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JUST TRANSITION: A FRAMEWORK FOR INVESTOR ENGAGEMENT

By Amundi Asset Management and Clifford Chance LLP in partnership with the Grantham Research Institute and the Financing the Just Transition Alliance

CONTENTS

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1. Foreword

Many workers, communities, suppliers and consumers will be impacted by the climate transition – both the shift away from high-emitting industries and activities and the shift towards a low-carbon economy. A just transition requires putting people at the core of climate transition ambitions and ensuring that the benefits of the transition are widely shared, while also supporting those who stand to lose economically.

Investors have a significant role to play in delivering a transition through their capital allocation and investment activities, both by effective engagement with investee entities and engaging with policy development, including sector-focused initiatives. Additionally, regulations being introduced in the EU address "double materiality risk" – taking account both of transition risks impacting a company's financial performance (outside-in impact) and transition risks arising from impacts from the investor's activities on society and the environment (inside-out impact). These developments underscore the importance for investors of applying a just transition lens to the transition-related activities of their investee entities to minimize and mitigate any risks that may arise from the social impacts that those activities may produce.

In the absence of dedicated regulatory or market schemes addressing a just transition or how to engage with stakeholders on the just transition, we have created this framework to support investors – primarily asset managers and asset owners seeking to engage with investee entities that have made an initial commitment to climate transition. Other financial institutions, as well as corporates, should also find this guide useful in the development of their just transition plans or strategies.

The framework builds on existing guidance on supporting a just transition for financial institutions, including from the Grantham Research Institute,[1] but seeks to adapt previous work to the needs of asset owners and asset managers who seek to assess and strengthen their investee entities' management of transition-related social risks and opportunities.

This framework is designed to apply a just transition lens to engagement and stewardship activities, and to promote appropriate ongoing disclosures, internally and externally, concerning just transition strategies and their impacts. It facilitates engagement with investee entities on incorporating a just transition strategy into their climate plans, identifying and addressing actual and potential transition impacts on people (including their workforces, value chains, communities and consumers), engaging in dialogue with affected stakeholders, identifying opportunities and managing related risks. In turn, this engagement will support investors in meeting and assessing the alignment of their investment activities with their own just transition commitments.

** Amundi Asset Management and Clifford Chance LLP are members of the Financing the Just Transition Alliance (FJTA) at the Grantham Research Institute. This paper is published as part of the workflow of the FJTA.*

1 See Appendix for a full list of just transition frameworks.

2. The Importance of a Just Transition

In the words of the International Labour Organization, a just transition involves greening the economy in a way that is fair and inclusive, creating decent work opportunities and leaving no one behind. This involves taking account of the risks of negative impacts on workers, communities and others vulnerable to the effects of the transition and the need to respond to the effects of climate change, as well as of the opportunities to support positive economic development and decent job creation among these groups.

Harnessing the support of those affected by the transition to net zero economies is key to successful transition strategies. A failure to engage with, and take account of, the views and interests of these stakeholders may result in a transition that cannot be termed 'just' and may lead to discord, opposition and resistance that can undermine transition objectives and pose risks to businesses and investors.

Just transition is relevant across multiple climate change and energy transition priorities, including:

- **Transition out**: exit from high emitting activities and operations; for example, the managed phase-out of fossil fuel investments.
- **Transition in**: entry into and commitment to more sustainable activities and operations that help accelerate and achieve climate goals; for example, investment in renewable energy.
- **Climate change adaptation**: actions to prevent or mitigate the negative impacts of climate change to protect businesses from economic losses and to safeguard communities and ecosystems where businesses operate; for example, installing flood protection or water conservation infrastructure.
- **Safeguarding nature and biodiversity**: actions to promote new jobs and other opportunities for social inclusion as businesses that affect and are affected by nature transition to a more sustainable economy; for example, actions to halt deforestation, scale up nature-based solutions and build sustainable food and agriculture systems.[2]

The significance of each of these priorities, the associated just transition risks and opportunities for companies and investors will depend on multiple factors, including the place of business activity, sector, industry and the stage of a particular business's transition or adaptation planning. The local regulatory frameworks and applicable policy imperatives being driven by governments and other stakeholders also provide important context.

3. The Importance for Investors of Adopting a Just Transition Approach

For investors, just transition provides a lens through which to evaluate investee entities and their transition planning, as well as their alignment with the investor's own just transition commitments and policies. Furthermore, investors can be instrumental in delivering a just transition through their capital allocation and investment activities, by engaging with policy development, including within sector-focused initiatives and by effective engagement with investee entities.

Stakeholder engagement by investee entities is core to just transition. This should involve engagement with workers, affected communities and others impacted by the entity's transition strategies and activities. Consultation and dialogue with affected people should support orderly and transformational change and facilitate sustainable

2 Although just nature transition is not the main focus of this document, key considerations outlined in the framework we propose below can be applied to just nature stewardship. For more information on just nature, refer to the relevant paper by the Grantham Institute.

outcomes. This includes mitigating the risks of social tensions, conflict and business disruption. Many investors have endorsed the Principles for Responsible Investment (PRI) “Statement of Investor Commitment to Support a Just Transition on Climate Change”. The Statement acknowledges that acting in the best interests of beneficiaries and in line with fiduciary requirements demands that strategies to tackle climate change incorporate “*the full environmental, social and governance (ESG) dimensions of responsible investment*” and commits investors “*to support the just transition by integrating the social dimension in our climate practices*”.

Investors that have made a commitment to support a just transition will wish to evaluate their investee entities’ transition strategies to assess the alignment of those investments with that commitment and any policies and products designed to fulfil it.

In these ways, investors can positively contribute to a fair and inclusive transition, manage risk exposure and deliver long-term value. Such an approach recognises the risks to businesses posed by climate action that fails to acknowledge and address the impacts on people. Incorporating just transition objectives into investment activity by investors should also align with investors’ broader commitments around ESG, the Sustainable Development Goals and responsible business generally.

4. How to use this Framework

This framework is designed to support investors in applying a just transition lens to their engagement and stewardship activities, and to promote appropriate ongoing disclosures internally and externally concerning just transition strategies and their impacts. It is aimed primarily at asset managers and asset owners seeking to engage with investee entities that have made a commitment to climate transition.

The number of businesses, including investors, that have committed to supporting a just transition is increasing rapidly. However, regulation and policy with a specific focus on just transition is relatively underdeveloped. Additionally, while some transition-related market frameworks contain broad expectations around a just transition; for example, Glasgow Financial Alliance for Net Zero, the Climate Action 100+ Net Zero Benchmark, and the UK’s Transition Plan Taskforce there is no clear and consistent guidance on the full scope of what promoting just transition approaches by investee companies involves. Meanwhile, the rapid development of detailed guidance, metrics and targets in relation to climate change mitigation or adaptation has not yet been matched by progress in defining appropriate assessment and measurement metrics for social impacts and targets in a transition context.

Without regulation mandating a just transition, there are few obligations on investors or on companies either to align their activities with just transition priorities or to disclose information across meaningful and comparable data sets facilitating the assessment of just transition strategies. It also means that there is a gap in established benchmarks for investors who wish to engage with investee entities and assess their performance on just transition issues, although relevant just transition elements are expected to be incorporated.

This framework facilitates engagement with investee entities on incorporating a just transition strategy into their climate plans, identifying and addressing actual and potential transition impacts on people (including their workforces, value chains, communities and consumers), engaging in dialogue with affected stakeholders, identifying opportunities and managing related risks. In turn, this engagement will support investors in meeting and assessing the alignment of their investment activities with their own just transition commitments.

In the absence of a regulatory regime on just transition, this framework also includes an explanation of (i) what a just transition strategy should aim to achieve, (ii) the dimensions and risks that may be relevant to investee entities, (iii) guidance on areas for engagement with investee entities and (iv) a questionnaire to help evaluate investee entities' just transition ambitions and actions and to enable investor decision-making.

It builds on existing policy and research documents, as well as recent just transition guidance documents for investors and businesses, particularly by the Grantham Research Institute on Climate Change and the Environment, the International Labour Organization and the United Nations Environment Programme Finance Initiative. The full list of the resources used in the development of this document can be found in the Appendix.

There is no "one-size-fits-all" approach to the just transition. Some just transition considerations will be common across all sectors, while others will also have sector-specific aspects. This framework is designed to be used flexibly and should be adapted to the investor's own commitments and strategy, and the specific investee entity/ portfolio and circumstances under review.

Equally, an assessment of what is material will vary between investors depending on a range of institution-specific factors, including the applicable regulatory frameworks, places and sectors of investment activity, and any relevant commitments undertaken by a specific investor. Investors can identify and manage material risks for their investments and investee entities by evaluating and encouraging the appropriate management of social risks and opportunities. The just transition approach in this framework aims to support investors in identifying such risks and opportunities. It also provides guidance to investors and investee entities about what questions to ask and measures to take to mitigate both the development, and where relevant, the severity of just transition-related risks.

This framework is designed to be used in conjunction with transition-related market frameworks

Existing market frameworks and reporting standards such as those developed (or under development) by the UK's Transition Plan Taskforce, the Taskforce on Climate-Related Financial Disclosures, the International Sustainability Standards Board and the European Financial Reporting Advisory Group provide an appropriate starting point for a just transition analysis relevant to investors. In that context, a general expectation for engaging investee entities on just transition will be that the investee entity has developed – or is developing – a climate transition plan ("transition plan").

In line with expectations from GFANZ, investors should discourage approaches under which climate and social considerations are siloed and instead promote the incorporation of just transition considerations into investee transition plans and as an integral part of their climate-related strategies. Importantly, integrating consideration of climate and just transition objectives and strategies should support early mitigation planning for any potentially negative societal impacts of transition-related strategies and activities, and help to identify opportunities to contribute positively to a simultaneously ambitious, inclusive and equitable transition.

More companies are disclosing their transition plans and the quantity and quality of information is also increasing. This provides transparency and allows meaningful benchmarking of just transition objectives and climate goals against peers and ongoing monitoring of just transition progress.

This framework is designed to be used in conjunction with entities' core social policies and practices

An investee entity adopting a just transition strategy should have policies and practices that reflect and implement internationally recognised human rights and labour principles and standards, including the UN Guiding Principles on Business and Human Rights (UNGP), the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (OECD Guidelines) and workers' rights established by the International Labour Organization.

The UNGP (and the OECD Guidelines) expect that businesses will have human rights due diligence processes in place that are designed to identify and address (avoid or mitigate) and account for, negative human rights impacts of their operations and business relationships. The OECD Guidelines incorporate the UNGP's due diligence approach across a wider range of areas of responsible business conduct (including climate, environment and labour). These expectations are increasingly being reflected in binding legal duties in some jurisdictions.[3] Alignment of policies and processes with those standards and, in particular, their due diligence expectations will provide a strong foundation for identifying, mitigating and avoiding negative impacts on people.

The table in Appendix [1] provides non-exhaustive guidance on some of the frameworks that may be applied by companies in areas that will support just transition strategies (note: not all frameworks will be relevant across all companies and different labels may be applied). How individual companies create their internal governance systems around these issues and the ways in which they seek to draw them together with respect to their own just transition objectives will vary depending on factors including size, organisational structure, geographic footprint, sector and regulatory requirements.

Just Transition Disclosure Indicator in the Climate Action 100+ Net Zero Company Benchmark

The Climate Action 100+ Net Zero Company Benchmark includes a Just Transition Disclosure Indicator, which offers a practical example of progress disclosures investors can expect from investee companies. The Just Transition indicator is broken down into two further sub-indicators:

- Formal commitment to the principles of just transition, including a commitment to "retain, retrain, redeploy and/or compensate workers affected by its decarbonisation efforts" and stakeholder consultation
- Disclosure of plans for the implementation of just transition plans and the monitoring of their progress, including key performance indicators used to assess progress towards just transition objectives.

5. Evaluating an Investee Entity's Just Transition Approach

This framework describes the elements relevant to evaluating an investee entity's just transition approach. It assumes that available information is organised around emerging disclosure expectations with respect to climate change issues and transition planning more broadly. These expectations cluster around four overlapping themes, namely: (1) strategy; (2) governance; (3) risk management (or in Europe, impact, risk and opportunity management); and (4) metrics and targets. Notably, governance is a cross-cutting theme, as is – in the context of just transition – stakeholder engagement.

An initial step will be to ascertain whether the investee entity has a published transition plan and, if so, whether that plan addresses just transition aspects (referred to in this section as a just transition strategy). A just transition strategy should map how just transition considerations are incorporated into the investee entity's key governance, risk and opportunity management and engagement strategies. An intrinsic element of this will be that a just transition strategy identifies and addresses the impacts of its transition plan on all potentially impacted groups, including workers, suppliers, communities and consumers.

The strategy, governance, risk management and metrics and targets overviews below, describe how just transition can be demonstrated across each of these four key

3 If adopted, the EU Directive on corporate sustainability due diligence will require in-scope businesses to conduct due diligence to identify and addressed negative human rights and environmental impacts across their operations and global value chains. Meanwhile, the Corporate Sustainability Reporting Directive requires disclosures from a double materiality perspective (based on double materiality assessments that reflect the expectations of the UNGP and OECD Guidelines).

themes. The related questionnaires are intended to guide investors in navigating their engagement with investee entities around expectations and disclosures relating to just transition. There are no laws currently specifying expectations for investor stewardship on just transition; accordingly, disclosure and reporting by an investee entity about its just transition approach will supplement information currently disclosed pursuant to legal requirements and market frameworks and standards regarding climate disclosure and transition planning.

6. Strategy

An investee entity's statement of just transition objectives and priorities facilitates investor evaluation of:

- how these align with the investor's own just transition objectives;
- how and when just transition considerations are incorporated into the investee entity's broader climate and transition strategy and planning; and
- what level of priority the investee entity has assigned to just transition considerations.

It also enables an investor to benchmark the investee entity's just transition ambition and performance against its peers and, where appropriate, to engage with the investee entity on aspects of the strategy that indicate areas for improvement.

The starting point is to ascertain whether the investee entity has an identifiable just transition strategy – whether reflected in a dedicated document or a series of published statements or commitments on climate strategy and transition planning.

The just transition strategy should clarify whether the entity (a) developed its just transition strategy as part of, or in parallel with, the development of its transition plan, or (b) incorporated just transition elements into an already established transition plan. In either case, stewardship teams should be encouraging investee entities to implement transition plans in a manner that promotes just transition outcomes.[4]

Broadly speaking, a just transition strategy should identify opportunities and risks and how the investee entity views its role in both achieving positive social outcomes from the transition and mitigating negative impacts on workers, communities, suppliers and consumers. The investee entity should also have developed (or be developing) a plan identifying what measures have been taken or are planned to manage and mitigate the risk of negative impacts.

In assessing and mitigating risks, the investee entity's approach and expectations may differ depending on the forecasted impact on specific groups; for example, targeted measures to prevent, mitigate and/or remediate impacts may be necessary if the investee entity's transition plan will cause or contribute to harmful impacts on identifiable groups of workers or communities. In the context of the investee entity's value chain and, in particular, upstream supply chains, the investee entity's assessment should identify whether it anticipates being involved in any negative impacts and the role that it will assume in addressing any such impacts identified. For companies with multinational footprints and cross-border value chains, the just transition strategy should address impacts, risks and opportunities across all relevant locations.

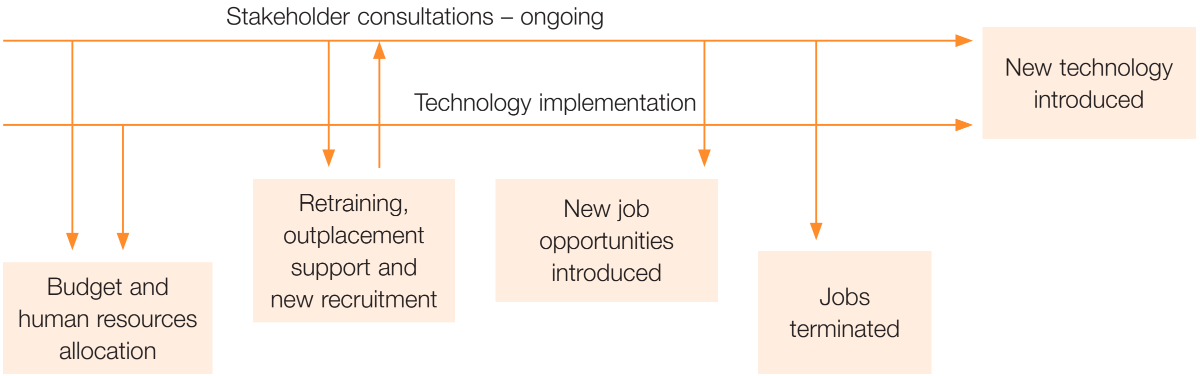
4 This approach is consistent with the recent update of the Climate Action 100+ Net Zero Company Benchmark, which now includes assessments of companies' commitments to just transition and planning and monitoring of just transition strategies. Notably, as of October 2023, only 24% of the focus CA100+ companies had formally committed to transitioning in line with just transition principles.

The just transition strategy should describe how stakeholder engagement is undertaken or will occur and how that will be factored into planning and implementation. This will include the availability of grievance and remedial policies to ensure that concerns of potentially impacted groups may be raised with and addressed by the investee entity, and how the effectiveness of those policies is monitored and evaluated.

An investee entity's just transition planning should track its climate transition pathway and ensure that adequate time, people and budget are available both to conduct the necessary just transition impact assessment ("JTIA") of that climate transition strategy and to implement measures to address any just transition-related impacts, risks and opportunities identified.

Illustrative example – introducing a new technology as part of a transition strategy[5]

Introducing new (green) technology as part of climate transition strategy



The questionnaire below addresses general enquiries about the investee entity's approach to its just transition strategy, as well as more targeted enquiries addressing risks and opportunities that may potentially impact specific groups.

Strategy Questionnaire:

Overarching just transition strategy enquiries

1. Has the investee entity conducted a JTIA – a formal review, assessment and analysis of the impacts, risks and opportunities of its transition plan with respect to potentially impacted groups of people; for example, has the investee entity considered the impacts of potential restructuring, divestment, investment, resource reallocation, redundancy plans, sourcing changes and changes to product and service availability linked to the transition?
2. What are the key assumptions on which the transition plan is based; for example:
   - Anticipated developments in government policy or technology, timeframes and associated costs of adaptation or adoption. This should include any anticipated support for clients or consumers, such as subsidies for green products or services.
   - Percentage of investee entity's activities that will transition out of a specific business segment or will require selling or winding down.
   - Anticipated changes to the value chain.
   - Anticipated changes to the geographical presence of the investee entity.

5 This example is provided for illustrative purposes only.

What implications do these have for the entity's workers, value chains, consumers and potentially affected communities?

Following these questions, the stewardship team should understand the materiality of specific social risks and opportunities associated with the entity's transition plan. The stewardship team should also assess the alignment of the investor's own just transition policy and expectations against those of the investee entity.

Overarching strategy enquiries: applying just transition considerations

1. Have the potential impacts on people been reflected and addressed in any plans linked to the transition (including mergers and acquisitions, capital expenditure, expansion plans, downsizing, closures and product/service/sourcing shifts)?
2. Does the JTIA take account of the investee entity's transition-related activities envisaged in its transition plan across each relevant jurisdiction and in relation to all impacted stakeholder groups? If not, how is the investee entity's approach explained and justified?
3. Does the JTIA take account of differentiated impacts on people? Specifically, does it consider whether relevant risks and opportunities are concentrated in relation to any particular groups of workers, suppliers, communities and consumers and, in the case of negative impacts, how they may be exacerbated for vulnerable groups?
4. Does the JTIA take account of the timeframe over which relevant risks and opportunities are reasonably expected to materialise, and is this factored into short, medium and long-term planning?
5. Has the investee entity developed a strategy for addressing the just transition-related risks and opportunities of its transition plan, and identified how they will affect its transition strategy and decision-making?
6. Does the investee entity provide information about how it will resource its strategy for identifying and addressing the just transition-related risks and opportunities?
7. Has the investee entity identified the factors on which the successful achievement of its just transition strategy is contingent; for example, policy, supplier business model or consumer behaviour change?
8. Has the investee entity specified what sustainability commitments or policies it has implemented and how these support its just transition strategy? These would include relevant social, human rights, responsible business, sustainability and other ESG policies and practices. See the Appendix for a reference list of key frameworks and social policy commitments to aid the assessment.

Having completed the questions in this section, the stewardship team should be able to assess whether the JTIA addresses all relevant considerations.

Enquiries relevant to just transition risks and opportunities for particular groups:

Just transition expectations regarding investee entity's workers

1. Has the investee entity assessed the risks and opportunities for its workers in developing its transition plan?
   - Does the JTIA assess the percentage of workers whose jobs will be affected by the transition plan, in terms of their jobs or skills being rendered obsolete?
   - Has the JTIA been conducted across each relevant jurisdiction, including those that the investee plans to exit or enter as part of its climate-related transition strategy?

- Does the JTIA evaluate whether particular groups; for example, low-income employees, women, indigenous communities or minorities will be particularly vulnerable to job losses?
- Are affected workers engaged in regular consultations by the investee entity?

2. Has the investee entity assessed the number of jobs that it has created or plans to create in implementing its transition plan?
   - Does the investee entity's just transition strategy envisage creating inclusive opportunities for decent work with fair pay (i.e., at a minimum, a living wage), redeployment of at-risk workers, and skills development and retraining? If so, has it estimated the number of such opportunities?
   - Does the investee entity have plans to distribute the benefits of the transition to negatively impacted groups; for example, offering workers who will be negatively impacted by the transition plan an opportunity to reskill?
3. Has the investee entity identified the skills and training requirements in relation to any new activities that its workforce is expected to undertake as part of its transition plan?
4. Has the investee entity allocated resources (financial and human) for retraining, upskilling and/or redeploying impacted workers?
5. Have workers who are potentially impacted by job or skills obsolescence been offered retraining or redeployment within the investee entity?

Just transition expectations regarding value chain (including workers in the supply chain)

1. Has the investee entity undertaken a JTIA on its value chain?
2. Does the JTIA identify individual suppliers who are particularly vulnerable to the impacts of the investee entity's transition plan; for example, where the investee entity is one of the main customers of the supplier and the transition plan will eliminate or significantly reduce the need for the goods or services provided by the supplier?
3. Does the investee entity conduct human rights due diligence across its value chain and has it conducted human rights due diligence in relation to the impacts of the investee entity's transition plan on suppliers' workers and related communities? Are the relevant due diligence findings factored into its just transition strategy?
4. Based on its JTIA/due diligence, has the investee entity adopted a strategy for mitigating the impacts of the investee entity's transition plan on its suppliers and their workers, including, for example, through potential capacity building and support with reskilling the suppliers' workers to take advantage of potential new work opportunities?
5. Has the investee entity consulted entities (and potentially impacted individuals) in its value chain about its transition plan and its impacts/opportunities?
6. Does the investee entity have a plan and/or process for providing advance notice to impacted suppliers of planned changes to its business relationships/contracts arising from the implementation of its transition plan?
7. Does the investee entity have a commitment or plan to support the just transition of its suppliers, including through capacity-building to achieve just transition objectives; for example, to support at-risk workers in the supply chain?

Just transition expectations regarding communities

1. Has the investee entity's JTIA considered the impacts of its transition plan on communities?
2. Have such communities been consulted in relation to the investee entity's transition plan?
3. Does the investee entity have a plan to address the impacts of its transition plan on communities that are or may be impacted; for example, impacts such as local job losses, impacts on livelihoods, economic and other resources available to the community, land use, traditional activities and local ecosystems?
4. Where relevant, does the JTIA cover any risks to historical sites, cultural heritage and the rights of Indigenous peoples?
5. Does the investee entity have a strategy for addressing the impact of local job losses and/or other community impacts of its transition plan; for example, the potential for creating sustainable and inclusive jobs in such communities?
6. Has the investee entity allocated resources (including budget) to community support, rehabilitation and resilience for local communities where it operates and communities that will be impacted by its transition plan?
7. Does the investee entity have a strategy for consulting and engaging with local communities to assess and address any socio-economic impacts that its transition plan presents, including impacts on local services and the potential displacement of people, including vulnerable groups, and, where relevant, on the rights and cultural heritage of Indigenous peoples? Does it specify which aspects of the transition plan have been consulted upon?

Just transition expectations regarding consumers

1. Has the investee entity conducted an JTIA of its transition plans on its consumers, including the impacts on affordable access to goods and services across its value chains?
2. Does the JTIA take account of the impact across different consumer and income groups?
3. Has the investee entity adopted a strategy for mitigating the key consumer risks identified through its JTIA; for example, through facilitation of consumer access to sustainable and affordable substitute goods and services?
4. Has the investee entity considered affordability for consumers when planning changes to the investee entity's products and services, particularly those that are designed to align with the transition plans of the investee entity?
5. Does the investee entity consider the accessibility of new products and services associated with the transition to vulnerable consumers and underserved consumer markets in particular?

Having completed these questions, the stewardship team should have established a deeper understanding of the risks and opportunities across the investee entity's key stakeholder groups.

Just transition expectations regarding policymakers

Just transition strategies are likely to be more successful if they aligned with those of policymakers.

1. Does the investee entity have a plan for engagement with policymakers on relevant just transition issues?

2. Is the investee entity positively engaged with industry associations on relevant just transition topics? Is the investee entity transparent about its position and how it might differ from that of the trade associations and other membership bodies in which it participates?
3. Is the investee entity involved in any public-private partnerships to address the social dimensions of the transition?

7. Governance

There should be responsibility and accountability at Board level for overseeing the design, approval, implementation and monitoring of the just transition strategy. Responsibility should also lie with dedicated individuals within the investee entity's management structure to make decisions around implementing the just transition strategy, including the integration of just transition considerations into risk and opportunity management, on a day-to-day basis.

The investee entity should identify both its strategy for creating a culture supportive of its just transition strategy and the financial and other resources that it will allocate to develop and implement the strategy.

Governance Questionnaire:

1. Does the just transition strategy identify the governance bodies; for example, Board and/or committees and/or individuals – responsible for oversight of the design and implementation of the just transition strategy?
2. Are there measures in place to monitor progress and to hold those responsible to account for achieving the just transition strategy?
3. Do the relevant governance bodies and/or individuals have the appropriate experience, skills and competencies to exercise oversight of the social risks and opportunities related to the transition and the investee entity's actions and plans for mitigating those risks and maximising opportunities? Relevant skills and competencies include: (i) making decisions determining just transition objectives and priorities, including decisions around what metrics to apply and defining KPIs for the just transition strategy; (ii) balancing climate mitigation and adaptation objectives with just transition objectives; (iii) addressing mitigation strategies to address negative impacts on people where climate objectives are prioritised; and (iv) supporting implementation of the just transition strategy.
4. In the absence of the right skills, do the relevant governance bodies have access to sufficient resources, including people and adequate financial resources, to seek advice and/or inform themselves through expert opinions on the social risks and opportunities related to the transition and the investee entity's expectations and plans for mitigating those risks and maximising opportunities?
5. Is there a plan in place for the governance bodies and/or individuals to receive ongoing training regarding just transition risks and opportunities?
6. Have the governance bodies and/or individuals reviewed and provided input on the just transition strategy?
7. Are controls and procedures in place to support oversight of just transition-related risks and opportunities and the measures through which they are addressed/pursued?
8. How often are the governance bodies and/or individuals informed about just transition-related risks and opportunities? What information and reporting channels have been implemented to support the implementation, monitoring and oversight of the delivery of the just transition strategy?

Senior leadership accountability for just transition – Rio Tinto

Rio Tinto specifies how climate and just transition targets are reflected in executive remuneration:

Accountability for delivering the goals, targets and objectives in the Climate Action Plan is delegated to the following members of the Executive Committee: Chief Financial Officer (capital allocation alignment, disclosure); Chief Legal Officer, Governance and Corporate Affairs (climate policy engagement, governance); Chief Technical Officer (Scope 1 and 2 emissions targets and just transition); and Chief Commercial Officer (Scope 3 goals). The Chief Technical Officer works closely with the product group Chief Executives to implement the mitigation projects and also oversees the Energy and Climate Change Centre of Excellence, the Energy Development team (which focuses on developing large-scale renewable power options), the Nature Solutions team, and the low-carbon research and development work led by the Chief Scientist.

Source: Rio Tinto (2022) Climate Change Report

9. Do the governance bodies and/or individuals have an ongoing role in monitoring the investee entity's progress towards achieving its objectives and targets?
10. Have the targets and KPIs relating to the investee entity's just transition strategy been integrated into criteria for executive remuneration?
11. Has the investee entity identified its strategy for creating a culture supportive of its just transition ambition, including delivering the just transition strategy at an operational level, with appropriate reporting lines, and educating relevant decision-makers and employees about the just transition, the investee entity's just transition strategy and related KPIs?

8. Risk Management

Just transition strategies that are developed and established on an enterprise-wide basis should also describe how they incorporate specific objectives and priorities applicable to geographies, business lines, business relationships and/or projects. The investee entity's just transition strategy should be coupled with an achievable implementation plan that identifies the steps and timeframe to achieving its just transition objectives and priorities.

Additionally, the investee entity should provide information explaining its process for assessing the potential impacts (positive and negative) in relation to each relevant group of stakeholders and for determining the appropriate actions for addressing those impacts. It should be clear how core human rights and labour standards inform this assessment including what due diligence processes have or will be undertaken.

The just transition strategy should also describe how the investee entity will deliver on its objectives, what defined metrics and KPIs it will apply and what effective outcomes will look like, as well as the time frames during which key actions will be taken.

If the investee entity's just transition strategy includes delivering positive impacts on and work or other opportunities for people impacted by the investee's activities, the strategy should identify how it will achieve these objectives and outline how it will measure progress. More generally, the investee entity should identify what processes and policies it will follow to monitor and evaluate the effectiveness of all actions taken to address just transition considerations.

As part of its transition planning, the investee entity should be committed to stakeholder engagement through consulting and including in decision-making representatives of impacted stakeholders, including workers, suppliers and communities.

The investee entity's human rights policies (including any free, prior and informed consent policy) will be relevant to the investee entity's approach to engagement with its transition plan, as will the availability of a grievance mechanism for stakeholders. The just transition strategy should facilitate representation of workers, as well as impacted communities, in investee entity considerations and decisions regarding the transition and responses to climate change. The investee entity should be able to demonstrate that the grievance mechanism is accessible and operational.

Risk Assessment and Management Questionnaire:

Does the investee entity have processes to regularly identify and assess just transition impacts in managing implementation risks?

1. Has the investee entity identified data sources and benchmarks to apply when identifying and assessing just transition impacts, as well as in decisions around addressing just transition impacts?
2. Does the investee entity provide information about whether just transition objectives and priorities are developed on an enterprise-wide basis, or whether and how they incorporate specific objectives and priorities applicable to particular geographies, business lines, business relationships and/or projects?
3. Are human rights policies and responsibilities, (in particular, the UNGP and OECD Guidelines), reflected in investee entity due diligence procedures linked to investments and other activities resulting from the investee entity's transition plan?
4. Does the investee entity explain the process for assessing potential impacts in relation to each relevant group of stakeholders?
5. Has the investee entity described how the assessment of, and approach to, addressing potential transition impacts identified in relation to each relevant group of stakeholders takes account of any particular vulnerabilities of that group to the investee entity's transition-related activities?
6. Has the investee entity disclosed information regarding the stakeholder groups with which it engages and consults, and the process for engagement and consultation?
7. Does the investee entity provide information regarding its strategy for engagement with workers and their unions, its suppliers and impacted communities?
   In particular:
   - Is the investee entity's strategy for engaging and conducting dialogue with these impacted groups aligned with its human rights obligations, including procedural rights such as the right to information, participation and a remedy?
   - Does the investee entity formally document and report to the Board and senior personnel on the substance and outcomes of stakeholder dialogue around the transition?
   - Does the investee entity provide information on how it gives effect to stakeholder dialogue outcomes in its transition-related decision-making?
   - Has the investee entity analysed potential barriers that may preclude certain stakeholders from meaningful participation in dialogue around the transition? If so, how does the investee entity address these barriers?
   - Has the investee entity committed to respecting labour standards and recognised collective bargaining in the process of managing transition risks for workers? What steps is the investee entity taking to safeguard core labour rights and other applicable labour requirements and social protections in relation to worker redundancies, job transitions and reskilling on an ongoing basis?
   - If the investee entity operates in countries with limited legal protections for human and/or labour rights (or where there is a record of such protections not being upheld or enforced), how does the investee entity ensure that fair and full worker consultation is conducted?
   - Has the investee entity established grievance mechanisms that are available to workers and communities impacted by the investee entity's transition

activities? Were the relevant stakeholder groups consulted on the composition and conduct of the grievance mechanisms?

8. Has the investee entity described how it weighs just transition risks and opportunities against other transition risks and opportunities, and the factors applied in deciding priorities?
9. Does the investee entity explain how it will monitor just transition risks and the effectiveness of actions to be taken when addressing/ mitigating those risks?

Having completed this section, investors should be able to assess the extent to which just transition matters are incorporated into ongoing transition management processes as well as how the relevant risks are being tackled by the investee entity on an ongoing basis.

9. Metrics and Targets

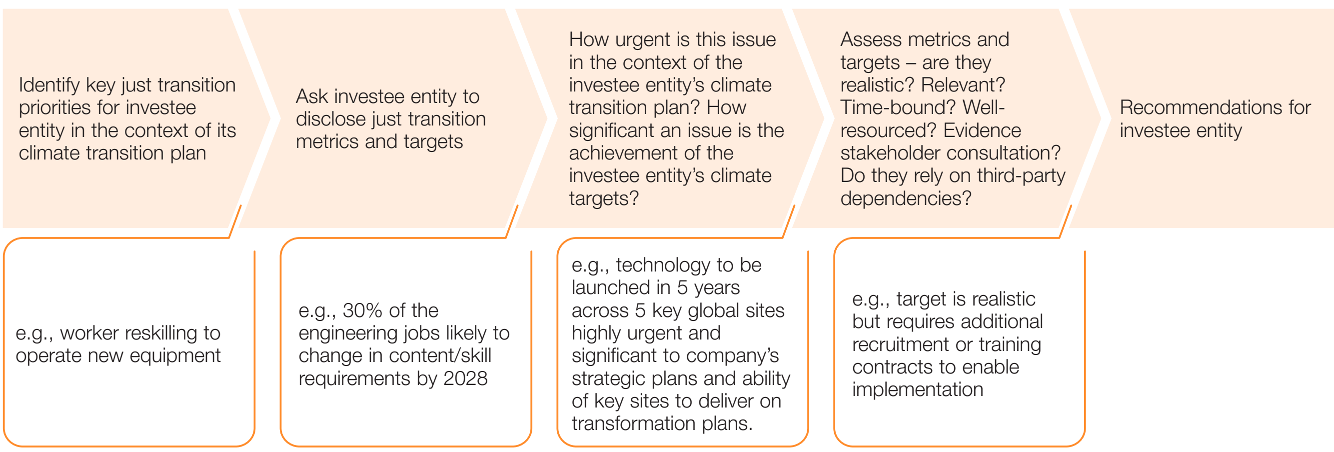
The investee entity should be able to demonstrate how it tracks the progress and effectiveness of the various components of its just transition strategy. It should have established metrics and targets to allow it to monitor the implementation and effectiveness of its just transition strategy. As described above (see Governance), it should assign responsibility for such monitoring and create appropriate governance and reporting structures around it.

Metrics and targets should:

- reflect the investee entity's just transition objectives and priorities;
- be aligned with best practices, where available; for example, in relation to human rights due diligence; and
- be informed by stakeholder dialogue.

The investee entity ought to be able to demonstrate facts underpinning stated outcomes that are measured by its just transition metrics and targets. The just transition strategy should explain the rationale for selecting such metrics and targets, and the periods over which the relevant targets apply.

Figure 1: Process for assessing the investee entity's just transition metrics and targets



Sample just transition metrics:
How employees'/executives' contributions to the investee entity's just transition strategy are factored into remuneration and performance

- Training/capacity-building (internal or external) for staff on just transition and/or on the investee entity's approach to just transition
- Number of engagement meetings with stakeholder groups on just transition (number of meetings/numbers of stakeholder representatives involved – by stakeholder category; for example, communities, suppliers)
- Number/percentage of customers/suppliers that have made just transition commitments/have just transition plans
- Number/percentage of contracts in which just transition criteria have been included (supply chain and other; for example, financing)
- Number/percentage of workers/worker representatives participating in dialogue in relation to just transition
- Number/percentage of workers/worker representatives consulted in relation to measures planned to implement the investee entity's transition plan
- Number/percentage of workers whose roles will become wholly/partially obsolete under the investee entity's transition plan
- Number of job losses due to implementation of the investee entity's transition plan
- Number/percentage of workers affected by the investee's transition plan who have been offered retraining or redeployment
- Number of new jobs created by the investee entity in the implementation of its transition plan, and the number/percentage of these that are considered green/ sustainable (i.e., they contribute to its climate strategy)
- Information regarding engagement events/meetings with governments and industry groups on just transition
- Instances of the investee entity refining or adjusting its transition plan on the basis of worker/other stakeholder engagement.

Businesses can also signal their commitment to a just transition by joining the following pledges and initiatives:

  - UN Global Compact's Think Lab on Just Transition
  - B-Team's Pledge for a Just Transition and Decent Jobs
  - BSR-facilitated Energy for a Just Transition Collaboration
  - Actions on the Council for Inclusive Capitalism's Just Transition Framework for Company Action

10. Appendix

1. Just transition – core social commitments

Indicator/ Process	Description	Source(s)
Respect human rights		
Commitment to respect human rights	A publicly available policy statement committing it to respect human rights, which is approved by the highest governance body. This should include positions on labour rights, modern slavery, forced labour and child labour, non-discrimination and, where relevant, free, prior and informed consent.	Corporate Human Rights Benchmark (CHRB) A.1.1; UN Guiding Principles (UNGPs) 16; UN Guiding Principles Reporting Framework (UNGPRF) A1; GRI 103-2; Draft Social Taxonomy; WBA Social Benchmark
Commitment to respect the human rights of workers	A publicly available policy statement committing it to respecting the human rights that the ILO has declared to be fundamental rights at work, which is approved by the highest governance body; AND a publicly available statement of policy that expects those with which it has business relationships to commit to respecting the human [and/or labour] rights that the ILO has declared to be fundamental rights at work.	CHRB A.1.2; UNGP 12 and 16l; UNGPRF A1; GRI 103-2; Draft Social Taxonomy; World Benchmarking Alliance (WBA) Social Benchmark
Identification of human rights risks and impacts	Company evidences the process(es) to identify the potential and actual negative human rights impacts of its own operations and those of its business relationships.	CHRB B.2.1; UNGP 17 and 18; UNGPRF B2 and C3; HRIB 1.2.1; GRI 412-1 and 414-2; WBA Social Benchmark
Assessment of human rights risks and impacts	Company describes and evidences its process(es) to assess its involvement in negative human rights impacts and discloses what it considers to be its salient human rights issues.	CHRB B.2.2; UNGP 17, 18 and 24; UNGPRF B1, B2 and C3; HRIB 1.2.1; GRI 412-1 and 414-2; WBA Social Benchmark
Integrating and acting on human rights risks and impacts	Company has a system in place to address the negative human rights impacts with which it is or could potentially be involved by way of, as relevant, prevention, mitigation and/or remediation; this includes a description of how its global system applies to its supply chain.	CHRB B.2.3; UNGP 17, 19 and 24; UNGPRF C4; GRI 103-2; WBA Social Benchmark
Engaging with affected stakeholders and others potentially affected by company's operations	Company identifies and discloses the categories of stakeholders whose human rights may be affected by its activities. It provides examples of engagements with such stakeholders (directly or through legitimate representatives). Where relevant, the company should have a policy on free, prior and informed Consent (unless included in the human rights policy).	UNGP 18 and 21; UNGPRF C2; GRI 102-42, 102-43 and 102-44; WBA Social Benchmark
Grievance mechanisms for workers	Company has channel(s)/mechanism(s) (its own, third-party or shared) through which workers can raise complaints or concerns, including on human rights issues. Company formally commits to provide access to remedy.	CHRB C.1; UNGP 22, 29 and 30; UNGPRF C6.1 and C6.3; GRI 103-2; WBA Social Benchmark

Indicator/ Process	Description	Source(s)
Grievance mechanisms for non-worker stakeholders/ potentially affected groups	The company has one or more channel(s)/ mechanism(s) (its own, third-party or shared) through which individuals and communities who may be negatively impacted by the Company can raise complaints or concerns, including in relation to human rights issues. Company formally commits to provide access to remedies to these parties.	CHRB C.2; UNGP 22, 29 and 30; UNGPRF C6.1 and C6.3; GRI 103-2; WBA Social Benchmark
Provide and promote decent work		
Workforce data fundamentals	Company discloses total number of employees, numbers of employees across global locations, employee numbers categorised by seniority and type of contract, average wage, number of employees on minimum wage, CEO-median wage metric, employee numbers by gender and at least one more category of diversity (see below for living wage and gender diversity expectations).	GRI, SASB (sector-specific disclosures); Workforce Disclosure Initiative (WDI); Draft Social Taxonomy; WBA Social Benchmark
Health and safety fundamentals	Company has a publicly available policy statement commitment to respect the health and safety of workers. Company discloses quantitative information on health and safety for its workers. Company has a publicly available statement of policy that expects its business relationships/ partners to commit to respecting the health and safety of their workers. Company discloses how it monitors the health and safety performance of its business relationships/partners. Company evidences worker representation in formal joint management/worker health and safety committees.	CHRB A.1.2, D.1.7.a and D.1.7.b; GRI 403-9; ICESCR Art. 7; HRIB 3 and 8.2.1; FLA VII. HSE.3; SA8000 IV.3.5 and IV.3.7; Draft Social Taxonomy; WBA Social Benchmark
Living wage fundamentals	The company discloses a time-bound target for paying all workers a living wage or that it has achieved paying all workers a living wage. Company describes how it determines a living wage for the regions where it operates. Company describes how it works to support the payment of a living wage by its business relationships/partners. SEE ABOVE	CHRB D.1.1.a and D.1.1.b; ICESCR Art. 7; HRIB 2.4.1 and 8.2.3; ETI 5; SA8000 IV.8.1; GLWC; Draft Social Taxonomy; WBA Social Benchmark
Working hours fundamentals	Company publicly commits to requiring no more than 48 hours in a regular working week or 60 hours including overtime. Company has a public expectation that its business relationships SEE ABOVE will make a similar commitment.	ETI 6; ILO No. 1, 14 and 106; FLA VIII; Draft Social Taxonomy; WBA Social Benchmark
Collective bargaining and social dialogue fundamentals	Company discloses the proportion of its total direct operations workforce covered by collective bargaining agreements. Company describes how it works to support the practices of its business relationships SEE ABOVE in relation to freedom of association and collective bargaining. Company has mechanisms for and provides evidence of collecting employee feedback.	CHRB D.1.6.a and D.1.6.b; WDI 9.2 and 9.5; WEF Core Dignity & Equality; Draft Social Taxonomy; WBA Social Benchmark

Indicator/ Process	Description	Source(s)
Gender equality and women's empowerment fundamentals	Company has a public commitment to gender equality and women's empowerment. Company discloses one or more time-bound targets on gender equality and women's empowerment. [Women to comprise at least 30% of the Company's highest governance body.]/[Company has at least 30% women on the highest governance body.] Company discloses the ratio of the basic salary and remuneration of women to men in its total direct operations workforce for each employee category, by significant locations of operation.	GB 1 and 11; GRI 405-1 and 405-2; Draft Social Taxonomy; WBA Social Benchmark
Skills and training	Company has a policy in place committing to provide equal access to training to all employees without discrimination. Company has a means of identifying and addressing skills gaps and training, including social dialogue and budget. Company reports on training provided (e.g., hours of training per employee).	GRI 404-2; WDI
Consumer and societal responsibility		
Responsible lobbying and political engagement fundamentals	Company has a publicly available policy on lobbying and political engagement. Company discloses lobbying and advocacy expenditures, including spend on membership bodies and industrial associations. Company reviews differences between its own and its membership bodies' positions on environmental and social matters. Company requires third-party lobbyists to comply with its lobbying and political engagement policy (or policies).	TI Political Engagement Principles, Recommendations 5, 8 and 9; WBA Social Benchmark

2. Key references and additional resources on just transition

Key resources used in this document:

ILO, Guidelines for a just transition towards environmentally sustainable economies and societies for all

Grantham Institute, Making Transition Plans Just

UNPRI and Grantham Institute, Climate change and the Just Transition: A guide for investor action

UNFCC, Just Transition of the Workforce, and the Creation of Decent Work and Quality Jobs

Climate Action 100+, Net Zero Company Benchmark

UNEP-FI, Just Transition Finance: Pathways for Banking and Insurance

Council for Inclusive Capitalism, Just transition: A framework for investee entity action

We Mean Business Coalition, Just Transition Resource Platform

BSR, The Just Transition Planning for Business Toolkit

Grantham Institute, Just Nature: How finance can support a just transition at the interface of action on climate and biodiversity

ILO and Grantham Institute, Just transition finance tool for banking and investing activities

UN Global Compact, Introduction to just transition: A business brief

Impact Investing Institute, Just Transition Criteria

World Benchmarking Alliance, Just Transition Benchmark

B4IG, Just Transition Indicators

Stockholm Environment Institute, Seven principles to realize a just transition to a low-carbon economy

B Team, Just Transition: A Business Guide From The Just Transition Centre And The B Team

Clifford Chance, the Institute for Human Rights and Business and the CDC Group, Just Transactions: A White Paper on Just Transition and the Banking Sector.

Additional resources for investors and businesses:

UK Place-Based Climate Action Network, Just Transition Jobs Tracker

GFANZ, Expectations for Real-economy Transition Plans https://assets.bbhub.io/investee entity/sites/63/2022/09/Expectations-for-Real-economy-Transition-Plans-September-2022.pdWf

The Initiative for Responsible Investment, Investor Expectations on the Just Transition: Publicly Traded Energy

Grantham Institute, Just Nature: How finance can support a just transition at the interface of action on climate and biodiversity

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