarbonisation targets, systematic engagement, voting, governance, and good lobbying practice policies, as well as sectoral engagement, and restriction measures (see [What shall a good climate policy contain?](#)).

**Coal developer** – Companies are identified as coal developers if they meet at least one of the following criteria:

- **Mining:** companies engaged in coal exploration activities, planning to develop new coal mines, extend their coal mines by applying for new permits or that are involved in coal exploration activities.
- **Power:** companies planning to develop new coal-fired power capacity of at least 100 MW prorated (based on a company's ownership of a project, or on the number of companies involved in a project).
- **Services:** companies involved in the development or expansion of coal transportation assets or infrastructure assets dedicated to support coal mines, coal transportation and coal-to-gas facilities.

Such companies are listed in the "Expansion" criteria of the [Global Coal Exit List](#).

- Companies extending the lifetime of existing coal mines and/or coal plants.
- Companies purchasing existing coal assets.
- Companies selling services or equipment supporting coal expansion.

**Oil & gas developers** - Companies intending to add oil and/or gas resources to their production capacities in the short term (at least 20 mmbœ of resources to their production portfolio in the near future), i.e. resources associated with assets under development and field evaluation (the two stages preceding production), or in the long term by their involvement in exploration activities, or II) companies with oil and/or gas pipelines or LNG terminals proposed or under construction.

**Exclusion** – A measure consisting of the total exclusion of a type of activity, company, or project from a financial portfolio and/or financial service offerings. The date and modalities of entry into force of such a measure must be precisely defined.

**Infrastructure coal project** – Transportation assets or infrastructure assets dedicated to support coal mines, coal transportation and coal-to-gas facilities.

**New upstream oil and gas projects** – Exploration or development of new oil and gas fields (i.e. fields that are not yet in production), or the redevelopment or expansion of existing fields already in production.

**New midstream oil and gas projects** – Development of new oil and gas transportation and storage infrastructure.

**Power producer** – Company involved in the production of electricity, either as a utility or as an operator of power generation facilities.

**Restriction** – A measure consisting of the partial exclusion of a type of activity, business or project from the financial portfolio and financial service offerings (e.g., ending some but not all financial services to these activities, or excluding them from a type of assets but not all). The restriction may be related to being temporary, being subject to a threshold or having specific exemptions.

**Sustainable power** – In contrast to “unsustainable power”, this means electricity production or storage from renewable energy sources by installations with limited climate and environmental impact throughout the value chain, including in the future.

**Unabated power plant** – Power plant with no facilities to capture GHG emissions during operation.

**Unsustainable power** – In contrast to “sustainable power”, this means electricity production that has a significant impact on the climate and the environment throughout the value chain in which it operates, including in the future. This includes nuclear, industrial-scale biogas and biomass-fired power plants, hydropower plants that do not comply with the recommendations of the World Commission on Dams<sup>35</sup>, and any form of hydrogen that is not produced directly from renewable energy source (or “green hydrogen”).



- <sup>1</sup> World Meteorological Organization, [Provisional State of the Global Climate in 2022](#), 2022
- <sup>2</sup> UNEP, [Emissions Gap Report 2022](#), October 2022
- <sup>3</sup> The numbers in this table are rounded to the nearest 5. The Summary for Policymakers cites the necessary reductions as 43% GHGs and 48% CO<sub>2</sub>. IPCC, [Sixth Assessment report. Climate Change 2022: Mitigation of Climate Change](#), Technical Summary Table TS-2, p.71, April 2022.
- <sup>4</sup> UNEP, [Production gap report 2021](#), October 2021
- <sup>5</sup> IPCC, [Sixth Assessment report. Climate Change 2022: Mitigation of Climate Change](#), B.7.1, p. 20, April 2022)
- <sup>6</sup> Working group II of IPCC, [Technical Summary of the 6<sup>th</sup> assessment report](#), November 2021
- <sup>7</sup> World Meteorological Organization, [Eight warmest years on record witness upsurge in climate change impacts](#), November 2022
- <sup>8</sup> World Meteorological Organization, [WMO Atlas of Mortality and Economic Losses from Weather, Climate and Water Extremes \(1970–2019\)](#), 2021
- <sup>9</sup> Munich Re, [Hurricanes, cold waves, tornadoes: Weather disasters in USA dominate natural disaster losses in 2021](#), January 2022
- <sup>10</sup> Ibid.
- <sup>11</sup> UNEP, [Adaptation finance gap report](#), November 2022
- <sup>12</sup> ICFR, [The cost of doing nothing](#), December 2019
- <sup>13</sup> World Bank, [Groundswell Part 2: Acting on Internal Climate Migration](#), September 2021
- <sup>14</sup> Global Commission on the economy and climate, [Unlocking the Inclusive Growth Story of the 21st Century](#), 2018
- <sup>15</sup> Deloitte, [Global Turning Point Report](#), May 2022
- <sup>16</sup> Reclaim Finance, [From the fossil fuel age to the clean energy era](#), October 2022
- <sup>17</sup> Climate policy institute, [Global Landscape of Climate Finance: A Decade of Data](#), October 2022
- <sup>18</sup> Reclaim Finance, [From the fossil fuel age to the clean energy era](#), October 2022
- <sup>19</sup> Reclaim Finance, [The IEA's net-zero 2050 : The new normal and what's left to be done](#), December 2021
- <sup>20</sup> For more information: IISD, [Lighting the Path: What IPCC energy pathways tell us about Paris-aligned policies and investments](#), June 2022

<sup>21</sup> For more information: GFANZ, [Financial Institution Net-Zero Transition Plans: Fundamentals, Recommendations and Guidance](#), pp.78-79, November 2022

<sup>22</sup> PCAF, [Financed Emissions: The Global GHG Accounting and Reporting Standard](#). Part A, December 2022

<sup>23</sup> GFANZ, [Financial Institution Net-Zero Transition Plans: Fundamentals, Recommendations and Guidance](#), p.77, November 2022

<sup>24</sup> For methodologies see PCAF, [Financed Emissions: The Global GHG Accounting and Reporting Standard](#). Part A, December 2022. NZAOA, [Target-Setting Protocol 3<sup>rd</sup> edition](#), January 2023.

<sup>25</sup> For more information : Reclaim Finance, [The TPI benchmark: misleading approach, dangerous conclusion](#), December 2021

<sup>26</sup> **Opt-out clause:** customers who do not want the climate policy to apply to their investments must indicate this to the asset manager. **Opt-in clause:** customers must indicate their wish to have their own climate policy applied to their investment under management.

<sup>27</sup> The pre-declaration of voting intention can be uploaded into the [PRI's Resolution Database](#)

<sup>28</sup> The halt to expansion stipulated by the IEA in its NZE relates to the opening of new production fields. Furthermore, the research of the analysts who built the GOGEL shows that the data on company revenues is unfortunately very approximate. Indeed, private data providers, in the absence of accurate reporting from companies, are often forced to estimate the share of revenues derived from unconventional hydrocarbons from a production amount and a proxy on revenues.

Not only is the data unreliable, but this results in an underestimate of the share of unconventional in companies' activities - for example, a 20% revenue criterion in shale gas covers a much smaller number of companies than a 20% production criterion. Finally, a growing number of companies are diversifying, increasing their activities in midstream and power generation, without decreasing their hydrocarbon production, including in unconventional. As a result, the share of unconventional oil in their revenues is decreasing without a decrease in production in absolute value.

There is therefore no decrease in the climate impact of these companies. The revenue metric can be justified when the assessment is carried out on all or a significant part of the value chain, beyond production, even though it would be possible to have an assessment based on volumes transported for what comes under the midstream.

<sup>29</sup> Energy Policy, [The impact of water depth on safety and environmental performance in offshore oil and gas production](#), Volume 55, 2013, Pages 699-705, April 2013

<sup>30</sup> For more information: Reclaim Finance, [Drill, baby, drill. How banks, investors and insurers are driving oil and gas expansion in the Arctic](#), September 2021

<sup>31</sup> Observatoire de la finance durable, [Recommandations du Comité Scientifique et d'Expertise portant sur les hydrocarbures non conventionnels et les stratégies d'alignement](#), p. 10, Septembre 2021

<sup>33</sup> Ibid.

<sup>34</sup> ADEME, [Methodology of ACT in Oil & gas sector](#), p. 10, February 2021

<sup>35</sup> The World Commission on Dams, [Dams and development. A new framework for decision-making](#), November 2000.