SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Financial Institutions FAQ

V.1
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CRITERIA AND SUBMISSION

What are the changes in the recent guidance for FIs, particularly related to criteria and methodology?

In April 2021, SBTi produced a new guidance that incorporates minor edits and additional clarifications to address the queries we've received since the launch of the guidance. No changes have been made to the criteria in this edited guidance. Revisions include edits to the SDA for real estate and mortgage methods appendices; target setting recommendations for private equity firms; and further clarifications in Section 5.3: Defining the Boundary of Portfolio Targets and the SBTi's two fossil fuel-related recommendations. To accompany this updated guidance, an updated SDA tool for real estate and mortgages portfolios is now available that is consistent with the updated SDA method description in the guidance. The timeline of a formal update of the framework depends on receiving a critical mass of financial institutions' submissions and is therefore yet to be determined.

Could we exclude REITs, listed real estate companies, and real estate mutual funds where their main function is construction and development? Or when the real estate information is not available (blind funds)?

Given that the SDA real estate method does not cover embodied emissions of the buildings' materials, this method is not applicable to construction or rehabilitation of properties. These activities, if relevant and required for an FI, shall be covered by SBT portfolio coverage or temperature rating method.

Could we use absolute approach for transportation sector when output data or credible statistics are not available?

Absolute contraction is not yet an acceptable method under the SBTi finance framework. Therefore, you may use SBT portfolio coverage or temperature rating if input data is not available to model SDA transport targets. SBTi is developing meta-criteria and a process to review alternative methods.

As a financial holdings, is it mandatory our scope include all of our tier subsidiaries (eq sub-subsidiaries) or do we solely include first tier subsidiaries?

All-tier subsidiaries shall be included in parent institution's GHG inventory.

REQUIREMENTS FOR DIFFERENT TYPES OF FINANCIAL INSTITUTIONS/ASSET CLASSES

Are assets under management covered in the methodology or only owned assets by the institution? Does the asset class listed equity and bonds include both owned assets and assets under management?

SBTi requires that asset managers follow FI-C15 and C16 to set targets on funds managed under discretionary mandates. If the asset manager has discretionary mandate over the funds, the investor has delegated the investment decisions to the asset manager with predefined risk level, time horizon, and other specific needs. Once the mandate is signed, the asset manager proceeds to build a portfolio that matches the investor's predefined criteria and makes investment decisions on the investor's behalf without active involvement of the investor (source: ubp). SBTi plans to further elaborate on the target setting requirements for asset managers.

How do I approach the SDA method for asset classes with low PCAF data quality scores? For asset classes with a low PCAF data quality score (e.g. commercial real estate) how should we approach the SDA method?

In general, the SBTi is comfortable with FIs using proxies and modelled estimates where they do not currently collect the data required to set a target, even where this constitutes the lowest data quality on the PCAF scorecard (e.g. score 4 or 5). However, FIs are expected to improve their data quality over time, and to recalculate targets if there are any major changes.

Is it ever compatible with the guidance to use a regional pathway that is less ambitious than the global pathway?

Science-based targets are based on a global sectoral decarbonization pathway in line with keeping global warming well-below 2°C or 1.5°C. Targets set using regional pathways will be assessed against global pathways. Targets set using regional pathways can be accepted if they are equally or more ambitious than targets set using global pathways.

For the SBT Portfolio Coverage - is a sector specific commitment mandatory or can we leave it at a portfolio level only? Additionally, within the target language, how do we specify which assessment method was used?

Sector specific commitments are not required for SBT portfolio coverage targets. The target language templates for "Scope 3 Portfolio Targets – Asset Class Target" specify the different assessments used for different asset level targets These are included in both the submission form and the guidance.

TIMELINE

Once the target for financial institution is submitted, how long will the approval process take?

Under the free pilot phase for submissions from the first 20 financial institutions, SBTi does not guarantee a set turnaround time for the validation process. We aim to complete the process within 2 months, using the 30 day timeframe for regular company validations as a reference. SBTi plans to launch a formal target validation service for financial institutions after the pilot phase and will share more information this year.

What additional asset classes will be added in the near future?

The SBTi has chosen to focus on sovereign debt and equities underwriting for additional asset class method development in 2021.

PEER INITIATIVES

To what extent will SBT Net Zero guidance for FI's be aligned with the already published IIGCC Net Zero Investment Framework for asset managers?

The SBTi net-zero foundations paper for financial institutions will incorporate relevant publications including those from IIGCC, the Race to Zero campaign, and others.