Science Based Targets for Financial Institutions: Launch of Temperature Scoring and Portfolio Coverage Tool Beta Test and Draft Guidance
Questions & Answers

July 23, 2020

PARTNER ORGANIZATIONS

CDP
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WORLD RESOURCES INSTITUTE

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1. Question: Do Philanthropy organizations fall under the Financial institution list?

   Answer: The project audience includes universal banks, asset managers or asset owners (e.g. Insurance companies and pension funds), and real estate investment trusts (REITs). Engagement use cases, including by actors other than FIs such as NGOs, are also an audience for the project and a key Tool use case.

2. Question: Will organizations have the opportunity to choose between the 2 methods mentioned at the start? Or is SBTI still deciding which approach to take?

   Answer: Financial institutions may choose from multiple methods to apply on their corporate instruments portfolios as they see fit.

3. Question: The targets have to be SBTi certified or are you considering public commitments as well?

   Answer: Public targets are included in the temperature rating method and tool.

4. Question: How are you using emissions intensity targets to convert to a temperature rating? Given that temperature changes are based on the concept of an absolute carbon budget that intensity targets ignore

   Answer: live answered

5. Question: Is it the methodology only which is open source or the data will also be accessible?

   Answer: Outside the scope if this specific Tool project, OS-Climate is establishing a Data Commons, together with Allianz, S&P Global, Microsoft, Amazon, SASB, and other collaborators. One priority is to accelerate toward open source access to corporate data as a public good.

6. Question: Do you use the IPCC 1.5 concept directly (and if so, how?) or do you go via scenarios like the SDS of the IEO?

   Answer: live answered

7. Question: is there an excel template available for uploading portfolio data to the tool

   Answer: This will be provided in documentation

8. Question: It was mentioned that the tool can be used for listed and unlisted equity and corporate debt portfolios. Does this mean that the tool can be used for assessing the Paris Alignment of small and medium companies too?

   Answer: live answered.

9. Question: Can you elaborate on the aggregation methods?

Answer: The tool presently includes seven weighting/aggregation methods described in the method write up and guidance document. These are also described in the final axillary slide of this presentation.

10. Question: Which kind of ISIN selection is possible, e.g. LEI code, too?

Answer: We are aiming to include multiple sector taxonomies and identifiers into the tool and welcome your requests and feedback during beta testing.

11. Question: To clarify, contributors is determined by the company's relative weight in the portfolio?

Answer: live answered

12. Question: is this methodology only suitable for listed companies (which are in the ghg databases)

Answer: One potential collaborative open source project OS-Climate could potentially take on in the future, if there is agreed broad demand in the community, is extending suitability for private companies. Users can use any target data as part of the input, not just ESG databases. For instance, targets can be reported to investors through bilateral engagements. We expect the majority of data available today will be from listed companies and public reporting, but over time we hope more companies set targets (as this is what we are trying to incentivize!).

13. Question: If company codes are anonymized how would the portfolio be aligned with the platform of 3rd party ESG data providers?

Answer: A part of the answer is that, post-beta, the Tool will use the ISIC open source Classification system, and providers' data will be mapped to that. Users can choose whether outputs are anonymized or not (such as for reporting purposes).

14. Question: What if portfolio company doesn't have neither footprint calculated or target (for example for their Scope 3), how can they be included into this tool? any estimation methods available?

Answer: Estimated footprint data can be used alongside reported footprint data--this depends on your data source. We wouldn't suggest estimating targets data, as a company either has a target or doesn't.

15. Question: Will there be a similar tool for financing (vs investment) portfolios?

Answer: The tool can be used in theory for any type of corporate asset class--including loan books, bond portfolios, and equity portfolios. Data limitations will naturally be higher for many types of loan books/private equity portfolios (including private companies) than for asset classes that primarily deal with listed companies, like listed equity.This is another candidate for a community-based open source project under OS-Climate or other open source initiative to pool effort and resources for the development to expand the Tool.

16. Question: Does the default temperature score mean that a company, such as a renewable energy company with no target and an oil and gas company with no target, are both assessed as having a 3.2 degree alignment?

Answer: Currently, yes. The idea is that regardless of sector or previous progress, every company needs to reduce its emissions further. This said, we have heard feedback that many users would prefer sector-specific default scoring and we are exploring options for how to do this scientifically.

17. Question: Is the coverage limited to companies with sbt targets? If yes for what data the tool is agnostic?

Answer: No, the tool uses most types of GHG targets, whether or not they have been validated by the SBTi.

18. Question: Do you foresee the tool also be used by companies to analyze their SBTs of the Scope 3 suppliers? In other words, SBT validation encourages companies to drive Scope 3 suppliers to adopt their own Science Based Targets. Companies could use this tool to set targets and track progress of their suppliers in adopting their goals as well as the "aggregated temperature target of their supply chain."

Answer: Aside from any SBTi may plan in this regard, OS-Climate is considering this as a potential development project using the collaborative community-based development process.

19. Question: Do you treat debt vs equity instruments different in your assumptions given their different perpetual vs time-bound characteristics?

Answer: live answered

20. Question: Which climate indicators are considered for the temperature assessment?

Answer: Absolute targets are benchmarked to the total global GHG emissions in the scenario. Intensity targets vary, and include GHG/GDP, CO_2/MWH, and other intensity factors derived from the scenario set. All regressions are publicly available on GitHub.

21. Question: For fixed income portfolios- green bonds have been an important way to get more exposure to mitigation projects .. given that we have a lot of transparency into use of proceeds, have you thought about treating green bond holdings differently than other debt of issuers in the model?

Answer: Currently the tool does not distinguish between known use of proceeds instruments like green bonds and general fixed income. This would be an interesting addition but we have not thought it fully through yet!

22. Question: Not using IEA as in previous SDA models, does that mean that you are sector-agnostic (as IPCC SR1.5C scenarios would not provide sector specific trajectories?

Answer: Yes, at this point the beta tool is sector agnostic though we're planning for future sector granularity, which we may introduce for example after the IEA/ETP20 publication. Most temperature scores are sector agnostic, notably absolute reduction targets--this is aligned with existing SBTi methods. Some intensity targets are sector-specific--for instance CO_2/MWh targets are generally used by power sector companies.

23. Question: If you are reporting eg on a green loan product, eg a green bond, can these be reported as zero emissions? Avoided emissions have been calculated

Answer: Not using IEA as in previous SDA models, does that mean that you are sector-agnostic (as IPCC SR1.5C scenarios would not provide sector specific trajectories?

24. Question: Can you confirm that these targets only reflect ambitious rather than being representative of a company's actual trajectory?

Answer: Yes, this method only rates the ambition of corporate targets rather than past trajectory (e.g. the slope of previous years emissions profiles). We are exploring how to incorporate past trajectory as well.

25. Question: Will there be guidance on scope 3 category 15 (investments)? Will it be specific to asset classes? For example residential mortgages?

Answer: Yes there will be specific guidance on emissions accounting and target setting for category 15, which really is the focus of this project. The guidance will clarify how the framework goes beyond the original definition of category 15 in the Scope 3 Standard.

26. Question: Will S1&2 goal setting requirements be different than current absolute approach guidance for WB2C and 1.5C scenarios?

Answer: They are generally aligned, within the uncertainty of the respective methods (absolute contraction and the absolute GHG regression model).

27. Question: Sorry if I missed anything, but can this approach be used for Banks / impact investors which may be investing in projects rather than building a portfolio of companies

Answer: This tool is limited to corporate asset classes rather than project-based assets. Some banks have expressed interest in supporting an OS-Climate project to extend the SBTi Finance Tool for bank uses. This will be considered by the OS-Climate Governing Board.

28. Question: In terms of coverage of Scope 3 targets, would it be the same - 67% as a minimum scope to target?

Answer: A specific criterion regarding boundary of portfolio targets in the SBTi-FI target validation criteria addresses this question and will be included in the guidance for feedback.

29. Question: Is the tool also for bank lenders?

Answer: See similar answer about asset classes, basically all corporate asset classes can use this tool, subject to data.

30. Question: A simple question probably, let's say, the portfolio score comes to be around 30.9 (as shown in the sample testing), what does it really indicate in a nutshell? how to read this?

Answer: I believe the 30.9 figure was the percentage of SBTs on the portfolio, not the temperature score.

31. Question: If current methodology doesn't cover net-zero targets or procurement targets, does it mean that in this case companies will have to apply default temperature scores in this case?

Answer: live answered

32. Question: Have you determined what the temperature score is for a universal global equity index?

Answer: Yes, and it varies by index, both because more companies have targets in OECD (and especially Europe) than in non-OECD and because the targets are generally more ambitious. For instance, the FTSE100 has a lower overall score than the MSCI ACWI--which relies more heavily on default scoring due to spotty reporting outside OECD. The actual scores depend on timeframe and weighting approach.

33. Question: Do you know that the tool will generate real impact on emissions in the real economy?

Answer: live answered