



# **Climate Benchmarks and Benchmarks' ESG Disclosures**

# Serving High Ambitions, Breaking New Ground

*The amending regulation sets high ambitions by introducing:*

1

**Two climate benchmarks** aimed at reallocating capital towards a low-carbon and climate resilient economy

2

**Disclosures for all benchmarks** – except interest rate and currency benchmarks – against which trillion euros in assets are managed, that will provide clarity on the ESG profile and the degree of alignment with the decarbonization goals of the Paris Climate Agreement



**Climate benchmarks**

Disclosure for all benchmarks



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# Definitions of the Climate Benchmarks

*In accordance with the text as agreed between co-legislators :*

*An '**EU Climate Transition Benchmark**' means a benchmark that is labelled as an EU Climate Transition Benchmark where the underlying assets are selected, weighted or excluded in such a manner that the resulting benchmark portfolio is on a decarbonisation trajectory and is also constructed in accordance with the minimum standards laid down in the delegated acts.*

*An '**EU Paris-aligned Benchmark**' means a 'benchmark that is labelled as an EU Paris-aligned Benchmark where the underlying assets are selected in such a manner that the resulting benchmark portfolio's GHG emissions are aligned with the long-term global warming target of the Paris Climate Agreement and is also constructed in accordance with the minimum standards laid down in the delegated acts'.*

# Objectives of the Climate Benchmarks

1

*Allow a significant level of **comparability of climate benchmarks** while leaving benchmarks' administrators with an important level of flexibility in designing their methodology ;*

2

*Provide investors with an appropriate **tool that is aligned with their investment strategy** ;*

3

***Increase transparency** on investors' alignment with the needs of ambitious climate scenarios*

4

***Prevent greenwashing.***

# The Use Case of Climate Benchmarks

1 *Underlying for passive investment strategies ;*

2 *An investment performance benchmark for climate-related strategies ;*

3 *An engagement tool ;*

4 *A policy benchmark to help guide strategic asset allocation (SAA).*

# The Use Case of Climate Benchmarks

*EU Climate Transition Benchmarks can be perceived **as tools to “accompany” the transition to a low-carbon economy.***

*EU Paris Aligned Benchmarks can be perceived as tools for **investors at the forefront of the transition**, favouring today the players of tomorrow’s economy.*

# Recommendations for climate benchmarks

*The two climate benchmarks pursue **similar objectives** but **vary in their level of ambition**.*

*As a result, most of the recommendations are **common** to both climate benchmarks but with **different thresholds**.*



# Recommendations for climate benchmarks: Minimum Standards

The TEG recommends minimum standards for the **EU Climate Transition Benchmark** and the **EU Paris-aligned Benchmark**:

	Climate Scenario	Allocation constraint	Self decarbonization	Relative decarbonization	Green to Brown
	<b>IPCC 1.5°C</b>  with no or limited overshoot	= or >  Exposure to sectors highly exposed to climate change and its mitigation	-7%  Minimum yearly reduction in GHG emissions intensity until 2050	CTB: -30% PAB: -50%  Minimum reduction in GHG emissions intensity compared to market index	CTB: = or > PAB: 4 * >  Ratio between green revenues (%) and brown revenues (%) compared to market index
<b>EU CTB</b>	✓	✓	✓	✓	✓
<b>EU PAB</b>	✓	✓	✓	✓ ✓	✓ ✓ ✓ ✓

Climate benchmarks

Disclosure for all benchmarks



## Recommendations for climate benchmarks: GHG emissions

*GHG emissions should be considered using Life-Cycle Analysis with scope 3 being phased-in during a four year period*

Period considered	Sectors considered	Suggested metric to be used by order of priority	Potential Reduction target
At the date of implementation	Energy (O&G), mining	Scope 3 emissions Fossil fuel reserves (volume or revenue data)	30% for CTBs 50% for PABs
Two years after implementation	Transportation, Buildings, Materials, Industrial activities	Scope 3	30% for CTBs 50% for PABs
Four years after implementation	Every sector	Scope 3	30% for CTBs 50% for PABs

*Double counting is not an issue for diversified benchmarks*

# Recommendations for climate benchmarks: Companies' Targets

*Target setting for individual companies is different from building benchmarks aligned with the financing needs of the Paris Agreement*

*The methodologies helping companies to set targets in line with the Paris Agreement currently:*

- Lack coverage in terms of sectors considered
- Lack sufficient uptake by companies in the context of benchmark construction (Number of companies, size, diversification)

*GHG emissions targets for companies should increasingly be used in climate benchmarks methodologies in addition to existing minimum standards (to be reviewed on a regular basis)*

## Recommendations for climate benchmarks: Exclusions

*The report **does not recommend** excluding activities based on climate-related criteria due to the forward-looking nature of both benchmarks.*

*There is **no consensus** among investors around climate exclusions. Investors have different levels of appetite when it comes to exclusions: some investors divest from thermal coal while other also exclude unconventional oil & gas and the strictest of them exclude all types of fossil fuels related activities.*

*The report, however, **suggests exclusions to address the 'do no significant harm' principle** (e.g. controversial weapons, UN Global Compact).*

# Recommendations for climate benchmarks: Reviews

*The report emphasizes the need for a **regular update** of these requirements, considering evolutions in the state of the market and the research in the field,*

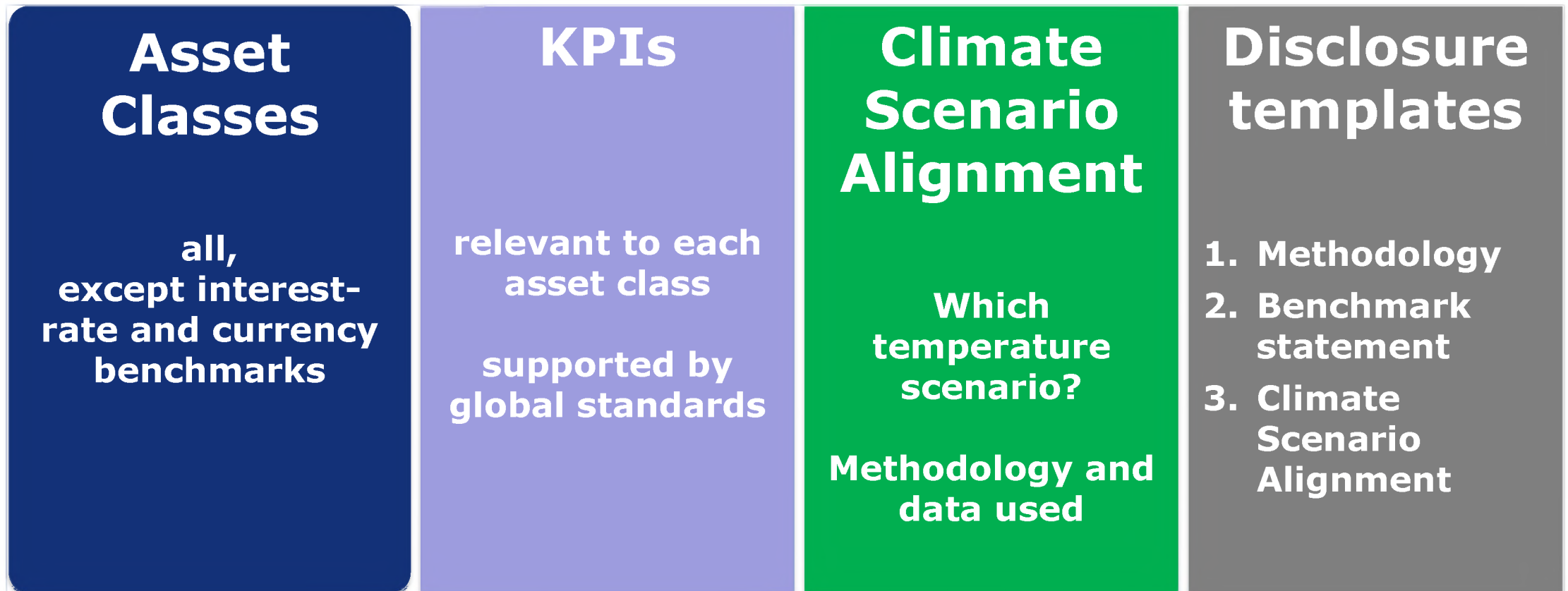
*These updates in the regulation will be key to the **success and consistency** of both climate benchmarks over time,*

*In light of the legislative text as agreed between co-legislators, the Commission shall **review the minimum standards** of the benchmarks by 31 December 2022, in order to ensure consistency with the **EU Taxonomy**.*

# ESG Disclosure for all benchmarks: Overview

*Benchmarks can measure the performance of asset classes.*

*Different ESG factors are relevant depending on the analysed asset class*



Climate benchmarks

**Disclosure for all benchmarks**

# Goal

**Transparency**

**Awareness**

**Comparability**

**More informed  
benchmark selection**

**Allocation to more sustainable business models**

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# Mandate

## In-scope

- **Listed equities**
- **Corporate credit & Sec.**
- **Sovereigns, Supranat. & Agencies**
- Private Debt, Infrastructure
- Private Equities
- Hedge Funds
- Commodities

Bold: "Main" asset classes  
Normal: "Other" asset classes

## Out-of-scope

- Interest rate benchmarks
- Currency benchmarks



# Disclosure requirements

# ESG

**E**nvironmental

**S**ocial

**G**overnance

**Climate Scenario  
Alignment**

Standardised reporting on climate scenario alignment  
Temperature scenario, methodology, data used

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# Documents

## Methodology

ESG goals in benchmark constructions

## Benchmark statement

ESG metrics reported

## Templates

### ESG factors

- Methodology
- Benchmark statement

### Climate Scenario Alignment

- Separate template

Structured, publicly and freely available information provided through standard documents

Climate benchmarks

**Disclosure for all benchmarks**

# Input Sought - Contribute and have a say!



TEG INTERIM REPORT  
ON CLIMATE BENCHMARKS AND BENCHMARKS' ESG  
DISCLOSURES  
June 2019

- *Call for feedback accessible through Commission website **“Technical expert group on sustainable finance (TEG)”** and open until **2 August***
- *Final TEG report to be published by end September*
- *Delegated Acts to enter into force in Q1 2020.*

# APPENDIX

# ESG Factors: An example on listed equities

## ESG

Consolidated ESG Rating  
ESG Ratings Top Ten Constituents  
UNGC Violations %  
International Standards Signatories %

## E

Consolidated Environmental Rating  
Carbon intensity  
Fossil Fuel Sector Exposure %  
Green Revenues %  
Exposure Climate-Related Physical Risks  
Exposure Climate-Related Physical Risks Methodology  
Green Bonds %

## S

Consolidated Social Rating  
Social Violations  
Controversial Weapons %  
Controversial Weapons Definition  
Tobacco %  
Tobacco Definition  
Human Rights (Index)  
Income Inequality  
Freedom of Expression

## G

Consolidated Governance Rating  
Board Independence %  
Board Diversity %  
Corruption  
Political Stability  
Rule of Law  
Stewardship Policies

Green: Relevant ESG Factors to report on for listed equities benchmarks