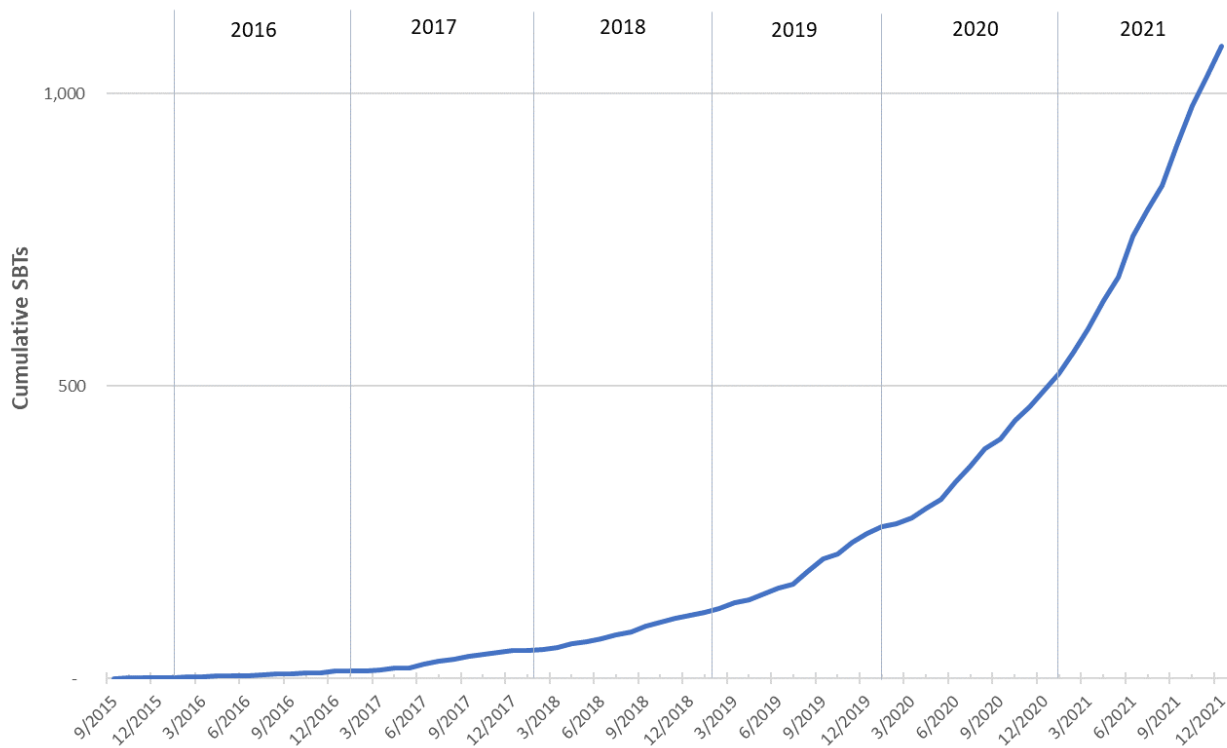


SBTi FINANCE BACKGROUND AND STRATEGY

Since its inception in 2015, the Science Based Targets initiative (SBTi) has accelerated private sector climate mitigation action through transparent, quantitative, and robust targets. Building on [Greenhouse Gas Protocol](#) emissions accounting, the SBTi has created a new platform for climate collaboration through its requirement that companies and financial institutions quantify and address their [scope 3](#) (value chain) emissions. To support the growth of net-zero as a formulation for climate ambition, the SBTi published a [Corporate Net-Zero Standard](#) in October 2021. As governments are engaged with the COVID-19 pandemic and other near-term challenges, the voluntary, private sector focus of the SBTi has propelled the initiative to fill a public need – the demand for which is reflected in its exponential growth.

Figure 1: Exponential Growth of Company and Financial Institution Science-Based Targets Approved by the SBTi (2015-2021)



Source: Science Based Targets initiative (<https://sciencebasedtargets.org/companies-taking-action/>); note that in addition to the approved near-term SBTs displayed above, 1,280 other companies and financial institutions have

Partner organizations



United Nations
Global Compact



WORLD
RESOURCES
INSTITUTE

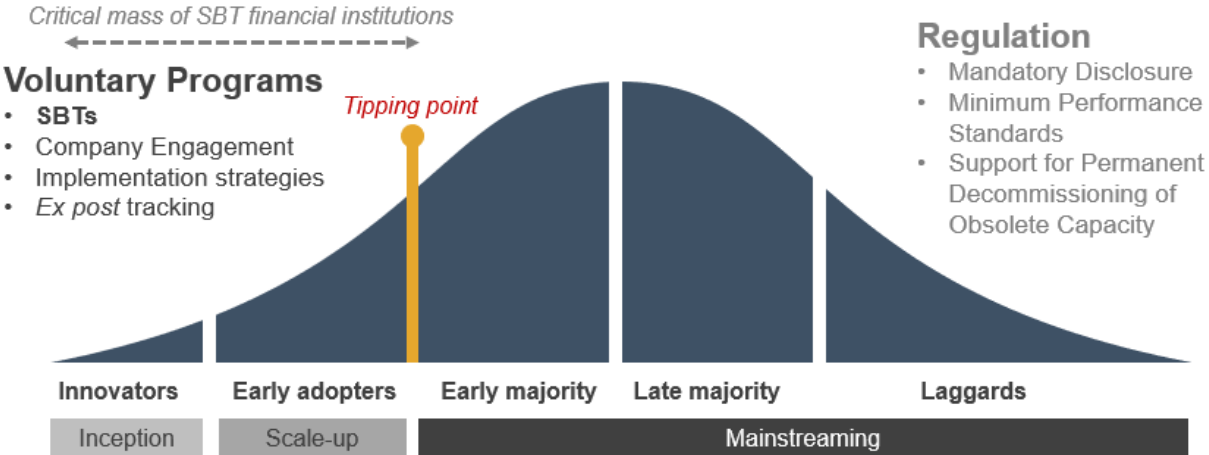


publicly committed to setting SBTs, bringing the total number of approved and committed SBTs to more than 2,400 as of January 2022.

SBTi Finance Theory of Change

SBTi seeks to align all relevant economic actors across value chains under a common goal, and thereby create incentives and eliminate barriers for broader Paris-aligned systemic transformation. As such, we have expanded our resources for financial institutions in recognition of their [central role](#) in disseminating and achieving science-based targets at scale through engagement and capital allocation.

To make science-based target setting standard practice, the SBTi is generating a critical mass of companies and financial institutions with science-based targets (SBTs) by developing methods, criteria, guidance and tools to reduce barriers to adoption. The SBTi achieves impacts broader than the sum of its parts through company and financial institution peer influence, defining best-practice for GHG mitigation targets within key sectors, and demonstrating to policymakers the level of ambition that can be achieved. The figure below illustrates the tipping point aspect of SBTi's theory of change; regulation is mentioned in the figure as a complementary action to address laggard, high-emitting companies.



In [2018](#), we began to develop target-setting methods covering financial institutions' investment and lending portfolios. The technical development was integrated with a stakeholder engagement process that included method road testing, public workshops, and the convening of an [Expert Advisory Group](#). This process culminated in the publication of the SBTi Finance framework in October 2020, which included three target-setting methods, [criteria for financial institution science-based targets](#), a [finance target-setting tool](#), and a [guidance document](#) with case studies. Rather than covering all aspects of investment and lending portfolios, the SBTi Finance framework focuses on financial institutions' electricity generation project finance, commercial real estate, residential mortgages, and corporate debt and equity

activities with established data methodological climate scenario links. Financial institutions are using these resources to [set science-based targets](#) on their investment and lending portfolios.

To broaden our organizational coverage, the SBTi published a [Private Equity Guidance](#) in November 2021. Following the launch of the SBTi Corporate Net-Zero Standard, we also published a draft [SBTi Net-Zero Foundations for Financial Institutions](#) draft for public comment during COP26, thereby commencing our Net-Zero Standard development process for financial institutions.

SBTi in the Financial Sector

Whereas the SBTi is the sole global option for companies in the real economy to set science-based targets, the financial sector includes a broad and growing range of climate and ESG initiatives. The United Nations Environment Program Finance Initiative ([UNEP FI](#)) is an illustrious example of the numerous climate programs that predate the SBTi. During the tenure of the SBTi, additional initiatives have arisen focused on financed emissions accounting (e.g. [PCAF](#)), net-zero (e.g. the [Net-Zero Asset Owners Alliance](#), [GFANZ](#)), and new product development (e.g. [Climate Bonds Initiative](#), the [Climate Warehouse](#)), among other areas. As the number of financial initiatives has grown, six characteristics differentiate the SBTi from its peers:

- **Quantitative, transparent, and robust targets.** Science-based targets are greenhouse gas (GHG) reduction targets that align with 1.5°C (and well-below 2°C) climate scenarios from the IPCC and the [IEA](#). They are exclusively focused on climate mitigation and do not cover other ESG metrics, technologies, or policy positions. Between 2015 and 2020, companies with science-based targets approved by SBTi [reduced their GHG emissions by 29%](#) on aggregate.
- **Independent assessment.** All science-based targets are objectively verified by the Target Validation Team of the SBTi based on a [public protocol](#) and set of [criteria](#). The SBTi is not a membership organization, industry association, or advocacy group.
- **Ambition anchored in climate science.** SBTi methods and criteria follow the highest level of mitigation ambition, for example with no allowance for offsets or reliance on high-overshoot scenarios. This stringency is reflected in the [SBTi Corporate Net-Zero Standard](#). As new scenarios and target-setting methods are developed, SBTi ensures consistency across time and sectors.
- **Integration with companies in the real economy.** The SBTi is the only initiative with criteria for financial sector emissions reductions as well as established company-level frameworks across more than 50 sectors in the real economy. This reflects our theory of change that financial institutions can most effectively support climate stabilization by engaging with clients and investees to reduce their GHG emissions.

- **Global coverage and participation.** As of April 2022, 1,330 companies and financial institutions from 50 countries have [approved science-based targets](#).
- **Harmonization with peer initiatives and reporting standards.** The financial sector is undergoing a rapid innovation and growth phase when it comes to climate. The SBTi is harmonizing with the UNEP-convened net-zero initiatives, for example with our [NZAOA comparison table](#), and is working toward further integration in 2022.

These characteristics differentiate the SBTi from its peers and help to explain the initiative's exponential growth. The SBTi's founding partners are four of the largest environmental organizations in the world (CDP, UN Global Compact, WRI, and WWF). This unique heritage enables the SBTi to lead climate ambition within the financial sector. The value of the SBTi is further defined by its extensive stakeholder engagement process for resource development and deployment. While the financial sector includes a broad range of issues and agendas, the SBTi's stakeholder engagement ensures the practicality and credibility of our resources.

Financial institutions have a range of rationale when it comes to setting SBTs and having them validated by the SBTi. The value of SBTi validation for financial institutions is rooted in the initiative's leading ambition, independent assessment, and established links with companies in the real economy. In explaining the [business case for science-based targets](#), financial institutions have also attributed the need to build resilience and increase competitiveness, drive innovation, build credibility and reputation, influence and prepare for shifts in public policy and regulations, and demonstrate leadership.

SBTi Finance Strategy

To support emissions reductions commensurate with 1.5° C stabilization, SBTi Finance is developing resources to establish SBTs as the acknowledged and adopted best practice for net-zero financial institutions. Defining net-zero and portfolio alignment methods are strategic focus areas for SBTi Finance to support mitigation ambition across financial institutions and their investees and clients. SBTi Finance is building long-term capacity to provide thought leadership, assessment of near- and long-term SBTs, engagement support, and tracking of target-setters' performance.

Three strategic pillars that support this broader goal are enhanced financial institution engagement of companies to promote SBT adoption, SBT integration with capital markets, and harmonization with peer initiatives. The SBTi temperature rating method is an example of the resources that SBTi has developed to support financial institution company engagement. Capital market integration is expected to be linked with climate data and new financial product development. Harmonization with peer initiatives is an ongoing activity that's linked with SBT adoption by large and influential financial institutions.

SBTi Finance Near-Term Plan

To support the halving of GHG emissions by 2030 and continued exponential growth of science-based targets, the SBTi Finance team has developed a near-term plan. In 2022, we aim to:

- **Update and expand the SBTi Finance framework.** This will include updated criteria for financial institution science-based targets and additional target validation capacity.
- **Uptake:** a related goal for 2022 is to reach 200 financial institution commitments to set science-based targets with 100 financial institution targets submitted and assessed by SBTi. The 100 published FI SBTs goal includes the group of [55 publicly committed financial institutions](#) with targets due in October 2022.
- Publish the revised [SBTi Net-Zero Foundations for Financial Institutions](#) paper and a draft **SBTi Net-Zero Standard for Financial Institutions**. The SBTi Finance Net-Zero Standard follows the Corporate Net-Zero Standard and will similarly provide a link between high-level commitments and institution-level near-term target setting. Pending funding, the SBTi Finance Net-Zero Standard development will include partnership and coordination with the [Net-Zero Insurance Alliance](#).
- Develop and disseminate **SBTi Finance meta-criteria** for assessing alternate methods and resources. The meta-criteria will be linked with our net-zero work.
- Integration with **SBTi sector method developments**. Starting with the [Forest, Land and Agriculture \(FLAG\)](#) consultation, [Steel](#), [Transport](#), and [Buildings](#) sector work, SBTi Finance will update its resources to leverage new developments.
- **PCAF Integration and Guidance.** In collaboration with PCAF, the SBTi is developing guidance for financial institutions on using financed emissions assessments to set science-based targets. This includes recommendations on how PCAF can be used as a screening tool to identify areas of most material emissions and guidance for financial institutions on the most appropriate SBTi target setting method (SDA, Portfolio Coverage, or Temperature Rating) based on PCAF results.
- **Aligning TCFD reporting** with science-based targets. The SBTi is developing guidance for companies on how to develop a TCFD report that demonstrates a company's alignment with climate science. The guidance clarifies how science-based targets and net-zero target setting are tangible ways for companies to successfully assess and manage their climate risk and transition their business to thrive in a zero-carbon economy.
- **Securities underwriting** target-setting methods and target validation criteria. This work will explore both the adaptation of existing target-setting methods and the development of new target-setting methods. The method and criteria development will include pilot testing by financial institutions and stakeholder review.

- **SBTi Progress Framework and Protocol.** As the SBTi prepares to launch its Progress Framework in early 2023, the SBTi Finance team will provide a mechanism to monitor, report, and verify target-setting entities' progress against their science-based targets.

Beyond these deliverables, the SBTi Finance team is exploring additional method development for new asset classes. By 2025, we aim to replicate our work with companies in the sense of establishing near- and long-term science-based targets as harmonized best practice for financial institutions.

[Global GHG emissions grew more slowly](#) over the last decade. While this is a welcome change from the rapid growth of the 2000s, the pandemic-induced drop of 2020 appears to have rebounded in 2021 and the trend is a far cry from the 50% reduction required this decade. Financial institutions seeking to support climate stabilization will need to play a central role by allocating capital and supporting real-economy emissions reductions, starting with setting science-based targets on their investment and lending portfolios. Setting and achieving near-term science-based targets is a key step in the longer journey to net zero.