SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Net-Zero Foundations for Financial Institutions

Public Consultation Webinar

9:00 – 10:00 am EST
November 10, 2021

Partner organizations

CDP DISCLOSURE INSIGHT ACTION · United Nations Global Compact · World Resources Institute · WWF

Welcome

- This event is being recorded.
- We will send all registrants a copy of the presentation and the recording.
- Please put your questions in the Q&A box.

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Agenda for Today

1. Introduction to SBTi-Finance
2. Net-Zero Foundations Development Process
3. Remarks from UNEP-FI and GFANZ
4. Key Questions and Opportunities for Participation
5. Questions and Wrap-up

Today's Speakers

Nate Aden

SBTi Finance

Eric Usher

UNEP Finance Initiative

Eoin White

SBTi Finance

Ronan Hodge

Glasgow Financial Alliance for Net Zero

SBTi is growing quickly

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2,100
companies and financial institutions committed to setting SBTs

120
Committed FIs

1,000
Companies & FIs with SBTs

3
FI SBTs

$15 trillion
total estimated market value of committed companies and financial institutions

22%
of Global Fortune 500 companies committed

Purpose of this paper and the SBTi Finance Net-Zero Standard

- A closer look into the net-zero targets of FIs shows that targets often differ across three key dimensions.

Boundary
- All GHGs vs. CO_2
- Financing activities
- Portfolio companies S1+2 or S1+2+3

Time frame
- Short-term
- Long-term

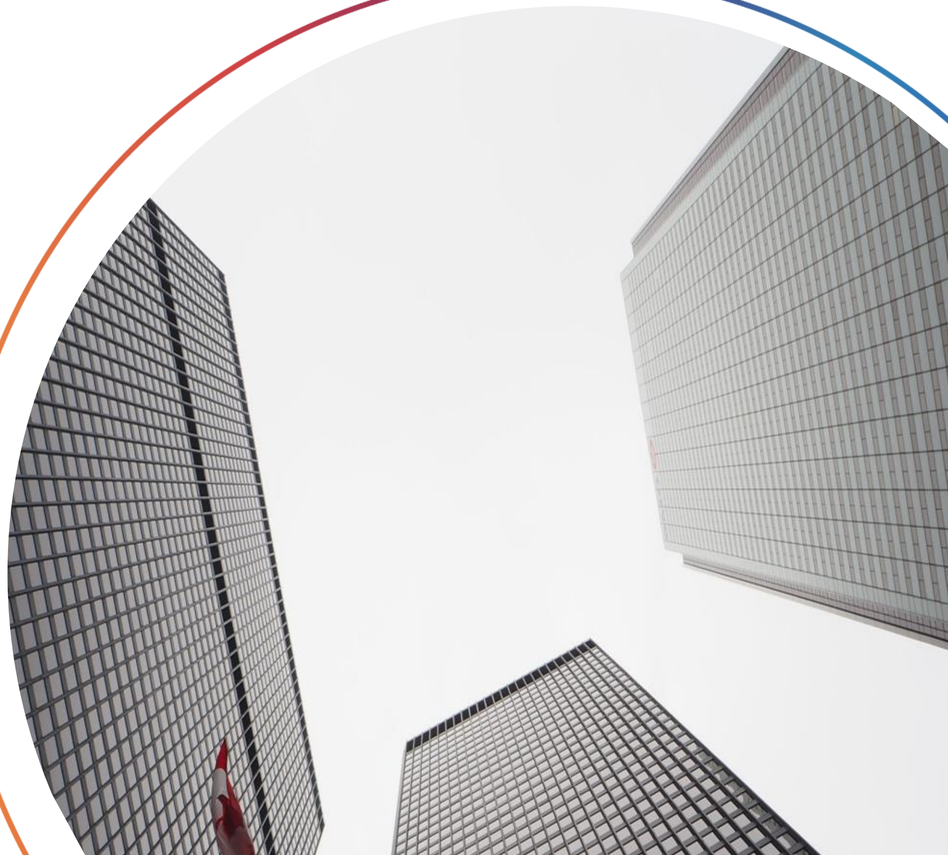
Mitigation strategy
- Decarbonization of financed emissions
- Investment in Climate Solutions

- A common understanding is needed as these variations make it difficult to compare goals, assess progress, and evaluate the credibility of FIs' efforts to achieve net-zero.
- Our goal is to make financial institution net-zero targets science-based, harmonized and verifiable, as with the SBTi Corporate Net-Zero Standard.

How does SBTi fit into the financial sector?

- SBTi Finance contributes to the wider ecosystem of related initiatives through its transparent and robust target setting platform and disclosure requirements.

- Harmonization with peer initiatives is a key goal. This includes the Glasgow Financial Alliance for Net Zero (GFANZ) and, Race to Zero, and the UN-Convened Net Zero Alliances



Next Steps

1. Net-Zero for Financial Institutions Foundations Draft for Public Consultation

(Q4, 2021)

2. Final Net-Zero for Financial Institutions Foundations paper

(Q1, 2022)

3. Final financial net-zero standard

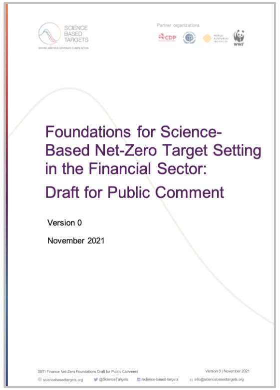
Including recommendations and qualitative and quantitative criteria to assess financial net-zero targets

(Q1 2023)

Financial sector equivalent to corporate net-zero standard

SBTi Corporate Net-Zero Standard
Defined criteria and guidance for credible science-based net-zero target setting in the corporate sector.

SBTi Finance Net-Zero Standard



Goal: The primary objective is to define the basis of a target-setting standard that enables FIs to best use their influence to achieve economy-wide net-zero emissions by 2050.

Provide clarity on key concepts, such as what it means to reach net-zero for a financial institution, transition metrics, and the components of credible science-based net-zero targets.

Net-Zero Foundations Development Process

What should net-zero mean for a financial institution?

Define the role of finance in achieving a net-zero economy and use this to derive the foundations of a net-zero target-setting standard.

Company Net-Zero

- GHG emissions-based metric
- Covers entire value chain (scope 1+2+3)
- Abatement along 1.5C pathways
- Compensation and neutralization

Financial Institution Net-Zero

- What metric(s) are most suitable for FIs to demonstrate real world impact?
- Coverage of all activities?
- Levels of ambition?
- The role of carbon credits?

Net Zero Financial Foundations Framework

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Net-zero foundations covers five key topics relevant for setting the basis of a net-zero target-setting standard.

1. Landscape Analysis

Deconstructing FI net-zero targets and identifying relevant net-zero strategies that can be used

↓

2. Guiding Principles

Five principles to evaluate the effectiveness of FI net-zero strategies

↓

3. Definitions

Three formulations of how net-zero can be defined for FIs

↓

4. Transition Metrics

Nine common metrics are used to track transition to net-zero

↓

5. Target Formulation and Tracking

Address the role of offsets, fossil fuels, climate solutions, and near-term targets

Landscape assessment

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FIs, covering over US$130 trillion in assets have made net-zero commitments but there is no standardization to evaluate and validate forthcoming targets.

We identified 6 broad approaches to net-zero target setting:

- Decarbonisation of financed emissions
- Sector based decarbonisation
- Portfolio Alignment
- Financing climate solutions
- Avoided emissions
- Financing negative emissions

221
Asset Managers have a net-zero commitment

93
Banks have a net-zero commitment

60
Asset Owners have a net-zero commitment

14
Insurance providers have a net-zero commitment

Source: NZAOA, NZAM, NZBA, and NZIA (2021)

SBTi Principles for net-zero target setting

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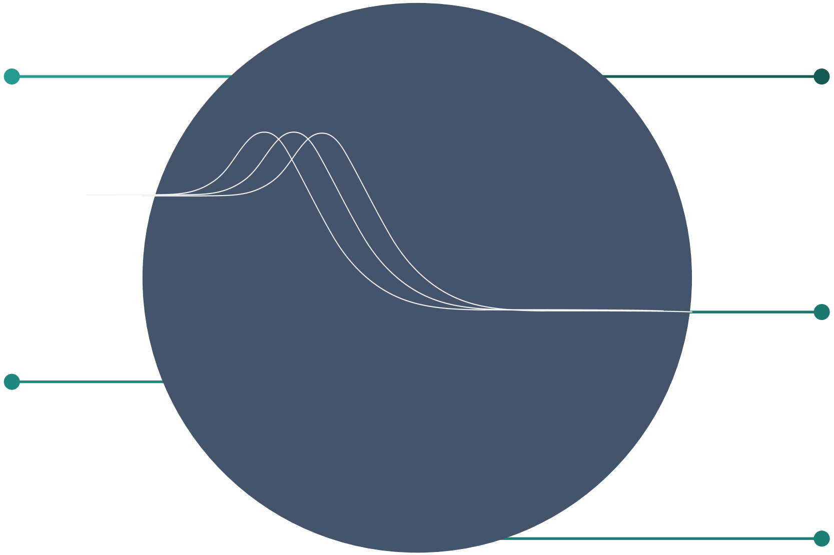
How do we design a standard for setting and assessing long-term net-zero targets that is informed by science?



Completeness

All relevant and material operational and financing activities, result in no net accumulation of GHG emissions in the atmosphere.

Influence

Incentivize FIs to effectively influence and engage their portfolio constituents using their unique roles and relationships with the real economy.

Science-based Ambition

Transition financing activities toward net-zero in line with pathways that contribute to achieving the 1.5°C goal.

Impact

Financing activities to help achieve economy-wide decarbonization and not simply reduce portfolio exposure to GHG emissions.

Decarbonization + Green

Prioritize the financing of both decarbonization efforts and the climate solutions necessary for a net-zero economy.

SBTi approach to net-zero definitions

We've identified three broad approaches to defining net-zero for FIs. These approaches are not mutually exclusive, and the guidance will establish requirements for how one or more of these approaches can be used to set FI net-zero targets.

1. Financed Emissions

Net-zero claims are based on financed emissions. Net-zero implies reducing financed emissions along 1.5°C sector pathways and neutralization of residual emissions.

2. Portfolio Alignment

Net-zero claims are based on FIs aligning all relevant financing activities such that each individual asset achieves a state of net-zero consistent with the SBTi Corporate Net-Zero Standard.

3. Portfolio Contribution

Net-zero claims are based on FIs financing both decarbonization activities and explicitly reallocating financing activities to climate solutions at a rate that is consistent with global climate goals.

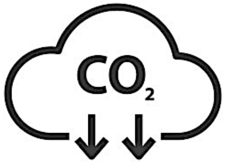
Transition metrics

A combination of metrics can be used to track the transition to net-zero.

Definition Types	Metric Types
1. Financed Emissions	• Absolute portfolio emissions (tCO2e) • Portfolio-wide intensity, e.g., Weighted average carbon intensity (tCO2e/revenue) • Sector-based physical intensity (e.g., tCO2e/MWh)
2. Portfolio Alignment	• Engagement • Binary Target Measurement • Implied Temperature Rise
3. Portfolio Contribution	• Internal Carbon Price • Green Metrics (e.g., Taxonomy or revenue share) • Capacity-based

Target Formulation and Tracking

We have identified four key areas relevant for the formulation of science-based net-zero targets:



1. How should **fossil fuels** be addressed within target formulations?

2. What should be the role of **climate solutions** targets in a science-based net-zero standard?

3. What should be the role of **carbon credits** in net-zero target setting?

4. How should the **near-term target** framework be updated to align with net-zero recommendations?

Discussion

Speakers: Eric Usher (UNEP-FI) and Ronan Hodge (GFANZ)

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Key Questions and Opportunities for Participation

The role of fossil fuels

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Disclosure → Transition → Phaseout

Fossil fuels play a major role in global emissions. The IEA has stated that there is "no need for investment in new fossil fuel supply" in its net-zero pathway report.

As part of the net-zero framework, SBTi is evaluating the extent to which fossil-fuel requirements should be made explicit as part of any science-based net-zero target. The approach to fossil-fuel financing will be resolved in 2022 as part of SBTi net-zero financial-target standard development process.

Section 5: Open technical questions

* 19. Fossil fuel financing

Should net-zero targets explicitly address the role of fossil fuel financing?

- ◯ Yes, fossil fuel must be covered by a separate target to ensure transparency and accountability
- ◯ No, fossil fuel investments should be covered under broader net-zero goals and do not need to be covered by their own specific target

* 20. Do you agree with the proposed 'disclosure, transition, and phase out' (of all new fossil investment immediately and existing coal by 2030 and existing oil and gas by 2040) fossil fuel requirements?

- ◯ Yes
- ◯ No (please explain)

The role of climate solutions

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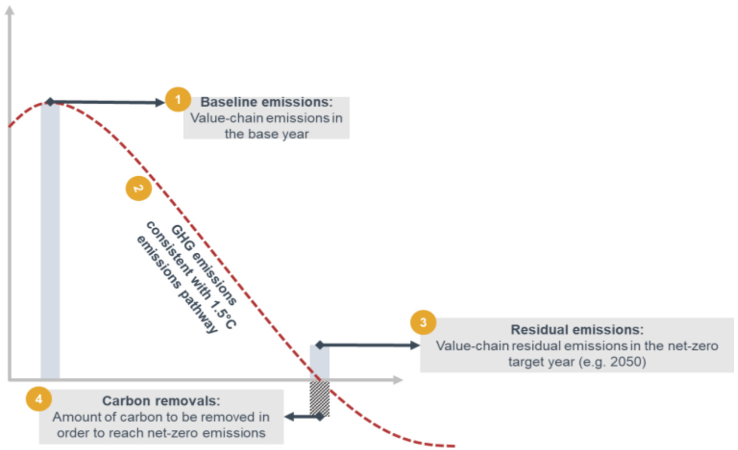

SBTi has traditionally focused on decarbonization targets, with the priority for companies and financial institutions remaining on financing decarbonization efforts in the real economy.

Recognising the financial sector's unique role in investing in new climate solutions, the SBTi is evaluating the extent to which climate solution targets should be part of any science-based net-zero target.

Section 5: Open technical questions

* 15. The role of climate solutions: climate solutions cover a broad range of activities that actively contribute to global climate goals and can be broadly defined as green technologies such as renewable energy, sustainable mobility, green infrastructure, and carbon removal activities such as nature-based solutions, direct air capture, and BECCS. Financial institutions play an important role in scaling finance for the development of these solutions. Should science-based net-zero targets explicitly include a target on investing in green solutions

○ Yes

○ No

16. If you answered Yes to question 15, what is the most credible metric to track the financing of climate solutions?

○ Brown:Green ratio using established Green Taxonomies

○ Green revenue share

○ Other (please specify)

17. If you answered Yes to question 15, please share your views on how the ambition of a climate solutions target could be defined?

The role of carbon credits

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Carbon credits purchased as a replacement for reducing value chain emissions in line with their near and long-term science-based targets is often referred to as "offsetting." However, carbon credits in addition to the necessary emissions reductions can play a role:

- **Transition to net-zero**: may opt to purchase credits to support society to achieve net-zero emissions by 2050, although they will not count toward net-zero claims.
- **At net-zero**: neutralize residual emissions, with an equivalent amount of carbon dioxide removals at their net-zero target date, and these removals can be sourced from carbon credits.

	Neutralization	**Beyond value chain mitigation**
Companies	Neutralize residual emissions to achieve net-zero	Encouraged to take action to mitigate emissions beyond their value chain, but these cannot be used to claim net-zero
Financial Institutions	Neutralize residual S1+2, S3 c1-14. FIs shall neutralize all unabated scope 3, category 15 emissions with permanent removals to reach net-zero. Neutralization may be achieved by: a) Portfolio level via financing of carbon removal, exclusive of carbon credits b) Portfolio companies neutralize their own residual emissions	Carbon credits purchased by an FI can be generally captured in a separate and supplementary metric/target (e.g., amount of high-quality carbon credits purchased) as a contribution to achieving a global net-zero economy.

The role of carbon credits

In the transition to net-zero, it is recognized that FIs can provide needed liquidity and market mechanisms for efficient carbon-credit allocation and transfer to support society to achieve net-zero emissions by 2050.

- **Transition to net-zero**: what role should FIs have in financing carbon removals and how could these be captured in their targets?
- **At net-zero**: how should FI balance any residual financed emissions to claim net-zero?

Section 5: Open technical questions

* 12. The role of carbon credits: the SBTi takes a precautionary approach on the sequestration and storage of atmospheric carbon and recommends that the use of removals is limited to balancing the impact of residual emissions as per 1.5°C consistent scenarios with no or limited overshoot. FIs can purchase carbon credits as additional actions, but these should not be used to claim net-zero within their scope 1+2 operations or their scope 3 financed emissions. Do you agree with this approach? Please see Table 7 in the draft paper for further details.

○ Strongly agree
○ Agree
○ Disagree
○ Strongly disagree

* 13. Please expand on your answer.

* 14. Neutralization of residual emissions: the SBTi takes a precautionary approach on the sequestration and storage of atmospheric carbon and recommends that the use of removals is limited to balancing the impact of residual emissions as per 1.5°C consistent scenarios with no or limited overshoot. Residual emissions at a state of net-zero can be balanced by a few means. As a priority, FIs should strive to engage their portfolio companies to ensure that the companies' residual emissions are uniquely neutralized, following the recommendations of the SBTi's Corporate Net-Zero standard.

Please share your views on the different approaches to neutralizing residual emissions within portfolios:

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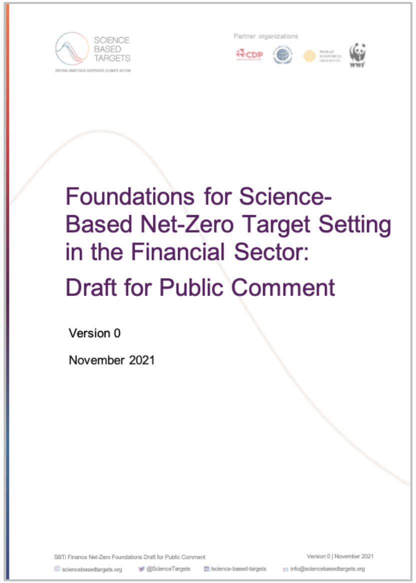
Public consultation process



Foundations for Science-Based Net-Zero Target Setting in the Financial Sector:

Draft for Public Comment

Version 0

November 2021

SBTi Finance Net-Zero Foundations Draft for Public Comment — Version 0 | November 2021

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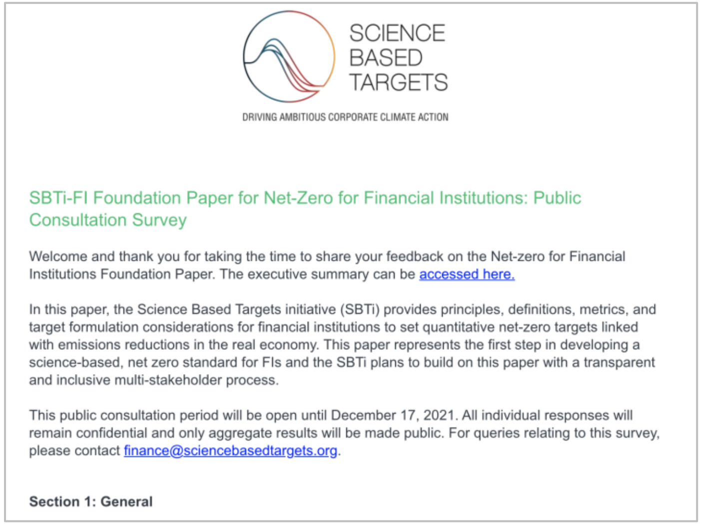

SBTi-FI Foundation Paper for Net-Zero for Financial Institutions: Public Consultation Survey

Welcome and thank you for taking the time to share your feedback on the Net-zero for Financial Institutions Foundation Paper. The executive summary can be accessed here.

In this paper, the Science Based Targets initiative (SBTi) provides principles, definitions, metrics, and target formulation considerations for financial institutions to set quantitative net-zero targets linked with emissions reductions in the real economy. This paper represents the first step in developing a science-based, net zero standard for FIs and the SBTi plans to build on this paper with a transparent and inclusive multi-stakeholder process.

This public consultation period will be open until December 17, 2021. All individual responses will remain confidential and only aggregate results will be made public. For queries relating to this survey, please contact finance@sciencebasedtargets.org.

Section 1: General

Net-zero foundations paper – *draft for consultation*

(https://sciencebasedtargets.org/resources/files/Foundations-for-Science-Based-Net-Zero-Target-Setting-in-the-Financial-Sector.pdf)

Online Survey

(https://www.surveymonkey.com/r/SBTi-FI_NZ)

Please complete by Dec 17, 2021

SBTi is hosting workshops to go into the details of the paper. These are scheduled for Tuesday, December 7, 15:30-17:00 CET and Monday, December 13, 10:30-12:00 CET; register at: https://sciencebasedtargets.org/news/net-zero-financial-institutions-draft-for-public-consultation

Q&A

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THANK YOU!

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