SWISS CLIMATE SCORES

Best practice transparency on the Paris alignment of investments

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Best practice transparency for Paris aligned investing
Greenhouse Gas Emissions
Greenhous gas emissions intensity & footprint of portfolio
Global warming potential
The level of global warming that would occur if the global economy acted with the same ambition as the companies in the portfolio intend to act.
Exposure to fossil fuel activities
Share of companies in portfolio with activities in coal and other fossil fuels.
Verified commitments to net-zero
Share of companies in portfolio with verified commitments to net-zero and credible interim targets.
Management to net-zero
Investment strategy with a goal to reduce the carbon emissions of its underlying investments. Verified commitment to net-zero.
Credible climate stewardship
Share of companies currently under active climate engagement. Climate votes supported. Membership of a climate engagement initiative.
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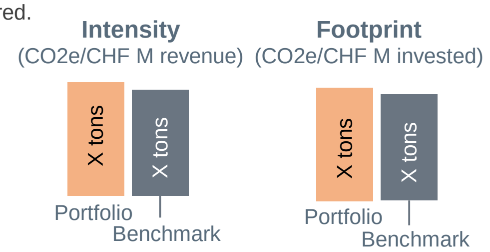
Switzerland and its financial market are committed to transitioning to net-zero greenhouse gas emissions by 2050. This is needed to honour its obligations under the Paris Agreement of holding the increase in the global temperature to well below 2°C and pursuing efforts to limit it to 1.5°C. Current science indicates that global warming beyond 1.5°C has potentially catastrophic impacts on the natural world and human society.

The Swiss climate scores establish best-practice transparency on the Paris-alignment of financial investments to foster investment decisions which contribute to reaching the climate goals.

CURRENT STATE

Greenhouse Gas Emissions

All sources of greenhouse gas emissions from invested companies (scope 1-3), including relevant emissions of their suppliers and products, are measured.



Benchmark: **[relevant benchmark name]**

Portfolio assets covered by assessment: **X%**

! **Medium** estimation uncertainty

Exposure to Fossil Fuel Activities

There is scientific consensus of the need to phase-out coal and stop financing new fossil fuel projects. Below figures show the share of investments into companies that earn more than 5% of their revenues from such business activities.

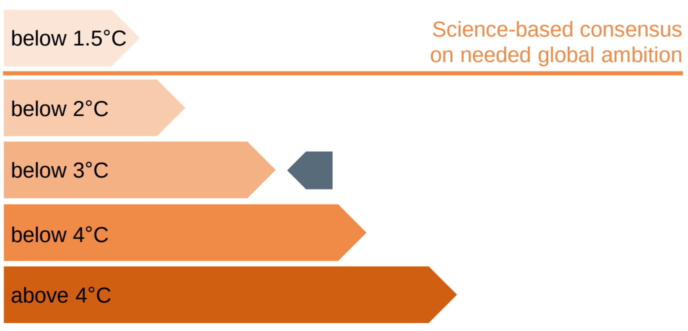
Share of investments into companies with activities in:

- coal: **X%**
- other fossil fuels: **X%**

! **Low** estimation uncertainty

TRANSITION TO NET ZERO

Global Warming Potential (optional)



This is the level of global warming that would occur if the global economy acted with the same ambition as the companies in the portfolio intend to act. Some portfolios with climate objectives may intentionally include investments in companies that are not yet on track to 1.5°C, seeking to contribute actively to climate goals by improving the alignment of investee companies so as to bring a larger share of the economy into alignment over time.

Portfolio assets covered by assessment: **X%**

Climate scenarios used: **[original source]**

Data provider: **[provider name]**

! **High** estimation uncertainty

Verified Commitments to Net-Zero

Increasingly companies commit voluntarily to transition to net-zero and set interim targets. The effectiveness of such commitments depends on whether interim targets are credible, science-based, and transparent.

- Share of companies in portfolio with verified commitments to net-zero and credible interim targets: **X%**

! **Low** estimation uncertainty

Management to Net-Zero

Financial institutions can contribute to the transition to net-zero, by aligning their investment strategy with a consistent 1.5°C decarbonisation pathway.

- Does the investment strategy include a goal to reduce the greenhouse gas emissions of its underlying investments through concrete short (1-3 years) or mid-term (5 years) targets? **NO/YES**

  [if YES:] Average annual reduction path: **X% (incl./excl. relevant Scope 3)**
- Is the portfolio part of a third-party verified commitment to net-zero by the financial institution, including credible interim targets? **NO/YES**

Credible Climate Stewardship

Financial institutions can contribute to the transition to net-zero, by engaging with invested companies on third-party verified, science-based net-zero aligned transition plans until 2050.

- Are companies in the portfolio subject to credible stewardship on climate transition? **NO/YES**

  [if YES:] Share of companies currently under active climate engagement: **X%**

  [if YES:] Share of climate votes supported: **X%**

  [If YES:] **Link climate stewardship strategy and report**
- Is the financial institution a member of a climate engagement initiative? **NO/YES** [if YES:], **Name**

! **Medium** estimation uncertainty

The combined set of indicators above, their display, and the below minimum criteria for these indicators are considered by the Swiss government as current best practice to establish transparency on the alignment with global climate goals. The Federal Council recommends to all financial institutions such transparency on all investment products and investment management mandates, where applicable.

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MINIMUM CRITERIA FOR THE SWISS CLIMATE SCORES

Greenhouse Gas Emissions

Hard requirements:

- Inclusion of scope 1, 2, and relevant scope 3.
- Inclusion of scope 3 emissions must at a minimum be aligned to the schedule described in the EU benchmark regulation 2019/2089.

Exposure to Fossil Fuel Activities

Hard requirements:

- The threshold of 5% of revenues applies both to activities directly linked with the exploration and production of fossil fuels and, if data is readily available, activities financing such production (for coal, according to the global coal exit list or similar).
- The scope of activities includes the whole value chain, ranging from exploration, extraction, and production (upstream) to transportation and storage (midstream) and refining, marketing, and electrification (downstream).

Verified Commitments to Net-Zero

Hard requirements:

- Companies must have publically communicated a pledge to reach net-zero and have near-term targets be certified by one of the following providers:
    - Science based targets initiative (SBTi).

Management to Net-Zero

Hard requirements:

- To include portfolios as being part of a third-party verified commitment to net-zero, they must be part of the publicly communicated net-zero targets under one of the sector-specific alliances of the Glasgow Financial Alliance for Net-Zero (GFANZ).
- If the claim is made that the investment strategy includes a goal to reduce the portfolio's greenhouse gas emissions, or those of its underlying investments, included scope 3 emissions must at a minimum be aligned to the schedule described in the EU benchmark regulation 2019/2089.

Credible Climate Stewardship

Hard requirements:

- Votes/proxy votes should be consistent with the ambition of reaching net-zero by 2050.
- Any linked climate engagement strategy should be consistent with the ambition of reaching net-zero by 2050. An example for a climate engagement initiative is Climate Action 100+
- The escalation procedure is clearly defined and made transparent.

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Global Warming Alignment (optional)

Hard requirements, for data providers:

- Be guided by the goal to achieve net zero emissions by 2050, consistent with the 1.5°C warming limit of the Paris Agreement and in line with the latest IPCC findings.
- Comply with the technical considerations of the TCFD 2021 PAT report "Measuring Portfolio Alignment – technical considerations". In particular, comply with:
    - Select a 1.5°C scenario that complies, at a minimum, with the scenario selection criteria set out by the Science Based Targets initiative (SBTi) in their document Foundations of Science-Based Target Setting (consideration 7).
    - Prioritize granular benchmarks where they meaningfully capture material differences in decarbonization feasibility across industries or regions (Consideration 8).
    - Include Scope 3 emissions for the sectors for which they are most material and for which benchmarks can be easily extracted from existing scenarios (fossil fuels, mining, automotive) (Consideration 11).
- Permit the Swiss government to disclose aggregate implied temperature scores based on your methodology on the following indices, to compare them with other providers: SMI, MSCI World, MSCI World Materials, MSCI World Industrials, MSCI World Utilities, MSCI World Real Estate.

Important, but not hard requirements, for data providers:

Benchmark used:

- At a minimum, a sub-industry level approach based on external, replicable, scientific sources to benchmarking should be used for high-emitting sectors, with companies allocated a 'fair share' of the global carbon budget based on their mix of activities.
- Climate solutions, especially for the electricity sector should also be covered and compared with the respective scenario, as the scale up of renewable power is a key factor to transition according to the IEA.

Company long-term targets, near-term action and data sources:

- Assess the credibility of companies' emission reduction plans and take into account whether they are externally validated (such as by SBTi) to be science-based, in line with the goal of achieving net zero by 2050.
- Include near-term CapEx plans and validate, if the long-term commitments match with the short term action.
- Use third-party validated data on asset level base where possible. Be as transparent as possible on data sources.
- Inclusion of scope 3 emissions must at a minimum be aligned to the schedule described in the EU benchmark regulation 2019/2089.
- Do not allow for avoided emissions data at corporate level, given the lack of standards around corporate level avoided emissions reporting and the technical challenges and issues related to such calculation. Account instead for climate solutions, at minimum for renewable power.

To calculate portfolio alignment:

- Implied temperature scores should be calculated using a confidence level of 66%, rather than 50%.
- Calculate warming scores on a cumulative-emissions basis until 2050, in order to accommodate appropriately the physical relationship between cumulative emissions and warming outcomes.