

Net-Zero Asset Owners Alliance – SBTi Finance *Comparison Table*

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While financial flows were specifically referenced in the 2015 Paris Climate Agreement (Article 2.1(c)), target-setting methods and alignment resources have taken a few years to be developed and deployed. This table summarizes and compares two target-setting initiatives for asset owners (AOs): the **Net-Zero Asset Owner Alliance (AOA)** and the **Science Based Targets initiative (SBTi)**. The purpose of the table is to help AOs and other investors navigate among these 2 initiatives on their net-zero climate journeys.

AOs interested in setting climate targets are encouraged to join both complimentary initiatives. AOA provides a membership-based Alliance for peer exchange and collective action with a target-setting protocol while SBTi is focused on independent assessment and validation of targets against selected methods and criteria. AOA supports individual and collective AO commitments. SBTi Finance is an actionable framework for AOA members to externally validate their net-zero commitments. AOs using the AOA Protocol are also encouraged to submit their targets to SBTi for assessment, though SBTi validation is not automatic due to the methodological differences detailed below.

| | SBTi Finance | AOA |
|-----------------------------|---|--|
| Theory of Change | SBTi supports net-zero transformation in the financial sector through rigorous, transparent, and quantitative targets on investment and lending portfolios. | The Alliance supports asset owners (investors) to commit to net-zero by 2050 emission compatible with 1.5°C and to carry out this commitment through collective and individual target setting, engagement actions, and policy advocacy. |
| Initiative Structure | SBTi is a voluntary initiative that assesses and aggregates company and financial institution targets. SBTi is jointly administered by CDP, UNGC, WRI, and WWF. In addition to providing methods and guidance, SBTi validates company and financial institution targets against robust, science-aligned criteria. | The Alliance is a U.N.-convened, voluntary, non-profit, membership-based initiative that supports AOs to commit to net-zero by 2050, and issue 5-year intermediary targets. Alliance members work together to develop collective action (e.g. position on coal, blended finance call to action, asset manager engagement guidelines, and a joint target setting Protocol). |

| | SBTi Finance | AOA |
|--|---|---|
| Temperature Commitment | 1.7°C, [1.5°C for electricity generation SDA, portfolio coverage, and temperature rating methods] Additional sector-specific 1.5 methods are planned for late 2021. | 1.5°C |
| Financial Institution Coverage | Universal banks, asset managers, asset owners, private equity firms, and mortgage real estate investment trusts (REITs) | Asset owners |
| Primary Asset Classes (current) | Public and private equity ⁱ , corporate and consumer loans, corporate debt, real estate, mortgages, electricity generation project finance | Public equity, corporate debt, real estate |
| Additional Asset Classes (under development) | 2021-2022 focus on Sovereign Debt ⁱⁱ , Securities Underwriting | 2021-2022 Sovereign Debt ⁱⁱ , Infrastructure |
| Types of Targets | Sector-level % emissions intensity reductions and engagement-based methods including Portfolio Coverage and Temperature Rating | Absolute and Intensity Emissions Reductions (asset class and sector), Corporate Engagement, Finance Tracking |
| Timeframe | 5-15 years for emissions-based targets; 5 years for engagement targets | 5-year targets for emissions, engagement, and financing; 2050 net-zero commitment |
| Target Setting Methods (current) | Requires use of one of the following methods for specified classes: <ul style="list-style-type: none"> · SDA (Sector Decarbonization Approach using physical intensity targets, akin to Alliance Sector Targets), · SBT Portfolio Coverage, · Temperature Rating | Recommends all 4 targets across the portfolio: <ul style="list-style-type: none"> · Sector Targets (akin to SDA), · Engagement Targets (optional target setting and tracking akin to SBTi Portfolio Coverage, but also allows for science based targets not associated with SBTi), · Sub-Portfolio Targets (akin to Absolute contraction, acceptable by SBTi now for companies, not FIs) · Finance Tracking |
| Methods (under scoping) | Alternate method meta-criteria and assessment process are under development | Temperature alignment methodologies under review |
| Prescriptiveness (requirement vs. recommendation) | Includes required, recommended, and out of scope asset classes; and minimum target coverage requirements for each asset class that is relevant to participating FIs. | Recommends methodologies and metrics. Allows AOs to explain where they may not employ this method (not applicable to their portfolio for example). |

| | SBTi Finance | AOA |
|--|--|--|
| Coal exclusion and fossil fuel disclosure | Financial institutions are recommended to phase out financial support to coal across all their activities in line with a full phase-out of coal by 2030 globally, within six months from the time of target approval. They are also recommended to annually disclose the annual investments (public equity, private equity, corporate bonds), direct project financing and lending to fossil fuel (oil, gas, and thermal coal) projects and companies. | Read the full position here: Alliance Thermal Coal Position - United Nations Environment - Finance Initiative (unepfi.org) |
| Reporting Requirements | SBTi requires financial institutions to publicly report coverage of portfolio targets, a summary of the implementation strategy, and annual tracking of actions taken and progress toward achieving targets. | Members are required to issue targets within 12 months of making the Alliance Net-Zero commitment, they report annually on progress to the Alliance. |
| Monitoring Progress | SBTi intends to track progress of financial institutions against their targets with a monitoring, reporting, and verification (MRV) system currently under development. | AOA intends to collectively report on progress regularly. |
| Geographic Coverage and Scope | Global | Global |
| Cost of Participation | Final cost for an assessment of scope 1, 2 and 3 targets for financial institutions is yet to be determined; SBTi currently charges USD 5,000 per validation for companies. | Fee schedule based on size between EUR 5,000 - 20,000. |
| Sources for Additional Information | Science Based Targets Finance | United Nations-Convened Net-Zero Asset Owner Alliance |
| Notes: | ⁱ SBTi has added preliminary target setting recommendations for private equity firms in the financial sector SBT guidance. SBTi is developing a separate target setting guidance tailored to the private equity industry and plans to release a draft by COP 2021. | ⁱⁱ SBTi and AOA are working together to co-develop a forthcoming Sovereign Debt approach. |