

# IFC Climate Governance Progression Matrix



*Creating Markets, Creating Opportunities*

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## A. Commitment to Climate Governance (Leadership, Culture, and Purpose)

	1. Basic Practices	+	2. Intermediate Practices	+	3. Good International Practices	+	4. Leadership
Formalities	<ol style="list-style-type: none"> <li>1. Awareness of impact and commitment to action on climate-related adaptation and mitigation and/or written policies that address climate change.</li> <li>2. Compliance with jurisdictional climate-related law, regulations, and rules, as applicable, and commitment to action on climate-related adaptation and mitigation.</li> </ol>		<ol style="list-style-type: none"> <li>1. Corporate Governance (CG) code, policies, and/or procedures that address governance of climate matters and commitment to action on climate-related adaptation and mitigation.</li> </ol>		<ol style="list-style-type: none"> <li>1. Impact of significant climate-related impacts, risks, and opportunities incorporated into Company's business model, strategy, financial planning, and decision making.<sup>1</sup></li> <li>2. Management assesses and manages short-, medium-, and long-term materiality of climate-related risks and opportunities for Company and Company's actions and responses to climate-related risks and opportunities are proportionate to materiality of climate change to Company.</li> </ol>		<ol style="list-style-type: none"> <li>1. Company business model incorporates climate-related adaptation and mitigation.</li> </ol>
Code of Ethics and Culture			<ol style="list-style-type: none"> <li>2. Code of conduct or ethics or other company policy precludes Company from lobbying activities and membership in organizations that deny climate change.</li> </ol>		<ol style="list-style-type: none"> <li>3. Code of conduct or ethics or other Company policy includes provisions that leverage Company's buying power to influence shifts toward low-carbon supply chain that consider reducing greenhouse gas (GHG) emissions in the product lifecycle.</li> </ol>		<ol style="list-style-type: none"> <li>2. Code of conduct or other Company policy explicitly includes considerations of fiduciary duty, duty of care, and due diligence pertaining to climate-related adaptation and mitigation.</li> </ol>
Designated Officer or Function					<ol style="list-style-type: none"> <li>4. Officer reviews climate-related risks and opportunities as part of Company's internal functions.</li> </ol>		<ol style="list-style-type: none"> <li>3. Dedicated individual is trained on climate-related adaptation and mitigation and designated as a climate lead or equivalent.</li> </ol>

<sup>1</sup> See International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards ([IFRS S1 General Sustainability-related Disclosures](#) and [IFRS S2 Climate-related Disclosures](#)) and Task Force on Climate-Related Financial Disclosures (TCFD) Implementation (Strategy) 2022 Status Report, hereinafter "TCFD Implementation Strategy" available at: <https://assets.bbhub.io/company/sites/60/2022/10/2022-TCFD-Status-Report.pdf>.

	1. Basic Practices	+	2. Intermediate Practices	+	3. Good International Practices	+	4. Leadership
Recognition <sup>2</sup>			<ol style="list-style-type: none"> <li>Publicly recognized as national leader in climate-related adaptation and mitigation.</li> </ol>		<ol style="list-style-type: none"> <li>Publicly recognized as regional leader in climate-related adaptation and mitigation and carbon neutrality.</li> <li>Climate-related metrics and targets, quantitative where possible and based on accepted methodologies, are set and publicly disclosed.<sup>3</sup></li> <li>Net-zero climate targets adopted and/or company is a member of an internationally recognized net-zero initiative.</li> <li>Industry-specific sustainability certification that addresses climate-related adaptation and mitigation obtained.</li> </ol>		<ol style="list-style-type: none"> <li>Publicly recognized as global leader in climate-related adaptation and mitigation and carbon neutrality.</li> </ol>

## B. Structure and Functioning of Board of Directors

	1. Basic Practices	+	2. Intermediate Practices	+	3. Good International Practices	+	4. Leadership
Committees <sup>4</sup>			<ol style="list-style-type: none"> <li>Informal or <i>ad hoc</i> advisory committee of internal and external experts on climate change established or climate-related factors incorporated into responsibilities of established committees.</li> <li>Board and committees leverage internal functions (notably internal audit and risk) and specialists to incorporate climate-related risks and opportunities.</li> </ol>				<ol style="list-style-type: none"> <li>Board committee charged with overseeing climate-related risks and opportunities (composed of a majority of nonexecutive directors, including Chair).</li> </ol>

<sup>2</sup> Recognition of leadership is based on Company's overall climate change action record and objectives, which go beyond climate governance standards.

<sup>3</sup> Such methodologies include but are not limited to [Greenhouse Gas Protocol](#) and [Science-based Target Initiative](#) (SBTi). See TCFD Implementation Strategy.

<sup>4</sup> Committee practices as related to specific roles in climate are detailed in the Control Environment section of the matrix.

	1. Basic Practices	+	2. Intermediate Practices	+	3. Good International Practices	+	4. Leadership
Oversight of Climate-related Mitigation and Adaptation	<ol style="list-style-type: none"> <li>1. Board oversees that climate-related risks and opportunities have been identified and assessed.</li> <li>2. Board is trained on general E&amp;S and climate-related risks and opportunities.</li> </ol>		<ol style="list-style-type: none"> <li>3. Board monitors whether or not Company engages in lobbying activities—directly or via industry associations— that deny climate change or subvert the fight against climate change.</li> <li>4. Board oversees that management: (a) develops management systems, (b) assigns required resources, and (c) establishes that budget are in place to identify and manage climate-related risks and opportunities, including reduction of GHG emissions.</li> <li>5. Board engages an expert advisor on climate-related risks and opportunities.</li> </ol>		<ol style="list-style-type: none"> <li>1. Climate-related risks and opportunities are recurring board agenda items.<sup>5</sup></li> <li>2. Board is regularly trained on sector-specific climate-related risks and opportunities.</li> <li>3. Board monitors that company strategy, business model, and financial planning in short, medium, and long term include broad, integrated consideration of environmental, social, and governance (ESG); including climate-related risks and opportunities.<sup>6</sup></li> <li>4. At least one director has experience overseeing climate-related risks and opportunities.</li> </ol>		<ol style="list-style-type: none"> <li>2. Board monitors that advancing to net-zero climate targets is part of Company strategy.</li> <li>3. Board monitors and oversees progress against goals and science-based targets for addressing climate-related issues including climate-related adaptation and mitigation.<sup>7</sup></li> <li>4. Board oversees that management has set an internal price on carbon to understand how climate change affects Company now and in the future.<sup>8</sup></li> </ol>
Evaluation and Performance					<ol style="list-style-type: none"> <li>5. Board evaluation includes consideration of climate-related risks and opportunities.</li> </ol>		<ol style="list-style-type: none"> <li>5. Board and executive incentives are aligned to promote the purpose, strategy, and long-term prosperity of Company and include climate-related targets and indicators in remuneration policies and executive incentive schemes to achieve net zero.</li> </ol>

<sup>5</sup> Id.

<sup>6</sup> Id.

<sup>7</sup> See TCFD Implementation Strategy.

<sup>8</sup> Id.

## C. Control Environment (Internal Control System, Internal Audit Function, Risk Governance, Compliance)

	1. Basic ESG Practices	+	2. Intermediate ESG Practices	+	3. Good International Practices	+	4. Leadership
Internal Controls			<ol style="list-style-type: none"> <li>Climate-related risks and opportunities incorporated into internal control policies and procedures (e.g., procurement policy revised to ensure E&amp;S and climate-related risks and opportunities across Company's operations and value chain are captured adequately).</li> <li>Board has empowered management to ensure that employees are trained on industry climate-related issues.</li> <li>Controls developed to respond to climate-related requests from customers and other stakeholders.</li> </ol>		<ol style="list-style-type: none"> <li>Structures and activities patterned after the "Three Lines Model" are developed to address key climate-related risks and opportunities.</li> <li>Climate-related internal control procedures extended to contractors, subcontractors, third parties, suppliers, supply chain workers, and value chain as relevant.</li> </ol>		<ol style="list-style-type: none"> <li>Audit Committee monitors corrective action on internal controls implementation for the Company and on related stakeholders (e.g., contractors, subcontractors, third parties, supply chain, supply chain workers, and value chain, as relevant) for climate-related control deficiencies identified in internal audit reports.</li> </ol>
Internal Audit	<ol style="list-style-type: none"> <li>Internal audit reports to Audit Committee on completeness of climate-related information required by regulators, as applicable.</li> </ol>		<ol style="list-style-type: none"> <li>Internal audit includes periodic audit of implementation of climate-related data, risk register, policies, procedures, and controls.</li> <li>Internal audit conducts consulting engagements related to climate-related risks.</li> <li>Internal audit reviews key climate-related information and data (e.g., information disclosed to capital markets) for accuracy and verifiability.</li> </ol>		<ol style="list-style-type: none"> <li>Climate-related risks, including physical and transitional, and Company's adaptation plans are embedded in risk assessments of audits, as appropriate.<sup>9</sup></li> <li>Internal audit assesses whether mitigating actions related to climate change are being implemented effectively within Company.<sup>10</sup></li> <li>Internal audit reviews climate-related data, including climate-related risks and opportunities, before they are disclosed publicly.<sup>11</sup></li> </ol>		<ol style="list-style-type: none"> <li>Internal audit provides quality assurance, aligned with enforceable and leading disclosure standards, for climate-related data reported.</li> <li>Internal audit routinely audits climate-related aspects of governance, strategy, risk management, metrics, and targets.</li> <li>Internal audit routinely communicates with board and management on its activities related to physical and transitional risks.</li> <li>Internal audit addresses distinct challenges of auditing climate-related opportunities and forward-looking statements and commitments in the public domain and routinely evaluates these in all aspects of the internal audit function (e.g., planning, audits, communications).</li> </ol>

<sup>9</sup> Chartered Institute of Internal Auditors, The Climate Group. "Organizations' Preparedness for Climate Change: An Internal Audit Perspective." 2021.

<sup>10</sup> Id.

<sup>11</sup> Id.

	1. Basic ESG Practices	+	2. Intermediate ESG Practices	+	3. Good International Practices	+	4. Leadership
Risk Governance			<ul style="list-style-type: none"> <li>7. Board monitors whether or not climate-related risks are integrated into Company's overall risk management framework and adaptation measures are implemented.<sup>12</sup></li> <li>8. Risk management function periodically updates Company's risk register for climate-related risks.</li> </ul>		<ul style="list-style-type: none"> <li>6. Climate-related risks include physical and transition risks.<sup>13</sup> Board is provided with full assessment of climate-related risks and opportunities related to Company's products, services, emissions, and physical footprint and their potential impact on Company's financial position and current strategy.<sup>14</sup> Board monitors whether or not that adequate mitigation measures are implemented.</li> <li>7. Short-, medium-, and long-term time horizons for climate risks are incorporated into risk management processes.</li> <li>8. Board, Risk Management Committee, or other specialized committee oversees that management conducts an annual scenario analysis to evaluate company's resilience, including a 1.5°C to 2°C or lower scenario.</li> </ul>		<ul style="list-style-type: none"> <li>6. Climate-related adaptation and mitigation are incorporated into Company's risk governance framework.</li> <li>7. Board, Risk Management Committee, or other specialized committee oversees that management conducts annual scenario analysis to evaluate company resilience, including a 2°C or lower scenario and a current policy pathway.<sup>15</sup></li> </ul>
Compliance			<ul style="list-style-type: none"> <li>9. Comprehensive compliance program annually reviewed, with mechanisms to report wrongdoing and misconduct related to climate-related compliance lapses.</li> <li>10. Compliance function monitors compliance with climate policies and procedures and code of ethics or conduct.</li> </ul>		<ul style="list-style-type: none"> <li>9. Compliance program incorporates Company's climate-related compliance risks and is coordinated with risk management framework.<sup>16</sup></li> <li>10. Board, management, and employees receive periodic training in climate-related compliance issues.</li> </ul>		<ul style="list-style-type: none"> <li>8. Compliance program is applied to contractors, subcontractors, and suppliers.</li> <li>9. Stakeholders (e.g., contractors, subcontractors, third parties, suppliers, supply chain workers) receive periodic training in climate change compliance programs.</li> </ul>

<sup>12</sup> Adapted from World Economic Forum Climate Governance, Principle 5.

<sup>13</sup> See Alan Meyer, Eleanny Wernecke, and Pippa Black. Climate and Compliance: The Time to Engage is Now! Oliver Wyman, 2021, available at: <https://www.oliverwyman.com/our-expertise/insights/2021/oct/climate-and-compliance.html#:~:text=Climate%20And%20Compliance&text=The%20time%20to%20engage%20is%20now!&text=Climate%20change%20is%20a%20reality,for%20investments%20in%20climate%20mitigation>. Physical risks are defined as severe weather events that may have a direct impact on buildings or other physical assets of the company, its third parties, or the communities it operates in, thereby altering its operations. Transition risks are defined as risks related to the economy's transition to lower carbon emissions; assets may incur losses with exposure to companies with business models that are not built around low carbon strategies. These companies may experience disruptions in business and incur higher costs of funding, litigation or experience lower revenues as policy changes and consumer demands shift towards a low carbon economy.

<sup>14</sup> Chartered Institute of Internal Auditors, The Climate Group. 2021. "Organizations' Preparedness for Climate Change: An Internal Audit Perspective." 2021.

<sup>15</sup> See TCFD Implementation Strategy.

<sup>16</sup> Adapted from Chartered Institute of Internal Auditors, The Climate Group. "Organizations' Preparedness for Climate Change: An Internal Audit Perspective." 2021. pp. 7-8.



1. Basic ESG Practices



2. Intermediate ESG Practices



3. Good International Practices



4. Leadership

External Audit			<p><b>11.</b> Board or committee charged with overseeing sustainability reporting oversees the level of assurance, limited or reasonable, that third-party assessor provides on the assessment of climate-related risks and their potential impact on the financial position.</p>
Integration of E&S and Climate-related Adaptation		<p><b>11.</b> Board or Sustainability Committee monitors that management takes corrective action on climate-related deficiencies.</p>	<p><b>12.</b> Climate-related activities are highly integrated, effective, and efficient to support strategic and operational business objectives, and controls support objectives.</p> <p><b>13.</b> Comprehensive Environmental &amp; Social Management System (ESMS) integrated into the risk-management framework, and E&amp;S and climate-related risks are part of establishing risk appetite.</p>
Subsidiary Governance			<p><b>10.</b> Group Board is responsible for approving group's climate-related strategy and policies and overseeing performance and alignment with all entities within the group.</p>

## D. Disclosure and Transparency

	1. Basic ESG Practices	+	2. Intermediate ESG Practices	+	3. Good International Practices	+	4. Leadership
Climate-related Disclosure	<ol style="list-style-type: none"> <li>Climate-related disclosure, if any, follows minimum national requirements, or if respective jurisdiction has no related climate-related requirements, climate-related risks, opportunities, and linked impacts disclosed in separate sustainability or Task Force on Climate-Related Financial Disclosures (TCFD) or climate-related report.</li> </ol>		<ol style="list-style-type: none"> <li>Climate-related risks, opportunities, and impacts, including GHG emissions, disclosed in Company's Annual Report.</li> <li>Climate governance, strategy, and climate-related risk management activities disclosed.</li> <li>Methodology used to calculate GHG emissions disclosed.</li> </ol>		<ol style="list-style-type: none"> <li>Material climate-related financial information about Company's strategy, governance, risk management, metrics, and targets disclosed in Company's Annual Report and is part of financial filings.<sup>17</sup></li> <li>Reports on targets set for addressing climate-related risks and opportunities, objective and period they apply to, progress toward achieving targets and net zero, and interim targets and how they compare with Paris Agreement disclosed.<sup>18</sup></li> <li>Scenario analysis and cross-industry climate-related metrics, including how scenarios are identified, as appropriate for selection and application, disclosed.<sup>19</sup></li> <li>ESG/sustainability, and climate reporting includes operations and activities of all material subsidiaries.</li> <li>At minimum, negative or limited assurance on sustainability reporting and climate-related disclosures obtained.</li> <li>Disclosures aligned with the five elements of high-quality mandatory disclosure that CDP recommends.<sup>20</sup></li> <li>Transition plans disclosed and follow general guiding principles by CDP.<sup>21</sup></li> <li>Company discloses GHG Scope 1 (direct) and Scope 2 (indirect) emissions on an intensity and absolute basis.<sup>22</sup></li> </ol>		<ol style="list-style-type: none"> <li>Three-year history of disclosing climate-related data available.</li> <li>Climate-related disclosure is in accordance with generally accepted international baseline and standards.<sup>23</sup></li> <li>Commitment to achieve net zero by 2050 or earlier disclosed.</li> <li>Interim targets to manage climate-related risks, opportunities, and impacts to reduce GHG emissions disclosed.<sup>24</sup></li> <li>Material GHG Scope 3 emissions and material upstream and downstream Scope 3 emissions disclosed.<sup>25</sup></li> <li>ESG and climate-related data are subject to annual reasonable assurance attestation by an independent provider under International Auditing and Assurance Standards Board IAASB Standards<sup>26</sup> or International Standard on Assurance Engagements ISAE 3000 and/or ISAE 3410.<sup>27</sup></li> </ol>

<sup>17</sup> See TCFD Implementation Strategy.

<sup>18</sup> Id.

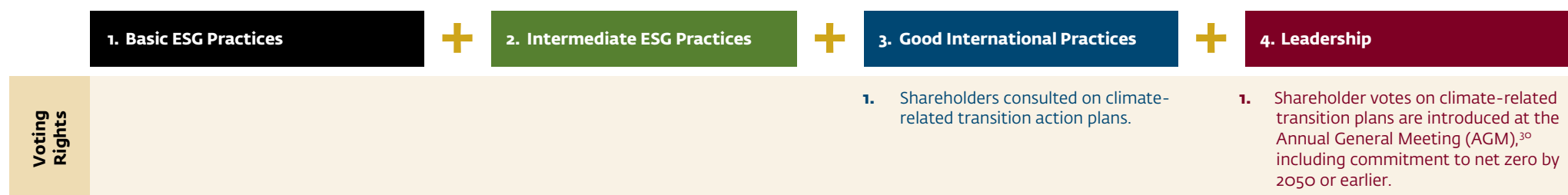
<sup>23</sup> The internationally recognized standards include but are not limited to the [International Sustainability Standards Board \(ISSB\)](#), [Global Reporting Initiative \(GRI\)](#), [CDP](#), [Task Force on Climate-related Financial Disclosure \(TCFD\)](#), and [European Union Corporate Sustainability Reporting Directive \(CSRD\)](#) European Sustainability Reporting Standards (ESRS) [ESRS E1 Climate Change](#).

<sup>24</sup> Id.

<sup>25</sup> This should include financed emissions for financial institutions based on a widely accepted methodology, such as [Partnership for Carbon Accounting Financials \(PCAF\)](#).



### E. Treatment of Minority Shareholders



<sup>22</sup> See Transition Pathway Initiative, State of Transition Report, 2021, available at: <https://www.transitionpathwayinitiative.org/publications/82.pdf?type=Publication>, IFRS S2 Climate-related Disclosures, European Sustainability Reporting Standards (ESRS) E1 Climate Change Draft, US Securities and Exchange Commission proposed climate rule

<sup>23</sup> The internationally recognized standards include but are not limited to the [International Sustainability Standards Board](#) (ISSB), [Global Reporting Initiative](#) (GRI), [CDP Task Force on Climate-related Financial Disclosure](#) (TCFD), and [European Union Corporate Sustainability Reporting Directive](#) (CSRD) European Sustainability Reporting Standards (ESRS) [ESRS E1 Climate Change](#).

<sup>24</sup> Id.

<sup>25</sup> This should include financed emissions for financial institutions based on a widely accepted methodology, such as [Partnership for Carbon Accounting Financials](#) (PCAF).

<sup>26</sup> See International Standards on Auditing (ISA) most relevant to climate change risks: 200, 250, 260, 315, 320, 330, 450, 540, 570, 620, 700, 701, 705, 720.

<sup>27</sup> [International Standard on Assurance Engagements \(ISAE\) 3000](#), [ISAE 3410](#), [Assurance Engagements Other Than Audits or Reviews of Historical Financial Information \(2013\)](#) and [Assurance Engagements on Greenhouse Gas Statements \(2013\)](#).

<sup>28</sup> See TCFD Implementation Strategy.

<sup>29</sup> See European Union Corporate Sustainability Reporting Directive (CSRD) European Sustainability Reporting Standards (ESRS) ESRS E1 Climate Change, 2022, available at:

[https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FFED\\_ESRS\\_E1.pdf](https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FFED_ESRS_E1.pdf)

<sup>30</sup> See CDP, Shaping a Sustainable Financial System, p. 12, 2021, available at: [https://cdn.cdp.net/cdp-production/cms/policy\\_briefings/documents/000/005/934/original/Sustainable\\_financial\\_system\\_2021\\_FINAL.pdf?1635342705](https://cdn.cdp.net/cdp-production/cms/policy_briefings/documents/000/005/934/original/Sustainable_financial_system_2021_FINAL.pdf?1635342705).

## F. Governance of Stakeholder Engagement

	1. Basic ESG Practices	+	2. Intermediate ESG Practices	+	3. Good International Practices	+	4. Leadership
Stakeholder Mapping	<ol style="list-style-type: none"> <li>1. Stakeholder mapping includes climate-related impacts.</li> </ol>		<ol style="list-style-type: none"> <li>1. Stakeholder mapping includes climate-related impacts of contracted workers, primary supply chain workers, and neighboring projects.</li> </ol>		<ol style="list-style-type: none"> <li>1. A diversity, equity, and inclusion lens is applied when mapping affected stakeholders.</li> </ol>		<ol style="list-style-type: none"> <li>1. Senior executive responsible for stakeholder relationships integrates climate-related risks and opportunities into strategy and target setting.</li> </ol>
Stakeholder Engagement Policy							<ol style="list-style-type: none"> <li>2. Board maintains regular exchanges and dialogue with stakeholders such as peers, policy makers, regulators, civil society organizations, and investors to encourage sharing of GHG emission assessment methodologies and stay informed about latest climate-relevant risks and opportunities and regulatory requirements and standards.<sup>31</sup></li> </ol>

<sup>31</sup> See [World Economic Forum Climate Governance Principle 8](#). If the Company is a financial institution, it should communicate its climate finance practices to external stakeholders.

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