



RECOMMENDATIONS FOR ASSET MANAGERS

2025

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INTRODUCTION

Long-term global warming is currently estimated to be between 1.34 and 1.41°C compared to the 1850-1900 baseline.¹

As the Intergovernmental Panel on Climate Change (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,² current policies would lead to a 3.1°C temperature rise by the end of this century and a rise of 2.6 to 2.8°C even if climate pledges are met. According to the IPCC's Sixth Assessment Report, CO₂ 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.³ 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 69% more than would be consistent with limiting warming to 2°C.⁴ Existing and currently planned fossil fuel infrastructure alone would emit about 850 GtCO₂, 350 GtCO₂⁵ more than the quantity of CO₂ that humanity can still emit to keep global warming at 1.5°C.⁶

¹ World Meteorological Organization, [Provisional State of the Global Climate in 2024](#), 2025.

² UNEP, Emissions Gap Report 2024, October 2024

³ The numbers in this table are rounded to the nearest 5. The Summary for Policymakers cites the necessary reductions as 43% GHGs and 48% CO₂. IPCC, [Sixth Assessment report. Climate Change 2022: Mitigation of Climate Change](#), Technical Summary Table TS-2, p.71, April 2022.

⁴ UNEP, Production gap report 2023, October 2023. The magnitude of the production gap is also projected to grow over time: by 2050, planned fossil fuel production is 350% and 150% above the levels consistent with limiting warming to 1.5°C or 2°C, respectively.

⁵ IPCC, [Sixth Assessment report. Climate Change 2022: Mitigation of Climate Change](#), B.7.1, p. 20, April 2022)

⁶ Working group II of IPCC, [Technical Summary of the 6th assessment report](#), November 2021

The last ten years have been the warmest years on record.⁷ Between 1970 and 2021, there were 11,778 reported disasters related to weather, climate, and water hazards. These events resulted in approximately 2 million deaths and caused US\$4.3 trillion in economic losses.⁸ If urgent action is not taken, climate change could cost the world's economy US\$178 trillion by 2070.⁹ As of 2024, the annual global adaptation finance gap is estimated at US \$187–359 billion per year, despite public adaptation finance flows increasing to US \$28 billion in 2022.¹⁰ The cost of humanitarian assistance due to the climate crisis could double by 2050 (US\$20 billion per year),¹¹ and 216 million people could be forced to migrate within their own countries by 2050.¹²

To achieve the necessary emission cuts, alternatives to fossil fuels must be massively deployed. The International Energy Agency (IEA) identified the tripling of the global capacity of renewables by 2030, to replace fossil fuels, as the main lever to decarbonize our energy supply system¹³. To that end, financial flows and services must be redirected from high-emitting activities to sustainable ones. Annual finance flows for the energy transition need to rise from US\$1.8 trillion in 2023 to more than US\$4.5 trillion by 2030 - of which US\$2.5 trillion for renewable power, grids and battery storage to stay on track for 1.5°C.¹⁴ Concretely, for every US\$1 spent globally on fossil fuels in 2030, more than US\$10 must be spent on the energy transition, of which 6 dollars for sustainable power supply and 4 dollars for energy efficiency and end-uses transformation.¹⁵

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.

⁷ World Meteorological Organization, The past ten years 2015-2024 are the ten warmest years on record, January 2025

⁸ World Meteorological Organization, Economic costs of weather-related disasters soars but early warnings save lives, 2023

⁹ *Ibid.*

¹⁰ UNEP, [Adaptation finance gap report](#), 2024.

¹¹ ICFR, [The cost of doing nothing](#), December 2019

¹² World Bank, [Groundswell Part 2: Acting on Internal Climate Migration](#), September 2021

¹³ IEA, Net Zero Roadmap (2023 update)

¹⁴ *Ibid* and IEA, WEI 2024

¹⁵ IEA, WEO 2023

TRANSITION PLANS: A BEDROCK FOR ASSET MANAGER CLIMATE ACTION

Asset managers do not only finance “today’s economy”, they finance the economy of next year, of 2030, 2040 and the decades after. By buying bonds and shares, they help companies to develop new projects, to launch products and to expand. By voting at general assemblies, they influence company strategies. Asset managers are actively shaping the economy of the future. But, if they model it like the one of the present, they perpetuate the status quo at the center of the climate and environmental crisis.

To chart a new course, we need a new map. Providing sufficient ambition, robustness and enforcement, climate transition plans can play that role. They bring together the many changes an asset manager must make to transform its business model, from disclosure and governance to clear actions and policies.

Five steps in transition planning

In its report [Financial institutions transition plans: how to drive real-economy decarbonization](#) (December 2024), Reclaim Finance lays out recommendations for robust transition plans for banks, investors and (re)insurers divided in five key steps:

1. **Step 1 – Decarbonization targets:** Robust decarbonization targets are an essential feature of a climate transition plan. These targets are essential to guide the progressive reduction of GHG emissions, in line with global and sectoral emission trajectories that keep global warming under 1.5°C. Without such targets, it is simply impossible to determine whether the future emission levels of the entity are compatible with climate mitigation goals. When it comes to the financial sector, targets should give an overview of the institution’s ambition and its approach to the decarbonization of the individual sectors it supports as well as to the various types of financial services it provides
2. **Step 2 – Decarbonization strategy:** While the drastic reduction of GHG emissions necessary to keep global warming under 1.5°C requires a drastic shift in financial institutions’ operations, decarbonization targets do not give information on the actions and steps planned to achieve this. In other words, decarbonization targets set a destination for banks, investors and insurers, without charting the course they plan to take to arrive there, nor providing the navigation tools. To arrive safe and sound, financial institutions must adopt transition plans that back up targets with a detailed decarbonization strategy. It is this strategy that will show which levers they will use to reach targets and contribute to a deep transformation of the companies they provide financial services to.

3. **Step 3 - Public and private engagement strategy:** Engagement strategies are a prominent part of the decarbonization strategy of financial institutions. While engagement has long been used by investors, it is also relevant to banks and insurers. Indeed, all financial institutions' emissions mainly come from the financial services they provide. Emissions banks, investors and insurers are responsible for can be significantly reduced by changing the way they select who they provide services to, but reaching a state of carbon neutrality and ambitious targets also requires reducing the "real-world" emissions at the level of supported companies themselves. Engagement can contribute to this outcome if it is conducted in a meaningful way, following a clear timeline and strategy. Furthermore, engagement can also help create the enabling conditions to reach climate goals, for example through lobbying in favor of climate action and new practices from service providers (rating agencies, index providers...).
4. **Step 4 – Reporting and governance:** Once the targets have been defined and the relevant strategy to reach them set, the implementation of the plan relies on reporting and governance mechanisms. Without such mechanisms it is not possible to monitor progress and correct course, create incentives, and ensure accountability.
5. **Step 5 - Just transition and biodiversity:** Climate transition plans logically focus on GHG emissions and the actions and steps that must be taken to reduce them. However, their consequences, compatibility and interlinkages with the protection of natural ecosystems as well as their social and human impact must also be considered. Besides, it is common knowledge that financial institutions are contributing to nature degradation and biodiversity loss, while simultaneously being exposed to related risks. Therefore, they should not adopt a carbon tunnel vision and should duly examine the impact on and dependencies of their activities on biodiversity and the just transition, with a view to have an integrated approach. If these issues are only marginally covered in currently available methodologies, the below elements set a general direction of travel for financial institutions to tackle them.

General recommendations for asset managers' transition plans

While some of the key aspects of an asset manager transition plan that are at the core of Reclaim Finance's work and expertise - namely its fossil fuel, power and steel sectoral policies - are detailed in deeper length later in this document, the below table summarizes important additional elements for a robust transition plan. More detail on these elements is available in the report [Financial institutions transition plans: how to drive real-economy decarbonization](#) (December 2024).

Step	Key recommendations
Decarbonization targets	Sectoral targets for short, medium and long-term covering at least the nine highest emitting sectors Coverage of all material financial service in scope 3.15 (scope 3

	category 15 of the GHG protocol, all assets under management) Coverage of all material GHGs. Specific methane targets should be set for the highest methane emitting sectors. Use of Sectoral Portfolio Weighted Average Physical Intensity (WAPI) metrics for all sectors except for the fossil fuel sector where financial exposure targets should be used Base targets on 1.5°C no/low overshoot pathways with limited reliance on negative emissions and provide granular information on the alignment between targets and reference pathways Exclude carbon credits from targets Disclose information on data quality, potential data gaps and improvements Set a “Weighted-average portfolio absolute emissions” target and/or “Weighted-average portfolio emissions intensity”.
Decarbonization strategy	Define an action plan to reach targets, including a quantification of expected GHG reductions by action. Exclude support to fossil fuels from all ESG/sustainable product offering and services. Provide estimates for locked-in emissions, focusing on high emitting sectors. Set targets that show how an increasing share of the companies they provide financial services to are on a realistic path to transition their activities in line with the 1.5°C goal Define a robust fossil fuel policy - as defined later in this document Define a robust policy to decarbonize power generation - as defined later in this document Define a robust policy to decarbonize the steel sector - as defined later in this document
Public and private engagement strategy	Define a robust public advocacy policy including: - A public review of direct and indirect advocacy activities to ensure their complete consistency with climate targets and international goals. - Near-term actions to address any misalignment of advocacy activities (including leaving misaligned

	representative bodies). - An identification of the public policies considered essential to achieve climate goals and what role they can play in the asset managers' decarbonization. Define a robust engagement policy covering all activities - as defined later in this document
Reporting and governance	Track and report on "real-world economy" GHG emission metrics from their portfolio's companies. Track and report on all metrics used to set GHG and non-GHG targets. Report extensive elements enabling to understand the progress made on targets, including elements on action taken, their results and the conduct of engagement. Address any high risk of missing a target or missed targets with corrective actions. Report on "phaseout emission", namely emissions related to the closure of coal power plants respecting key guidelines. Set responsibility and oversight for climate-related matters and the implementation of the transition plan at board level. Review the competencies of the board and upper management on climate and provide relevant training when necessary. Tie transition plan objectives to the remuneration of board members and upper management: - Using concrete and measurable indicators, and; - Ensuring these components make up for a sufficient share of compensation and no other incentives are working against climate objectives. Integrate climate-related matters into financial statements. Establish a clear and robust review process for the transition plan. Submit the transition plan to the vote of shareholders ("Say on Climate").
Just Transition and Biodiversity	Commit to end support to deforestation and peatland loss by 2025, and to ecosystem conversion by 2030. Adopt policies to phase-out support to activities that are major contributors to nature degradation and/or biodiversity depletion,

	including at least: - The end of financial services to companies with a high risk of deforestation and to companies active in highly sensitive areas. - Measures ensuring companies whose activities present potential risks of deforestation implement all measures necessary to reduce it. Stop the provision of financial services to projects that do not receive the Free, Prior and Informed Consent (FPIC) of impacted Indigenous communities. Adopt biodiversity and nature transition plans, including at least: - Targets, actions, accountability mechanisms and intended resources to respond and contribute to the transition implied by the KunmingMontreal Global Biodiversity Framework (GBF) objective to halt biodiversity loss, reverse it by 2030, and put nature on a path to recovery by 2050. - A topdown broad assessment of the impact and dependencies on nature of their portfolios, and of the nature-related risks and opportunities. Explain how the transition plan is compatible with a just transition and provide KPIs to assess this.
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Additionally, we highlight that climate transition plans are also useful tools at the disposal of asset managers to assess the progress (or lack of progress) of their clients. When analyzing the practices of the companies they support and engaging with them, asset managers should ensure they set and implement robust climate transition plans coherent with the recommendations of Reclaim Finance's report [Corporate climate transition plans: What to look for](#) (January 2024).

A critical dimension: the scope of asset managers' plans and policies

The climate transition plan and related climate policies shall apply to all assets under management (AUM), including those managed by subsidiaries. This means that they should cover all portfolios under management including passive funds, and including dedicated funds and third-party mandates, unless the client has given different instructions.

However, asset managers often exempt significant shares of their AUM from their climate policies arguing that these are part of mandates dependent on the will of their clients and/or are passively managed. But, in both cases, asset managers still have the means to act. For mandates, the climate policy shall apply by default, with an opt-out option for clients - preferable to an opt-in option¹⁶. 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 to pick alternative funds that comply with the climate policy).
 - A commitment to change the indices of all passive funds by a given date (in the short term), in order to use only indices that do not contain the companies excluded from active funds.
- ✓ Require index providers to identify and exclude coal developers immediately from all standard indexes.

¹⁶ 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.

Any exceptions to the plan or policies 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.

GENERAL RECOMMENDATIONS FOR THE ENERGY SECTOR

COMPANY DATABASES TO BE USED

Asset managers shall indicate in their climate policy which database(s) they use to apply their restriction rules.

For their sectoral **coal policies**, asset managers shall use the [Global Coal Exit list \(GCEL\)](#) and the [Metallurgical Coal Exit List \(MCEL\)](#) updated annually by Urgewald.

The GCEL 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 10%.
- An annual thermal coal production of at least 10 Mt.
- An installed coal-fired power capacity of at least 5 GW.

Companies on the GCEL represent more than 90% of global thermal coal production and global coal-fired capacity.

The MCEL provides information on 160 companies worldwide that are pursuing 252 metallurgical coal expansion projects in 18 countries - either building new mines or expanding existing ones. The list only covers companies with metallurgical coal expansion plans as they can and should be excluded immediately from financial institutions since current metallurgical coal capacity is sufficient to meet the demand through to 2050.¹⁷ Since many companies produce both thermal and metallurgical coal, there is significant overlap between the GCEL and the MCEL. Using both lists ensures that all companies involved in coal expansion are covered.

For their sectoral policies in oil and gas including all the value chain (including power), 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:

- Oil and gas production.
- Short-term expansion plans.
- Part of short term expansion plans that overshoot IEA's NZE
- Capital expenditures on oil and gas exploration.
- Fossil fuel share of revenue.

¹⁷ IEA, Net Zero by 2050, 2021

- Reputational risk projects.
- Pipeline, LNG export terminal capacity and LNG import terminal capacity expansion plans.
- Oil power and gas power expansion plans.

Other databases provided by private market players could be used in addition to the GCEL, MCEL and GOGEL. However, we recommend 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. AMs 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, it is recommended that AMs use a **metric** based on absolute values (million barrels of oil equivalent (mmbœ) in production or in reserve, tCO₂e in scope 1, 2 and 3, etc.).¹⁸ Relative values (% of revenue, % of GHG emissions, % of power assets fired by coal or with more than X gCO₂e/kWh in average, etc.) can be used as additional indicators 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 AMs adopt measures related to unconventional oil and gas, it is recommended that they 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

¹⁸ 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.

- Ultra-deep offshore oil and gas (depth > 1,500 meters)¹⁹
- Oil and gas resources located in [Arctic area](#) as defined by the Arctic Council's Assessment and Monitoring Programme (AMAP)²⁰

Asset managers could also rely on the definition recommended by the Scientific and Expert Committee of Paris' Observatory of Sustainable Finance²¹, which also includes tight oil and gas,²² gas hydrates,²³ 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.²⁴

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

¹⁹ 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

²⁰ For more information: Reclaim Finance, [Drill, baby, drill. How banks, investors and insurers are driving oil and gas expansion in the Arctic](#), September 2021

²¹ 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

²² Ibid.

²³ Ibid.

²⁴ ADEME, [Methodology of ACT in Oil & gas sector](#), p. 10, February 2021

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	• CO2 from combustion (mobile and stationary, including flaring) • CH4 venting and flaring • Indirect emissions from electricity, heat and steam consumption	• CO2 from combustion (mobile and stationary, including flaring) • CH4 venting and flaring • CH4 leaks from gas midstream logistics • Indirect emissions from electricity, heat and steam consumption	• CO2 from combustion (mobile and stationary) • CH4 leaks from gas downstream logistics • Indirect emissions from electricity, heat and steam consumption
Scope 3 upstream emissions		• GHG emissions from Oil & Gas upstream • GHG emissions from biomass production (incl. land use change) • GHG emissions from electricity equipment manufacturing	• GHG emissions from Oil & Gas upstream and midstream • GHG emissions from biofuels and biogases production • GHG emissions from electricity production
Scope 3 downstream emissions	• Midstream logistics • Processing of sold products • Downstream transportation and distribution • Use of sold products	• Downstream transportation and distribution • Use of sold products	• Use of sold products

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 Banks.

Net zero transition plan (NZPT) – A set of general and sectoral policies adopted by banks to publicly detail how they intend to decarbonise their financing, investment, and advisory activities along a 1.5°C scenario with low or no overshoot and a limited volume of negative GHG emissions.

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 and in the Metallurgical 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 mmmboe 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 companies with oil and/or gas pipelines or LNG terminals proposed or under construction.

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, including pipelines and LNG export or import terminals, or the expansion of existing operating infrastructures.

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

Restriction – A measure consisting of the partial exclusion of a type of activity, business or project from financial services (e.g. ending some but not all financial services to these activities, increasing the interest rate on a loan (or green weighting factor²⁵), etc.). The restriction may be related to being temporary, being subject to a threshold or having specific exemptions.

²⁵ For more information, see Natixis, [Green Weighting Factor](#), 2020.

Sustainable power supply – Electricity production, transmission and distribution, and storage, from renewable energy sources by installations with limited impact on climate, ecosystems and that meet human rights standards such as free, prior and informed consent of Indigenous Peoples (FPIC) throughout the value chain, including in the future. This includes solar (photovoltaic and thermal), wind (on and offshore), some hydro, wave and tidal, geothermal, battery storage, and electricity grids modernization.

Energy efficiency – equipment and technologies that improve stability of the energy system and maximise sustainable energies integration, such as mini-grids or off-grid renewable systems, energy storage, demand reduction and management and grid modernisation.

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

Unsustainable power – Electricity production from sources and technologies that are incompatible with the timeline of a 1.5°C trajectory, and/or that has a significant impact on the climate, ecosystems and human rights 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 Dams²⁶, waste-to-energy and any form of hydrogen that is not produced directly from sustainable energy sources.

²⁶ The World Commission on Dams, [Dams and development. A new framework for decision-making](#), November 2000.

COAL SECTOR

GENERAL SECTOR OVERVIEW

The coal sector is a long way from aligning with 1.5 °C and even continues to expand.²⁷ In 2015, the world's installed coal capacity was 1,910 GW. In 2024, it equals 2,126 GW. Over the past year alone, global coal-fired capacity grew by 30 GW, a net increase that is larger than Poland's entire coal plant fleet. 40% of companies listed on the 2024 GCEL are coal developers and plan to either develop new thermal coal mines, coal transport infrastructure or coal power plants.

Beyond its major contribution to global warming, coal poses serious environmental and public health issues: coal was responsible for over 60% of global SO₂ emissions²⁸ while air pollution from outdoor sources caused more than four million premature deaths in 2021 (85% of which were in emerging and developing countries). The IMF estimated the world can realize a global net social benefit equivalent to US\$85 trillion by phasing out coal.²⁹

OVERALL OBJECTIVES

According to the IPCC, UNEP and IEA, for the coal sector to be aligned with the objective of limiting global warming to 1.5°C, several conditions must be met.

The development of coal mines must stop immediately: 89% of coal reserves proven in 2018 must remain unextracted in 2050.³⁰ Therefore, no new coal mines must be developed, and the lifetimes of existing mines must not be extended.³¹

Investment in coal supply must fall by 70% from 2023 to 2030, with the remaining coal-related investment focused on maintaining production at existing mines and on reducing their emissions intensity while waiting for definitive closure.

Coal demand must fall by 44% by 2030, and by 90% by 2050³² and all coal power plants must be closed by 2030 in advanced economies and by 2040 worldwide.³³

²⁷ [The 2024 Global Coal Exit List: Too Much Coal and Too Little Exit](#), Urgewald, 2024.

²⁸ International Energy Agency, [Coal in Net Zero Transition: Strategies for rapid, secure, and people-centred change](#), November 2022

²⁹ International Monetary Fund, [The Great Carbon Arbitrage](#), June 2022

³⁰ Nature, [Unextractable fossil fuels in a 1.5 °C world](#), September 2021

³¹ International Energy Agency, [Accelerating Just Transitions for the Coal Sector](#), March 2024

³² *Ibid.*

³³ Climate Analytics, [Coal phase-out](#)

Coal mine methane emissions must decline about 70% from 2021 levels by 2030 and about 95% by 2050.³⁴ This result can only be achieved through large-scale mine closures.³⁵

RECOMMENDATIONS FOR RULES AND STANDARDS

Expectations

Asset managers shall expect portfolio coal companies to have no plans for coal expansion, and to adopt a credible and public thermal coal phase-out plan aligned with a 1.5°C scenario. Such a plan shall include, at least, the following indicators:³⁶

- ✓ A commitment to close all the global thermal coal facilities in the OECD and European countries by 2030, and globally by 2040.
- ✓ No coal expansion plans, including the development of new coal mines (both thermal and metallurgical), plants and infrastructure, the expansion or retrofits extending the life of existing projects, as well as the purchase of existing assets without a clear commitment to close them by 2030 if located in the OECD or European countries, or by 2040 elsewhere.
- ✓ A coal phase-out plan which includes:
 - Facility-by-facility closure dates.³⁷ Assets shall not be sold or converted to fossil-based activities or biomass;
 - Just and sustainable transition plans, including guarantees concerning the capacity to fund and implement all worker and environmental obligations (decontamination, retraining, infrastructure decommissioning, etc.).³⁸

In case the facility is not closed but sold, asset managers shall expect strong guarantees that the new owner will:

- Close the facility before 2030 if it is located in the OECD or European countries, or before 2040 elsewhere.
- Not convert coal plants to fossil fuel-fired or biomass-fired plants.

³⁴ 3.2.1 International Energy Agency, [Net Zero by 2050 : A roadmap for the global energy sector](#), § 3.2.1, October 2021

³⁵ International Energy Agency, [Coal in Net Zero Transition: Strategies for rapid, secure, and people-centred change](#), § 1.4.4, November 2022

³⁶ For more information : Reclaim Finance, [How to exit coal : 10 criteria for evaluating corporate coal phase-out plans](#), October 2021

³⁷ For more information : Climate Analytics, [Global and regional coal phase-out requirements of the Paris Agreement: Insights from the IPCC Special Report on 1.5°C](#), September 2019

³⁸ For more information : International Energy Agency, [Phasing out unabated coal : current status and three case studies](#), October 2021. Beyond Coal, [Just transition in the context of European power utilities and Banks](#), August 2020.

- Provide sufficient financial means and measures to ensure that all social and environmental obligations are duly met.

In case the facility is not closed but converted to another use, asset managers shall expect strong guarantees from the coal company.³⁹

Claims of future retrofitting with carbon capture and storage (CCS) or conversion to fossil gas, biogas, hydrogen, biomass, or ammonia co-firing shall not be used to delay coal-fired plant closures.⁴⁰

Restrictions

Asset managers shall adopt time-bound restrictions on coal companies, with the aim of preventing the expansion of the coal sector and supporting its phase-out. Achieving these measures will require asset managers to:

- ✓ Make public their expectations from coal companies and associated exclusions.
- ✓ Define and implement engagement and voting policies towards the relevant companies to induce them to meet expectations.
- ✓ Define and implement a progressive and systematic escalation strategy that includes time-bound sanctions using all tools available for shareholders, including voting against management-proposed resolutions, and that would ultimately lead to stop providing financial services to companies that don't meet the expectations after a predefined period of time.

In priority, asset managers shall immediately end support to coal expansion by:

- ✓ Immediately committing to stop new investments (in priority, new bond investments) in all companies which participate in the expansion of the coal sector (i.e. involved in the development of new coal mines, plants or infrastructure). Alongside this investment restriction, the engagement policy must make clear that companies must adopt a credible and public coal phase-out plan aligned with a 1.5°C scenario.

³⁹ *Ibid.*

⁴⁰ For more information : International Energy Agency, [CCS Retrofit : Analysis of the Globally Installed Coal-Fired Power Plant Fleet](#), 2012. Bloomberg NEF, [Japan's Ammonia-Coal Co-Firing Strategy a Costly Approach to Decarbonization, Renewables Present More Economic Alternative](#), September 2022

- ✓ Immediate commitment to vote systematically against strategic management-proposed resolutions at the Annual General Meetings of companies that are still developing new coal projects (in priority, reelections of directors, remuneration of top management and board members, approval of consolidated financial statements, reappointment of auditors, dividend payout and share buybacks).

Asset managers shall also immediately commit to a global thermal coal phase-out by 2040 with the intermediary date of 2030 for Europe/OECD for thermal coal mining and coal power.

Asset managers shall adopt timed restrictive measures to progressively reduce their exposure to the coal sector and encourage portfolio companies to progressively phase out their coal activities, guided by the adoption of a credible and public coal phase-out plan aligned with a 1.5°C scenario (see expectations described above).

They should follow the thresholds of the Global Coal Exit List and stop investments in companies which derive more than 10% of their revenues from thermal coal mining, more than 10% of their power production or installed power capacity from coal, and companies which produce annually more than 10 million tons of thermal coal or with more than 5 GW of coal-fired power capacity.

Exceptions

An exception to the above measures may be made for project financing or dedicated financing to energy transition activities (e.g. the deployment of sustainable energy). Dedicated financing (for example via use of proceeds bonds) must be explicitly earmarked and must not be used for other activities. More specifically, an exception could be tolerated for green bonds or other sustainable use of proceeds bonds if the issuer's definition of green is rigorously verified.

A Second Party Opinion on the issuer's framework alone does not guarantee the sustainable attributes of these debt instruments. It is recommended for financial institutions to have a public framework that clearly defines the projects they may finance with sustainable debt market instruments and to verify the compatibility of the overall strategy of the issuer with their own commitments.

This exception must remain temporary, and only apply for the time needed for the company to align its corporate strategy with a 1.5°C scenario. It shall not apply to coal developers.

Sustainability-linked bonds (SLBs) or any general-purpose corporate bonds shall not be subject to such an exception because the financing is not earmarked for specific activities and could be used for unsustainable activities.

Metallurgical coal and steel decarbonization

Asset managers shall also immediately seek to end support to metallurgical coal expansion by:

- ✓ Immediately committing to stop new investments (in priority, new bond investments) in all companies which are involved in the expansion of metallurgical coal (i.e. involved in the development of new metallurgical coal mines or the expansion of existing ones, as listed on the MCEL).
- ✓ Immediately committing to vote systematically against strategic management-proposed resolutions at the Annual General Meetings of companies that are still developing new metallurgical coal projects (in priority, reelections of directors, remuneration of top management and board members, approval of consolidated financial statements, reappointment of auditors, dividend payout and share buybacks).
- ✓ Requiring metallurgical coal companies in their portfolio to commit to reducing the methane intensity of coal mines. Until metallurgical coal mines are closed, asset managers should engage with metallurgical coal producing companies and demand they mitigate the methane emissions of their operating mines.

Asset managers must also seek to adopt a comprehensive approach to steel decarbonization, by simultaneously making commitments regarding steel companies using metallurgical coal and those involved in the overall transition of the sector. This includes:

- ✓ Commitment to stop investments in steel companies developing new blast furnaces or relining existing ones beyond 2025 in the OECD, and beyond 2030 in the rest of the world.⁴¹
- ✓ Immediate commitment to vote systematically against strategic management-proposed resolutions at the Annual General Meetings of steel companies that are still relying on coal beyond 2025 in the OECD and 2030 in the rest of the world - including coking ovens, blast furnaces, captive coal-based power plants, and steel mills that include any element that uses coal.
- ✓ Commitment to increase financing for key enabling sectors for steel decarbonization, including sustainable energy production and green hydrogen for steelmaking.⁴²

⁴¹ Net Zero Industry, [Net Zero Steel webpage](#)

⁴² The use of green hydrogen should be exclusively saved for sectors, like steelmaking, which have limited technical options to decarbonize.

OIL & GAS SECTOR

GENERAL SECTOR OVERVIEW

Over half of global emissions are related to the production or use of oil and gas.⁴³

Instead of aligning with 1.5°C, oil and gas companies are continuing to develop massive new capacity for oil and gas production and transport. Global fossil fuel investments have increased each year from 2020 to 2024.⁴⁴ According to the IPCC, cumulative capital expenditure (CAPEX) / operating expenses (OPEX) for the exploration and extraction of oil and gas in new fields is expected to reach more than US\$4.2 trillion in total between 2020 and 2030 and climb to US\$570 billion annually by the end of the decade.⁴⁵

The massive gap between industry projections of oil and gas production trajectories and a 1.5°C scenario increases related financial risks: over US\$1 trillion of oil and gas assets risk becoming stranded when climate action will be strengthened and with the development of alternative energy sources.⁴⁶ According to the Global Oil and Gas Exit List, 578 upstream companies intend to tap into 239.3 billion barrels of oil equivalent (bnboe) of new resources in the coming years, two thirds of which will overshoot the IEA's 1.5°C scenario. This trend is not set to die down: recent announcements from major European oil and gas companies, which are among the largest expanders of oil and gas supply, show that none of them plans to reduce their hydrocarbon production.⁴⁷

OVERALL OBJECTIVES

According to the IPCC, UNEP and the IEA, for the oil and gas sector to be aligned with a 1.5°C scenario, the expansion of oil and gas production must stop immediately. No exploration for new resources is required, and no new oil and gas fields are necessary, beyond those already committed as of 2021. Many of the LNG facilities currently under construction or at the planning stage are not needed: new LNG export terminals are unnecessary to meet demand in the IEA's NZE, and given the current utilization rate of LNG import terminals, especially in Europe,⁴⁸ most new facilities could become stranded in the near future. In addition to their climate impacts, all these fossil fuel projects have immediate consequences on human health and the environment.

⁴³ Our world in data, CO₂ emissions by fuel.

⁴⁴ International Energy Agency, World Energy Investment 2025, June 2025.

⁴⁵ IISD, [Lighting the Path: What IPCC energy pathways tell us about Paris-aligned policies and investments](#), June 2022

⁴⁶ Carbon Tracker, [Unburnable Carbon: Ten Years On](#), June 2022

⁴⁷ Reclaim Finance, European Oil and Gas Companies Backtrack on Climate, May 2025.

⁴⁸ Institute for Energy Economics and Financial Analysis, European LNG Tracker, last updated February 2025.

As early as in the IEA's 2022 World Energy Outlook, it is stated that declining demand for oil and gas in their NZE scenario can be met "through continued investment in existing production assets without the need for any new long lead-time projects."⁴⁹ In the NZE, fossil gas demand drops from 4,150 billion cubic meters (bcm) in 2022 to 920 bcm in 2050, while oil demand drops from 97 million barrels per day (mb/d) in 2022 to less than 24 mb/d in 2050. For both oil and gas, a drop in demand of 5% per year on average is forecasted to reach these levels.⁵⁰

Investments in oil and gas decline even faster than demand in the NZE, falling by around 50% from the 2017-21 average through 2030 for both oil and fossil gas.⁵¹ Continued investment in existing fossil fuel operations is needed to reduce their emissions-intensity, especially of methane. Energy-related methane emissions drop by 75% by 2030 in the NZE through reducing leakage and venting and decreasing fossil fuel extraction.⁵²

RECOMMENDATIONS FOR RULES AND STANDARDS

Asset managers shall adopt a phase-out date for oil and gas upstream and midstream activities by 2050.

Asset managers shall disclose the database used to evaluate the companies exposed to the oil and gas sector. It is recommended to use the [GOGEL](#).

N.B.: These recommendations are specific to oil and gas upstream and midstream activities and shall be read and implemented in addition to other sets of recommendations, including those related to the engagement & voting policies.

What to expect from companies

Asset managers shall expect oil and gas companies operating in upstream and midstream sectors to commit to cease their expansion plans and to meet, in the short-term, the following minimal criteria:

- ✓ Immediately commit to a 2050 net-zero objective based on a 1.5°C scenario on their scope 1, 2 and 3.
- ✓ Meet milestones, including:
 - End of new upstream and LNG projects.⁵³
 - Adoption of oil AND gas production reduction targets by 2030.

⁴⁹ International Energy Agency, [World Energy Outlook 2022](#), p.164, November 2022

⁵⁰ International Energy Agency, The Oil and Gas Industry In Net Zero Transitions, November 2023.

⁵¹ International Energy Agency, [World Energy Outlook 2022](#), Figure 3.22, November 2022

⁵² International Energy Agency, [World Energy Outlook 2022](#), p.64, November 2022

⁵³ Regarding midstream projects, the priority should be to end new LNG export terminals.

→ Allocation of most of CAPEX to clean power.⁵⁴

- ✓ Adopt a comprehensive climate transition plan that allows investors to assess its alignment with a 1.5°C scenario with low or no overshoot and a limited volume of negative GHG emissions.
- ✓ Commit to submit the above-mentioned plan and an assessment of its ongoing implementation in recent years to an annual vote ("Say on Climate") at the Annual General Meetings (AGM).

A comprehensive climate transition plan⁵⁵ shall include, at least, the following indicators:

- ✓ Short- and medium-term GHG emissions reduction targets on Scopes 1, 2 and 3, expressed in both absolute and intensity terms, encompassing all its activities.
- ✓ Possible contribution of captured GHG volumes to achieving emissions reduction targets.
- ✓ Any carbon removal approaches that may be implemented shall be only to complement reduction targets.
- ✓ Targeted energy production mix evolution for short- and medium-term.
- ✓ Short- and medium-term CAPEX plans disaggregated by activity and by allocation between maintenance and development of the Company's assets.
- ✓ Short- and medium-term OPEX disaggregated by activity and by cost item.
- ✓ Explanation of baseline scenario used to set decarbonization targets and how this considers the best available science.
- ✓ Envisaged actions to reduce methane emissions along the value chain, including flaring, leakage control and venting.⁵⁶

Restrictions

Asset managers shall adopt time-bound restrictions on oil and gas companies, with a focus on halting expansion, as well as initiating a controlled decline in oil and gas production. Achieving these measures will require the asset manager to:

- ✓ Make public its expectations from oil and gas companies

⁵⁴ According to the IEA, "for producers that choose to diversify and are looking to align with the aims of the Paris Agreement, our bottom-up analysis of cash flows in a 1.5 °C scenario suggests that a reasonable ambition is for at least 50% of capital expenditures to go towards "clean" energy projects by 2030, on top of the investment needed to reduce scope 1 and 2 emissions." It is important to note that the O&G industry is currently far from reaching this threshold, the IEA highlighted that the total capex dedicated to "clean" energy was 2,7% of the total in 2022, and mainly for unsustainable solutions such as CCS and bioenergy." (source: IEA, Oil and Gas Industry in Net Zero Transition, 2023).

⁵⁵ See [Corporate climate transition plans: what to look for](#), Reclaim Finance, 2024.

⁵⁶ International Energy Agency, [Curtailling Methane Emissions from Fossil Fuel Operations Pathways to a 75% cut by 2030](#), October 2021

- ✓ Define and implement investment restrictions for companies that don't meet expectations.
- ✓ Define and implement engagement and voting policies towards the relevant companies to induce them to meet expectations.
- ✓ Define and implement a progressive and systematic escalation strategy that includes time-bound sanctions using all tools available for shareholders, including voting against management-proposed resolutions, and that would ultimately lead to stop providing financial services to companies that don't meet the expectations after a predefined period of time.

Asset managers shall adopt restrictive measures over time to induce oil and gas companies to stop their oil and gas expansion plans by:

- ✓ Immediate commitment to stop new investments (in priority, new bond investments) in companies that are still developing new upstream and midstream oil and gas projects. Alongside this investment restriction, the engagement policy must make clear that companies must commit to ceasing fossil fuel expansion and must adopt a plan to reduce fossil fuel production.
- ✓ Immediate commitment to vote systematically against strategic management-proposed resolutions at the Annual General Meetings of companies that are still developing new upstream and midstream oil and gas projects (in priority, reelections of directors, remuneration of top management and board members, approval of consolidated financial statements, reappointment of auditors, dividend payout and share buybacks).

Asset managers shall adopt timed restrictive measures to gradually reduce their exposure to oil and gas companies and to induce these companies to undertake a managed decline in oil and gas production and operation (see expectations described above). This includes adopting a phase-out date for oil and gas upstream and midstream activities by 2050 and in the short term, conditioning new investments to an immediate commitment to reduce both oil & gas production by 2030, aligned with a 1.5°C scenario with no or low overshoot and low reliance on negative emissions.

Exceptions

An exception to the above measures may be made for dedicated investment to activities compatible with a 1.5°C trajectory, such as the deployment of sustainable power infrastructures.

Any dedicated bonds (e.g. *use of proceeds bonds*) must be explicitly earmarked and must not be used for other activities. More specifically, an exception could be tolerated for green bonds or other sustainable use of proceeds bonds if the issuer's definition of green is rigorously verified.

A Second Party Opinion on the issuer's framework alone does not guarantee the sustainable attributes of these debt instruments.

It is recommended for asset managers to have a public framework that clearly defines the dedicated companies or bonds they may invest in with sustainable debt market instruments and to verify the compatibility of the overall strategy of the issuer with their own commitments.

This exception must remain temporary, and only apply for the time needed for the company to align its corporate strategy with a 1.5°C scenario.

Sustainable Linked Bonds (SLBs) or any general-purpose corporate financing shall not be subject to such an exception because the financing is not earmarked for specific activities and could be used for unsustainable activities.

POWER SECTOR

GENERAL SECTOR OVERVIEW

Coal-fired power generation is one of the highest emitting sectors in the world.

It is estimated that 42% of global coal plants now run at a loss, and this number is projected to rise to 50% by 2030. By 2040, 72% will be unprofitable. Even with a “below 2°C” scenario, investors and governments will likely face over US\$267 billion in stranded assets.⁵⁷

For its part, and despite its repeated depiction over the past couple of decades as a “clean alternative” to coal, fossil gas power emits high levels of GHGs, particularly when methane emissions from its production and transport are considered.⁵⁸ The systematic development of gas plants, as a replacement for coal or to meet the increasing demand for electricity, must be avoided as it would hinder the achievement of carbon neutrality in electrical systems.

OVERALL OBJECTIVES

According to the IPCC, UNEP, and IEA, for the power generation sector to be aligned with a 1.5°C scenario, fossil fuel power capacity must stop expanding and all unabated plants should be closed by 2040 worldwide. In the OECD and Europe, coal plants should be closed by 2030 and fossil gas plants by 2035.⁵⁹ There must be an immediate halt to approvals for new coal plants.⁶⁰ No new unabated fossil gas plants shall be built since they commonly have an operational lifetime of at least 30 years.⁶¹

But ending the financing of the fossil fuel system does not mean reducing the financing of the energy sector, quite the contrary. The capital flowing to the energy sector needs to double by the end of the decade to get our energy system on track with the 1.5°C objective. This means not only shifting existing financing away from fossil fuel but also attracting additional financing toward sustainable power supply.

⁵⁷ Carbon Tracker, [Powering Down Coal: Navigating the economic and financial risks in the last years of coal power](#), November 2018

⁵⁸ A fossil gas combined-cycle plant can emit 403 to 513 gCO₂e/kWh from a life cycle perspective compared to 751 to 1095 gCO₂e/kWh for coal power. (UNECE, Carbon Neutrality in the UNECE Region: Integrated Life-cycle Assessment of Electricity Sources, March 2022).

⁵⁹ International Energy Agency, [Coal in Net Zero Transition: Strategies for rapid, secure and people-centred change](#), November 2022

⁶⁰ International Energy Agency, [Net Zero by 2050: A roadmap for the global energy sector](#), October 2021

⁶¹ IISD, [Lighting the Path: What IPCC energy pathways tell us about Paris-aligned policies and investments](#), June 2022

Investments in the power sector must be massively reoriented from fossil fuels to conservation, efficiency, and sustainable energy. More specifically, by 2030, annual investments in renewable power (mainly wind and solar), grids and battery storage need to double from 2024 levels while annual investments in fossil fuels must decrease by 60% by 2030. To meet the IEA's NZE scenario, for every one dollar spent globally on fossil fuels by 2030, at least ten dollars must be invested in what the IEA classifies as "clean energy and efficiency investments".⁶² This means that for every dollar invested in fossil fuels, six dollars should be invested in sustainable energy supply (mainly power generation, storage, transmission and distribution), and four dollars should be invested in energy efficiency and end-use transformation.

In the NZE scenario, 40% of electricity generation comes from wind and solar by 2030 when global capacity renewables reach 11,000 GW. To achieve this, the annual spending on "clean energy investments" (energy efficiency, clean fuels and clean power, networks, and storage) needs to exceed US\$ 4.5 trillion in 2030. This requires a significant increase of capital allocation to the "clean" sector by private financiers: by 2035, commercial organisations will represent more than 75% of the energy sector.⁶³

RECOMMENDATIONS FOR RULES AND STANDARDS

Asset managers shall commit to reduce to zero their exposure and to stop investing in the production of unsustainable power according to the following timeframe:

- ✓ Coal power in OECD and European countries by 2030, and in other countries by 2040.
- ✓ Gas power in OECD and European countries by 2035, and in other countries by 2040.

As a primary lever in the transformation of the power generation sector, asset managers should:

- Implement a sectoral exclusion policy on fossil gas in power generation that is aligned with a fossil gas phase-out by 2035 in Europe and OECD countries, and by 2045 worldwide.

What to expect from power utilities⁶⁴

Asset managers shall expect portfolio utilities and power generation companies to meet the following minimal criteria:

- Align with a 1.5°C pathway with no or low overshoot and a limited volume of negative emissions.

⁶² International Energy Agency, [World Energy Outlook 2022](#), p.62, November 2022

⁶³ International Energy Agency, [World Energy Outlook 2024](#).

⁶⁴ See [What to expect from power utilities transition plans?](#), Reclaim Finance, 2024.

- Commit to carbon neutrality by 2035 in Europe and OECD countries, and by 2040 worldwide.
- Commit to fossil gas phase-out by 2035 in Europe and OECD countries, and by 2040 worldwide.
- Commit to coal phase-out by 2030 in Europe and OECD countries, and by 2040 worldwide.
- Set up a plant-by-plant closure plan for coal and fossil gas power plants that excludes sale or conversion and that is compliant with a coal phase-out by 2030 and fossil gas phase-out by 2035 in Europe and OECD countries, and by 2040 worldwide.
- Not invest in new fossil gas and coal power plants, and in new LNG projects.
- Avoid investments in “false solutions”, some of which depend on the continued use of fossil fuel resources: hydrogen for power, biomethane, biogas, biomass, nuclear.
- Adopt a comprehensive climate transition plan that allows investors to assess its alignment with a 1.5°C scenario.
- Commit to submit the above-mentioned plan and an assessment of its ongoing implementation to an annual vote (“Say on Climate”) at the Annual General Meetings (AGM).

The climate transition plan shall include, at a minimum, the following indicators:

- ✓ Explanation of baseline scenario used to set decarbonization targets and how this takes into account the best available science.
- ✓ Short-and medium-term emissions reduction targets providing absolute values, addressing gross emissions, and covering all scopes (1, 2 and 3), all the entity value chain and activities, and all greenhouse gases.
- ✓ Level of emissions compensation to achieve emissions reduction targets.
- ✓ A specific methane emissions target.
- ✓ Current energy mix and targeted energy mix by 2030 (in capacity or generation).
- ✓ Capacity targets for wind and solar by 2030.
- ✓ Capacity or R&D targets for power grids, storage, batteries by 2030.
- ✓ Last year and near term CapEx plans disaggregated by activity (coal, oil, gas, bioenergy, hydrogen, wind, solar, hydropower, storage, flexibility, etc.).

Asset managers should require corporate climate transition plans to include a credible plan for dated closures of unsustainable assets, detailed on a facility-by-facility basis. These closures must be planned at a pace consistent with a 1.5°C scenario and accompanied by just transition plans, and funding for implementing all social and environmental obligations.⁶⁵

In case the plants are not closed but sold, AMs shall expect strong guarantees from the power producer that any new owners will:

- ✓ Close any coal plant before 2030 and any fossil gas plant before 2035 if it is located in the OECD or European countries, or before 2040 elsewhere.
- ✓ Not convert any plants to other fossil fuels, hydrogen or biomass.
- ✓ Provide sufficient financial means and measures to ensure that all social and environmental obligations are met.

Claims that a future power plant will be retrofitted with carbon capture and storage or conversion to “low-carbon energy sources” (such as biogas or hydrogen⁶⁶) shall not be used to delay a fossil fuel-fired plant’s closure.⁶⁷

Asset managers shall not consider a decarbonization target or a net-zero commitment as a substitute for a credible climate transition plan.

Restrictions

Asset managers shall adopt time-bound restrictions on an increasing number of fossil fuel and unsustainable power companies, aiming to prevent the expansion of fossil and unsustainable assets in the power sector, while supporting their progressive phase-out.

Achieving these measures will require the AMs to:

- ✓ Make public their expectations from power generation companies and utilities, and any associated exclusions.
- ✓ Define and implement investment restrictions for companies that don’t meet expectations.

⁶⁵ For more information : International Energy Agency, [Phasing out unabated coal : current status and three case studies](#), October 2021. Beyond Coal, [Just transition in the context of European power utilities and Banks](#), August 2020.

⁶⁶ Although these technologies provide a potential advantage in terms of lowering GHG emissions for electricity generation, their level of maturity is far too low and the cost of conversion far too high to expect a reduction in emissions from the sector in the medium term. For example, current production level for low-carbon hydrogen is only around 0.5% of current hydrogen production being from low-carbon sources, that is about 0.03% of global fossil gas production (Source : IGU, [Global Renewable and low-carbon gas report](#), 2021).

⁶⁷ For more information : International Energy Agency, [CCS Retrofit : Analysis of the Globally Installed Coal-Fired Power Plant Fleet](#), 2012.

- ✓ Define and implement engagement and voting policies towards the relevant companies to induce them to meet expectations.
- ✓ Define and implement a progressive and systematic escalation strategy that includes time-bound sanctions using all tools available for shareholders, including voting against management-proposed resolutions, and that would ultimately lead to stop providing financial services to companies that don't meet the expectations after a predefined period of time.

Asset managers shall adopt restrictive measures over time to induce companies to stop their fossil and unsustainable expansion plans in the power sector:

- ✓ Immediate commitment to stop new investments (in priority, new bond investments) in companies developing new coal plants or fossil gas plants.⁶⁸ Alongside this investment restriction, the engagement policy must make clear that companies must commit to ceasing fossil fuel expansion and must adopt a robust climate transition plan⁶⁹.
- ✓ Immediate commitment to vote systematically against strategic management-proposed resolutions at the AGMs of companies that are still developing new coal plants or fossil gas plants (in priority, reelections of directors, remuneration of top management and board members, approval of consolidated financial statements, reappointment of auditors, dividend payout and share buybacks).

Asset managers shall adopt restrictive measures over time to gradually reduce their exposure to these activities, while encouraging companies to plan a phase-out of their assets and support renewable energy development (see expectations described above).

Exceptions

An exception to the above measures may be made for dedicated financing to the energy transition activities (e.g, the deployment of sustainable energy).

Dedicated financing (for example via use of proceeds bonds) must be explicitly earmarked and must not be used for other activities. More specifically, an exception could be tolerated for green bonds or other sustainable use of proceeds bonds if the issuer's definition of green is rigorously verified.

A Second Party Opinion on the issuer's framework alone does not guarantee the sustainable attributes of these debt instruments. It is recommended for banks to have a public framework that clearly defines the projects they may finance with sustainable debt market instruments and to verify the compatibility of the overall strategy of the issuer with their own commitments.

⁶⁸ Very limited exceptions might be tolerated for new gas plants.

⁶⁹ See our detailed recommendations for [power utilities transition plans](#).

This exception must remain temporary, and only apply for the time needed for the company to align its corporate strategy with a 1.5°C scenario. Sustainable Linked Bonds (SLBs) or any general-purpose corporate financing shall not be subject to such an exception because the financing is not earmarked for specific activities and could be used for unsustainable activities.

Priority should be given to sustainable power supply alternatives. All flexibility options must be utilized first, also large-scale battery storage systems and better load management in the energy system. All of this must take priority over the construction of new fossil power plants. The long-term economics of gas plants, in comparison with sustainable power supply, are changing quickly. In more and more cases, including in Europe and some parts of the United States, battery operators are already supplying back-up power to grids at a price competitive with gas plants.

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 ongoing engagements.

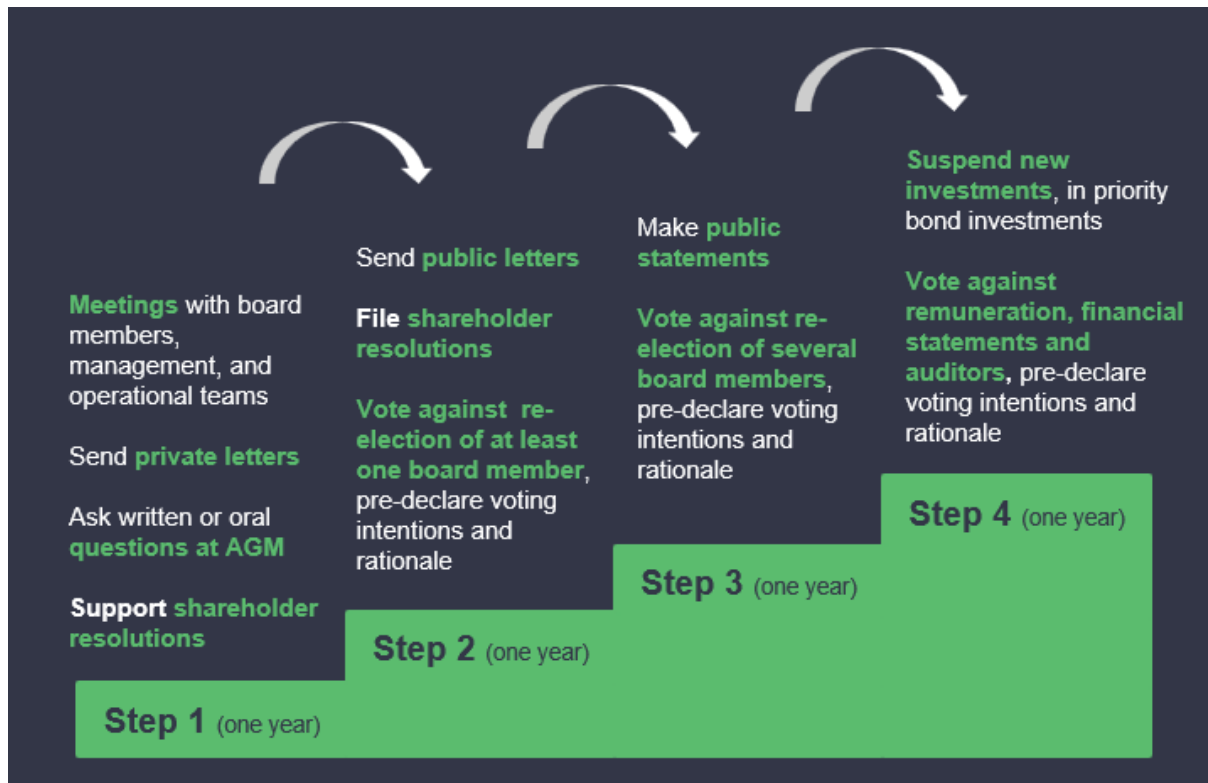
It is desirable to separate engagement and voting policies from engagement and voting activity reports. This good practice makes it possible to clearly differentiate between what is part of a generally applicable strategy based on objectives, criteria and processes set ex ante, and ad hoc, one-off behavior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

Asset managers shall provide the technical and legal opportunity to allow their clients to vote on their behalf at Annual General Meetings (AGMs).

A rigorous **engagement policy** must include:

- ✓ A list of general and sectoral, time-bound expectations for companies in portfolio.
- ✓ The scope of companies engaged, and the criteria and databases used to identify these companies.
- ✓ A systematic escalation strategy, that plans automatic sanctions according to a predefined schedule for companies not meeting expectations.
 - The escalation strategy should include all tools available to investors, such as meetings with management and board members, sending private and public letters, asking written and oral questions at AGMs, filing and supporting shareholder resolutions, voting against management-proposed resolutions, making public statements, stopping new investments or reducing holdings, etc. Divestment should be the last step of an escalation strategy, and should be considered if all the above-mentioned engagement sanctions have failed.
- ✓ A clear transparency framework, including:
 - The frequency and format of publication of proxy voting records and rationales (and where appropriate, explicitly stating the reasons for not providing full transparency on this activity).
 - The frequency and format of publication of engagement reporting.

Example of an escalation strategy:



A rigorous voting policy must include:

- ✓ The scope of application of the voting policy (and where appropriate, explicitly stating the reasons for not voting for all companies for which the asset manager is shareholder)
- ✓ For each type of resolution, precise and concrete rules that companies have to meet for the asset manager to vote in favour of the resolution.
 - Climate-related rules should be integrated into management-proposed resolutions such as director reelections, remuneration, and approval of consolidated financial statements.

THE ENGAGEMENT AND VOTING REPORTING AND DISCLOSURES

Asset managers shall report annually against the framework presented in the engagement policy. Investors should report on the current state of companies in portfolio meeting their expectations, rather than focusing on activity indicators (number of companies involved, number of meetings held, voting rate for ESG resolutions, etc.) and on individual case studies.

For each expectation defined for companies, asset managers should report:

- The share of portfolio companies, and associated share of assets under management, that meet the expectation;
- The share of portfolio companies, and associated share of assets under management, that don't meet the expectation and that were sanctioned this year, specifying which sanction was applied.

Example of a table summarizing the information reported:

	Step 1	Step 2	Step 3	Step 4
Expectation 1	x% of portfolio companies y% of assets under management	x% of portfolio companies y% of assets under management	x% of portfolio companies y% of assets under management	x% of portfolio companies y% of assets under management
Expectation 2	...	...	...	...
Expectation 3	...	...	...	...

In addition, asset managers should disclose proxy voting records and rationales for key ESG-related resolutions annually, at the very latest one month after the company AGM. All this information should be made public on the investor's website.

Pre-disclosure of votes and rationales, ideally two weeks before an AGM, is also recommended because it draws the market's attention to an incomplete climate strategy and can convince other investors to vote similarly. For the specific case of shareholder resolutions, it is possible to disclose support to a resolution on the Principles for Responsible Investment (PRI) resolution database if the resolution was registered on it.

VOTING PRINCIPLES

Say-on-Climate resolutions

Say-on-Climate resolutions are a corporate governance tool that enable investors to access meaningful information that is required to meet their own climate obligations and to express their opinion about the climate transition plan of their portfolio companies. They are a tool for planning, transparency, and accountability in climate matters. Regardless of the specific situation of each company, all companies and financial institutions shall therefore seek to integrate this mechanism into their governance.

However, Say on Climate resolutions are not an appropriate and effective tool to enable investors to obtain concrete and rapid results regarding the effective alignment of a company's strategy and business model. It is only a consultative vote to facilitate access to information and to increase pressure on the company. The effectiveness of an engagement must go beyond votes regarding Say-on-Climate resolutions and include a systematic escalation strategy.

When voting on a Say-on-Climate resolution, asset managers shall expect companies to:

- ✓ Publish a comprehensive climate transition plan, which enables the shareholders to evaluate its alignment with a 1.5°C scenario.
- ✓ Commit to submit both the plan or the assessment of its implementation over the past year to an annual vote at its AGM.

Outside the financial sector, the above-mentioned climate transition plan shall include, at least, the following indicators:

- ✓ Short- and medium-term GHG emissions reduction targets on Scopes 1, 2, 3, expressed in both absolute and intensity terms, encompassing all its activities.
- ✓ Possible contribution of captured GHG volumes to achieving emissions reduction targets.
- ✓ Carbon offsetting approaches that may be implemented to complement the reduction targets.

- ✓ Short- and medium-term capex plans disaggregated by activity and by allocation between maintenance and development of the Company's assets.
- ✓ Short- and medium-term opex disaggregated by activity and by cost item.
- ✓ Explanation of baseline scenarios used to set climate targets and how this considers the best available science.

Other relevant criteria might be asked for specific sectors, as presented in the sections above.

Climate-related shareholder resolutions

Asset managers shall vote in favour of all climate-related shareholder resolutions that contribute to the increase of a company's climate transparency and alignment with a 1.5°C scenario, and explicitly commit to support these resolutions in the future.

Management-proposed strategic resolutions

Resolutions that are dedicated to climate are currently rare and most often consultative, which means that even if they were approved by a majority of shareholders, they wouldn't have automatic consequences on the company. When the climate is relegated to dedicated resolutions, its strategic dimension is overlooked. The transition should be at the heart of the strategy, operational decisions and governance of high-emitting companies. Therefore, a company's climate commitments should be taken into account when voting on management-proposed strategic resolutions.

Director reelections

The members of a company's board of directors are responsible for the development and implementation of its strategy. As such, they must ensure that a climate strategy has been defined based on referenced scientific scenarios, and that it is well implemented in practice in order to meet its climate objectives. Under these conditions, the board of directors should be held directly accountable if the company fails to align its climate strategy with a science-based 1.5°C scenario, or fails to provide sufficient disclosure on its climate strategy for the purposes of assessing its alignment with a 1.5°C scenario. In particular, the board of directors should be held responsible when key transition milestones are not respected. In the energy sector, fossil fuel expansion activities fall under a corporate strategy that is inconsistent with a 1.5°C trajectory. Companies that pursue such activities, or banks and insurers that provide new corporate financial services to fossil fuel developers or expansion projects, should be sanctioned.

Asset managers should **vote against the re-elections of all directors**, including the Chair of the board of directors, if:

- The company does not publish a comprehensive climate strategy that enables shareholders to evaluate its alignment with a 1.5°C trajectory with low or no overshoot and a limited volume of negative greenhouse gas emissions.
- The company's climate strategy is not aligned with a science-based 1.5°C trajectory with low or no overshoot and a limited volume of negative greenhouse gas emissions.
- The company's strategy does not respect key transition milestones for a 1.5°C trajectory, such as the immediate end of fossil fuel expansion activities.

In the event that the renewal of a significant number of mandates - 50% being an appropriate threshold - is submitted to the vote of the shareholders, Reclaim Finance recommends that vote as a priority against the re-appointment of the chairman, as well as the re-appointment of directors who are responsible for the lack of progress and/or the members of the CSR or Sustainability committee.

Remuneration of top executives and directors

A company's board members and executives are responsible for developing and implementing its climate strategy. There, they should be held accountable and sanctioned if the company's climate strategy is inadequate or not transparent enough to assess it against science-based scenarios.

Asset managers should vote against the remuneration of top executives and directors if:

- The company does not publish a comprehensive climate strategy that enables shareholders to evaluate its alignment with a 1.5°C trajectory with low or no overshoot and a limited volume of negative greenhouse gas emissions.
- The company's climate strategy is not aligned with a science-based 1.5°C trajectory with low or no overshoot and a limited volume of negative greenhouse gas emissions.
- The company's strategy does not respect key transition milestones for a 1.5°C trajectory, such as the immediate end of fossil fuel expansion activities.

Reclaim Finance recommends that investors vote against the approval of remuneration of members of the board of directors if:

- ✓ The company does not publish a comprehensive climate strategy that enables shareholders to evaluate its alignment with a 1.5°C trajectory with low or no overshoot and a limited volume of negative greenhouse gas emissions.
- ✓ The company's strategy does not respect key transition milestones, such as the end of fossil fuel expansion activities.

Reclaim Finance recommends that investors vote against the approval of remuneration of the executive management if:

- ✓ The company does not publish a comprehensive climate strategy that enables shareholders to evaluate its alignment with a 1.5°C trajectory with low or no overshoot and a limited volume of negative greenhouse gas emissions.
- ✓ The company's strategy does not respect key transition milestones, such as the end of fossil fuel expansion activities.
- ✓ The climate-related criteria are not clearly defined, measurable quantitatively, or linked to key targets in the company's climate strategy.
- ✓ All CSR criteria represent less than 75% of the company's variable remuneration (both annual and long-term), and its climate-related criteria account for less than half of all CSR criteria.
- ✓ The company still has coal or upstream oil and gas expansion plans.

Assessments of the incorporation of climate-related risks into financial statements and audit reports are provided by the Carbon Tracker Initiative and available in the Climate Action 100+'s Net Zero Company Benchmark.

Dividend payout and share buybacks

In the oil and gas sector, the industry dedicated only 2.5% of its total capital expenditures to "clean" energy. This level of spending is very low compared with that dedicated to fossil fuels, in a context where the sector has made record profits recently that have been largely redistributed to shareholders, in the form of dividends or share buybacks. This illustrates the lack of transformation expected from these companies and their determination to perpetuate the fossil-fuel era. Investors should encourage all fossil fuel companies to diversify away from fossil fuels and invest in priority in sustainable energy, rather than distributing profits to shareholders. The IEA states that 50% of the capital expenditure of oil and gas companies must be dedicated to clean energy projects by 2030 to align with a 1.5°C trajectory, in addition to the investments needed to reduce scope 1 and 2 emissions.

For oil and gas companies, asset managers should vote against the approval of dividend payout and share buybacks if:

- ✓ The company does not disclose enough information to identify the share of capital expenditures dedicated to sustainable energy by 2030, in addition to the investments needed to reduce scope 1 and 2 emissions.
- ✓ The company invests less than 50% of its capital expenditures in sustainable energy by 2030, in addition to the investments needed to reduce scope 1 and 2 emissions.