SBTs for Financial Institutions

Tool beta testing & guidance feedback launch

July 23rd, 2020, 9:30-10:30 AM EST
Webinar

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION
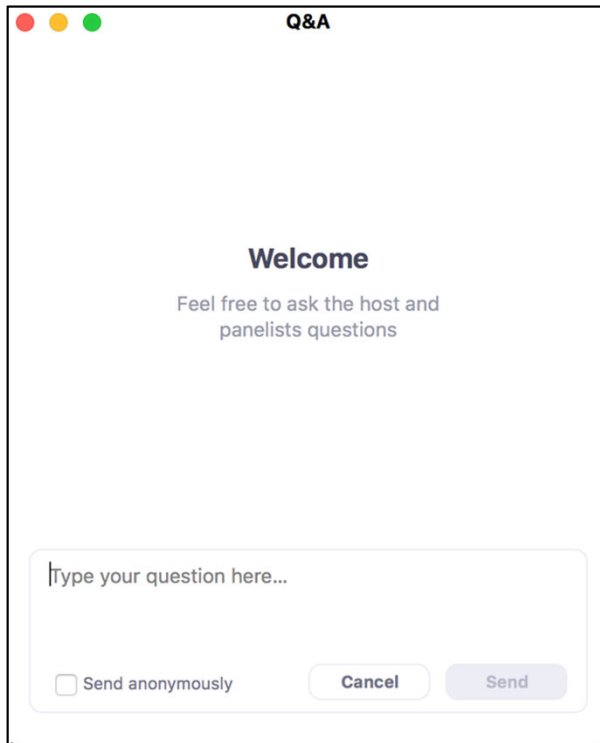
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DISCLOSURE INSIGHT ACTION

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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.

Today's Speakers

Nate Aden
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Project Manger Sustainable Finance
WWF

Chris Weber
Lead Energy & Climate Scientist
WWF

Truman Semans
CEO
OS-Climate

Eoin White
Target Validation Analyst
CDP

Daan van de Meeberg
Senior Business Analyst
Ortec Finance

Agenda for Today

Topic	Time
Introduction and Overview of SBTi-Finance	5 min
SBTi Temperature Rating Method Introduction	5 min
SBTi-Finance Tool for Temperature Rating & Portfolio Coverage	15 min
Tool Beta Testing	5 min
SBTi-Finance Guidance Draft	10 min
Q&A	20 min

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

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.

https://sciencebasedtargets.org/financial-institutions/

SCIENCE BASED TARGETS

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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*
- *Eurazeo*
- *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*

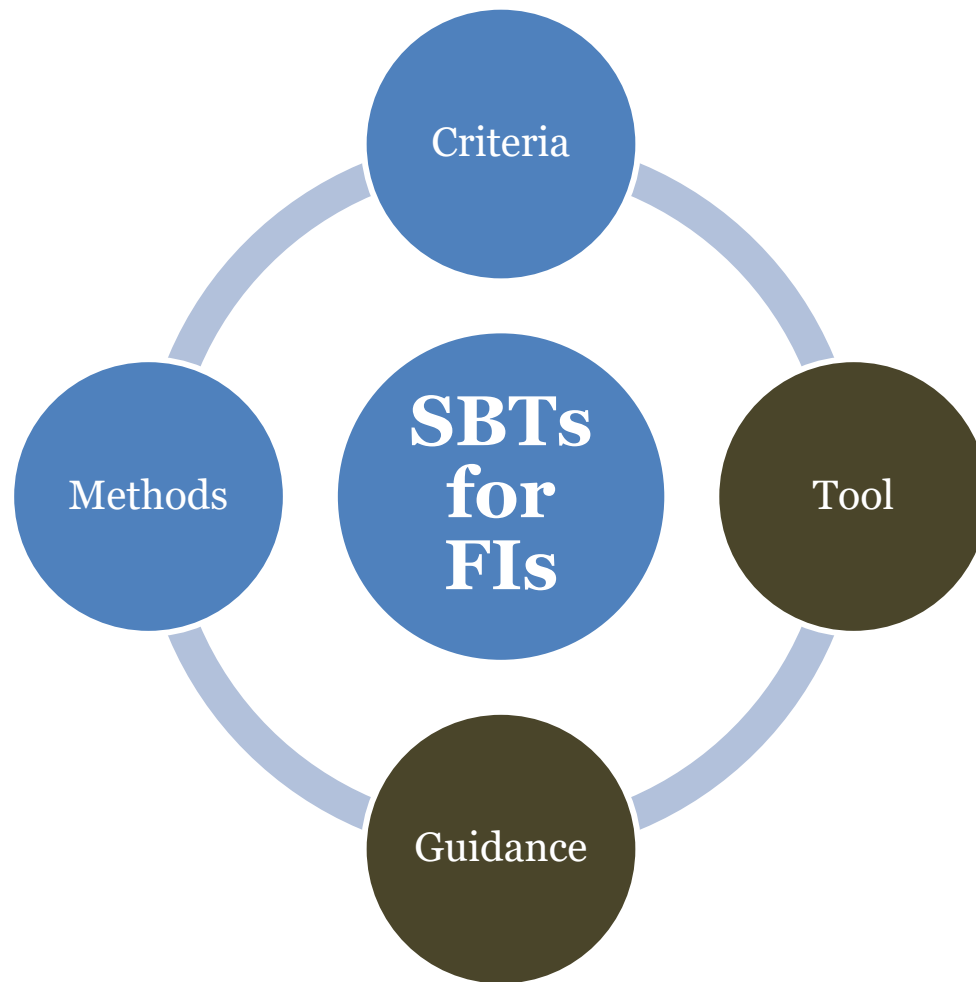# SBTi-Finance Framework | Project partners and roles

Managing Partner

Project Technical Partner

Finance Tool Project Partner

SBTi-Finance Framework | Framework components

SBTi-Finance Framework | Tool method & asset class coverage

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.
	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 2040.
	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 | Criteria

A financial institution's submission to SBTi will consist of **scope 1 and 2 targets and scope 3 portfolio targets** that meet the following criteria. Recommendations on best practices will be provided with the criteria.

GHG Emissions Inventory and Target Boundary
- C1: Scopes
- C2: Significance thresholds
- C3: Bioenergy Accounting
- C4: Greenhouse gases

Scope 1 and 2 Target Timeframe
- C5: Base and target years
- C6: Progress to date

Scope 1 and 2 Target Ambition
- C7: Level of ambition
- C8: Absolute vs. intensity
- C9: Method validity
- C10: Offsets
- C11: Avoided emissions

Scope 2
- C12: Approaches
- C13: Renewable Electricity Procurement

Scope 3 - Portfolio Emissions Screening and Target Setting Requirement
- C14: Requirement to Set Target(s) on Investment and Lending Activities
- C15: Portfolio Target Coverage
- C16: Timeframe of Portfolio Targets
- C17: Level of Ambition for Portfolio Targets
- C18.1: SBT Portfolio Coverage Targets
- C18.2: Portfolio Temperature Alignment Targets
- C19: Phase Out of Coal Investments

Reporting
- C20: Implementation reporting
- C21: Disclosure of Target(s) Portfolio Coverage

Recalculation and Target Validity
- C22: Target Recalculations
- C23: Target Validity

SBTi-Finance Tool Goals

- Temperature Rating & Portfolio Coverage Methodologies
- Open Source
- Transparent
- Data Agnostic
- Any User Interface
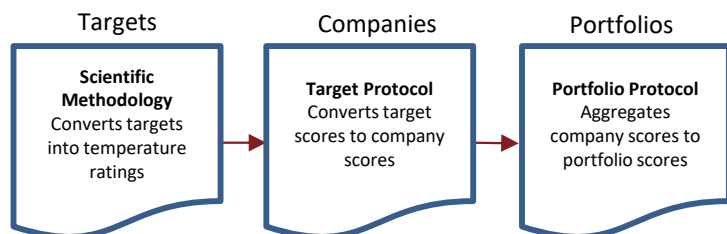- Workflow Tool for Front & Back Office

Background to Temperature Scoring

Temperature Scoring and SBTi Finance Tool | Context

1. Temperature Scoring Methodology: Protocols to translate public targets to scores	2. Applications Solutions built on top of the open source method and codebase

Targets — Companies — Portfolios

Scientific Methodology
Converts targets into temperature ratings

Target Protocol
Converts target scores to company scores

Portfolio Protocol
Aggregates company scores to portfolio scores

Open source, public methodology
Data agnostic

SBTi Financial Institutions
Target setting methods, temperature alignment methodology and codebase

Bloomberg
Portfolio Temperature Rating Application

CDP
Temperature Dataset based on CDP Target Data

ISS ESG
Portfolio Temperature Score Input Data and Application

Urgentem
Portfolio and Company Temperature Alignment Module

More service providers are joining the project to build solutions based on our methodology and code

Temperature Scoring | Background

◥ The SBTi have determined the GHG pathways that are aligned to three specific temperature pathways: 2°C, well-below 2°C, 1.5°C;

◥ Temperature scoring will assess and rate corporate ambition against a wider range of temperature outcomes (1.5–4°C) . e.g. Company A's GHG emission reduction target of X% reduction in absolute emissions by 2025 implies their ambition is aligned to a Y°C world.
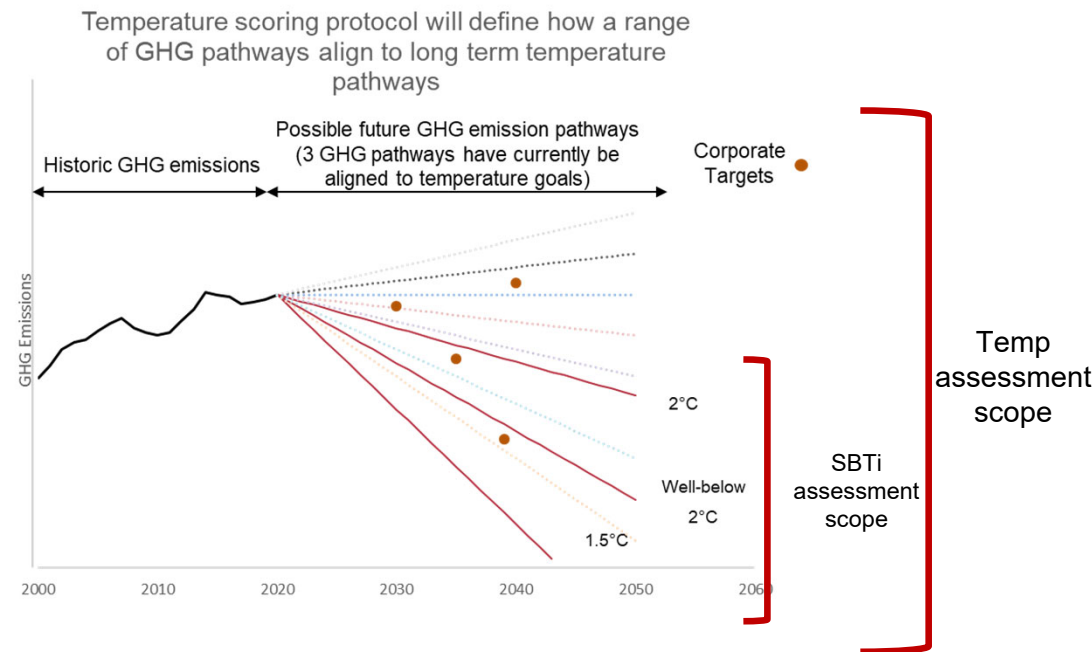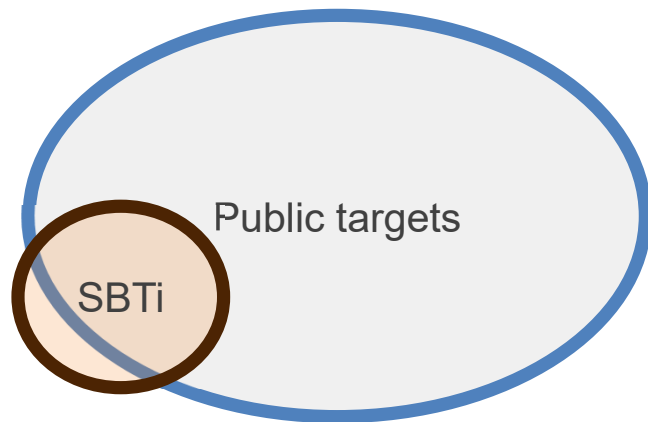
Temperature scoring protocol will define how a range of GHG pathways align to long term temperature pathways

Methodology | Three Step Process
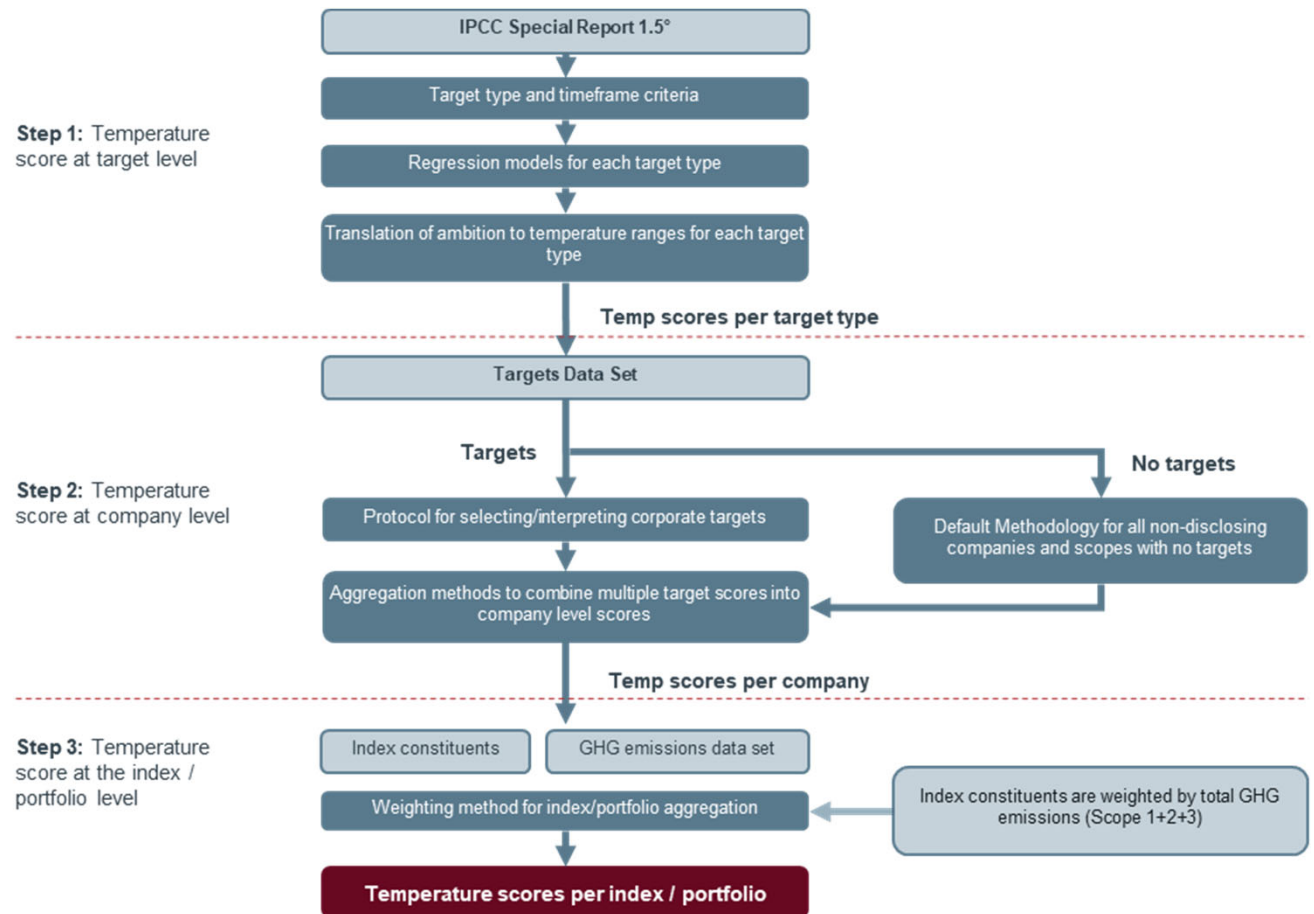
Temperature scoring process

1. The protocol for interpreting corporate targets is applied to the cleaned target data.

2. Target scores are aggregated to produce company level scores for scopes and timeframes

3. Company scores are weighted and aggregated to produce portfolio level scores

Finance Tool

SBTi-Finance Tool Goals

- Temperature Rating & Portfolio Coverage Methodologies
- Open Source
  - Continued development
- Transparent
  - From corporate ambition through to portfolio temperature score
- Data Agnostic
  - Any data provider & own data lake
- Any User Interface
  - Service provider & homegrown decision support & portfolio management solutions
- Workflow tool for
  - Portfolio managers & CIOs
  - ESG & Financial analysts
  - Risk managers & Compliance

SBTi-Finance Tool Development Team

- Science Based Target initiative (SBTi)
  - WWF (project manager)
  - CDP
  - World Resources Institute
- Developers (open RFP selection process)
  - Ortec Finance
  - OS-Climate
- Data & Service Providers
  - Bloomberg
  - CDP
  - ISS
  - Trucost
  - Urgentem
- Users
  - Net-Zero Asset Owner Alliance

Temperature Alignment & Portfolio Coverage – Development Process

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:
- SBT-Finance
- Ortec Finance
- OS-Climate
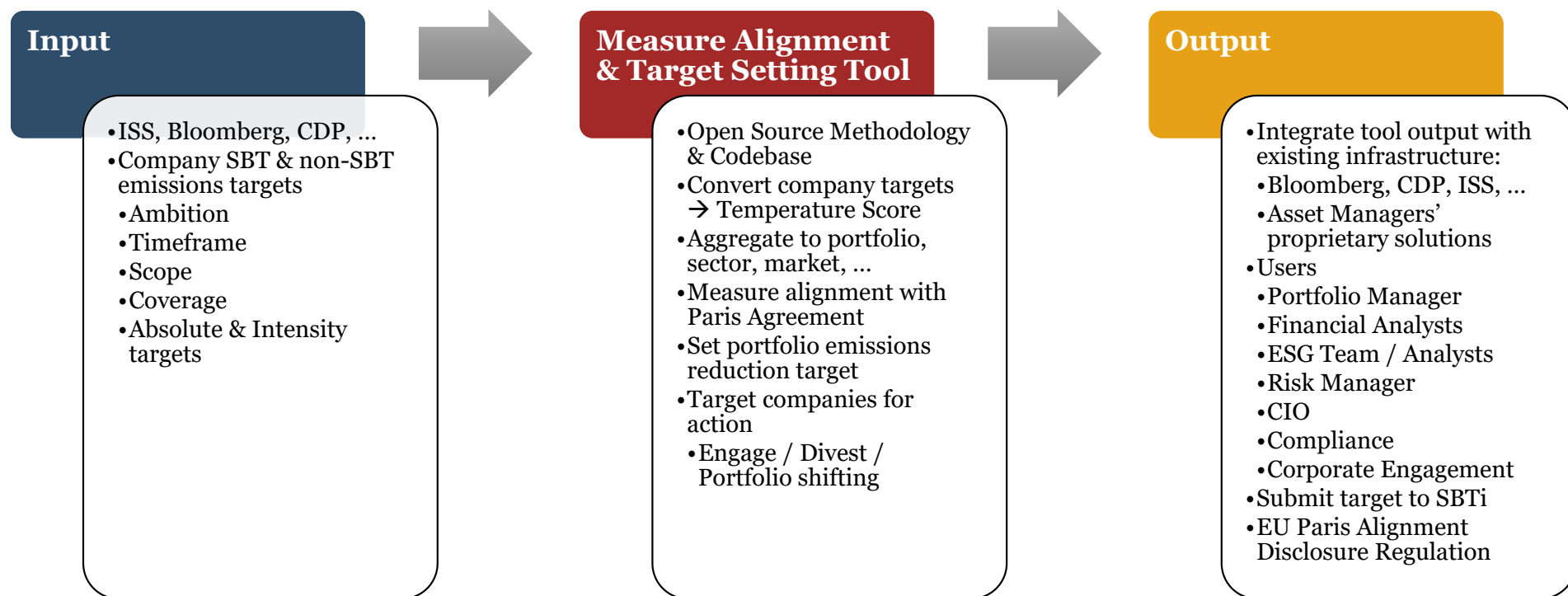
Investor solutions

Commercial Application

Integrating data sources & workflow

ISS, Bloomberg, CDP, Trucost, …

Submit emission reduction target to SBTi for validation

EU Paris Agreement Alignment Disclosure Regulation (2021)

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Temperature Alignment & Portfolio Coverage – Tool Structure

Input

- ISS, Bloomberg, CDP, …
- Company SBT & non-SBT emissions targets
- Ambition
- Timeframe
- Scope
- Coverage
- Absolute & Intensity targets

Measure Alignment & Target Setting Tool

- Open Source Methodology & Codebase
- Convert company targets → Temperature Score
- Aggregate to portfolio, sector, market, …
- Measure alignment with Paris Agreement
- Set portfolio emissions reduction target
- Target companies for action
  - Engage / Divest / Portfolio shifting

Output

- Integrate tool output with existing infrastructure:
  - Bloomberg, CDP, ISS, …
  - Asset Managers' proprietary solutions
- Users
- Portfolio Manager
- Financial Analysts
- ESG Team / Analysts
- Risk Manager
- CIO
- Compliance
- Corporate Engagement
- Submit target to SBTi
- EU Paris Alignment Disclosure Regulation

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Tool Demo

SBTi-Finance Tool – Three ways to test

AWS (Amazon Web Services)

- Easy to use
- Online tool
- Continuously updated
- Web browser interface
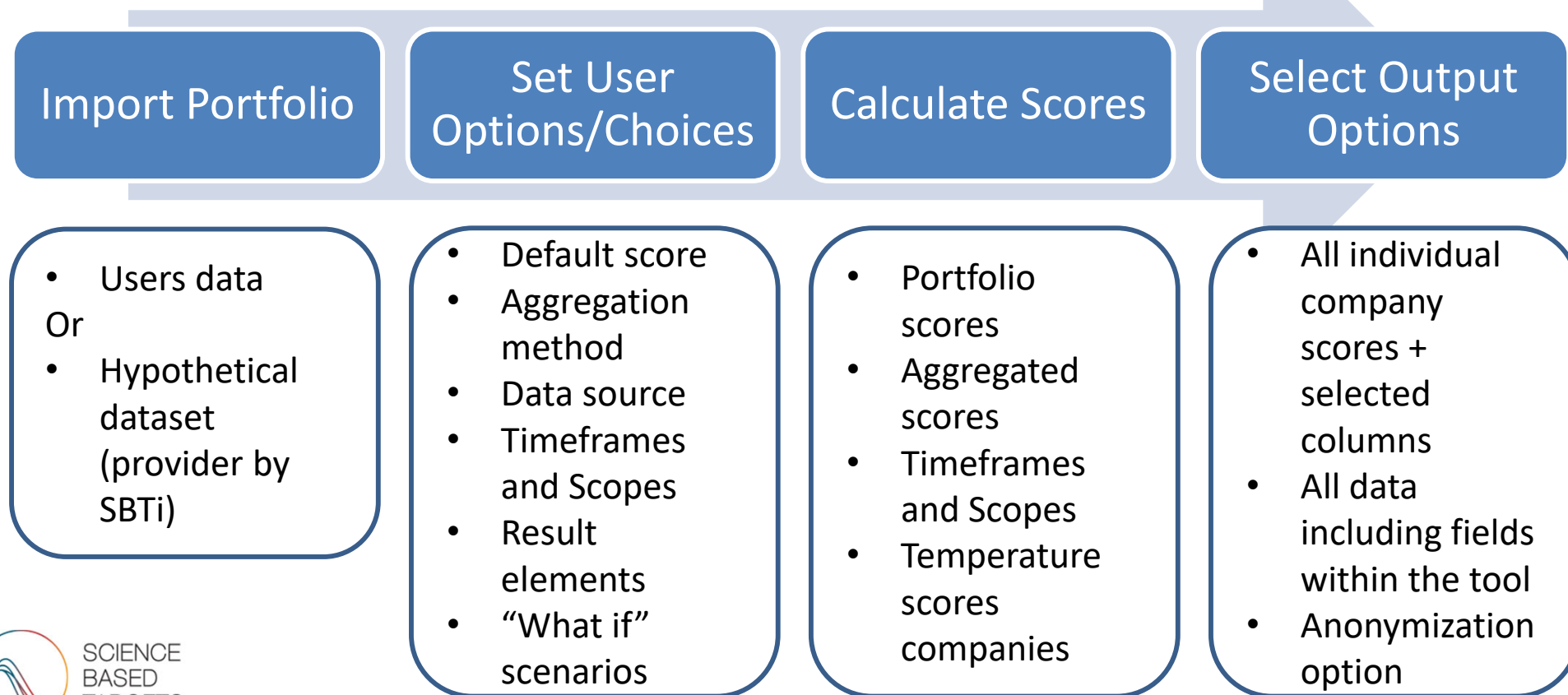- http://beta.sbti-tool.org

Docker

- Runs on your local hardware
- No internet connection required after install
- Need to update application manually
- Web browser interface
- https://hub.docker.com/r/sbti/sbti_tool

Python

- Download from GitHub (https://github.com/OFBDABV/SBTi)
- Full access to code
- Integrate with your infrastructure

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Temperature Alignment & Portfolio Coverage – Tool User Steps

Import Portfolio

Set User Options/Choices

Calculate Scores

Select Output Options

- Users data

Or

- Hypothetical dataset (provider by SBTi)

- Default score
- Aggregation method
- Data source
- Timeframes and Scopes
- Result elements
- "What if" scenarios

- Portfolio scores
- Aggregated scores
- Timeframes and Scopes
- Temperature scores companies

- All individual company scores + selected columns
- All data including fields within the tool
- Anonymization option

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SBTi-FI Temperature Scoring

Select portfolio excel file:

| Choose File | PortfolioData sample.xlsx

Should include company name, company ID, ISIN and investment value.

Skip rows

0

Upload

Map your columns to input fields

Company_name	company_name ⌄
Company_ID	company_id ⌄
ISIN	ISIN ⌄
Investment value	investment_value ⌄

- Import portfolio holdings
- map columns of excel to input fields

Select data provider (without selection, dummy sample data is used)

For BETA-release only use Excel.

Excel

Choose File DataProvider_Sample.xlsx

Use this file upload to provide your own dataprovider.

Upload Dataprovider

Upload succeeded

- Choose data provider (In beta testing phase only Excel)
- Upload data set

API settings (leave empty to use the defaults)

Choose the following filters for data-filtering or aggregation of columns.
Use CTR-click to deselect items.

Default temperature score

3.2	⌄

Aggregation method

WATS	⌄

Choose which default temperature score and aggregation method to use.

Time frame (default: mid)

Choose the desired timeframe:

short
mid
long

Scope (default: s1s2, s1s2s3)

Choose the desired scope:

s1s2
s3
s1s2s3

> Choose which time frames and scopes to report

Choose additional outputs:
- Columns to display
- Additional temperature scores per category

Select additional columns to display

Choose the desired columns:

company_id
Country
Region
Industry_lvl1

Choose categories to group the output by

Group the data by category:

Country
Region
Industry_lvl1
Industry_lvl2

Calculate scores

Portfolio temperature scores

Group	Time frame	Temperature score	Companies with vs. without targets	
s1s2	mid	2.57°C	32.4% / 67.6%	Contributors
s1s2s3	mid	2.94°C	16.9% / 83.1%	Contributors

Portfolio coverage

Portfolio coverage
30.09%

Temperature scores grouped by categories

Group	Time frame	Category	Temperature score	Category contribution	
s1s2	mid	Africa	3.20°C	4 %	Contributors
s1s2	mid	Asia	2.53°C	20 %	Contributors
s1s2	mid	Europe	2.91°C	34 %	Contributors
s1s2	mid	North America	1.93°C	32 %	Contributors
s1s2	mid	Oceania	3.20°C	2 %	Contributors
s1s2	mid	South America	3.20°C	8 %	Contributors

Additional temperature scores based on the user inputs. Here shown per region.

Insights for target setting:
- Change the exposures per company in the portfolio input
- Rerun the calculation based on hypthetical scenarios

Scenarios (default: With current targets, rest of portfolio business as usual)

Choose the preferred scenario for calculation of the temperature scores.

- ○ With current targets, rest of portfolio business as usual
- ◉ Scenario 1: "What-if" - all companies set targets (default scores go to 2.0)
- ○ Scenario 2: "What-if" - all companies with targets get SBTs (scores from targets are capped at 1.75)
- ○ Scenario 3a: "What-if" - the 10 highest contributors to the portfolio set targets (scores of 10 highest contributors are capped at 2.0)
- ○ Scenario 3b: "What-if" - the 10 highest contributors to the portfolio set SBTs (scores of 10 highest contributors are capped at 1.75)

Download options

◉ Non-anonymized ○ Anonymized

Choose whether to anonymize the downloadable data.

Calculate scores

Temperature scores per company [Download selection] [Download all]

company_name	scope_category	time_frame	temperature_score	Country	Region	sector
Advanced Micro Devices, Inc	s1s2	mid	1.83	United States	North America	Industrials
Adobe Systems Inc.	s1s2	mid	2	United States	North America	Utilities
Capgemini Group	s1s2	mid	1.65	France	Europe	Consumer Discretionary

> Download results to .csv file.
> Possible to anonymize portfolio holdings

Beta Testing

SBTi-Finance Tool Beta Testing: 2020-07-23 – 2020-08-13

Why should you participate?
- **Integrate temperature rating** into your investment process early & better understanding of methodology & tool prior to release (September 2020)
- Prepare for **EU Disclosure Regulation** (March 2021)
- Participate in building an open source solution for temperature ratings

Expectations
- **Test on range of equity & bond portfolios**, across regions, sectors, strategies
- **Report** on ease of use, performance, data input, readability of output & usefulness for analysis for target setting
- **Share** types of securities tested, options chosen in tool and results.
  - Tool can **anonymize holdings** & provide transparency of data shared
- Online / Offline **survey**

Support
- Microsoft **Teams** group – support, feedback & discussion (developers & other beta testers)
- **Email** – support & feedback

SBTi-Finance Tool Beta Testing – Data needs

Portfolio holdings
- Security identifier, sector, region

List of reduction targets, per target:
- Target class / type: Absolute / Intensity / Scope
- Coverage / % emissions in scope
- Ambition / % reduction from base year
- Base, Start & End year
- GHG emissions per scope
- Industry classification & Sector
- SBTi status - validated target or not

For aggregation purposes:
- Revenue, Market capitalization
- Enterprise value, Total assets
- Cash & equivalents

Data availability
- Collaborating data providers & dummy sample data

Sing up for beta testing:
https://mailchi.mp/sciencebasedtargets/betatest
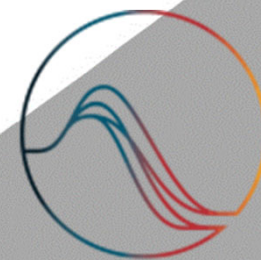
Financial Sector
Science Based Targets Guidance

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What's in the Financial Sector Science Based Targets Guidance?

The guidance ties the criteria, methods and tools together. It's meant to be a **"one-stop-shop"** to support financial institutions' target submissions to SBTi.

It includes:

- Business case for setting SBTs.
- Guidance to use criteria, methods and tools to prepare for a submission to SBTi
- Case studies from global financial institutions on their application of various methods
- Recommendations on steps that FIs can take to achieve their targets
- Recommendations on target communication, as well as how FIs aim to reduce greenhouse gas emissions in the real economy through the steps they take to implement their targets.
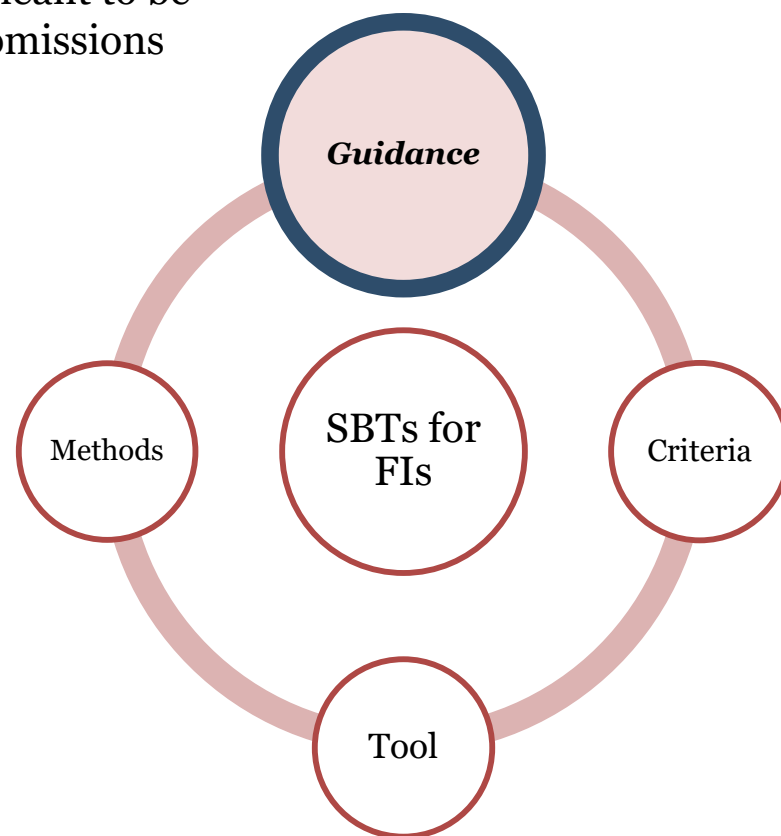
Guidance outline and draft release date

Guidance Outline

- *Introduction*
- *Business case for financial institutions to set SBTs*
- *Compiling a GHG inventory for scope 1, 2, and 3 emissions*
- *How to set science-based targets*
  - *How to set SBTs for scope 1 and 2 emissions*
  - *How to set scope 3 portfolio SBTs*
  - *How to set SBTs for scope 3 Category 1-14*
  - *Case studies*
- *Disclosure and phase out of fossil fuel investments*
- *SBTi-Finance target validation processes*
- *How to achieve SBTs*
- *How to communicate SBTs and actions taken to achieve them*
- *Discussion and areas for further research*

- Guidance draft release date: August 6th

- A **survey** will be distributed with the guidance to collect feedback

- Feedback will be accepted through August 27th

Next Steps

SBTi-Finance Framework | Opportunities for participation

SBTi-Finance Framework

- Guidance review
- Commit to setting an SBT
- Submit target for review (after Sept)

SBTi-Finance Tool Development

- Join working group
  - Users
  - Data & service providers
- Beta test tool
  - https://mailchi.mp/sciencebasedtargets/betatest
- Integrate tool

Q & A

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