



‘SCIENCE-BASED TARGETS’ FOR FINANCIAL INSTITUTIONS

Position Deck + Stakeholder Survey

August 2020



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2°ii is not an investment adviser and makes no representation regarding the advisability of investing in any particular company or investment fund or other vehicle.

The document includes an interpretation of the regulation in Europe and the US based on the regulations and the interpretative guidance, and an analysis of certain claims based on our interpretation of this guidance. This analysis does not constitute a review of legal risks in specific jurisdictions. 2°ii does not make any representation of the potential legal risks faced by specific claims or financial institutions.

The document presents a technical analysis of the draft criteria proposed by the SBTi consortium, based on our knowledge on Feb 11, 2020, as well as the input from a stakeholder survey conducted from February to April 2020. The information and opinions constitute a judgment as at the date indicated and are subject to change. The organization is not responsible for any use that may be made of the information it contains.

Context: 2Dii and the SBT Initiative

In February 2020, the [Science-Based Target Initiative for Financial Institutions](#) released its “*SBT-Finance Target Validation Draft Criteria for Stakeholder Advisory Group Consultation*”.

The document suggest three ‘methods’ to calculate an indicator that can be used as a basis for target setting: the Sector Decarbonization Approach (SDA), the Paris Agreement Capital Transition Assessment (PACTA*) and the SBT Portfolio coverage (engagement with 30% of the investees on SBTs).

The document also outlines a set of preliminary criteria as to what qualifies as a science-based target.

In 2018, WRI, WWF and CDP invited the 2° Investing Initiative (2Dii) to take part to the development of the [Science-Based Target Initiative for Financial Institutions](#) as methodology co-developer with the consultancy Navigant.

After 18 months of collaboration, 2Dii has decided to withdraw from the project due to the inability to agree with the partners on the fundamental principles governing the methodological development and notably the definition of financial institutions' 'impact'.

In February, 2DII provided this deck to present the decision and the current position of the organisation with regard to setting science-based targets and measuring the climate impact of financial institutions. It was intended to advise our stakeholders on our conclusions and understanding.

This document is still intended to open a technical debate in the community of practice and policy-making, as methodological development is an ongoing process of trial and error.

To initiate this process and debate, we have asked our stakeholders for their necessary and important feedback and comments on our reasoning and conclusions. This document takes up our understanding and arguments for the withdrawal and contrasts them with stakeholder feedback.

In total, almost 300 stakeholders downloaded the deck and 58 provided us with their feedback in the survey. The next slides also show the background of the stakeholders and their organisations.

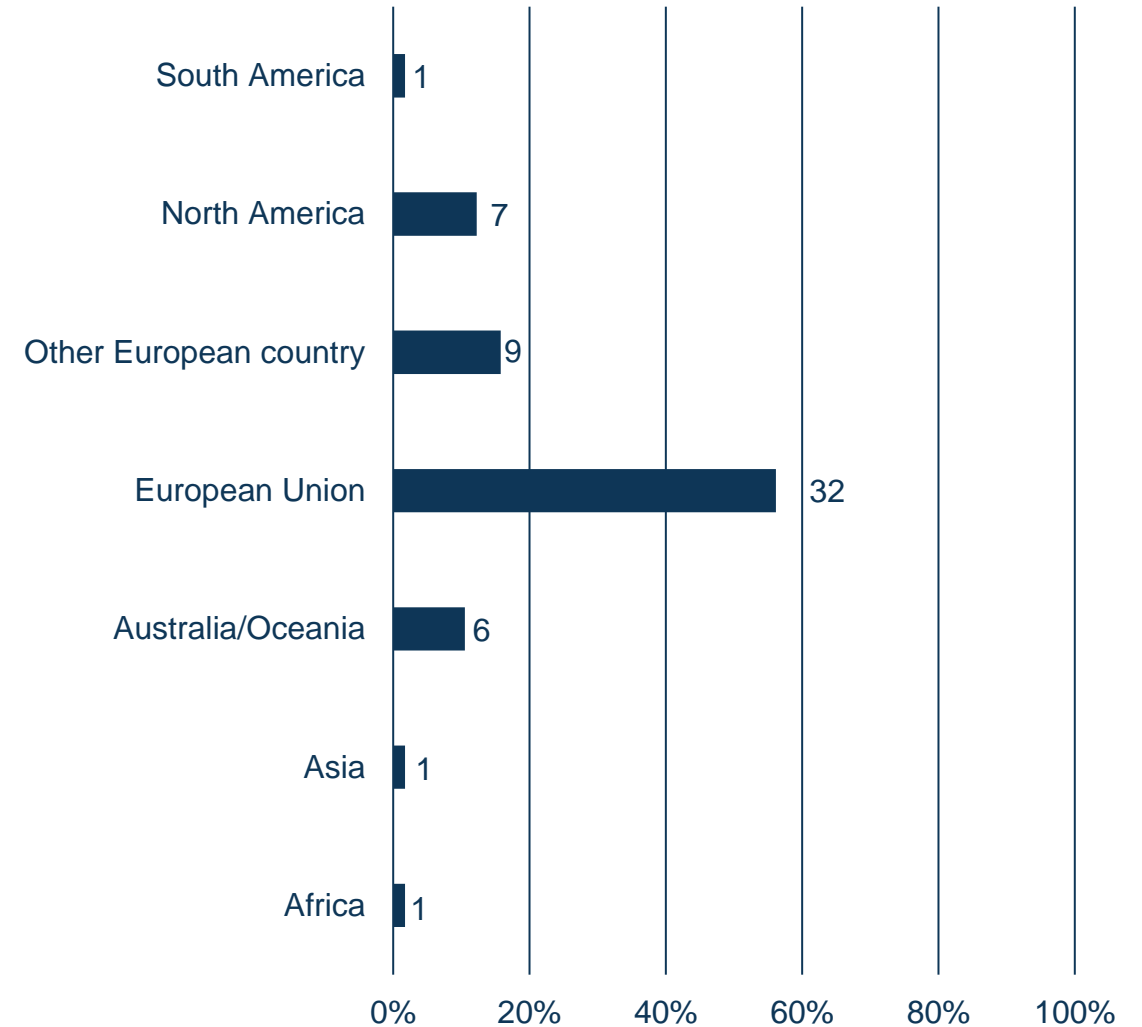
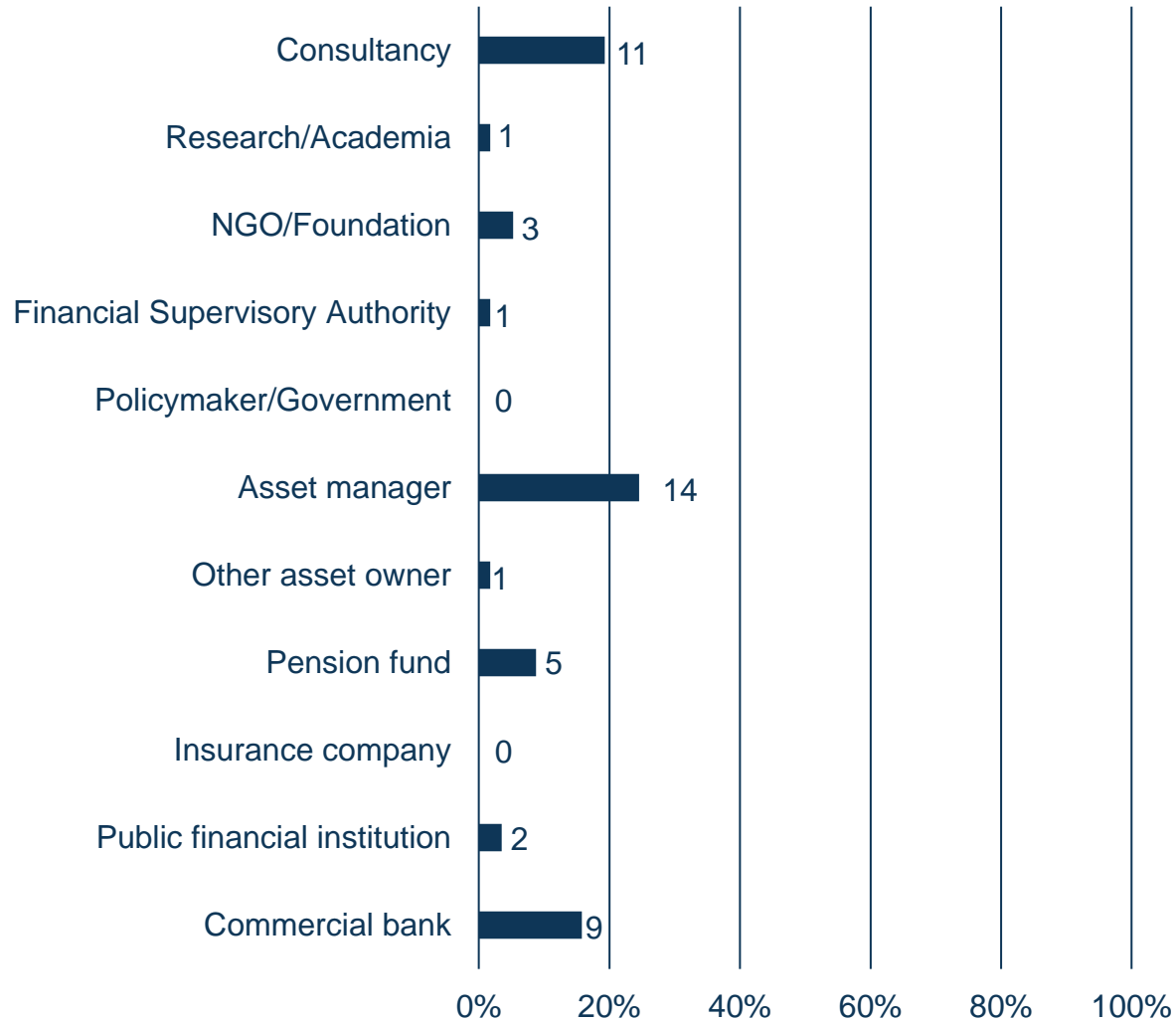
Since this is an ongoing process, as mentioned above, this can be considered as an interim report. The possibility to give us feedback on our decision still exists and can be communicated to us via the link and the associated survey. While this will be helpful to inform our strategy, they won't be considered in the representation of the stakeholder survey results, which is now closed.

Open the survey while you go through these slides and respond to the questions directly in the survey

<https://www.surveymonkey.de/r/SBtargets>

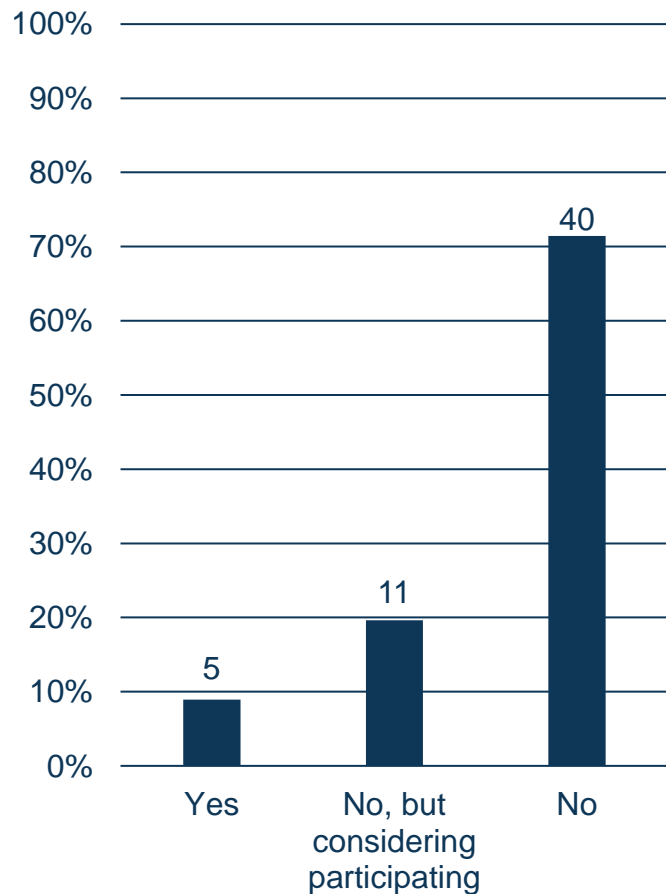


Respondents – Professional and geographical background

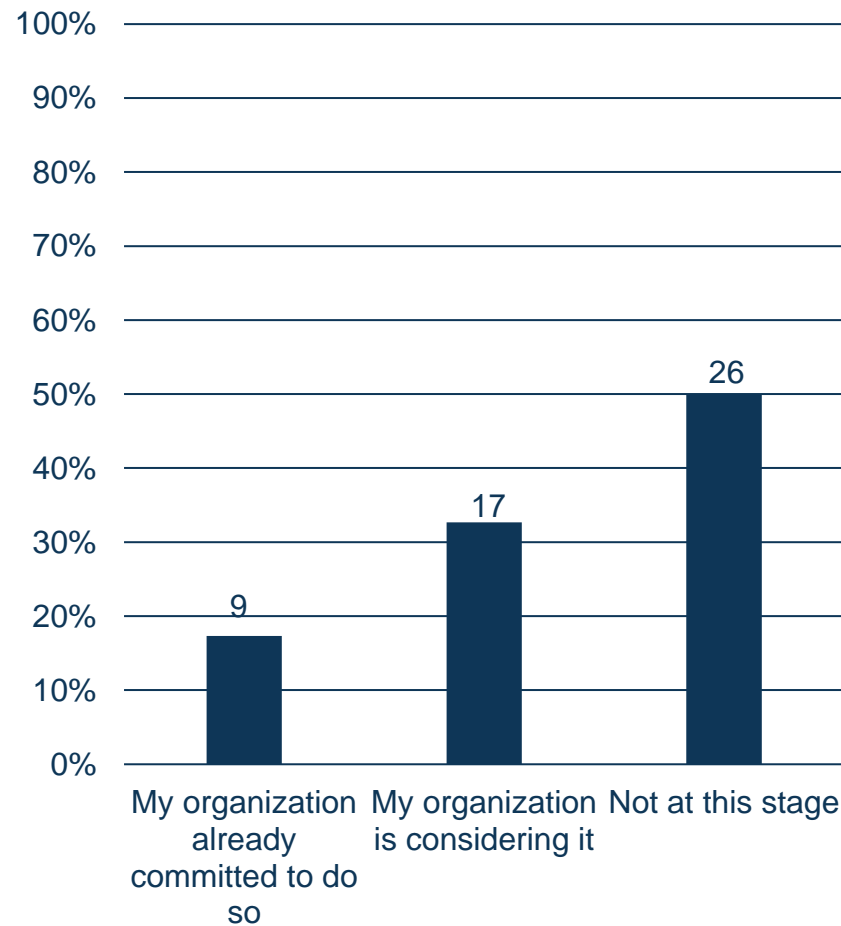


Respondents – Engagement with SBTi and other initiatives

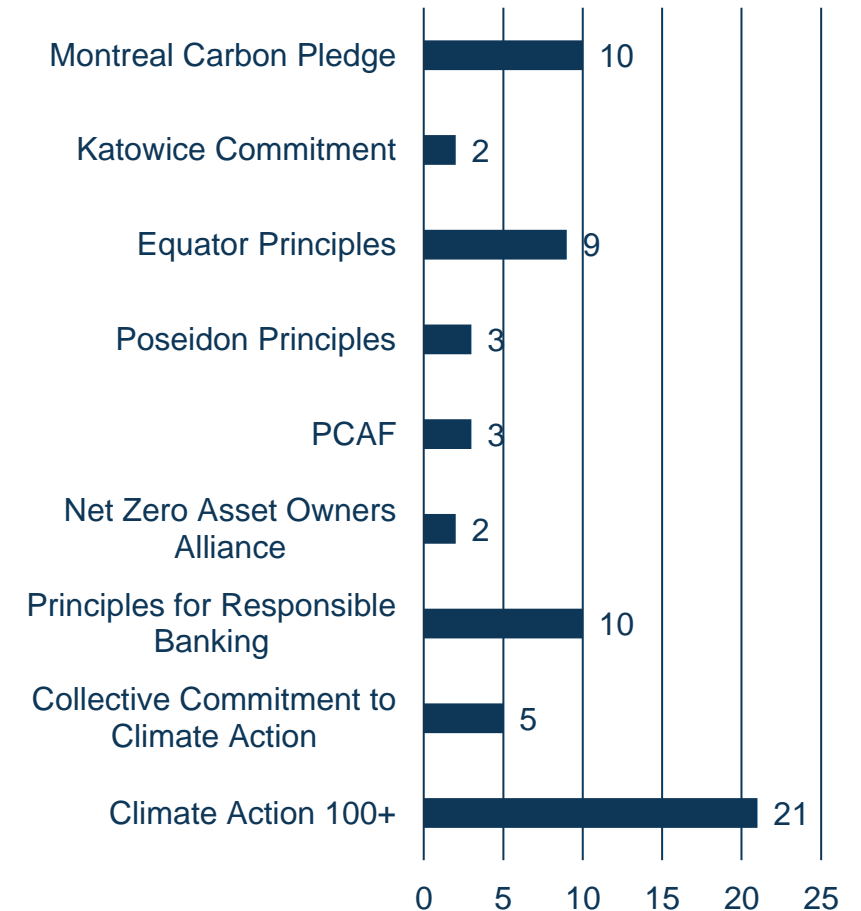
Membership of the SBTi advisory group



Setting science-based targets



Membership of other 'climate actions' initiatives



2Dii reasoning on 'science-based' target setting for financial institutions

+ questions about your views

What is the purpose of setting science-based targets?

Contribute to reducing GHG emissions in the real economy



- The tagline of SBTi is *“Driving ambitious corporate climate actions”* and refers to target setters as companies **“taking action”**
- The [website](#) specifies that *“Targets adopted by companies to reduce greenhouse gas (GHG) emissions are considered “science-based” if they are in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement”*.



Conclusion #1

The validation of a ‘Science-Based’ target by the SBTi consortium communicates to the general public that the target-setting company has decided to reduce GHG emissions in the real economy by a certain amount (quantified) that is considered sufficient to meet climate targets

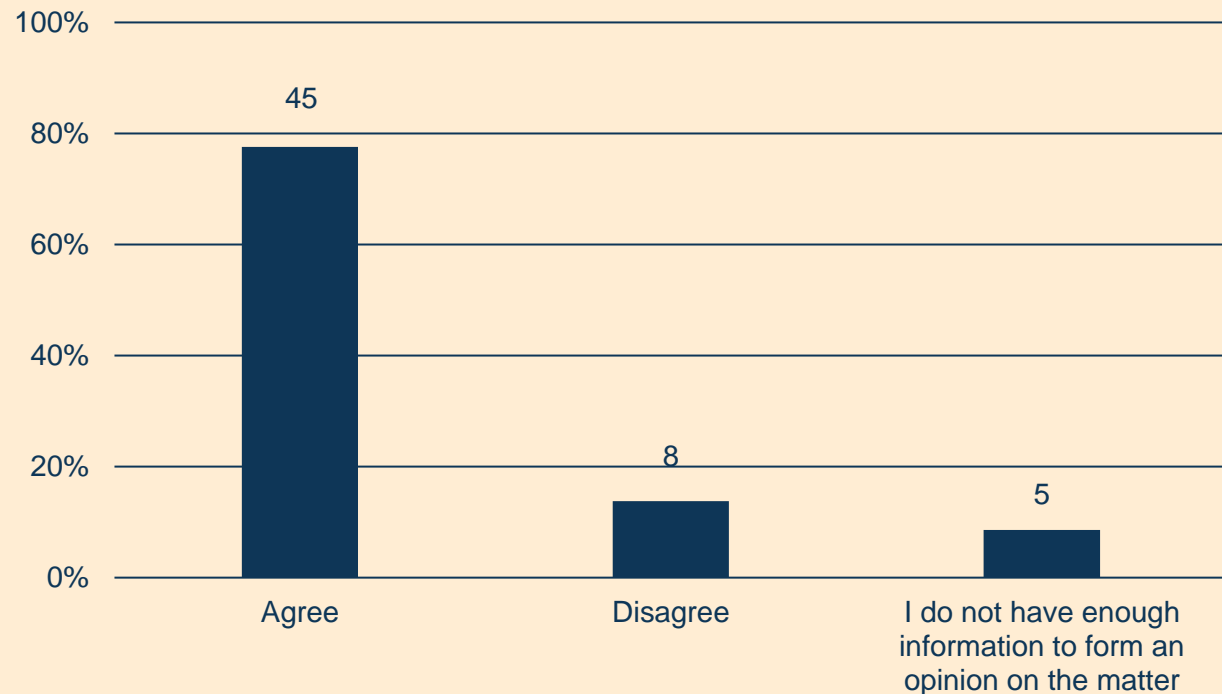
Do you disagree with this conclusion?

Survey results

Contribute to reducing GHG emissions in the real economy

Conclusion 1

The validation of a 'Science-Based' target by the SBTi consortium communicates to the general public that the target-setter company has decided to reduce GHG emissions in the real economy by a certain amount (quantified) that is considered sufficient to meet climate targets.



Written comments (Outtakes):

General comment - I agree with most of your conclusions and rationale. My only criticism would be the public manner of this disagreement/dispute. I think this undermines the collective action among various climate groups. But appreciate you may have exhausted all other avenues.

Would add, that it leads certainly to discussions what the term "in-line" exactly means (e.g. fair share Approach vs. initial Profile Approach)

I think that is an entirely appropriate principle when it comes to reducing Scope 1 & 2 emissions of an organisation, but not always appropriate concerning Scope 3 emissions.

That's the whole point of SBTi

This is the definition for real-economy firms. For lenders and investors, a different definition must apply.

We agree with the characterisation for companies that are currently able to set and have validated an SBTi target. However, the existence of the Finance EAG demonstrates that this matter is not yet resolved for financial institutions.

Real world emission reductions are key.

The real economy is the only relevant arena for making climate impacts; measuring emissions outside of this arena is irrelevant.

What is the stated objective of potential target setters?

Contribute to reducing GHG emissions in the real economy

Net zero Asset Owners Alliance

(12 investors, \$4Tn AuM)

“The members of the Alliance commit to transitioning their investment portfolios to net-zero GHG emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial temperatures, taking into account the best available scientific knowledge including the findings of the IPCC, and regularly reporting on progress, including establishing intermediate targets every five years in line with Paris Agreement Article 4.9.”

Collective Commitment to Climate Action (36 banks, \$13Tn of assets)

“The Collective Commitment to Climate Action sets out concrete and time-bound actions that banks will take to scale up their contribution to and align their lending with the objectives of the Paris Agreement on Climate, including:

- aligning their portfolios to reflect and finance the low-carbon, climate-resilient economy required to limit global warming to well-below 2°, striving for 1.5 degrees Celsius;*
- taking concrete action, within a year of joining, and use their products, services and client relationships to facilitate the economic transition required to achieve climate neutrality;*
- being publicly accountable for their climate impact and progress on these commitments.”*

Conclusion 2

The communication (collective pledges or individual statements) of potential adopters suggests that the objectives of pledges go beyond financial risk management. They aim to contribute to the reduction of GHG emissions in the real economy.

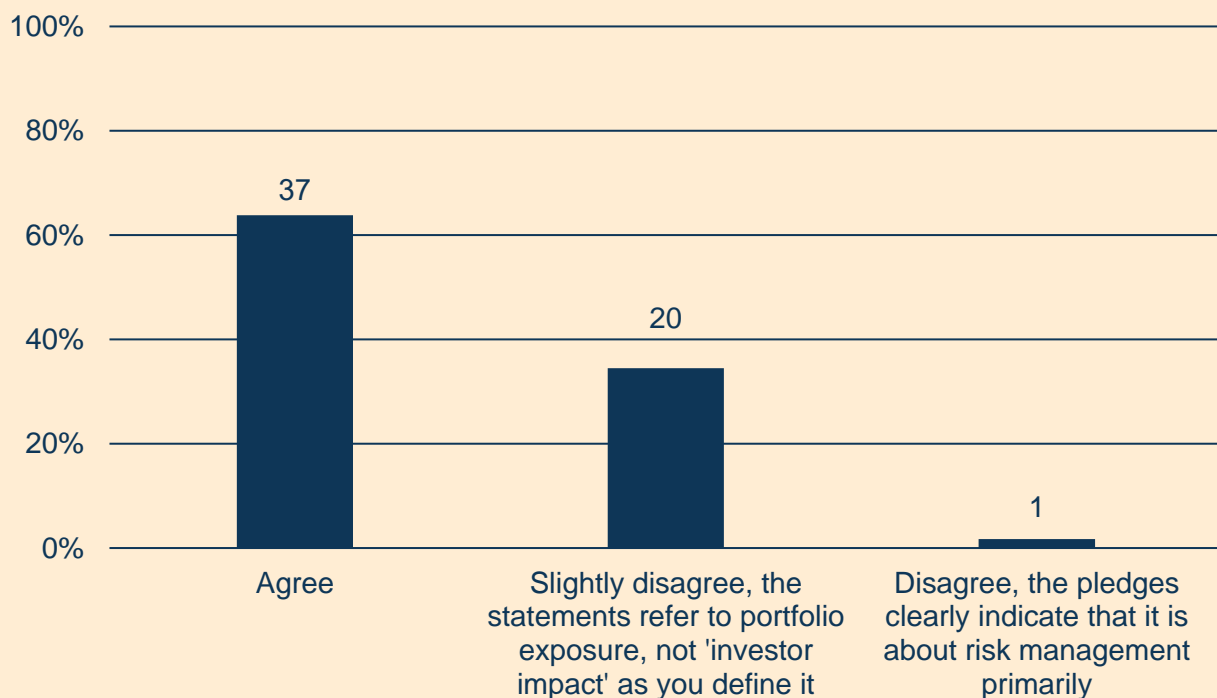
Do you disagree with this conclusion?

Survey results

Contribute to reducing GHG emissions in the real economy

Conclusion 2

The communication (collective pledges or individual statements) of potential adopters suggest that the objective goes beyond financial risk management: it aims to contribute to the reduction of GHG emissions in the real economy.



Written comments (Outtakes):

I slightly disagree in that each quote defines a slightly different scope. The first quote defines the scope as a target pertaining to its investment portfolios. Therefore, in theory, if their investment portfolio meets the net-zero standard without contributing to reduction of GHG emissions in the real economy, they are still compliant. The second quote articulates a commitment to actively finance a climate resilient economy and, therefore, I agree with 2dii conclusion.

The communications state that the main aim is to actually reduce GHG.

Although the statement does not specifically mention 'investor impact' it is implied by the reference to temperature targets. As the world is not on a 1.5C/2C warming trajectory the reference to such temperature targets is referring to the intention of having an impact. If this is not the case then the statements are being intentionally misleading to stakeholders and the target setters that their action is having an impact it isn't necessarily having.

Absolutely agree, and the AOA has been clear in its focus on real world emissions

We agree that financial institutions are seeking to "contribute" to reduction, but believe this is different from establishing causality.

While the Collective Commitment to Climate Action example is clear about its outcome orientation, the Net Zero Asset Owner Alliance is less clear.

What does the regulation say?

Commitments to reduce GHG emission can be considered as environmental marketing claims

(Slip Opinion) Cite as: 539 U. S. ____ (2003) 1

Per Curiam

NOTICE: This opinion is subject to formal revision before publication in the preliminary print of the United States Reports. Readers are requested to notify the Reporter of Decisions, Supreme Court of the United States, Washington, D. C. 20543, of any typographical or other formal errors, in order that corrections may be made before the preliminary print goes to press.

SUPREME COURT OF THE UNITED STATES

No. 02-575

NIKE, INC., ET AL., PETITIONERS *v.* MARC KASKY
ON WRIT OF CERTIORARI TO THE SUPREME COURT OF CALIFORNIA

[June 26, 2003]

PER CURIAM.
The writ of certiorari is dismissed as improvidently granted.

From a legal perspective, there is no ‘safe harbor’ (such as free speech in the US) for corporate commitments related to social and environmental issues. Such communications can potentially be considered as marketing claims under unfair competition laws, especially when they relate to retail investment products.

In the US, the 2003 [Nike vs. Kasky case](#) raised, but did not resolve the matter.

Conclusion 3

Financial institutions’ commitments to reduce GHG emission are made publicly (i.e. not behind ‘confirm your professional status’ walls), and in many cases are tied in some form to products and services such as mutual funds, life insurance contracts, or savings accounts – as evidenced by their inclusion in marketing and advertisement material.

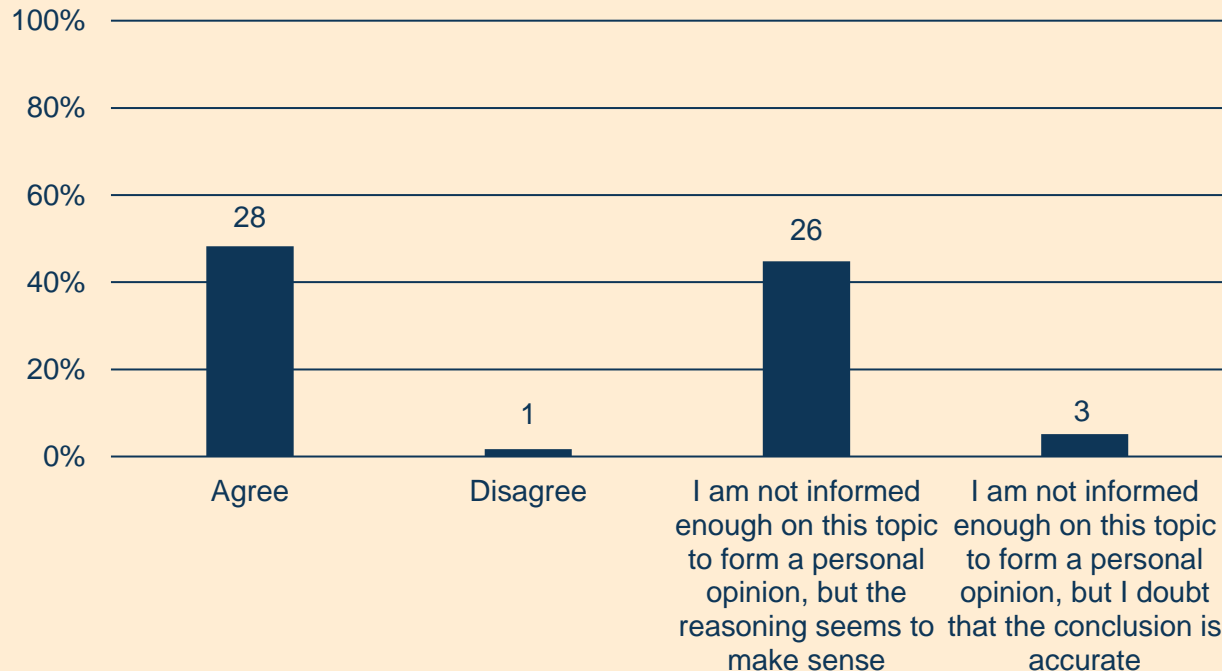
Do you disagree with this conclusion?

Survey results

Commitments to reduce GHG emission can be considered as environmental marketing claims

Conclusion 3

Financial institutions' commitments to reduce GHG emission are made publicly (i.e. not behind 'confirm your professional status' walls), and in many cases are tied in some form to products and services such as mutual funds, life insurance contracts, or savings accounts – as evidenced by their inclusion in marketing and advertisement material.



Written comments (Outtake):

Yes, they should certainly be disclosed transparently and through comparable metrics to the public, to avoid misleading Marketing Claims.

In Australia at least, the normative context is relevant to whether something is deemed to be appropriate or not. If social and environmental issues are discussed regularly in the financial press with respect to their financial relevance to value etc (e.g. stranded assets from transition risk) then these are considered "extra financial" and still within the remit of relevant information. I am not sure that conclusion 3 is in fact a conclusion made from the para above.

The intentions behind the EU Green taxonomy frameworks makes this point very clear. This will clash with those. A company may set a 'science based target' that may not be deemed 'green' by any other standards.

One does not follow from the other.

We agree financial institutions should be transparent on, and held accountable for, the commitments they make. However, we note that the outcome you assert ("considered as marketing claims under unfair competition laws") is to our understanding as yet un-tested by regulators.

I think this certainly stands when claims are being made to market retail investment products/funds. I think it's a stretch to 1) interpret alignment pledges as GHG-emissions-reductions-in-the-real-economy pledges and 2) to apply the same legal implications.

What does the regulation say?

Environmental claims are regulated: they must be unambiguous and substantiated

In Europe:

- The [Unfair commercial practices directive](#) prohibits communications that "*contains false information and is therefore untruthful or in any way, including overall presentation, deceives or is likely to deceive the average consumer, even if the information is factually correct (...)*"
- [The EC's guidance on UCPD \(2016\)](#) specifies that "*traders must present their green claims in a clear, specific, accurate and **unambiguous manner**, to ensure that consumers are not misled (...) must **have the evidence to support their claims**" and "claims should be based on robust, independent, verifiable and generally recognized **evidence which takes into account the latest scientific findings and methods.**"*

Similar consumer protections exist in other jurisdictions (e.g. US) under unfair commercial practices and false advertising laws

Conclusion 4

Environmental marketing claims are regulated in many jurisdictions. They must be unambiguous and associated with scientific evidence.

Do you disagree with this conclusion?

 [Regulatory analysis](#)

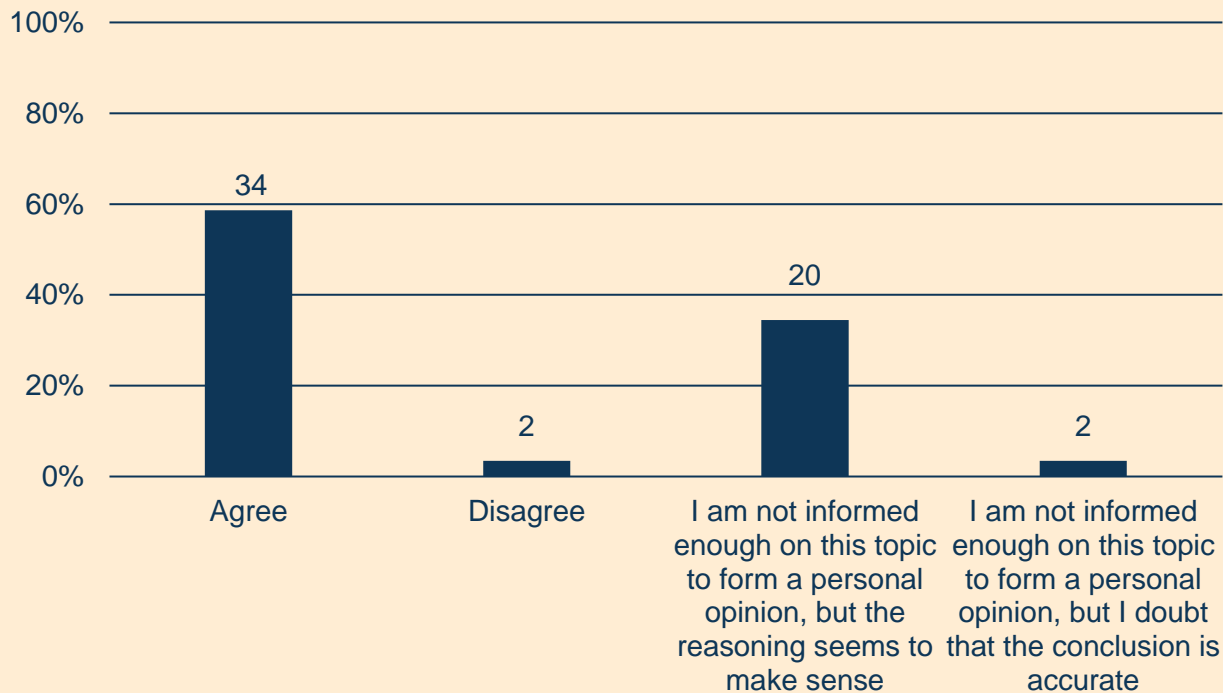
Survey results

Environmental claims are regulated: they must be unambiguous and substantiated

Conclusion 4

Environmental marketing claims are regulated in many jurisdictions.

They must be unambiguous and associated with scientific evidence.



Written comments (Outtakes):

Unambiguous, verified claims (not necessarily scientific, but a reliable clearly disclosed assumptions and methodologies) are necessary to protect consumers and the brand capital that exists for the financial services sector

Most long term targets are not backed by strong strategies but still companies disclose them...

I do agree with the conclusion, however, I would like the discussion to focus on greenwashing in marketing in general, not just in the impact vs. alignment investment field. Now the discussion might seem too narrow and one can get the impression that this is rather a feud between two organisations...

SBTi cannot be a veneer of credibility that hides lack of action

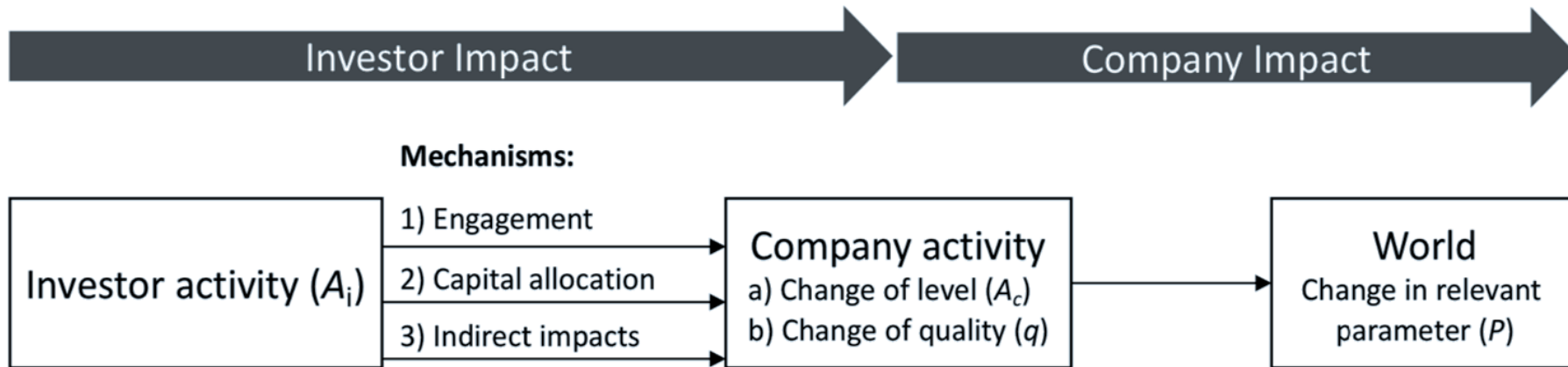
Whilst we applaud the desire for claims to be "unambiguous and associated with scientific evidence", the very existence of 2DII, the Katowice Commitment, Collective Commitment to Climate Action, SBTi and other platforms is a positive demonstration of the need to develop such supporting infrastructure. It is not the case that this exists at present, and we believe all claims should be framed and understood in this context.

In the absence of third-party opinions or certifications, it seems that it would be difficult to substantiate any marketing claims on environmental performance? Does this mean that all marketing claims must be accompanied by a scientific opinion going forward?

What is the 'scientific' definition of climate impact for FIs?

Financial institutions climate actions need to lead to GHG emission reductions in the real economy

The latest review of academic literature ([Kölbel et al, 2019](#)) defines *“investor impact as the change that investor activities achieve in company impact”* through various mechanisms (engagement, capital allocation, indirect impacts), as opposed to the impact of the companies in the portfolio. It is consistent with previous research ([Brest et al, 2018](#)) and the IFC's definition.



Conclusion 5

To achieve their targets, investors (or banks) need to influence the behavior of investee/client companies, leading to GHG emission reductions in the real economy.

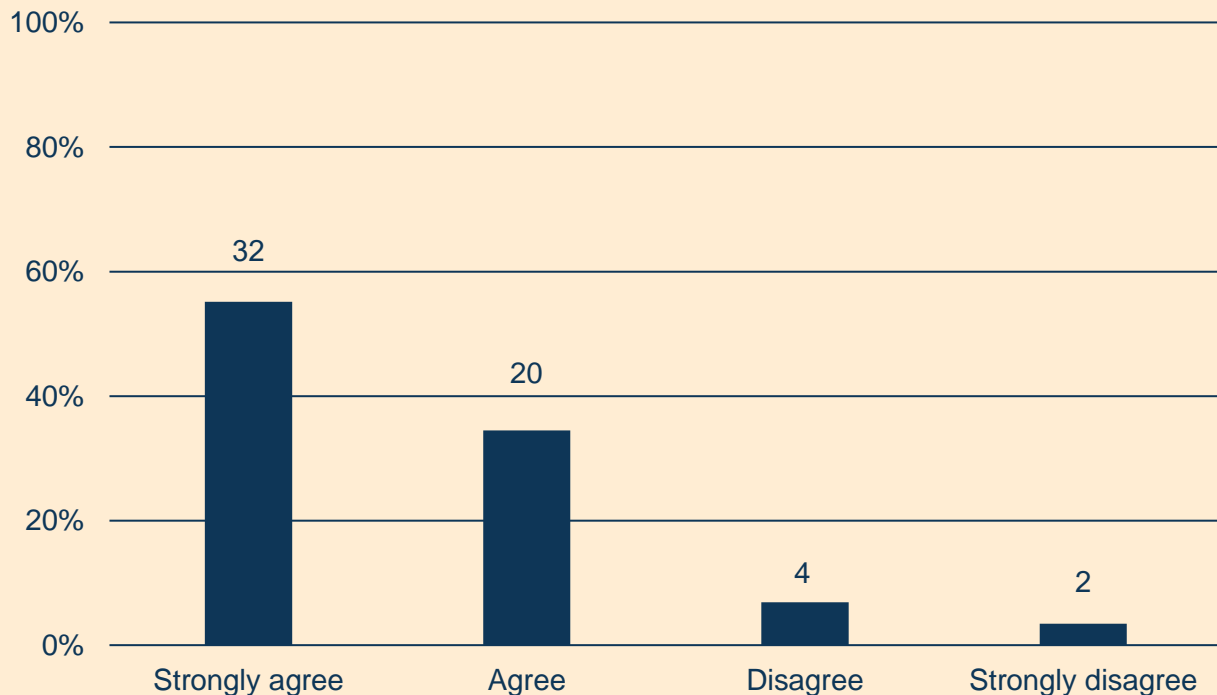
Do you disagree with this conclusion?

Survey results

Financial institutions climate actions need to lead to GHG emission reductions in the real economy

Conclusion 5

To achieve their targets, investors (or banks) need to influence the behavior of investee/client companies, leading to GHG emission reductions in the real economy.



Written comments (Outtakes):

I find the discourse a bit too black and white, while there is little to no evidence that the theory of change can be applied in this field, as it's being done by the SBTi, the overall approach is not fully meaningless and a certain pressure or simply a message can be generated.

We support the thesis that financial institutions need to engage with their clients, and seek to influence behaviours. However, in practice the ability to do so, and to measure the outcomes, is variable and frequently limited. It is also the case that there are a number of means through which financial institutions can achieve portfolio emissions reductions, including changing business mix, clients, and through decisions on participation in specific transactions.

If the commitments are about alignment (as at least in the two statements quoted above), then this is irrelevant here. If the commitments are about real-economy emission reductions, then you seem to be right.

This was an ongoing debate in the development finance community. The concept of 'additionality' was variously interpreted, and the general conclusion was that it was so hard to prove the causality between the investor action and the company achievement (for any type of impact outcome, not only climate) that it was better to not waste time trying to prove it.

The crux of everything. If the influence of investors on corporate emission reductions can't be proven and quantified, they should not be claiming emission reduction success. It is simply alignment of capital.

Practitioners agree with this definition

IMPACT MANAGEMENT PROJECT

The Impact Management Project (IMP) is a forum that convenes a Practitioner Community of over 2,000 organisations to debate and find consensus (norms) on technical topics,

“IMP consensus on investor contribution strategies:

An investment’s impact is a function of:

- 1. The impact of the underlying asset(s) / enterprise(s) that the investment supports, and*
- 2. The contribution that the investor makes to enable the enterprise(s) (or intermediary investment manager) to achieve that impact.*

The first two phases of the IMP achieved consensus on four strategies by which investors can contribute to the impact of the enterprises in which they invest (...):

- Signal that impact matters*,*
- Engage actively,*
- Grow new or undersupplied capital markets,*
- Provide flexible capital.”*

*Often referred to as values alignment, this strategy expresses the investor’s values and is an important baseline. But alone, it is not likely to advance progress on societal issues when compared to other forms of contribution

Is it scientific to use portfolio alignment as a proxy for impact?

A change in portfolio exposure is not a valid proxy for GHG emission reductions in the real world

The latest review of academic literature ([Kölbel et al, 2019](#)) did not identify enough ex-ante evidence to assume that a change in portfolio exposure from high to low-carbon economic activities (a.k.a. ‘alignment’) automatically lead to changes in the real economy:

*“While the impact of capital allocation may seem intuitive at first sight, it touches upon a rather fundamental question, namely to what extent the decisions of investors influence the course of the real economy. We were not able to find studies that relate the capital allocation decisions of sustainable investors to corporate investment activities or operational practices. Hence, direct **empirical evidence for the capital allocation impact is lacking.**” (Kölbel 2019)*

Conclusion 6

There is currently no [scientific evidence](#) that aligning the exposure of investment/lending portfolio with a 1.5°C pathway, whatever the metric used, (technology, carbon emissions, etc.) can serve as a proxy for measuring the related changes caused by the financial institution in the real economy.

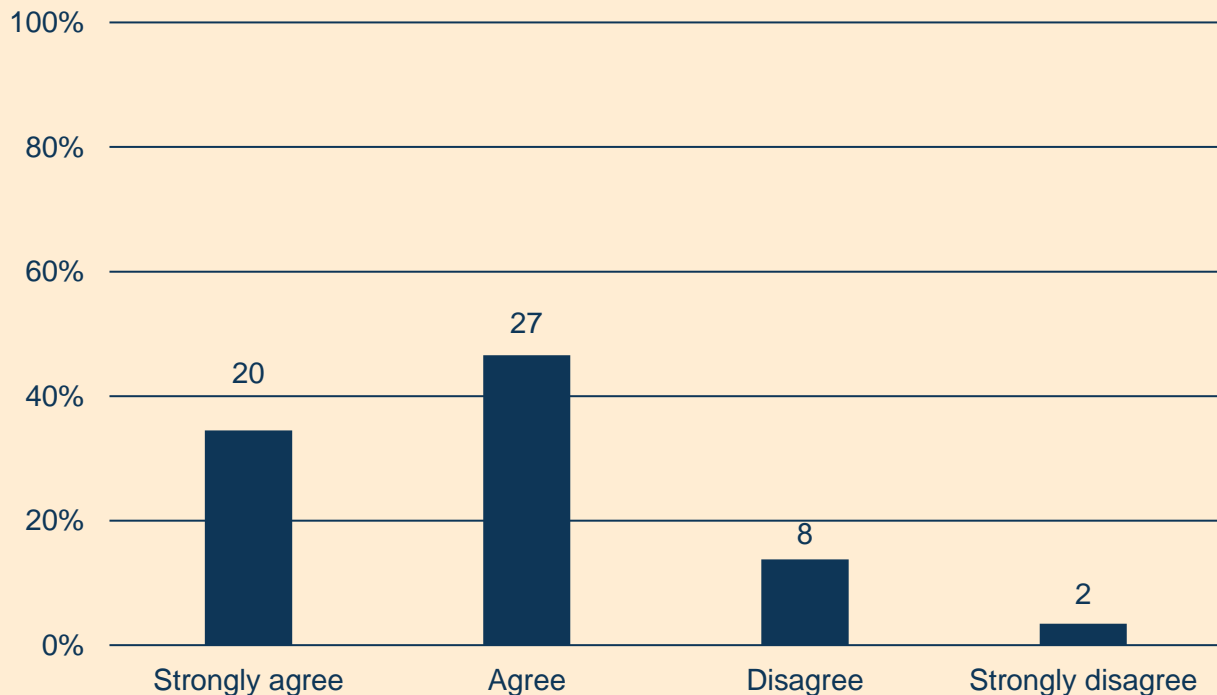
Do you disagree with
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Survey results

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Conclusion 6

There is currently no [scientific evidence](#) that aligning the exposure of investment/lending portfolio with a 1.5°C pathway, whatever the metric used, (technology, carbon emissions, etc.) can serve as a proxy for measuring the related changes caused by the financial institution in the real economy.



Written comments (Outtakes):

'Absence of evidence' is not the same as 'evidence of absence'. While I can appreciate the findings of Kölbel et al. (2019), the fact that the technical capacity to isolate statistically significant causal relationships is not yet available does not mean that such a causal relationships do not exist. It seems to me that the paper also stipulates that the impact can only be significant if (1) there is widespread agreement on what alignment is, and (2) a significant amount of share of market capital is shifted with regards to that agreed upon alignment.

I think investment in research, innovation and transition technologies could potentially be an exception. But this would only be applicable to small percentage of investment opportunities and asset types

I think it is an effective proxy for the reasons outlined above. I think you are letting perfect be the enemy of the good if you stick to this principled approach and it would be exceedingly burdensome for banks to have to justify with every client that our engagement is helping to reduce emissions in the real world.

Again, I think the current discussion is very much alignment VS. impact investment. I think however, the discussion should focus on what the informational content of each of the two approaches is, clearly separate them and be 100% transparent on which is which.

We strongly agree; echoing the comments above we believe it is an unrealistic expectation that a reduction in 'financed emissions' will result in a correlated reduction in emissions in the real economy.

INCREASING STRENGTH OF EVIDENCE



ANECDOTAL & EXPERT OPINIONS

Anecdotal evidence is a person's own personal experience or view, not necessarily representative of typical experiences. An expert's stand-alone opinion, or that given in a written news article, are both considered weak forms of evidence without scientific studies to back them up.



ANIMAL & CELL STUDIES (experimental)

Animal research can be useful, and can predict effects also seen in humans. However, observed effects can also differ, so subsequent human trials are required before a particular effect can be said to be seen in humans. Tests on isolated cells can also produce different results to those in the body.



CASE REPORTS & CASE SERIES (observational)

A case report is a written record on a particular subject. Though low on the hierarchy of evidence, they can aid detection of new diseases, or side effects of treatments. A case series is similar, but tracks multiple subjects. Both types of study cannot prove causation, only correlation.



CASE-CONTROL STUDIES (observational)

Case control studies are retrospective, involving two groups of subjects, one with a particular condition or symptom, and one without. They then track back to determine an attribute or exposure that could have caused this. Again, these studies show correlation, but it is hard to prove causation.



COHORT STUDIES (observational)

A cohort study is similar to a case-control study. It involves selection of a group of people sharing a certain characteristic or treatment (e.g. exposure to a chemical), and compares them over time to a group of people who do not have this characteristic or treatment, noting any difference in outcome.



RANDOMISED CONTROLLED TRIALS (experimental)

Subjects are randomly assigned to a test group, which receives the treatment, or a control group, which commonly receives a placebo. In 'blind' trials, participants do not know which group they are in; in 'double blind' trials, the experimenters do not know either. Blinding trials helps remove bias.

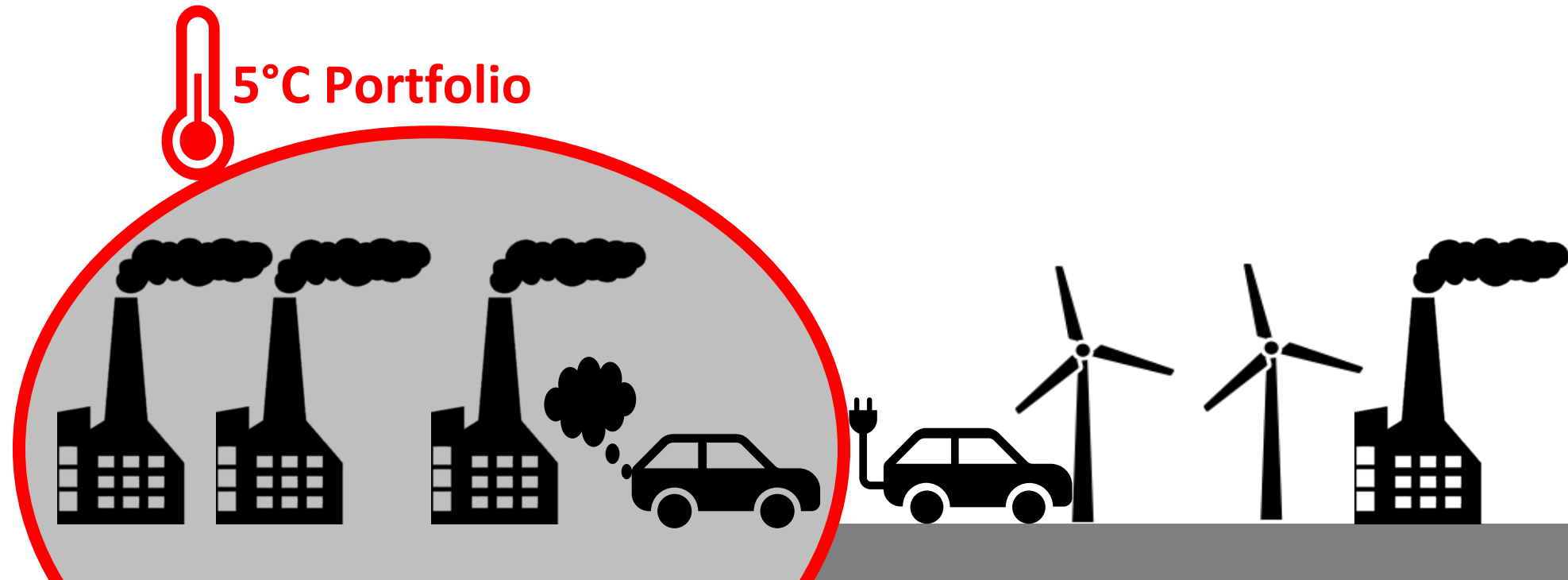


SYSTEMATIC REVIEW

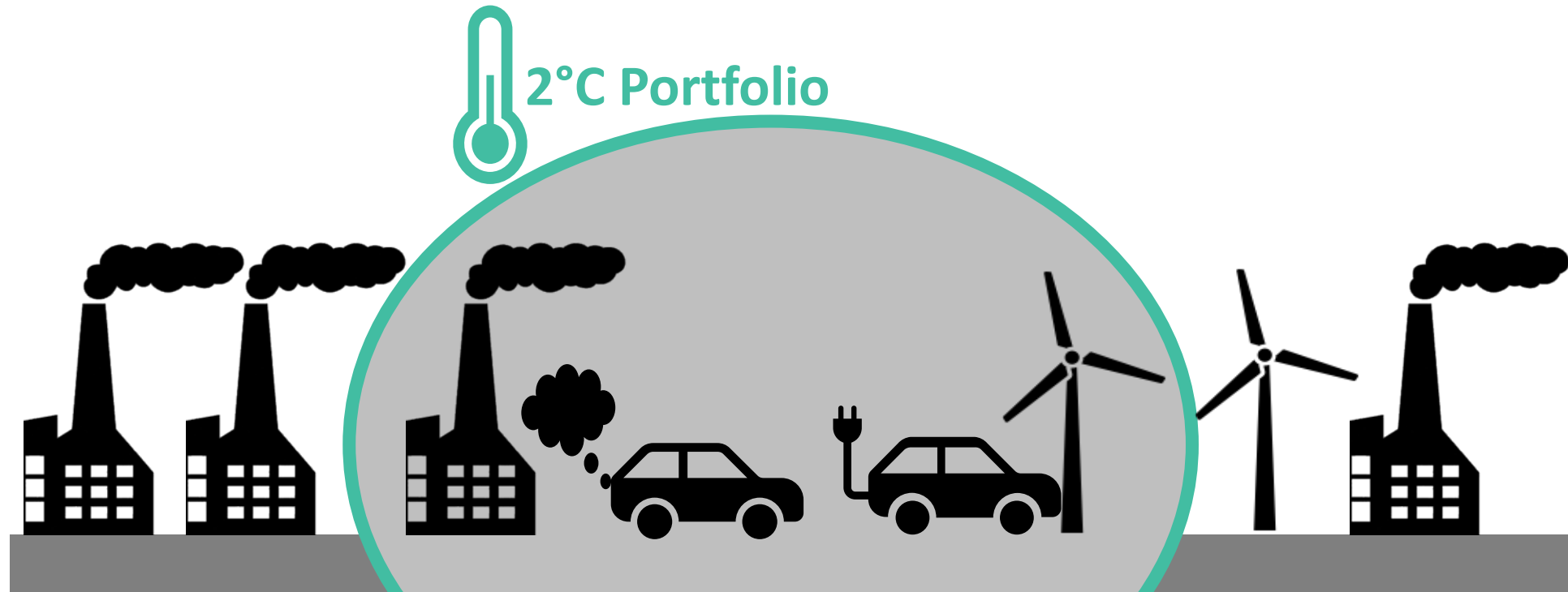
Systematic reviews draw on multiple randomised controlled trials to draw their conclusions, and also take into consideration the quality of the studies included. Reviews can help mitigate bias in individual studies and give us a more complete picture, making them the best form of evidence.

Source: www.sciencemediacentre.co.nz/coveringscience/types-of-scientific-evidence/
 Also see www.cebma.org/faq/what-are-the-levels-of-evidence/

A change in portfolio exposure is not a valid proxy for GHG emission reductions in the world



A change in portfolio exposure is not a valid proxy for GHG emission reductions in the world



Practitioners acknowledge the scientific findings

“Investors should self-classify their investor contribution as “grow new or undersupplied capital markets” if they have reason to believe that their investment itself directly caused or will cause:

- A change in the amount, cost or terms of capital available to an enterprise that enables it to deliver impact that would likely not otherwise occur, or*
- A change in the price of the enterprise’s securities, which in turn pressures the enterprise to increase its social and/or environmental impact and/or rewards it for doing so.*

(...)

The consensus of investors in public equity markets is that the widely distributed nature of those markets means that purchases and sales of small blocks of shares do not generally influence the market prices of securities or the behaviour of the underlying enterprises. In such circumstances, it is not reasonable to expect public equities transactions to meet the above definition of “growing new or undersupplied capital markets.”

Source: [Investor contribution in public and private markets - Discussion document, IMP, Jan 2019](#)

*“ There is a difference between the outcomes of portfolio climate alignment and the impact of absolute GHG emissions reduction in the real economy. Challenges such as carbon leakage present limitations to how much a bank can control in terms of climate impact” **ING Terra report***

*“Divesting would make that number [GPIF alignment score] decrease, but simply be passing the ownership on to someone else who cares less about negative externalities” – **Hiro Mizuno, GPIF***



'System change' arguments are speculative

"Investors in public markets often describe the impact of "signaling that impact matters" strategies in terms of the contribution to systems change. That is, if all other investors did the same, it would lead to a "pricing in" of social and environmental impacts by the capital markets.

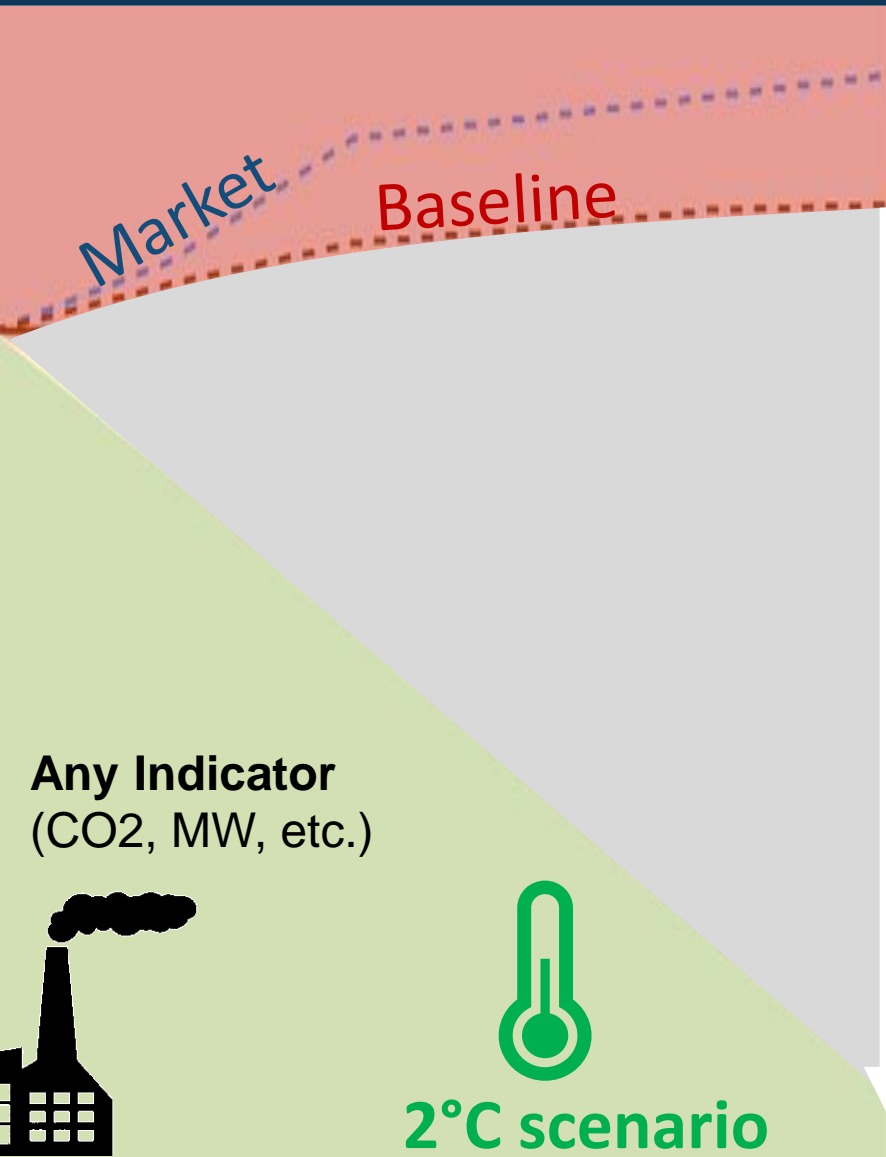
This is a topic of debate. Some public markets investors describe themselves as participating in or contributing to systems change in capital markets, while also acknowledging that their investments do not directly cause a change to people and planet. Other public markets investors point out that there are still empirical questions that would need to be addressed before concluding that the collective action of investors in public markets causes a change in corporate behavior (...)

In general, "systems change" arguments about the impact of investing in public markets tend to be speculative, depending on the possible behavior of large numbers of other investors now or in the future. Some investors and asset owners find these arguments satisfactory; others do not. Empirically, much will depend on the proportion of investors that are "impact-motivated" versus "impact-neutral", and on the specific goals and tactics of both.

Source: [Investor contribution in public and private markets - Discussion document, IMP, Jan 2019](#)

*"There is lots of debate about what constitutes a green financial service or product, and what more generally greenness amounts to. Most parties to that debate have assumed that holding green investments is sufficient to be green. That is not, unfortunately, sufficient. Simply investing in green doesn't mean you've made the world greener."
([Caldecott, 2020](#))*

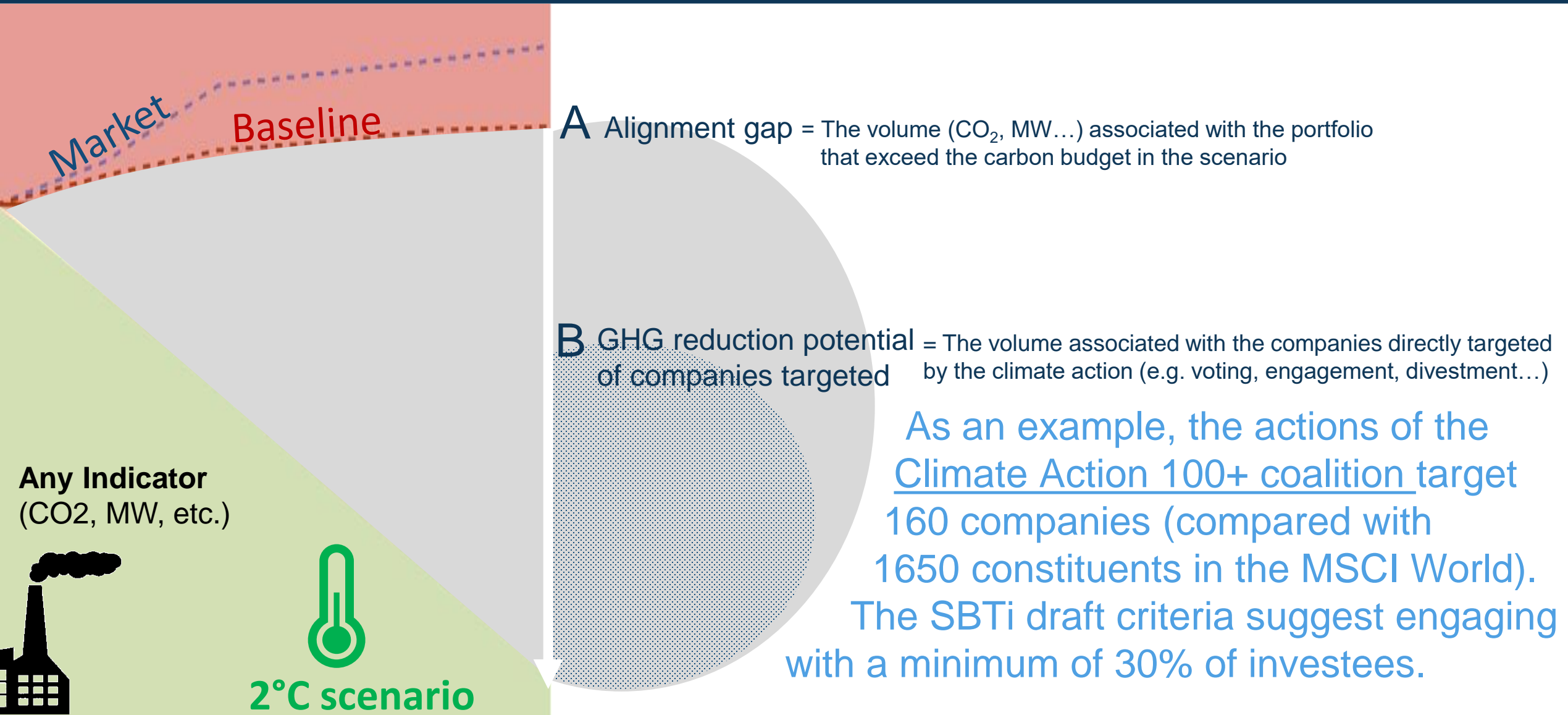
Is it 'scientific' to set targets on alignment to manage impact?



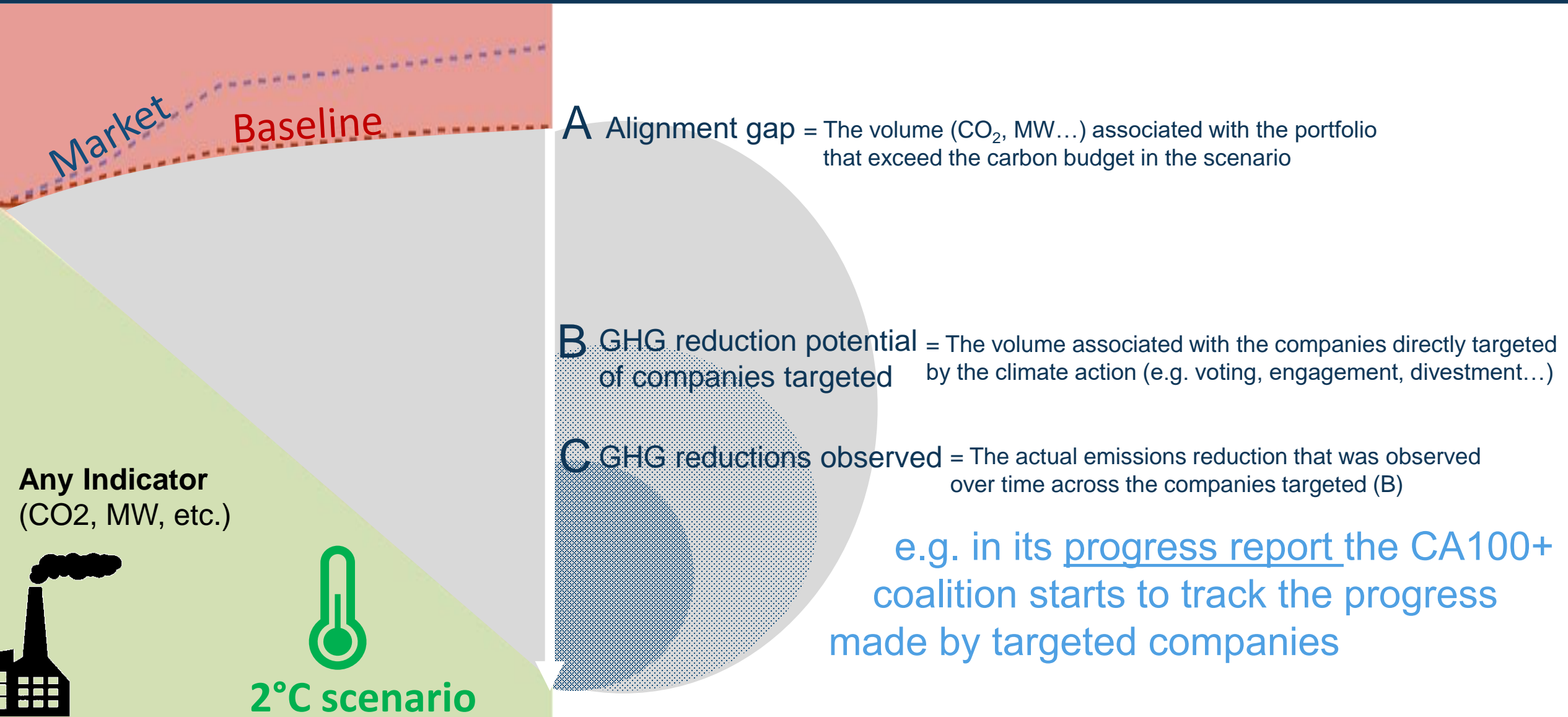
A Alignment gap = The volume (CO₂, MW...) associated with the portfolio that exceed the carbon budget in the scenario

This is what is calculated today when investors and banks calculate the alignment of their portfolio, and what the SBTi draft proposes to use as the underlying indicator for target setting

Is it 'scientific' to set targets on alignment to manage impact?

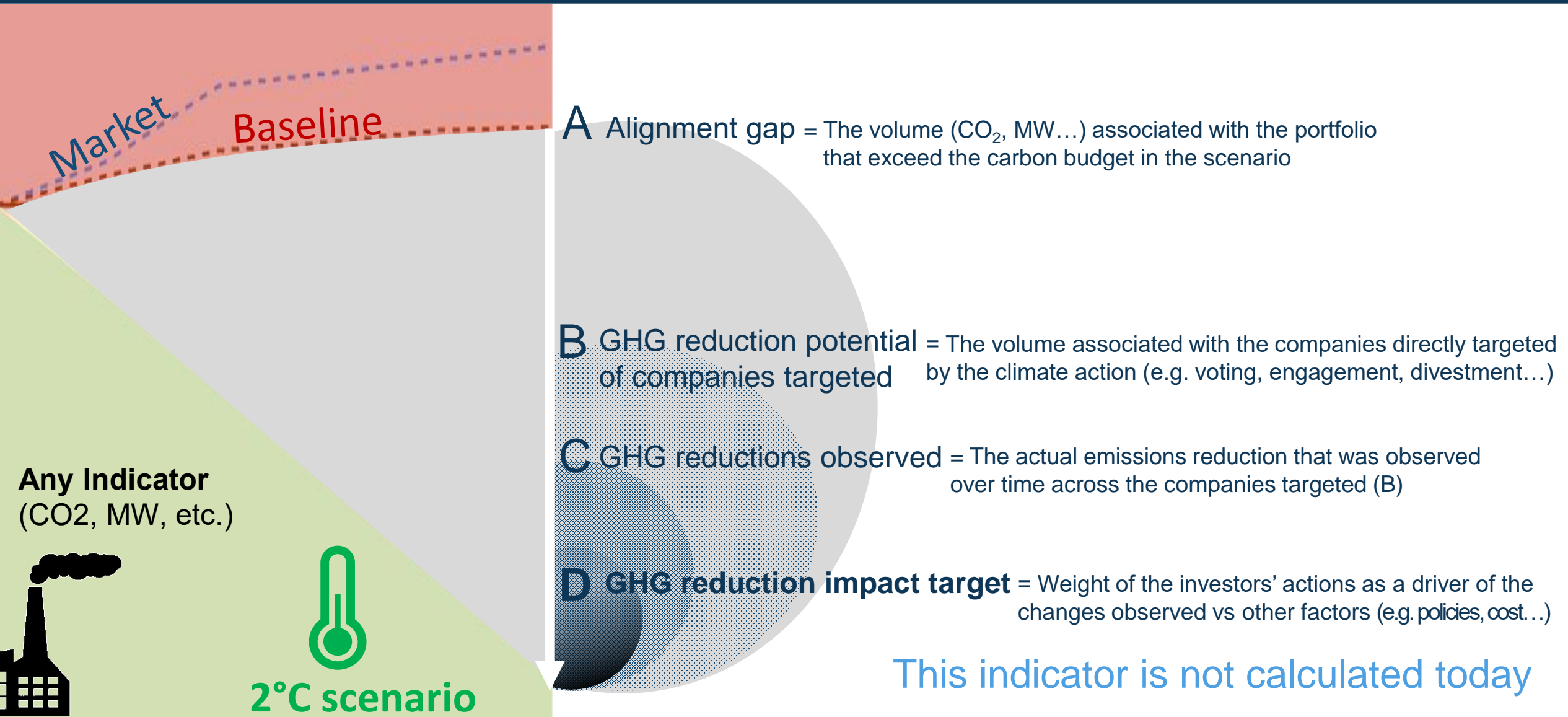


Is it 'scientific' to set targets on alignment to manage impact?



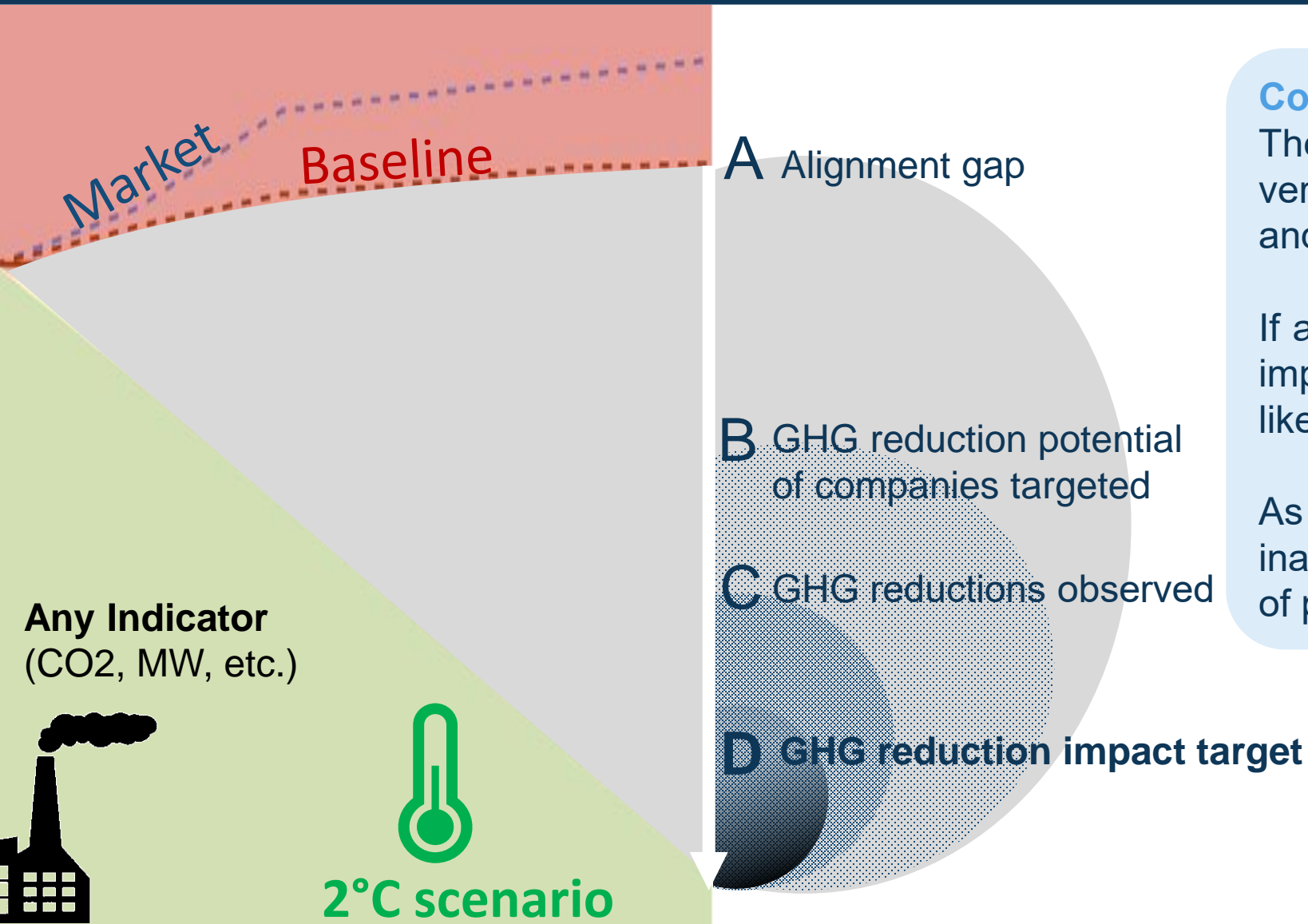
Is it 'scientific' to set targets on alignment to manage impact?

You can't 'scientifically' manage an indicator that you do not measure



Is it 'scientific' to set targets on alignment to manage impact?

You can't 'scientifically' manage impact by measuring exposure



Conclusion 7

The alignment indicator (A) is likely to be very different from the impact indicator (D) and primarily driven by exogenous factors.

If a financial institution has the objective to improve its impact (D), Alignment (A) is likely to be a poor proxy.

As a result, changes in (A) are inappropriate as a 'scientific' measurement of progress towards (D).

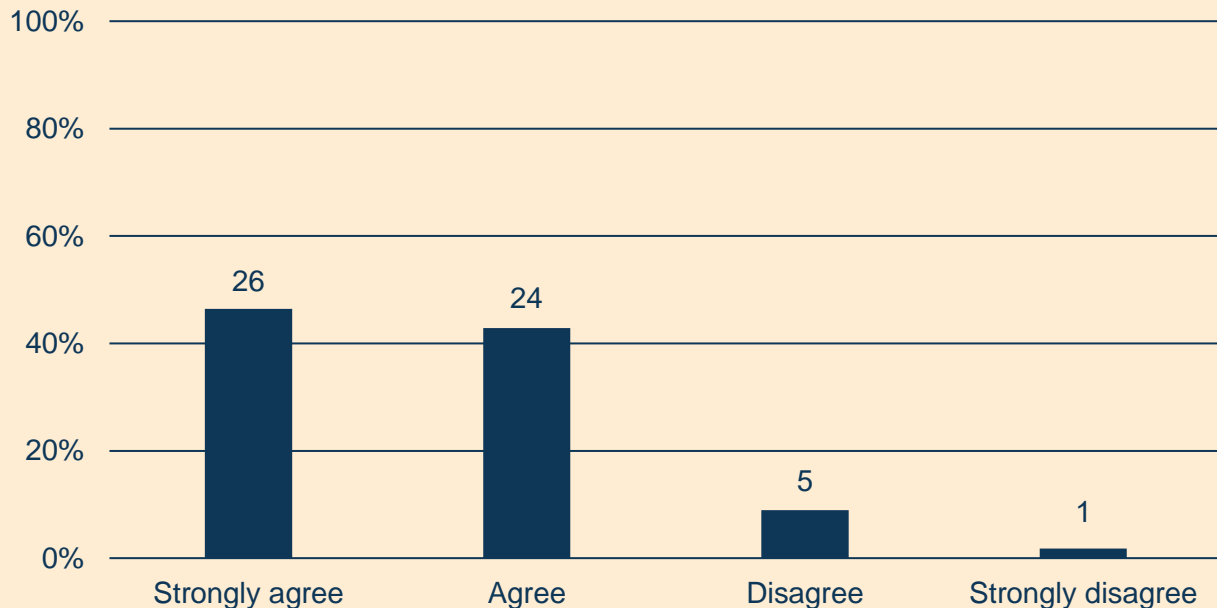
Do you disagree with this conclusion?

Survey results

You can't 'scientifically' manage impact by measuring exposure

Conclusion 7

The value for the alignment indicator (A on the chart) is likely to be very different from the impact indicator (D), and primarily driven by exogenous factors (policies, cost, etc.). If a financial institution has the objective to improve its impact (D), Alignment (A) is likely to be a poor proxy. As a result, changes in alignment (A) are inappropriate as a 'scientific' measurement of progress towards impact (D).



Written comments (Outtakes):

"If the argument is, "using a current index as a benchmark for progress in GHGe reductions is unscientific and doesn't produce the results we need", then completely agree. Why? because this assumes the index (of companies)/benchmark (which theoretically would also have to change over time) enables investors to participate in the real economy. Which they don't.

Undoubtedly true. Is the SBTi's argument on financial firms framed in terms of measurable impact, though?

We agree with the two parts of your conclusion; it is in conflating them that we disagree. As you note, an impact indicator would be appropriate to measure the ultimate reduction in emissions which could conceivably be linked to a financial institutions' actions and decisions. However, as also shown on your graph, this is likely to be verifiable in a very small portion of cases, and is likely to have a high cost to determine (particularly given the number of potential variables). As such, we would question the merits of setting and measuring such a target, especially as financial institutions act in service of the economy as a whole.

Aligning with climate science is equivalent to setting a science-based target. It is irrelevant how much the investor has had to do with the individual company's decision to decarbonise, or simply to be born a green company.

You got to start somewhere, and therefore reducing your investment exposure to heavy carbon emitters is a good start. Otherwise you will end up going in circles.

Reasons behind 2Dii withdrawal from SBTi for Financial Institutions*

+ questions about your opinion

*i.e. 2Dii does not co-develop the methodological framework anymore and does not endorse the outputs

Principle of *reality* of emission reductions

Setting targets on 'virtual' emission reductions seems inconsistent with the stated purpose of SBTi

In the context of the technical debate within the SBTi group, it has not been possible to find an agreement with the other organizations involved in the SBTi for financial institution project on the following statement:

"The SBTi framework must prevent financial institutions from setting targets labeled as "science-based" and achieving them without providing any scientific evidence that their actions actually contributed to reducing GHG emissions in the real economy."

As a result, the SBTi consortium decided to build the target setting framework based on the 'system change' assumption presented in slide 19.

**Do you disagree with
this principle?**

Survey results

Setting targets on 'virtual' emission reductions seems inconsistent with the stated purpose of SBTi

"The SBTi framework must prevent financial institutions from setting targets labeled as "science-based" and achieving them without providing any scientific evidence that their actions actually contributed to reducing GHG emissions in the real economy."



Written comments (Outtakes):

Most in my organisation agree but there are many who don't. We don't yet have a fully formed organisational view

I actually can't speak for my organisation's view, but I would again reiterate that you are letting perfect be the enemy of the good in taking such a hardline stance and I think it is also misaligned with NGO and other stakeholder expectations.

The statement/principle makes sense for a true 'science' based target.

Again, the SBTi could theoretically provide a label of some sort relating to alignment, which would bring an added value to the overall discussion, the biggest issue I see here is the transparency and naming.

We are on a journey. Stage one, SBT. Stage 2 reduction in real economy. Once a process/procedure/governance moody has been put in place, it is easier to push for stricter criteria. BUt the biggest hurdle is stage 1.

I agree but it is difficult to do so. So do we wait and do nothing in the meantime that we attempt to collect evidence? Or do we attempt to put a criteria in how alignment is achieved (eg reallocation from high stake to low stake is not acceptable method to achieve alignment/meet targets)?

Consistency with the GHG Protocol

SBTi's envisioned criteria are not consistent with the GHG Protocol in our view

Despite the scientific evidence that changes in portfolio allocation have no linear relationship with GHG emissions in the real economy, the conclusions of the SBTi consortium in terms of ensuring the need for real emissions reduction (see previous slides) seems – in our view- inconsistent with the guidance provided in the GHG Protocol Scope 3 Guidance (see excerpt below).

“To consistently track scope 3 emissions over time, companies shall recalculate base year emissions when significant changes in company structure or inventory methodology occur. In such cases, recalculating base year emissions is necessary to maintain consistency and enable meaningful comparisons of the inventory over time. Companies are required to recalculate base year emissions when the following changes occur and have a significant impact on the inventory: structural changes in the reporting organization, such as mergers, acquisitions, divestments, outsourcing, and insourcing(...) Significant changes result not only from single large changes, but also from several small changes that are cumulatively significant. (...) Structural changes trigger recalculation because they merely transfer emissions from one company to another without any change in emissions released to the atmosphere (e.g., an acquisition or divestment only transfers existing GHG emissions from one company's inventory to another).”

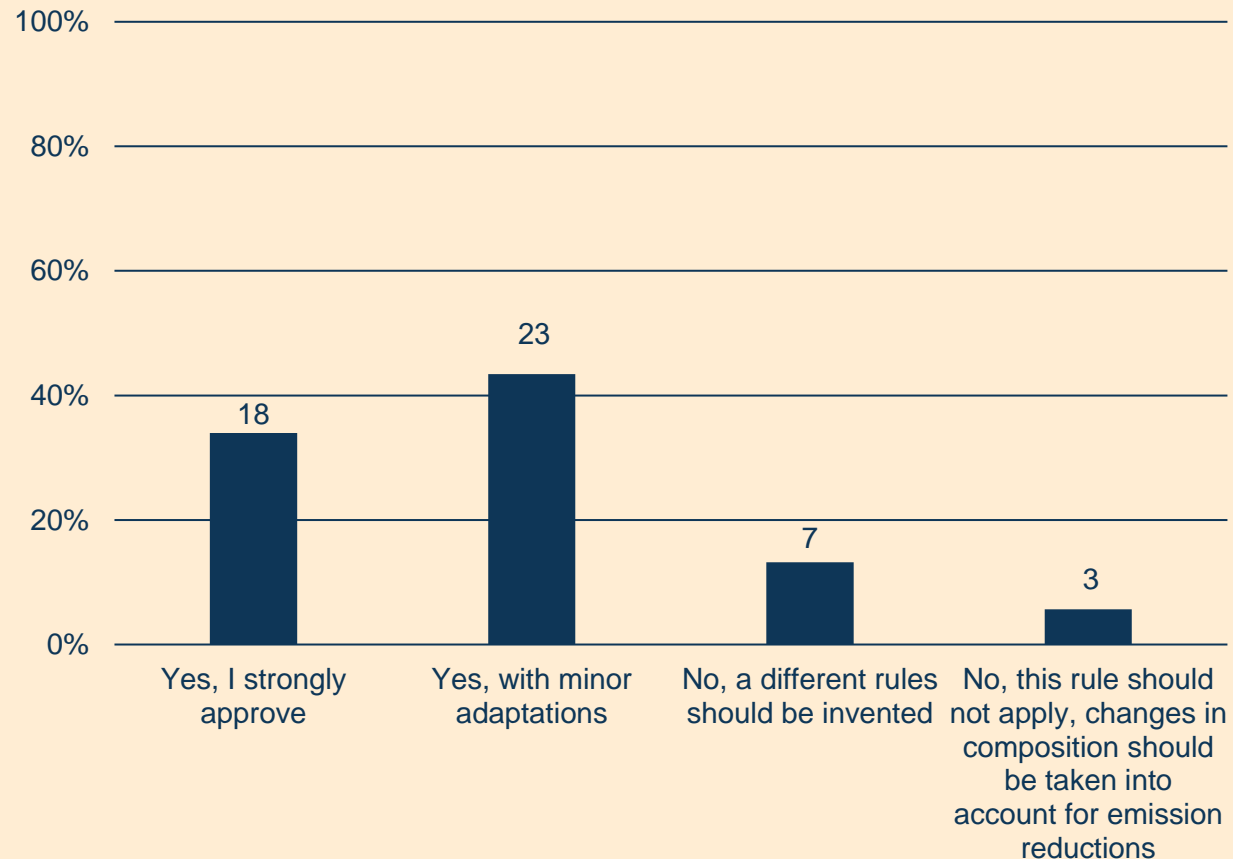
– **Corporate Value Chain Accounting & Reporting Standard (p. 104)**

Do you think this rule should be applicable to financial institutions?

Survey results

SBTi's envisioned criteria are not consistent with the GHG Protocol in our view

Do you think this rule should be applicable to financial institutions?



Written comments (Outtakes):

The citation above refers to significant structural changes. Whilst we would agree this should apply if, e.g, a financial institution merges with another during the reporting period, we believe its application to create a stable baseline of portfolio emissions adds further complexity and cost which is not justified by the objective being pursued.

I think it could be tricky to do it. Please see the formula for calculating the changes in the The Swedish National Pension (AP) Funds' common indicators for reporting the carbon footprint of investment portfolios available at www.ap2.se

No, this would be pretty absurd to apply for liquid asset classes, it clearly is designed for real-economy companies

I just don't think its meaningful to track portfolio level GHG emissions and I think any type of portfolio level emissions number will be so complex that it is meaningless or impossible to understand mainly because scope 3 data is all over the place and data coverage generally is incredibly weak. An issuer level scorecard approach is a better.

Generally agree with this, with one caveat. If we allow for the possibility that divestment is one of the mechanisms that can deliver a non-zero impact (even if this is much less than a 100% of the footprint of the divested company), then the principle of recalculating the baseline based on the post-divestment portfolio holdings would fail to capture that impact.

Regulatory and legal implications

We identify a risk of leveling down the playing field and facilitating misleading impact claims

The EU regulatory guidance says that *“claims should be based on robust, **independent, verifiable and generally recognized evidence** which takes into account the **latest scientific findings and methods.**”*

By presenting itself as independent and science-based, the SBTi project as currently designed is likely to **level down the playing field** and undermine the enforcement of existing consumer protection and unfair competition regulations. The current criteria seem inconsistent with the science as presented as in the previous section and potentially misleading.

Our analysis of current environmental marketing claims in Europe suggests that many fund manager make *‘investor impact’* claims, and that most of them do not comply with applicable regulatory guidelines.

These practices take place in a context in which about 40% of consumer declare that they want to have a measurable environmental impact with their money, in line with the academic definition of ‘investor impact’.

We fear the SBTi process may reinforce this dynamic.

[Do you agree with our interpretation?](#)

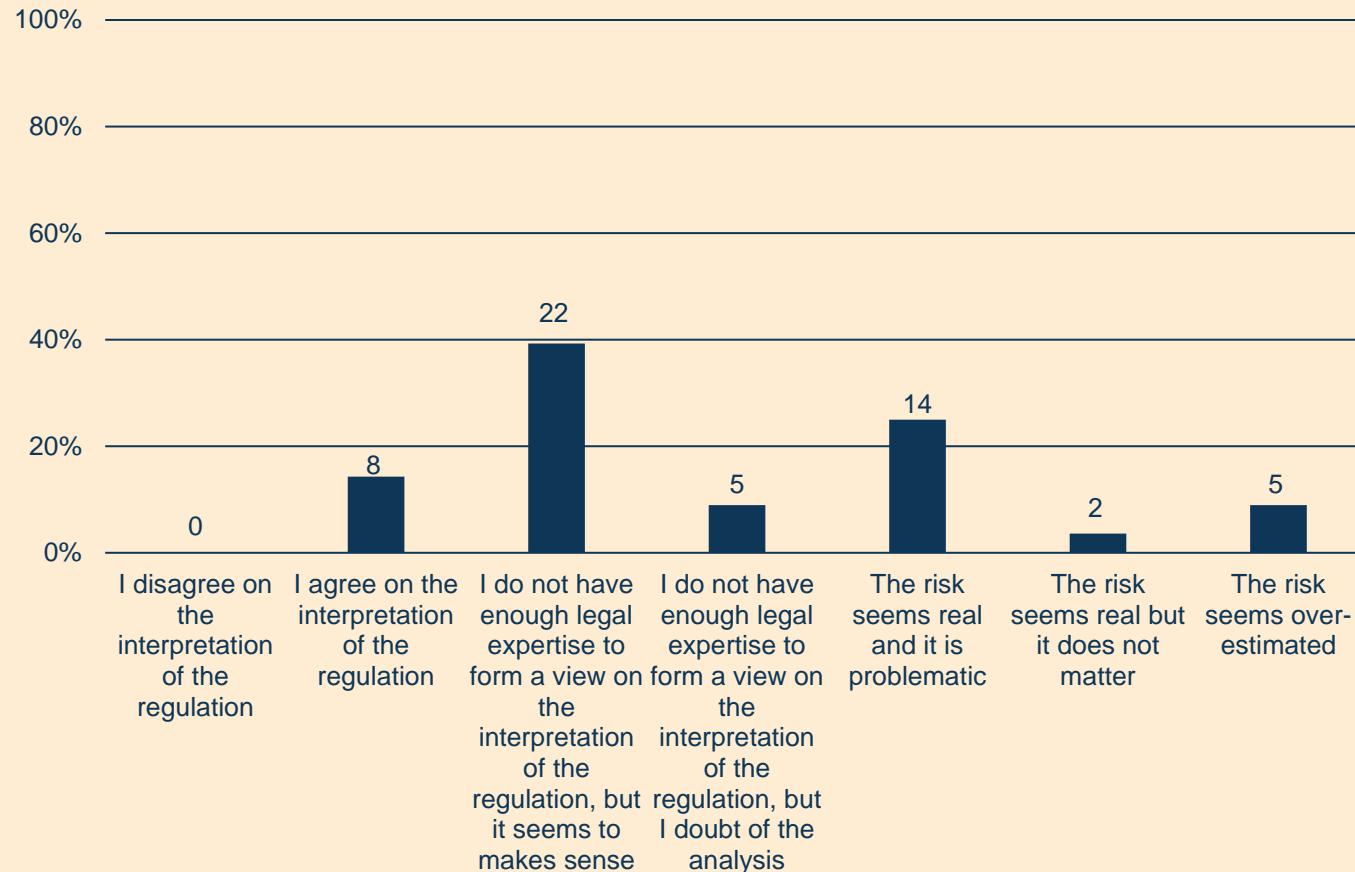


[Request the compliance review \(draft\)](#)

Survey results

We identify a risk of leveling down the playing field and facilitating misleading impact claims

Do you have a different interpretation of the regulatory framework? Do you think we over-estimate this risk?



Written comments (Outtakes):

I agree with the interpretation. But i think the risk is less than described because it rubs against a fundamental limitation of SBTi framework. Science based targets (i.e SBTi) have always had an issue of target achievement validation.

I agree with your logic and find such development problematic, however, I doubt the likelihood of such a profound impact on the enforcement of existing regulations.

We believe your question uses inflammatory language such as "undermine the enforcement". As such we believe the risk is over-estimated.

SBTi is the de-facto authority for real GHG reduction targets. As an investor, if we see that a company has set science-based targets with SBTi we assume a sufficient level of rigour, intention and resulting action (for instance they are also given higher credibility than self-proclaimed science-based targets). In general I am less concerned about protection/competition regulations than with the loss of credibility for what a science-based target really is.

Carbon footprinting and related ‘targets’ or ‘performance’ are often associated with misleading claims confusing company and investor impact

“Last year, the equity fund was directly responsible for 1,417 tonnes of CO₂ emissions based on this calculation. A very good value, as the comparison with the MSCI index shows that our fund has a significantly lower impact on climate”

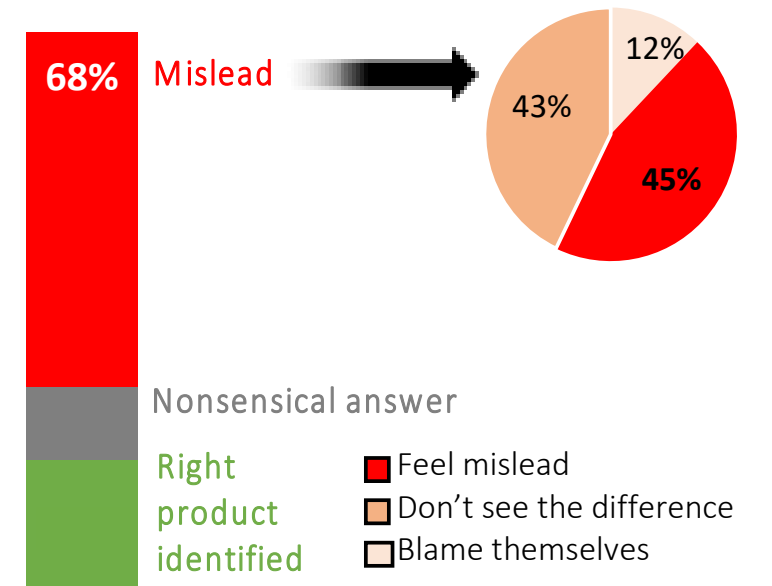
*“What does this mean for you as an investor?
An investment of 100,000 euros in the fund helps avoid CO₂ emissions by 400 tons, or the equivalent of 60 trips around the world with a car.”*

“A 5 million Euro investment in the fund, for one year would reduce polluting emissions by 4,200 tons of CO₂, which is equivalent to taking 1,900 cars off the road for a year.”

*“Invest 25,000€ in this fund and you save the CO₂ emissions equivalent to:
Flying 7,3000 km, Eating 830 burgers, using 7,000 times your washing machine”*

When marketing claims confuse ‘investor impact’ with ‘company impact’ and communicate on related GHG emission targets, 2/3 of consumers are misled

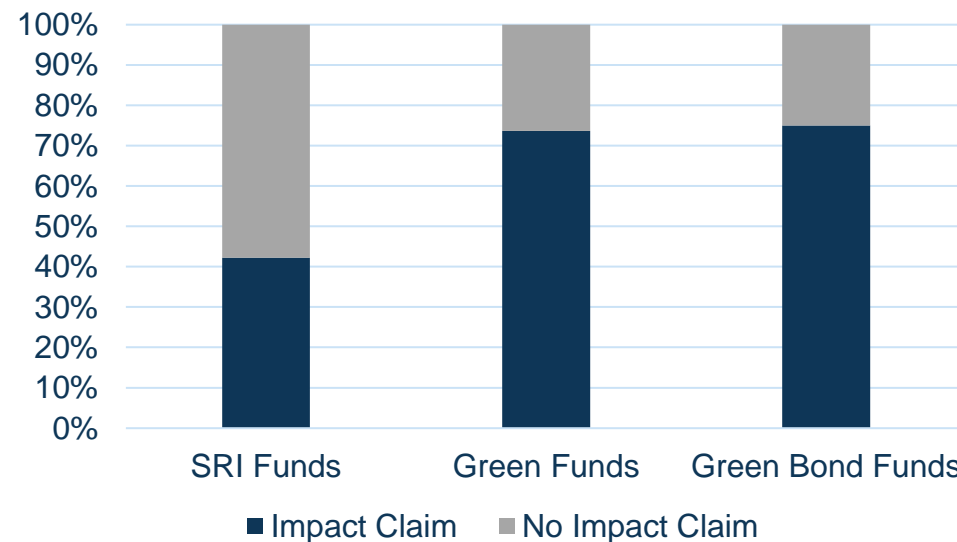
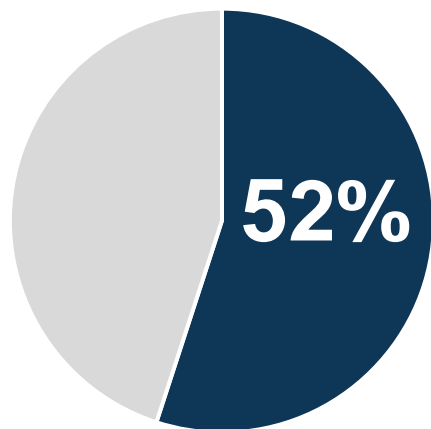
Claim: “*The Equity Fund*” allows investors to have a real impact on climate change. The design of the fund aims at generating a real impact on the environment and create solutions for climate change: For example, a 5 million Euro investment in the fund, for one year would reduce polluting emissions by 4,200 tons of CO₂, which is equivalent to taking 1,900 cars off the road for a year. These figures are reported every year and audited.”



Source: Spendid research/2Dii. In Q3 2019, 2,000 German retail investors and 2,000 French retail investors were asked to associate the claim with a technical description of the product and its environmental benefits “Based on this description, which of the following sentences most accurately describe(s) your understanding of the environmental characteristics associated with this product?”.

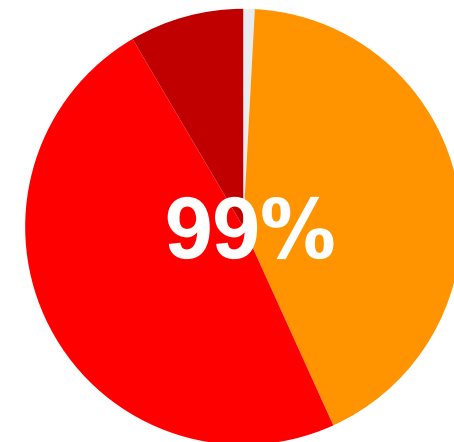
Today, such non-compliant marketing impact claims are the norm rather than the exception

52% of sustainable funds in our sample make a claim on environmental impact of the investment strategy [a.k.a. investor impact]. The figure is much higher for green equity and bonds funds



For 99% of the funds, the claims are misaligned with regulatory guidelines

- Relevant
- Ambiguous
- Confusing
- Erroneous



Fund selection : 240 European retail funds, representing €130 Billion in AUM, explicitly presented as having a link to environmental through the implementation of SRI, Green thematic and Green bond approaches (2Dii 2019)

Source: 2Dii analysis based on Regulatory guidance (EU Multi-stakeholder Dialogue on Environmental Claims) associated with the Unfair Commercial Practices Directive

On top of being misleading, some ‘GHG reduction targets’ set by investors are manipulative: they are easily achieved without any change in either the emissions of the investees (impact) or in portfolio exposure.

Examples of claims:

“We will reduce the carbon footprint of our listed equity portfolio by 40% in 2027 relative to 2017”

“Between 2015 and 2023, we commit to reducing the carbon intensity of our overall portfolio by 25%”

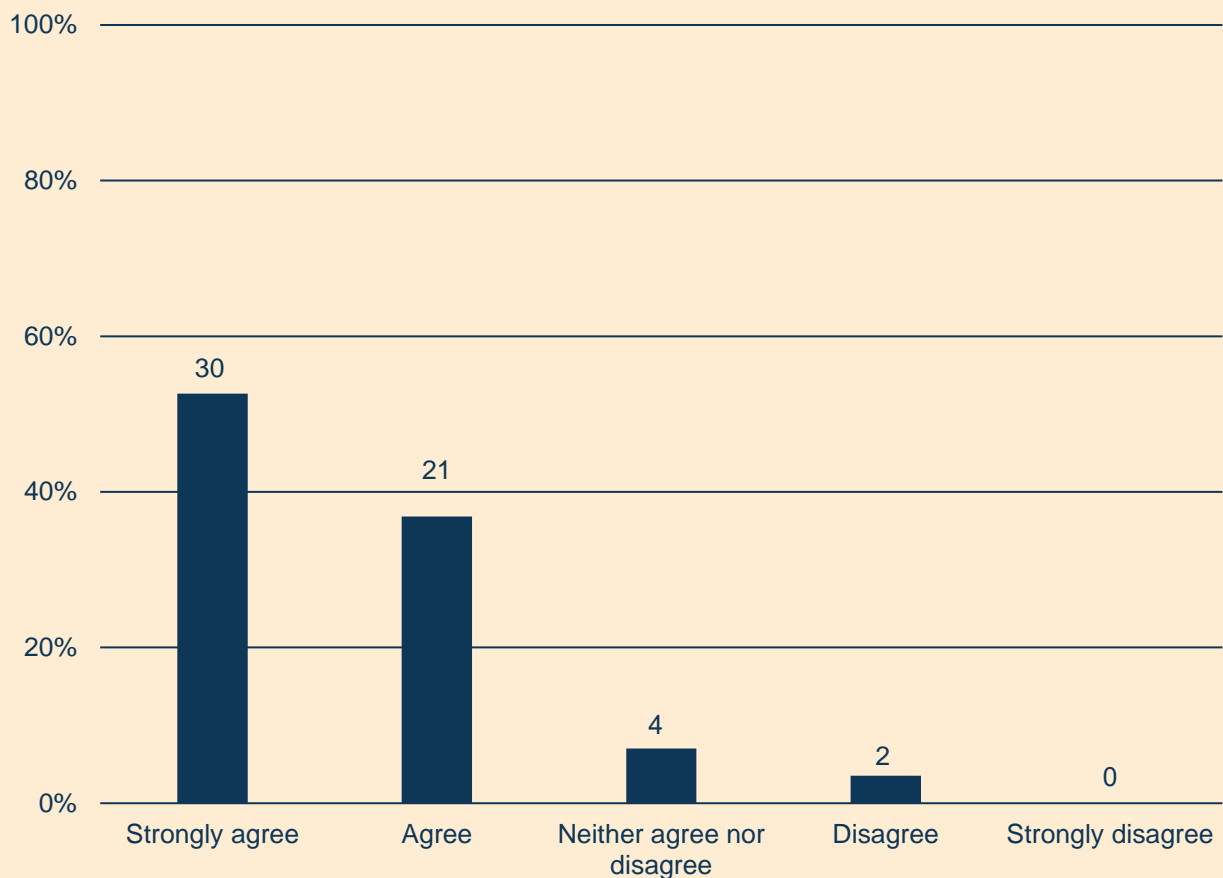
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
CO ₂ emissions	100	100	100	100	100	100	100	100	100	100
Asset price	\$ 1.00	\$ 1.07	\$ 1.14	\$ 1.23	\$ 1.31	\$ 1.40	\$ 1.50	\$ 1.61	\$ 1.72	\$ 1.84
CO ₂ intensity	100	93	87	82	76	71	67	62	58	54
CO ₂ intensity reduction rate	0%	-7%	-13%	-18%	-24%	-29%	-33%	-38%	-42%	-46%

Calculation based on a 7% annual growth of the asset price. The target is still met with a 3.5% annual growth rate.

Survey results

We identify a risk of leveling down the playing field and facilitating misleading impact claims

Do you consider those claims to be misleading?



Written comments (Outtakes):

The 'science based' term refers to what science (scientists) have shown to be needed to prevent catastrophic global warming (i.e. 1.5C and a carbon budget), not to the methodology relating downscaling and allocating remaining carbon budget among real economic sectors/companies.

There should be a reliable study that supports the figures stated in the marketing claims.

The statement assumes that the act of investing creates additional value. Investing in a fund doesn't necessarily cause growth in the real economy. It is just as likely to simply be benefiting from growth in the real economy without having any influence over the outcome.

I see your point and where you're going with this. This cannot be seen as an impact measure. However you have to understand that when you speak with an asset owner you need to justify that your fund is less carbon intensive than the benchmark. In that matter I think this is fine to say that 1 euro invested in fund X emits less than 1 euro invested in the benchmark. Some marketing materials are a bit misleading but mostly because of asset owners.

Its just a way of saying that the companies they invest in are on average, 'greener' than the rest of the market. Its tangible for the layperson.

I agree and should hope that the SBTi's approval will not be formulated in similar terms.

Recommendations to financial institutions interested in setting science based targets

+ 2Dii actions on the topic

Help develop investor impact measurement methodologies

Several collaborative research projects aim at building evidence on investor and bank impact



The Impact Management Project (IMP) is a forum for building global consensus. They convene a Practitioner Community of over 2,000 organisations to debate and find consensus (norms) on technical topics, and share best practices. It also coordinates efforts to provide complete standards for impact measurement, management and reporting (IMP Structured Network)



**Universität
Zürich**^{UZH}

CSP is a research and teaching unit at the Department of Banking and Finance of the University of Zurich in Switzerland. Their current research program involves collecting and analyzing scientific evidence on investor impact across different asset classes, and developing practical tool to manage impact.



INVECAT



Invecat is a 3 year EU-funded research project led by 2Dii and involving the UNFCCC Secretariat, the UNEP-FI and WWF. One of its objective is the development of an 'investor impact' assessment methodology and its integration into 2Dii's PACTA tool (see next page).

Start collecting ex-post evidence on the impact of your actions

Several projects aim at managing investor and bank impact



Climate Action 100+ is an investor initiative coordinating engagement activities and shareholder resolutions on a list of 60 high carbon companies. 370 investors with more than \$35Tn AuM have joined it. The coalition publish an annual 'progress' report, making it a good home for data and evidence collection.



UNEP-Fi coordinate the Principle for Responsible Banking (130 Banks) and the Collective Commitment to Climate Action (36 banks), which involved commitment to manage impact and set impact targets. They offer a good field for the pilot testing of emerging impact methodologies.



PACTA is a portfolio climate scenario analysis tool developed by 2Dii for investors and banks. It is used by 700 financial institutions with \$60Tn of assets, and endorsed by several public authorities. The platform provide a good channel to document actions and collect evidence on their effect on companies activities

Don't confuse alignment goals with science-based targets

Tracking portfolio alignment with climate goals and setting intended trajectories is a relevant step

Examples of alignment goals

“Transitioning our investment portfolio to net-zero GHG emissions by 2050”

“Aligning our lending portfolio to reflect and finance the economy required to limit global warming to well-below 2°”

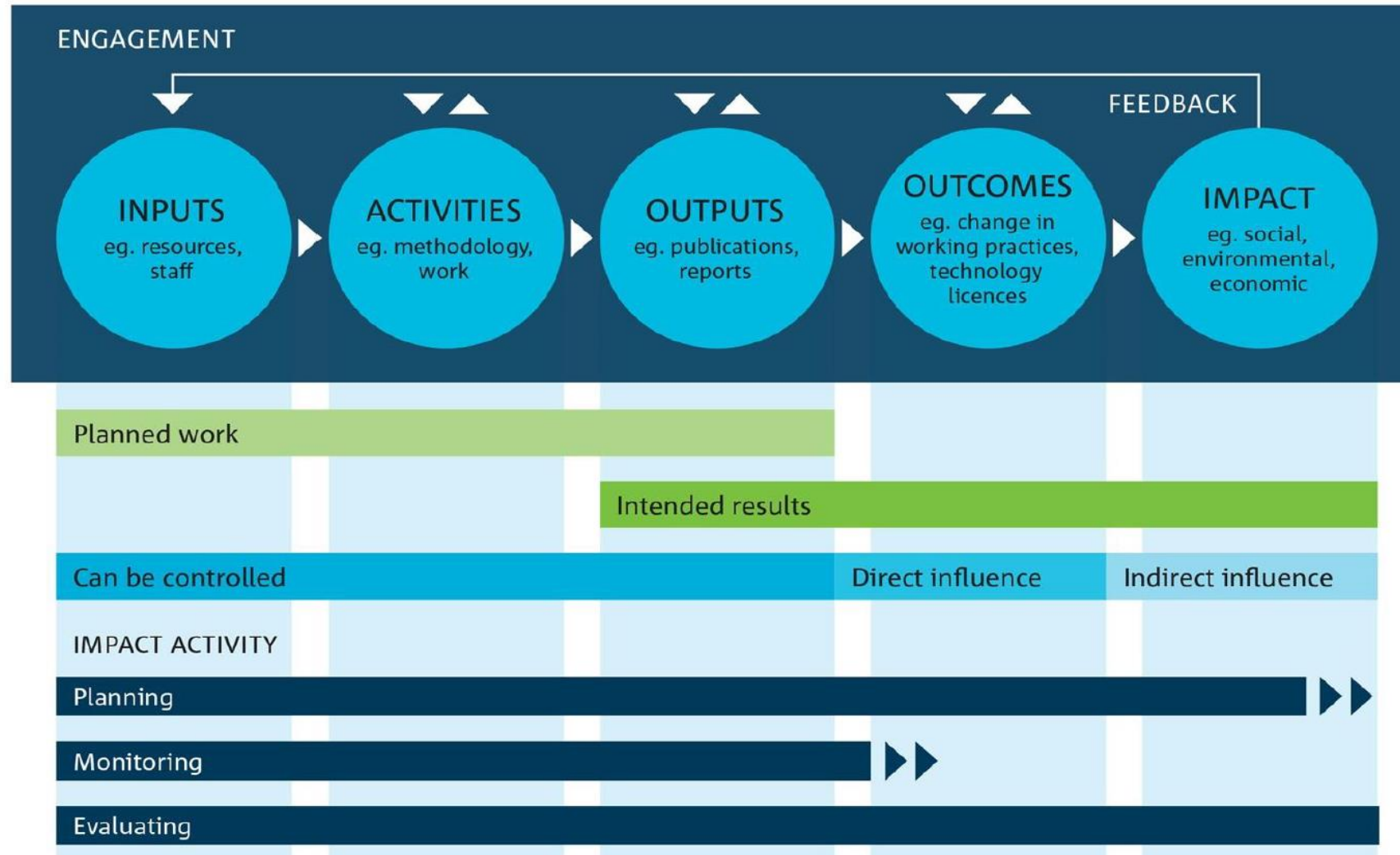
“The Dashboard demonstrates the CO2 equivalent (CO2e) intensity per sector of our portfolio compared to the market and the relevant climate scenario. It also displays the climate alignment target per sector and our intended decarbonisation pathway”

Best practices of disambiguation

“There is a difference between the outcomes of portfolio climate alignment and the impact of absolute GHG emissions reduction in the real economy. Challenges such as carbon leakage present limitations to how much a bank can control in terms of climate impact, especially when applying capital allocation choices as a tool for steering”. **ING terra report**

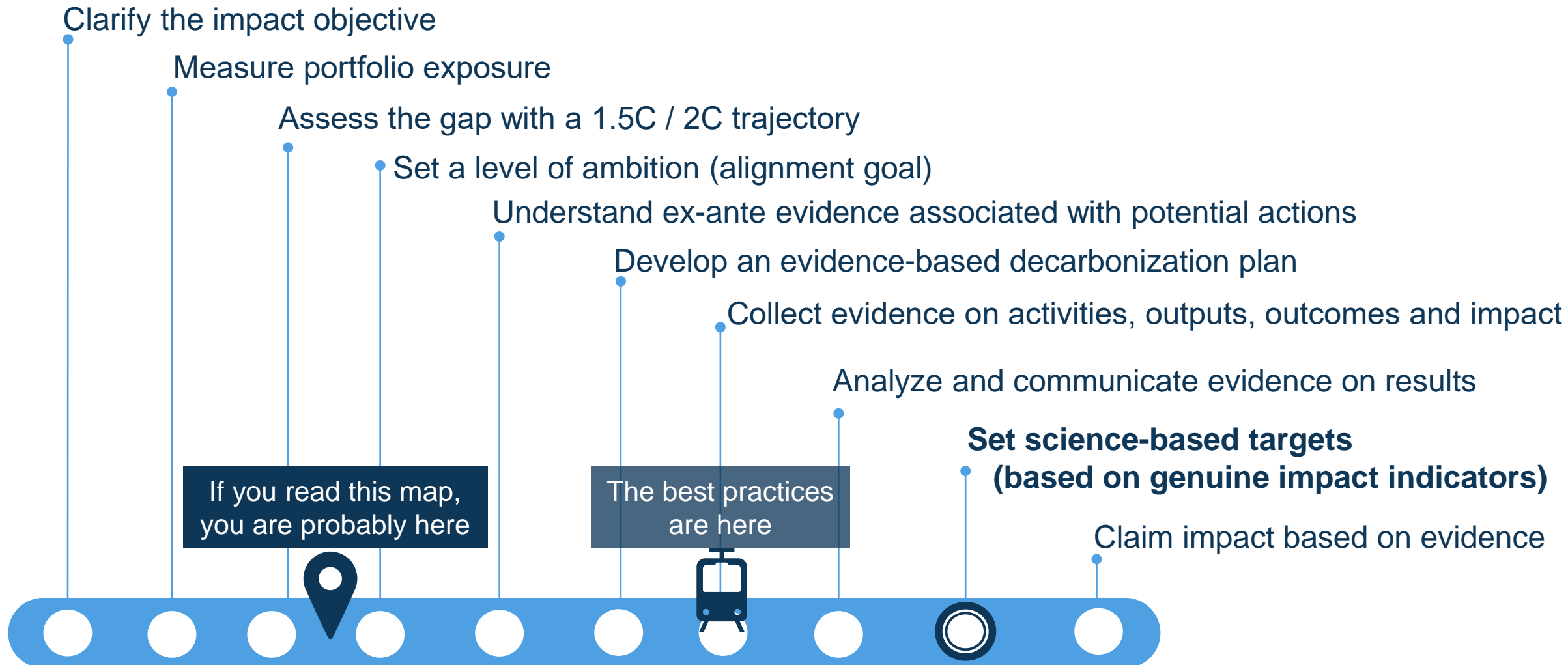
Setting ‘alignment goals’ is relevant to define the intended average trajectory for the investee/client companies. However it is not to be confused with a ‘science-based target’ that, by design, only applies to real GHG reductions.

CICERO conceptual framework, referenced in ING's report



Suggested journey to science-based target setting

We estimate that it will be possible for investors to set science-based targets in 2 to 5 years



Join our 'Evidence on impact' program

Several collaborative research projects aim at building evidence on 'investor/bank impact'



POLICY POSITION

Our objective is to level up the playing field in order to avoid unfair competition. Provide feedback on this presentation and upcoming papers to help us build a public position regarding the standard of evidence required to substantiate backward-looking and forward-looking climate impact related claims.



METHODOLOGY DEVELOPMENT

Various organizations currently build and road-test 'investor impact' measurement methodologies. However most approaches only outline general principles and the practical tools available are limited. Building on their findings, and our partnership with investors and banks we want to contribute to enhancement and deployment of methodologies.



EX-POST EVIDENCE COLLECTION

We will leverage our PACTA tool to collect turn methodologies into a practical module that will collect evidence on activities, outputs and outcomes and made the data (under NDA) available to researchers in order to analyze the impact, improve the methodologies and calculate 'impact indicators'



Visit our website: 2Dii.org