

SBTs for Financial Institutions

Monica Richter, WWF
Cynthia Cummis, WRI
Corinne Schoch, GCNA
November 25/26, 2019



SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

PARTNER ORGANIZATIONS



IN COLLABORATION WITH



Science Based Targets initiative



SCIENCE
BASED
TARGETS

The Science Based Targets initiative mobilizes companies to set science-based targets and boost their competitive advantage in the transition to the low-carbon economy.

PARTNER ORGANIZATIONS

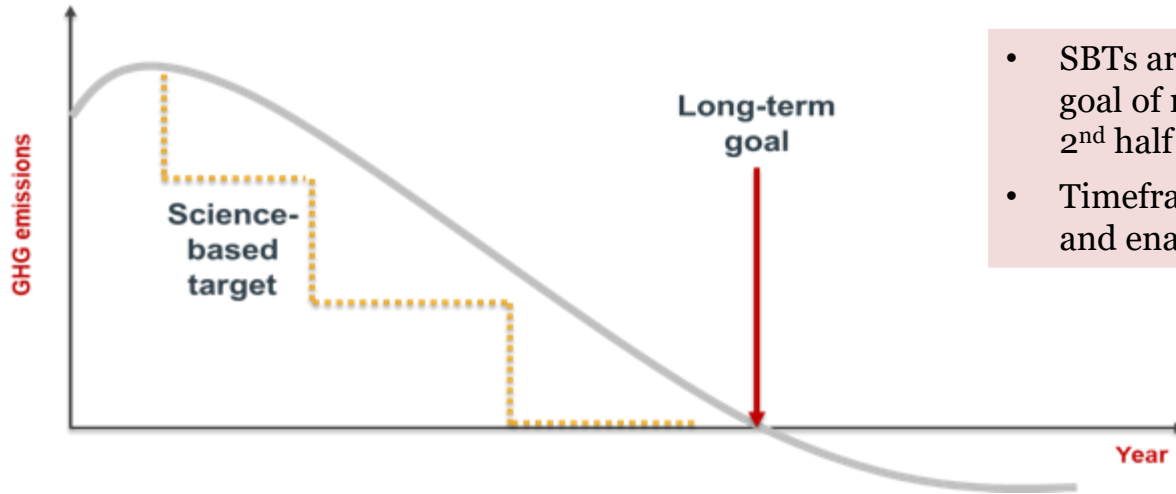


IN COLLABORATION WITH



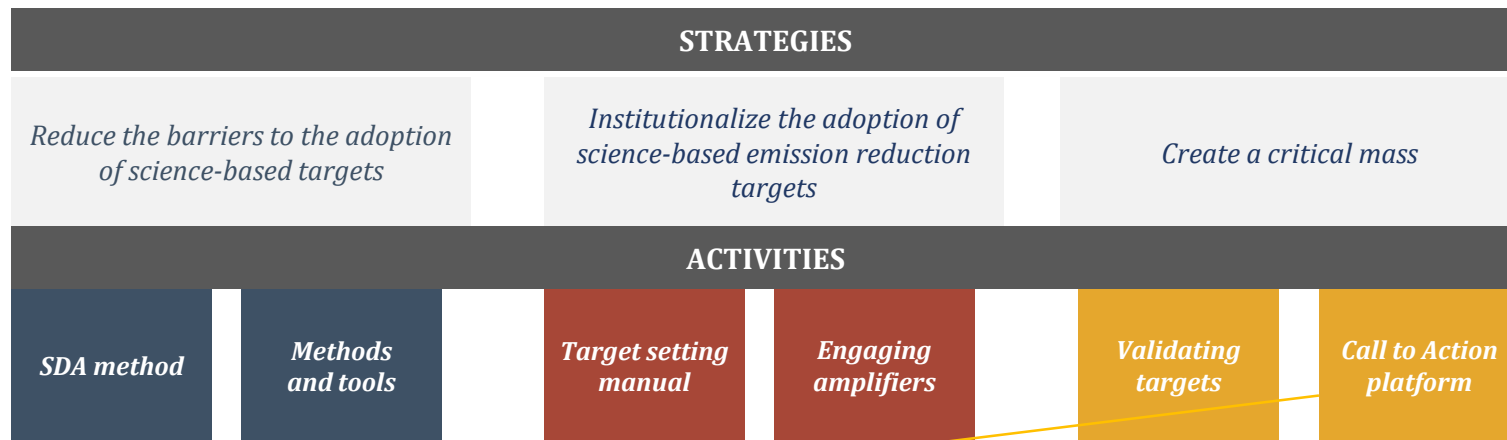
What are science-based targets?

“GHG emissions reduction targets that are consistent with the level of decarbonization that, according to climate science, is required to keep global temperature increase within 1.5 to 2°C compared to pre-industrial temperature levels.”



- SBTs are consistent with the long-term goal of reaching net-zero emissions in 2nd half of century
- Timeframe drives short-term action and enables accountability (5-15 years)

SBTi's 3-pillar strategy



685

Companies have formally joined the SBTi Call to Action

300

Companies have approved targets

~ 3

Companies joining the Call to Action every week

SBTi criteria

The SBTi uses 5 core criteria to assess company targets

1. Boundary

Covers company-wide scope 1 and scope 2 emissions and all GHGs as required in the GHG Protocol Corporate Standard.

2. Timeframe

Commitment period must cover a minimum of 5 years and a maximum of 15 years from the date the target is submitted for an official quality check.

3. Level of ambition

At a minimum, the target will be consistent with the level of decarbonization required to keep global temperature increase to well-below 2°C compared to pre-industrial temperatures, though we encourage companies to pursue greater efforts towards a 1.5° trajectory.

Intensity targets are only eligible when they lead to absolute emission reductions in line with climate science or when they are modelled using an approved sector pathway or method (e.g. the Sectoral Decarbonization Approach).



SBTi criteria

4. Scope 3

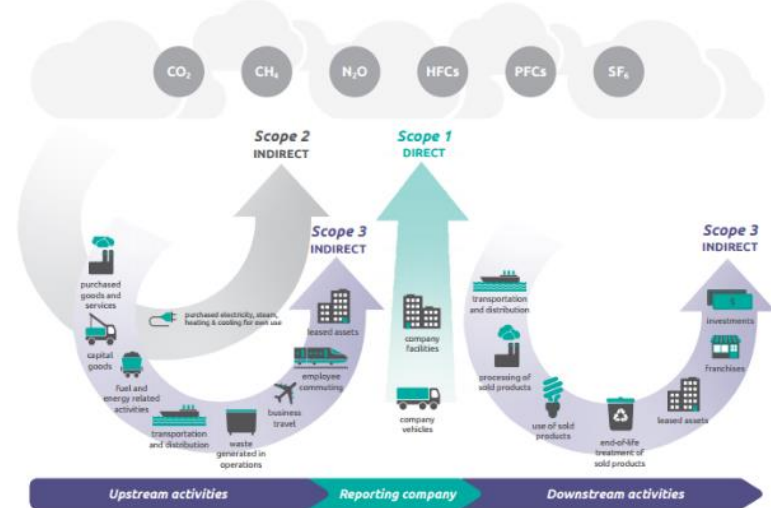
Companies must complete a scope 3 screening for all relevant scope 3 categories in order to determine their significance per the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

An ambitious and measurable scope 3 target with a clear time-frame is required when scope 3 emissions cover a significant portion (greater than 40% of total scope 1, 2 and 3 emissions) of a company's overall emissions.

The target boundary must include the majority of value chain emissions as defined by the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard

5. Reporting

Disclose GHG emissions inventory on an annual basis.



Source: GHG Protocol Scope 3 Standard

<http://www.ghgprotocol.org/standards/scope-3-standard>

Science-based targets for financial institutions

In 2018, the SBTi launched this project to enable financial institutions to align their investment and lending portfolios with real economy emission reductions required to achieve the 2015 Paris Agreement and make this common practice.

The project audience includes universal banks, pension funds, insurance companies and public financial institutions.



Project partners and roles

Science Based Targets initiative for Financial Institutions - Core Team

PARTNER ORGANIZATIONS



IN COLLABORATION WITH



Technical Partners



A global group of 50 financial institutions have committed to setting SBTs

- *ABN Amro Bank N.V.*
- *Actiam NV*
- *Allianz Investment Management SE*
- *ASN Bank*
- *Australian Ethical Investment*
- *AXA Group*
- *BanColombia SA*
- *Bank Australia*
- *Bank J. Safra Sarasin AG*
- *BBVA*
- *BNP Paribas*
- *Capitas Finance Limited*
- *Chambers Federation*
- *Commercial International Bank*
- *Egypt (SAE) CIB*
- *Credit Agricole*
- *DGB FINANCIAL GROUP*
- *Fubon Financial Holdings*
- *FullCycle*
- *Grupo Financiero Banorte SAB de CV*
- *Hannon Armstrong*
- *Hitachi Capital Corporation*
- *HSBC Holdings plc*
- *ING Group*
- *KLP*
- *La Banque Postale*
- *London Stock Exchange*
- *Mahindra & Mahindra Financial Services Limited*
- *MetLife, Inc.*
- *MP Pension*
- *MS&AD Insurance Group Holdings, Inc.*
- *OXI-ZEN Solutions SA*
- *Pension Danmark*
- *Principal Financial Group, Inc.*
- *Raiffeisen Bank International AG*
- *Societe Generale*
- *Sompo Holdings, Inc.*
- *Standard Chartered Bank*
- *Storebrand ASA*
- *Swedbank AB*
- *Swiss Re*
- *T.GARANT BANKASI A.*
- *Teachers Mutual Bank*
- *Tokio Marine Holdings, Inc.*
- *Tribe Impact Capital LLP*
- *TSKB*
- *Vakifbank*
- *Westpac Banking Corporation*
- *YES Bank*
- *Yuanta Financial Holding Co Ltd*
- *Zurich Insurance Group Ltd*

SBT/FI framework development process



Asset Class	Method	Description
Real Estate	Sector Decarbonization Approach (SDA)	Emissions-based physical intensity targets are set for non-residential buildings' intensity and total GHG emissions.
Mortgages	SDA	Emissions-based physical intensity targets are set for residential buildings' intensity and total GHG emissions.
Electricity Generation Project Finance	SDA	Emissions-based physical intensity targets are set for electricity generation projects' intensity and total GHG emissions.
Corporate Instruments (equity, bonds, loans)	SDA	Emissions-based physical intensity targets are set at sector level within the portfolio for sector where sectoral decarbonization approaches are available.
	PACTA	Sectors are assessed at individual business activity level for select activities.
	SBT Portfolio Coverage	Financial institutions engage a minimum of 30% of their investees (in monetary or GHG emissions terms) to have their own science-based targets.

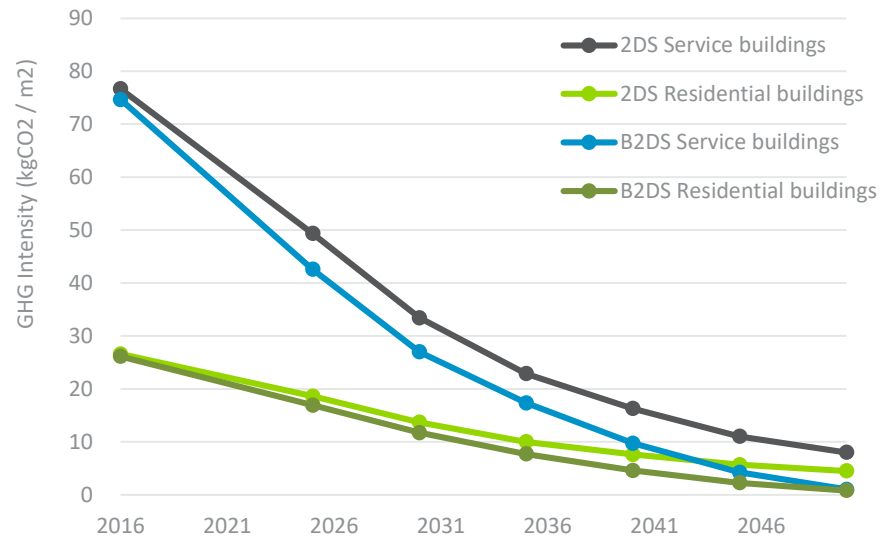
Overview #1

A financial institution can align its real estate and mortgage portfolios with the Paris Agreement and set an emissions reduction target using the Sectoral Decarbonization Approach (SDA):

Emissions intensity ($\text{kgCO}_2\text{e} / \text{m}^2$) of real estate and mortgage portfolios of financial institutions converges to same emissions intensity as global pathway for residential and service buildings in 2050.

Potential target output: Financial institution A commits to reduce its mortgage/real estate portfolio GHG emissions ___% per m^2 by 2030 from a 2017 base year.

Global Decarbonization Pathway from IEA



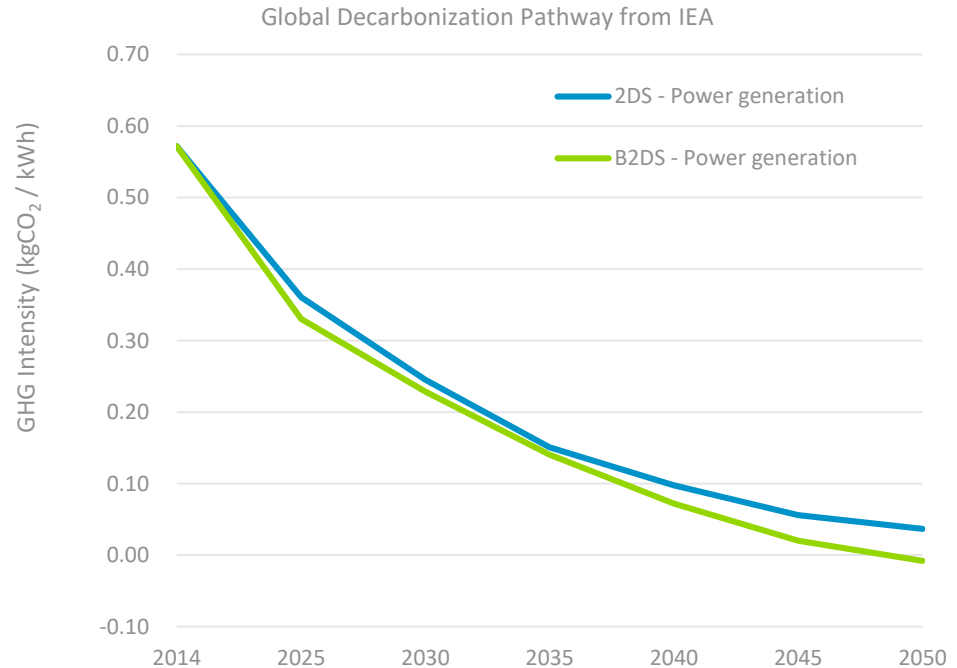
Source: IEA ETP 2017

Overview #2

A financial institution can align its electricity generation project finance portfolio with the Paris Agreement and set an emissions reduction target using the Sectoral Decarbonization Approach (SDA):

Emissions intensity ($\text{kgCO}_2\text{e/ kWh}$) electricity generation project finance portfolio of financial institutions converges to same emissions intensity as global pathway for the power generation sector in 2050.

Potential target output: Financial institution A commits to reduce its electricity generation project finance portfolio GHG emissions ___% per kWh by 2030 from a 2017 base-year.



Source: IEA ETP 2017

Overview #3

Physical emission intensity target (e.g. kgCO₂e/tonne production) could be set at the portfolio level for sectors covered by SDA:*

- Power generation
- Cement
- Iron & steel
- Aluminium
- Pulp & paper
- Transport
- Buildings

Potential SDA/corporate instrument target output: Financial institution A commits to reduce GHG emissions from the steel sector within its corporate lending portfolio XX% per tonne of steel by 2030 from a 2017 base-year.



SDA TOOL AND METHODOLOGY

SDA Tool Version 8 now available

We are happy to announce that the SDA tool V8 was made publicly available starting on February 27th 2017. We strongly recommend companies use this new version (date of revision: 02/27/2017) instead of V7 because it uses the most up-to-date IEA ETP data (2016). Note that targets modeled using previous versions of the SDA tool can only be submitted to the SBTi for an official validation within six months of the revision date (see SBTi Criteria C9 on Method Validity).

Download the Excel 2013 version [here](#)

Download the Excel 97-2003 version [here](#)

- The back-end data has been locked as it contains proprietary information from the International Energy Agency ETP 2016 zDS.
- The user needs to enable Macros to use the tool.
- If the Excel of the user is in a different language that is not English, the Excel might not recognize some parameters in the tool and it might not work. The recommendation is to use a version in English.

*An Excel-based tool is available for setting sectoral emission intensity targets: <https://sciencebasedtargets.org/sda-tool/>. In 2019, the SBTi released a new [Science-based Target Setting Tool](#). The integrated target-setting tool for companies includes the Sectoral Decarbonization Approach with updated temperature pathways.

Overview #4

Whereas SDA is based on physical emissions intensity approaches, PACTA is focused on production capacity and technology type data (vehicles manufactured per year, GW electricity, etc.)

- 2°II developed PACTA on the basis of physical asset data and the SEI metrics project.
- Financial institutions can use the online tool (<http://transitionmonitor.com>) to assess portfolio alignment with climate scenarios; a spreadsheet tool was also provided to road testers.

Potential PACTA target output: Financial institution A commits to increase installed capacity in renewable electricity by XX MW by [year] across the [asset class] portfolio companies that we are specifically targeting in the context of our climate actions.



The screenshot shows the PACTA website homepage. At the top, it says "Paris Agreement Capital Transition Assessment" and "PACTA 2020". There is a navigation menu with links for Home, About Us, PACTA 2020, Stress Testing, Publications, FAQ, Contact Us, and a button for "Participate". Below the navigation is a large graphic with a blue and white background and the text "PACTA 2020".

Welcome to the 2°C Scenario Analysis homepage of the 2° Investing Initiative, supported by the UN Principles for Responsible Investment.

This website hosts the research of 2° Investing Initiative and its partners, designed to help financial institutions integrate climate objectives and long-term climate-related risks into their portfolio management. You can find a number of different tools and analyses on this website, all open-source and P4-Ready free:

- The PACTA climate scenario analysis tool for listed equity and corporate bonds portfolios, applied by over 600 investors around the world on over 1,000 portfolios to date.
- Methodology documentation and source code for the PACTA methodology for corporate lending, which allows banks to replicate the PACTA climate scenario model. [Contact us](#) to find out how to join the pilot group of 17 banks.
- The Bank of England 2019 [climate analysis](#) for insurance companies (online from mid-July 2019).
- A dynamic stress-testing module allowing investors to develop their own stress-testing frameworks and apply them on their portfolio (online from Q1 2019).
- A target setting module designed to help set science-based targets for financial portfolios (online from Q4 2019).
- Company reports for engagement, developed in collaboration with key NGOs and data providers, and informing the CA100+ engagement Initiative (online from Q1 2019).

The website also hosts a library of 2° Investing Initiative research reports, set to be expanded to host reports from partner organizations over the next year. It will also be home to future industry association climate pilot applications and the 2020 PACTA country pilot involving a 10-countries stress assessment on progress relative to Art. 2.1c. [Contact us](#) to find out more.

While this website is hosted by 2° Investing Initiative, it is designed to be home to leading models, data, software, and analytical solutions at the nexus between climate change, long-term risks, and financial markets. If you or your organization want to get involved in hosting your outputs on this website, or using the underlying source code for your work, get in touch!

What is in it for you?

The tools on this website can help you respond to a range of research questions and needs:

- Risk and confidential assessment of how your listed equity and corporate bonds portfolio compares to a 2°C transition (as defined by the IBC).
- Insight into how your climate policies compare to your peers.
- A better understanding of potential capital misallocation and potential associated financial risk under 2°C transition, as well as the ability to implement appropriate strategies.
- Aligning with the Financial Stability Board Task Force on Climate-Related Financial Disclosures recommendations on 2°C scenario analysis.

Partners

The tool provided on this website is supported by the UN Principles for Responsible Investment. It is financially supported by the European Commission LIFE Action Grant, the ClimateAction Foundation, and the Swiss Entrepreneurial Society. It builds on research previously funded by the EU-H2020 Sustainable Energy Investing Metrics project. As of June 2019, it has been used by over 700 institutions globally.

[Join Participate](#)

Overview #5

In this method financial institutions have a minimum percentage of their investees (in monetary or GHG emissions terms) set their own science-based targets.

The method is a financial sector analogue to supplier engagement targets for 'real economy' companies' scope 3 emissions.

Potential SBT Portfolio Coverage target output:
Investment firm A commits that 30% of its equity portfolio by market capitalization will have science-based targets by 2024.

Examples of approved supplier engagement targets:

- Japanese multinational chemical company **Sumitomo Chemical** commits that 90% of its suppliers by product weight will institute science-based GHG reduction targets by 2024.
- Multinational enterprise information technology company **Hewlett Packard Enterprise** commits that its manufacturing suppliers covering 80% of spend will set science-based targets by 2025.

Additional information about approved SBTs is available at:
<https://sciencebasedtargets.org/companies-taking-action/>

Portfolio Coverage Elaboration

Potential target requirements for SBTi validation

- **Boundary:** FIs may set SBT Portfolio Coverage targets covering a minimum 30% of their investees by GHG emissions, assets under management or market capitalization.
- **Timeframe:** targets must be fulfilled within a maximum of 5 years from the date the FI's target is submitted to the SBTi for an official validation.
- **Level of ambition:** The FIs investees shall have science-based emission reduction targets on their scope 1 and 2 emissions.

Potential recommendations

- Investees in sectors with high scope 3 emissions (e.g., fossil energy companies) are encouraged to set scope 3 targets as well
- Investees can use SBTi resources to set targets but validations by SBTi would not be required.
- Investors can track whether investees have SBTs through their reporting to CDP or perhaps annual sustainability reports.

Q&A



SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

The framework development process extends into next year

Date	Milestones
November	Distribute stakeholder feedback on methods; Agree to revisions within SBTi team
December	Develop draft target-validation criteria
February	Conduct stakeholder feedback process on criteria
March	Revise criteria
April	Develop guidance and framework
July	Launch version 1.0 of framework



SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION



Thanks for your time!

If you haven't already, **join SBTi/FI stakeholder list**

at <https://sciencebasedtargets.org/financial-institutions/>



www.sciencebasedtargets.org



info@sciencebasedtargets.org

Science Based Targets

Contacts:

Monica Richter mrichter@wwf.org.au

Corinne Schoch Corinne.schoch@unglobalcompact.org.au

Cynthia Cummis Cynthia.Cummis@wri.org



SCIENCE
BASED
TARGETS

An initiative by



In collaboration with

**WE MEAN
BUSINESS**