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

### Recommendations for climate benchmarks: Minimum Standards

<table>
<thead>
<tr>
<th>Climate Scenario</th>
<th>Allocation constraint</th>
<th>Self decarbonization</th>
<th>Relative decarbonization</th>
<th>Green to Brown</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPCC 1.5°C</td>
<td>= or &gt;</td>
<td>-7%</td>
<td>CTB: -30%</td>
<td>CTB: = or &gt;</td>
</tr>
<tr>
<td>with no or limited overshoot</td>
<td>Exposure to sectors highly exposed to climate change and its mitigation</td>
<td>Minimum yearly reduction in GHG emissions intensity until 2050</td>
<td>PAB: -50%</td>
<td>PAB: 4 * &gt;</td>
</tr>
<tr>
<td><strong>EU CTB</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>EU PAB</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓ ✓ ✓ ✓</td>
<td>✓ ✓ ✓ ✓</td>
</tr>
</tbody>
</table>

- **IPCC 1.5°C**: with no or limited overshoot
- **EU CTB**: Exposure to sectors highly exposed to climate change and its mitigation
- **EU PAB**: Minimum yearly reduction in GHG emissions intensity until 2050
- **Relative decarbonization**
  - CTB: -30%
  - PAB: -50%
- **Green to Brown**
  - Ratio between green revenues (%) and brown revenues (%) compared to market index

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

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

**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).
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.

<table>
<thead>
<tr>
<th>Asset Classes</th>
<th>KPIs</th>
<th>Climate Scenario Alignment</th>
<th>Disclosure templates</th>
</tr>
</thead>
</table>
| all, except interest-rate and currency benchmarks | relevant to each asset class supported by global standards | Which temperature scenario? Methodology and data used | 1. Methodology  
2. Benchmark statement  
3. Climate Scenario Alignment |

Climate benchmarks: Disclosure for all benchmarks
Goal

- Transparency
- Awareness
- Comparability

More informed benchmark selection

Allocation to more sustainable business models

Climate benchmarks Disclosure for all benchmarks
Mandate

**In-scope**

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

**Out-of-scope**

- Interest rate benchmarks
- Currency benchmarks

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

Climate benchmarks  
Disclosure for all benchmarks
Disclosure requirements

ESG

Environmental  Social  Governance

Climate Scenario Alignment

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

Climate benchmarks  Disclosure for all benchmarks
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!

- 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

**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