FACT SHEET: TRANSITION PLANS IN LINE WITH 1.5°C

A briefing from CDP on how Assessing Low-Carbon Transition (ACT) methodologies relate to the disclosure requirements on transition plans in EU Taxonomy, the Corporate Sustainability Reporting Directive (CSRD) proposal and European Sustainability Reporting Standard (ESRS) Climate Change working paper, and the proposal for a Corporate Sustainability Due Diligence Directive

March 2022

A SIGNIFICANT MILESTONE ON THE ROAD TO IMPLEMENTING THE PARIS AGREEMENT

This overview aims to show the work completed by European policymakers to date on the creation of a disclosure and governance regime designed to support the transition plans of companies and financial institutions. The next step for the EU should be the introduction of a uniform methodology for measuring low-carbon transitions.

This document should act as a guide and support-tool for policymakers, providing information on how ACT's (Assessing Low-Carbon Transition) methodology complements the EU's climate transition strategies approach, interwoven in the EU Taxonomy, CSRD (Corporate Sustainability Reporting Directive proposal and ESRS (European Sustainability Reporting Standards) climate change working paper and the proposal for a Corporate Sustainability Due Diligence Directive.

In collaboration with ADEME (French State Agency for Ecological Transition), CDP founded the ACT initiative to recognize and support companies to align their climate transition strategies with low-carbon pathways. This briefing outlines ACT's purpose and how its work relates to the EU Taxonomy, CSRD and ESRS, and the Corporate Sustainability Due Diligence initiative.

KEY FACTS

- ACT can help companies respond to the proposed new legislation – CSRD, ESRS and Corporate Sustainability Due Diligence – and has relevant metrics that speak to the EU Taxonomy.
- Its uniform methodology for measuring low-carbon transitions allows comparison between companies in the same sector and can be used to compare transition readiness between sectors.
- This is achieved by taking global decarbonization goals and calculating a sector as well as company level decarbonization pathway against which individual companies are assessed, combined with an assessment of company transition strategy.
- ACT provides an accountability framework and set of sector specific methodologies as a useful tool to assess how company strategies and actions contribute towards the Paris Agreement mitigation goal.
- ACT's separate sector methodologies take into account sector specific actions and transition strategies. Key characteristics of ACT are that it is long-term looking out to 2050, science based, holistic and action oriented.

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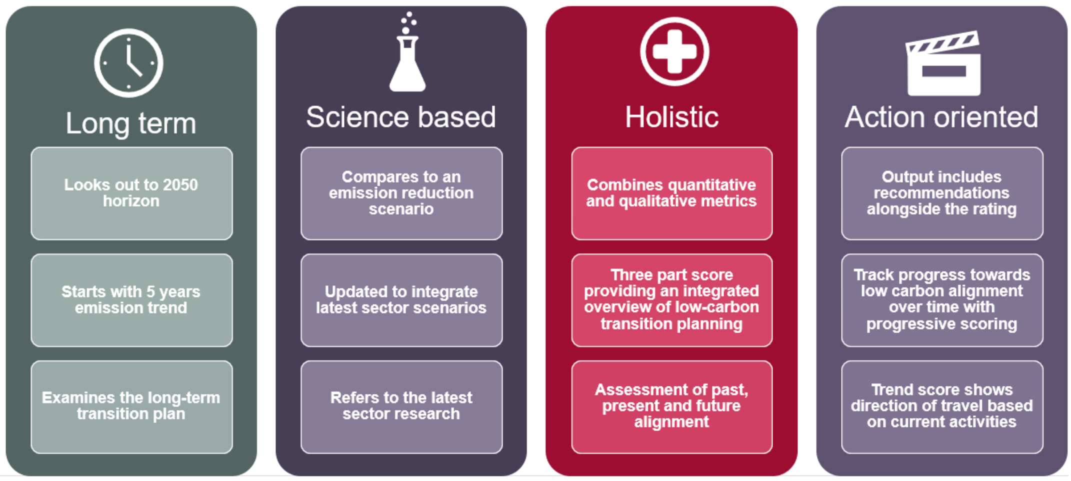
About ACT – Assessing low-carbon transition

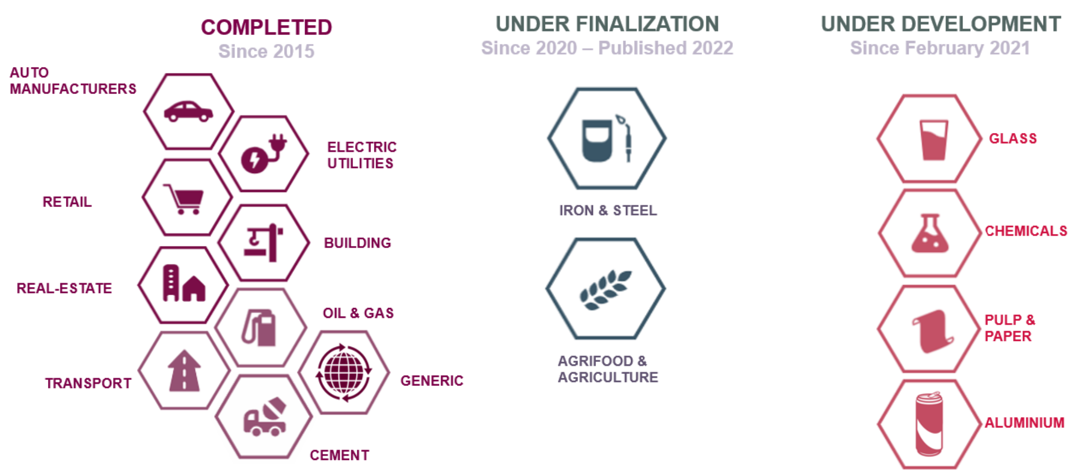
Assessing low-carbon transition (ACT) is a joint initiative of CDP and ADEME (French State Agency for Ecological Transition) and is recognized by the Global Climate Action Agenda of UNFCCC.

ACT assessments act as a road map to assist companies in their low-carbon transition planning. The outputs from the application of the ACT sector methodology – a rating and company-specific feedback report – provide a robust measure for peer and sectoral company comparison. The approach integrates with leading frameworks like SBTi, TCFD, CDP and the EU Taxonomy. ACT methodologies are updated regularly in order to reflect the latest best practice and science.



ACT assessments are long term, science-based, holistic and action-oriented

By mid-2022 ACT assessment methodologies will cover all major high-emitting sectors. A generic methodology will support the assessment of companies with activities across multiple sectors or which are not covered by sectoral methodologies. The graphic shows the current status of all sectors covered by ACT. Methodologies are developed according to a standardized process and framework with the input of sector experts and are road-tested with companies before publication.



From left to right: Published – Publication Q1 2022 – Publication Q3 2022

There are several individual ACT programs assessing companies. Together 407 companies have been assessed including over 180 of the largest and most important companies in the automotive, electric utility and oil & gas sectors globally.

The top 5 EU companies in the sectors assessed to date (by market capitalization)[1]

Automotive	Electric utilities	Oil & gas
Volkswagen	Iberdrola	Shell
Daimler	Enel	Total Energies
BMW	Ørsted	Eni
Stellantis	E.ON	Engie
Renault	Engie	Neste

How does ACT relate to the Science Based Targets initiative?

The Science Based Targets initiative (SBTi) defines and promotes best practices in science-based target settings. Offering a range of target-setting resources and guidance, the SBTi independently assesses and approves companies' targets in line with its strict criteria. SBTi only assesses targets whereas ACT is a comprehensive assessment of all aspects of a company's transition to low-carbon readiness. ACT's target indicators are conceptually aligned with SBTi approaches.

ACT and the SBTi both prefer the use of the Sectoral Decarbonization Approach (SDA)[2], which is based on the principle of convergence of all companies in a sector towards a shared emissions target in 2050 (or beyond).

ACT and science-based targets are mostly aligned but may differ in technical specifics depending on the sector being assessed and the ambition of the decarbonization scenario chosen. ACT is a more holistic, deeper dive into all aspects of a company's transition strategy and so an ACT score will encompass more of a company's activities and strategy than a science-based target alone.

ACT and the EU Taxonomy

Transition (plans) in EU Taxonomy

The goal of the EU Taxonomy is to provide clear guidance on when an economic activity can proclaim to be "environmentally sustainable". In the case of activities that make a substantial contribution to climate change mitigation, this means performance levels that substantially contribute to the EU's 2030 and 2050 goals.[3]

The Taxonomy recognizes that some activities cannot yet be performed in a way that is consistent with a net-zero economy and therefore may be considered Taxonomy-aligned for a short time before further performance improvements are required. Activities in this second

[1] Publicly available at the World Benchmarking Alliance - Climate and Energy benchmark
[2] The alternative is the Absolute Contraction approach
[3] Platform on Sustainable Finance - Transition Finance Report

category are defined as "transitional" activities in Article 10(2) of the Taxonomy Regulation and are subject to review every three years.

The EU Taxonomy differentiates between transition and transitional activities. Transitional activities may be part of an economy in transition, but not all activities that are part of an economy in transition are transitional activities.

- "Transition" describes the changes in economies needed to meet the EU's environmental goals. For example, Recital 4: "Sustainability and the transition to a safe, climate-neutral, climate-resilient, more resource-efficient and circular economy are crucial to ensuring the long-term competitiveness of the Union economy."

> ***Article 10(2): Transitional activities:*** *"…an economic activity for which there is no technologically and economically feasible low-carbon alternative shall qualify as contributing substantially to climate change mitigation where it directly supports the transition to a climate-neutral economy consistent with a pathway to limit the temperature increase to 1,5 0C above pre-industrial levels, including by phasing out greenhouse gas emissions…"*

- "Transitional activities" are defined in Article 10(2) (see the box) and refer to a specific sub-set of activities making a substantial contribution to climate change mitigation. The term relates to how an activity is performed, not its nature or the sector within which it sits. The Taxonomy Regulation indicates that to count as transitional, an activity must comply with the relevant technical screening criteria. It is not accurate to talk about a whole sector as being transitional (within the meaning of the Taxonomy).

Limitations of the EU Taxonomy

While the EU Taxonomy covers the highest emitting sectors in Europe, not all economic activities that could make a substantial contribution have yet been assessed. This limits participation in the use of the Taxonomy by some sectors, companies, or other economic actors who may nevertheless have a valid transition plan.

Synergies: ACT and the EU Taxonomy

- ACT facilitates identification of "transition" activities by providing an overall rating of companies' maturity in transition, as well as both past and expected emissions intensities for scope 1 and 2 and, where material, scope 3 emissions. These can be used to assess "transition" at the company level, which enables aggregation to the portfolio or sector level by investors or policymakers.
- ACT provides several different measurements for assessing "transitional activities" and the degree to which these have been incorporated into business planning.
- ACT aligns with EU Taxonomy thresholds and technologies when relevant to define "low carbon activities or technologies".

Corporate reporting requirements in the EU Taxonomy	ACT's relevance
Consistency between the reporting obligations created by the Taxonomy Regulation (Art. 8, Art, 5 and 6) and other reporting frameworks	Article 5 and 6 of the Taxonomy regulation require transparency in pre-contractual disclosures and in periodic reports about whether – and to what extent – investments or financial products contribute to environmental objectives. Whereas Article 8 requires transparency in non-financial statements on the proportion of turnover, CapEx and OpEx derived from products or services associated with environmentally sustainable activities. ACT methodologies provide indicators that can, directly and indirectly, measure for the transparency requirements in Articles 5, 6 & 8 of the EU Taxonomy. Wherever possible, ACT seeks to align its definitions of low-carbon technologies with that of the EU Taxonomy and other relevant references, like the IEA's Clean Energy Technology Guide. - Low-carbon CapEx: Methodologies for the most capital-intensive sectors generally have indicators that assess the share of total CapEx dedicated to low-carbon technologies and services and compare this to what ambitious decarbonization scenarios expect. Wherever possible, ACT is seeking to align its definitions of low-carbon technologies with that of the EU Taxonomy. - Low-carbon R&D: ACT methodologies also look at what proportion of companies' research and development expenditure is invested in low-carbon technologies. - Low-carbon product and service share: ACT methodologies measure the proportion of low-carbon products and services. The specific measure varies by methodology, with the ACT generic methodology looking at the share of revenue derived from low-carbon products and services, whilst the automotive methodology looks at the percentage of low-carbon vehicle sales. - Scope 1 and 2, and where material, scope 3 emissions intensities: All ACT methodologies provide guidance on measuring the past, current and expected emissions intensity of company activities, e.g. power generation, and compare these to a sector benchmark. This provides a measure of a company's overall performance in transitioning to a low-carbon business model.
Additional narrative disclosures that enhance the understanding of companies' reported taxonomy-aligned ratios	ACT assessments collect significant contextual and narrative information on company activities and transition strategies that can help contextualize information on taxonomy metrics. This is important as the maturity of decarbonization technologies varies by sector. The final output of an ACT assessment is a company feedback report which provides the narrative context for the company's ACT performance.

Voluntary disclosures that give companies the opportunity to explain how the taxonomy fits within their transition strategies and get credit for their overall efforts	As well as directly measuring company emissions intensities, low-carbon CapEx and low-carbon products or services, the ACT methodology provides a holistic assessment of a company's overall transition strategy and strategies to develop low-carbon business activities. ACT assessments can be completed by: 1. consultants working directly with companies 2. analysts who collect the data independently and then validate it with the company or 3. self-assessment by a company with independent critical review All three approaches offer companies opportunities to contextualize taxonomy-relevant metrics within their overall transition strategies.
Complementary disclosures geared to facilitate eligibility to different financial products e.g. sustainability-linked bonds and future taxonomy-related targets	An ACT score provides a robust metric by which a company's current progress in decarbonization, and future climate strategy may be assessed. An ACT score could be used by rating agencies to identify companies in high climate-impact sectors which are leading on transition and those which need to implement more robust transition plans.
The gradual introduction of reporting requirements where required e.g. loans of SMEs	ACT was established in 2015 and has pioneered sector-specific methods to measure company decarbonization alignment with ambitious emissions scenarios. Reporting standards and regulators are increasingly incorporating metrics socialized by ACT into their frameworks. ACT provides an important reference point for regulators seeking to introduce robust reporting requirements on decarbonization. ACT Step-by-Step[4], has been developed to assist small and medium enterprises (SMEs) or companies that are less mature in their overall decarbonization efforts in developing coherent low-carbon strategies. ACT methodologies are regularly reviewed, updated and improved to take account of best practices and the changing disclosure landscape.
Emphasizing the importance of CapEx disclosures as a key performance indicator for financial market participants to consider	ACT methodologies measure the proportion of a company's low-carbon CapEx and compare this to a sectoral benchmark. This is regarded as a key indicator that climate planning has been integrated into financial decision-making. Because ACT is forward-looking, it measures how CapEx plans will evolve over the next five years. - The 2021 WBA (World Benchmarking Alliance) Climate & Energy Benchmarks captured data on low carbon CapEx for 180 companies across three sectors. 12 out of 15 EU-headquartered oil

[4] ACT Step-by-Step

	and gas companies disclosed low-carbon CapEx in 2019 showing this information is already being disclosed by many EU companies even in hard-to-abate sectors.
The reporting of plans to meet taxonomy criteria over time, allowing related CapEx and OpEx to be counted as taxonomy aligned	ACT methodologies measure both the proportion of low-carbon CapEx in the most recent reporting year as well as the plans over the next five years. This helps to understand a company's plans to shift CapEx allocation to better align with the Taxonomy over time. Cost estimates and financial projections associated with a company's transition plan are also assessed.
Facilitating the use of the taxonomy and reporting, including the international application e.g. estimations and proxies, equivalence tables	The ACT methodologies recognize that many companies have global operations and seek to reflect that in data collection. A bottom-up approach to calculating company emissions - looking at the company's assets and products by region and applying appropriate regional and technology emissions factors - may be used. ACT uses the 'Sectoral Decarbonization Approach' to allocate carbon budgets to individual companies while taking account of sectoral and – where applicable – regional differences to develop company carbon budgets. As part of the WBA Climate and Energy Benchmark, ACT has assessed over 180 keystone companies to date, allowing comparison of companies in different sectors using indicators aligned with the taxonomy.

ACT and the EU's CSRD Initiative

Transition plans in the EU's proposed CSRD

The objective of the CSRD is to improve sustainability reporting while avoiding the possible costs to harness the potential of the European single market to contribute to the transition towards a fully sustainable and inclusive economic and financial system in accordance with the European Green Deal and the UN Sustainable Development Goals. The European Commission's proposed amendment to Article 19a of the Accounting Directive requires companies to report on their transition plans.

> *(iii) the plans of the undertaking to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement;*

The table below summarizes how ACT can help companies address the proposed amendments to article 19a Sustainability reporting in the CSRD.

Article 19a requires that undertakings "shall include in the management report information necessary to understand…"	ACT has already developed a framework for/can help companies to achieve this with/by:
"…the plans of the undertaking to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement"	Assessment of a company's transition plan using qualitative indicators to assess the integration of low-carbon activities in current and future business models, for each sector. ACT methodologies identify best practice elements that should be included in the transition plan. These include but are not limited to: - Financial projections; cost estimates or other assessment of financial viability; - Quantitative estimates of how the business will change in the future; - Potential "shocks" or stressors (sudden adverse changes); - Relevant region-specific considerations; - Targets or commitments with timescales to implement them; - Details of actions the company realistically expects to implement; - Measures of success. In terms of strategy, ACT is using a comprehensive forward-looking approach to assess the alignment of companies' strategies and actions with a 1.5°C compatible pathway.
"…description of the targets related to sustainability matters … and of the progress … towards achieving those targets"	An ACT assessment evaluates a company's targets across several areas. - Is there sufficient ambition and alignment with the company's decarbonization pathway? - Achievement of current and past targets - How much the target timeline covers the lifetime of the company's assets - Are the targets frequent enough to deliver the necessary emission reductions? - Is the scope of the target(s) sufficient? ACT analysis can determine the gap between the company's targeted pathway and the company's low-carbon pathway at a given time horizon.
"…description of the role of the administrative, management and supervisory bodies with regard to sustainability matters"	ACT assesses board oversight of climate change issues; company board or executive management expertise on the science and economics of climate change; the quality of a

	company's low-carbon transition plan and whether there are management incentives to reduce GHGs. An ACT assessment also evaluates Board capability indirectly through reviewing supply chain sustainability strategy and development of new business models to transition the company.
"…the principal actual or potential adverse impacts connected with … value chain"	ACT includes several indicators to assess the undertaking's value chain impacts and actions taken to mitigate such impacts. For example, ACT assesses the historic trend in indirect emissions, projected emissions intensity of products in use, and to be sold. ACT also performs a detailed analysis of the company's supplier and client engagement and its activities to promote low-carbon products and services and move customer demand to low-carbon products.
"…information on intangibles"	Intangible investments are a dedicated section in the ACT methodology, including a set of quantitative and qualitative indicators to assess investments in low-carbon innovation and technologies that mitigate climate change relative to overall company capital expenditure. Low-carbon innovation is defined as activities in connection with research, introduction and improvement of products and technologies that contribute to achieving the goal of net-zero emissions.
"…description of the principal risks to the undertaking related to sustainability matters"	ACT assessment includes evaluation of the company's readiness to transition and risks associated with transitioning delays. Companies should analyze the impact of the transition to a low-carbon economy on the current and projected business model and business strategy. ACT methodologies identify the best-practice elements to be included in the test/analysis.

The CSRD proposal stresses the importance of comparisons between undertakings in the same sector.

> *(46) Undertakings in the same sector are often exposed to similar sustainability-related risks, and they often have similar impacts on society and the environment. Comparisons* ***between undertakings in the same sector*** *are especially valuable to investors and other users of sustainability information.*

- ACT methodologies are sector-specific. Sectoral methodologies are developed through a rigorous multi-stakeholder process, which includes public consultation. They include rationale, limitations, the hypothesis regarding data quality, scenarios used, sector boundaries, conversion factors, etc. Therefore, **ACT assessments and ratings are ideal for benchmark comparison between companies within the same sector** as well as for investors to track and understand companies' decarbonization strategy and emissions reduction. Multi-sectoral companies use a combination of relevant, individual sectoral methodologies.

- The ACT initiative is the only international transition accountability framework that can help financial institutions to better engage with companies in order to support their transition with actual impact in the real economy.

Synergies: ACT and the CSRD proposal

- ACT was established in 2015 and has since been pioneering ways to assess and quantify companies' sustainability pathways, their alignment with low-carbon emissions pathways, and all aspects of the company's planning and operations with respect to carbon transition.
- Companies can request an ACT assessment from an accredited provider, or self-assess with the open-source methodologies, to understand what they are ready to disclose under CSRD.
- ACT can be used by other stakeholders to assess companies that do not voluntarily report or disclose relevant information, across many sectors and using a variety of available sources.
- ACT assessments and ratings are ideal for benchmark comparison between companies within the same sector.
- This uniquely places ACT as a source of sector-specific methodologies for companies who are only starting to understand their new obligations in terms of reporting and planning for sustainability.

ACT and the ESRS climate change working paper

The transition plans relating to the CSRD proposal are defined in the European Sustainability Reporting Standard (ESRS) climate change working paper[5]. This standard will derive from the CSRD; stating that the sustainability reporting standards shall specify the information to disclose about climate change mitigation and climate change adaptation.

The objective of the ESRS E1 Climate Change is to specify disclosure requirements which will enable users of the sustainability reporting to understand the plans and capacity of the undertaking to adapt its business model(s) and operations in line with the transition to a sustainable economy and to contribute to limiting global warming to 1.5°C;

[5] [Draft] European Sustainability Reporting Standard E1 Climate change

The table below shows how ACT's framework both enables and helps companies to disclose its plans to align its business model and strategy with a transition to a climate-neutral economy.

The undertaking shall disclose its plans to ensure that its business model and strategy are compatible with the transition to a climate-neutral economy and with limiting global warming to 1.5°C in line with the Paris Agreement (see above under CSRD). The disclosure required shall include:	ACT has already developed a framework for companies who wish to disclose its plans to align with a transition to a climate-neutral economy and can also help companies to achieve this as follows:
(a) by reference to the short, medium- and long-term targets to reduce GHG emissions in own operations and along the value chain (Disclosure Requirement 8), an explanation of their alignment with limiting global warming to 1.5°C	An ACT assessment evaluates a company's targets across several areas. - Is there sufficient ambition and alignment with the company's decarbonization pathway? - Achievement of current and past targets. - How much the target timeline covers the lifetime of the company's assets. - Are the targets frequent enough to deliver the necessary emission reductions? - Is the scope of the target(s) sufficient? ACT analysis can determine the gap between the company's targeted pathway and the company's low-carbon pathway at a given time horizon. The ACT methodologies are scenario agnostic but are adopting the most ambitious 1.5°C scenarios as these become available for sectors. This could include using the European 1.5°C sectoral scenario for relevant EU based companies. ACT prescribes emissions intensity metrics for the most material sources of emissions resulting from company activities, no matter where they are produced in the value chain. ACT evaluates how well GHG emissions reductions are integrated into supplier and client engagement and assesses initiatives and partnerships launched by the company to engage with their suppliers and clients.

(b) by reference to GHG reduction targets (Disclosure Requirement 8) and the climate change mitigation action plan (Disclosure Requirement 9), an explanation of the decarbonization levers identified and key actions planned, including the adoption of new technologies	The ACT approach is holistic and attempts to assess all areas of a company's activity and areas where it can influence and reduce emissions. ACT assessments specifically consider the following decarbonization levers and actions: 1. Research and development into mature and non-mature mitigation technologies 2. Low-carbon Capex to transition its productive capacity 3. The development of low-carbon business activities 4. Strategy and monitoring of supply chain emissions 5. How the company uses its influence to affect climate policy 6. Other decarbonization actions within the transition plan or business strategy
(c) by reference to the information provided under Disclosure Requirement 10, an explanation of the financial resources supporting the implementation of the transition plan	An ACT assessment uses company historic income and spend as well as financial plans or forecasts to assess the following areas: 1. Transition plans: financial projections, cost estimates and other assessments of financial viability are used 2. Total R&D spend on low-carbon and mitigation technologies, R&D on carbon removal, and portfolio development CapEx for the reporting year 3. Planned low-carbon CapEx expenditure and portfolio development CapEx for the next five years 4. The financial viability of new low-carbon business models 5. The use of financial incentives or support to influence supply chain decisions

(d) the locked-in GHG emissions from key assets and products, including a discussion about if and how these can jeopardize the achievement of GHG emission reduction targets and drive transition risk, and the plans to manage GHG- and energy-intensive assets and products	ACT is a future focused approach and its main priority is reducing GHG emissions and so a number of indicators review expected emissions and plans to reduce them. An ACT assessment considers future locked-in emissions from the company's current and planned emitting assets. These locked-in emissions are compared to the company's emissions budget as defined by a low-carbon pathway, to evaluate the extent to which the company will overshoot its carbon budget. An ACT assessment also forecasts trends in future emissions intensity based on existing and planned emissions sources. Investment is considered one of three fundamental levers companies can use to adapt/respond to the low-carbon transition. ACT assessments consider how investments in assets will impact the companies locked-in emissions. ACT also investigates R&D in low-carbon mitigation technologies, results of which can help companies manage and reduce emissions and energy use. Companies are recognized for investments into non-mature technologies, i.e. those technologies in which a sector needs to invest more to bring them to market.
(e) an explanation of the role of aligning its economic activities with the provisions of Delegated Act (EU) 2021/2139 for its transition to a climate-neutral economy, including the plans for future Taxonomy-alignment	Assessments conducted using the ACT Framework and its sector-specific methodologies, consider a company's economic activities and its alignment with a transition to a low-carbon economy in these ways: - Use of the convergence approach [6]to emissions reduction (all companies converging to a common emissions intensity aligned with 1.5°C) means the ambition of an ACT assessment increases every time it is performed. - Review of a company's transition plan is context, sector and time-specific i.e. as the ambition of the EU Taxonomy and other regulations increases, this new level of ambition will be taken into account in the assessment. - Company transition plans are assessed on their ability to transition the company to a climate-neutral economy. - New business activities are assessed on their feasibility in the climate-neutral economy, specifically profitability, growth prospects and timescale.

[6] Homogenous sectors use the convergence approach. Heterogeneous sectors and certain agricultural products use an absolute contraction approach.

(f) an explanation of how the transition plan is embedded in and aligned with its overall business strategy	Consistency between plans and actions is embedded throughout ACT and is the true measure of the embeddedness and alignment of the transition plan. ACT assessments investigate how well a company's transition plan is embedded in and aligned with the wider business strategy through investigating its level of ambition (e.g. does it contain a net-zero target), measures of success, the extent financial content is included, current and future considerations, the timescale of the plan and the use of scenario analysis/stress testing. Board commitment to the plan and management incentives to reduce emissions are also reviewed. This allows the ACT assessment to investigate whether actions are consistent with their transition plan, are long term, and aren't subject to changes in management. The degree to which the company's transition plan and accompanying scenario analysis are consistent with its short and long-term business strategy are specifically addressed.
(g) an explanation of the progress made in implementing the transition plan	Ultimately progress must be measured through emissions reductions, and ACT uses a number of quantitative indicators to assess progress in reducing GHGs. Recent trends in emissions intensity are assessed along with forecasts of future trends. Performance against past and present Company targets is another measure of transition plan progress. The Trend score awarded as part of an ACT assessment attempts to predict changes in the company's transition performance, i.e. whether the company will improve, worsen or stay the same. Repeat ACT assessments show progress (or lack of) over time.

Synergies: ACT and the ESRS working paper

- ACT is a climate-specific methodology which provides detailed metrics and KPIs related to strategic business alignment with a climate-safe world.
- Relevant ACT metrics to ESRS working paper relate to 1.5°C climate targets, emissions lock-in, transition plans and their integration with business strategy, transition progress and financial planning.
- The metrics dovetail with the ESRS proposals and can be used by both producers and users of climate reporting to ensure that decision-useful information on the transition to a Paris- that aligned economy is included in reports.

ACT and the Corporate Sustainability Due Diligence Initiative

The EU's proposal for rules on sustainable corporate governance (SCG) aims to ensure that large EU and non-EU companies, active in the internal market, contribute to sustainable development and the sustainability transition of economies and societies. Companies will be required to identify risks, put in place prevention and mitigation plans to bring to an end or minimize potential or actual adverse human rights and environmental impacts connected with a companies' own operations, subsidiaries and value chains[7].

Convergence with the CSRD

The SCG will complement the CSRD by adding a substantive corporate duty for some companies to perform due diligence to identify, prevent, mitigate and account for external harm resulting from adverse human rights and environmental impacts in the company's own operations, its subsidiaries and in the value chain.

Of particular relevance to the proposal on CSRD is that it mandates disclosure of the plans of an undertaking to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5°C in line with the Paris Agreement.

The interlinkages between the two proposals are expected to:

- Guide proper information collection for reporting purposes under the proposed CSRD, which requires setting up processes closely related to identifying adverse impacts in accordance with the due diligence duty set up by the sustainable corporate governance initiative.
- Provide the due diligence rules for companies that are also covered by the CSRD.
- Set obligations for companies to have in place a plan ensuring that the business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement on which the CSRD requires companies to report.

EU limited liability companies of substantial size and economic power (with 500+ employees and EUR 150 million+ in net turnover worldwide) are required (under the provision of Article 15) to adopt a plan to ensure that the business model and strategy of the company are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement:

[7] Proposal for a Directive on corporate sustainability due diligence

Companies adopt a plan to ensure that the business model and strategy of the company are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement.	Assessment of a company's transition plan using qualitative indicators to assess the integration of low-carbon activities in current and future business models, for each sector. ACT methodologies identify best practice elements which should be included in the transition plan. These include but are not limited to: - Financial projections; cost estimates or other assessment of financial viability; - Quantitative estimates of how the business will change in the future; - Potential "shocks" or stressors (sudden adverse changes); - Relevant region-specific considerations; - Targets or commitments with timescales to implement them; - Details of actions the company realistically expects to implement; - Measures of success. In terms of strategy, ACT is using a comprehensive forward-looking approach to assess the alignment of companies' strategies and actions with a 1.5°C compatible pathway.
This plan shall identify, on the basis of information reasonably available to the company, the extent to which climate change is a risk for, or an impact of, the company's operations.	ACT asks whether a company has engaged in scenario and/or stress testing to calculate its value-at-risk due to climate-related impacts. The results of this testing should be communicated to management, incorporated in strategic planning and made public.
The company should include emission reduction objectives in its plan.	An ACT assessment evaluates a company's targets across a number of areas. - Is there sufficient ambition and alignment with the company's decarbonization pathway? - Achievement of current and past targets - How much the target timeline covers the lifetime of the company's assets - Are the targets frequent enough to deliver the necessary emission reductions? - Is the scope of the target(s) sufficient? ACT analysis can determine the gap between the company's targeted pathway and the company's low-carbon pathway at a given time horizon.

Member States shall ensure that companies duly take into account the fulfilment of the obligations listed above when setting variable remuneration, if variable remuneration is linked to the contribution of a director to the company's business strategy and long-term interests and sustainability.	An ACT assessment reviews whether the Board's compensation committee has included metrics for the reduction of GHG emissions in the annual and/or long-term compensation plans of senior executives. For relevant sectors, an assessment on whether incentives exist in executive remuneration which could incentivize emissions growth is conducted.

Synergies: ACT and Sustainable Corporate Governance

- ACT recognizes the role of governance in the climate transition and includes indicators on remuneration linked to emissions reductions or growth
- ACT identifies best practice elements in climate transition plans, including the use of scenario or stress testing, and assesses against them
- Transition risk is included in the scope of the assessment

> “Since 2015 the ACT initiative has pioneered the concept of company transition plans which is now becoming mandatory in Europe and gaining importance around the world (through TCFD, GFANZ, UK regulation and others). Therefore, companies should prepare for upcoming regulations by using ACT methodologies as soon as possible to prove their transition readiness - more than 400 companies have already trialed ACT around the world. Policymakers can accelerate the momentum by implementing national voluntary schemes around ACT as ADEME has done in France.”
>
> Baptiste Perrissin-Fabert, Executive Director of Expertise and Programs, ADEME

> “ACT presents policymakers with the elements that make up a sound and effective transition planning framework that is long-term, science-based, holistic and action-oriented. Developed in partnership with ADEME and already used by companies who lead the transition globally, ACT has set the foundation for what is becoming mandatory in the EU. Transition planning in line with 1.5°C will be introduced across EU initiatives on corporate sustainability reporting and governance. ACT goes beyond driving the availability of transition plans; it provides the tools to assess their quality.”
>
> Mirjam Wolfrum, Director Policy Engagement, CDP Europe

SUMMARY

- The current and proposed EU initiatives on climate transition planning and disclosure provide significant impetus to companies to advance their progress and reporting on these topics – ACT can help business readiness as companies respond to the proposed new legislation.
- The ACT approach and methodologies offer substantial synergies with the current and proposed elements of the EU legislation. Its uniform methodology for measuring low-carbon transitions allows comparison between companies in the same sector and should be used be used by policymakers to inspire a comparable EU equivalent methodology to compare transition readiness between sectors.
- Both companies, as producers of reporting, and financial market participants and other users of the reporting can benefit from using ACT methodologies and assessments as they seek to develop, implement and monitor their approach to transition to the low carbon economy.
- As ACT methodologies will continue to be updated to align with regulatory advancements both in the EU and globally, they offer practical support to enable comparable and robust tracking of company progress towards a Paris-aligned world.

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Here at ADEME - The French Agency for Ecological Transition - we are firmly committed to fighting global warming and the depletion of our natural resources. On all fronts, we mobilise citizens, economic actors and territories towards a fairer, more harmonious, low carbon and resource-efficient society. Whatever the field - energy, circular economy, food, mobility, air quality, adaptation to climate change, soils, etc. - we advise, facilitate and help finance many projects, from research to solutions sharing. At every level, our expertise and forecasting capacities serve to guide and inform public policies.

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CDP Europe and the CDP global system

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CDP Government Partnerships

CDP Government Partnerships are designed to help governments analyze the impact of policies and regulation to achieve carbon-neutrality and resource efficiency by 2050. CDP's global disclosure system equips national, EU and international policymakers and governmental bodies with the data they need to track and measure the impact of policies, identify gaps, trends and best market practice that can be tackled and incentivized through policymaking to create positive impact and drive the transition.

By endorsing the CDP disclosure system, governments can actively drive the increase in quantity and quality of climate and environmental data of corporates and local governments as well as action on climate change, water insecurity and deforestation.

CDP Europe in European and international media

Les Echos FINANCIAL TIMES Bloomberg euronews.

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