SBTs for Financial Institutions

Draft target validation criteria feedback summary

SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

May 19th, 2020

9:00 am – 10:30 am EDT

Online Webinar

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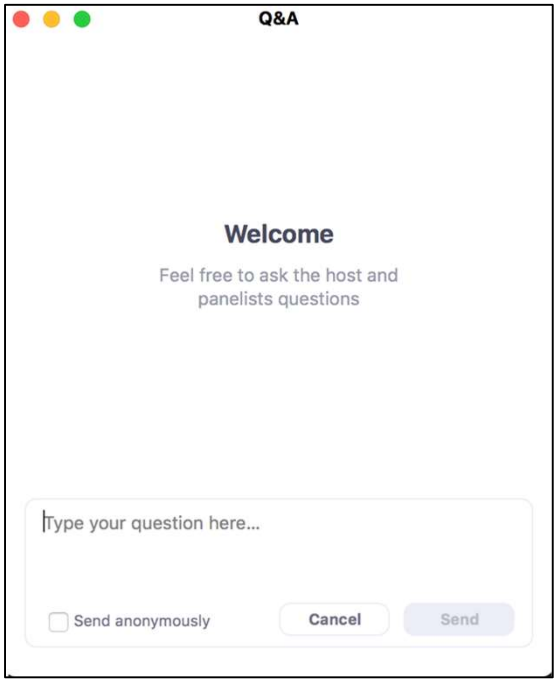
Welcome



This webinar is being recorded. Slides and recording will be posted to our website. They will also be emailed to you.

There will be time for questions at multiple points throughout the webinar.

Please type your questions into the Q&A box.

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Today's Speakers

Nate Aden
Senior Fellow
World Resources Institute

Chendan Yan
Associate
World Resources Institute

Agenda for Today

Topic	Time
Overview of SBT finance framework and project updates	10 min
Summary of feedback from in-person workshops	10 min
Summary of stakeholder survey feedback	40 min
Questions and discussion	25 min
Next steps in framework development process	5 min

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Science-based targets for financial institutions

In 2018, the SBTi launched a project to help financial institutions align their lending and investment portfolios with the ambition of the Paris Agreement.

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

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SBTi-Finance Framework | Committed financial institutions

- *ABN Amro Bank N.V.*
- *Actiam NV*
- *Allianz Investment Management SE*
- *Amalgamated Bank*
- *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*
- *Growthpoint Properties*
- *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.*
- *Moody's Corporation*
- *Novo Banco, SA*
- *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 AS*
- *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*

SBTi-Finance Framework | Project partners and roles

Managing Partner

WORLD RESOURCES INSTITUTE

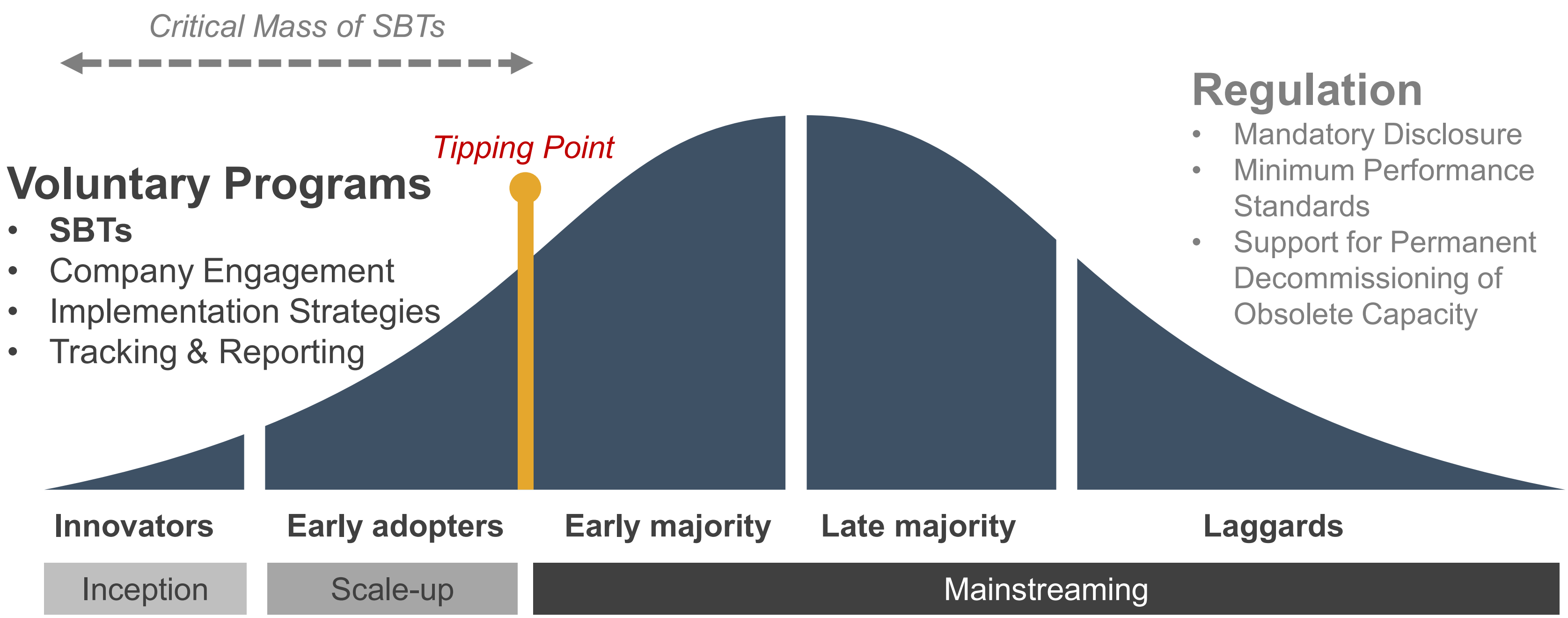
CDP DRIVING SUSTAINABLE ECONOMIES

WWF

Technical Partner

Guidehouse

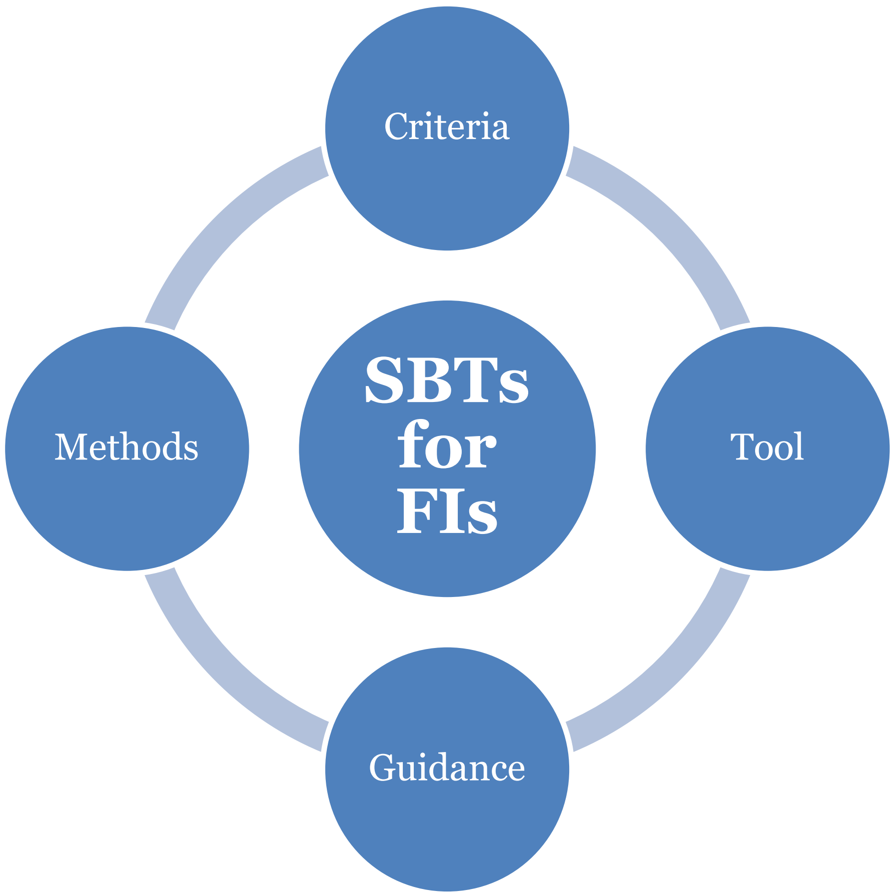
SBTi-Finance Framework | Tipping point theory of change



SBTi-Finance Framework | Scope

Included	Outside of Current Scope
Scope 1 and 2 science-based target methods, criteria, and guidance	Impact assessment (pending data and evidence availability)
Scope 3 target methods, criteria, and guidance ('how much')	Additionality (quantification or attribution without sufficient evidence)
Disclosure of implementation strategy	Ex-post tracking
Flexibility on actions to achieve targets	Implementation requirements ('how')
Engagement strategies (via Portfolio Coverage & Temperature Scoring)	Leakage remediation
	Evaluation of strategies' cost effectiveness

SBTi-Finance Framework | Framework components



SBTi-Finance Framework | Mapping methods to asset classes

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 portion of their investees (in monetary or GHG emissions terms) to have their own science-based targets such that they will reach 100% coverage by 2050.
	Temperature Rating	Financial institutions apply temperature rating method to come up with base- and target-year temperatures (e.g., 2.6°C in 2019 and 1.7°C in 2025).

SBTi-Finance Framework | Project milestones

Apr 2019:
Launch of **methods** road-testing process.

Apr-Oct 2019:
Gather and share feedback on draft **methods** through road-testing process

Dec – Apr 2020:
Develop draft **criteria** and conduct consultations at EAG/SAG workshops

Apr - Aug 2020:
Finalize **guidance**, **criteria**, **methods**, and target-setting **tool**

We are here

Sept 2020:
Launch V1 of **framework**

SBTi-Finance Framework | Temperature alignment method & tool

Temperature Scoring Protocols

Open source

Translating targets to temperature scores & portfolio coverage

Developed by

- WWF
- CDP

Alignment Method & Target Setting Tool

Open Source

Enable investors to align portfolios to °C goal / portfolio coverage

Action companies

Developed by

- SBTi-Finance
- Technical consultants

Investor solutions

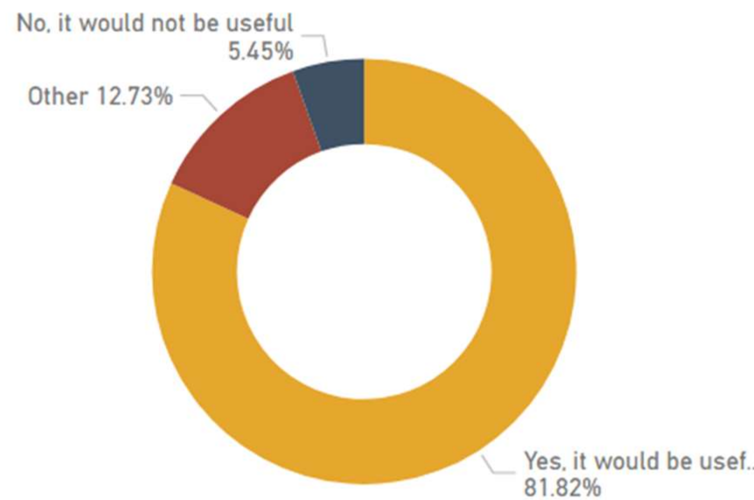
Commercial

Integrating data sources & workflow

ISS, Bloomberg, CDP, MSCI, etc…

Submit emission reduction target to SBTi for validation

EU Paris Agreement Alignment Disclosure Regulation



81% of the criteria survey respondents find that a portfolio temperature alignment method and/or tool would be useful for financial institutions' target development processes

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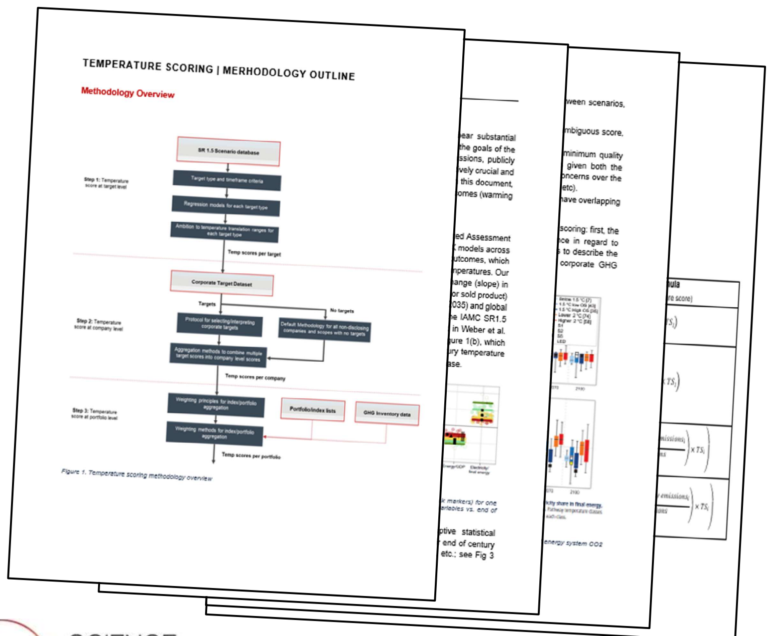
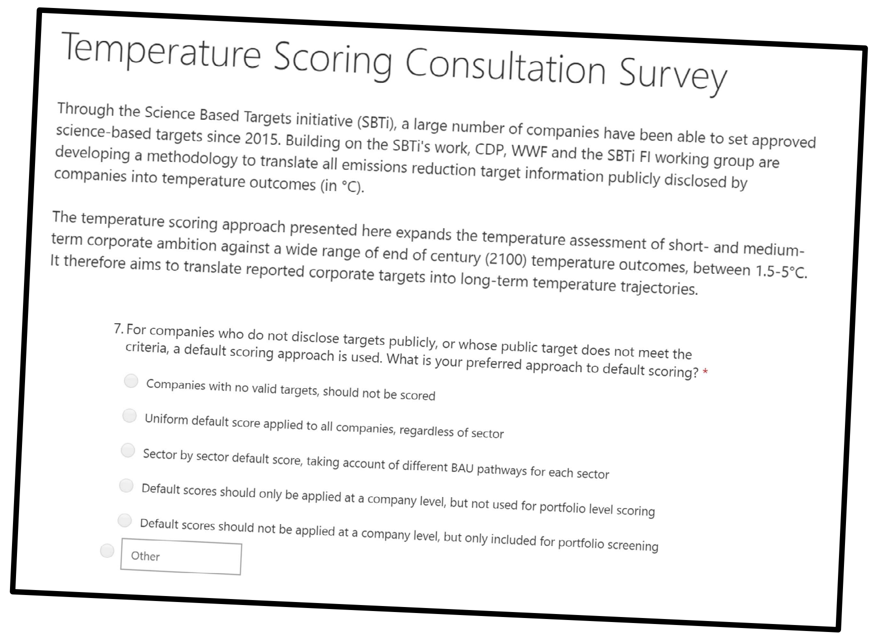
SBTi-Finance Framework | Temperature alignment feedback

1. Methodology will be open for review and comment. Participants can review draft document



2. Online Survey: ask specific methodological questions e.g. default methodology, portfolio aggregation steps;
→ **Closes this week!**



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Summary of feedback from the draft target validation criteria consultation process

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In-Person Feedback | London workshop

In February 2020, SBTi-FI hosted workshops in London and Tokyo to gather feedback from stakeholders on draft target validation criteria.

- On February 11th, 2020, SBTi FI hosted a full day workshop in London to get input on the key criteria most germane to FIs.
- Around 60 stakeholders participated in the workshop
- The team met with the Expert Advisory Group in the afternoon to reflect on the criteria discussions in the morning and discuss the development of the framework.

The following revisions were made to the draft criteria and informed the subsequent stakeholder survey:

- Made decisions on method hierarchy and alternative methods
- Target setting on scope 3 category 1-14 should only be recommended
- Revised options in the portfolio screening and/or target setting requirement and the implementation and strategy reporting questions
- Added questions about the role of the criteria to prevent portfolio shifting and encourage direct engagement
- Revised fossil fuel financing questions

In-Person Feedback | Tokyo workshops

The workshops were generously hosted by local partners:

MIZUHO

Quick

CDP

After the workshops, the following revisions were made to the draft criteria and informed the subsequent stakeholder survey:

- Added coal exclusion policy as an option to the fossil fuel policy question

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Summary of survey

After incorporating feedback from the in-person workshops, SBTi-FI distributed a survey on the draft target validation criteria in April 2020.

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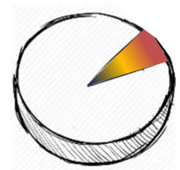
SBT-Finance Target Validation Draft Criteria and Tool Development for Stakeholder Consultation

This survey presents the key questions related to the draft SBTi-Finance criteria for assessment of financial institutions' scope 1, 2, and 3 emissions reduction targets and reporting of implementation plans. Together with the target-setting methods, and guidance document, the criteria comprise the SBTi framework for financial institutions. The survey also includes questions on tool(s) that SBTi-Finance may develop to facilitate target setting. To address these questions, we have proposed multiple options for feedback and welcome your comments and/or additional suggestions.

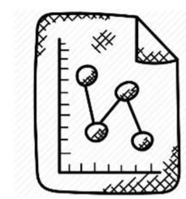
Before starting to answer questions, please review this background document for important background information. This public consultation period will be open until April 30th (the original deadline has been extended). All individual responses will remain confidential and only aggregate results will be made public. For queries relating to this survey, please contact Chendan.Yan@wri.org.



SBT Portfolio coverage method specifications

Portfolio targets boundary requirement

Fossil fuel financing



Implementation strategy reporting and frequency

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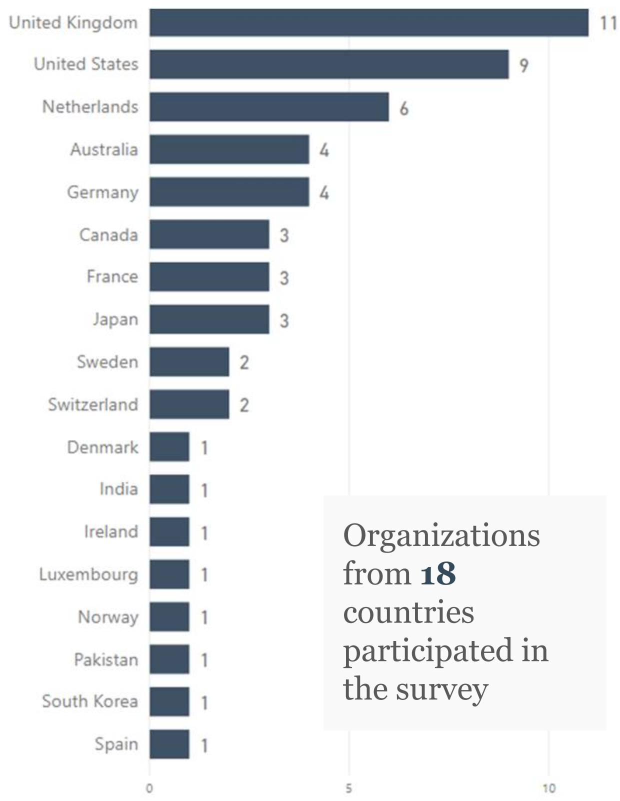
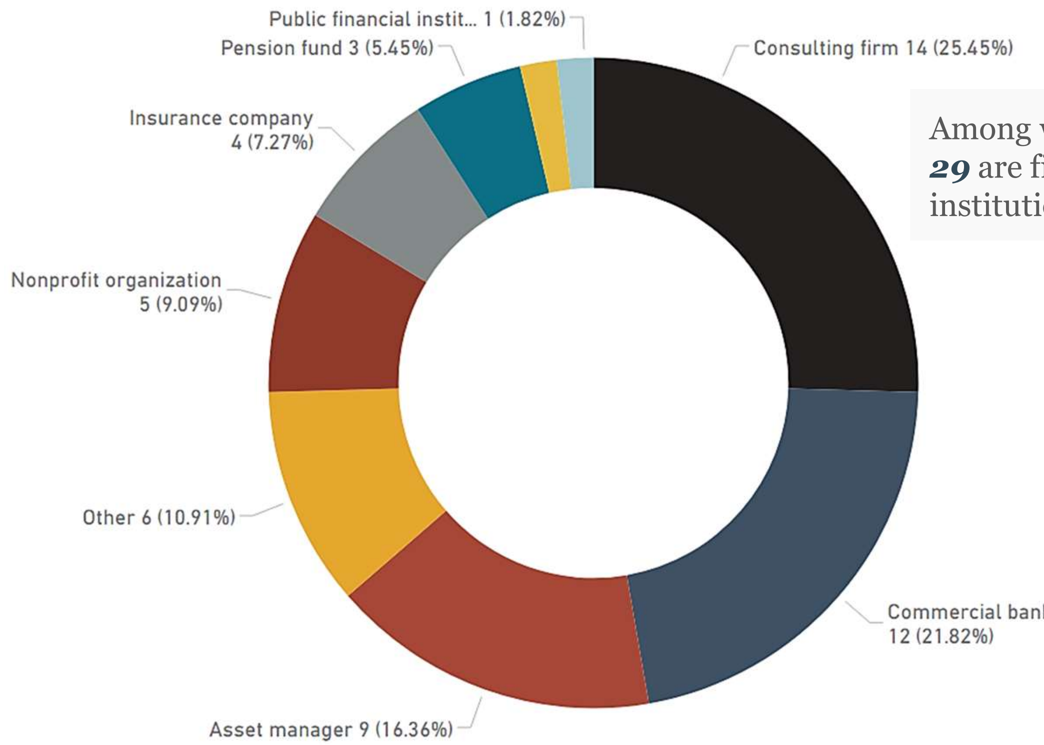
Thanks to 55 global organizations that responded to the survey



Organizations from **18** countries participated in the survey

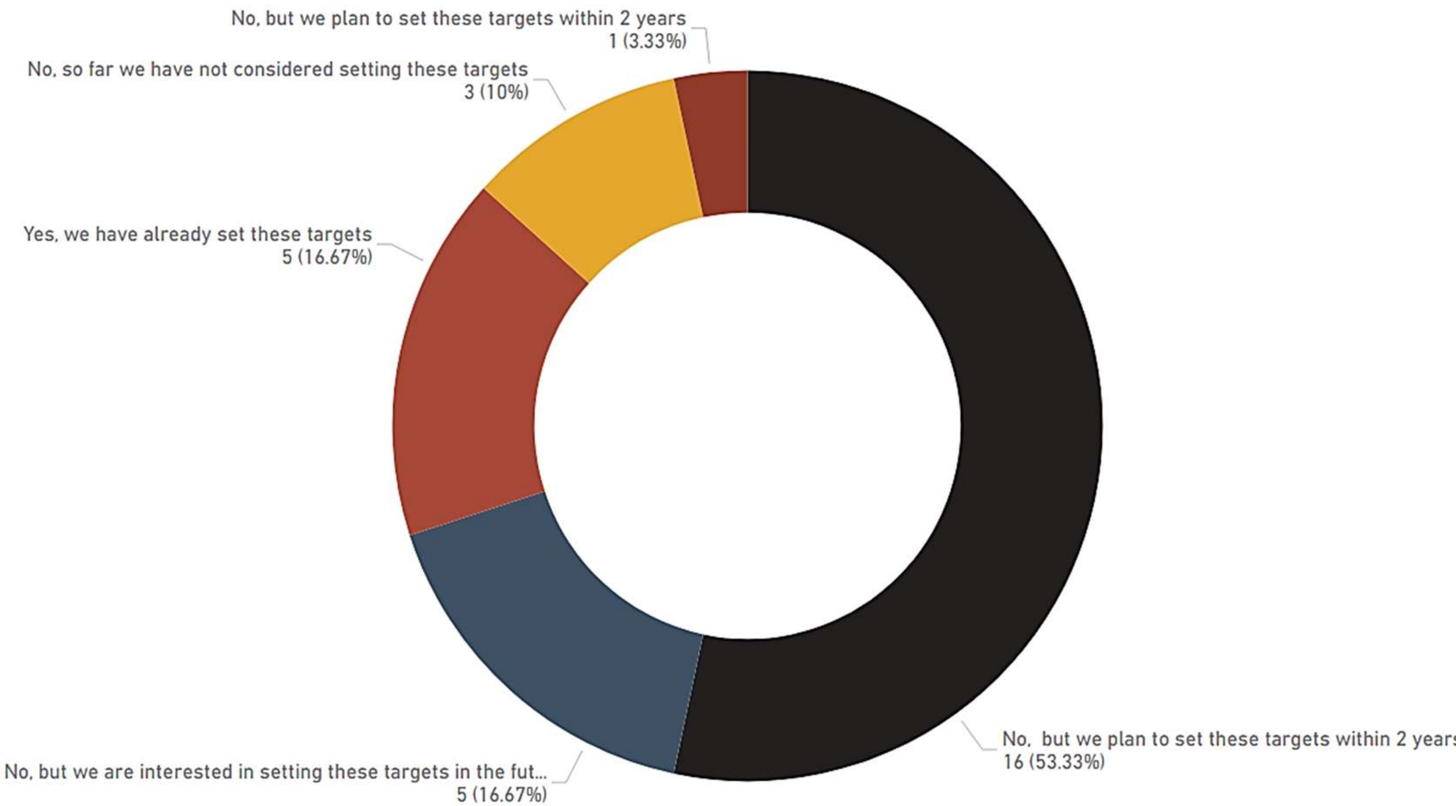


Among which ***29*** are financial institutions

Total responses: 55

90% of FI respondents have set or are interested in setting SBTs

Q3: Is your financial institution currently setting portfolio climate targets?



Total responses: 55

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Q4: How to design the portfolio emissions screening/target coverage requirement?

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Q4: How to design the emissions screening/target coverage requirement?

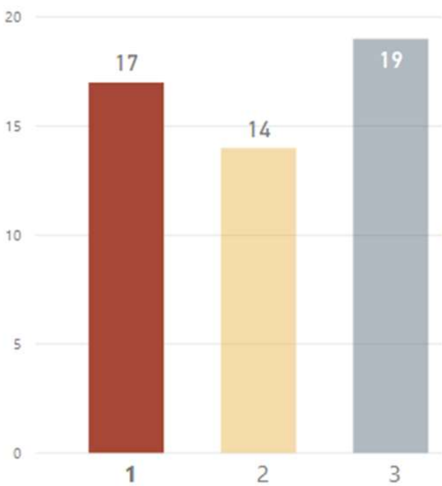
Option	
1	Require screening of 100% emissions from the 5 asset classes where methods are available. Then require that 95% of these emissions are covered by targets.
2	FIs shall conduct a portfolio-level emissions screening to estimate the emissions hotspots and apply a target boundary requirement (i.e. 67%) for emissions that need to be covered by the targets.
3	Require targets on 100% of holdings in top emitting sectors as defined by SBTi Top-emitting sectors
4	Similar as option 3, but after screening of top emitting sectors, apply a materiality threshold (e.g. 67%) for percentage of emissions/AUM/other units that need to be covered by targets set using available methods.
5	Require screening of 100% emissions from the top emitting sectors defined by SBTi. Then require that 95% of these emissions are covered by targets. Require screening for holdings in remaining sectors and that a lower percentage (e.g. 67%) of these emissions are covered by targets.

We combined similar options for the survey analysis

1	100% emissions screening of top emitting sectors + 95% targets (+screening and targets on % remaining sectors in option 5)
2	Portfolio-level emissions screening + a target boundary threshold (e.g. 67%)
3	Targets on a X% of holdings in top emitting sectors as defined by SBTi

Consultancies and other stakeholders prefer option 1

Option 1: 100% emissions screening of top emitting sectors + 95% targets (+screening and targets on % remaining sectors in option 5)



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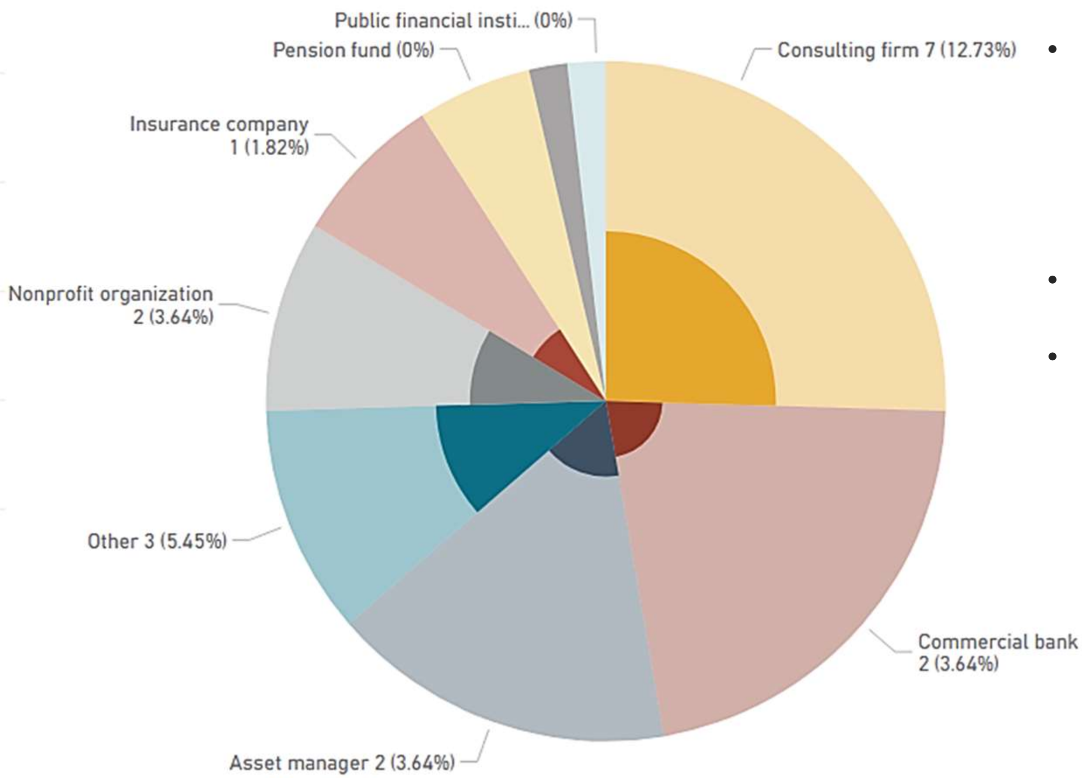

- Generally considered **the most comprehensive in terms of emissions coverage** for a whole portfolio alignment
- **17% of FIs** voted for this option
- 3 respondents proposed a screening based on AUM before emissions screening and/or target setting

Total responses: 55

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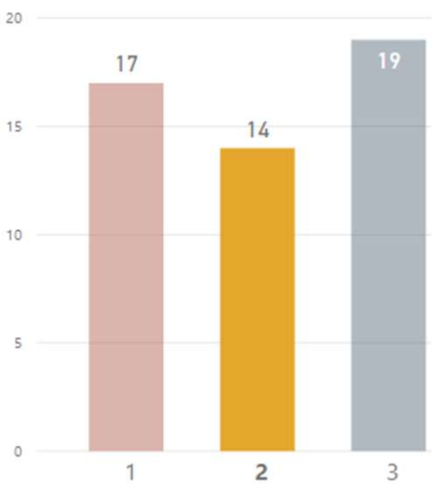
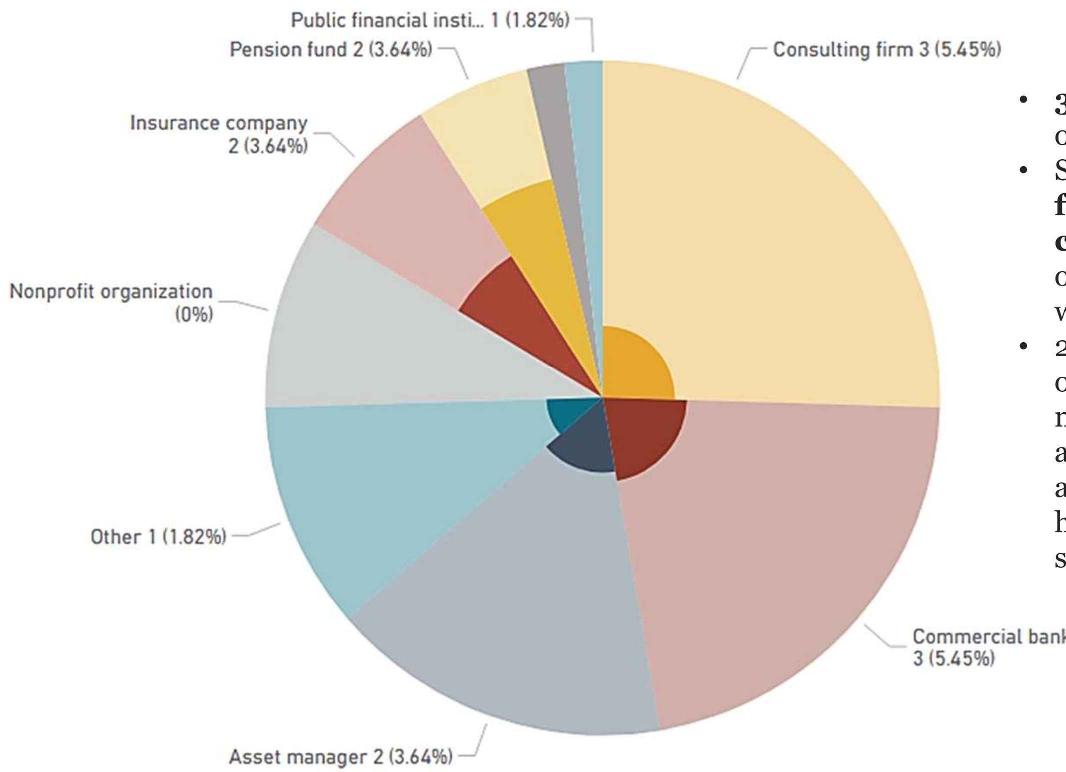
Asset owners have a stronger preference for option 2: portfolio level screening + 67% target boundary

Option 2: Portfolio-level emissions screening + a target boundary threshold (e.g. 67%)



2



- **31% of FIs** voted for this option
- Slightly more **pension funds and insurance companies** voted for option 2, although reasons were not given
- 2 Asset managers voted for option 2, as not all asset managers use a sectoral asset allocation and that applying a threshold can help them focus efforts on a smaller number of clients.

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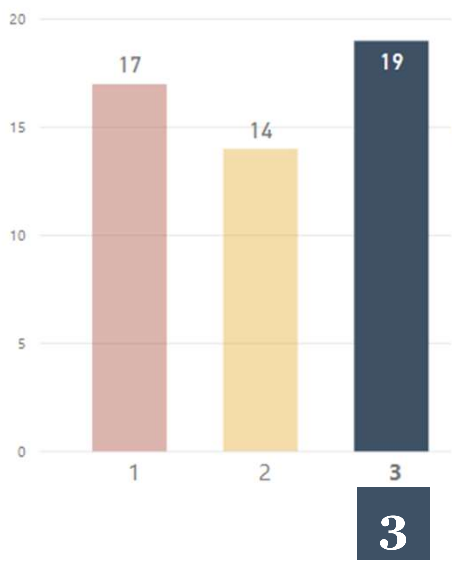
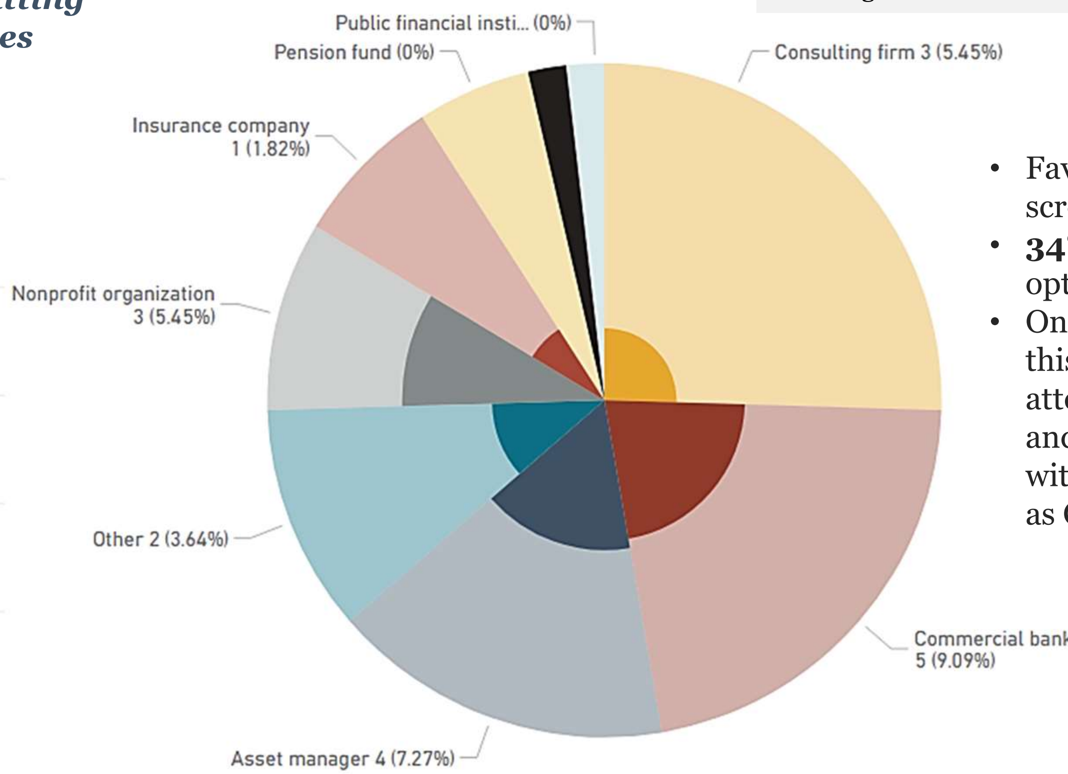
Total responses: 55

Commercial banks and asset managers have a slightly stronger preference for the top emitting sector-oriented approaches

Option 3: Targets on a X% of holdings in top emitting sectors as defined by SBTi Top-emitting sectors





- Favored as no emissions screening is required
- **34% of FIs** voted for this option
- One bank commented that this approach helps focus attention on key sectors, and enables alignment with other initiatives such as Climate 100+.

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Total responses: 55

Q5: Is it necessary for SBTi-Finance criteria to prevent or minimize leakage?

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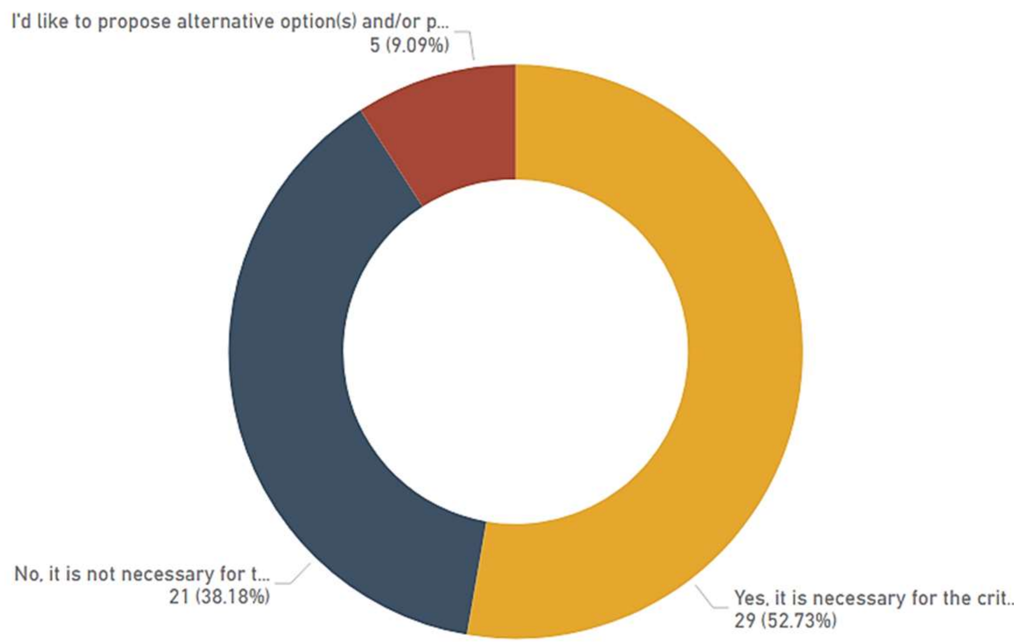
Responses are divided on whether the criteria should prevent leakage, with many clearly recognizing the difficulty to enforce such a restriction

"…it is necessary for SBTi to ***communicate how minimising leakage is important*** *for FIs, although recognise it can not necessarily practical to drive this solely through the criteria."*
– one consulting firm

- ~40% of FIs voted for Yes.
- Though votes are divided, written comments show that respondents on both sides agree that it's good in theory but not practical for the criteria to prevent leakage.
- Ones voting for No further noted the infeasibility of setting a criteria around leakage and that attempts to minimize leakage would create added barriers that could disincentivize actions.



Total responses: 55

Q6: **SBT portfolio coverage targets are to be applied within asset classes (e.g., corporate equity and debt).**

To reduce leakage or portfolio shifting, should SBTi also require FIs' SBT portfolio coverage targets to be applied to specified sectors (i.e., the same sector in base and target year)?

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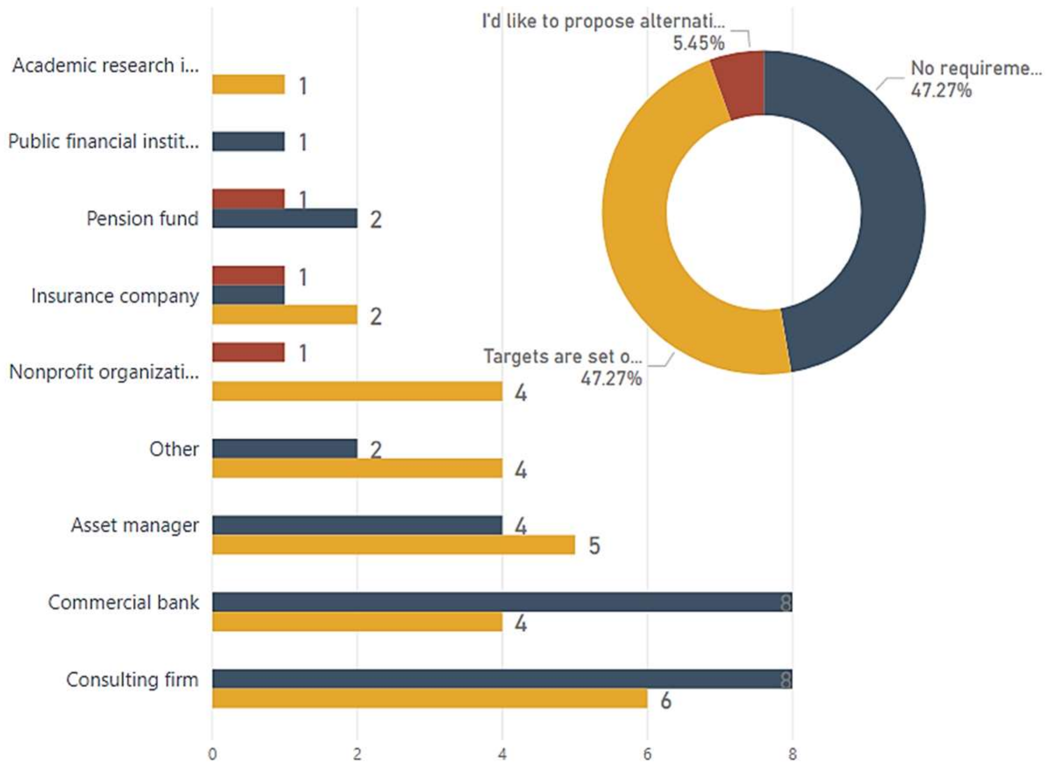
Respondents are divided on whether the asset-level SBT portfolio targets should also be applied on a sector level



- 38% of FIs voted for yes.
- Specifically, *banks and pension funds* prefer that the target boundary remains flexible; reasons include sector level boundaries can be too prescriptive and that challenges in different business models need to be considered.
- Reasons for **voting yes** include:
  - Criteria should address intra-portfolio leakage with sector level methods (1 ESG benchmark organization)
  - Allows better alignment with real economy emissions reduction (1 consultancy)

Total responses: 55

Q7: Is divestment an appropriate strategy for financial institutions to meet their SBTs?

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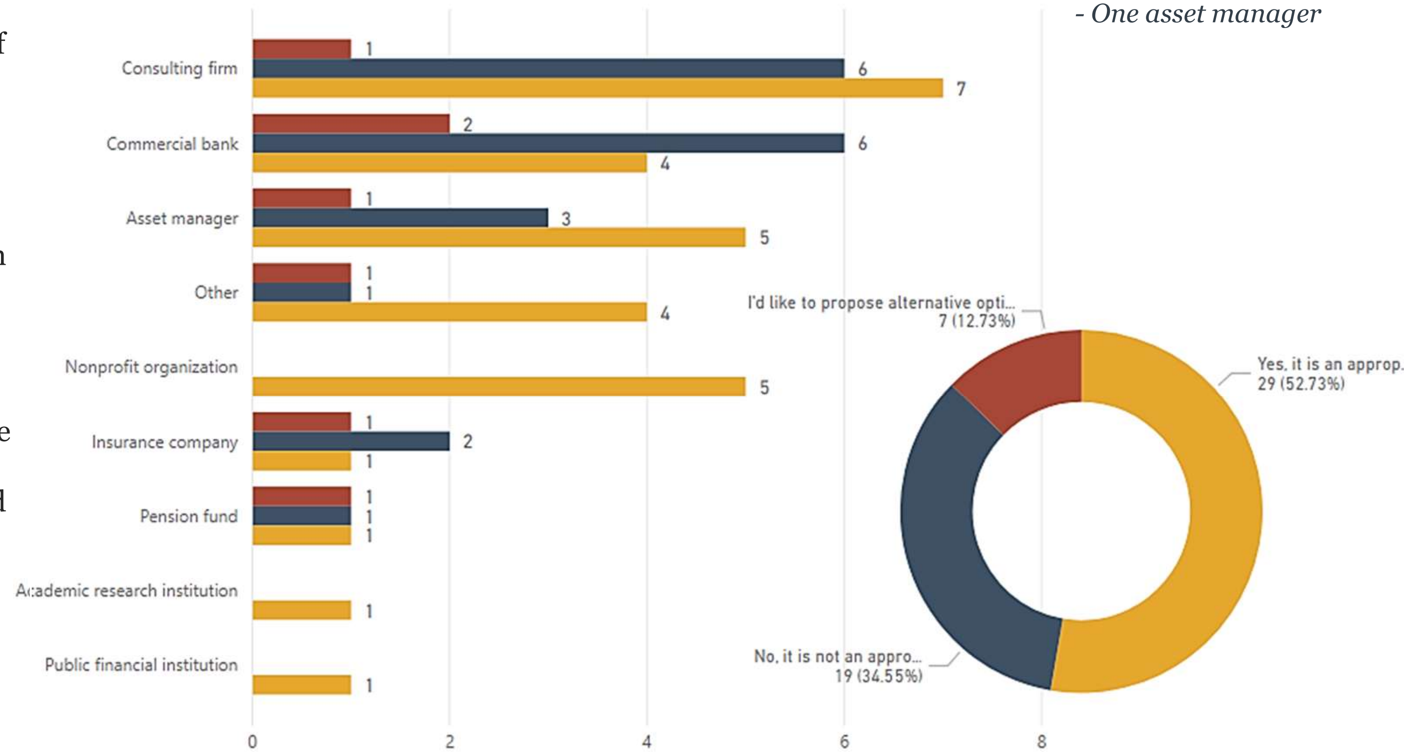
Divestment is a “last resort option”

“Engagement should be the priority means to encourage emission reduction in the real economy. ***Divestment should be considered as the last resorts*** *and under certain conditions for reducing portfolio emissions (e.g. the lack of progress after ongoing engagement).”*

- One asset manager

- Responses are divided, with half of the respondents voting for Yes, *esp. asset managers, nonprofits and consultancies.*
- 66% of FIs voted for Yes.
- Respondents who voted for No think that divestment on its own has limited real world impact, would lead to leakage, and remove the ability to influence clients for transition.
- Respondents on both sides agree that it **can be effective when paired with engagement** and should remain on the table as a “last resort option”.



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Q8: Is it incumbent on SBTi-Finance to focus on direct (engagement) rather than indirect impact strategies including such as divestment and portfolio shifting?

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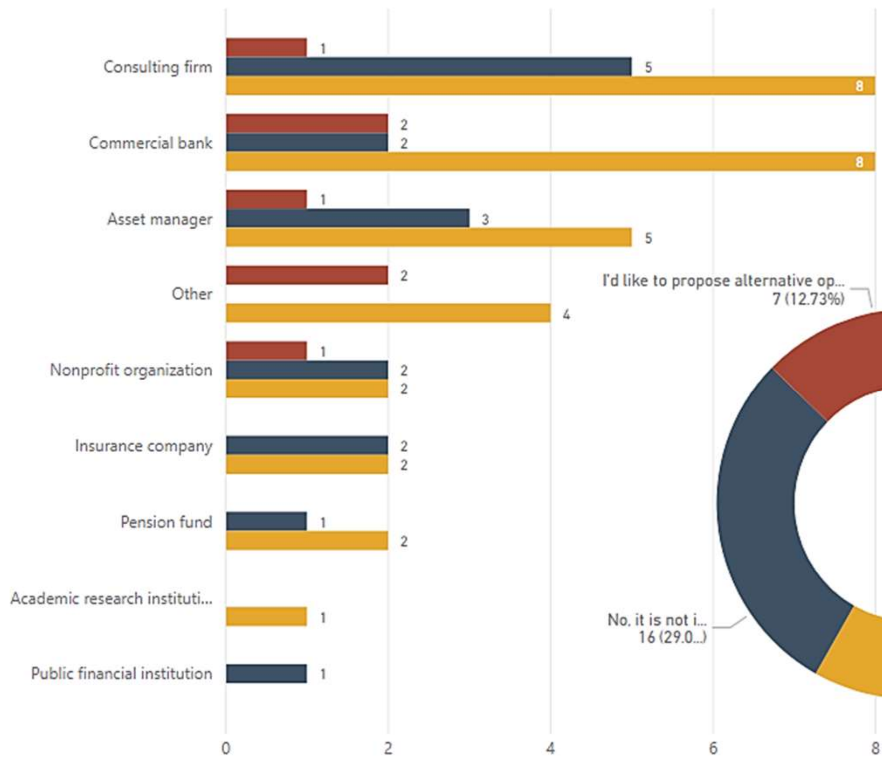
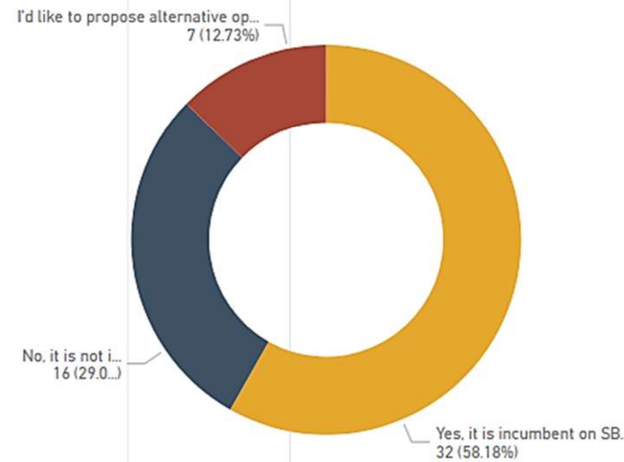
"Engagement and divestment are complementary. The implicit threat of divestment can lend more power to engagement and stewardship."

"Focusing on ***direct engagement is the most data & evidence-based approach*** *this standard could take. The debate on the possible constraints applied to divestment would muddle the purpose of this standard, which is to develop a widely accepted framework to help financial institutions benchmark their progress to well below 2-degree warming threshold, and make it become unnecessarily prescriptive."*

– One asset manager

- ~60% think it's incumbent on SBTi to focus on engagement than indirect impact strategies, *esp. among banks, asset managers, and consultancies*.
- Strong consensus that engagement and indirect impact strategies are **complementary to each other**; one might be more applicable to certain sectors.
- **Clearer guidance** on format of the engagement is needed (e.g. commitment letter, sign on to a pledge, etc.)





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In the absence of methods for the fossil fuel sector, what alternative interim requirements should SBTi put in place?

Q9. SBTi requires that FIs establish fossil fuel (oil, gas, and coal) exclusion/phase out policies as a safeguard

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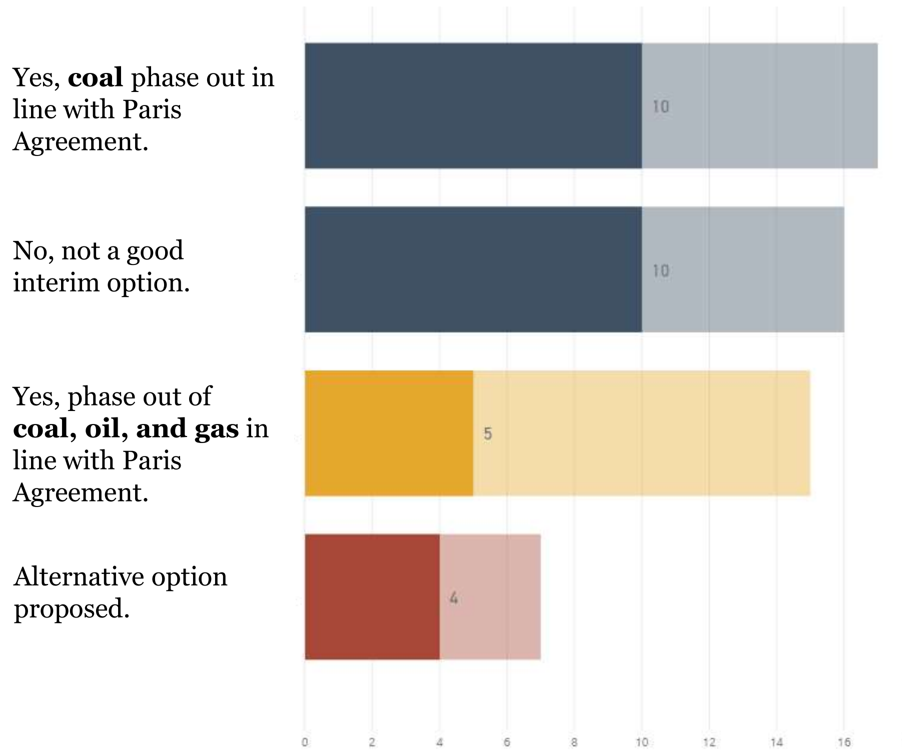
58%** of respondents agree that SBTi should require some sort of **fossil exclusion or phase-out provisions.

*"Coal policy is a given but again, banks have divested from coal and the effect in terms of coal-related emissions has been minimal. What has driven coal from the market is market price developments for renewable energy affecting demand that made coal uncompetitive in certain parts of the world. The same applies to oil and gas… **Only demand will take care of the fossil fuel markets**."*

- Commercial Bank

Key Points

Key Points
Fossil fuel companies can play a central role in low-GHG technology development
Need to differentiate between [thermal] coal and oil and gas
Resources are available: capacity-based methods are available from PACTA and Carbon Tracker Initiative
Distinguish between primary market activities providing new capital (IPO, financing) vs secondary market instruments



Total responses: 55

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Q10. SBTi requires that financial institutions disclose the portion of their investments (private equity, public equity, corporate bonds), direct project financing and lending or underwriting to fossil fuel (oil, gas, and coal) projects and companies for annual reporting, post target-setting.

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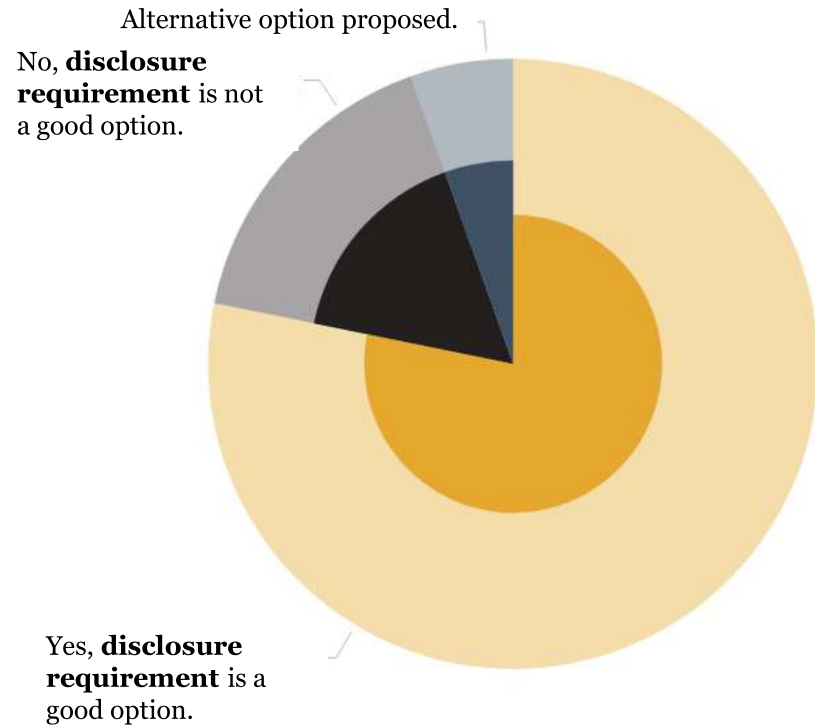
80%** of respondents agree that SBTi should require **disclosure of fossil fuel investment in annual reporting, post target

Key Points
Suggestion to establish materiality threshold for disclosure
Need to differentiate among Fis: many banks already report but likely push back by asset managers
Reporting can be difficult depending on investment, lending, & underwriting classifications
Potential integration with PCAF on carbon footprint assessment, TCFD and CDP on reporting



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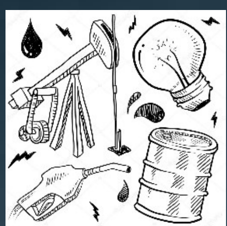

Q11. Should FIs use the temperature alignment method for fossil fuel companies and set targets to align them to well below 2 degree/1.5 alignment within 5 years, e.g. 2025? Fossil fuel companies' scope 3 emissions are included in the boundary of their targets.

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Respondents were divided on whether FIs should use ***temperature alignment method to set <2° targets within 5 years, including scope 3***

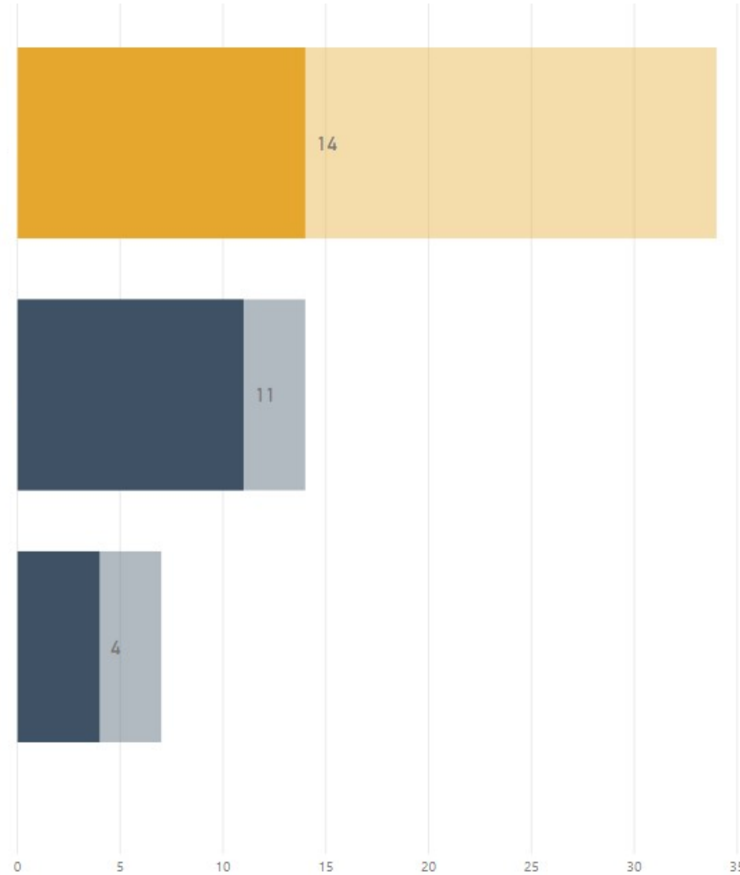
Key Points

Key Points
Need for portfolio alignment method finalization and additional information
Question of whether targets must be achieved or in place by 2025
Difficulty for small banks with loans to SMEs due to data limitations
Suggested integration with other resources such as TPI, flexibility on timelines

Yes, **temp alignment targets** are a good option.

No, **temp alignment targets** are not a good option.

Alternative option proposed.



Total responses: 55

Q12. **Should FIs use the SBT portfolio coverage method and engage fossil fuel companies in their corporate debt and equity portfolios to have approved SBTs within 5 years? Oil and gas companies should use the SBTi oil and gas method when it becomes available and scope 3 emissions will be included in the target boundary.**

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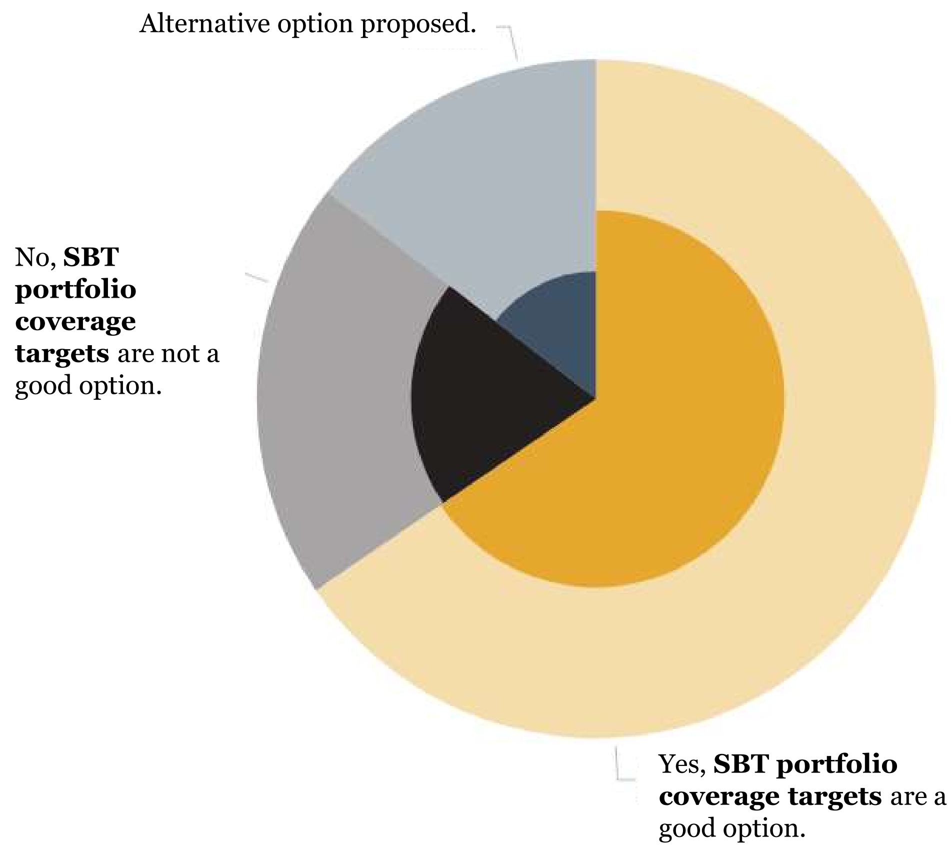
*Respondents had more consensus on whether FIs should use **SBT portfolio coverage method to have approved SBTs within 5 years, including scope 3***

Key Points

Key Points
Contingency on SBT oil and gas method development
Idea of differentiating between oil and gas majors, NOCs, and small operators
Question of financial institutions' influence on portfolio companies
Suggestion that SBT portfolio coverage offers more direct engagement than temperature alignment, but both methods have a role



Total responses: 55

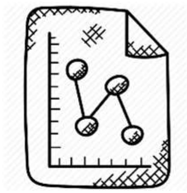
SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

How can financial SBTs best connect with the real economy?

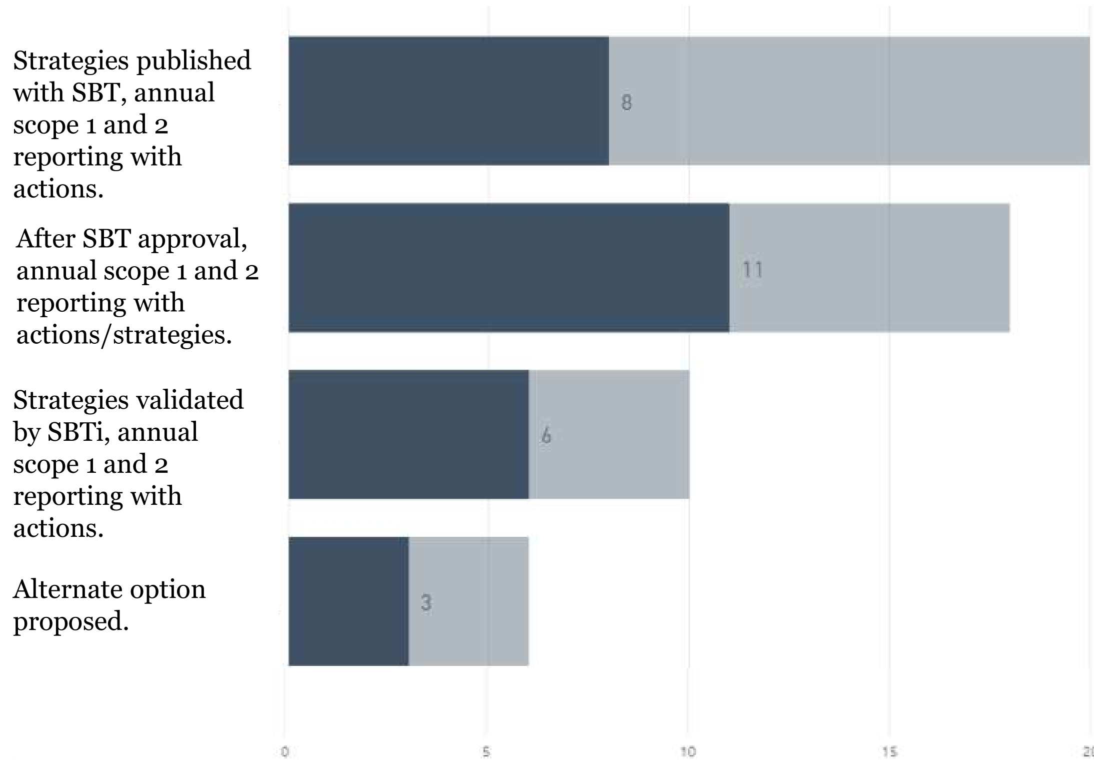
Q13. **To maintain credibility and best ensure targets lead to impacts in the real economy, how should FIs’ strategies to meet their SBTs be reviewed and publicly reported?**

SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION



*Respondents were divided on how **FIs' strategies for achieving SBTs should be reviewed and publicly reported***



Key Points

Key Points
Need to specify granularity and format of reporting requirement
Suggestion of TCFD integration
Suggestion to include scope 3 inventory reporting and progress against scope 3 targets (as opposed to just actions and strategies)
Suggestion to require reporting of failure of financial institutions to successfully affect actions of investees, not just successes

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Total responses: 55

Q&A

SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

SBTi-Finance Framework | Project milestones

Date	Milestones
May-June	• Draft guidance and alpha tool • Criteria feedback summary & revisions
June-July	• Guidance webinar to launch feedback process • Tool beta testing
July-August	• Summary of guidance and tool feedback and revisions
September	• Launch version 1.0 of framework

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

SBTi-Finance Framework | Opportunities for participation

SBTi-Finance Framework	SBTi-Finance Temperature Alignment Method	SBTi-Finance Tool Development

• Stakeholder list
• Guidance review
• Commit to setting an SBT
• Submit target for review (after Sept)
	• Review method
	• Complete survey
		• Join working group
		  • User developers
		  • Data & service providers
		• Beta test tool
		• Integrate tool

SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Thanks for joining!
If you haven't already, join project mailing list:
www.sciencebasedtargets.org/financial-institutions/

www.sciencebasedtargets.org

info@sciencebasedtargets.org