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SBTi Criteria and Recommendations for Financial Institutions

TWG-FI-001 | Pilot Version

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Introduction

This document presents the Pilot Version of the SBTi target validation criteria and recommendations for financial institutions. These sector-specific criteria supersede the general SBTi criteria for companies. **Sections 1 to 4 and 7** of the criteria focus on GHG inventory, scope 1 and 2 targets, and target validity and recalculations. Version 4.1 of the SBTi general criteria for companies serves as the basis for these sections, with slight deviations for financial institutions.[1] Where relevant, these criteria are subject to SBTi's annual update of corporate criteria.

Developed through extensive stakeholder consultation, **Sections 5 and 6** of the criteria are designed specifically for financial institutions' target setting, progress-tracking, and action reporting practices for their investment and lending activities. In 2021, the SBTi plans to update this initial set of criteria based on lessons learned in the target validation pilot phase for financial institutions (See Chapter 8 of the Financial Sector SBT Guidance for more information on committing and submitting targets to SBTi). The initiative also reserves the right to make adjustments to the criteria, as needed, to reflect the most recent emissions scenarios, partner organization policies, greenhouse gas accounting approaches, and evolving understanding of best practice in science-based target setting.

All the criteria presented here must be met for financial institutions' targets to be recognized by the Science Based Targets initiative (SBTi). In addition, financial institutions shall follow the GHG Protocol Corporate Standard, Scope 2 Guidance, and Corporate Value Chain (Scope 3) Accounting and Reporting Standard for their emissions accounting and reporting.[2] In the context of the criteria and this guidance, the term **"shall"** is used to describe **requirements** related to relevant criteria and accounting guidance, whereas the term **"should"** is used to describe **recommendations**. SBTi recommendations are important for transparency and best practices but are not required. Unless otherwise noted (including specific sections), all criteria apply to scopes 1, 2, and 3.

A select group of criteria and recommendations most relevant to FIs are expanded on in further sections throughout the Financial Sector SBT Guidance, which includes additional information on successfully fulfilling these requirements.[3] SBTi strongly recommends that financial institutions thoroughly review the Guidance before target development.

[1] Please see Version 4.1 of the SBTi general criteria for corporates here: https://sciencebasedtargets.org/wp-content/uploads/2019/03/SBTi-criteria.pdf.
[2] Limited deviations from the scope 3 standard in this framework are described in Section 4.1 Compiling a GHG Inventory of the Financial Sector SBT Guidance: https://sciencebasedtargets.org/wp-content/uploads/2020/10/Financial-Sector-Science-Based-Targets-Guidance-Pilot-Version.pdf.
[3] For more information on criteria not expanded further in this guidance, please refer to the SBTi Target Validation Protocol that describes the underlying principles, process, and criteria followed to assess targets and to determine conformance with the SBTi criteria.

The initiative also reserves the right to withdraw a target approval decision if it becomes apparent that the FI provided incorrect information during the target validation process that results in any of the criteria existing during the assessment not being met, or if requirements following the approval of the target are not respected (i.e., target progress-reporting and recalculations).

Section 1. GHG Emissions Inventory and Target Boundary

Criteria

FI-C1 – Scopes**:** Financial institutions (FIs) must set a target(s) that covers institution-wide scope 1 and scope 2 emissions, as defined by the GHG Protocol Corporate Standard, and scope 3 investment and lending activities as per FI-C15 and FI-C16. FIs may set targets for remaining scope 3 emissions categories as per FI-R9.

FI-C2 – Significance Thresholds: Financial institutions may exclude up to 5 percent of scope 1 and scope 2 emissions combined in the boundary of the inventory and target.[4]

FI-C3 – Greenhouse Gases: Scope 1 and 2 targets must cover all relevant GHGs as required per the GHG Protocol Corporate Standard. If optional targets on scope 3, categories 1–14 are set, they shall also cover all relevant GHGs. Coverage of all relevant GHGs are recommended, where possible, for FIs' scope 3 portfolio targets. If financial institutions are unable to cover all GHGs for scope 3 portfolio targets, they shall cover CO_2 emissions at a minimum.

FI-C4 – Bioenergy Accounting: Direct emissions from the combustion of biomass and biofuels for Institution-wide operational use, as well as GHG removals associated with bioenergy feedstock,[5] must be included alongside the financial Institution's inventory and must be included in the target boundary when setting a science-based target and when reporting progress against that target. If biogenic emissions from biomass and biofuels are considered climate neutral, the financial institution must provide justification of the underlying assumptions. Financial institutions must report emissions from N_2O and CH_4 from bioenergy use under scope 1, 2, or 3, as required by the GHG Protocol, and must apply the same requirements on inventory inclusion and target boundary as for biogenic carbon.

FI-C5 – Subsidiaries: It is recommended that financial institutions submit targets only at the parent- or group-level, not the subsidiary level. Parent companies must include the emissions of all subsidiaries in their target submission, in accordance with boundary criteria above. In cases where both parent

[4] Where financial institutions' scope 1 or 2 emissions are deemed immaterial (i.e., under 5 percent of total combined scope 1 and 2 emissions), FIs may set their SBT solely on the scope (either scope 1 or scope 2) that covers more than 95 percent of the total scope 1 and 2 emissions. Financial institutions must continue to report on both scopes and adjust their targets as needed, in accordance with the GHG Protocol's principle of completeness and as per FI-C21-Mandatory target recalculation.
[5] Non-bioenergy–related biogenic emissions must be reported alongside the inventory and included in the target boundary. GHG removals that are not associated with bioenergy feedstock are currently not accepted to count as progress toward SBTs or toward net emissions in the inventory.

companies and subsidiaries submit targets,[6] the parent company's target must also include the emissions of the subsidiary if it falls within the parent company's emissions boundary, given the chosen inventory consolidation approach.[7]

Recommendations and Additional Guidance

FI-R1 – Direct Land Use Change Emissions: When relevant, financial institutions are encouraged to account for direct land use change emissions and include them in their target boundary. Financial institutions seeking to implement mitigation actions aimed at reducing land use change as part of their SBTs (e.g., through preventing deforestation from their supply chains) should include land use change emissions in their base year inventory. Since methods to calculate land use change can differ widely, and there is currently no standardized method recognized under the GHG Protocol, companies should disclose the method used to calculate these impacts in their GHG inventory.[8] Financial institutions with indirect land use emissions can report these separately alongside the inventory and similarly disclose the method used to calculate these impacts.

FI-R2 – Bioenergy Accounting: Assumptions of neutrality for bioenergy tend to overlook that there is a significant time lag between the bio-based resource removal (wood/crop) and later regeneration. They also overlook possible differences in productivity among forest/crop systems used as bioenergy feedstock and the effects of long-term carbon storage in bio-based products and/or disposal. For these reasons, until a standardized method for bioenergy GHG accounting is developed under the GHG Protocol, the SBTi strongly recommends financial institutions take into account the time of emissions (i.e., wood/crop removal) and sequestration (i.e., forest/crop regrowth) in their accounting methodologies.

[6] This criterion applies only to subsidiaries. Brands, licensees, and/or specific regions or business divisions (with the exception of banks' asset management divisions) of a financial institution will not be accepted as separate targets unless they fall outside of a parent company's chosen consolidation approach.

[7] Under this version of the criteria, it is optional for banks to include their asset management divisions in their scope 1, 2, and 3 target boundaries. If such exclusion is made, it shall be disclosed clearly in the target language. See Section 5.3 of the Financial Sector SBT Guidance for more information.

[8] At the moment, the GHG protocol provides only limited guidance on agriculture, forestry, and other land-use (AFOLU) emissions accounting, and there are no sector-specific SBT-setting methodologies available for companies in land-intensive sectors that include AFOLU emissions. The Science Based Targets initiative is undertaking a sector development project, the SBTi Forest, Land and Agriculture project ("SBTi FLAG"), led by WWF, to address this methodology gap. The effort will focus on the development of methods and guidance to enable the food, agriculture, and forest sectors to set science-based targets (SBTs) that include deforestation, and possibly other land-related impacts. In parallel to this effort, WRI and World Business Council for Sustainable Development (WBCSD) are leading the development of three new GHG Protocol Standards on how companies should account for GHG emissions and removals in their annual inventories. The three standards will cover: Carbon Removals and Sequestration; Land Sector Emissions and Removals; and Bioenergy. For more information on this work and how to participate, see here. The FLAG project and the new GHG Protocol Standards are complementary workstreams that will provide the infrastructure needed for corporate target setting, accounting, and reporting of AFOLU-related emissions.

Section 2. Scope 1 and 2 Target Time Frame

Criteria

FI-C6 – Base and Target Years: Targets must cover a minimum of 5 years and a maximum of 15 years from the date the target is submitted to the SBTi for an official validation.[9]

FI-C7 – Progress to Date: Targets that have already been achieved by the date they are submitted to the SBTi are not acceptable. The SBTi uses the year the target is submitted to the initiative (or the most recent completed GHG inventory) to assess forward-looking ambition. The most recent completed GHG inventory must not be earlier than two years prior to the year of submission.

Recommendations and Additional Guidance

FI-R3 – Base Year: The SBTi recommends choosing the most recent year for which data are available as the target base year.

FI-R4 – Target Year: Targets that cover more than 15 years from the date of submission are considered long-term targets. Financial institutions are encouraged to develop such long-term targets up to 2050 in addition to midterm targets required by C6. At a minimum, long-term targets must be consistent with the level of decarbonization required to keep global temperature increase to well-below 2°C compared to preindustrial temperatures to be validated and recognized by the SBTi.

FI-R5 – Consistency: It is recommended that financial institutions use the same base and target years for all targets within the midterm time frame and all targets within the long-term time frame.

Section 3. Scope 1 and 2 Target Ambition

Criteria

FI-C8 – Level of Ambition: At a minimum, scope 1 and scope 2 targets will be consistent with the level of decarbonization required to keep global temperature increase to well-below 2°C compared to preindustrial temperatures, though financial institutions are encouraged to pursue greater efforts

[9] For targets submitted for an official validation in the first half of 2020, the valid target years are 2024–2034 inclusive. For targets submitted in the second half of 2020, the valid target years are between 2025 and 2035 inclusive.

toward a 1.5°C trajectory. Both the target time frame ambition (base year to target year) and the forward-looking ambition (most recent year to target year) must meet this ambition criteria.[10]

FI-C9 – Absolute vs. Intensity: Intensity targets for scope 1 and scope 2 emissions are only eligible when they lead to absolute emissions reduction targets in line with climate scenarios for keeping global warming to well-below 2°C or when they are modeled using an approved sector pathway. Absolute reductions must be at least as ambitious as the minimum of the range of emissions scenarios consistent with the well-below 2°C goal or aligned with the relevant sector reduction pathway within the Sectoral Decarbonization Approach.

FI-C10 – Method Validity: Targets must be modeled using the latest version of methods and tools approved by the initiative. Targets modeled using previous versions of the tools or methods can only be submitted to the SBTi for an official validation within six months of the publication of the revised method or the publication of relevant sector-specific tools.

FI-C11 – Offsets: The use of offsets is not counted as emissions reduction toward the progress of financial institutions' science-based targets. The SBTi requires that financial institutions set targets based on emission reductions through direct action within their own operations or their investment and lending portfolios. Offsets are only considered to be an option for financial institutions seeking to support additional emission reductions beyond their science-based targets.

FI-C12 – Avoided Emissions: Avoided emissions fall under a separate accounting system from corporate and financial institutions' inventories and do not count toward science-based targets.

Recommendations and Additional Guidance

FI-R6 – Choosing an approach: The SBTi recommends using the most ambitious decarbonization scenarios that lead to the earliest reductions and the least cumulative emissions.

[10] For targets submitted for an official validation in 2020, the most recent inventory data submitted must be for 2018 at the earliest.

Section 4. Scope 2 Specifications

Criteria

FI-C13 – Approaches: Financial Institutions shall disclose whether they are using a location- or market-based approach per the GHG Protocol Scope 2 Guidance to calculate base year emissions and to track performance against a science-based target. Financial Institutions shall use a single, specified scope 2 accounting approach ("location-based" or "market-based") for setting and tracking progress toward their SBTs.

FI-C14 – Renewable Electricity Procurement: Targets to actively source renewable electricity at a rate that is consistent with well-below 2°C scenarios are an acceptable alternative to scope 2 emissions reduction targets. The SBTi has identified 80 percent renewable electricity procurement by 2025 and 100 percent by 2030 as thresholds (portion of renewable energy over total energy use) for this approach in line with the recommendations of RE100. Financial Institutions that already source electricity at or above these thresholds shall maintain or increase their use share of renewable electricity to qualify.

Recommendations and Additional Guidance

FI-R7 – Purchased Heat and Steam: For science-based target modeling purposes using the sectoral decarbonization approach (SDA), it is recommended that financial institutions model purchased heat and steam–related emissions as if they were part of their direct (i.e., scope 1) emissions.

FI-R8 – Efficiency Considerations for Target Modeling: If financial institutions are using a method that does not already embed efficiency gains for the specific sector, market, and the decarbonization projected for the power sector based on well-below 2°C scenario, it is recommended that these factors be taken into account when modeling electricity-related scope 2 targets.

Section 5. Scope 3 – Portfolio Target Setting Requirements

Criteria

FI-C15 – Requirement to Set Target(s) on Investment and Lending Activities: All financial institutions shall set targets on their investment and lending activities as required by FI-C16, irrespective of the share of quantified scope 3 portfolio emissions as compared to the total scope 1 + 2 + 3 emissions of the financial institution. FIs may choose from the applicable methods for target setting, by asset class, as defined in Table 1 in Section 8.

FI-C16 – Portfolio Target Boundary: Financial institutions shall set targets on all "Required Activities" in the Required Activities and Methods Table (Table 1) following the minimum boundary coverage requirement. See Section 8 for more guidance on applying this criterion.

FI-C17.1 – Sectoral Decarbonization Approach Targets[11] : Financial institutions' targets using the sectoral decarbonization approach (SDA) are considered acceptable when the following conditions are met:

- Boundary: Financial institutions shall set SDA targets on their real estate and electricity generation–related activities as specified in the Required Activities and Methods Table (Table 1). SDA targets may also be set on other activities listed in Table 1, such as residential mortgages, corporate loans, listed and private equity and debt for sectors where methods are available.

- Ambition: Portfolio SDA targets must meet minimum ambition indicated by sector-specific methods for well-below 2°C pathways.

- Time frame: Portfolio SDA targets must cover a minimum of 5 years and a maximum of 15 years from the date the financial institution's target is submitted to the SBTi for an official validation. Financial institutions are further encouraged to develop long-term targets up to 2050 in addition to the required midterm targets.

- Scope of Borrower and/or Investee Targets: Targets on scope 1 and 2 emissions are required for real estate and electricity generation related activities as defined by SDA methods (if relevant). For other Required Activities in the Table 5-2, FIs shall set targets on emissions scopes as required by the relevant SBTi sector-specific guidance. [12]

FI-C17.2 – SBT Portfolio Coverage Targets: Financial institutions' targets to drive the adoption of science-based emissions reduction targets by their borrowers and/or investees are considered acceptable when the following conditions are met:

- Boundary: Financial institutions shall set engagement targets on corporate instruments as specified in the Required Activities and Methods Table (Table 1).

- Target Level of Ambition: Financial institutions shall commit to having a portion of their borrowers and/or investees set their own approved science-based targets such that the financial

[11] Please see Section 5.4.1 of the Financial Sector SBT Guidance for more information on the Sectoral Decarbonization Approach.
[12] A list of the sector-specific guidance and requirements is available in Section 9 of the SBTI Target Validation Protocol (forthcoming May 2021).

institution is on a linear path to 100 percent portfolio coverage by 2040 (using a weighting approach in the SBT Finance Tool). For example, a financial institution starting with 10 percent coverage in 2020 would need to increase coverage by 4.5 percent per year (90/ (2040 – 2020) = 4.5) and reach at least 32.5 percent (10 + [5 x 4.5] = 32.5) coverage by 2025.

- Target Formulation: Financial institutions shall provide information in the disclosed target language on what percentage of the corporate equity and debt portfolio is covered by the target, using a weighting approach in the SBTi Finance Tool consistently throughout the target period.

- Target Time frame: Financial institutions' portfolio coverage targets must be fulfilled within a maximum of five years from the date the FI's target is submitted to the SBTi for validation. Fulfillment of portfolio coverage targets mean that borrowers' and/or investees' SBTs have been approved by SBTi.

- Scope of Borrower and/or Investee Targets: Financial institutions' borrowers and/or investees shall follow the latest SBTi criteria for companies to set scope 1 and 2 targets, as well as scope 3 targets when their scope 3 emissions are more than 40 percent of total scope 1,2, and 3 emissions.

FI-C17.3 – Portfolio Temperature Rating Targets: Financial institutions' targets to align the Temperature Rating of their corporate debt and equity portfolios with ambition of the Paris Agreement are considered acceptable when the following conditions are met:

- Boundary: Financial institutions shall set portfolio Temperature Rating targets on corporate instruments as specified in the Required Activities and Methods Table (Table 1).

- Target Level of Ambition: Financial institutions shall align their portfolio scope 1 + 2 temperature score with a minimum well-below 2°C scenario and in addition align their portfolio to a minimum 2°C scenario for the scope 1 + 2 + 3 portion by 2040. Alignment with more ambitious scenarios such as 1.5°C is highly encouraged. Separate targets for scope 1 + 2 and for scope 1 + 2 + 3 shall be set.

  Financial institutions shall commit to reducing their portfolio temperature scores such that the financial institution is on a linear path to the stated goal by 2040. For example, a financial institution starting with scope 1 + 2 portfolio temperature score of 2.9°C in 2020 would need to decrease its portfolio temperature by at least 0.0575°C per year ([2.9°C – 1.75°C]/[2040 – 2020]) = 0.0575°C, and reach at least 2.61°C portfolio temperature score by 2025.

  For example, a financial institution starting with scope 1 + 2 + 3 portfolio temperature score of 3.2°C in 2020 would need to decrease its portfolio temperature by at least 0.06°C per year

([3.2°C – 2°C]/[2040 – 2020]) = 0.06°C, and reach at least 2.9°C portfolio temperature score by 2025.

- Target Time frame: Portfolio alignment targets must be fulfilled within a maximum of five years from the date the targets are submitted to the SBTi for an official validation.

- Scope of Borrower and/or Investee Targets: Financial institutions' borrowers' and/or investee's targets shall include coverage of scope 1 and 2 emissions, as well as scope 3 emissions when their scope 3 emissions are more than 40 percent of total scope 1, 2, and 3 emissions.

Recommendations and Additional Guidance

FI-R9 – Measuring Emissions and Setting Targets for Scope 3, Categories 1–14: It is recommended but not required for financial institutions to measure and set target(s) on categories 1–14 emissions as defined by GHGP Scope 3 standard. Optional targets on these categories must meet criteria 19–20.1 in the latest SBTi criteria for companies to be approved by SBTi.

FI-R10 – Phaseout of Thermal Coal Investments: Financial institutions should establish a policy within six months from the time of target approval that they will phase out financial support to thermal coal across all their activities in line with a full phaseout by 2030 globally. Notably, this includes immediately ceasing all financial or other support to thermal coal companies* that are building new infrastructure or investing in new or additional thermal coal expansion, mining, production, utilization (i.e., combustion), retrofitting, or acquiring of coal assets.

** Coal companies are defined as companies with greater than 5 percent of revenues from thermal coal mining, exploration and drilling, mining services, processing, trading, transport and logistics, equipment manufacturing, operations and maintenance (O&M) services, engineering, procurement and construction (EPC) services, transmission and distribution of coal-fired electricity, coal to liquids (Ctlg) and coal to gas (CtG).*

FI-R11– Disclosure of Fossil Fuel Investments and Lending: Financial institutions with approved SBTs, should annually disclose the annual investments (public equity, private equity, corporate bonds), direct project financing and lending to fossil fuel (oil, gas, and thermal coal) projects and companies* in U.S. dollar amount (or other currencies) (See FI-R12 for recommendations on where to disclose).

Financial institutions that fail to phase out coal investments or disclose fossil fuel investments and lending make themselves susceptible to risk of stranded assets and reputational damage.

** This includes:*
(1) Companies that have activities (i.e., identified as share of revenues) in the exploration; extraction; refining; transportation and distribution; storage; retailing; marketing; trading; or power, heat, or cooling production from oil and gas. FIs should disclose the threshold used to delineate oil and gas companies; the SBTi recommends a 5 percent threshold and for the threshold to not exceed 30 percent.
(2) In line with FI-R10, companies with greater than 5 percent of revenues from thermal coal mining, exploration and drilling, mining services, processing, trading, transport and logistics, equipment manufacturing, operations and maintenance (O&M) services, engineering, procurement and construction (EPC) services, transmission and distribution of coal-fired electricity, coal to liquids (Ctlg) and coal to gas (CtG).

Section 6. Reporting Requirements

Criteria

FI-C18 – Disclosure of Target(s) Portfolio Coverage: At the time of target announcement and along with approved targets, financial institutions shall disclose the percentage of their total investment and lending activities covered by portfolio targets on the SBTi website, in a metric representative of the magnitude of FIs' main business activities, which may involve any combination of commercial banking, investment banking, and asset management. Examples include total financed emissions associated with investment and lending activities (if quantified), total balance sheet, total investments, total lending book, and total assets under management.

FI-C19 – Implementation Reporting: At the time of target submission, the financial institution shall submit a brief summary of how it intends to meet its scope 3 portfolio targets in conformity with the template provided in the target submission form. This disclosure is intended to create transparency. The content of the summary will not be used as a basis for validation of targets. At the time of target announcement, the summary of how the financial institution intends to achieve its targets shall be made public.[13]

FI-C20 – Tracking and Reporting Target Progress: After target approval, SBTi requires annual disclosure of scope 1 and 2 GHG emissions, disclosure of progress against all approved targets in the relevant metric,[14] and disclosure of actions/strategies taken during the year to meet scope 3 portfolio targets. If optional targets on scope 3 categories 1–14 as described in FI-R9 are submitted and approved by SBTi, their progress shall be included in the disclosure of progress as well.

[13] Financial institutions will have opportunities to review the summary language before SBTi publishes it on the website.
[14] See Section 6.1 in the Financial Sector SBT Guidance on guidance to disclose progress against targets.

Recommendations and Additional Guidance

FI-R12 — Where to Disclose: There are no specific requirements regarding where the scope 1 and 2 inventory, progress against all approved targets, and actions/strategies to meet scope 3 portfolio targets should be disclosed, as long as it is publicly available. Recommendations include annual reports, sustainability reports, the financial institutions' website, and/or CDP's annual questionnaire.

Section 7. Recalculation and Target Validity

Criteria

FI-C21 – Mandatory Target Recalculation: To ensure consistency with most recent climate science and best practices, targets must be reviewed, and, if necessary, recalculated and revalidated, at a minimum, every five years. Financial institutions with an approved target that requires recalculation must follow the most recently applicable criteria at the time of resubmission. Targets should be recalculated and reset, as needed, to reflect significant changes that would compromise relevance and consistency of the existing target.

FI-C22 – Target Validity: Financial institutions with approved targets must announce their target publicly on the SBTi website within six months of the approval date. Targets unannounced after six months will have to go through the approval process again, unless a different publication time frame was agreed with the SBTi.

Recommendations and Additional Guidance

FI-R13 – Triggered Target Recalculation: Targets should be recalculated, as needed, to reflect significant changes that would compromise relevance and consistency of the existing target. The following list includes example changes that should trigger a target recalculation:

- Exclusions in the inventory or target boundary change significantly and/or exceed allowable exclusion limits;
- Significant changes in institutional structure and activities (e.g., acquisitions, divestitures, mergers, insourcing or outsourcing, shifts in product or service offerings, changes in proportion of investments by asset classes, addition of new products covered by available methods, major updates in the latest climate science) that would affect the financial institution's target boundary or ambition;

- Significant changes in data used to calculate the targets such as changes in growth projections and discovery of significant errors or several cumulative errors that are collectively significant; and
- Other significant changes to projections/assumptions used with science-based target setting methods.

FI-R14 – Validity of Target Projections: The SBTi recommends that financial institutions check the validity of target-related projections annually. The financial institution should notify the SBTi of any significant changes, report these major changes publicly, and consider a target recalculation, as relevant.

Section 8. Defining the Boundary of Portfolio Targets

This section presents further guidance on applying FI-C15 and FI-C16 to define the boundary of financial institutions' portfolio targets. [15]

To seek approval from SBTi, financial institutions shall follow FI-C15 and FI-C16 to set target(s) on their investment and lending activities.[16] Depending on the composition of their portfolios, an FI may be able to meet FI-C16 using methods that do not require measurement of financed emissions. Therefore, it's possible that FIs do not need to quantify any financed emissions of their holdings or only need to do so in a partial manner.

Financial sector activities have been organized into three categories: required, optional, and out-of-scope activities to determine the target boundary (See Table 1):

1) **Required activities**, if relevant, shall be included in the target boundary. For example, FIs shall include 100 percent of the activity by kWh from electricity generation project finance in the target boundary (if relevant).

   For long-term corporate loans, other than electricity generation and real estate, minimum target coverage thresholds have been established for companies and projects in the fossil fuel sector and all other sectors:

   - Fossil fuel sector: Long-term corporate loan SBTs shall cover 95 percent of long-term lending to fossil fuel companies. In the context of this project, **coal companies** are defined as companies

[15] The same content is also included in Section 5.3 of the Financial Sector SBT Guidance.

[16] FIs may have parts of their portfolios, such as a specific asset class or a fund, assessed by SBTi through the partial submission option detailed in the target submission form. However, partial targets will not be officially recognized and published by the SBTi even if they meet all relevant criteria.

with greater than 5 percent of revenues from thermal coal mining, exploration and drilling, mining services, processing, trading, transport and logistics, equipment manufacturing, operations, and maintenance (O&M) services, engineering, procurement and construction (EPC) services, transmission and distribution of coal-fired electricity, coal to liquids (Ctlg) and coal to gas (CtG).[17] **Oil and gas companies** are defined as companies that derive more than 30 percent of revenues from the exploration, extraction, refining, transportation and distribution, storage, retailing, marketing, trading, or power, heat, or cooling production from oil and gas. [18]

- All other sectors: Financial institutions shall cover at a minimum 67 percent of their lending activities to companies in all other sectors.

2) **Optional activities** that FIs may include in the target boundary.[19] There is no minimum coverage requirement on optional activities, and FIs may cover as much of these activities as they wish. For example, FIs that wish to set targets on the optional category of residential mortgage loans should use the SDA method and could determine the target boundary themselves. These activities are deemed optional as they can be impractical to set targets for, given challenges such as unavailability of data or short-term period of an investment/loan.
3) **Out-of-scope activities** that cannot be covered by available methods or do not apply to the project audience. Products not listed in Table 1 are likely also out of scope.

For asset managers, FI-C15 and FI-C16 also apply to funds managed under discretionary mandates. The SBTi recommends but does not require that banks' asset management divisions follow Table 1 to set targets on these funds. If banks decide to exclude their asset management divisions from their parent company–level targets, they should disclose this exclusion in the target wording for transparency and comparability.

Table 1 is all-compassing and may not apply to certain financial institutions. If an FI invests solely or mainly in optional asset classes, they should contact SBTi to discuss a minimum target coverage boundary of these asset class(es) for the portfolio targets to be considered credible. SBTi has devised minimum target coverage requirements for mortgage REITs and private equity firms described below, which are two exceptions to Table 1.

[17] The 5 percent threshold is determined based on a 1–5 percent range for the share of revenue the European Commission ("Commission Delegated Regulation [EU]" 2020) and financial institutions such as KLP ("KLP Goes Coal Free" 2020) use to identify coal companies.

[18] The 30 percent threshold is based on a 20-30 percent range for the share of revenue used to exclude oil and gas companies by financial institutions such as Robeco Institutional Asset Management (Robeco Institutional Asset Management B.V. 2020) and Natixis (NATIXIS 2018).

[19] Overtime, SBTi may update "optional activities" to be required, depending on factors such as changes in availability of data or financial institutions' readiness to set targets on certain asset classes.

Mortgage REITs that invest in residential and commercial mortgages, residential mortgage-backed securities and commercial mortgage-backed securities shall, at a minimum, cover 67 percent of residential mortgages by base year activity in square meter. **Private equity firms** are recommended to use the SBT portfolio coverage approach to cover all private equity investments, regardless of the percentage share the firm has in its investees. The SBT portfolio coverage method is encouraged given that private equity firms often have more influence over their investees compared to other financial institutions. If private equity firms have equity investments in real estate companies or funds, 100 percent of these shall be covered either within the boundary of the SBT portfolio coverage target, or a separate target using the SDA method. For the time being, private debt and venture capital are considered optional for private equity firms.

The SBTi aims to strike the right balance between robustness and practicality for the criteria. Factors such as data availability, financial institutions' level of influence, and sector's contribution to climate change have been taken into consideration when determining if an activity should be required and the corresponding minimum coverage requirements. As more data become available, methods become more mature, and financial institutions gain more experience in target setting, the SBTi may revise Table 1 through the annual criteria update process. Financial institutions may also set additional targets to increase the coverage of targets on their portfolios as methods become available for additional asset classes and sectors.

Table 1 below presents these three categories of activities, the minimum coverage for required activities (only relevant to required activities), and applicable method(s) for each activity type:

- **When only one method is listed**, it means that it is the only applicable method for the specific financial activity. For example, only the SDA can be applied to electricity generation project finance.
- **When multiple methods are listed,** FIs may choose one or more of the methods to set targets that collectively meet the specific minimum coverage requirement for these products. For example, financial institutions may use both SDA (for sectors where the method is available) and the temperature rating method to collectively cover 100 percent of their corporate bonds portfolios.

Table 1. Required, Optional, and Out-of-Scope Activities and Applicable Methods

Legend

Required Activities	
Optional Activities	
Out of Scope	

Asset class	Products and Requirement for Inclusion in Targets	Required Minimum Coverage for Required Activities	Applicable Methods		
Consumer loan	Residential mortgages	Optional[a]	SDA		
	Motor vehicle loan	Not applicable	Not available		
	Personal loans	Not applicable	Not available		
Project finance	Electricity generation project finance	100% of base year activity (kWh)	SDA		
	Other project finance (e.g., infrastructure)	Not applicable	Not available		
Corporate loan	Corporate loan: commercial real estate	Min. 67% of base year activity (m^2)	SDA	SBT Portfolio Coverage	Temperature Rating
	Corporate loan: electricity generation	100% of base year activity (kWh)	SDA		
	Corporate loan: other long-term debt (more than one year), excluding electricity generation project finance and real estate	Fossil fuel companies: min. 95% of base year corporate lending (loan value) Other companies: min. 67% of base year corporate lending[b] (loan value)	SDA, where sector-specific methods are available	SBT Portfolio Coverage	Temperature Rating
	Corporate lending: SME loans[c]	Optional	SDA	SBT Portfolio Coverage	Temperature Rating

	Corporate lending: short-term debt (less than one year, such as line of credit, intraday, and overdraft facilities)	Optional	SDA	SBT Portfolio Coverage	Temperature Rating
	Corporate loan: other project finance	Not applicable	Not available		
Listed equity and bonds[d]	**Common stock**	100%	SDA	SBT Portfolio Coverage	Temperature Rating
	Preferred stock	100%	SDA	SBT Portfolio Coverage	Temperature Rating
	Corporate bonds	100%	SDA	SBT Portfolio Coverage	Temperature Rating
	Exchange traded funds	100%	SDA	SBT Portfolio Coverage	Temperature Rating
	Investments in real estate investment trusts (REITs), listed real estate companies, and real estate mutual funds	100%	SDA	SBT portfolio coverage	Temperature Rating
	Funds of funds	Optional	SDA	SBT Portfolio Coverage	Temperature Rating
	Derivatives	Not applicable	Not available		
	Sovereign and government bonds	Not applicable	Not available		
	Supranational, sub-sovereign (including municipal) bonds	Not applicable	Not available		
	Agency bonds	Not applicable	Not available		
	Securitized fixed income (includes asset-backed securities/mortgage-backed securities, covered bonds)	Not applicable	Not available		
Private equity and	**Private equity and debt, e.g., mezzanine**	Optional[e]	SDA	SBT Portfolio Coverage	Temperature Rating

debt[f], includes venture capital	**capital, ordinary shares, preferred shares, shareholder loans, private real estate companies**				
Advisory services, if relevant	**Advisory services (e.g., Mergers and acquisitions), debt and equity underwriting, brokerage-securities and commodities, trading securities and commodities, credit guarantees, insurance contracts, transaction services**	Not applicable	Not available		

Notes:

[a] As an exception to this table, mortgage REITs shall cover at a minimum of 67 percent of residential mortgages by base year activity in square meter.

[b] The 67 percent applies to companies in all other sectors, not per sector.

[c] As the definition of SMEs can vary from region to region, financial institutions may use their own definitions of SMEs to interpret this category. For companies, the SBTi provides a streamlined target validation route for SMEs, where an SME is defined as a non-subsidiary, independent company with fewer than 500 employees. Financial institutions interested in engaging SMEs to set SBTs and whose threshold for SMEs is higher than 500 employees (e.g., 1,000 employees) may have to direct their SME clients to the regular SBTi validation route. For more information on the SBTi's target setting option for SMEs, please see https://sciencebasedtargets.org/faqs-for-smes/.

[d] Mutual funds covering required activities in listed equity and bonds are also required.

[e] As an exception to this table, private equity firms shall cover their private equity investments and other relevant asset classes, detailed above.

[f] Private debt refers to debt to private companies whose shares are not traded on a stock market.

Source: Authors 2021.

Table 1. shows that investments and corporate loans in real estate require a minimum coverage of 67 percent of investment and lending activity (m2). In ensuring this coverage, financial institutions should prioritize the inclusion of assets in regions where buildings' emissions data or buildings' energy-related data are available, or where data quality is generally higher quality. However, this should not deter institutions from including assets in regions where only proxy or average data are available.[20]

[20] This recommendation is also applicable to the optional (required for mortgage REITs) residential mortgage asset class.

Similarly, corporate lending for non-fossil fuel sectors requires minimum coverage of 67 percent of lending book value. To determine the coverage, financial institutions could screen the emissions of their lending portfolio to identify emissions hotspots, which would help in making an informed decision on which sectors to cover for target setting. They could also prioritize loans issued to companies in high-emitting sectors.