



SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

THE SBTi FINANCIAL INSTITUTIONS NET-ZERO STANDARD TERMS OF REFERENCE

Version 1.1

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sciencebasedtargets.org



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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.

VERSION HISTORY

Version	Change/update description	Release date	Effective dates
Version 1.0	<ul style="list-style-type: none">SBTi Financial Institutions Net-Zero Standard Project Terms of Reference V1.0.	July 10, 2024	N/A
Version 1.1	<ul style="list-style-type: none">Timeline related information of the project is changed.Added Risk Management section.General template update.	April 16, 2025	N/A

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1. INTRODUCTION

This terms of reference describes the key information related to the second phase of the Financial Institutions Net-Zero Standard Version 1.0 (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.

The first phase of the project, which commenced in 2021, also followed a rigorous multi-stakeholder consultative process, and 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 approximately 50 experts including financial institutions, 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.

2. OBJECTIVES

The objectives of the FINZ Standard project are outlined below:¹

- Provide financial institutions 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 an option for combined near- and long-term target setting.
- Facilitate the scaling up of financial institutions' climate ambitions, while focusing efforts on the decarbonization of existing portfolio holdings by offering a broader range of metrics and tools for which financial institutions can measure, track and improve the alignment of their financial services.

3. STEPS FOR DEVELOPING THE STANDARD

The standard development process is designed to be transparent in decision-making, striving for input from any interested stakeholder through public consultation and more targeted stakeholder outreach to enable the widest possible consideration of content.

¹ Please note that as standards development is an iterative process, with multiple rounds of stakeholder input and deliberation, project objectives are subject to change.

Based on the [Standard Operating Procedure \(SOP\) for Development of SBTi Standards](#), the following steps have been followed for developing the Standard:

First Phase

- Initiation
- Research

Second Phase

- Drafting
- Consultation, including public consultation and pilot testing
- Approval
- Implementation
- Monitoring and Evaluation

4. SCOPE

4.1 Applicability

The FINZ Standard will apply to companies worldwide. The project to develop Version 1 of the standard and supporting deliverables will encompass the following technical elements:

- Conceptual framework for the role of financial institutions (and their targets) in contributing to global climate goals.
- Financial services target boundary overview and specification of climate relevance.
- Requirements and recommendations across five key types of financial activities for both near- and long-term targets, including:
 - 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.

4.2 Deliverables

The FINZ Standard includes the following deliverables, which will be made public to aid transparency and help engage stakeholders (with expected timelines that may be subject to change):

Interim deliverables

- Project Terms of Reference (this document).
- Two consultation drafts (the first introducing the Conceptual Framework and Initial Criteria published in June 2023, the second introducing the FINZ Standard)

Consultation Draft and the Metrics & Methods synthesis paper published in July 2024).

- Two consultation processes (the first completed June-August 2023, the second completed July-October 2024), including surveys and informative webinars.
- Two consultation reports synthesizing feedback from the first and second consultations.
- Pilot testing as part of the second consultation.
- Pilot testing feedback report.
- Basis For Conclusions Report.

Final deliverables

- FINZ Version 1 Standard
- FINZ Implementation List
- FINZ Criteria Assessment Indicators

4.3 Exclusions

Version 1 of the FINZ Standard will not cover all asset classes (for example sovereign debt); additional asset classes may be added in subsequent versions.

Future updates to the FINZ Standard are planned. 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 guidance
 - Additional guidance for banking, asset management, asset owners, private equity and insurance.

4.4 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.

5. JUSTIFICATION OF NEED FOR THE FINZ STANDARD

Financial institutions 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, financial institutions 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, financial institutions 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.

Financial institutions 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 Financial Institutions 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 financial institutions 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).
- Utilize the work undertaken by other actors in the ecosystem, which can provide additional elements to improve the SBTi finance frameworks.

6. 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 and 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. Furthermore, the FINZ Standard development has been coordinated with the ongoing revision of the SBTi Corporate Net-Zero Standard.

7. INTENDED 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.

The SBTi's theory of change identifies that the corporate emissions reductions needed to achieve our global climate goals can be achieved through the '*diffusion of innovations*' theory. This posits that 10 to 25% of a system's members must adopt an innovation to trigger rapid adoption by the other members. The SBTi works with the assumption that 20% – one fifth – of businesses setting science-based targets in a particular territory or sector equals a critical mass. That is the tipping point at which it becomes increasingly difficult for other businesses to do nothing, and more and more join the race to the top.

A key criterion the SBTi uses in prioritizing projects therefore is the impact the project will have in addressing greenhouse gas emissions from key sectors or activities. Financial institutions 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 a clear set of *public commitments*:

- Deliver a clear, comprehensive, and coordinated net-zero organization-wide strategic commitment and plan.
- Conduct a comprehensive assessment of all financial activities for credible boundary setting.

Outcome 2 - Comprehensive assessment of climate impacts driven through clear *accounting criteria*:

- Establish portfolio GHG emissions accounting inventories across relevant financial activities, while continuously improving scope and quality over time.
- Assess the financial institutions' portfolios in terms of the share of portfolio holdings that are in transition, climate solutions, or are already operating at performance levels consistent with net-zero.
- Map and disclose exposure to clean energy and fossil fuels.

Outcome 3 - Alignment of relevant financial activities with global climate goals through the development of *policies and ambitious targets*, while prioritizing emissions-intensive sectors:

- Implement policies that drive ambitious transformation consistent with reaching net-zero emissions on a global level.
- Scale up financial activities toward climate solutions to drive the net-zero transition.
- Prioritize action on emissions-intensive sectors by guiding financial activities toward clients and opportunities that have already achieved climate performance levels not incompatible with limiting global warming to 1.5°C and those actively working toward this goal. Over time, all financial flows and insurance capacity are oriented toward entities and activities that have achieved net-zero.

Outcome 4 - Assessing and communicating progress:

- Transparently track and communicate progress against targets over time, while progressively increasing the scope and robustness of assessments.

Outcome 5 - SBTi claims:

- Adhere to applicable SBTi and regulatory claims, policies and criteria.

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

8. INTENDED CLAIMS

As part of the FINZ Standard development process, and in line with a broader piece of work on claims, the SBTi plans to develop claims guidance to supplement the SBTi's current [communications guidelines](#). The aim is that companies are enabled to make credible claims around the emission reduction targets that they have set and that have been validated by the SBTi, as well as claims around the achievement of those targets, where appropriate.

9. ENGAGEMENT

9.1 Stakeholder engagement

The SBTi values stakeholder input to inform the development of its standards. There are a variety of channels through which stakeholders have been able to engage with and input into the development of the FINZ Standard.

- **Project feedback form:** Over the course of the whole project, any stakeholder is welcome to submit feedback on documents that have been released through the [Project Feedback Form](#). All feedback will be carefully considered and published on the SBTi website, with personal information removed. This form is not intended as a complaints form.²

² Please note that stakeholders who wish to submit complaints related to the SBTi existing standards or guidance documents, or standard development processes, including the Standard Operating

- **Public consultation:** The FINZ Standard went through two rounds of public consultation. The first consultation, completed between June and August 2023, lasted for a duration of 69 days. The second consultation, completed between July and October 2024, lasted for a duration of 79 days. During the consultation period, stakeholders had the opportunity to submit feedback to the consultation questionnaire via a survey.
- **Pilot testing:** The FINZ Standard went through one round of pilot testing, completed between July and October 2024.

9.2 Who should engage?

The FINZ Standard Team welcomes input from all stakeholders with an interest in this project development, including but not limited to:

- 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

9.2 How to keep informed?

Stakeholders can stay up to date with the FINZ Standard development process, opportunities to provide input, and planned events by monitoring the [SBTi's website](#) for updates, signing up for the [SBTi's Finance newsletter](#) and [SBTi newsletter](#), and following the SBTi on [X](#) and [LinkedIn](#).

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

10. 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 into other languages in the future.

11. RISK MITIGATION

The SBTi and governance bodies shall undertake a risk assessment alongside the standard development to identify potential risks in implementing the draft standard and how to mitigate these e.g., unintended consequences that could arise from the implementation of the standard, factors that could have a negative impact on the ability of the standard to achieve

Procedure for Development of SBTi Standards, may do so by emailing standardscomplaints@sciencebasedtargets.org.

its objectives, and possible corrective actions that could be taken to address these potential risks.

12. 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.

13. TRANSITION

Full details to support entities with validated targets, targets under validation or active commitments to prepare for conformity to the FINZ Standard will be communicated in a timely manner before its launch.

14. EXPECTED TIMELINE AND LAUNCH

The final draft of the FINZ Standard is expected to be published no earlier than Q3 2025, along with:

- FINZ Criteria Assessment Indicators
- FINZ Implementation List
- Basis for Conclusions Report

Due to the iterative nature of consensus-based, multi-stakeholder standard development, the expected timeline for the Financial Institutions Net-Zero Standard V1.0 project is subject to change based on the phases outlined in the [Standard Operating Procedure \(SOP\) for Development of SBTi Standards](#). The expected timeline can be found on the [Technical Work Program](#) section of the [Standards and Guidance](#) page of the SBTi website.



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