SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

SBTI NEAR-TERM CRITERIA AND RECOMMENDATIONS FOR FINANCIAL INSTITUTIONS

Version 2.0 - Pilot Testing Version

November 2023

VERSION HISTORY

Please refer to the Near-Term Financial Sector Science-Based Targets Guidance for a complete version history.

To update the existing SBTi near-term criteria, the Science Based Targets initiative (SBTi) held a two-month public consultation in June and July 2023. During this consultation process external stakeholders provided feedback on the SBTi Near-Term Financial Institutions V2 Criteria Consultation Draft. More than 200 respondents provided feedback via the consultation survey. Acknowledging the comments received, the SBTi carried out an in-depth review of the criteria which has resulted in the development of this document. The SBTi Financial Institutions Near-Term (FINT) V2 Criteria for Pilot Testing will be used by an initial group of companies and FIs in the sector to test the feasibility of these resources when using their datasets, and help SBTi identify any possible amendments needed to inform their applicability across regions and different business models.

Following this phase, a final version of the criteria and guidance will be released for use by all relevant stakeholders. For more information on how to express your interest in participating in the pilot testing phase, visit the resources section on the SBTi financial institutions page. FIs will continue to have the option to have their science-based targets validated against SBTi Near-Term Financial Sector Science-Based Targets Guidance v1.1 during the pilot testing and for six months subsequent to the publication of the SBTi FINT V2 Criteria and Guidance.

This document, including the recommendations, is not intended to constitute legal advice and as such does not establish compliance with any legal or regulatory requirements. Users should seek independent legal advice on applicable national laws and regulations. It is voluntary for financial institutions (FIs) to set science-based targets under the Near-Term Criteria and Recommendations for Financial Institutions; the criteria are only mandatory if/when seeking target validation by the Science Based Targets initiative (SBTi). FIs that commit to setting science-based targets are free to withdraw their commitment at any time but such a withdrawal will be publicly noted on the SBTi website and other communication channels.

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INTRODUCTION

This document presents Version 2.0 of the Science Based Targets initiative (SBTi) Near-Term Criteria and Recommendations for Financial Institutions (FIs). This criteria version 2.0 will be in effect as of [date six months from publication of Version 2.0]. These sector-specific criteria supersede the general SBTi Criteria and Recommendations for Near-Term Targets for corporates. The general SBTi criteria for corporates serve as the basis for these sections, with slight adjustments for FIs.

Developed through extensive stakeholder consultation, Sections 6 and 7 of the criteria are designed specifically for FIs' target setting, progress-tracking, and action reporting practices for their investment and lending activities. In 2023, the SBTi published clarifications and updates to this initial set of criteria based on lessons learned in the target validation pilot phase for FIs (see Section 8 of the Near-Term Financial Sector Science-Based Targets (SBT) Guidance for more information on committing and submitting targets to the SBTi).

While every effort is made to keep FIs informed of the latest criteria and recommendations, the initiative reserves the right to make adjustments to the criteria, as needed, to reflect the most recent emissions scenarios, greenhouse gas accounting approaches, and evolving understanding of best practice in science-based target setting.

The SBTi defines an FI as a company whose business involves the arrangement and execution of financial and monetary transactions, including deposits, loans, investments, and currency exchange. More specifically, the SBTi deems a company an FI if 5% or more of its revenue or assets comes from the activities described above. In practice, the primary audience includes banks, asset managers, asset owners (e.g., pension funds, closed-end funds, insurance companies), private equity firms, and mortgage real estate investment trusts (REITs). The framework is also relevant for other FIs that have holdings in the following asset classes where methods are currently available:

- Real estate assets
- Mortgages
- Electricity generation project finance
- Corporate loans, bonds, and equity

All the criteria presented here must be met for FIs' targets to be recognized by the SBTi. In addition, FIs shall follow the Greenhouse Gas Protocol (GHGP) Corporate Standard, Scope 2 Guidance, and Corporate Value Chain (Scope 3) Accounting and Reporting Standard for their emissions accounting and reporting.[1] In the context of the criteria, the terms **"shall"** and **"must"** are used throughout this document to indicate what is **required** for targets to be in conformance with the criteria, whereas the term **"should"** is used to describe **recommendations**. The SBTi recommendations are important for transparency and best practices but are not required. The term "may" is used to indicate an option that is permissible or allowable. Unless otherwise noted

[1] Limited deviations from the scope 3 standard in this framework are described in Section 4.1 of the Near-Term Financial Sector SBT Guidance.

(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 Near-Term Financial Sector SBT Guidance, which includes additional information on successfully fulfilling these requirements.[2] The SBTi strongly recommends that FIs thoroughly review the Guidance before target development.

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 GHGP Corporate Standard, and scope 3 investment and lending activities as per FI-C14 and FI-C15. FIs may set targets for remaining scope 3 emissions categories as per FI-R10.

FI-C2 – Significance Thresholds: FIs may exclude up to 5% of scope 1 and scope 2 emissions combined in the boundary of the inventory and target.[3]

FI-C3 – Greenhouse Gases: Scope 1 and 2 targets must cover all relevant GHGs as required per the GHGP 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 is recommended, where possible, for FIs' scope 3 portfolio targets. If FIs are unable to cover all GHGs for scope 3 portfolio targets, they shall cover carbon dioxide (CO_2) emissions at a minimum.

FI-C4 – Bioenergy Accounting: Direct CO_2 emissions from the combustion, processing and distribution phase of biomass and biofuels for institution-wide operational use, as well as GHG removals associated with bioenergy feedstock,[4] must be included alongside the FI's inventory. Additionally, they must also be included in the target boundary when setting a science-based target,

[2] For more information on criteria not expanded further in this guidance, please also 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.

[3] Where FIs' scope 1 or 2 emissions are deemed immaterial (i.e., under 5% 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% of the total scope 1 and 2 emissions. FIs must continue to report on both scopes and adjust their targets as needed, in accordance with the GHGP's principle of completeness and as per FI-C21-Mandatory target recalculation.

[4] 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.

as well as when reporting progress against that target (in scopes 1, 2, and/or 3, as relevant). If biogenic emissions from biomass and biofuels are considered climate neutral, the FI must provide justification of the underlying assumptions. FIs must report emissions from nitrous oxide (N_2O) and methane (CH_4) from bioenergy use under scope 1, 2, or 3, as required by the GHGP, and must apply the same requirements on inventory inclusion and target boundary as for biogenic carbon.

FI-C5 – Subsidiaries: Parent companies must include the emissions of all subsidiaries in their target submission, in accordance with boundary criteria above. It is recommended that FIs submit targets only at the parent- or group-level, not the subsidiary level. However, in cases where both parent companies and subsidiaries submit targets,[5] 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.[6] For example, asset owners with asset management businesses that submit at the group level must include all third-party assets owned or managed by group-owned asset managers. Otherwise, targets submitted at a subsidiary level must cover all in-scope asset classes owned or managed by the target-setting entity. Multiple subsidiaries within a group may submit targets but must do so separately and their target language must explicitly state the specific target-setting entity.

Recommendations and Additional Guidance

FI-R1 – Setting organizational boundaries: The SBTi recommends that an FI's organizational boundary, as defined by the GHGP, is consistent with the organizational boundary used in the FI's financial accounting and reporting procedures.

FI-R2 – Direct Land Use Change (LUC) Emissions: When relevant, FIs are encouraged to account for direct LUC emissions and include them in their target boundary. FIs seeking to implement mitigation actions aimed at reducing LUC as part of their science-based targets (e.g., through preventing deforestation from their supply chains) should include LUC emissions in their base year inventory. Since methods to calculate LUC can differ widely, and there is currently no standardized method recognized under the GHGP, FIs should disclose the method used to calculate these impacts in their GHG inventory. FIs with indirect land use emissions can report these separately alongside the inventory and similarly disclose the method used to calculate these impacts.

FIs that finance companies with Forest, Land & Agriculture (FLAG) related emissions that total 20% or more of overall emissions across scopes are recommended to set a Portfolio Coverage target on those companies. These companies would then be required to set a separate FLAG target to account for their FLAG-related emissions (gross biogenic land CO_2 emissions and removals). The FLAG target includes all emissions from direct LUC and land management (biogenic CO_2, N_2O and CH_4).

[5] This criterion applies only to subsidiaries. Brands, licensees, and/or specific regions or business divisions (with the exception of banks' asset management businesses) of an FI will not be accepted as separate targets unless they fall outside of a parent company's chosen consolidation approach.
[6] The SBTi strongly recommends banks to cover their asset management businesses in their scope 1, 2, and 3 target boundaries, though it is optional as an exception under this version of the criteria. If such an exclusion is made, it shall be disclosed clearly in the target language (see Table 2).

Companies shall calculate their FLAG base year emissions (tCO_2e) in line with the forthcoming GHGP Land Sector and Removals Guidance. The SBTi FLAG Target Setting Guidance and FLAG Target Setting Methods Addendum are also available.[7]

FI-R3 – 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 GHGP, the SBTi strongly recommends FIs to take into account the time of emissions (i.e., wood/crop removal) and sequestration (i.e., forest/crop regrowth) in their accounting methodologies.

SECTION 2. SCOPE 1 AND 2 TARGET TIME FRAME

Criteria

FI-C6 – Base and Target Years: Scope 1 and 2 targets must cover a minimum of 5 years and a maximum of 10 years from the date the target is submitted to the SBTi for an official validation.[8] The choice of base year shall be representative of the FI's activities and shall be no earlier than 2015. FIs must select either a complete past calendar year or a complete past financial year and apply this consistently across the choice of base years for scopes 1, 2, and 3.

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 from earlier than two years prior to the year of submission.

Recommendations and Additional Guidance

FI-R4 – Base Year: The SBTi recommends choosing the most recent year as the base year.

FI-R5 – Target Year: Targets that cover more than 10 years from the date of submission are

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[7] The SBTi is managing a sector development project, the SBTi Forest, Land and Agriculture project ("SBTi FLAG"), to address the FLAG methodology. This effort focuses on the development of methods and guidance to enable the food, agriculture, and forest sectors to set science-based targets that include deforestation, and possibly other land-related impacts. In parallel to this effort, World Resources Institute (WRI) and World Business Council for Sustainable Development (WBCSD) are leading the development of three new GHGP 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 GHGP Standards are complementary workstreams that will provide the infrastructure needed for corporate target setting, accounting, and reporting of AFOLU-related emissions.

[8] For targets submitted for an official validation in the first half of 2024, the valid target years are 2028–2033 inclusive. For targets submitted in the second half of 2024, the valid target years are between 2029 and 2034 inclusive.

considered long-term targets. Long-term targets for FIs will only be validated in accordance with the SBTi FI Net-Zero Standard upon its publication.

FI-R6 – Consistency: It is recommended that FIs use the same base and target years for all scope 1, 2, and 3 near-term targets.

SECTION 3. SCOPE 1 AND 2 TARGET AMBITION

Criteria

FI-C8 – Level of Ambition: At a minimum, scope 1 and scope 2 absolute emissions reduction targets will be consistent with the level of decarbonization required to keep global temperature increase to 1.5°C compared to preindustrial temperatures. 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.[9] Intensity targets for scope 1 and scope 2 emissions are only eligible when they are modeled using an approved 1.5°C sector pathway applicable to companies' business activities (e.g., scope 2 target using the Power Generation Sectoral Decarbonization Approach (SDA) pathway).

FI-C9 – Method Validity: Targets must be modeled using the latest version of methods and tools approved by the SBTi. 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 relevant sector-specific tools. FIs will need to check the relevant SBTi sector webpage(s) for the most up-to-date information.

Recommendations and Additional Guidance

FI-R7 – Choosing an approach: The SBTi recommends using the most ambitious decarbonization scenarios that lead to the earliest reductions and the least cumulative emissions.

SECTION 4. EMISSIONS ACCOUNTING REQUIREMENTS

Criteria

FI-C10 – Offsets: The use of offsets must not be counted as emission reductions toward the progress of companies' or FIs' science-based targets. The SBTi requires that FIs set targets based

[9] Scope 1 and 2 targets must meet the same minimum ambition as described in the SBTi Target Validation Protocol. For example, using the cross-sector absolute reduction method, the minimum ambition of near-term scope 1 and 2 targets is a 4.2% linear annual reduction between the base year and target year plus an adjustment for base years later than 2020. Also, for companies using a base year earlier than the most recent year, scope 1 and/or scope 2 targets must also have sufficient forward-looking ambition. The most recent completed GHG inventory must not be from earlier than two years prior to the year of submission. For targets submitted for an official validation in 2024, a recent year inventory must be provided that is no earlier than 2022 (i.e., allowable most recent years are 2022 and 2023).

on emission reductions through direct action within their own operations, value chains and their investment and lending portfolios. Offsets may only be considered as an option to finance additional climate mitigation beyond their science-based targets.

FI-C11 – Avoided Emissions: Avoided emissions fall under a separate accounting system from corporate and FIs' inventories and do not count toward science-based targets.

SECTION 5. SCOPE 2

Criteria

FI-C12 – Approaches: FIs shall disclose whether they are using a location- or market-based approach per the GHGP Scope 2 Guidance to calculate base year emissions and to track performance against a science-based target. FIs shall use a single, specified scope 2 accounting approach ("location-based" or "market-based") for setting and tracking progress toward their science-based targets. FIs are encouraged to report both market and location-based scope 2 emissions; however, FIs setting renewable electricity procurement targets that will be achieved through market-based mechanisms must report market-based scope 2 emissions.

FI-C13 – Renewable Electricity Procurement: Targets to actively source renewable electricity at a rate that is consistent with 1.5°C scenarios are an acceptable alternative to scope 2 emissions reduction targets. The SBTi has identified 80% renewable electricity procurement by 2025 and 100% by 2030 as thresholds (portion of renewable energy over total energy use) for this approach in line with the recommendations of the RE100 initiative. Please consult the RE100 Technical Criteria and the Scope 2 Quality Criteria in the GHGP Scope 2 Guidance for options for actively sourcing renewable electricity. FIs that already source electricity at or above these thresholds shall maintain or increase their use share of renewable electricity to qualify. FIs that have zero scope 1 emissions and will cover scope 2 emissions with a renewable electricity procurement target shall also set a target to maintain zero scope 1 emissions.

Recommendations and Additional Guidance

FI-R8 – Purchased Heat and Steam: For science-based target modeling purposes using the SDA, it is recommended that FIs model purchased heat and steam–related emissions as if they were part of their direct (i.e., scope 1) emissions.

FI-R9 – Efficiency Considerations for Target Modeling: If FIs 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 a 1.5°C scenario, it is recommended that these factors be taken into account when modeling electricity-related scope 2 targets.

SECTION 6. SCOPE 3 – PORTFOLIO TARGET SETTING REQUIREMENTS

Criteria

FI-C14 – Requirement to Set Target(s) on Investment and Lending Activities: All FIs shall set targets on their investment and lending activities as required by FI-C15, irrespective of the share of quantified scope 3 portfolio emissions as compared to the total scope 1 + 2 + 3 emissions of the FI. FIs may choose from the applicable methods for target setting, by asset class, as defined in the Required Activities and Methods Table (Table 1).

FI-C15 – Portfolio Target Boundary: FIs shall set targets on all "Required Activities" in Table 1 following the minimum boundary coverage requirements.

FIs shall include their asset management businesses in their scope 1, 2, and 3 target boundaries based on the following:[10] Assets managed under discretionary mandates (see Section 5.3 of the Near-Term Financial Sector SBT Guidance for more details) must follow the coverage requirements outlined in Table 1, while assets administered under advisory mandates are optional and assets under custody or execution-only mandates are out of scope. Assets on an FI's balance sheet that are managed by third party asset managers are considered the FI's own assets (i.e., not asset management) and shall follow the requirements outlined in Table 1.

In addition to the coverage requirements outlined in Table 1, FIs shall cover at least 67% of its required and optional asset classes with targets.

FIs may exclude setting targets on required asset classes that make up to 5% of financed emissions if all of the following conditions are met:

- The exclusion is only applied to an entire sub-asset class (e.g., listed equity) and is not used to exclude a portion of emissions within a sub-asset class (i.e., FIs cannot exclude 5% of emissions attributed to corporate bonds if emissions attributed to corporate bonds total over 5% of financed emissions across all required asset classes).
- A complete GHG emissions inventory is disclosed for all required and optional asset classes.[11]
- In addition to the coverage requirements outlined in Table 1 (except for this exclusion), at least 67% of the FI's required and optional asset classes are covered by targets.

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

[10] The SBTi strongly recommends banks to cover their asset management businesses in their scope 1, 2, and/or 3 boundaries, though it is optional as an exception under this version of the criteria. If such an exclusion is made, it shall be disclosed clearly in the target language (see Table 2).

[11] The SBTi requires comprehensive and transparent disclosure of the methodology used to measure emissions. The SBTi has identified the Global GHG Accounting and Reporting Standard for the Financial Industry by the Partnership for Carbon Accounting Financials as a freely available approach to measure portfolio-wide or asset-level financed emissions. See Section 4.2 of the Near-Term Financial Sector SBT Guidance for more details on measuring financed emissions to facilitate target setting.

Legend

Required Activities	
Optional Activities	
Out of Scope	

Asset Class	Sub-asset class	Sector / Market Specifications	Minimum Coverage Requirement[a]	Applicable Methods[b]
Consumer loan	Residential mortgages		Optional[c]	SDA
	Motor vehicle loans		n/a	n/a
	Other consumer loans		n/a	n/a
Project finance	Electricity generation project finance (direct and/or via funds)		100% of base year activity (kWh)	SDA
	Fossil fuel project finance (direct and/or via funds)		100% of base year project finance value or financed emissions	SDA / FFF[d]
	Real estate project finance (direct and/or via funds)		Optional	SDA[e]
	Other project finance (e.g., infrastructure projects/assets)		n/a	n/a
Corporate loan[f]	Long-term (more than one year) corporate[g] loans	Electricity generation (listed and private companies)	100% of base year activity (kWH) or financed emissions	SDA
		Fossil fuel (listed and private companies)	100% of base year loan value or financed emissions	SDA / PC / TR / FFF[d]
		All other sectors (listed companies)	67% of base year loan value or financed emissions, to be calculated for long-term loans to listed companies in 'all other sectors' or also including (i) loans to electricity generation companies, and/or (ii) loans to fossil fuel companies, and/or (iii) commercial real estate asset loans, and/or (iv) loans that are considered optional	SDA / PC / TR

			activities; 100% within target boundary of any PC and/or TR target(s)[h]	
		All other sectors (private companies)	Optional	SDA / PC / TR
	Short-term corporate[g] loans (one year or less, such as line of credit, intraday, and overdraft facilities)	Fossil fuel (listed and private companies)	100% of base year loan value or financed emissions	SDA / PC / TR / FFF[d]
		Electricity generation and all other sectors (listed and private companies)	Optional	SDA / PC / TR
	Long- and short-term SME[i] loans	Per SBTi definition	Optional	SDA / PC / TR
	Supranational, sovereign, sub-sovereign (including municipal), government, and government agency loans[j]		n/a	n/a
Equity[k] (investment)	Common and preferred stock of corporates[g] and SMEs[i] and private equity (direct holdings and co-investments)	Electricity generation and fossil fuel (listed and private companies)	100%	SDA / PC / TR / FFF[d]
		All other sectors (listed companies)	100%	SDA / PC / TR
		All other sectors (private companies)	Per PE Guidance[l]	SDA / PC / TR
	via Funds (e.g., exchange traded funds, mutual funds, hedge funds, fund of funds, other collective investment schemes)	Electricity generation and fossil fuel (listed and private companies)	100%	SDA / PC / TR / FFF[d]
		All other sectors (listed companies)	100%	SDA / PC / TR
		All other sectors (private companies)	Optional	SDA / PC / TR
		with non-transparent strategy[m]	Optional	SDA / PC / TR
		via passive index-linked funds[n]	Optional	SDA / PC / TR
Fixed income[k,o] (investment)	Corporate[g] and SME[i] bonds and private debt (direct	Electricity generation and fossil fuel (listed	100%	SDA / PC / TR / FFF[d]

	holdings and co-investments)	and private companies)		
		All other sectors (listed companies)	100%	SDA / PC / TR
		All other sectors (private companies)	Optional	SDA / PC / TR
	via Funds (e.g., exchange traded funds, mutual funds, hedge funds, fund of funds, other collective investment schemes)	Electricity generation and fossil fuel (listed and private companies)	100%	SDA / PC / TR / FFF[d]
		All other sectors (listed companies)	100%	SDA / PC / TR
		All other sectors (private companies)	Optional	SDA / PC / TR
		with non-transparent strategy[m]	Optional	SDA / PC / TR
		via passive index-linked funds[n]	Optional	SDA / PC / TR
	Securitized fixed income: including asset-backed securities, mortgage-backed securities, covered bonds (direct holdings or via funds)		Optional (e.g., if the underlying assets are real estate assets) or out of scope	SDA
	Supranational, sovereign, sub-sovereign (including municipal), government, and government agency bonds (direct holdings or via funds)[j]		n/a	n/a
Real estate	Consumer loans: residential mortgages		Optional[c]	SDA
	Real estate project finance (construction)		Optional	SDA[e]
	General purpose loans to real estate companies		See corporate loan asset class	
	Long- and short-term commercial real estate asset loans (residential and service buildings)[p]		67% of base year activity (m^2) or financed emissions	SDA
	Direct investment in real estate assets (for own use or investment purposes, if not already covered by scope 1+2 and/or scope 3 categories 1-14 targets)		67% of base year activity (m^2) or financed emissions	SDA
	Equity and fixed income (investment in real estate companies)		See respective asset classes	
	Investment in real estate funds (listed and private)	REITs and real estate companies (listed)	100%	SDA / PC / TR
		Real estate assets	67% of base year	SDA

			activity (m^2) or financed emissions	
		REITs and real estate companies (private)	Optional	SDA / PC / TR
Other[q]	Derivatives		n/a	n/a
	Debt and equity securities underwriting, advisory services (e.g., mergers and acquisitions)		n/a	n/a
	Brokerage and custody services, commodities		n/a	n/a
	Insurance underwriting, reinsurance, credit guarantees		n/a	n/a

Notes:
[a] In case of any ambiguity over which minimum coverage requirement applies for a particular activity and its sector/market specifications, the stricter criteria shall apply.
[b] PC = Portfolio Coverage; TR = Temperature Rating; FFF = Fossil Fuel Finance Targets.
[c] Mortgage REITs shall cover at a minimum of 67% of residential mortgages by base year activity in square meter.
[d] FIs required to set targets on the fossil fuel sector according to the coverage requirements outlined in Table 1 may set such targets using any of the available methods specified in Table 1 or use the requirements described in FI-C17.4.
[e] Please refer to the Buildings Sector Guidance for targets on embodied emissions.
[f] FIs may select the loan outstanding amount or loan commitment amount as the numerator of the attribution factor used to calculate financed emissions for corporate loans. However, FIs must apply this consistently (i.e., it cannot switch between using the loan outstanding and loan commitment amount) during the target period.
[g] For the purposes of Table 1, "corporate" includes FIs. For example, corporate bonds include bonds issued by FIs.
[h] The 67% minimum coverage requirement should strictly apply to long-term loans to listed companies in all sectors other than the electricity generation and fossil fuel sectors. FIs, however, may also include any of the following in the calculation to determine if they have met this 67% minimum coverage requirement (based on loan value or financed emissions):

(i) long-term loans to electricity generation companies (which itself must have 100% coverage), and/or
(ii) loans to fossil fuel companies (which itself must have 100% coverage), and/or
(iii) commercial real estate asset loans (which itself must have at least 67% coverage based on base year activity or financed emissions), and/or
(iv) loans that are considered optional activities (e.g., SME loans).

However, any Portfolio Coverage and/or Temperature Rating target(s) that are set on corporate loans must have 100% coverage within its target boundary since data is not an issue for these methods. See Section 5.3 of the Near-Term Financial Sector SBT Guidance for details.

If using financed emissions to calculate target coverage, the scope 1 + 2 + 3 emissions of portfolio companies in the automotive and fossil fuel sectors shall be included in the calculation while the scope 1 + 2 emissions of portfolio companies in all other sectors shall be included. The SBTi, however, strongly recommends that FIs include the scope 1 + 2 + 3 emissions of portfolio companies in all sectors and go beyond the minimum coverage requirements.
[i] As the definition of SMEs can vary from region to region, FIs may use the relevant national/regional regulatory definition(s) for the purposes of determining the applicable coverage requirements in Table 1. For the purposes of target validation, the SBTi provides a streamlined target validation route for SMEs. Companies may set targets through the streamlined validation route if all the following criteria points are met:

1. Have <10,000 tCO_2e across scope 1 and location-based scope 2
2. Do not own or control maritime transport vessels
3. Do not own or control power generation assets
4. Are not classified in the Financial Institution sector or Oil & Gas sector
5. Are not a subsidiary of a parent company whose combined businesses fall into the standard

validation route

6. And two or more are true:
    - Employ <250 employees
    - Turnover of <less than €40 million
    - Total assets of <€20 million
    - Are not in a FLAG required sector

Companies which are classified as an SME may choose to set targets through the standard validation route. For more information on the SBTi's target-setting option for SMEs, please see https://sciencebasedtargets.org/faqs#why-is-there-a-special-route-for-smes-and-how-is-it-different.

[j] The SBTi does not currently validate targets for cities, local governments, public sector institutions, educational institutions or non-profit organizations. However, government ownership does not necessarily mean that an entity is a public sector institution. If an entity's primary objective is to fulfil public needs/interests (over profit motives), then it should be considered a public sector institution. If an entity operates in a commercial market or has a commercial orientation and aims to generate profits while providing services, then it should be considered for target validation.

[k] The coverage requirements for equity and fixed income investments apply to all securities in both the banking book and trading book. Also, the SBTi strongly recommends banks to cover their asset management businesses in their scope 1, 2, and/or 3 boundaries, though it is optional as an exception under this version of the criteria. If such an exclusion is made, it shall be disclosed clearly in the target language (see Table 2). All other FIs shall include their asset management businesses in their scope 1, 2, and 3 target boundaries based on the following: Assets managed under discretionary mandates must follow the coverage requirements outlined in Table 1, while assets administered under advisory mandates are optional and assets under custody or execution-only mandates are out of scope.

[l] All FIs shall cover their private equity investments based on the requirements provided in the SBTi Private Equity Sector Science Based Target Setting Guidance. Note that targets are only currently required for a private equity investment if the FI has a board seat in the portfolio company, among other conditions.

[m] This optionality is restricted to cases where the investment strategy precludes transparency on the underlying holdings (e.g., some hedge funds).

[n] This optionality is restricted to asset managers in cases where the asset manager did not select or design the benchmark for a passive index-linked fund and does not retain any voting rights.

[o] Fixed income investments include convertible bonds and other hybrid instruments.

[p] Commercial real estate asset loans refer to all loans for the purchase, refinance, maintenance, or operation of real estate assets (i.e., residential and service buildings) that are not provided to consumers. General purpose loans to REITs or real estate companies can be included under "all other sectors" of corporate loans.

[q] Emissions accounting and target-setting methods are necessary before out-of-scope activities can become in scope. The potential addition of new asset classes can be explored under the SBTi FI Net-Zero Standard.

FI-C16 – Base Year and Progress to Date: The choice of base year shall be representative of the FI's activities and shall be no earlier than 2015. FIs must select either a complete past calendar year or a complete past financial year and apply this consistently across the choice of base years for scopes 1, 2, and 3. 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 data) to assess forward-looking ambition. The most recent data must not be from earlier than two years prior to the year of submission.

FI-C17.1 – Sectoral Decarbonization Approach Targets:[12] FIs' targets using the SDA are considered acceptable when the following conditions are met:

- Boundary: FIs shall set SDA targets on their real estate assets as well as electricity generation project finance and corporate loans as specified in the

[12] Please see Section 5.4.1 of the Near-Term Financial Sector SBT Guidance for more information on the SDA.

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 1.5°C pathways. When a 1.5°C pathway for a sector is not available, a well-below 2°C pathway may be used instead. FIs may use any 1.5°C-aligned climate scenarios as long as their physical intensity targets are equally or more ambitious than the minimum target ambition required by the relevant SBTi tool.

  FIs that already only finance renewable electricity projects in the base year may set targets to continue doing so through 2030.

  Separately, FIs that meet all the following conditions may set an emissions intensity maintenance target up to 2030 for an electricity generation project finance portfolio:

  i. a portfolio emissions intensity that is at or below the 2030 sector intensity level in a 1.5°C aligned pathway for the power sector (100 gCO_2e/kWh), and
  ii. at least 80% renewable or other zero-emissions electricity generation project financing, and
  iii. a commitment to maintain the base year portfolio emissions intensity through 2030 and only finance 1.5°C aligned electricity generation projects,
     - where 1.5°C aligned financing for the power sector is defined as a commitment to only finance new capacity from zero-emission sources and/or additional exposure to existing capacity if the infrastructure has an emissions reduction plan consistent with limiting warming to 1.5°C with no or limited overshoot.

  FIs that meet the following conditions may set an emissions intensity maintenance target up to 2030 for an investment/lending portfolio of real estate assets:

  i. a portfolio emissions intensity that is at or below the 2030 sector intensity level in a 1.5°C aligned pathway for the real estate sector (based on CRREM-SBTi pathways), and
  ii. a commitment to maintain the base year portfolio emissions intensity through 2030 and only finance 1.5°C aligned real estate assets,
     - where 1.5°C aligned financing for the real estate sector is defined as a commitment to only finance new developments that are zero-carbon-ready (i.e., highest energy efficiency class based on local rating schemes and either uses renewable energy directly or uses an

energy supply that will be fully decarbonized by 2050, such as electricity or district heat) and/or existing developments if they have an emissions reduction plan consistent with limiting warming to 1.5°C with no or limited overshoot.

- Time Frame: Portfolio SDA targets must cover a minimum of 5 years and a maximum of 10 years from the date the FI's target is submitted to the SBTi for an official validation.[13] The same base year shall be used for all SDA targets and the SBTi recommends choosing the most recent year as the base year. FIs are further encouraged to develop long-term targets in accordance with the SBTi FI Net-Zero Standard upon its publication.

- Scope of Borrower and/or Investee Emissions: Targets on portfolio companies' and/or assets' scope 1 and 2 emissions are required for real estate assets and electricity generation project finance and corporate loans as defined by SDA methods (if relevant). For other Required Activities in Table 1, FIs shall set targets on emissions scopes as required by the relevant SBTi sector-specific guidance.[14]

FI-C17.2 – SBT Portfolio Coverage Targets: FIs' 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: FIs shall set engagement targets on activities as specified in the Required Activities and Methods Table (Table 1).

- Ambition: FIs shall commit to having a portion of their borrowers and/or investees set their own third-party validated science-based targets such that the FI is on a linear path to 100% portfolio coverage by 2040 (using a weighting approach). For example, an FI starting with 10% coverage in 2020 would need to increase coverage by 4.5% per year ((100% – 10%) / (2040 – 2020)) and reach at least 32.5% (10% + [(2025 – 2020) x 4.5%]) coverage by 2025.

  FIs shall use one of the weighting approaches in the SBTi Finance Tool (listed in Appendix E of the Near-Term Financial Sector SBT Guidance) consistently throughout the target period. As the Portfolio Coverage (PC) method is binary, FIs can replace the outcome from the Temperature Rating method for the companies (i.e., TS in the formula) with the outcome of the PC-assessment: 1 if the company has an approved target or 0 if the company does not have an SBTi-approved target. This means that FIs can use the same weighting methods

[13] For example, for targets submitted for an official validation in the first half of 2024, the valid target years are 2028–2033 inclusive. For targets submitted in the second half of 2024, the valid target years are between 2029 and 2034 inclusive.
[14] A list of the sector-specific guidance and requirements is available in Section 5 of the SBTi Target Validation Protocol.

for both Temperature Rating and Portfolio Coverage; simply replace TS with PC in the formula.

- Time Frame: FIs' 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.[15] FIs may also set a second, longer-term 100% Portfolio Coverage target but only if it is in addition to one that meets the aforementioned five-year time frame. The same base year shall be used for all Portfolio Coverage targets and the SBTi recommends choosing the most recent year as the base year. Fulfillment of portfolio coverage targets mean that borrowers' and/or investees' SBTs have been approved by the SBTi.

- Scope of Borrower and/or Investee Emissions: FIs' borrowers and/or investees shall follow the latest SBTi criteria required for companies as of the date of their target submission in order to set science-based targets. For example, near-term targets for corporates must cover at least 67% of scope 3 emissions when their scope 3 emissions are more than 40% of their total scope 1, 2, and 3 emissions.

FI-C17.3 – Portfolio Temperature Rating Targets: FIs' targets to align the Temperature Rating of their portfolios with the temperature goals set out in the Paris Agreement are considered acceptable when the following conditions are met:

- Boundary: FIs shall set portfolio Temperature Rating targets on activities as specified in the Required Activities and Methods Table (Table 1).

- Ambition: FIs shall align their portfolio scope 1 + 2 temperature score with a minimum 1.5°C scenario and in addition align their portfolio scope 1 + 2 + 3 temperature score with a minimum well-below 2°C scenario by 2040. Alignment with more ambitious scenarios such as 1.5°C across all scopes is highly encouraged. FIs shall commit to reducing their portfolio temperature scores such that the FI is on a linear path to the stated goal by 2040. Separate targets for scope 1 + 2 and for scope 1 + 2 + 3 shall be set.

  For example, an FI setting a Temperature Rating target with a base year of 2021, target year of 2027, starting portfolio scope 1 + 2 temperature score of 2.8°C, starting portfolio scope 1 + 2 + 3 temperature score of 3.0°C, and a temperature alignment goal of 1.5°C for both scope 1 + 2 and scope 1 + 2 + 3 would need to reach at least a 2.39°C portfolio scope 1 + 2 temperature score [2.8°C – (2.8°C – 1.5°C) / (2040 – 2021) * (2027 – 2021)] and a 2.53°C portfolio scope 1 + 2 + 3 temperature score [3.0°C – (3.0°C – 1.5°C) / (2040 – 2021) * (2027 – 2021)] by 2027.

[15] For example, for targets submitted for an official validation in the first half of 2024, the valid target years are up to 2028 inclusive. For targets submitted in the second half of 2024, the valid target years are up to 2029 inclusive.

FIs shall use one of the weighting approaches in the SBTi Finance Tool (listed in Appendix E of the Near-Term Financial Sector SBT Guidance) consistently throughout the target period. FIs must also provide the following information when submitting targets for an official validation:

- The percentage of portfolio GHG emissions that is covered by public targets and the percentage of portfolio GHG emissions that is assessed using default scores in the reporting year; and/or
- The percentage of portfolio invested value that is covered by public targets and the percentage of portfolio invested value that is assessed using default scores in the reporting year.

- Time Frame: Portfolio Temperature Rating targets must be fulfilled within a maximum of five years from the date the targets are submitted to the SBTi for an official validation.[16] The same base year shall be used for all Temperature Rating targets and the SBTi recommends choosing the most recent year as the base year. FIs are further encouraged to develop long-term targets in accordance with the SBTi FI Net-Zero Standard upon its publication.

- Scope of Borrower and/or Investee Emissions: Temperature scores are calculated for FIs' borrowers' and/or investee's scope 1 +2 and scope 1 + 2 + 3 emissions, for both of which FIs must set separate targets on.

FI-C17.4 – Fossil Fuel Finance Targets: FIs required to set targets on the fossil fuel sector according to the coverage requirements outlined in Table 1 may set such targets using any of the available methods specified in Table 1 or use the requirements described in this section:

- Boundary: FIs shall set targets on their loans, investments, and assets under management in fossil fuel-related projects and companies as further specified below.
    - o FIs may define coal companies as those listed in the Global Coal Exit List (GCEL) and/or as companies with greater than 10% of revenues from the coal value chain (thermal and metallurgical). FIs shall define coal projects as ring-fenced projects with 10% or more of their revenue generated in the coal value chain (thermal and metallurgical).
        - ▪ If a revenue threshold is used, the FI must disclose how the projects and/or companies were determined to be in-scope of the coal value chain, against an industry classification system such as the North American Industry Classification System (NAICS), Global Industry Classification Standard (GICS), or Standard Industrial Classification (SIC). Coal projects and companies themselves shall not be considered as financial institutions.

[16] For example, for targets submitted for an official validation in the first half of 2024, the valid target years are up to 2028 inclusive. For targets submitted in the second half of 2024, the valid target years are up to 2029 inclusive.

  - For FIs that chose to apply the revenue threshold designation for companies in the coal value chain (upstream, midstream, and downstream) the following activities should be included: exploration and drilling; coal mining and mining services; development, redevelopment, or expansion of mines; any transport and logistics; processing; storage; trading; power plants and any services dedicated to supporting the coal value chain (e.g., operations and maintenance; engineering, procurement and construction).
- FIs may define oil and gas companies as those listed in the Global Oil & Gas Exit List (GOGEL) and/or as companies with greater than 30% of revenues from the oil and gas value chain and all National Oil Companies (i.e., oil and gas companies fully or majority-owned by a national government). FIs shall define oil and gas projects as ring-fenced projects with 30% or more of their revenue generated in the oil and gas value chain.
  - If a revenue threshold is used, the FI must disclose how the projects and/or companies were determined to be in-scope of the oil and gas value chain, against an industry classification system such as NAICS, GICS, or SIC. Oil and gas projects and companies themselves shall not be considered as financial institutions.
  - For FIs that chose to apply the revenue threshold designation for companies in the oil and gas value chain, the following activities should be included:
    - Upstream [exploration; extraction; development, redevelopment, or expansion of fields;],
    - Midstream [transportation and distribution infrastructure; terminals; storage; liquified natural gas (LNG); liquified petroleum gas (LPG); gas to liquids (GTL)], and
    - Downstream [refining; transportation of products; trading; marketing; and retailing].

- Disclose: FIs shall commit, via a publicly available policy published prior to submission of the FI's science-based target, to publicly disclose information on an annual basis to provide a level of transparency that aids stakeholders' understanding of the extent of financial services provided to fossil fuel projects and companies. The following datapoints shall be disclosed annually at a fixed point in time (e.g., the last day of the FI's fiscal year), beginning in the year of target submission. The SBTi recommends the datapoints to be measured on a time-weighted average basis and disclosed along with the calculation methodology used.
  - Breakdown (at least by sector) of all financial services to projects and companies (as defined in the Boundary section of this method) in the (i)

coal sector separately; and (ii) oil and gas sectors together or separately by using an economic/financial metric (e.g., dollar amount of loans, investments, and assets under management; debt and equity underwriting volume; insurance underwriting premiums); and
  - Breakdown (at least by sector) of total absolute GHG emissions (scopes 1, 2, and 3) attributed to the FI's loans, investments and assets under management in projects and companies (as defined in the Boundary section of this method) in the (i) coal sector separately; and (ii) oil and gas sectors together or separately; and
  - Aggregated or breakdown of total methane emissions attributed to the FI's loans, investments, and assets under management in projects and companies (as defined in the Boundary section of this method) in the coal, oil, and gas sectors.

- Arrest: FIs shall commit, via a publicly available policy published prior to submission of the FI's science-based target, to the immediate cessation of:
  - All new financial services to projects and companies (as defined in the Boundary section of this method) involved in new coal mines, extensions/expansions of coal mines, or new unabated coal-fired power plants (inclusive of electric utilities and industrial use cases), with the exception of new financing for permanent decommissioning of production activities and capacity; and
  - All new financial services to new long-lead time upstream oil and gas projects (as defined in the Boundary section of this method) and mid-stream infrastructure dedicated to new long-lead time upstream oil and gas projects. For target validation purposes, five years (from the date of target submission) will be used as the threshold to define long-lead time.
  - The applicability of abatement for the purpose of the arrest of financial services 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 must be (i) utilized for mitigation products that have century-scale (or greater) lifetimes (i.e., geological carbon capture and storage); and (ii) must not support processes that enable continued fossil fuel extraction and/or development of production capacity.

- Transition: FIs shall establish the following near-term targets at the portfolio level:
  - Absolute targets: FIs shall set target(s) on reducing absolute GHG emissions attributed to their loans, investments, and assets under management in upstream oil and gas projects and companies (as defined in the Boundary section of this method). FIs may set one

aggregated target or multiple targets (e.g., one each for upstream oil and upstream gas) as long as the aggregated amount of absolute emissions reductions is, at a minimum, consistent with the cross-sector pathway. The cross-sector absolute reduction method requires absolute emissions reductions at or above a fixed annual rate (currently defined as 4.2% linear annual reduction), with sufficient forward-looking ambition. FIs shall use the SBTi Target Setting tool to calculate the minimum target ambition but the SBTi strongly recommends that FIs set targets that go beyond the minimum ambition required by the cross-sector pathway. FIs may communicate their absolute targets in financial exposure terms, but the SBTi will assess the target against the absolute emissions pathway described above. In addition, FIs are recommended to set separate target(s) to specifically reduce methane emissions from their fossil fuel portfolios.

FIs shall also set target(s) on reducing absolute GHG emissions attributed to their loans, investments, and assets under management in coal projects and companies (as defined in the Boundary section of this method, excluding activities in the power generation sector that shall be covered separately by a Power Generation SDA target according to the requirements outlined in Table 1) in line with the phaseout time frame required further below, if the year of full phaseout is more than five years from the year of target submission. For example, an FI submitting targets in 2024 with a 2022 base year and 2040 phaseout year 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.

The SBTi theory of change holds that FIs are essential for providing capital and engaging companies to transition to a 1.5°C pathway. The SBTi also recognizes that the emissions impact of divestment from fossil fuel assets is not always clear or consistent as real economy companies, policymakers, and other stakeholders will play a vital role in determining fossil fuel demand. An FI using its influence and actively engaging companies to align with a 1.5°C transition is thus considered the "first-best" option to support climate stabilization and should be the basis of progress to the target(s) set. New financing dedicated to the decarbonization and permanent decommissioning of fossil fuel production and capacity is also highly encouraged to enable the projects' and companies' transition to become 1.5°C-aligned.

- <u>Time Frame</u>: Fossil Fuel Finance transition targets must cover a minimum of 5 years and a maximum of 10 years from the date the FI's target is submitted to the SBTi for official validation.[17] The same base year shall be used for all Fossil Fuel Finance transition targets and the SBTi recommends choosing the most recent year as the base year. FIs are further encouraged to develop long-term targets in accordance with the SBTi Financial Institutions Net-Zero Standard upon its publication.

  - Scope of Borrower and/or Investee Emissions: Targets shall cover coal and upstream oil and gas projects and companies as defined in the Boundary section of this method, unless otherwise specified. The scope 1, 2, and 3 emissions (including upstream and downstream) attributed to the FIs' loans, investments, and assets under management from these projects and companies shall be covered by the targets. Coverage of all relevant GHGs, including methane, is required.

- Phaseout: FIs shall commit, via a publicly available policy published prior to submission of the FI's science-based target, to the phasing out of existing financial services to all coal projects and coal companies (as defined in the Boundary section of this method) in line with a full phaseout by the end of 2030 for projects and companies operating in OECD (The Organization for Economic Co-operation and Development) countries and by the end of 2040 globally. FIs should encourage the coal projects and companies they support to adopt phaseout plans well in advance of phaseout, with facility-by-facility closure dates that include just transition and re-training plans for workers.

Recommendations and Additional Guidance

FI-R10 – Measuring Emissions and Setting Targets for Scope 3, Categories 1–14: It is recommended but not required for FIs to measure and set target(s) on categories 1–14 emissions as defined by GHGP Corporate Value Chain (Scope 3) Accounting and Reporting Standard. When submitting categories 1-14 targets for validation, FIs shall include a complete emissions inventory following the minimum boundary for each category in conformance with the GHGP Scope 3 Standard. Optional targets on these categories must meet the scope 3 criteria in the latest SBTi criteria for corporates to be approved by the SBTi. It is recommended that targets for scope 3, categories 1-14 are set separately from scope 1 and 2 targets.

FI-R11 – Transition of Fossil Fuel Support: The SBTi recommends the following measures that will not be validated but can be included in the brief summary of strategy and actions the FI will implement to reach its science-based target(s) and supplement the Fossil Fuel Finance Targets method.

FIs should commit to publicly disclosing the percentage share of their portfolio companies in the fossil fuel sector that have 1.5°C-aligned transition plans as well as setting a target to increase that

[17] For example, for targets submitted for an official validation in the first half of 2024, the valid target years are 2028–2033 inclusive. For targets submitted in the second half of 2024, the valid target years are between 2029 and 2034 inclusive.

ratio. In addition, FIs should set GHG emissions intensity reduction targets on their portfolio of loans, investments, and assets under management in fossil fuel projects and companies (e.g., attributed emissions per attributed barrel of oil equivalent; tCO2e/boe). Moreover, FIs should set target(s) to specifically reduce methane emissions from their fossil fuel portfolios.

FIs should also set a time-bound engagement period to enable fossil fuel projects and companies to transition, and phaseout support if engagement efforts are not successful. FIs that fail to phaseout financing to fossil fuel projects and companies that do not have or execute a 1.5°C-aligned transition plan make themselves susceptible to risks of stranding assets and reputational damage.

FI-R12– Renewable to Fossil Fuel Ratio: The SBTi also recommends the following target that will not be validated but can be included in the brief summary of strategy and actions the FI will implement to reach its science-based target(s) and supplement the Fossil Fuel Finance Targets method. FIs should set a target to increase their ratio of financial support for renewable energy (relative to financial support for fossil fuels) and to increase end use efficiency every year at the portfolio level, in line with the latest climate science. The ratio should be calculated at a fixed point in time (e.g., the last day of the FI's fiscal year) to consistently report progress on an annual basis.

SECTION 7. REPORTING REQUIREMENTS

Criteria

FI-C18 – Disclosure of Portfolio Target Coverage: At the time of target announcement and along with approved targets, FIs 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 lending, own investments, and asset management. Examples include total financed emissions associated with investment and lending activities (if quantified), total balance sheet assets, total investments, total lending book, and total assets under management, as relevant. A breakdown of required, optional, and out-of-scope activities as outlined in the headline target language template in Table 2 must also be disclosed. These disclosure requirements are intended to enhance the transparency and comparability of portfolio targets. In addition, FIs are strongly recommended to disclose a full GHG emissions inventory for their portfolios from the most recent year, covering all activities for which a GHG accounting method is available at the time of target submission.

The formula below will be used to calculate the percentage of activities covered by targets:

$$\%\, coverage = \frac{All\, financing\, covered\, by\, targarg\, e\, ts}{All\, required, optional\, and\, out-of-scope\, asset\, classes}$$

Out-of-scope asset classes include those listed as such in Table 1 and other tangible assets that are held, owned, controlled, or managed by the FI, such as cash, deposits at central banks, receivables, assets held for sale, and other financial instruments. Fixed assets (i.e., property (for own use or to lease out) that are covered by scope 1 and 2 or scope 3 categories 1-14 targets, plant and equipment) unless related to the fossil fuel sector, leased assets, prepaid expenses, accrued income, and other intangible assets (e.g., goodwill, current and deferred tax assets) may be excluded from the denominator. For example, while assets administered under advisory and/or execution-only mandates are optional or out of scope for asset managers, they will still need to be included in the denominator even if they are not covered by targets.

FI-C19 – Implementation Reporting: At the time of target submission, the FI shall submit a brief summary of how it intends to meet its scope 3 portfolio targets in conformity with the template provided in the SBTi target submission form for FIs. This disclosure is intended to create transparency. The summary shall focus on future actions, rather than past achievements. The content of the summary will not be used as a basis for validation of targets. At the time of target announcement, the summary shall be made public.[18]

FI-C20 – Tracking and Reporting Target Progress: After target approval, the SBTi requires annual disclosure of scope 1 and 2 GHG emissions, disclosure of progress against all approved targets in the relevant metric,[19] 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-R10 are submitted and approved by the SBTi, their progress shall be included in the disclosure of progress as well. FIs are strongly recommended to annually disclose a full GHG emissions inventory for their portfolios, covering all activities for which a GHG accounting method is available at the time of target submission.

Recommendations and Additional Guidance

FI-R13 — 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 FIs' website, and/or CDP's annual questionnaire.

SECTION 8. 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 from the date of target approval. FIs with an approved target that requires recalculation must follow the most recently applicable criteria at the time of resubmission.

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[18] FIs will have opportunities to review the summary language before the SBTi publishes it on the website.

[19] See Section 6.1 in the Near-Term Financial Sector SBT Guidance on guidance to disclose progress against targets.

FI-C22 – Target Validity: Target language must be agreed upon in order for the target submission to be validated. FIs with approved targets must publish 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. FIs must 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 can only include links to the FI's website or own publication.

Recommendations and Additional Guidance

FI-R14 – Triggered Target Recalculation: Targets should be recalculated and reset, as needed, to reflect significant changes that would compromise relevance and consistency of the existing target. Targets should be recalculated as soon as possible to reflect significant changes to remain relevant to the current institutional structure and operations. FIs should re-baseline anytime structural changes prompt a change of 5% or greater to their overall (i.e., scope 1, 2, and 3) emissions inventory and then recalculate their targets (after re-baselining) to check that the ambition and coverage are still sufficient. The following list includes examples of 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 FI'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.
- Other significant changes to projections/assumptions used with science-based target-setting methods.

FI-R15 – Validity of Target Projections: The SBTi recommends that FIs check the validity of target-related projections annually. The FI should notify the SBTi of any significant changes, report these major changes publicly, and consider a target recalculation, as relevant.

SECTION 9. HOW TO COMMUNICATE SCIENCE-BASED TARGETS AND TRACKING PROGRESS

The SBTi requires FIs to develop target language in the target submission form for FIs that will be used for public communication if/when the targets are approved. The detailed target language template is provided in Table 2 below and additional guidance on formulating target language is included in the target submission form and shall be followed by FIs when setting targets.

Table 2: Target language template for FIs

<table>
<tr><th colspan="3">Scope 1 and 2 Targets</th></tr>
<tr><td colspan="3">Absolute target: FI A commits to reduce absolute scope 1 and 2 GHG emissions [XX]% by [target year] from a [20xx] base year.

Renewable energy procurement target: FI A commits to increase active annual sourcing of renewable electricity from [XX]% in [base year] to [XX]% by [target year] and to continue active sourcing of 100% renewable electricity through [target year].
or
FI A commits to maintain zero absolute scope 1 GHG emissions through [target year] and commits to increase active annual sourcing of renewable electricity from [XX]% in [base year] to [XX]% by [target year].
or
FI A commits to continue active annual sourcing of 100% renewable electricity from [base year] through [target year].</td></tr>
<tr><th colspan="3">Scope 3 Portfolio Targets – Headline Target</th></tr>
<tr><td colspan="3">FI A’s portfolio targets cover [XX]% of its total investment and lending by [unit] as of [base year].[1] As of [(“that year”) or (year)], required activities made up [XX]% of FI A’s total investment and lending by [unit] while optional activities made up [XX]% and out-of-scope activities made up [XX]%.

The unit selected should be financed emissions (if quantified) or otherwise linked to the asset classes covered. For example, asset managers should use assets under management while private equity firms should use invested capital (plus cash). Other FIs can use total assets. For FIs that have activities that span across lending, investments, and/or asset management, they may add a secondary breakdown of % coverage of their loan, investment, or asset management portfolio individually.

Separately, banks that do not include their asset management businesses shall include the following note after the headline target:
[1] These targets and coverage % do not include third-party asset management activities. Third-party asset management activities made up X% of total investment, lending, and asset management activities by [metric].</td></tr>
<tr><th colspan="3">Scope 3 Portfolio Targets – Asset Class Target</th></tr>
<tr><th>Asset Class</th><th>Method</th><th>Target Output Example</th></tr>
</table>

Real estate	SDA	FI A commits to reduce its real estate [investment / loan] portfolio GHG emissions [XX]% per square meter by [target year] from a [20xx] base year. or FI A commits to maintain the GHG emissions intensity of its real estate investment/loan portfolio at or below [the base year emissions intensity] kgCO_2e/m2 from [base year] through 2030 and only finance 1.5°C aligned real estate assets.* ** Please see Appendix B of the Near-Term Financial Sector SBT Guidance for more details (e.g., eligibility conditions for setting a maintenance target).*
Residential mortgages (consumer loan)	SDA	FI A commits to reduce its mortgage portfolio GHG emissions [XX]% per square meter by [target year] from a [20xx] base year.
Electricity generation project finance	SDA	FI A commits to reduce its electricity generation project finance portfolio GHG emissions [XX]% per kWh by [target year] from a [20xx] base year. or FI A commits to continue providing electricity generation project finance for only renewable electricity through 2030. or FI A commits to maintain the GHG emissions intensity of its electricity generation project finance portfolio at or below [the base year emissions intensity] gCO_2e/kWh from [base year] through 2030 and only finance 1.5°C aligned electricity generation projects.* ** Please see Appendix C of the Near-Term Financial Sector SBT Guidance for more details (e.g., eligibility conditions for setting a maintenance target).*
Corporate instruments (equity,	SDA	FI A commits to reduce GHG emissions from the [XX] sector within its [asset class] portfolio [XX]% per ton of [metric] by [target year] from a [20xx] base year.

bonds, loans)	Portfolio Coverage	FI A commits to [XX]% of its [eligible] [asset class] portfolio by [unit] setting SBTi validated targets by [target year] from a [20xx] base year.
	Temperature Rating	FI A commits to align its scope 1 + 2 portfolio temperature score by [unit] within the [XX] sector of its [asset class] portfolio from [X.XX]°C in [base year] to [X.XX]°C by [target year]. FI A commits to align its scope 1 + 2 + 3 portfolio temperature score by [unit] within the [XX] sector of its [asset class] portfolio from [X.XX]°C in [base year] to [X.XX]°C by [target year].
	Fossil Fuel Finance Targets*	FI A commits to publicly disclose on an annual basis the breakdown of all financial services by [financial metric(s)] as well as by GHG emissions attributed to its fossil fuel loans, investments, and assets under management in projects and companies in the [coal, oil, and/or gas] sectors separately. FI A also commits to publicly disclose on an annual basis the [aggregated and/or breakdown of] methane emissions attributed to its fossil fuel loans, investments, and assets under management. FI A commits to immediately end all new financial services to: (i) projects and companies involved in new coal mines, extensions/expansion of coal mines, or new unabated coal plants; and (ii) new long-lead time upstream oil and gas projects and mid-stream infrastructure dedicated to new long-lead time upstream oil and gas projects. FI A commits to reduce GHG emissions from the [coal, oil, and/or gas] sector[s] within its [corporate loan, investment, and/or asset management] portfolio [XX]% by [target year] from a [20xx] base year. FI A commits to phaseout all financial services to all coal projects and coal companies by [target year]. ** FIs shall disclose the threshold used to define coal and oil and gas projects and companies.*
Action Plan to Achieve Targets		

FI A will implement the following strategy and actions to achieve its targets:

- Example: FI A aims to steer its [XX dollar amount] corporate equity, bonds, and loan book in power generation, steel, cement, and aviation through actively supporting clients' zero-carbon transformation. For example, it will offer more favorable interest rates to borrowers that set and stay on track to meet ambitious climate goals. FI A selected these actions because [add reasons].

Source: Authors 2023.