info@sciencebasedtargets.org
www.sciencebasedtargets.org

www.twitter.com/sciencetargets

SBT-Finance Draft Target Validation Criteria Background Document

March 13th, 2020

This document presents draft target validation criteria and target-setting methods and for financial institutions' investment and lending activities within SBTi-Finance's framework. This is a background document to accompany the draft target validation criteria consultation survey. The target-setting methods, criteria, and guidance comprise the SBTi framework for financial institutions.

Table of Contents

SBT-Finance Target Validation Draft Criteria

The following table presents the draft target validation criteria for financial institutions' scope 1, 2, and 3 targets. We are seeking feedback on criteria highlighted in yellow. Relevant questions on these criteria are included in the survey. Separate offline survey form is also attached in the distribution email for stakeholders unable to access the online survey link to provide feedback.

Criteria	Validation requirements, and recommendations
C1 – GHG Emission Scopes *Financial institutions (FIs) must set a target(s) that cover(s) institution-wide scope 1 and scope 2 emissions, as defined by the GHG Protocol Corporate Standard.*	● At least one target covering scope 1 (S1) and scope 2 (S2) must be submitted (can be a combined target or separate targets) if each scope's emissions are above the minimum threshold for exclusion (5% of overall scope 1 and 2 emissions) ● Either percentage-based emission-reduction targets or renewable energy procurement targets are acceptable for S2 emissions.
C2 – Significance thresholds *Financial institutions may exclude up to 5% of scope 1 and scope 2 emissions combined in the boundary of the inventory and target.*	● The scope 1 and 2 GHG inventory must account for at least 95% of entity-wide emissions. ● All exclusions (e.g., activities, facilities) must be clearly justified with estimates of associated emissions value. ● Specific regions/business activities can be excluded if they represent less than 5% of total S1 and 2 emissions. If specific regions or business sections are excluded from S1 or S2, the financial institution must assess whether these emissions are relevant for S3 accounting and account for them per the requirement of the GHGP Scope 3 Standard. ● If specific regions or business sections are excluded, provided total exclusions remain below 5%, recalculation of targets is required if those regions/business sections increase significantly as per C22 recalculation criteria. However, financial institutions cannot include specific regions and businesses in the official target language.
C3 – Greenhouse gases *The targets must cover all relevant GHGs as required per the GHG Protocol Corporate Standard.*	● All relevant GHGs required as per the Kyoto Protocol (CO_2, CH_4, N_2O, HFC, PFC, SF_6, NF_3) must be included. ● GHG exclusions must be clearly justified, and not exceed 5% of total S1 and 2 emissions. ● The GHG inventory is assessed to ensure any relevant non-CO_2 GHG were not unreasonably omitted.

C4 – Bioenergy accounting *Direct emissions from the combustion of biomass and biofuels for institution-wide operational use, as well as GHG removals associated with bioenergy feedstock, must be included alongside the financial institution's inventory and must be included in the target boundary when setting a science-based target and when reporting progress against that target. If biogenic emissions from biomass and biofuels are considered climate neutral, the financial institution must provide justification of the underlying assumptions.*	● Financial institutions using bioenergy for their own operations must report direct CO2 emissions from combustion of biofuels and/or biomass feedstocks alongside the inventory. ● CH4 and N2O emissions associated with biofuels and biomass combustion should be reported under scopes 1, 2 or 3, as relevant. This applies to financial institutions that assume net zero carbon emissions of bioenergy use. ● Financial institutions using bioenergy must disclose the justifications/assumptions on the methods and renewability of the bioenergy sources. This will include assumptions on emission factors. ● Financial institutions using bioenergy must also confirm that they will update their inventory if/when the SBTi endorses specific methods/factors for estimating these emissions/removals. ● Financial institutions using bioenergy must confirm that emissions and removals associated with bioenergy feedstock are included in the target boundary. This applies even if the financial institutions assume net zero carbon emissions ● For targets that include bioenergy, the target language must include the following footnote: *"*The target boundary includes biogenic emissions and removals from bioenergy feedstocks."*
C5 – Base and target years *Targets must cover a minimum of 5 years and a maximum of 15 years from the date the target is submitted to the SBTi for an official validation.*	● If the target is submitted for validation in the first half of the year (i.e., by the end of June), the timeframe includes the year of submission. If submitted in the second half of the year, the timeframe begins from the start of the following year. ● Long-term targets (beyond 15 years from the date of submission up to 2050) can be validated as *additional optional targets* but are not sufficient on their own to meet this criterion. Long term targets can only be validated if relevant ambition criteria, C6 and C7, are met. ● Base years should cover a complete past calendar or financial year. ● It is recommended to choose the most recent year for which data are available as the target base-year. ● It is recommended to use the same base year and most recent year when reporting greenhouse gas inventories to the SBTi, but if necessary, financial institutions can report a different year for scope 3 when compared to scope 1 and 2.
C6 – Progress to date *Targets that have already been achieved by the date they are submitted to the SBTi are not*	This criterion is only relevant for **scope 1 and 2 percentage-based emission reduction targets** and does not apply to scope 3. This criterion does not apply to renewable energy targets.

*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**	● Targets must not have already been achieved by the submission date. ● The most recent GHG inventory provided must be for a complete year, less than 2 years prior to the year of submission. For targets submitted for an official validation in 2019, the most recent inventory data submitted must be for no earlier than 2016. **If target is absolute based:** ● Forward-looking ambition (i.e., ambition from the most recent year of data to the target year) must be, at a minimum, aligned with the well below 2°C ambition threshold. **If target is intensity-based:** If an SDA pathway is relevant (e.g. commercial real estate in the SDA method for financial institutions): ● The pathway must be representative of the financial institution's activities and the forward-looking ambition must be aligned with the minimum ambition threshold of the relevant SDA pathway or the minimum well below 2°C ambition threshold of the absolute contraction approach. This means that Financial institutions must determine target ambition based on SDA results using most recent emissions and activity data. If no SDA pathway is relevant (e.g., if a financial institution does not find the SDA commercial real estate pathway relevant): ● The financial institution should translate the intensity target into absolute emissions reductions in order to be able to assess ambition and progress to date. ● Activity data (on which the intensity target is based) for the base year, most recent year, and growth projections for the target year must be provided to SBTi for assessment of how the intensity targets translate to absolute emissions reductions ● Forward-looking ambition must be, at a minimum, aligned with the well-below 2°C ambition threshold.

C7 – 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 well below 2°C compared to pre-industrial temperatures, though financial institutions are encouraged to pursue greater efforts towards a 1.5°C trajectory.* *Both the target timeframe ambition (base year to target year) and the forward-looking ambition (most recent year to target year) must meet this ambition criteria.*	For renewable energy procurement targets, refer to criterion C13. For percentage-based emission reduction targets: **<u>If target is absolute based:</u>** ● The timeframe ambition (i.e., ambition from the base year to the target year) must be, at a minimum, aligned with the well below 2°C ambition threshold. **<u>If target is intensity-based</u>:** If SDA pathway relevant (e.g. commercial real estate in SDA for financial institutions): ● Pathway must be representative of a financial institution's activities and the timeframe ambition must be aligned with the minimum ambition threshold of the relevant SDA pathway or the minimum well below 2°C ambition threshold of the absolute contraction approach. If no SDA pathway is relevant (for instance, if a financial institution does not find the SDA commercial real estate pathway relevant): ● The absolute reductions derived from the intensity target should be disclosed ● Timeframe ambition must be, at a minimum, aligned with the well below 2°C ambition threshold. ● Please refer to chapter 3 of the Science-Based Target Setting Manual for guidance on choosing methods for various sectors.
C8 – Absolute vs. intensity *Intensity targets for scope 1 and scope 2 emissions are only eligible when they lead to absolute emission reduction targets in line with climate scenarios for keeping global warming to well below 2°C or when they are modelled 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 well below 2°C goal or aligned with the relevant sector reduction pathway within the Sectoral Decarbonization Approach.*	This criterion is only relevant for **scope 1 and 2 intensity-based reduction targets.** ● The intensity denominator should be representative of the Financial institution's activities. ● The intensity targets should be paired with relevant activity growth projections and the absolute reductions derived from the intensity target should be disclosed. ● The ambition of the target must be in line with the requirements of C7.

C9 – Method validity *Targets must be modelled using the latest version of methods and tools approved by the initiative. Targets modelled using previous versions of the tools or methods can only be submitted to the SBTi for an official validation within 6 months of the publication of the revised method or the publication of relevant sector-specific tools.*	● Financial institutions must use correct the target setting methods for their own operations and investment and lending activities ● The latest version of the method/tool should be used to set targets. ● Older versions of a method or a tool can only be used within 6 months of the publication of an updated version.
C10 – Offsets *The use of offsets is not counted as emissions reduction toward the progress of financial institutions' science-based targets.* The SBTi requires that companies set targets based on emission reductions through direct action within their own operations or their value chains. Offsets *are only considered to be an option for companies seeking to support additional emission reductions beyond their science-based targets.*	● Offsets are not eligible to be included in the GHG inventory or target boundary. ● For targets submitted, which are very ambitious (>60% absolute reduction) over a short timeframe should justify how these targets are expected to be met without the use of offsets.
C11 - Avoided emissions *Avoided emissions fall under a separate accounting system from corporate inventories and do not count toward science-based targets.*	● Avoided emissions accounting is not permitted in the GHG inventory or target boundary.
C12 – Approaches *Financial institutions shall disclose whether they are using a location or market-based approach as per the GHG Protocol Scope 2 Guidance to calculate base year emissions and to track performance against a science-based target. Financial institutions shall use a single, specified scope 2 accounting approach ("location-based" or "market-based") for setting and tracking progress toward an SBT.*	● Financial institutions must select consistent approaches for S2 accounting both for the base year and most recent year GHG inventories and tracking progress against S2 targets.

C13 – Renewable electricity
Targets to actively source renewable electricity at a rate that is consistent with well below 2°C scenarios are an acceptable alternative to scope 2 emission 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 RE100. Financial institutions that already source electricity at or above these thresholds shall maintain or increase their use of renewable electricity to qualify.
	Note this applies to ***financial institutions' scope 2*** *as an alternative to scope 2 emissions reduction targets.*
	
	● Targets should be formulated to specifically address active sourcing of renewable electricity.
	● S2 renewable energy targets should cover at least 95% of S2 emissions and meet the minimum active sourcing requirements.
	● Financial institutions who are already actively sourcing renewable electricity at or above the minimum thresholds can commit to maintain or increase their use share of renewable electricity to qualify.
	● Targets that fall between 2025 and 2030 will be accepted if they meet the linear progression of these requirements. Specifically:
	  ● 84% by 2026;
	  ● 88% by 2027;
	  ● 92% by 2028; or
	  ● 96% by 2029

C14 – Requirement to set target(s) on investment and lending activities *All financial institutions must set targets on their investment and lending activities irrespective of the share of these emissions compared to the total S1+2+3 emissions of the financial institution.*	
C15 – Emissions screening and target coverage requirements on investment and lending activities	*Specific requirements to be determined; pending criteria consultation and development*
C16 - Targets on scope 3 categories 1-14 *It's recommended but not required for financial institutions to set target(s) on categories 1-14 emissions as defined by GHGP Scope 3 standard.*	

C17 – Timeframe *Emissions reduction/capacity 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 encouraged to develop such long-term targets up to 2050 in addition to the required mid-term targets. Long-term scope 3 targets must comply with C19 to be considered ambitious.*	This criterion applies to S3 emission reduction/capacity targets. SBT portfolio coverage targets are an exception (see C18.1) ● If the target is submitted for validation in the first half of the year (i.e., by the end of June), the timeframe includes the year of submission. If submitted in the second half of the year, the timeframe begins from the start of the following year. ● E.g., for targets submitted for an official validation in first half of 2019 the valid target years are 2023-2033 inclusive. For those submitted in the second half of 2019 the valid target years are between 2024 and 2034 inclusive. ● Longer term optional targets are valid if the target year is between 15 years from the date of submission and 2050. Long-term targets can be validated as additional optional targets but are not sufficient to meet this criterion. ● The target base year should cover a complete past year (calendar or financial year). ● It is recommended to choose the most recent year for which data is available as the target base year. ● It is recommended that financial institutions use the same base and target years for all targets within the mid-term timeframe and all targets within the long-term timeframe.
C18 - Level of ambition for targets on investment and lending activities *Financial institutions' targets on investment and lending activities must meet minimum ambition determined by sector specific methods (e.g. SDA or PACTA) for a well below 2 degree pathways.*	SBTi *can provide an update when 1.5 sector pathways become available to support 1.5-degree targets (e.g. currently only WB2C targets are available within SDA).*

C18.1– Portfolio coverage or engagement targets *Boundary: FIs will be required to cover a specified set asset classes, potentially on a sector level, in their portfolios per finalized criteria.* *Timeframe: targets must be fulfilled within a maximum of 5 years from the date the FI's target is submitted to the SBTi for an official validation.* *Level of ambition: The FIs' investees shall have science-based emission reduction targets on their scope 1 and 2 emissions.*	*Specific requirements to be determined; pending criteria consultation and development*
C18.2 - Exclusion of fossil fuel projects and companies *Financial institutions must/shall establish policies that…*	*Specific requirements to be determined; pending criteria consultation and development*
C19 - Requirements from sector-specific guidance *Financial institutions should follow relevant specific requirements for target setting (i.e., GHG accounting, ambition, etc.), as indicated in the sector-specific guidance from 6 months of the sector guidance publication.*	If an organization operates within a sector where sector-specific guidance is available, it should follow the latest guidance within 6 months of its publication.
C20 - Implementation strategy reporting and frequency *Financial institutions shall publish implementation plans and annual progress updates for how they plan to meet their SBT…*	*Specific requirements to be determined; pending criteria consultation and development*
C21 - Target recalculations *To ensure consistency with most recent climate science and best practices, targets must be reviewed, and if necessary, recalculated and revalidated…*	*Specific requirements to be determined; pending criteria consultation and development*

C22 - Target validity Financial institutions with approved targets must announce their target publicly on the SBTi website within 6 months of the approval date. Targets unannounced after 6 months will have to go through the approval process again, unless a different publication timeframe was agreed with the SBTi.	● If officially approved by the SBTi, Financial institutions may choose to announce their targets at any time within 6 months of the approval date. ● Targets unannounced after 6months must be resubmitted to the SBTi for an official validation.

Methods Overview

During 2019, SBTi-Finance road tested a set of three draft methods (SDA, PACTA, and SBT Portfolio Coverage) that use asset-class-based approaches to link FIs' investment and lending portfolios with climate stabilization pathways. A summary of the road testing feedback is available here.

Asset Class	Method	Description	Potential target output example
Real Estate	Sector Decarbonization Approach (SDA)	Emissions-based physical intensity targets are set for non-residential buildings' intensity and total GHG emissions.	Financial institution A commits to reduce its real estate portfolio GHG emissions ___% per square meter by 2030 from a 2017 base year.
Mortgages	SDA	Emissions-based physical intensity targets are set for residential buildings' intensity and total GHG emissions.	Financial institution A commits to reduce its mortgage portfolio GHG emissions ___% per square meter by 2030 from a 2017 base year.
Electricity Generation Project Finance	SDA	Emissions-based physical intensity targets are set for electricity generation projects' intensity and total GHG emissions.	Financial institution A commits to reduce its electricity generation project finance portfolio GHG emissions ___% per kWh by 2030 from a 2017 base year.
Corporate Instruments (equity, bonds, loans)	SDA	Emissions-based physical intensity targets are set at sector level within the portfolio for the following sectors: power generation, cement, pulp & paper, transport, iron & steel, and buildings.	Financial institution A commits to reduce GHG emissions from the steel sector within its corporate lending portfolio X% per ton of cement by 2030 from a 2017 base-year.
	Paris Agreement Capital Transition Assessment (PACTA)	Sectors are assessed at individual business activity level for select activities. Note: SBTi intends to allow targets developed using PACTA and other capacity-based approaches as long as they meet SBTi-Finance criteria.	Financial institution A commits to increase installed capacity in renewable electricity by ___ MW by _[year]_ across the _[asset class]_ portfolio companies that we are specifically targeting in the context of our climate actions.
	SBT Portfolio Coverage	Financial institutions commit to having a portion of their investees set their own SBTi approved science-based targets or equivalent such that the financial institution is on a linear path to 100% portfolio coverage by 2050 (in consistent monetary terms). Note: this target-setting approach has been updated in response to road testing feedback.	Investment firm A commits that 30% of its equity portfolio with in the _[sector]_ by market capitalization will have science-based targets by 2025.

The Sectoral Decarbonization Approach (SDA) Approach

SBTi first developed the Sectoral Decarbonization Approach (SDA) for companies in 2015 using the IEA's Energy Technology Perspectives (ETP) scenario data. The method's development is described in Krabbe, et al. (2015).[1] After IEA publishes its updated 2020 ETP scenarios later this year, SBTi may develop a modified SDA tool for financial institutions' portfolios. In the meantime, financial institutions can access the existing tool for company-level assessment via the SBTi website: https://sciencebasedtargets.org/methods/. The table below summarizes the SDA's sector coverage.

Sector/Asset Class Coverage of Sectoral Decarbonization Approach (SDA)

Asset class	Method*	Sector
Mortgage	SDA	Residential buildings (kgCO2e/m²)
Real estate	SDA	Residential and service buildings (kgCO2e/m²)
Electricity generation project finance	SDA	Power generation (kgCO2e/kWh)
Corporate equity, bonds, and loan	SDA	Power generation (kgCO2e/kWh)
		Cement (kgCO2e/ton)
		Fossil fuel *Oil and gas sector ongoing development by SBTi*
		Pulp and Paper (kgCO2e/ton)
		Transport - passenger, freight, auto manufacturing (kgCO2e/vkm, kgCO2e/tkm, kgCO2e/vkm)
		Iron and steel (kgCO2e/ton)
		Buildings (kgCO2e/m²)
		Aluminum (kgCO2e/ton) *ongoing development by SBTi*
		Chemical *ongoing development by SBTi*

[1] Krabbe, et al. "Aligning Corporate Greenhouse-Gas Emissions Targets with Climate Goals." *Nature Climate Change* 5, no. 12 (December 2015): 1057–60. doi:10.1038/nclimate2770.

Paris Agreement Capital Transition Assessment (PACTA)

PACTA is another approach that can potentially be used to set targets for corporate instruments. The PACTA tool, produced by the 2° Investing Initiative, provides information that financial institutions can use to set sector-specific targets that use a technology-specific metric, rather than a GHG emissions-based metric. This description highlights the PACTA tool as an example of a capacity-based approach; additional information is available via the PACTA website. If alternate capacity-based methods become available, SBTi-Finance will consider targets derived from them on a case by case basis.

SBTi intends to accept targets developed using PACTA and other capacity-based approaches as long as they meet SBTi-Finance criteria.

SBT Portfolio Coverage for Corporate Instruments

Financial institutions may also use the portfolio coverage method to cover their corporate instruments, including listed equity, private equity, corporate bonds, and corporate loans. To use the portfolio coverage method, financial institutions commit to having a portion of their investees set their own approved science-based targets or equivalent such that the financial institution is on a linear path to 100% portfolio coverage by 2050 (in consistent monetary terms such as AUM or portfolio value).

The ambition of the SBT portfolio coverage method depends on the financial institution's starting point. Whereas a financial institution starting with 10% coverage in 2020 would need to increase coverage by 3% per year (90/30=3), a financial institution starting with 30% coverage would need to increase coverage by 2% per year. The SBT portfolio coverage method is a financial sector analogue to supplier engagement targets for 'real economy' companies' scope 3 emissions. Current SBTi company criteria are available online. Beyond investee targets formally approved by the SBTi, SBTi-Finance is exploring the use of self-defined company science-based targets and temperature alignment targets to provide broader coverage and additional flexibility.

Portfolio Temperature Alignment Method for Financial Institutions

The launch of the IPCC 1.5°C report led the SBTi to classify all corporate GHG emissions reduction targets against long-term temperature goals to determine relative ambition of approved scope 1 and 2 targets. In 2019 approved company targets were classified into one of three temperature pathways: 2°C, well below 2°C, or 1.5°C.

The SBTi Finance team is currently considering a method that would assess the ambition of any corporate targets against a wider range of temperature outcomes. This approach would enable financial institutions to understand the overall temperature alignment of their portfolios and take actions to move portfolio companies towards better temperature alignment. The method will be open source and will go through a separate peer review process.

As illustrated in the figure below, the temperature scoring method would cover a broader group of companies than the strictly-SBTi-approved SBT portfolio coverage method.