United Nations Environment Programme Finance Initiative Issues Guidelines for Climate Target Setting for Banks

May 10, 2021

On April 21, 2021, the United Nations Environment Programme Finance Initiative ("UNEP FI") issued Guidelines for Climate Target Setting for Banks (the "Guidelines"), which outline principles for setting targets in line with achieving the temperature goals of the Paris Climate Agreement.[1] A table outlining the Guidelines is included as an appendix.

Background

On September 22, 2019, UNEP FI, a partnership between the United Nations Environment Programme and the global financial sector to mobilize private sector finance for sustainable development,[2] issued the Principles for Responsible Banking (the "Principles"). The Principles provide guidance for signatory banks to follow in order to achieve the United Nations' Department of Economic and Social Affairs Sustainable Development Goals and the goals of the Paris Climate Agreement.[3] As of the date of this publication, 226 financial industry members that manage over $57 trillion in assets and represent more than a third of the global banking industry have signed the Principles for Responsible Banking.

The Guidelines were created pursuant to the Principles. They require the 38 financial institutions that are signatories to UNEP FI's Collective Commitment to Climate Action (the "CCCA"), the members of the Net Zero Banking Alliance[4] and any new signatories to establish, implement and monitor against targets that satisfy the Guidelines. The Guidelines are a voluntary framework that financial institutions, in addition to the initial signatories, are expected to sign and be held accountable against over time.

1 *See* Guidelines for Climate Target Setting for Banks, available here.

2 *See* United Nations Environment Programme Finance Initiative, About Us, available here.

3 For more information on the Principles for Responsible Banking, refer to the UNEP FI's website, here.

4 For more information on the Net-Zero Banking Alliance, refer to the United Nations website, available here.

The Guidelines, which were drafted by the CCCA signatories, also constitute the foundational commitments of the Net-Zero Banking Alliance (the "Alliance"). The Alliance, which was launched on the same day as the Guidelines, consists of financial institutions from 23 countries (including the United States), with $28.5 trillion in collective assets, that are committed to aligning their lending and investment portfolios with net-zero emissions by 2050.

There are four Guidelines in total, which collectively require (i) public disclosure of long-term and intermediate targets of certain of the bank's and its clients' emissions, (ii) regular review of targets to ensure consistency with current climate science, (iii) use of widely accepted science-based decarbonisation scenarios to set both long-term and intermediate targets that are aligned with the temperature goals of the Paris Agreement and (iv) establishment of an emissions baseline and annual measurement and reporting of the emissions profile of their lending portfolios and investment activities.

Applicability

The Guidelines apply to a bank's on-balance sheet investment and lending activities. The scope and boundary of the targets should account for a significant majority of the bank's portfolio emissions where data and methodologies allow.

The Guidelines include mandatory "comply or explain" processes (*i.e.*, signatories must either comply with these processes or explain their lack of compliance). Signatories of the CCCA, as of April 21, 2021, have three years to apply the Guidelines, including setting their first round of targets, and an additional 18 months following that period to set certain carbon-intensive targets. Members of the Net-Zero Banking Alliance and any bank that signs the CCCA after April 21, 2021 have 18 months to apply the Guidelines, and a further 18 months to set targets for certain carbon-intensive requirements.

The publication of the Guidelines follows the Biden Administration's recent Leaders Summit on Climate and the release of the Executive Summary of the U.S. International Climate Finance Plan.[5] The Biden administration has identified proactively curbing climate change as a policy priority and aims to mobilize public- and private-sector finance to drive the net-zero transition and help vulnerable countries cope with climate impacts. The Guidelines may influence anticipated disclosure requirements on climate change in the United States.

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[5] For information refer to the Leaders Summit on Climate, found here, and the Executive Summary of the U.S. International Climate Finance Plan, here. See also Secretary of the Treasury Janet Yellen's remarks on April 21, 2021 to the Institute of International Finance on climate change and disclosure, here.

As highlighted in our previous Debevoise In Depth,[6] the financial sector is increasingly focused on climate change, and with respect to environmental initiatives, many banks have committed publicly to taking actions to counter climate change and to reducing their carbon footprints. The Guidelines may come to be viewed as best practice within the banking industry more broadly and influence the climate initiatives and engagement of financial institutions that are not signatories to the CCCA or members of the Net-Zero Banking Alliance.

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[6] *See* our previous Debevoise In Depth, Banks and ESG: Lessons from Climate Change-Related Initiatives, here.

We will continue monitoring updates to the industry developments on climate change. Please do not hesitate to contact us with any questions.

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Appendix

Summary of the Guidelines for Climate Target Setting for Banks	
Guideline 1	Banks must set and publicly disclose long-term and intermediate targets to support meeting the temperature goals of the Paris Agreement. • The long-term targets must at least align with the temperature goals of the Paris Agreement and include a 2050 target. Intermediate targets must include a target for 2030 or sooner. • Targets shall be set based on absolute emissions and/or sector-specific emissions intensity. • Targets must cover certain of the emissions of the bank's clients, as applicable, and a significant majority of the applicable emissions of the bank.
Guideline 2	Banks must establish an emissions baseline and annually measure and report the emissions profile of their lending portfolios and investment activities. • Banks must annually measure and report current emissions (absolute emissions and emissions intensity) following relevant international and national GHG emissions reporting protocols and guidelines. • Banks must disclose the scope and boundary of the asset classes and sectors included, the asset class and sector coverage of the emissions and the measurement method and metric used at portfolio, asset class or sector level.
Guideline 3	Banks shall use widely accepted science-based decarbonisation scenarios to set both long-term and intermediate targets that are aligned with the temperature goals of the Paris Agreement. • The scenarios must come from credible and well-recognized sources, and banks should provide a rationale for the scenarios chosen. • The scenarios must rely conservatively on negative emissions technologies. • Banks must disclose the scenario on which their climate targets are based. Banks should disclose key assumptions used in these scenarios.
Guideline 4	Banks must regularly review targets to ensure consistency with current climate science.

Summary of the Guidelines for Climate Target Setting for Banks	
	• Targets must be reviewed periodically and at least every five years. • Targets should be part of a broader organizational strategic plan. • Targets shall be approved by the highest executive level and reviewed by the highest-level governance body in the bank. • Targets shall be recalculated and revised as needed to reflect significant changes that might compromise the relevance and consistency of the existing targets.