

Net-Zero Foundations for Financial Institutions

Launch Webinar

April 12, 2022

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Welcome!

- The 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.

AGENDA

1. Introduction
2. Net-Zero Standard Development Process
3. Net-Zero Foundations for FIs
4. Questions and Wrap-up

Today's Speakers



Paulina Tarrant

Net-Zero Engagement Manager



Nate Aden

Finance Lead



Emma Watson

Senior Manager, Net-Zero



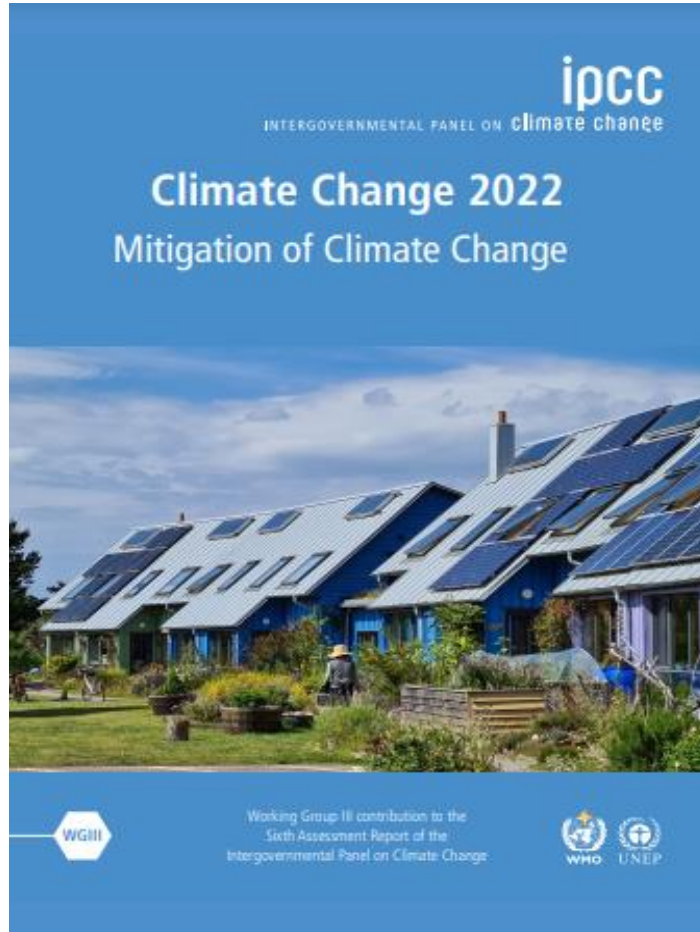
Eoin White

Portfolio Decarbonisation Manager

INTRODUCTION

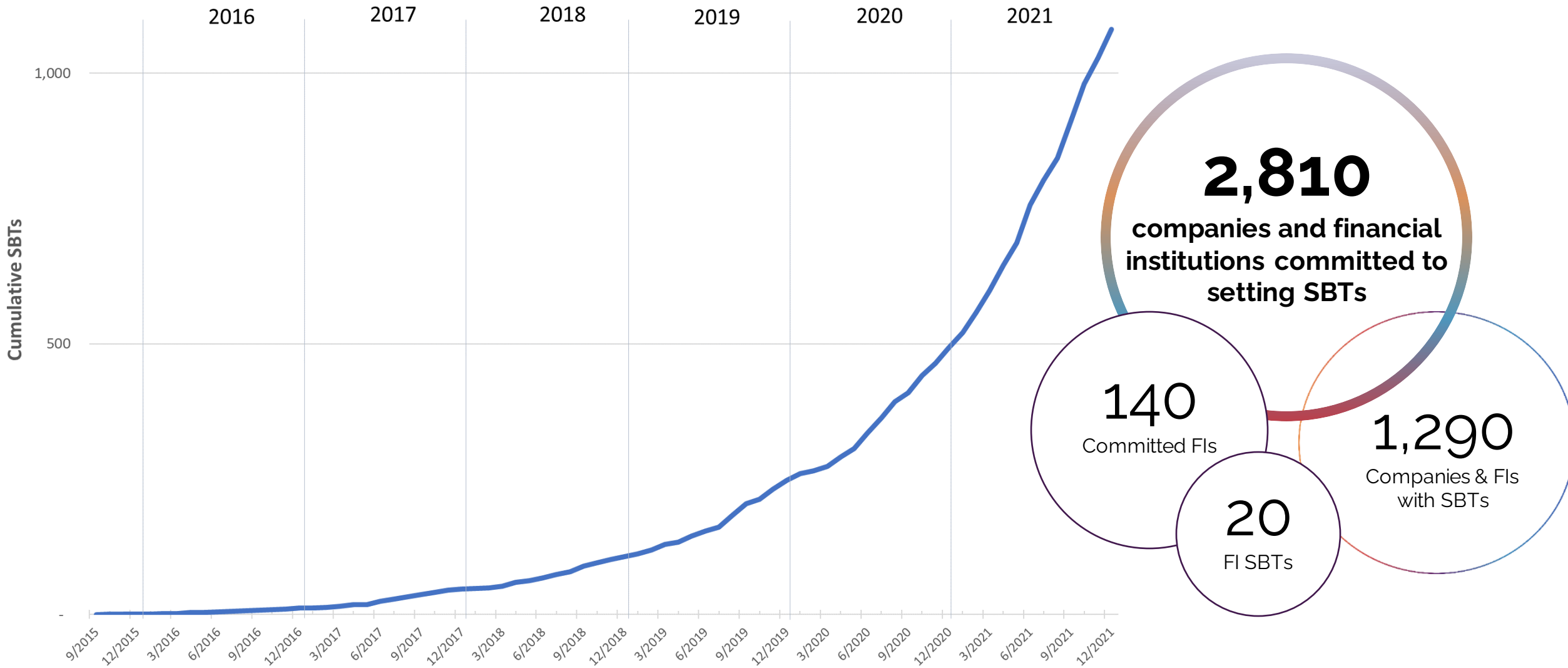
Key Takeaways From the IPCC Report

IPPC Sixth Assessment Report Published in April 2022

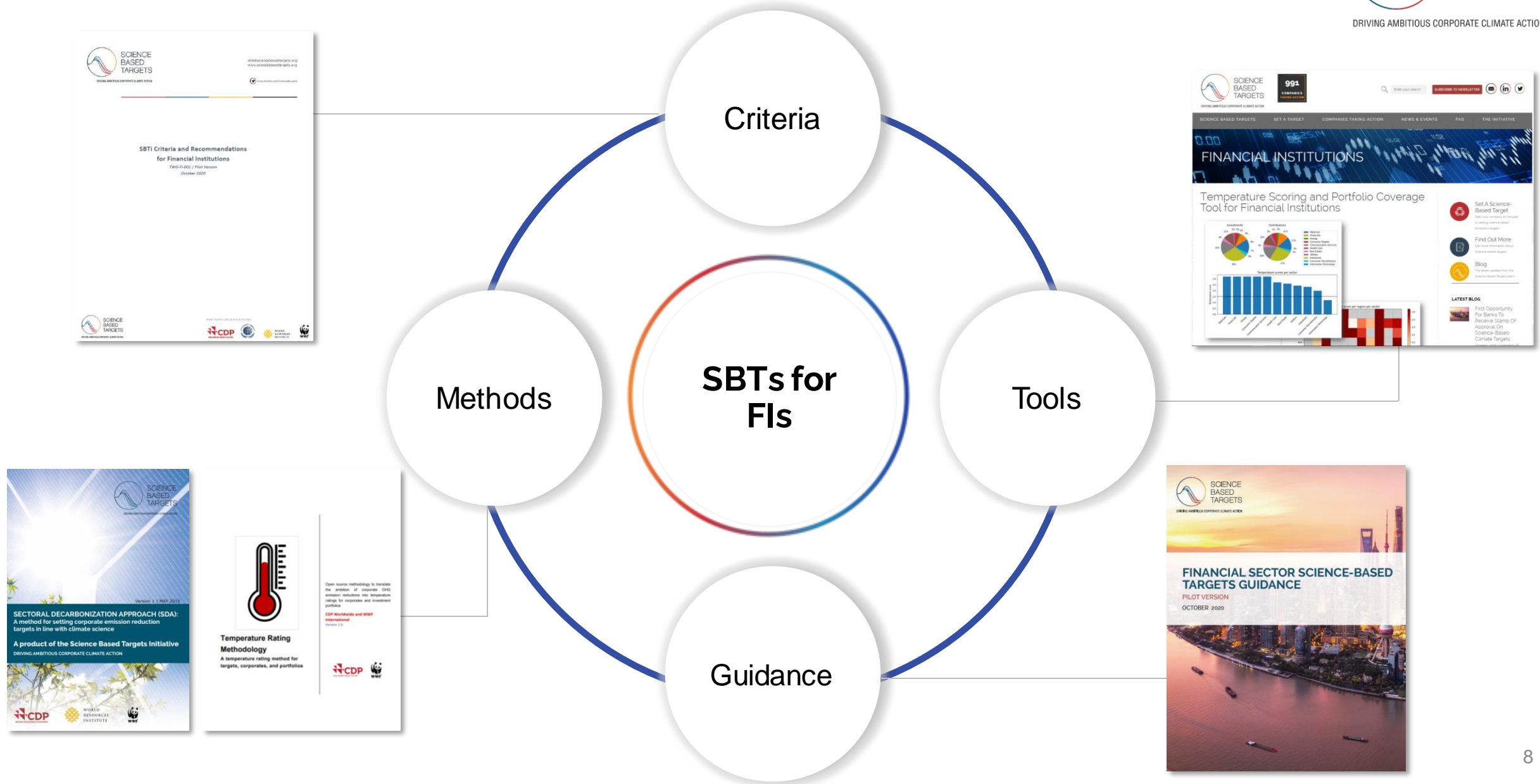


- Global GHG emissions have continued to rise, but GHG emissions must peak in the next three years to preserve our chances of meeting the Paris Agreement's 1.5 C goal.
- There's no room for building new fossil fuel infrastructure, with CO₂ emissions from existing and planned fossil fuel infrastructure alone exceeding global 1.5C budgets.
- Carbon removal will need to play an important role as all pathways that limit warming to 1.5 degrees C (with no or limited overshoot) depend on carbon removal.
- Climate finance for mitigation must be 3 to 6 times higher by 2030 to limit warming to below 2C.
- For the corporate sector, this means transitioning towards business models that are compatible with a net-zero economy within the next three to five decades
- For the finance sector, this means aligning global capital with what is needed to mitigate and adapt to climate change, with applications across all regions and sectors.

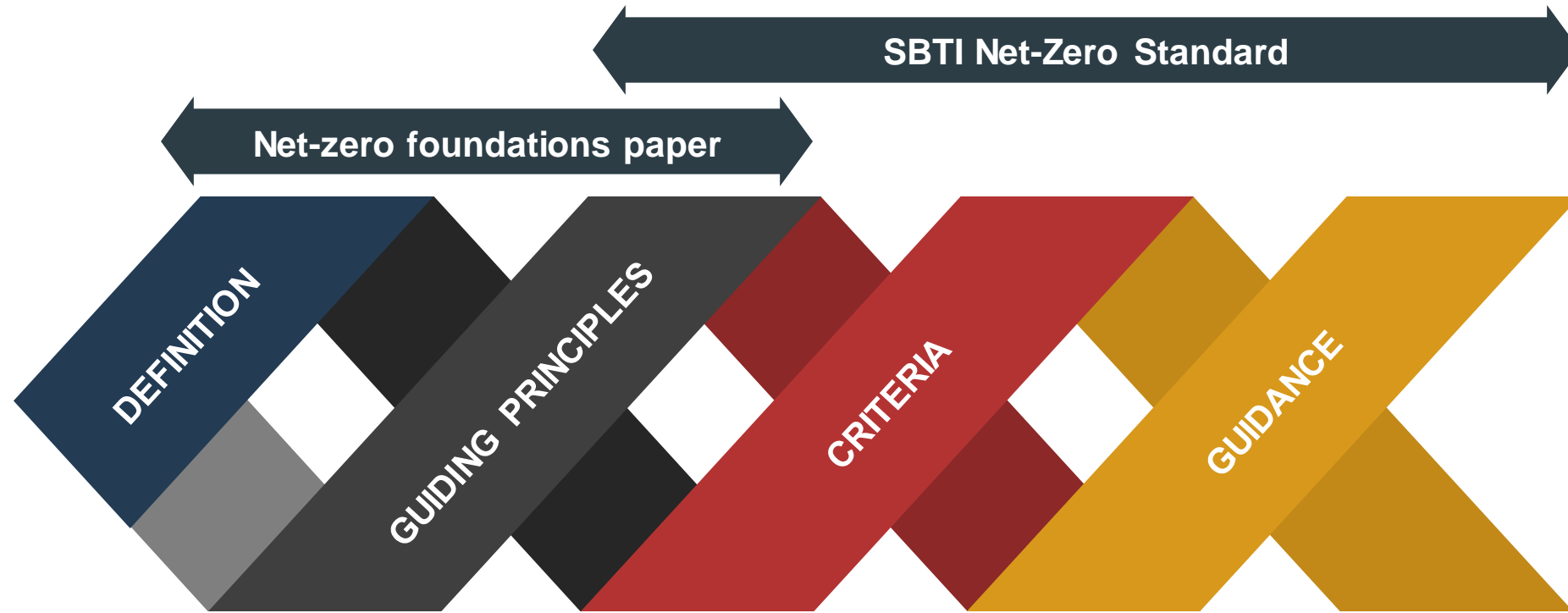
SBTi is experiencing exponential growth



Components of the SBTi Finance Framework



There is a lack of clarity on what it means for FIs to be “Net-Zero”



Definition

Net-zero definition in the financial sector in line with guiding principles

Guiding principles

Overarching principles to inform net-zero definition and the development of net-zero guidance and criteria

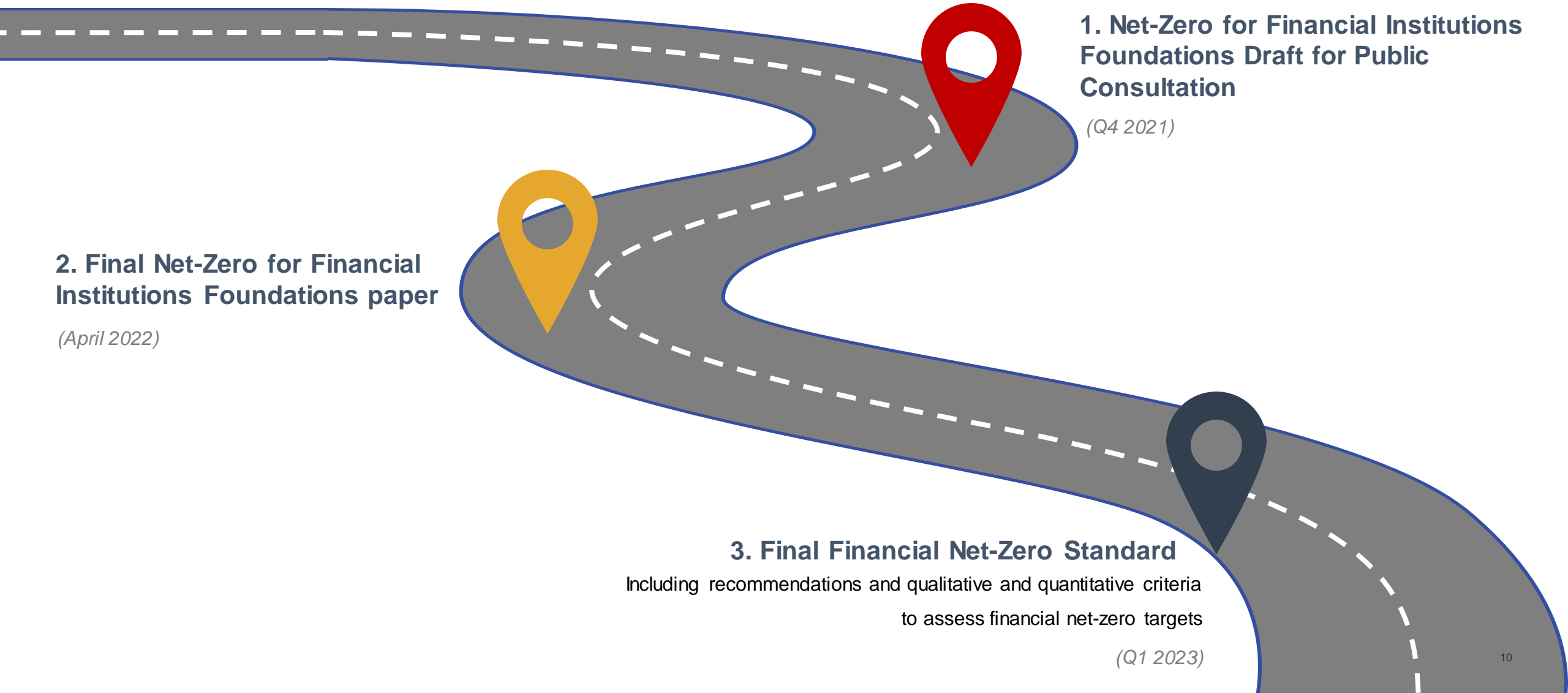
Criteria

Criteria to inform the formulation and assessment of financial net-zero targets

Net-zero guidance

Practitioner’s guidance to inform the formulation and implementation of net-zero targets in the financial sector

SBTi Finance Net-Zero Standard Development Process



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

(Q4 2021)

**2. Final Net-Zero for Financial
Institutions Foundations paper**

(April 2022)

3. Final Financial Net-Zero Standard

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

(Q1 2023)



THE NET-ZERO STANDARD DEVELOPMENT PROCESS

Financial-Sector Equivalent to Corporate Net-Zero Standard

FINZ Foundations is a first step



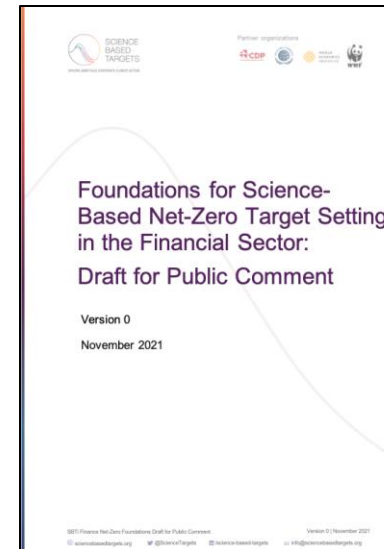
SBTi Corporate Net-Zero Standard

Defined criteria and guidance for credible science-based net-zero target setting in the corporate sector.



SBTi Finance Net-Zero Standard

Will leverage and build on the learnings, credibility, and success of the Corporate Net-Zero Standard to establish an equivalent resource for the financial sector.



Goal: define target-setting principles that enable 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.

The Corporate Net-Zero Standard Development Process

Thorough, transparent, and inclusive; has engaged over 800 stakeholders

2020

2021

Sep

Publication
of the net-
zero
foundations
paper

Oct

Set up of
Expert
Advisory
Group

A balanced and diverse group of 42 experts from civil society, academia, & business has guided the development of the standard

Jan

Initial draft
of criteria

Feb-Mar

1st public
consultation

Nearly 400 participants from 37 different countries and a variety of sectors participated in the first public consultation

Jul-Aug

Road-
testing
process

84 companies participated to trial the target setting tool, review the criteria and guidance, and provide feedback

Sep-Oct

2nd public
consultation

167 stakeholders participated in the pre-launch consultation

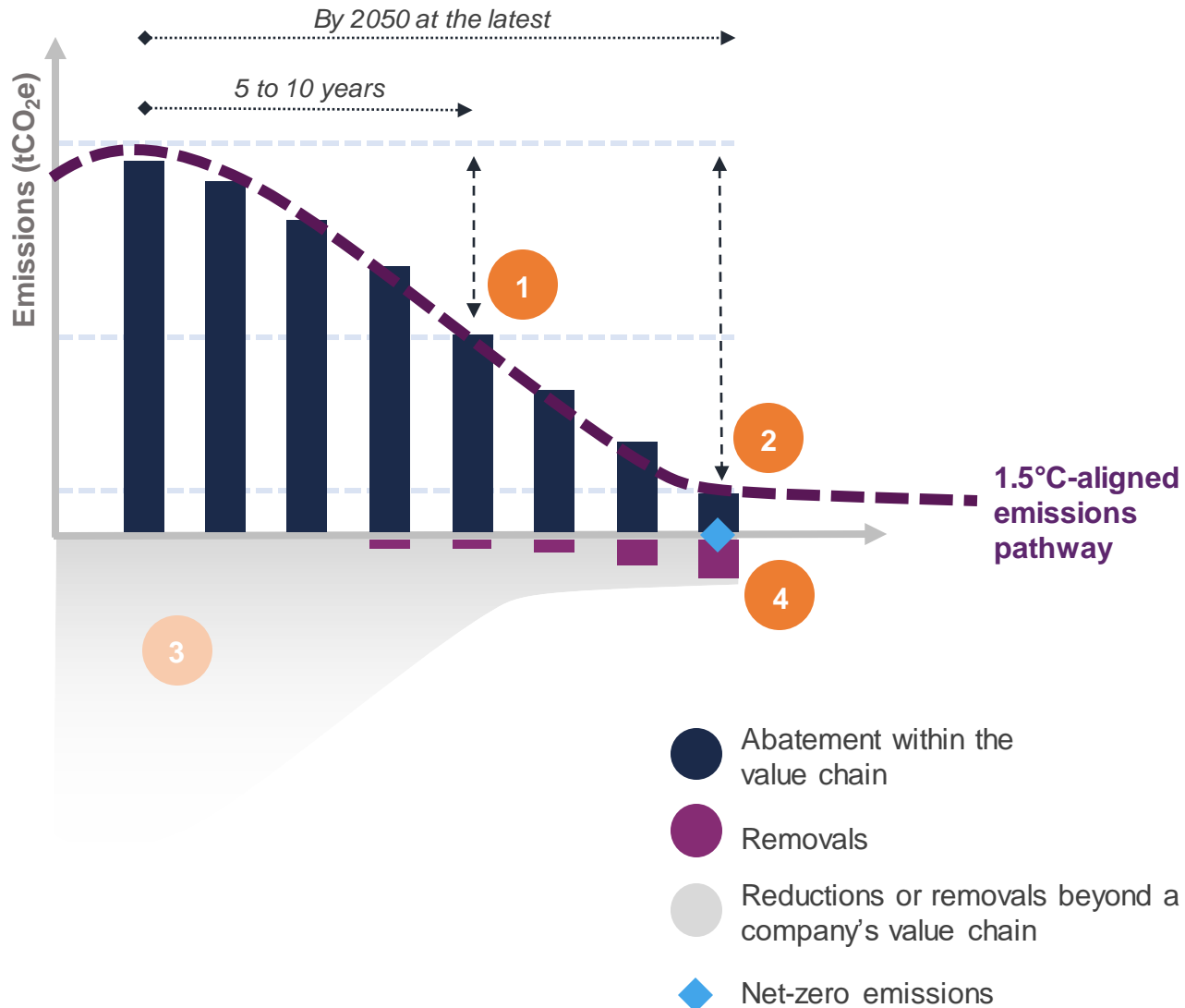
Oct-Nov

★ Launch



SBTi Corporate Net-Zero Standard

Overview



1 To set near-term science-based targets:
5-10 year emission reduction targets in line with 1.5°C pathways

2 To set long-term science-based targets:
Target to reduce emissions to a residual level in line with 1.5°C scenarios by no later than 2050

3 Beyond value chain mitigation:
In the transition to net-zero, companies should take action to mitigate emissions beyond their value chains. For example, purchasing high-quality, jurisdictional REDD+ credits or investing in direct air capture (DAC) and geologic storage

4 Neutralization of residual emissions:
GHGs released into the atmosphere when the company has achieved their long-term SBT must be counterbalanced through the permanent removal and storage of carbon from the atmosphere

SBTi Corporate Net-Zero Standard

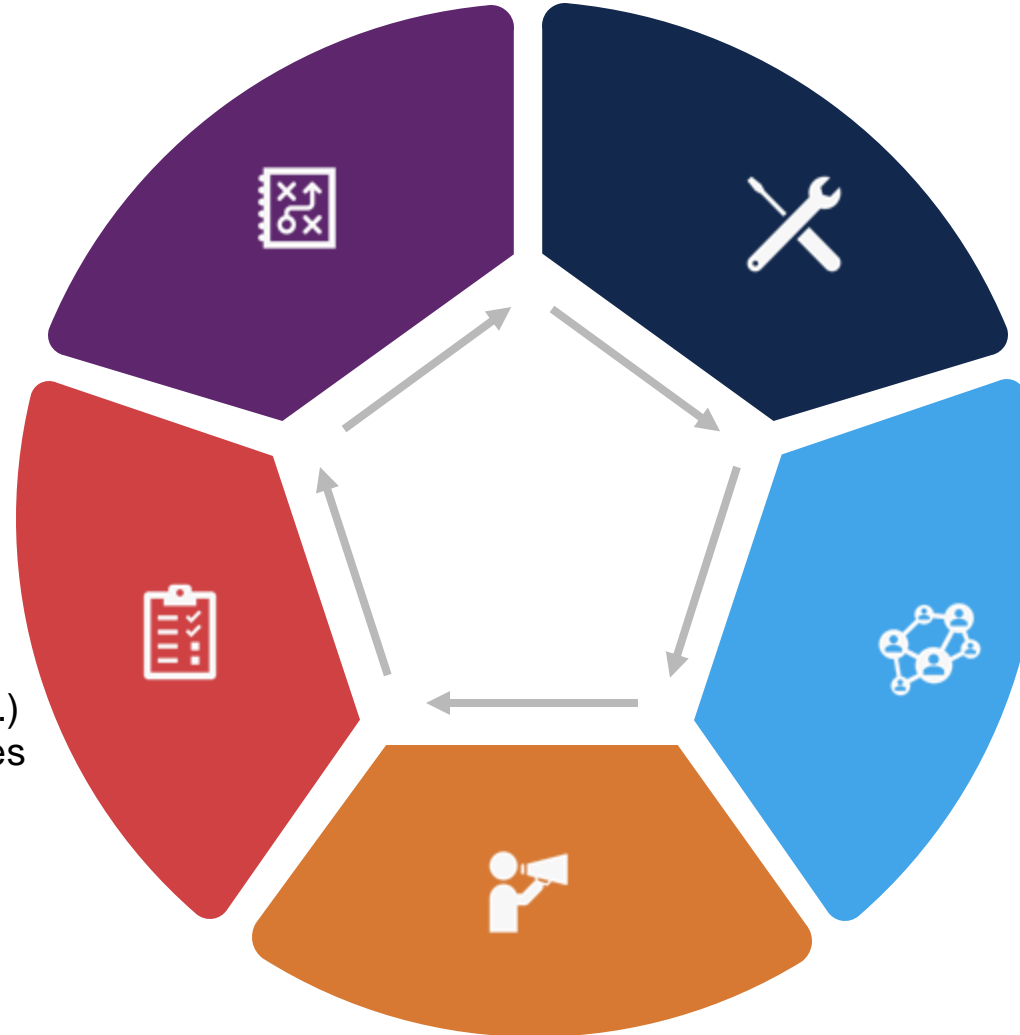
Contrast with long-term SBTs for FIs

	Corporate Net-Zero	Questions to Address for Financial Institutions
Net-Zero Definition and Claim	<ol style="list-style-type: none"> 1. Achieving a scale of value chain emissions reductions consistent the point of reaching global or sector net-zero in 1.5°C pathways and 2. Neutralizing the impact of any residual emissions by permanently removing an equivalent volume of CO2 	<ul style="list-style-type: none"> • How should net-zero be defined for the financial sector to ensure FIs can use their influence to achieve real world emission reductions? • When can FI's claim to be "net-zero"?
Role of Carbon Credits	<ul style="list-style-type: none"> • Do not count as emission reductions toward the progress of companies' SBTs • an option for neutralizing residual emissions or to finance additional climate mitigation beyond SBTs 	<ul style="list-style-type: none"> • What role should carbon credits play in FIs net zero targets and how can FIs support the investment in needed CDR technologies?
Neutralization	<ul style="list-style-type: none"> • Companies shall remove carbon from the atmosphere and permanently store it to counterbalance the impact of any unabated emissions that remain once companies have achieved their long-term SBT, and thereafter 	<ul style="list-style-type: none"> • What role do FIs play in supporting companies to achieve net-zero through neutralization of residual emissions?
Fossil Fuels	<ul style="list-style-type: none"> • The SBTi has paused commitments and validation of companies in this sector, whilst methodologies are subject to external review. Read more here. 	<ul style="list-style-type: none"> • Should fossil fuels be specifically addressed in net-zero target formulations?

SBTi Net-Zero Project Overview

Standard Development

- Net-zero target setting criteria
- Net-zero FI manual
- Net-zero how-to-guide



Technical Development

- Methods
- Net-zero target-setting tool
- Portfolio neutralization
- Validation and integration of IEA NZ 2050 scenario

Engagement

- Road testing process
- Webinars
- 1:1 support
- Recruitment of first movers
- Public consultation
- EAG management

Target Validation

- Development of target-validation resources (e.g. submission form, etc.)
- Pilot validation of road test companies
- Official validation of first adopters

Communications

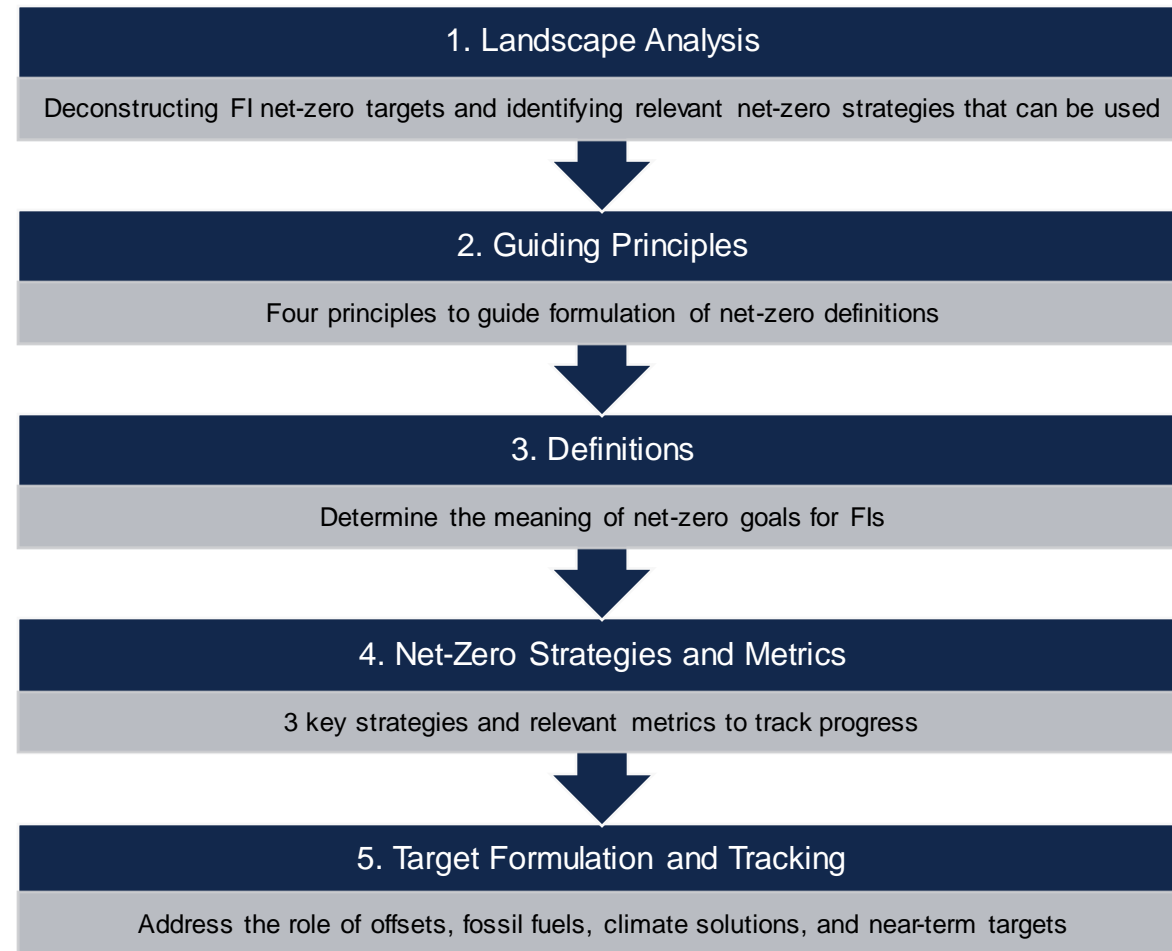
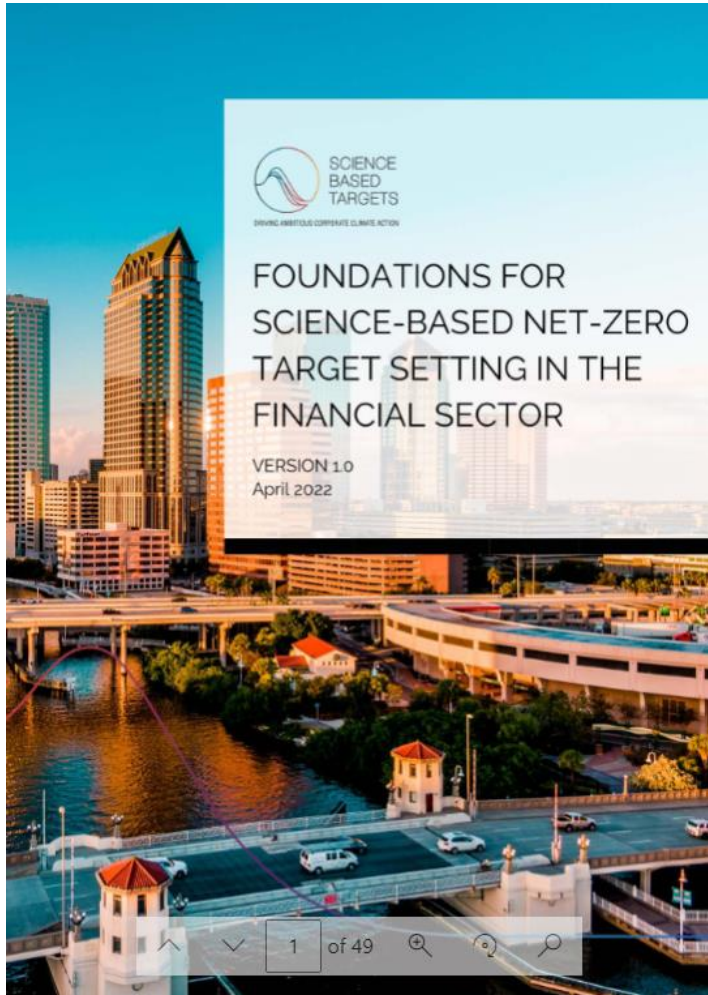
- Media presence
- Social media drumbeat
- Blogs
- Case studies
- Newsletters



NET-ZERO FOUNDATIONS FOR FINANCIAL INSTITUTIONS

Net-Zero Foundations

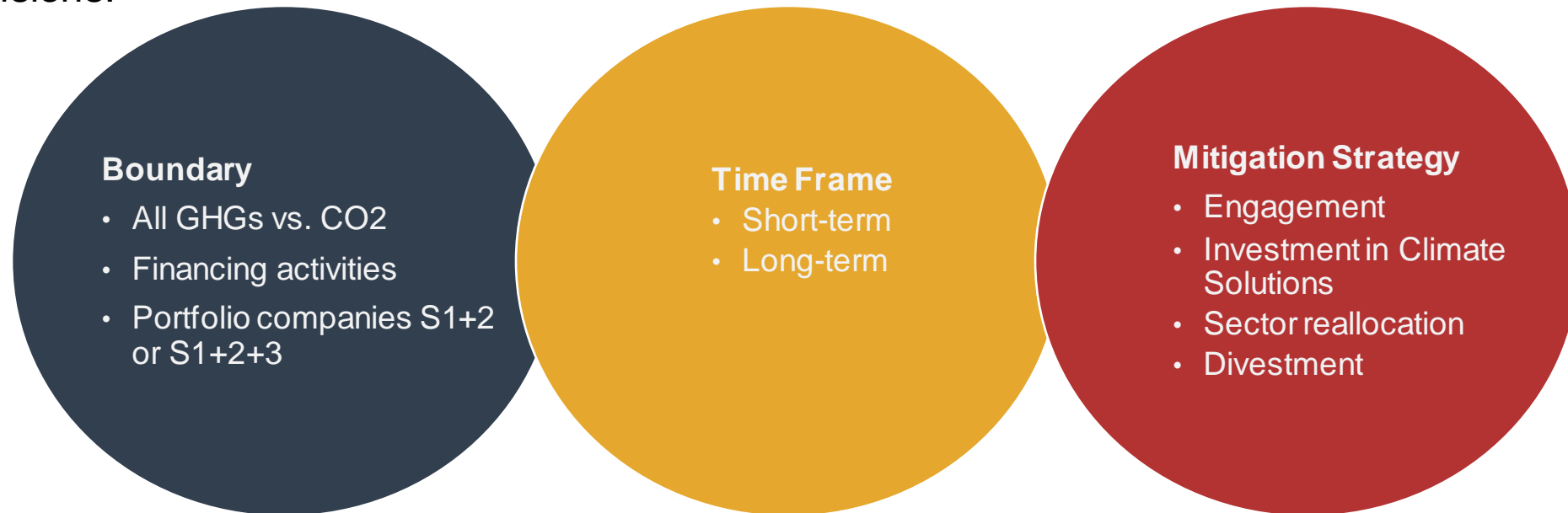
Net-zero foundations covers five key topics relevant for setting the basis of a net-zero target-setting standard



The Net-Zero Landscape

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

A closer look into financial sector net-zero targets shows that targets often differ across three key dimensions:

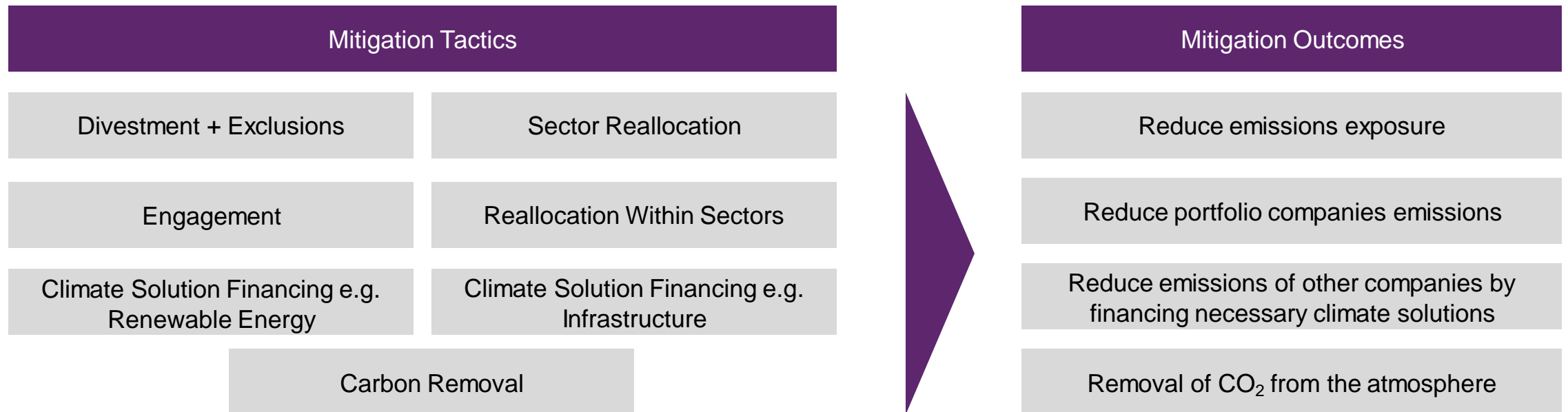


These variations make it difficult to compare goals, assess progress, and evaluate the credibility of FIs' efforts to achieve net-zero.

Mitigation Tactics

How do financial institutions intend to neutralise the impact of their activities on the climate and support global net-zero goals?

FI mitigation strategies usually consist of various combinations of tactics that can lead to different outcomes for FIs, but also for society and the climate



Guiding Principles

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

Principle 1: All relevant operational and financing activities, and scope 1, scope 2, and scope 3 GHG emissions (which should cover portfolio companies' scope 1, 2, and 3 emissions) should be aligned with global net-zero goals

Completeness

Science-Based
Ambition

Principle 2: In accordance with the most recent climate science and best practices, FIs should transition and align their financing activities to net-zero in line with pathways that achieve the goal of the Paris Agreement to limit warming to 1.5°C with no or low overshoot, and the Sustainable Development Goals

Principle 4: The mitigation strategy used by an FI should promote the financing of decarbonization efforts along appropriate sector pathways while also financing the climate solutions necessary for a net-zero economy.

Decarbonisation and
Climate Solutions

Real Economy Impact

Principle 3: FIs should leverage their abilities to influence and engage other actors as well as focus their financing activities to help achieve economy-wide decarbonization and a just transition, and not simply reduce portfolio exposure to GHG emissions

Defining Net-Zero

Net-zero definition should clarify whether the goal is for individual FIs to “achieve net-zero” within their own portfolios or to contribute to achieving global net-zero goals via its lending and investment activities.



Global Net-Zero Goal

anthropogenic emissions of GHGs are balanced by anthropogenic removals over a specified period



Net-Zero Definition for FIs




For FIs to be consistent with the global goal of reaching net-zero emissions, and the net-zero principles, two conditions must be met:

- align all financing with pathways that limit warming to 1.5°C with no or limited overshoot, and
- neutralize residual emissions through the financing of activities that permanently remove an equivalent amount of atmospheric carbon dioxide.

The conditions for FIs to make claims of “achieving” a state of net-zero or reaching net-zero “alignment” are largely dependent on the methods and metrics FIs use to track progress towards these goals which will be finalized as part of the wider net-zero standard development process.

Strategies and Metrics

Overview of potential net-zero strategies and metrics currently used by FIs

Net-Zero Strategy	Claims	Metric Types
<p>1. Portfolio Emissions </p>	<p>Net-zero claims are based on measuring and tracking emissions associated with financing activities i.e. reducing financed emissions along relevant sector pathways and financing emission removals to achieve net-zero portfolios</p>	<ul style="list-style-type: none"> • Absolute Portfolio Emissions (tCO₂e) • Portfolio-Wide Intensity, e.g., Weighted Average Carbon Intensity (tCO₂e/revenue) • Sector-Based Physical Intensity (e.g., tCO₂e/MWh)
<p>2. Portfolio Alignment </p>	<p>Net-zero claims are based on assessing the relative level of net-zero alignment of their financing activities i.e. reaching a state where all portfolio companies achieve net-zero</p>	<ul style="list-style-type: none"> • Binary Target Measurement • Implied Temperature Rise • Capacity-Based Metrics
<p>3. Portfolio Contribution </p>	<p>Net-zero claims are based on shifting financing toward technologies needed for the real economy to reach net-zero emissions i.e. reaching a state where all financing contributes towards achieving a net-zero economy</p>	<ul style="list-style-type: none"> • Internal Carbon Price • Green Metrics (e.g., Taxonomy or Revenue Share)

The Role of Carbon Credits

- Following the precedent of the corporate net-zero standard, the purchasing of carbon credits should not be used by FIs to claim net-zero. However, FIs have an important role in the financing of carbon removal solutions which should be reflected in net-zero targets.

Corporate Net-Zero Standard Precedent

- **Transition to Net-Zero:** Purchase carbon credits as optional compensation

- **At Net-Zero:** Neutralize residual emissions via permanent removal of equivalent amount of CO₂

Financial Institutions

- **Transition to Net-Zero:** FIs can support market development via direct investment in carbon removal projects.

- **At Net-Zero:** How should FIs think about neutralization: at the company level or the portfolio level?

- How FIs can approach neutralization of unabated financed emissions across asset classes, sectors, and portfolio company value chains:
 - Portfolio balancing: balance positive and negative financed emissions through financing of carbon removal activities
 - Individual company neutralization: support portfolio companies to neutralize their own residual emissions and achieve net-zero status

Fossil-Fuel Financing

How should fossil-fuel financing be addressed in net-zero targets?

- More than 80% of survey respondents agreed that financial institutions should explicitly include fossil fuel reduction targets as part of their net-zero targets
- While SBTi works on resolving a detailed oil and gas sector target-setting method, the 'disclose, transition, and phase-out' approach is intended to guide FIs' net-zero target formulations



FIs start by **disclosing** all fossil-fuel related financing activities. Distinguish between status quo and transition activities

Engage with fossil-fuel companies to adopt net-zero targets and action plans, with divestment for companies that are unable or unwilling to **transition** in line with net-zero pathways

A final **phaseout** of financial support to existing coal assets by 2030 and to existing oil and gas assets by 2040, for all companies that are not on credible transition pathway

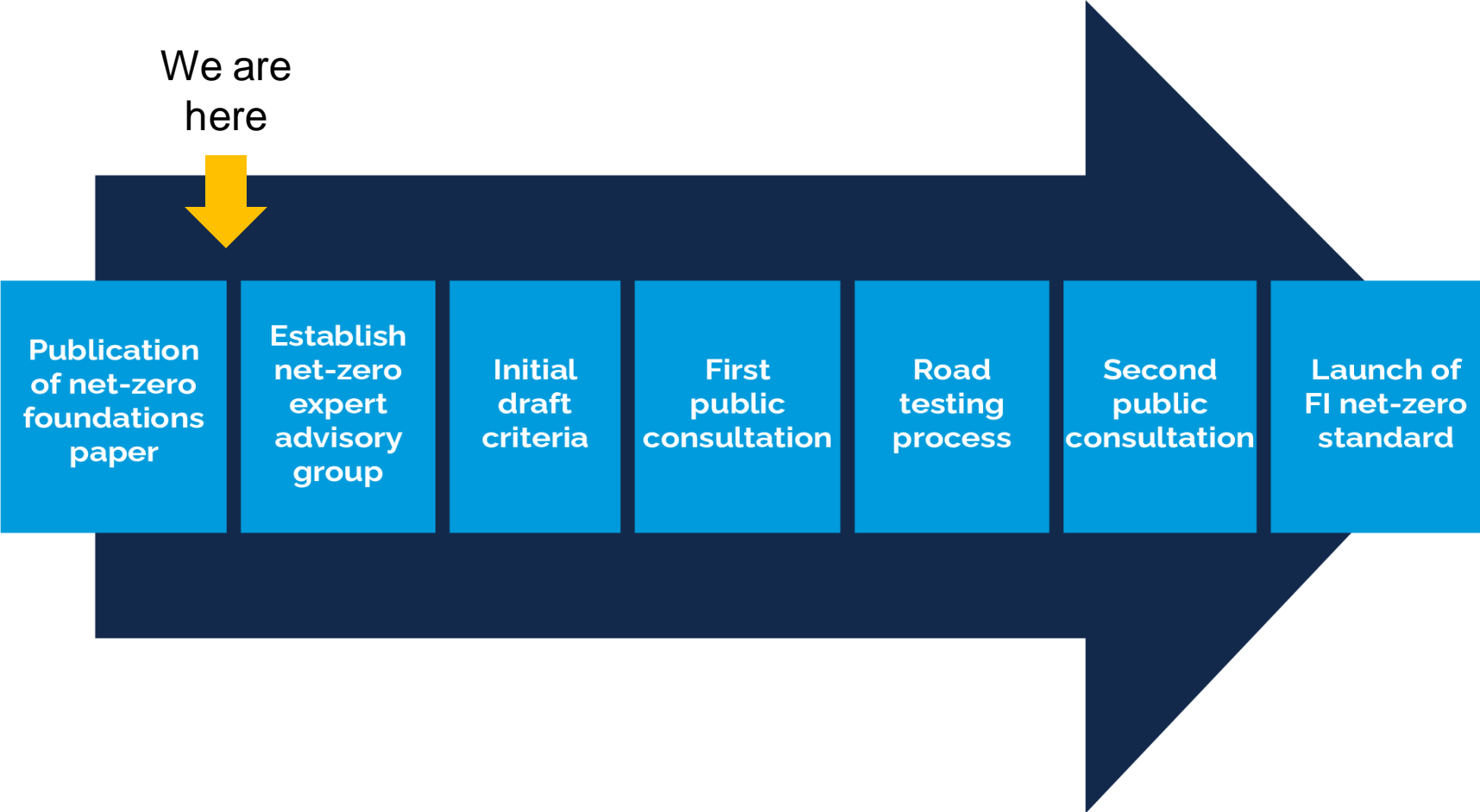
- **Definitions:** How should the net-zero definition and mitigation strategies apply to different types of FIs? How can different types of financing activities be captured in the boundary of a net-zero target?
- **Climate Solutions:** What is the role of climate solutions in net-zero targets, specifically as they relate to metrics and how the rate of climate-solution financing could be tied to science-based scenarios?
- **Net-Zero Claims:** What are the conditions that an FI needs to meet to claim that they are aligned with global net-zero goals?
- **Interim Targets:** How should the near-term target setting framework for FIs evolve to ensure that it is fully consistent with the net-zero target framework?



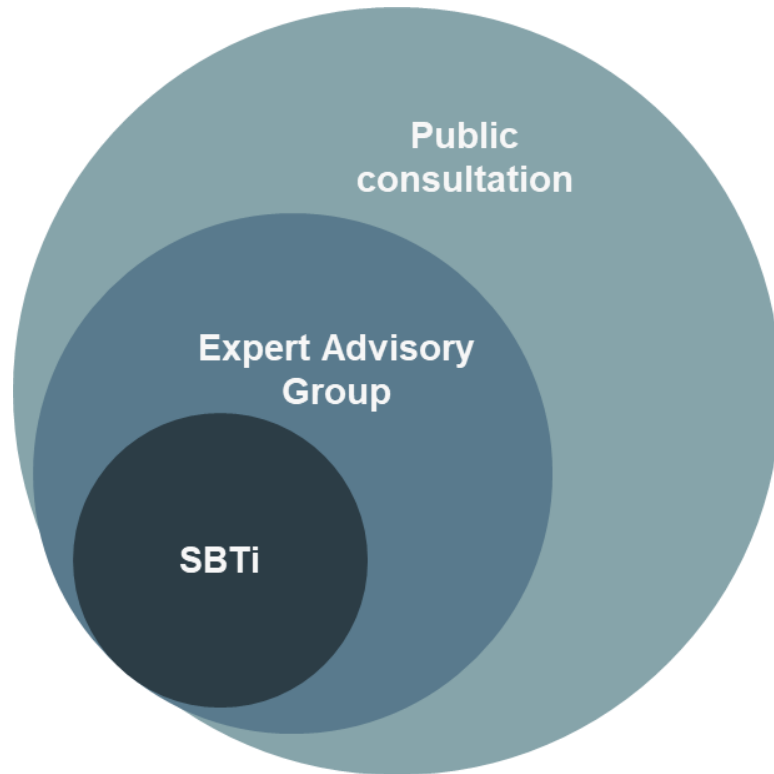
NEXT STEPS – GET INVOLVED

Net-Zero Standard Development Process

The First Step in the Standard Development Process



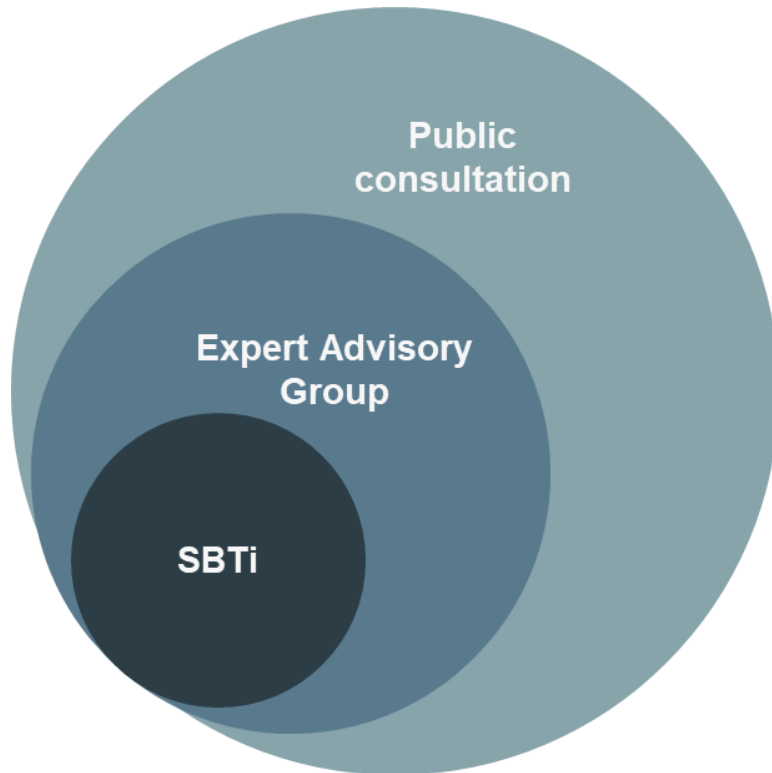
Net-Zero Standard Development Process



- The SBTi is following a balanced, transparent, and inclusive stakeholder process to develop the Net-Zero standard,
- The SBTi will convene an **Expert Advisory Group** with balanced representation from stakeholders to provide expert advice and direction throughout the development of the criteria;
- Two phases of public consultation have been included to gather feedback from a wider range of stakeholders
- Throughout the development process, the SBTi is engaging on a regular basis with our permanent advisory groups (TAG, SAG, etc.);
- Decisions are being developed through **building consensus** and all outputs are subject to comprehensive and rigorous reviews by stakeholders.

Net-Zero Expert Advisory Group

Open Application Process



SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Application form: Net-Zero for Financial Institutions Expert Advisory Group

Thanks for your interest in applying to the SBTi's net-zero expert advisory group (EAG) for financial institutions. Please consult the EAG terms of reference for an overview of the EAG responsibilities and the selection criteria used to evaluate applications:

<https://bit.ly/38lk47a>

Please complete the survey below to express your interest.

[Apply](#) now to join the EAG



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Q & A

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