SBTI NEAR-TERM CRITERIA AND RECOMMENDATIONS FOR FINANCIAL INSTITUTIONS

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INTRODUCTION

This document presents Version 2.0 of the Science Based Targets initiative (SBTi) target validation criteria and recommendations for financial institutions (FIs). These sector-specific criteria supersede the general SBTi criteria for companies. **Sections 1 to 5 and 8** of the criteria focus on greenhouse gas (GHG) inventory, scope 1 and 2 targets, and target validity and recalculations. Version 5.1 of the SBTi general criteria for companies serves as the basis for these sections, with slight deviations for FIs.[1] Where relevant, these criteria are subject to the SBTi's annual update of corporate criteria.

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 Chapter 9 of the Financial Sector SBT Guidance for more information on committing and submitting targets to the 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 FIs' targets to be recognized by the SBTi. In addition, FIs shall follow the GHG Protocol (GHGP) 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 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 (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] 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).

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[1] Please see Version 5.1 of the SBTi general criteria for corporates here: https://sciencebasedtargets.org/resources/files/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.
[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.

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-C15 and FI-C16. FIs may set targets for remaining scope 3 emissions categories as per FI-R9.

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.[4]

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,[5] must be included alongside the FI's inventory. Additionally, they must be also be included in the target boundary when setting a science-based target, 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: It is recommended that FIs 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 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

[4] 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 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.

[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 an FI will not be accepted as separate targets unless they fall outside of a parent company's chosen consolidation approach.

chosen inventory consolidation approach.[7] 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 – 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). 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.[8]

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 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.

[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. All other FIs must include their asset management businesses in their scope 1, 2, and 3 target boundaries. In addition, if an FI is involved solely or mainly in optional asset classes, it should contact the SBTi to discuss a minimum target coverage boundary of these asset class(es) for the portfolio targets to be considered credible.

[8] 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 (SBTs) 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.

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.[9] The choice of base year shall be representative of the FI's activities and shall be no earlier than 2015.

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 10 years from the date of submission are considered long-term targets. Long-term targets will only be validated in accordance with the FI Net-Zero Standard upon its publication.

FI-R5 – Consistency: It is recommended that FIs use the same base and target years for all targets.

[9] For targets submitted for an official validation in the first half of 2023, the valid target years are 2027–2032 inclusive. For targets submitted in the second half of 2023, the valid target years are between 2028 and 2033 inclusive.

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 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.[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 1.5°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 1.5°C goal or aligned with the relevant sector reduction pathway within the Sectoral Decarbonization Approach (SDA).

FI-C10 – 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 the publication of relevant sector-specific tools.

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] 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 SBTi only allows two years prior as valid most recent year inventories. For targets submitted for an official validation in 2023, the most recent inventory data submitted must be for 2021 at the earliest. However, if 2021 is not representative of the FI's activities due to impacts from the COVID-19 pandemic, the SBTi will accept 2019 inventories in 2023 to assess forward-looking ambition, though inventory data for 2021 or 2022 must still be provided for reference. An explanation of COVID-19 impacts shall be provided if using 2019 inventories.

SECTION 4. EMISSIONS ACCOUNTING REQUIREMENTS

Criteria

FI-C11 – 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 on emission reductions through direct action within their own operations or their investment and lending portfolios. Offsets may only be considered as an option to finance additional climate mitigation beyond their science-based targets.

FI-C12 – 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-C13 – 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-C14 – 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. For the purposes of target validation, the SBTi will use the same definition of renewable electricity as the RE100. 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-R7 – 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-R8 – 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-C15 – 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-C16, 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 Table 1 in Section 8.

FI-C16 – Portfolio Target Boundary: FIs 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]: FIs' targets using the SDA are considered acceptable when the following conditions are met:

- Boundary: FIs 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 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. Within a sector of an asset class, FIs may use one of the weighting approaches in the SBTi Finance Tool (listed in Appendix E of the Financial Sector SBT Guidance) consistently throughout the target period to calculate their emissions intensity.
- 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.[12] The same base year shall be used for all SDA targets. FIs are further encouraged to develop long-term targets up to 2050, under the SBTi FI Net-Zero Standard, in addition to the required near-term targets.
- Scope of Borrower and/or Investee Emissions: Targets on portfolio companies' 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 Table 1, FIs shall set targets on emissions scopes as required by

[11] Please see Section 5.4.1 of the Financial Sector SBT Guidance for more information on the SDA.

[12] For example, for targets submitted for an official validation in the first half of 2023, the valid target years are 2027–2032 inclusive. For targets submitted in the second half of 2023, the valid target years are between 2028 and 2033 inclusive.

the relevant SBTi sector-specific guidance.[13]

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 approved 1.5°C-aligned science-based targets such that the FI is on a linear path to 100% portfolio coverage by 2040 (using a weighting approach in the SBT Finance Tool). 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 may use one of the weighting approaches in the SBTi Finance Tool (listed in Appendix E) consistently throughout the target period. As the Portfolio Coverage (PC) method is binary and we're using the Temperature Rating aggregation methods, we 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 you can use the same weighting methods 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.[14] 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. 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 for companies to set science-based targets. For example, corporate must cover at least 67% of their scope 3 emissions when their scope 3 emissions are more than 40% of 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:

[13] A list of the sector-specific guidance and requirements is available in Section 5 of the SBTI Target Validation Protocol.

[14] For example, for targets submitted for an official validation in the first half of 2023, the valid target years are 2027–2032 inclusive. For targets submitted in the second half of 2023, the valid target years are between 2028 and 2033 inclusive.

- 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 well-below 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. 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 – 1.5C) / (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.

  FIs may use one of the weighting approaches in the SBTi Finance Tool (listed in Appendix E) consistently throughout the target period.

- 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.[15] The same base year shall be used for all Temperature Rating targets.
- 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: For FIs' portfolio companies in the fossil fuel sector, the SDA method will only be available after the SBTi Oil & Gas sector guidance is published. In the meantime, FIs may set Portfolio Coverage or Temperature Rating targets. For Portfolio Coverage, FIs may set targets but the validation of oil & gas companies is currently paused until the SBTi Oil & Gas sector guidance is published. Alternatively, FIs may use the Fossil Fuel Finance Targets approach as a fourth target-setting option to address financial flows (i.e., financial activities or services, including but not limited to loans, investments, asset management, and securities and insurance underwriting) to the fossil fuel sector. FI's targets that use the Fossil Fuel Finance Targets approach are considered acceptable when they meet the following requirements:

- Boundary: FIs shall set targets on activities related to the fossil fuel sector as specified in the Required Activities and Methods Table (Table 5.2). Any out-of-

[15] For example, for targets submitted for an official validation in the first half of 2023, the valid target years are 2027–2032 inclusive. For targets submitted in the second half of 2023, the valid target years are between 2028 and 2033 inclusive.

scope activities related to the fossil fuel sector shall also be disclosed.

- Disclose: FIs shall publicly disclose information on an annual basis to provide a sufficient level of transparency to aid stakeholders' understanding of (i) the GHG impact of the financial services provided; and (ii) action being taken to reduce/eliminate emissions from fossil fuel activities at a group level and with subsidiary level granularity. The following datapoints shall be disclosed annually for all fossil fuel activities covered, beginning in the target submission (i.e., for the base year of the target):
    - Absolute emissions (scope 1+2+3) per GHG from fossil fuel exposures across all financial flows; and
    - Aggregated financial exposures (monetary amounts and final investment decisions) across all financing and facilitation activities; and
    - Forward-looking plans of FI portfolio companies.
- Arrest: FIs shall implement the immediate cessation, upon publication of the FI's science-based target, of new financial flows via a public commitment according to Table 5.5, including the cessation of all:
    - New financial flows to the coal value chain (see Annex 2 of the Fossil Fuel Finance Position Paper) for both companies and projects, with the exception of new financing for permanent decommissioning of production activities and capacity.
    - New financial flows to all applicable oil and gas value chain-associated activities (see Annex 2 of the Fossil Fuel Finance Position Paper) at the project level.
    - New financial flows provided to companies that are involved in expanding production and/or capacity of any applicable oil and gas value chain associated activities.
- Transition: FIs shall establish near-term targets, which must be fulfilled within a maximum of five years from the date the FI's target is submitted to the SBTi for validation, for all financial flows to existing fossil fuel activities at the company level as well as the portfolio level[16]:
    - Company level: to engage fossil fuel counterparty companies to transition along 1.5°C pathways by establishing 2030 quantitative public targets, including absolute, intensity, and capex metrics that cover the scope 1, 2, and 3 emissions of the fossil fuel companies; and set clear commitments for no new expansion and the phasing down/out of production along credible 1.5°C pathways with low/no overshoot.
    - Portfolio level: for no new or increased portfolio exposure in terms of financed and facilitated emissions from fossil fuel activities that are not clearly aligned with a 1.5°C transition.
    - Additionally, a transition of activities to reduce methane emissions from all fossil fuels by at least 75% by 2030 is required as a milestone for

[16] For example, for targets submitted for an official validation in the first half of 2023, the valid target years are 2027–2032 inclusive. For targets submitted in the second half of 2023, the valid target years are between 2028 and 2033 inclusive.

near-term targets.

- Phaseout: FIs shall commit to phasing out all financial flows linked to unaligned companies and projects and companies according to the time frame and regional criteria outlined in Table 5.5. For the engagement of fossil fuel companies receiving existing financial flows, FIs shall phaseout at the latest after two years if the engagement efforts fail to bring the project/company into alignment (or at the next roll-over date after this two-year period, if applicable). The FI engagement period should begin as soon as the science-based target is published.
- Scope of Borrower and/or Investee Emissions: Targets shall cover the scope 1 + 2 + 3 emissions of FIs' fossil fuel exposures.

Recommendations and Additional Guidance

FI-R9 – 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 Corporate Value Chain (Scope 3) Accounting and Reporting Standard. Optional targets on these categories must meet the scope 3 criteria in the latest SBTi criteria for companies (e.g., including 6, 13-14, 18-20) 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-R10 – Phaseout of Thermal Coal Investments: If the Fossil Fuel Finance Targets Approach is not used, FIs should establish a policy within six months from the time of target approval that dictates phasing 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% 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: If the Fossil Fuel Finance Targets Approach is not used, FIs with approved SBTs, should annually disclose the annual investments (listed equity, private equity, corporate bonds, and private debt), 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-R13 for recommendations on where to disclose).

FIs that fail to phaseout coal investments or disclose fossil fuel investments and lending make themselves susceptible to risk of stranded assets and reputational damage.

** This includes:*
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% threshold and for the threshold to not exceed 30%.
In line with FI-R10, companies with greater than 5% 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-R12 – Consistency: It is recommended that FIs use the same base and target years for all targets.

SECTION 7. REPORTING REQUIREMENTS

Criteria

FI-C18 – Disclosure of Target(s) Portfolio 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 (on behalf of third parties). 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. For transparency, FIs are also 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:

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

Out of scope asset classes include those listed as such in Table 1 and all other tangible assets that are held, owned, controlled, or managed by the FI, such as cash and deposits at central banks. Intangible assets (e.g., goodwill, deferred tax assets) may be excluded from the denominator. For example, asset managers will need to cover all assets managed under discretionary mandates while assets administered under advisory and/or execution-only mandates will need to be included in the denominator even if targets are not required.

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 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 FI intends to achieve its targets shall be made public.[17]

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,[18] 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 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.

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

[18] See Section 6.1 in the Financial Sector SBT Guidance on guidance to disclose progress against targets.

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

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.

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 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 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. 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.[19]

To seek approval from the SBTi, FIs shall follow FI-C15 and FI-C16 to set target(s) on their investment and lending activities.[20] 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% of the activity by kWh from electricity generation project finance and long-term loans to companies in the electricity generation sector in the target boundary (if relevant).

   For corporate loans to the fossil fuel sector and all other sectors (other than electricity generation), coverage can be based on loan value or financed emissions. If using financed emissions, 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. Separately, targets can be set on loan outstanding or loan commitment amounts.

   - Fossil fuel sector: Targets shall cover at least 95% of long-term and short-term corporate loans to companies in the fossil fuel sector. FIs should disclose the percentage of fossil fuel lending covered in the target wording for transparency and comparability. In the context of this project, **coal companies** are defined as companies with greater than 5% 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

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

[20] Partial targets will not be officially recognized and published by the SBTi even if they meet all relevant criteria.

gas (CtG).[21] **Oil and gas companies** are defined as companies that derive more than 30% of revenues from the exploration, extraction, refining, transportation and distribution, storage, retailing, marketing, trading, or power, heat, or cooling production from oil and gas.[22]

- All other sectors: Targets shall cover at least 67% of long-term corporate loans to listed companies in all other sectors (other than electricity generation), not per sector. The 67% may include the coverage of loans to companies in the fossil fuel sector as well as commercial real estate loans based on loan value or financed emissions. Commercial real estate loans must also separately meet a 67% minimum coverage requirement based on base year activity or financed emissions. General purpose long-term loans to FIs, real estate investment trusts (REITs), real estate companies, and infrastructure companies all fall under this threshold and shall be covered accordingly.
- Small & Medium Enterprises (SMEs): All loans to companies in the fossil fuel sector and long-term loans to companies in the financial sector, regardless of the companies' number of employees, shall be included in the target boundary (if relevant) while long-term and short-term loans to SMEs in all other sectors are optional.

For listed equity, all investments (direct holdings and via funds) in equity securities (regardless of how they are traded) that are issued by listed companies (i.e., those that have equity listed and traded on a stock exchange, including FIs, REITs, and real estate companies) shall be covered by targets. The same is valid for corporate bonds, except that bonds issued by SMEs in sectors other than the fossil fuel and financial sectors are optional. The coverage requirement for listed equity and corporate bonds applies to securities in both the trading book and banking book, including those with a remaining maturity of less than one year.

2. **Optional activities** may be included by FIs in the target boundary.[23] 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 consumer loans (i.e., loans extended to individuals to purchase or refinance a home) shall 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

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

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

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

investment/loan.

For private equity and private debt, any investments (direct holdings or via funds) in equity or debt securities (regardless of how they are traded) that are issued by unlisted companies (i.e., those that do not have equity listed and traded on a stock exchange, including FIs, REITs, and real estate companies) are currently deemed optional.

3. **Out-of-scope activities** cannot currently be covered by available methods or do not apply to the project audience. Asset classes not listed in Table 1 are likely also out of scope. For example, infrastructure project finance and investments in infrastructure assets are currently out of scope. However, loans to infrastructure companies and investments in equity/debt securities issued by infrastructure companies are in scope.

For asset managers and other FIs, FI-C15 and FI-C16 also apply to investments managed under discretionary mandates while investments administered (on behalf of third parties) under advisory or execution-only mandates are optional. If an asset manager/FI can make investment decisions or have been or is involved in designing the investment strategy (i.e. have had or has some influence over fund/security selection and/or can vote for the securities in its portfolio), these assets shall be included in the target boundary. This requirement also applies to passive investment strategies and vehicles such as exchange traded funds (ETFs) that are following rules-based investment strategy where the asset manager/FI has been able to influence the design of the strategy (e.g. “Smart Beta” products). 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 shall disclose this exclusion in the target wording for transparency and comparability. All other FIs must include their asset management businesses in their scope 1, 2, and 3 target boundaries.

Table 1 is all-encompassing and may not apply to certain FIs. If an FI is involved solely or mainly in optional asset classes, it 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.

Mortgage REITs that invest in residential and commercial mortgages, residential mortgage-backed securities and commercial mortgage-backed securities shall, at a minimum, cover 67% of residential mortgages by base year activity in square meter. **Private equity firms** shall develop targets for their private equity investments in line with the SBTi [Private Equity Sector Science Based Target Setting Guidance](), as well as other relevant asset classes in line with Table 1. Private equity firms are encouraged to use the SBT Portfolio Coverage approach to cover all private equity investments, regardless of the percentage share the firm has in its investees, given that they often have more influence over their investees compared to other FIs. For the time being, private debt is 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, FIs' 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 FIs gain more experience in target setting, the SBTi may revise Table 1 through the annual criteria update process. FIs 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. However, each specific loan/investment can only be covered by one target method in order to ensure that all assets are being covered. It is also important that the targets are clear and transparent for external stakeholders to be able to understand and track which target/method a current as well as future loan/investment would fall under. As such, the boundaries of each target must be clearly defined (e.g., by sector or asset class). For example, FIs may use both SDA (for sectors where the method is available) and the temperature rating method (for all other sectors) to collectively cover 100 percent of their corporate bonds portfolios.

The SBTi also allows certain asset classes and activities to be grouped together under one target as long as they follow the same criteria (the strictest set, if different) under the same target method. For example, one target could cover all:

- Listed equity investments, corporate bond investments, and corporate loans;
- Loans to public and private companies;
- Listed equity and private equity investments; or
- Financing for the same sector (e.g., electricity generation project finance and corporate loans).

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

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	Real estate	Optional[c]	SDA
	Motor vehicle loans	Transport	n/a	n/a
	Other consumer loans	n/a	n/a	n/a
Project finance	Electricity generation project finance (direct or via funds)		100% of base year activity (kWh)	SDA
	Fossil fuel project finance (direct or via funds)		95% of base year loan value or financed emissions	SDA[d] / FFF
	Other project finance (e.g., infrastructure projects/assets)		n/a	n/a
Corporate loan	Long-term (more than one year) corporate[e] loans	Electricity generation (listed and private companies)	100% of base year activity (kWH)	SDA
		Fossil fuel (listed and private companies) and all other sectors (listed companies)	67% of base year loan value or financed emissions[f], **including** 95% of base year loan value or financed emissions of fossil fuel companies and 67% of base year loan value or financed emissions of commercial real estate loans	SDA[d] / PC / TR / FFF
		All other sectors	Optional	SDA / PC / TR

		(private companies)		
	Long-term (more than one year) SME[g] loans	All sectors (listed and private companies), except financial and fossil fuel	Optional	SDA / PC / TR
	Short-term corporate[e] and SME[g] loans and short-term (one year or less, such as line of credit, intraday, and overdraft facilities)	Fossil fuel (listed and private companies)	95% of base year loan value or financed emissions	SDA[d] / PC / TR / FFF
		All other sectors (listed and private companies)	Optional	SDA / PC / TR
	Supranational, sovereign, sub-sovereign, and government loans	n/a	n/a	n/a
Equity (investment)	Listed equity: common and preferred stock of corporates[e] and SMEs[g] (direct holdings)	Fossil fuel (listed and private companies) and all other sectors (listed companies)	100%	SDA / PC / TR / FFF
	Private equity (direct and co-investments)	All other sectors (private companies)	Optional[h]	SDA / PC / TR
	via Funds (e.g., exchange traded funds, mutual funds, hedge funds, fund of funds, other collective investment schemes)	Fossil fuel (listed and private companies) and all other sectors (listed companies)	100%	SDA / PC / TR / FFF
		All other sectors (private companies)	Optional	SDA / PC / TR
		With unknown underlying assets[i]	Optional	SDA / PC / TR
Real estate	Direct investment in real estate assets (for own use or investment purposes)		67% of base year activity (m^2) or financed emissions	SDA
	Commercial real estate asset loans (residential and service buildings)[j]		67% of base year activity (m^2) or financed emissions	SDA
	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 activity (m^2) or	SDA

			financed emissions	
		REITs and real estate companies (private)	Optional	SDA / PC / TR
Fixed income (investment)	Corporate[e] bonds (direct holdings and via funds)	Fossil fuel (listed and private companies) and all other sectors (listed companies)	100%	SDA / PC / TR / FFF
		All other sectors (private companies)	Optional	SDA / PC / TR
	SME[g] bonds (direct holdings and via funds)	All sectors (listed and private companies), except financial and fossil fuel	Optional	SDA / PC / TR
	via Funds	With unknown underlying assets[i]	Optional	SDA / PC / TR
	Supranational, sovereign, sub-sovereign (including municipal), government, and agency bonds (direct holdings or via funds)	n/a	n/a	n/a
	Securitized fixed income: including asset-backed securities, mortgage-backed securities, covered bonds (direct holdings or via funds)	n/a	n/a	n/a
Other	Derivatives	n/a	n/a	n/a
	Advisory services (e.g., mergers and acquisitions), debt and equity securities underwriting	n/a	n/a	n/a
	Brokerage services, transaction services, commodities, insurance brokerage	n/a	n/a	n/a
	Insurance underwriting, reinsurance, credit	n/a	n/a	n/a

	guarantees			

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] SDA = Sectoral Decarbonization Approach; PC = Portfolio Coverage; TR = Temperature Rating; FFF = Fossil Fuel Finance Targets Approach.
[c] As an exception to this table, mortgage REITs shall cover at a minimum of 67% of residential mortgages by base year activity in square meter.
[d] For companies in the fossil fuel sector, the SDA method will only be available after the SBTi Oil & Gas sector guidance is published. In the meantime, FIs may set Portfolio Coverage or Temperature Rating targets. For Portfolio Coverage, FIs may set targets but the validation of oil & gas companies is currently paused until the SBTi Oil & Gas sector guidance is published. Alternatively, FIs may also set fossil fuel sector targets that meet the criteria provided in the SBTi Fossil Fuel Finance Position Paper on the relevant asset classes above.
[e] For the purposes of Table 5.2, “corporate” includes FIs. For example, corporate bonds include bonds issued by FIs.
[f] The 67% applies to companies in all sectors (including fossil fuel, which has a minimum coverage requirement of 95%, and commercial real estate loans, which have a minimum coverage requirement of 67%, that fall within the 67%) other than electricity generation, not per sector, and is based on loan value or financed emissions. Commercial real estate loans must also separately meet a 67% minimum coverage requirement based on base year activity or financed emissions. It is optional to include SMEs in the calculation of the 67% coverage threshold. The calculation of financed emissions should include scope 1 and 2 GHG emissions of portfolio companies, and where applicable, scope 3 GHG emissions. Scope 1, 2, and 3 emissions shall be included at a minimum for oil and gas and automotive sectors.
[g] As the definition of SMEs can vary from region to region, FIs 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. This does not include FIs or fossil fuel companies, which shall be considered corporates regardless of employee count. FIs interested in engaging SMEs to set science-based targets 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/resources/files/FAQs-for-SMEs.pdf.
[h] As an exception to this table, private equity firms shall cover their private equity investments per the SBTi Private Equity Sector Science Based Target Setting Guidance, as well as other relevant asset classes, as detailed in Table 5.2.
[i] This optionality is restricted to cases where the investment strategy precludes transparency on the underlying holdings (e.g. some hedge funds).
[j] Commercial real estate asset loans refer to all loans for the purchase, refinance, construction, or rehabilitation 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.
Source: Authors 2023

Table 1 shows that investments and corporate loans in real estate require a minimum coverage of 67%of investment and lending activity (m2). In ensuring this coverage, FIs 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.[24] Similarly, corporate loans to companies in sectors other than electricity generation require a minimum coverage of 67% (including a minimum coverage requirement of 95% for loans to companies in the fossil fuel sector and 67% of commercial real estate loans) based on loan value or financed emissions. Commercial real estate loans must also separately meet a 67% minimum coverage requirement based on base year activity or financed emissions. To determine the coverage, FIs 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.

For investments via funds and collective investment schemes, a SDA, Portfolio Coverage, Temperature Rating, or Fossil Fuel Finance target shall be set based on the underlying holdings. For example, if an FI invested in a fund that invests in corporate instruments, then the FI could set a Portfolio Coverage or Temperature Rating target on the underlying companies. To achieve this target, the FI could both engage the underlying companies directly as well as engage its fund managers themselves to set targets.

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