

# Science Based Targets for Financial Institutions

Criteria Deep Dive Webinar

January 14, 2021

Online Webinar



# SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

PARTNER ORGANIZATIONS



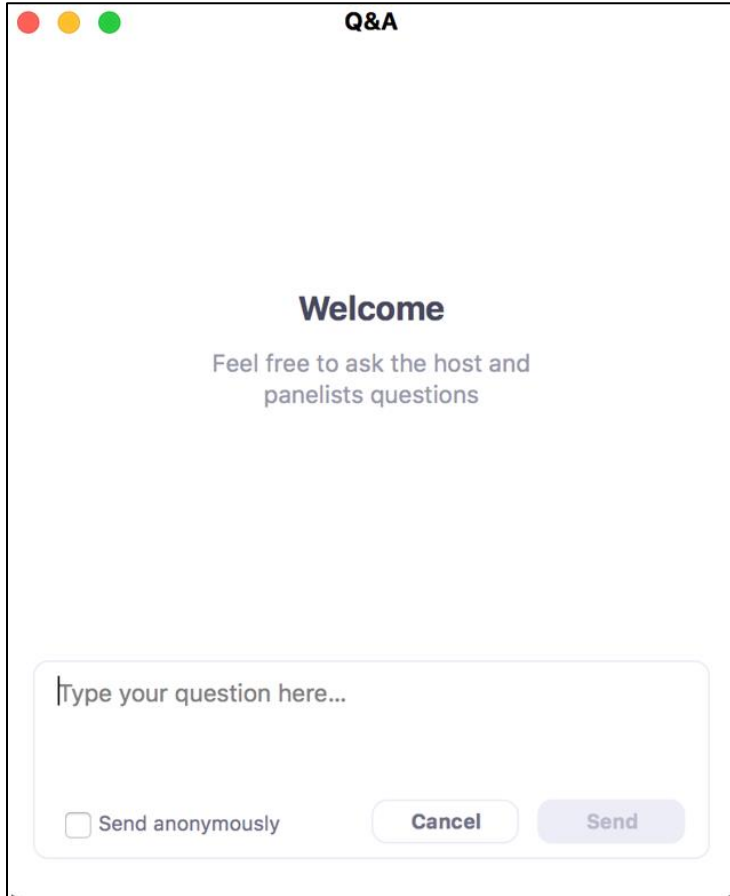
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# Welcome



The screenshot shows a window titled "Q&A" with three colored window control buttons (red, yellow, green) in the top-left corner. The main content area contains the text "Welcome" in bold, followed by "Feel free to ask the host and panelists questions" in a smaller font. At the bottom, there is a text input field with the placeholder "Type your question here...". Below the input field, there is a checkbox labeled "Send anonymously", a "Cancel" button, and a "Send" button.

This webinar is being recorded. Slides and recording will be distributed online.

There will be time for questions and discussion at multiple points throughout the webinar.

**Please type your questions into the Q&A box.**

# Today's Speakers



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## SBTi Overview | Today's topics

### Topic

SBT initiative Update

Financial Criteria Deep Dive

Next Steps and Opportunities to Participate

### Time

10 min

70 min (with Q&A throughout)

10 min



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# SBTi Financial Sector Project and initiative Update



# SCIENCE-BASED TARGETS FOR FINANCIAL INSTITUTIONS

In 2018, the SBTi launched a project to help financial institutions align their lending and investment portfolios with the ambition of the Paris Agreement.

The primary audience includes commercial banks, asset managers, asset owners, and mortgage real estate investment trusts (REITs).



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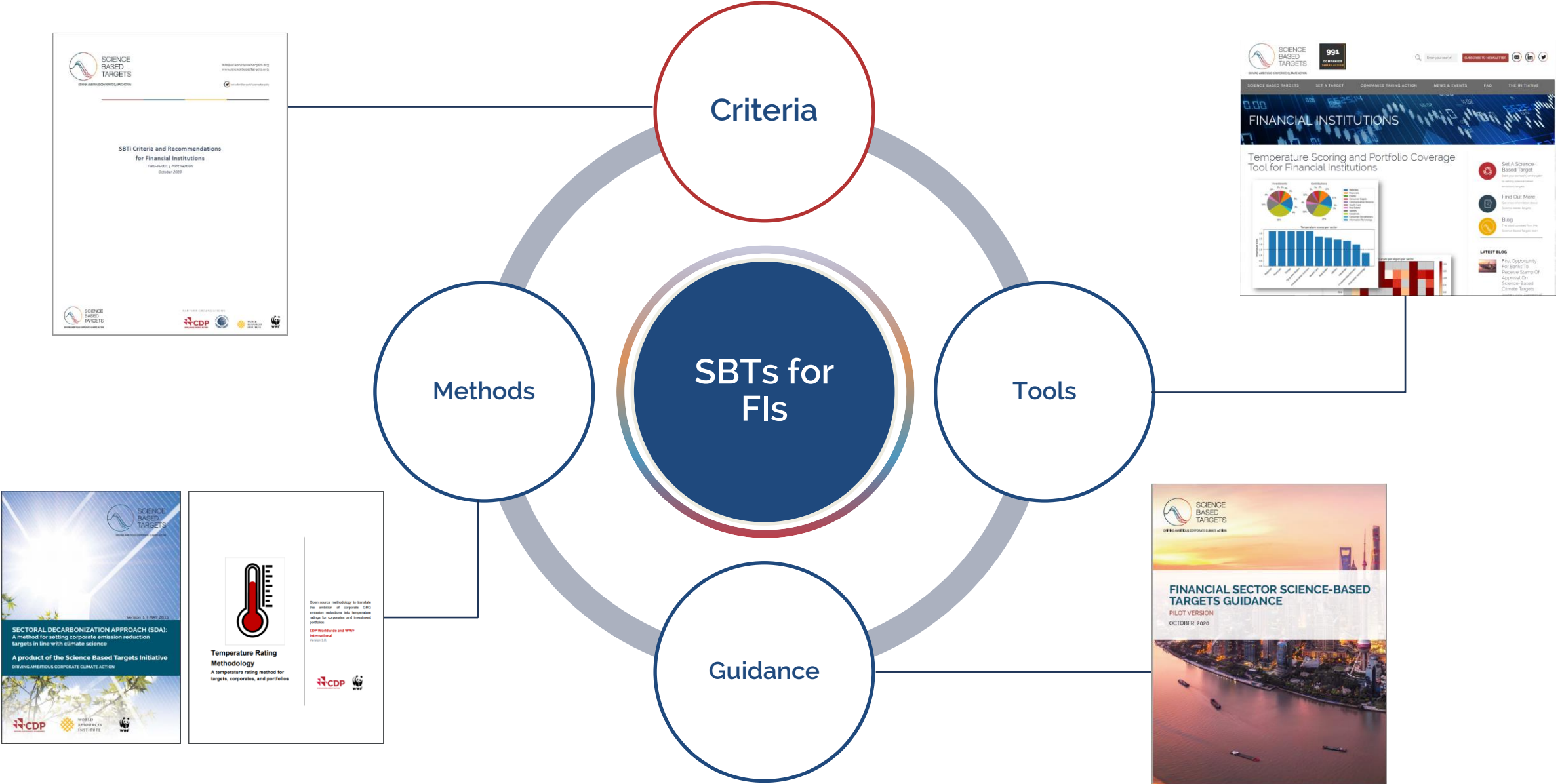
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION



# SBTi Finance Framework | 64 Committed Financial Institutions

Newly committed FIs since the launch	<p>EQT AB Phoenix Group Holdings plc NatWest Group plc Shinhan Financial Group Direct Line Insurance Group plc Türkiye İş Bankası Commerzbank AG Albaraka Türk Participation Bank Caixa Geral de Depósitos Piraeus Bank SA Eurazeo SK Securities, Co., Ltd Amalgamated Bank Chambers Federation Novo Banco, SA MP Pension OXI-ZEN Solutions SA Storebrand ASA Swiss Re Tribe Impact Capital LLP FullCycle PensionDanmark</p>	<p>Hannon Armstrong Hitachi Capital Corporation Zurich Insurance Group Ltd Yuanta Financial Holding Co Ltd Vakifbank ASN Bank Swedbank AB ABN Amro Bank N.V. YES Bank DGB FINANCIAL GROUP Standard Chartered Bank Allianz Investment Management SE Mahindra &amp; Mahindra Financial Services Limited Raiffeisen Bank International AG Commercial International Bank Egypt (SAE) CIB Tokio Marine Holdings, Inc. BBVA Sompo Holdings, Inc. La Banque Postale</p>	<p>Actiam NV London Stock Exchange Fubon Financial Holdings Capitas Finance Limited Grupo Financiero Banorte SAB de CV HSBC Holdings plc T.GARANT_ BANKASI A.\ Credit Agricole BNP Paribas KLP MetLife, Inc. MS&amp;AD Insurance Group Holdings, Inc. Societe Generale Australian Ethical Investment BanColombia SA Bank Australia Teachers Mutual Bank Westpac Banking Corporation AXA Group Bank J. Safra Sarasin AG ING Group Principal Financial Group, Inc. TSKB</p>
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# SBTi Finance Framework | Framework Components





# SBTi Finance Framework | 3 Methods for Finance Sector Targets

For the first phase of this project, the SBTi supports three methods for financial institutions. The SBTi developed criteria specific to these three methods.



**Sectoral  
Decarbonization  
Approach (SDA)**

**SBT Portfolio  
Coverage  
Approach**

**Temperature  
Rating Approach**

# SBTi Finance Framework | Method & Asset Class Coverage Links

Asset Class	Method	Description
Real Estate	Sector Decarbonization Approach (SDA)	Emissions-based physical intensity targets are set for non-residential buildings' intensity and total GHG emissions.
Mortgages	SDA	Emissions-based physical intensity targets are set for residential buildings' intensity and total GHG emissions.
Electricity Generation Project Finance	SDA	Emissions-based physical intensity targets are set for electricity generation projects' intensity and total GHG emissions.
Corporate Instruments (equity, bonds, loans)	SDA	Emissions-based physical intensity targets are set at sector level within the portfolio for sector where sectoral decarbonization approaches are available.
	SBT Portfolio Coverage	Financial institutions engage a portion of their investees to have their own science-based targets such that they will reach 100% coverage by 2040.
	Temperature Rating	This approach enables financial institutions to determine the current temperature rating of their portfolio and take actions to align their portfolios to ambitious long-term temperature goals by engaging with portfolio companies to set ambitious targets (e.g., 2.6°C in 2019 and 1.7°C in 2025).

# Our next phase includes several objectives

## Pilot Phase

- Outreach and training
- Updated criteria
- Evaluation process for additional methods
- Peer initiative harmonization and communications

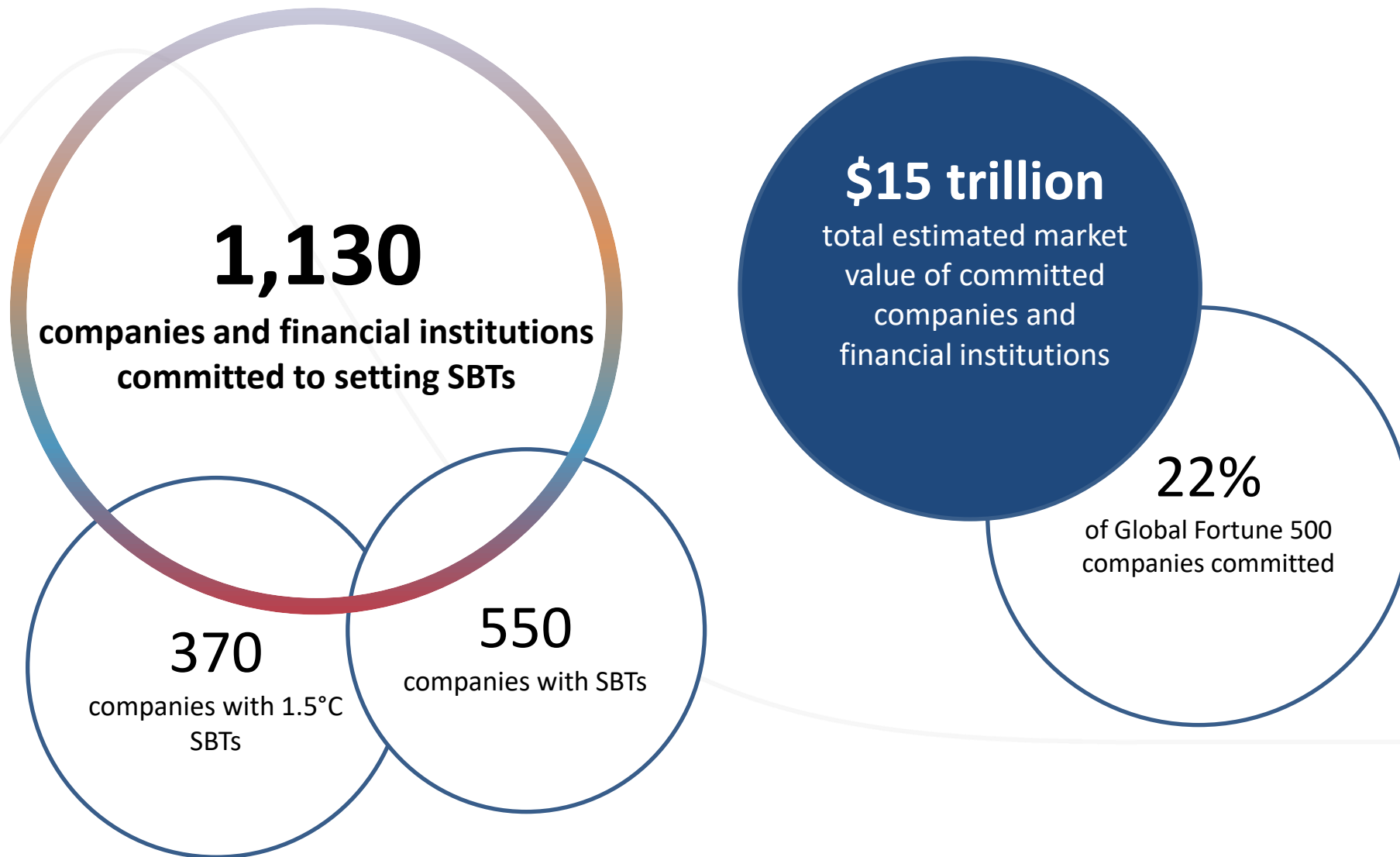
## 2021

- Foundation paper on net-zero targets for financial institutions
- Development of target-setting methods for additional asset class(es)
- SBTi corporate engagement
- TCFD reporting integration and guidance

## 2022

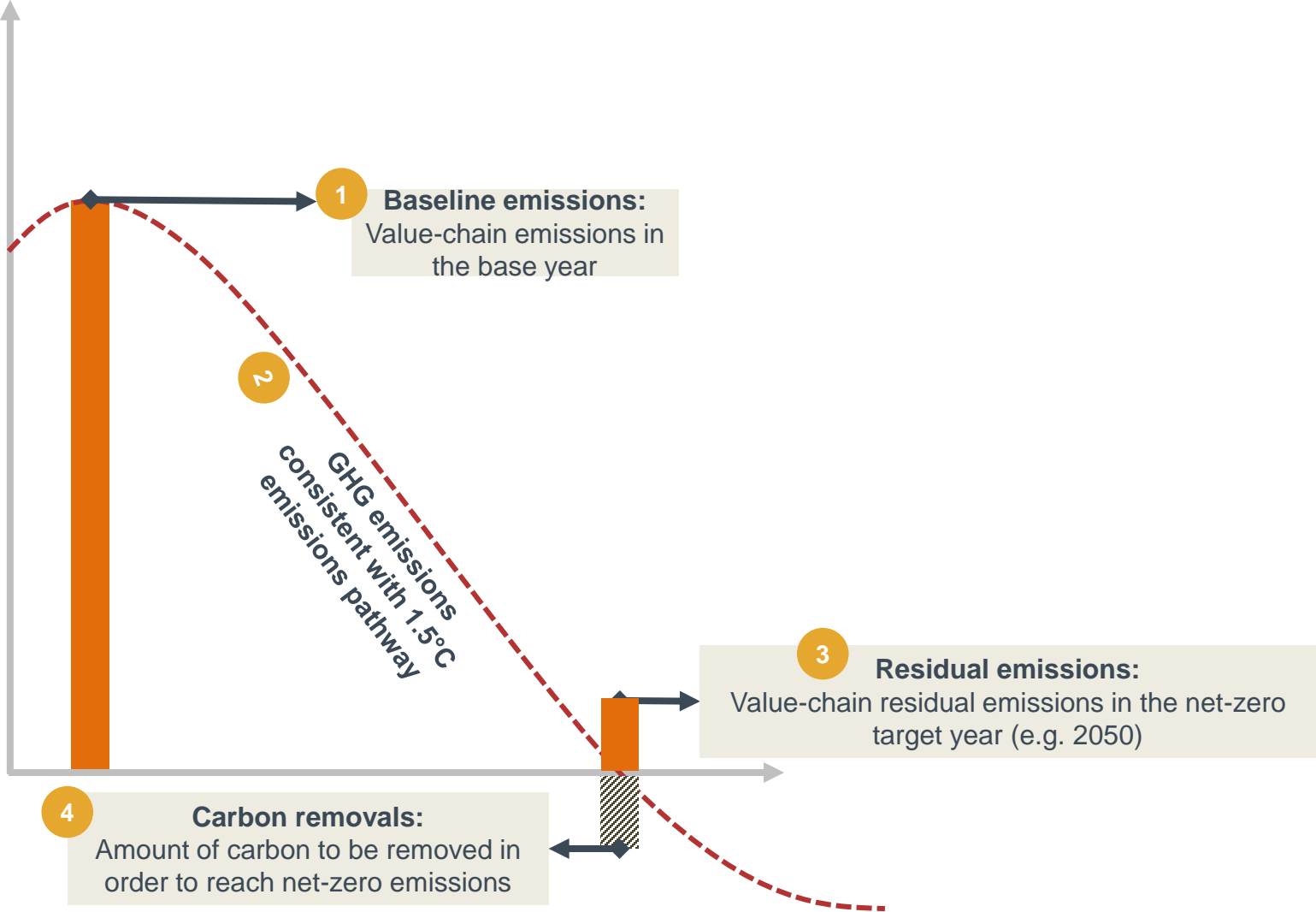
- Assess accumulated SBTs for evidence on most effective FI mitigation actions
- Capital market integration of SBTs

# SBTi brings a unique company climate orientation to finance





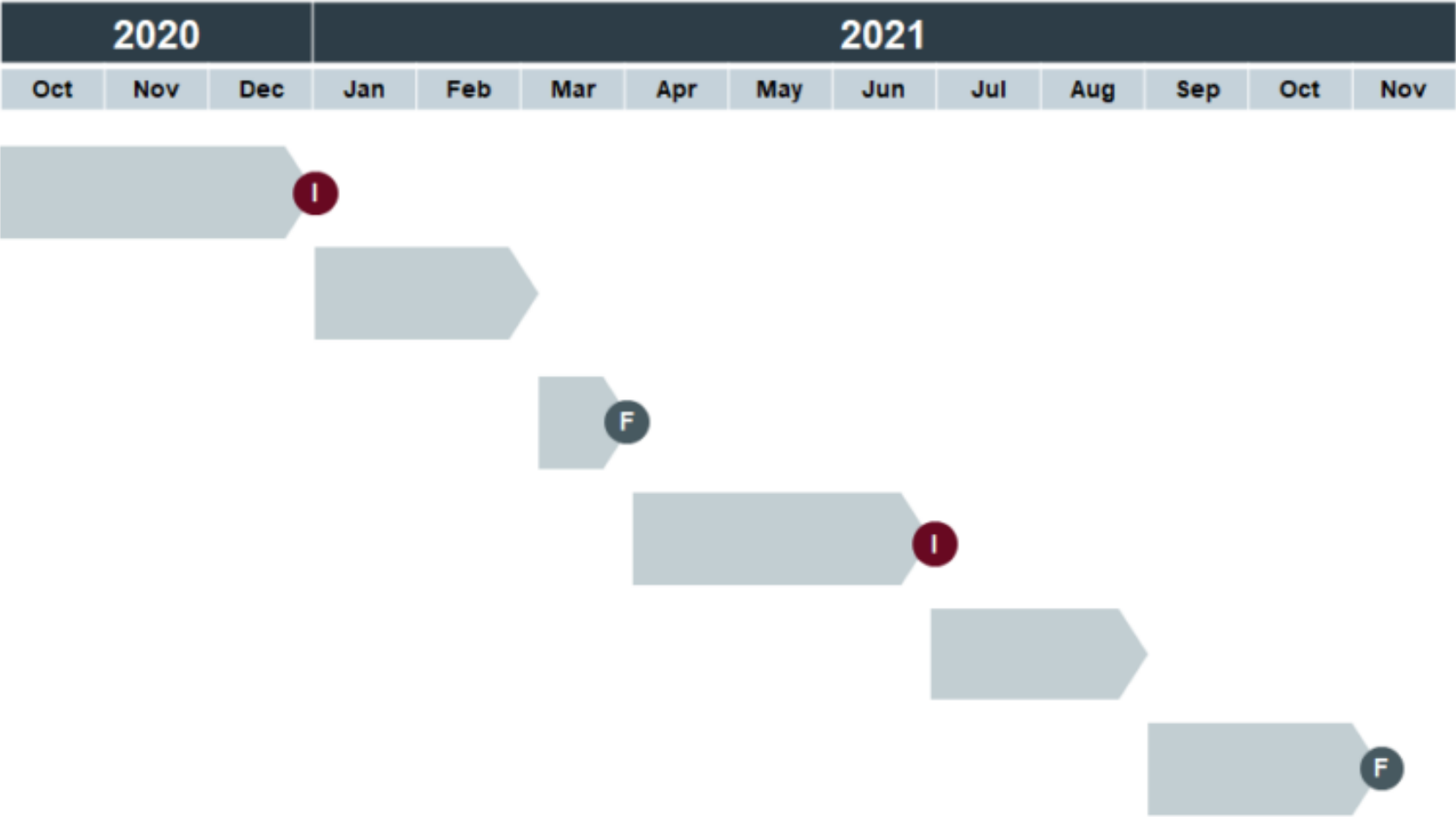
# SBTi is developing a global standard for company net-zero targets...

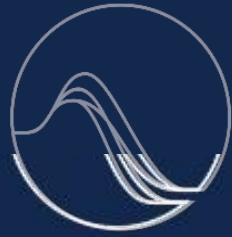


...that we expect to launch later this year.

- I** Interim deliverable
- F** Final deliverable

- Drafting of initial criteria**
- Public consultation
- Finalisation of criteria
- Drafting of net-zero validation protocol & guidance**
- Public consultation & road testing
- Finalisation of net-zero validation protocol & guidance**
- Launch of SBTi Net-Zero Standard**





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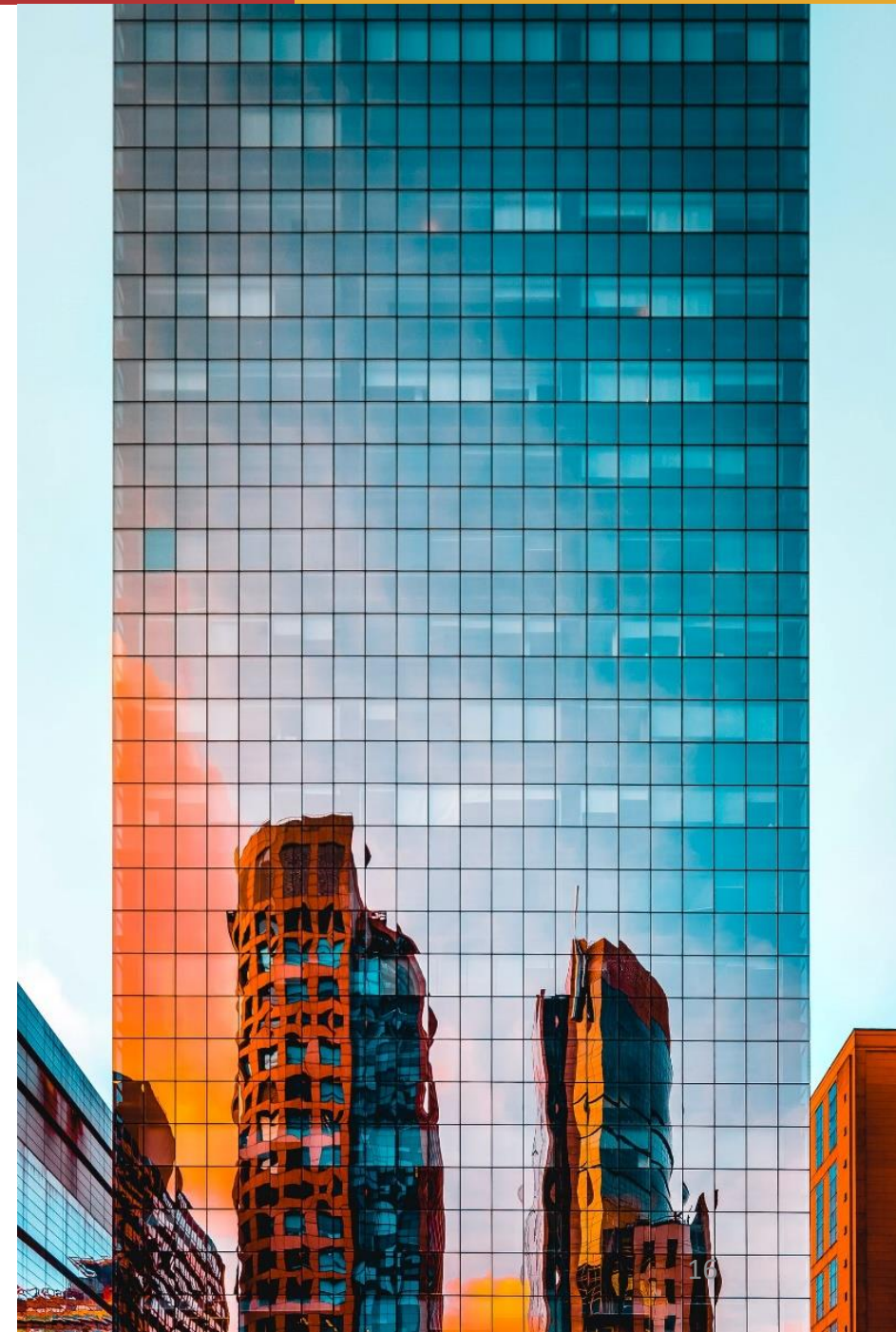
# Financial Sector Criteria Deep Dive

# SBTi Finance Framework | Criteria

A financial institution's submission to SBTi will consist of **scope 1 and 2 targets and scope 3 portfolio targets** that meet SBTi criteria. Recommendations on best practices are also provided.

1. GHG Emissions Inventory and Target Boundary
2. Scope 1 and 2 Target Time Frame
3. Scope 1 and 2 Target Ambition
4. Scope 2 Specifications
5. **Scope 3 – Portfolio Target Setting Requirements**
6. **Reporting Requirements**
7. Recalculation and Target Validity

**Sections 5 and 6** of the criteria are designed specifically for financial institutions' target setting, progress-tracking, and action reporting practices for their investment and lending activities.





# Overview of Scope 1 and 2 Criteria



- **Level of ambition (Scope 1+2):** At a minimum – consistent with the level of decarbonization required to keep temperature increase to well-below 2°C while we encourage efforts towards 1.5°C.



- **Progress:** Both the target timeframe ambition (base year to target year) and the forward-looking ambition (most recent year to target year) must meet the ambition criteria.



- **Boundary:** All institution-wide scope 1 and 2 GHG emissions (> 95%);



- **Timeframe:** 5-15 years into the future;

Please find detailed guidance on setting scope 1 and 2 targets in Chapter 4 of the [Financial Sector SBT Guidance](#).

# A few special notes for FIs on GHG emissions inventory

## Choosing an inventory consolidation approach

To simplify the target setting process, financial institutions should use the **operational control or financial control approach** and include all investment and lending activities in scope 3, category 15.

## A Clarification on “Financed Emissions”

FIs are **not required** to measure or annually report portfolio-level financed emissions, but are encouraged to do so. They are only required to measure financed emissions for the relevant asset classes if they use the SDA method.

- The [PCAF Global Standard](#) is a great resource for measuring financed emissions.

## Measurement of GHGs

Measurement of all seven GHGs (CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O, HFCs, PFCs, SF<sub>6</sub>, and NF<sub>3</sub>) is required for scope 1 and 2 emissions.

Considering data availability challenges, financial institutions should cover all GHGs for category 15 if possible, with **measurement of CO<sub>2</sub>** as the minimum requirement (most relevant when SDA is used).

# Q&A 1

Q:

- 1.The Financial Sector SBT guidance indicates that the FI should set renewable usage target to 80% by 2025 and 100% by 2030 on the scope 2. **Is it required for FIs to set RE target while submitting the target?**
- 2.We have some operation sites abroad that are rather immaterial. **Is it required to include those sites in our scope when setting SBTs?**

A:

- Targets to actively source renewable electricity are **an acceptable alternative** (FI-C14) to scope 2 emission reduction targets. They are not required.
- While SBTi does not allow geographical ring-fencing of targets, up to **5% exclusions are permitted** as detailed in criteria FI-C2.

Another helpful resource for scope 1 and 2 targets: The [SBTi target validation protocol](#) for companies includes details on how SBTi reviewers assess whether targets meet each of our criteria.

# FI Criteria 16 – Portfolio Target Boundary

Financial institutions shall set targets on all “**Required Activities**” in the Required Activities and Methods Table following the minimum boundary coverage requirement.

Financial sector activities have been organized into three categories: **required, optional, and out-of- scope** activities to determine the target boundary:

- 1) **Required activities**, if relevant, shall be included in the target boundary following the minimum coverage requirement.
- 2) **Optional activities** that FIs may include in the target boundary. There is no minimum coverage requirement on optional activities.
- 3) **Out-of-scope activities** that cannot be covered by available methods or are not applicable to the project audience. Products not listed in the table are likely also out of scope.

Table 5.2. Required, Optional, and Out-of-Scope Activities and Applicable Methods

Required Activities	
Optional Activities	
Out of Scope	

Asset class	Products and Requirement for Inclusion in Targets	Required Minimum Coverage for Required Activities	Applicable Methods
Consumer loan	Residential mortgages	Optional <sup>a</sup>	SDA
	Motor vehicle loan	Not applicable	Not available
	Personal loans	Not applicable	Not available
Project finance	Electricity generation project finance	100% of base year activity (kWh)	SDA
	Other project finance (e.g., infrastructure)	Not applicable	Not available

Source: Financial Sector SBT Guidance, page 55.



# Mapping Applicable Methods to Various Asset Classes

- 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.

<b>Project finance</b>	<b>Electricity generation project finance</b>	100% of base year activity (kWh)	SDA	
	<b>Other project finance (e.g., infrastructure)</b>	Not applicable	Not available	

- When **multiple methods are listed**, FIs may choose one or more of the methods to set targets that collectively meet the specific minimum coverage requirement for these products.



For example, financial institutions may use both SDA (for sectors where the method is available) and the temperature rating method to collectively cover 100 percent of their corporate bonds portfolios.

<b>Listed equity and bonds</b>	<b>Corporate bonds</b>	100%	SDA	SBT Portfolio Coverage	Temperature Rating

## Q&A 2

**Q:** Do financial institutions need to design SDAs for all sectors where the approach is available?

For example, if an FI has a large exposure to residential mortgages, while the exposure in e.g. aluminum, iron and steel, and cement is below 0.05% of the portfolio respectively.

**Would SDAs still need to be applied for those parts of the portfolio or is it sufficient to focus on the big-ticket items?**

**A:** A financial institution submit target(s) **on all required relevant asset classes at one time.**

It is not required that an FI uses SDA if other methods are listed as applicable in Table 5.2. You may use SBT portfolio coverage and/or temperature rating method for sectors with very minimum exposures on your portfolio.

Residential mortgages is an **optional category**, so there is no minimum coverage requirement and the FI can determine the % coverage itself.

# Asset classes deep dive

The SBTi aims to **strike a right balance between robustness and practicality** for the criteria. Factors such as **data availability, financial institutions' level of influence, and sector's contribution to climate change** have been taken into consideration when determining if an activity should be required and the corresponding minimum coverage requirements.

Asset class	Products and Requirement for Inclusion in Targets	Required Minimum Coverage for Required Activities	Applicable Methods
Consumer loan	Residential mortgages	Optional <sup>a</sup>	SDA
	Motor vehicle loan	Not applicable	Not available
	Personal loans	Not applicable	Not available
Project finance	Electricity generation project finance	100% of base year activity (kWh)	SDA
	Other project finance (e.g., infrastructure)	Not applicable	Not available

Notes:

<sup>a</sup> As an **exception** to this table, **mortgage REITs** shall cover at a minimum 67 percent of residential mortgages by base year activity in square meter.

# Asset classes deep dive

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

- (1) **Fossil fuel sector:** Long-term corporate loan SBTs shall cover 95 percent of long-term lending to fossil fuel companies.
- (2) **All other sectors:** Financial institutions shall cover at a minimum 67 percent of their lending activities to companies in all other sectors (**not** 67% per sector).

**Banks' asset management divisions** are currently not required to follow Table 5.2 and set targets on the funds they manage. If banks exclude their asset management divisions from their parent company-level targets, they should **disclose such exclusion in the target wording**.

Asset class	Products and Requirement for Inclusion in Targets	Required Minimum Coverage	Applicable Methods		
Corporate loan	Corporate loan: commercial real estate	Min. 67% of base year activity (m2)	SDA	SBT Portfolio Coverage	Temperature Rating
	Corporate loan: electricity generation	100% of base year activity (kWh)			
	Corporate loan: other long-term debt (more than one year), excluding electricity generation and real estate	Fossil fuel companies: min. 95% of base year corporate lending (loan value) Other companies: min. 67% of base year corporate lending (loan value)	SDA, where sector-specific methods are available	SBT Portfolio Coverage	Temperature Rating
	Corporate lending: SME loans	Optional	SDA	SBT Portfolio Coverage	Temperature Rating
	Corporate lending: short-term debt (less than one year, such as line of credit, intraday and overdraft facilities)	Optional	SDA	SBT Portfolio Coverage	Temperature Rating

# Asset classes deep dive

For asset managers, FI-C16 also applies to funds managed **under discretionary mandates**.

Asset class	Products and Requirement for Inclusion in Targets	Required Minimum Coverage	Applicable Methods		
Listed equity and bonds	Common stock	100%	SDA	SBT Portfolio Coverage	Temperature Rating
	Preferred stock	100%			
	Corporate bonds	100%			
	Exchange traded funds	100%			
	Investments in real estate investment trusts (REITs), listed real estate companies, and real estate mutual funds	100%			
	Funds of funds	Optional			
	Listed equity and bonds	Derivatives	Not applicable	Not available	
Sovereign and government bonds					
Supranational, sub-sovereign (including municipal) bonds					
Agency bonds					
Securitized fixed income (includes asset-backed securities/mortgage-backed securities, covered bonds)					

Note: Mutual funds covering required activities in listed equity and bonds are also required.



# Asset classes deep dive

As more data become available, methods become more mature, and financial institutions gain more experience in target setting, [the SBTi may revise this table](#) through the annual criteria update process.

Financial institutions [may also set additional targets to increase the coverage of targets on their portfolios](#) as methods become available for additional asset classes and sectors.

Asset class	Products and Requirement for Inclusion in Targets	Required Minimum Coverage	Applicable Methods
Private equity and debt, includes venture capital	Private equity and debt, e.g., mezzanine capital, ordinary shares, preferred shares, shareholder loans, private real estate companies <sup>1</sup>	Optional	SDA
Advisory services, if relevant	Advisory services (e.g., Mergers and acquisitions), debt and equity underwriting, brokerage-securities and commodities, trading securities and commodities, credit guarantees, insurance contracts, transaction services	Not applicable	Not available

Note: We are in the process to come up with a credible minimum target boundary for private equity firms.

## Q&A 3

**Q:** Our portfolio as of last year: Bonds(75.0%), Equity(5.6%), Loans(7.1%), Real estate(3.0%), Others-including accrued interest, prepayments, receivables (9.3%)

- We think we can cover Bonds, Equity, Loans soon , which is about 90% of our portfolio
- To cover Real estate(3.0%) and Others(9.3%) will take some time. We bought real estate directly for investment purposes, so Real estate(3.0%) includes office buildings and so on.

**Is it possible to apply if we only cover equity, bonds and loans, but without real estates and others?**

**A:** The requirement of the criteria is that financial institutions set targets on **all “Required” asset classes** that are relevant to them in a target submission.

If you own and manage real estate directly, these assets should fall in your scope 1 and 2 emissions. 5% of scope 1 and 2 emissions can be excluded from target setting as per [SBTI criteria](#) for financial institutions.

The products you described in the “**Other categories**” should be **out of scope** and are not required to be covered.

## FI-C17.1 Sectoral Decarbonization Approach Targets

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



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



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



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



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

## FI-C17.2 SBT Portfolio Coverage Targets

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



- Boundary: Financial institutions shall set engagement targets on corporate instruments as specified in the Required Activities and Methods Table (Table 5.2).



- Target Level of Ambition: Financial institutions shall commit to having a portion of their borrowers and/or investees set their own approved science-based targets such that the financial institution is on a linear path to 100 percent portfolio coverage by 2040 (using a weighting approach in the SBT Finance Tool). For example, a financial institution starting with 10 percent coverage in 2020 would need to increase coverage by 4.5 percent per year  $(90 / (2040 - 2020) = 4.5)$  and reach at least 32.5 percent  $(10 + [5 \times 4.5] = 32.5)$  coverage by 2025.



- Target Formulation: Financial institutions shall provide information in the disclosed target language on what percentage of the corporate equity and debt portfolio is covered by the target, using a weighting approach in the SBTi Finance Tool consistently throughout the target period. • Target Time frame: Financial institutions' portfolio coverage targets must be fulfilled within a maximum of five years from the date the FI's target is submitted to the SBTi for validation. Fulfillment of portfolio coverage targets mean that borrowers' and/or investees' SBTs have been approved by SBTi.



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

## FI-C17.3 Portfolio Temperature Rating Targets

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



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



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

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



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



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

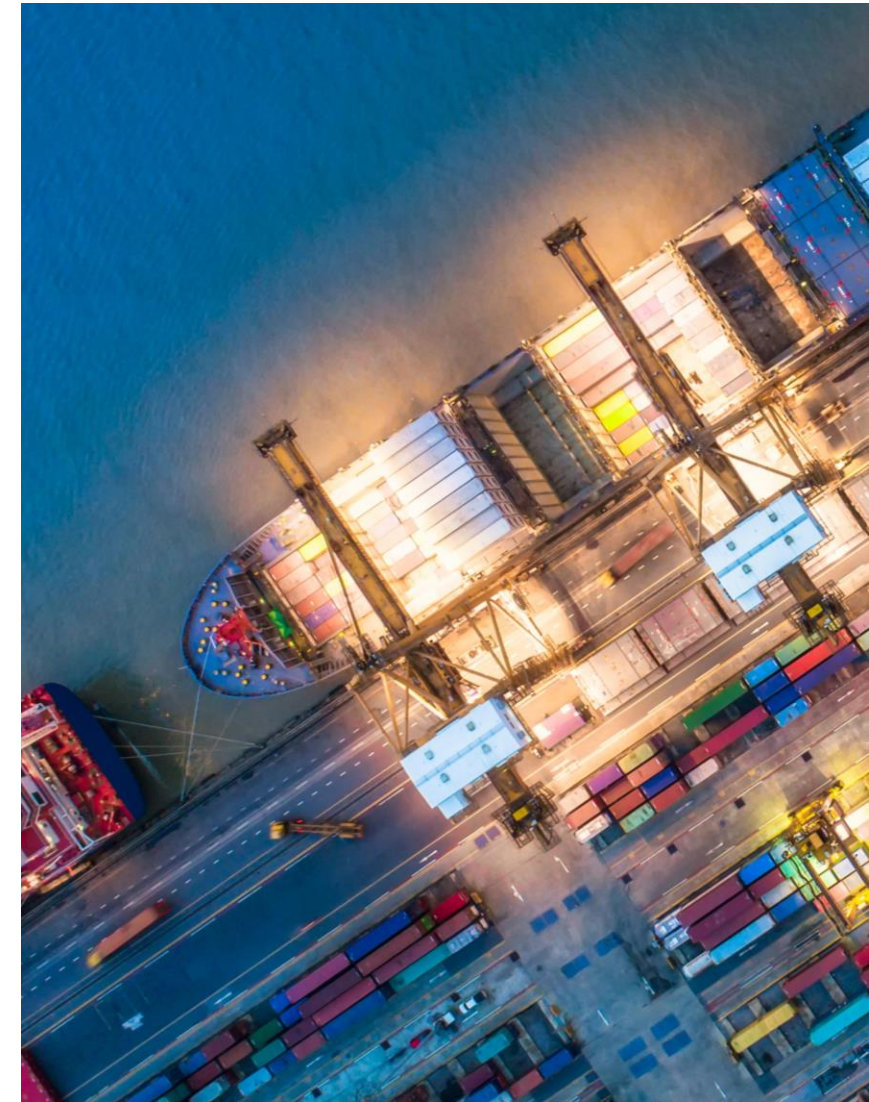
For example, a financial institution starting with scope 1 + 2 + 3 portfolio temperature score of 3.2°C in 2020 would need to decrease its portfolio temperature by at least 0.06°C per year  $((3.2^{\circ}\text{C} - 2^{\circ}\text{C})/[2040 - 2020]) = 0.06^{\circ}\text{C}$ , and reach at least 2.9°C portfolio temperature score by 2025.



## FI-Recommendation 9 “Other” Scope 3 emissions

FI-R9 – Measuring Emissions and Setting Targets for Scope 3, Categories 1–14:

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



## FI-Recommendations 10: Phaseout of Coal Investments

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

*\* Coal companies are defined as companies with greater than 5 percent of revenues from coal mining, coal exploration and drilling, coal mining services, coal processing, coal trading, coal transport and logistics, coal 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-Recommendation 11: Disclosure of Fossil Fuel Investments

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

\* This includes:

(1) Companies that have activities (i.e., identified as share of revenues) in the exploration; extraction; refining; transportation and distribution; storage; retailing; marketing; trading; or power, heat, or cooling production from oil and gas. FIs should disclose the threshold used to delineate oil and gas companies; SBTi recommends a 5 percent threshold and for the threshold to not exceed 30 percent.

(2) In line with FI-R10, companies with greater than 5 percent of revenues from coal mining, coal exploration and drilling, coal mining services, coal processing, coal trading, coal transport and logistics, coal equipment manufacturing, operations and maintenance (O&M) services, engineering, procurement and construction (EPC) services, transmission and distribution of coal-fired electricity, coal to liquids (CtL) and coal to gas (CtG).



# FI Criteria 18-19 – Disclosure of target coverage and implementation reporting

FIs shall formulate target language as follows:

## Example Targets

- A **scope 1 and 2 target** following the target language template
- A **headline scope 3 portfolio target** that describes for which asset classes targets are set, and how much of their total portfolio is covered; and
- Specific target language templates for **asset-level targets**

Financial Institution A commits to reduce absolute scope 1 and 2 GHG emissions [XX]% by [target year] from a [base year].

A commits to achieve SBTs in [asset classes] by [target year] from a [base year]. Financial Institution A's portfolio targets cover [XX]% of its total investment and lending activities by [unit].

SDA for real estate: FI A commits to reduce its real estate portfolio GHG emissions XX% per square meter by 2030 from a 2017 base year.  
SBT Portfolio Coverage: FI A commits that XX% of its equity portfolio within the [asset class or sector] by [unit] will have set science-based targets by 2024.

# FI Criteria 18-19 – Disclosure of target coverage and implementation reporting

It's crucial that financial institutions provide transparency to stakeholders about the actions they plan to take to achieve their portfolio targets.

- At the time of target submission, FIs shall **submit a brief summary of the strategy and actions the FI will implement to reach their portfolio SBTs** and **why** they selected these actions.
- This summary shall be provided by the FIs with their target submission and **will be published**, alongside the SBTs, on the SBTi website.

## Example Language

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

- Example: Financial Institution 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' low-carbon transition. For example, it will offer more favorable interest rates to investees that set and stay on track to meet ambitious climate goals. Financial Institution A selected these actions because [add reasons].



# FI-20 Tracking and Reporting Target Progress

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

## Recommendation

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



# FI-21&22 Mandatory Target Recalculation and Target Validity

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

## Recommendation

FI-R13 – Triggered Target Recalculation: Targets should be recalculated, as needed, to reflect significant changes that would compromise relevance and consistency of the existing target. (examples conditions can be found in the full criteria)

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

## Recommendation

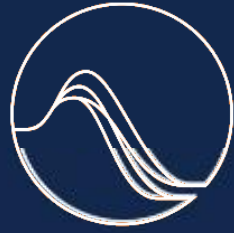
FI-R14 – Validity of Target Projections: The SBTi recommends that financial institutions check the validity of target-related projections annually. The financial institution should notify the SBTi of any significant changes, report these major changes publicly, and consider a target recalculation, as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

# Summary of the criteria



As financial institutions' largest climate impacts are through portfolios, SBTi criteria focus on **scope 3 target setting**.

\*Circle size is *indicative* of criteria weight



SCIENCE  
BASED  
TARGETS

# FINANCIAL SECTOR SCIENCE-BASED TARGETS GUIDANCE

Pilot Version

# SBTi Finance Framework | Guidance

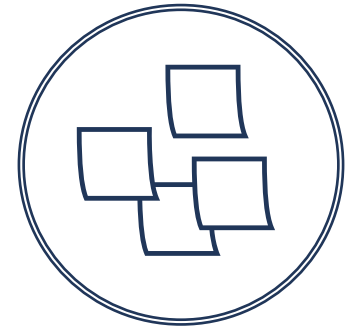
The guidance document ties the three other components of the Framework together and provides recommendations on how to set portfolio SBTs.



Business case for setting SBTs



Guidance to use the criteria, methods and tools to prepare a SBT submission



Case studies from global financial institutions

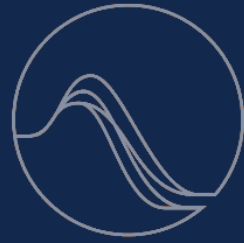


Recommendations on target communication



Recommendations on steps that FIs can take to achieve their targets





SCIENCE  
BASED  
TARGETS

# Next Steps and Opportunities to Participate

# Launching the pilot target validation phase for financial institutions

1.



COMMIT

2.



DEVELOP

3.



SUBMIT

Submissions from the **first 20 financial institutions** will be assessed **free of charge**.

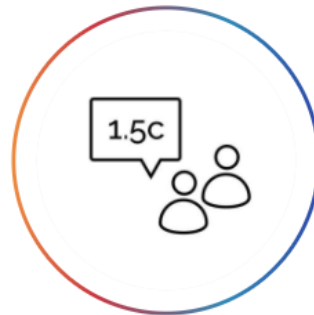
A financial institution specific [submission form](#) is now available.

To submit, complete the submission form and email it to [targets@sciencebasedtargets.org](mailto:targets@sciencebasedtargets.org).

FIs have up to **2 years** to have their targets approved and announced by SBTi once they commit.

**Previously committed FIs** will have **24 months from October 1** to do so.

4.



COMMUNICATE

5.



DISCLOSE

## Potential topics to address in the next version of the criteria

Additional guidance on inventory re-baselining for dynamic portfolios

Refine definition of “discretionary mandate” for asset managers

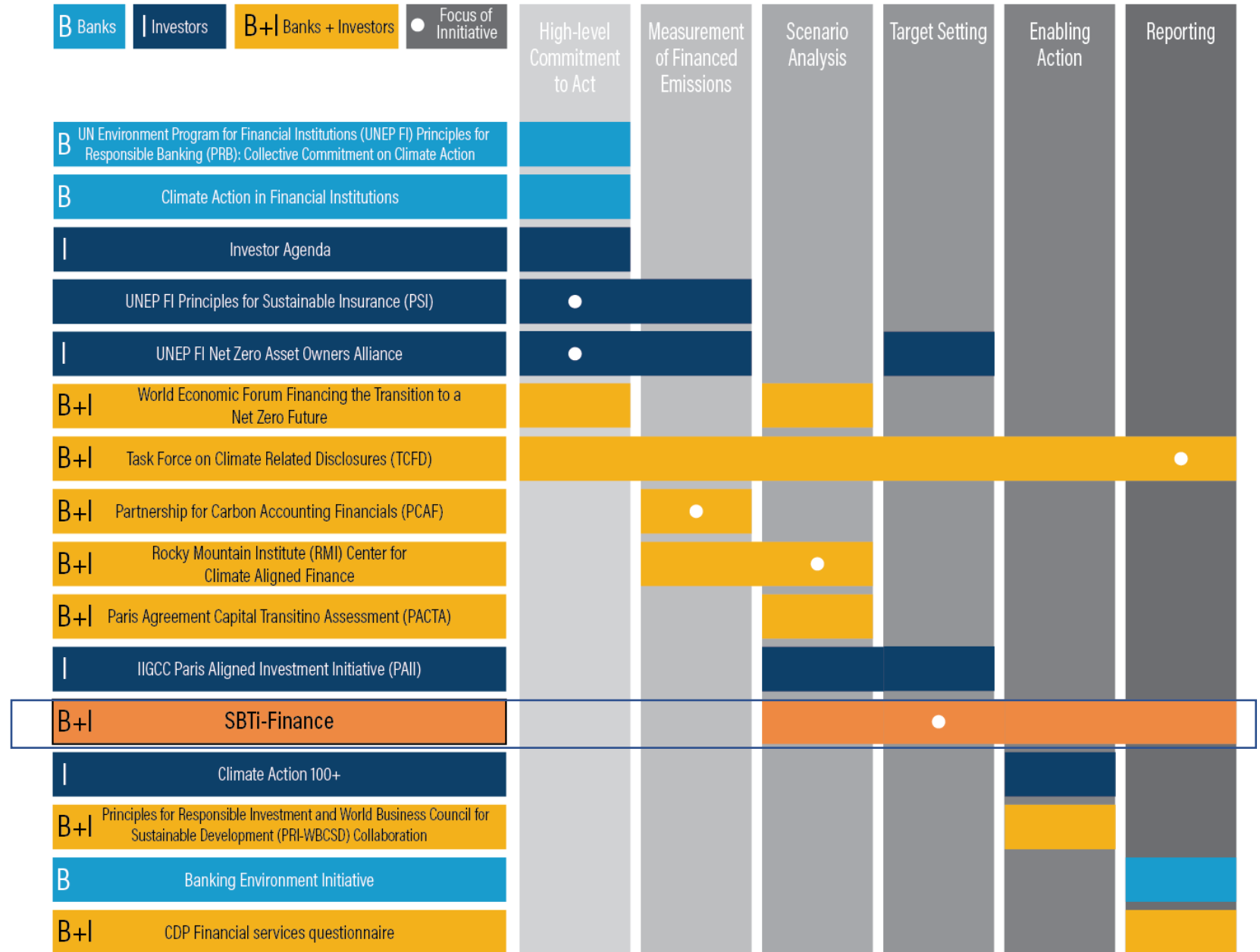
Updated definition of “SME” for the financial sector

SDA method refinements

Additional target boundary requirements for private equity firms

Develop process to review alternative methods

SBTi's Finance framework contributes to the wider ecosystem of related initiatives through its transparent and robust target setting platform and disclosure requirements

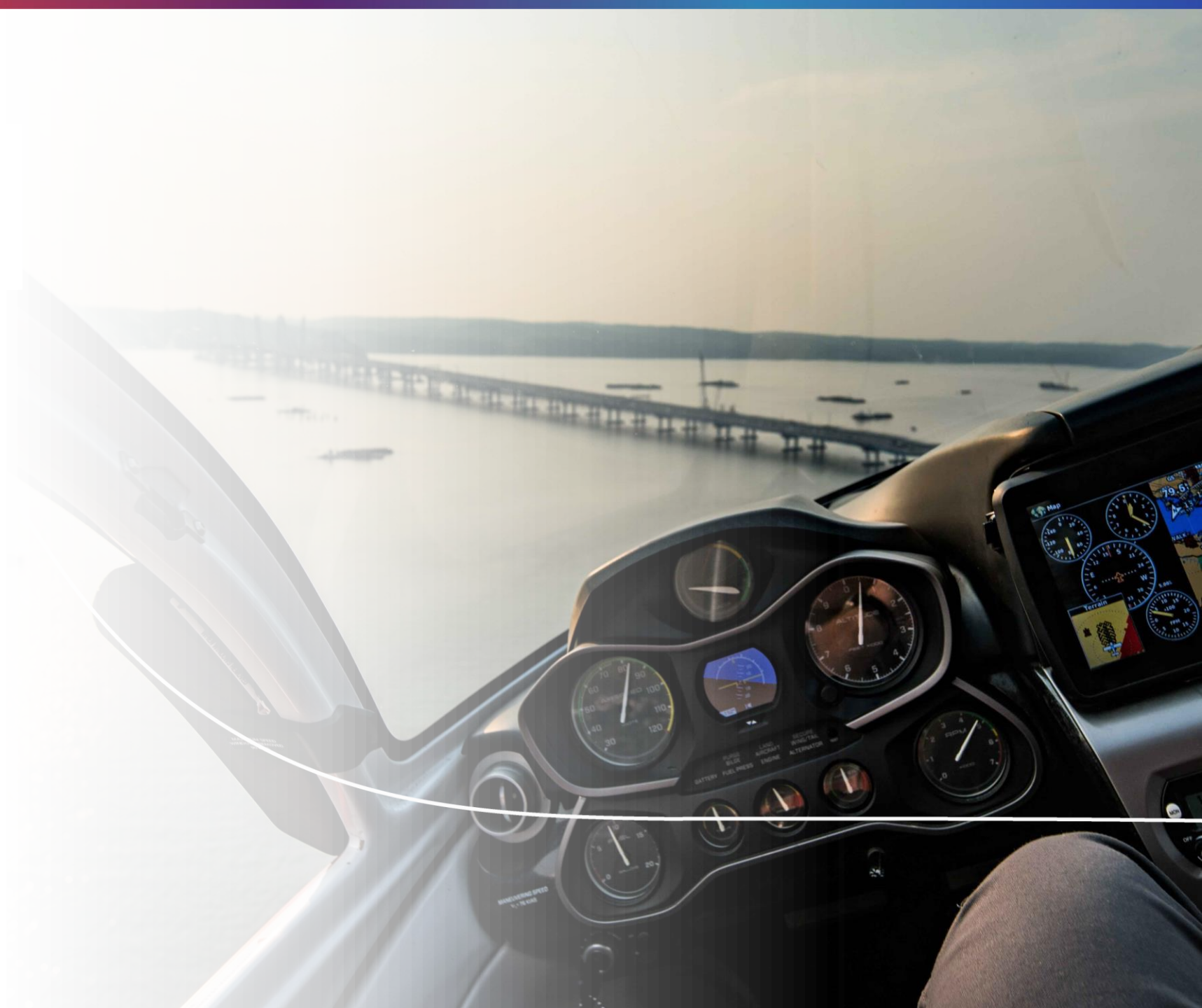


Source: Financial Sector Science Based Targets Guidance (Pilot Version), based on 2019 PCAF figure

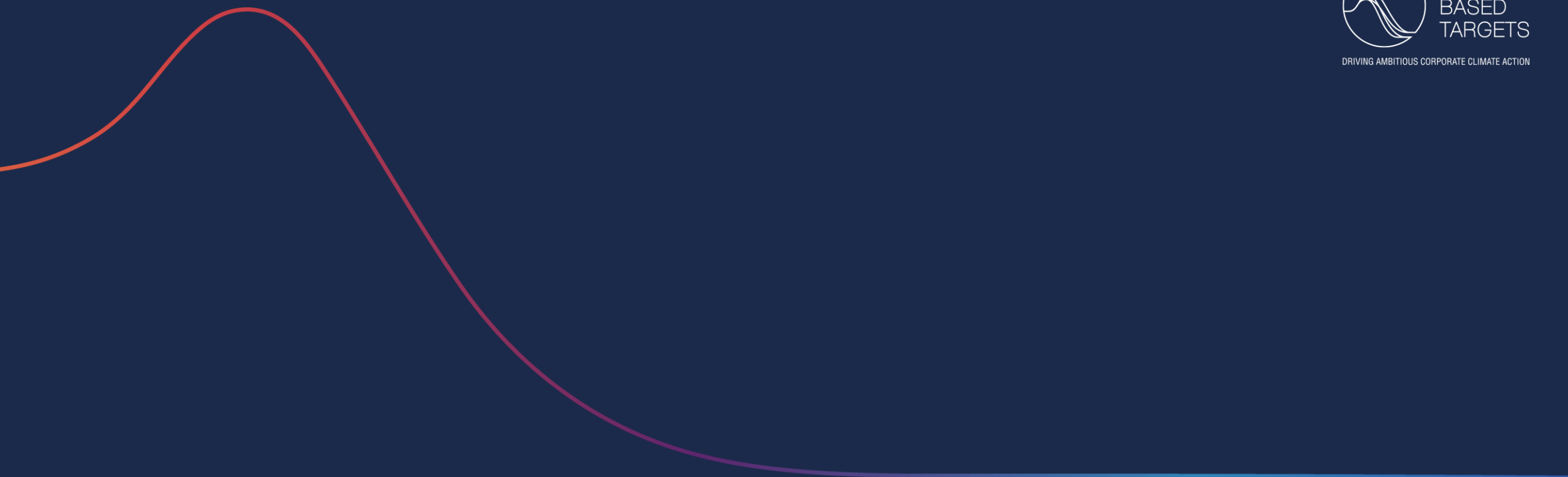
# Opportunities for Participation

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- Optional connection of pilot phase financial institutions for peer-learning opportunities
- Review of alternative target-setting methods
- Integrated reporting and assessment







# THANK YOU

Partner organizations



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