

## FINZ Consultation Draft: Frequently Asked Questions

### Purpose

In the tables below, we have sought to provide answers to some questions (“Frequently Asked Questions” or “FAQs”) readers may have during their initial review of the [SBTi Financial Institutions Net-Zero \(FINZ\) Standard Conceptual Framework and Initial Criteria Consultation Draft](#) (“Consultation Draft” or “Draft”).

The FAQs are divided into sections – first, a general set of questions about the FINZ development process the SBTi is following; it then addresses questions you may have about specific sections of the Consultation Draft.

It is, of course, not possible for us to answer all the potential questions you may have, and this is not intended as a replacement for reading the Draft itself, but other opportunities exist to receive further insights, provide feedback and ask questions during the 60-day Draft consultation period:

- Please provide your feedback on the contents of the Draft and other key updates being provided today by the SBTi (see below) via the online [survey](#);
- Attend the webinars the SBTi is hosting to outline key aspects of the Draft. The first webinar will be held live on July 6<sup>th</sup> at 09:00 and 15:00 CET. Please register [here](#) for this webinar.
- We will also be posting “deep dive” recorded webinars on key aspects of the Consultation Draft and the other finance-related documents the SBTi is releasing today - the [Financial Sector Science Based Target Guidance Update](#) and a draft [Fossil Fuel Finance Position Paper](#). Please register [here](#) to be notified when these deep dive webinars will be posted; and
- Ask questions on our online forum, which can be found [here](#). We try to answer these questions as soon as possible.

General FAQs	Responses
<b>What is the purpose of the Consultation Draft?</b>	The Consultation Draft sets out the target setting framework and initial high-level criteria that will form the basis of the SBTi FINZ Standard. This document and the supporting consultation process allows the public to provide input to SBTi’s development of a full Standard.
<b>Where in the development process does this document fit?</b>	The Consultation Draft provides the first proposal for the FINZ target setting framework. Informed by responses from the consultation, the criteria will be revised and complemented with a review of target setting methods and metrics that will form the basis of the next draft.
<b>Why not simply produce an FI Net-Zero Standard for consultation?</b>	The SBTi needs to develop the building blocks of the overall FINZ Standard while at the same time consulting publicly over key concepts as it progresses. Accordingly, this Draft introduces the basic elements of the FINZ Standard – the framework and the criteria to be used for target setting – for public consultation, with other aspects, including target setting methods and road-testing, to follow in later stages of the Standard.
<b>What are the criteria?</b>	As the basic component of a net-zero standard, the criteria are rules-based requirements and recommendations which form the basis of the targets set by FIs to reach net-zero and against which FIs’ targets will be validated. Criteria are established for five key components: 1) boundary, 2) near-term SBTs, 3) long-term net-zero targets, 4) fossil fuel finance, 5) measurement and reporting.
<b>Who was involved and consulted with during the writing of the Consultation Draft?</b>	This Draft has been developed with input from an Expert Advisory Group consisting of 50+ financial institution representatives, net-zero alliances, consultancies, academics and civil society organizations (NGOs). The principles and concepts behind the criteria have also been tested individually with selected experts, including industry groups and NGOs.
<b>Why produce three different FI-related</b>	In addition to the Consultation Draft, we have launched a Version 2.0 draft of the <a href="#">Financial Sector Science Based Target Guidance</a> (“Near-

<p><b>papers and issue them at the same time?</b></p>	<p>Term Framework”) and a draft <a href="#">Fossil Fuel Finance Position Paper</a> (“FF Finance Paper”). The decision was taken to release them at the same time as the existing Near-Term Guidance required key updates to be incorporated to provide FIs with optimal near-term target setting options while the FINZ framework is being developed.</p> <p>The launch of the FF Finance Paper provides guidance to FIs in addressing the highest-emitting sector of the economy. Both the Consultation Draft and the Near-Term Framework incorporate aspects of the FF Finance Paper. As such, a contemporaneous issuance was appropriate.</p>
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Near-Term Targets vs Net-Zero FAQs	Responses
<p><b>How will the current Near-Term Framework and SBTi FINZ work together?</b></p>	<p>The FINZ framework provides a more comprehensive update to the current Near-Term Framework. Upon completion of the FINZ Standard, the current Near-Term Framework will be phased out, with the FINZ Standard offering both near-term and long-term net-zero target criteria. FIs will still have the choice to set near-term targets taken from the FINZ Standard only or to establish both near-term and long-term net-zero targets.</p>
<p><b>We currently have near-term FI targets set with the SBTi. Are these still valid?</b></p>	<p>FIs who have set targets under the SBTi’s Near-Term Framework will continue to have valid targets. Targets can still be committed to and set under the Near-Term Framework. The existing Near-Term Framework will ultimately be phased out upon the finalization and phase in of the FINZ Standard (at the earliest six months after the publication of the FINZ Standard Version 1.0). As stated, FIs will still have the choice to only set near-term targets taken from the FINZ Standard.</p> <p>FIs wishing to add long-term net-zero targets to their existing approved near-term SBTs, will have to update any existing targets to ensure they are consistent with near-term criteria established in the FINZ standard.</p>
<p><b>How do the near-term targets in FINZ differ from the SBTi’s current near-term framework?</b></p>	<p>The Draft proposes significantly updating and expanding the approach to near-term targets and focuses on two key aspects:</p> <ol style="list-style-type: none"> <li>1) <b>Coverage:</b> introducing a holistic approach to define a portfolio target boundary for both near-term and long-term targets. This boundary is based on financed and facilitated emissions with coverage criteria being derived using a climate relevance principle. The FINZ proposal introduces a portfolio target boundary that is based on a GHG emissions inventory across “in scope” asset classes. Ultimately, this enables more flexibility and introduces a materiality element for FIs to focus on asset classes where they have the greatest sources of emissions.</li> <li>2) <b>Portfolio alignment:</b> the current Near-Term Framework applies three target setting methods (increased to four under the updated Near-Term Framework) to address finance and lending activities. Each of these current methods (Sectoral Decarbonization Approach, SBTi Portfolio Coverage and Temperature Rating Approach) requires its own form of aggregation depending on the asset class or sector that the method is covering. The FINZ framework, however, proposes to move to a broader portfolio</li> </ol>

	<p>alignment approach to validate how aligned the financial flows are to 1.5°C outcomes, with ambition and alignment defined across all asset classes, not only within each asset class. This means FIs will be able to select different methods to align different components of their portfolio to ensure they increase the number of activities that are aligned over time.</p> <p>See “<b>How is ambition defined in the Consultation Draft?</b>” below for more information on the alignment approach.</p>
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Target Setting Framework FAQs	Responses
<b>What is the FINZ framework trying to achieve?</b>	<p>The goal of the SBTi is to drive system and market transformation by ensuring all key actors in the economy have common incentives to transition along 1.5°C pathways. This includes the financial services sector; it must use its influence and ability as owners and allocators of capital and other financial services to contribute to the global 1.5°C and net-zero goals. The framework is designed to ensure that FI targets are consistent with 1.5°C goals and provide transparent, robust, and credible means for FIs to transition their portfolios.</p>
<b>Why is a portfolio alignment framework being used?</b>	<p>The purpose of using a portfolio alignment approach is for FIs to contribute to global net-zero goals by focusing on the alignment of the entities and activities they are supporting with their financial services. A portfolio alignment framework is not being used to validate impact, but to validate how aligned the financial flows are to 1.5°C outcomes. SBTi has defined three key components required for FIs to align their portfolios:</p> <ul style="list-style-type: none"> <li>• Stop financial flows that support the development of new high-emitting assets;</li> <li>• Focus efforts on decarbonization of existing portfolio holdings through transition financing; and</li> <li>• Support the growth of net-zero aligned activities.</li> </ul>
<b>How are portfolio emissions addressed in the framework?</b>	<p>Portfolio alignment can be considered a <b>leading indicator</b>, driving the action needed in the real economy, with portfolio emissions being a <b>lagging indicator</b>, representing the resulting portfolio emissions reduction that come from having more aligned portfolios.</p> <p>The FINZ target setting framework is primarily based around FIs using a portfolio alignment pathway with the corresponding targets that incentivize real economy decarbonization, rather than a focus on reducing exposure to emissions i.e., “paper decarbonization”. Emissions exposure metrics can be helpful to understand where the portfolio is relative to its long-term destination of net-zero, but they should not drive decisions in the near-term.</p>

<p><b>How is ambition defined in the Consultation Draft?</b></p>	<p>Under a portfolio alignment approach, FIs should focus on increasing the share of their financial flows that are aligned with 1.5°C low/no overshoot pathways. A 1.5°C portfolio ambition must, therefore, be addressed using two parameters, covering both the degree and type of alignment over time:</p> <ul style="list-style-type: none"> <li>• Degree of alignment: determines the rate at which different financial activities need to be 1.5°C aligned over time, starting with the most climate relevant assets.</li> <li>• Type of alignment: determines what counts as 1.5°C alignment over time. A maturity scale approach to alignment is introduced to categorize the different types of alignment and their relevance over time.</li> </ul> <p>A better understanding of what 1.5C alignment at the entity and activity level is required to ensure that have FIs can establish credible and robust alignment targets at the portfolio level. For example, portfolio companies with 1.5°C <b>ambition</b> is an important metric of alignment now but will become less so over time as <b>performance</b> in line with 1.5°C pathways will be the key metric to evaluate the transition of portfolio companies.</p>
<p><b>Would it not be simpler for FIs to divest from some high-emitting industries to bring down their total emissions?</b></p>	<p>As stated, the FINZ framework is designed not only to target a reduction in exposure to emissions, but also to promote and grow the share of portfolios that are aligned with 1.5°C low/no overshoot pathways. The FINZ framework focuses on portfolio alignment-based targets to ensure that FIs' targets contribute to financing emission reductions in the real economy, rather than simply reducing exposure to emissions generating activities.</p>

Coverage FAQs	Responses
<p><b>What financial activities are “in scope”?</b></p>	<p>All financial activities (e.g., lending/investing, capital markets, insurance underwriting) over which an FI has influence and for which a credible GHG accounting framework and target setting method exist. The SBTi has introduced a principles-based approach to determine the Portfolio Target Boundary and identify the “in scope” financial activities.</p>
<p><b>Does this mean the FI needs to calculate all emissions related to these flows?</b></p>	<p>At least a screening of the GHG emissions across these “in scope” activities is required for the FI to determine where to prioritize action. Portfolio emissions data only needs to be sufficient to determine the relative impact of certain asset classes. FIs are also expected to disclose the quality of this information using standard measures recommended by GHGP and PCAF.</p>
<p><b>Will other financial activities be added over time?</b></p>	<p>Yes, the coverage principles will be used by the SBTi to evaluate additional financial activities over time (e.g., sovereign debt, securities underwriting). These will then be incorporated into the Portfolio Target Boundary when credible target setting methods become available. The Draft sets out several options for how the boundary should be expanded over time.</p>
<p><b>What are “financed” and “facilitated” emissions?</b></p>	<p>Financed emissions are typically derived from the use of an FI’s own funds for lending or investing and are usually on-balance sheet. Facilitated emissions often arise from assisting in the risk management or financing of companies and may not be directly linked to an underlying</p>

	lending or investment, e.g., equity or debt underwriting; insurance underwriting.
<b>Are insurance-associated emissions addressed in the Consultation Draft?</b>	Yes, insurance-associated emissions are covered in the Consultation Draft as a sub-set of facilitated emissions.
<b>Are any asset classes or activities mandatory?</b>	While a materiality approach to coverage is being introduced, certain activities should always be addressed by FIs when establishing their targets. FIs must address the highest emitting asset classes or activities. For example, fossil fuel finance and lending to power generation assets must always be covered <u>regardless</u> of their share of financial value or emissions in an FI's portfolio.
<b>What is the Portfolio Target Boundary?</b>	A Portfolio Target Boundary includes all "in scope" Scope 3, Category 15+ emissions. Scopes 1 and 2 and (if appropriate) Scope 3 categories 1-14 in the Operational Boundary of the organization are to be covered by the SBTi Corporate Net-Zero Standard.
<b>What is Scope 3 Category 15+?</b>	Using the coverage principles, the SBTi intends for an FI's Portfolio Target Boundary, ultimately, to include all traditional financing activities plus a broader scope of facilitation and other activities that financial institutions regularly engage in – capital markets activities, insurance, and third-party asset management. Hence the term "Scope 3 Category 15+" is used.
<b>How is third-party asset management handled in this Draft?</b>	As with the current Near-Term Framework and criteria, third party asset management is in scope. This is further clarified in the coverage principles in the Consultation Draft. There are also methods available for the most common asset classes.

Fossil Fuels FAQs	Responses
<b>Why are emissions from fossil fuel companies treated separately from all other emissions?</b>	Financing or facilitating the development and use of fossil fuels can often represent a significant source of an FI's portfolio emissions. Given the importance of the fossil fuel sector, the SBTi has produced the FF Finance Paper and separate criteria in the Consultation Draft and Near-Term Framework to obtain stakeholder input prior to the inclusion of fossil fuels as a mandatory activity for inclusion within the Portfolio Target Boundary.
<b>Why address fossil fuels now?</b>	Given the need to drive meaningful emission reductions (per IPCC guidance to limit warming to 1.5°C with low/no overshoot), it is an imperative for an FI to explicitly address fossil fuel finance when establishing its net-zero targets.

Long-Term Net-Zero Targets and Neutralization FAQs	Responses
<b>What are the key components in FI long-term targets?</b>	Long-term targets contain an alignment and emissions component, with the ultimate goal for an FI being to reach a state where its financing does not contribute to the accumulation of GHGs in the atmosphere. Achieving long-term alignment targets may still leave some residual portfolio emissions, which must be neutralized by the portfolio companies or by the FI.
<b>What is the role of neutralization in FI net-zero targets?</b>	Neutralization has been previously defined at the corporate level, with this definition being extended in this Draft to address neutralization at the portfolio level. In the Consultation Draft, several criteria which address

	how neutralization should be undertaken are proposed, including whose responsibility it should be to neutralize residual portfolio emissions.
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Next Steps	Responses
<b>What happens now?</b>	There is a 60-day Consultation Period after publication of this Draft, during which time the SBTi will develop other workstreams associated with the FINZ framework. We will use these workstreams, together with input from our Expert Advisory Group, road testing, feedback from the <a href="#">survey</a> on the Consultation Draft and other types of engagement to provide an updated Exposure Draft in due course.
<b>What additional aspects need to be covered before the SBTi produces its FINZ Standard?</b>	This is set out in Sections 1.3 and 1.4 of the Consultation Draft. The next steps will include selection and testing of alignment methods and metrics to be used for different financial activities. These will be combined with a refined set of criteria (based upon feedback from this public consultation) to form Version 1 of the FINZ Standard.
<b>When can we expect to see Version 1 of the FINZ Standard?</b>	Delivery of the SBTi FINZ Standard is dependent on a number of factors - not least public input provided to this Consultation Draft – so it is difficult to be definitive as to timelines. However, we anticipate delivery of the Standard in 2024.