

SBT/FI 1st EAG Webinar Summary

September 20, 2018, 9:30 AM to 11:00 AM (Eastern US)

Recording: <https://attendee.gotowebinar.com/recording/5733740227186200321>

Meeting Objectives

- Introductions of EAG members
- Overview and update on SBT/FI project
- Review of guidance outline, asset-specific approach, and initial real estate methodology

Agenda

9:30 - 9:40	Introductions
9:40 - 9:50	SBTi Overview
9:50 – 10:05	Related Finance Initiatives & Role of SBTi
10:05 - 10:20	Project Work Plan
10:20 - 10:25	Asset Class Selection
10:25 - 10:35	Introduction of Real Estate Method
10:35 - 11:00	Discussion and Next Steps

Thanks to EAG members who participated in the webinar:

ABN AMRO

Allianz

ASN Bank

Barclays

BNP Paribas

BNY Mellon

DGB Financial Group

Etho Capital

Folksam

IFC

ING Group

ISS

RBC GAM

Sompo Holdings

Standard Chartered

TD Bank Group

The CO-Firm

UNEP FI

Westpac

Questions and Responses

- Q: With methods such as SDA that look 5 years out, the transition pathway will be quite soft. While it makes sense for some sectors, I wonder if it can defeat the purpose of this project if we run into odd scenarios where investing in coal would help alignment with 2-degree pathways because of the institution is underexposed. For instance, for listed equities, wouldn't it make sense to just check how far investors have invested in companies that have set SBTs? In this way, the investors would be SBT aligned as well?

A: There are a few broad options. Two examples are gCO₂e/dollar or Euro invested or number of investee companies with SBTs. SBTi is open to a range of approaches.

- Q: We are not too far away from the gCO₂e/dollar or euro invested approach. We have applied that to 7000 listed equities and you can apply that corporate debt quite easily. Many asset owners are working with Trucost data to apply this approach. Are you looking to incorporate these external resources?

A: Yes we are working with Trucost and other partners. The project however aims to provide non-proprietary tools and resources that can be applied by all institutions.

- Q: What is the link between SBT and TCFD?

A: SBT is not focused on risk per se. TCFD has a different purpose but it's clearly related to target-setting for financial institutions; SBTi will continue to communicate how this work relates to TCFD and other related finance initiatives.

- Q: Is it assumed that all FIs will be able to measure their scope 3 emissions or is it encompassed in this project?

A: We recognize that scope 3 emissions measurement is a challenge. Discussion of scope 3 category 15 measurement issues will be included in this project as well.

- Q: I think it's great that SBTi tries to capture companies' commitments to be in line with 2-degree scenarios. Is the project focused on future-looking commitment? Investors can either invest in companies that are already climate-friendly or can direct companies towards that

direction. Target setting differs from alignment in that it should be more commitment focused. Companies are held accountable in that they will be measured against their targets in the future.

A: SBTi decided to focus on forward-looking ambition instead of rewarding past and current performance. We are working through the role of portfolio alignment in target setting.

- Q: Does this project consider more broadly the upstream emissions such as purchased goods and services, lease assets from the operation side, other than the investment vehicles?

A: Methods and tools already exist for scope 1 and 2, as well as other 14 categories of scope 3 emissions. These aspects will be included in the framework.

- Q: How to quantify impacts from joint-ventures or partnerships with multiple degrees of ownership?

A: We are starting with more straightforward areas and we are aiming to build out the scope of the project to JVs and other financial instruments in the future.

- Q: Will the asset classes further be discussed by sector? Seems we are mixing sectors with asset classes here. (e.g. Real Estate - sector, and Corporate Loans - facility)

A: Some of the methods are limited in their sectoral approach, such as 2ii's and SEI's methods. In today's discussion we focused on preliminary methods for real estate--mainly the ownership of the direct property rather than real estate as an investment vehicle. As the project progresses, we will also cover methods for other types of debt instruments. One of the purposes of this project is to make clear linkages between real economy sector definitions and financial sector definitions.

- Q: Our concern in looking at corporate lending is if the main lever of this method is through adjusting exposures to certain sectors or borrowers, it's hard to induce actual influence and innovations on the facility level. We are interested in ways for individual facilities to incentivize reductions within the borrower. We need to recognize that if you take total borrower emissions and attribute to facilities, the marginal emissions reductions will be quite small.

A: The SBTi is exploring the most appropriate level of assessment across asset classes. For real estate, we focus on owned and operated buildings. How financial institution targets drive impact in the real economy is a central question as we move forward.

- Q: In terms of target audience and overall mission, do you foresee this also going into actionable decarbonization plans at the company level (for the public equity and debt side) as tools that asset owners can use to push companies to go further than what they are currently doing?

A: We are open to that approach. At this point SBTi itself is focused on target setting. We are a focused part of a larger ecosystem with other climate finance related initiatives, as mapped out

earlier. We will be working with other initiatives on target implementation, advocacy, and tracking.

Follow up comment #1: Every time we import concepts from the real economy to the financial economy, there is a certain level of complexity involved and we might lose interests from stakeholders in the financial industry. Where possible, we should take simple approaches such as the more companies in your portfolio that have expressed interest in SBTs or have already set SBTs, the more aligned an FI's portfolio will be automatically. I would encourage the initiative to highlight simpler approaches with the same degree of prominence as more complex methods.

Follow up comment #2: FIs can invest in SBT companies or ask their investees to set SBT as powerful ways to interact with the real economy.