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Science-Based Targets Initiative Releases Consultation Papers for Financial Institutions, Highlights Need for Renewable Power Financing

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In June 2023, the Science Based Targets initiative (SBTi) **published a draft** of its Financial Institutions Net Zero (FINZ) Standard to enable financial institutions to establish targets consistent with achieving net-zero emissions by 2050, in line with the Paris Agreement. The SBTi framework aims to foster a globally standardized approach for reporting and assessment for financial institutions.

The consultation draft on the FINZ Standard sets out the framework and what it labels as high-level criteria for financial institutions advancing towards climate-neutrality. The FINZ Standard outlines three main objectives for the finance sector, namely that financial institutions cease financial support for new high-emitting projects; focus on decarbonizing existing portfolios through transition financing; and support activities aligned with net-zero emissions targets. The FINZ Standard provides that a financial institution's complete net-zero framework should include 5-10 year near-term science-based targets that allocate a greater allocation of financial resources towards 1.5°C pathways, complemented by long-term science-based targets to achieve complete net-zero alignment by 2050.

In parallel, the SBTi also published its **Position Paper on Fossil Fuel Finance**, which details the criteria for financial institutions' activities with fossil fuel companies and projects. The position paper advocates for the immediate halt of fossil fuel financing and encourages financial institutions to engage with fossil fuel companies to transition to a net-zero economy. The recommendations set out in the position paper include: (1) publicly disclosing climate-related information annually, including GHG emissions, financial exposures, and transition plans of fossil fuel portfolio companies; (2) immediately ending new financial investments in the coal

value chain and unabated oil and gas activities at project level; (3) setting targets for financial support for existing fossil fuel activities at the company and portfolio levels, aiming for a 1.5°C transition; and (4) committing to phasing out financial activities linked to unaligned companies and projects within specified timeframes.

In addition, SBTi also released updated [Near-Term Financial Sector Science Based Targets Guidance](#). The key updates are the inclusion of fossil fuel finance items in the near-term and a requirement for financial institutions to align their scope 1 and 2 targets to a 1.5°C climate transition with a 5-10 year timeframe (as opposed to the previous version's requirement of "well below 2°C" for scope 1 and 2 targets with a timeframe of 5-15 years). This increased ambition, as SBTi reports, is in line with the fact that a majority of financial institutions already are aligning their near-term targets with the 1.5°C climate scenario. The guidance offers recommendations for communicating targets and actions, examples of actions to achieve targets, and instructions for committing to the SBTi and submitting targets for validation.

The draft papers are open for public consultation and stakeholder engagement until August 14, 2023. The complete FINZ Standard together with tools and guidance on how to implement the standard is expected to be published in 2024.

Taking the Temperature: The SBTi's focus on the financial sector reflects that industry's importance to climate change efforts globally, particularly with respect to financing renewable energy projects. We [recently reported](#) on the Columbia Center on Sustainable Investment's (CCSI) research report, which also focuses on financial institutions and their climate-action initiatives, and emphasizes the need for a significant increase in non-fossil fuel investments. In that vein, on May 4, 2023, the United Nations [announced the formation](#) of a 35-member bank-led working group to promote nature- and biodiversity-related target setting, and part of the group's mandate is to focus on how the banking sector can close the biodiversity financing gap. In April 2023, the Centre for Climate Finance & Investment and the International Energy Agency [issued a report](#) identifying and addressing the investment gap in renewable and clean energy in the Association of Southeast Asian Nations (ASEAN) region. We also have [previously discussed](#) the focus on the need for financing at last year's COP27 climate change conference in Egypt, where an [agreement was reached](#) to establish a dedicated fund to assist developing countries in responding to loss and damage caused by climate change; at the COP15 biodiversity conference in Montreal, where the [main area of contention](#) involved how to pay costs that will be incurred to realize the [Global Biodiversity Framework's goals](#); and at the February 2023 meeting of G20 Finance Ministers in Bengaluru, India, where attendees called for the [creation of a common global framework](#) to facilitate financing the United Nations' Sustainable Development Goals.