

**UN**   
environment  
programme

finance  
initiative

# Guidelines for Climate Target Setting for Banks

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# Summary

Achieving the objectives agreed in the Paris Agreement to limit global temperature increases to well below 2°C from pre-industrial levels and striving for 1.5°C will require **ambitious actions from all strands of the economy**: alongside governmental policy commitments and corporate action, **financial institutions will need to adjust their business models in the short and long term and develop realistic strategies underpinned by robust, science-based targets and action plans**.

**The window for action is small.** To achieve the goals of the Paris Agreement, emissions must now halve every decade.

The role of the **banking industry in tackling this challenge is key**. Banks will need to support the transition to a net-zero economy through their lending and financing decisions and through facilitating their clients' transition.

To this end, the UNEP FI's [Collective Commitment to Climate Action](#) (CCCA) group of 38 signatories has developed these **Guidelines for Climate Target Setting, which outline key principles to underpin the setting of** credible, robust, impactful and ambitious targets in line with achieving the objectives of the Paris Agreement.

For signatories to the CCCA, the implementation, monitoring and reporting against these guidelines fits into wider UNEP FI [Principles for Responsible Banking](#) governance processes.

The Guidelines will be reviewed at least every three years, and sooner when required.

# Key Principles

The Guidelines are based on the following key principles:

- **Ambition:** targets shall at least align with the temperature goals of the Paris Agreement and support the transition towards a net-zero economy by 2050.
- **Scope:** the Guidelines apply to the bank's lending and investment activities (Scope 3, Category 15).<sup>1</sup> Banks' targets shall include their clients' Scope 1, Scope 2 and Scope 3 emissions, where significant, and where data allows. Scope coverage is expected to increase between each review period.
- **Targets:** banks shall set, at a minimum, a 2030 (or sooner) and 2050 target. Further intermediary targets shall be set every five years after the initial interim target. As each subsequent interim target year is approached, the next interim five-year target shall be set. An overview of planned actions to meet the targets shall be provided.
- **Impact in the real economy:** targets shall focus on achieving an impact in the real economy.
- **Governance:** targets shall be approved by the highest executive level within the bank.
- **Implementation:**
  - Signatories to the Net-Zero Banking Alliance, and banks signing the CCCA after 21 April 2021, will apply these Guidelines, including setting their first round of targets within 18 months, and within a further 18 months, set targets for all or a substantial majority of the carbon-intensive sectors detailed in Guideline 1.
  - Existing CCCA signatories (at 21 April 2021) have three years from the time of joining the CCCA to apply these Guidelines, including setting their first round of targets, and then a further 18 months to set the targets for all or a substantial majority of the carbon-intensive sectors detailed in Guideline 1.
- **Review dates:** the targets shall be reviewed at a minimum every five years.
- **Reporting:** banks shall publicly disclose their targets and report annually on progress.
- **Application:** these Guidelines are to be applied on a *comply-or-explain* basis.

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<sup>1</sup> Banks' own Scope 1, Scope 2 and non-category 15 Scope 3 (e.g. from business travel) emissions are not addressed in this document; it is taken as given that banks shall target carbon neutrality in their own operations well before 2050.

# Guidelines

## One

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Banks shall set and publicly disclose long-term and intermediate targets to support meeting the temperature goals of the Paris Agreement.

## Two

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Banks shall establish an emissions baseline and annually measure and report the emissions profile of their lending portfolios and investment activities.

## Three

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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.

## Four

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Banks shall regularly review targets to ensure consistency with current climate science.

### Note to readers:

In the Guidelines, the following terminology is used:

- **Shall** means that a process is mandatory, on a comply-or-explain basis.
- **Should** means that a process is optional, but strongly recommended.
- **May** means that a process is optional.

# Guideline One

## **Banks shall set and publicly disclose long-term and intermediate targets to support meeting the temperature goals of the Paris Agreement.**

- The long-term targets shall at least align with the temperature goals of the Paris Agreement and include a 2050 target.
- Intermediate targets shall include a target for 2030 or sooner.
- Banks' targets shall include their clients' Scope 1, Scope 2 and Scope 3 emissions, where significant and data allows.
- The targets shall cover a significant majority of a bank's Scope 3 emissions,<sup>2</sup> including those from a set list of carbon-intensive sectors (detailed below).
- The target base-year shall be no more than two full reporting years prior to the setting of the target.
- Banks shall be transparent about timeframes for targets by disclosing the base-year and target years, selected scenarios, intermediate targets and milestones.
- Target-setting shall be supported within 12 months of setting the targets by the disclosure of planned actions and milestones to meet these targets, including investment and lending guidelines, transition plans and climate-related sectoral policies, such as for fossil fuel and other high-emitting sectors.
- Banks shall measure and report annual progress against targets, using metrics that are the basis of the long-term and intermediate targets.
- UNEP FI [Principles for Responsible Banking](#) (PRB) signatory banks shall obtain third-party independent verification or assurance within four years of signing the Principles, while non-PRB banks are encouraged to obtain third-party independent verification or assurance.
- Banks shall be diligent in applying evolving leading practice on the use of offsets, including the latest version of the GHG Protocol.

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2 Scope 3 Financed Emission – Category 15 emissions as defined in the GHG Protocol, Chapter 4.

## Additional Guidance

- Banks **shall set a 2050 target** to support meeting the temperature goals of the Paris Agreement.<sup>3</sup>
- Banks **shall set an interim target for 2030 or sooner** and may set further interim targets prior to that date.
- Targets shall be set based on:
  - **Absolute emissions;** and/or
  - **Sector-specific<sup>4</sup> emissions intensity** (e.g. CO<sub>2</sub>e/ metric<sup>5</sup>).
- While a bank's targets may be supported by other approaches (e.g. production volume trajectories, technology mix) or measurements (e.g. financing targets), the targets shall nonetheless be set in absolute and/or intensity terms.
- As an interim target year is approached, the next interim five-year target shall be set.
- Long-term and interim targets shall be based on scenarios as defined in Guideline Three. Banks are encouraged, where appropriate and where scenarios exist, to integrate sector-specific scenarios in their analysis for their targets.
- The base year for the above targets shall be set to be **no more than two full reporting years** prior to the year when the target is set, and should be disclosed. However, in cases of exceptional current economic circumstances and/or where there are data quality lags beyond the banks' own control, it is possible to go beyond two full reporting years if the base year would otherwise be atypical. In these circumstances, banks should explain and justify their approach.
- Banks' targets shall include their clients' Scope 1, Scope 2 and Scope 3 emissions, where significant<sup>6</sup> and where data allow. Scope coverage is expected to increase between each review period.<sup>7</sup>
- Targets **shall cover lending activities and should cover investment activities** as explained below. Banks should be clear about which parts of the balance sheet the targets encompass.<sup>8</sup>

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3 Banks who have set a net-zero target before 2050 do not need to set an additional 2050 target.

4 Sectors are defined according to internationally recognised sector classification codes, such as the NACE, SIC, GICS or NAICS codes.

5 These metrics should be physical metrics (e.g. kWh, m<sup>2</sup>, tonne of product), but may be financial metrics if the rationale for not using a physical metric is provided.

6 The approach to significance shall be explained and may refer to a recognised methodology.

7 Where data allows, Scope 3 emissions for the oil, gas, and mining sectors will be included from 2021 onward. From 2024 additional sectors will be added (at least transportation, construction, buildings, materials, and industrial activities, as data and guidance permit). From 2026, Scope 3 emissions should be included for all sectors where targets are set, where significant and where data allows.

8 Where entities within the group structure carry out other types of business such as insurance, pensions funds, or asset management, it may be appropriate for those entities to follow alternative frameworks.

- At present this refers to on-balance sheet investment and lending activities. However, on-balance sheet securities held for client facilitation and market-making purposes (as opposed to held for investment) are excluded. Over time, banks should increase the volume of investment activities covered by the targets in line with methodological developments. For example, off-balance sheet activities, including facilitated capital markets activities, will be considered in the next version of the Guidelines.
  - Banks shall justify the exclusion of relevant asset classes for materiality, methodological or other appropriate reasons.
- The scope and boundary of the targets should account for a **significant majority** of the bank's portfolio emissions where data and methodologies allow. Banks should explain significant exclusions.
  - Sector-level targets shall be set for all, or a substantial majority of, the carbon-intensive sectors, where data and methodologies allow. These sectors include: agriculture; aluminium; cement; coal; commercial and residential real estate; iron and steel; oil and gas; power generation; and transport. Signatories should prioritise sectors based on GHG emissions, GHG intensities and/or financial exposure in their portfolio in their first round of target setting (within 18 months of signing). Notwithstanding methodological limitations, the remaining carbon-intensive sectors from this list shall be included in subsequent rounds of target setting (within 36 months of signing). Within the agriculture and transport sectors, banks may prioritise sub-sectors based on GHG emissions and financial exposure and/or data and methodology availability. Banks shall justify their approach.
  - Any client with **more than 5% of their revenues coming directly from thermal<sup>9</sup> coal mining, and electricity generation activities** shall be included in the scope of targets.<sup>10</sup>
  - Banks should explain any exclusions for the above sectors, for instance if such sectors are financially and/or environmentally (in terms of CO<sub>2</sub>e emissions) immaterial to their portfolios.
- Within 12 months of setting the targets, banks shall publish, at a minimum, a **high-level transition plan providing an overview of the categories of actions** expected to be undertaken to meet the targets and an approximate timeline.
  - Categories of actions may include but are not limited to: client engagement; exclusion policies; divestment; capacity building; development of new tools and products; assessment of portfolio alignment; assessment of portfolio exposure/risks; development of policies; public policy positions and advocacy for government/regulatory action; and strategy to grow customer base.
  - Banks are encouraged to provide an overview of how they will meet their first interim target with milestones or, at a minimum, provide a planned order of implementation (recognising actions may be implemented concurrently).

9 Metallurgical coal is considered within the value chain of the iron and steel sector.

10 Project finance to a mixed-generation utility for a specific renewables project would not require reporting on Scope 3 emissions of the corporate as a whole.

- Banks are encouraged to provide asset class-specific or sector-specific information on planned actions.
- Banks are encouraged to obtain **independent limited assurance** over the reporting on performance against targets, including the establishment of a baseline, from their first progress report onwards.
  - [Principles for Responsible Banking](#) (PRB) signatories are required to have this limited assurance over their targets in place within four years of signing the Principles.
- Banks are encouraged to work with their risk and internal audit functions in managing the risks and ensuring good controls and governance regarding climate-related targets.
- A summary of targets, relevant findings and key metrics should be increasingly **reported in banks' mainstream annual financial filings** over time, as per the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations,<sup>11</sup> other market-place initiatives and growing international supervisory expectations. In the case of privately held banks, where public financial filings are not required, targets and relevant findings should be publicly reported through other appropriate reports.
- In implementing and reaching targets for all Scopes of emissions, offsets can play a role to supplement decarbonisation in line with climate science. The reliance on carbon offsetting for achieving end-state net-zero should be restricted to carbon removals to balance residual emissions where there are limited technologically or financially viable alternatives to eliminate emissions. Offsets should always be additional and certified.
  - Banks should conduct appropriate due diligence on client offset claims in line with other internal processes

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11 The TCFD has a number of conditional guidance recommendations companies should consider when determining the appropriate location of disclosure. See [Recommendations of the Task Force on Climate-related Financial Disclosure](#), page 25.



# Guideline Two

**Banks shall establish an emissions baseline and annually measure and report the emissions profile of their lending portfolios and investment activities.**

In doing so, banks shall:

- Annually measure and report current emissions (absolute emissions and emissions intensity) following relevant international and national GHG emissions reporting protocols and guidelines.
  - This shall cover a significant majority of a bank's Scope 3 emissions,<sup>12</sup> including the set list of carbon-intensive sectors.
- Each bank shall disclose the:
  - scope<sup>13</sup> and boundary<sup>14</sup> of the asset classes and sectors included (provide rationale);
  - asset class and sector coverage<sup>15</sup> of the emissions (provide rationale); and
  - measurement method(s) and metric(s) used at portfolio, asset class or sector level.

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12 Scope 3 Financed Emissions – Category 15 emissions as defined in the GHG Protocol, Chapter 4.

13 Scope defines the operational boundaries in relation to indirect and direct GHG emissions. [source: GHG Protocol, Chapters 3 and 4]

14 GHG accounting and reporting boundaries can have several dimensions, i.e. organisational, operational, geographic, business unit, and target boundaries. The inventory boundary determines which emissions are accounted and reported by the company. [source: GHG Protocol, Chapters 3 and 4]

15 Coverage defines what proportion of the selected portfolios are included in the analysis.

## Additional Guidance

- The financed emissions profile of the bank's portfolio shall be calculated and **disclosed annually**. This shall include, where targets have been set:
  - **Absolute emissions**; and
  - **Portfolio-wide emissions intensity** (e.g. CO<sub>2</sub>e/\$ lent or invested); and
  - **Sector<sup>16</sup>-specific emissions intensity** (e.g. CO<sub>2</sub>e/metric<sup>17</sup>).
- Signatories may select *additional* alternative methodological approaches, such as an implied temperature rise or forward-looking technological profile, as expressed in production capacity.
  - In selecting additional metrics, signatories shall:
    - justify their rationale;
    - ensure that they meet commonly accepted methodological expectations and data requirements; and
    - provide an explanation of the methodology as well as references to external public sources of information.
  - In selecting additional metrics for guiding their alignment, banks shall nonetheless disclose their current absolute emissions and emissions intensity on an annual basis.
- No specific methodology is mandated in these Guidelines to calculate values for the above metrics. However, banks should strive to use credible sources and explain the methodologies used for calculating their emissions profile. Where methodologies are not publicly available and there are data challenges, banks should explain the allocation approach used, data sources and their limitations, approaches to estimation, proxies used if data are not available and key assumptions. Banks should provide an assessment of the data quality used in their calculations. If several data sources are available, data with the highest quality are expected to be used, unless justified.
- Banks shall assess the **emissions profile for lending and investment activities** as explained in Guideline 1.
- The scope and boundary of the emissions profile should account for a **significant majority** of the bank's emissions, including the sectoral approach, as explained in Guideline 1.
  - As the current state of methodological development and data availability means it is not yet possible to measure the *totality* of a bank's financed emissions, it is not possible to calculate the precise proportion of a bank's financed emissions that have been measured. Nevertheless, banks should take reasonable steps to ensure that the assessment covers a "significant majority of their emissions".<sup>18</sup>

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16 Sectors are defined according to internationally recognised sector classification codes, such as the NACE, SIC, GICS or NAICS codes.

17 These metrics should be physical metrics (e.g. kWh, m<sup>2</sup>, tonne of product), but may be financial metrics if the rationale for not using a physical metric is provided.

18 Banks should look to disclose the percentage of their investment and lending activities covered by portfolio targets in a metric representative of the magnitude of FIs' main business activities.

# Guideline Three

**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.**

## Additional Guidance

- The scenarios used by banks shall come from **credible and well-recognised sources and banks should provide rationale for the scenario(s) chosen**.
  - IPCC scenarios and scenarios derived from IPCC-qualifying models that meet the criteria outlined below are strongly recommended.<sup>19</sup>
  - Scenarios such as the IEA scenarios (e.g. SDS or NZE2050 scenarios) or sector-specific scenarios (such as the shipping decarbonisation trajectories developed under the Poseidon Principles) may be used, if the individual scenarios are expected to be aligned with the temperature goals of the Paris Agreement.
- The scenarios selected shall be **“no-overshoot”** or **“low-overshoot”** scenarios (e.g. scenarios P1 and P2 of the IPCC).
- The scenarios selected **shall rely conservatively on negative emissions technologies**.
- The scenarios selected shall have reasonable assumptions on **carbon sequestration achieved through nature-based solutions and land use change**.
- **Banks shall disclose which scenario their climate targets are based upon** (scenario name, date and provider). Banks should disclose key assumptions used in these scenarios.
- The scenarios selected **shall, where possible, minimise misalignment with other Sustainable Development Goals (SDGs)**.

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<sup>19</sup> The One Earth Climate Model (OECM) is included under the IPCC exercise. The Network for Greening the Financial System (NGFS) scenarios are based on models that are included in the IPCC exercise.

# Guideline Four

**Banks shall regularly review targets to ensure consistency with current climate science.**

- Targets shall be reviewed, and if necessary revised, at least every five years, to ensure consistency with the latest science (as detailed in IPCC assessment reports).
- Targets shall be recalculated and revised as needed to reflect significant changes that might compromise the relevance and consistency of the existing targets, e.g. material portfolio changes, methodological developments.
- Targets shall be approved by the highest executive level and reviewed by the highest-level governance body in the bank.

## Additional Guidance

- Targets shall be **reviewed periodically**, for instance in line with business strategic planning.
  - At a minimum, banks shall review their targets every five years.
  - Banks should strive to align their ambition with any major changes in international agreements or national goals.
  - Banks shall change or restate baseline data in line with revisions made to the targets or boundaries if required.
  - As climate science evolves, banks should review their methodologies and targets at the earliest practical opportunity (e.g. following the publication of new IPCC reports).
- It is important that climate targets should be part of **broader organisational strategic plans**. Climate targets should be appropriately governed and approved by the CEO or executive committee. They should be reviewed by the board, or the highest-level governance body that normally oversees and approves the strategic plan.

## About the CCCA

The [Collective Commitment to Climate Action](#) (CCCA) is an **ambitious global banking sector initiative supporting the transition to a net-zero economy by 2050**.

It brings together a leadership group of 38 banks, all signatories of the Principles for Responsible Banking, from across all six continents who have committed to align their portfolios with the global climate goal to limit warming to well-below two degrees, striving for 1.5-degrees Celsius.

The CCCA banks, representing more than USD 15 trillion in assets, are **fast-tracking the commitment all [Principles for Responsible Banking](#) signatories have made to align their business strategy with the temperature goals of the Paris Agreement**.

### Signatories to the Collective Commitment to Climate Action are required to:

- Take decisive action from the moment of signing, focusing on the most carbon-intensive and climate-vulnerable sectors within their portfolios;
- Set and publish sector-specific intermediary and long-term targets for aligning their portfolios with a well-below 2°C and striving for 1.5°C trajectory, based on scientific climate scenarios; and
- Drive and facilitate the necessary transition in the real economy through their client relationships, products and services.

Each bank is required to report annually on its progress in implementing the Commitment and achieving set targets. Every two years, the signatories will report on their collective progress.

The collective work of the CCCA banks will also provide leadership, guidance, tools and frameworks for the 200+ signatories to the [Principles for Responsible Banking](#), helping all signatories to strategically align their business with the temperature goals of the Paris Agreement. This leadership group drafted the Guidelines for Climate Target Setting, a seminal piece of work which provides guidance on setting robust, credible, science-based targets. All banks are encouraged to apply these Guidelines, which also underpin the [Net-Zero Banking Alliance](#) (NZBA). In the coming years, signatories to the CCCA and NZBA will jointly review the Guidelines at least every 3 years, and sooner when required.

The full text of the [Collective Commitment to Climate Action](#) can be found on the CCCA's official [website](#).<sup>20</sup>

### For further information about the CCCA and how to join, go to:

[unepfi.org/climate-pledge](https://unepfi.org/climate-pledge)

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<sup>20</sup> The CCCA is advised by a [Civil Society Advisory Body](#) (CSAB). These guidelines were agreed before the CSAB was put in place, therefore members of the Body were not consulted on this inaugural edition.







United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilize private sector finance for sustainable development. UNEP FI works with more than 350 members—banks, insurers, and investors—and over 100 supporting institutions— to help create a financial sector that serves people and planet while delivering positive impacts. We aim to inspire, inform and enable financial institutions to improve people’s quality of life without compromising that of future generations. By leveraging the UN’s role, UNEP FI accelerates sustainable finance.

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