Frequently Asked Questions on 2022 Target Setting Protocol (Second Edition)

What does the Protocol cover and what does it not cover?

The Protocol is a comprehensive document, but it does not cover all aspects of the Alliance. It focuses on target setting guidance. Many other additional resources, including position papers on coal and carbon pricing, are also found on our resources page.

What does the Protocol say about fossil fuel financing?

The Protocol touches on fossil fuel financing in several ways. The first is through sector targets, where the Protocol recommends that any O&G or coal financing follows the sectoral decarbonization pathway set out by science. In addition, specific reference is made to the coal position paper, and a forthcoming O&G position paper. Finally, the infrastructure chapter speaks specifically to certain elements of fossil fuel infrastructure financing, in addition to referring to the O&G paper.

What does the Protocol say about Engagement Escalation Strategies?

The Protocol sets out the need to set engagement targets and outlines the expected criteria from corporates and asset managers. Specific information on escalation strategies will come from the Engagement track in a separate document.

Why has the decarbonization range increased?

The inaugural Protocol was based on no/low overshoot pathways but included a few pathways which went up to 1.8°C before coming back down to 1.5°C by end of century. The second edition draws on no/low overshoot pathways exclusively and does not include any pathways that go beyond 1.6°C throughout the century.

Do carbon credits count towards achieving the decarbonization target?

No, neither carbon avoidance/reduction nor carbon removal credits purchased by asset owners count towards the target achievement. Only qualified removals purchased by investee companies can be reflected in companies (net) emissions. The clear priority is steep abatement of value chains of investee companies in the next 5-10 years.

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What is new in the infrastructure approach?

Infrastructure is an entirely new asset class methodology developed over the course of 2021 by the Alliance. It is a newly added asset class under the 'sub-portfolio' target type, it however has interactions with other asset classes and sector targets where sectors have important infrastructure investments like O&G. It also provides an overview of key infrastructure asset types (e.g., low carbon and high carbon intensity infrastructure, transportation, water, waste management etc.).

Target setting on infrastructure requires asset owners to:

- Report the lifetime emissions of any greenfield investments (in line with PCAF recommendations).
- Measure and report the annual emissions of Carbon-Intensive Energy Infrastructure within their infrastructure portfolio by 2022.
- Measure and report the annual emissions of all infrastructure assets by 2025.
- Initially set carbon reduction targets for those equity assets:
  - where they own greater than 20%, or
  - where they have a seat on the board, or
  - that qualify as carbon intensive energy infrastructure.
- Support the phase-out of fossil fuels required by 1.5°C scenarios.
- Not provide new finance to infrastructure assets whose purpose or emissions cannot be aligned with the Alliance net-zero ambitions which are guided by IPCCs no/low overshoot scenarios, OECM and the IEA's NZE2050. This recommendation holds especially for investments in coal, oil, and gas:
  - For coal, Alliance members shall follow the Alliance's position paper regarding thermal coal.
  - For oil, members shall not finance assets which are not aligned with science-based or government-issued regional/national 1.5°C degree pathways, especially not finance upstream greenfield projects beyond those already committed by the end of 2021.
  - For gas, members shall not invest in assets which are not aligned with science-based or government-issued regional/national 1.5°C degree pathways. For both oil and gas, further guidance will be given in a forthcoming position paper on oil & gas.
- Commit to engage with existing fund managers on setting their own emissions reduction targets and engaging their underlying assets on climate alignment.
- Commit to ensuring by 2025 that all new fund manager appointments include net-zero/temperature alignment requirements.

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Why is private equity and other private assets not yet covered?

Private equity, and debt will follow the methodology presented in the public equity and publicly traded corporate bonds chapters of the inaugural Protocol. However, this is particularly challenging given data constraints and so is not yet a required asset class. Alliance members are invited to engage private equity managers/firms to begin to obtain appropriate data.

Why does the sovereign debt asset class only discuss accounting?

Sovereign debt is a particularly challenging asset class as national territories comprise many firms and industries. In addition, sovereign debt plays an important role for asset owners in liquidity management and credit risk mitigation, which poses additional challenges in target-setting. Finally, there is also a divide between emerging and developed markets. To ensure we full account for all nuances the Alliance has divided sovereign debt target setting into 3 phases.

1) Sovereign debt accounting – developed with PCAF and referenced in the Second Edition of the Protocol
2) Sovereign debt assessment – developed with ASCOR project partners to assess sovereign alignment with a 1.5 degree trajectory (to be covered throughout 2022)
3) Sovereign debt target setting – which will lay out the process by which asset owners should set sovereign debt targets (to be developed throughout 2023).

Do you require members to set targets on all four target types?

The Alliance Protocol recommends that members set four out of four targets, but requires three out of four. If a combination of three are not provided, an explanation from the asset owner is expected. Setting engagement targets is mandatory.

Is the Target Setting Protocol a public good?

Yes. Investors (both asset owners and asset managers, those within the Investor Agenda and outside) are encouraged to utilise the Protocol to set targets.

Who should use the Protocol?

Investors in the first instance. Banks, insurers, investment consultants, financial service providers, members of GFANZ, Investor Agenda and other climate related initiatives are encouraged to utilise the principles of the Protocol.

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Why is the Protocol also relevant for asset manager?

Asset managers, many of whom will set their own targets under the Net Zero Asset Manager Initiative, are encouraged to use the Protocol to enable consistency in metrics, approaches, and communications to corporate. The Protocol is as suitable for asset managers, as it is for asset owners, with the exception of the engagement targets relevant for asset managers themselves. Aligning approaches among FIs will be a very helpful means of achieving efficiency and scale.

Why is the protocol also relevant for investee companies?

Investee companies would benefit from understanding the approach investors are taking, in order to understand the types of requests investors will have of the investee company. The engagement chapter highlights key asks of companies aligning to net zero, and the sector chapter gives KPIs by sector and pathways against which investors will begin to apply to the investee company and their peers in that sector.

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