

# **Science Based Targets for Financial Institutions**

Instruction for Road Testing



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## Expectations for road testers

Congratulations on being selected as a road tester for SBT for financial institutions! You will have the opportunity to inform the development of the final framework.

The purpose of this project is to develop target-setting methods for financial institutions to set science-based targets for their investing and lending portfolios.

This document includes the following two items:

- Instructions for completing the road testing process
- Questions on methods' validity and practicality that we'd like road testers to answer

Please review the instructions, questions, and the full methods drafts carefully before starting the road test. As this document includes questions for all methods, please use the table of contents above to direct yourself to sections that are relevant to your institution.

The figure below depicts the road testing process steps:



Road testers are expected to:

- Successfully complete road testing within ten (10) weeks. Road testing is estimated to take 8 to 40 hours per method.
- Submit target modeling results for each asset class.
- Provide detailed feedback on practicality and robustness of methods.
- Participate in a workshop or webinar to discuss the practicality of the methods.
- Consider developing examples or brief case studies for inclusion in the final framework.

We will provide the following resources:

- Road testing instructions during a recorded webinar
- Ad hoc support throughout road testing process, including written responses via emails and one on one calls with method developers

- Free data provider support and list of for-fee data providers
- Summary of roadtesting feedback

## Method Assessment Survey

A [method assessment survey](#) is distributed to collect feedback on the methods and modelling results. It includes questions we listed in this instruction document for each method, as well as fields to upload target modelling results and comment sheets (optional).

After reviewing the questions and testing the methods, please fill out the [survey](#) as clearly, comprehensively, and accurately as possible before **Friday, July 5th, 2019** for your feedback to be considered.

If you would like to submit detailed comments to the methods, please use the “[SBT-FI Comment Sheet](#)” (also emailed to road testers and attached in the survey link) to log detailed feedback. You will be directed to upload the sheet in the final page of the survey.

- Link to survey: <https://www.surveymzmo.com/s3/4809311/Science-Based-Targets-for-Financial-Institutions-Assessment-report>

## Confidentiality Statement

Road testers are **not required to publicly state their participation** in the process or commit to the SBTi to participate in road-testing. The road testing is independent of the SBTi target validation process. Financial institutions can use the final framework to be launched in 2020 for official target validations.

**Road testing modelling results and feedback** will be held in confidence. Road testers may share only as much information about their modeling results as they wish. Please contact Chendan Yan, [chendan.yan@wri.org](mailto:chendan.yan@wri.org) if an NDA needs to be signed for SBTi partners to collect target modelling results.

## Data provider support

### No-cost default data options

- ISS ESG will provide off-the-shelf emissions data to interested road testers free of charge. Certain limitations may apply. Data can only be used internally, for a limited time and for road testing only. Users need to sign a respective agreement. Free data comes “as is” - advice or bespoke research can be added on a ‘for pay’ basis.

Please contact: Joseph Ben Salem, ISS, +44 (0) 203 192 5755,  
[joseph.bensalem@issgovernance.com](mailto:joseph.bensalem@issgovernance.com)

- 2° Investing Initiative provides free, online, automated equity and bond portfolio analysis ([www.transitionmonitor.com](http://www.transitionmonitor.com)). The team also provide a desktop software version for assessing loan books and PE. The software and related support service are provided free of charge. The underlying data covering about 52,000 legal entities (issuers and their subsidiaries) is provided as part as the analysis of the portfolio.

Please contact: Florence Palandri, Analyst, 2° Investing Initiative, +44 77 08 32 90 90, [florence@2degrees-investing.org](mailto:florence@2degrees-investing.org)

Other data providers can provide data and assistance for a fee:

For paid CDP data support, please contact:  
Emily Kreps  
Global Director, Investor Initiatives  
CDP- Global environmental reporting  
system  
[Emily.Kreps@cdp.net](mailto:Emily.Kreps@cdp.net)

For paid EcoAct data support, please contact:  
Arnaud DORE  
Managing Director – South Europe  
+33 (0) 6 60 31 91 54  
[arnaud.dore@eco-act.com](mailto:arnaud.dore@eco-act.com)

## Contacts for Questions

SBTi project leads and method developers will be available to answer questions through written email exchanges and one-on-one calls.

For questions related to the SBT portfolio coverage method for corporate instrument, the road testing process and the Science Based Targets Initiative in general, please contact:

- Nate Aden, Senior Fellow, World Resources Institute, [nate.aden@wri.org](mailto:nate.aden@wri.org) or
- Chendan Yan, Research Analyst, World Resources Institute, [chendan.yan@wri.org](mailto:chendan.yan@wri.org)

For questions related to real estate, mortgage, electricity generation project finance methods, and SDA for Corporate Instrument, please contact:

- Giel Linthorst, Director, Navigant [giel.linthorst@navigant.com](mailto:giel.linthorst@navigant.com)
- Kaboo Leung, Senior Consultant, Navigant, [kaboo.leung@navigant.com](mailto:kaboo.leung@navigant.com)

For questions related to PACTA tool, please contact Jakob Thomä, Managing Director, 2° Investing Initiative, [jakob@2degrees-investing.org](mailto:jakob@2degrees-investing.org) and Florence Palandri, Analyst, 2° Investing Initiative, +44 77 08 32 90 90, [florence@2degrees-investing.org](mailto:florence@2degrees-investing.org).

## Method Questions for road testers

### SDA for Real Estate

Real estate refers to the allocation of capital for partial or full ownership of property via basic rental properties, real estate investment groups, real estate trading, and/or real estate investment trusts (REIT). This method uses an emission-based approach for science-based target setting that is aligned with the SBTi Sectoral Decarbonization Approach (SDA). The emissions and floor area projections from IEA/ETP B2DS scenarios will serve as the basis of relevant targets. Financial institutions can also use regional pathways with this method.

*Potential target output example:* Financial institution A commits to reduce its mortgage portfolio GHG emissions \_\_\_\_% per square meter by 2030 from a 2017 base-year.

The following questions are also included in the [survey](#), which is used to collect modelling results and feedback on the methods. Please review them before testing the methods and complete the survey before Friday, July 5th for your feedback to be considered.

- Is the draft method practical to apply?
- Is it useful for target setting and decision making to drive institutional alignment with a Paris-aligned climate stabilization pathway?
- How many hours did it take you to apply the method?
- What challenges did you encounter while applying the method?
- What data sources did you use for the method?
- Do you think setting absolute emissions targets could be meaningful for this asset class?

For example, assume a financial institution has a global real estate portfolio of residential buildings. Based on energy consumption, building certificates or other data, the emissions of these buildings are assessed to be 700,000 tCO<sub>2</sub> in 2017. With the average investment ratio to property values at 40%, the emissions subject to target setting are 280,000 tCO<sub>2</sub>. Based on the IEA ETP 2DS scenario, the absolute emissions for service buildings should decrease by 29% from 2017 to 2030: Absolute target =  $280,000 \times (1 - 29\%) = 198,800 \text{ tCO}_2$

- In addition to the SBT for this asset class, would it be useful to have additional targets related to actions to achieve the SBTs?
- What actions could be helpful to reduce your asset class level emissions?
  - a. Engage and support clients to improve buildings' emission data transparency (e.g. encourage energy or emission data disclosure, encourage clients to set a science-based target, etc.)
  - b. Engage and support clients to improve energy performance (e.g. provide financial instruments to support abatement measures, incentivize improvement through preferential assessment, etc.)
  - c. Divert new investment towards low-carbon buildings (e.g. set mandate for maximum carbon intensity for new investment)
  - d. Discontinue investment in buildings that are inconsistent with decarbonization pathway at the end of the investment maturity
  - e. Shift existing portfolio away from carbon-intensive buildings: while simply divesting from high-carbon buildings does not necessarily lead to decarbonization in the real economy, these buildings may still exist and continue to emit high carbon emissions. Therefore, financial institutions are highly encouraged to prioritize the first three actions
- Please upload target modeling results here. \*These will be held in confidence. Road testers may share only as much information about their modeling results as they wish and are not required to publicly state their participation. Please contact Chendan Yan, [chendan.yan@wri.org](mailto:chendan.yan@wri.org) if an NDA needs to be signed for SBTi partners to collect target modeling results.
- What target could you envision setting based on these target modeling results? Do you think these are targets that you can actually set and could be meaningful for your overall institutional strategy?
- Can you suggest alternative methods for this asset class?
- Please add any additional comments here.



## SDA for Mortgage

Mortgage refers to a lending agreement by financial institutions to purchase a building in exchange for a regular repayment of interest. This method uses an emission-based approach for science-based target setting that is aligned with the SBTi Sectoral Decarbonization Approach (SDA). Emissions and floor area projections from IEA/ETP B2DS scenarios will serve as the basis to derive relevant targets. Financial institutions can also use regional pathway with this method.

*Potential target output example:* Financial institution A commits to reduce its real estate portfolio GHG emissions \_\_\_\_% per square meter by 2030 from a 2017 base-year.

The following questions are also included in the [survey](#), which is used to collect modelling results and feedback on the methods. Please review them before testing the methods and complete the survey before **Friday, July 5th** for your feedback to be considered.

- Is the draft method practical to apply?
- Is it useful for target setting and decision making to drive institutional alignment with a Paris-aligned climate stabilization pathway?
- How many hours did it take you to apply the method?
- What challenges did you encounter while applying the method?
- What data sources did you use for the method?
- Do you think setting absolute emissions targets could be meaningful for this asset class?

For example, assume a financial institution has a global mortgage portfolio of hundreds of residential buildings. Based on energy consumption, building certificates or other data the emissions of these buildings are assessed to be 35,000t CO<sub>2</sub> in 2017. According to the 100% attribution rule, all these emissions are subject to target setting.

Based on the IEA ETP 2DS scenario, the absolute emissions for residential buildings should decrease by 21% from 2017 to 2030. To set an absolute target for 2030: Absolute target =  $35,000 \times (1 - 21\%) = 27,650 \text{ tCO}_2$

- In addition to the SBT for this asset class, would it be useful to have additional targets related to actions to achieve the SBTs?
- What actions could be helpful to reduce your asset class level emissions?
  - a. Engage and support clients to improve buildings' emission data transparency (e.g. encourage energy or emission data disclosure, encourage clients to set a science-based target, etc.)
  - b. Engage and support clients to improve energy performance (e.g. provide financial instruments to support abatement measures, incentivize improvement through preferential assessment, etc.)
  - c. Divert new investment towards low-carbon buildings (e.g. set mandate for maximum carbon intensity for new investment)
  - d. Discontinue investment in buildings that are inconsistent with decarbonization pathway at the end of the investment maturity
  - e. Shift existing portfolio away from carbon-intensive buildings: while simply divesting from high-carbon buildings does not necessarily lead to decarbonization in the real economy, these buildings may still exist and continue to emit high carbon emissions. Therefore, financial institutions are highly encouraged to prioritize the first three actions
- Please upload target modeling results here. \*These will be held in confidence. Road testers may share only as much information about their modeling results as they wish and are not required to publicly state their participation. Please contact Chendan Yan, [chendan.yan@wri.org](mailto:chendan.yan@wri.org) if an NDA needs to be signed for SBTi partners to collect target modeling results.
- What target could you envision setting based on these target modeling results? Do you think these are targets that you can actually set and could be meaningful for your overall institutional strategy?
- Can you suggest alternative methods for this asset class?
- Please add any additional comments here.

## SDA for Electricity Generation Project Finance

This method covers the financing of electricity generation projects, including debt, equity and/or mezzanine. This method details how to align emissions of the underlying projects in the power sector with a low-carbon transition pathway towards 2°C or below. It applies the decarbonization pathway of power generation to the underlying projects and is applicable to pathways from any transition scenarios available in the market.

*Potential target output example:* Financial institution A commits to reduce its electricity generation project finance portfolio GHG emissions \_\_\_\_% per kWh by 2030 from a 2017 base-year.

The following questions are also included in the survey, which is used to collect modelling results and feedback on the methods. Please review them before testing the methods and complete the survey before Friday, July 5th for your feedback to be considered.

- Is the draft method practical to apply?
- Is it useful for target setting and decision making to drive institutional alignment with a Paris-aligned climate stabilization pathway?
- How many hours did it take you to apply the method?
- What challenges did you encounter while applying the method?
- What data sources did you use for the method?
- Do you think setting absolute emissions targets could be meaningful for this asset class?

For example, assume a financial institution has a project finance portfolio of various power generation projects. Based on the total power output of 1.5 GWh and fuel type, the total emissions of these projects are assessed to be 900 MtCO<sub>2</sub> in 2017. As the investment over total project size ratio is 30% for this portfolio, 450,000 kWh or 270 MtCO<sub>2</sub> are attributed to the financial institution and therefore subject to target setting.

Based on the IEA ETP 2DS scenario, the absolute emissions for the power generation sector should decrease by 30% from 2017 to 2030. To set an absolute target for 2030: Absolute target =  $270 \times (1 - 30\%) = 189 \text{ MtCO}_2$

- In addition to the SBT for this asset class, would it be useful to have additional targets related to actions to achieve the SBTs?
- What actions could be helpful to reduce your asset class level emissions?
  - a. Engage and support clients in pre-project phase (e.g. encourage adoption of low-carbon technologies in due diligence phase)
  - b. Engage and support clients to improve projects' emission data transparency (e.g. encourage energy or emission data disclosure, encourage clients to set a science-based target, etc.)
  - c. Engage and support clients to improve performance (e.g. provide financial instruments to support abatement measures, incentivize improvement through preferential assessment, etc.)
  - d. Divert new investment towards low-carbon projects (e.g. set mandate for maximum carbon intensity for new investment)
  - e. Shift existing portfolio away from carbon-intensive projects: while simply divesting from high-carbon projects does not necessarily lead to decarbonization in the real economy, these projects may still exist and continue to emit high carbon emissions. Therefore, financial institutions are highly encouraged to prioritize the first three actions
- Please upload target modeling results here. \*These will be held in confidence. Road testers may share only as much information about their modeling results as they wish and are not required to publicly state their participation. Please contact Chendan Yan, [chendan.yan@wri.org](mailto:chendan.yan@wri.org) if an NDA needs to be signed for SBTi partners to collect target modeling results.
- What target could you envision setting based on these target modeling results? Do you think these are targets that you can actually set and could be meaningful for your overall institutional strategy?
- Can you suggest alternative methods for this asset class?
- Please add any additional comments here.

## SDA for Corporate Instruments

With this method, targets are set at individual sector level within the portfolio, for which specific sectoral decarbonization approaches (SDA) are available (electricity, iron & steel, cement, aluminum, pulp & paper, transport, and commercial buildings). It is expected that there will be portions of the portfolio that are not covered by the SDA. *The sector-level targets should in total cover a minimum threshold of the portfolio by emissions, market cap, or asset under management, or other economic metrics. The threshold will be explored through the SBT/FI road testing process and determined in subsequent SBT/FI criteria during the next phase of the project.*

*Potential target output example:* Financial institution A commits to reduce GHG emissions from the steel sector within its corporate lending portfolio X% per ton of cement by 2030 from a 2017 base-year.

The following questions are also included in the survey, which is used to collect modelling results and feedback on the methods. Please review them before testing the methods and complete the survey before Friday, July 5th for your feedback to be included.

- Is the draft method practical to apply?
- Is it useful for target setting and decision making to drive institutional alignment with a Paris-aligned climate stabilization pathway?
- How many hours did it take you to apply the method?
- What challenges did you encounter while applying the method?
- What data sources did you use for the method?
- Which of the two allocation approaches (“Portfolio weight approach” and “Balance sheet approach”) did you use and why did you choose it over the other approach? Did you think the approach you used was meaningful and practical?
- Which sectors are most usefully covered by the SDA method?
- Could setting sectoral absolute emissions targets be meaningful for this asset class?

For example, absolute emission reduction can be derived from the global or regional decarbonization pathway for sectors available in SDA:

$$\text{Portfolio absolute target}_{\text{sector}} = PE_{\text{sector},i,b} \times \left( \frac{SE_{i,t}}{SE_{i,b}} \right)$$

*Where PE is the portfolio total emissions, SE the regional or global total emissions for the given sector i, t the target year and b the base year. In other words, the emissions associated to a portfolio should decrease by the same percentage as the global or regional pathway within a given time frame. An absolute target caps the total emissions for the portfolio in the target year, implying that low carbon investment is needed to compensate for any growth of the portfolio.*

- Would it be meaningful to set absolute emissions reduction targets to sectors that are not covered by SDA? With this method, absolute emissions are reduced by the same percentage to keep global temperature increase within well-below 2°C (min. 2.5% annual linear reduction) or a 1.5°C trajectory (min. 4.2 % annual linear reduction).
- In addition to the SBT for this asset class, would it be useful to have additional targets related to actions to achieve the SBTs?
- Please upload target modeling results here. \*These will be held in confidence. Road testers may share only as much information about their modeling results as they wish and are not required to publicly state their participation. Please contact Chendan Yan, chendan.yan@wri.org if an NDA needs to be signed for SBTi partners to collect target modeling results.
- What target could you envision setting based on these target modeling results? Do you think these are targets that you can actually set and could be meaningful for your overall institutional strategy?
- Can you suggest alternative methods for this asset class?
- Please add any additional comments here.

## PACTA for Corporate Instruments

The PACTA tool, produced by method developer, 2° Investing Initiative, enables financial institutions to set sector-specific targets that use a technology-specific metric, rather than a GHG emissions-based metric.

*Potential target output example:* Financial institution A commits to increase installed capacity in renewable electricity by \_\_\_\_ MW by [year] across the [asset class] portfolio companies that we are specifically targeting in the context of our climate actions.

The following questions are also included in the survey, which is used to collect modelling results and feedback on the methods. Please review them before testing the methods and complete the survey before Friday, July 5th for your feedback to be considered.

- Is the draft method practical to apply?
- Is it useful for target setting and decision making to drive institutional alignment with a Paris-aligned climate stabilization pathway?
- How many hours did it take you to apply the method?
- What challenges did you encounter while applying the method?
- What data sources did you use for the method?
- Which of the two allocation approaches (“Portfolio weight approach” and “Balance sheet approach”) did you use and why did you choose it over the other approach?
- Which sectors are most usefully covered by the PACTA method?
- In addition to the SBT for this asset class, would it be useful to have additional targets related to actions to achieve the SBTs?
- How could PACTA-based targets be expressed and tracked?
- Please upload target modeling results here. \*These will be held in confidence. Road testers may share only as much information about their modeling results as they wish and are not required to publicly state their participation. Please contact Chendan Yan, [chendan.yan@wri.org](mailto:chendan.yan@wri.org) if an NDA needs to be signed for SBTi partners to collect target modeling results.

- What target could you envision setting based on these target modeling results?  
Do you think these are targets that you can actually set and could be meaningful for your overall institutional strategy?
- Can you suggest alternative methods for this asset class?
- Please add any additional comments here.



## SBT Portfolio Coverage for Corporate Instruments

The SBT portfolio coverage method is a method whereby financial institutions engage a minimum of 30% of their investees (in monetary or GHG emissions terms) to set their own approved science-based targets. The SBT portfolio coverage method is a financial sector analogue to supplier engagement targets for 'real economy' scope 3 emissions.

Potential target output example: Investment firm A commits that 30% of its equity portfolio by market capitalization will have science-based targets by 2024.

The following questions are also included in the [survey](#), which is used to collect modelling results and feedback on the methods. Please review these questions before testing the methods.

- Is the draft method practical to apply?
- What data sources did you use for the method?
- Is it useful for decision making to drive institutional alignment with a Paris-aligned climate stabilization pathway?
- How many hours did it take you to apply the method?
- Is an emissions-based metric practical to apply?
- Which economic metric should be used (asset under management, market capitalization, etc.)?
- Please describe the target output from applying this method. An illustrative example would be Investment firm A commits that 30% of its equity portfolio by market capitalization will set science-based targets by 2024.
- What percentage of your portfolio are SBT companies?
- What SBT portfolio coverage threshold (30% is the currently proposed threshold) is most appropriate? Should we propose to focus on engagement of the top emitters?
- Which equity and debt asset classes could be practically applied by this method?
- Should this method keep the maximum 5-year timeframe requirement?
- What challenges did you encounter while applying the method?
- Can you suggest alternative methods for this asset class?
- Please add any additional comments here.