## Modules – Viewers can self select and access modules non-linearly based on where each user is in the SBTi journey

<table>
<thead>
<tr>
<th>Stage</th>
<th>Module</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commit</td>
<td>1  Case for change</td>
</tr>
<tr>
<td></td>
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</tr>
<tr>
<td>Develop</td>
<td>3  Developing SBTs: Overview</td>
</tr>
<tr>
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<td>4  Developing SBTs: Scope 1, scope 2, and scope 3 operational emissions</td>
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<td>5  Developing SBTs: Scope 3 financed emissions – Overview</td>
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<td>6  Developing SBTs: Scope 3 financed emissions – Calculation deep dive and case studies</td>
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<td>9  Governance, change management, and meeting targets</td>
</tr>
</tbody>
</table>
## Resources (1/2)

<table>
<thead>
<tr>
<th>Module</th>
<th>Key resources</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Module 1: Case for change</strong></td>
<td></td>
</tr>
</tbody>
</table>
• SBTi Financial Sector Science-Based Targets Guidance (Feb 2022)  
• GFANZ Recommendations and Guidance on Net-zero Transition Plans for the Financial Sector (Jun 2022)  
• GFANZ net-zero Financing Roadmaps (Nov 2021)  
• Bain & Company Brief – Banks’ Great Carbon Challenge (Jun 2022)  
| **Module 2: Voluntary finance climate action ecosystem** |  
• SBTi Financial Sector Science-Based Targets Guidance (Feb 2022)  
• SBTi Business Ambition for 1.5C (Nov 2021)  
• SBTi 2021 Progress Report |
| **Module 3: Developing SBTs: Overview** |  
• SBTi Financial Sector Science-Based Targets Guidance (Feb 2022)  
• GFANZ Recommendations and Guidance on Net-zero Transition Plans for the Financial Sector (Jun 2022)  
• UN Global Compact Academy Setting Science-Based Targets E-Learning  
• UN Global Compact Academy Net-Zero Standard E-Learning |
| **Module 4: Developing SBTs: Scope 1, scope 2, and Scope 3 operational emissions** |  
• SBTi Financial Sector Science-Based Targets Guidance (Feb 2022)  
• SBTi Target Setting Tool 2.0 (Dec 2021)  
• GHG Protocol Corporate Accounting and Reporting Standard (Revised)  
• GHG Protocol Scope 2 Guidance (Sep 2015)  
• GHG Technical Guidance for Calculating Scope 3 Emissions 1.0 (2013) |
| **Module 5: Developing SBTs: Scope 3 financed emissions – Overview** |  
• SBTi Financial Sector Science-Based Targets Guidance (Feb 2022)  
• GHG Technical Guidance for Calculating Scope 3 Emissions 1.0 (2013)  
• PCAF The Global GHG Accounting and Reporting Standard for the Financial Industry 1.0 (Nov 2020) |
## Resources (2/2)

<table>
<thead>
<tr>
<th>Module</th>
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</table>
| **Module 6: Developing SBTs: Scope 3 financed emissions – Calculation deep dive and case studies** | • SBTi Financial Sector Science-Based Targets Guidance (Feb 2022)  
  • GFANZ Recommendations and Guidance on Net-zero Transition Plans for the Financial Sector (Jun 2022)  
  • PCAF The Global GHG Accounting and Reporting Standard for the Financial Industry 1.0 (Nov 2020)  
  • CDP & WWF Temperature Rating Methodology (Oct 2020)  
  • Bain & Company Brief – Banks’ Great Carbon Challenge (Jun 2022) |
| **Module 7: Developing SBTs: Scope 3 financed emissions – Data considerations and trade-offs** | • SBTi Financial Sector Science-Based Targets Guidance (Feb 2022)  
  • GFANZ Recommendations and Guidance on Net-zero Transition Plans for the Financial Sector (Jun 2022)  
  • PCAF The Global GHG Accounting and Reporting Standard for the Financial Industry 1.0 (Nov 2020)  
  • Bain & Company Brief – Banks’ Great Carbon Challenge (Jun 2022) |
| **Module 8: Validating, disclosing, and recalculating** | • SBTi Target Submission Form for Financial Institutions  
  • SBTi Booking System  
  • SBTi Financial Sector Science-Based Targets Guidance (Feb 2022)  
  • GFANZ Recommendations and Guidance on Net-zero Transition Plans for the Financial Sector (Jun 2022)  
  • PCAF The Global GHG Accounting and Reporting Standard for the Financial Industry 1.0 (Nov 2020)  
  • GHG Protocol Scope 3 Accounting Standards (Apr 2013) |
| **Module 9: Governance, change management, and meeting targets** | • GFANZ Recommendations and Guidance on Net-zero Transition Plans for the Financial Sector (Jun 2022)  
  • SBTi Financial Sector Science-Based Targets Guidance (Feb 2022) |
Module #6: Scope 3 financed emissions – Calculation deep dive and case studies

SBTi financial institution training
## Modules

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Key learning objectives

After completing this module, individuals will be able to…

Apply the three methods to develop baseline and set targets

Source the relevant data required to set targets

Decide on trade-offs between the different methods
Module

Scope 1 & 2

Scope 1
Operations
E.g., Company facilities

Scope 2
Operations
E.g., Electricity

Scope 3
Operations (Categories 1-14)
E.g., Business travel, office supplies

Operational emissions
(direct & indirect)

Financed emissions (Category 15)
GHG emissions associated with an FI’s investment, lending, or underwriting portfolios

Client/portfolio Scope 1 Scope 2 Scope 3*

Module #4: Scope 1, scope 2, and scope 3 operational emissions

Module #5: Scope 3 financed – Overview

This module

Module #6: Scope 3 financed emissions – Calculation deep dive and case studies

Module #7: Scope 3 financed emissions – Data considerations & trade-offs

Note: *GHGP names that scope 3 financed emissions should be included if they are significant. Temperature Rating Approach requires submission of scope 1+2+3 target.

Sources: GFANZ Recommendations and Guidance on Net-zero Transition Plans for the Financial Sector (Jun 2022, pg. 13, Fig 3); GHGP Corporate Value Chain (Scope 3) Accounting and Reporting Standard (Apr 2013, pgs. 52-54, Table 5.9 and Table 5.10); SBT Financial Sector Science-Based Targets Guidance (Feb 2022, pgs. 86-88)
Total emissions must be estimated, often using a combination of inputs.

Total emissions are likely not easily available, but can be estimated because...

1. distinct physical or business units can be defined

2. and emissions factors for distinct units are available

3. which allow total emissions to be approximated

\[
\sum (\text{Unit} \times \text{Emissions factor}) = \text{Total Emissions}
\]

Source: PCAF The Global GHG Accounting and Reporting Standard for the Financial Industry 1.0 (Nov 2020, pgs. 47-96)
Various sources can be used to calculate total emissions

Data sources for actual emissions or units...

- Actual company emissions and units
  - provided by the company or verified 3rd party providers

- Portfolio company
- CDP
- ISS ESG
- Bloomberg
- S&P Global
- MSCI

- Building energy labels
  - provided by commercial databases

- Greenhouse Gas Protocol
- Quantis

...and for emissions factors

- Physical activity emissions factors e.g., tCO₂e/MWh
  - IPCC
  - Department for Environment Food & Rural Affairs
  - Partnership for Carbon Accounting Financials

- Economic activity emissions factors e.g., tCO₂e/$ rev
  - via official statistical data or EEIO* tables
  - exiobase
  - WIOD
  - GTAP
  - PCAF

*Environmentally-extended input-output
Source: PCAF The Global GHG Accounting and Reporting Standard for the Financial Industry 1.0 (Nov 2020, pgs. 47-96)
**FIs can use three methods for calculating scope 3 financed emissions baseline and targets**

<table>
<thead>
<tr>
<th>Measures</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emissions per industry-wide unit</td>
<td>Decrease GHG emissions by 30% per m² (real estate)</td>
</tr>
<tr>
<td>% of portfolio with SBTs</td>
<td>Increase % of portfolio with SBTs to 50%</td>
</tr>
<tr>
<td>Ambition of portfolio’s public targets</td>
<td>Align portfolio to temperature rating of 1.75°C</td>
</tr>
</tbody>
</table>

**Allowable for FIs scope 3 financed emissions**

- **Sectoral Decarbonization Approach (SDA)**: Emissions per industry-wide unit (in select, high emitting industries)
- **Portfolio Coverage Approach (PCA)**: % of portfolio with SBTs
- **Temperature Rating Approach (TRA)**: Ambition of portfolio’s public targets

**Note:** Methods evolve over time, SBTi is developing meta-criteria to evaluate additional methodologies to ensure transparency and alignment.

*Reducing carbon output*  
*Growing engagement*

Source: SBTi Financial Sector Science-Based Targets Guidance (Feb 2022, Table 5.1, pgs. 51-52)
Sectoral Decarbonization Approach (SDA) is recommended for any sectors that have specific SBTi sectoral guidance.

Key sectors require specific metrics*:

- **Real estate & mortgages** (kgCO₂e/m²)
- **Electricity generation** (kgCO₂e/kWh)
- **Cement and other industrials** (kgCO2e/ton)

*Note: for full list of sectors covered by the SDA approach, please review Table 5-1.

**Example**

“Eurazeo commits to reduce its real estate investment portfolio GHG emissions 60% per m² by 2030 from a 2021 base year.”

**Benefits**

- Industry recognized and standardized
- Simplifies decision-making

**Key Considerations**

- Requires more data
- Not applicable to all sectors

"[SDA] is... for companies looking for credibility and also flexibility... by taking into account the different situations of each sector”

**Notes:**

- Methods evolve over time, SBTi is developing meta-criteria for new methods.
- Sources: SBTi Financial Sector Science-Based Targets Guidance (Feb 2022, pg. 51-52 Table 5.1, pgs. 68-72); Target language and summary Eurazeo.
Case study: Sector Decarbonization Approach (1 of 2)

Source: SBTi Financial Sector Science-Based Targets Guidance (Feb 2022, pgs. 63-67)
Case study: Sector Decarbonization Approach (2 of 2)

Set boundaries → Calculate baseline → Calculate target

1a Note Energy Ratings & Emissions

<table>
<thead>
<tr>
<th>Energy Label</th>
<th>kgCO₂ emitted</th>
<th>% from gas</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>3.9K</td>
<td>62%</td>
</tr>
<tr>
<td>B</td>
<td>3.8K</td>
<td>68%</td>
</tr>
<tr>
<td>C</td>
<td>3.9K</td>
<td>69%</td>
</tr>
<tr>
<td>D</td>
<td>4.0K</td>
<td>73%</td>
</tr>
<tr>
<td>E</td>
<td>4.2K</td>
<td>74%</td>
</tr>
<tr>
<td>F</td>
<td>4.5K</td>
<td>73%</td>
</tr>
<tr>
<td>G</td>
<td>4.4K</td>
<td>73%</td>
</tr>
</tbody>
</table>

Most efficient

Least efficient

Assign Energy Grades

Data availability by Energy Label

Only ~20% of data was definitive; assumptions made for rest of portfolio

1b

Assign Energy Grades

De Volksbank Mortgage Portfolio Summary

1c

Energy labels provided by Dutch government

Gas represents majority of home emissions

Source: SBTi Financial Sector Science-Based Targets Guidance (Feb 2022, pgs. 63-67)

Collected internal mortgage & m² data and estimated emissions

Determined strategy of electrifying households (vs. improving quality)
Portfolio Coverage Approach (PCA) allows for progress with minimal data maturity

Portfolio Coverage is defined as…

1. whether companies set SBTs
2. increases by an annual set amount to reach 100% coverage

Benefits

- Easily communicated
- Can be done without emissions data

Key Considerations

Engaging companies can be resource intensive

Example

“Sycomore AM commits to 56% of listed equity and bonds portfolios setting SBTi validated targets by 2030”

Note: Methods evolve over time, SBTi is developing meta-criteria for new methods

Sources: SBTi Financial Sector Science-Based Targets Guidance (Feb 2022 pgs. 51-52 Table 5.1, pgs. 68-72); Target language and summary Sycomore

FI-C17.2 – PCA Targets: targets using the PCA approach must meet defined conditions around 1) boundary 2) ambition 3) formulation and 4) time frame...
Case study: Portfolio Coverage Approach (1 of 2)

Portfolio Coverage Approach

Categorize

1. Identify number of SBTs in portfolio

Determine

2. Preferred weighting methods

Define

3. Ambition and commitment targets

Note: La Banque Postale’s currently approved target uses the temperature rating approach. *Guidance allows participants to use different coverage methods for different asset classes where necessary. **2040 timeline is mandated to allow borrowers and/or investees to implement their companies’ targets to achieve an economy-wide net-zero transformation by 2050.

Source: SBT Financial Sector Science-Based Targets Guidance (Feb 2022, pgs. 76-81)
Identify Commitment Status

<table>
<thead>
<tr>
<th>SBT Status</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBTi: Set</td>
<td>1</td>
</tr>
<tr>
<td>SBTi: Committed</td>
<td>2</td>
</tr>
<tr>
<td>Ongoing process</td>
<td>3</td>
</tr>
<tr>
<td>No emissions initiative</td>
<td>4</td>
</tr>
<tr>
<td>No information</td>
<td>5</td>
</tr>
</tbody>
</table>

Decide categories for level of commitment

Use SBTi website to identify portfolio company SBT status

CO₂ data may not always be available; estimate as needed

AUM value and CO₂ emissions are not always proportional

Data helps portfolio managers prioritize highest value initiatives

Source: SBTi Financial Sector Science-Based Targets Guidance (Feb 2022, pgs. 76-81)
Temperature Rating Approach (TRA) is recommended for non-SDA industries with more data availability

**TRA uses two aggregate temp. scores which are...**

- Based on companies’ GHG targets (default rating of 3.2°C for those with no targets)
- Calculated for scope 1+2 and 1+2+3
- Decreased by an annual set amount to reach their targets

**Example**

“Schroders plc commits to align its scope 1 + 2 + 3 portfolio temperature score by invested value within common stock, preferred stock, corporate bonds, ETFs and REITs from 3.13°C in 2019 to 2.29°C by 2030.”

**Benefits**

- Identifies highest emitting portfolio components
- Uses readily available data

**Key Considerations**

- Less intuitive to communicate

We believe it is best practice... to use a temperature alignment methodology, [to avoid] … pulling capital and scrutiny away from the areas of financial markets where change is needed most.”

**Sources:** SBTi Financial Sector Science-Based Targets Guidance (Feb 2022, pgs. 51-52 Table 5.1, pgs. 68-72); Target language and summary Schroders plc: Schroders Climate Action Transition Plan 2021
Case study: Temperature Rating Approach (1 of 2)

#1 Asset Manager in EU
€1.5T AUM

Temperature Rating Approach

Gather

1. Portfolio target data

Aggregate

2. Temperature rating

Define

3. Ambition and commitment targets

Gather targets and calculate temp scores for portfolio companies

Categorize portfolio companies lacking targets or GHG data

Assign default scores to funds not addressed by targets

Select a method to determine a weighted aggregated portfolio temperature rating

Set targets to… Achieve a temperature rating of well-below 2°C at latest by 2040*

Key challenge. Additional detail on next page

*Note: 2040 timeline is mandated to allow borrowers and/or investees to implement their companies’ targets to achieve an economy-wide net-zero transformation by 2050.
Source: SBTi Financial Sector Science-Based Targets Guidance (Feb 2022, pgs. 88-92)
Case study: Temperature Rating Approach (2 of 2)

Companies lacking published ambitions assigned a default score of 3.2°C

Published company ambitions are scored individually

1. Gather Targets & Scores

Funds gather published portfolio company ambitions

Funds will have different levels of incomplete data

2. Aggregate Scores

Select a method best-suited to data quality

- Weighted Average Temperature Score is suitable for funds with poor emissions data
- Enterprise Value and Cash Emissions Temperature Score is best-aligned to PCAF

*Note: Comprehensive list of weighting methods: Weighted average temperature score (WATS); Total emissions weighted temperature score (TETS); Market Owned emissions weighted temperature score (MOTS); Enterprise Owned emissions weighted temperature score (EOTS); Enterprise Value + Cash emissions weighted temperature score (ECOTS); Total Assets emissions weighted temperature score (AOTS); Revenue owned emissions weighted temperature score (ROTS)

Source: SBTi Financial Sector Science-Based Targets Guidance (Feb 2022, pgs. 88-92); CDP Temperature Rating Methodology (Oct 2020, Table 8 pgs. 24-26)
Ultimately, the objective is to transform financing and clients towards decarbonization.

FIs’ targets will serve as a signal …

1. $2-5T/year through 2040 to reach net-zero transformation

2. Opportunity to lead the market during the transformation period

3. Stakeholder engagement will have compounding returns

4. Engagement leads to better tracking and data quality

… as companies and portfolios shift to be more green

FI Portfolio AUM make-up

<table>
<thead>
<tr>
<th>Year</th>
<th>% Green Assets</th>
<th>% Traditional Assets</th>
<th>% Divested</th>
</tr>
</thead>
<tbody>
<tr>
<td>2025</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2030</td>
<td>0%</td>
<td>100%</td>
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</tr>
<tr>
<td>2040</td>
<td>0%</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>2050</td>
<td>0%</td>
<td>100%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Note: Illustrative portfolio represents a “Pioneer” example; “Pioneer” financial institutions represent those with early, strong commitment to climate mitigation. Please review Bain & Company’s Banks’ Great Carbon Challenge brief for more details.

Source: Bain & Company Brief – Banks’ Great Carbon Challenge (Jun 2022)
Key learnings

- **Sectoral Decarbonization Approach** is preferred for covered sectors.

- **Portfolio Coverage Approach** is based on engagement and requires the least amount of data.

- **Temperature Rating Approach** anchors on engagement but is recommended when FIs mature their portfolios’ data.

- **Data challenges will exist throughout** – FIs must make assumptions until data matures over time.

- FIs can use their influence to **increase data quality across their portfolio**.
THANK YOU FOR LISTENING