

Paris Agreement Capital Transition Assessment (PACTA)

Organization

2 Degrees Investing Initiative

Partner organizations

Asset Resolution

Summary

The Paris Agreement Capital Transition Assessment (PACTA) examines what needs to happen in climate-relevant sectors to minimize global temperature rise and compares that with financial institutions' exposure to companies in these sectors. It employs a dynamic, forward-looking approach, based on the five-year production plans of companies to which a portfolio is exposed. The methodology measures alignment per sector or per technology because what needs to happen to meet the goals of the Paris Agreement varies by sector.

The climate-relevant sectors currently covered by PACTA are power, coal mining, oil and gas upstream sectors, automobile manufacturing, cement, steel, and aviation, with the shipping industry to be added soon. Collectively, these sectors account for about 75 percent of global greenhouse gas emissions. A critical feature of PACTA is that it relies on global physical asset-level data as the core analytical concept, which provides granular, regional, sector-specific, and forward-looking production pathways that can be compared with various scenarios. This core alignment functionality is complemented by a stress-testing module for investors that measures various climate scenarios' influence on asset prices.

Climate Focus

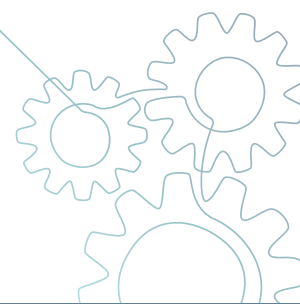


Resource Type



Intended Users





Paris Agreement Capital Transition Assessment (PACTA)

WHO	The tool is designed primarily for financial institutions, but it can also be used by financial supervisors and regulators.
WHAT	<ul style="list-style-type: none"> • The tool allows financial institutions to measure the relative exposure of investment portfolios and corporate loan books to climate-relevant sectors and technologies. • The alignment of exposures is measured on a five-year forward-looking basis using high-quality, asset-level production forecast data for each company in a portfolio, compared against the sectoral decarbonization pathways of selected climate change scenarios. • Alignment is measured using actionable metrics that can support and steer decision-making. • Scenarios can be selected to reflect the climate goals of the financial institution (e.g., 2°C Paris Agreement alignment, 1.5°C, net zero).
WHEN	<p><i>PACTA can be used for a variety of applications, including:</i></p> <ul style="list-style-type: none"> • Measuring exposure to risks associated with the transition to a low-carbon economy • Decision-making on sectoral portfolio allocations and corporate lending • Obtaining relevant data to support shareholder engagement, including the tracking of alignment based on production-based metrics • Implementing the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) • Supporting compliance with related reporting and disclosure regulations (Article 173 of France’s Law on Energy Transition for Green Growth, upcoming EU disclosure requirements, and more) • Assessing the entities regulated by governments and supervisors for alignment with climate benchmarks
WHERE	<ul style="list-style-type: none"> • The climate-relevant sectors currently covered by PACTA are power generation, coal mining, oil and gas upstream sectors, automobile manufacturing, cement, steel, and aviation, with shipping to be added soon. • PACTA currently measures the alignment of exposures for equities and bonds, as well as corporate lending.
WHY	<ul style="list-style-type: none"> • Financial institutions are increasingly expected to consider climate change transition risk in their operations due to factors including regulatory compliance, disclosure requirements, retail and institutional clients, and investor fiduciary duty. • Financial supervisors and regulators are also becoming increasingly concerned by climate-related risks, with stakeholders including the Network for Greening the Financial System (NGFS) calling for climate risks to be integrated into financial stability monitoring and supervision.
HOW	More information can be found at PACTA’s website .