

SCIENCE-BASED TARGETS FOR THE FINANCIAL SECTOR

Hugues CHENET

CDP Forum for 2 °C Target — Tokyo — Nov.28th 2018

OUTLINE

- 2° Investing Initiative: Introduction to our organization
- Context: international push for climate-related financial (risk) disclosures
- Science Based Targets initiative for Financial Institutions

GLOBAL THINK TANK FOR SUSTAINABLE FINANCE

- Climate-related metrics, data and tools development and policy research
- Paris, London, Berlin, New York
- Non-for profit, no commercial activities, multi-stakeholder board
- Collaboration on scenario analysis with: Insurance Dept. California, BoE, DnB, ESRB
- Member of the EC High Level Expert Group on Sustainable Finance (drafted ESAs, MIFID)
- Co-chair ISO 14097 (climate-related metrics for the finance sector) with UNFCCC Secretariat
- In charge of methodological developments for SBTi-FI
- Funders (grants): EC, Germany, Switzerland, France, foundations, several financial institutions

Hugues CHENET

- Co-Founder & Non-Executive Director of 2°ii

INTERNATIONAL PUSH FOR CLIMATE-RELATED FINANCIAL (RISK) DISCLOSURES, SCENARIO ANALYSIS AND TARGET SETTING

- French Energy Transition Act, **Article 173** (2015)
- **Paris Agreement** Article 2.1-c (2015)
- Taskforce on Climate-related Financial Disclosures [FSB/**TCFD**] (2017)
- European Union **Sustainable Finance Action Plan** (2018)
- **California Senate Bill No.964** *“Public Employees’ Retirement Fund and Teachers’ Retirement Fund: investments: climate-related financial risk”*(2018)
- **United Kingdom Parliament Environmental Audit Committee** (2018)
- **Bank of England / Prudential Regulation Authority** draft supervisory statement (2018)

A CALL FOR CLIMATE SCENARIO ANALYSIS

Introducing mandatory disclosure related to Paris Agreement target

ARTICLE 173 (2015)

“The exposure to climate-related risks, including the GHG emissions associated with assets owned, and contribution to the international goal of limiting global warming and to the achievement of the objectives of the energy and ecological transition. That contribution will be assessed in particular with regards to indicative targets defined according to the nature of their activities and investments”



SB-964 (2018)

“By January 1, 2020, and every three years thereafter, the board shall publicly report on its analysis of the climate-related financial risk of its public market portfolio, including the alignment of the fund with the Paris climate agreement and California climate policy goals and the exposure of the fund to long-term risks. (...) The board shall include in the reports pursuant to subdivision (c) the methods and results of the board’s engagement related to climate-related financial risk with publicly traded companies that are the most carbon intense, such as utilities, oil, and gas producers, within the fund.”



DISCLOSURE DIRECTIVE (2018)

“Financial market participants shall include descriptions of the following in pre-contractual disclosures: (...) the extent to which sustainability risks are expected to have a relevant impact on the returns of the financial products (...) how the remuneration policies of financial market participants are consistent with the integration of sustainability risks and are in line, where relevant, with the sustainable investment target of the financial product.”

Science Based Targets Initiative



The Science Based Targets initiative mobilizes companies to set science-based targets and boost their competitive advantage in the transition to the low-carbon economy.

PARTNER ORGANIZATIONS



IN COLLABORATION WITH



What is a Science Based Target?

An initiative by



In collaboration with



There is growing investor interest in climate actions

479 investors have committed to climate actions reported on the NAZCA platform, among which Banks, Diverse Financials and Insurance and Real Estate are the most well represented.



Source:

1. NAZCA Investors <http://climateaction.unfccc.int/investors>
2. Who's Acting On Climate Change? Subnational And Non-state Global Climate Action, Data-driven Yale

From climate-friendliness metrics to targets

Numerous metrics exist to inform the climate-friendliness of investments, while target setting frameworks are yet to be defined



Metrics & Standards



UNEP FI, WRI,
2° Investing Initiative



Dutch Platform
Carbon Accounting
Financials



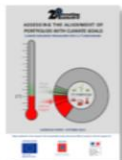
UNEP FI, WRI, 2°
Investing Initiative



NewClimate
Institute and the 2°
Investing Initiative



Target Setting



2° Investing Initiative



SBTi SDA



Target setting is the next challenge for FIs

There are many current initiatives but a critical gap exists on science-based target setting



1. Risk Disclosure

- TCFD
- China-UK and UNEP FI TCFD pilots
- Fiduciary Duty
- CDP Financial Services questionnaire



2. Metrics & Standards

- Dutch Platform Carbon Accounting Financials
- ISO 14097
- PCI
- EBRD
- EQ4



3. Target Setting

- SBTi-FI



4. Taking Action

- Divest-Invest
- CA100+
- Mainstreaming Climate Action

How do SBTs differ for financial institutions?

Existing methods for scope 1 and 2 are already available for FIs. The majority of relevant GHG emissions are in **Scope 3 Category 15-investing and lending activities**.



In addition to reducing GHGs in operations, financial institutions can be evaluated on the level of **contribution to support transition to a low-carbon economy**. The FI framework is intended to enable assessment of the **alignment** of investing and lending portfolios with 2-degree pathways (SBTs).



Purposes of Target-setting Framework

The framework will support over 30 committed financial institutions

Asia

- DGB FINANCIAL GROUP
- Mahindra & Mahindra Financial Services Limited
- Fubon Financial Holdings
- MS&AD Insurance Group Holdings, Inc.
- Sampo Holdings, Inc.
- Tokyo Marine Holdings, Inc.
- T.GARANTİ BANKASI A.Ş.A
- TSKB
- Yes Bank

Oceania

- Australian Ethical Investment
- Bank Australia
- Teachers Mutual Bank
- Westpac Banking Corporation

Europe

- Actiam NV
- Allianz Investment Management SE
- AXA Group
- Bank J. Safra Sarasin AG
- BBVA
- BNP Paribas
- Capitas Finance Limited
- Credit Agricole
- HSBC Holdings plc
- ING Group
- KLP
- La Banque Postale
- London Stock Exchange
- Raiffeisen Bank International AG
- Societe Generale
- Standard Chartered Bank

North America

- MetLife, Inc.
- Principal Financial Group, Inc.

Latin America

- BanColombia SA
- Grupo Financiero Banorte SAB de CV

For more information, visit
<http://sciencebasedtargets.org/companies-taking-action/>

Science-based targets for FIs



SCIENCE
BASED
TARGETS

Method
Developers



NAVIGANT

Stakeholder
Advisory
Group

Expert
Advisory
Group

Organization



SCIENCE
BASED
TARGETS



NAVIGANT



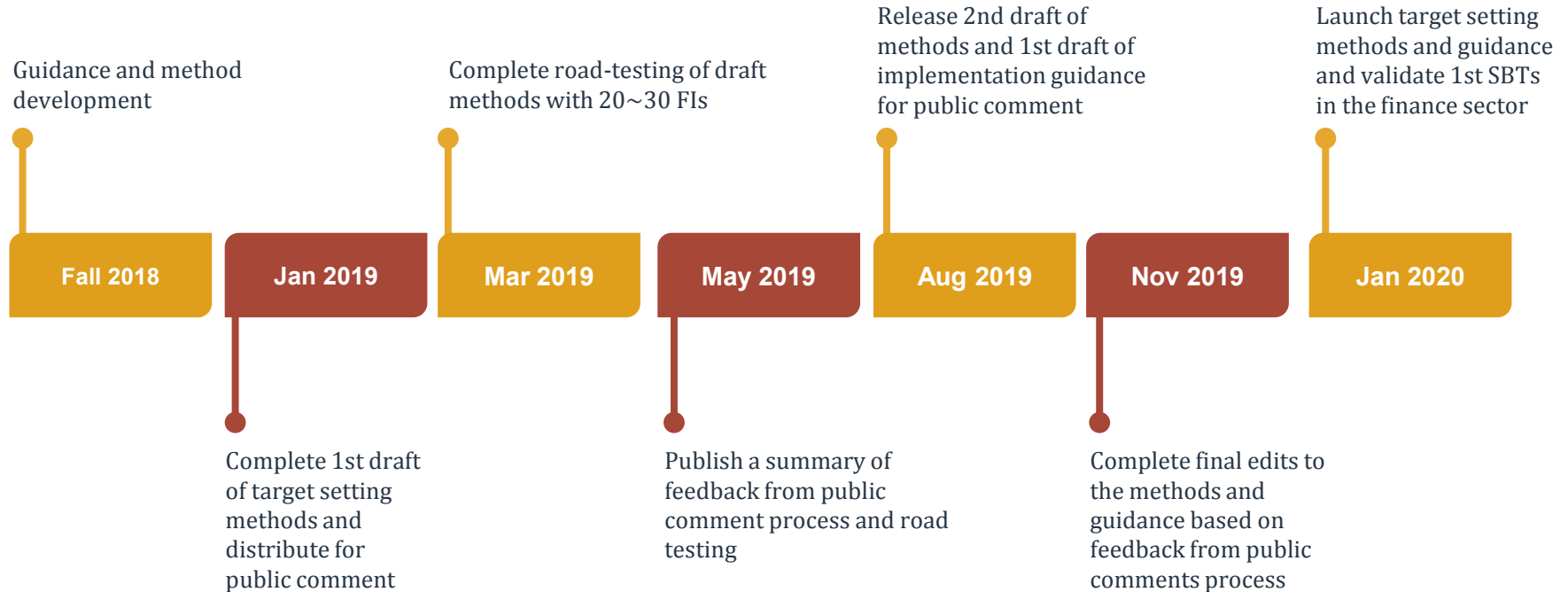
Roles

- Manage method and guidance development process
- Method validation with broader SBT initiative
- Engage with Expert and Stakeholder Advisory Groups

- Method development
- Engagement with Dutch Platform Carbon Accounting Financials

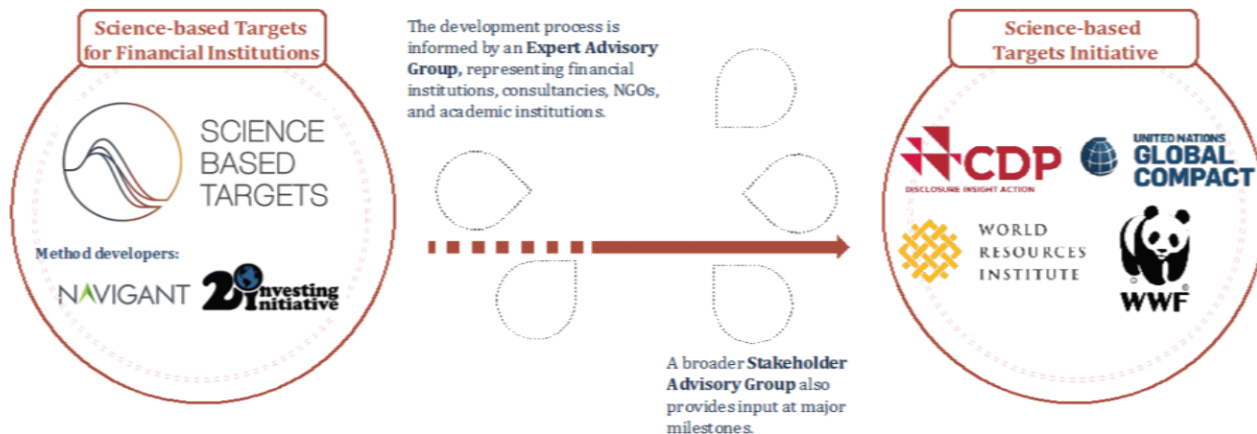
- Method development
- Engagement with ISO 14097, EU HLEG, CA 100+

SBTi for Financial Institutions



The guidance development process will be informed by EAG and SAG members representing diverse geographies and institutions

To ensure **validity and applicability** for financial institutions, the target-setting framework is developed through an **inclusive, multi-stakeholder** process.



Primary Stakeholder Survey Results

The target-setting framework is developed through an **inclusive, multi-stakeholder** process. In February, 2018 we distributed a survey of financial institution's target-setting practices to help inform this process and received **34** individual responses.



27 out of the 34 organizations currently track climate performance.

23 organizations have set targets, including:

- 16** GHG emissions targets
- 6** Renewable Energy targets
- 4** Green Bonds targets
- 9** targets related to environmental impact

Others have set *energy consumption targets* or *made commitment to set a science based target*.

Primary Stakeholder Survey Results

Primary purpose of using SBTs:

12 organizations use SBTs for *strategic asset allocation*

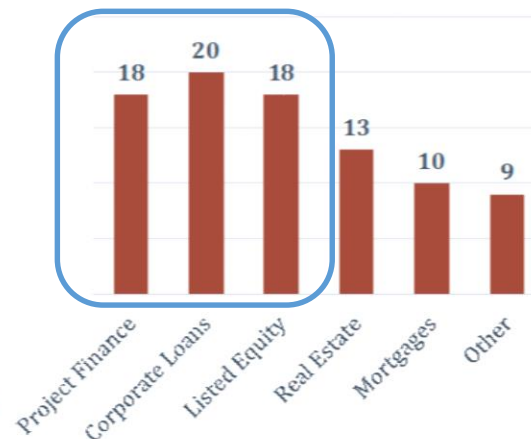
11 for *moral and ethical considerations*

8 for *disclosure and legal compliance*

6 for *product development*

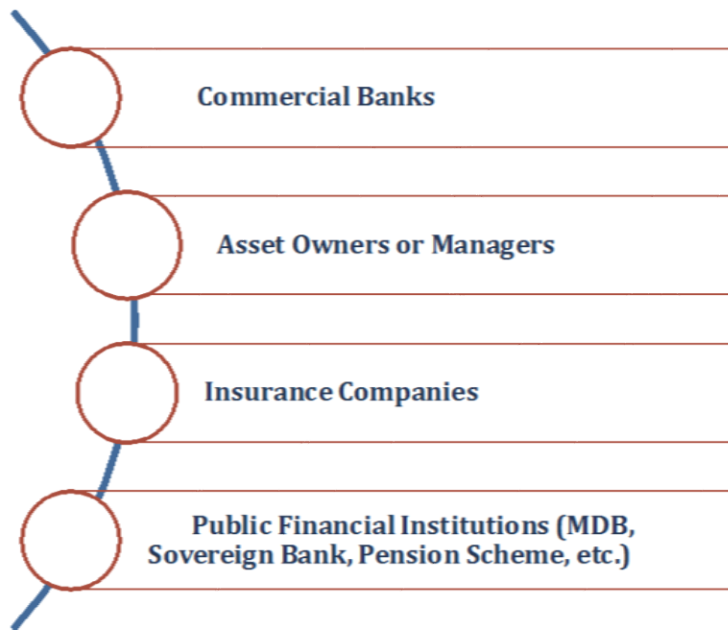
Other purposes include *alignment with best practice, approval and recognition by NGOs, bringing discipline to climate change mitigation and adaptation, customer expectations, shareholder engagement, and helping clients set SBTs.*

Voting for most important **asset classes** to include in the guidance:



Which financial institutions?

Types of Financial Institutions Targeted by the Initiative



Addressing FI and Portfolio Diversity

Portfolios of FIs differ



- > Banks have a relatively large share of loans and mortgages, while pension funds may have a larger exposure to sovereign bonds and listed equity.

Asset classes differs



- > Climate exposure of assets classes (like mortgages and listed equities) differ.



- > Transition of asset classes towards low-carbon differs from e.g. technology perspective



Target setting is proposed per asset class

A target-setting framework should be able to deal with a large variety of asset classes, yet be robust enough to be able to be used by any single FI with various asset classes under management.

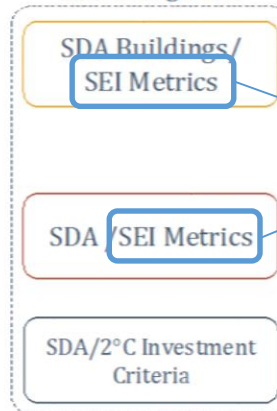
Asset Class Selection and Scope

This project will develop methods at **asset class level**. The five initial asset classes were selected to achieve the broadest relevant and exposure for covered financial institutions. They here do not cover every financial instrument or investment vehicle. The choice of asset classes will be finalized through a participatory stakeholder process that began in February 2018.

Selected Asset Classes



Various Methodologies as Starting Point



SEI Metrics is the methodology underlying the **PACTA online tool**



2 main methodological approaches

Initial methodological approaches to set SBTs

Based on existing work (SDA, SEI, 2°C investing criteria), two methodological approaches evolved. During the course of this project other methods might evolve as well.

1. Emission-based



- > Taking emissions pathways per sector as guidance for target setting per asset class

2. Economic-activity based



- > Taking the economic and technological transition as guidance for target setting per asset class

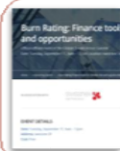
3. Other methods



SBT Framework will consist of several methods per asset class

Alternative Approaches to Target Setting

The SBTi is reviewing a broad range of related methods and is open to additional developers.



Burn Rating: Finance tools for climate risks and opportunities



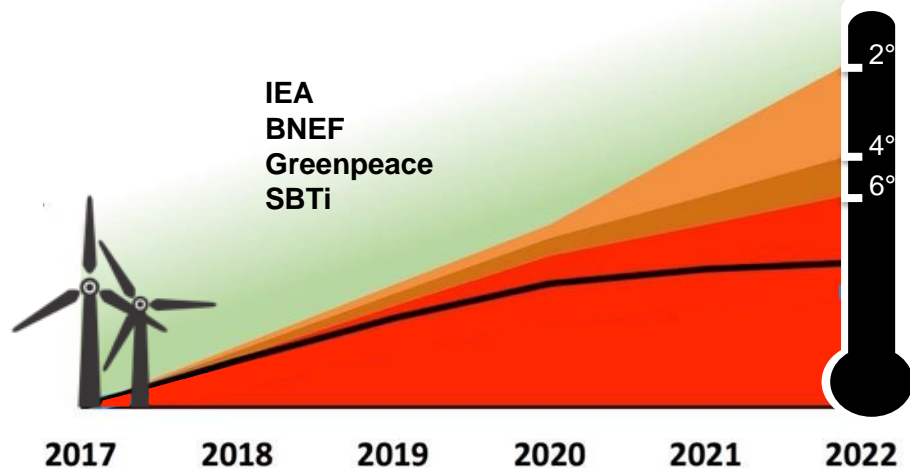
Carbon Impact Analytics assesses the potential of corporate equities and bonds to contribute to a low-carbon economy. Its outputs include measures such as aggregate scope 1, 2 and 3 emissions associated with the portfolio, amount of investment in high- and low-carbon sectors.

**Please get in touch if your organization is developing
asset class-specific target-setting methods**

CLIMATE SCENARIO ANALYSIS

Comparing technology deployment and climate scenarios

Scenarios



Sectors



80-90% of CO₂ emissions associated with an index; 75% of CO₂ emissions in the economy



Existing
assets



Capacity additions /
production forecasts



CAPEX
plans

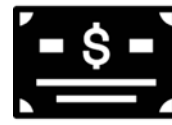


Locked-in
emissions

Metrics



Stocks



Bonds



Funds



Private
equity/loans

10-20% of asset value of indices/funds

Asset classes

CLIMATE SCENARIO ANALYSIS

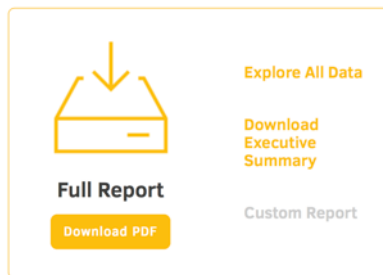
Free tool for investors and supervisors



600 individual users + countries



California (Supervisor)
UK (Supervisor)
Netherlands (Supervisor)
Europe (Supervisor TBC)
Switzerland (Government)
France (Industry federation)
Luxemburg (Industry federation)
World (UNFCCC)



- Equity

Bonds
- Assessed Sector (\$)

Current Exposure

Future Exposure

5 Year Growth Trend

CO₂-Intensity Trend

Company Information

Regional Exposure

Peer Comparison
- Sector

Coal Mining

Technology

Not available
- Scenario

IEA: SDS

Accounting Principle

Ownership

Scenario Geography

Global

Equity Market

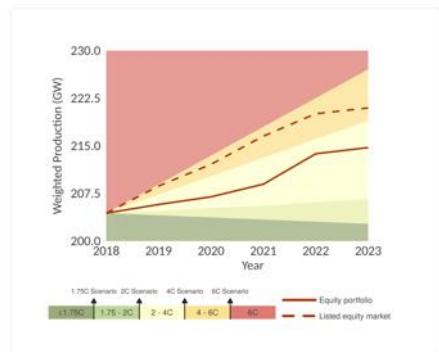
Global

Benchmark Portfolio

Your Aligned Portfolio

Peer Group

Global Funds



CLIMATE SCENARIO ANALYSIS

Supporting science-based target setting at investor and company levels



PORTFOLIO SCENARIO ANALYSIS

Engagement on climate trajectory

Action plans

Portfolio level



Company level



Climate target setting & monitoring

***Merci
de votre attention !***

hugues@2dii.org

Hugues CHENET