Guidance and assessment criteria

For good practice corporate climate action in the Netherlands

Methodology 2025

Climate Crisis Index

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Disclaimer

The methodology uses NewClimate Institute's assessment framework for the Climate Crisis Index 2022 (NewClimate Institute, 2022) and has been further adapted by Milieudefensie to reflect the latest developments around corporate climate action in The Netherlands. Those changes have been reviewed by NewClimate Institute.

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About this guidance and assessment criteria

The need for scrutiny on corporate climate action

To ensure a sustainable and liveable future for all, reducing greenhouse gas emissions is more urgent than ever (IPCC 2022). This challenge requires the commitment and effort of the private sector. Especially large companies are in a position to either accelerate or frustrate deep and structural emission reductions across the economy.

Many companies are putting themselves at the forefront of climate action. Corporate climate pledge-setting is becoming standard practice: as of May 2025, over 9,000 companies had joined the UNFCCC's Race to Zero campaign (UNFCCC 2025), including many of the world's largest companies. Civil society's increasing concern with the climate crisis is resulting in more pressure from consumers, shareholders, and regulators for companies to decarbonise. In parallel, companies realise that the direction of travel is set for the decarbonisation of the global economy, and it is increasingly attractive for them to assume a leading role in that new paradigm. Many companies are seeking innovative approaches and narratives to demonstrate their climate leadership. The rapid acceleration of setting corporate climate pledges, combined with the fragmentation of approaches and the general lack of regulation or oversight, makes it difficult to distinguish genuine climate leadership from unsubstantiated greenwashing.

Meanwhile, corporate climate guidance is increasingly being adopted (SBTi 2021; ISO 2022), and legislation setting out climate plan requirements for corporations is increasingly being announced and adopted. These dynamics are spurred on by civil society, which has centred corporate climate responsibility through advocacy, campaigns and litigation.

The goalpost of what constitutes good practice climate action for companies has shifted with the adoption of the Paris Agreement and the increasingly clear scientific evidence that underpins its urgency. With the objectives of the Paris Agreement, greenhouse gas (GHG) emissions need to be reduced at speed, in all countries and in all sectors. The goal to limit global warming to maximum 1.5°C requires a reduction in all GHG emissions and emissions by 43% and 48% respectively from 2019 levels by 2030, to reach a state of net-zero global CO_2 emissions by 2050 at the latest, net-zero GHG emissions by 2070, and net-negative emissions thereafter (IPCC 2022).

Evaluating corporate target setting in the Netherlands

The Netherlands hosts a wide variety of large multinationals in the financial, agricultural, fast-moving consumer goods, petrochemical, heavy industry and energy sectors. As a high-income country with substantial current and historical emissions, GHG emission reductions in the Netherlands need to be at the fastest rate and implemented immediately. Large companies active in the Netherlands should therefore demonstrate climate leadership, by reducing emissions at a significantly above-average pace. This methodology is used for evaluating the transparency and integrity of climate pledges of large companies with high emissions and that are active in high-income countries, in particular the Netherlands. It underpins a comparative analysis of 28 large companies headquartered or operating in the Netherlands – the Climate Crisis Index (CCI) – with the aim to identify climate leaders and laggards. With a rapidly closing window to stay within relatively safe and just global temperature increases, this analysis will help companies, policymakers, and civil society to accelerate corporate climate action in the Netherlands and globally.

Covering companies headquartered or operating in the Netherlands, the objectives of the CCI are to:

- **Identify and highlight good practice approaches** of corporate climate action, recognising that highlighting good practices and disclosing details thereof support replication and the identification of new solutions.
- **Reveal the extent to which major companies' climate leadership claims have integrity,** and provide a structured methodology for others to replicate such an evaluation.
- **Compare corporate emission reduction targets** against a 1.5°C-compatible global reduction pathway.
- **Assess to what extent companies are on track to meet reduction targets.**

To meet these objectives, the guidance and assessment criteria focus on four main areas of corporate climate action: tracking and disclosure of emissions (→Section 1), setting emission reduction targets (→Section 2), reducing own emissions (→Section 3) and taking responsibility for unabated and residual emissions through climate contributions and neutralisation (→Section 4).

For the purpose of the CCI, its methodology builds on NewClimate Institute's assessment framework for the Climate Crisis Index 2022 (NewClimate Institute 2022b) and the Corporate Climate Responsibility Monitor (NewClimate Institute 2023a; 2022a; 2025; 2024). The methodology has been further adapted by Milieudefensie to reflect the latest developments around corporate climate action in the Netherlands. Those changes (see →Table 1) have been reviewed by NewClimate Institute.

→Table 1
Methodological changes compared to the v2.0 methodology (July 2022) (NewClimate Institute 2022b)

SECTION	CHANGES COMPARED TO THE V2.0 VERSION
Weighting	- Revised weighting of Section 1–4 ratings to determine headline transparency and integrity scores. - Revised weighting of sub-components for transparency and integrity ratings across Sections 1–4: • Section 1: No changes; • Section 2: New weighting approach reflecting updated method; • Section 3: New weighting approach reflecting updated method; • Section 4: New weighting approach reflecting updated method. - See Section 5 for the new weighting. It reflects the critical relevance of ambitious emission reduction targets in combination with an accelerated implementation of emission reduction measures as the core of corporate climate strategies.
SECTION 1 **Tracking and disclosure of emissions**	- Updated text to align with latest guidance by Partnership for Carbon Accounting Financials (PCAF). - Clarified that companies should recalculate base year emissions, clearly articulate the basis and context for any recalculations, and ensure comparability through time. Following GHG Protocol.
SECTION 2 **Setting specific and substantiated targets**	- Next to 2030 and 2050, assessment on interim reduction targets has been added for 2035 and 2040, for both real economy companies and financial institutions. Assessment for these four periods is based on alignment with the global average reduction pathway for 1.5°C in the 2022 IPCC AR6 report with no or limited overshoot (based on the median of C1 scenario's, hereafter called: "C1 scenario"). - Real economy companies are only assessed on alignment with the global average reduction pathway. No assessment on alignment with sectoral benchmarks. - Added assessment for financial institutions on alignment of sectoral reduction targets following the IEA NZE 2023 pathway.
SECTION 3 **Reducing own emissions**	- Following latest science, added that real economy companies should immediately stop planning, investing in, searching for, mining, extracting, producing and tapping into new coal, oil and gas fields, associated infrastructure and new fossil fuel energy plants. - Updated the engagement and exclusion table for financial institutions, mostly with regards to fossil fuels. Following latest science and IEA NZE 2023. - Added that real economy companies active in land-intensive sectors must have a commitment to end conversion or degradation of natural ecosystems. Companies should commit to ending conversion or degradation of natural ecosystems in their supply chain by December 2025 at the latest, following Accountability Framework Initiative guidelines (AFi 2023).
SECTION 4 **Responsibility for unabated and residual emissions**	Following latest science, clarified that carbon offsetting cannot be used as a substitute for emission reductions or to meet emission reduction targets. Adjusted the assessment criteria accordingly to focus on climate contributions and neutralising residual emissions.

Reduction pathways

Avoiding the worst outcomes of climate change requires that global temperature increases are limited to 1.5°C above pre-industrial levels (IPCC 2022). Exceeding this temperature threshold will cause significant and often irreparable harm to people and the environment. Hence, overshooting should be avoided or at least be held to a minimum duration and temperature. Additionally, any amount of overshooting sets a requirement for the deployment of large-scale durable carbon dioxide removal (CDR) technologies in the future. The availability and feasibility of this deployment is highly speculative. The Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report (AR6) lists a set of analyses that plot global average emission reduction pathways in line with 1.5°C with no or limited overshoot. These so-called C1-scenarios set out a median trajectory of CO_2 reductions (relative to 2019) of 48% in 2030, 65% in 2035, 80% in 2040 or net-zero no later than 2050 (IPCC 2022).

Against this backdrop, companies and financial institutions should develop and implement climate strategies that align with emission reductions compatible with a maximum temperature increase of 1.5°C compared to pre-industrial levels. Limiting global warming to 1.5°C is only feasible if companies operating in high income contexts such as the Netherlands decarbonise faster and earlier than their peers in lower income contexts. This can be deduced from the fact that a faster mitigation pace for high income economies emerges in all 1.5°C scenarios with no or limited overshoot included in the IPCC AR6 report (Hooijschuur et al. 2025). This is true for both equity-based scenarios (which explicitly account for a just mitigation distribution) and least-cost scenarios.

Reinforcing the necessity of above-average emission reduction by companies in higher income economies is the fact that their context grants them higher mitigation capabilities. When considering lower mitigation capabilities in lower-income contexts, the average emission reduction rates required at the global scale can only be achieved if companies in high-income contexts decarbonise at a pace well-above the global average.

In addition, equity and justice provide strong arguments for a differentiation of corporate climate responsibilities depending on economic context. The Common But Differentiated Responsibilities (CBDR) principle, first established in the 1992 Earth Summit in Rio de Janeiro and reconfirmed in the 2015 Paris Agreement, requires such differentiation for nation states. Since then, numerous organisations, standard setters as well as jurisprudence has translated the CBDR principle to the corporate realm (ISO 2022; Court of Appeal of The Hague 2024, para. 7.26).

Companies operating or headquartered in advanced economies have a duty to contribute to the higher emission reduction targets of those countries. Additionally, companies that operate in advanced economies have often contributed to GHG emissions for decades and often have access to significant financial, technological, and organisational resources to take effective climate action. It is therefore equitable and reasonable to assign them – just like developed states – a greater responsibility within the CBDR framework.

This methodology evaluates corporate climate strategies and their ambition using a benchmark appropriate for a selection of large, high-capability companies that operate in the Netherlands. As stated above, these companies have a high responsibility and capacity to reduce emissions rapidly and can therefore make no claim to an ambition level lower than the global average C1 emission reduction trajectory. Therefore, this assessment evaluates whether emission reductions of these companies add up to at least the median global average C1 reductions, noting that this is a bare minimum level of ambition for the type of companies being analysed here. This benchmark applies equally to real economy companies as to financial institutions. Similar benchmarks have been proposed by, for example, Race to Zero, UN Integrity Matters report and the 1.5°C Business Playbook (UN HLEG 2022; Exponential Roadmap Initiative 2025; UNFCCC 2021). For financial institutions, financed emissions constitute the majority of their greenhouse gas inventory (CDP 2021). This implies that financial institutions can decrease their emissions mostly by intervening in their portfolio, either through engagement or disengagement. The financial institutions assessed in the CCI are active across the entire economy and in multiple sectors. They are therefore able to strategically coordinate climate mitigation across their portfolio. Hence, they have the responsibility to do this following the best-available

science-based guidance. Failing to do so presents a hazard of ineffective or even counterproductive action. A financial institution could claim substantial emission reductions by only acting on a small, high-emitting part of the institution's portfolio, which would minimise the incentive to act in other parts of the portfolio. A lack of action on and continued financing of emissions-intensive parts of a financial institution's portfolio would sustain and incentivise real economy activities that are incompatible with a 1.5°C aligned economy. Therefore, it is crucial that financial institutions implement ambitious climate action across their entire portfolio.

Following this logic, financial institutions' climate strategies are additionally scrutinised through a sectoral lens. Financial institutions should specify planned reductions in 12 (sub)sectors in their portfolio and their climate strategies should be compatible with at least emission reductions required in the median C1 trajectory (see above), as well as with benchmarks for the advanced economy derived from the International Energy Agency's Net-Zero Emissions by 2050 (IEA NZE) scenario (IEA, 2023). This combination of portfolio-wide and sectoral reduction pathways is consistent with guidance for financial institutions of the Glasgow Financial Alliance for Net Zero (GFANZ) (2021). The IEA NZE scenario is widely considered to be the best-available sectoral decarbonisation analyses – it can be seen as an appropriate benchmark for financial institutions and is used by many financial institutions and financial regulators already. The NZE scenario covers the majority of sectors, aligns with no or limited overshoot of 1.5°C temperature increase, and applies the CBDR principle by allocating a larger mitigation burden to advanced economies. Here, too, benchmarks should be considered minimum requirements. Other sectoral guides may be used, as long as they set out emission reductions which are at least at the same pace as the IEA's NZE scenario.

Good practice overview

Corporates looking to take a position of climate leadership can learn from each other to replicate good practice approaches that are transparent, constructive and robust. We assess companies to draw out good practice in four key areas:

1 Tracking and disclosure of emissions (→Section 1)

To develop a comprehensive and robust climate strategy, it is key that companies understand and are transparent about their GHG emission footprints and their trajectories.→Section 1 presents good practice principles and trends for tracking and disclosure of emissions.

2 Setting emission reduction targets (→Section 2)

Companies' climate change pledges encompass a broad range of target setting approaches. Regardless of the type of target and the terminology used, the commitments should send a clear signal for immediate action to decarbonise the value chain, and should avoid misleading consumers, shareholders, observers and regulators.→Section 2 presents good practice principles and trends for setting specific and substantiated targets, considering the coverage of emission sources, the explicit specification of an emission reduction target as part of pledges, and the substantiation of long-term visions through interim targets.

3 Reducing own emissions (→Section 3)

Encompassing measures for deep emission reductions are the backbone of ambitious corporate climate targets.→Section 3 presents good practice principles and trends for reducing own emissions, including a special focus on good practice for sourcing renewable electricity. This section also elaborates on good practice principles for financial institutions, including the assessment of comprehensive exclusion, engagement, and divestment strategies.

4 Responsibility for unabated and residual emissions (→Section 4)

Corporate climate leadership includes not only ambitious target setting, but also taking responsibility for unabated and residual emissions.→Section 4 explores good practice and trends related to climate contributions and neutralising residual emissions.

The specific assessments include a rating of the **transparency** and **integrity** of companies' approaches:

- **Transparency** refers to the extent to which a company publicly discloses the information necessary to fully understand the integrity of that company's approaches towards the various elements of corporate climate responsibility.
- **Integrity**, in this context, is a measure of the quality, credibility and comprehensiveness of those approaches.

→Table 2 provides an overview of good practice corporate climate responsibility and the rating methodology for transparency and integrity in each of these four areas.

→Table 2
Overview of best practice corporate climate responsibility and rating methodology

1 TRACKING AND DISCLOSURE OF EMISSIONS	
Comprehensiveness of disclosure	- Companies disclose full details on their GHG emissions on an annual basis, with a breakdown of the data to specific emission sources (including scope 1, 2, 3 and non-GHG climate forcers, if relevant) and the presentation of historical data for each emission source. - Financial institutions disclose financed, facilitated and insurance-associated emissions across all financial activities, with a breakdown of the data to activities (e.g., lending, investing, asset management, capital market activities, insurance underwriting), asset classes and sectors.

2 SETTING SPECIFIC AND CREDIBLE TARGETS	
Coverage of emission sources	- Companies explicitly state that their targets cover all scope 1, 2 and 3 emissions, non-GHG climate forcers where relevant, and subsidiaries. - Financial institutions also set overall scope 3 targets that cover 100% of their financed and, separately, facilitated emissions across all financial activities.
Emission reduction targets and, for financial institutions, sectoral targets	- Companies and financial institutions set short-, medium- and long-term targets that align with a reasonable chance of limiting global warming to 1.5°C, global CO_2 emissions must decrease by 48% by 2030 (GHG by 43%), 65% by 2035 (GHG by 60%), by 80% in 2040 (GHG by 69%) and by 99% (GHG by 84%) by 2050 (compared to 2019 levels). - Financial institutions set sectoral emission reduction targets for portfolio emissions and facilitated emissions that are aligned with the sectoral emission reduction pathways following from the IEA NZE scenario, for 2030, 2035, 2040 and 2050.

3 REDUCING EMISSIONS	
Emission reduction measures	- Companies implement encompassing and deep decarbonisation measures, and disclose details of those measures to support replication and the identification of new solutions. - Financial institutions apply targeted exclusion, engagement and divestment strategies across all financial activities.
Renewable eletricity generation and procurement	- Companies and financial institutions procure the renewable electricity through the highest quality procurement constructs available, or through own capacity, facilitating 100% renewable electricity consumption 24/7.

4 RESPONSIBILITY FOR UNABATED AND RESIDUAL EMISSIONS	
Climate contributions without a neutralisation claim	- Provide an ambitious volume of support to climate change mitigation activities beyond the value chain (i.e., climate contributions), without claiming neutralisation of the company's own emissions.
Neutralisation plans for residual emissions	- Plan to neutralise residual emissions by investing in highly-durable CDR, which is not associated with high scarcity or high environmental costs. - Do not use carbon credits to offset emissions or plan to use CDR as a means to reach emission reduction targets.

Tracking and disclosure of emissions

Section 1

To develop a comprehensive and robust climate strategy, it is key that companies understand and are transparent about their GHG emission footprints and their trajectories. A complete and transparent overview of a company's emissions footprint is crucial to understand a company's scope of influence, to grasp relevance of its climate-related targets, and to determine whether emission reduction measures are appropriate and comprehensive.

This section assesses the comprehensiveness of companies' GHG emission tracking and disclosure for specific emission scopes, and for subsidiary companies. This report does not assess the rigorousness and accuracy of companies' calculations when quantifying emissions from each emission scopes; quantified GHG emissions throughout this document are self-reported by the companies and not verified by the authors. Rather, we assess how comprehensive the companies' own disclosure is in terms of the coverage of emission sources.

1.1 Comprehensive disclosure of emissions

1.1.1 Guiding principles

Companies should annually disclose detailed information on their GHG emissions, covering the full spectrum of climate impacts associated with the activities of the company. Meaningful planning for complete decarbonisation depends on a thorough and granular understanding of a company's emission sources. Complete and transparent disclosure covers all direct emissions (scope 1), indirect energy-use emissions (scope 2) and other upstream and downstream indirect emissions (scope 3). The latter includes business travel emissions, emissions from procured products and services, investments, waste, upstream and downstream transport and distribution and emissions from product use. Where relevant, companies should also include non-GHG climate forcers in their disclosure. Companies should publish information on the methodologies and assumptions involved in the calculation of emissions, to facilitate comprehension and verification. This is particularly important for emission sources where there remains inconsistency in accounting approaches, such as emissions from land-use change and forestry.

Companies can ensure full transparency by reporting on all scope 3 emission sources, including minor sources. The GHG Protocol's Scope 3 Standard identifies 15 distinct reporting categories for scope 3 emission sources, and requires companies to quantify and report scope 3 emissions from each category (GHG Protocol 2011). It is important for transparency that companies disclose data or at least explanatory information for all 15 of these normal scope 3 emission categories (see → Table 1-A), even when they assess a category to be of minor volume or limited importance. Differences in interpretations regarding what constitutes a "minor" or "relevant" emission source could lead to significant inconsistencies between companies' reporting. Some observers may perceive the omission of minor emission sources to be a significant gap in disclosure, unless these omissions are explained.

→Table 1-A
Categories of scope 3 emission sources

UPSTREAM SCOPE 3 EMISSION CATEGORIES		
1	**Purchased goods and services**	Extraction, production, and transportation of goods and services purchased or acquired by the reporting company in the reporting year, not otherwise included in Categories 2 - 8.
2	**Capital goods**	Extraction, production, and transportation of capital goods purchased or acquired by the reporting company in the reporting year.
3	**Fuel- and energy-related activities** (not included in scope 1 or scope 2)	Extraction, production, and transportation of fuels and energy purchased or acquired by the reporting company in the reporting year, not already accounted for in scope 1 or scope 2.
4	**Upstream transportation and distribution**	Transportation and distribution of products purchased by the company between a company's tier 1 suppliers and its own operations (in vehicles and facilities not owned or controlled by the reporting company); and transportation and distribution services purchased by the company including inbound logistics, outbound logistics (e.g., of sold products), and transportation and distribution between a company's own facilities (in vehicles and facilities not owned or controlled by the reporting company).
5	**Waste generated in operations**	Disposal and treatment of waste generated in the company's operations (in facilities not owned or controlled by the reporting company).
6	**Business travel**	Transportation of employees for business-related activities (in vehicles not owned or operated by the reporting company).
7	**Employee commuting**	Transportation of employees between their homes and their worksites (in vehicles not owned or operated by the reporting company).
8	**Upstream leased assets**	Operation of assets leased by company (lessee) and not included in scope 1 and scope 2 – reported by lessee.

DOWNSTREAM SCOPE 3 EMISSION CATEGORIES		
9	**Downstream transport and distribution**	Transportation and distribution of products sold by the company between the company's operations and the end consumer (if not paid for by the reporting company), including retail and storage (in vehicles and facilities not owned or controlled by the reporting company).
10	**Processing of sold products**	Processing of intermediate products sold by downstream companies (e.g., manufacturers).
11	**Use of sold products**	End use of goods and services sold by the company.
12	**End-of-life treatment of sold products**	Waste disposal and treatment of products sold by the company (in the reporting year) at the end of their life.
13	**Downstream leased assets**	Operation of assets owned by the company (lessor) and leased to other entities, not included in scope 1 and scope 2 – reported by lessor.
14	**Franchises**	Operation of franchises, not included in scope 1 and scope 2 – reported by franchisor.
15	**Investments**	Operation of investments (including equity and debt investments and project finance), not included in scope 1 or scope 2.

Source: GHG Protocol Corporate Value Chain Standard (GHG Protocol 2011).

Reporting on scope 3 emissions outside of these normal categories is in some cases crucial for transparency, while in other cases it may not be constructive. Comprehensive coverage of emissions disclosure does not necessarily mean reporting any emissions that a tenuous link can be found, if they are outside of the normal reporting scope. Indirect use-phase emissions as well as direct use-phase emissions from products that are not sold to an end-user are described by the GHG Protocol Scope 3 Standard as optional reporting components. The vagueness of this specific guidance represents a significant limitation, since the way in which companies report on these emissions and include them in their targets can significantly strengthen or undermine their targets, depending on the specific sector and the context:

- **Direct use-phase emissions** for products that are not sold to an end-user form a highly significant part of the climate impact associated with the business model of many companies in the energy supply sector. For example, fossil fuel commodity traders and companies providing distribution infrastructure provide a key service to the fossil fuel supply chain. For many of these companies, the combustion of those fossil fuels constitutes the most significant issue for the companies' climate impact, and the unabated continuation of those business models may be fundamentally misaligned with the objectives of the Paris Agreement. However, those companies may not be required by the GHG Protocol guidance to report on the downstream emissions associated with their fuel sales unless their sales are directly to end-users, leading to the situation that those companies' climate impact is underestimated. For these companies, focusing on emission reduction measures that fall only in their currently mandatory emissions reporting scope can lead to the situation that investments are made to "green" the fossil fuel production and supply chain industries, creating further financial lock-in to the continuation of that industry, whilst the most important measure for the Paris alignment of the sector would rather be to work towards the phase out of the use of fossil fuels.

  The guidance for direct use-phase emissions for sales that are not sold to an end-user can also create an accounting loophole for electricity retailers. Electricity retailers that purchase lower-cost wholesale electricity containing a mixture of renewable and non-renewable sources could claim to have no downstream emissions, if they claim to have passed the renewable portion of that electricity onto customers while reselling the remainder of the electricity to other sales partners. This could create limited incentives for electricity retailers to pursue high quality renewable electricity procurement constructs. The significance of this issue may increase with the trend that major electricity utilities are transitioning their business models from electricity generation to electricity retail in order to shift their emission footprint from scope 1 to the less strictly regulated scope 3.

- In contrast to direct use-phase emissions from products, such as the energy consumption of vehicles and appliances, **indirect use-phase emissions** refer to the emissions that occur indirectly from the use of a product. For example, apparel requires washing and drying, soaps and detergents are often used with heated water. While there are circumstances where it could be constructive to report on these emissions and include them in targets, special care should be taken in determining when it is appropriate to do so: if these emissions constitute a major portion of a product's footprint and the company has no control or influence on potential emission reductions, then reporting on these emissions can also lead to distraction from the company's mandatory emission scope, or targets can be disingenuous.

Companies should report scope 2 emissions using both the location-based and market-based method, taking the highest of the two values for their calculation of their total emissions. According to the GHG Protocol (GHG Protocol 2015) companies should report on scope 2 emissions using both the location-based and market-based accounting methods:

- The **location-based method** reflects the average emissions intensity of grids on which energy consumption occurs.
- The **market-based method** reflects emissions from electricity that companies have purposefully chosen. It derives emission factors from contractual renewable electricity procurement instruments.

Both accounting approaches have the potential to mislead in different circumstances. Companies have a variety of options for sourcing renewable electricity (see →Section 3). While for some an emissions reduction claim may be legitimate, for others the impact is unclear. As the impact of renewable electricity projects varies and is often unclear, market-based reporting for renewable energy constructs may give the false impression that a company has no or few scope 2 emissions, and could divert prioritisation away from energy efficiency improvements.

On the other hand, some companies' market-based emissions may be higher than their location-based emissions, due to contractual arrangements for the direct procurement of fossil-fuel powered electricity. In this case, companies could report location-based emissions based on the local grid emission factor, while profiting from cheaper electricity procurement constructs from a more emissions-intensive source.

In order to create a clear incentive to both maximise energy efficiency improvements and to procure renewable electricity, it would be most constructive for companies to report on both market-based and location-based scope 2 emissions, and to use the larger of the two values towards the company's aggregated total emissions.

Companies' disclosure should include contextual information to understand key emission drivers and trends. Complete and transparent disclosure includes historical data, a breakdown of emission sources, activity data and emission intensities. Ambitious companies go beyond the publication of aggregated emissions; they provide a high level of detail to allow for thorough understanding of the specific individual emission sources. Transparency on specific emission sources and activity data is a tool for increasing ambition in its own right: it contributes to a constructive, collaborative dialogue that is required to overcome challenges and share lessons learnt for accelerated decarbonisation

Companies' disclosure should include all emissions associated with subsidiary companies. Transparent and complete reporting includes all emissions of subsidiary companies, which should be integrated into the company's scope 1, 2 and 3 emissions inventory. The exclusion of these emissions from GHG inventories would lead to inaccurate interpretations regarding specific brands' or products' GHG emission footprints. Companies must report transparently on all emissions of all subsidiaries, as this incentivises those companies to make a real shift away from emissions-intensive activities and assets, rather than continuing those emissions-intensive activities through subsidiaries.

When applicable, companies shall recalculate base year emissions and clearly articulate the basis and context for any recalculations. When tracking emissions over time, a company's structure or activities might change. Following the GHG Protocol (2004; 2005), a company shall recalculate its base year emissions when the difference is 5% or more of its emissions. The GHG Protocol describe cases that should lead to a recalculation of base year emissions. These include mergers, acquisitions, divestments, outsourcing and insourcing of emitting activities, changes in calculation methodology, discovery of significant errors, and transfer of ownership or control of emissions-generating activities or operations from one company to another. Comparability should be facilitated by recalculating the original base year, also when subsequent climate plans adopt other base years.

Additional guiding principles for financial institutions

Financial institutions should track and report on emissions from financial activities (downstream scope 3, category 15), as those comprise the largest share of financial institutions' GHG footprint. Financial institutions should follow the guidelines developed by the GHG Protocol and the Partnership for Carbon Accounting Financials (PCAF), respectively, or comparable frameworks (for the purpose of this methodology, PCAF is used to define a minimum standard). As a minimum, financial institutions should provide annual disclosure of GHG emissions across all financial activities (e.g., lending, investment, asset management, capital markets activities, insurance underwriting) separately at a fixed and representative point in time (including historic data for comparison), broken down by asset classes and by sectors. →Table 1-B provides an overview of the most relevant asset classes and activities.

→Table 1-B
Overview of financial services and their climate relevance

FINANCIAL SERVICE	DESCRIPTION	CLIMATE MATERIALITY OR RELEVANCE
Direct investment (listed and non-listed equity)	Direct investment in publicly listed or non-listed equity, part of the investor's proprietary asset portfolio.	Potentially high financed emissions, depending on sector.
Indirect investment (e.g. mutual or exchange traded funds (ETFs))	Indirect investments through passive or managed funds, part of the investor's proprietary asset portfolio.	Potentially high financed emissions, depending on sector or index.
Corporate bonds	Debt security issued by companies providing fixed income to the investor, part of the investor's proprietary asset portfolio.	Potentially high financed emissions, depending on issuing company and intended use.
Sovereign bonds	Debt security issued by governments providing fixed income to the investor, part of the investor's proprietary asset portfolio.	Potentially high financed emissions, depending on issuing country.
Corporate loans	Loans for earmarked purposes (project finance) or working capital providing a fixed income to the lender, part of the lender's proprietary asset portfolio.	Potentially high financed emissions, depending on intended use of loan and borrower.
Consumer loans (e.g. real estate, vehicles)	Loans to consumers for personal expenditures.	Comparably low financed emissions for general purpose loans. High financed emissions for combustion engine vehicle loans and real estate with low energy inefficiency.
Debt and equity securities issuance underwriting and advisory services	Facilitation of debt and equity securities issuance by banks, including underwriting.	Potentially high facilitated emissions, depending on issuing company.
Corporate insurance (e.g. project underwriting)	Insurance underwriting for companies on all forms of operational risks, specifically with respect to project risks.	Potentially high insured emissions, depending on client or insured project; Potentially high financed emissions from general account and separate account assets.
Consumer insurance (e.g. life/health insurance)	General consumer insurance such as life/health insurance.	Potentially low insured emissions, specifically with life/health insurance; Potentially high financed emissions from general account and separate account assets.
Brokerage	Investment brokerage services resulting in non-discretionary managed accounts (the provider has no control over investments).	Potentially high financed emissions from non-proprietary investments of clients.

When reporting their financed, facilitated and insurance-associated emissions, financial institutions must report absolute values disaggregated by scope. Financial institutions must report their scope 1 and 2 emissions from financed, facilitated and insurance-associated separately from financed, facilitated and insurance-associated scope 3 emissions, to avoid double counting issues.

The PCAF reporting requirements differ by financial activity and asset class. Financial institutions shall report according to the most up to date PCAF requirements.

We acknowledge that data availability can be a challenge, and financial institutions may not yet be able to track and disclose their scope 3 emissions across all their financial services and investments and in required detail. **For full transparency, financial institutions should provide estimates of financed emissions for which data is not available.** Financial institutions should report on and justify any sources of emissions not covered by their tracking and disclosure. In all cases, financial institutions' reporting must define carbon-intensive activities and disclose and track the most relevant sources of emissions.

1.1.2 Assessment criteria

In line with the guiding principles above, we base our evaluation of real-economy companies' reporting and disclosure of GHG emissions on the assessment criteria in →Table 1-C. These criteria also apply to financial institutions' tracking and disclosure of scope 1, 2 and 3 emissions. In addition, →Table 1-D provides the criteria that financial institutions must meet for tracking and disclosing their financed and facilitated emissions (scope 3, category 15).

→Table 1-C
Assessment criteria for tracking and disclosure of emissions (real-economy companies and financial institutions)

Rating: ★ Very high ● High ● Moderate ● Low **?** Unclear

TRACKING AND DISCLOSURE OF EMISSIONS: REAL-ECONOMY COMPANIES AND FINANCIAL INSTITUTIONS	
Assessed for the following emission scopes individually: - Scope 1 - Scope 2 - Scope 3 upstream - Scope 3 downstream - All emission scopes from subsidiary companies	★ The company or financial institution provides useful information and data on activity indicators and emission intensities, in addition to the good practice disclosure criteria below.
	● **The disclosure of emissions from the emissions scope is complete, and presented in a way that facilitates a thorough understanding:** - An annual disclosure; - A breakdown of the data to specific emission sources; - The presentation of historical data for the same emission sources; - If relevant: disclosure of non-GHG climate forcers; - The company explains why any omitted emissions categories are not tracked.
	● The disclosure of emissions from the emissions scope is complete, but the level of detail does not facilitate a thorough understanding of emission sources.
	● The emissions scope is not tracked and disclosed, or only to a limited extent.

→Table 1-D
Assessment criteria for tracking and disclosure of emissions
(real-economy companies and financial institutions)

TRACKING AND DISCLOSURE OF EMISSIONS: FINANCIAL INSTITUTIONS

Assessed for financial institutions' emissions from financed activities
(scope 3, category 15)

- Financed emissions are calculated using the operational or financial control approach across all financial activities. Reporting is disaggregated by financial activity, asset class and sector.
- Facilitated emissions are calculated and reported, disaggregated by sector.
- Insurance-associated emissions are calculated and reported.
- The financial institution's reported scope 3 emissions cover investees', borrowers', or clients':
  - Absolute scope 1 and scope 2 emissions;
  - Absolute scope 3 emissions, reported separately;
  - Avoided emissions, where applicable; and
  - Emission removals, where applicable.

- Financed emissions are calculated using the operational or financial control approach across all financial services. Reporting is disaggregated by financial activity, asset class and sector.
- Facilitated emissions are calculated and reported, disaggregated by sector.
- Insurance-associated emissions are calculated and reported.
- The financial institution's reported scope 3 emissions cover investees', borrowers', or clients':
  - Absolute scope 1 and scope 2 emissions; and
  - Absolute scope 3 emissions, based on estimates if needed.

The financial institution's disclosure of financed, facilitated and insurance-associated emissions is incomplete but covers at least all emissions from financial services provided to the most carbon-intensive clients/sectors. If data on those emissions is not available, financial institutions should provide estimates instead.
[The assessment is based on expert judgement.]

The financial institution's disclosure of financed, facilitated and insurance-associated emissions excludes certain emission sources without a justification.

Setting emission reduction targets

Section 2

Companies' headline climate change pledges encompass a broad range of target setting approaches:

- Some companies opt for specific GHG emission reduction targets, but most major companies are moving towards "net zero" pledges (or similar terminology), which envisage emission reductions combined with offsetting some emissions.
- Some companies' headline pledges are long-term visions for 2040 or 2050, while others focus on shorter-term commitments for 2030.
- Some targets cover a company's full scope of emissions throughout the value chain, while others focus only on specific emission sources.
- Some companies do not commit to absolute GHG-related targets, but rather focus on emission intensity targets (emissions per unit of output), or targets associated with decarbonisation indicators, such as renewable energy targets.
- Some companies select from only one of these target setting approaches, while others combine several, or all of them.

The high diversity of target setting approaches could stem from differences in companies' specific circumstances, different understandings of mitigation options, and understanding of the materiality of scope 3 emissions.

Regardless of the type of target set and the terminology used, it is most crucial that the targets send a clear signal for immediate action to decarbonise the entire value chain, through absolute emission reductions. Limiting global temperature increase to 1.5°C requires the rapid reduction of absolute emissions in all sectors, to reach a state of net-zero global CO_2 emissions by 2050 at the latest, net-zero GHG emissions by 2070, and net-negative emissions thereafter (IPCC 2022; Rogelj et al. 2018). The pathway to net zero is crucial: a 1.5°C limit requires immediate action to achieve a reduction in global CO_2 emissions of about 48% from 2019 levels by 2030 (IPCC 2022; Rogelj et al. 2018) further delay could put the Paris Agreement objectives beyond reach.

In addition, targets should not mislead consumers, shareholders and observers, whose demands represent a vital pressure mechanism for raising ambition. Nor should they mislead regulators into avoiding or limiting the implementation of policies to incentivise ambitious climate action.

Furthermore, large diversified financial institutions have significant control and influence over their financed and facilitated emissions and should have clear reduction targets and strategies that reflect global emission reduction pathways. When pursuing financed and facilitated emission reduction targets, financial institutions should prioritise reducing real-world emissions of their investee companies and clients (engagement). However, where engagement proves unsuccessful, divestment or termination of the client relationship (disengagement) may be required to achieve emission reduction targets.

This section assesses whether short-, medium- and long-term targets are specific and substantiated, focusing on the coverage of emission sources (→ Section 2.1) and emission reduction commitments (→Section 2.2).

2.1 Coverage of emission sources

2.1.1 Guiding principles

Targets should be explicit in their coverage of the complete spectrum of emission sources and greenhouse gases, to maximise impact and avoid misleading communication. The most comprehensive targets cover the full GHG emission footprint of a company across its entire value chain, including upstream and downstream scope 3 emissions, and non-GHG climate forcers where relevant (see → Section 1). Targets with partial scope coverage have the potential to mislead: disclaimers get lost or may not be well understood by the audiences of climate pledge communications. Companies should explicitly set out the coverage of their short, medium and long-term climate pledges to avoid misinterpretation and to ensure accountability.

Coverage of all mandatory scope 3 emission categories is highly relevant, even in case of uncertainties and indirect influence. Scope 3 emissions can entail a

degree of uncertainty, particularly for complex emission sources related to land-use such as upstream food processing, and downstream emissions associated with consumer behaviour and product use. The decarbonisation of these emissions may also partially depend on actions taken by others. Despite these uncertainties, the inclusion of all mandatory[1] scope 3 emission sources from the GHG Protocol's Scope 3 Standard in companies' targets is crucial. This provides a clear incentive for all actors with a potential influence on the decarbonisation of emission sources to take measures to do so. For manufacturers of cars, electric appliances, or electronic devices, scope 3 emissions often account for the major share of those companies' emissions, and the companies are the actors with the greatest influence to decarbonise those emission sources, by manufacturing products with alternative or more efficient technologies. Even in the cases where companies have a lower degree of influence in the reduction of scope 3 emissions, this does not justify their exclusion from targets; the full inclusion of scope 3 emissions in targets can incentivise companies to cooperate with suppliers and consumers to mutually support each other to reduce emissions, including to seek out new solutions where needed. Targets that omit scope 3 emissions carry a significant potential to mislead, since scope 3 emissions account for a large portion of most companies' climate impact.

1
The inclusion of non-mandatory scope 3 emissions is not always constructive. See Section 1.1.

Additional guiding principles for financial institutions

Financial institutions should set targets for the complete spectrum of emission sources and GHGs, but should highlight that financed and facilitated emissions (i.e., covering scope 1, 2 and 3 emissions of investee companies, borrowers, or clients) account for the main share of financial institutions' GHG footprint.

Financial institutions' scope 3 targets should cover all financial activities and sectors (and accounts, in the case of insurance companies). Targets with incomplete scope may be misleading, for example where targets do not cover certain financial activities. The scope of targets must be clearly communicated for full transparency.

→Section 1 discusses the challenges regarding data availability to estimate financial institutions' GHG emissions footprint, in particular of financed activities. However, **it is highly crucial that targets also cover estimated emissions,** and that transparency, accuracy and high ambition are pursued simultaneously.

2.2 Emission reduction targets

2.2.1 Guiding principles

Climate pledges only send a meaningful signal for decarbonisation if they explicitly include deep emission reduction commitments that are independent of offsetting and carbon dioxide removals. Long-term targets may be directly specified in the form of emission reduction targets, they may be accompanied by such targets, or they may not specify any emission reduction targets at all. The achievement of the Paris Agreement objectives requires the deep decarbonisation of all companies across all industries (IPCC 2022; Rogelj et al. 2018). The depth of corporate emission reduction targets is critical for determining alignment with 1.5°C compatible emission trajectories.

A state of global net-zero CO_2 emissions that is compatible with limiting global warming to 1.5°C requires deep reduction of gross CO_2 emissions to 99% below 2019 by 2050 (IPCC 2022; Rogelj et al. 2018), alongside a limited role for carbon dioxide removals to neutralise a small volume of residual emissions. Corporate climate pledges only contribute to the Paris Agreement objectives in a meaningful way if they put emission reductions across the entire value chain in the spotlight. Such pledges are also more constructive if they avoid ambiguous terminology that can distract

from this focus, for example by remaining unspecific on emissions reductions to be achieved without relying on offsets or carbon dioxide removal.

Corporate emission reduction commitments must be deep enough to align with limiting global warming to maximum 1.5°C, as agreed in the Paris Agreement. Medium- and longer-term targets beyond 2030 must set out a vision towards full decarbonisation. Such targets must provide a clear indication of what the company aims to achieve in the long-term, to inform today's management and investment decisions. Limiting global temperature increase to 1.5°C requires the rapid decarbonisation of all sectors, to reach a state of net-zero global CO_2 emissions by 2050 at the latest, net-zero GHG emissions by 2070, and net-negative emissions thereafter (IPCC 2022).

Specific short- and medium-term interim targets requiring immediate action and accountability are vital for credible corporate commitments to fight climate change, and should be the main focus of corporate target setting. Long-term visions can provide a useful signal, but only when accompanied with adequately ambitious interim targets within a timeframe that requires immediate action. Pathways to decarbonisation that are characterised by initially slow or delayed action will lead to a larger volume of cumulative emissions (Rogelj et al. 2018). Delayed action thus requires even deeper emission reductions and larger amounts of highly uncertain carbon dioxide removal at a later date and can put the objective to limit global warming to 1.5°C beyond reach. Within a corporate environment, we consider that a maximum 5-year timeframe for interim targets is good practice. The HLEG recommendations and ISO Net Zero Guidelines both emphasise the need for short- and medium-term targets set within five-year intervals findings (ISO, 2022b, pp. 19–20; UN HLEG, 2022, p. 17). The HLEG recommendations and ISO Net Zero Guidelines both emphasise the need for short- and medium-term targets set within five-year intervals findings (ISO 2022, 19–20; UN HLEG 2022, 17).

Interim targets must be ambitious enough to align with limiting global warming to maximum 1.5°C. To stand a reasonable chance of limiting global warming to 1.5°C, global GHG and CO_2 emissions must decrease by 43% and 48% respectively between 2019 and 2030, by 60% and 65% by 2035, and by 69% and 80% by 2040 (IPCC 2022). Internationally recognised initiatives and reports, such as the UN Race to Zero (Race to Zero 2022), UN HLEG Integrity Matters report (UN HLEG 2022) and The Exponential Business Playbook (Exponential Roadmap Initiative 2025) call on big companies to halve CO_2 emissions by 2030. 'All non-state actors must reduce emissions as fast as possible, aligning or exceeding national targets, roadmaps and timelines. Those that have the capacity to move faster than a 50% reduction by 2030 and net zero by 2050 should do so' (UN HLEG 2022, 16). Both the HLEG recommendations and ISO Net Zero Guidelines emphasise the need to align short- and medium-term targets with the most recent IPCC findings (ISO 2022, 19–20; UN HLEG 2022, 17).

The global average reduction targets are a minimum standard for large companies with high emissions and active in high-income countries.

Additional guiding principles for financial institutions

In addition to 1.5°C-aligned interim targets for overall operational, financed and facilitated emissions, financial institutions should also set sectoral emission reduction targets for financed and, separately, facilitated emissions. This is especially of high relevance for banks. The sectoral targets should at a minimum align with the sectoral emission reduction pathways following from the 2023 IEA NZE scenario (IEA 2023) which covers 12 sectors (fossil fuels, electricity and heat, other energy, chemicals, iron and steel, cement, aluminium, road transport, aviation, shipping, residential buildings and services buildings). The 2023 IEA NZE scenario provides an internationally recognised lower limit for emission reductions required at the sectoral level. → Table 2-A and → Table 2-B show the global emission reductions in the fossil fuel sector, for scope 1 and 2, and scope 3 respectively, according to the IEA NZE scenario. → Table 2-C shows the emission reductions in other sectors covered by the IEA NZE. For some sectors the IEA has published pathways for advanced economies. Financial institutions should align their sectoral emission reduction targets to those advanced economies pathways.

→Table 2-A
Global sectoral emission reductions in the oil and gas sector in the 2023 IEA NZE scenario, scope 1 and 2 (to be applied for the assessment of financial institutions)

ABSOLUTE EMISSION REDUCTIONS IN CO_2-EQUIVALENT COMPARED TO BASE YEAR 2022

SCOPE 1 AND SCOPE 2	2030	2035	2040	2050
OIL	-62.9%	-79.4%	-92.1%	-97.9%
GAS	-65%	-81.9%	-92.8%	-98.3%

→Table 2-B
Sectoral emission reductions in the coal, oil and gas sector in advanced economies in the 2023 IEA NZE scenario, scope 3 (financial institutions)

ABSOLUTE EMISSION REDUCTIONS IN CO_2 COMPARED TO BASE YEAR 2022

SCOPE 3	2030	2035	2040	2050
COAL	-79.3%	-92.6%	-96%	-99.4%
OIL	-44.4%	-70.3%	-86.1%	-97.9%
GAS	-41.5%	-78.3%	-89.5%	-97.7%

→Table 2-C
Sectoral emission reductions in the 2023 IEA NZE scenario (financial institutions)

***The 2023 IEA NZE scenario models an increase of aviation emissions until 2030. However, the table on p. 94 of the 2023 IEA NZE makes clear that the IEA does not model an increase of aviation emissions for advanced economies.**

ABSOLUTE EMISSION REDUCTIONS IN CO_2 COMPARED TO BASE YEAR 2022

SECTOR	SUBSECTOR	2030	2035	2040	2050
ELECTRICITY AND HEAT		-71.5%	-100%	-103.3%	-104.2%
INDUSTRY		-30.1%	-55.7%	-76.1%	-97.7%
	Chemicals	-13.5%	-36.1%	-60.8%	-96.6%
	Iron and steel	-19.2%	-39.6%	-60.6%	-91.1%
	Cement	-21%	-44.5%	-63.8%	-96.7%
	Aluminium	-17.7%	-35.3%	-59.7%	-97%
TRANSPORT		-43.4%	-70.3%	-86.7%	-98.8%
	Road	-29.3%	-54.4%	-75%	-96%
	Aviation*	0%	-6.1%	-30%	-73.8%
	Shipping	-18.7%	-42.1%	-63.4%	-86.9%
BUILDINGS		-50.2%	-75.7%	-90.4%	-99.8%
	Residential	-40.5%	-66.2%	-83.7%	-97.6%
	Services/commercial	-43.8%	-69.9%	-86%	-99.3%

2.2.2 Assessment criteria

In line with the guiding principles above, our evaluation of companies' and financial institutions' emission reduction targets is based on the assessment criteria in →Table 2-D. These criteria apply to real-economy companies and financial institutions alike. As the largest share of financial institutions' GHG footprint comes from financed and facilitated emissions (scope 3, category 15), →Table 2-E outlines additional criteria that relate to financial institutions' financed and facilitated emissions. These criteria complement our assessment of financial institutions' targets. The assessment of the coverage of emission sources in targets is independent from the assessment of the coverage of tracking and disclosure in →Section 1. We assess emission reduction targets for 2030, 2035, 2040 and 2050 separately.

→Table 2-D
Assessment criteria for long-term and interim targets (real-economy companies and financial institutions)

Rating: ★ Very high ● High ● Moderate ● Low **?** Unclear

EMISSION REDUCTIONS FOR LONG-TERM AND INTERIM TARGETS: REAL-ECONOMY COMPANIES AND FINANCIAL INSTITUTIONS

	TRANSPARENCY	INTEGRITY
●	**The company or financial institution:** - Prominently sets emission reduction targets for 2030, 2035 and 2040 and 2050, which are independent from neutralisation through carbon dioxide removals or emission reduction offsets; - (for financial institutions) sets overall targets for their financed and, separately, facilitated emissions; - Clearly communicates the scope and year of their target (including base year, target achievement year, and target setting year).	**The company's or financial institution's targets:** - Covers scope 1, 2, and 3 emissions in full (including all upstream and downstream emissions) and all subsidiary companies. Where relevant, the target also covers non-GHG climate forcers; - Are likely aligned with 1.5°C global average emissions reduction targets. To stand a reasonable chance of limiting global warming to 1.5°C, global CO_2 emissions must decrease by 48% by 2030 (GHG by 43%), 65% by 2035 (GHG by 60%) and by 80% in 2040 (GHG by 69%), by 99% in 2050 (84% all GHGs) (compared to 2019 levels, independent of CDR or emission reduction offsets).
●	The company or financial institution has emission reduction targets, but the details are not easily accessible or found. <OR> The company or financial institution's target depends on neutralisation through carbon dioxide removals or emission reduction offsets, but the company's communication of that target also prominently specifies what portion of that target will be achieved through emission reductions. That portion is independent of neutralisation through carbon dioxide removals or emission reduction offsets.	The company's or financial institution's emission reduction commitments are almost aligned with the IPCC 1.5°C trajectory, and do not omit major emission sources. [The assessment is based on expert judgement.]
●	**The company or financial institution:** - Does not refer to any targets for the year in question. <OR> - Does not specify what portion of the target will be achieved through emission reductions. <OR> - The company or financial institution does not (or not clearly) communicate scope or year of their target.	**The company or financial institution:** - Does not have specific emission reduction targets in place. <OR> - Does not have emission reduction targets that are in line with the IPCC 1.5°C trajectory. <OR> - Omits major emission sources in its emission reduction targets.
?		The information provided does not facilitate an assessment.

2.2.3 Additional assessment criteria for financial institutions' emission reduction targets

→Table 2-E
Assessment criteria for sectoral emissions targets covering financed and facilitated emissions (scope 3, category 15) in targets (financial institutions)

Rating: ★ Very high ● High ● Moderate ● Low **?** Unclear

EMISSION REDUCTIONS FOR SECTORAL TARGETS COVERING FINANCED AND FACILITATED EMISSIONS: FINANCIAL INSTITUTIONS

	TRANSPARENCY	INTEGRITY
●	**The financial institution:** - Clearly communicates the scope and year of their targets (including base year, target achievement year, and target setting year); - Prominently provides details of sectoral emission reduction targets for 2030, 2035 and 2040 and 2050, which are independent from neutralisation through carbon dioxide removals or emission reduction offsets; - Has separate targets for both financed and facilitated emissions.	**The financial institution sectoral targets:** - Cover all its financed and facilitated emissions (scope 3, category 15) from all its financial activities, including investee companies', borrowers' or clients' scope 1, scope 2 and scope 3 emissions; - Are set for 2030, 2035, 2040 and 2050; - Are aligned at a minimum with the sectoral absolute emission reduction pathways following the IEA NZE scenario (tables 2-A, 2-B and 2-C). These targets follow advanced economies pathways where available.
●	The financial institution has sectoral emission reduction targets that are not easily accessible/found. <OR> The financial institution does not have separate targets for financed and facilitated emissions. <AND> Activities and asset classes without targets are justified and communicated transparently.	The financial institution sets (separate) targets for financed and facilitated emissions (scope 3, category 15), covering emissions from at least their most relevant financial activities and/or at least investee companies', borrowers' or clients' scope 1 and scope 2 emissions. <OR> Sectoral emission reduction targets exist but only partially align with IEA NZE scenario's emission reduction pathways. [The assessment is based on expert judgement.]
●	- The financial institution does not (or not clearly) communicate the scope or the year of their target. <OR> - The financial institution does not refer to any sectoral emission reduction targets for the year in question.	- The financial institution's target coverage omits scope 3 emissions. <OR> - The financial institution's sectoral emission reduction targets are not aligned with the sectoral emission reduction pathways following from the IEA NZE 2023 scenario. <OR> - The financial institution has not committed to sectoral emission reduction targets.
?		The financial institution's targets are unclear, untransparent and no assessment is possible.

Reducing own emissions

Section 3

Encompassing measures for deep emission reductions are the backbone of ambitious corporate climate targets. As companies' emissions profiles vary widely, there is not a standardised set of measures that all companies can implement. The integrity and robustness of companies' decarbonisation efforts must be considered against each company's circumstances and emission profile (→ Section 3.1).

Electricity-related emissions are relevant for all companies to address and are often a central feature of companies' plans and claims. For this reason, we single out renewable electricity procurement for deeper assessment (→Section 3.2).

3.1 Emission reduction measures

3.1.1 Guiding principles

Corporate actors must implement encompassing and deep decarbonisation measures. Decarbonisation efforts should focus on all relevant emission sources across all three scopes. Adopting readily available measures should be the first priority for companies that claim to be on a decarbonisation pathway, followed by the scaling up of proven flagship projects and—if necessary—investments in research and development to find new decarbonisation solutions. Further, companies should have a clear plan to phase out all carbon-intensive infrastructure and products. Real economy companies should immediately stop planning, investing in searching for, mining, extracting, producing and tapping into new coal, oil and gas fields, associated infrastructure and new fossil fuel energy plants (IEA 2023, 6; Court of Appeal of The Hague 2024, para. 7.61; IEA 2021, 21). Companies should plan for and implement a set of measures that leads to complete or near decarbonisation of their activities.

Transparent disclosure and information sharing can support replication and the identification of new solutions. Companies can show real climate leadership by prioritising transparent exchange on climate change mitigation over industry competition, to support replication of effective measures and to collaborate for the identification of new solutions. Reports that refer to individual flagship projects may potentially inspire readers, but further details are required to support replication and facilitate an assessment of the company's ambition. Companies' planned measures can only be fully appraised if their plans contain details on the scale of planned measures using indicators that demonstrate what proportion of a company's activities will be addressed by the measures, and what the anticipated impacts are for reductions in GHG emissions.

Guiding principles for financial institutions

Financial institutions should focus their emission reduction efforts on the emissions associated with all financial activities undertaken. Although financial institutions should also address emissions from, for instance, energy use in offices, procurement of products, and business travel, their focus should be on reducing emissions associated with their investments, borrowing, asset management, capital market activities and insurance underwriting (scope 3, category 15). Emissions financed through and facilitated by financial institutions' financial activities are on average 700 times larger than reported operational emissions (CDP 2020).

Addressing financed and facilitated emissions requires the development and implementation of comprehensive strategies for exclusion, engagement, and divestment. Large diversified financial institutions have significant control and influence over their financed and facilitated emissions. Financial institutions' climate-related targets may lead to lower emission levels for real economy companies if they successfully incentivise the investee company, borrower, or client to change their activities, outputs, and behaviour (Lütkehermöller et al. 2020). However, where investee companies and clients do not or do not sufficiently lower emission levels, financial institutions may need to divest or terminate the client relationship (disengagement) to meet their targets.

In their strategies, financial institutions should prioritise the exclusion of clearly misaligned activities investee companies, borrowers, clients, and insurance underwriting. Specifically, financial institutions should not provide financial services to companies engaged in the activities identified in the exclusion/divestment column of →Table 3-A. Ideally, exclusion is immediate, covers all types of financial services, and already applies to companies with small shares of income generated from excluded activities.

Financial institutions can have direct influence on investee companies' or clients' corporate strategy and climate risk mitigation approach through engagement. The key rationale behind engagement is that financial institutions are most likely to pressure climate laggards into climate action by using their influence as lenders or active shareholders, rather than by simple divestment. Financial institutions' engagement policy should generally cover all financial services and be targeted on the sectors outlined in the engagement column of →Table 3 -A. The feasibility, relevance, and success of active engagement depends on the financial service, the target, and how strongly the target is exposed to emission intensive activities. Asset owners and managers (this includes insurance companies with significant asset portfolios) investing in equity are specifically well positioned to exercise their stewardship role, both through direct (e.g. direct communication, voting on shareholder resolutions) and indirect (e.g. participation in engagement initiatives) engagement channels. Banks and insurers with corporate or sovereign fixed income and underwriting portfolios can also engage their borrowers or clients on climate-related requirements, although engagement channels may be different. Client engagement for banks with large consumer lending portfolios is also feasible, for example through specific product offering and information campaigns. In all cases, financial institutions should define clear engagement horizons and consequences of non-compliance to put themselves in a position to credibly increase pressure where continuous engagement proves unsuccessful.

Where engagement proves unsuccessful, financial institutions should completely divest from, or terminate financial service provision for, companies exposed to emission intensive activities as defined in the exclusion/divestment column of →Table 3-A. It is important that financial institutions not just terminate the provision of financial services for specific projects, but that they ensure that finance is not misused by beneficiaries by completely withdrawing support for misaligned investee companies, borrowers, or clients. Analogue to the financial institutions' exclusion strategy, divestment from misaligned companies should be timely and across all financial services.

We acknowledge that exclusion, engagement, and divestment policies may be more complex for some financial services. **For full transparency, financial institutions should justify where their policies do not cover all financial services.** In all cases, financial institutions should define exclusion, engagement, and divestment policies that at least cover emissions from financial services provided to energy sector companies as a minimum benchmark.

→Table 3-A
Engagement and exclusion/divestment focus areas, based on Laplane, Rajeevan and Van Gelder (2025)

ENGAGEMENT
FINANCIAL INSTITUTIONS SHOULD ENGAGE WITH COMPANIES, AMONG OTHER, ON:
Climate transition plans
Large companies adopt and implement a climate transition plan aiming for net zero emissions, including interim targets ambitious enough to align at least with the global average reduction pathway for 1.5°C in the 2022 IPCC AR6 scenario with no or low overshoot (C1 scenario).
Fossil fuels
- Companies publicly commit to phase out thermal coal mining and coal power by 2040 globally and by 2030 for OECD countries. - Companies publicly commit to phase-out of oil and gas activities and adopt an oil and gas phase-out plan.
AFOLU
- High-carbon stock land use change and land degradation is unacceptable. - Intensive livestock farming is unacceptable. - Deforestation and forest degradation in own operations and supply chain are unacceptable.
Lobby
Companies do not participate in lobbying (attempting to influence decisions made by regulators) aimed at weakening climate policy .
Procurement
Companies integrate climate change criteria in their procurement policies.

EXCLUSION/DIVESTMENT
FINANCIAL INSTITUTIONS SHOULD EXCLUDE/DIVEST FROM, AMONG OTHER:
Companies engaged in planning, investing in searching for, mining, extracting, producing and tapping into new coal, oil and gas fields, associated infrastructure and new fossil fuel energy plants.
Companies engaged in coal mining and coal-fired power generation with no phase-out plan aligned with global thermal coal phase-out by 2040 and with OECD phase-out by 2030 (with the exception of finance for decommissioning).
Companies engaged in oil and gas activities with no public commitment and no plan to phase out these activities.
Companies engaged in high-carbon stocks land-use change and land degradation.
Intensive livestock farming.

3.1.2 Assessment criteria

In line with the guiding principles above, the evaluation of real-economy companies' and financial institutions' emission reduction measures is based on the assessment criteria in →Table 3-B and →Table 3-C, respectively.

→Table 3-B
Assessment criteria for real-economy companies' emission reduction measures

Rating: ★ Very high ● High ● Moderate ● Low **?** Unclear

EMISSION REDUCTION MEASURES: REAL-ECONOMY COMPANIES

	TRANSPARENCY	INTEGRITY
●	The company provides detailed information on emission reduction measures for most sources of emissions. The information includes details on: - The expected amount of emission reductions or the emission levels the company expects to reach by its target year; - What share of relevant emission sources are addressed by the various measures.	The company currently takes a proactive approach to the implementation of climate change mitigation measures and those measures are likely aligned with requirements to transition to net-zero emissions. This requires, at a minimum, that the company: - Adopts demonstrated good practice emission reduction measures; - Scales up demonstrated flagship projects to mainstream those measures across the organisation; - Invests in the development of new solutions where necessary; - Sets out a clear plan to phase out all carbon-intensive infrastructure and all carbon-intensive products; - Should immediately stop planning, investing in searching for, mining, extracting, producing and tapping into new coal, oil and gas fields, associated infrastructure and new fossil fuel energy plants; - Covers all relevant emission sources from the company's emission footprint (including scope 1, 2 and 3); Real economy companies active in land-intensive sectors must have a commitment to end conversion or degradation of natural ecosystems. Companies should commit to ending conversion or degradation of natural ecosystems in their supply chain by December 2025 at the latest, following Accountability Framework Initiative guidelines (AFi 2023). [The assessment is based on expert judgement. Current emission reduction trends and achievement of past targets may support the assessment that a given company implements adequate reduction measures.]
●	The company provides detailed information on reduction measures but only for some sources of emissions. <OR> The company provides information on reduction measures for most sources of emissions, but not on: - The expected amount of emission reductions or the emission levels the company expects to reach by its target year; <AND/OR> - What share of relevant emissions are targeted by the various measures.	The company currently takes a semi-proactive approach to the implementation of climate change mitigation measures, but those measures may not necessarily be aligned with the global average 1.5°C decarbonisation pathway, either because one of the above criteria is overlooked, or because the measures are too shallow. [The assessment is based on expert judgement. Current emission reduction trends and achievement of past targets may support the assessment that a given company implements adequate reduction measures.]
●	The company provides no or limited information on reduction measures.	**Either of the below:** - The company has adopted few or no good practice emission reduction measures that have been demonstrated by other companies; <OR> - These measures cover only a small share of the company's carbon footprint. [The assessment is based on expert judgement. Current emission reduction trends and achievement of past targets may support the assessment that a given company implements adequate reduction measures.]

→Table 3-C
Assessment criteria for financial institutions' emission reduction measures

Rating: ★ Very high ● High ● Moderate ● Low **?** Unclear

EMISSION REDUCTION MEASURES: FINANCIAL INSTITUTIONS

	TRANSPARENCY	INTEGRITY
●	The financial institution provides detailed information on emission reduction measures for most sources of emissions (scope 1, 2 and 3). For financed and facilitated emissions (scope 3, category 15), the financial institution provides detailed information on its investees' emissions reduction measures, and provides dedicated reporting on exclusion, engagement, and divestment policies for all financial activities, as well as on the implementation and impact of approaches.	The financial institution adopts demonstrated good practice emission reduction measures to address relevant emission sources across scope 1, 2 and upstream and downstream scope 3. In addition, for financed and facilitated emissions (scope 3, category 15), the financial institution applies the following approaches across all financial services. - The financial institution has a comprehensive exclusion policy, covering at least the companies and activities defined in the guiding principles; - The financial institution has a comprehensive engagement and stewardship strategy, covering at least the sectors defined in the guiding principles; - Where relevant and required: the financial institution proactively divests from clearly misaligned activities (exclusion/divestment column of Table 3-A), as well as where engagement activities on the key focus areas (engagement column of Table 3-A) are not successful. [The assessment is based on expert judgement. Current emission reduction trends and achievement of past targets may support the assessment that a given financial institution implements adequate reduction measures.]
●	The financial institution provides detailed information on emission reduction measures for most sources of emissions (scope 1, 2 and 3). The financial institution provides dedicated reporting on exclusion, engagement, and divestment policies for at least the most relevant sources of emissions, and on the implementation and the expected impact of its approaches.	The financial institution takes a semi-proactive approach and adopts demonstrated good practice emission reduction measures to address relevant emission sources across scope 1, 2 and upstream and downstream scope 3. The financial institution applies the following approaches across the most significant financial services and sectors. - The financial institution has a comprehensive exclusion policy, covering the most relevant company categories and activities defined in the guiding principles; - The financial institution has a comprehensive engagement and stewardship strategy, covering the most relevant sectors defined in the guiding principles (or defines other comprehensive targeting approaches which effectively ensure engagement across harmful sectors and clients); - Where relevant and required: the financial institution proactively divests from clearly misaligned applicable activities, as well as where engagement activities are not successful. [The assessment is based on expert judgement.]
●	The financial institution provides no or limited information on reduction measures.	The financial institution does not meet one or more of the following criteria: - The financial institution has a comprehensive exclusion policy, covering the most relevant company categories and activities defined in the guiding principles; - The financial institution has a comprehensive engagement and stewardship strategy, covering the most relevant sectors defined in the guiding principles (or defines other comprehensive targeting approaches which effectively ensure engagement across harmful sectors and clients); - Where relevant and required: the financial institution proactively divests from clearly misaligned applicable activities, as well as where engagement activities are not successful. [The assessment is based on expert judgement.]

3.2 Procurement of renewable electricity

3.2.1 Guiding principles

Companies reduce electricity-related emissions in different ways. How a company goes about sourcing renewable electricity makes a big difference in the actual emission impact and the credibility of renewable electricity consumption claims.

Electricity-related emissions are a relevant emissions source for all companies to address and represent a key component of many companies' climate change strategies and pledges. For some companies, those emissions account for the lion's share of their emissions. Other companies may have relatively fewer emissions from electricity consumption today, for instance those in the heavy industry, aviation, and shipping sectors. However, electricity is likely to become increasingly important for those companies, as they move away from fossil fuels to alternatives such as hydrogen and ammonia, for the production of which electricity is needed. As alternative fuels are not yet produced at scale, some companies are investing in new facilities that will produce, for instance, e-methanol or e-hydrogen. Those fuels are only zero carbon if they are based on green electricity.

Companies have a variety of options for sourcing renewable electricity (→Table 3-D). While for some an emissions reduction claim may be legitimate, for others the impact is unclear. As the impact of projects vary and is often unclear, it is best practice for companies to combine high quality renewable electricity procurement with the most accurate and transparent emission reporting, including the location-based accounting method alongside the market-based accounting method (see →Section 1.1).

On-site renewable electricity generation with on-site storage offers the best guarantee that companies use renewable electricity without placing a significant burden on grid infrastructure. This approach reduces scope 1 emissions in the case that those renewable energy technologies replace existing on-site fossil-fuelled generators. Scope 2 emissions are reduced in the case that new renewable energy installations shift energy demand away from external energy procurement, bringing renewable energy generation under the direct control of actors (NewClimate Institute and Data-Driven EnviroLab 2020) . On-site storage systems help take pressure off the grid when a lot of electricity is generated, for instance on very sunny or windy days, or when demand is low. It also ensures that the company uses renewable electricity when they do not generate sufficient electricity to cover their demand. In contrast, companies that do not install electricity storage systems, rely on the grid when their electricity production is lower than their electricity demand. Therefore, the option of on-site generation with on-site storage is preferable and more likely to guarantee that companies use renewable electricity for their activities.

Monitoring and matching energy consumption with renewable energy on a 24/7 basis can significantly increase the credibility of claiming that electricity is derived from renewable sources, as long as the electricity is procured from high quality procurement options that would likely not have existed without the company's financial support. This procurement option ensures that a company's hourly energy consumption is matched with clean energy generation, including at times of peak demand. Monitoring and matching energy consumption at an hourly basis is a relatively new construct and still faces several challenges, such as the complexity of matching consumption with real-time electricity generation (Avelar and de Boer 2021).

Higher quality Power Purchase Agreements (PPAs) may lead to additional renewable electricity capacity and fewer GHG emissions. A PPA is a long-term contract between an electricity provider and anelectricity consumer, usually spanning 10-20 years. The consumer agrees to purchase a certain amount of electricity from a specific asset under a pre-determined pricing arrangement. PPAs are generally signed with new renewable energy installations and form part of the project investment decision (NewClimate Institute and Data-Driven EnviroLab 2020). PPAs can also be signed for existing installations, in which case it is less likely the PPA results in additional renewable electricity capacity. However, it may be that existing installations would cease operations if the operator cannot sign a new PPA.

Investments in renewable electricity capacity are likely to lead to additional renewable energy capacity but are not necessarily a suitable approach to reduce electricity-related emissions. Companies can only claim a neutralisation of own electricity-related emissions if no other parties can enter into agreement to claim renewable energy from those installations, and that the power is marketed directly (NewClimate Institute and Data-Driven EnviroLab 2020). Without the guarantee that other actors cannot claim the renewable electricity, there is a high risk of double counting renewable electricity.

Energy suppliers can charge a premium for renewable energy capacity expansion that is dedicated to the construction of additional renewable electricity capacity. Such a premium can be bundled with any form of energy procurement model, such as RECs or a PPA, regardless of the volume of energy procured. More ambitious electricity providers offer their clients an independently verified guarantee that their electricity generation stems from renewable energy installations not older than five or ten years (NewClimate Institute and Data-Driven EnviroLab 2020). A capacity expansion premium alone cannot underpin the claim of the neutralisation of current electricity emissions, but rather it can be add-on to improve the quality of any other energy procurement model and contribute to more renewable electricity capacity in the near future.

Renewable Energy Certificates (RECs) – also known under various names, such as Guarantees of Origin (GOs) or Energy Attribute Certificates (EACs) – often do not contribute to additional renewable electricity capacity. They are not a suitable approach for corporates to address electricity-related emissions. While the purchase of RECs could in theory send a signal to investors that there is demand for renewable energy, there are strong indications that RECs do not generally contribute to the development of additional renewable energy installations in practice. Oversupply of certificates and associated low prices, along with implicit double counting, are key reasons for this problem. For example, in Europe there is an oversupply of RECs at low prices that mostly stems from decades-old hydropower installations in Scandinavia (NewClimate Institute and Data-Driven EnviroLab 2020). Bjørn et al. (2022) found that the use of RECs by companies with SBTi-approved reduction targets leads to an inflated estimate of those companies' abatement efforts. The researchers concluded that 42% of committed scope 2 emission reductions may not result in real-world mitigation (Bjørn et al. 2022).

Further, the sale of RECs displaces more carbon-intensive energy to other consumers. When a customer purchases RECs, the actual energy mix that a certificate owner receives does not change, nor does the energy mix in the grid. If fossil-fired power plants and renewable energy technologies feed electricity into a grid, the actors who draw from that grid would all receive a combination of renewable- and fossil-fired electricity. Consequently, if the owner of a renewable energy generation facility were to sell RECs to one actor, that actor may claim a lower grid emission factor to determine its scope 2 GHG emissions but would still continue to receive the same combination of renewable- and fossil-fired electricity. Other customers on the same grid need to apply a higher grid emissions factor, so their reported electricity-related emissions will increase (NewClimate Institute and Data-Driven EnviroLab 2020).

RECs can be bundled or unbundled with the electricity that a company consumes:

- **Unbundled RECs:** the consumer purchase RECs on the spot market from a third party, separately from the purchase of electricity from another supplier.
- **Bundled RECs – third-party generated:** the consumer purchases electricity and RECs from one and the same supplier, but this supplier has procured the RECs from a third party. In this situation, the supplier may sell fossil fuel power electricity and green it with the sale of RECs.
- **Bundled RECs – supplier generated:** the consumer purchases renewable electricity and associated RECs from one and the same supplier.
- **Tailored renewable energy contracts combine key features of RECs and PPAs.** Under this model, customers sign a contract with a renewable energy supplier and commit to purchasing renewable electricity and associated RECs for a longer period of time and usually from a determined source or asset. The electricity often comes from a new installation, although this is not necessarily the case (NewClimate Institute and Data-Driven EnviroLab 2020).

Bundled RECs and tailored renewable energy contracts carry a lower risk of implicit double counting and are likely to send a stronger signal to the market than unbundled RECs, although still a much weaker one than, for instance, PPAs.

→Table 3-D
Overview of renewable electricity procurement options

RENEWABLE ELECTRICITY GENERATION OR PROCUREMENT CONSTRUCT	EMISSION REDUCTION LIKELIHOOD
The installation of renewable electricity with storage technologies on a company's own premises can ensure that a company is directly using renewable energy, without placing any significant burden on grid infrastructure.	★ Very high
Monitoring and matching energy consumption with renewable energy on a 24/7 basis can significantly increase the credibility of claiming that electricity is derived from renewable sources, as long as the electricity is procured from high quality procurement options that would likely not have existed without the company's financial support.	★ Very high
The installation of renewable electricity without storage on a company's own site can directly create additional renewable energy capacity. However, actors that do not have on-site storage will still rely on the national grid when they do not generate sufficient energy themselves. Therefore, this option is not as good as having on-site renewable electricity and storage technologies.	● High
The arrangement of a higher quality Power Purchase Agreement (PPA) for new and local generation is likely to ensure additional renewable electricity capacity that would not exist in the PPA's absence. However, the degree of additionality depends upon the specific circumstances and overlap or competition with other potential project developers. It is therefore not necessarily guaranteed that a signed PPA will eliminate energy-related emissions. PPAs should include the purchase and transfer of any renewable energy attribution certifications to reduce the risk that the renewable energy claim is double counted.	● High
Investments in renewable electricity development can contribute to additional renewable electricity capacity and may be an effective strategy for companies to pursue, especially in countries with low levels of renewable electricity penetration. However, investments in renewable electricity development must also be seen as a business case. Companies should not claim that their equity share in RE projects reduces their electricity-related emissions, unless they procure the electricity and attribution certificates from those own RE investments. Otherwise, there is a material risk that renewable electricity is double claimed.	● High
A capacity expansion premium, in which electricity suppliers charge a premium on electricity sales which is dedicated to funds for additional renewable electricity capacity installations, can channel direct support to additional renewable energy capacity. This model alone cannot underpin the claim of the neutralisation of current electricity emissions, but rather it can be add-on to improve the quality of any other energy procurement model.	● Moderate
Procurement of renewable energy certificates (RECs) directly generated by the energy supplier (bundled RECs) does not currently send any meaningful signal to potential developers of new renewable energy capacity due to oversupply and low prices. They may also simply displace more carbon intensive electricity to other consumers in the same market.	● Moderate
RECs generated by a third party (unbundled RECs) face the same limitations as bundled RECs but can even lead to a net decrease in demand for renewable energy capacity due to the potential for implicit double counting.	● Low
No renewable energy procurement or green-energy premium. Some companies still do not pursue any form of renewable energy procurement or support.	◌ Very low

3.2.2 Assessment criteria

In line with the guiding principles above, our evaluation of companies' renewable electricity procurement is based on the assessment criteria in →Table 3-E. These criteria apply to real-economy companies and financial institutions alike.

→Table 3-E

Assessment criteria for procurement of renewable electricity
(real-economy companies and financial institutions)

Rating: ★ Very high ● High ● Moderate ● Low **?** Unclear

PROCUREMENT OF RENEWABLE ELECTRICITY: REAL-ECONOMY COMPANIES AND FINANCIAL INSTITUTIONS

	TRANSPARENCY	INTEGRITY
★		The company has installed on-site renewable energy capacity and storage; or monitors and matches (electricity/energy) consumption with renewable energy on a 24/7 basis. <AND> These procurement options account for 100% of the company's electricity demand.
●	The company provides thorough details on the pursued renewable energy constructs.	The company pursues one or a combination of the following options: - On-site renewable energy capacity with or without and storage; - Monitoring and matching (electricity/energy) consumption with renewable energy on a 24/7 basis; - High-quality PPAs. <AND> These account for more than 90% but less than 95% of the company's electricity demand.
●	The company provides a moderate level of detail on the pursued renewable energy constructs.	The company uses a capacity expansion premium to cover the majority of its energy/electricity consumption. <OR> The company uses one or a combination of the following options, but these do not account for the majority of the company's energy/electricity consumption: - On-site renewable energy capacity with or without storage; - Monitoring and matching electricity consumption with renewable energy on a 24/7 basis; - High-quality PPAs.
●	The company provides very limited to no details on its pursued renewable energy supply constructs.	The company uses some higher quality procurement options, but these account for a minor share of its consumption. <OR> The company uses unbundled or bundled RECs. <OR> The company does not pursue any renewable energy procurement option.
?		The company's renewable energy supply constructs are unclear, and an assessment is not feasible.

Responsibility for unabated and residual emissions

Section 4

Corporate climate responsibility entails taking responsibility for reducing emissions as well as emissions that are still emitted in the short and long term. This chapter describes how companies should address unabated and residual emissions.

As described under →Section 2.2, companies need to reduce emissions in line with the C1-scenario of the IPCC independent of CDR and the use of carbon credits. This means that practices such as carbon offsetting cannot be used as a substitute for emission reductions or to meet emission reduction targets. Most companies do not have the ability to immediately eliminate their entire GHG emissions footprint. While more and more companies are charting a pathway to complete decarbonisation and although far reaching reductions are possible and required in the next years, it will usually be many years or decades until they are able to entirely achieve this goal. **Corporate climate leadership includes both setting ambitious targets for emission reductions in the company's own value chain, as well as taking responsibility for unabated emissions in the meantime.** Some companies take responsibility for unabated emissions by making **climate contributions** to support climate change mitigation beyond the company's value chain without making a neutralisation claim. Other companies use **offsetting** and claiming to neutralise their emissions through carbon dioxide removals or emission reduction offset credits, a strategy that has significant transparency and integrity issues. Some companies pursue both approaches in parallel.

4.1 Climate contributions without a neutralisation claim

4.1.1 Guiding principles

In recognition of the limitations of offsetting and the need to ramp up financial support for climate action worldwide, some actors are moving away from the offsetting model to making a climate contribution without any neutralisation claim.

We define climate contributions as the financial support provided by a company to support climate change action beyond the company's own value chain, without claiming to neutralise its own emissions. A company can claim to contribute to climate change mitigation activities, without claiming ownership of the emission reduction outcomes and without subtracting associated reductions from their own GHG inventory or net-zero target. Climate contributions, which represent an alternative approach to offsetting, are a central feature of NewClimate Institute's Climate Responsibility approach (NewClimate Institute 2020b) and the WWF-BCG Climate Blueprint (WWF and BCG 2020).

An internal carbon price on emissions can inform the volume of financial support. This way, climate contributions are linked to a company's responsibility for its own unabated emissions. The volume of financial contributions can serve as a key indicator of climate leadership. Ambitious companies could, for example, use the proceeds of an internal carbon price that is set at a high enough level to send a clear incentive signal for embarking on a 1.5°C-compatible decarbonisation trajectory.

Companies can channel their climate contributions towards a wide range of activities. Since they are not planning to claim to neutralise their emissions, companies making climate contributions are not tied to procuring carbon offset credits and enjoy far greater flexibility in the type of activities they can support to advance global decarbonisation. This could include, for example, support for

carbon removals through nature-based solutions, which does not offer sufficient guarantees of permanence to truly neutralise emissions, but which is critical to addressing climate change and requires more financial support globally. Other examples include emerging technologies and measures for hard-to-abate sectors, where innovation and investment are needed to find new solutions. Uncertainties regarding the eventual emissions reductions delivered by more immature technologies and higher-risk investments may make them less attractive to project developers looking to generate offset credits, but a more suitable avenue for those channelling financial support in the form of climate contributions.

Climate contributions without neutralisation claims can provide a transparent, constructive and ambitious approach to take responsibility for unabated emissions:

- **More transparent:** Targets that are formulated independently from offsetting, without any netting-out of actual climate impacts, are more transparent and provide a clearer signal to decarbonise the company's own value chain.
- **More constructive:** Developing countries need more financial support to ramp up their mitigation action; voluntary action from companies is a vital channel of such support. A constructive environment is required, where this finance positively reinforces ambition raising, rather than one that provides perverse incentives to limit the ratcheting up of national climate commitments. In contrast to offsetting approaches, if the financial support from voluntary action results in emission reductions that are owned by the actors supported and the host country they operate in, this action will not conflict with the host country's GHG emission reduction target. Instead it can provide support for reaching and ratcheting up those targets.
- **More ambitious:** The contribution claim model is aligned with the concept of ratcheting ambition through a race to the top, a concept that underpins the Paris Agreement. If companies are free to self-determine their own ambition for their climate contributions – as countries do through Nationally Determined Contributions – this may result in a race to the top to demonstrate the highest ambition, without limits. This would mark a significant shift from the offsetting approach in which many companies race to the bottom and exploit loopholes to deliver a fixed target at the lowest cost.

Companies should disclose details on their climate contributions, including the basis for determining the volume of their financial contributions, the amount that they contribute each year, the recipients and the anticipated or measured impacts. It is critical that communication around these climate contributions avoids any implication that they serve to offset the actual ongoing emissions of the company.

4.1.2 Assessment criteria

In line with the guiding principles above, our evaluation of companies' climate contributions is based on the assessment criteria in →Table 4-A. These criteria apply to real-economy companies and financial institutions alike.

→Table 4-A
Assessment criteria for good practice climate contributions
(real-economy companies and financial institutions)

Rating: ★ Very high ● High ● Moderate ● Low **?** Unclear

CLIMATE CONTRIBUTIONS WITHOUT NEUTRALISATION CLAIM: REAL-ECONOMY COMPANIES AND FINANCIAL INSTITUTIONS

	TRANSPARENCY	INTEGRITY
★	The company or financial institution discloses information on its approach to climate contributions, including details on all of the following: - The basis for determining the volume of the financial contributions; - The total volume of finance (per year); - The project recipients; - Rationale for selection of project recipients; - Expected impact of support provision.	- The company assumes responsibility for its unabated emissions through climate contributions; - The company does not use any credits arising from the projects to claim the neutralisation of its own emissions; - The volume of finance is derived from, or at least equivalent to, an internal carbon tax across all scope 1, 2 and 3 emissions at a Paris-compatible price level.
●	The company or financial institution discloses some information on its approach to climate contributions, but without covering all of the good practice transparency criteria.	- The company assumes responsibility for its unabated emissions through climate contributions; - The company does not use any credits arising from the projects to claim the neutralisation of its own emissions; - However, the volume of finance is not derived from, or equivalent to, an internal carbon tax across all emissions at a Paris-compatible price level.
●	The company or financial institution alludes to possible climate contributions but without providing sufficient clarity on whether the support is provided to claim neutralisation.	The company does not assume responsibility for its unabated emissions through climate contributions without a neutralisation claim.
N/A	The company does not assume responsibility for its unabated emissions through climate contributions without a neutralisation claim.	? The company provides insufficient information to assess the sufficiency of its climate contributions.

4.2 Neutralisation plans for residual emissions

Some companies claim to offset their unabated emissions, by supporting the development of climate change mitigation projects through the procurement of carbon offset credits. Offsetting is a practice with significant and fundamental transparency and integrity issues, making the practice irreconcilable with corporate climate responsibility.

The global governance framework of the Paris Agreement represents a different context from the Kyoto-era, under which most existing offsetting mechanisms and standards were developed. The environmental integrity of an offsetting claim has always been dependent on various factors, including but not limited to additionality, permanence, avoidance of double counting, leakage, and the accuracy of quantified impacts (CCQI 2021). In addition to these long-established principles, several other factors represent fundamental issues for the integrity of offsetting claims, since the Paris Agreement has come into force.

4.2.1 Guiding principles

Companies make an offsetting claim when they assert that unabated GHG emissions within their value chain are "neutralised", "netted-out", or "offset" through carbon dioxide removals or emission reduction activities outside of their value chain. The practice of offsetting has been afflicted by controversy and contention due to significant uncertainties in the real impact of offset credit use as well as the suitability of carbon dioxide removals for neutralising emissions. Accordingly, terminology for offsetting is highly sensitive and inconsistent. Many actors now avoid the term offsetting entirely; companies and initiatives more often refer to "neutralisation", "netting-out", "compensation", "reducing the footprint", while some actors use multiple terminologies to distinguish between offsetting in different circumstances and at different times. We assess all claims that unabated GHG emissions within the value chain are offset as offsetting claims, including all synonymous terminologies and project types.

4.2.1.1 Integrity of offsetting in the context of the Paris Agreement

Offsetting claims risk to distract from the necessity of immediate, structural and deep emission reductions. Emission reduction should be prioritized in order for companies to transition to Paris-aligned, decarbonised business models and economies (UN HLEG 2022, 19). Targets and claims that depend on offsetting are therefore not conducive to the achievement of the Paris Agreement objectives. The relevance of this issue is independent of the quality of the means used to claim offsetting.

Offsetting claims risk resulting in double claiming. Corresponding adjustments on carbon credit transactions for offsetting purposes are a minimum requirement to limit double counting of the emission reduction. A corresponding adjustment requires that the country hosting an activity makes adjustments to their GHG emissions inventory to account for the volume of internationally transferred mitigation outcomes (UN HLEG 2022, 20), ensuring that the same emission reduction cannot be used towards multiple purposes. Given the potential complexities of establishing a functional system for corresponding adjustments, it remains unclear whether the voluntary offsetting standards will also introduce systems for corresponding adjustments.

In today's context, carbon credits can only provide an appropriate guarantee of additionality if they are generated from high-hanging-fruit mitigation projects. The high-hanging fruit of mitigation potential refers to the technologies and measures to decarbonise emission sources that remain otherwise entirely inaccessible to host country governments in the near- and mid-term future, on account of extraordinary costs or other insurmountable barriers that cannot reasonably be overcome (NewClimate Institute 2023b). A shift to high-hanging fruit carbon crediting projects marks a significant transition. There are few, if any, examples of existing credited projects that represent "high-hanging fruit" and could be considered truly additional. Carbon credits can only be considered to

have additionality if the credited emission reductions are additional to what could be achieved without the incentives that the credit created. In historical offsetting mechanisms, additionality could be proven by showing that local legislation did not require the activity and that offsetting revenues could help overcome barriers which would otherwise prevent implementation. Since the Paris Agreement has come into force, the concept of additionality needs to be redefined and should imply certainty that the project supported could not realistically have been implemented otherwise through unilateral ambition enhancements on the part of host-country governments.

Carbon credits should avoid incentivising limited ambition of NDCs under all circumstances. The impact from carbon credits cannot be considered additional if it presents credit-selling territories with a perverse incentive to limit the extent to which they ratchet up their own ambition during NDC revision cycles. The prospect of potential revenues from emission reduction credits presents a risk that, to maximise foreign investment, countries or subnational territories may limit their own national GHG reduction targets so that more of their mitigation potential can be tapped by international offsetting mechanisms. To overcome this potential ambition pitfall, carbon crediting projects would need to be sufficiently ambitious that they avoid presenting any conflict with the host country's own ambition. Project developers that look to operate in post-2020 offsetting mechanisms with high-hanging fruit mitigation projects will need to adjust their market search to move from upscaling accessible mitigation technologies to the development and implementation of more innovative technologies for harder-to-abate emission sources. This will take considerable time and resources to develop. Moreover, the scope of technologies and measures that would count as high-hanging fruits will be a gradually decreasing niche of activities, as countries' ambition and capabilities increase over the years.

Companies planning to offset their emissions in the future to meet interim targets before reaching a net-zero state create confusion on the level of actual emission reductions they aim to achieve. Therefore, even when companies plan to use high-hanging fruit projects with corresponding adjustments and other necessary conditions for environmental integrity, offsetting is still not a credible climate strategy aligned with corporate climate responsibility.

4.2.1.2 Suitability of carbon dioxide removals for neutralising residual emissions

It can be good practice for companies to support the development of carbon dioxide removals (CDR) inside or outside their value chain in parallel to emission reductions. All scenarios consistent with a 1.5°C temperature increase include a major role for carbon dioxide removals, or "CDR" (Rogelj et al. 2018). This includes nature-based solutions for carbon sequestration in forests, soils, peatlands and mangroves, technological solutions such as bioenergy with carbon capture and storage (BECCS) and direct air carbon capture with storage (DACCS), and solutions with mineral storage.

It may be credible for companies to claim to neutralise their emissions under the specific conditions that they only offset residual emissions with carbon dioxide removals that have a high likelihood of sufficient durability. Credible neutralisation of individual companies' GHG emissions through financing carbon dioxide removal initiatives must focus on storage options that provide a sufficient guarantee of durability, and are not significantly constrained by technical or physical limitations on the storage potential. Credibility also depends the source of emissions that the corporate intends to offset.

CDR durability: The durability of a CDR outcome refers to the degree of certainty that the sequestered carbon will not be released at a later point in time. The permanence of different technologies depends on where in the earth's system the carbon is sequestered. Sequestration in the lithosphere (such as injection into depleted fossil fuel reservoirs and aquifers or mineralisation into rocks) and in the hydrosphere (storage in deep oceans) have a more robust (and thus longer) degree of durability compared to the biosphere (such as in trees or soils) due to its vulnerability to natural and anthropogenic disturbances. The release of previously sequestered carbon negates any benefits of the sequestration: at the point at which the carbon

dioxide is released, the atmospheric concentration of carbon dioxide is restored to the same value that it would have been had the CDR activity never taken place. If non-durable removals are used to neutralise emissions, the global CO_2 concentration will increase as a result (NewClimate Institute 2020a). A sufficient guarantee of permanence requires a high likelihood that the captured carbon will remain stored over a timeframe of centuries to millenniums. Significant reliance on measures that have a reasonable likelihood of releasing captured carbon over a timeframe of decades present a risk of materially increasing atmospheric carbon concentrations either this century or in the next.

Scarcity of CDR potential: The maximum potential of most CDR measures is technically limited and further restricted by environmental constraints. Due to issues such as land requirements, high water consumption, high energy consumption, land degradation and pollution, among other environmental costs, CDR technologies can only be scaled up to a certain extent without significantly endangering sustainable development goals, including food security. The scarcity of CDR measures is an important consideration when evaluating net-zero claims at the level of individual actors. Robust future use of scarce CDR options must be consistent with achieving net-zero and eventually net-negative emissions at the global level, which is required to avoid the most damaging effects of climate change over the coming decades. Any allocation of rights of ownership to scarce CDR will require international oversight as well as detailed (and likely highly complex) considerations of fairness and appropriate use to ensure efficient and effective efforts to contain and then reduce the atmospheric stock of emissions. It is not appropriate for companies today to make climate pledges which assume they will have the right to use scarce CDR outcomes to offset their own emissions decades in the future (or the financial resources to pay for these). If specific companies – for example in the energy industries – claim ownership of scarce CDR now or for a time in the future, then it will not be possible for those removals to balance out residual emissions in other sectors, and it will not be possible to reach net-zero emissions at the economy-wide level. We take into account the technical potential of CDR measures while also considering environmental constraints, since these potentials cannot be exceeded without causing significant environmental damages and major conflicts with other resource demands (Rogelj et al. 2018).

Source of emissions to neutralise: The credibility of a neutralisation claim partly depends on whether removals are used to balance out residual emissions from hard-to-abate emission sources where no known feasible options remain for further decarbonisation, or against unabated emissions for which further emission reductions are technically feasible. CDR technologies and measures all entail some degree of uncertainty regarding permanence, scarcity and environmental damages. For residual emissions, CDR measures may be the only option available. However, for unabated emissions, CDR measures are not a credible equivalent alternative.

4.2.2 Assessment criteria

In line with the guiding principles above, our evaluation of companies' climate contributions is based on the assessment criteria in →Table 4-B. These criteria apply to real-economy companies and financial institutions alike.

→Table 4-B
Assessment criteria for neutralisation plans for residual emissions
(real-economy companies and financial institutions)

Rating: ★ Very high ● High ● Moderate ● Low **?** Unclear

NEUTRALISATION PLANS FOR RESIDUAL EMISSIONS: REAL-ECONOMY COMPANIES AND FINANCIAL INSTITUTIONS

	TRANSPARENCY	INTEGRITY
●	The company or financial institution plans to neutralise residual emissions by investing in CDR, and all the following criteria are met: - Plans for CDR are presented prominently alongside emission reduction pledges as a clear disclaimer; - The company discloses the (maximum) proportion of its emissions that it will claim neutralisation for in the future; - The company sets out details on the type of projects it will support and the credits it will procure, or sets out clear principles for how it will make these decisions in the future.	The company or financial institution plans to neutralise residual emissions by investing in CDR, and all the following criteria are met: - The CDR measures will be used only to neutralise residual emissions; - The CDR measures are associated with a high likelihood of high durability; - The CDR measures and means of storage are not scarce and not associated with high environmental costs.
●	The company or financial institution plans to neutralise residual emissions by investing in CDR, and at least one of the good practice transparency criteria is met.	The company or financial institution plans to neutralise residual emissions by investing in CDR, and all the following criteria are met: - The CDR measures will be used only to neutralise residual emissions; - The CDR measures are associated with a high likelihood of durability; <BUT> - The CDR measures and means of storage are scarce; <OR> - Associated with high environmental costs.
●	The company or financial institution is not clear about its plans for neutralisation of its residual emissions, or none of the good practice transparency criteria are met. <OR> The company or financial institution plans to use carbon credits to claim to offset its emissions.	The company or financial institution plans to claim the neutralisation of residual emissions using CDR, without meeting all the above criteria. This includes, for example: - Planning to neutralise residual emissions with CDR that does not carry a high likelihood of durability; - Planning to neutralise unabated emissions that could feasibly be reduced further; - Planning to use CDR as a means to reach emission reduction targets; <OR> The company or financial institution does not present any plans for support of CDR. <OR> The company or financial institution plans to use carbon credits to claim to offset its emissions.
?		The company or financial institution is not clear about its plans for neutralisation of emissions.

Weighting of the different sections

Section 5

This section outlines the weighting applied to obtain the CCI headline transparency and integrity ratings, and the weighting of subcomponents in sections 1 - 4.

5.1 Weighting of sections 1 - 4 for headline ratings for transparency and integrity

For the headline transparency and integrity ratings, →Section 2 on 'Setting emission reduction targets' and →Section 3 on 'Reducing own emissions' are each weighted at 40%, while →Section 1 on 'Tracking and disclosure of emissions' and →Section 4 on 'Responsibility for unabated and residual emissions' are each weighted at 10% (see →Table 5-A).

→Table 5-A
Weighting of Section 1 - 4 to obtain headline ratings for transparency and integrity

WEIGHT OF TRANSPARENCY AND INTEGRITY RATING IN TOTAL RATING – CLIMATE CRISIS INDEX		
SECTION	**2022 AND 2023**	**2025**
SECTION 1 **Tracking and disclosure of emissions**	25%	10%
SECTION 2 **Setting emission reduction targets**	25%	40%
SECTION 3 **Reducing own emissions**	25%	40%
SECTION 4 **Responsibility for unabated and residual emissions**	25%	10%

5.2 Weighting of subcomponents for transparency and integrity section ratings

The methodology applies section-specific weighting of subcomponents to obtain the section-specific transparency and integrity ratings (see detailed overview in →Table 5-B). All transparency and integrity ratings are subject to expert judgement by the research team.

→Table 5-B
Weighting of subcomponents for transparency and integrity section ratings in section 1-4

SECTION 1 **Tracking and disclosure of emissions**	The rating for each emission scope is weighted by its respective size to obtain section 1's combined transparency and integrity rating. The final rating is subject to expert judgement. [The CCI applies only one joint rating of transparency and integrity. All other sections 2–4 have separate transparency and integrity targets.]
SECTION 2 **Setting emission reduction targets**	The weighting gives more importance to the emission reduction commitments in the short term.Coverage of emission sources on its own receives less importance under this weighting but is also of great importance when targets are quantified and assessed for being compatible with maximum 1.5°C temperature increase. 2030 emission reduction target(s) **30%** 2035 emission reduction target(s) **30%** 2040 emission reduction target(s) **20%** 2050 emission reduction target(s) **20%** The final rating is subject to expert judgement. For some financial institutions, sectoral targets are of more relevance than for others. The respective weighting is subject to expert judgement, considering the particular context of the institution in question.
SECTION 3 **Reducing own emissions**	The weighting gives more importance to emission reduction measures, as these are the basis of any corporate climate strategy. 3.1 – Emission reduction measures **80%** 3.2 – Procurement of renewable electricity **20%**
SECTION 4 **Responsibility for unabated and residual emissions**	The weighting gives equal importance to companies' approach to climate contributions and their approach to CDR and offsetting. 4.1 – Climate contributions **50%** 4.2 – Neutralisation plans for residual emissions **50%** The final rating is subject to expert judgement.

Data sources

Public documentation

For our assessments, we only consider documentation that is publicly available, for two reasons. Firstly, we consider that when companies make public announcements on claims to climate leadership, they have a responsibility to make available to the same public audience the information that would be required to understand and appraise those claims. Secondly, we do not consider that there is any accountable commitment associated with any targets or plans that are not made public.

CDP responses

Many companies report on aspects of their climate-related targets and strategies through annual disclosures to CDP. Companies' CDP responses are available either through the purchase of data from CDP, through registration on the CDP website (with limitations), through the Net-Zero Data Public Utility website, or from the website of the specific companies in the case that companies choose to publish those responses.

Assessing transparency

We do not consider companies' CDP responses to be accessible public documentation, on the grounds that the information is only available either behind a paywall, or behind a registration-wall with significant limitations. Even in the case that companies publish the responses to their websites, we still do not consider these documents to be accessible public documentation given the technical nature of CDP response documents and their limited accessibility for a non-expert audience. It is not transparent practice if specific information that is fundamental for an understanding of the meaning or integrity of a company's climate strategy can only be found in those documents.

Assessing integrity of commitments ex-ante

We do not consider the details of future commitments if these details can only be found in CDP responses, and have not been published in accessible public documentation. This is in line with the aforementioned position that we do not consider that there is any accountable commitment associated with any targets or plans that are not made public.

Assessing integrity of chronicled facts ex-post

For historical ex-post data – such as GHG emission disclosures for historical years or reporting on renewable energy constructs in historical years – we may refer to chronicled facts from individual CDP responses to understand gaps in companies' public communications, and to identify inconsistencies in reported information. This information may be used to determine the integrity of companies' approaches.

Glossary and abbreviations

ADDITIONAL POTENTIAL (of CDR)	See "Scarcity (of CDR)".
AFI	Accountability Framework Initiative: A multi-stakeholder coalition that leads the development and promotion of the Accountability Framework—a set of principles, guidance documents, and definitions—to support companies and stakeholders in building supply chains that avoid deforestation, ecosystem conversion, and human rights violations.
BECCS	Bio-Energy with Carbon Capture Storage, see also "Carbon dioxide removals (CDR)".
CCI	Climate Crisis Index: A ranking of 28 major companies, operating or headquartered in the Netherlands. The underlying study is commissioned by Milieudefensie and executed by NewClimate Institute and evaluates how well the companies' climate plans align with the Paris Agreement's goals to limit global warming to maximum 1.5°C.
CLIMATE CONTRIBUTION	Financial support provided by a company to support climate change action beyond the company's own value chain, without claiming the neutralisation of its own emissions in return.
CARBON DIOXIDE REMOVALS (CDR)	All scenarios consistent with a 1.5°C temperature increase include a major role for carbon dioxide removals (Rogelj et al., 2018). This includes nature-based solutions for carbon sequestration in forests, soils, peatlands and mangroves, technological solutions such as BECCS and DACCS with underground storage, and solutions with mineral storage.
CARBON OFFSET CREDIT	A certified unit of a reduction of GHG emissions, or a removal of carbon dioxide (see Carbon dioxide removals), which is used to balance out GHG emissions elsewhere. The practice of offsetting is contentious (see Section 4.1).
CBDR	Common But Differentiated Responsibilities: A principle of international environmental law, enshrined in the UNFCCC, stating that while all states share responsibility for addressing environmental problems such as climate change, obligations should reflect each country's historical emissions and capabilities. Under CBDR, high-income countries are expected to take stronger mitigation action and provide financial, technological, and capacity-building support to lower-income countries.
CDP	Formerly the Carbon Disclosure Project: Many companies report emissions as well as other details of their climate strategies to CDP. CDP provide companies with a certified rating of their level of climate transparency, which is often used in company's marketing materials.
CO_2	Carbon dioxide
COMBUSTION ENGINE VEHICLE	A motor vehicle powered by an internal combustion engine that burns fossil fuels such as petrol or diesel to generate motion. The combustion process releases carbon dioxide and other greenhouse gases, as well as air pollutants.

DACCS Direct Air Carbon Capture and Storage, see also "Carbon dioxide removals (CDR)".

DURABILITY The durability of a CDR outcome refers to the timescale and degree to which sequestered carbon remains stored and not released into the atmosphere.

EAC Energy Attribute Certificate. Other terminology for Renewable Energy Certificates (REC), see "Renewable Energy Certificates (REC)".

ENGAGEMENT POLICY Engagement policy formulates the financial institution's approach to stewardship vis-à-vis investee companies, borrowers, or clients with the objective of maximizing assets' economic, social, and/or environmental value over a certain time frame.

ETF Exchange Traded Fund. An investment fund that pools capital from multiple investors to purchase a diversified portfolio of assets—such as stocks, bonds, or commodities—and trades on stock exchanges like a single security. ETFs typically track the performance of a specific index, sector, or asset class, and allow investors to buy or sell shares throughout the trading day at market prices.

EU European Union

EXCLUSION POLICY Exclusion policy formulates the financial institution's approach and criteria applied to restrict the provision of financial services to companies or clients exposed to harmful activities.

EXPONENTIAL ROADMAP INITIATIVE A global coalition of companies committed to halving greenhouse gas emissions by 2030 and reaching net-zero by 2050, in line with the 1.5 °C goal. ERI provides practical tools such as the 1.5 °C Business Playbook to help organisations cut direct and value-chain emissions, scale climate solutions, and accelerate wider societal action.

FACILITATED EMISSIONS GHG emissions associated with capital market activities of financial institutions, in particular with banks' facilitation of securities issuances, including advising issuers on structure, pricing and process, preparing materials for, and engaging with, investors and arranging and guiding clients on roadshows. Facilitated emissions differ from financed emissions in that they are rarely held on a financial institution's balance sheet (representing services rather than financing) and that a financial institution's association with the transaction is temporary.

FINANCED EMISSIONS GHG emissions associated with financial portfolios such as loan or investment portfolios. The Partnership for Carbon Accounting Financials (PCAF) has developed a standard for financed emissions accounting which conforms with the requirements set forth in the Corporate Value Chain (Scope 3) Accounting and Reporting Standard, for Category 15 investment activities.

GFANZ A global coalition of financial institutions committed to accelerating the transition to net-zero greenhouse gas emissions by 2050. Launched at COP26 in 2021, GFANZ brings together sector-specific alliances across banking, asset management, insurance, and other finance areas to align investment and lending with science-based climate goals, support decarbonisation, and mobilise capital for the low-carbon transition.

GHG PROTOCOL The GHG Protocol is an initiative driven by the World Resources Institute and World Business Council for Sustainable Development, that provides international guidance and standards for GHG emissions accounting.

GHG Greenhouse gas. Gases in the atmosphere that trap heat and contribute to the greenhouse effect, driving global warming and climate change. Key GHGs include carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), and fluorinated gases, which vary in their sources, lifetimes, and warming potentials.

GUARANTEES OF ORIGIN (GOS) Other terminology for Renewable Energy Certificates (REC), see "Renewable Energy Certificates (REC)".

HIGH-HANGING FRUIT OF MITIGATION POTENTIAL The high-hanging fruit of mitigation potential refers to the technologies and measures to decarbonise emission sources that remain otherwise entirely inaccessible to host country governments in the near- and mid-term future, on account of high costs or other insurmountable barriers that cannot reasonably be overcome.

IEA International Energy Agency. An autonomous intergovernmental organisation that provides data, analysis, and policy advice on global energy markets. Founded in 1974, the IEA supports energy security, economic growth, and environmental sustainability, including through its authoritative reports on energy supply, demand, and clean energy transitions.

IEA NZE A detailed pathway developed by the International Energy Agency outlining how the global energy sector can achieve net-zero greenhouse gas emissions by 2050. The scenario sets out milestones for rapid deployment of clean energy technologies, energy efficiency improvements, and the phase-out of fossil fuels to limit global warming to 1.5 °C.

INTEGRITY (rating) We assess the transparency and integrity of companies' climate pledges. Integrity, in this context, is a measure of the quality, credibility and comprehensiveness of a company's approaches towards the various elements of corporate climate responsibility.

IPCC Intergovernmental Panel on Climate Change. The United Nations body responsible for assessing scientific information related to climate change. Established in 1988, the IPCC provides policymakers with regular, comprehensive reports on the causes, impacts, and potential responses to climate change, serving as the global authority on climate science.

ISO
International Organisation for Standardisation. An independent, non-governmental international body that develops and publishes voluntary standards across various industries. Established in 1947, ISO standards help ensure quality, safety, efficiency, and interoperability, including standards related to environmental management and climate action.

LOCATION-BASED METHOD (for scope 2 emissions accounting)
The location-based method for scope 2 emissions accounting reflects the average emission intensity of the electricity grid from which the consumer's energy is delivered.

MARKET-BASED METHOD (for scope 2 emissions accounting)
The market-based method for scope 2 emissions accounting reflects the emissions from electricity generation specifically procured by the consumer (which may not reflect the electricity they actually consume from a grid that features multiple buyers and sellers). It derives emission factors from contractual renewable electricity procurement instruments.

NATIONALLY DETERMINED CONTRIBUTIONS (NDCs)
Nationally determined contributions (NDCs) are the pledges made by national governments to the United Nations Framework Convention on Climate Change to mitigate climate change. The Paris Agreement requires all Parties to submit and regularly update their NDCs to represent their possible highest level of ambition. Recognising the insufficiency of climate change mitigation commitments in existing NDCs, the Glasgow Pact from COP26 urged all Parties to update their NDCs again ahead of COP27.

NATURE-BASED SOLUTIONS
Nature-based solutions refer to measures for carbon dioxide removal that involve biological carbon capture and storage in natural ecosystems, such as soils, forests, peatland and mangroves.

NEUTRALISATION
Neutralisation of emissions is usually a term that is synonymous with offsetting and refers to the balancing out of emissions released into the atmosphere with the avoidance, or removal from the atmosphere, of an equivalent volume of emissions elsewhere. Many actors now avoid the term offsetting entirely; companies and initiatives more often refer to "neutralisation", "netting-out", "compensation", "reducing the footprint", while some actors use multiple terminologies to distinguish between offsetting in different circumstances and at different times. We define all claims that unabated GHG emissions within the value chain are offset as offsetting claims, including all synonymous terminologies and all project types.

NON-GHG CLIMATE FORCERS
Non-GHG climate forcers include the emission of gases and aerosols, and processes that change cloud abundance, leading to radiative forcing. Radiative forcing is a change in the balance of radiation in the atmosphere, which contributes to global warming. For example, the non-GHG climate forcers are estimated to increase the climate impact of GHG emissions from the aviation industry by a factor of approximately 3 (Atmosfair 2016).

NZE
Net-zero emissions. The state in which the total amount of greenhouse gases emitted into the atmosphere is balanced by the amount removed, resulting in a net-zero change in atmospheric greenhouse gas levels. Achieving net-zero CO_2 emissions around mid-century and net-zero GHG emissions by 2070 is essential to limiting global warming to 1.5°C.

OECD
Organisation for Economic Co-operation and Development. An international organisation of mostly high-income countries that promotes policies aimed at improving economic growth, prosperity, and sustainable development. Established in 1961, the OECD provides data, analysis, and policy recommendations on a wide range of issues, including climate change and environmental policy.

OFFSETTING
See carbon offset credit.

PARIS AGREEMENT
An international treaty adopted in 2015 under the UNFCCC, aimed at limiting global warming to well below 2°C above pre-industrial levels, and pursuing efforts to limit it to 1.5°C. The Agreement requires countries to set nationally determined contributions (NDCs) to reduce emissions and regularly report progress, emphasising transparency, adaptation, and climate finance.

PCAF
Partnership for Carbon Accounting Financials. PCAF is a global partnership of financial institutions that developed an accounting framework for tracking and disclosing GHG emissions.

POWER PURCHASE AGREEMENT (PPA)
A PPA is a long-term contract between an electricity provider and an electricity consumer, usually spanning 10-20 years. The consumer agrees to purchase a certain amount of electricity from a specific asset under a pre-determined pricing arrangement. PPAs are generally signed with new renewable energy installations and form part of the project investment decision (NewClimate Institute and Data-Driven EnviroLab, 2020). PPAs can also be signed for existing installations, in which case it is less likely the PPA results in additional renewable electricity capacity. However, it may be that existing installations would cease operations if the operator cannot sign a new PPA.

RACE TO ZERO
A global campaign that mobilises businesses, cities, regions, and investors to commit to achieving net-zero greenhouse gas emissions by 2050 at the latest. Launched ahead of COP26, it provides a framework for credible climate action aligned with the Paris Agreement and promotes transparency, accountability, and ambition.

RENEWABLE ENERGY CERTIFICATE (REC)
Renewable Energy Certificates (RECs) are also known under various names, such as Guarantees of Origin (GOs) or Energy Attribute Certificates (EACs). RECs can be bundled or unbundled with the electricity that a company consumes:

Unbundled RECs: the consumer purchases RECs from a third party, separately from their procurement of electricity from another supplier.

Bundled RECs – third-party generated: the consumer purchases electricity and RECs from the same supplier, but this supplier has procured the RECs from a third party. In this situation, the supplier may sell electricity generated using fossil fuels but market it as 'low-carbon' electricity by bundling an equivalent volume of RECs into the sale.

Bundled RECs – supplier generated: the consumer purchases renewable electricity and associated RECs from the same supplier.

RESIDUAL EMISSIONS
Residual emissions are the remaining GHG emissions from hard-to-abate emission sources where no known feasible options remain for further decarbonisation. (See also unabated emissions)

SCARCITY (of CDR)
The maximum potential of most carbon dioxide removal measures is technically limited, and even further restricted by environmental constraints. Due to issues such as land requirements, high water consumption, high energy consumption, land degradation and pollution, among other environmental costs, carbon dioxide removal technologies can only be scaled-up so far without significantly endangering sustainable development goals, including food security. The scarcity of carbon dioxide removal measures – in terms of their maximum absolute or annual technical potential – is an important consideration when evaluating the feasibility of net-zero claims at the level of individual actors. Robust future use of scarce carbon dioxide removal options must be consistent with achieving net-zero and eventually net-negative emissions at the global level, which is required to avoid the most damaging effects of climate change over the coming decades.

SCIENCE BASED TARGETS INITIATIVE (SBTI)
SBTi reviews and certifies the climate targets of companies who join the initiative as members. Companies' climate targets are certified as 1.5°C or 2°C compatible if they align with SBTi's own methodology and benchmarks.

SCOPE (of GHG emissions)
The GHG Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes' (GHG Protocol, 2004).

SCOPE 1 EMISSIONS
Scope 1 emissions are direct emissions from owned or controlled sources.

SCOPE 2 EMISSIONS
Scope 2 emissions are indirect emissions from the generation of purchased energy (see also location-based method and market-based method).

SCOPE 3 EMISSIONS
Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions (GHG Protocol, 2013).

UPSTREAM SCOPE 3 EMISSION SOURCES
Upstream emissions are indirect GHG emissions related to purchased or acquired goods and services (GHG Protocol, 2013).

DOWNSTREAM SCOPE 3 EMISSION SOURCES
Downstream emissions are indirect GHG emissions related to sold goods and services (GHG Protocol, 2013).

NORMAL SCOPE 3 EMISSION SOURCES
The GHG Protocol's Scope 3 Standard identifies 15 distinct reporting categories for scope 3 emission sources, and requires companies to quantify and report scope 3 emissions from each category (GHG Protocol, 2013).

OPTIONAL SCOPE 3 EMISSION SOURCES (indirect use-phase emissions)
Indirect use-phase emissions are described by the GHG Protocol Scope 3 Standard (GHG Protocol, 2013) as an optional reporting component. In contrast to direct use-phase emissions from products, such as the energy consumption of vehicles and appliances, indirect use-phase emissions refer to the emissions that occur indirectly from the use of a product. For example, apparel requires washing and drying; soaps and detergents are often used with heated water.

TRANSPARENCY (rating)
We assess the transparency and integrity of companies' climate pledges. Transparency ratings refer to the extent to which a company publicly discloses the information necessary to fully understand the integrity of that company's approaches towards the various elements of corporate climate responsibility.

UN
United Nations

UNABATED EMISSIONS
Unabated emissions are GHG emissions from emission sources for which further emission reductions are technically feasible at that point in time. (See also residual emissions)

UNFCCC
United Nations Framework Convention on Climate Change

UNGP
United Nations Guiding Principles on Business and Human Rights

UN HLEG (on net-zero targets)
United Nations High-Level Expert Group. A panel of experts convened to provide guidance on the integrity, transparency, and credibility of net-zero greenhouse gas emissions targets. The HLEG develops recommendations and frameworks to ensure that net-zero commitments by governments, companies, and financial institutions are science-based and effectively contribute to climate goals.

VALUE CHAIN EMISSIONS
A company's full value chain emissions refers to the entirety of scope 1, scope 2, and scope 3 emissions.

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