

► CLIMATE CHANGE: THE PRIVATE SECTOR IS A CRUCIAL PART OF THE SOLUTION

Building a strategy towards **CARBON NEUTRALITY**

Grupo Bolsa Mexicana de Valores,
and **MÉXICO₂**, are pleased to present the
“**Carbon Neutrality Guide**”, aimed at
developing a framework for analysis,
implementation and dissemination of a
carbon neutrality process for both, companies
listed on the Mexican Stock Exchange and
companies that are interested in reducing
and/or offsetting greenhouse gas emissions.



The Mexican
Sustainable Exchange



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LIST OF ABBREVIATIONS AND ACRONYMS

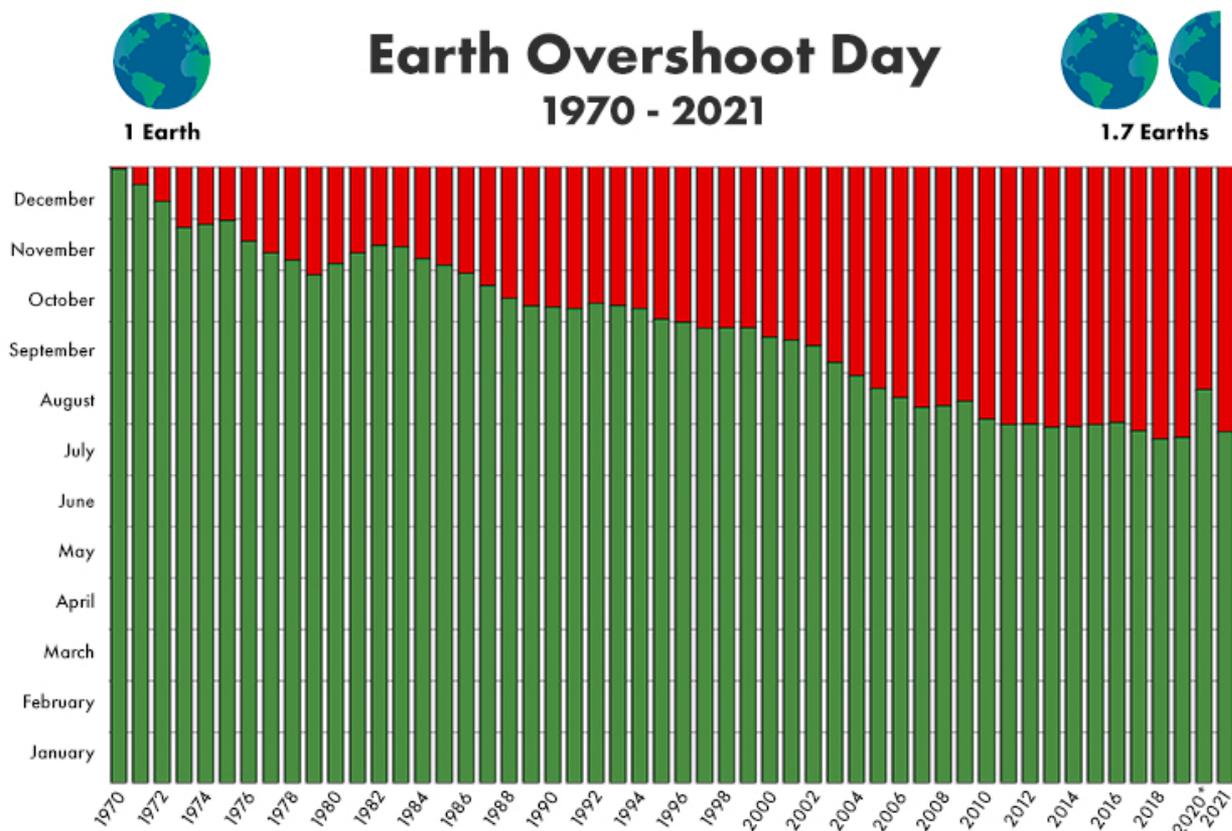


<p>ESG</p> <p>Environmental, Social and Corporate Governance Criteria</p>	<p>GBMV</p> <p>Grupo Bolsa Mexicana de Valores</p>	<p>CC</p> <p>Climate Change</p>	<p>CCFV</p> <p>Green Finance Advisory Council</p>
<p>CERPIS</p> <p>Investment Project Fiduciary Securitization Certificates</p>	<p>COP26</p> <p>26 UN Climate Change Conference</p>	<p>GEI</p> <p>Greenhouse gases</p>	<p>IFRS</p> <p>International Financial Reporting Standards</p>
<p>IPCC</p> <p>Intergovernmental Panel on Climate Change</p>	<p>R&D+I</p> <p>Research, development and innovation</p>	<p>MDGs</p> <p>Millennium Development Goals</p>	<p>SDGs</p> <p>Sustainable Development Goals</p>
	<p>UN</p> <p>United Nations</p>	<p>UNFCCC</p> <p>UN Framework Convention on Climate Change</p>	<p>USCUSS</p> <p>Land Use, Land Use Change and Forestry Sector</p>

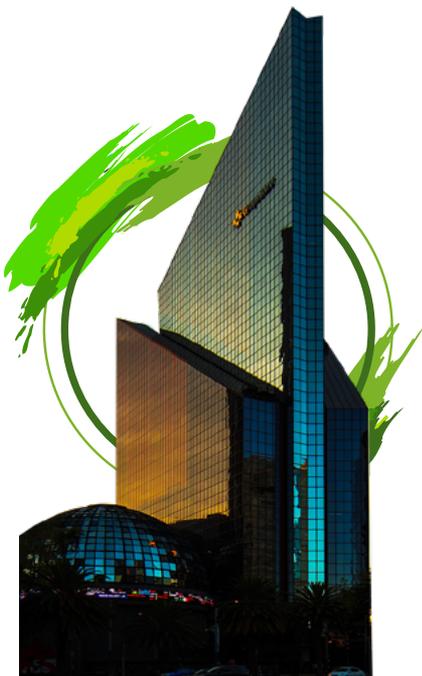
Climate change has become one of the biggest risks for the international community, one that in recent decades has caused great damage to biological, social and economic systems. Different organizations have already stated in their annual reports that climate change may imply irreversible consequences, prompting a search for actions that may jointly decrease or mitigate these effects (WEF, 2020). Thus, a consensus was reached in the 2015 Paris Agreement, to establish the goal of limiting the increase of temperature to 1.5°C (IPCC, 2020).

According to the United Nations (UN), Mexico is one of the 20 countries with the highest greenhouse gas (GHG) emissions of the 195 countries considered, and the highest in Latin America, in addition to being one of the most vulnerable in terms of the impact of global temperature changes (SEMARNAT, 2020). However, there are great opportunities for the implementation of measures to reduce climate risk while expanding economic activities in favor of sustainable development. These actions go hand in hand with regulations, standards and initiatives in favor of the creation of methodologies or instruments that promote sustainability, while guaranteeing monetary and financial stability (Bolton et al., 2020).

Figure 1. Country Overshoot Days, 2022



Source: Earth Overshoot Day, 2022



During the 2021 UN Conference on Climate Change (COP26), **Grupo Bolsa Mexicana de Valores (GBMV)** announced its commitment to reduce carbon dioxide (CO₂) emissions to reach net zero by 2050 (SSE, 2021). This as a result of joining the Glasgow Financial Alliance for Net Zero (GFANZ), which has led the GBMV to seek various strategies to create a path towards neutral GHG emissions.

The commitment of the GBMV encompasses its own operations, as well as providing support to its stakeholders. With that goal in mind, **a guide has been created to:**

- Facilitate a practical path that helps companies in designing their carbon neutrality strategy.
- Provide information on the mechanisms and tools that are available to facilitate the transition towards a low-carbon economy.
- Provide guidance in the dissemination of the strategy through the use of manuals, protocols and international standards.

Structure of the Guide

This document contains five sections that are key for its implementation.

- **Section one** - explains the contribution of the GBMV and the Stock Market Sector in boosting the use of financial tools and mechanisms in the different markets to facilitate the movement of capital towards sustainable projects and to achieve carbon neutrality.
- **Section two** - analyzes the relationship of economic activities with the UN's Sustainable Development Goals (SDGs), which must be taken into consideration to achieve a more equitable and prosperous society by 2030, which shall ensure a sustainable planet.
- **Section three** - describes the Net Zero initiative as a solution to minimize the impact of climate change from the business sector.
- **Section four** - is the essential part of this guide, where we propose the fundamental steps a company must follow to achieve its climate goals. The body of each section will explain each stage, including reference to international best practices for each of its components.
- **Section five** - highlights the importance of maintaining an updated information reporting program, covering both financial and environmental, social and corporate governance topics (ASG), to clarify the status of the company and the path it must follow to meet its goals.

1. CLIMATE CONTRIBUTION OF THE MEXICAN STOCK EXCHANGE AND THE FINANCIAL SECTOR IN MEXICO

Mexico's geographic location puts its population and ecosystems in a position of high vulnerability to climate challenges. The effects range from increases in temperature both during the day and at night, changes in precipitation, droughts and floods, among others, impacting both the production sector and national economic growth and development.

Consequently, Grupo Bolsa Mexicana de Valores has sought to collaborate closely with companies and government in the fight against climate change. GBMV actively participates in climate finance, creating different financial instruments that mobilize capital towards profitable and efficient projects that have a commitment with environmental, social and corporate governance issues. In the financial markets, different capital placement mechanisms have been developed through the debt markets, the capital market and hybrid instruments.

Financing Vehicles:

● Labelled bonds

➤ Green ➤ Sustainable ➤ Sustainable Sovereign ➤ Social ➤ Social Gender

● Sustainability-linked Bond

Labelled bonds seek to comply with the SDGs promoted by the UN, positioning Mexico and the GBMV as pioneers in this area in Latin America. These went to market as a financing option in 2016 and continue to be the main financial instrument aligned with sustainability in the Mexican market. In addition, these instruments have supported the implementation of activities or projects to capture and reduce emissions. These projects are carried out within key sectors of the economy that are essential to reduce emissions, such as: A) the energy sector, B) transportation, C) residential and commercial, D) waste, E) agriculture and livestock, D) land use, land use change, and forestry (USCUSS).

On the other hand, Sustainability-linked Bonds are an alternative for companies, through their organizational ESG objectives, to contribute to sustainability in a more tangible way. Through these debt instruments, resources are obtained for corporate uses in general, where their characteristics vary depending on the achievement of certain objectives and indicators (KPIs) of sustainability.

In order to achieve the climate goals of the Paris Agreement, the essential sectors mentioned in the previous paragraph need to reduce their GHG emissions. That is why the flow of capital has essentially been directed to the energy sector, followed by the transportation sector. It is important to note that, even though water is not one of the sectors under consideration, a large part of the bonds are aimed at water projects, which in turn generate an impact on the other sectors and contribute to the fulfillment of the UN SDGs (CCFV, 2021). As a result, more companies have begun to follow an environmental responsibility path and have social responsibility or sustainability departments.

The capital market and alternative instruments represent an option to finance corporate climate strategies. GBMV has promoted green financing for the real estate, infrastructure, energy and other industries, causing the benefits to trickle down other sectors. The financial vehicles can be:

- REITs (FIBRAs)
- MLPs (FIBRA E)
- CKDs
- CERPIs

Each of them can contribute to the generation of projects that focus on climate goals and allow investors to generate short and long-term returns.

The National Banking and Securities System (issuers, investors, intermediaries and financial authorities) as a whole plays a fundamental role in generating mechanisms that channel resources more efficiently, accelerating the transition to a low-GHG emissions economy. In addition, these initiatives generate benefits in socio-economic and inclusion areas for companies and their employees.

2. HOW DO THE SUSTAINABLE DEVELOPMENT GOALS RELATE TO CLIMATE CHANGE?

The Sustainable Development Goals (SDGs) were derived from the 2015 Paris Agreement (AP) and a revision of the Millennium Development Goals (MDGs) and consider climate change as one of the main challenges. The SDGs (Figure 2) were adopted by 193 countries, including Mexico, and they focus on “ending poverty, protecting the planet and ensuring sustainability” (United Nations Mexico, 2020). They assign responsibilities to countries, taking into account their different capacities and the level of national development.

Figure 2. Sustainable Development Goals, UN



Source: United Nations website, 2022

This agenda seeks to mobilize not only governments, but also of the private sector and civil society, under a scheme of shared responsibility. It works in the same way as an accountability tool that, through the application of specific measures, mobilizes more capital by attracting the attention of customers, investors and the general public. Thus, in the long term, companies become key actors for sustainable development.

The eight main goals that unite companies in the search for systematic mechanisms aimed at building adaptation and climate mitigation strategies are:



These SDGs help to minimize GHGs through capacity-building mechanisms for an effective planning and management of resources in relation to climate change. It is imperative to build a network with a significant presence of companies and other stakeholders in order to minimize the emission curve in the shortest possible time.

Although the basic goals are those mentioned above, the construction of the SDGs has the particularity of maintaining an ecosystem where each action has an impact on the rest, so the integration of the companies in this direction generates a virtuous circle for all those involved.

3. NET ZERO: AN INTEGRAL ALTERNATIVE IN THE FIGHT AGAINST CLIMATE CHANGE

GHG emissions have caused several climate and economic risks. Carbon, through the burning of fossil fuels, is the greatest contributor to climate change, as it accounts for 83% of emissions only in the global energy sector, therefore decarbonization has taken a fundamental role in the transformation of the global economy (McKinsey, 2022).

Climate neutrality refers to “the idea of achieving net zero greenhouse gas emissions by balancing those emissions so they are equal (or less than) the emissions that get removed through the planet’s natural absorption,” which has led it to be recognized as an international standard (PAS 2060). Carbon neutrality implies establishing requirements for the quantification, reduction or offsetting of these gases and carrying out different methodologies for the reporting of ESG information by companies.

There are several definitions that relate to the goals to achieve net zero carbon emissions in companies, including:

1. Achieving a scale of reduction of emissions in the value chain of companies, aligned with limiting global warming to 1.5°C and;
2. Neutralizing the impact of any source of residual emissions that is still not feasible to eliminate, through the permanent suspension of an equivalent amount of atmospheric carbon dioxide (SBTi, 2020).

A company with a net zero commitment will establish and pursue these objectives throughout its value chain and any remaining hard-to-decarbonise emissions can be compensated using certified greenhouse gas removal. (Carbon Trust, 2019).



Business Benefits:

Building reputation, credibility and brand recognition	Attracting talent and accessing new sources of funding	Increased investor confidence
Increased capacity to invest in research, development and innovation (R&D+ i) generating virtuous circles	Savings in resources and lower production costs	Increased resilience to potential regulatory changes in the future

The private sector has used different models and methodologies to guide its sustainability efforts. In Latin America, projects have been launched to ensure long-term sustainability by addressing the climate emergency in an inclusive manner. However, for a company to achieve net zero goals, it must implement direct actions in its operations and reduce its carbon footprint. There are different criteria for implementing a Net Zero strategy, including the 4 P’s meta-criteria suggested by UNFCCC (UNFCCC, 2021).

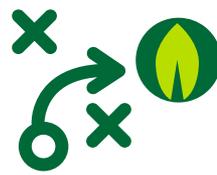


4 P's meta-criteria

1. <i>Pledge</i> to commitments	2. <i>Plan</i> and develop strategies
3. <i>Proceed</i>	4. <i>Publish</i> results and information

4. KEY STEPS COMPANIES MUST FOLLOW TO ACHIEVE CARBON NEUTRALITY

This section contains the crucial steps for companies to adopt measures that achieve carbon neutrality. The following outline shows a summary of the steps required to build a sustainable and comprehensive business strategy.



Measure your carbon footprint

- Identify the volume of your emissions

Identify climate risks, potential scenarios and opportunities

- Identify physical and transition risks
- Consider climate risks as financial risks
- Evaluate the scenario your company is in
- Climate opportunities

Establish an emission reduction strategy

- Identify relevant issues (materiality analysis)
- Implement internal actions to reduce emissions
- Offset/Neutralize your emissions

Report ASG information

- Consider the importance of reporting your sustainability information
- Meet the ESG reporting criteria and methodologies

Source: Prepared internally



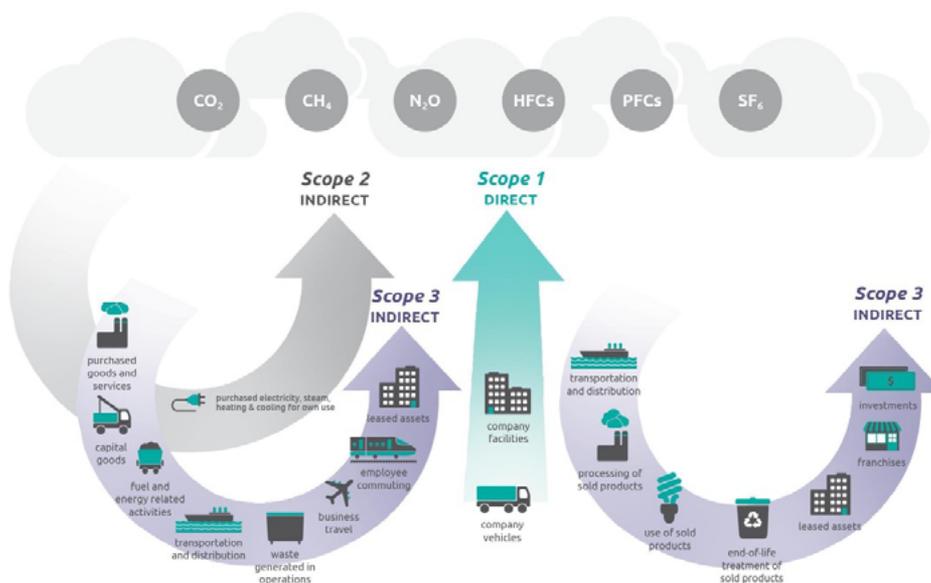
The carbon footprint refers to the total GHGs emitted directly or indirectly by a company, product, event or person. Its environmental impact is measured through an inventory of GHG emissions or a life cycle analysis depending on the type of footprint, following recognized international regulations, such as the methodologies of the GHG Protocol and the United Nations.

The carbon footprint is measured in tonnes of carbon dioxide equivalent (tCO₂eq), in order to include the six main greenhouse gases: carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆).

In order to estimate of the carbon footprint of a company, event, product or person, emissions are classified according to their scope as shown below:

- **Scope 1** emissions, also known to as **Direct Emissions**. They are the GHGs emitted directly by the company. For example, as a result of using fossil fuels in machinery or vehicles owned by the company, as a result of losses of cooling gases or chemical reactions during production processes, among others.
- **Scope 2** emissions or **Indirect Emissions from electricity purchased**. They are the greenhouse gases emitted by a service provider, for example, electricity generators. They depend both on the amount of energy required by the company and on the energy mix of the network that supplies the organization.
- **Scope 3** emissions, also known as **Other Indirect Emissions**. These are attributable to the products and services purchased by the company, which required generating emissions in order to be produced. They are the most difficult to account for, because they contemplate the value and supply chains of other companies. Their calculation depends on a large number of products and services used and it is difficult to know the emissions of these products or services if they are not provided by suppliers.

Figure 3. Overview of GHG Protocol scopes and emissions across the value chain



Source: (GHG Protocol, 2013)

It is important to calculate the GHG emissions generated by the company on an annual basis and have it verified by an independent third party for impartiality and certainty of the measurement, so that the company may manage its emissions adequately.

An entity that evaluates and recognizes its critical emission points inside and outside its operations has greater opportunities to address climate change risks and adopt prevention, mitigation and adaptation measures. Measuring the carbon footprint is, without question, an indicator of sustainability and climate impact.

B.

Identify climate risks, potential scenarios and opportunities



In order to assess the potential impacts that climate risks have on their operations, and to incorporate such risks into their business strategy, companies must have a clear understanding of the nature of such risks. Climate risks fall into two categories: i) risks related to the physical impacts of climate change and ii) risks related to the transition to a low-emission economy (TCFD, 2017).

Climate Risks

Physical risks are the result of the direct and indirect impacts of climate change, and, as their name indicates, they can be attested in a physical and tangible way. This type of risks can be classified into:

- **Acute:** they represent an increase in the frequency and severity of climatic events. For example, heat waves, floods, cyclones and forest fires.
- **Chronic:** they represent medium and long term changes in climate patterns. For example, droughts, changes in precipitation, variations in temperature, sea level rises. These changes require a significant level of investment and adaptation by economic operators.

Transition risks are the result of the process towards a low-carbon economy. They integrate climate change adaptation and mitigation efforts. These are classified as:

Table 1. Transition Risks

Category	Description
Political/legal risks	Consequences of policies aimed at limiting actions that contribute to climate change (carbon taxes, policies to improve energy and water efficiency, etc.). It includes climate action requirements imposed by cities, states, insurers, investors, among others.
Technology risks	Failure to adopt technological improvements or innovations that support the transition to an energy-efficient and low-carbon economy. They affect competitiveness, production costs, product demand by end consumers, among others.
Market Risks	Changes in the supply and demand of certain raw materials, products and services.
Reputational risks	Involve a change in the perception that the actions of stakeholders of the organization contribute to or deplete a low-carbon economy.

Source: Adapted from the TCFD report (TCFD, 2017)

Companies must identify and analyze their climate risks considering the following elements:

- Type of Risk (physical or transition)
- Risk Category (chronic, acute, policy/legal, technology, market, reputational)
- Risk Description
- Time horizon (short, medium or long term)
- Impact (low, medium, high)
- Mitigation measures
- Residual risk (outcome after mitigation measures)

Climate risks, especially physical risks, can have financial consequences for organizations, such as direct damage to assets and indirect effects such as disruptions of the supply chain. The financial performance of the organizations may also be affected by changes in water availability, supply and quality, food security, and extreme temperature changes affecting facilities, operations, the supply chain, transportation needs, and employee safety, among others.

Climate Scenarios

They are a tool to address potentially adverse impacts of climate change in the strategic plans of companies and to gain a deeper knowledge of the main variables of (physical and transition) climate risks that may affect the stability of the organization. In short, the most representative scenarios are:

- Orderly: Fast and ambitious action for a net zero economy
- Disorderly: Late, disruptive, sudden and/or unforeseen action
- Greenhouse or “**Hot house world**”: absence of policies and actions to address the climate crisis. In this scenario, warming estimates range from 3°C to 4°C by 2100.

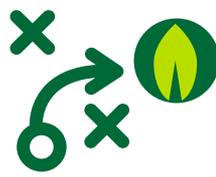
Climate Opportunities

As we move towards a low-carbon economy, new economic sectors emerge that present business opportunities for companies. Energy efficiency, efficient transport and water security solutions are some of the areas that offer interesting investment opportunities (Banxico, 2021). TCFD classifies climate change opportunities into five categories:

- Products and Services
- Resource efficiency
- Energy source
- Markets
- Resilience



Establish an emission reduction strategy



The action lines to develop a strategy aimed at preventing and reducing GHG emissions are: i) identifying the relevant issues, ii) implementing internal actions to reduce emissions and iii) emission offsetting/neutralization.

Identifying Relevant Issues

As a first step, the environmental, social and governance business priorities must be clear and we must take their context, as well as the expectations of the key stakeholders of the business strategy into consideration.

A materiality analysis identifies these priorities and considers three main elements:

1. General sector trends
2. Stakeholder expectations
3. Strategic business priorities

The above must be captured in a two-dimensional matrix where the issues are classified according to their importance for the company's strategy and for the most relevant stakeholders according to the level of maturity and risk.

Stakeholders are the main actors with whom the company must maintain communication to align expectations and they may include the Board of Directors, senior management, company associates, customers, regulators, investors, civil society organizations, suppliers and the community. Building an emissions reduction strategy is different for each company because, while all companies are exposed to climate risks, not all of them are affected in the same way. That is why the materiality analysis is very important to evaluate how climate change affects operations and also how the company's activities contribute to climate change.

It should be noted that it is key that the Board of Directors and senior management participate in the preparation of the diagnosis and materiality matrix to prioritize and decide the issues that will be incorporated into the sustainability strategy. Both should ensure that the implementation of the resulting initiatives is an institutional priority. This diagnosis may vary depending on the context and its timing, so it is advisable to update it at least every three years.

Figure 4.
Materiality Matrix
Example



Implementing internal actions to reduce emissions

Once the environmental impact has been measured, climate risks and opportunities have been identified and the materiality of the organization is clear, the next step is to establish reduction goals. The strategy should be aligned with Science Based Targets and consider a short term scope (5 to 10-year), as well as long term reduction of residual emissions (before 2050), both in line with the 1.5°C scenario, considered as a goal in the Paris Agreement.

The purpose of these goals is to guide companies in defining a carbon-neutral path, not only to reduce GHG emissions, but also to achieve the company's objectives without compromising resources for future generations.

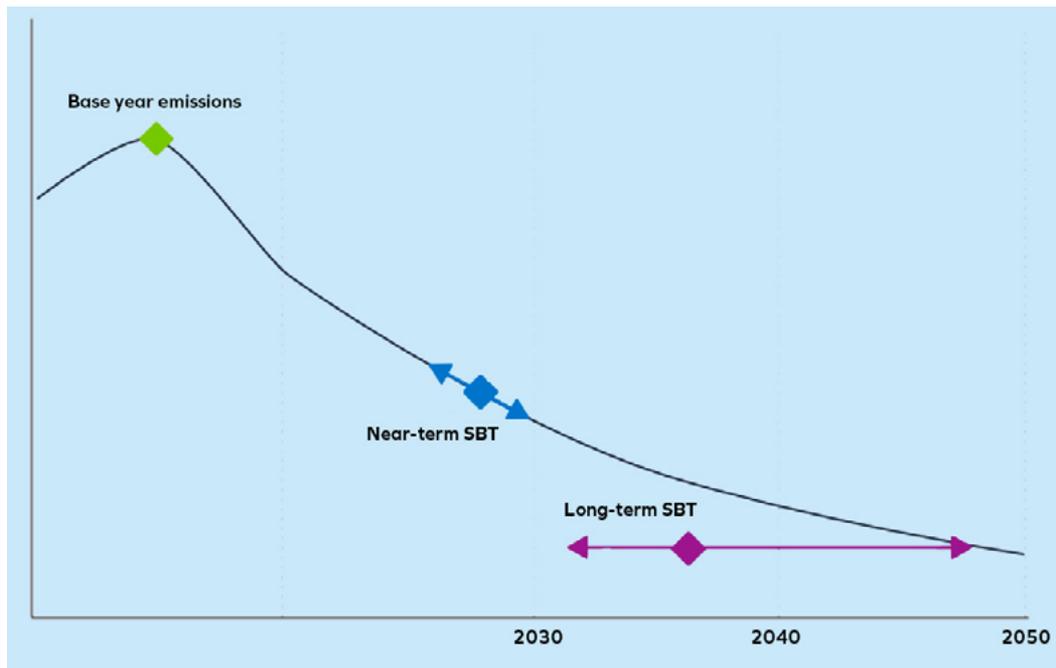


Figure 5. Science Based Targets – Net-Zero Standard, 2021

In order to achieve the established goals, there must be adjustments to the operation and management of the company considering, among others, the following:

• Operations

- Changes in operational practices
- Innovation in work processes
- Waste management

• Ecoefficiency

- Replacement of existing resources with more eco-efficient ones
- LEDs, low-carbon refrigerants, fire extinguishers, etc.
- Green spaces and buildings
- Low carbon combustion sources (biofuel, hydrogen fuel, etc.)
- Clean technologies

• Value Chain

- Alignment of the value chain with ESG criteria (associates, employees, suppliers, customers, etc.)

Offset/neutralize your emissions

We have reviewed emission reduction strategies aimed at changing corporate operating processes to become low-carbon and environmentally resilient. However, the adaptation process can sometimes be complicated, delayed or impossible to eliminate if the residual GHG emissions depend on the sector to which the organization belongs.

The voluntary carbon market provides an alternative for companies to offset the GHG emissions that cannot yet be avoided or reduced in their operations and value chains. This, keeping in mind that the ideal scenario is first to prevent the generation of GHG emissions from the consumption or use of fossil fuels. Subsequently, to replace energy sources with renewable or more efficient ones and invest in new technologies and, finally, to offset emissions through Certified Emission Reductions (carbon credits).

To start the offsetting process, it is necessary to quantify the amount of tons of carbon dioxide equivalent (CO₂e) that the company is emitting into the atmosphere by measuring its carbon footprint. One tonne of CO₂eq is equivalent to a carbon credit, therefore, if a company - after having prevented, reduced and replaced - emits 500 tonnes of CO₂eq into the atmosphere, it must acquire 500 carbon credits to neutralize its emissions.

In Mexico and in the world there are various mitigation projects that aim to capture carbon dioxide from the atmosphere. They include forestry projects (reforestation, conservation, silvopastoral practices and urban forests), renewable or efficient energy, waste management, transport and methane capture. These projects are the generators of carbon credits.

There are quality standards that certify such GHG emission reduction projects, supervise independent third party verification bodies and issue the carbon credits generated from the projects. In addition, they establish a system to verify and monitor the transactions of the project's credits. These must sign up and their information must be fully accessible and open to the public. Internationally recognized standards include: Climate Action Reserve, the UN Clean Development Mechanism, VCS/Verra, Gold Standard and Plan Vivo.

Once these projects have been identified, companies wishing to offset their emissions can approach emission mitigation initiatives to purchase carbon credits or consult with an intermediary who has an agreement with the projects to purchase carbon credits.



The Mexican Carbon Platform is the subsidiary of Grupo Bolsa Mexicana de Valores that is responsible for marketing emission reductions from Mexican projects.

After purchasing carbon credits, it is important to ensure that ownership is vested in the company that is offsetting its emissions. For this purpose, buyers must receive an emission reduction cancellation certificate issued by the intermediary, and the standard that provides traceability to the quantification of emission reductions also issues an additional document or certificate that publicly supports the offsetting of the tons of CO₂eq requested by the company. This is essential for an adequate accounting and market transparency.



The demand for environmental information reporting has grown significantly around the world, involving multiple actors from various sectors. Grupo Bolsa Mexicana de Valores is a member of the Sustainable Stock Exchanges Initiative (SSE), created by the UN, which, among other objectives, guides listed companies in the design of their sustainability strategy and disclose it in annual sustainability or integrated reports, generating greater transparency and promoting responsible investment.

In order to expedite the transition to a sustainable, resilient and low-carbon economy, it is indispensable that companies collect and report ESG information in a standardized way, so that the reporting system can be a fundamental tool for decision-making.

The call to climate action and its reporting is increasingly urgent and requires the participation of all the stakeholders of the market. An example of this is the signing of the “Request for issuers to report environmental, social and corporate governance information in 2020 and 2021”. In this initiative, 91 financial institutions, which in aggregate manage assets for \$6.7 trillion pesos (equivalent to 27.6% of national GDP) affirm their commitment and consensus to request issuers to report ESG information in a standardized and consistent manner, taking into account the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the standards of the Sustainability Accounting Standards Board (SASB). The signatory institutions recognize the importance and materiality of ESG information for decision-making and encourage companies from all sectors to build and strengthen the disclosure of such information. Likewise, they urge the Boards of Directors and senior management of companies to become involved in corporate sustainability strategies in order to face the new environmental, social and governance challenges, and to monitor the achievement of goals, creating long-term value.

As the financial information starts including an ESG analysis, companies will be able to measure their impact on the environment, consider climate risks, prepare for them and access sources of financing that, increasingly, require the disclosure of this type of information. (World Economic Forum, 2021). Sustainability reporting and disclosure methods enable companies to apply better risk management practices and encourage greater capital mobilization. Currently, there are several standards to choose from or which can supplement each other in the reporting of ESG information. The most relevant and established standards include:

Global Reporting Initiative (GRI)

The GRI was the first international standard for the preparation of sustainability reports, and it has a modular and interrelated structure. Its goal is to be an independent organization that builds a common language for companies to report on their impact on sustainable development regardless of their size, industry, sector or location (GRI, 2021).

Sustainability Accounting Standards Board (SASB)

Founded as a non-profit organization in 2011, it aims to help companies and investors develop a consensual language for the financial impacts of sustainability (SASB, 2021).

Task Force on Climate-related Financial Disclosure (TCFD)

It was created by the G20 Financial Stability Board with the purpose of developing recommendations around more efficient and climate-related disclosures to promote informed investment, credit and assurance decisions, while enabling stakeholders to better understand carbon market-related asset concentrations within the financial sector.

The TCFD, more than a standard, is a frame of reference with recommendations on how to report climate-related financial information. The recommendations are structured around four thematic areas that represent core elements of how organizations operate. (TCFD, 2017).

International Financial Reporting Standards (IFRS)

The IFRS is a not-for-profit, public interest organization established to develop a single set of high-quality, understandable, enforceable and globally accepted accounting and sustainability disclosure standards.

Due to the wide acceptance and application of these standards, the establishment of a body responsible for the creation of the International Sustainability Standards Board (ISSB) was announced during COP26. With this system in place, the IFRS Foundation will provide capital markets with a comprehensive insight into the financial and sustainability risks and opportunities associated with value creation. Below is an outline that explains how the ISSB will be integrated into the financial reporting of the companies.

Scheme 3. The IFRS Foundation, IASB and ISSB



Source: (Value Reporting Foundation, 2021)

This new methodology will lay the technical groundwork to establish global sustainability reporting standards for financial markets. And it will also meet the growing and urgent demand for rationalization and formalization of information on corporate sustainability.

Given the risks to which companies are exposed, identified through climate scenarios, the actions required to achieve the decarbonization of the economy must be a fundamental part of the business plans of the companies in the 21st century. Therefore, it is widely recommended that companies develop strategies for the management of ESG risk and opportunities and that they integrate those strategies into their business model.

The path to net-zero emissions is one that all businesses must follow to transition to a low-carbon, long-term sustainable economy. There are mechanisms to prevent, reduce and neutralize GHG emissions, so the establishment of an environmental strategy that is supported by the highest level of the organization and that considers the identification of the impact and the roadmap to achieve the goals, is essential to strengthen the institutional strategy.

For organizations that are starting their journey to **carbon neutrality**, the most important thing is to take the first step, even if their goals are not initially based on science. Review what companies in your industry must be working on and how your organization is doing with respect to its peers.

Sustainability is a journey, not a destination. It is essential to take the first step towards a low-carbon economy by considering the following elements:

Prevention	<ul style="list-style-type: none"> ● Carbon Footprint Measurement ● Identification of risks, opportunities and climate scenarios
Reduction	<ul style="list-style-type: none"> ● Establishment of the emission reduction strategy <ul style="list-style-type: none"> • Identification of relevant topics (materiality) • Implementation of internal actions to reduce emissions • Offsetting/Neutralization
Disclosure	<ul style="list-style-type: none"> ● Reporting criteria and methodologies

The commitment of *Grupo Bolsa Mexicana de Valores* involves supporting its stakeholders on their path towards sustainability. That is why this document for carbon neutrality seeks to provide information and to guide companies on the mechanisms and tools that facilitate the transition to a low-carbon economy, a transition that brings benefits not only for the environment but for all sectors of the economic system.

The economic and financial uncertainty caused by climate change has drawn economic agents to build strategies against these effects. Companies have the opportunity to design business plans aligned with climate and environmental objectives to continue to be leaders in their industries.

All the production sectors of the economy will reap benefits during the sustainable transition of their operations and activities. It is essential to communicate to them that changes to the technological and production systems aimed at avoiding the use of fossil fuels, preserving ecosystems and their life cycles, will allow companies to realize competitive advantages, reduce costs and generate profitability in their businesses.

In addition, reporting information about the action measures carried out by them will provide certainty to their end consumers and investors, demonstrating greater credibility, enhancing their reputation and brand recognition.

Grupo Bolsa Mexicana de Valores is convinced that including these initiatives in company business plans will boost sustainable growth through the development of effective and efficient processes throughout the value chain. It is essential to consider these actions as a priority in the business strategy and to encourage all the actors to join climate action.



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