SBTs for Financial Institutions

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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.
What are science-based targets?

“GHG emissions reduction targets that are consistent with the level of decarbonization that, according to climate science, is required to keep global temperature increase within 1.5 to 2ºC compared to pre-industrial temperature levels.”

- SBTs are consistent with the long-term goal of reaching net-zero emissions in 2nd half of century
- Timeframe drives short-term action and enables accountability (5-15 years)
### SBTi’s 3-pillar strategy

<table>
<thead>
<tr>
<th>STRATEGIES</th>
<th>ACTIVITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reduce the barriers to the adoption of science-based targets</strong></td>
<td><strong>SDA method</strong></td>
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<tr>
<td><strong>Institutionalize the adoption of science-based emission reduction targets</strong></td>
<td><strong>Methods and tools</strong></td>
</tr>
<tr>
<td><strong>Create a critical mass</strong></td>
<td><strong>Target setting manual</strong></td>
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</table>

### Activities

- **Engaging amplifiers**
- **Validating targets**
- **Call to Action platform**

### Numbers

- **685** Companies have formally joined the SBTi Call to Action
- **300** Companies have approved targets
- **~3** Companies joining the Call to Action every week
SBTi criteria

**The SBTi uses 5 core criteria to assess company targets**

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 well-below 2°C compared to pre-industrial temperatures, though we encourage companies to pursue greater efforts towards a 1.5°C 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).
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.

Source: GHG Protocol Scope 3 Standard
http://www.ghgprotocol.org/standards/scope-3-standard
Science-based targets for financial institutions

In 2018, the SBTi launched this project to enable financial institutions to align their investment and lending portfolios with real economy emission reductions required to achieve the 2015 Paris Agreement and make this common practice.

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

Science Based Targets initiative for Financial Institutions - Core Team

PARTNER ORGANIZATIONS

IN COLLABORATION WITH

Technical Partners
A global group of 50 financial institutions have committed to setting SBTs

- ABN Amro Bank N.V.
- Actiam NV
- Allianz Investment Management SE
- 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
- 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.
- OXI-ZEN Solutions SA
- Pension Danmark
- Principal Financial Group, Inc.
- Raiffeisen Bank International AG
- Societe Generale
- Sompo Holdings, Inc.
- Standard Chartered Bank
- Storebrand ASA
- Sweedbank AB
- 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
This summer SBTi road tested 3 types of methods

**Emission-based methods**
- Sector Decarbonization Approach (SDA)

**Capacity-based method**
- Paris Agreement Capital Transition Assessment (PACTA)

**Portfolio coverage method**
- SBT portfolio coverage
# SBT/FI framework development process

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Method</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Real Estate</td>
<td>Sector Decarbonization Approach (SDA)</td>
<td>Emissions-based physical intensity targets are set for non-residential buildings’ intensity and total GHG emissions.</td>
</tr>
<tr>
<td>Mortgages</td>
<td>SDA</td>
<td>Emissions-based physical intensity targets are set for residential buildings’ intensity and total GHG emissions.</td>
</tr>
<tr>
<td>Electricity Generation</td>
<td>SDA</td>
<td>Emissions-based physical intensity targets are set for electricity generation projects’ intensity and total GHG emissions.</td>
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<tr>
<td>Project Finance</td>
<td>SDA</td>
<td>Emissions-based physical intensity targets are set at sector level within the portfolio for sector where sectoral decarbonization approaches are available.</td>
</tr>
<tr>
<td>Corporate Instruments</td>
<td>PACTA</td>
<td>Sectors are assessed at individual business activity level for select activities.</td>
</tr>
<tr>
<td>(equity, bonds, loans)</td>
<td>SBT Portfolio Coverage</td>
<td>Financial institutions engage a minimum of 30% of their investees (in monetary or GHG emissions terms) to have their own science-based targets.</td>
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Overview #1

A financial institution can align its real estate and mortgage portfolios with the Paris Agreement and set an emissions reduction target using the Sectoral Decarbonization Approach (SDA):

Emissions intensity (kgCO$_2$e / m$^2$) of real estate and mortgage portfolios of financial institutions converges to same emissions intensity as global pathway for residential and service buildings in 2050.

Potential target output: Financial institution A commits to reduce its mortgage/real estate portfolio GHG emissions ___% per m$^2$ by 2030 from a 2017 base year.
A financial institution can align its electricity generation project finance portfolio with the Paris Agreement and set an emissions reduction target using the Sectoral Decarbonization Approach (SDA):

Emissions intensity (kgCO$_2$e/ kWh) electricity generation project finance portfolio of financial institutions converges to same emissions intensity as global pathway for the power generation sector in 2050.

Potential target output: Financial institution A commits to reduce its electricity generation project finance portfolio GHG emissions ____% per kWh by 2030 from a 2017 base-year.
Overview #3

Physical emission intensity target (e.g. kgCO$_2$e/tonne production) could be set at the portfolio level for sectors covered by SDA:

- Power generation
- Cement
- Iron & steel
- Aluminium
- Pulp & paper
- Transport
- Buildings

Potential SDA/corporate instrument target output: Financial institution A commits to reduce GHG emissions from the steel sector within its corporate lending portfolio XX% per tonne of steel by 2030 from a 2017 base-year.

*An Excel-based tool is available for setting sectoral emission intensity targets: [https://sciencebasedtargets.org/sda-tool/](https://sciencebasedtargets.org/sda-tool/). In 2019, the SBTi released a new Science-based Target Setting Tool. The integrated target-setting tool for companies includes the Sectoral Decarbonization Approach with updated temperature pathways.
Whereas SDA is based on physical emissions intensity approaches, PACTA is focused on production capacity and technology type data (vehicles manufactured per year, GW electricity, etc.)

- 2°C II developed PACTA on the basis of physical asset data and the SEI metrics project.
- Financial institutions can use the online tool (http://transitionmonitor.com) to assess portfolio alignment with climate scenarios; a spreadsheet tool was also provided to road testers.

Potential PACTA target output: Financial institution A commits to increase installed capacity in renewable electricity by XX MW by [year] across the ![asset class] portfolio companies that we are specifically targeting in the context of our climate actions.
Overview #5

In this method financial institutions have a minimum percentage of their investees (in monetary or GHG emissions terms) set their own science-based targets.

The method is a financial sector analogue to supplier engagement targets for ‘real economy’ companies’ scope 3 emissions.

Examples of approved supplier engagement targets:

• Japanese multinational chemical company **Sumitomo Chemical** commits that 90% of its suppliers by product weight will institute science-based GHG reduction targets by 2024.

• Multinational enterprise information technology company **Hewlett Packard Enterprise** commits that its manufacturing suppliers covering 80% of spend will set science-based targets by 2025.

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

Additional information about approved SBTs is available at: [https://sciencebasedtargets.org/companies-taking-action/](https://sciencebasedtargets.org/companies-taking-action/)
Portfolio Coverage Elaboration

Potential target requirements for SBTi validation

• **Boundary:** FIs may set SBT Portfolio Coverage targets covering a minimum 30% of their investees by GHG emissions, assets under management or market capitalization.

• **Timeframe:** targets must be fulfilled within a maximum of 5 years from the date the FI’s target is submitted to the SBTi for an official validation.

• **Level of ambition:** The FIs investees shall have science-based emission reduction targets on their scope 1 and 2 emissions.

Potential recommendations

• Investees in sectors with high scope 3 emissions (e.g., fossil energy companies) are encouraged to set scope 3 targets as well

• Investees can use SBTi resources to set targets but validations by SBTi would not be required.

• Investors can track whether investees have SBTs through their reporting to CDP or perhaps annual sustainability reports.
The framework development process extends into next year

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<tr>
<th>Date</th>
<th>Milestones</th>
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<tbody>
<tr>
<td>November</td>
<td>Distribute stakeholder feedback on methods; Agree to revisions within SBTi team</td>
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<tr>
<td>December</td>
<td>Develop draft target-validation criteria</td>
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<tr>
<td>February</td>
<td>Conduct stakeholder feedback process on criteria</td>
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<tr>
<td>March</td>
<td>Revise criteria</td>
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<tr>
<td>April</td>
<td>Develop guidance and framework</td>
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<tr>
<td>July</td>
<td>Launch version 1.0 of framework</td>
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Thanks for your time!
If you haven’t already, join SBTi/FI stakeholder list at [https://sciencebasedtargets.org/financial-institutions/](https://sciencebasedtargets.org/financial-institutions/)
Science Based Targets

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