

Developing a Framework for Financial Institutions to Set Science-based Targets

February 8, 2018



Meet the speakers



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Agenda

- **1. Science Based Targets initiative overview (15 min)**
- 2. Financial sector scope of work and development process (20 min)
- 3. Foundational research (35 min)
- 4. Related initiatives (10 min)
- 5. Next steps (10 min)

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Science Based Targets initiative

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.



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**WE MEAN
BUSINESS**

What is a science-based target?

A greenhouse gas emissions reduction target aligned with the latest climate science.

Defines how much and how quickly companies need to cut their emissions to ensure they contribute their part to the global effort to prevent dangerous climate change.

Gives companies a clear vision of where they need to be in the future, challenging them to transform their business and help create a low-carbon economy where they can thrive.

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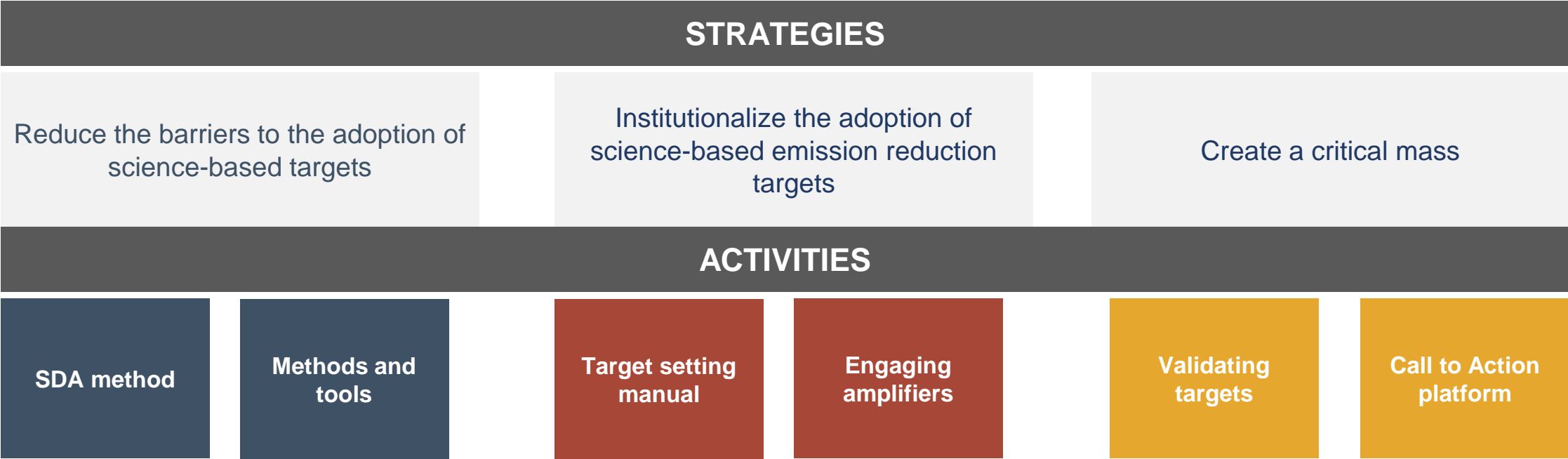
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How do SBTs differ for financial institutions?

- Methods are available for scope 1 and 2 target setting, but focus is needed on developing target-setting methods for investing and lending activities (GHG Protocol Scope 3 Standard, Category 15)
- Preliminary definition of a science-based target for investing and lending activities: **the level of contribution for supporting transition to a low-carbon economy aligned with a 2-degree pathway**
- The FI scenario will delineate the degree of alignment of investing and lending portfolios with 2-degree pathways (SBTs).

SBTi's three-pillar strategy



SBTi Call to Action



The Science Based Targets initiative is calling on companies to demonstrate their leadership on climate action by publicly committing to science-based greenhouse gas reduction targets.

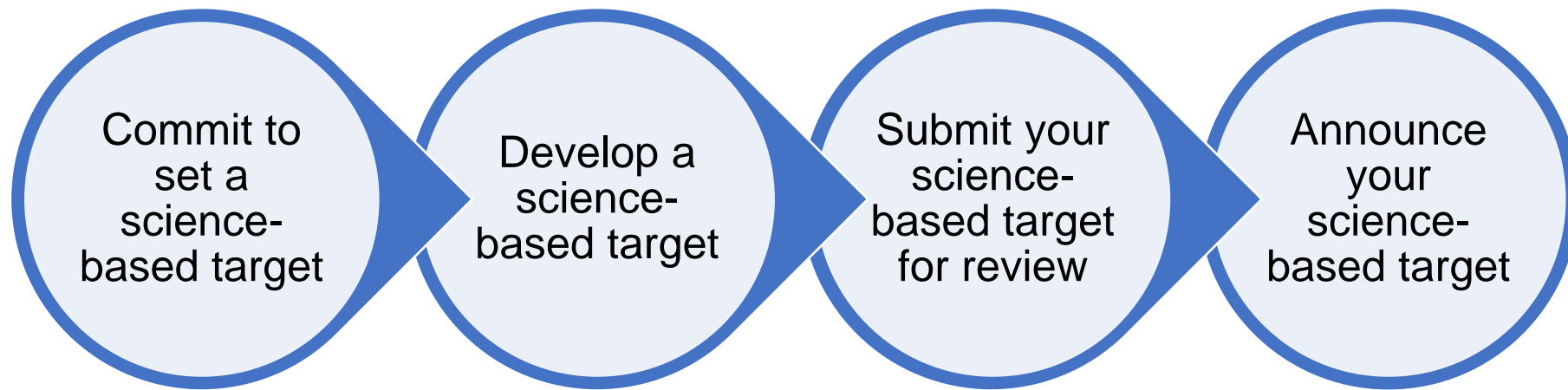
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SBTi Call to Action: A four-step process



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SBTi Call to Action eligibility criteria

1. Boundary

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

2. Timeframe

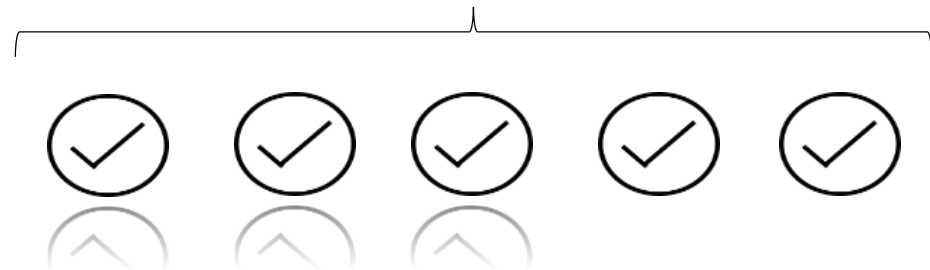
Commitment period must cover a minimum of 5 years and a maximum of 15 years from the date the target is submitted for an official quality check.

3. Level of ambition

At a minimum, the target will be consistent with the level of decarbonization required to keep global temperature increase to 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).

All five criteria are mandatory



SBTi Call to Action eligibility criteria

4. Scope 3

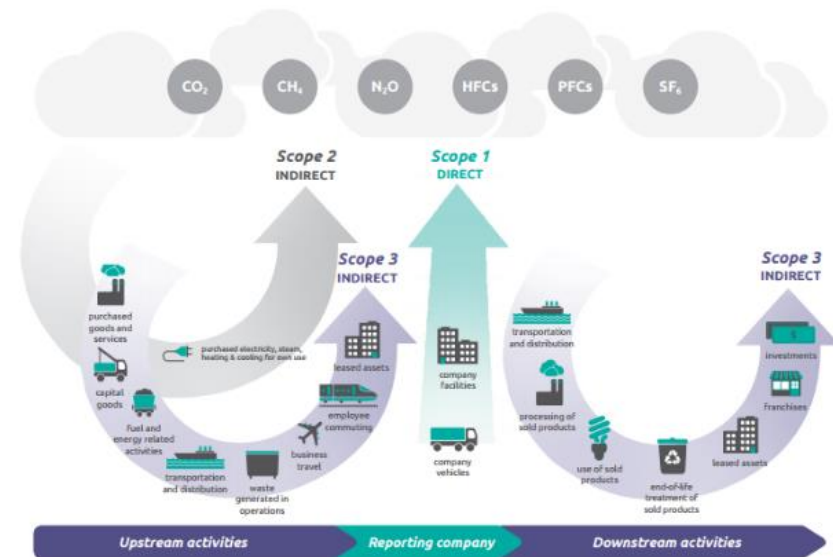
Companies must complete a scope 3 screening for all relevant scope 3 categories in order to determine their significance per the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

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.



Download the GHG Protocol Scope 3 Standard:
<http://www.ghgprotocol.org/standards/scope-3-standard>

SBTi Call to Action pipeline

Since officially launching in June 2015

341

Companies
committed to
set a SBT

90

Approved
targets

~2

Companies
joining the
initiative every
week

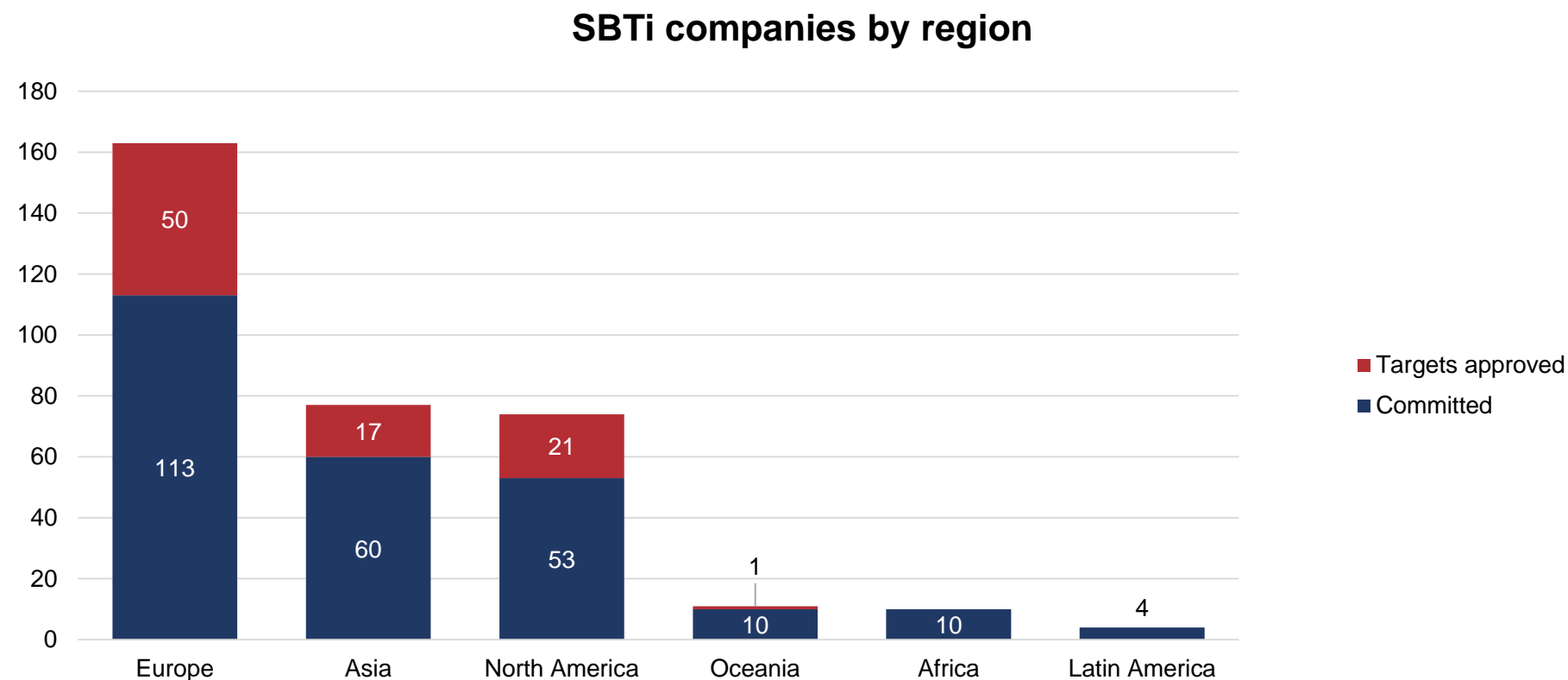
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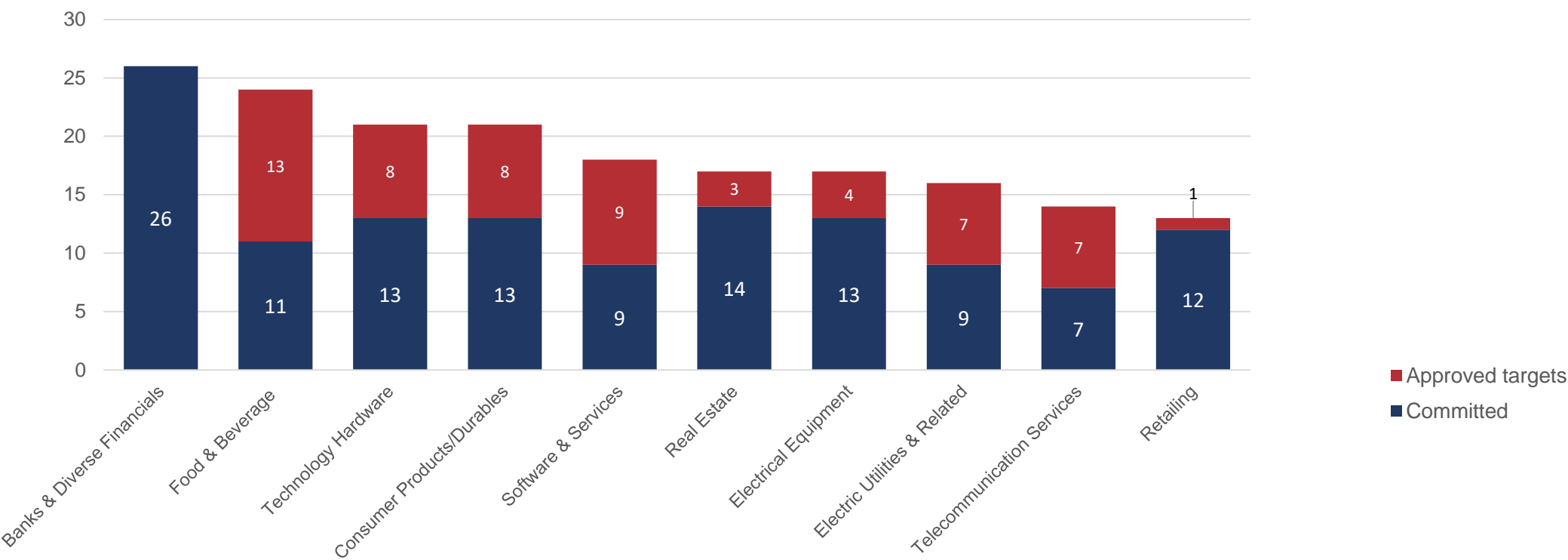
Presence in all regions



Note: This graph reflects figures as of January 31, 2018.

Wide range of sectors engaged

SBTi companies by sector (Top 10)



Note: This graph reflects figures as of January 31, 2018.

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Numerous financial institutions have already publicly committed to setting SBTs

Asia

- Fubon Financial Holdings
- MS&AD Insurance Group Holdings, Inc.
- Sompo Holdings, Inc.
- T.GARANTİ BANKASI A.Ş.
- TSKB

Oceania

- Australian Ethical Investment
- AMP Limited
- Australia and New Zealand Group Limited
- Bank Australia
- Teachers Mutual Bank
- Westpac Banking Corporation

Europe

- Actiam NV
- AXA Group
- Bank J. Safra Sarasin AG
- BBVA
- BNP Paribas
- Capitas Finance Limited
- Credit Agricole
- HSBC Holdings plc
- ING Group
- KLP
- La Banque Postale
- London Stock Exchange
- Societe Generale

North America

- MetLife, Inc.
- Principal Financial Group, Inc.
- State Street Corporation

Latin America

- BanColombia SA
- Grupo Financiero Banorte SAB de CV

For more information, visit
<http://sciencebasedtargets.org/companies-taking-action/>

Q & A



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Why should financial institutions set SBTs?



Increase credibility of climate target and get recognition and exposure from NGOs



Demonstrate leadership, build on a green reputation to increase stakeholder value and attract excellent talents



Outperform sector peers in benchmarks and increase rating scores



Get long-term guidance to steer investments and transform financial practices



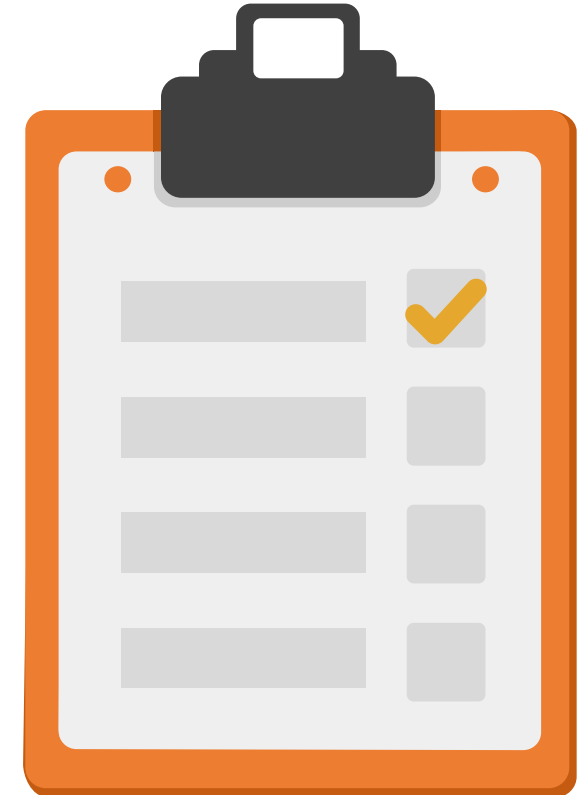
Mitigate risks, save money and increase competitiveness by gaining insight in required sector transformations



Gain insight in climate scenarios, position for upcoming financial risks & opportunities and reporting for TCFD; upcoming regulation (e.g. France, Switzerland, California)

Purpose of the framework

- ✓ Create a practical framework for financial institutions to set SBTs, including methods and implementation guidance
- ✓ Define and provide examples of best practices
- ✓ Enable broad adoption of SBTs for investing and lending activities
- ✓ Influence investment decisions in support of climate stabilization



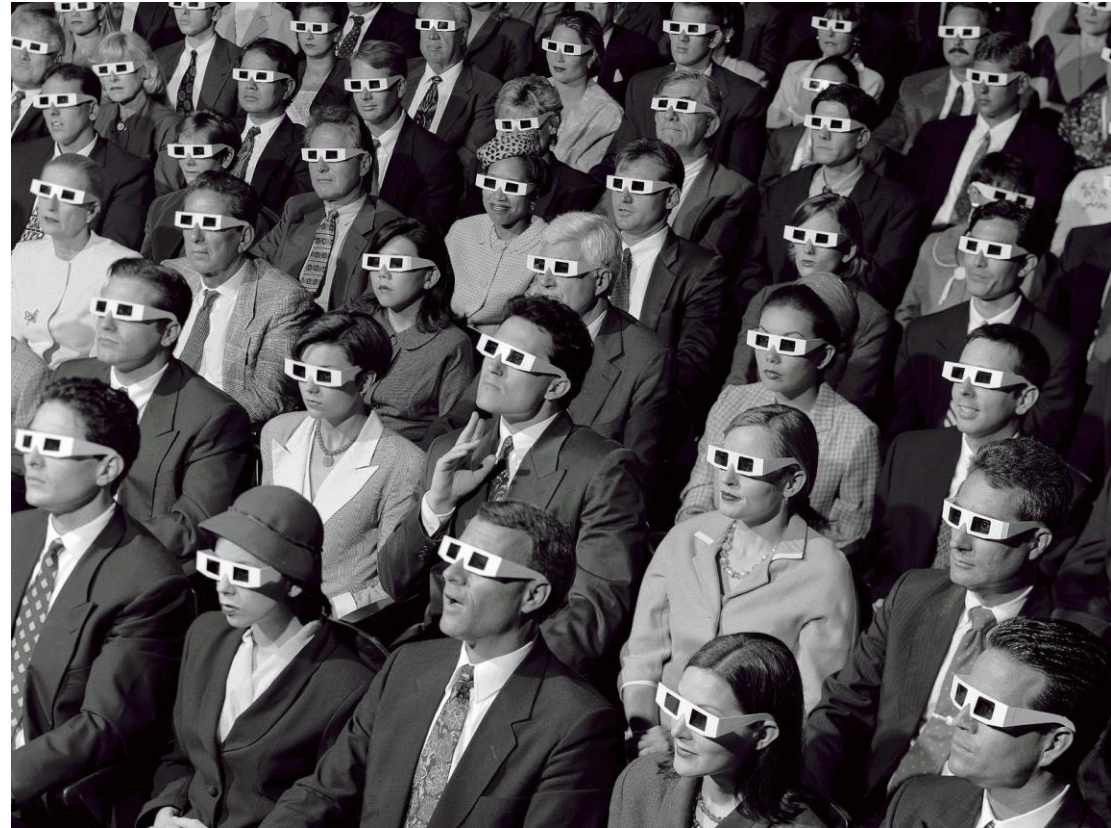
Intended audience

Primary audience

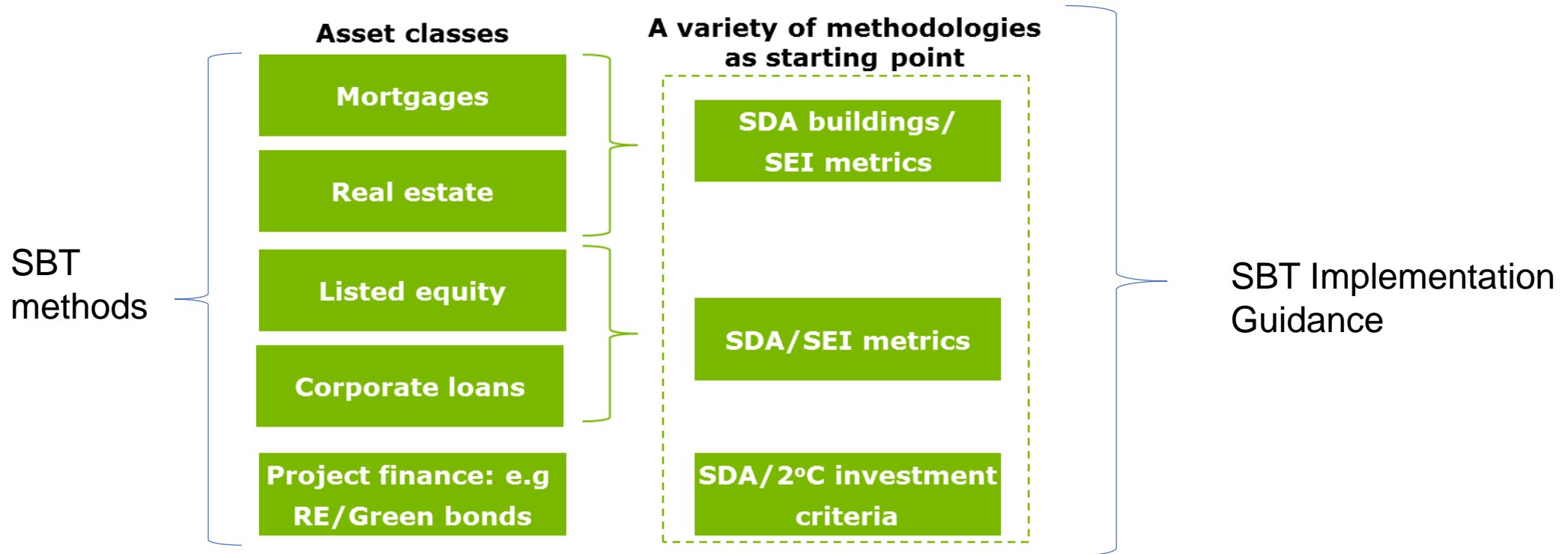
- ✓ Commercial Banks
- ✓ Asset Owners and Managers
- ✓ Insurance Companies

Other potential audiences

- ✓ MDBs
- ✓ Sovereign Banks
- ✓ Pension Schemes



Proposed framework components



Schedule of the framework development process

Activity	Deliverable	Completion date
Scoping phase	Webinar to launch scoping phase of framework development process	February 2018
	Complete project plan and guidance outline	April 2018
Development of framework (methods & guidance)	Develop draft methodological principles to guide decision making	April 2018
	Host webinars and workshops to seek input from stakeholders	May 2018
	Finalize workplan, principles, and asset class selection (5) Begin method development	June 2018
	Release draft SBT methods for five asset classes for review by stakeholders	Winter 2018
	Review feedback and integrate into second draft	March 2019
	Complete road test of each method with 3 or more FIs per method and seek feedback	June 2019
Publication	Make revisions and finalize the guidance	October 2019
	Launch events, blog, and social media campaign to publicize the framework	December 2019

Link between SBT/FI timeline and CDP timeline

- CDP's annual questionnaire is now available – including a revised general questionnaire aligned with TCFD recommendations and sector-specific questionnaires for high-impact sectors
 - Financial institutions can currently get points for having ambitious scope 1 and 2 targets via survey response
 - SBTi does not currently recognize scope 3 targets for financial institutions.
- Finance sector questionnaire is now in development for a 2-stage release in 2019 (more qualitative) and 2020 (adding quantitative, including SBTs)
 - Broadening CDP focus to emphasize financed & investment impacts in addition to operational impacts
- Plan to include scope 3 SBTs in 2020

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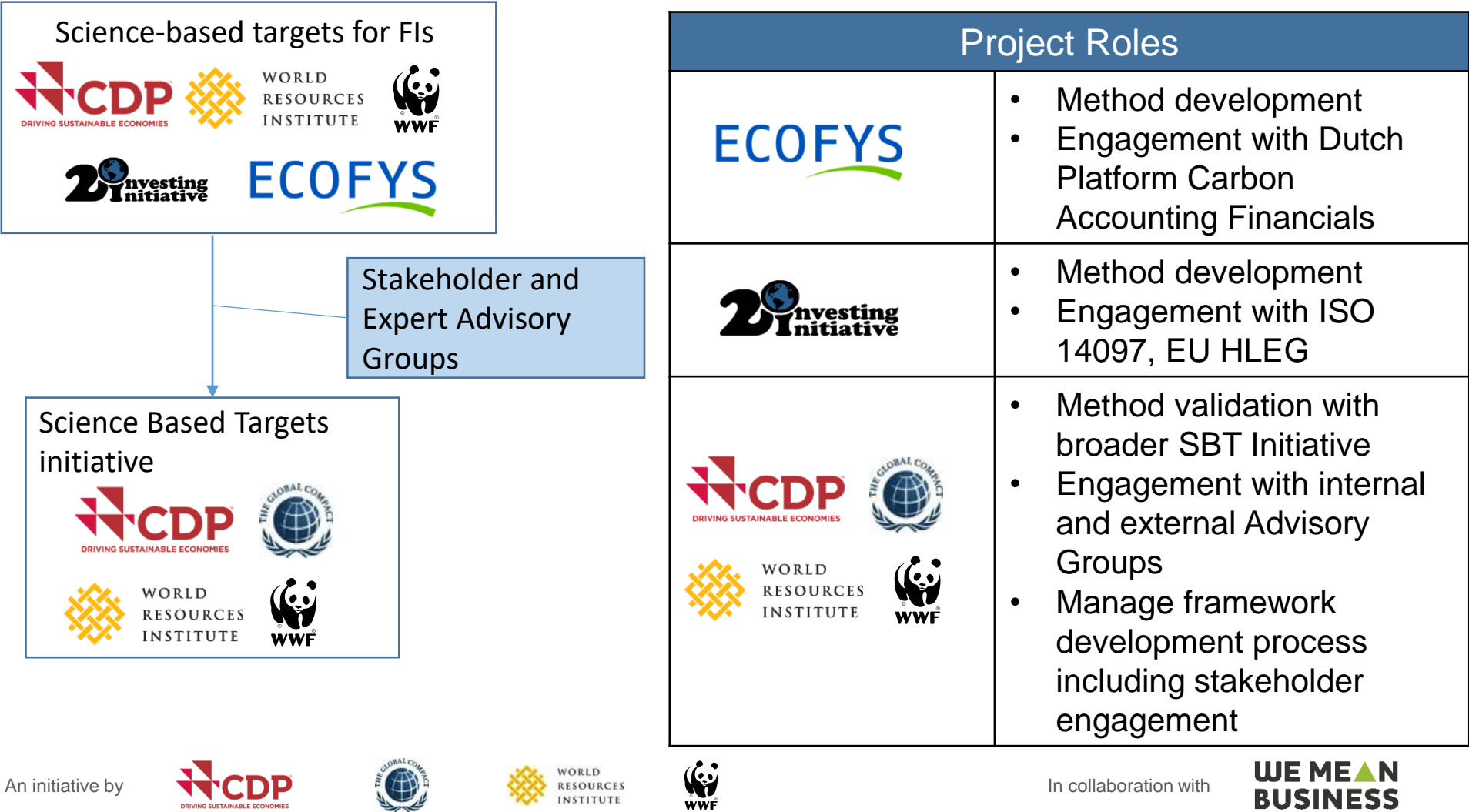


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Governance structure

Framework will be developed through an international and transparent multi-stakeholder process



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Opportunities for participation

- **Complete the stakeholder survey**
(<https://www.surveymonkey.com/r/SBT-FI-stakeholder-input>)
- **Join** the Stakeholder Advisory Group to provide feedback on draft documents and participate in workshops
- **Express interest** in joining team of expert advisors. We are looking for financial sector experts with experience in:
 - GHG management
 - Carbon asset risk assessment
 - Climate strategy
- **Pilot test** draft methods and **contribute** case studies

Send an email to yakopian@wri.org indicating how you wish to participate.

Q & A



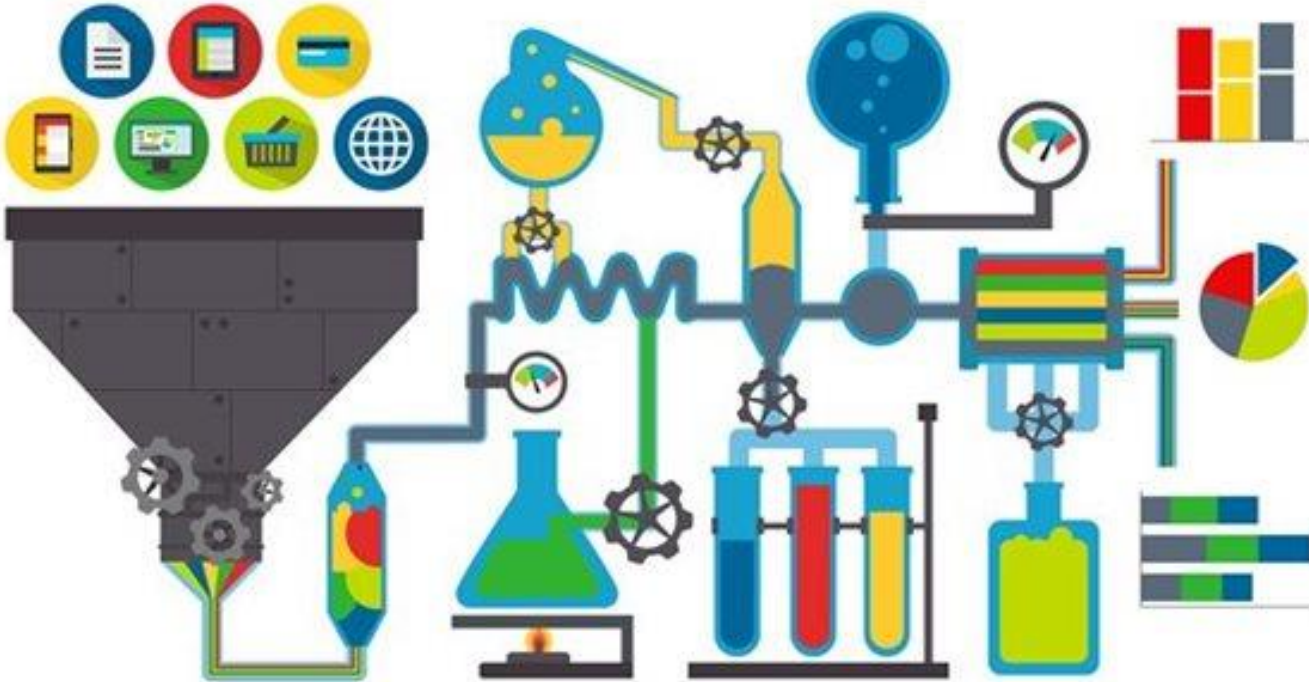
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Initial methodological approaches to set SBTs

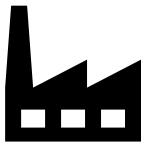
Based on existing work (SDA, SEI, 2°C investing criteria), two methodological approaches evolved. During the course of this project other methods might evolve as well.

1. Emission-based



- > Taking emissions pathways per sector as guidance for target setting per asset class

2. Economic-activity based



- > Taking the economic and technological transition as guidance for target setting per asset class

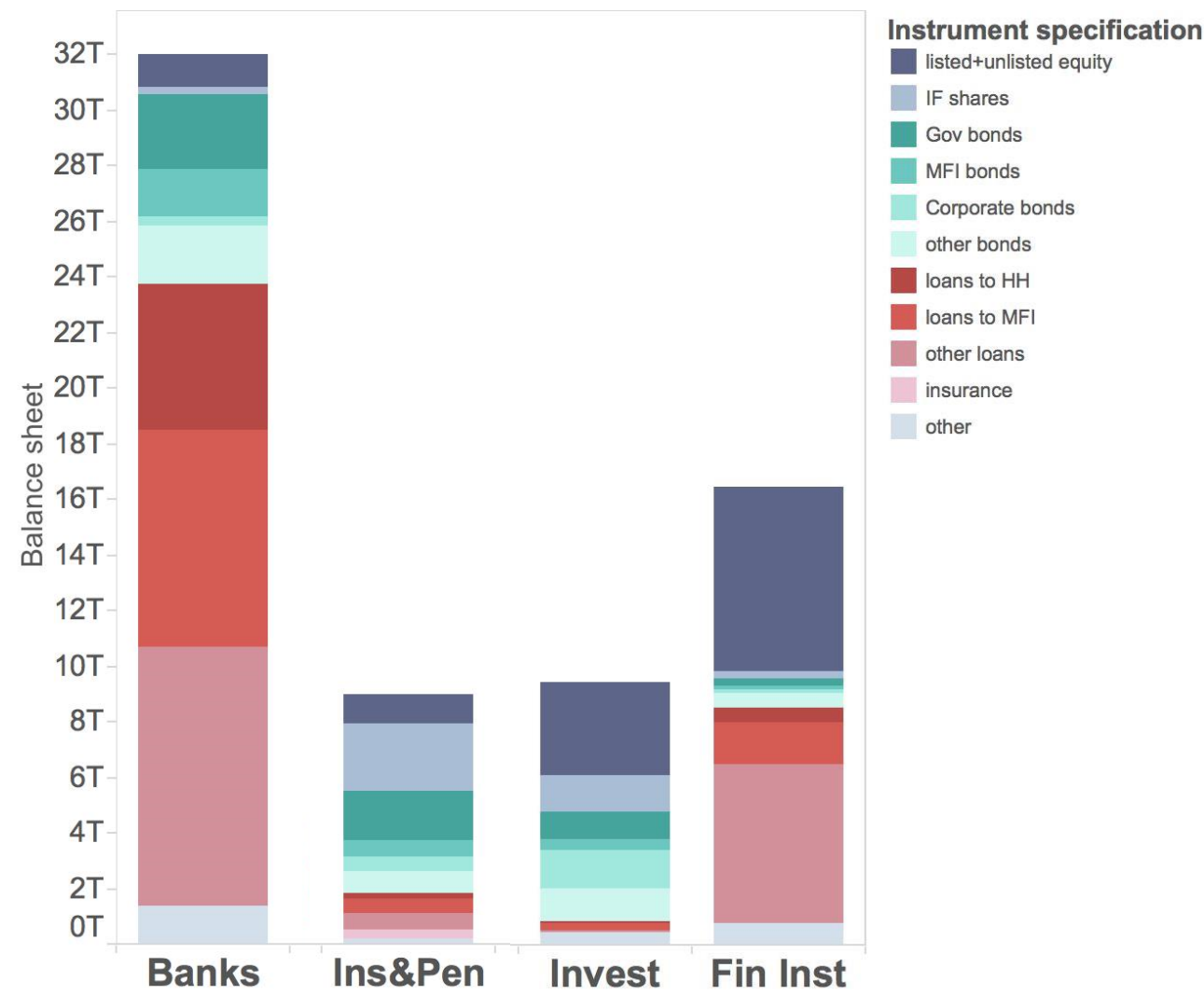
3. Other methods



SBT Framework will consist of several methods per asset class



Breakdown of asset class per financial institution



Source: Ecofys
Breakdown of assets of the balance sheet of Euro Area financial institutions (Banks (Monetary Financial Institutions, MFIs), Non-MMF Investment funds (Invest), Insurance and pension funds (Ins&Pen), Other Financial Institutions (Fin Inst)) by market type: 1) listed, unlisted equity and investment fund shares (blue), 2) government, MFI, corporate and other bonds (green), 3) loans and deposits to households, banks and other loans (red), insurance guarantees (dark red) and all remaining assets (light blue)). Important to note a) the big portion of the loans and deposits of the banks in the Euro Area, most of which is interbank lending, b) small amount of loans of the non-MMF Investment funds.

SBTs are proposed per asset class

Portfolios of FIs differ

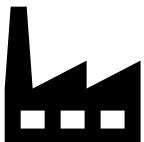


- > Banks have a relatively large share of loans and mortgages, while pension funds may have a larger exposure to sovereign bonds and listed equity.

Asset classes differs



- > Climate exposure of assets classes (like mortgages and listed equities) differ.



- > Transition of asset classes towards low-carbon differs from e.g. technology perspective



Target setting is proposed per asset class

A target-setting framework should be able to deal with a large variety of asset classes, yet be robust enough to be able to be used by any single FI with various asset classes under management.

Emission-based approaches

Existing emission-based approaches

A) Sectoral approach

Based on sector-specific carbon budgets determined by mitigation/technology options and activity projections.

B) Absolute approach

Based on absolute emissions reductions (per sector or region) determined in climate scenarios (e.g. 49-72% reduction in IPCC 5th AR).

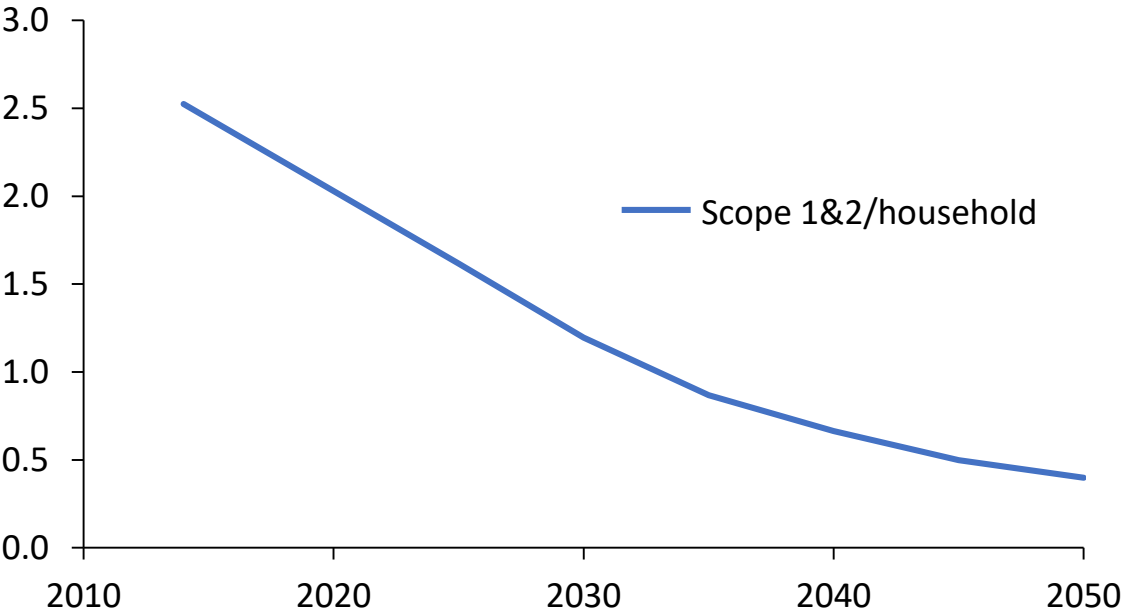
C) Economic approach

Based on the average emissions reductions determined in climate scenarios per projected economic output.

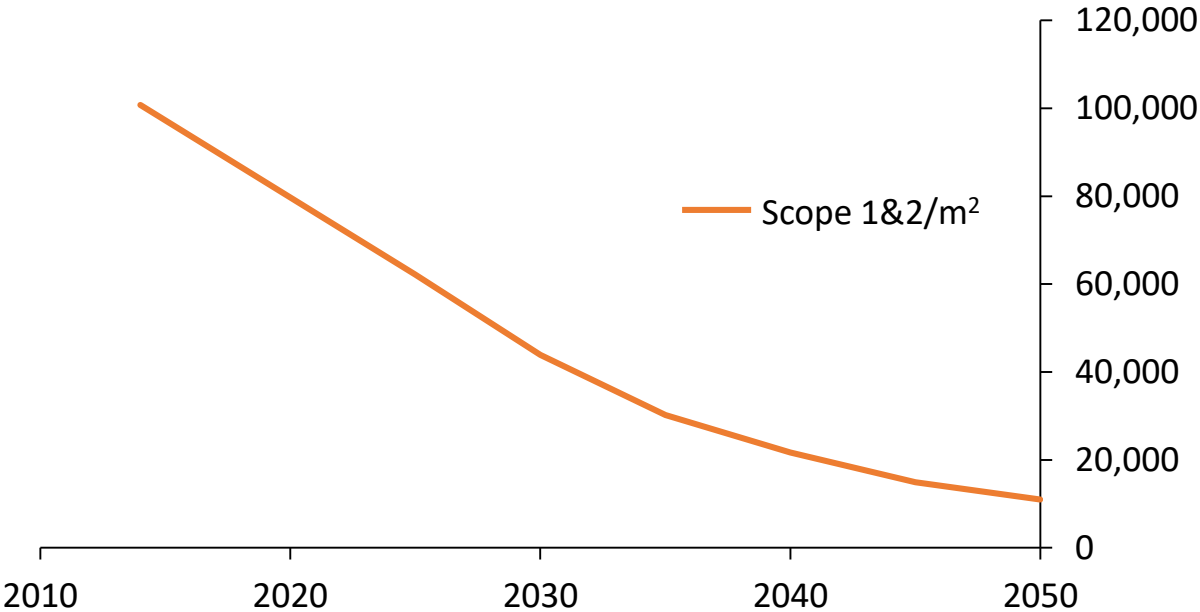
Example for mortgages and real estate

For mortgages and real estate an emissions-based approach based on the Sectoral Decarbonization Approach (SDA) could be used. According to data from IEA's 2°C scenario, global emissions of houses and real estate need to decarbonize as follows:

Scope 1 and 2 emissions per household (tonne CO₂/yr)

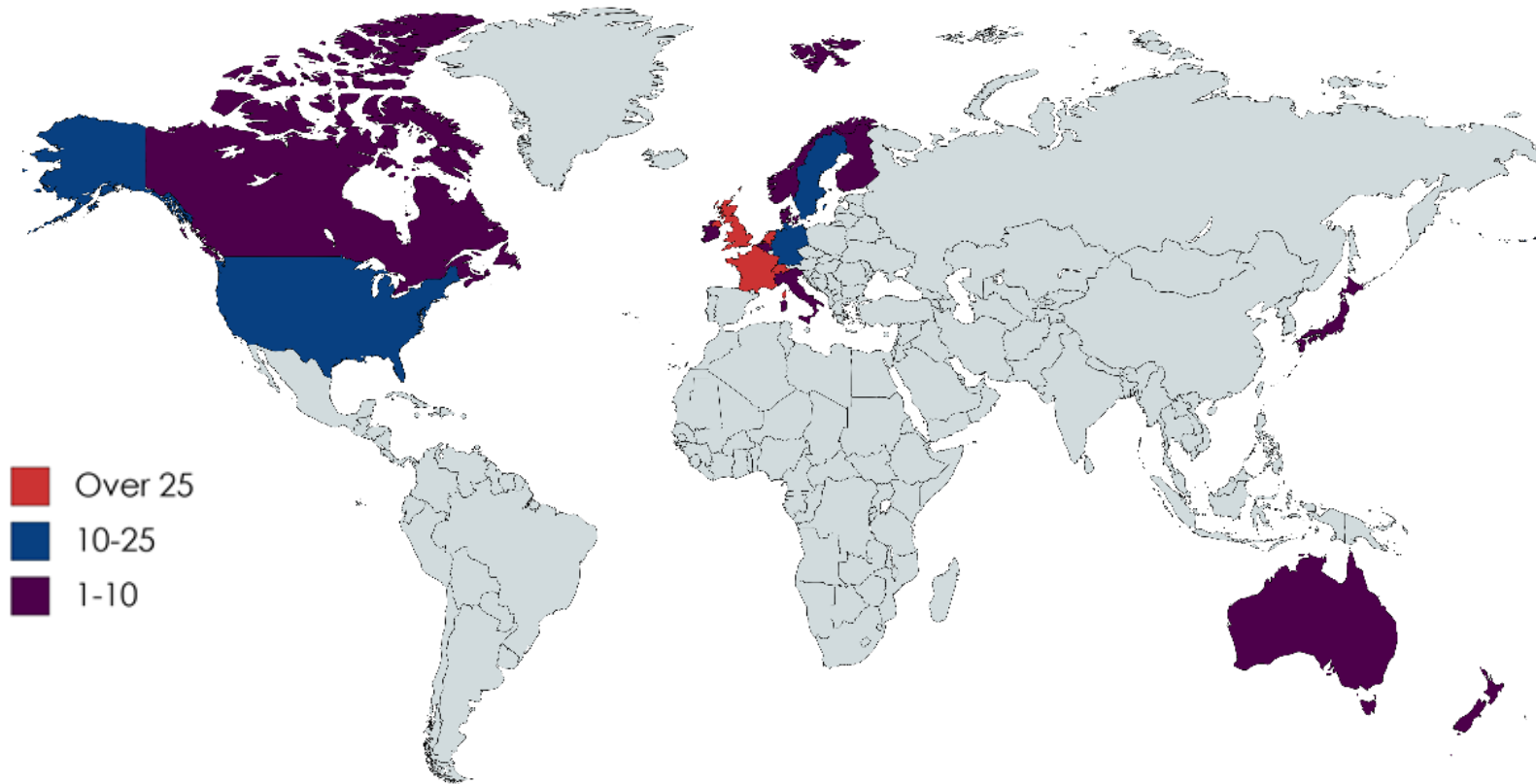


Scope 1 and 2 emissions of service buildings (tonne CO₂/yr)



Economic activity-based approach

Sustainable Energy Investing Metrics (SEIM) project methodology developed as part of SEIM consortium involving Climate Bonds Initiative, CDP, Frankfurt School of Finance, University of Zurich, Kepler-Cheuvreux, WWF Germany, WWF EPO, and Cired.



***+200 road-testers across
16 countries***

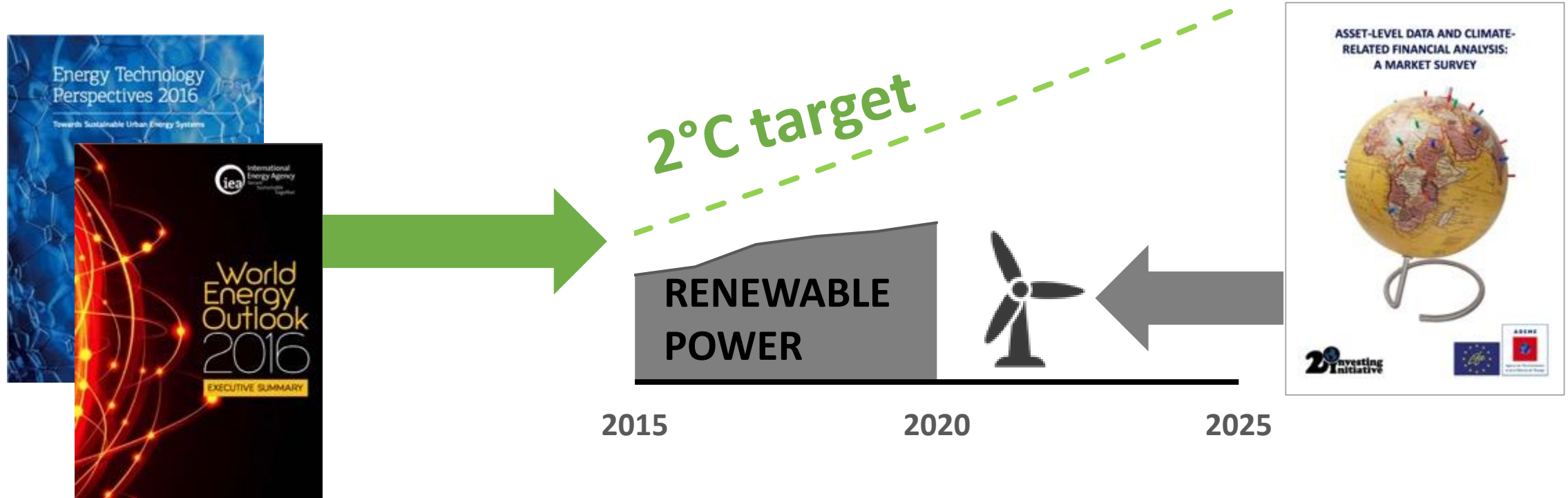
***Applied by 1 government and
3 financial supervisory
authorities***

Economic activity-based approach

Model approach: Measuring the alignment of economic activity in the financial portfolio with climate goals

2°C scenarios

PHYSICAL ASSET-LEVEL DATA



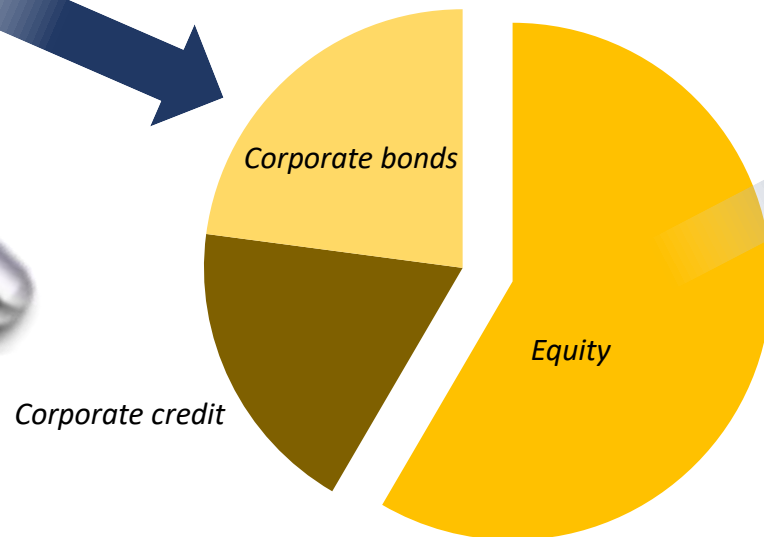
Economic activity-based approach

Covering all asset classes related to corporate issuers & all key high-carbon sectors across energy, power, transport, and industry

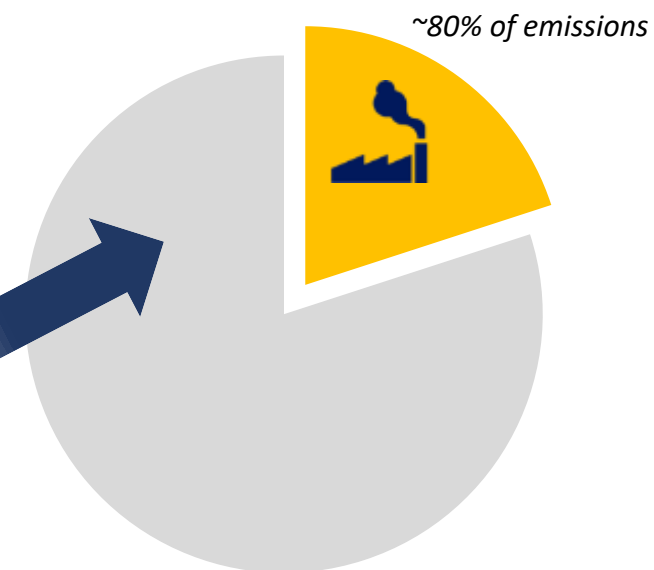
GLOBAL FINANCIAL ASSETS



COMPANY-LINKED FINANCIAL ASSETS



CLIMATE RELEVANT ASSETS

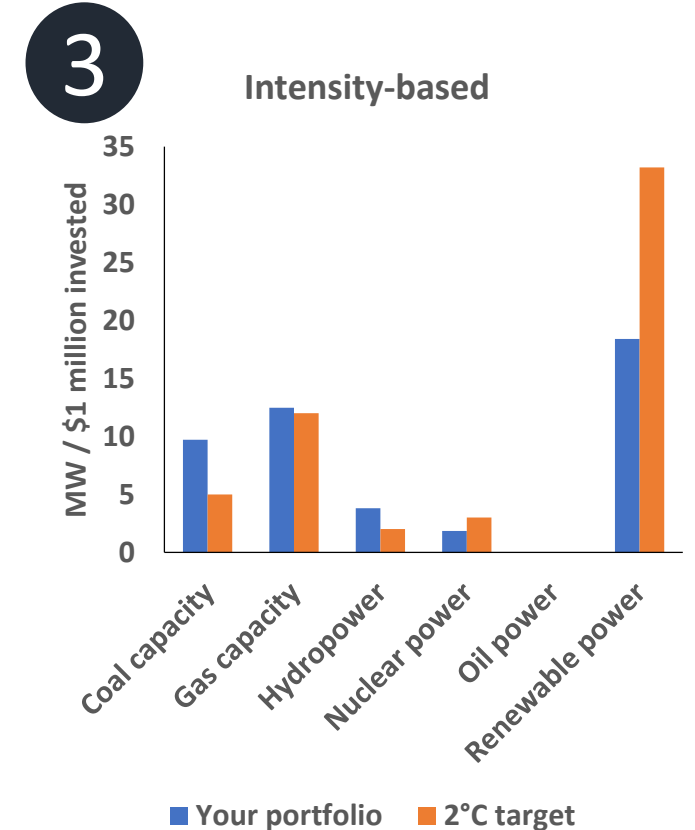
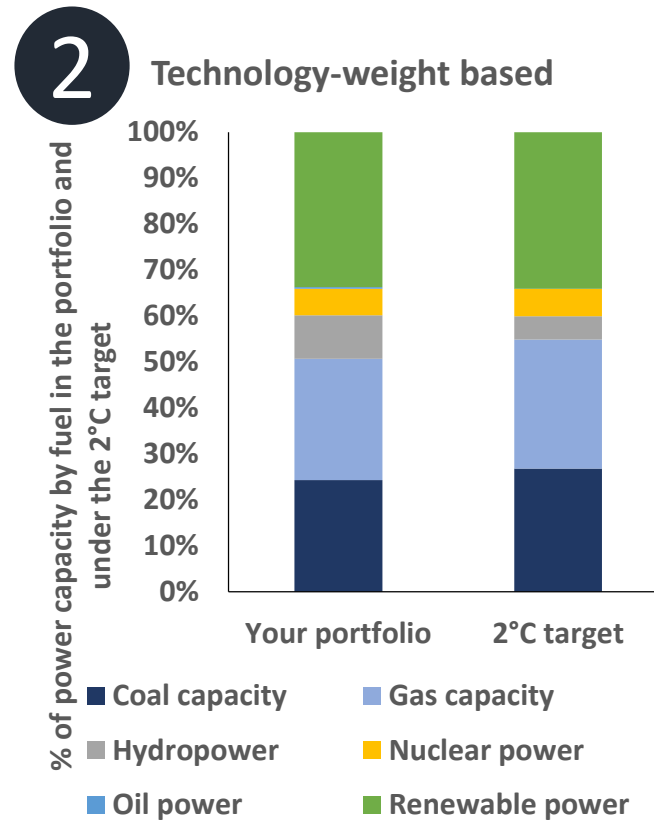
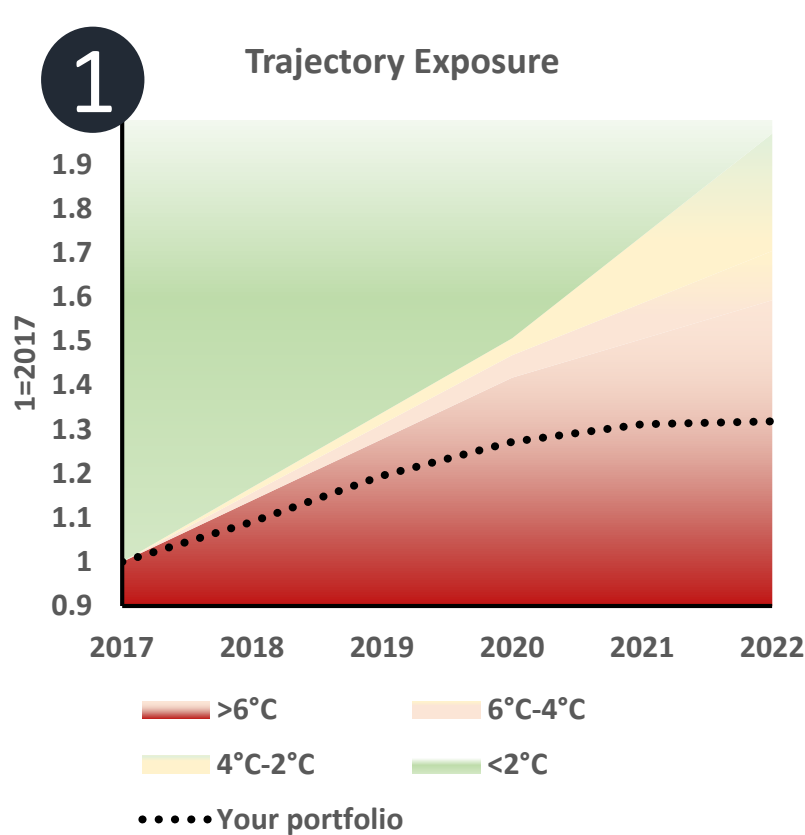


Source: 2° Investing Initiative Analysis, BIS, McKinsey, Exane, MSCI, Trucost

Economic activity-based approach

3 types of target-setting frameworks:

(1) 'trajectory-based', (2) technology-weight-based, and (3) 'intensity-based'



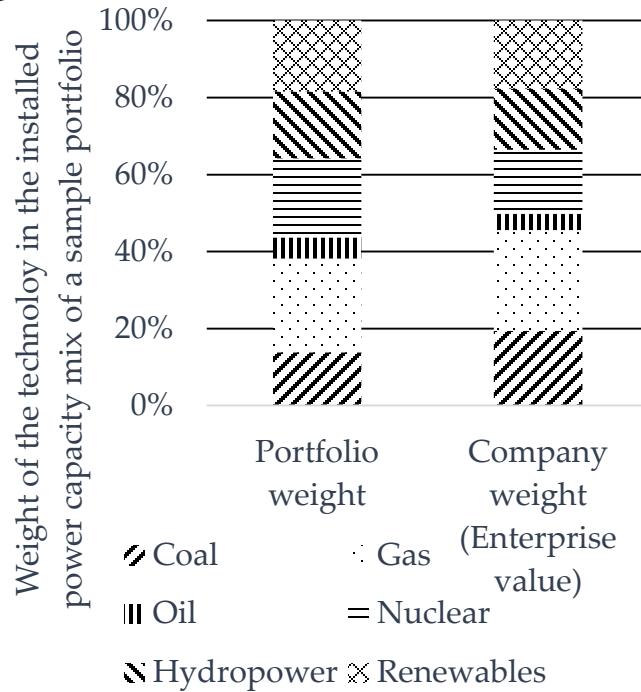
Source: 2° Investing Initiative Analysis, using GlobalData and portfolio data

Economic activity-based approach

Accounting frameworks

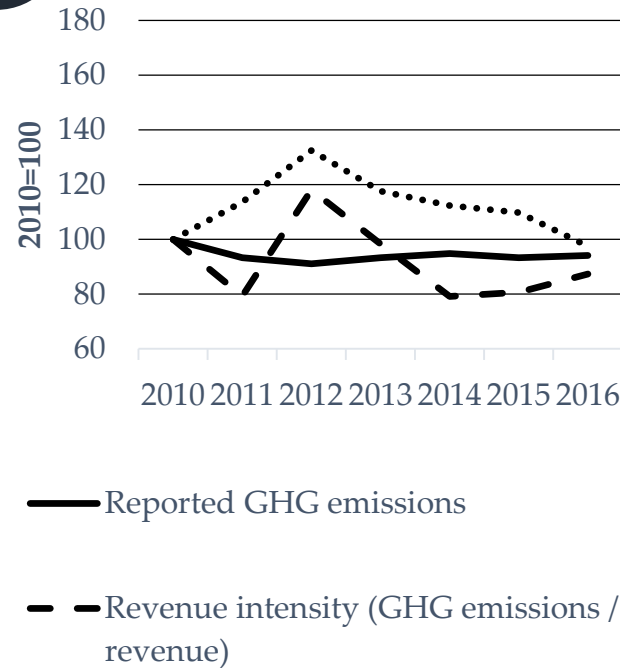
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Allocation rules to portfolios



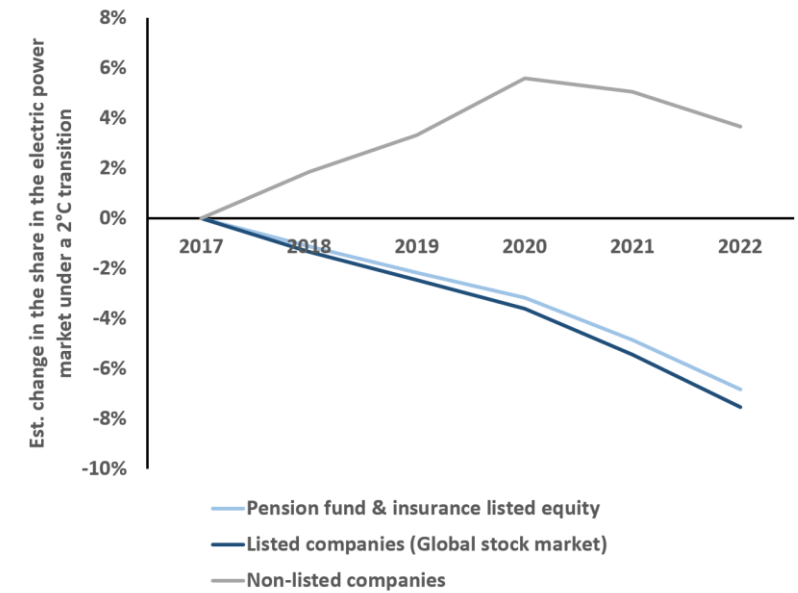
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Consolidation rules



3

Benchmark rules



Source: 2° Investing Initiative Analysis, using GlobalData and portfolio data

Summary Points

SEI metrics and SDA are the method starting points for this project.
We are also exploring alternate options and seeking input from stakeholders.

Key considerations:

- Is additionality addressed?
- Does the method assess changes on the ground?
- How is attribution addressed?



Webinar participants are encouraged to add more considerations in the chat box.

Q & A



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Related initiatives



Standard & metrics development

- PCAF (Dutch Platform Carbon Accounting Financials)
- FSB TCFD
- ISO 14097
- Portfolio Carbon Initiative



Policy initiatives

- Art. 173 France
- Swiss climate alignment project
- Supervisory initiatives



FI coalition activities

- UNEP-FI
- UN PRI
- IIGCC
- IGCC
- CERES



NGO activities

- WWF KR Project

Q & A

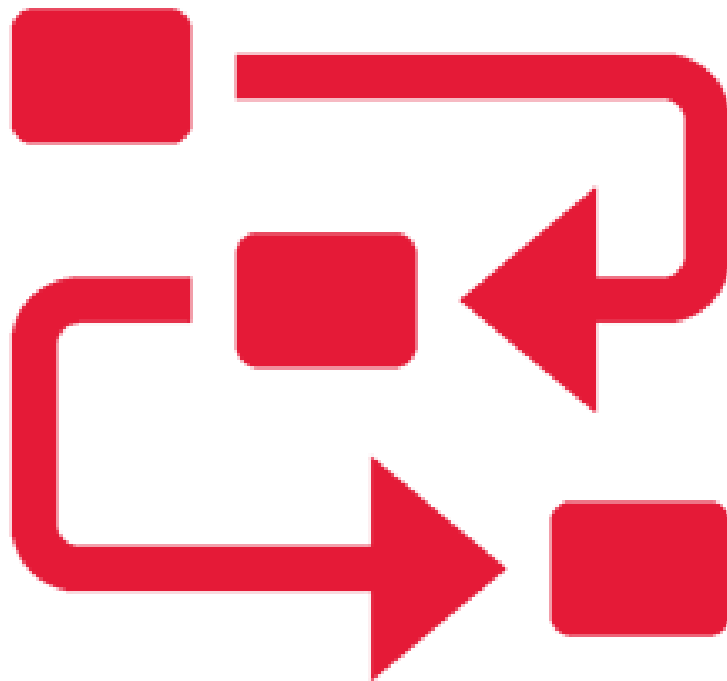


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Next steps

Complete scoping phase

- Compile stakeholder survey feedback
- Develop detailed workplan
- Recruit stakeholder and expert advisory group members

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Current Funders

The Bank of New York Mellon

European Commission

Dutch Platform Carbon Accounting Financials (PCAF)

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Please consider funding and participating in the process.



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