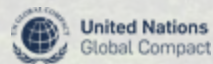


# The Science Based Targets initiative

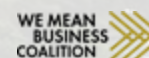
## Public Consultation Webinar on Draft Financial Institutions Resources

July 2023

PARTNER ORGANIZATIONS



IN COLLABORATION  
WITH



# Welcome & Housekeeping

- This event is being recorded
- It will be published on YouTube and the SBTi website
- Post your questions in the Q&A box

# Today's Topics

1. **SBTi Finance Intro & Overview**
2. **Consultation Drafts**
  - a) Near-Term Financial Sector Science-Based Targets Guidance V2
  - b) SBTi Financial Institutions Net-Zero (FINZ) Standard: Conceptual Framework and Initial Criteria
  - c) Fossil Fuel Finance Position Paper
3. **Next Steps & Discussion**

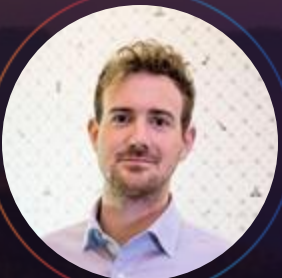
# TODAY'S SPEAKERS



Nate Aden  
Finance Lead



Haseena Solwa  
Finance Target Analyst



Eoin White  
Senior Technical  
Manager, Finance



Howard Shih  
Senior Technical  
Manager, Finance

# THE EVOLUTION OF SBTi FINANCE



Launch of the SBTi  
Call to Action

2015



Near-Term  
Finance Guidance

OCT 2020



SBTi Corporate Net-Zero  
Standard and PE Sector Guidance

NOV 2021



SBTi Finance: Foundations for  
Science-Based Net-Zero  
Target Setting

APR 2022



SBTi Finance and TCFD  
reporting guidance released

Jan 2023



OCT 2018

IPCC Special Report on Global  
Warming of 1.5°C



JUL 2021

SBTi Raises the Bar to 1.5°C  
targets only



FEB 2022

IPCC Report on Impacts,  
Adaptation and Vulnerability



SEPT 2022

Finance training modules  
released



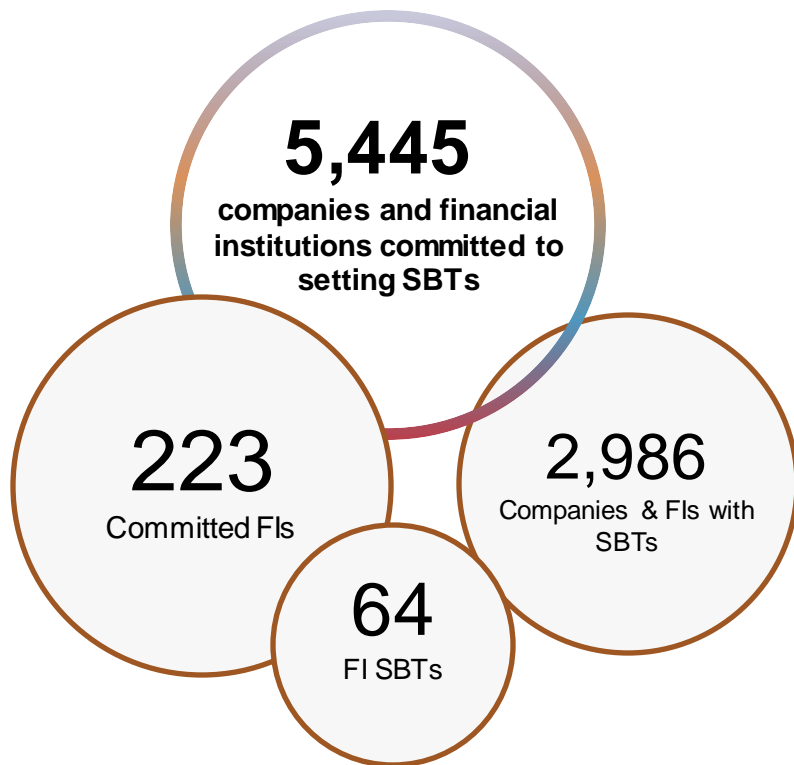
June 2023

Launch of SBTi Finance Public  
Consultation

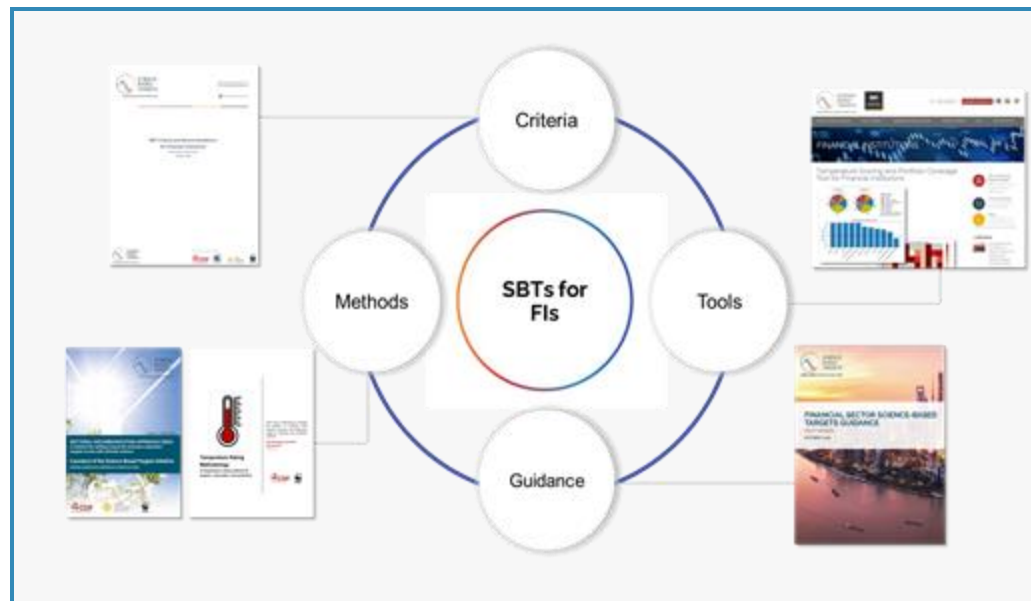


The SBTi launches three draft financial sector resources for public consultation

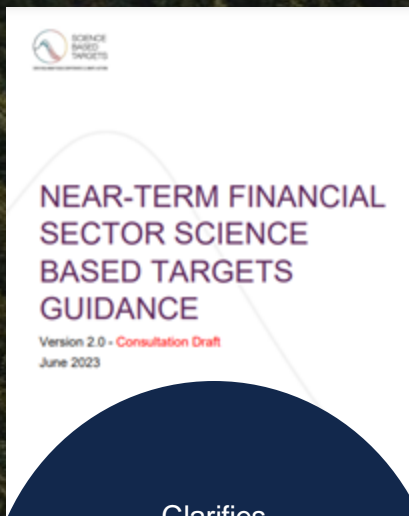
# SBTi is growing quickly



A framework designed to **clarify, improve, and accelerate** Financial Institutions' alignment with the **Paris Agreement goals**



# DRAFT FINANCE RESOURCES FOR CONSULTATION



Clarifies

Increases ambition

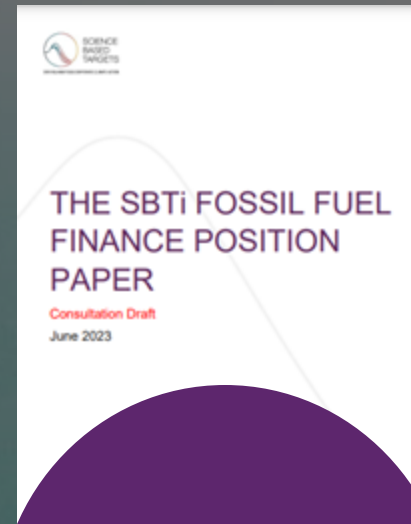
Aligns with 1.5°C



New conceptual  
framework

Enabling FIs to  
develop near- and  
long-term net-zero  
targets

Aligned with 1.5°C



Disclosure, arrest,  
transition and  
phase-out of  
fossil fuel finance

# ENHANCING AND CONSOLIDATING RESOURCES

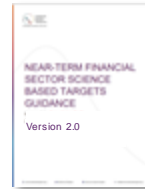
60-day  
consultation period

Review feedback  
and update documents

Near-Term



V2 will be published and serve as a bridge until FINZ Standard is operational



Fossil Fuels



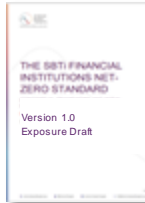
Fossil Fuel Criteria incorporated into both the Near-Term Guidance and FINZ Standard



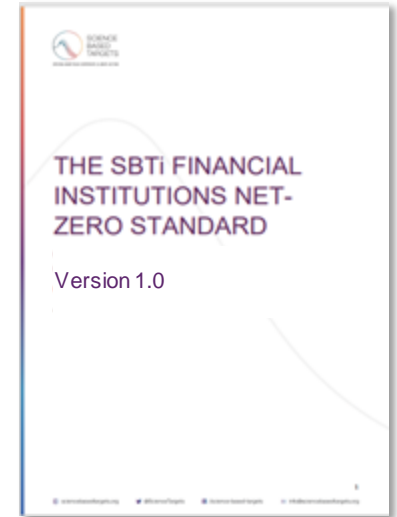
Net-Zero



FINZ developed to respond to consultation feedback, alignment metrics & target setting methods, codifies target setting criteria



One Finance standard for near- and long-term targets







# NEAR-TERM GUIDANCE UPDATES AND CLARIFICATIONS



# NEAR-TERM FINANCIAL SECTOR SCIENCE BASED TARGETS GUIDANCE

Version 2.0 - Consultation Draft  
June 2023

Update to existing near-term framework

Increases ambition to 1.5°C

Bridge until FINZ is operational

# DRAFT: NEAR-TERM CRITERIA OVERVIEW

Scope 1+2  
timeframe  
reduced to  
**5-10 years**

SDA ambition  
increased to  
**1.5°C**

Adding the  
**Fossil Fuel  
Finance** Targets  
approach

S1+2 target  
ambition  
increased to  
**1.5°C**

Temperature  
Ratings  
increased to  
**1.5 and  
WB2°C**

# NEAR-TERM GUIDANCE V2 KEY REVISIONS

Updated **target language examples**, adding:



- Two options for electricity generation project finance targets
  - 100% renewable electricity
  - Low emissions intensity maintenance



- One for real estate assets targets
  - Low emissions intensity maintenance target



- One for fossil fuel finance targets.
- Language that needs to be included in target publications regarding the
  - Composition of required, optional, and out of scope activities in a FI's portfolio
  - Exclusion of asset management activities by banks

# NEAR-TERM GUIDANCE V2 KEY REVISIONS

## Added clarifications:



- Targets can be set on loan outstanding or loan commitment amounts.
- Coverage requirements apply to securities in both the trading book and banking book.



- Investments managed (on behalf of third parties) under discretionary mandates are required while investments administered under advisory or execution-only mandates are optional.



- All FIs (other than banks) must include their asset management businesses in their scope 1, 2, and 3 target boundaries.
- For investments via funds, FIs must set a target on the underlying holdings.

# NEAR-TERM GUIDANCE V2 KEY REVISIONS



FI involved solely or mainly in optional asset classes should contact the SBTi to discuss a minimum target coverage boundary



Provided details on the minimum ambition for near-term scope 1 and 2 targets and most recent inventory years



Additional scope 2 guidance provided for FIs setting renewable energy procurement targets



Additional guidance for FIs establishing maintenance targets for zero scope 1 emissions



Clarify that all SDA, Portfolio Coverage, and Temperature Rating targets shall each use the same base years



Complete emissions inventory must be provided if setting scope 3 categories 1-14 target(s) and that scope 3 categories 1-14 targets should be set separately from scope 1 and 2 targets

# NEAR-TERM GUIDANCE V2 KEY REVISIONS

Table 5.2 updated to provide additional granularity on coverage requirements for each asset class

A full summary is in Appendix G (pages 183-188)

Project finance	Electricity generation project finance (direct or via funds)	100% of base year activity (kWh)	SDA	
	Fossil fuel project finance (direct or via funds)	95% of base year loan value or financed emissions	SDA <sup>a</sup> / FFF	
	Other project finance (e.g., infrastructure projects/assets)	n/a	n/a	
Corporate loan	Electricity generation (listed and private companies)	100% of base year activity (kWh)	SDA	
		67% of base year loan value or financed emissions <sup>a</sup> , including 95% of base year loan value or financed emissions of fossil fuel companies and 67% of base year loan value or financed emissions of commercial real estate loans	SDA <sup>a</sup> / PC / TR / FFF	
	Long-term (more than one year) corporate <sup>a</sup> loans	Fossil fuel (listed and private companies) and all other sectors (listed companies)		
		All other sectors (private companies)	Optional	SDA / PC / TR
		All sectors (listed and private companies), except financial and fossil fuel	Optional	SDA / PC / TR
	Long-term (more than one year) SME <sup>a</sup> loans		Optional	SDA / PC / TR
	Short-term corporate <sup>a</sup> and SME <sup>a</sup> loans (one year or less, such as line of credit, intraday, and overdraft facilities)	Fossil fuel (listed and private companies)	95% of base year loan value or financed emissions	SDA <sup>a</sup> / PC / TR / FFF
		All other sectors (listed and private companies)	Optional	SDA / PC / TR
	Supranational, sovereign, sub-	n/a	n/a	n/a
		SME <sup>a</sup> bonds (direct holdings and via funds)		Optional

# NEAR-TERM GUIDANCE V2 TIMELINE



## JUNE 2023

Version 2 Consultation Draft published

## JUNE - AUGUST 2023

60-day consultation period ends on the **14 August**

## Q3/Q4 2023

V2 finalized, published and operational

## 6 MONTHS AFTER

Targets submitted must follow V2



# SURVEY - NEAR-TERM GUIDANCE

Topics include:

- Criteria changes
- Minimum coverage requirement for corporate loans
- Table 5.2 revisions
- Targets based on loan outstanding or commitment amounts
- Emissions intensity maintenance target for certain assets
- Investments administered





# FINZ STANDARD CONCEPTUAL FRAMEWORK & INITIAL CRITERIA

# DRAFT: FI NET-ZERO STANDARD



New framework and initial criteria which builds on net-zero definitions to provide updated conceptual framework

Adds long-term targets and neutralization components

Expands and updates approaches on target coverage and methods



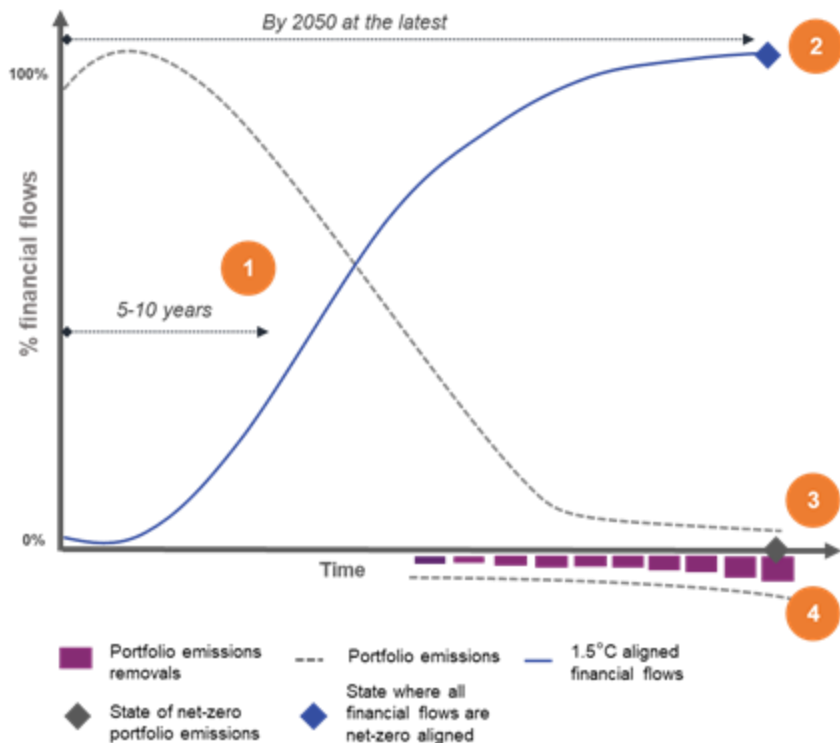
○ **Normative (rules-based criteria** - the subject matter of the June 2023 FINZ Consultation Draft)

○ Non-normative (**methods** and **guidance** for implementation), required for FIs to set comprehensive near- and long-term targets

○ **Tools** - developed in parallel to guide and aid FIs when establishing near and long-term targets

# FINZ CONCEPTUAL FRAMEWORK

An alignment pathway and emissions pathway to establish near and long-term targets



- 1 **Set near-term science-based targets:**  
5-10 year alignment targets, to increase the share of financial flows that are aligned to 1.5°C pathways.
- 2 **Set long-term science-based targets:**  
Targets to reach a point where all financial flows are net-zero aligned by no later than 2050.
- 3 **Reduce portfolio emissions to residual levels:**  
Achieving long-term net-zero alignment targets will mean portfolio emissions are brought down to near zero levels by 2050.
- 4 **Neutralization of residual financed emissions:**  
Residual GHGs released into the atmosphere when the FI has achieved their long-term targets must be counterbalanced through the permanent removal and storage of carbon from the atmosphere.

# NET-ZERO TARGETS - DEFINING WHAT'S IN SCOPE



## Organizational and portfolio target boundary

- Organization boundary: defines the entities that need to be captured in the scope of the target
- Portfolio boundary: establishes the financial activities that are considered in-scope



2030

## Net-zero near-term target requirements

- Establishes the materiality thresholds and target ambition required for interim milestones
- Proposes a maturity scale and methods for defining alignment over time



2050 (at the latest)

## Net-zero long-term target requirements and neutralization

- Establishes minimum ambition of long-term targets
- Defines when and how portfolio neutralization should be undertaken



## Fossil Fuel Finance

- Establishes the disclosure, arrest, transition and phaseout criteria for all types of fossil fuel financing
- Defines fossil fuel activities at the project and company level and across the value chain



## Monitoring, reporting and recalculation

- Establishes the measurement and reporting criteria
- Defines target recalculation and update policies

## Key Content

**Included:** key requirements of both near and long-term target setting

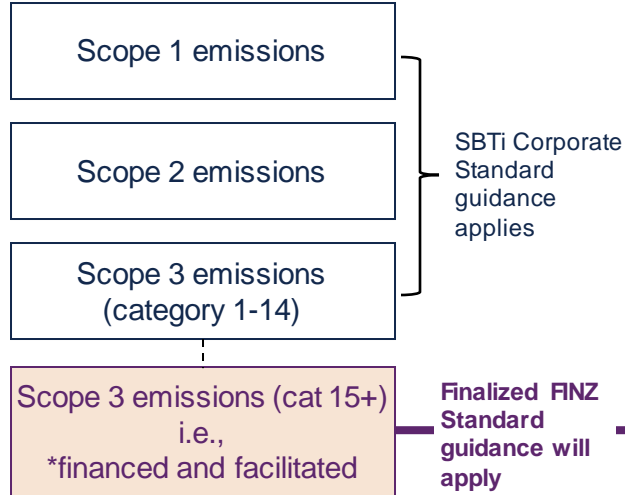
**Not Included:** final list of target setting methods and guidance for implementation

# NET ZERO TARGETS - DEFINING WHAT'S IN SCOPE

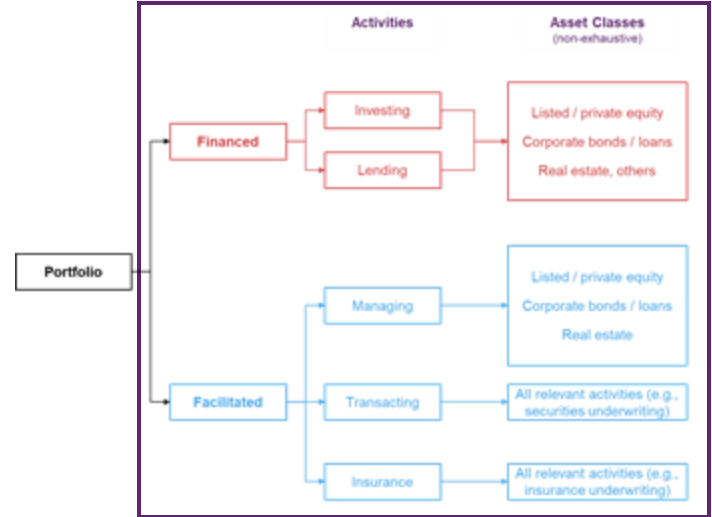
## 1 Define organizational boundary

At Parent/Group Level using GHGP to define, consolidation approach

## 2 Define relevant GHG emission scopes



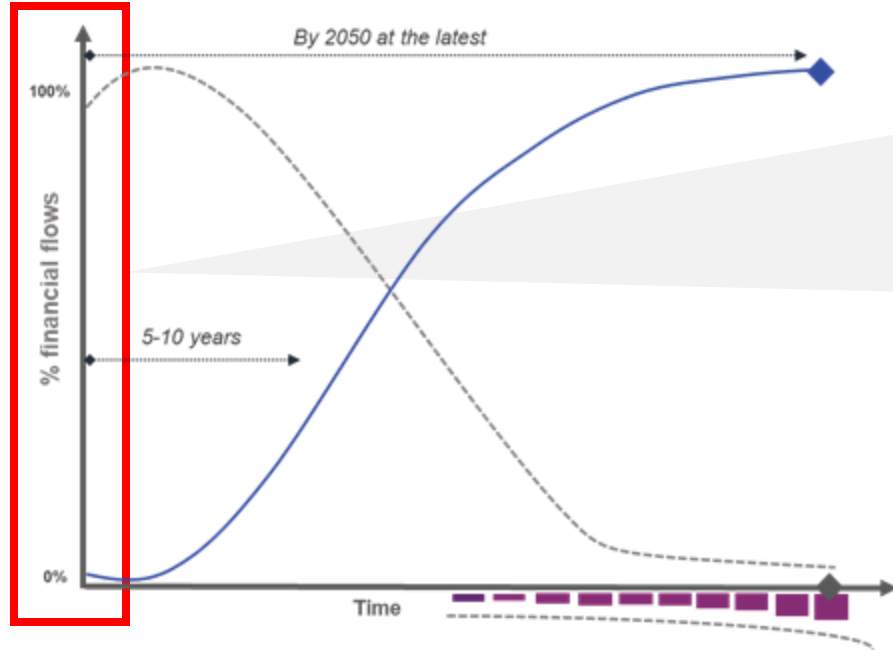
## 3 Determine portfolio boundary



All related financial activities and asset classes within a portfolio where:

- FI must be considered to have some influence AND
- a credible GHG accounting framework and target-setting method exists.

# NET ZERO TARGETS - DEFINING WHAT'S IN SCOPE



## Holistic Approach

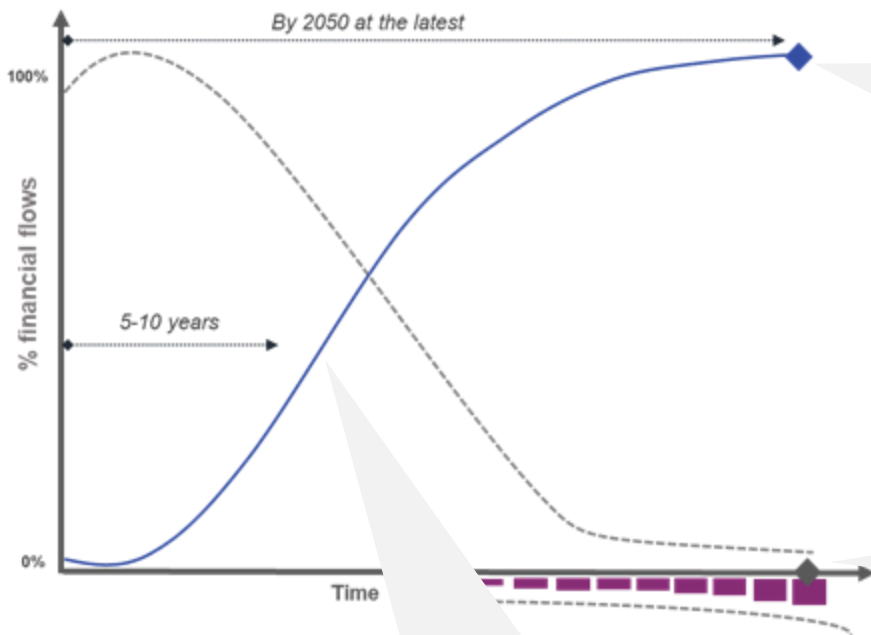
- Portfolio boundary defined across all in-scope financial flows
- Coverage requirements not defined within each asset class, but across all asset classes providing more flexibility for FIs to focus on most material and climate relevant activities

## Climate Relevance

- Requires FIs to disclose emissions inventory covering financed / facilitated activities to determine climate relevance of financial flows
- A set of mandatory activities is defined which should always be addressed regardless of their size relative to other aspects e.g. fossil fuel financing, power generation etc.



# NEAR AND LONG-TERM TARGET CRITERIA



## 1) Near-term targets

Alignment and emission targets may be established to grow share of financial flows that are aligned to 1.5C pathways

## 2) Long-term Alignment Targets

Alignment targets define the share of financial flows that reach net-zero performance levels by the net-zero target year

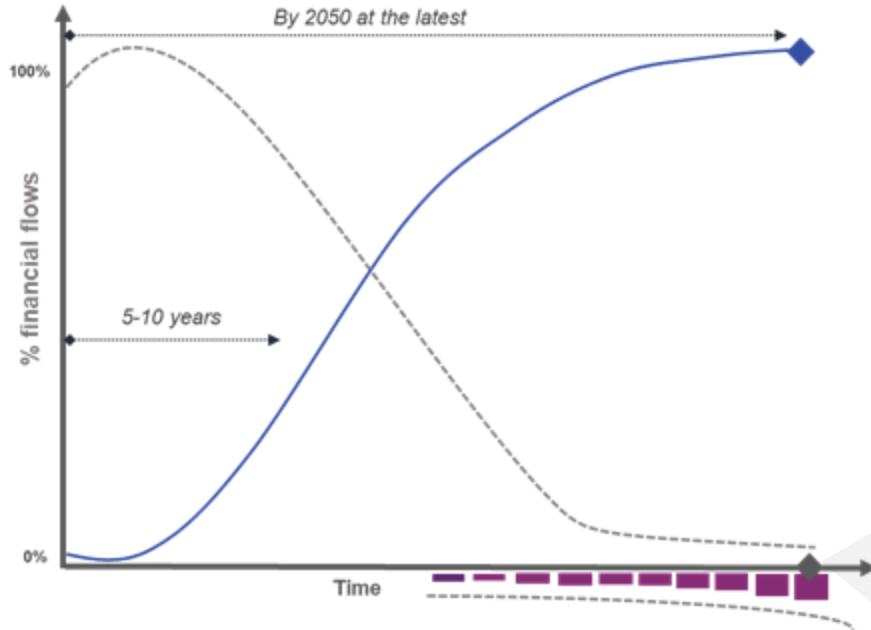
### Ambition levels

- a) 100% of financial flows
- b) 95% of financial flows
- c) 90% of financial flows

## 3) Long-term Emission Targets

Targets shall include deep decarbonisation of financed and facilitated emissions emissions to reach residual levels

# PORTFOLIO NEUTRALIZATION



**Residual emissions:**  
aggregate unabated emissions  
of all portfolio counterparties

**Portfolio neutralization:**  
actions taken by FIs to remove  
an equivalent amount of carbon  
from the atmosphere

FIs shall set a target to neutralize all residual portfolio emissions with permanently removed carbon.

## Neutralization responsibility

Which entity should be responsible for neutralization:  
options for both counterparty and FI neutralization to count

## Neutralization eligibility

Which types of activities count towards neutralization:

- Balancing negative and positive financed / facilitated emissions across counterparties
- Directly removing carbon e.g. through purchase of high-quality removal credits

## Neutralization boundary

How should carbon removal activities be accounted in the portfolio

- Within each asset class
- Within sector

# SURVEY - DRAFT: FINZ CRITERIA OVERVIEW

Topics including:

- Coverage
- Near-term targets
- Long-term targets
- Neutralization
- Monitoring and reporting





# FOSSIL FUEL FINANCE POSITION PAPER



Addresses financing of fossil fuels - coal, oil and gas, providing explicit criteria for financial institutions

Acts as an interim methodology while the fossil fuel company sector pathways are in development

Proposed as "entry requirement" criteria for FINZ standard

# Fossil Fuel Finance – Draft Criteria Summary

## FI fossil fuel policy requirements\*

- 1 Disclose:** Exposure to all fossil fuel activities through financing and facilitating services, including trading activities.
- 2 Arrest:** Cease all new financial flows in support of projects and companies involved in new (including expansion of existing) fossil fuel capacity.
- 3 Transition:** Engage FF companies to align to 1.5°C pathways. Use qualitative and quantitative (absolute, intensity, and capex) targets.
- 4 Phase out:** Set clear goals to phase out project and company exposures that are non-1.5°C aligned.

### Coal

### Oil & Gas

**Value chain:** Applies to SBTi FINZ Fossil Fuel Value Chain (see below)



No support for new projects/companies

No support for new projects/companies

For existing projects or companies

For existing projects and companies

If not abated, full phase out by:

If not abated, full phase out by:

2030 (High/High-Middle Income Countries)

2030: Oil\*

2040 (Low-Middle/Low Income Countries)

2040: Gas\*

\*Refer to tables 2 and 3 of the Fossil Fuel Finance Paper for more detail.

## Disclose and Arrest Criteria

Publicly disclose the following fossil-fuel related information on an annual basis:

Disclose



Absolute financed  
and facilitated  
S1+2+3 emissions



Financial  
exposures



Forward-looking transition  
plans including arrest and  
phaseout

Arrest

Financial institutions shall implement the immediate cessation of new financial flows, with the exception of new financing for permanent decommissioning of production activities and capacity, abated projects, and 1.5°C-aligned companies



All coal projects /  
companies



Oil and gas projects / companies that are  
involved in expanding production and/or adding capacity to  
any applicable oil and gas value chain associated activities

The cessation shall go into effect immediately upon publication of the FI SBT.

## Transition and Phase-out Criteria

FIs shall establish targets for all financial flows to existing fossil fuel activities at the company level and shall also establish targets at the portfolio level:

### Transition



**Company level:** engage FF counterparty companies to transition along 1.5°C pathways by establishing 2030 quantitative public targets, including: absolute intensity and capex metrics that cover the S1, 2, 3 GHGs of the fossil fuel companies; also, clear commitments for no new expansion and the phasing down/out of production along approved 1.5°C pathways with low/no overshoot



**Portfolio level:** no new or increased portfolio exposure in terms of financed and facilitated emissions from fossil fuel activities that are not clearly aligned with a 1.5°C transition

FIs shall commit to phasing out all financial activities linked to unaligned companies and projects according to the following regional criteria:

### Phaseout



**Wealthiest:** Phase-out all existing financial flows for coal projects by the end of 2030 at the latest; output of oil and gas needs to be cut by 74% by 2030, with complete phase out by 2034



**Middle-Income:** Phase-out all existing financial flows for coal projects by the end of 2030 at the latest; output of oil and gas needs to be reduced 28% by 2030 and eliminated by 2043



**Low-Income:** reduce coal exposure by 50% by 2030 and exit by the end of 2040; output of oil and gas needs to be reduced 14% by 2030 and eliminated by 2050



# SURVEY - Fossil Fuel Finance Position Paper



Topics include:

- Definitions of fossil fuel companies
- Types of fossil fuels considered
- Definitions of key terms such as "abatement"
- Scope of covered value chain
- Granularity of the requirements at the project and company level



**ANY QUESTIONS?**



# NEXT STEPS & CLOSING REMARKS

# NEXT STEPS

1. 60-day public consultation closes on **14 August 2023**. All stakeholders are invited to submit feedback.
2. Following this, we will review all feedback and update the resources.
3. We don't yet know what or how much feedback we will receive, so we cannot give a timeline at this stage.
4. Regular updates will be published on our website, social media channels and newsletters.

## NEXT STEPS

Additional learning resources TBC

Visit the SBTi Finance community forum:

<https://community.sciencebasedtargets.org/>

Have your say.

Complete our survey  
before 14 Aug.





**THANK YOU**