



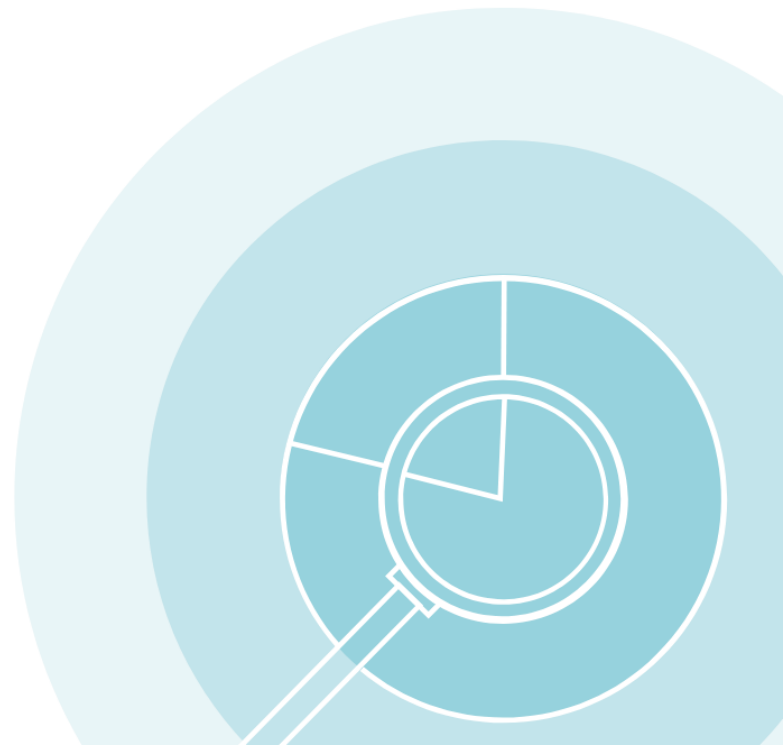
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# Sustainable finance observatory's answer to SBTi public consultation on Financial Institutions Net-Zero Standard draft v0.1

30th September 2024



# About the Sustainable finance observatory

**The Observatory was created by the French Minister of Economy and Finance** during the Declaration of the Paris financial Place on July 2, 2019. The main French financial federations then made commitments not only to phase out thermal coal, but also to publicly monitor their commitments and to publish the alignment of their investment portfolios with the Paris Agreement.

**The Observatory's public interest mission is to contribute to the transparency, monitoring and evaluation of the transformation of financial institutions**, both French and international ones. To this end, it conducts various studies and publishes the resulting data on its website in an open-access format to provide a comprehensive dashboard of the financial sector's sustainable transition.

**The Observatory is a project of the *Finance ClimAct* European program** supporting the inclusion of climate considerations into the operations of financial institutions. Financed by the European Union's *Life* program, *Finance ClimAct* has brought together a consortium of 8 key players in sustainable finance led by ADEME (French transition agency, which is also the main funder of the Observatory): ADEME, 2*i*, AMF, ACPR, I4CE, RMI, Institut de la Finance Durable and Ministère de la transition écologique.

**The Observatory is hosted by *Paris Agreement Research Commons (PARC)*, a public interest foundation.** PARC's main objective is to foster an international research ecosystem to produce applied research and robust tools to boost the transition pathway of financial institutions toward the Paris Agreement's goals. It is chaired by Bertrand Badré, former director of the World Bank and is part of the Institut Louis Bachelier research network in finance, economy and applied mathematics, which hosts more than 70 research programs and brings together 400 researchers working on transition issues.

**The Observatory's main studies** are:

- **The Net-Zero Donut<sup>®</sup>**: an exclusive, visual and holistic monitoring tool of financial institutions' net-zero transition plans, based on GFANZ principles and completed with the most demanding frameworks available. Largest European NZBA members and French NZAM and NZAOA members analysed at this point.
- **Analysis of regulatory sustainability data**: review of the Pillar 3 ESG reports of the main 15 European banks and statistical analysis of more than 700 SFDR reports collected from French financial institutions in collaboration with the ADEME through the Climate Transparency Hub (CTH).
- **Monitoring of French financial players' ESG commitments**: a unique database covering 53 financial institutions and more than 2000 commitments over 4 years.

Author : Edouard Vilpoux

# 1. Overall comments on the Standard

The Sustainable finance observatory welcomes the Financial Institutions Net-Zero (FINZ) Standard of the SBTi. It is a major improvement to the Financial Institutions Near-Term (FINT) Criteria introduced in 2020.

The FINZ standard goes well beyond the scope of the FINT criteria, covering a wide range of financial activities: lending, asset management and owner investment, insurance underwriting, and capital market activities such as bond issuance and loan syndication. The comprehensiveness of the scope is satisfactory given the recognition that it is not only financing and investment that can support economic activities with a high climate impact.

Moreover, the emergence of "net-zero" commitments has raised significant questions about the feasibility of such commitments and the compelling transition plans they require. Therefore, the FINZ standard seems to be an appropriate way to provide a common and reliable framework to analyse and compare the net-zero trajectories of financial institutions (IFs).

The Sustainable finance observatory has indeed identified this crucial need for a reliable monitoring of net-zero transition plans of FIs. During COP28 in Dubai in December 2023, the Observatory launched its own exclusive monitoring tool, the Net-Zero Donut<sup>®</sup>, and audited all French members of three Net-Zero Alliances (NZBA, NZAM and NZAOA). The Net-Zero Donut<sup>®</sup> is an aggregated framework of around 200 indicators from various frameworks such as GFANZ NZTP, SBTi, ACT Finance, PCAF, TCFD, HLEG, GHG Protocol and W/WF. Its aim is to provide a reliable and accurate check on the credibility and progress of FIs' net zero commitments, and to present the results for each FI in a holistic and visual way: a donut, in reference to Kate Raworth's work.

The Observatory is pleased to answer SBTi public consultation on the FINZ Standard and hope its comments will be helpful to finalize a flawless, reliable and ambitious framework to lead the transition of the financial practices globally.

## **About the scope of the Standard**

The Sustainable finance observatory welcomes the inclusion of a wide range of financial services in the standard. We strongly encourage SBTi to initiate a review in the medium term to ensure that all financial services are addressed by FIs in their use of the standard, and to consider adding requirements to the standard if ever any type of financial support to enterprises would have been outside the scope.

## About climate transition plan

As it stands, the FINZ Standard recommends that FIs develop and publish a transition plan that is consistent with the net-zero by 2050 commitment. We recommend that this should be a requirement. Indeed, FIs that will engage in setting SBTs with the FINZ Standard are likely to have already committed to a Net-Zero Alliance and therefore published a Net-Zero Transition Plan (NZTP). As SBTi requested during the consultation webinar on 22 August, we strongly recommend that this be made a requirement so that GFANZ NZTP and FINZ Standard become complementary.

## About fossil fuel policy

Requirement 1.7.1 "Fossil fuel policy" is comprehensive but lacks precision. We recommend that in parallel to the "long lead time" criteria, social criteria be added. In fact, we recognize that a just transition cannot be done without addressing energy poverty and needs in non-OECD and non-EU countries, and so, some countries in the Global South would need to rely on local oil and gas resources for their rightful development. As such, instead of defining exceptions in terms of "long-lead time" only, exceptions should be based on social criteria such as:

- The percentage of electricity generated by an oil or gas power plant that is used to meet the needs of the local community and region, rather than being exported abroad. Oil and gas development and expansion projects should only be supported if the main beneficiaries are the local populations,
- Upstream and midstream oil and gas projects must also comply with the principle of Free Prior and Informed Consent. It is a common practice for financial institutions to have a due diligence process that includes the screening of the investment / lending scope for "controversies". The SBTi standard should therefore be robust enough to dissuade financial institutions from supporting companies involved in oil or gas projects linked to controversies regarding local community consultation and consent

This is to ensure that new oil and gas projects are not only solely short lead time projects, but also solely projects that contribute to local development.

Furthermore, we would like to draw attention to the vagueness of the term "financial flows" and "new financial flows" which we recommend the standard define to clearly include all financial activities, as there could be confusion as to what a "new financial flow" means for certain financial activities.

On managed coal retirement, we recommend looking to the OECD's 'gold standard', which is currently being developed as part of the Coal Transition Accelerator (CTA) initiated by France during COP28. Unless its ambitions are watered down, it should set robust and clear limits on the conditions under which FIs can invest in coal assets to finance the early retirement of coal-fired power plants - without co-firing, retrofitting, conversion to gas, reliance on technologies that lack scientific evidence,

or the use of carbon credits. In its current form, the managed phase-out part of the FINZ standard lacks precision to ensure its robustness.

We commend the decision to include a requirement to establish a fossil fuel policy that compels financial institutions to stop financing, facilitating and investing in fossil fuel expansion projects and companies. We also welcome the focus on coal divestment and the identification of specific actions to be taken by financial institutions in this regard. However, the requirement fails to address financial flows towards oil and gas companies that are not developing any new projects but are nonetheless exploiting oil and gas resources through their existing assets. As the SBTi standard has done so for coal projects and companies, it should require financial institutions to establish and detail out their engagement strategy with regards to companies in the oil and gas value chain.

Recommendation 1.7.2 “Climate-aligned policy for long-lived high-emitting assets” should be a requirement. Indeed, fossil fuels are only part of the overall climate issue. It cannot be solved by restricting policy to this sector alone. High-emitting sectors also need to be addressed to ensure alignment with the Paris Agreement and the 2050 net-zero target. Power generation, industry, transport and buildings are among the most energy-intensive sectors. Demand-side measures cannot be optional. The IPCC found that appropriate demand-side strategies could deliver 40-70% of the required GHG mitigation by 2050 through market leverage<sup>1</sup>.

Furthermore, regarding the wording of recommendation 1.7.2 (“cease the support of”), more precision is needed as to what constitutes as “support”: is it direct support, i.e. financing of projects linked to high-emitting assets, or is it indirect support, i.e. financing of companies involved in high-emitting assets development? The definition of “support” should be such that the financing of companies who develop long-lived high-emitting assets are also excluded, and if not, so that financial institutions are pushed towards the establishment of an engagement strategy with companies involved in such projects.

### **About staggered approach for GHG emissions accounting**

Absolute GHG emissions are adequate to accurate measurements of climate impacts of human activities. PCAF methodology of GHG accounting and reporting is satisfactory. FINZ staggered approach seems reasonable and consistent with current availability of data on emissions. The 2030 deadline for full absolute GHG emissions inventory should not be postponed.

On dynamic portfolios, we strongly recommend SBTi to state minimum methodological requirements in describing the timing and weighting approaches used to calculate portfolios emissions. Otherwise, the whole standard could suffer

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<sup>1</sup> IPCC, 2023: *Climate Change 2023: Synthesis Report*. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, H. Lee and J. Romero (eds.)]. IPCC, Geneva, Switzerland, p. 102, doi: [10.59327/IPCC/AR6-9789291691647](https://doi.org/10.59327/IPCC/AR6-9789291691647).

from methodological approximations leading to smaller GHG emissions reductions from private actors.

### **About the milestone approach and regional breakdown for targets**

In Table 4, the difference between 2040 and 2050 criteria seems too high. Progressive threshold for net-zero achieved only could be implemented in order to get progressive reduction of "transitioning only" along the path to 2050.

Targets for SMEs should be included earlier than 2040. They represent a significant part of global economic activities, therefore 95% net-zero achieved at global scale won't be achieved without earlier significant changes in the way climate is considered among SMEs. Introducing requirements progressively is key to ensure the whole economy starts moving forward without delay and avoid brutal changes required lately.

Regional breakdown between OECD and non-OECD countries could be interesting considering just transition issues and North/South inequalities but given the fact that many production units of OECD companies – subsidiary or not – are located in the South, the responsibility for transitioning should not be delayed, otherwise it might encourage wait-and-see attitude from American and European multinational companies. As it stands, thresholds for non-OECD countries seems too low to hope for 95% net-zero achieved at global scale in 2050.

In addition, Capital Markets Activities (CMA) are much more flexible in time than lending or asset management activities. Activities that are considered climate-damaging can be stopped more quickly than loans that have mobilized long-term equity. Therefore, we recommend the milestone approach for CMA has earlier requirements than other financial activities.

### **About defining transitioning entities and activities (Table 15)**

Given the approach SBTi has chosen to identify climate-aligned finance (i.e. transitioning plus net-zero achieved), it is essential that the criteria included in Table 15 are robust and precise enough to ensure that a company's transitioning characteristic is real and not based on announcements, policies or voluntary commitments, but on actual activities, GHG emissions and climate impacts. We therefore recommend:

- More precision in defining the 3 options proposed by providing financial institutions with specific technical criteria, in particular:
  - o "Paris-aligned near-term target" needs to be specified
  - o Define what constitutes a 'credible source' for the Paris-aligned temperature assessment. Indeed, researchers have shown that temperature assessments have significant methodological flaws. For

example, *The Alignment Cookbook*<sup>2</sup> published by the Institut Louis Bachelier has identified a divergence in temperature implied rise measurements of up to 4°C depending on the methodology used.

- Indicate what is covered in the "most relevant sources of value-chain emissions".
- A "credible taxonomy" also needs to be specified by SBTi. We recommend that SBTi indicate whether different taxonomies around the world are "credible" or not, and regularly update such a list of "validated taxonomies".
- Self-assessment of progress towards targets should not be allowed after 2030. By then, we expect independent third-party assessment to be widely available.

### About sectoral breakdown and alignment metrics

Table 11 and 17, sectors are missing:

- Aluminium (unless it must be incorporated in steel?)
- Agriculture

Moreover, value chains should be comprehensively addressed for each of these high-emitting sectors. Activities are so closely linked it seems difficult to change the whole sector GHG emissions focusing on only one activity of the value chain. It is particularly true for:

- Limestone quarrying, concrete and construction in the cement sector
- Mining of iron ore in the steel sector
- Suppliers and construction in the buildings sectors
- Parts suppliers in the automotive sector
- Parts suppliers and aircraft manufacturers in the aviation sector
- Parts suppliers and ship manufacturers in the shipping sector

If the choice is made to not include these parts of the value chain for emissions-intensive activities, this should be clearly justified, and backed by existing, recognized standards.

We also recommend integrating ISIC and NACE codes to enable comparability with other frameworks.

The FINZ Standard proposes that financial institutions cover at least 95% of all GHG emissions from their in-scope "reasonable influence - higher climate impact"

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<sup>2</sup> Institut Louis Bachelier et al. (2024). *The Alignment Cookbook 2 - A technical panorama of the alignment methodologies and metrics used by and applied to the financial sector, with a view to inform consolidated alignment assessments.* (1<sup>st</sup> edition by Institut Louis Bachelier, I4CE and WWF in 2020 - 2<sup>nd</sup> edition by Institut Louis Bachelier, Paris Agreement Research Commons, Climate Arc, Scientific Portfolio (EDHEC) and ADEME in 2024 – Lead author: Julie Raynaud – Authors: Stéphane Voisin, Peter Tankov, Vincent Bouchet, Adrien Ferrand and Joao Paulo Serta)

financial activities with emission-intensive sector targets. The reasonable influence - higher climate impact breakdown is already a segmentation that excludes some activities. Allowing FIs to exclude a portion of this category of activities poses a risk: some specific activities may not be covered by the standard at all - even if that portion of activities generates "only" 5% of "reasonable influence - higher climate impact" activities.

If SBTi wishes to maintain an exclusion option, it should consider introducing an absolute value threshold in addition to the percentage threshold. In addition, there should be a systematic annual review to verify that excluded activities still represent less than 5% of GHG for FIs that have used this exclusion option.

That being said, we strongly agree with the physical intensity metrics SBTi has identified eligible for the FINZ standard.

### **About other climate change drivers than GHG**

Agriculture and deforestation are slightly mentioned by the Standard whereas agriculture represents 22% of global GHG emissions<sup>3</sup> and concerns all of the 9 planetary boundaries<sup>4</sup>. We believe deforestation, land artificialisation and the use of pesticides and fertilizers must be addressed more precisely. We recommend that FIs systematically request basic information on those subjects from their counterparts:

- Surface of deforestation: total by entity and details for each location
- Surface of land artificialisation: total by entity and details for each location
- Use of pesticides and nitrogen fertilizer: name of each substance and quantity (total by entity and details for each location)

To align with existing frameworks such as the Principle Adverse Impact (PAI) disclosure required by the EU's SFDR Regulation, financial institutions should be required to monitor and disclose their exposure to companies whose activities cause land degradation, desertification or soil sealing, and to companies without a policy to address deforestation.

The current guidelines should also push for the establishment of an engagement strategy by financial institutions with regard to deforestation. Financial institutions are to disclose how they intend to engage with companies involved in deforestation activities and in sectors linked to deforestation, and their escalation process.

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<sup>3</sup> IPCC, 2023: Summary for Policymakers. In: *Climate Change 2023: Synthesis Report*. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, H. Lee and J. Romero (eds.)]. IPCC, Geneva, Switzerland, p. 5, doi: [10.59327/IPCC/AR6-9789291691647.001](https://doi.org/10.59327/IPCC/AR6-9789291691647.001).

<sup>4</sup> [Agriculture is destabilizing the Earth system, according to recent study, Climate Change, Agriculture and Food Security, April 22, 2018](#)



## About transparency and reporting

The Observatory strongly recommends that the SBTi create a fixed template for FIs' FINZ reporting, including each of the breakdowns created by the Standard. This will not only make it easier for FIs to use the Standard but will also enable SBTi to collect data that can be compared across institutions globally. (A good example of such a detailed template is the European Banking Authority's Pilar 3 ESG tables, which will allow independent observers to use the data when it is published online on the Pilar 3 Data Hub). At a time when actors are using multiple frameworks with different methodologies and metrics, there is a critical need for homogeneity. We believe SBTi can meet this need for two reasons: it has reached a broad enough range of institutions globally, and its standards, particularly the FINZ, are strong enough to ensure that targets and reporting can lead to real change in companies' practices and ambitions.

Public reporting is a key element in promoting the transition of companies and financial institutions. It allows multiple actors with different voices to analyse and comment on the practices and realities of transition assessments and to inform the public. Therefore, the Observatory strongly recommends that the SBTi consider creating a dataset that is freely and publicly accessible to collect the precise and accurate information on FI transitions that the FINZ will allow.

## 2. Observatory's answers to the online consultation survey

### CONSULTATION QUESTIONS: **CONSULTATION DRAFT CHAPTER 1: ENTITY-LEVEL: ORGANIZATIONAL COMMITMENTS AND LEADERSHIP**

Section 1.3.1: Identification of boundaries of financial activities and Table 8, Annex A, p45

#### **1. Is the revenue threshold of 5%, to trigger the application of FINZ, an appropriate value?**

- Strongly agree
- Agree
- Neutral
- **Disagree**
- Strongly disagree
- No opinion
- N/A

#### **1a. If you have answered "disagree" or "strongly disagree" to the previous question, please provide your rationale.**

In addition to the threshold in %, SBTi should implement a threshold in absolute value.

#### **2. Revenue in the insurance industry typically corresponds to the re/insurer's premiums level. Is the use of a 5% threshold for Gross Written Premium appropriate for insurance company identification?**

- Yes
- **No**
- No opinion
- N/A

#### **2a. If you have answered No, should you wish, please suggest a better approach.**

In addition to the threshold in %, SBTi should implement a threshold in absolute value.

Section 1.3.2: Financial activity segmentation (Level of Influence)

**3. In-scope financial activities and break down by level of influence. Is the split of activities by influence appropriate in the following tables?**

**Table 2.1 Lending (p20)**

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**Table 2.2 Asset Owner Investing and Asset Manager (including private equity firms) Investing (p20)**

- **Strongly agree**
- Agree
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**Table 2.3 Capital Market Activities (p21)**

- **Strongly agree**
- Agree
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**Table 2.4 Insurance Underwriting (p21)**

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

Tables 2.1-2.4 (p20-p21):

**3e. If you answered “disagree” or “strongly disagree” to one or more of the above questions, please list the financial activity for which you disagree and briefly explain why.**

N/A

Annex A, Table 9, p47 (Breakdown investment activities value chain):

**4. Is the breakdown of the investing value chain to determine level of engagement appropriate?**

- Strongly agree
- Agree
- **Neutral**
- Disagree
- Strongly disagree
- No opinion
- N/A

**4a. If you have answered “disagree” or “strongly disagree” to the previous question, should Table 9 still include banks’ asset management activities?**

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**4b. If you have answered “strongly disagree” or “disagree” to question 4a, please provide the rationale for your answer.**

N/A

Section 1.6: Climate transition plan

Recommendation 1.6.1 - Climate transition plan

**5. Do you think that FINZ v0.1 should include having a transition plan as a requirement or recommendation?**

- **Requirement**
- Recommendation

Section 1.6: Climate transition plan

**6. If you answered "Requirement" for question 5, please select which one of the following options you believe is the appropriate timeframe for the publication of a transition plan.**

- **At target submission**
- Within 12 months after target validation
- Within 24 months after target validation

- Other

**If you answered “other” to question 6. please specify the timeframe.**

N/A

Section 1.7: Policies to drive climate alignment

The FINZ Standard is the first SBTi Standard to propose requirements on policies.

Requirement 1.7.1 - Fossil Fuel Policy:

**7. To what extent do you agree that the policy requirements are appropriate to address the climate impact of fossil fuel financing?**

- Strongly agree
- Agree
- Neutral
- Disagree
- **Strongly disagree**
- No opinion
- N/A

Requirement 1.7.1 - Fossil Fuel Policy:

**8. To what extent do you agree that the policy requirements for fossil fuels are implementable?**

- **Strongly agree**
- Agree
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

Requirement 1.7.3 - No-deforestation and conversion free policy:

**9. To what extent do you agree that the policy requirements for no deforestation and conversion are implementable?**

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

Recommendation 1.7.4 - Policy for higher climate impact activities with limited influence:

**10. Do you think the policy for higher climate impact activities with limited influence should be a recommendation or a requirement?**

- **Recommendation**
- Requirement

Recommendation 1.7.4 - Policy for higher climate impact activities with limited influence:

**11. If this were to be a requirement, to what extent do you agree with the 40% threshold in the Policy for higher climate impact activities with limited influence?**

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree
- No opinion
- **N/A**

**12. If you have answered any of the above questions 7 to 11, please provide details on the reasoning behind your selections, including a reference to the question you answered. Also, if you believe additional policies are required for FIs to demonstrate 1.5°C alignment (including those relating to other sectors, e.g., steel, cement, marine, aviation) please describe what those policies should entail and your rationale.**

Requirement 1.7.1 "Fossil fuel policy" is comprehensive but lacks precision. We recommend that in parallel to the "long lead time" criteria, social criteria be added. In fact, we recognize that a just transition cannot be done without addressing energy poverty and needs in non-OECD and non-EU countries, and so, some countries in the Global South would need to rely on local oil and gas resources for their rightful development. As such, instead of defining exceptions in terms of "long-lead time" only, exceptions should be based on social criteria such as:

- The percentage of electricity generated by an oil or gas power plant that is used to meet the needs of the local community and region, rather than being exported abroad. Oil and gas development and expansion projects should only be supported if the main beneficiaries are the local populations,
- Upstream and midstream oil and gas projects must also comply with the principle of Free Prior and Informed Consent. It is a common practice for financial institutions to have a due diligence process that includes the

screening of the investment / lending scope for “controversies”. The SBTi standard should therefore be robust enough to dissuade financial institutions from supporting companies involved in oil or gas projects linked to controversies regarding local community consultation and consent

This is to ensure that new oil and gas projects are not only solely short lead time projects, but also solely projects that contribute to local development.

Furthermore, we would like to draw attention to the vagueness of the term “financial flows” and “new financial flows” which we recommend the standard define to clearly include all financial activities, as there could be confusion as to what a “new financial flow” means for certain financial activities.

On managed coal retirement, we recommend looking to the OECD's 'gold standard', which is currently being developed as part of the Coal Transition Accelerator (CTA) initiated by France during COP28. Unless its ambitions are watered down, it should set robust and clear limits on the conditions under which FIs can invest in coal assets to finance the early retirement of coal-fired power plants - without co-firing, retrofitting, conversion to gas, reliance on technologies that lack scientific evidence, or the use of carbon credits. In its current form, the managed phase-out part of the FINZ standard lacks precision to ensure its robustness.

We commend the decision to include a requirement to establish a fossil fuel policy that compels financial institutions to stop financing, facilitating and investing in fossil fuel expansion projects and companies. We also welcome the focus on coal divestment and the identification of specific actions to be taken by financial institutions in this regard. However, the requirement fails to address financial flows towards oil and gas companies that are not developing any new projects but are nonetheless exploiting oil and gas resources through their existing assets. As the SBTi standard has done so for coal projects and companies, it should require financial institutions to establish and detail out their engagement strategy with regards to companies in the oil and gas value chain.

Recommendation 1.7.2 “Climate-aligned policy for long-lived high-emitting assets” should be a requirement. Indeed, fossil fuels are only part of the overall climate issue. It cannot be solved by restricting policy to this sector alone. High-emitting sectors also need to be addressed to ensure alignment with the Paris Agreement and the 2050 net-zero target. Power generation, industry, transport and buildings are among the most energy-intensive sectors. Demand-side measures cannot be optional. The IPCC found that appropriate demand-side strategies could deliver 40-70% of the required GHG mitigation by 2050 through market leverage<sup>5</sup>.

Furthermore, regarding the wording of recommendation 1.7.2 (“cease the support of”), more precision is needed as to what constitutes as “support”: is it direct support,

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<sup>5</sup> IPCC, 2023: *Climate Change 2023: Synthesis Report*. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, H. Lee and J. Romero (eds.)]. IPCC, Geneva, Switzerland, p. 102, doi: [10.59327/IPCC/AR6-9789291691647](https://doi.org/10.59327/IPCC/AR6-9789291691647).

i.e. financing of projects linked to high-emitting assets, or is it indirect support, i.e. financing of companies involved in high-emitting assets development? The definition of “support” should be such that the financing of companies who develop long-lived high-emitting assets are also excluded, and if not, so that financial institutions are pushed towards the establishment of an engagement strategy with companies involved in such projects.

## SURVEY QUESTIONS - **CONSULTATION DRAFT CHAPTER 2:** **GHG ACCOUNTING: EXPOSURE AND PORTFOLIO EMISSIONS**

### Section 2.1: GHG emissions inventory

**13a. GHG Emissions Inventory: To what extent do you agree with the staggered approach FINZ adopts where accounting of GHG emissions is concerned (i.e., to improve coverage and quality over time)?**

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**13b. Please provide details on the reasoning behind your selected answer to question 13a.**

Absolute GHG emissions are adequate to accurate measurements of climate impacts of human activities. PCAF methodology of GHG accounting and reporting is satisfactory. FINZ staggered approach seems reasonable and consistent with current availability of data on emissions. The 2030 deadline for full absolute GHG emissions inventory should not be postponed.

On dynamic portfolios, we strongly recommend SBTi to state minimum methodological requirements in describing the timing and weighting approaches used to calculate portfolios emissions. Otherwise, the whole standard could suffer from methodological approximations leading to smaller GHG emissions reductions from private actors.

### Section 2.3: Neutralization of portfolio residual emissions

**14. For the neutralization of residual portfolio emissions in 2050, what share of carbon dioxide removals should come from technologies or projects with permanent carbon storage?**



Technologies with permanent storage include Direct Air Carbon Capture and Storage (DACCS), Bioenergy Carbon Capture and Storage (BECCS), and Enhanced Rock Weathering. Technologies with temporary storage include afforestation, biochar burial and soil carbon sequestration.

- <20%
- 21-40%
- 41-60%
- 61-80%
- 81-100%
- 100%
- No opinion

## SURVEY QUESTIONS - CONSULTATION DRAFT CHAPTER 3: PORTFOLIO CLIMATE-ALIGNMENT TARGETS

15. To what extent do you agree with the following elements of Chapter 3, Portfolio Climate-Alignment Targets:

a. The overall conceptual approach for setting climate-alignment targets.

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

b. The appropriateness of the definitions in Table 12, p53: Definition of climate-aligned components.

- Strongly agree
- Agree
- Neutral
- **Disagree**
- Strongly disagree
- No opinion
- N/A

c. The approach under the FINZ Standard, where climate-alignment targets are grouped by financial activity type instead of asset class.

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree

- No opinion
- N/A

**15d. What third party sources of alignment classifications does your organization use or suggest?**

ACT Finance (ADEME / World Benchmarking Alliance / Finance ClimAct)

**15e. For questions 15 a, b and c, please provide details on the reasoning behind your selections.**

Table 12 is a general approach. Table 15 gives key definitions of what is a transitioning entity: see our answer to question 18g.

**16. In Table 4, p36: Overview of portfolio climate-alignment goals split by climate impact and influence level for all financial activities, the SBTi proposes to have the ambition of targets be determined by the concepts of climate impact and influence and suggests a milestone approach to set targets. To what extent do you agree with:**

**16a. The proposal of a milestone based approach for different parts of the portfolio?**

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**16b. The proposed milestones for “reasonable influence - higher climate impact” activities?**

- Strongly agree
- Agree
- Neutral
- **Disagree**
- Strongly disagree
- No opinion
- N/A

**16c. The proposed usage of milestones based on linear increase for “reasonable influence - lower climate impact” activities?**

- Strongly agree
- Agree
- **Neutral**
- Disagree
- Strongly disagree

- No opinion
- N/A

**16d. The proposed milestones for “limited influence - higher climate impact” activities (relevant for lending and insurance)?**

- Strongly agree
- Agree
- Neutral
- **Disagree**
- Strongly disagree
- No opinion
- N/A

**16e. The proposed milestones for “limited influence - lower climate impact” activities?**

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**16f. For “reasonable influence - higher climate impact activities”, which of the following target milestones should we include?**

- **Global target only**
- Target by regional breakdown only (OECD, NON-OECD)
- Choice between global or regional target

**16g. If you have any further comments to add to your responses to any of the above questions 16 a-f, please provide them here, clearly indicating which question 16 a-f your comment corresponds to.**

16a-e: In Table 4, the difference between 2040 and 2050 criteria seems too high. Progressive threshold for net-zero achieved only could be implemented in order to get progressive reduction of “transitioning only” along the path to 2050.

16d: Targets for SMEs should be included earlier than 2040. They represent a significant part of global economic activities, therefore 95% net-zero achieved at global scale won't be achieved without earlier significant changes in the way climate is considered among SMEs. Introducing requirements progressively is key to ensure the whole economy starts moving forward without delay and avoid brutal changes required lately.

16f: Regional breakdown between OECD and non-OECD countries could be interesting considering just transition issues and North/South inequalities but given

the fact that many production units of OECD companies – subsidiary or not – are located in the South, the responsibility for transitioning should not be delayed, otherwise it might encourage wait-and-see attitude from American and European multinational companies. As it stands, thresholds for non-OECD countries seems too low to hope for 95% net-zero achieved at global scale in 2050.

Table 4, p36: Overview of portfolio climate-alignment goals split by climate impact and influence level for all financial activities:

**17. To what extent do you agree with the milestone approach for the different financial activities?**

**17a. Lending**

- Strongly agree
- Agree
- **Neutral**
- Disagree
- Strongly disagree
- No opinion
- N/A

**17b. Asset Owner Investing**

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**17c. Asset Manager (including private equity firms) Investing**

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**17d. Insurance Underwriting**

- Strongly agree
- Agree
- **Neutral**
- Disagree
- Strongly disagree
- No opinion
- N/A

**17e. Capital Market Activities (CMA): To what extent do you agree that the milestone approach would also work for CMA (for which targets are not currently proposed as part of the FINZ Standard)?**

- Strongly agree
- Agree
- Neutral
- **Disagree**
- Strongly disagree
- No opinion
- N/A

**17f. If you have any further comments to add to your responses to any of the above questions 17 a-e, please provide them here, clearly indicating which question 17 a-e your comment corresponds to.**

17e: Capital Markets Activities (CMA) are much more flexible in time than lending or asset management activities. Activities that are considered climate-damaging can be stopped more quickly than loans that have mobilized long-term equity. Therefore, we recommend the milestone approach for CMA has earlier requirements than other financial activities.

[Annex C, Table 15, p55: Entity and activity-level data sources for portfolio climate-alignment targets provides a non-exhaustive list of the eligible metric types per timeframe that can be used to inform and measure the alignment.](#)

**18a. Are the metrics required for alignment at the different points in time for the different counterparty types appropriate?**

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**18b. Should SBTi specify a list of eligible metrics for the purpose of FINZ target development and assessment?**

- **Strongly agree**
- Agree
- Neutral
- Disagree
- Strongly disagree
- No opinion

- N/A

**18c. If you have answered “strongly agree” or “agree” to question 18b, does a broader set of metrics (rather than a narrow and more prescriptive set) make the Standard easier to implement?**

- Strongly agree
- Agree
- Neutral
- **Disagree**
- Strongly disagree
- No opinion
- N/A

**18d. To what extent do you agree that existing taxonomies (e.g., *EU Taxonomy for sustainable activities*, *Climate Bonds Taxonomy*, etc.), can serve as credible data sources for portfolio climate-alignment targets?**

- **Strongly agree**
- Agree
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**18e. Table 15, p55 breaks down the sources for portfolio climate alignment into entity and activity level. Is this breakdown helpful?**

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**18f. Do you have suggestions on how the SBTi can cover the alignment of other activities (such as Forest, Land and Agriculture, etc.)? If so, please briefly describe which activities and how.**

Agriculture and deforestation are slightly mentioned by the Standard whereas agriculture represents 22% of global GHG emissions<sup>6</sup> and concerns all of the 9

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<sup>6</sup> IPCC, 2023: Summary for Policymakers. In: *Climate Change 2023: Synthesis Report*. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, H. Lee and J. Romero (eds.)]. IPCC, Geneva, Switzerland, p. 5. doi: [10.59327/IPCC/AR6-9789291691647.001](https://doi.org/10.59327/IPCC/AR6-9789291691647.001).

planetary boundaries<sup>7</sup>. We believe deforestation, land artificialisation and the use of pesticides and fertilizers must be addressed more precisely. We recommend that FIs systematically request basic information on those subjects from their counterparts:

- Surface of deforestation: total by entity and details for each location
- Surface of land artificialisation: total by entity and details for each location
- Use of pesticides and nitrogen fertilizer: name of each substance and quantity (total by entity and details for each location)

To align with existing frameworks such as the Principle Adverse Impact (PAI) disclosure required by the EU's SFDR Regulation, financial institutions should be required to monitor and disclose their exposure to companies whose activities cause land degradation, desertification or soil sealing, and to companies without a policy to address deforestation.

The current guidelines should also push for the establishment of an engagement strategy by financial institutions with regard to deforestation. Financial institutions are to disclose how they intend to engage with companies involved in deforestation activities and in sectors linked to deforestation, and their escalation process.

**18g. If you have any further comments to add to your responses to any of questions 18 a-e, please provide them here, clearly indicating which question 18 a-e your comment corresponds to.**

Given the approach SBTi has chosen to identify climate-aligned finance (i.e. transitioning plus net-zero achieved), it is essential that the criteria included in Table 15 are robust and precise enough to ensure that a company's transitioning characteristic is real and not based on announcements, policies or voluntary commitments, but on actual activities, GHG emissions and climate impacts. We therefore recommend:

- More precision in defining the 3 options proposed by providing financial institutions with specific technical criteria, in particular:
  - o "Paris-aligned near-term target" needs to be specified
  - o Define what constitutes a 'credible source' for the Paris-aligned temperature assessment. Indeed, researchers have shown that temperature assessments have significant methodological flaws. For example, *The Alignment Cookbook*<sup>8</sup> published by the Institut Louis Bachelier has identified a divergence in temperature implied rise measurements of up to 4°C depending on the methodology used.

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<sup>7</sup> [Agriculture is destabilizing the Earth system, according to recent study, Climate Change, Agriculture and Food Security, April 22, 2018](#)

<sup>8</sup> Institut Louis Bachelier et al. (2024). The Alignment Cookbook 2 - A technical panorama of the alignment methodologies and metrics used by and applied to the financial sector, with a view to inform consolidated alignment assessments. (1<sup>st</sup> edition by Institut Louis Bachelier, I4CE and WWF in 2020 - 2<sup>nd</sup> edition by Institut Louis Bachelier, Paris Agreement Research Commons, Climate Arc, Scientific Portfolio (EDHEC) and ADEME in 2024 – Lead author: Julie Raynaud – Authors: Stéphane Voisin, Peter Tankov, Vincent Bouchet, Adrien Ferrand and Joao Paulo Serta)

- Indicate what is covered in the "most relevant sources of value-chain emissions".
- A "credible taxonomy" also needs to be specified by SBTi. We recommend that SBTi indicate whether different taxonomies around the world are "credible" or not, and regularly update such a list of "validated taxonomies".
- Self-assessment of progress towards targets should not be allowed after 2030. By then, we expect independent third-party assessment to be widely available.

**19. Applicability to Capital Market Activities (CMA): To what extent do you agree that CMA should also be covered by a portfolio climate alignment target, similar to those applied to lending, investing, and insurance underwriting?**

- **Strongly agree**
- Agree
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**20. Insurance underwriting - metric applicability: To what extent do you agree that the same climate alignment metrics can be used for insurance underwriting and for other financial activities related to:**

**20a. Commercial lines insurance?**

- **Strongly agree**
- Agree
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**20b. Personal lines insurance?**

- Strongly agree
- Agree
- **Neutral**
- Disagree
- Strongly disagree
- No opinion
- N/A



**20c. If you answered “disagree” or “strongly disagree”, to questions 20 a-b please explain why, as briefly as possible.**

N/A

## **SURVEY QUESTIONS - CONSULTATION DRAFT CHAPTER 4: EMISSIONS-INTENSIVE SECTOR TARGETS**

Annex B, Table 11, p50: List of emissions-intensive sectors and activities lists the sectors and activities that are considered emissions-intensive under the FINZ Standard.

**21a. Is the current coverage of the activity-specific targets for the emissions-intensive activities sufficient?**

- Strongly agree
- Agree
- Neutral
- **Disagree**
- Strongly disagree
- No opinion
- N/A

**21b. If you find the coverage insufficient, please briefly describe for which activity and explain why.**

Table 11 and 17, sectors are missing:

- Aluminium (unless it must be incorporated in steel?)
- Agriculture

Moreover, value chains should be comprehensively addressed for each of these high-emitting sectors. Activities are so closely linked it seems difficult to change the whole sector GHG emissions focusing on only one activity of the value chain. It is particularly true for:

- Limestone quarrying, concrete and construction in the cement sector
- Mining of iron ore in the steel sector
- Suppliers and construction in the buildings sectors
- Parts suppliers in the automotive sector
- Parts suppliers and aircraft manufacturers in the aviation sector
- Parts suppliers and ship manufacturers in the shipping sector

If the choice is made to not include these parts of the value chain for emissions-intensive activities, this should be clearly justified, and backed by existing, recognized standards.

We also recommend integrating ISIC and NACE codes to enable comparability with other frameworks.

The FINZ Standard proposes that financial institutions cover at least 95% of all GHG emissions from their in-scope "reasonable influence - higher climate impact" financial activities with emissions-intensive sector targets. FIs are allowed to exclude specific activities from their targets, provided that the sum of these activities constitute less than 5% of their in-scope "reasonable influence - higher climate impact" activities' GHG emissions per financial activity. Exclusions are to apply to the entire activity uniformly and are not allowed for any activities related to fossil fuels.

**22a. To what extent do you agree with this exclusion option?**

- Strongly agree
- Agree
- Neutral
- Disagree
- **Strongly disagree**
- No opinion
- N/A

**22b. If you answered "disagree" or "strongly disagree" to question 22a, please explain why, as briefly as possible.**

The reasonable influence - higher climate impact breakdown is already a segmentation that excludes some activities. Allowing FIs to exclude a portion of this category of activities poses a risk: some specific activities may not be covered by the standard at all - even if that portion of activities generates "only" 5% of "reasonable influence - higher climate impact" activities.

If SBTi wishes to maintain an exclusion option, it should consider introducing an absolute value threshold in addition to the percentage threshold. In addition, there should be a systematic annual review to verify that excluded activities still represent less than 5% of GHG for FIs that have used this exclusion option.

Table 17, p60: Eligible activity-level metrics and pathways provides the list of eligible metrics and pathways used for determining relevant 1.5°C benchmarks for key emissions-intensive activities.

**23a. Is the list of eligible metrics and pathways in Table 17 well suited to determine relevant 1.5°C benchmarks for the emission-intensive activities?**

- Strongly agree
- Agree
- Neutral
- **Disagree**
- Strongly disagree

- No opinion
- N/A

**23b. If your answer to question 23a was “strongly disagree” or “disagree”, please briefly explain for which activity they are not well suited and why.**

Sectors are missing:

- Aluminium (unless it must be incorporated in steel?)
- Agriculture

That being said, we strongly agree with the physical intensity metrics SBTi has identified eligible for the FINZ standard.

**23c. Should SBTi specify a list of eligible third-party metrics providers?**

- **Strongly agree**
- Agree
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**23d. If you have answered “strongly agree” or “agree” to question 23c, should this list comprise a broad or limited suite of metrics providers?**

- i) Broad
- ii) **Limited**

**24a. In the case of insurance, to what extent do you believe that the proposed metrics and existing 1.5°C pathways are suited for commercial lines insurance?**

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**24b. If you answered “disagree” or “strongly disagree” to question 24a, please explain why, as briefly as possible, and how the metrics and pathways in Table 17, p60 can be adjusted to better suit insurance underwriting for commercial lines insurance.**

N/A

**24c. In the case of insurance, to what extent do you believe that the proposed metrics and existing 1.5°C pathways are suited for personal lines insurance?**

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**24d. If you answered “disagree” or “strongly disagree” to question 24c, please explain why, as briefly as possible, and how the metrics and pathways in Table 17, p60 can be adjusted to better suit insurance underwriting for personal lines insurance.**

N/A

Table 5, p38: The SBTi proposes to differentiate the milestones for emissions-intensive sector targets based on climate impact and influence.

**25. To what extent do agree with:**

**25a. that proposal overall?**

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**25bi. Lending - For lending for mortgages?**

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree
- **No opinion**
- N/A

**25bii. Lending - For lending for motor vehicle loans?**

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

- **No opinion**
- N/A

**25ci. Insurance - For personal lines insurance for homeowners?**

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree
- **No opinion**
- N/A

**25cii. Insurance - For personal lines insurance for motor?**

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree
- **No opinion**
- N/A

**25d. If you have any further comments to add to your responses to any of the above questions 25 a-c, please provide them here, clearly indicating which question 25 a-c your comment corresponds to.**

N/A

**26. SBTi proposes that the emissions-intensive targets are applicable to four financial activity types: Lending, Asset Owner Investing, Asset Manager Investing, Insurance Underwriting. To what extent do you agree that exposure to emissions-intensive sectors in each of these financial activities should be covered by targets:**

**26a. Lending**

- **Strongly agree**
- Agree
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**26b. Asset Owner Investing**

- **Strongly agree**
- Agree
- Neutral
- Disagree

- Strongly disagree
- No opinion
- N/A

**26c. Asset Manager (including private equity firms) Investing**

- **Strongly agree**
- Agree
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**26d. Insurance Underwriting**

- **Strongly agree**
- Agree
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**26e. Capital Market Activities (Note: CMA targets are currently not required as part of the FINZ Standard): To what extent do you agree that setting emissions-intensive targets would also work for CMA?**

- **Strongly agree**
- Agree
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**26f. If you have any further comments to add to your responses to any of the above questions 26 a-e, please provide them here, clearly indicating which question 26 a-e your comment corresponds to.**

26a-e: The Sustainable finance observatory welcomes the inclusion of the wide range of financial services in the standard. We strongly encourage SBTi to initiate a review in the medium term to ensure that all financial services are addressed by FIs in their use of the standard, and to consider adding requirements to the standard if ever any type of financial support to enterprises would have been outside the scope.

## SURVEY QUESTIONS - CONSULTATION DRAFT CHAPTER 5: REPORTING

Table 7, p40 provides a summary of reporting requirements.

**27a. Overall, are the reporting requirements in Table 7 appropriate for FIs to report on the progress against their targets?**

- Strongly agree
- **Agree**
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

Table 7, p40 provides a summary of reporting requirements.

**27b. Reporting on alignment: On what level of granularity is reporting of alignment appropriate? Please select all you consider appropriate.**

- **27bi. Financial activity (Lending (LND), Asset Manager Investing, Asset Owner Investing, Insurance Underwriting)**
- **27bii. Financial activity and segmentation**
- **27biii. Financial activity and asset class / lines of business based (LND - Corporate Loans; LND - Residential Mortgage; etc.)**
- **27biv. Additional breakdown by alignment definition (i.e., ask for both percentage of transitioning vs. net-zero achieved)**

Table 7 currently recommends FIs to annually report key information related to progress against long-term net-zero target, detailing drivers of change in portfolio emissions, i.e. through emissions attribution reporting.

**27c. To what extent do you agree that this should be a requirement?**

- **Strongly agree**
- Agree
- Neutral
- Disagree
- Strongly disagree
- No opinion
- N/A

**27d. If you have any further comments to add to your responses to any of the above questions 27 a-c, please provide them here, clearly indicating which question 27 a-c your comment corresponds to.**

27a: The Observatory strongly recommends that the SBTi create a fixed template for FIs' FINZ reporting, including each of the breakdowns created by the Standard. This will not only make it easier for FIs to use the Standard but will also enable SBTi to collect data that can be compared across institutions globally. (A good example of such a detailed template is the European Banking Authority's Pillar 3 ESG tables, which will allow independent observers to use the data when it is published online on the Pillar 3 Data Hub). At a time when actors are using multiple frameworks with different methodologies and metrics, there is a critical need for homogeneity. We believe SBTi can meet this need for two reasons: it has reached a broad enough range of institutions globally, and its standards, particularly the FINZ, are strong enough to ensure that targets and reporting can lead to real change in companies' practices and ambitions.

Public reporting is a key element in promoting the transition of companies and financial institutions. It allows multiple actors with different voices to analyse and comment on the practices and realities of transition assessments and to inform the public. Therefore, the Observatory strongly recommends that the SBTi consider creating a dataset that is freely and publicly accessible to collect the precise and accurate information on FI transitions that the FINZ will allow.

**28. Should you have any further feedback on the content of the Consultation Draft that is not addressed in this questionnaire, please provide it here, clearly referencing the section of the standard your feedback refers to.**

N/A





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