



WWF's criteria for credible net-zero commitments by financial institutions

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



Introductory note

WWF has developed five criteria to define the level of credibility, depth and robustness of net-zero commitments by financial institutions (investment managers, asset owners, commercial banks). These criteria are anchored in the latest climate science, as most notably provided by the [IPCC special report on 1.5°C warming](#).

We believe that all types of financial institutions can today adopt credible net-zero commitments for all their activities (investing, banking, insurance) and all asset classes.¹

The five criteria aim to provide an initial high-level checklist. In the next iteration of the paper, WWF will provide further details for each of the criteria as well as refine the criteria per type of financial institution (i.e. investment managers, asset owners, commercial banks).

The five criteria are building on the [Starting Line Criteria](#) of the Race To Zero. The table below indicates where WWF has added criteria or alterations specific for financial institutions.

STARTING LINE CRITERIA	FINANCIAL INSTITUTIONS APPLICATION LOGIC
 1. PLEDGE	Very similar to other actors; requires little alteration.
 2. PLAN	Very similar to other actors; requires little alteration.
 3. PROCEED	Further financial sector-specific criteria are needed, given the lack of a consistent understanding of what net-zero and near term targets mean for financial institutions. WWF suggestions build on operational target setting frameworks and other relevant resources.
 4. PUBLISH	Very similar to other actors; requires little alteration.
 5. CONTRIBUTE	New criterion: given the need for further methodological development and consolidation, we suggest financial institutions should commit to contributing to this need.

¹ WWF acknowledges that currently not all activities and asset classes are covered by tools and methodologies that allow to adhere to all the steps outlined in this document, but believes that by making net-zero commitments financial institutions are committing to contribute towards developing and applying such tools and methodologies over time.

Criteria for net-zero commitments by financial institutions

In order for net-zero commitments to be credible, WWF believes financial institutions should:

To be credible, net-zero commitments must:

- be science-based (aligned with 1.5°C scenarios with no or low overshoot);
- Commit to reaching net-zero emissions by 2050 or sooner, and halving emissions by 2030;
- include short-term target setting (2025);
- and transparent reporting on progress.

1/ PLEDGE

At the head-of-organization level to reach net-zero by 2050 or sooner, in line with global efforts to limit warming to 1.5°C.

2/ PLAN

Explain what steps will be taken toward achieving net-zero, and commit to calibrate all activities (see point 3 below) on science-based no/low overshoot 1.5°C scenarios (e.g. P1 or P2 pathways of the IPCC special report on 1.5°C warming) that do not rely on excessive carbon dioxide removal technologies, and hence require a global reduction in CO₂ of approximately 50%² by 2030.

3/ PROCEED

Take immediate action toward achieving net-zero – aligned with the scientific requirements set out in point 2 above – including:

- Setting a combination of short-term targets that cover all (i.e. no cherry-picking) of the following levels and activities: (sub-)portfolio level targets, targets for sectors, targets for company engagement and green investments targets.³
- Adopt investment policies for the most material sectors that involve fossil fuels,⁴ deforestation- and conversion-related sectors (agriculture and forestry), high-carbon transport, high-carbon industry (e.g. cement, steel, chemicals, etc.).
- Commit to strive towards achieving impact in the real economy by developing a robust and publicly disclosed engagement strategy⁵ towards investee companies, policy makers and service providers as the primary tactic to achieve (sub-)portfolio targets. Such a strategy must include time-bound objectives and escalation steps⁶ in case engagement is not bearing fruit.

4/ PUBLISH

Commit to measure and report progress towards 1.5°C alignment at least annually, including via, to the extent possible, platforms that feed into the UNFCCC Global Climate Action Portal.

5/ CONTRIBUTE

To the development and application of credible portfolio alignment methodologies that drive and measure the financial institution's contribution to real-world reductions in line with a 1.5°C pathway. This notably implies going beyond measuring 'financed emissions', including the need for financial institutions to immediately avoid investments in new high- emitting infrastructure.⁷

2 The IPCC P1 pathway forecasts a 54% reduction by 2030, and the P2 pathway a 47% reduction.

3 There is a growing number of target-setting frameworks that allow financial institutions to set short-term targets such as the science-based targets for financial institutions initiative, the UN-convened net zero asset owner alliance target setting protocol and the IIGCC Paris aligned investment initiative net-zero investment framework.

4 Based on an available carbon budget calculation for an IPCC scenario of 50-66% chance of staying below 1.5°C of global warming, with low or now overshoot and limited carbon dioxide removals, thermal coal should be phased out from the energy system by 2030 in OECD/Europe/Russia and by 2040 globally, oil and gas should be phased out by 2040 in OECD/Europe/Russia and by 2050 globally (IEA Beyond Two Degrees, 2017). Financial institutions should ensure that their own portfolio is free from fossil fuels by the same timelines, by assessing and taking action to guarantee (e.g. engaging and/or reducing exposure and/or divesting) that the companies they invest in and/or provide financial services to have corresponding transition plans in place.

5 An engagement strategy should include: engagement targets; a description of how sectors/companies for engagement were identified; the climate requests towards sectors/companies; the number and sectoral breakdown of engagement conducted with regard to climate change over the last 12 months; a description of the engagement escalation strategy (disclosure and rationale of voting on climate shareholder resolutions, votes against management for climate reason, divestment decisions in case of unsuccessful engagement, etc.).

6 For companies this can entail public messaging, filing/supporting shareholder resolutions, and participating in capital raising efforts through bond issuances/loans, vote against management, and ultimately divestment if the company remains unresponsive to demands.

7 This includes direct investments in infrastructure projects and/or providing financing or services (e.g. project loans, financing through corporate instruments (corporate loans, equity, bonds), insurance underwriting, loan underwriting, etc.) to companies that are investing/planning to invest in high-emitting infrastructure.

