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ANNEX

ANNEX

to the

**Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE
COUNCIL**

**amending Regulation (EU) 2016/1011 on low carbon benchmarks and positive carbon
impact benchmarks**

{SEC(2018) 257 final} - {SWD(2018) 264 final} - {SWD(2018) 265 final}

ANNEX

Low-carbon and positive carbon impact benchmarks

METHODOLOGY FOR LOW CARBON BENCHMARKS

1. The administrator of a low-carbon benchmark shall formalise, document and make public any methodology used for the calculation of low carbon benchmarks, describing the following:
 - (a) the list of the underlying assets that are used for calculating the low carbon benchmark;
 - (b) all criteria and methods, including selection and weighting factors, metrics, proxies used in the benchmark calculation;
 - (c) the criteria applied to exclude assets or companies that are associated with a level of carbon footprint or a level of fossil reserves that are incompatible with inclusion in the low carbon benchmark;
 - (d) the criteria for and the methods of how the low carbon benchmark measures the carbon footprint and carbon savings associated with the underlying assets in the index portfolio;
 - (e) the tracking error between the low carbon benchmark and the parent index;
 - (f) the positive reweighting of low-carbon assets in the low carbon benchmark versus the parent index and the explanation of why this reweighting is necessary to reflect the chosen objectives of the low carbon benchmark;
 - (g) the ratio between the market value of the securities that are in the low carbon benchmark and the market value of the securities in the parent index;
 - (h) the type and source of input data used for the selection of assets or companies eligible for the low carbon benchmark, including:
 - (i) emissions from sources that are controlled by the company;
 - (ii) emissions from the consumption of purchased electricity, steam, or other sources of energy generated upstream from the company;
 - (ii) emissions that are a consequence of the operations of a company but that are not directly controlled by the company;
 - (iv) emissions which would continue to exist if the company's products or services would be replaced by more carbon emitting substitutes ('emission savings');
 - (v) whether the input data uses the Product and Organisation Environmental Footprint methods as defined in points (a) and (b) of point 2 of Commission Recommendation 2013/179/EU;
 - (i) the total carbon-footprint exposure of the index portfolio and the estimated impacts on climate-change mitigation of the low carbon strategy pursued by the benchmark;

- (j) the rationale for adopting a particular low-carbon methodology strategy or objective and an explanation of why the methodology is appropriate for the calculation of the low-carbon objectives of the benchmark;
- (k) the procedure for internal review and approval of a given methodology, as well as the frequency of such internal review.

Methodology for positive carbon impact benchmarks

- 2. The administrator of a positive carbon impact benchmark, in addition to the obligations applicable to the administrator of a low carbon benchmark, shall disclose the positive carbon impact of each underlying asset included in the benchmark and shall specify the formula or calculation that is used to determine whether the emission savings exceed the investment asset's or company's carbon footprint ('positive carbon impact ratio').

Changes to the methodology

- 3. Administrators of low-carbon and positive carbon impact benchmarks shall adopt and make public to users procedures for and the rationale of any proposed material change in their methodology. Those procedures shall be consistent with the overriding objective that benchmark calculations adhere continuously to the low-carbon or positive carbon impact objectives. Those procedures shall provide:
 - (a) advance notice in a clear time frame that gives users sufficient opportunity to analyse and comment on the impact of such proposed changes, having regard to the administrators' calculation of the overall circumstances;
 - (b) for the possibility for users to comment on those changes and for the administrators to respond to those comments, where those comments shall be accessible for all market users after any given consultation period, except where the commenter has requested confidentiality.
- 4. Administrators of low-carbon and positive carbon impact benchmarks shall regularly examine their methodologies to ensure that they reliably reflect the relevant low-carbon or positive carbon objectives and shall have a process in place for taking the views of relevant users into account.”.