SBTs for Financial Institutions
Tool beta testing & guidance feedback launch

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

Donald Linderyd
Project Manager 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

<table>
<thead>
<tr>
<th>Topic</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction and Overview of SBTi-Finance</td>
<td>5 min</td>
</tr>
<tr>
<td>SBTi Temperature Rating Method Introduction</td>
<td>5 min</td>
</tr>
<tr>
<td>SBTi-Finance Tool for Temperature Rating &amp; Portfolio Coverage</td>
<td>15 min</td>
</tr>
<tr>
<td>Tool Beta Testing</td>
<td>5 min</td>
</tr>
<tr>
<td>SBTi-Finance Guidance Draft</td>
<td>10 min</td>
</tr>
<tr>
<td>Q&amp;A</td>
<td>20 min</td>
</tr>
</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.

https://sciencebasedtargets.org/financial-institutions/
<table>
<thead>
<tr>
<th>Committed financial institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABN Amro Bank N.V.</td>
</tr>
<tr>
<td>Actiam NV</td>
</tr>
<tr>
<td>Allianz Investment Management SE</td>
</tr>
<tr>
<td>Amalgamated Bank</td>
</tr>
<tr>
<td>ASN Bank</td>
</tr>
<tr>
<td>Australian Ethical Investment</td>
</tr>
<tr>
<td>AXA Group</td>
</tr>
<tr>
<td>BanColombia SA</td>
</tr>
<tr>
<td>Bank Austria</td>
</tr>
<tr>
<td>Bank J. Safra Sarasin AG</td>
</tr>
<tr>
<td>BBVA</td>
</tr>
<tr>
<td>BNP Paribas</td>
</tr>
<tr>
<td>Capitas Finance Limited</td>
</tr>
<tr>
<td>Chambers Federation</td>
</tr>
<tr>
<td>Commercial International Bank</td>
</tr>
<tr>
<td>Crédit Agricole</td>
</tr>
<tr>
<td>DGB FINANCIAL GROUP</td>
</tr>
<tr>
<td>Eurazeo</td>
</tr>
<tr>
<td>Fubon Financial Holdings</td>
</tr>
<tr>
<td>FullCycle</td>
</tr>
<tr>
<td>Grupo Financiero Banorte SAB de CV</td>
</tr>
<tr>
<td>Growthpoint Properties</td>
</tr>
<tr>
<td>Hannon Armstrong</td>
</tr>
<tr>
<td>Hitachi Capital Corporation</td>
</tr>
<tr>
<td>HSBC Holdings plc</td>
</tr>
<tr>
<td>ING Group</td>
</tr>
<tr>
<td>KLP</td>
</tr>
<tr>
<td>La Banque Postale</td>
</tr>
<tr>
<td>London Stock Exchange</td>
</tr>
<tr>
<td>Mahindra &amp; Mahindra Financial</td>
</tr>
<tr>
<td>Services Limited</td>
</tr>
<tr>
<td>MetLife, Inc.</td>
</tr>
<tr>
<td>MP Pension</td>
</tr>
<tr>
<td>MS&amp;AD</td>
</tr>
<tr>
<td>Insurance Group Holdings, Inc.</td>
</tr>
<tr>
<td>Moody’s Corporation</td>
</tr>
<tr>
<td>Novo Banco, SA</td>
</tr>
<tr>
<td>OXI-ZEN Solutions SA</td>
</tr>
<tr>
<td>Pension Danmark</td>
</tr>
<tr>
<td>Principal Financial Group, Inc.</td>
</tr>
<tr>
<td>Raiffeisen Bank International AG</td>
</tr>
<tr>
<td>Societe Generale</td>
</tr>
<tr>
<td>Sompo Holdings, Inc.</td>
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<tr>
<td>Standard Chartered Bank</td>
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<tr>
<td>Storebrand ASA</td>
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<tr>
<td>Swedbank AS</td>
</tr>
<tr>
<td>Swiss Re</td>
</tr>
<tr>
<td>T.GARANT BANKASI A.</td>
</tr>
<tr>
<td>Teachers Mutual Bank</td>
</tr>
<tr>
<td>Tokio Marine Holdings, Inc.</td>
</tr>
<tr>
<td>Tribe Impact Capital LLP</td>
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<tr>
<td>TSKB</td>
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<tr>
<td>Vakifbank</td>
</tr>
<tr>
<td>Westpac Banking Corporation</td>
</tr>
<tr>
<td>YES Bank</td>
</tr>
<tr>
<td>Yuanta Financial Holding Co Ltd</td>
</tr>
<tr>
<td>Zurich Insurance Group Ltd</td>
</tr>
</tbody>
</table>
SBTi-Finance Framework | Project partners and roles

Managing Partner

World Resources Institute

CDP

WWF

Project Technical Partner

Finance Tool Project Partner

Guidehouse

OS-C

Ortec Finance
SBTi-Finance Framework | Framework components

SBTs for FIs

Criteria

Methods

Tool

Guidance
<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>Corporate Instruments (equity, bonds, loans)</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><strong>SBT Portfolio Coverage</strong></td>
<td></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 2040.</td>
</tr>
<tr>
<td><strong>Temperature Rating</strong></td>
<td></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 | 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

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

Open source, public methodology
Data agnostic

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

#sciencebasedtargets
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.
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.
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)
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

*Image of a tool structure flowchart with input, measure alignment & target setting tool, and output sections.*
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
Temperature Alignment & Portfolio Coverage – Tool User Steps

Import Portfolio
- Users data
- Hypothetical dataset (provider by SBTi)

Set User Options/Choices
- Default score
- Aggregation method
- Data source
- Timeframes and Scopes
- Result elements
- “What if” scenarios

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

Select Output Options
- All individual company scores + selected columns
- All data including fields within the tool
- Anonymization option
- Import portfolio holdings
- Map columns of excel to input fields
Choose data provider (In beta testing phase only Excel)
- Upload data set

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
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 time frames and scopes to report

<table>
<thead>
<tr>
<th>Time frame (default: mid)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Choose the desired timeframe:</td>
</tr>
<tr>
<td>short</td>
</tr>
<tr>
<td>mid</td>
</tr>
<tr>
<td>long</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Scope (default: s1s2, s1s2s3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Choose the desired scope:</td>
</tr>
<tr>
<td>s1s2</td>
</tr>
<tr>
<td>s3</td>
</tr>
<tr>
<td>s1s2s3</td>
</tr>
</tbody>
</table>
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
- Industry_lvl3
Press the button to calculate scores and inspect the results

### Portfolio temperature scores

<table>
<thead>
<tr>
<th>Group</th>
<th>Time frame</th>
<th>Temperature score</th>
<th>Companies with vs. without targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>s1s2</td>
<td>mid</td>
<td>2.57°C</td>
<td>32.4% / 67.6%</td>
</tr>
<tr>
<td>s1s2s3</td>
<td>mid</td>
<td>2.94°C</td>
<td>16.9% / 83.1%</td>
</tr>
</tbody>
</table>

### Portfolio coverage

<table>
<thead>
<tr>
<th>Portfolio coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>30.09%</td>
</tr>
</tbody>
</table>
### Temperature scores grouped by categories

<table>
<thead>
<tr>
<th>Group</th>
<th>Time frame</th>
<th>Category</th>
<th>Temperature score</th>
<th>Category contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>s1s2</td>
<td>mid</td>
<td>Africa</td>
<td>3.20°C</td>
<td>4 %</td>
</tr>
<tr>
<td>s1s2</td>
<td>mid</td>
<td>Asia</td>
<td>2.53°C</td>
<td>20 %</td>
</tr>
<tr>
<td>s1s2</td>
<td>mid</td>
<td>Europe</td>
<td>2.91°C</td>
<td>34 %</td>
</tr>
<tr>
<td>s1s2</td>
<td>mid</td>
<td>North America</td>
<td>1.93°C</td>
<td>32 %</td>
</tr>
<tr>
<td>s1s2</td>
<td>mid</td>
<td>Oceania</td>
<td>3.20°C</td>
<td>2 %</td>
</tr>
<tr>
<td>s1s2</td>
<td>mid</td>
<td>South America</td>
<td>3.20°C</td>
<td>8 %</td>
</tr>
</tbody>
</table>

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 hypothetical scenarios

<table>
<thead>
<tr>
<th>Scenarios (default: With current targets, rest of portfolio business as usual)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Choose the preferred scenario for calculation of the temperature scores.</td>
</tr>
<tr>
<td>- With current targets, rest of portfolio business as usual</td>
</tr>
<tr>
<td>- Scenario 1: &quot;What-if&quot; - all companies set targets (default scores go to 2.0)</td>
</tr>
<tr>
<td>- Scenario 2: &quot;What-if&quot; - all companies with targets get SBTs (scores from targets are capped at 1.75)</td>
</tr>
<tr>
<td>- Scenario 3a: &quot;What-if&quot; - the 10 highest contributors to the portfolio set targets (scores of 10 highest contributors are capped at 2.0)</td>
</tr>
<tr>
<td>- Scenario 3b: &quot;What-if&quot; - the 10 highest contributors to the portfolio set SBTs (scores of 10 highest contributors are capped at 1.75)</td>
</tr>
</tbody>
</table>
### Temperature scores per company

<table>
<thead>
<tr>
<th>company_name</th>
<th>scope_category</th>
<th>time_frame</th>
<th>temperature_score</th>
<th>Country</th>
<th>Region</th>
<th>sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advanced Micro Devices, Inc.</td>
<td>s1s2</td>
<td>mid</td>
<td>1.63</td>
<td>United States</td>
<td>North America</td>
<td>Industrials</td>
</tr>
<tr>
<td>Adobe Systems Inc.</td>
<td>s1s2</td>
<td>mid</td>
<td>2</td>
<td>United States</td>
<td>North America</td>
<td>Utilities</td>
</tr>
<tr>
<td>Capgemini Group</td>
<td>s1s2</td>
<td>mid</td>
<td>1.65</td>
<td>France</td>
<td>Europe</td>
<td>Consumer Discretionary</td>
</tr>
</tbody>
</table>

Download options

- Non-anonymized
- Anonymized

Choose whether to anonymize the downloadable data.

- [ ] Non-anonymized
- [ ] Anonymized

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
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 | Project milestones

SBT-Finance Tool Beta Release
July 2020

Guidance Draft
August 2020

SBTi-Finance Framework
September 2020

SBTi- Validated FI Targets
November 2020
<table>
<thead>
<tr>
<th>SBTi-Finance Framework</th>
<th>Opportunities for participation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SBTi-Finance Framework</strong></td>
<td><strong>SBTi-Finance Tool Development</strong></td>
</tr>
<tr>
<td>• Guidance review</td>
<td>• Join working group</td>
</tr>
<tr>
<td>• Commit to setting an SBT</td>
<td>• Users</td>
</tr>
<tr>
<td>• Submit target for review (after Sept)</td>
<td>• Data &amp; service providers</td>
</tr>
<tr>
<td></td>
<td>• Beta test tool</td>
</tr>
<tr>
<td></td>
<td>• <a href="https://mailchi.mp/sciencebasedtargets/betatest">https://mailchi.mp/sciencebasedtargets/betatest</a></td>
</tr>
<tr>
<td></td>
<td>• Integrate tool</td>
</tr>
</tbody>
</table>
Q & A