



SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

SBTi FINANCIAL SECTOR AND TCFD REPORTING GUIDANCE

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EXECUTIVE SUMMARY

THE WHY

Climate risks and opportunities to financial institutions

Financial Institutions (FIs) can identify and manage climate-related financial risks and opportunities through the adoption of relevant frameworks on risk disclosure and science-based targets. By implementing the SBTi-FI guidance to set science-based targets on financed emissions and adopting the TCFD recommendations to identify and disclose climate risks hotspots within portfolios, FIs can define credible Paris-aligned climate ambition and enable immediate emissions reductions and long-term climate action, climate-resilient development and financial resilience.

THE WHAT

Complementary frameworks to enhance the climate action and reduce reporting

The TCFD recommendations focus on the climate risks and opportunities an FI, its portfolios and underlying assets are exposed to – considering climate impact from ‘the outside-in’. The SBTi-FI guidance considers climate impact from ‘the inside-out’ – using backward-looking emission-based metrics to quantify financed emissions alongside forward-looking target-based metrics (GHG targets) to identify carbon intensive holdings and evaluate alignment to 1.5°C plans or pathways. SBTi-FI enables an FI to use GHG metrics to define rigorous, credible and meaningful portfolio decarbonization targets. TCFD recommendations support an FI to contextualize GHG metrics and targets within broader physical and transition risks considerations.

Together, both frameworks enable an FI to augment climate data and enhance consistency of climate action across the business.



THE HOW

Step-by-step guide and lessons learned

This document contains suggested pathways for FIs who want to adopt either or both frameworks. Interviews with several early adopters of these frameworks revealed common challenges encountered along the implementation journey, along with corresponding solutions. This document presents the insights shared by early users within a change management framework to highlight where across an organization's mindset, structures and patterns, critical levers for change exist, which can facilitate successful implementation of these guidance documents.

An FI will benefit from implementing both the SBTi-FI framework and the TCFD recommendations

FIs can enhance the identification, assessment, management and monitoring of the impact of climate change acting on and arising from financing activities. Setting credible and meaningful decarbonization targets that are anchored in detailed climate-related financial disclosures enables an FI to articulate its Paris-aligned climate mitigation commitments and action plans to the market and to operationalize its climate action strategies through coherent and coordinated activities across the organization.

“When it comes to our decarbonization roadmap and targets, a lot of it is centered around our science-based target. It is hence also core both for the strategy and for targets and metrics when we think about the TCFD. It helps make sure we have a strategy around the different risks, particularly the transitional risks and getting good data from portfolio companies.”

- Julia Wikmark, Head of EQT AB Sustainability, EQT

ABOUT THIS DOCUMENT

The purpose of this document is to guide FIs through the process of committing to and implementing the TCFD and the SBTi-FI frameworks. This document details the overlaps between the frameworks and further describes the harmonization inherent in setting credible science-based targets and preparing robust climate-related risk and opportunity disclosures.

The intended users of this document are FIs worldwide who are considering adopting the SBTi-FI and/or TCFD frameworks, including universal banks, asset managers, asset owners and mortgage real estate investment trusts. It is targeted at board and executive level management, investment managers, risk professionals, ESG professionals, operations teams and CFOs.

This document provides a step-by-step guide for FIs that have:

- 1) No existing alignment with either framework.
- 2) Committed to the SBTi but are not disclosing in line with the TCFD.
- 3) Disclosed in line with the TCFD but not committed to the SBTi.

This document can inform users how to identify and assess the impact of climate change on and from their portfolios, and support users to manage those impacts.

In creating this document, five FIs across banking, private equity, and asset management were interviewed, with geographical representation across China, Korea, the United Kingdom and Sweden to understand what factors contributed to the early adoption of the SBTi-FI target framework alongside TCFD-aligned disclosures. Findings from these interviews were supported by an extensive literature review.





THE WHY

CLIMATE RISKS AND OPPORTUNITIES FOR FINANCIAL INSTITUTIONS

Climate change presents risks and opportunities to FIs. Actively considering the materiality of physical and transition climate-related risks supports an FI's ability to anticipate the impact on financial indicators such as its cash flow forecasts, asset and investment valuations, credit default rates, risks of financial asset impairment, stranded assets, capital expenditure, budgetary needs, write offs, early retirement of existing assets, cost of capital or finance, portfolio rate of return and many more depending on an FI's business model. The identification and management of climate-related risks and opportunities can be supported through the adoption of frameworks that provide instruction on setting science-based targets and disclosing climate-related financial risks.

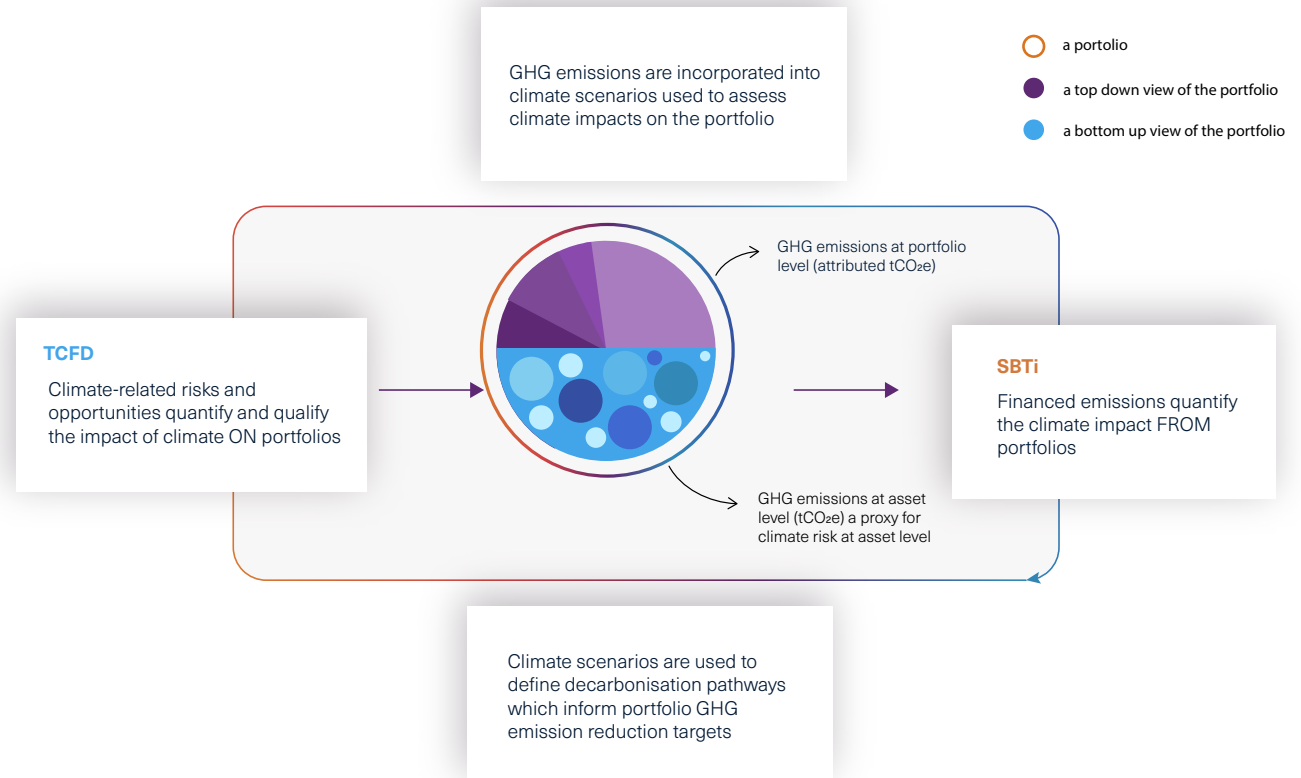
The central role of the financial sector in responding to the urgent need to alter the planet's climate trajectory is recognized in the Paris Agreement. It contains language in Article 2.1(c) on "making finance flows consistent with a pathway towards low greenhouse gas (GHG) emissions and climate-resilient development." FIs often do not have direct control over GHG emissions, however they do have influence over real economy actors through providing capital to companies responsible for generating GHG emissions. It is thus critical that FIs drive Paris-aligned systemic decarbonization by leveraging their shared influence and taking responsibility for aligning incentives and eliminating barriers to emission reductions in the real economy.

Common standards have emerged that enable FIs to quantify the GHG emissions associated with financed activities and understand their exposure to negative financial impacts of climate change on portfolios i.e. climate impacts. These financial impacts arise from financing assets that are exposed to physical impacts of climate change and/or transition risks in the global transformation to a net-zero economy.



THE RELATIONSHIP BETWEEN CLIMATE-RELATED RISKS AND FINANCED EMISSIONS

To limit the physical impacts of climate change and stay on track to meet the goals of the Paris Agreement and Glasgow Climate Pact, GHG emissions must drop immediately, halve this decade and reach net-zero before 2050. Physical risk and transition risk are not independent of each other—efforts globally to limit warming through reduction of emissions in the real economy will reduce physical risk but increase transition risk through higher market, technology and regulatory costs.



The figure above shows the relationship between the impacts of climate change on portfolios (defined as climate-related risks and opportunities in this document), and the quantification of financed emissions (emissions generated through investment/lending activities, defined as ‘portfolio climate impact’ in this document).

The measurement of financed GHG emissions is used to quantify the generation of emissions from an FI’s financing activities. Absolute GHG emissions measurements are a proxy to gauge an FI’s exposure now and in the future to climate-related transition risks within its portfolios. Investees/borrowers with carbon intensive operations may have fewer options to decarbonize and may therefore be more impacted by transition risks. Once a portfolio’s emissions are measured, FIs can credibly build and follow Paris-aligned decarbonization pathways. GHG emissions are also key inputs to performing scenario analysis on plausible future emissions pathways and implied carbon prices, enabling a range of estimates on forward-looking transition risk exposure alongside physical impacts.

This document focuses on the overlaps and complementary nature of two ongoing initiatives within the financial sector. Both initiatives support FIs in taking climate action through setting SBTs on their investment/lending activities and disclosing climate-related risks and opportunities within their portfolios and across their operations. The subsequent chapters describe how FIs can benefit from applying both frameworks:

The Science Based Targets initiative

The Science Based Targets initiative (SBTi) is a global body enabling businesses to set ambitious emissions reductions targets in line with the latest climate science. The SBTi's goal is to accelerate companies across the world to support the global economy to halve emissions before 2030 and achieve net-zero before 2050. More than 3000 companies across 70 countries and 15 industries have set or committed to set targets. In October 2020, the SBTi released [guidance](#) for FIs to set science-based targets (SBTi-FI).

The Task Force on Climate-related Financial Disclosures

The Task Force on Climate-related Financial Disclosures (TCFD) aims to deliver consistent financial disclosures addressing climate-related financial risk. This is delivered through a voluntary framework of 11 recommended disclosures (the TCFD recommendations). The TCFD recommendations support consideration of climate-related risks, opportunities across an FI's financing activities to enable more informed investment decisions and better pricing of risks.



It is recognized that the TCFD recommendations will take different forms within different markets as they are codified by regulators and standard setters. Reference to the TCFD recommendations throughout this document are intended to include these extensions beyond the TCFD's original form. The United Kingdom, New Zealand and Canada are the first countries to have legislated TCFD-aligned reporting for large businesses and FIs, while many others have signalled intentions to follow. Proposals from the [U.S Securities and Exchange Commission \(SEC\)](#) and the [European Financial Reporting Advisory Group \(EFRAG\)](#) would make company climate reporting mandatory and are supported by development of standards from the [International Sustainability Standards Board \(ISSB\)](#). The SBTi champions these developments and has produced this document to make the case for science-based targets to be used together with these TCFD-aligned reporting frameworks.

The requirement from some governments and regulators for financial institutions to disclose climate-related risks and opportunities in line with the TCFD recommendations, such as by the UK's FCA, includes the request for provision of forward-looking information on climate strategy and transition plans. Transition plans detail how an institution will realise its climate-related commitments and should include tangible real-economy decarbonisation objectives and actions to provide credibility and accountability to net-zero commitments. The Glasgow Financial Alliance for Net Zero ("GFANZ") released a [best practice guidance note](#) in November 2022 to support financial institutions' efforts to develop and implement net zero transition plans.

COMPLEMENTARY FRAMEWORKS TO ENHANCE CLIMATE ACTION AND REDUCE REPORTING

The TCFD recommendations and the SBTi-FI target setting guidance are complementary frameworks. Together they enhance the assessment, management and disclosure of FIs' exposure to climate-related risks, maximize opportunities for portfolio companies to cut emissions and reduce the climate impact on portfolios. This chapter presents the differences and synergies that exist across the two frameworks, specifically at portfolio-level.

ALIGNING CLIMATE METRICS TO ENHANCE CLIMATE ACTION

The ability of FIs to simultaneously trace the impact of financing activities on the generation or reduction of GHG emissions and the impact of climate on financial exposures allows more effective and efficient progress towards a 1.5°C and net-zero-aligned, resilient future. Quantifying financed emissions and transition risk exposure and setting science-based decarbonization targets on FIs' portfolios enables authentic, credible and meaningful climate commitments and the disclosure of this action in line with the TCFD recommendations.

KEY DIFFERENCES BETWEEN THE FRAMEWORKS

CLIMATE RISK ON THE PORTFOLIO vs CLIMATE IMPACT ARISING FROM THE PORTFOLIO

The TCFD recommendations consider climate impact from 'the outside-in' – focusing on the climate risks and opportunities an FI, its portfolios and underlying assets are exposed to. The TCFD recommendations focus on the identification and management of climate risks and opportunities likely to impact the portfolios and FI more broadly. These include both transition and physical risks.

The SBTi considers climate impact from 'the inside-out' – using backward-looking emission-based metrics to quantify financed emissions and identify carbon intensive holdings. Forward-looking metrics are used to identify the alignment of investees'/borrowers' business models to net zero plans and pathways. These metrics are based on publicly disclosed GHG emissions targets. Two types of forward-looking metrics include (i) SBTi approved targets and (ii) Temperature Scores (GHG emissions targets translated in temperature scores). The SBTi uses both:

- Emissions-based targets to define science-based sectoral decarbonization pathways that manage GHG emissions in line with the Paris Agreement.
- Engagement-based targets to manage a percentage increase in the portion of investees having science-based targets in line with full portfolio coverage by 2040.

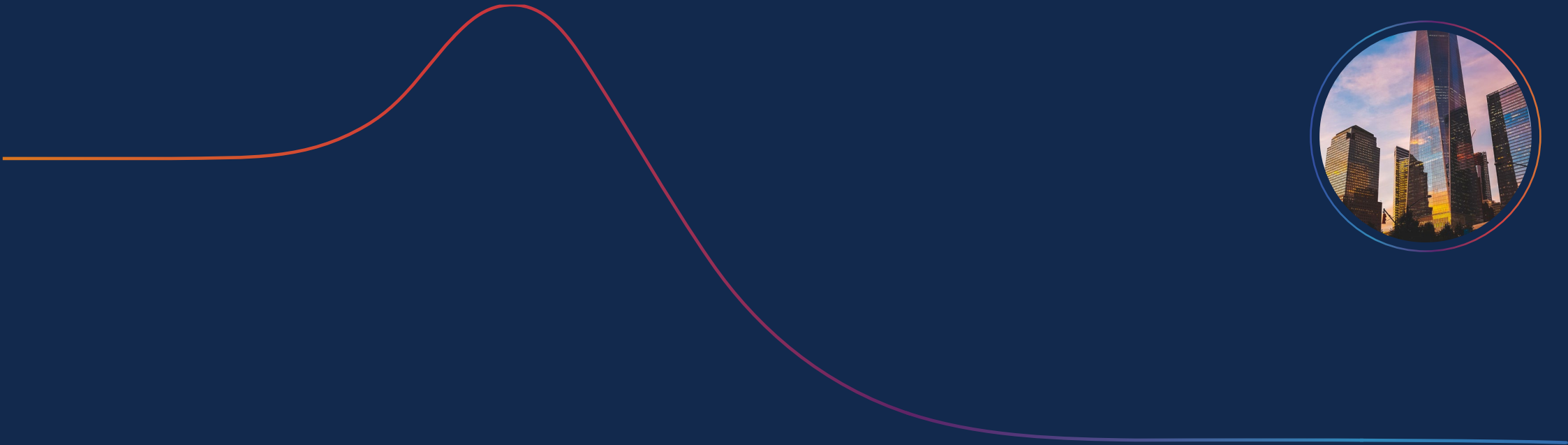
Both frameworks adopt climate related scenarios, but have different focuses:

- The TCFD recommends exploratory scenarios reflecting the outside-in view of the world on an FI. The setting of a science-based target is normative, reflecting the targeting of a preferred future for an FI. Further explanation is given in [Appendix A](#).
- The SBTi-FI framework is prescriptive with respect to 'required' and 'recommended' activities for an FI to conduct when constructing a portfolio-level science-based target. This enables an FI to correctly fulfil the SBTi's validation criteria and obtain external approval from the SBTi, which is internationally recognized. By comparison, the TCFD recommendations are a voluntary disclosure framework and without a common verification body, meaning they can be further open to interpretation by preparers and users of financial statements (although this may be subject to change as regulators and standard setters adopt or align with the TCFD recommendations).

INTERCONNECTIONS BETWEEN THE FRAMEWORKS

The SBTi-FI provides comprehensive instruction for the adoption of GHG emissions targets and metrics to quantify GHG exposure within the portfolio, along with methodologies to define rigorous and meaningful science-based targets. The technical components of the SBTi-FI guidance are mapped to the TCFD pillars in the table on the following page to illustrate interconnections across the TCFD recommendations and the SBTi-FI.

[Appendix B](#) provides supplementary guidance on the relationship between the frameworks.



DETAILED DESCRIPTION OF THE TECHNICAL INTERCONNECTIONS ACROSS THE TCFD AND SBTI-FI FRAMEWORKS

TCFD Pillars	SBTi-FI Technical Components	Description of the Technical Interconnection
Governance	Board's oversight / management's role in establishing: <ol style="list-style-type: none"> I. Financed emissions-related policies (e.g. fossil fuel policy) and disclosure of fossil fuel investments/lending. II. Integration of GHG metrics (backward- and forward-looking) and GHG reduction targets that reflect and align to an FI's investment/funding criteria. III. Use of GHG metrics (at asset- and portfolio- or product-level) and science-based GHG reduction targets to steer capital management practices in line with targets. 	<ul style="list-style-type: none"> • The TCFD recommends oversight from the board and management on climate-related issues, including the establishment of climate-related policies and climate-related target KPIs. <hr/> <ul style="list-style-type: none"> • SBTi-FI recommends the establishment of: <ul style="list-style-type: none"> • A 'phaseout of thermal coal investments' policies within six months from the time of target approval. • Climate governance structures. • Integration of climate change into the investment and/or lending policies (including sector-specific policies). • Executive accountability will typically be necessary for approval and oversight of SBTi-targets submitted, along with the required subsequent annual disclosure of performance against target(s).
Strategy	<ol style="list-style-type: none"> I. Identification of current GHG exposure at asset- and/or portfolio- level and use of GHG metrics and reduction targets for reducing exposure / increasing portfolio alignment to a low carbon economy over short-/mid- (5-15 years) and long-term targets (2050 if aligning to Paris Agreement). II. Use of GHG emissions metrics to quantify impact of GHG exposure on investment/lending strategies and products (e.g. quantification of exposure to emissions intensive assets/sectors/regions). III. Adoption of PCAF-aligned carbon accounting methodologies to calculate the portfolio GHG footprint using emission metrics (WACI, emissions intensity) to identify and assess exposures within the portfolio and set a baseline for emissions-based science-based targets. 	<ul style="list-style-type: none"> • The TCFD recommendations promote the identification of climate-related risks and opportunities across short-, medium-, and long-term horizons, and across the organization's business, strategy and financial planning with the incorporation of scenario analysis to ensure resilience, using GHG emissions as a proxy for assessing transition risk at the asset level. <hr/> <ul style="list-style-type: none"> • SBTi-FI recommends that FIs use PCAF methods to conduct a portfolio-wide financed emissions screening to identify carbon intensive hotspots and data blind spots across the FI's portfolio, enabling visibility of GHG exposures at the portfolio, sector, region and asset level. This supports FIs with prioritizing which part of a portfolio to focus on for target setting.
Risk Management	<ol style="list-style-type: none"> I. Adoption of SBTi-instructed asset-class specific methodologies and associated data sets and tools for managing GHG exposure through the use of GHG reduction and/or asset alignment targets (i.e. Sectoral Decarbonisation Approach (SDA), SBTi portfolio coverage, Temperature Rating). II. Integration of GHG metrics and target setting data and tools into investment/lending risk management processes including active ownership, engagement and strategic asset allocation, etc. 	<ul style="list-style-type: none"> • The TCFD recommendations encourage the use of processes to identify, assess and manage climate-related risks and the integration of these processes within the organization's risk-management system. <hr/> <ul style="list-style-type: none"> • SBTi-FI requires FIs to use financed emissions metrics to determine the baseline from which emissions-based SBTs are set and provides a series of asset-class specific methodologies to identify and assess climate impact arising from the portfolio. These are accompanied by asset-class specific requirements and recommendations, tools and data sets for the establishment of emission- or alignment-based targets that then mitigate or manage climate impacts within and arising from the portfolio. • These tools and datasets can be deployed alongside traditional approaches, such as active ownership and strategic asset allocation, to manage physical and transition risks and opportunities associated with holding carbon intensive assets as well as climate impact arising from the portfolio.
Metrics and Targets	<ol style="list-style-type: none"> I. Adoption of PCAF-aligned metrics to: <ol style="list-style-type: none"> 1. Quantitatively assess and track exposure to investee/borrower scope 1, 2 and 3 GHG emissions in line with preferred measurement and reporting preference. 2. Calculate an emissions baseline for the portfolio. 3. Inform investment/lending decisions 4. Monitor decarbonization against baseline. II. Adoption of SBTi-FI instructed targets to manage GHG exposure across portfolios. 	<ul style="list-style-type: none"> • The TCFD recommends the adoption of GHG targets and metrics to disclose scope 1, 2 and 3 GHG emissions (at the organizational level) including the disclosure of an FI's scope 3, category 15 (i.e. the investees' or borrowers' scope 1 and 2 emissions). The TCFD also recommends the monitoring of performance against climate-related risk and opportunity targets. <hr/> <ul style="list-style-type: none"> • The SBTi-FI presents instructions for the use of financed emissions (scope 3, category 15) accounting metrics (backwards-looking metrics) alongside asset-alignment metrics (forward-looking metrics) to define a series of emissions- and engagement-based targets specifically for the portfolio. • SBTi-FI requires the quantification of backward- and forward-looking metrics against adoption of short-, mid- and long-term targets, aligned to the Paris Agreement, which can then be monitored and measured. SBTi-FI also requires that FIs set decarbonization targets on scope 1 and 2 emissions and recommends the setting of targets on scope 3, categories 1 – 14 emissions.



STEP-BY-STEP GUIDE AND LESSONS LEARNED

This section presents a step-by-step guide to support implementation and reflections from early adoptors of the TCFD and SBTi-FI frameworks on the lessons learned.

STEP-BY-STEP GUIDE

The diagram on the next page presents a step-by-step guide which can be referenced by users, where the user has:

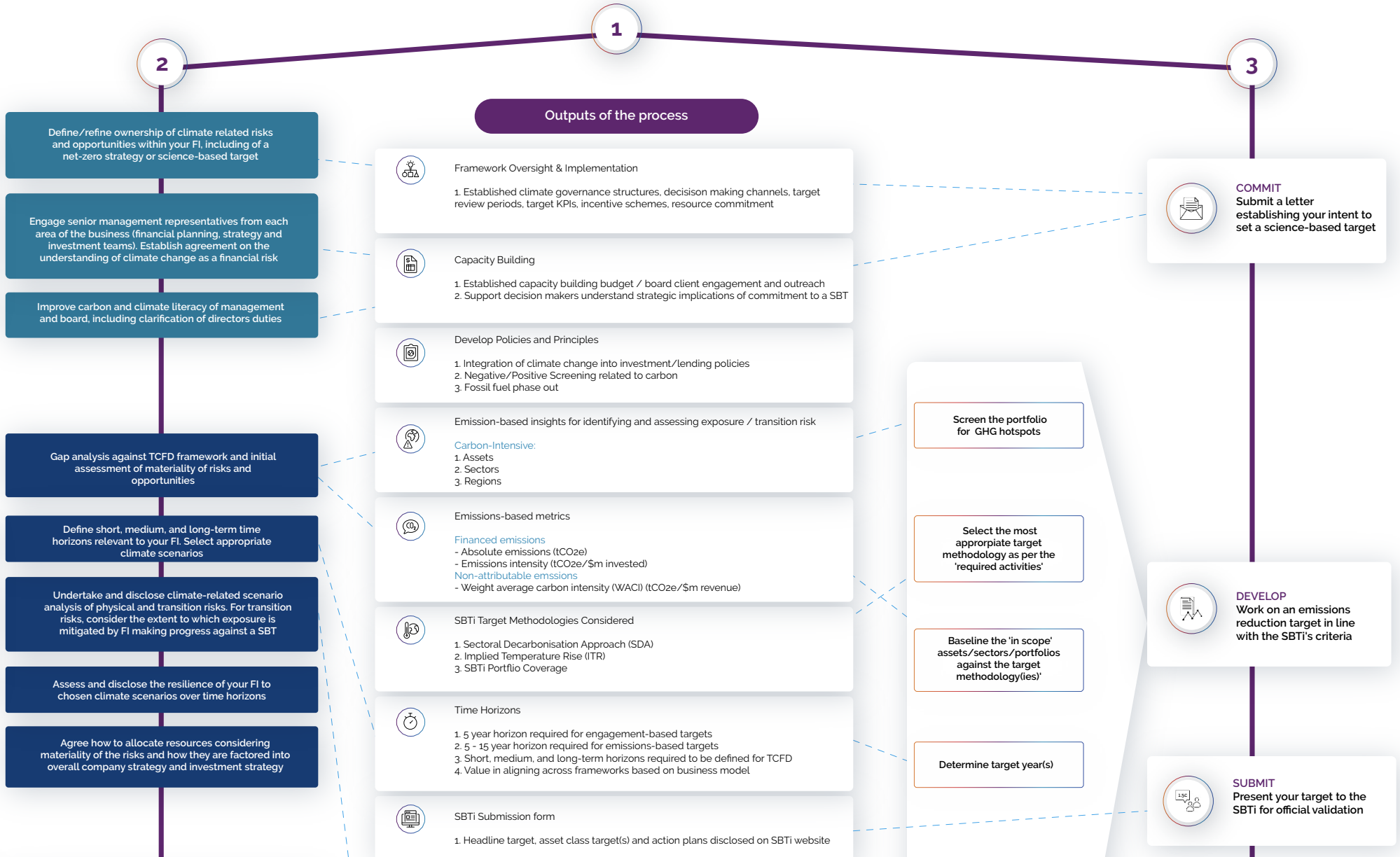
- 1) No existing alignment with either framework.
- 2) Committed to SBTi but are not disclosing in line with the TCFD.
- 3) Disclosed in line with the TCFD but not committed to the SBTi.

The diagram presents the core steps with respect to implementing each of the respective frameworks, as well as highlighting the natural overlaps between key steps and decision-making elements. It is not intended to replace detailed consideration of both the TCFD recommendations or the SBTi-FI guidance.

To use the step-by-step guide, select your start point 1), 2) or 3) based on existing level of maturity and follow the steps in sequence towards integrated disclosure. Blue dashed lines throughout indicate which elements would benefit from dual consideration.

GOVERNANCE

STRATEGY



1

2

3

Outputs of the process

- Define/refine ownership of climate related risks and opportunities within your FI, including of a net-zero strategy or science-based target
- Engage senior management representatives from each area of the business (financial planning, strategy and investment teams). Establish agreement on the understanding of climate change as a financial risk
- Improve carbon and climate literacy of management and board, including clarification of directors duties

- Gap analysis against TCFD framework and initial assessment of materiality of risks and opportunities
- Define short, medium, and long-term time horizons relevant to your FI. Select appropriate climate scenarios
- Undertake and disclose climate-related scenario analysis of physical and transition risks. For transition risks, consider the extent to which exposure is mitigated by FI making progress against a SBT
- Assess and disclose the resilience of your FI to chosen climate scenarios over time horizons
- Agree how to allocate resources considering materiality of the risks and how they are factored into overall company strategy and investment strategy

- Framework Oversight & Implementation**
 - Established climate governance structures, decision making channels, target review periods, target KPIs, incentive schemes, resource commitment
- Capacity Building**
 - Established capacity building budget / board client engagement and outreach
 - Support decision makers understand strategic implications of commitment to a SBT
- Develop Policies and Principles**
 - Integration of climate change into investment/lending policies
 - Negative/Positive Screening related to carbon
 - Fossil fuel phase out
- Emission-based insights for identifying and assessing exposure / transition risk**
 - Carbon-Intensive:**
 - Assets
 - Sectors
 - Regions
- Emissions-based metrics**
 - Financed emissions**
 - Absolute emissions (tCO₂e)
 - Emissions intensity (tCO₂e/\$m invested)
 - Non-attributable emissions**
 - Weight average carbon intensity (WACI) (tCO₂e/\$m revenue)
- SBTi Target Methodologies Considered**
 - Sectoral Decarbonisation Approach (SDA)
 - Implied Temperature Rise (ITR)
 - SBTi Portfolio Coverage
- Time Horizons**
 - 5 year horizon required for engagement-based targets
 - 5 - 15 year horizon required for emissions-based targets
 - Short, medium, and long-term horizons required to be defined for TCFD
 - Value in aligning across frameworks based on business model
- SBTi Submission form**
 - Headline target, asset class target(s) and action plans disclosed on SBTi website

- Screen the portfolio for GHG hotspots
- Select the most appropriate target methodology as per the 'required activities'
- Baseline the 'in scope' assets/sectors/portfolios against the target methodology(ies)'
- Determine target year(s)

COMMIT
Submit a letter establishing your intent to set a science-based target

DEVELOP
Work on an emissions reduction target in line with the SBTi's criteria

SUBMIT
Present your target to the SBTi for official validation

RISK MANAGEMENT

Develop and disclose engagement plans, climate impact strategies, and decision making tools

Develop and disclose transition plan

Disclose the process for identifying, managing, and prioritising risks. Describe how it is integrated into your FI's overall risk management



Action plans

1. engagement plans / action plans for decarbonization/ increasing portfolio coverage

Define an action plan for realising targets



SBTi Target Metrics for measuring and managing

1. Physical-activity based emissions metrics
2. Public GHG targets / Temperature scores
3. SBTi approved targets



SBTi Target Management Methodologies

1. Active Ownership
2. Engagement
3. Strategic Asset Allocation
4. Divestment



Other TCFD relevant cross sector metrics

e.g.

1. Amount and extent of assets or business activity vulnerable to physical risks
2. Proportion of executive management remuneration linked to climate considerations

METRICS AND TARGETS

Develop complimentary metrics and targets, including for physical risks

Monitor progress against metrics, targets and transition plan. Consider linking performance to remuneration



COMMUNICATE
Announce your target and inform your stakeholders

DISCLOSURE



Disclose:
Report company wide emissions and progress against targets on an annual basis

- 1 Review TCFD guidance for disclosure based on sector and FI type
- 2 Describe connections between SBT and strategy
- 3 Compile and sign off disclosure

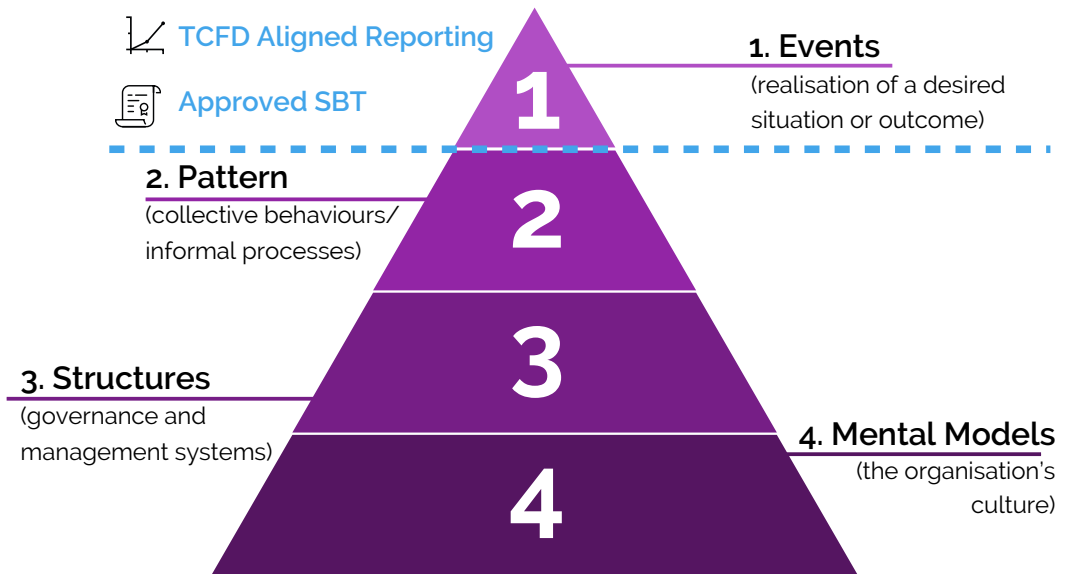


EARLY ADOPTERS LESSONS LEARNED

Implementing the TCFD recommendations and setting a science-based target requires an engaged leadership, allocation of resources and an understanding that climate change presents financial risks to FIs. This chapter presents an overview of how to implement the SBTi-FI and TCFD recommendations, leveraging key insights on common challenges and lessons learned from early users of the frameworks.

A sample of FIs across the globe were interviewed and asked to reflect on their experiences of implementing the SBTi-FI framework and/or the TCFD recommendations. Qualitative analysis conducted on the interviewee responses revealed the existence of common challenges encountered along the journey to understanding and managing climate risks and portfolio climate impact, as well as solutions which may be applied.

The common themes were mapped against the 'iceberg model' – an analysis tool which shows the holistic nature of change management. It details three layers of 'invisible' activity that sit beneath a visible issue or event. The four levels of the iceberg model are defined as follows:



By diagnosing critical components within the mental models, structures and patterns that exist beneath an event, it is possible to articulate the mechanisms that enable the realization of a desired event, in this case - the implementation of the SBTi-FI framework and disclosure in line with TCFD recommendations.



CHALLENGE FOR FIs:

FIs are increasingly being asked by their investors "What are you doing about climate risk and your climate footprint?"

MENTAL MODELS

SOLUTIONS FROM EARLY ADOPTERS:

Adopting the TCFD and SBTi-FI frameworks ensures a holistic and rigorous approach when defining strategic climate action and impact. This creates value for both FIs and their holdings. FIs can use the positive financial implications of climate work, amplified through messaging from leaders of the institutions such as the CFO to build the collective, internal appreciation that commitment to the frameworks is:

- Strategic: Climate risks and opportunities are intrinsic to broader business and portfolio strategy formulation.
- Value creating: Integration of climate risk and high-quality disclosure drives value creation and protection for both the FIs, investees and borrowers.
- Internationally recognized: The SBTi-validated target provides readily understood ambition when communicating with a range of internal and external stakeholders.



"Our validated SBTi targets are a demonstration of how we are driving climate action across our portfolio. This is key to our response to clients as they move away from 'whether to do sustainability' to 'how do you do sustainability'. Through the context of our emissions and targets, we can ask our investee companies what they are doing to move towards a net-zero world."

- Hannah Simons, Head of Sustainability Strategy, Schroders

STRUCTURES

CHALLENGE FOR FIs:

When implementing the frameworks, FIs encountered challenges with the ability to host and analyze useful, reliable data.

Structures

(governance and management systems)

3

SOLUTIONS FROM EARLY ADOPTERS:

To effectively collect and manage a variety of data points and address data gaps, FIs should:

- **Establish an integrated data management system.** Adopt, integrate and monitor the use of different datasets prescribed by the two frameworks to consolidate the range of datapoints related to GHG metrics and climate risks/opportunities.
- **Deploy / develop practical tools:** Provide portfolio managers with tools that enable effective engagement with companies. Through engagement, FIs can enable the disclosure of required data inputs at the asset level, improving GHG and climate risk data quality and coverage at the portfolio level.
- **Ensure auditability of process and output:** The system underpinning the data collection and management process promotes adherence to the seven principles of effective reporting within the [TCFD guidance](#) e.g. is the process balanced, consistent, reliable, comparable? Could the process be repeated if subject to an external audit?

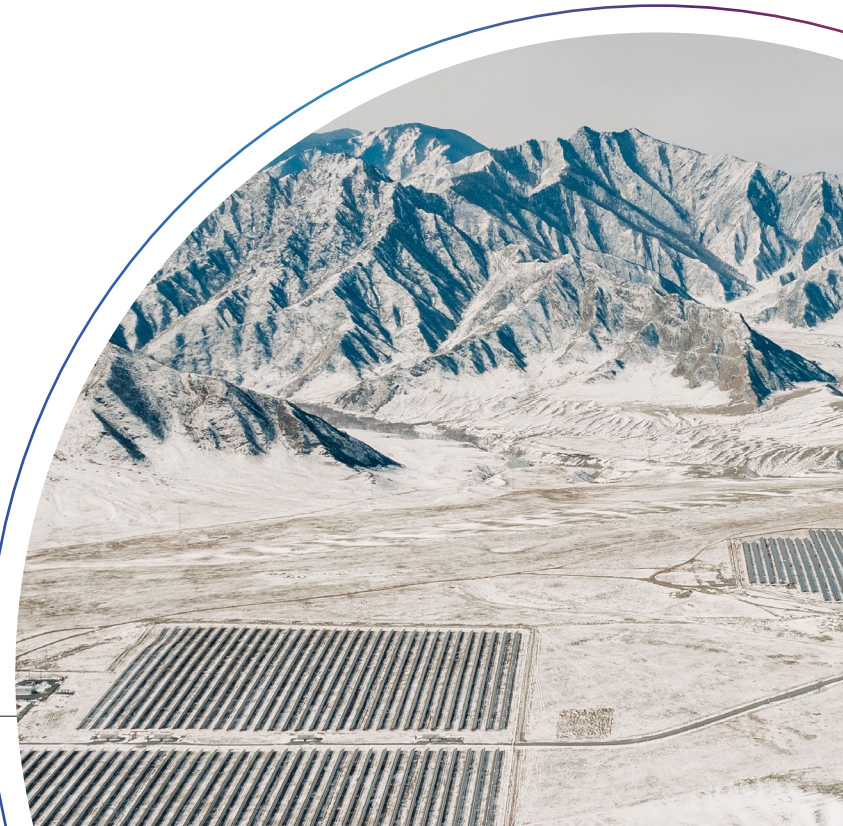
“So we can monitor our SBTi commitment effectively, all the tools our investors use, and data availability, have had to be improved significantly. We have developed a net-zero dashboard to allow us to assess the implied temperature score at group, mandate and investment desk level so that we can monitor our progress. In order to drive our net-zero strategy, the Sustainable Investment team has developed the climate engagement toolkit to support fund managers to engage effectively with their investee companies. Engagement has now been enshrined in our analyst and fund manager KPIs, with individuals being assigned responsibility.”

- Andy Howard, Global Head of Sustainable Investment, Schroders



“SBTi and TCFD have forced us to look at our data and drive consistency across the business. Sustainability cuts across the investment desks, so you must make sure that everything is joined up.”

- Jack Bowles, Associate Investment Director, Sustainability, Schroders





CHALLENGE FOR FIs:

FIs may experience a high degree of uncertainty with respect to understanding exactly how to meet the targets and what action can be taken to make the necessary changes within their portfolios.

SOLUTIONS FROM EARLY ADOPTERS

To create internal structures that enable FIs to lean into the ambiguity of how to implement science-based targets, FIs can consider:

- Coordinating climate action across the business: Adopting and realizing these frameworks require action across the whole business and investment team. The frameworks provide a pulling together force, creating an incentive to invest in data and an engagement infrastructure that connects back to the goals of meeting the targets and managing climate-related risks.
- Assigning appropriate accountability: Those with responsibility to implement the framework strategies and targets should be given accountability for making key decisions around what constitutes feasible climate action.
- Collaboration beyond the organizational boundary: The systemic change required to realize global climate ambition requires collective efforts across geographies and sectors. An individual FI can be transparent that they don't have the complete answer for how to realize mid- to long-term targets and build confidence and competence in defining and operationalizing ideas for how to get there through short-term actions.

PATTERNS

SOLUTIONS FROM EARLY ADOPTERS:

To build internal cohesion, competence and confidence across the myriad of stakeholders responsible for operationalizing the frameworks, FIs can consider:

- Leveraging areas and actors of influence across the business: Identify key stakeholders within the organization with the capability to drive change and build momentum when challenges arise. Such stakeholders can include board members, sustainability committee members and senior investment, strategy and risk managers with climate ambition, competence and influence across the organization.
- Commissioning external support: Emissions baselining and scenario analysis are particular areas of technical complexity. External, third-party support may be required as a mechanism to build internal confidence and capacity in executing these activities. External consultancies can also support.
- Building Climate Literacy: Develop climate literacy through capacity-building sessions across the organization. This can expedite buy-in and generate a shared understanding of the value of these frameworks when engaging with investees or borrowers.
- Harmonizing technical jargon: Harmonize climate and GHG jargon across the frameworks to create one language that the organization can adopt to mitigate complexity and create mutual understanding.

CHALLENGE FOR FIs:

FIs may need to mobilize traditionally siloed parts of the business in a coordinated fashion for successful implementation of the frameworks e.g. risk management, ESG, and investment strategy teams and to reinforce internal efforts with additional third party support.



“We must consider our target always when we do business, we must consider our net zero target when we do a long review or due diligence process for investment. We have responsibility to take care of our figures for our carbon disclosure.”

- Hyesook Moon, Chief Sustainability Officer, KB Financial Group

“Our SBT has created one approach that everyone at the firm has been onboarded to. It is not collectively exhaustive as a framework, but it’s given our teams a clear reference point and hence become more anchored in the organization. The more you can simplify and make the connections across the different frameworks the better. And the more we can tie it to real value creation, commercial outcomes, and risk mitigation, the better.”

- Gustav Magnusson, Sustainability Project Manager, EQT

“When undertaking our carbon reporting, including against our SBTi commitments, we have used the language provided by the TCFD to shield the broader business from acronym overload. We conduct teach-in sessions with distribution/sales teams and a favourite initial exercise is to clarify the acronyms related to our climate strategy to make it easier to understand. It’s a different language.”

- Jack Bowles, Associate Investment Director, Sustainability, Schroders

Pattern

(collective behaviours/
informal processes)



EVENTS

SUCCESS STORIES FROM EARLY ADOPTERS:

Successful implementation of the SBTi-FI target setting framework and the TCFD recommendations has led to several significant benefits and opportunities for FIs. These successes are described in the quotes below. Key themes include:

- **International Recognition.** Both the TCFD and the SBTi are globally recognized organizations. Their frameworks provide a common reference point during conversations with multiple stakeholders, notably governors, policy makers and investors, who will not need to be familiar with the technical details to readily value the quality, credibility and rigor of climate action that aligning with these initiatives represents.
- **Innovation.** Incorporating climate action metrics and targets into lending and investing decision-making enables FIs to identify opportunities to develop new products, including transition / climate solutions products. By coordinating perspectives, experiences, ideas and skills from across the organization to unify implementation efforts of these frameworks, innovation can be realized, not just with operationalization of these endeavours but also commercial opportunities.



“It was great to have international recognition that the SBTi comes with, it is like an international certification and was the first time in Korea and even in an Asian country. We were very proud to get the approval. It is very useful and helpful to communicate with our government and many stakeholders, policy makers and investors.”

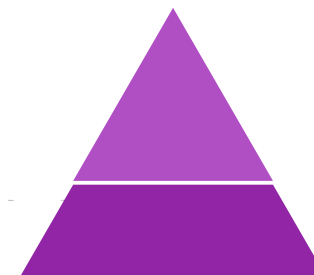
- Hyesook Moon, Chief Sustainability Officer, KB Financial Group

“Upcoming legislation and our climate change strategy is not separate to our broader ESG strategy. Adopting the SBTi and TCFD frameworks has helped us in investor conversations relating to climate change risks, carbon footprints, net-zero ambitions etc. Our commitment to SBTi has helped build confidence in our strategy.”

- Caroline Löfgren, Chief Sustainability Officer, Hg

“As the investment team has become more literate, we have extended our suite of climate products and solutions to additional asset classes. They are the key decision makers, and having them on board, and literate on the opportunities the net zero transition is key to driving integration.”

- Hannah Simons, Head of Sustainability Strategy, Schroders



Events ¹

(realisation of a desired situation or outcome)

SUMMARY

Climate change presents risks and opportunities to FIs that require new approaches to governance, strategy, risk management and use of metrics and targets. The TCFD and SBTi-FI frameworks are complementary and support the identification, assessment and management of these risks and opportunities to enhance the financial resilience of FIs.

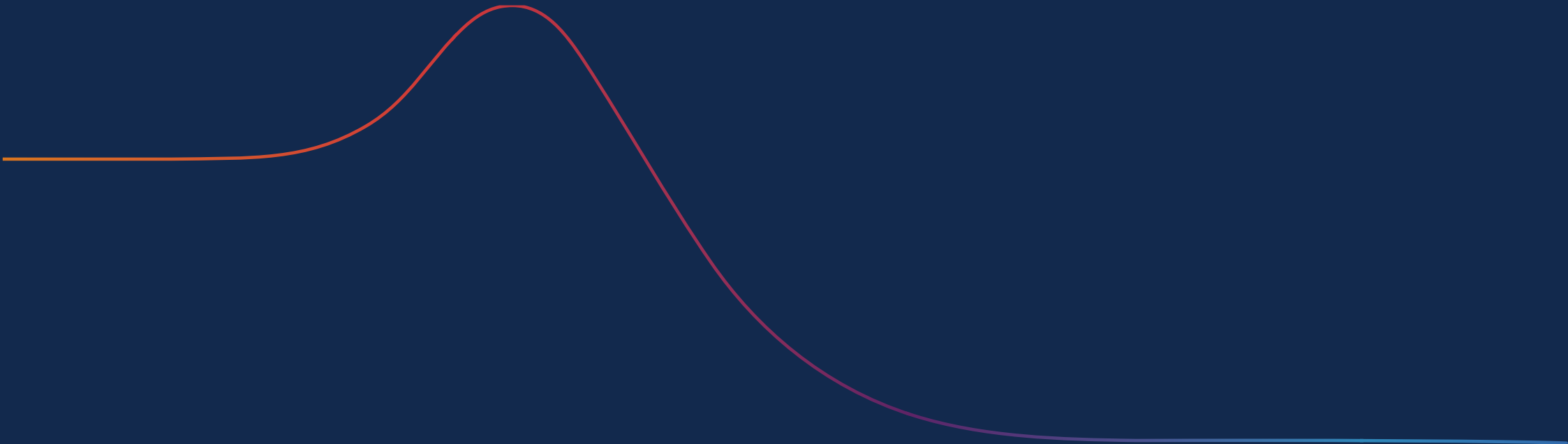
- The anchor for making use of one or both of these frameworks should be consensus among senior decision makers that climate change presents material financial risk to an FI and actors in the real economy and that these can be managed, in part, through the setting of verified science-based targets for portfolios. Collaboration between departments is crucial to facilitating the adoption of these frameworks and they should be led by those at the top of the business, such as the CFO and CEO.
- Start by assessing climate action maturity within the [step-by-step process](#) including the climate and carbon literacy of key decision makers.
- Create confidence within the organization about the credibility and usability of relevant data by establishing an integrated data system and deploying tools for portfolio managers to consider climate risks and opportunities within the decision-making process.
- Use climate-related financial disclosures to evidence in a standardized and transparent way that material financial risks are being actively managed, and that a credible transition plan is anchored in a rigorous and meaningful science-based target.
- Address uncertainty with respect to how targets will be met by breaking down silos across the organization. Assign accountability and promote collaboration beyond the organizational boundary and commission external, third-party support where necessary.



“EQT funds have eight different investment strategies and investments in 200+ companies and 1000+ real estate assets. During the holding period we work actively with the strategic direction of the companies and assets, which we typically hold over two to five years. When looking at climate risks to our investments, we need not only consider our own holding period but also the roadmap for the future owners as part of our exit strategy.”

- Julia Wikmark, Head of EQT AB Sustainability, EQT

APPENDIX A SCENARIO ANALYSIS



SCENARIO ANALYSIS

TERMINOLOGY ACROSS FRAMEWORKS

WHAT IS A SCENARIO?

A scenario is a “what if” narrative to challenge strategic thinking and highlight the possible outcomes and implications of potential drive future developments.

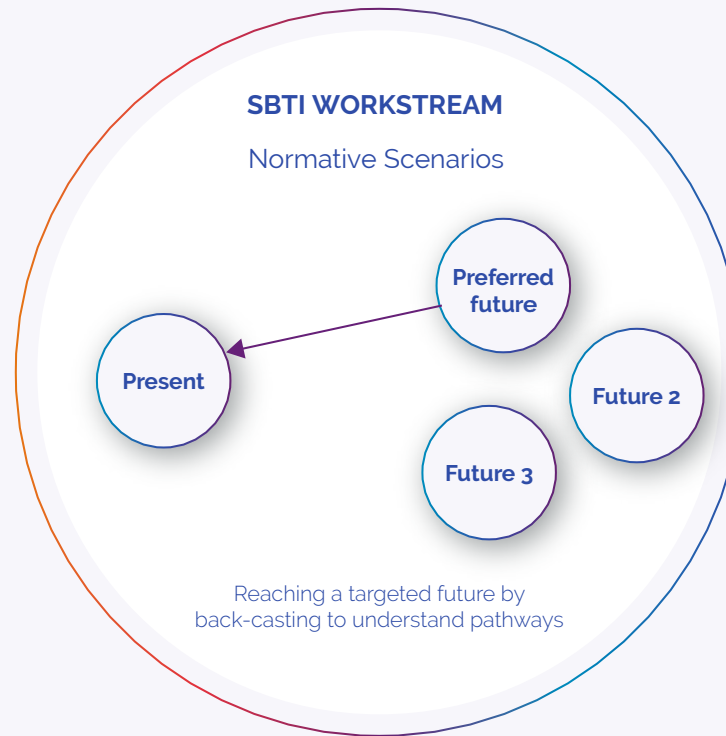
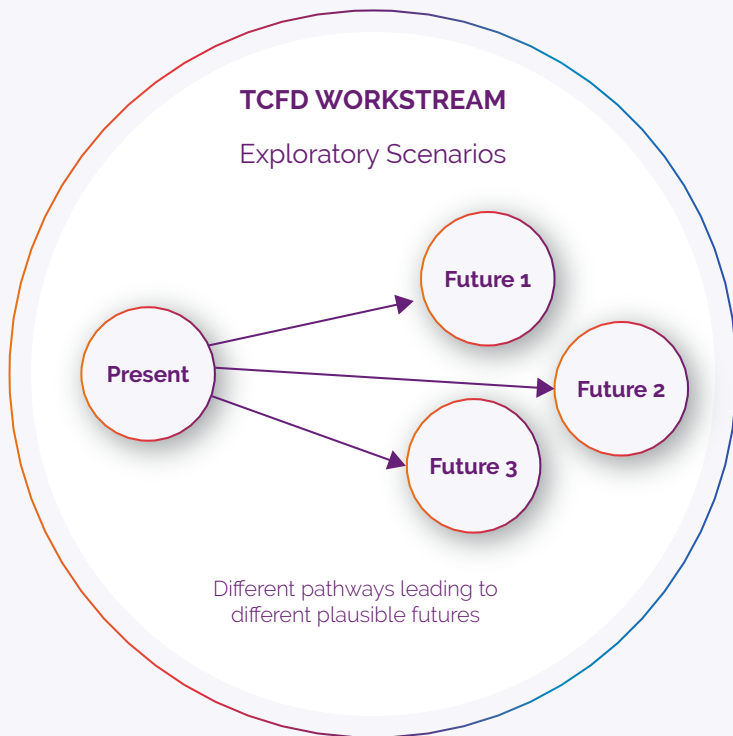
TYPES OF SCENARIOS

Exploratory scenarios: Describe a diverse set of plausible future states. These scenarios are then used to assess potential climate related risks and uncertainties and test the resilience of various . Exploratory scenarios are typically relied upon for TCFD-aligned scenario analysis.

Exploratory scenarios for climate-related risks and opportunities often rely on publicly available scenarios, which describe transition pathways, physical climate change impacts and economic indicators. These scenarios are underpinned by an ensemble of models representing a different future view. The greater the number of ensemble members, the more robust statistical estimates of uncertainty[IPCC, 2013a].

The TCFD provides [guidance](#) on the use of scenario analysis.

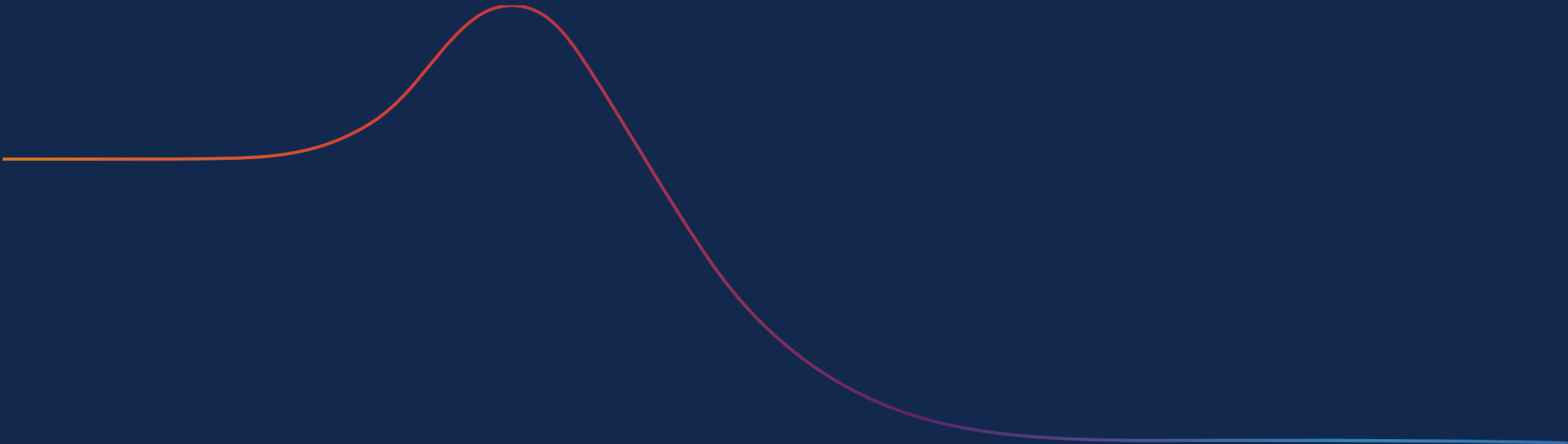
Normative scenarios: Used to plan for a preferred future. These start with a preferred future (such as 1.5°C) and seek the necessary decisions required to achieve the preferred future from the present. The SBTi uses normative scenarios for an FI's emissions reduction trajectory. The SBTi pathways for alignment with the Paris Agreement are determined based on apportioning a fair share of global GHG emissions pathways.



Both approaches complement each other and can be used together to cover the impact of future external forces largely outside an FI's direct control (exploratory) and the positioning of an FI within that world based on its decarbonization strategy and progression towards a science-based target (normative).

APPENDIX B

FURTHER INTERCONNECTIONS



The table below presents a detailed overview of technical interconnections between the TCFD recommendations and the SBTi-FI guidance, with respect to defining and disclosing climate action. For users who are not familiar with the TCFD recommendations, this table facilitates understanding of how the TCFD pillars apply to portfolio-level considerations:

- Level 1 outlines the four pillars of the TCFD recommendations.
- Level 2 provides additional detail to the description of each pillar.
- Level 3 contextualises the TCFD recommendations across each pillar, within the context of portfolios.
- Level 4 provides key technical components of the SBTi-FI framework that relate to the various TCFD recommendations, across each of the four pillars.

LEVEL 1 TCFD OVERVIEW	LEVEL 2 TCFD: FIRM- LEVEL RECOMMENDATIONS	LEVEL 3 TCFD: PORTFOLIO- LEVEL RECOMMENDATIONS	LEVEL 4 SBTi-FI ALIGNED TO TCFD RECOMMENDATIONS
<p>Governance</p> <p>Governance of climate-related risks, and opportunities.</p>	<p>a) Board oversight.</p> <p>b) Management's role in assessing and managing climate-related risks and opportunities.</p>	<p>Board's oversight / management's role in establishing:</p> <ul style="list-style-type: none"> i) Climate-related investment policies (e.g. fossil fuel policy). ii) Climate-risk appetite and profile. iii) Oversight of performance against climate-risk related targets. 	<p>Board's oversight / management's role in establishing:</p> <ul style="list-style-type: none"> i) Financed emissions-related policies (e.g. fossil fuel policy) and disclosure of fossil fuel investments/lending. ii) Integration of GHG metrics (backward- and forward-looking) and GHG reduction targets that reflect and align to an FI's investment/funding criteria. iii) Use of GHG metrics (at asset- and portfolio or product-level) and science-based targets to steer capital management practices in line with targets.
<p>Strategy</p> <p>Identification of actual and/ or potential climate-related risks, opportunities on business, strategy, and financial planning.</p>	<p>a) Climate-related risks and opportunities identified over short-, medium- and long term.</p> <p>b) Impact of climate-related risks and opportunities on the business, strategy and financial planning.</p> <p>c) Resilience of the organization's strategies against climate risk scenarios</p>	<ul style="list-style-type: none"> i) Identification of climate-risk and opportunity exposure within investment/loan portfolios over time horizons. ii) Identification of climate-related risks and opportunities in investment or lending strategies and products for various asset classes. iii) Onboard climate scenario analysis into risk management platforms to quantify impact on portfolio valuation under different scenarios. 	<ul style="list-style-type: none"> i) Identification of current GHG exposure at asset- or portfolio- level and use of GHG metrics and GHG reduction targets for reducing exposure or increasing portfolio alignment to a 1.5°C economy over short-/mid- (5-15 years) and long-term targets (2050 if aligning to Paris Agreement). ii) Use of GHG emissions metrics to quantify impact of GHG exposure on investment/lending strategies and products (e.g. quantification of exposure to carbon intensive assets/sectors/ regions). iii) Use of GHG metrics within climate scenario analysis e.g. changes in price on carbon/ cost of abatement effect transition risks and opportunities across varying time horizons.
<p>Risk Management</p> <p>Identification, assessment, and management of climate-related risks.</p>	<p>a) Process for identification and assessment of climate-related risks.</p> <p>b) Process for managing climate-related risks.</p> <p>c) How processes for identifying, assessing, and managing climate related risks are integrated into the organization's overall risk management.</p>	<ul style="list-style-type: none"> i) Incorporation (and subsequent identification) of climate related risks in traditional investment/lending risk categories (such as credit risk, market risk, liquidity risk). ii) Engagement / exclusion policies for managing climate -related risks in investment/loan book. iii) Integration of climate-related risks into investment/lending risk management process. 	<ul style="list-style-type: none"> i) Adoption of PCAF-aligned carbon accounting methodologies to calculate the portfolio GHG footprint, against specific emission metrics (WACI, emissions intensity) can be used to enable FIs to identify exposures within the portfolio. It is not a requirement for targets that are engagement-based, however it represents good practice and is it a necessary part of emission-based targets because baseline and subsequent emissions accounting is required as a reference point for target measurement. ii) Adoption of SBTi-instructed asset-class specific methodologies and associated data sets and tools for managing GHG exposure through the use of GHG reduction and/or asset alignment targets (Sectoral Decarbonisation Approach (SDA), SBTi portfolio coverage, implied temperature rise) iii) Integration of GHG metrics and GHG target setting data and tools into investment/lending risk management processes including active ownership, engagement, and strategic asset allocation.
<p>Metrics and Targets</p> <p>Metrics and targets used to assess and manage climate-related risks.</p>	<p>a) Metrics used to assess climate-related risks and opportunities in line with strategy and risk management process.</p> <p>b) Firm level scope 1, 2 and 3 GHG emissions and related risks.</p> <p>c) Targets used to manage climate-related risks, opportunities and performance against targets.</p>	<ul style="list-style-type: none"> i) Asset class, investment/lending strategy-level assessment of climate-related risks and opportunities, viewed through industry, geography, average tenor etc. ii) Use of financed emissions metrics in investment and lending decisions and monitoring including provision of WACI for each portfolio (PCAF is recommended as industry best practice for scope 3 category 15 accounting). 	<ul style="list-style-type: none"> i) It is recommended to adopt PCAF-aligned metrics to: <ul style="list-style-type: none"> 1. Quantitatively assess and track exposure to investee/borrower scope 1, 2, and 3 GHG emissions in line with preferred measurement and reporting preference. 2. Calculate an emissions-baseline for the portfolio. ii) Use PCAF-aligned GHG metrics in investment/lending decisions and monitoring of decarbonization against baseline. iii) Adoption of SBTi-FI instructed targets to manage GHG exposure across portfolios.



SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

SBTi-Finance and TCFD Reporting
Guidance | Version 1.1 | January 2023

