SBTs for Financial Institutions
Draft target validation criteria feedback summary

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.
Today’s Speakers

Nate Aden
Senior Fellow
World Resources Institute

Chendan Yan
Associate
World Resources Institute
## Agenda for Today

<table>
<thead>
<tr>
<th>Topic</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overview of SBT finance framework and project updates</td>
<td>10 min</td>
</tr>
<tr>
<td>Summary of feedback from in-person workshops</td>
<td>10 min</td>
</tr>
<tr>
<td>Summary of stakeholder survey feedback</td>
<td>40 min</td>
</tr>
<tr>
<td>Questions and discussion</td>
<td>25 min</td>
</tr>
<tr>
<td>Next steps in framework development process</td>
<td>5 min</td>
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</tbody>
</table>
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.
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

WWF

*Technical Partner*

Guidehouse
**SBTi-Finance Framework** | **Tipping point theory of change**

Voluntary Programs
- SBTs
- Company Engagement
- Implementation Strategies
- Tracking & Reporting

**Critical Mass of SBTs**

**Tipping Point**

Regulation
- Mandatory Disclosure
- Minimum Performance Standards
- Support for Permanent Decommissioning of Obsolete Capacity
## SBTi-Finance Framework | Scope

<table>
<thead>
<tr>
<th>Included</th>
<th>Outside of Current Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 1 and 2 science-based target methods, criteria, and guidance</td>
<td>Impact assessment (pending data and evidence availability)</td>
</tr>
<tr>
<td>Scope 3 target methods, criteria, and guidance (‘how much’)</td>
<td>Additionality (quantification or attribution without sufficient evidence)</td>
</tr>
<tr>
<td>Disclosure of implementation strategy</td>
<td>Ex-post tracking</td>
</tr>
<tr>
<td>Flexibility on actions to achieve targets</td>
<td>Implementation requirements (‘how’)</td>
</tr>
<tr>
<td>Engagement strategies (via Portfolio Coverage &amp; Temperature Scoring)</td>
<td>Leakage remediation</td>
</tr>
<tr>
<td></td>
<td>Evaluation of strategies’ cost effectiveness</td>
</tr>
</tbody>
</table>
SBTi-Finance Framework | Framework components

SBTs for FIs

- Criteria
- Methods
- Tool
- Guidance
# SBTi-Finance Framework | Mapping methods to asset classes

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Method</th>
<th>Description</th>
</tr>
</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 Project Finance</td>
<td>SDA</td>
<td>Emissions-based physical intensity targets are set for electricity generation projects’ intensity and total GHG emissions.</td>
</tr>
<tr>
<td></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 (equity, bonds, loans)</td>
<td>PACTA</td>
<td>Sectors are assessed at individual business activity level for select activities.</td>
</tr>
<tr>
<td></td>
<td>SBT Portfolio Coverage</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Temperature Rating</td>
<td>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).</td>
</tr>
</tbody>
</table>
**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.
- **Sept 2020:** Launch V1 of framework.

We are here.
SBTi-Finance Framework | Temperature alignment method & tool

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.
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!
Summary of feedback from the draft target validation criteria consultation process
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:

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
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.
Thanks to 55 global organizations that responded to the survey.

Organizations from 18 countries participated in the survey.

Among which 29 are financial institutions.
90% of FI respondents have set or are interested in setting SBTs

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

- Yes, we have already set these targets: 5 (16.67%)
- No, so far we have not considered setting these targets: 3 (10%)
- No, but we are interested in setting these targets in the future: 5 (16.67%)
- No, but we plan to set these targets within 2 years: 1 (3.33%)
- Total responses: 55
Q4: How to design the portfolio emissions screening/target coverage requirement?
Q4: How to design the emissions screening/target coverage requirement?

<table>
<thead>
<tr>
<th>Option</th>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>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.</td>
</tr>
<tr>
<td>2</td>
<td>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.</td>
</tr>
<tr>
<td>3</td>
<td>Require targets on 100% of holdings in top emitting sectors as defined by SBTi Top-emitting sectors</td>
</tr>
<tr>
<td>4</td>
<td>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.</td>
</tr>
<tr>
<td>5</td>
<td>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.</td>
</tr>
</tbody>
</table>

We combined similar options for the survey analysis:

- **100% emissions screening of top emitting sectors + 95% targets (screening and targets on % remaining sectors in option 5)**
- **Portfolio-level emissions screening + a target boundary threshold (e.g. 67%)**
- **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)

• 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
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%)

- 31% of FIIs 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.

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+.

Total responses: 55
Q5: Is it necessary for SBTi-Finance criteria to prevent or minimize leakage?
Responses are divided on whether the criteria should prevent leakage, with many clearly recognizing the difficulty to enforce such a restriction. 

- ~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.

“...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

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)?
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?
Divestment is a “last resort option”

- 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”.

“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
Q8: Is it incumbent on SBTi-Finance to focus on direct (engagement) rather than indirect impact strategies including such as divestment and portfolio shifting?
“Engagement and divestment are complementary. The implicit threat of divestment can lend more power to engagement and stewardship.”

- ~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.)

“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
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.
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

- 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
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.
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

Yes, disclosure requirement is a good option.

No, disclosure requirement is not a good option.

Alternative option proposed.

Total responses: 55
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.
Respondents were divided on whether FIs should use temperature alignment method to set <2° targets within 5 years, including scope 3.

**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.**
  - 14 responses

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

- **Alternative option proposed.**
  - 4 responses

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.
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

<table>
<thead>
<tr>
<th>Contingency on SBT oil and gas method development</th>
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</thead>
<tbody>
<tr>
<td>Idea of differentiating between oil and gas majors, NOCs, and small operators</td>
</tr>
<tr>
<td>Question of financial institutions’ influence on portfolio companies</td>
</tr>
<tr>
<td>Suggestion that SBT portfolio coverage offers more direct engagement than temperature alignment, but both methods have a role</td>
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</tbody>
</table>

Total responses: 55
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?
Respondents were divided on how FIs’ strategies for achieving SBTs should be reviewed and publicly reported.

<table>
<thead>
<tr>
<th>Key Points</th>
<th>Total Responses</th>
</tr>
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<tbody>
<tr>
<td>Need to specify granularity and format of reporting requirement</td>
<td>8</td>
</tr>
<tr>
<td>Suggestion of TCFD integration</td>
<td>11</td>
</tr>
<tr>
<td>Suggestion to include scope 3 inventory reporting and progress against scope 3 targets (as opposed to just actions and strategies)</td>
<td>6</td>
</tr>
<tr>
<td>Suggestion to require reporting of failure of financial institutions to successfully affect actions of investees, not just successes</td>
<td>3</td>
</tr>
</tbody>
</table>

Strategies published with SBT, annual scope 1 and 2 reporting with actions. After SBT approval, annual scope 1 and 2 reporting with actions.

Strategies validated by SBTi, annual scope 1 and 2 reporting with actions.

Alternate option proposed.

Total responses: 55
Q&A
## SBTi-Finance Framework | Project milestones

<table>
<thead>
<tr>
<th>Date</th>
<th>Milestones</th>
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<tbody>
<tr>
<td>May-June</td>
<td>• Draft guidance and alpha tool</td>
</tr>
<tr>
<td></td>
<td>• Criteria feedback summary &amp; revisions</td>
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<tr>
<td>June-July</td>
<td>• Guidance webinar to launch feedback process</td>
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<td>• Tool beta testing</td>
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<tr>
<td>July-August</td>
<td>• Summary of guidance and tool feedback and revisions</td>
</tr>
<tr>
<td>September</td>
<td>• Launch version 1.0 of framework</td>
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**SBTi-Finance Framework | Opportunities for participation**

<table>
<thead>
<tr>
<th>SBTi-Finance Framework</th>
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</table>
| • Stakeholder list  
| • Guidance review  
| • Commit to setting an SBT  
| • Submit target for review (after Sept)  |

<table>
<thead>
<tr>
<th>SBTi-Finance Temperature Alignment Method</th>
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<tbody>
<tr>
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</table>
| • Review method  
| • Complete survey  |

<table>
<thead>
<tr>
<th>SBTi-Finance Tool Development</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>
| • Join working group  
| • User developers  
| • Data & service providers  
| • Beta test tool  
| • Integrate tool  |
Thanks for joining!
If you haven’t already, join project mailing list:
www.sciencebasedtargets.org/financial-institutions/