SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

FINANCIAL INSTITUTIONS NET-ZERO STANDARD

Consultation Draft V0.1

July 2024

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ABOUT SBTi

The Science Based Targets initiative (SBTi) is a corporate climate action organization that enables companies and financial institutions worldwide to play their part in combating the climate crisis.

We develop standards, tools and guidance which allow companies to set greenhouse gas (GHG) emissions reductions targets in line with what is needed to keep global heating below catastrophic levels and reach net-zero by 2050 at latest.

The SBTi is incorporated as a charity, with a subsidiary which will host our target validation services. Our partners are CDP, the United Nations Global Compact, the We Mean Business Coalition, the World Resources Institute (WRI), and the World Wide Fund for Nature (WWF).

DISCLAIMER

The SBTi reserves the right to revise this document according to a set revision schedule or as advisable to reflect the most recent emissions scenarios, regulatory, legal or scientific developments, or changes to GHG accounting best practices.

“Science Based Targets initiative” and “SBTi” refer to the Science Based Targets initiative, a private company registered in England number 14960097 and registered as a UK Charity number 1205768.

This Standard is issued by the Science-based Targets Initiative (SBTi). Any feedback on SBTi Standards can be submitted to info@sciencebasedtargets.org for consideration of the SBTi.

ABOUT THIS DOCUMENT

This document, the Financial Institutions Net-Zero Standard (FINZ) Consultation Draft v0.1, forms a draft of the conceptual framework, requirements, and recommendations and supporting annexes to enable financial institutions to set science-based targets on their scope 3 category 15 emissions.

It has been prepared in accordance with the Standard Operating Procedures for the Development of SBTi Standards (SOP). This document is subject to public consultation, further technical council review and approval, and finally, board adoption. The content of this document could therefore change as a result of this process.

It should also be noted that previous technical resources, published by the SBTi, that enable organizations to set science-based targets, have used the term 'Criteria' to refer to the quantitative and qualitative indicators to guide the formation and assessment of net-zero targets. In this document the term 'Requirements' is used instead.

Standard Development Process
The FINZ Standard project commenced in 2021. This preceded the SBTi Board's adoption of the SOP on 14 December 2023, with publication in April 2024.

This ongoing development has therefore been conducted in two phases:

Phase 1 - Preceding the adoption of the SOP

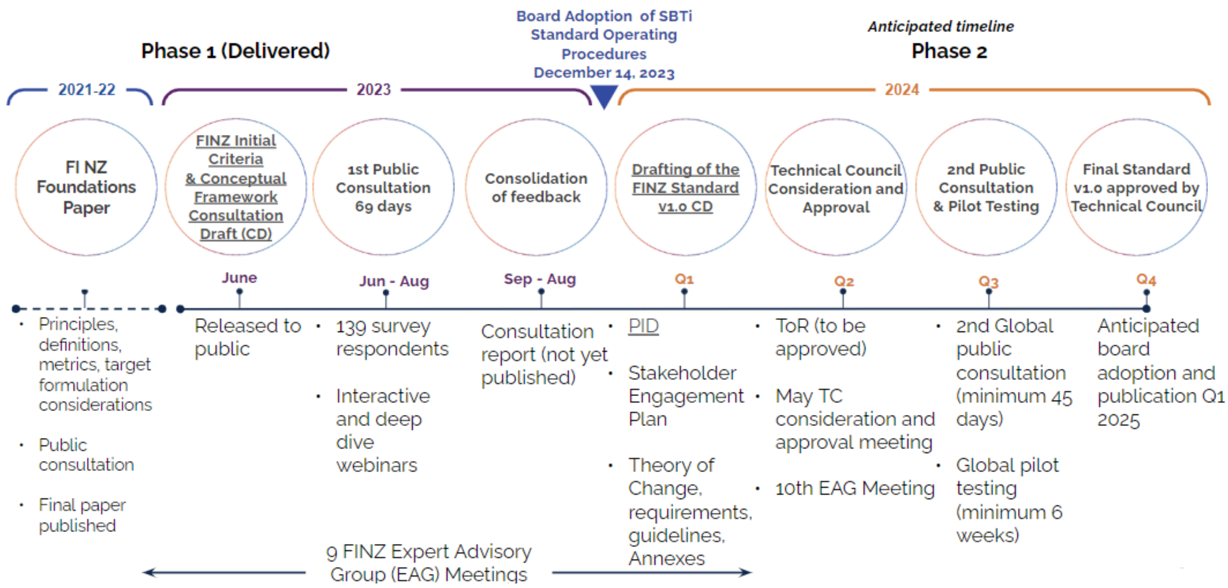
- A dedicated FINZ Expert Advisory Group and multi-stakeholder consultations were used to support the rigor of all development activities prior to the adoption of the SOP.

Phase 2 - Following the adoption of the SOP

- Development activities following the SOP's adoption have been conducted in alignment with the requirements of the SOP and the relevant supporting documentation, including the Terms of Reference and Stakeholder Engagement Plan, have been developed accordingly.

Figure 1 below outlines the key steps and deliverables during phases 1 and 2.

Figure 1 - Development process of the FINZ Standard



It is important to note the 2024 timeline is tentative and may be subject to adjustments. Changes can occur due to a variety of factors including but not limited to stakeholder feedback, consensus building process, and operational constraints.

VERSION HISTORY

Version	Change/update description	Release date	Effective dates
Conceptual framework and initial criteria	First FINZ consultation draft describing the Conceptual framework and initial criteria.	June 2023	June 2023 - approved 1st draft for consultation
0.1	Second consultation draft outlines the requirements of the Standard using new SBTi terminology for the word criteria. It is also drafted and structured in line with the SBTi SOP. Compared to the first draft it addresses the following: ● Refinement of the conceptual framework and the concept of climate alignment, also to ensure consistency with the CNZv2 revision. ● Finalization of target setting metrics and methods supported by a research paper (to be released jointly with the draft). ● Refinement of the holistic coverage approach proposing target milestones based on the principles of climate impact and influence. ● Neutralization proposed as a requirement with future updates to be provided, building on the future update to the CNZ update. ● Updating fossil fuel requirements to reflect the learnings of FINT v2 pilot testing and subsequent publication.	July 2024	July 2024 - approved 2nd draft for consultation

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EXECUTIVE SUMMARY

The largest source of financial institutions' (FIs) greenhouse gas emissions generally comes from undertakings associated with their financial activities. The SBTi Financial Institutions Net-Zero (FINZ) Standard is a global, voluntary, science-based framework that includes both near- and long-term requirements to address these emissions (accounted for under scope 3 category 15) through the alignment of financial flows with global climate goals. This FINZ Standard Consultation Draft applies to entities that generate 5% or more of their revenue from lending, investing (as asset owner or manager), insurance underwriting, and/or capital market activities.

The Standard is structured around five key outcomes that translate into a range of requirements and recommendations which, when implemented, will help FIs reach the net-zero end state. Firstly, financial institutions (FIs) are asked to demonstrate climate leadership on entity level by committing to the net-zero transition and integrating climate considerations into their governance and establishing relevant policies to halt activities that are incompatible with 1.5°C. Secondly, FIs need to increase scope, quality and transparency of their GHG inventory over time. Thirdly, to allow for having measurable actions, FIs are asked to set climate-alignment targets, measuring how well entities financed by FIs are transitioning to a net-zero economy. Fourthly, FIs are asked to set benchmark targets based on a predefined list of emission-intensive sectors due to their importance for the wider energy transition. Lastly, FIs are to ensure that progress against climate targets is traceable and accessible through disclosure.

Standard Outcomes	Corresponding Chapters and sections
Outcome 1 - Robust climate governance driven through clear sets of public commitments and policies, FIs have: ● A clear, comprehensive, and strategic plan to support the net-zero commitment across the organization to ensure aligned and coordinated climate action across all business divisions. ● Comprehensive assessment of all financial activities. ● Policies that drive transformation consistent with reaching net-zero emissions globally and limiting warming to 1.5°C.	1. Entity level: Organizational Commitments and Leadership 1.1 Organizational boundary 1.2 Entity-wide net-zero commitment 1.3 Assessment of relevant financial activities 1.4 Compliance with relevant legislation and/or regulation 1.5 Governance of climate targets 1.6 Climate transition plan 1.7 Policies to drive climate alignment
Outcome 2 - Comprehensive assessment of climate impacts driven through clear accounting requirements, FIs: ● Establish portfolio GHG emissions accounting inventories across relevant financial activities with a continuous improvement over scope and quality of reporting over time.	2: GHG Accounting: Exposure and Portfolio Emissions 2.1 GHG emissions inventory 2.2 Fossil fuel financial exposure 2.3 Neutralization of portfolio residual emissions 2.4 Accounting of carbon credits and avoided emissions
Outcome 3 - Alignment of relevant financial activities with global climate goals driven through ambitious portfolio-wide targets, FIs: ● Scale up financial activities towards climate solutions thereby recognizing their contribution to a successful net-zero transition. ● Quantify and track the share of their portfolio holdings that are aligning or aligned with global climate goals, prioritizing action on emission-intensive activities. Alignment includes those already	3. Portfolio Climate-Alignment Targets 3.1 Portfolio climate-alignment baseline 3.2 Portfolio climate-alignment targets

achieving emissions progress compatible with limiting warming to 1.5°C and those actively working towards this goal, eventually directing all financial flows to entities and activities that have achieved net-zero.	
Outcome 4 - Prioritize addressing emission-intensive activities driven through ambitious sector-specific targets, FIs: ● Map and disclose exposure to climate critical activities. ● Ensure financial flows and insurance underwriting for key emissions-intensive activities are compatible with 1.5°C aligned benchmarks.	4. Emissions-intensive Sector Targets 4.1 Emissions-intensive sector transparency 4.2 Activity-specific baseline and metrics for emission-intensive activities 4.3 Activity-specific targets for emission-intensive activities
Outcome 5 - Transparency and reporting driven through disclosure, FIs have: ● Clear and comprehensive annual reporting. ● Robust and transparent ambition and progress throughout the net-zero journey.	5. Reporting 5.1 Reporting requirements 5.2 Target recalculation and validity.

These requirements will form the basis of the FINZ Standard and are **now open for public consultation.** Feedback and comments are to be provided **via an online survey. Pilot testing** will be conducted in parallel to the consultation process. The responses received during this period will be summarized, considered, and integrated as the SBTi builds toward final publication of the FINZ Standard. **Please be aware that the content and provisions of the final version of the FINZ Standard are subject to modifications and may differ from this Consultation Draft.**

INTRODUCTION

Purpose of the Financial Institutions Net-Zero Standard

The largest source of financial institutions' (FIs) greenhouse gas emissions generally comes from undertakings associated with their financial activities. The SBTi Financial Institutions Net-Zero (FINZ) Standard is a global, voluntary, science-based framework that includes both near- and long-term requirements to address these emissions (accounted for under scope 3 category 15[1]) through the alignment of financial flows with global climate goals.

By tracking the status of portfolio climate alignment (finance or insurance) at different points in time and resulting portfolio emissions reductions, converging to net-zero in the long run, the FINZ Standard is designed to help FIs align their financial activities with global climate goals. The FINZ Standard is intended to ensure FIs are responsible for meeting near- and long-term requirements by setting interim checkpoints and requirements for reporting and disclosure.

The requirements and recommendations presented in the FINZ Standard provide robust foundations in the context of the FI's broader net-zero transition planning process.

SBTi FINZ Conceptual Framework

FIs do not generally have direct control of large sources of GHG emissions. They instead provide services such as financial capacity, asset management, and insurance to other actors that generate emissions in the real economy, e.g. private companies, households, individuals, and the public sector. This puts them in a position to facilitate or enable change to support the transition to net-zero. This central enabling role is recognized in the Paris Agreement, as Article 2.1(c) refers: making finance flows consistent with a pathway towards low GHG emissions and climate-resilient development.

Through the requirements and recommendations set out in the FINZ Standard, SBTi aims to propel bold, science-based climate action, enable FI conformance with Paris Agreement goals, and successfully facilitate a transition to a net-zero economy by 2050 – one that is both equitable and serves the needs of people while respecting the limits of our planet. For the financial sector, this means that FIs have to reach a state where their financial activities do not contribute to the accumulation of GHGs in the atmosphere and deliver their fair share of the emissions reductions and removals required to be consistent with 1.5°C pathways.

The FINZ Standard aims to drive both near-term and long-term outcomes consistent with reaching net-zero emissions globally, by providing requirements and recommendations. These requirements and recommendations, if successfully implemented, are intended to ultimately drive long-term impact.

[1] The SBTi recognizes that emission accounting for some of the financial activities in Scope 3 Category 15 are partially work in progress (e.g. insurance). Therefore, the FINZ Standard uses financial activities for guiding FI alignment instead of emissions. The FINZ Standard applies to the following five financial activities: Lending (LND), Asset Owner Investing (AOI), Asset Manager Investing (AMI), Insurance Underwriting (INS), and Capital Market Activities (CMA).

The FINZ Standard enables FIs to set targets for the following five financial activities as defined in Table 1: Lending (LND), Asset Owner Investing (AOI), Asset Manager Investing (AMI), Insurance Underwriting[2] (INS), and Capital Market Activities (CMA). It also seeks to drive five outcomes, via near- and long-term interventions, key for FIs to achieve on their journey to an overall goal of net-zero by 2050.

These outcomes were selected due to the need for the Standard to drive action at the organizational level, the portfolio level, and the real economy activity level. The outcomes ensure a simple, focused action by the FI on the most relevant levers for it to drive change in the real economy. They ensure both organizational level commitments, as well as clear actions for both aligning financial flows and addressing portfolio emissions over near- and long-term timeframes.

Outcome 1 - Robust climate governance: driven through clear sets of public *commitments* and *policies,* FIs have:

- A clear, comprehensive, and strategic plan to support the net-zero commitment across the organization to ensure aligned and coordinated climate action across all business divisions.
- Comprehensive assessment of all financial activities.
- Policies that drive transformation consistent with reaching net-zero emissions globally and with limiting warming to 1.5°C.

Outcome 2 - Comprehensive assessment of climate impacts: driven through clear *accounting requirements*, FIs:

- Establish portfolio GHG emissions accounting inventories across relevant financial activities with a continuous improvement over scope and quality of reporting over time.

Outcome 3 - Alignment of relevant financial activities with global climate goals: driven through ambitious portfolio-wide *targets,* FIs:

- Scale up financial activities towards climate solutions thereby recognizing their contribution to a successful net-zero transition.
- Quantify and track the share of their portfolio holdings that are aligning or aligned with global climate goals, prioritizing action on emission-intensive activities. Alignment includes those already achieving emissions progress compatible with limiting warming to 1.5°C and those actively working towards this goal, eventually directing all financial flows and insurance capacity to entities and activities that have achieved net-zero.

Outcome 4 - Prioritize addressing emission-intensive activities: driven through ambitious sector-specific *targets,* FIs:

- Map and disclose exposure to climate critical activities.

[2] For simplicity, the generic term "insurance" includes both primary insurance and reinsurance activities in this document, unless otherwise specified. Additionally, in this Standard, insurance refers only to re/insurers' risk transfer and risk management activities, also referred to as "Insurance Underwriting" (INS), as opposed to re/insurers' investment activities which are covered under investing activities (INV).

- Ensure financial flows and insurance underwriting for key emission-intensive activities are compatible with 1.5°C aligned benchmarks.

Outcome 5 - Transparency and reporting: driven through *disclosure*, FIs have:

- Clear and comprehensive annual reporting.
- Robust and transparent ambition and progress throughout the net-zero journey.

These five outcomes translate into a range of requirements and recommendations which, when implemented, will help FIs reach the net-zero end state. These include preparation for submission, validation actions, and milestone years for target setting.

The conceptual framework of the FINZ Standard is based on using these five outcomes to ensure portfolio climate alignment and the associated portfolio emissions reach the necessary end points before 2050 Figure 2. The five outcomes are implemented across three key levels: entity, portfolio, and real economy activity level.

Figure 2: Conceptual framework for the FINZ Standard

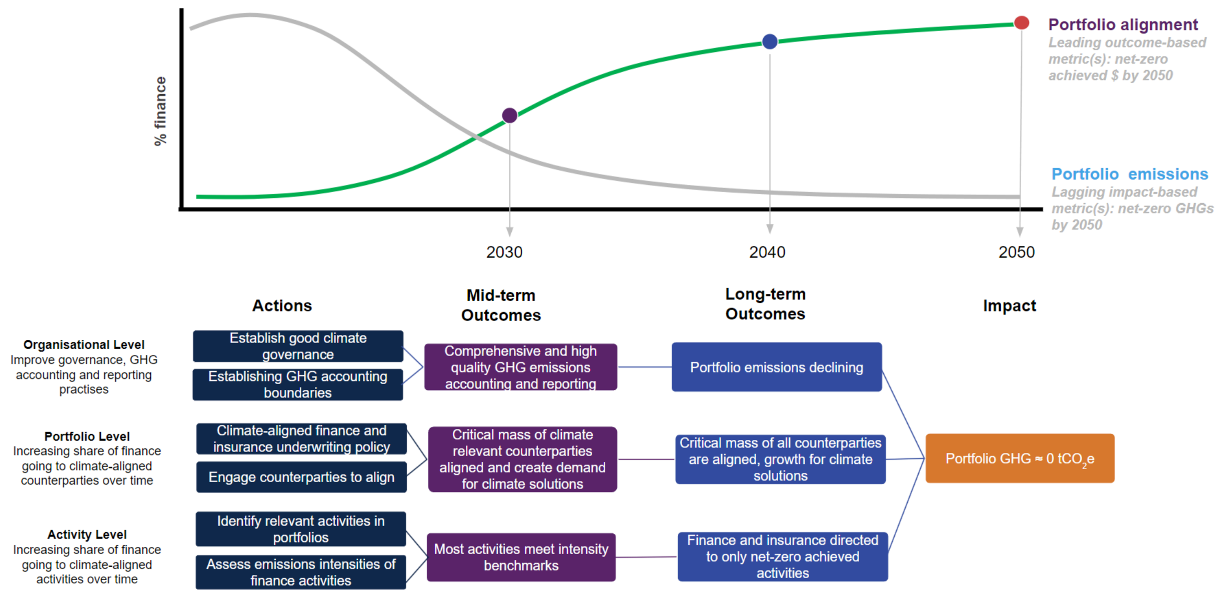


Figure 3 below, highlights how the five outcomes described earlier can be linked to the five financial activities. The financial activities are addressed by all five outcomes, except for capital market activities which are only addressed by three.

Figure 3: Linking outcomes and financial activities

	1. Robust climate governance	2. Comprehensive assessment of climate impacts	3. Alignment of relevant financial activities with global climate goals	4. Prioritizing emission-intensive activities	5. Transparency and reporting
	Commitments + policies	GHG accounting	Targets	Targets	Disclosure
Total $ Lending	✓	✓	✓	✓	✓
Total $ Asset Owner Investing	✓	✓	✓	✓	✓
Total $ Asset Manager Investing	✓	✓	✓	✓	✓
Total $ Capital Markets Activities	✓	✓			✓
Total $ Insurance Underwriting	✓	✓	✓	✓	✓

Applicability

The FINZ Standard applies to entities that generate 5% or more of their revenue from lending, investing (as asset owner or manager), insurance underwriting, and/or capital market activities. This includes but is not limited to banks, asset managers and private equity firms, asset owners and re/insurance companies, and mortgage real estate investment trusts (REITs). Entities that derive less than 5% of their revenue from these financial activities are encouraged, but not required, to use the FINZ Standard to set targets on these activities in addition to their corporate targets. Currently, public-sector FIs are not eligible under the FINZ Standard.

Table 1: Financial Activities[3]

Financial activity	Relevant actors	Implication
Lending (LND)	Includes all entities classified as banks, i.e. commercial and retail banks, as well as non-bank lenders.	To require their clients to shift their business mix, investments and asset allocation to align with net-zero. Over time, this results in recalibration of lenders' credit risk appetite towards clients that are part of the transition to net-zero.
Asset Owner Investing (AOI)	Includes entities classified as asset owners, i.e. re/insurance companies (asset side), banks (direct investing activities), pension funds, family offices, etc.	To require, as owners or stewards of investee companies, that entities align their business and operating models with a 1.5°C aligned transition. In parallel, owners can increase their investment emphasis towards more climate-progressive firms (in terms of asset managers used as well as real-economy companies invested in), thereby resulting in more favorable relative valuations versus peers that take less ambitious climate action.
Asset Manager Investing (AMI)	Includes financial activities usually conducted by asset managers, product owners (ETF providers), and brokerage platforms.	
Insurance Underwriting (INS)	Includes all entities classified as re/insurance firms, i.e. all entities that have a license to be a risk carrier.	To engage insureds in portfolio on the alignment of their business, operating models, or (for individuals) behaviors with a net-zero transition. In parallel, re/insurers increase the share of insurance directed towards clients committed to a low- or no-carbon

[3] More details are provided in Annex A

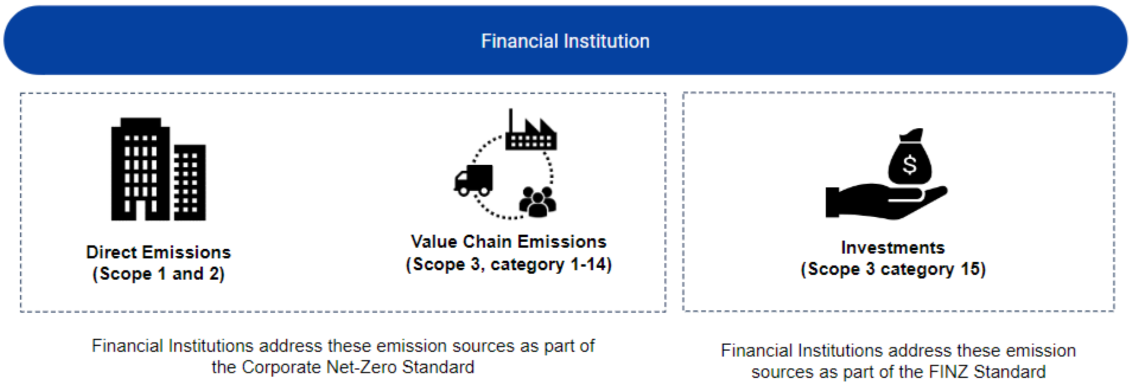
		future. By de-risking investment, re/insurers also act as catalysts for these activities.
Capital Market Activities (CMA)	Includes primary issuance of capital market instruments and loan syndication.	FINZ Standard version 1.0[4] is limited to policies and GHG accounting seeking to both prevent creation of new capital market instruments deemed incompatible with 1.5°C and, increase transparency on these types of financial activities.

System of SBTi Standards

SBTi Standards are organized in a modular framework that includes a foundational Standard (the Corporate Net-Zero Standard (CNZS)) and several sector-specific standards which describe additional requirements to each sector.[5]

FIs may use the FINZ Standard to set targets on their scope 3 category 15 emissions defined through the five financial activities (LND, AOI, AMI, INS, and CMA). The SBTi FINZ conceptual framework section outlines which targets apply to which financial activities. FIs are asked to follow the FINZ Standard for all financial activities they conduct business in with a materiality threshold of 5% of revenue. For scope 1, scope 2, and scope 3 category 1-14 emissions, FIs are referred to the Corporate Net-Zero Standard.[6]

Figure 4: Applicability of FINZ to different sources of an FI's GHG emissions



Standard Structure

The FINZ Standard requirements and recommendations are divided into five chapters, each having several sections.

Each **chapter** includes the expected outcome translated from the SBTi Conceptual Framework for Financial Institutions and a background providing a rationale for the outcome.

Each **section** includes a section header, intent, and the requirement/recommendation itself.

[4] To be extended in future versions of the FINZ Standard.
[5] Originally entities were asked to either use a corporate or a financial standard, going forward the two are complementary.
[6] Financial institutions may use the existing Financial Institutions Near-Term Criteria (FINT v2) for setting near-term science-based targets for twelve months after the publication of the final FINZ Standard.

A template exemplifying the structure is provided directly below.

Template

Section code and heading: [indicating where requirements/recommendations are to be applied]

Intent: [outlining the objective of application of the requirements/recommendations in the section]

Requirement OR Recommendation	Code X.X: Requirement/Recommendation name
Year 0, 5[7]	Requirement/Recommendation text
Application to financial activity	
Guidelines: Each requirement/recommendation includes guidelines explaining how it is to / is recommended to be implemented. It is mandatory to follow the guidelines for requirements and recommended to follow the guidelines for recommendations.	

To support implementation of the FINZ Standard, annexes containing further guidance are also provided.

Within this Standard, the terms “shall” and “should” are used as follows:

- “Shall” indicates requirements that are mandatory for the applicable activities.
- “Should” indicates a recommendation. Recommendations are important for transparency and best practices but are not required.

To improve accessibility of the FINZ Standard, each requirement/recommendation lists a single requirement (shall) or recommendation (should). The guidelines use “are to/is to” to provide supporting information for requirements and “are/is recommended to” for recommendations.

Process for Setting Science-Based Targets

The SBTi is revising its standards to follow a continuous improvement approach whereby companies or financial institutions initiate their process through a preparatory stage, during which they undertake the foundational work to set science-based targets. During this stage, the status of entities is displayed as “committed” on the SBTi webpage. Currently, the commitment status is valid for a maximum of two years.

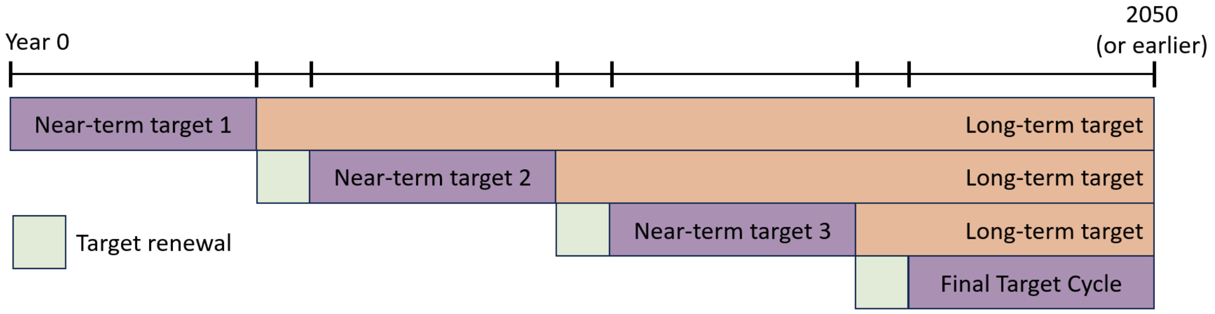
Following this preparatory stage, entities are expected to develop the relevant policies and set targets to address the main sources of emissions in their value chain. To enhance accountability and actionability of targets, SBTi standards require companies to set near-term

[7] For example, year 0 is required at target submission, and year 5 is required at re-submission (subject to change, see Note on Process for setting science-based targets below). Commitment Stage refers to elements required to enter the SBTi’s commitment process.

targets within a 5- to 10-year timeframe. After this period, subsequent near-term targets are to be set to address any remaining emissions. This approach is illustrated in Figure 5.

NOTE: As part of the revision of the SBTi Corporate Net-Zero Standard, the SBTi is reviewing the target-setting cycles as part of the continuous improvement mechanism of the Standard. Therefore, the timing requirements in the FINZ Standard are indicative and may change as a result of the SBTi Corporate Net-Zero Standard revision.

Figure 5: SBTi target-setting cycles[8]



[8] More information on the target-setting cycles will be published at a later point in time. At the end of each near-term target, an evaluation will be made of progress made against targets. More details about the renewal process will be communicated at a later stage.

REQUIREMENTS AND RECOMMENDATIONS

1. Entity-level: Organizational Commitments and Leadership

Outcome: FIs establish portfolio boundaries covering all relevant financial activities related to their scope 3 category 15 emissions. Additionally, FIs establish organizational level commitments to demonstrate climate leadership through their governance structures and transition plans. Finally, FIs enact these commitments through the development and publication of policies for driving climate-aligned financing and insurance.

Background: FIs can demonstrate climate leadership by committing to the net-zero transition, developing credible transition plans, and setting science-based targets. They can also consider climate change in their governance structure and establish climate-aligned financing / insurance underwriting and deforestation policies to demonstrate climate leadership.

Section 1.1: Organizational boundary

Intent: This section intends to provide an overview of the organization, the entities included in its reporting, and its relevant financial activities.

Requirement	1.1.1: Entity organizational details
At Commitment	FIs shall disclose relevant organizational details in their net-zero commitment.
LND, AOI, AMI, INS, CMA	

Guidelines:

- FIs are to disclose relevant organizational details in their commitment letter. At a minimum, FIs are to provide the following information:
  - Legal name: If the organization uses a commonly known trading name or business name that is different from its legal name, it is to report this in addition to its legal name.
  - Entity nature/type: FIs are to use the definition of a legal entity as required by their relevant jurisdictional rules.
  - Ownership structure and legal form: The ownership structure and the legal form of the entity refers to whether it is publicly or privately owned and whether it is an incorporated entity, a partnership, a sole proprietorship, or another type of entity.
  - Location of headquarter: The entity's headquarters are the place from which it is controlled or directed.
  - Regions and countries of operations.

Requirement	1.1.2: Entity organizational boundary
At Commitment	FIs shall disclose the entities included in their financial reporting.
LND, AOI, AMI, INS, CMA	

Guidelines:

- Parent/group companies are to include the activities of all subsidiaries in their target submission. They are also to include the activities of a subsidiary if it falls within the

parent/group company's financial accounting. Parent/group companies are to provide justification and transparency if any subsidiary is not covered. ● FIs are to specify the list of entities included in their audited consolidated financial statements. ● An FI's chosen organizational boundary, as defined by the GHG Protocol (GHG-P) Corporate Standard,[9] is to be consistent with the organizational boundary used in the company's financial accounting as defined by relevant jurisdictional rules.

Recommendation	1.1.3: Parent/Group organizational boundary
At Commitment	FIs should establish commitments and targets at the parent- or group level, not the subsidiary level.
LND, AOI, AMI, INS, CMA	
Guidelines: ● FIs are recommended to establish their commitments and targets at the parent- or group level, not at the subsidiary level. ● Subsidiaries within a group are able to submit targets, but they have to do so individually, and their target language has to explicitly state which company within the group is submitting a target.	

Section 1.2: Entity-wide net-zero commitment

Intent: This section intends to make sure the entity establishes a net-zero commitment when committing to set targets in line with the FINZ framework.

Requirement	1.2.1: Net-zero commitment
At Commitment	FIs shall establish a public commitment at entity level with leadership sign-off to achieve net-zero by 2050 or sooner.
LND, AOI, AMI, INS, CMA[10]	
Guidelines: ● FIs are to establish a public commitment to achieve net-zero by 2050 or sooner, consistent with the goals of the Paris Agreement, including limiting warming to 1.5°C. ● The FI's relevant executive and non-executive directors are to sign off the net-zero commitment letter. ● FIs are to publish their commitment in a clear and publicly accessible manner, such as on their website or social media channels. ● The commitment is to be set for the entity as defined in Section 1.1 and cover all relevant in-scope financial activities defined in Section 1.3 below. ● FIs are to specify a timeframe as part of their commitment, indicating when they are to achieve net-zero GHG emissions for their financial activities. The timeframe has to be consistent with achieving net-zero GHG emissions by 2050 or sooner.	

[9] The GHG-P defines organizational boundaries as "The boundaries that determine the operations owned or controlled by the reporting company, depending on the consolidation approach taken (equity or control).

[10] Target requirements for capital market activities might be added later on and depend on the development of target-setting methods.

Section 1.3: Assessment of relevant financial activities

Intent: Through implementation of the requirements and recommendations in this section, the entity evidences its involvement in varying types of financial activities, its level of influence over those activities, and its exposure to different types of climate relevant emission-intensive activities. This section is intended to provide a comprehensive and transparent overview of portfolio activities in order to inform requirements on actions, targets, and policies.

Requirement	1.3.1: Identification of boundaries of financial activities
Year 0	FIs shall disclose which of the financial activities as specified in Table 1 they undertake and their contribution to entity-wide revenue.
LND, AOI, AMI, INS, CMA	

Guidelines:

- FIs are to disclose which of the following financial activities they undertake and the percentage share (%) of their revenue that is derived from each of the financial activities:
    - Lending (LND);
    - Asset Owner Investing (AOI);
    - Asset Manager Investing (AMI);
    - Insurance Underwriting (INS);
    - Primary Capital Market Activities (CMA).
- Entities who undertake one or more of these activities, e.g. asset owners with their own asset manager units, must include a breakdown of how each activity contributes to its overall revenue.
- Within each of these activities, FIs are to disclose the percentage share (%) of in-scope activities vs. out-of-scope activities.
- FIs are required to comply with the requirements of the FINZ Standard for any and all in-scope financial activities (LND, AOI, AMI, INS, CMA) that generate more than 5% of the FI's total revenue,[11] e.g. if CMA generates more than 5% of an FI's revenue then it has to be addressed with the Standard.
- The in- and out-of scope activities are specified in Table 8 in Annex A.

Requirement	1.3.2: Financial activity segmentation
Year 0	FIs shall conduct a segmentation of the financial activities within their organizational boundary based on level of influence and climate impact.
LND, AOI, AMI, INS, CMA	

Guidelines:

- FIs are first to identify in-scope activities in their portfolio, based on information provided in Annex A, Table 8. This selection identifies activities with a minimum level of climate impact,

[11] Entities that generate revenue through financial activities and underlying emissions are already covered as part of their own scope 1 and 2 emissions (e.g. car manufacturers offering car loans) do not have to use FINZ. Entities are recommended, but not required, to use the FINZ Standard to address their scope 3 Category 15 emissions if they undertake any of the activities listed in Table 1 but their revenue derived from their scope 3 Category 15 activities are less than 5%. The FINZ Standard extends coverage beyond the FINT v2 requirements, where coverage of a bank's (i.e. FIs with a banking license and a banking business that makes up a majority of their revenues) asset management business is optional. The FINZ Standard requirements means that banks have to cover their asset management business if it generates more than 5% of total bank revenue.

and/or where the FI can exert a minimum level of influence on emissions.

- For each financial activity within their organizational boundary as identified in 1.3.1, FIs are then to segment the in-scope activities based on the following two steps:
    1. Level of influence: FIs are to conduct a segmentation of their in-scope financial activities based on Tables 2.1 - 2.4 below. Additional information regarding levels of influence is available in Annex A.
    2. Climate impact: FIs are to further conduct a segmentation of their in-scope financial activities based on climate impact following the structure in Table 3 below. Additional information can be found in Table 10, Annex B for climate impact.
- FIs are to provide a table with a complete segmentation of in-scope activities, as outlined in Table 3, per relevant financial activity. The table is to be reported as the absolute amount and percentage share (%) of the exposure relative to total in-scope exposure, using one of the following financial metrics:
    - For all types: Asset value (financial exposure);
    - For Lending: Loan commitment OR loan amount OR exposure at default;
    - For Asset Manager Investing: Assets under management;
    - For Asset Owner Investing: Assets under ownership OR assets under control;
    - For Insurance Underwriting: Gross written premium (GWP).

Table 2: In-scope financial activities and breakdown by level of influence

Table 2.1 Lending		
In-scope	• Project finance • Loans with known use of proceeds • Loans to corporate and SMEs • Commercial real estate • Consumer loans: Residential mortgage and motor vehicles loans.	
Split by influence	*Reasonable*	*Limited*
	• Project finance and loan book to corporate clients (non-SMEs) • Commercial real estate	• Project finance and loan book to SME clients • Consumer loans

Table 2.2 Investing (both Asset Owner and Asset Manager Investing)		
In-scope for AOI + AMI	• Project finance / activity with known use of proceeds • Listed equity (common and preferred stock of corporates and SMEs) • Corporate and SME bonds • Private equity (direct holdings and co-investments) • Securitized fixed income (including asset-backed securities, mortgage-backed securities, covered bonds (direct holdings)) • Any real estate activities, REITs • Funds (ETFs, funds of funds, mutual and other funds, real estate funds, other collective investment schemes).	
Influence	*Reasonable*	*Limited*
For AOI	• Any transactions with stock of corporate clients for directing investment through execution only or advisory mandate (active strategies) • Engagement with asset managers when delegating investment through discretionary mandates (active strategies) • Engagement with product owners for any passive strategies Table 9).	n/a

For AMI	• Any transactions with stock of corporate clients with discretionary mandate <u>OR</u> with any mandate from AO with a net-zero target • Engagement with AO for directed investment through execution only or advisory mandate (active strategies) • Engagement with product owners for any passive strategies Table 9).	n/a

Table 2.3 Capital Market Activities		
CMA	• Listed Equity (IPO, dilutive follow-on public offering, private placements, special purpose acquisition company IPO) • Debt (public issuance of debt securities, private placement of debt securities, commercial paper issuance, issuance of securitized fixed-income instruments, syndicated loans).	
Split by:	*Reasonable*	*Limited*
	All of above	n/a

Table 2.4 Insurance Underwriting		
INS	**Primary insurance and reinsurance (facultative and treaties):** **Brokered and non-brokered activities** <u>Commercial lines:</u> (corporates, including SMEs) • Project-based insurance • Commercial insurance covers for clear identified assets / activities • All other commercial insurance covers except those out of scope (see Table 8, Annex A) <u>Personal lines</u>: Motor and homeowners insurance.	
Split by:	*Reasonable*	*Limited*
	Primary insurance and reinsurance (facultative and treaties) Both brokered and non-brokered activities <u>Commercial lines:</u> Transactions with corporate clients (non-SMEs).	**Primary insurance and reinsurance (facultative and treaties)** Both brokered and non-brokered activities <u>Commercial lines</u>: Transactions with SME clients <u>Personal lines</u>: Motor and homeowners insurance.

Table 3: Segmentation of Financial Activities

		Influence[a]	
		Reasonable	Limited
Climate Impact	Higher climate impact (belonging to energy intensive sectors or financial value chain, or are related to deforestation activities)	Reasonable influence in energy intensive sectors: ● Energy sector (power, fossil fuel value chain) ● Industrial sectors (cement, steel) ● Transport sectors (aviation, shipping, automotive manufacturers) ● Building sectors (commercial buildings) ● Deforestation activities of entities For AOI, AMI, and INS: "Reasonable influence in financial value chain"	Limited influence in energy intensive sectors: ● Energy sector (power, fossil fuel value chain[b]) ● Industrial sectors (cement, steel) ● Transport sectors (aviation, shipping, automotive manufacturers) ● Deforestation activities of entities For LND and INS: Limited influence in energy intensive sectors: ● Residential buildings ● Motor vehicles
	Lower climate impact (remaining sectors)	Reasonable influence in remaining sectors	Limited influence in remaining sectors

[a] As specified in Tables 2.1 - 2.4.
[b] For the fossil fuel value chain, climate impact supersedes influence for target-setting ambition.

Section 1.4: Compliance with relevant legislation and/or regulation

Intent: This section intends to ensure that the FIs using the FINZ Standard abide by the national, subnational, regional, and/or sector-specific legislation that governs the topics covered in the FINZ Standard.

Requirement	1.4.1: Compliance with national, subnational, regional, and sector-specific legislation and/or regulation
Year 0 LND, AOI, AMI, INS, CMA	FIs shall adhere to the national, subnational, regional, and sector-specific legislation and/or regulation governing the topics covered in the FINZ Standard.

Guidelines:

- If national, subnational, regional, and sector-specific legislation and/or regulation prohibits any part of the FINZ Standard, FIs are to abide by that legal requirement first and foremost.
- If the national, subnational, regional, and sector-specific legislation and/or regulation imposes stricter requirements than those stipulated in the FINZ Standard, FIs are to comply with that national, subnational, regional, and sector-specific legislation and/or regulation.

Section 1.5: Governance of climate targets

Intent: This section intends to ensure that FIs describe and publish the governance for effective oversight and implementation for achieving net-zero GHG emissions by 2050 or sooner.[12]

Requirement	1.5.1: Governance of climate targets[13]
Year 0	FIs shall describe and publish the bodies or individual roles responsible for overseeing and implementing the organization's climate targets, including a description of their responsibilities.
LND, AOI, AMI, INS, CMA	

Guidelines:

- FIs are to describe and publish the applicable governance to oversee the implementation of climate targets, including, at a minimum, the following:
    - A description of the FI's governance structure, including committees relevant to the net-zero transition.
    - A list of the committees of the highest governance body responsible for decision-making on, and overseeing the management of, the organization's impacts on the climate.
- FIs are to publish the framework in a publicly accessible manner.

Section 1.6: Climate transition plan

Intent: This section intends to ensure that FIs develop climate transition plans which set out how they plan to align their business models with pathways consistent to limiting the global average temperature to 1.5°C above pre-industrial levels.

Recommendation	1.6.1: Climate transition plan
12 months after target validation	FIs should develop and publish a transition plan consistent with achieving net-zero by 2050 or sooner.
LND, AOI, AMI, INS, CMA	

Guidelines:

- FIs are recommended to develop and publish a credible transition plan within 12 months after validation of their targets to substantiate their net-zero commitment and targets.
- The transition plan is, at a minimum, recommended to:
    - Be publicly available.
    - Specify the underlying methodology, third-party frameworks or other jurisdiction-specific frameworks used to design and develop the plan.[14]

Section 1.7: Policies to drive climate alignment

Intent: This section intends to ensure that FIs develop and publish policies outlining the key steps they will take to align their financial activities with global climate goals for most significant activities. Policies are necessary to ensure FIs have clear public positions on how they will address both current exposures and any future financing/insuring. Certain policies,

[12] FIs can draw from key existing climate-related disclosure and governance frameworks such as TCFD, ISSB (via IFRS2), GFANZ guidance on Transition Plans and the UK's Transition Plan Taskforce Disclosure Framework.
[13] FIs can draw from GRI for more detail on the topic.
[14] The SBTi recognizes guidance documents that can help FIs to develop transition plans, see for example GFANZ. A summary of recent developments can be found here TPT.

such as for fossil fuels, are required for all FIs, irrespective of the materiality of the issue to the FI.

Requirement	1.7.1: Fossil fuel policy
Year 0 LND, AOI, AMI, INS, CMA	FIs shall develop and publish a policy that addresses their financial activities directed to the fossil fuel sector prior to the validation of their target.

Guidelines:

- FIs are to develop and publish a fossil fuel policy for all financial activities they undertake. This policy applies to both reasonable and limited influence activities as specified in Table 3 and is, at a minimum, to include the following items:
  - A commitment to immediately **cease** any new financial flows to new projects, expanding existing projects and companies involved in new coal mines, extensions/expansions of coal mines or new unabated[15] coal-fired power plants.
  - A commitment to immediately **cease** any new financial flows to support new long-lead time upstream oil[16] and gas projects and midstream infrastructure dedicated to new long-lead time[17] upstream oil and gas projects.
  - A commitment to immediately **cease** any new financial flows to oil and gas entities involved in the oil and gas activities addressed in the previous bullet point.
- FIs are also to address additional items specific to the coal value chain in their fossil fuel policy by including the following:
  - A commitment to phasing out their financial activities related to coal projects and coal companies as specified in Table 11, Annex B, with the exception of new financial activities dedicated to the permanent decommissioning of production capacity and use-phase activities, in line with a full phaseout by:
    - End of 2030 for projects and companies operating in the Organization for Economic Co-operation and Development (OECD) countries; and
    - End of 2040 globally.
  - A description of how they engage the companies they support to adopt managed phaseout plans well in advance of phaseout, with facility-by-facility closure dates that include just transition and re-training plans for workers.[18]
  - A commitment to set target(s) for reducing absolute GHG emissions attributed to their financial activities related to coal projects and companies in line with a phaseout timeframe outlined above, if the year of full

[15] The applicability of abatement for the purpose of the halt of financial activities to new unabated coal-fired power plants is considered to be at least a 90% reduction of scope 1 and 2 emissions from the associated coal assets of the holding company or project. For carbon capture to be considered part of the 90%, it has to be (i) utilized for mitigation products that have century-scale (or greater) lifetimes (i.e. geological carbon capture and storage) and (ii) cannot support enhanced oil recovery or any other processes that enable continued fossil fuel extraction and production development.
[16] Five years (from the date of the publication of the first draft of the FINZ Standard) will be used as the threshold to define long-lead time.
[17] Five years (from the date of the publication of the first draft of the FINZ Standard) will be used as the threshold to define long-lead time.
[18] Generally, guidelines as defined by the United Nations International Labour Organization should be followed. For FIs operating in developing economies, guidance from UNDESA's Committee for Development Policy should also be consulted.

phaseout is more than five years from the year of target submission.[19]

- FIs are to publish the policy in a clear and publicly accessible manner, such as on their website, social media channels, and in their annual reports.
- In the policy, FIs are to outline their approach, detail the frequency and methods for regular public reporting on progress, and outline how it encompasses direct counterparties.

Recommendation	1.7.2: Climate-aligned policy for long-lived high-emitting assets
12 months after target validation	FIs should develop and publish a climate-aligned financing/insurance underwriting policy to address long-lived high-emitting assets.
LND, AOI, AMI, INS, CMA	

Guidelines:

- FIs are recommended to develop and publish a climate-aligned financing/insurance underwriting policy that commits them to progressively align their financial activities within 12 months from the validation of their target(s).
- The policy is, at a minimum, recommended to:
  - Encompass direct counterparties and high-emitting entities/activities as specified in Table 11, Annex B, and
  - Include a public commitment to halt financing to/insurance underwriting of the following activities regarded as incompatible with 1.5°C goals:[20]
    - **Electricity generation**: Cease the support of non-zero emitting power generating capacity.
    - **Industry**: Cease the support of all new long-lived high-emitting assets that will lock-in emissions in a trajectory incompatible with 1.5°C goals (i.e. re/investment in or insurance underwriting of unabated blast oxygen furnaces/cement kilns to minimize embodied emissions and avoid carbon lock-in).[21]
    - **Transport**: By latest 2035, no new financial activities to support the development of non-zero emission passenger vehicles.
    - **Buildings**: By 2030, no new financial activities to support the development of non-zero-carbon-ready buildings.[22]
- FIs are recommended to publish the policy in a clear and publicly accessible manner, such as on their website, social media channels and in their annual reports.
- In the policy, FIs are recommended to outline their approach, detail the frequency and methods for regular public reporting on progress, and outline how it encompasses direct counterparties.

Requirement	1.7.3: No-deforestation and conversion free policy
Year 0	FIs shall develop and publish a no-deforestation and conversion free

[19] For example, an FI submitting targets in 2024 with a 2028 coal phaseout would not need to set a target, while an FI submitting targets in 2024 with a 2022 base year and 2040 phaseout year for non-OECD assets would need to reduce its coal-related GHG emissions by 5.56% per year [(100%) / (2040 – 2022)] and reach at least a 44.5% [(2030 – 2022) x 5.56%]) reduction by 2030.
[20] IEA (2021) Net Zero by 2050 - A Roadmap for the Global Energy Sector.
[21] Guidance on long-lived high-emitting assets can for example be found here: IEA.
[22] A zero-carbon-ready building is a building with the highest energy efficiency class based on local rating schemes and uses either renewable energy directly or an energy supply that will be fully decarbonized by 2050, such as electricity or district heat (IEA NZE).

LND, AOI, AMI, INS, CMA	policy prior to the validation of their target with a commitment to monitor and phase out commodity-driven deforestation within their financial activities.

Guidelines:

- The policy applies to both reasonable and limited influence activities as specified in Table 3 and is, at a minimum, to include the following items:
  - A commitment from the FIs to monitor and phase out commodity-driven deforestation within its financial activities.
  - Encompass the following definition of deforestation: The loss of natural forest as a result of:
    - Conversion to agriculture or other non-forest land use;
    - Conversion to a tree plantation; or
    - Severe or sustained degradation.
  - Outline the methodologies and related metrics being used to track deforestation, referencing best practices.[23]
- This policy is to be published in a clear and publicly accessible manner, such as on their website, social media channels and in their annual reports.
- In the policy, FIs are to outline their approach, detail the frequency and methods for regular public reporting on progress and outline how it encompasses direct counterparties.

Recommendation	1.7.4: Policy for higher climate impact activities with limited influence
Year 0	FIs should establish a policy to address the in-scope "limited influence – higher climate impact" activities they undertake, especially if these activities make up a significant share of their in-scope financial activities.
LND, INS	

Guidelines:

- FIs are recommended to establish a policy to address their in-scope "limited influence – higher climate impact" activities as identified in requirement 1.3.2 if these activities make up 40% or more of their in-scope financial activities.
- FIs are recommended to establish separate policies for their different types of "limited influence - higher climate impact" financial activities (LND and/or INS).
- The policy is, at a minimum, recommended to:
  - Include a commitment to undertake climate advocacy initiatives and climate awareness raising campaigns.
  - Contain data collection strategies for financial activities such as for residential mortgages, homeowners insurance, or SME lending and insurance.
  - Specify how climate relevant practices are integrated into decision-making, e.g. for issuing loans to SME clients, or during the insurance claims management process.
- FIs are recommended to include these policies in their climate transition plan.

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[23] FIs are to define companies that engage in relevant activities through use of one of the following databases: Forest 500 OR Globalcanopy OR provide a description of their own definition based on guidance on approaches for tracking deforestation by WBCSD, Afi Coalition, CDP, WWF.

2. GHG Accounting: Exposure and Portfolio Emissions

Outcome: FIs increase the scope and data quality of their GHG inventory over time to have a complete GHG inventory by 2030 covering all emissions related to in-scope financial activities. Additionally, FIs increase the transparency of the accounting methodology and data quality used in their calculations and improve the data quality over time. FIs also ensure that all residual emission sources in the long-term are neutralized before being able to make a net-zero claim.

Background: FIs typically have a broad range of business activities providing a variety of financial products and services. Stakeholders require clarity on the emissions an FI is financing and/or insuring across these activities to understand the extent of the FI's transition risk, its role in enabling greenhouse gas emissions, and the FI's potential to influence emission reductions in the real economy.

A transparent boundary on GHG emissions inventories and disclosures ensures a reliable and robust baseline for measuring progress against targets. The boundary should expand over time to cover all activities in scope of the FINZ Standard.

To achieve a state of net-zero GHG emissions, all unabated emissions have to be neutralized and permanently removed from the atmosphere. As such, the SBTi will require FIs to demonstrate permanent carbon removal and storage that neutralizes any residual portfolio emissions before being able to make a net-zero claim in the long-term. Methods and quality requirements for neutralization and carbon removal activities will be further established as part of ongoing SBTi work on neutralization.

Section 2.1: GHG emissions inventory

Intent: This section intends to ensure that FIs calculate a consistent baseline of absolute GHG emissions for their lending, investing, insurance underwriting, and capital market activities. The requirements in this section also aim to increase the transparency, scope, and quality of FIs' data to make sure that FIs have a full GHG emissions inventory to enable them to make credible claims over time.

Requirement	2.1.1: Baseline accounting of GHG emissions
Year 0	FIs shall calculate the respective baseline absolute GHG emissions for their in-scope "reasonable influence – higher climate impact" financial activities.
LND, AOI, AMI, INS, CMA	
Guidelines: ● FIs are to calculate the respective baseline absolute GHG emissions for their in-scope "reasonable influence - higher climate impact" financial activities (LND, AOI, AMI, INS, CMA) as identified in Requirement 1.3.2.	

- FIs are to disclose which methodology[24] they used to calculate their baseline absolute emissions related to the financial activities, what limitations were encountered,[25] and the data quality of the underlying data.
- When establishing their GHG emissions inventory, FIs are to:
    - Include scope 1 and 2 emissions for all portfolio holdings.
    - Include scope 3 emissions, at a minimum, for the following key sectors: automotive, coal, and oil and gas.
    - Report scope 1+2 and scope 1+2+3 GHG emissions separately.
- FIs are to include all seven GHGs required by the GHG Protocol Corporate Standard in their GHG inventory: Carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulfur hexafluoride (SF_6) and nitrogen trifluoride (NF_3).
- FIs are to disclose the share of in-scope financial activities for which they have quantified GHG emissions (in financial terms, e.g. X% of AUM). FIs are to do this separately for each of the five financial activity types (LND, AOI, AMI, INS, CMA).
- SBTi recognizes that some FIs have dynamic portfolios that may be difficult to quantify in annual emissions inventories. To account for timing-related disparities between measurement, accounting, and disclosure, FIs are to describe the timing and weighting approaches used to construct their emissions inventories.

Requirement	2.1.2: Transparency on data quality
Year 0	FIs shall disclose the quality of the emissions data, the data source, and the assumptions used to calculate their GHG emissions inventory.
LND, AOI, AMI, INS, CMA	

Guidelines:
- FIs are to disclose the data quality, data source, and the assumptions used in the quantification of their GHG inventory.
- FIs are to disclose which methodology they used to calculate their absolute emissions inventory and the related data quality score.

Requirement	2.1.3: Full absolute GHG emissions inventory
Year 2030	FIs shall calculate the full inventory of GHG emissions for all in-scope financial activities.
LND, AOI, AMI, INS, CMA	

Guidelines:
- FIs are to conduct a full GHG emissions inventory for all in-scope financial activities (LND, AOI, AMI, INS, CMA) every year from 2030 (at the latest) and onwards.

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[24] The SBTi acknowledges the Partnership for Carbon Accounting Financials (PCAF)'s Global GHG Accounting and Reporting Standards and the included data quality score tables as freely available, industry accepted approaches to measure and disclose financed, facilitated, and insurance-associated emissions and the related data quality. The SBTi is open to accept other robust, open source, and publicly available GHG accounting and data quality methods. For CMA (i.e. PCAF facilitated emissions) the SBTi recommends to use an attribution factor of 100% instead of 33%.

[25] SBTi recognizes that the scope of the current accounting methodology available to measure insurance-associated emissions (PCAF) is still limited. For instance, project-based insurance is not covered by the methodology.

- When establishing an emissions inventory, FIs are to:
    - Include scope 1, 2 and 3 for all portfolio holdings.
    - Report scope 1+2 and scope 1+2+3 GHG emissions separately.
- FIs are to disclose which methodology they used to calculate their absolute emissions related to the financial activities, what limitations were encountered, and data quality of the underlying data.
- FIs are encouraged to use third-party limited assured data where available.
- FIs are to publish the full GHG inventory. This will be assessed at the next validation cycle.

Section 2.2: Fossil fuel financial exposure

Intent: This section intends to ensure that FIs calculate their exposure to fossil fuel activities across their lending, investing, insurance underwriting, and capital market activities. The requirements in this section also aim to increase the transparency on how the financial flows to fossil fuel activities compared to renewable energy.

Requirement	2.2.1: Fossil fuel related financial activities
Year 0	FIs shall disclose their financial exposure to all fossil fuel related activities and the resulting GHG emissions.
LND, AOI, AMI, INS, CMA	

Guidelines:
- FIs are to include all seven GHGs required by the GHG Protocol Corporate Standard in their GHG inventory and separately report any methane emissions.
- FIs are to disclose their exposure to fossil fuel activities by financial activity type and percentage amount relative to the total exposure of that financial activity.
- Fossil fuel activities are to include all activities in the fossil fuel value chain (both for coal and oil and gas) as specified in Table 11, Annex B, which specifies the fossil fuel value chain.
- FIs are to disclose their financial activities for the permanent decommissioning of fossil fuel production activities and capacity separately.

Requirement	2.2.2: Fossil fuel to renewable energy financial ratio
Year 0	FIs shall disclose the ratio of financial support for fossil fuels relative to financial support for renewable energy.
LND, AOI, AMI, INS, CMA	

Guidelines:
- Financial support refers to all financial exposure via in-scope financial activities (both dedicated activity level financing/insurance and undedicated general corporate financing/insurance).
- Fossil fuel activities are to include all activities in the fossil fuel value chain (both for coal and oil and gas) as specified in Table 11, Annex B.
- Renewable energy is defined as any zero-emission generating sources, storage, or related infrastructure (e.g. wind, solar, hydro, ocean, geothermal, electricity storage, transmission). It should not extend to bioenergy, waste-to-energy, nuclear, or fossil fuel generation with carbon capture, utilization, and storage (CCUS).

Section 2.3: Neutralization of portfolio residual emissions

Intent: This section aims to make sure that FIs will neutralize all residual portfolio emissions after achieving their long-term portfolio climate-alignment targets to ensure net-zero portfolio emissions are achieved before being able to make a net-zero claim.

Requirement	2.3.1: Neutralization of residual portfolio emissions
NZ Target Year LND, AOI, AMI, INS	FIs shall ensure that residual emissions in their portfolio are neutralized with permanent carbon dioxide removal by the net-zero target year or sooner.

Guidelines:

- FIs are to ensure that all counterparties in their portfolios have neutralized all residual emissions.[26]
- FIs are to calculate residual emission levels at the counterparty level, i.e. an FI's residual emissions are the sum of the residual emissions of all counterparties. To ensure that counterparties take responsibility for their own residual emissions, FIs are to:
    - Engage portfolio counterparties to neutralize their own residual emissions to ensure only net-zero counterparties are financed or insured.
    - Provide financial activities to counterparties that permanently remove and store CO_2 (to be further specified after consultation).
- FIs are to follow the following definition:
    - Residual emissions of counterparties will be defined by sector/cross-sector pathways, which will be further specified in SBTi's Corporate Net-Zero Standard.

Requirement	2.3.2: Accounting of carbon removals
Year 0 LND, AOI, AMI, INS	Annual GHG emissions inventories shall be based on gross emissions in the portfolio without deducting or netting negative emissions from the financing or insuring of carbon removal activities.

Guidelines:

- FIs are to use relevant GHG emissions removal accounting guidance for inventorying carbon removal attributed to financial activities.[27]
- FIs are to adhere to this requirement for both carbon removals that the FI directly supports via its financial activities and carbon removal credits purchased by portfolio counterparties.

Section 2.4: Accounting of carbon credits and avoided emissions

Intent: This section intends to ensure that carbon credits and avoided emissions are not counted as emissions reductions when FIs report annual GHG exposures and progress towards net-zero portfolio emissions. This is necessary to ensure emissions reductions occur

[26] Further guidance on eligible neutralization technologies and accounting will be provided in future iterations of the SBTi's Corporate Net-Zero Standard.
[27] The SBTi acknowledges PCAF's Global GHG Accounting and Reporting Standards as freely available, industry accepted approaches to measure and disclose negative emissions. The SBTi is open to accept other robust, open source, and publicly available GHG accounting and data quality methodologies as they emerge.

in the real economy.

Requirement	2.4.1: Accounting of carbon credits
Year 0	Annual GHG emissions inventories shall be based on gross emissions in the portfolio without deducting or netting emissions from the use of carbon credits.
LND, AOI, AMI, INS	

Guidelines:

- FIs are to adhere to this requirement for both carbon credits the FI may purchase and carbon credits purchased by portfolio counterparties.
- FIs are to disclose carbon credits purchased by the FI or portfolio counterparties separately to the FI's own GHG inventory.

Requirement	2.4.2: Accounting of avoided emissions
Year 0	Annual GHG emissions inventories shall be based on gross emissions in the portfolio without deducting any form of avoided emissions.
LND, AOI, AMI, INS	

Guidelines:

- FIs are to adhere to this requirement for both avoided emissions that the FI may claim as part of their financing/insurance underwriting of certain climate solutions and the avoided emissions reported by portfolio counterparties to reduce their own GHG inventories.
- FIs are to disclose all forms of avoided emissions separately to the FI's own GHG inventory.

3. Portfolio Climate-Alignment Targets

Outcome: FIs eventually direct all financial activities to climate-aligned entities and activities. This includes those already achieving emissions progress compatible with limiting warming to 1.5°C (net-zero achieved activities) and those actively working towards this goal (transitioning activities). Net-zero achieved and transitioning financial activities, as defined in this document, constitute climate-aligned financing.[28] FIs establish portfolio climate-alignment targets in a manner that reflects the climate impact of counterparties and the ability of FIs to influence the source of emissions. Targets are designed to increase the share of financial activities in line with benchmarks consistent with global climate goals.

Background: Climate alignment explains the degree to which the counterparties enabled by the financial institution are transitioning, or have already transitioned, to a level of progress compatible with a net-zero economy. While financial portfolios may change composition regularly, this does not reduce the need for each of the underlying activities to align to a net-zero economy to achieve the goals of the Paris Agreement. This chapter addresses four of the five in-scope financial activities: Lending, Asset Owner and Manager Investing, and Insurance Underwriting activities.[29] To reach a net-zero economy, all five financial activities have to, eventually, achieve a net-zero end state. FIs support this goal by setting separate alignment targets on their financial activities.

Section 3.1: Portfolio climate-alignment baseline

Intent: This section intends to ensure that FIs assess and provide transparency on the climate-alignment status of their in-scope financial activities.

Requirement	3.1.1: Baseline of climate-aligned activities
Year 0 LND, AOI, AMI, INS	FIs shall assess the climate alignment of their in-scope financial activities in the base year in terms of percentage share (%) of climate-aligned finance.

Guidelines:

- FIs are to assess the climate alignment of their in-scope financial activities in the base year in terms of percentage share (%) of climate-aligned finance. The assessment is to be undertaken separately for each of the four financial activities as relevant (LND, AOI, AMI, INS).
- FIs are to use the categories “net-zero achieved”, “transitioning”, “not aligned” and “not assessed” in the climate-alignment assessment of their financial activities. Climate alignment represents both counterparties that are already achieving emissions progress compatible with limiting warming to 1.5°C (net-zero achieved activities) and counterparties that are actively working towards this goal (transitioning activities), as defined in Table 12, Annex C. The “not assessed” category is not eligible for activities classified as “reasonable influence – higher climate impact” based on the segmentation table in Requirement 1.3.2. FIs are required to assess these activities in the base year.
- In their climate-alignment assessment, FIs are to express their financial activities in the relevant

[28] For simplicity reasons, the term “climate-aligned financing” also refers to Insurance Underwriting activities.
[29] Capital Market Activities are not yet addressed with alignment targets in this version of the FINZ Standard.

metric listed below: ○ For all types: Asset value (financial exposure); ○ For Lending: Loan commitment OR loan amount OR exposure at default; ○ For Asset Manager Investing: Assets under management; ○ For Asset Owner Investing: Assets under ownership OR assets under control; ○ For Insurance Underwriting: Gross written premium (GWP).

Requirement	3.1.2: Transparency on climate-alignment assessment
Year 0	FIs shall disclose the metric and data sources used to assess the portfolio climate alignment of their financial activities.
LND, AOI, AMI, INS	

Guidelines:

- FIs are to refer to Table 15 for the entity- and activity-level data sources for portfolio alignment targets, and Table 17 for the eligible activity-level metrics and pathways.
- FIs are to split the assessment based on their financial activities by segmentation table in Requirement 1.3.2, asset class, and sector, where relevant.
- FIs are to use the categories "net-zero achieved", "transitioning", "not aligned", and "not assessed" in the assessment as defined in Table 12, Annex C.
- FIs are to disclose the metric and data sources they used to evaluate the climate alignment based on the same split.
- FIs are to provide a rationale for activities in the "not assessed" category.

Requirement	3.1.3: Scope of assessment of climate-aligned activities
Year 2030	FIs shall assess the climate alignment of all of their in-scope financial activities in terms of percentage share (%) of climate-aligned finance.
LND, AOI, AMI, INS	

Guidelines:

- FIs are to assess the climate alignment of all of their in-scope financial activities. The assessment is to be undertaken separately for each of the four financial activities as relevant (LND, AOI, AMI, INS).
- FIs are to use the categories "net-zero achieved", "transitioning", and "not aligned" in the climate-alignment assessment. Climate alignment represents both counterparties that are already achieving emissions progress compatible with limiting warming to 1.5°C (net-zero achieved activities) and counterparties that are actively working towards this goal (transitioning activities), as defined in Table 12, Annex C. FI are to express the categories per relevant financial metric:
    - For all types: Asset value (financial exposure);
    - For Lending: Loan commitment OR loan amount OR exposure at default;
    - For Asset Manager Investing: Assets under management;
    - For Asset Owner Investing: Assets under ownership OR assets under control;
    - For Insurance Underwriting: Gross written premium (GWP).

Section 3.2: Portfolio climate-alignment targets

Intent: This section intends to ensure that FIs increase the share of climate-aligned financial activities in their portfolio in line with benchmarks consistent with limiting the global temperature rise to 1.5°C with low-to-no overshoot. It is also intended to make sure that FIs prioritize the alignment of climate-relevant portfolio companies over which they have more influence, and that they are transparent about their portfolio climate-alignment strategy.

<table>
<tr><th>Requirement</th><th>3.2.1: Portfolio climate-alignment target</th></tr>
<tr><td>Year 0</td><td rowspan="2">FIs shall establish portfolio climate-alignment target(s) to increase the percentage share (%) of financial activities consistent with 1.5°C pathways.</td></tr>
<tr><td>LND, AOI, AMI, INS</td></tr>
<tr><td colspan="2">Guidelines:

FIs are to set separate portfolio climate-alignment targets, one per each of the relevant financial activity (LND, AOI, AMI, INS).
Within each financial activity, the target ambition is to follow the climate impact/influence segmentation as in Requirement 1.3.2 and highlighted in Table 3.
Climate alignment, in the context of portfolio climate-alignment targets, is to be assessed as follows:

The portfolio climate-alignment target measures the overall percentage (%) of financing going to climate-aligned activities. Climate-aligned activities comprise both activities already achieving emissions progress compatible with limiting warming to 1.5°C (net-zero achieved activities) and those actively working towards this goal (transitioning activities).
The definition of “transitioning” changes over time to incorporate delivery of emission reductions (progress) in addition to ambition. Table 15, Annex C specifies the range of options for defining transition at different points in time.

FIs are to follow Table 4 to identify minimum ambition thresholds for climate alignment targets. All targets are to align with the milestone year that falls within this range among 2030, 2035, 2040, 2045, or 2050.

Near-term targets are to be formulated within a timeframe of 5 to 10 years, all targets are to align with the milestone year that falls within this range among 2030, 2035, 2040, 2045, or 2050.
FIs are to set targets that are at least 5 years in the future from the year of submission. Based on the previous bullet point, this means that FIs, in certain cases, are required to set two near-term targets as specified below:

If an FI submits its target between January 1 and June 31 2025, 2030 is counted as the next milestone, and a target for 2030 is sufficient.
If an FI submits its target after June 31 2025, it has to establish targets for both 2030 and 2035 milestones.

</td></tr>
</table>

Table 4: Overview of portfolio climate-alignment goals split by climate impact and influence level for all financial activities.

Segment	Summary of target objectives	2030	2035	2040	2050
Reasonable influence – higher climate impact,[30,31]	Alignment of counterparties in the energy-intensive sectors or belonging to the financial value chain first.	≥ 95% transitioning or net-zero achieved	≥ 95% transitioning or net-zero achieved	≥ 95% transitioning or net-zero achieved	≥ 95% net-zero achieved only
		OR OECD: ≥ 95% transitioning Non-OECD: 50% transitioning	**OR** OECD: ≥ 95% transitioning Non-OECD: 70% transitioning	**OR** OECD: ≥ 95% transitioning or net-zero achieved Non-OECD: ≥ 85% transitioning or net-zero achieved	**OR** Global: ≥ 95% net-zero achieved only
Reasonable influence – lower climate impact	Linear increase in alignment for financial activities with reasonable influence in remaining sectors.	Linear growth of % transitioning or net-zero achieved	Linear growth of % transitioning or net-zero achieved	≥ 95% transitioning or net-zero achieved	≥ 95% net-zero achieved only
Limited influence – higher climate impact	All SMEs in energy-intensive sectors and consumer lending / personal lines insurance (homeowners + motor) are addressed with longer-term alignment targets.[32]	Optional near-term target	Optional near-term target	≥ 95% transitioning or net-zero achieved	≥ 95% net-zero achieved only[33]
Limited Influence – lower climate impact	All remaining SMEs set targets starting in 2040.[34]				

[30] All entities within the fossil fuel value chain (independent of the influence category) need to be addressed with a near-term alignment target in 2030.
[31] The definition of OECD vs. Non-OECD is to be determined based on the headquarter of the respective counterparty.
[32] For lending (residential mortgages and motor vehicle loans) and personal lines insurance (motor and homeowners), due to limited influence no interim targets are expected, but FIs are expected to align these activities by 2040.
[33] SME alignment is required for a net-zero economy, and hence it should be addressed by an FI wishing to make a credible net-zero claim.
[34] For lending (residential mortgages and motor vehicle loans) and personal lines insurance (motor and homeowners), due to limited influence no interim targets are expected, but FIs are expected to align these activities by 2040.

4. Emissions-intensive Sector Targets

Outcome: For all relevant financial activities, FIs address activities in emissions-intensive sectors and set additional targets to address the financing/insurance underwriting of these activities to ensure consistency with key 1.5°C activity-level benchmarks.

Background: Eight sectors alone (cement, oil and gas, power generation, steel, automotive, aviation, shipping, buildings) are responsible for over 70% of global CO_2 energy-related emissions.[35] FIs can play a direct role in supporting the production of activities in these sectors through their financial activities and can influence continuation of current practices of their decarbonization. Given the climate impact of these emissions-intensive activities, FIs are expected to set near-term activity-level targets for these emissions-intensive activities consistent with limiting warming to 1.5°C.

Section 4.1: Emissions-intensive sector transparency

Intent: This section intends to ensure that FIs have transparent portfolio boundaries for their emissions-intensive activities in financial and emissions related metrics and that they disclose the list of emissions-intensive activities that are considered in-scope for target setting.

Requirement	4.1.1: Portfolio transparency for emissions-intensive activities – Activity list
Year 0 LND, AOI, AMI, INS	FIs shall identify their exposure to key climate relevant emissions-intensive activities.
Guidelines: ● FIs are to use Table 11, Annex B to identify and disclose which of the activities they undertake are considered emissions-intensive and need to be tracked as part of their activity-level targets. ● The disaggregation of the target is to follow the climate impact/influence segmentation as specified in Requirement 1.3.2.	

Requirement	4.1.2: Portfolio transparency for emissions-intensive activities – Financial exposure
Year 0 LND, AOI, AMI, INS	FIs shall quantify and disclose their emissions-intensive activities in terms of their exposure per sector across financial activities in an absolute financial amount and share of financial activity.
Guidelines: ● FIs are to quantify and disclose their emissions-intensive activities as identified in Requirement 4.1.1 in terms of exposure per sector across asset classes in absolute financial units (total exposure $) and as a share of financial activity exposure (%).	

Section 4.2: Activity-specific baseline and metrics for emissions-intensive activities

Intent: This section intends to ensure FIs select credible metrics for each of their

[35] International Energy Agency (2023), CO2 Emissions in 2022, IEA, Paris.

emissions-intensive activities, provide a baseline value for all of the metrics that they choose, and that they use the same metrics to measure progress against throughout the target period.

Requirement	4.2.1: Activity-specific metric for emissions-intensive activity baseline
Year 0	FIs shall establish the baseline value of metrics for each in-scope emissions-intensive activity they undertake.
LND, AOI, AMI, INS	

Guidelines:

- FIs are to conduct a baseline assessment for their emissions-intensive activities.
- FIs are to select the metrics from the list of eligible activity-level metrics and pathways Table 17, in Annex D to establish the baseline for each of the in-scope emissions-intensive activities they undertake.
- FIs are to use the same metrics throughout the target period to measure progress against the target for their emissions-intensive activities.

Section 4.3: Activity-specific targets for emissions-intensive activities

Intent: This section intends to make sure FIs set activity-specific targets for all in-scope emissions-intensive activities consistent with limiting the global temperature to 1.5°C above pre-industrial levels.

Requirement	4.3.1: Activity-specific targets coverage
Year 0	FIs shall cover at least 95% of all GHGs from their in-scope “reasonable influence – higher climate impact” financial activities with targets.
LND, AOI, AMI, INS	

Guidelines:

- FIs are to assess activity-specific targets for each of the relevant financial activities (LND, AOI, AMI, INS).
- FIs are allowed to exclude specific activities categorized under the "activity-level list" Annex B, Table 11 from their targets, provided that the sum of these activities constitute less than 5% of their in-scope “reasonable influence – higher climate impact” activities’ GHG emissions per financial activity (LND, AOI, AMI, INS).[36]
    - Exclusions are to apply to the entire activity uniformly and are not allowed for any activities related to fossil fuels.

Requirement	4.3.2: Activity-specific target ambition
Year 0	FIs shall set activity-specific targets for all emissions-intensive activities to align with relevant 1.5°C sector benchmarks.
LND, AOI, AMI, INS	

[36] SBTi recognizes that the scope of the current accounting methodology available to measure insurance-associated emissions (PCAF) is still limited. For instance, project-based insurance is not covered by the methodology. The coverage of financial activities will need to be adjusted accordingly.

Guidelines:

- FIs are to do the following to establish activity-level targets for their emissions-intensive activities, following the steps summarized in Table 6:
    - Select from an eligible pathway based on low/no overshoot scenarios. Scenarios are to be informed by the best available science from authoritative sources, such as Intergovernmental Panel on Climate Change (IPCC), International Energy Agency, and similar or related sources and best practice in climate target setting and climate mitigation at the time of target setting.
    - Use the sector value (e.g. X tCO_2/unit) for the relevant milestone years, e.g. 2030, 2035 as a target. For all activities (except fossil fuels), a linear intercept approach is to be used for determining minimum target year values.
    - Determine the benchmark value they commit to reach, or the percentage reduction or percentage increase required from the base-year value to the target-year value.
    - FIs are to establish activity-specific targets with a timeframe of 5 to 10 years from the year of submission:
        - FIs are to follow Table 5 to identify relevant milestone years. All targets are to align with the milestone year that falls within this range among 2030, 2035, 2040, 2045, or 2050.
        - Near-term targets are to be formulated within a timeframe of 5 to 10 years and FIs are to set targets that are at least 5 years in the future from the year of submission. Based on the previous bullet point, this means that FIs, in certain cases, are required to set two near-term targets as specified below:
            - If an FI submits its target between January 1 and June 31 2025, 2030 is counted as the next milestone and a target for 2030 is sufficient.
            - If an FI submits its target after June 31 2025, it has to establish targets for both 2030 and 2035 milestones.

Table 5: Overview of target ambition thresholds for in-scope financial activities based on climate impact and influence

Segment	Target objectives	2030	2035	2040	2050
Reasonable influence — higher climate impact[37]	Energy-intensive activities align with relevant near- and long-term 1.5°C sector benchmarks.	1.5°C sector benchmarks: physical intensity and/ or technology share	1.5°C sector benchmarks: physical intensity and/ or technology share	1.5°C sector benchmarks: physical intensity and/ or technology share	1.5°C sector benchmarks: physical intensity and/ or technology share
Limited influence — higher climate impact	All SMEs in energy-intensive sectors and consumer (homeowners + motor) lending / personal lines insurance (homeowners + motor) are to align with relevant long-term 1.5°C sector benchmarks only, but have a requirement to disclose emissions progress.	Disclosure only	Disclosure only	1.5°C sector benchmarks: physical intensity and/ or technology share	1.5°C sector benchmarks: physical intensity and/ or technology share

[37] All entities within the fossil fuel value chain (independent of the influence category) need to be addressed with near-term benchmark targets in 2030.

Table 6: Overview of the steps required when establishing activity-specific targets

Sector + Activity	Eligible Metric	Baseline	Eligible Pathways	Target year value	Establish target
Step 1: Determine exposure to the sector and relevant activities within the sector	Step 2: Identify the eligible metrics that need to be targeted	Step 3: Quantify the baseline value of the metric	Step 4: Identify and select eligible 1.5°C-aligned pathway	Step 5: Identify the pathway value required in the target year	Step 6: Calculate target required as % change from base-year to target-year value OR target is "target to reach the benchmark"
Section 4.1	Section 4.2		Section 4.3		

5. Reporting

Outcome: FIs have clear and comprehensive annual reporting to support showing progress on all requirements and targets in a publicly accessible manner.[38]

Background: Reporting on the requirements in the FINZ Standard, such as entity-wide climate policies, greenhouse gas emissions, and climate-alignment targets as well as progress against these targets is important. Transparency and accountability through disclosure increases trust among stakeholders and enables comparisons across industries.

Section 5.1: Reporting requirements

Intent: This section outlines the reporting requirements that FIs have under the FINZ Standard and intends to ensure that FIs report on the requirements of the Standard in an efficient and acceptable manner. The requirements are considered additional requirements to an FI's annual reporting.

Requirement	5.1.1: Reporting requirements
Ongoing	FIs shall report on the requirements of the FINZ Standard as specified in Table 7.
LND, AOI, AMI, INS, CMA	

Guidelines:
- FIs are to report on the requirements as specified in Table 7. These are considered additional requirements to an FI's annual reporting.
- FIs are to publicly disclose the elements listed in Table 7 and are to include the reporting requirements in their annual report.
- FIs are to start the reporting for the respective requirements in the next reporting cycle, and thereafter report progress against the requirements on an annual basis.

Table 7: Summary of reporting requirements

Reporting requirements		**Reporting metric**	
Code	**Name**	**Type**	**Units**
Entity-level reporting requirements			
1.3.1	Identification of boundaries of financial activities	qualitative	List of financial activities [text]
		quantitative	Financial exposure [$]
			Percentage share of revenue [%]
1.3.2	Financial activity segmentation	qualitative	List of financial activities [text]

[38] The SBTi will provide additional information on how companies can report net-zero claims.

		quantitative	Financial exposure [$]
			Percentage share of revenue [%]
1.5.1	Governance of climate targets	qualitative	Text
1.7.1	Fossil fuel policy		
1.7.3	No-deforestation and conversion free policy		
GHG accounting reporting requirements			
2.1.1	Baseline accounting of GHG emissions	quantitative	tCO_2e / tGHG
			Coverage of financial activities [%]
2.1.2	Transparency on data quality	qualitative	Numeric score [1-5]
			Method used [text]
2.1.3	Full absolute GHG emissions inventory	quantitative	tCO_2e / tGHG
2.2.1	Fossil fuel related financial activities	qualitative	Text
		quantitative	Financial exposure ($)
			tCO_2e / tGHG
			tCH_4
2.2.2	Fossil fuel to renewable energy financial ratio	quantitative	Ratio of financial exposures

Guidelines on GHG disclosure:

- FIs are to disclose the portfolio GHG emissions in terms of scopes 1+2 and scopes 1+2+3 separately.
- FIs are to provide transparency on the coverage of their emissions inventory annually, as a percentage of total financial activity that has an emissions inventory.
- FIs are to disclose which methodology they used to measure emissions and the disclosure of data quality.
- FIs are to report emissions separately per financial activity (LND, AOI, AMI, INS, CMA), within an activity based on asset classes and sectors.
- Starting 2030, FI's are to consider reporting on the following additional level of granularity:
  - Reporting on both a gross GHG emissions basis and net of GHG removals, carbon credits and avoided emissions.
  - By product or asset lines emissions split by geographies.

Recommendation on GHG disclosure:

- FIs are recommended to annually report key information related to progress against long-term net-zero target, detailing drivers of change in portfolio emissions, i.e. through emissions attribution reporting. The recommended attribution factors are: 1) Changes in actual underlying

<table>
<tr><td colspan="4">emissions; 2) Changes due to re-allocation within portfolios; 3) Changes due to technical elements, change in EVIC, changes in revenue, and changes in data coverage (such as uptake of new asset classes, data quality improvements, reporting, and GHG quantification methodology changes).[39]</td></tr>
<tr><td colspan="4">Portfolio climate-alignment reporting requirements</td></tr>
<tr><td rowspan="2">3.1.1</td><td rowspan="2">Baseline of climate-aligned activities</td><td>qualitative</td><td>Assessment categories [text]</td></tr>
<tr><td>quantitative</td><td>Financial exposure [$]</td></tr>
<tr><td>3.1.2</td><td>Transparency on climate-alignment assessment</td><td rowspan="2">qualitative</td><td>Method used [text]</td></tr>
<tr><td>3.2.1</td><td>Portfolio climate-alignment target</td><td>Target language</td></tr>
<tr><td colspan="4"><u>Guidelines on climate alignment:</u>
FIs are to report climate alignment per financial activity (LND, AOI, AMI, INS) and to provide a breakdown as per Table 3.
FIs are to disclose the assessment categories and additionally highlight in case they conduct any financial activities related to carbon removal activities.</td></tr>
</table>

[39] See for example NZAOA (2023): Understanding the Drivers of Investment Portfolio Decarbonization.

Emissions-intensive activity-level reporting requirements			
4.1.1	Portfolio transparency for emissions-intensive activities – Activity list	qualitative	Sector list [text]
4.1.2	Portfolio transparency for emissions-intensive activities – Financial exposure	quantitative	Financial exposure [$]
4.2.1	Activity-specific metric for emissions-intensive activity baseline		Activity specific
4.3.1	Activity-specific targets coverage		Percentage share covered of GHGs [%]
4.3.2	Activity-specific target ambition		Activity-specific target(s)
Guidelines on emissions-intensive activities: ● FIs are to report emissions-intensive activities per financial activity (LND, AOI, AMI, INS).			

Requirement	5.1.2: Reporting on targets
Year 0	The FI and SBTi shall agree upon target language before the SBTi can validate the target submission.
LND, AOI, AMI, INS	

Guidelines:

- FIs and SBTi are to agree upon the target language before the SBTi can validate the target.
- FIs with approved targets are to publish their target publicly on the SBTi website within six months of the approval date.
- Targets unannounced after six months are not valid and are required to go through the approval process again unless a different publication timeframe has been agreed in writing with the SBTi.
- FIs are to use the same target language in their own communications as on the SBTi website but are welcome to add additional details in their own communications. Disclaimers in the target language published on the SBTi website may only include links to the FI's website or own publication.

Section 5.2: Target recalculation and validity

Intent: This section intends to outline what comprises target validity and what triggers a mandatory target recalculation.

Requirement	5.2.1: Mandatory target review and recalculation
Year 5	FIs shall review their target(s), and, if necessary, recalculate and submit them for revalidation within five years from the date of target approval.
LND, AOI, AMI, INS	

Guidelines:

- FIs are to review their target(s) at a minimum every five years to ensure consistency with the latest SBTi requirements for financial institutions. If the target(s) are not consistent with the latest SBTi requirements for financial institutions, the FIs are to update their target(s) to be consistent with the most recent requirements and submit them for revalidation for the target(s) to be valid.
- FIs are also required to recalculate their target(s) and submit them for revalidation if there is a significant change to the FI's business that could compromise the existing target(s). A target recalculation for FIs is triggered by the following changes:
    - Significant changes in company structure and activities (e.g. acquisition, divestiture, merger, insourcing, or outsourcing).
    - Other significant changes to projections/assumptions used in setting the target(s).
- FIs with approved target(s) that require recalculation are to follow the most recent applicable requirements at the time of resubmission.
- FIs are to disclose their recalculation policy including the materiality threshold for when a recalculation is required.

ANNEXES

All Annexes represent *normative* content in the Standard and are used to provide additional information required to meet the requirements and recommendations.

Annex A: Scope and Definition of Financial Activities

Status: Normative
Purpose: Coverage and defining levels of influence

1. Classification of in- and out-of-scope financial activities

Table 8 contains the financial activities considered in-scope for the FINZ Standard. "In-scope" means the activity is covered by one or more of the requirements. "Out-of-scope" means the activity is not addressed by any requirements and is therefore deemed not currently applicable. Activities are only deemed out of scope if there is no clear climate impact or no available methodology to quantify and address the climate impact of the financial activity or the influence of the FI is diminutive.

Table 8: In- and out-of-scope financial activities

	In-scope	Out-of-scope
Lending (LND)	• Project finance • Loans with known use of proceeds • Loans to corporate (including SMEs[40]) • Consumer Loans: Residential mortgage and motor vehicles loans • Commercial real estate	• Any finance with no underlying operational emissions of the underlying assets • Other retail / consumer loans • Supranational, sovereign, sub-sovereign (including municipal), government and government agency loans • Margin-based and security-based lending
Investing (both AO and AM)[41]	• Project finance / activity with known use of proceeds • Listed equity (common and preferred stock of corporates and SMEs) • Corporate and SME bonds • Private equity (direct holdings and co-investments) • Securitized fixed income (including asset-backed securities, mortgage-backed securities, covered bonds (direct holdings)) • Any real estate activities, REITs • Funds (ETFs, funds of funds, mutual and other funds, real estate funds, other collective investment scheme)	• Any finance with no underlying operational emissions of the underlying assets • Derivatives • Supranational, sovereign, sub-sovereign (including municipal), government, and government agency bonds (direct holdings or via funds)) • Any fund with non-transparent strategy (i.e. hedge or macro funds) • Cash and cash equivalents (may include commercial paper, certificates of deposit, time deposits, banker's acceptance, and short-term repurchase agreements) • Commodity trading • Trading book (banking)[42]
Capital Market	• Listed equity (IPO, Dilutive follow-on public offering, private placements,	• Issuance of sovereign bonds, securitized products (including asset-backed securities), covered bonds,

[40] As the definition of small and medium-sized enterprises (SMEs) may vary from region to region, FIs are to use either the SBTi definition or the relevant national or regional regulatory definition(s).
[41] Investing activities will be treated differently with reference to requirements considering different types of mandates (discretionary, advisory and execution only) as well as type of strategy (active or passive).
[42] All instruments that meet the specifications for trading book instruments are deemed out of scope for banks.

	In-scope	Out-of-scope
Activities (CMA)	special purpose acquisition company IPO) • Debt (Public issuance of debt securities, private placement of debt securities, commercial paper issuance, issuance of securitized fixed-income instruments, syndicated loans)	derivative financial products (e.g. futures, options, swaps) • Trading in secondary market (i.e. secondary offering) • Advisory services
Insurance Underwriting (INS)	**Primary insurance and Reinsurance (facultative and treaties)** Brokered and non-brokered activities Commercial lines: (corporates, including SMEs) • Project-based insurance • Commercial insurance covers for clear identified assets / activities • All other commercial insurance covers except those out of scope Personal lines: • Motor and homeowners insurance	**Primary insurance and Reinsurance (facultative and treaties):** Brokered and non-brokered activities Commercial lines: (corporates, including SMEs) • Any insurance cover with no underlying operational emissions of the underlying assets or activities • Agriculture: government schemes and arrangements • Insurance contracts purchased by public entities (e.g. government agencies, municipalities) • Structured trade credit insurance • Surety bonds • Directors and Officers insurance (D&O) • Life and health insurance, personal accident, and pension schemes • Unit linked contracts • Alternative re/insurance capital through capital markets (Insurance Linked Securities (ILS)) such as catastrophe bonds, sidecar, and Industry Loss Warranties • Captive programs from captive companies Personal lines: • All personal lines, **excluding** motor and homeowners insurance **Retrocession:** Reinsurance contracts established from reinsurer to reinsurer

2. Level of influence

FIs have varying degrees of influence over emissions contingent upon factors such as the type of financial instrument, level of ownership or exposure and the nature of the relationship with counterparties. For the purposes of this Standard, "influence" refers to the FI's capacity or power to have an effect on the character, development, behavior, or decisions of the owner/controller of a source of emissions in the real economy within their financial portfolios. Influence may vary based on instrument structure, financial exposure, counterparty type, and engagement capacity.

In the FINZ Standard, influence is to be broken down into two types:

1. **Reasonable**: Mostly relationships to large corporations; The FI can engage effectively with counterparties who own/control emissions sources; the FI can engage the financial counterparty that in turn can engage the counterparties who own/control emissions sources.

2. **Limited**: Mostly relationships where the counterparty is a small corporate (SME) or a private person.

Breakdown of the investment activities value chain

The FINZ Standard identifies influence based on direct counterparties that the FI engages with. In the case of AOs and AMs, an investing value chain concept is introduced to ensure that the appropriate counterparties are identified and addressed via target setting.

Table 9: Breakdown of investment activities value chain

	Mandate[43]	Strategy	Identify underlying entity to engage for target setting
Asset Owner Investing	AO directing investment through execution only or advisory mandate	Active	Underlying real economy entity
		Passive	Intermediary = Product owner / fund manager
	AO delegating investment through discretionary mandates	Active & Passive	Intermediary (Asset manager for active, product owner / fund manager for passive)
Asset Manager Investing	AM with discretionary mandate, ***OR*** AM with any mandate from AO with a net-zero target	Active	Underlying real economy entity
		Passive	Intermediary = Product owner / fund manager
	AM with directed investment through execution only or advisory mandate	Active & Passive	Asset owner (for active and product owner / fund manager for passive)

Additional guidance on Insurance Underwriting activities:

Brokers: A significant proportion of the insurance and reinsurance commercial business is intermediated by insurance and reinsurance brokers, including large risks associated with high-emitting sectors. Insurance brokers, as representatives of the insured, are often the main interlocutors of real economy actors in many value chain operations (e.g. risk management, risk transfer, and claims management). Reinsurance brokers, as representatives of the reinsured, are often the main interlocutors of reinsureds in reinsurance value chain operations. The relationships between the re/insurers and the re/insurance brokers are largely influenced by market conditions (balance of supply and demand), the specific expertise of the re/insurer, and the longevity of these relationships. Nevertheless, re/insurers also have direct discussions with re/insured counterparties. Therefore, re/insurers can exert different levels of influence on real economy emissions (from “significant” to “limited”) either via brokers or directly.

Although it is important to highlight the role of re/insurance brokers while discussing re/insurers' influence levels, the current FINZ Standard does not address targets for brokers as they are not considered financial institutions. However, both brokered and non-brokered insurance business are covered by the Standard, and SBTi encourages re/insurers to increase active engagement activities with brokers, with goals reflected in their transition plan

[43] **Discretionary mandates** apply to situations where the FI is granted discretion by the third party to make investment decisions (e.g. fund, index, or security selection) without seeking prior approval from that third party. **Advisory mandates** apply to situations where the FI provides recommendations and makes investments on behalf of the third party that are subject to that third party’s instructions or approval. This includes situations where the FI selects funds for third parties to choose from but thereafter has no control over investment decisions (e.g. fund, index, or security selection). **Execution-only mandates** apply to situations where the FI acts only to execute investment instructions and has no control over investment decisions.

Recommendation 1.6.1, so that brokers can contribute their fair share in the transition to net-zero.

Personal lines: The two climate-relevant lines of business in scope for this Standard are personal motor and homeowner insurance. Compared to commercial lines, re/insurers' influence can be limited for these personal lines of business, as emissions reductions are, to a large degree, the result of national regulations, including tax incentives, subsidy schemes, or national priorities to develop public transportation or renewable energy. Also, a strict requirement to achieve near-term targets for personal lines could restrict coverage for individuals, particularly in the context of low-income vulnerable communities, and it would be in contradiction with the principle of a just transition and the protective role of insurance.

For these reasons, re/insurers are required to set long-term 2040 targets for their in-scope personal lines of business as specified in Table 5 and disclose and report on the related GHG emissions Chapter 2+5. In parallel, it is recommended that, for these lines of business, re/insurers develop a policy (Recommendation 1.7.4) setting out clearly their strategies in support of the net-zero transition. Examples of actions re/insurers can take include climate advocacy with policymakers to drive the necessary changes for an emissions reductions enabling environment, climate awareness raising campaigns with policyholders informing them of actions they can take to reduce their carbon footprint, and the development and scaling up of climate solutions that integrate climate-friendly practices including in relation with the claims management process (repair over replace policies or proposing green replacements).

Annex B: Scope and Definition of Climate Impact

Status: Normative
Purpose: Defining climate impact to inform requirements on actions, targets, and policies.

FIs play a direct role in supporting the creation and maintenance of high climate impact activities through their Lending, Investing, Insurance Underwriting, and Capital Market Activities. To define where to take action first, the second component, therefore, is climate impact, i.e. the activities financed and/or insured by an FI that are most relevant to the climate in terms of GHG emissions and the criticality of immediate climate action. Both energy-intensive as well as land-use intensive activities are considered most relevant to the climate. Both types are addressed in the policy section of the standard. Land-use intensive activities are not addressed through sector benchmark targets in this version.

Climate impact is to be broken down based on either: a) the activities' contribution to global emissions and their importance for the wider energy transition (e.g. power generation, steel, cement, buildings, or transport activities such as aviation), or b) their position in the investment or insurance value chain.

Table 10. Segmentation of climate impact by counterparty type

Climate impact	Categories	Description
High	Financial entity	FIs engaging the investment / insurance value chain as part of climate alignment is critical because of the sequential approach (i.e. amplifying engagement via direct counterparties). Asset managers are therefore considered highly climate relevant for asset owners, as are cedents for reinsurers.
High	High-emitting entities or activities	Entities (incl. SMEs) or activities in energy-intensive sectors (Table 11)[44] or land-use intensive activities.[45]
Low	Non-high-emitting entities or activities	1) All other non-SME entities not listed above. 2) SMEs operating in all non-emission-intensive sectors. 3) Activities in non-high-emitting sectors

Eight sectors (cement, oil and gas, power generation, steel, automotive, aviation, shipping, buildings) are considered “energy intensive” given their significant contribution to global emissions. Within these sectors, specific activities are identified that are the focus of activity-specific targets. Table 11 lists the emission-intensive activities considered in FINZ. Figure 6 seeks to facilitate by showing the key activities and where they sit in the value chains.

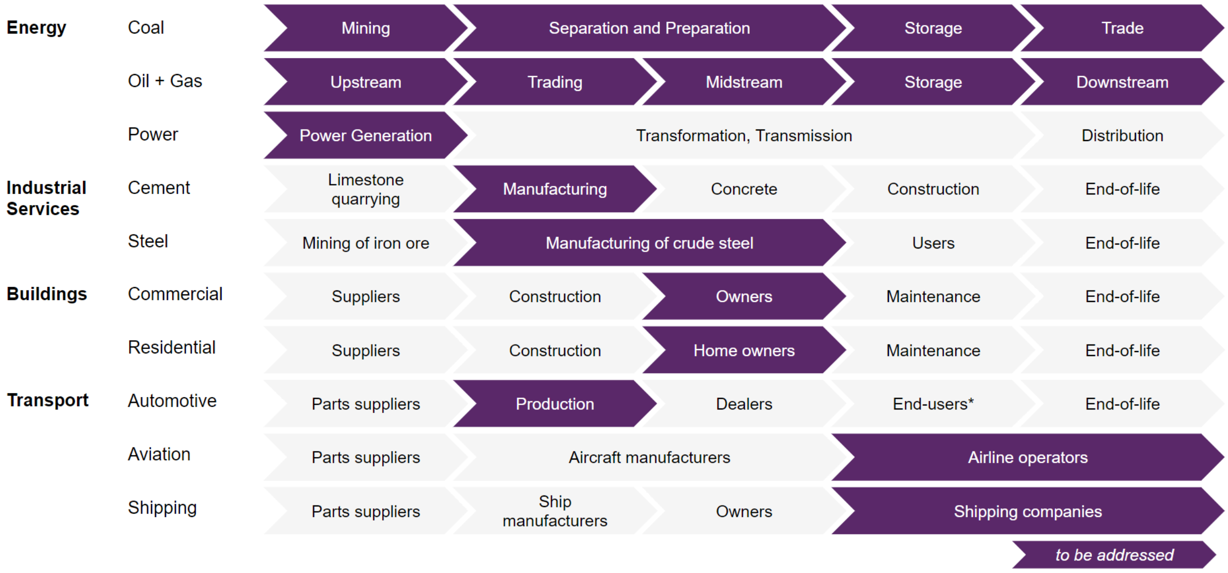
[44] Future versions of FINZ intend to extend the definition of high-emitting entities e.g. through including an emission threshold on underlying real economy entities. FINZ intends to incorporate it once GHG accounting for FIs can be considered a more reliable data source with high quality data.
[45] FINZ v0.1 addresses land-use intensive activities only through policies; future versions of FINZ intend to increase the ambition to target requirements.

Table 11: List of emissions-intensive sectors and activities[46,47]

Sector	Activity	Additional Info
Energy activities	Power	Power Generation
	Fossil fuel – coal value chain[48]	The value chain includes: exploration; extraction; mining services; dedicated transport and logistics; processing; storage; trading; any services dedicated to supporting the coal value chain (e.g. operations and maintenance; engineering, procurement and construction); and the development or expansion of mines for all coal grades as well as power plants (that use coal).
	Fossil fuel – oil and gas value chain[49]	The value chain includes: exploration, extraction, transportation and distribution infrastructure; terminals; storage; liquified natural gas; liquified petroleum gas; gas to liquids; refining; transportation of products; and trading.
Industrial activities	Cement	Manufacturing
	Steel	Crude steel manufacturing
Real estate	Residential buildings	Home owners
	Commercial buildings	Owners of buildings
Transport activities[50]	Aviation	Operation
	Shipping	Operation
	Automotive	Passenger vehicle – production / new cars

[46] The list of emissions-intensive activities can be extended in future versions of FINZ (e.g. through adding agricultural activities and/or chemicals). For now the focus is on activities where FIs have access to data sources.
[47] Future versions of FINZ intend to provide a link to common sector classification schemes to ease the identification for FIs.
[48] FIs are to define coal companies as those listed in the Global Coal Exit List (GCEL) and/or companies with 10% or more of revenues from the coal value chain. FIs are to define coal projects as ring-fenced projects with 10% or more of their revenue generated in the coal value chain.
[49] FIs are to define oil and gas companies as those listed in the Global Oil & Gas Exit List (GOGEL) and all National Oil Companies (i.e. oil and gas companies fully or majority-owned by a national government) and/or companies with 10% or more of revenues from the oil, or gas value chain. FIs are to define oil and gas projects as ring-fenced projects with 10% or more of their revenue generated in the oil and gas value chain.
[50] For transportation activities the focus is ideally on scope 1 and 2 emissions. Automotive represents an exception; the users are consumers who have limited ability to decarbonize the asset (the vehicle) during the use phase, with more influence actually being at the design and manufacturing stage.

Figure 6: Value chain locations of emissions-intensive activities to be addressed with specific requirements



** End-users may be in-scope for personal lines insurance (motor) and consumer lending (motor).*

Annex C: Climate-Alignment Metrics and Methods

Status: Normative
Purpose: Specifies parameters for establishing portfolio climate-alignment targets

Climate alignment explains the degree to which counterparties, enabled by the financial institution, are 1) transitioning or 2) have already transitioned to an emissions performance level required in a net-zero economy. It should be noted that while FIs' portfolios may change composition regularly, all underlying entities and activities are still required to align to net-zero if the goals of the Paris Agreement are to be achieved.

Definition of climate alignment

Critical to assessing the level of climate alignment an FI's portfolio has achieved, is a metric by which this can be measured. Climate-aligned finance (the sum of transitioning and net-zero achieved financing) provides this.

Table 12 provides a definition of climate-aligned finance and also lists and defines the components necessary to calculate it.

Table 12: Definition of climate-aligned components

Term	Definition
Climate-aligned finance	Climate-aligned finance represents the financial activities going to entities and real economy activities that are transitioning, have achieved net-zero end-state and represent the total financial activities at each point in time that are consistent with contributing to global climate goals. The metric is the aggregation at the portfolio level, expressed as percentage share (%) of total financial activities.
Transitioning	Transitioning represents the counterparties transitioning in a manner consistent with achieving global climate goals. It comprises both: ● Ambition: measure of transition in the short-term, and based on public targets and plans; and ● Progress: the delivery of emission reductions and the transformation of assets that is consistent with achieving 1.5°C aligned ambition.
Net-zero achieved	Net-zero achieved represents the state of an activity or entity that does not result in the accumulation of greenhouse gases in the atmosphere, achieving a level of emissions progress consistent with a net-zero economy.

Climate-aligned finance represents the financial activities that go to transitioning and net-zero achieved entities and activities as defined in Table 12 above. Climate-aligned finance is therefore calculated as the sum of transitioning and net-zero achieved financing:

$$\%\ Climate\ aligned\ finance\ = \frac{\$\,Transitioning +\ \$\,Net{-}Zero\ achieved}{\$\,Total}$$

Where:

- Transitioning = sum of financial exposure to counterparties who are transitioning in a manner consistent with 1.5°C pathways.
- Net-zero achieved = sum of financial exposure to counterparties who have achieved a level of emissions progress consistent with a net-zero end-state.
- Total = total financial exposure across all counterparties.

Method for determining climate-aligned ambition benchmarks

The FINZ Standard establishes two types of benchmarks that outline the level of climate alignment needed at different points in time to be considered climate aligned:

- Long-term benchmark (2050): A science-based benchmark derived from climate pathways that reflects the need for all economic activities to have reached a net-zero end-state by 2050 or sooner. To achieve a net-zero economy, FI's have to ensure their financial activities do not contribute to the accumulation of GHGs in the atmosphere.

- Near-term benchmarks (now to 2050): These benchmarks cannot be derived directly from climate pathways, but instead represent the change needed in the real economy, and the need for a critical mass of key emission sources to start transitioning immediately and for all entities to transition over time. These benchmarks therefore represent how an FI can support the net-zero transition by leveraging their role as enablers or facilitators in the economy. The required ratio of transition-aligned to net-zero-achieved activities varies within the near-term benchmarks based on the FI's influence and exposure to climate relevant activities.

The near-term benchmarks are established based on the levels of climate impact and influence described in Annex A and B. Taking influence and climate impact into account, the portfolio climate-alignment method is designed in a way so that financial activities which a) are more climate relevant, and b) over which the FI has more influence, are to transition before activities which are less climate relevant or over which FIs have less influence. The intention is to increase focus on areas where there is both reasonable influence and higher climate impact and encourage other actions on areas of lower influence and/or climate impact (see Table 13).

Table 13: Segmentation of financial activities based on influence and climate impact with targets

		Influence	
		Reasonable	Limited
Climate impact	Higher climate impact (belonging to energy intensive sectors or financial value chain, or are related to deforestation activities)	Strict near-term alignment target starting 2030.	Long-term alignment target only starting 2040.
	Lower climate impact (remaining sectors)	Gradual near-term alignment target (i.e. linear increase towards target 2040).	Long-term alignment target only starting 2040.

Intermediate targets with the Linear Intercept Approach

Establishing portfolio climate-alignment targets requires different approaches depending on the segmentation. Table 14 outlines the approaches and equations, where relevant, for establishing the near-term and long-term benchmarks.

Table 14: Benchmarks required for different categories of financial activities that are defined in Annex B.

<table>
<tr><th>Segment</th><th>Ambition thresholds defined via</th><th>Description and calculation procedure</th></tr>
<tr><td>Reasonable influence – higher climate impact</td><td>Target benchmarks, independent of baseline.</td><td>Target value is fixed at 95% alignment by 2030, meaning FIs target this value regardless of base year status.</td></tr>
<tr><td>Reasonable influence – lower climate impact</td><td>Linear growth from base year to reach 95% by 2040.</td><td>$Target = 95\% - (2040 - TY)\frac{95\% - BYCA}{2040 - BY}$

where:
• $Target$ = target value in the target year
• TY = year to achieve a near-term target (a value between the starting year and 2040)
• $BYCA$ = climate alignment % share in the base year
• BY= base year e.g. 2025.</td></tr>
<tr><td>Limited influence – higher climate impact</td><td rowspan="2">Target benchmarks, independent of baseline.</td><td rowspan="2">Target value is fixed at 95% alignment by 2040, meaning FIs target this value regardless of base-year status. No interim targets are required.</td></tr>
<tr><td>Limited influence – lower climate impact</td></tr>
</table>

Defining alignment at the entity and activity levels

The definition of climate-aligned financing at the portfolio level depends on how alignment is determined at the counterparty level. Table 15 provides a non-exhaustive list of the eligible metric types per timeframe that can be used to inform and measure the alignment. To define climate alignment an FI should check whether the counterparty has achieved a net-zero achieved status first and if the answer is no, then check for its transitioning status.

Table 15: Entity- and activity-level data sources for portfolio climate-alignment targets

Counterparty type	**Illustrative financial activities**	**Transitioning (ambition and progress)**			**Net-zero achieved**
		Before 2030	**2030 to 2035**	**2035 to 2049**	**2050 / Net-zero target year**
Financial intermediary	Asset management or third-party funds Reinsurance (treaties and possibly facultative)	A. Financial entity has Paris-aligned ambition through any of the following options: ● Option 1: Financial entity has Paris-aligned near-term targets covering the most relevant sources of value-chain emissions (S1, S2, S3); ● Option 2: Financial entity has a public net-zero target and interim targets covering the most relevant sources of value-chain emissions (S1, S2, and S3); ● Option 3: Financial entity has a Paris-aligned temperature rating from a credible source consistent with limiting warming to 1.5°C;	A. Financial entity has Paris-aligned ambition (Options 1, 2, or 3) and is progressing towards this ambition through any of the following: ● Public transition plan consistent with Paris-aligned ambition and targets; ● Demonstration of progress against targets through independent assessment; ● Demonstration of progress against targets through self-assessment;	A. Financial entity has Paris-aligned ambition (Options 1, 2, or 3) and is progressing towards this ambition through the following: ● Demonstration of progress against targets through independent assessment; ● Demonstration of transitioning status of relevant underlying portfolio counterparties;	A. All exposures to real economy entities via the financial intermediary have reached a level of emissions progress (zero or near-zero) consistent with limiting warming to 1.5°C ● Entities have reached a level of residual emissions across the value chain consistent with pathways that limit warming to 1.5°C with no or limited overshoot (e.g. 90% reduction from 2020 levels across all scopes); ● Entities have neutralized residual emissions with suitable removal technologies (to be defined within the Corporate Net-Zero Standard).
Entity level	Corporate loans, debt, equity (public/private) No specific use of proceeds Primary insurance and facultative reinsurance: Commercial lines (cover not associated with	A. Entity has Paris-aligned ambition through any of the following options: ● Option 1: Entity has Paris-aligned near-term targets covering the most relevant sources of value-chain emissions (S1, S2, S3); ● Option 2: Entity has a public net-zero target and interim targets covering the most relevant sources of value-chain emissions (S1, S2, and S3); ● Option 3: Entity has a Paris-aligned temperature rating from a credible source	A. Entity has Paris-aligned ambition (Options 1, 2 or 3) and is progressing towards this ambition through any of the following: ● Public transition plan consistent with Paris-aligned ambition and targets; ● Demonstration of progress against targets through independent assessment; ● Demonstration of progress against targets and through	A. Entity has Paris-aligned ambition (Options 1, 2 or 3) and is progressing towards this ambition through the following: ● Demonstration of progress against targets through independent assessment; B. Entity generates 90% or more of their revenue from net-zero achieved activities from a credible taxonomy.	A. Entity has reached a level of emissions progress (zero or near-zero) consistent with limiting warming to 1.5°C ● Entity has reached a level of residual emissions across the value chain consistent with pathways that limit warming to 1.5°C with no or limited overshoot (e.g. 90% reduction from 2020 levels across all scopes); ● Entity has neutralized residual

	specific asset or activity)	consistent with limiting warming to 1.5°C; B. Entity generates 90% or more of their revenue from net-zero achieved activities from a credible taxonomy.	self-assessment; B. Entity generates 90% or more of their revenue from net-zero achieved activities from a credible taxonomy.		emissions with suitable removal technologies (to be defined within the Corporate Net-Zero Standard).
SMEs	Corporate loans Insurance Commercial lines	A. SME has Paris-aligned targets covering S1+S2 emissions; B. SME generates 90% or more of their revenue from net-zero achieved activities from a credible taxonomy.	A. SME has Paris-aligned targets covering S1+S2 emissions; B. SME generates 90% or more of their revenue from net-zero achieved activities from a credible taxonomy.	A. SME has Paris-aligned targets covering S1+S2 emissions; B. SME generates 90% or more of their revenue from net-zero achieved activities from a credible taxonomy.	A. SME has reached a level of emissions progress consistent with limiting warming to 1.5°C ● Entity has reached a level of residual emissions across the value chain consistent with pathways that limit warming to 1.5°C with no or limited overshoot (e.g. 90% reduction from 2020 levels across all scopes); ● Entity has neutralized residual emissions with suitable removal technologies (to be defined within the Corporate Net-Zero Standard); B. SME generates 90% or more of their revenue from net-zero achieved activities from a credible taxonomy.
Activity	Loans, bonds with specific use of proceeds, project finance, asset backed financing (shipping, vehicles); motor vehicle loans, asset specifics: residential mortgages, commercial real estate. Project-based and other commercial insurance and reinsurance (facultative)	A. Instrument is connected to a specific activity that is third-party certified by a credible body as “transitioning”. B. Financing / insurance supports a specific activity to transition to levels required in sector emissions or technology pathways (e.g. physical intensity, energy intensity, technology share pathways). Transitioning should be consistent with meeting benchmark values required at least 5 years from the start year of the financing / insurance; C. Financing / insurance is linked to net-zero achieved activities from a credible taxonomy; D. Financing / insurance is linked to a specific activity that has reached a level of	A. Instrument is connected to a specific activity that is third-party certified by a credible body as “transitioning”. B. Financing / insurance supports a specific activity to transition to levels required in sector emissions or technology pathways (e.g. physical intensity, energy intensity, technology share pathways). Transitioning should be consistent with meeting benchmark values required at least 5 years from the start year of the financing / insurance; C. Financing / insurance is linked to net-zero achieved activities from a credible taxonomy;	A. Instrument is connected to a specific activity that is third-party certified by a credible body as “transitioning”. B. Financing / insurance supports a specific activity to transition to levels required in sector emissions or technology pathways (e.g. physical intensity, energy intensity, technology share pathways). Transitioning should be consistent with meeting benchmark values required at least 5 years from the start year of the financing / insurance; C. Financing / insurance is linked to net-zero achieved activities from a credible taxonomy;	A. Activity has reached a level of emissions progress consistent with limiting warming to 1.5°C ● Activity has reached a level of residual emissions consistent with pathways that limit warming to 1.5°C with no or limited overshoot; ● Residual emissions from the activity have been neutralized with suitable removal technologies (to be defined within the Corporate Net-Zero Standard).

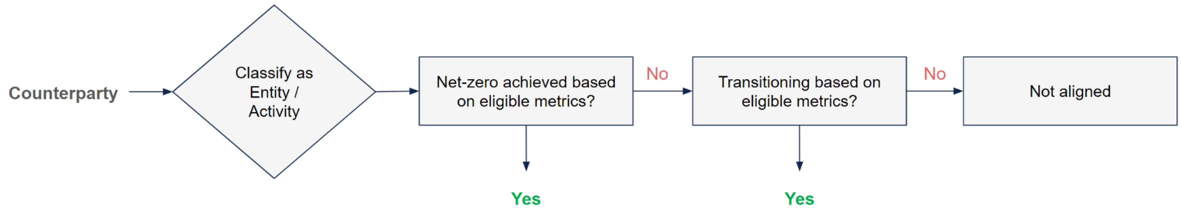
	covers for identified assets or activities;. Personal lines insurance (homeowners and motor).	emissions progress (zero or near-zero) consistent with limiting warming to 1.5°C.	D. Financing / insurance is linked to a specific activity that has reached a level of emissions progress (zero or near-zero) consistent with limiting warming to 1.5°C.	D. Financing / insurance is linked to a specific activity that has reached a level of emissions progress (zero or near-zero) consistent with limiting warming to 1.5°C.	

Operationalizing climate-aligned finance

The portfolio climate alignment method enables FIs to classify the alignment status of each counterparty and grow the overall share of climate-aligned counterparties over time. The climate-alignment approach is split by entity- and activity-level counterparties, which determines the types of data sources that are relevant for assessing alignment.

Figure 7 outlines the decision tree for undertaking the climate-alignment assessment of each counterparty.

Figure 7: Climate alignment decision tree



a) Identify if the counterparty should be assessed at the entity or activity level. Only financial instruments tied with known use of proceeds to a specific activity (or insurance cover explicitly associated with an asset or activity) should be assessed at the activity level. All other types of financing to/insurance underwriting of entities with unknown use of proceeds (or insurance cover not explicitly associated with an asset or activity) should be assessed at the entity level. The entity category should be used as default. The activity metrics may be selected when the applicable financial activity is linked directly to the real economy activity (i.e. financial activity links to project finance or similar or the real economy activity generates more than 90% of entity's revenue).

b) Check if the counterparty has reached net-zero achieved status using eligible metrics and data sources. If the counterparty meets the net-zero achieved criteria, these counterparties are already fully compatible with a net-zero economy.

c) If the counterparty is not net-zero achieved, the FI has to check whether they can be classified as transitioning. As shown in Table 15, the meaning of "transitioning" status changes over time as entities have to demonstrate a move from ambition to progress, i.e. the delivery of its ambitions.

d) Quantify the percentage (%) of financial activities that are climate aligned (net-zero achieved and transitioning) compared to all financial activities per financial activity category (e.g. Lending, Insurance Underwriting, etc.).

Annex D: Emissions-intensive Activity-level Methods, Metrics, and Benchmarks

Status: Normative
Purpose: Specifies parameters for establishing targets for emissions-intensive activities.

Scope of emissions-intensive activities within financial services

Establishing sector-level targets is required for FIs with exposure to key emissions-intensive activities, as specified in Annex B. Exposure to these activities is viewed as climate relevant when engagement with the activity meets specific requirements for influence and traceability, e.g. the financial institution has a direct relationship with the emissions-intensive counterparty.

Table 16 below maps where there is high influence, to establish emissions-intensive activity targets. The key requirements center on traceability where FIs can influence and track progress over time.

Table 16: Segmentation of financial activities

		Influence	
		Reasonable	Limited
Climate impact	Higher climate impact (belonging to energy-intensive sectors or financial value chain, or are related to deforestation activities)	Strict near-term benchmark targets starting 2030.	Long-term benchmark targets starting 2040, with disclosure beforehand.
	Lower climate impact (remaining sectors)	n/a	n/a

Eligible metrics and pathways

Table 17 provides the list of eligible metrics and pathways used for determining relevant 1.5°C benchmarks for key emissions-intensive activities. The table highlights that for some activities there are multiple eligible metrics and pathways to determine if the activity is aligned with its 1.5°C benchmark, e.g. for automotive in 2030, technology share or physical intensity metrics may be used. For other activities, only one metric may be available, e.g. physical intensity for cement production. One metric and one scenario for each activity should be selected. It is important to note that this metric table contains more metrics than the sector-specific guidance documents for real-economy entities provided by the SBTi and this metric table is solely for the usage of FIs to track emissions-intensive activities within their portfolios.

SBTi provides pre-qualified pathways via its sector development work. Other pathways may be considered eligible if they meet strict 1.5°C with low/no overshoot thresholds and are established and considered by credible bodies, e.g. IEA, IPCC.

Table 17: Eligible activity-level metrics and pathways

Sector	Activity	Eligible Metric[51]	Metric Type	Eligible Pathways	Method
Transport activities	Aviation	gCO_2/Revenue.Tonne.km	Physical intensity	E.g. SBTi pathways, IEA, IPCC low/no overshoot	Linear-intercept
	Shipping	Annual Efficiency Ratio (tCO_2/dead*weight *tonne*Distance)	Physical intensity	E.g. SBTi pathways, IEA, IPCC low/no overshoot	Linear-intercept
		Energy Efficiency Operational Index (tCO_2/tonne.km)	Physical intensity	E.g. SBTi pathways, IEA, IPCC low/no overshoot	Linear-intercept
	Automotive (passenger vehicle) – new and existing fleet	gCO_2/vehicle.km	Physical intensity	E.g. SBTi pathways, IEA, IPCC low/no overshoot	Linear-intercept
		% zero emission vehicles	Technology share	E.g. SBTi pathways, IEA, IPCC low/no overshoot	Linear-intercept
Industrial activities	Cement	tCO_2/t cement	Physical intensity	E.g. SBTi pathways, IEA, IPCC low/no overshoot	Linear-intercept
	Steel	tCO_2/t steel	Physical intensity	E.g. SBTi pathways, IEA, IPCC low/no overshoot	Linear-intercept
Energy activities	Power	tCO_2/MWh	Physical intensity	E.g. SBTi pathways, IEA, IPCC low/no overshoot	Linear-intercept
		% zero emissions generation capacity	Technology mix	E.g. SBTi pathways, IEA, IPCC low/no overshoot	Linear-intercept
	Fossil fuel value chain (oil, coal, gas)	tCO_2e	Absolute	E.g. SBTi pathways, IEA, IPCC low/no overshoot	Absolute contraction
		tCO_2/MJ	Physical intensity	E.g. SBTi pathways, IEA, IPCC low/no overshoot	Linear-intercept
Real estate (buildings)	Residential buildings	kg CO_2/m^2	Physical intensity	E.g. SBTi pathways, IEA, IPCC low/no overshoot	Linear-intercept
		kWh/m^2	Physical intensity	E.g. SBTi pathways, IEA, IPCC low/no overshoot	Linear-intercept

[51] The emissions scope coverage needs to be in line with GHG accounting requirements specified in Section 2.1.

Sector	Activity	Eligible Metric[51]	Metric Type	Eligible Pathways	Method
	Commercial buildings	kg CO_2/m^2	Physical intensity	E.g. SBTi pathways, IEA, IPCC low/no overshoot	Linear-intercept
		kWh/m^2	Physical intensity	E.g. SBTi pathways, IEA, IPCC low/no overshoot	Linear-intercept

The target values for each year will be provided in a scenario database where the FI can access the eligible pathways and specific benchmarks.

Eligible methods

Two methods are eligible for target setting at the sector level:

1. **Linear Intercept Approach:** The target-setting entity should target an increase or decrease in the metric value to reach the benchmark value linearly between the starting and target years. Annual change may be calculated by interpolating between the baseline and target year. If the baseline value is already greater than the benchmark value, the benchmark value should be adjusted so that it is set as a minimum. The LIA represents a modified version of the Sectoral Decarbonization Approach (SDA) that does not require counterparty level activity projections.

If necessary, the benchmark may be converted into an annual reduction of physical intensity using the following equation:

$$Annual\ Reduction_{activity} = \frac{Sector\ Activity\ Value_{target\ year} - Current\ Value_{current\ year}}{target\ year - current\ year}$$

$$If\ Annual\ Reduction_{activity} > 0;\ Annual\ Reduction_{activity} = 0$$

2. **Absolute Contraction Approach:** The ACA can be applied by multiplying the annual reduction rate by the total portfolio emissions to determine the annual reduction target. The annual reduction rate can be found in the cross-sector pathways documentation. The absolute contraction method uses a 4.2% linear annual reduction (LAR) rate for the 1.5°C ambition threshold.

Equation 1 – Deriving absolute reduction target

$$R = LAR \times (t - b)$$

Where:

$R = Absolute\ reduction\ target\ (\%)$
$LAR = Linear\ annual\ reduction\ (\%)$
$t = Target\ year\ t$
$b = Base\ year\ b$

Equation 2 – Deriving resulting emissions in target year based on reduction target

$$E_t = E_b \times (1 - R)$$

Where:

$E_t = Emissions\ in\ target\ year\ t\ (t\ CO_2e)$

$E_b = Emissions\ in\ base\ year\ b\ (t\ CO_2e)$

$R = Absolute\ reduction\ target\ (\%)$

Equation 3 – Deriving absolute emissions for interim years

$$E_y = E_b \times (1 - LAR \times (y - b))$$

Where:

$E_y = Emissions\ in\ year\ y\ (ton\ CO_2e)$

$E_b = Emissions\ in\ base\ year\ b\ (ton\ CO_2e)$

$LAR = Linear\ annual\ reduction\ (\%)$

$y = Interim\ year\ y$

$b = Base\ year\ b$

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GLOSSARY

Please see SBTi Glossary for additional terms and definitions, and of acronyms used in the SBTi's technical resources.

	Term[52]	Definition
A	Activity	Specific economic service with a clear use of proceeds linked to the financial instrument. The FINZ Standard includes the activity category for granular, sub-entity assessment. An activity-level metric, meanwhile, captures the emissions performance of an activity such as its physical intensity, and enables comparison across other market actors; an example would be the tCO2e/MWh generated within the electricity sector.
C	Climate aligned finance/insurance	Climate-aligned finance represents the financial activities going to entities and real economy activities that are transitioning or have achieved net-zero end-state and represent the total financial activities at a point in time that are consistent with contributing to global climate goals. The metric is expressed as a percentage share of total financial activities and is aggregated at the portfolio level.
	Climate solution	A climate solution is an asset or activity that meets a need in society, contributes to the reduction of GHG emissions, and has low emissions intensity. Production and consumption of climate solutions is compatible with the global 1.5°C ambition, and is intended to accelerate the transition towards a net zero carbon economy. (Oxford Net Zero, 2023).
	Counterparty	Parties that are a part of a financial transaction, e.g. clients of a bank or insurance company, or the portfolio companies of investors. Counterparties are further split at the entity and activity level.
E	Entity	A legal entity typically receives financial services through a general use of proceeds financial instrument. An entity-level metric seeks to capture the performance of the entity, and therefore may be based on the historical GHG emissions, the forward-looking ambition, or the relative “greenness” of its activities.
	Exposure	Financial institutions’ exposure to real economy activities is defined through their financial relationships, e.g. provision of financial services such as loans, insurance, etc. Exposure is used as a measure of the amount or proportion of money invested, lent, underwritten, to real economy activities.
F	Financial activities	Financial activities are defined based on the following five categories: Lending (LND), Asset Owner Investing (AOI), Asset Manager Investing (AMI), Insurance Underwriting (INS) and Capital Market Activities (CMA). ● Lending: Includes all entities classified as banks, i.e. commercial and retail banks, as well as non-bank lenders. ● Asset Owner Investing: Includes entities classified as asset owners, i.e. re/insurance companies (asset side), banks (direct investing activities), pension funds, family offices, etc. ● Asset Manager Investing: Includes financial activities usually conducted by asset managers, product owners (ETF providers), and brokerage platforms.

[52] The terms “climate aligned finance/insurance”, “counterparty”, “entity”, “exposure”, “linear-intercept approach”, “portfolio” are copied from the supporting Metrics and Methods Synthesis Paper (to be released jointly with this draft) and are included here for convenience.

		• Insurance Underwriting: Includes both insurance and reinsurance firms, i.e. all entities that have a license to be a risk carrier. • Capital Markets Activities: Includes investment banks and other entities that facilitate the primary issuance of capital market instruments and loan syndication.
	Fossil Fuel Finance	Any financial activities related to the fossil fuel value chains (as identified in Table 11).
I	In-scope	"In-scope" means the activity is covered by one or more of the requirements in the Standard. Table 8 provides a list of covered activities.
	Influence	For the purposes of this Standard, "influence" refers to the FI's capacity or ability to have an effect on the character, development, behavior, or decisions of the owner/controller of a source of emissions in the real economy within their financial portfolios. Influence may vary based on instrument structure, financial exposure, counterparty type, and engagement capacity.
	Insurance claims	A formal request submitted by a policyholder to an insurance company seeking coverage or compensation for a loss or event covered by the insurance policy.
	Insurance value chain	The insurance value chain concept is introduced by the SBTi Insurance Industry Brief and is taken up by the FINZ Standard. The insurance value chain encompasses the series of activities involved in delivering insurance products and services. The value chain is based on the type of insurance (i.e. primary insurer, reinsurer), the lines or classes of re/insurance written (property and casualty and/or life and health insurance, commercial lines and/or personal lines of business, facultative reinsurance and/or treaty reinsurance) and the mode of distribution (direct and/or brokered). The value chain concept is introduced with the purpose of identifying the levers re/insurers have to influence real economy emissions and subsequently identifying the underlying entity (financial or real economy entity) to engage for target setting.
	Investment activities value chain	The investment activities value chain concept is based on the role (i.e. asset owner or manager), the mandate (execution only, discretionary, advisory) and the type of strategy (active, passive). The value chain concept is introduced with the purpose of identifying the levers available to influence real economy emissions and subsequently identifying the underlying entity (financial or real economy entity) to engage for target setting.
L	Linear intercept approach	The linear intercept approach applies to physical intensity and technology share metrics, and relies on a convergence model to determine future benchmarks for the metrics. Linear intercepts are a simpler version of the Sectoral Decarbonization Approach (SDA) where the target is defined based on reaching the sector intensity value in the desired target year.
M	Milestone approach	The milestone approach represents a method exclusively for outcome metrics that cannot be linked directly to climate pathways. Within the FINZ Standard, the milestone approach defines specific sector and region ambition thresholds for key years.
N	Net-zero achieved	Net-zero achieved represents the state of an activity or entity that does not result in the accumulation of greenhouse gases in the atmosphere, achieving a level of emissions progress consistent with a net-zero economy.

	Net-zero portfolio	A net-zero portfolio is one where all counterparties in the portfolios have reduced emissions at least to residual levels, and any residual emissions of portfolio counterparties are neutralized via permanent removal and storage of CO_2 from the atmosphere.
O	Out-of-scope	"Out-of-scope" means the activity is not addressed by any requirements and is therefore deemed not currently applicable. Activities are only deemed out of scope if there is no clear climate impact, or no available methodology to quantify and address the climate impact of the financial activity, or the influence of the FI is diminutive. Table 8 lists out-of-scope activities.
P	Portfolio	A portfolio is a collection of financial investments including stocks, bonds, commodities, cash, and cash equivalents, as well as their fund counterparties (entities and activities). For the purposes of the FINZ Standard, the portfolio can extend across multiple asset classes, including loans and investments. Metrics at the portfolio level measure the aggregate performance of all underlying entities/activities across a range of financial asset classes and services.
	Portfolio (climate) alignment	Aggregation of climate-aligned entities or activities at the portfolio level, expressed as percentage share (%) of total financial activities. Also see Climate-aligned finance/insurance.
T	Transitioning	Transitioning represents the counterparties transitioning in a manner consistent with achieving global climate goals. It comprises both: Ambition: measure of transition in the short-term, and based on public targets and plans; and Progress: the delivery of emissions reductions and the transformation of assets that is consistent with achieving 1.5°C aligned ambition.