

Draft version for public consultation

Draft 2025 Target Setting Protocol

U.N.-CONVENED NET-ZERO ASSET OWNER ALLIANCE
MONITORING REPORTING AND VERIFICATION TRACK

In partnership with:



M2020

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Antitrust Disclaimer

The Alliance and its members are committed to comply with all laws and regulations that apply to them. This includes, amongst others, antitrust laws and regulations and the restrictions on information exchange they impose.

			
			
			
			
			
			
			
			

Note to readers

A growing number of financial institutions, including the world's largest investment managers, banks, and asset owners, are making commitments to set Paris Agreement-aligned portfolio targets. Members of the United Nations-Convened Net-Zero Asset Owner Alliance are involved in a number of these initiatives. With this report, the Alliance seeks to contribute to the next phase of target setting by global investors. The document provides details on a series of approaches, strategies and frameworks for the process of portfolio-level target setting across asset classes, sectors and investment management actions. Members of the Alliance have also made commitments to other initiatives including the UN Global Compact Business Ambition for 1.5°C, the Science Based Targets Initiative for Financial Institutions (SBTIFI), the Paris Aligned Investing Initiative (PAII) of the Institutional Investors Group on Climate Change (IIGCC) and the Investor Agenda Investor Climate Action Plans (ICAPs). The Alliance has coordinated with SBTIFI and offers compatible methodological approaches as well as builds on the comprehensive Net-Zero Investment Framework draft provided by the PAII while offering quantitative insights necessary for 5-year target setting.

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Acronyms

AFOLU	Agriculture, Forestry and Other Land Use	NACE	Statistical Classification of Economic Activities in the European Community
AO	Asset owner	NDC	Nationally Determined Contribution
AOA	Asset Owner Alliance	NDPE	No deforestation, no peat, no exploitation policies
BECCS	Bioenergy with carbon capture and storage	NOC	National Oil Companies
BICS	Bloomberg Industry Classification System	OECD	One Earth Climate Model
CDR	Carbon Dioxide Removal	OGCI	Oil and Gas Climate Initiative
CO₂e	Carbon Dioxide Equivalent	PACTA	Paris Agreement Capital Transition Assessment
COP26	26th United Nations Climate Change Conference of the Parties	PAII	Paris Aligned Investing Initiative
CRREM	Carbon Risk Real Estate Monitor	PCAF	Platform for Carbon Accounting Financials
DFI	Development Finance Institution	PIK	Potsdam Institute for Climate Impact Research
EAF	Electric Arc Furnace	PRI	Principles for Responsible Investment
EBA	European Banking Authority	RMI	Rocky Mountain Institute
EDFI	Association of European Development Finance Institutions	RTS	Regulatory Technical Standards
EIOPA	European Insurance and Occupational Pensions Authority	sbt	science-based target (not associated with a validation initiative)
ESG	Environmental, Social and Corporate Governance	SBTI	Science Based Targets Initiative
ESMA	European Securities and Markets Authority	SBTIFI	Science-Based Targets Initiative for Financial Institutions
ETC	Energy Transition Commission	SEI	Stockholm Environment Institute
EV/EVIC	Enterprise Value/ Enterprise Value Including Cash	SRC	Stockholm Resilience Centre
FI	Financial Institution	SSA	Strategic Asset Allocation
GHG	Greenhouse Gases	TPI	Transitions Pathway Initiative
GICS	Global Industry Classification System	ULCOS	Ultra-Low CO ₂ Steelmaking
IEA	International Energy Agency	UNEP	United Nations Environment Programme
IGCC	Investor Group on Climate Change	UNEP FI	United Nations Environment Programme Finance initiative
IIASA	International Institute of Applied Systems Analysis	UTS	University of Technology Sydney
IIGCC	Institutional Investors Group on Climate Change	WEF	World Economic Forum
IPCC	International Panel on Climate Change	WEF MPP	World Economic Forum Mission Possible Platform
ISF	Institute for Sustainable Futures	WRI	World Resources Institute
MRV	Monitoring Reporting and Verification	WWF	World Wildlife Foundation

Consultation

The Alliance 2025 Target Setting Protocol is made available to the public for one month from 13th October 2020 to 13th November 2020. During this period members of the general public, academia, government, and business are invited to comment on the Protocol and the contents covered in it.

The Alliance will hold one technical webinar on the contents of the Protocol, where the audience will have the opportunity to ask clarification questions. Please see alliance website for further details.

Consultation questions are provided at the end of each chapter. A consultation form is available at unepfi.org/net-zero-alliance/resources/. Individuals or organizations responding to the consultation are invited to provide their reactions via the consultation form (online or email submission) by November 13th 2020. Please email jessica.andrews@un.org with any questions or comment.

Executive Summary

The 2025 Alliance Target Setting Protocol sets out the Alliance's approach to individual members and collective target setting and reporting for the period 2020-2025. The Alliance aims to be as **transparent and as robust** as possible. Thus, this document is being circulated for public comment to solicit input and commentary prior to final publication.

Wherever possible the Alliance recommends members use **science-based** ranges, targets and methodologies, noting that data and methodological constraints persist. Members are responsible for employing the **recommended science-based criteria** outlined herein or explaining why they chose an alternative target or methodology from the range of options discussed below.

The Alliance is committed to driving **real world impact, primarily through engagement with corporates and policymakers** as well as **contributing capital required to finance the transition**. Given the complex nature of leveraging ownership and financial strategies to drive real world change, and tracking impacts of these actions, a 4-part structure for target setting is recommended.

Scope and Coverage of the Protocol

Targets are set on the **asset owner's own Scope 3 emissions** (sometimes referred to as "portfolio emissions" or financed emissions). In addition to setting Scope 3 emissions targets, Alliance members are encouraged to set net-zero targets on their own Scope 1 and 2 emissions, as possible. The Alliance further recommends that members set targets on **Scope 1 and 2 emissions for their underlying holdings** and on **Scope 3 of underlying holdings** for 'priority sectors'¹ when possible as detailed in the chapter on sector-level targets. At the portfolio level Alliance members should track Scope 3 emissions but are not yet expected to set targets until data becomes more reliable.²

Alliance commitments require Alliance members to publish interim targets every 5 years. This reporting schedule is in line with Article 4.9 of the Paris Agreement which requires signatories to submit updated emissions reductions plans every five years.³ National governments who have signed up to the Paris Agreement will communicate these updated emissions reduction plans, also known as Nationally Determined Contributions (NDCs), in 2025, 2030, 2035, 2040, 2045 and 2050.

The Alliance continues to discuss an additional -5% per annum adjustment for earlier base years and includes this proposal for review in section 4.2.1 for the purposes of this consultation. Similarly, Alliance members who join the Alliance and issue targets after 2020 would also reduce by 5% per annum from 2020 for their 2025 target.⁴ Alliance members will report their emissions reductions targets and associated progress updates in **CO₂e**.⁵ Members are encouraged to disaggregate GHG emission data wherever possible. It is recommended that Alliance members explain and adjust for large organic and inorganic portfolio changes.

1 Identified from those with high Scope 3 emissions or otherwise large emissions contributions as Oil and Gas, Utilities, Steel, Aviation, Shipping and heavy and light duty road transport.

2 Comparisons of Scope 3 data reported by similar companies indicate the largest degree of divergence in reported emissions. See Busch, T., Johnson, M., Pioch, T. and Kopp, M. (2018) 'Consistency of Corporate Carbon Emission Data' University of Hamburg: https://ec.europa.eu/jrc/sites/jrcsh/files/paper_timo_busch.pdf.

3 UNFCCC (2015) Paris Agreement: https://unfccc.int/files/meetings/paris_nov_2015/application/pdf/paris_agreement_english.pdf

4 This is in line with IPCC 1.5°C reductions required for 2015–2020 as well as an equitable annual share of the 2020–2025 Alliance reduction target average.

5 Greenhouse gases which contribute to climate change are CO₂, CH₄, N₂O, HFCs, PFCs, SF₆ and NF₃. The predominant gas being Carbon Dioxide (CO₂). CO₂ equivalent or "CO₂e" means the number of metric tons of CO₂ emissions with the same global warming potential as one metric ton of another greenhouse gas.

Individual Alliance Member Targets		
Sub-portfolio (later Portfolio) Emission Targets	<ul style="list-style-type: none"> -16 to -29% CO₂e reduction by 2025 (per IPCC 1.5°C scenarios) on Public Equity and Corporate Debt, with the same recommended for Real Estate and/or CRREM national pathways used Covers Portfolio Emissions Scope 1 & 2, tracking of Scope 3 encouraged Absolute or intensity-based reduction against 2019 base year recommended Phase Two: Sovereign debt to be included 	
Sector Targets	<ul style="list-style-type: none"> Intensity-based reductions on AOA priority Sectors (O&G, Utilities, Steel, and Transport – Aviation, Shipping, Heavy and Light Duty Road) Scope 3 to be included wherever possible Sector specific intensity KPIs recommended Sectoral Decarbonization Pathways top-down and bottom-up necessary to set targets 	
Engagement Targets	<ul style="list-style-type: none"> Engagement with Top 20 (non-aligned) emitters or those responsible for 65% of emission in portfolio (either Direct, Collective, or via Asset Manager) Contribute to <ul style="list-style-type: none"> Sector - Engagement with target sectors Asset Manager - Each member to participate in at least one engagement with the pre-identified (largest) 4 Asset Managers AOA position papers 	AOs to set action targets on Policy Maker engagement
Financing Transition Targets	<ul style="list-style-type: none"> Report on progress on climate-positive investments Focus on Renewable Energy in Emerging Markets, Green Buildings, Sustainable Forests, and Hydrogen, among others Contribute to activities enlarging the low carbon investment universe and building solutions 	

Figure 1: The 4-part Alliance Target Protocol

‘Sub-Portfolio’ Targets.⁶ Sub-portfolio targets cover asset classes where credible methodologies and sufficient data coverage exist today. Later, once full coverage is reached these will be termed simply ‘Portfolio targets’. Where sufficient data exists, Alliance members should set targets across their corporate equity, corporate debt and real estate portfolios. The Alliance **assessed the IPCC’s 1.5°C pathways**⁷ and identified an asset class-level emissions reduction target range of -16% to -29% by 2025 (see Chapter 5 for further details). Alliance members may choose the most feasible pathway for portfolio target setting taking into account the real impact on the economy and potential divestment. Alliance members will set targets on an absolute or intensity-basis (see sub-portfolio target section for details on appropriate metrics).

Sector Targets. Sector targets help link portfolio-level reductions to the efficiency requirements and **real-world outcomes**. Sector targets also feed into Alliance member engagement and stewardship efforts, providing an indication of expected emissions performance from the sector that

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https://www.yunbaogao.cn/report/index/report?reportId=5_13774

