



Final Report on Climate Benchmarks and Benchmarks' ESG Disclosures

OVERVIEW

1. What is the task of the TEG?

On 25 February 2019, co-legislators agreed to amend Regulation (EU) 2016/1011, introducing two types of climate benchmarks ('EU Climate Transition' and 'EU Paris-aligned' benchmarks), also requiring ESG disclosures for all benchmarks (excluding interest rate and currency benchmarks). In that context, the TEG received a mandate to suggest minimum technical requirements for the methodology of both climate benchmarks and recommendations on ESG disclosures, including associated disclosure templates.

2. What are the TEG's main recommendations/key conclusions?

Key features of climate benchmarks.

Several criteria have to be met to qualify as an EU Climate Transition Benchmark (EU CTB) or an EU Paris-Aligned Benchmark (EU PAB):

- Climate benchmarks must demonstrate a significant decrease in overall GHG emissions intensity compared to their underlying investment universes or parent indices. This assessment must gradually integrate Scope 3 emissions during a four-year period for sectors where the impact on climate change is significant but located outside of direct operational boundaries (such as Oil & Gas and transport). This minimum relative decarbonization is set at 30% for EU CTBs and 50% for EU PABs.
- Climate benchmarks must be sufficiently exposed to sectors relevant to the fight against climate change. In other words, decarbonization cannot happen through a shift in the allocation from sectors with high potential impact on climate change and its mitigation (e.g. energy, transport, manufacturing) to sectors with inherently limited impact (e.g. health care, media). The exposure to 'high impact sectors' must therefore be at least the exposure of the underlying investable universe.
- Climate benchmarks must demonstrate their ability to reduce their own GHG emissions intensity on an annual basis. This minimum 'self-decarbonization' rate has been set in accordance with the global decarbonization trajectory implied by IPCC's most ambitious scenario - 1.5°C with no or limited overshoot (see fig. 1) – to at least 7% GHG intensity reduction on average per annum.
- EU CTBs and EU PABs should exclude companies involved in controversial weapons (selling, manufacturing, etc.), companies having been found in violations of global norms (i.e. UN Global Compact principles, OECD Guidelines) or in controversies arising from significant harm of at least one of the 6 environmental objectives.
- EU PABs shall further exclude companies that:
 - derive 1% or more of their revenues from coal exploration or processing activities,

- derive 10% or more of their revenues from oil exploration or processing activities,
 - derive 50% or more of their revenues from natural gas exploration or processing activities or
 - derive 50% or more of their revenues come from electricity generation with a lifecycle GHG intensity higher than 100 gCO₂e/kWh.
- Finally, the TEG recommends the ‘green to brown share ratio’, where calculated by benchmark administrators and on a voluntary basis, to be at least equal for EU CTBs and multiplied by at least 4 for EU PABs.

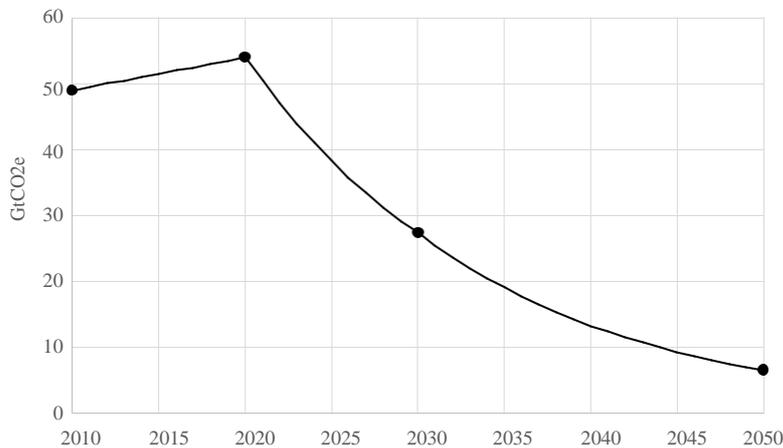


Figure 1: Worldwide emissions trajectory, based on data from IPCC AR5 Climate Change 2014 Synthesis Report, IPCC SR15 report Chapter 2 and Global Carbon Budget, 2018

Benchmarks ESG disclosures.

The new disclosure requirements apply to a wide range of indices available on the market in relation to different underlying asset classes. The TEG proposes to set out disclosure requirements based on how the market currently understands that ESG and climate-related considerations can be integrated in the valuation of assets across various asset classes. The recommendations on minimum disclosures for the methodology document and specifications for the benchmark statements therefore vary based on the maturity of ESG data and considerations in a given asset class. As a result, indicators are put forward by asset class. ESG disclosure templates are outlined, as well as specifications for the publication of ESG information.

Paris alignment.

Regarding the requirement to disclose an assessment of ‘Paris alignment’ for each benchmark, the TEG is aware that no broadly accepted and established framework has yet emerged for measuring the alignment of an investment portfolio with a temperature scenario. Hence, the aim is to address specific elements of the emerging market practice of measuring the Paris alignment of investment portfolios. In particular, the focus is on transparency regarding the choice of scenario and the data source and methodology used to measure an index’ alignment with a given scenario.

3. What are the next steps?

The report will serve as a basis to the drafting of delegated acts by the Commission, under the empowerments contained in the amending climate benchmarks regulation. The draft delegated acts will be subject to a formal public consultation and are expected to be adopted early 2020.