

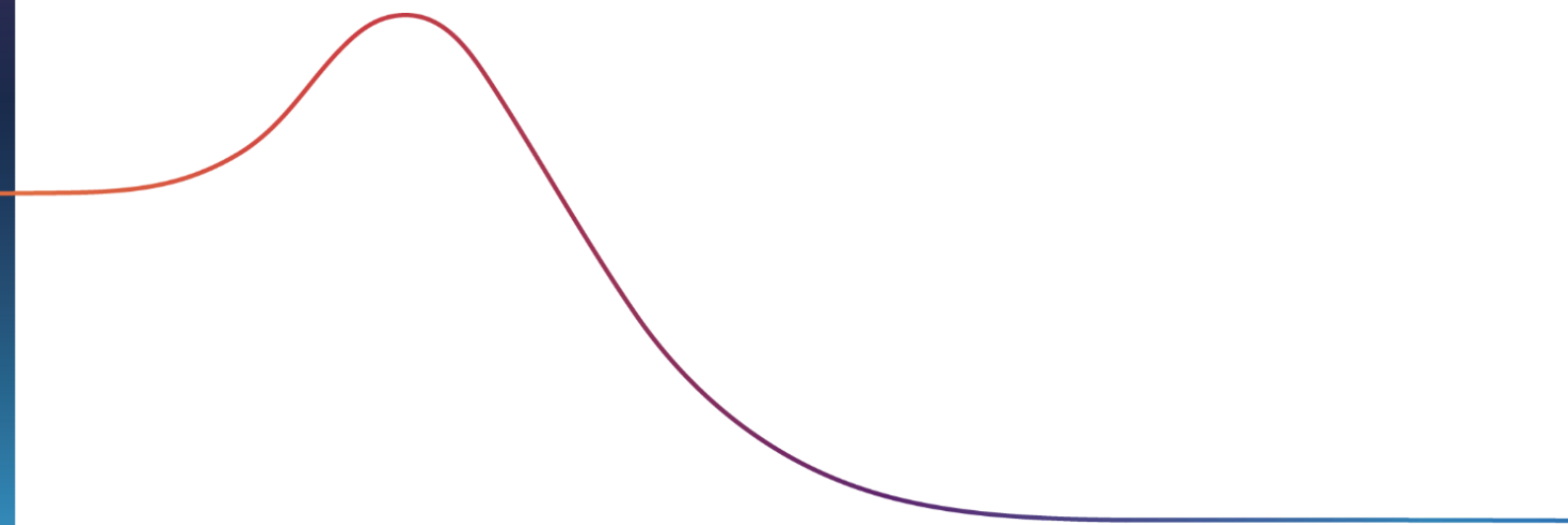


SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

THE SBTi FINANCIAL INSTITUTIONS NET-ZERO STANDARD TERMS OF REFERENCE

May 2024



ABOUT SBTi

The Science Based Targets initiative (SBTi) is a corporate climate action organization that enables companies and financial institutions worldwide to play their part in combating the climate crisis.

We develop standards, tools and guidance which allow companies to set greenhouse gas (GHG) emissions reductions targets in line with what is needed to keep global heating below catastrophic levels and reach net-zero by 2050 at latest.

The SBTi is incorporated as a charity, with a subsidiary which will host our target validation services. Our partners are CDP, the United Nations Global Compact, the We Mean Business Coalition, the World Resources Institute (WRI), and the World Wide Fund for Nature (WWF).

DISCLAIMER

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The SBTi reserves the right to revise this document according to a set revision schedule or as advisable to reflect the most recent emissions scenarios, regulatory, legal or scientific developments, and GHG accounting best practices.

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1. INTRODUCTION

About this Terms of Reference

These Terms of Reference describe the key information related to the second phase of the Financial Institutions Net-Zero Standard version 1 (FINZ Standard) project which, following the board's adoption on 14 December 2023, has followed the [Standard Operating Procedure \(SOP\)](#) for Development of SBTi Standards. It should be noted however, that the first phase of the project, which commenced in 2021, has also followed a rigorous multi stakeholder consultative process, and has to date delivered the following:

- Publication of the [Foundations for Science-Based Net-Zero Target Setting in the Financial Sector](#) paper
- An Expert Advisory Group (EAG), comprising a diverse group of c.50 experts including financial institutions (FIs), professional services, NGOs and academia
- Ten EAG meetings
- A publicly released [consultation draft](#) comprising a conceptual framework and initial criteria for banks, asset owners, asset managers and re/insurance companies.
- A 69 day consultation process
- Two inputs into the FINZ Standard draft: the Financial Institutions Near-Term (FINT) Guidance Update and the Fossil Fuels Financing Paper
- An Industry Brief for the [SBTi Financial Institutions Net-Zero Insurance Standard \(Underwriting Portfolios\)](#) published in December 2023.

Objectives

The key objectives of the FINZ Standard are to:

- Provide FIs with a framework to address their scope 3, category 15 portfolio emissions, in a manner consistent with contributing to the goal of achieving net-zero emissions by 2050, and in line with 1.5°C low/no overshoot pathways at the global level.
- Provide both near and long-term target setting options and serve as an update and an eventual replacement of SBTi's existing near-term guidance for FIs.
- Facilitate the scaling up of FIs' climate ambitions, while focusing efforts on decarbonization of existing portfolio holdings by offering a broader range of metrics and tools for which FIs can measure, track and improve the alignment of their financial services.

Scope

The project to develop Version 1 of the Standard and supporting deliverables will encompass the following:

Technical Elements	Intermediate Deliverables	Final Deliverables
<ul style="list-style-type: none">• Conceptual framework for the role of FIs (and their targets) in contributing to global climate goals	<ul style="list-style-type: none">• Two consultation drafts (the first introducing the Conceptual Framework)	<ul style="list-style-type: none">• FINZ Version 1 Standard• FINZ Criteria/Requirements

<ul style="list-style-type: none"> ● Financial services target boundary overview and specification of climate relevance and influence criteria used to design target boundaries ● Requirements and recommendations across five key types of financial activities for both near and long-term targets: <ul style="list-style-type: none"> ○ lending ○ investing ○ managing ○ insurance underwriting ○ capital markets. ● Selection of target setting metrics and key methods to define ambition with focus on a unified portfolio alignment method that incorporates multiple underlying metrics ● Integrated fossil fuel financing requirements 	<p>and Initial Criteria was published in June 2023)</p> <ul style="list-style-type: none"> ● Two consultation Processes (the first already completed June - August 2023), including surveys and informative webinars ● Two Consultation Reports synthesizing feedback from Consultation Processes 1 and 2 ● Pilot testing as part of the second consultation ● Case studies 	<p>ts Assessment Indicators</p>
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Exclusions

Version 1 of the FINZ Standard will not cover all asset classes (for example sovereign debt), some of which are expected to be added in subsequent versions.

Future developments

Future updates to the FINZ Standard are planned. It is also expected to be followed by supplemental financial institution type standards.

The following areas will be considered for future versions of the Standard:

Expanded Coverage

- Additional asset classes

Neutralization

- Expanded requirements on eligible projects/ technologies that can count towards neutralization.
- Ensuring that the FINZ standard is consistent with ongoing negative GHG emissions accounting standards.

Additional financial institution type guidance

- Additional guidance for banking, asset management, asset owners, private equity and insurance.

Geographic application

The FINZ Standard will be open for use by organizations headquartered and with emissions and activities anywhere in the world that are active in the financial sector.

2. NEED FOR THE SBTi FINZ STANDARD

FIs play an important role in supporting the economy and achieving climate stability. As owners and allocators of capital they can use their influence as lenders, investors and insurers, among many other roles, to help transform the economic activities they service to reach a state of net-zero emissions.

As with other sectors, FIs need to reach a position where their operations, supply chains and most importantly, their financial services reach a state of net-zero emissions. This means the financial services they provide do not contribute to the accumulation of GHGs in the atmosphere and, ultimately, result in net-zero emissions across their portfolios. Crucially, FIs must achieve this long-term goal in such a way that they contribute their fair share to helping the world reach net-zero on a 1.5°C low/no overshoot pathway.

FIs differ from other economic actors in the sense that they provide finance and other activities to actors generating GHG emissions, rather than having direct control over these emissions themselves. While the SBTi 2020 FI Framework presented a bottom-up asset class based approach to target setting, there's a strong appetite for more flexible target-setting approaches. Making financial activities consistent with a net-zero economy is at the center of target-setting for the financial sector.

Given this critical role, the SBTi has embarked on a process to develop a standard for net-zero target-setting. It intends to guide the formulation and assessment of net-zero targets for a range of financial activities, including financial services.

The standard seeks to update and expand the SBTi's approach to target setting in the financial sector, including:

- Define net-zero at the portfolio level to enable financial institutions to make credible net-zero claims.
- Provide long-term target ambition levels both in terms of climate alignment of portfolios and absolute portfolio emission reductions.
- Update and refine the options available for FIs to steer portfolios in a manner that is consistent with 1.5°C in the near-term.
- Provide additional guidance and requirements on the financing and/or underwriting of long-lived high emitting assets (including fossil fuel infrastructure).
- Update and eventually replace existing near-term target setting guidance originally established by SBTi in 2020 to produce one standard for FIs that offers both near and long-term target setting options.
- Utilize the work undertaken by other actors in the ecosystem, which can provide additional elements to improve the SBTi finance frameworks.

3. RELATED STANDARDS AND INITIATIVES

The SBTi is part of a growing ecosystem of standards and initiatives addressing corporate climate change action from different angles. The SBTi recognizes the value of working to harmonize with other actors in this ecosystem.

During the standard development process, the SBTi will assess other standards and initiatives relevant to the Standard's objectives, exploring the feasibility of alignment, where appropriate and feasible, in line with SBTi's objectives and Standard Operating Procedure (SOP) for Development of SBTi Standards. The SBTi will seek the engagement of relevant stakeholders to gather insights on best practices in consideration of other standards and initiatives.

4. SUSTAINABILITY OUTCOMES

In 2018, the Intergovernmental Panel on Climate Change (IPCC) warned that global warming must not exceed 1.5°C above pre-industrial temperatures to avoid the catastrophic impacts of climate change. Business has a vital role to play in driving down greenhouse gas emissions and building the resilient, zero-emissions economy we urgently need. This action must be grounded in science. Science-based targets show companies and financial institutions how much and how quickly they must decarbonize to prevent the worst impacts of climate change.

A key criterion the SBTi uses in prioritizing projects is the impact the project will have in addressing greenhouse gas emissions from key sectors or activities. Financial Institutions (FIs) will play an important role in helping to stabilize the climate. This role is highlighted in the Paris Agreement (UNFCCC, 2016) which includes the goal of making "all financial flows consistent with a pathway towards low-emissions, climate-resilient development."

The standard is expected to focus on a number of outcomes that are necessary for financial services to be aligned with global 1.5°C goals. These include:

Outcome 1 - Robust climate governance: driven through clear sets of public commitments and policies, FIs have:

- A clear, comprehensive, and strategic plan to support the net-zero commitment across the organization to ensure aligned and coordinated climate action across all business divisions.
- Comprehensive portfolio boundary covering all relevant financial activities
- Policies that drive transformation consistent with reaching net-zero emissions globally and with limiting warming to 1.5°C.

Outcome 2 - Comprehensive assessment of climate impacts: driven through clear accounting requirements, FIs:

- Establish portfolio GHG emissions accounting inventories across relevant financial activities with a continuous improvement over scope and quality of reporting over time.

Outcome 3 - Alignment of relevant financial activities with global climate goals: driven through ambitious portfolio-wide targets, FIs:

- Scale up financial activities towards climate solutions thereby recognizing their contribution to a successful net-zero transition.
- Quantify and track the share of their portfolio holdings that are aligning or aligned with global climate goals, prioritizing action on emission intensive activities. Alignment includes those already achieving emissions performance compatible with limiting warming to 1.5°C and those actively working towards this goal, eventually directing all financial flows and insurance capacity to entities and activities that have achieved net-zero.

Outcome 4 - Prioritize addressing emission-intensive activities: driven through ambitious sector-specific *targets*, FIs:

- Map and disclose exposure to climate critical activities.
- Ensure financial flows and insurance underwriting for key emissions-intensive activities are compatible with 1.5°C aligned benchmarks.

Outcome 5 - Transparency and reporting: driven through *disclosure*, FIs have:

- Clear and comprehensive annual reporting
- Robust and transparent ambition and performance throughout the net-zero journey.

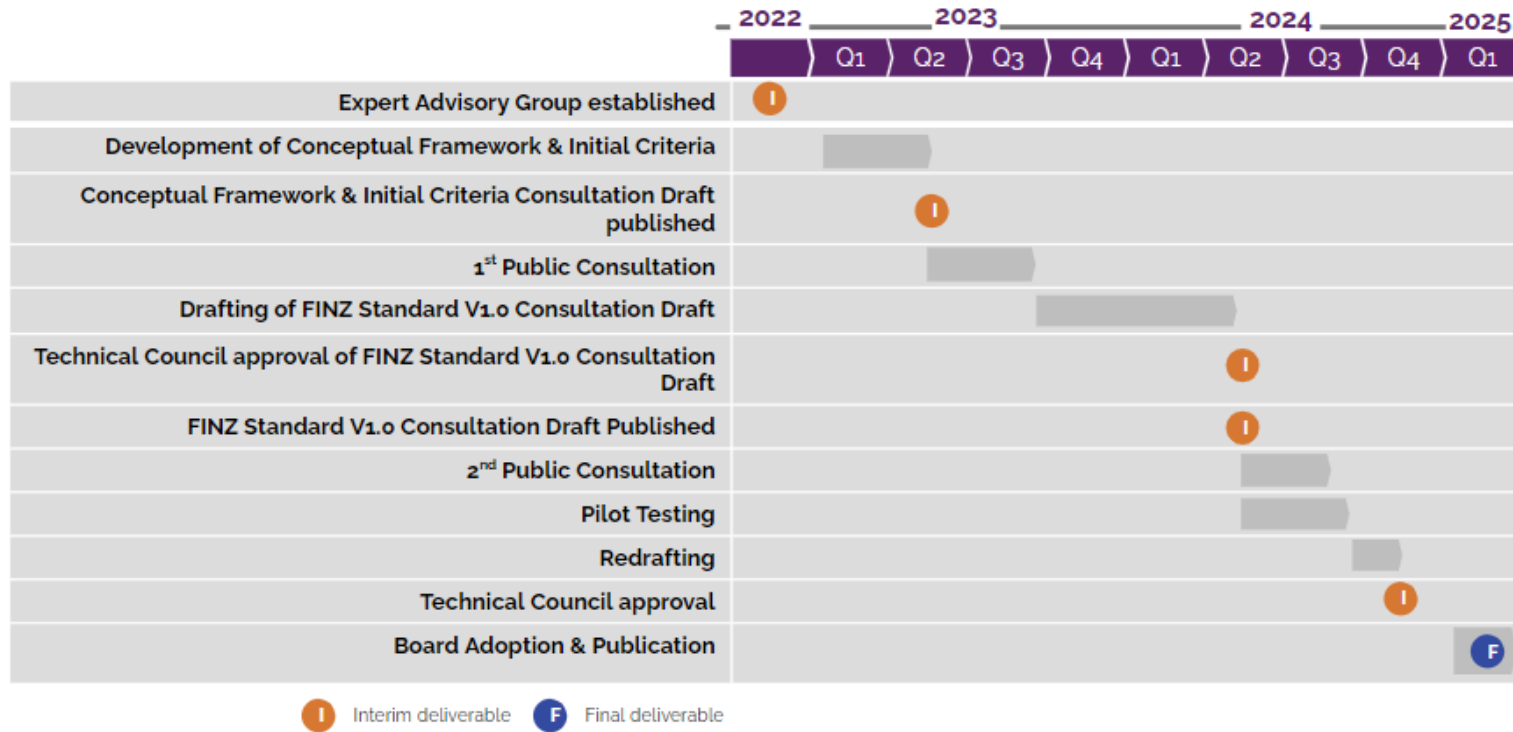
The standard also focuses on defining and growing the share of financial flows that are aligned to the 1.5°C outcomes listed above.

5. GOVERNANCE STRUCTURE AND DECISION MAKING

The [Standard Operating Procedure \(SOP\) for Development of SBTi Standards](#) sets out in detail the governance and decision making processes that apply to standards development and revisions.

6. ESTIMATED TIMELINE

The expected timeline for the FINZ Standard is shown below. This includes milestones and dates for engagement. **Please note that these are expected timelines and are subject to change.**



7. ENGAGEMENT

How to engage?

The SBTi values stakeholder input to inform the development of its technical outputs. There are a variety of channels through which stakeholders can engage with and input into the development of the FINZ Standard.

Throughout the development of the FINZ Standard the Financial Standards team has regularly consulted with the FINZ Expert Advisory Group. In the interests of ensuring a balance of views and expertise, it comprises volunteer advisors from financial institutions, NGOs, civil society and academia, with in-depth knowledge in science-based target setting and climate action in the finance sector. The primary objective for the EAG is to serve in a technical advisory capacity, for the FINZ team and to provide requested input and advice to priority topics and decisions. The SBTi seeks to proactively diversify its EAG through periodic reviews of its membership and opportunities to broaden it further. This includes open calls for membership, so that the full spectrum of views are represented across all stakeholder groups.

The FINZ Standard will also go through a minimum of two rounds of public consultation. The first consultation, completed between June and August last year, lasted for a duration of 69 days. The second consultation will last for a minimum duration of 45 days. During the consultation period, stakeholders will have the opportunity to submit feedback to the consultation questionnaire via a survey. These resources will be available on [the SBTi Financial Institutions website](#).

Stakeholders are also welcome to submit feedback using a Project Request Feedback Form. This form can be used to submit feedback on any SBTi project, or project resource, at any stage of development.

Through the FINZ Standard development process, the Project Team will host webinars to, for example, deep dive into the content of the project resources. In addition to the webinars already delivered as part of the consultation process in June through to August 2023, dates for webinars in 2024 are yet to be determined. Stakeholders can stay up to date with the FINZ Standard development process and planned events by monitoring the SBTi's website for updates, signing up for the SBTi newsletter and following the SBTi on X and LinkedIn.

For any general queries relating to the FINZ Standard and how to engage please contact info@sciencebasedtargets.org.

Who should engage?

The FINZ Standard Team welcomes input from any interested individual/organization, but will actively engage with the following stakeholders:

- Corporates
- Governments and regulators
- Civil society organizations, associations and technical experts
- Academic and research institutions
- Financial Institutions
- Standard setters, and other subject matter experts
- All other stakeholders with an interest in this project development.

8. LANGUAGES

All documents relating to the FINZ Standard, including consultation drafts, will be published in English (this is the SBTi working language). The Standard may be translated to other languages in the future.



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