



IT'S NOT WHAT YOU SAY, IT'S WHAT YOU DO

**Making the finance sector's
net-zero alliances work
for the climate**

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KEY FINDINGS AND RECOMMENDATIONS

1 A flood of net-zero alliances

- Nearly 300 financial institutions, including many of the world's biggest investors, bankers and insurers have joined one of six sectoral net-zero alliances under the umbrella of the **Glasgow Financial Alliance for Net Zero (GFANZ)**. Together these financial institutions have assets equal to **more than a third of the world's investable capital**.
- Joining GFANZ commits the members of the alliances to complying with **the criteria of the UN's Race to Zero Campaign**. This means aligning the emissions of the companies in their portfolios with the IPCC's report on 1.5°C, which **requires halving emissions by 2030** and reaching net zero by 2050.
- The **Net-Zero Asset Owner Alliance** is the oldest of the GFANZ entities and has produced the most comprehensive guidelines. It is the **only alliance to require its members to set 2025 targets** in addition to 2030 ones.

2 Analysis paralysis: the alliances' approach is slow and opaque

- The alliances are failing to meet the Race to Zero's insistence on urgency and are **falling into the trap of "analysis paralysis"** of which it warns.
- The alliances' approach to target setting is based on their members calculating the "financed emissions" (or "insured emissions") of their portfolios. This requires a complex years long and opaque process that makes it difficult for outside analysts to monitor progress at meeting targets. While these approaches are needed in the longer term, they don't replace the imperative for immediate and transparent action on the biggest polluters.
- **The Net-Zero Banking Alliance allows its members three years before they have to set targets for all nine required carbon-intensive sectors** and an extra year before they have to explain what actions they are taking to meet all these targets. The **Net Zero Asset Managers Initiative sets no deadline before 2050 for its members to set targets across their portfolios**.

3 The alliances' guidelines are beset with loopholes and omissions

- **The Race to Zero criteria do not mention fossil fuels, by far the single largest cause of the climate crisis.**
- It is **not mandatory for alliance members to reduce Scope 3 emissions from the companies they support**. This is particularly problematic for the fossil fuel sector where Scope 3 emissions account for around 88% of their total emissions.
- **Absolute emission targets are not required.** The alliances suggest but do not require that targets are set using absolute emissions numbers, instead requiring only emission intensity metrics.
- **None of the GFANZ alliances prohibit the use of offsets**, or set any numerical limits on their use.
- **The Asset Owner Alliance calls for an end to investments in new coal mines and power plants, but it does not require its members to act on this.** As of mid-October 2021 at least 34 of the 58 AOA members lacked a policy to restrict investments in coal developers.

4 The alliances must focus on fossil fuels

- **The only way that the alliances can respond to the urgency of the climate crisis is to reorient their efforts to a rapid wind down of financing for fossil fuels.**
- The IEA has explained **that staying under 1.5°C means stopping financing for fossil fuel expansion**. Several of the alliances explicitly state their support for the IEA's scenarios. They **must require their members to end their support for new coal, oil and gas supply projects**.
- The alliances must **stop financial services for coal-heavy companies and require other companies to adopt plans that exit coal by 2030 in industrialized countries and 2040 globally**.

Financial services should only be provided to utilities with **plans to phase out their gas power production by the deadlines given by the IEA: 2035 in wealthy countries and 2040 globally**.

- Financial services should only be provided to oil and gas companies with plans to **wind down their production between 2020 and 2030 consistent with at least the average annual rates given in the UNEP Production Gap Report: 11% for coal; 4% for oil; 3% for fossil gas**.

GLOSSARY

AOA: Net-Zero Asset Owner Alliance
AMI: Net Zero Asset Managers Initiative
FSPA: Net Zero Financial Service Providers Alliance
GFANZ: Glasgow Financial Alliance for Net Zero
ICI: Net Zero Investment Consultants Initiative
NZBA: Net-Zero Banking Alliance
NZIA: Net-Zero Insurance Alliance

Financial services: all types of financial support including investments, insurance, lending, capital market underwriting, advisory/consulting services etc.

GHG: Greenhouse gas

IEA: International Energy Agency

IPCC: Intergovernmental Panel on Climate Change

ISF: University of Technology Sydney Institute of Sustainable Futures

PCAF: Partnership for Carbon Accounting Financials

PRI: Principles for Responsible Investment

UNEP-FI: UN Environment Programme Financial Initiative

“The gap between rhetoric and action needs to close if we are to have a fighting chance of reaching net zero by 2050 and limiting the rise in global temperatures to 1.5°C.”

*Dr Fatih Birol, Executive
Director of the IEA*



1. ALL TALK, NET-ZERO ACTION

a. The litmus test for net-zero alliances

We are now nearly two years into a decade of extraordinary consequence for our climate. A decade in which the IPCC has shown we need to cut global emissions in half — which essentially means cutting fossil fuel burning in half — to be on track to keeping warming under the key threshold of 1.5°C. The IPCC explained this brutal math to us in late 2018, yet three years later emissions are shooting back up to their pre-pandemic level.

The finance industry — hand-in-glove with governments and corporations — has played a key role in enabling our economy to become disastrously addicted to fossil fuels. It has a significant responsibility to help mitigate this crisis. Yet so far there are far too few signs that Big Finance is seriously willing to change its habits.

In the six years since the Paris Agreement, the world's 60 biggest banks have poured nearly \$4 trillion into the fossil fuel industry. Bank finance for fossil fuels dropped in 2020, but it had risen in the previous four years, and a single pandemic-hit year does not make a trend.¹ Research on 12 of the biggest fossil fuel projects under development in 2020 showed that 20 huge investors owned \$535 billion in stocks and bonds of the companies driving these projects.² Some of the world's largest insurers, mostly in Europe, have now ended or limited their coverage for coal projects, but the majority of their US and Asian peers continue to insure coal as before. Very few insurers have taken any steps to pull back from enabling the oil and gas industries.³ And an army of consultants, advisers, data providers and accountants continue doing business with fossil fuels without any obvious restraints.

But if words and promises could reverse climate change, the finance industry would already have saved the world. There cannot be many CEOs of major global finance institutions who have not expressed their deep concern over the climate crisis. The industry is awash with climate-related initiatives and commitments.

In this report we focus on a key financial sector grouping: the four alliances and two initiatives that have signed up to the Glasgow Financial Alliance for Net Zero (GFANZ). (We use net zero or GFANZ “alliances” throughout this report to refer to both the alliances and initiatives. This is for brevity, and because there is no clear difference in function or structure between what is called an alliance, and what an initiative).

We focus on the GFANZ network because it is the largest grouping of financial institutions that have committed to 1.5°C, and the broadest grouping in that it includes institutions from across the key sectors of private finance — asset owners and managers, banks, insurers, service providers and consultants (see Annex for an overview of each of the alliances). **As of mid-October 2021, the net-zero alliances included nearly 300 financial firms managing and owning assets of around \$90 trillion⁴ — a huge amount of financial firepower that is equivalent to over a third of all investable financial assets worldwide.⁵** All the members of the net-zero alliances have signed up to a set of common criteria, and all are connected (if in rather convoluted ways) to the UN through the climate convention and the UN Environment Programme Finance Initiative (UNEP-FI).

In this report we describe who is behind the alliances, who is in them, what their members have committed to, and what are some of their strengths and weaknesses. We lay out a set of recommendations to move the alliances from rhetoric and studies to action. **Because of the urgency of the climate crisis we focus mainly on actions that need to be taken this decade.** We focus on the meaningful efforts that can, and must, be taken now, and which provide the litmus test by which we can tell if net-zero alliances are serious about their mission.

Our key message is that the alliances should refocus from their current emphasis on setting economy-wide targets for the thousands of companies in their portfolios through complex, opaque, loophole-ridden, and protracted processes. **Instead, the alliances need to act swiftly on the prime culprits for climate change: the major producers and consumers of fossil fuels.**

The IPCC made it clear in 2018 that consumption of fossil fuels must be slashed by 2030. The UNEP-supported Production Gap Report concluded in late 2020 that staying under 1.5°C requires fossil fuel supply to fall by an average of 6% each and every year of this decade. And the International Energy Agency made it clear in April 2021 that there is no room in the 1.5°C carbon budget for any investments in new coal, oil and fossil gas production.

To meet these daunting goals, we don't need more initiatives or statements of concern. It is time for action. Time for the GFANZ alliances and their members to put an immediate and concerted focus on developing policies that exclude financial services for the companies that are destroying our future. Time to show whether the alliances are really determined to turn down the global temperature dial — or if they are just a sign of what German sociologist Ulrich Beck describes as “organized irresponsibility.”⁶

b. “Net zero” conquers the world

The phrase “net zero” became solidly embedded in global climate policy discussions only after the release of the IPCC's pathbreaking Special Report on 1.5°C in October 2018. In what veteran oil industry analyst Daniel Yergin says is “one of the most important sentences of the last few centuries,” the IPCC concluded that to keep warming under 1.5°C, carbon dioxide emissions would have to be cut “by about 45%” between 2010 and 2030 and reach “net zero around 2050.” Eric Roston of Bloomberg calls this the “half-by-2030, all-by-2050 guidance.”⁷

Since 2018, “net-zero emissions” has become the key long-term climate target for thousands of corporations, colleges, hospitals and other institutions, as well as for governments ranging from small towns all the way up to the multi-state European Union. As of August 2021, more than 65% of global emissions and 70% of the world’s GDP — and all the world’s top ten economies except India — was generated in countries with net-zero pledges.⁸

The financial world has joined the club over the past two years with a gush of net-zero announcements. The specific financial

sector networks with “net zero” in their title are just a subset of a Byzantine jumble of finance industry task forces, partnerships, frameworks and tools. These initiatives have mostly emerged since the Paris Agreement and variously describe themselves as Paris-, net zero- and/or 1.5°C-aligned. Net zero and 1.5°C are usually implied in the financial world as being synonymous, although in reality net zero is a means of getting to the ultimate goal of limiting global warming to 1.5°C. A (non-comprehensive) guide to these finance sector collaborations published in July 2021 runs to almost 60 pages.⁹

pledging to reach net-zero emissions as soon as possible and by 2050 at the latest, with an interim 2030 target. This 2030 target is to reflect “maximum effort toward or beyond a fair share” of the halving of CO₂ named in the IPCC’s report on 1.5°C.¹⁵ The Race to Zero’s expert review group notes that this halving by 2030 implies average annual reductions of approximately 7%.¹⁶

Members must explain within 12 months of joining the Race to Zero what actions — especially short- and medium-term actions — will be taken to meet their targets, and

must commit to reporting, at least annually, progress in meeting the targets.

The Race to Zero’s official expert advisory group stresses that members must take “immediate actions . . . within months, and not more than a year.” It goes on to stay that “[w]hile full plans may take time to formulate, all entities have available a number of ‘no regrets’ measures to reduce emissions immediately. ‘Analysis paralysis’ should not prevent immediate action.” Issuing a plan is not considered sufficient, says the advisory group. “Tangible actions are also required.”¹⁷

The GFANZ Network

- 6 alliances and initiatives
- 8 insurers
- 12 investment consultants
- 18 financial service providers
- 58 asset owners
- 82 banks
- 128 asset managers
- \$90 trillion, nearly a third of all investable financial assets worldwide

c. GFANZ and the Race to Zero

GFANZ is chaired by Mark Carney, the UN Special Envoy for Climate Action and Finance, and the initiator of a finance industry task force on expanding offset markets.¹⁰ It was established by the COP26 Private Finance Hub (also led by Carney) in partnership with the COP26 Presidency (the UK government), the UNFCCC Climate Action Champions (currently Chilean and British green entrepreneurs, Gustavo Muñoz and Nigel Topping), and the UN Race to Zero.¹¹ It brings together the net-zero alliances into one “sector-wide strategic forum” which is supposed to “broaden, deepen and raise” the finance sector’s ambition on

climate and “catalyze strategic and technical coordination.”¹²

For an alliance to join GFANZ they must be accredited by the UN Race to Zero Campaign. Race to Zero, launched by Carney and the presidents of COP25 and COP26, is led by “climate champions” Muñoz and Topping.¹³ It is intended to encourage cities, regions, businesses, investors and colleges to commit to net zero and so to send a message to national governments of broad support for the Paris goals.¹⁴

Accreditation by the Race to Zero requires meeting a brief set of criteria including





2. NET-ZERO OMISSIONS

There are many positive aspects to the net-zero alliances. It is positive that so many of the world's most powerful financial institutions are coordinating efforts at pressuring companies to change. It is good that the Race to Zero and so by extension the GFANZ network have accepted the 1.5°C target and the IPCC's "half-by-2030, all-by-2050" guidance.

But despite the positives, there are a number of shortcomings to the approach of the GFANZ network which greatly limit its impact. If these shortcomings are not addressed, the ability of the net-zero alliances to drive the climate transition at anything like the speed necessary will be greatly diminished.

a. The elephant in the room: fossil fuels

While the Race to Zero stresses the need for its partners to take immediate actions, it fails to note the most important immediate action to take, which is to adopt policies to restrict the production and use of fossil fuels. In fact,

fossil fuels are not even mentioned in the Race to Zero criteria — rather like a global anti-smoking campaign not mentioning cigarettes.

In 2016, Oil Change International warned that burning just the reserves in currently operating coal, oil and gas fields would take the world past 1.5°C.¹⁸ The obvious conclusion from this finding was that there should be an immediate halt to the construction of new fossil fuel extraction infrastructure. This conclusion was emphatically confirmed by the International Energy Agency in May 2021 in their report *Net Zero by 2050: A Roadmap for the Global Energy Sector*. **This says that 1.5°C means "no new coal mines or mine extensions" and "no new oil and gas fields."**¹⁹ This message was reiterated in the October 2021 release of the IEA's influential *World Energy Outlook* report. **Yet none of the net-zero alliances have come out against financing new fossil fuel mines or fields.**

The Asset Owner Alliance (NZAOA), the Banking Alliance, and the Insurance Alliance all refer to the use of IEA scenarios. The NZAOA even issued a statement in January

2021 stressing the importance of the IEA's then still-in-development net-zero scenario and urging that the agency "take a clear-eyed view of the risks of stranding of high-carbon infrastructure and reserves as well as the implications for oil and gas developments — specifically including the need for managed phase-down of production and use." The NZAOA also stated that: "We look forward to being able to deploy such a scenario to advance our objectives in alignment with the global imperative to achieve net-zero emissions by 2050."²⁰ In its *2025 Target Setting Protocol*, also published in January 2021, the NZAOA recognizes that companies investing in "the expansion of oil and gas production" are "locking them[selves] into assets that are incompatible with the goals of the Paris Agreement."²¹ Yet as of mid-October 2021, the NZAOA had not responded to the IEA's rejection of investments in new fossil supply.

Launched shortly after the IEA's net-zero roadmap, the Insurance Alliance's "statement of commitment" explicitly states that its members must take the report "into consideration."²² But the statement makes no mention of the IEA's conclusion on no new fossil fuel supply projects.

b. "Analysis Paralysis" vs. immediate action

We are rapidly running out of time to make the deep changes necessary to keep warming below 1.5°C (and even 2°C). Unfortunately, a sense of urgency is rarely detectable in the work of the net-zero alliances. Indeed, the analysis paralysis warned against by the Race to Zero is a key problem with the "financed emissions" approach that is at the center of all the alliances' target setting.

The IPCC's "half-by-2030, all-by-2050" guidance applies to emissions across the entire economy. The net-zero alliances have taken this to mean that their targets should be set across all (or at least large parts of) their portfolios. Setting portfolio-wide emission reduction targets means knowing the emissions of all of the many hundreds or even thousands of companies in portfolios

and calculating what proportion of these emissions should be attributed to which financier.

Various initiatives are underway to develop methodologies to attribute corporate emissions to individual investors, insurers, lenders and underwriters. The most broadly supported of these initiatives is the Partnership for Carbon Accounting Financials (PCAF).²³ It has already developed standards for measuring and reporting financed emissions from six asset classes including stocks, corporate bonds and business loans. It is currently working on methodologies for underwriting of issuances of stocks and bonds, and, along with the Insurance Alliance, "insured emissions."²⁴

More than 170 financial institutions now support PCAF and many of them now have teams diligently working on how to tally up their financed emissions across the covered asset classes. This work is important, but it is slow and complex.

And once PCAF has developed its methodologies, the financial institutions then must start their own cumbersome processes for applying the methodology across the thousands of companies that they support. And because of this complexity, as well as issues around disclosure of proprietary information, the process of enumerating emissions will inevitably be extremely opaque to anyone from outside trying to monitor and verify financial institutions' numbers and to hold them accountable to their claims of progress on meeting their targets.

Portfolio-wide financed/insured emission approaches should therefore not be the primary strategy by which the finance sector seeks to reduce emissions, at least in the short term.

As the Race to Zero has stated, it is vital to take action immediately. Investors, banks and insurers know that the great majority of greenhouse gas emissions are from burning fossil fuels, and they know who the big fossil fuel producers and consumers are (they have been financing them for years). Those

involved with the net-zero alliances also know (although they have been very quiet about it) that the IEA has said that no new fossil supply investments are compatible with 1.5°C.

They also know how to put in place “exclusion policies” that restrict financing for fossil fuels. Financial institutions have been gradually increasing the number and improving the quality of their coal, and to a limited extent oil and gas, exclusion policies for the past half decade and more.²⁵ If written and applied in good faith, exclusion policies can be quick to develop and implement, with an immediate impact on the availability of financial services to carbon-intensive sectors and companies.

c. Targets, sometime... maybe...

The GFANZ network’s lack of urgency is also seen in the fact that the NZAOA is the only alliance to require targets to be set for a year before 2030. It is also seen in the painfully slow timetables that the Asset Managers Initiative (NZAMI) and Banking Alliance have adopted for setting targets and publicizing actions.

For instance, NZAMI members are required to set 2030 targets by November 2021, or at latest within a year, of joining the NZAMI, but only for a proportion of the assets that they manage.²⁶ Its members are free to decide what the proportion of assets should be, and what type of assets and which economic sectors should be covered. Every five years NZAMI members are to review their targets “with a view to ratcheting up the proportion of [net-zero aligned] assets under management covered until 100% of assets are included.” But as no timeline is given for the rate at which assets should be brought within the net zero-aligned pool, **it could be decades – 2050 even – before NZAMI members have set net-zero targets across all their assets under management.**

Despite the Race to Zero requirement that signatories set targets and explain what actions will be taken to meet them within a year of joining,²⁷ Banking Alliance members have 18 months to set their first round of

targets. They have a further 18 months to set targets for “all or a substantial majority” of the carbon-intensive sectors. Furthermore, banks don’t need to disclose the actions they intend to take to meet the targets for a year after setting them.²⁸

d. An accounting matter: Scope 3 emissions

The Race to Zero says that its members will “reduce emissions across all scopes” (see Box for an explanation of the three emission scopes).²⁹ But this is not strictly the case for financial institutions who sign up for the Race to Zero.

The Race to Zero requires financial institutions to include in their targets *their own* Scope 3 emissions, namely the emissions from the companies they support. However, it only recommends and does not require that the financial institutions should ensure that targets should be set on the basis of *the companies’* Scope 3 emissions. **For oil and gas companies, omitting Scope 3 emissions means that only their operational emissions – about 12% of the total – would be counted in their targets.**³⁰

While the four net-zero alliances that require setting emission targets all recommend the use of their clients’ Scope 3 targets, they also allow them to be omitted from targets on the basis of insufficient data.

e. Missing: absolute emissions targets

The Race to Zero does not mention whether emission reductions should be based on absolute or intensity metrics. Absolute emissions are measured in tons of greenhouse gases and are what cause climate change. Intensity emissions are measured in economic formulae such as kilograms of methane emitted per thousand cubic feet of natural gas sold, or tons of CO₂ per million dollars of revenue generated, and are how financial institutions like to set their targets. Intensity targets can allow a seeming reduction to turn into an actual emissions increase, for example

Scoping out greenhouse gas emissions

Corporate greenhouse gas emissions are categorized into three “scopes” by an internationally recognized tool called the Greenhouse Gas Protocol.³¹

Scope 1 covers direct emissions from owned or controlled sources. These could include power plants, steel mills, refineries, vehicles, and methane leaks from oil and gas wells.

Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company. For most companies, electricity will be their main source of Scope 2 emissions.

Scope 3 includes all other indirect emissions that occur in a company’s value chain. For fossil fuel companies Scope 3 emissions are particularly significant because they cover the emissions from the burning of the coal, oil and gas they sell. Consultancy IHS Markit calculates Scope 3 emissions are around 88% of oil and gas company emissions.³²

The NZAOA, NZAMI, NZBA and NZIA rightly require their members to set targets on their Scope 1, 2 and 3 emissions. For a financial institution their Scope 1 and 2 emissions from heating, cooling and lighting their offices will be relatively small. The great majority of their emissions will be their Scope 3 “financed” or “insured” emissions – those that they enable from the companies they invest in, lend to and sell insurance too. **But the problem is that none of alliances require the companies to which they provide financial services to count their Scope 3 data.**

So while the NZAOA, for example, would need to include in its sub-portfolio targets a utility’s Scope 1 emissions from its power plants, it would not need to include the Scope 3 emissions that result from an oil company’s customers burning gasoline and diesel.³³

in cases where a company extracts more oil but does it with less methane leaked per barrel pumped. With revenue intensity targets, all that may need to happen for the targets to be met is for prices of oil of whatever commodity is being extracted or produced to increase.

Production-based emissions intensity targets do have a role – they can for example help drive efficiencies in sectors without clearly viable zero-carbon alternatives such as cement and steel. However to ensure that they actually reduce emissions into the atmosphere, they must be accompanied with absolute targets. Otherwise, they are just another example

of carbon accounting trickery, masking the possibility of increased emissions beneath a veneer of climate action.

The NZAOA, for its main “sub-portfolio” target setting approach, and the Banking Alliance, recommend (but don’t require) both intensity and absolute emissions to be used. The NZAMI and the Insurance Alliance have not made any recommendations on intensity or absolute emissions. But because high-emitting companies generally prefer intensity targets, it is likely that most members of the alliances will use only intensity metrics unless absolute metrics are mandated.

	Asset Owner Alliance	Asset Managers Initiative	Insurance Alliance	Banking Alliance	Investment Consultants Initiative	Financial Service Providers Alliance
Emission reduction targets						
Requires 2025 targets?	Yes	No	No	No	No	No
Requires 2030 targets?	Yes	Yes	Yes	Yes	Yes	Yes
Requires absolute emissions targets?	No	No	No	No	No	No
Requires targets include Scope 3 emissions?	No	No	No	No	No	No
Numerical restriction on use of offsets?	No	No	No	No	No	No
Fossil fuels						
Requires coal phase out?	No	No	No	No	No	No
Requires halt to fossil fuel expansion?	No	No	No	No	No	No



Offsetting reality

Offsetting allows polluters to meet their emissions targets by purchasing certificates that supposedly represent avoided emissions or removals of GHGs from the atmosphere. Unfortunately, more than two decades of experience with regulated offset schemes shows that the supposedly simple concept behind offsetting is fatally flawed.

Offsetting, especially through the Kyoto Protocol's Clean Development Mechanism and California's Compliance Offset Program, has been rife with cheating and defective methodologies.³⁴ Claims that all these problems can be fixed with better governance are simply naïve; program designers and regulators have known for years of the problems with these programs and yet have never shown the will nor ability to fix them.

Avoided emission offsets are particularly problematic as they are based on the concept that an emission in one place can be zeroed out if an emission is avoided somewhere else; for example, by replacing a diesel generator with a solar array, or by protecting a forest. But it is clear from the terrifying math of the global 1.5°C carbon budget that we must reduce emissions everywhere and not waste carbon reduction opportunities in one place by using them to allow more emissions elsewhere.

Furthermore, it is impossible to reliably prove a counterfactual. No one can ever be certain that the emission elsewhere was in fact avoided because of the sale of carbon credits, that the diesel generator wouldn't have been replaced with a solar array just because the solar array was cheaper, cleaner and quieter; or the forest wouldn't have been protected anyway because its owners never had any intention of cutting it down.³⁵

When forests are planted to suck up carbon there may be disputes with local communities who are currently using the land for growing crops or other uses. There will also be many uncertainties over whether the trees will die or grow more slowly than predicted because of drought, or are cut down by local people, or go up in flames as has happened to "offset forests" across the US West in recent years (including one in Washington state that supplies offsets to BP).³⁶

In September 2021 the NZAOA published a report called *The Net in Net Zero*, which notes many of the chronic problems with offsets.³⁷ Yet, because of a misplaced faith that all these problems can be solved with well-meaning, smart regulators (the position of a Mark Carney-launched finance industry taskforce on boosting the availability of offset credits that is cited in this AOA report), the AOA also calls on asset owners to "immediately scale investment" into offsets.³⁸

f. Failure to close the door to offsets

The use of offsets is one of the most controversial aspects of the net-zero concept (see Box). The Race to Zero lays out a series of requirements for the use of offsets. They specify that any uses of "sinks or credits" must be clearly explained, and that any credits used must "achieve robust outcomes for additionality, permanence, and accounting, and do not undermine social justice or harm biodiversity."³⁹

But the past two decades of experience with regulated offset markets shows that the cheating, flawed methodologies and perverse incentives that these schemes have been plagued with are inherent to the concept of offsets. They are not the problem of careless program design or a few "bad apple" consultants. **It is purely wishful thinking to believe that the problems that beset offsetting can be solved by improving the rules.**⁴⁰

The Race to Zero criteria also state that "priority must be given to reducing emissions rather than buying offsets." This is obviously correct, but unless offsets are explicitly prohibited the doors will be open to the GFANZ network to allow major emitters to continue to delay the needed drastic overhauls in their business models. **None of the net-zero alliances prohibit the use of offsets or even state a cap for the percentage of emission reductions that can be met via offsetting.**

g. On the wrong pathway

The IPCC's "half by 2030" requirement is based on a necessary simplification of 90 1.5°C emission scenarios.⁴¹ Of these scenarios, the IPCC selected three "illustrative model pathways" with "no or limited overshoot." This means that while the pathways may lead to warming exceeding 1.5°C, they would do so only by 0.1°C and would return to 1.5°C by 2100. These pathways vary mainly according to their assumptions of how much CO₂ would be sequestered through an untested practice known as bioenergy with carbon capture and

storage (BECCS). BECCS involves planting trees, burning them for energy, then capturing the resulting CO₂ and burying it.

Pathway 1 is BECCS-free and shows CO₂ needing to be cut by 58% by 2030. Pathway 2 has limited use of BECCS and shows a CO₂ cut of 47% by 2030. Pathway 3 has large-scale use of BECCS — and as a result while Pathways 1 and 2 show significant declines in oil and fossil gas use by 2030, Pathway 3 shows only a small decline in oil and a significant increase in gas consumption.

There are various problems with assuming that BECCS on a large scale is going to be economically and socially feasible, and technically capable of permanently removing massive amounts of CO₂.⁴² The most obvious problem is the huge area of land it would consume — in Pathway 3 bioenergy crops would cover 2.8 million square kilometers in 2050, an area more than five times the size of France. This land would have to be suitable for fast-growing trees, which means well-watered lands now covered with crops or forests, raising the prospect of biodiversity loss, land grabs, food shortages, and massive social resistance.⁴³

The NZAOA⁴⁴ and Insurance Alliance⁴⁵ explicitly allow their targets to be based on Pathway 3. While the Banking Alliance only mentions pathways 1 and 2, it leaves the door open for targets to be based on Pathway 3.⁴⁶

h. No action, no sanctions?

The Race to Zero does not mention any actions to be taken against any entities that do not follow through on the actions they commit to when they receive their accreditation. The net-zero alliances have so far been similarly silent. Without strong sanctions mechanisms, companies will be able to use their membership of alliances as greenwashing.

CASE STUDY.

THE ASSET OWNER ALLIANCE: A FLAWED "GOLD STANDARD"

The Net-Zero Asset Owner Alliance has been described by UN Secretary General Guterres as the "gold standard" net-zero alliance. As of mid-October 2021, it had 58 members, mostly European insurance companies and pension funds, and including some of the giants of the sector such as Allianz (currently chair of the alliance), AXA, Generali, Legal & General, Munich Re, Nippon Life and Prudential.

The NZAOA is the oldest of the GFANZ entities and has produced by far the most guidance for its members, including a detailed *2025 Target Setting Protocol*. It is also the only alliance for which members have already set targets, and the only one to require targets for 2025 (the other alliances do not require initial targets until 2030).

Asset owners are uniquely positioned to influence the global economy for the simple reason that basically they own it, or at least a large part of it, including publicly listed banks, insurers and asset managers. NZAOA recognizes that "we have a unique role at the top of the investment value chain and we acknowledge the responsibilities and opportunities that come with this role."⁴⁷

NZAOA members are required to set 2025 "sub-portfolio" reduction targets of 16-29% of CO₂-equivalent emissions.⁴⁸ These "sub-portfolios" are asset classes including listed equity, publicly-traded corporate bonds, and real estate. The NZAOA has also commissioned the University of Technology

Sydney Institute of Sustainable Futures (ISF) to carry out a useful analysis of 1.5°C-aligned 2030 targets from high-emitting sectors.⁴⁹

The NZAOA also seems far more committed to transparency than its peers,⁵⁰ and stands out for its production of a position paper on coal which calls for a halt to financing new coal projects,⁵¹ and of guidelines for its members to use in their engagement with companies and asset managers.⁵² It is positive that the NZAOA encourages its members to lobby governments to "[embed] climate goals at the heart of economic recovery plans" and to eliminate fossil fuel subsidies.⁵³

As of mid-October 2021, asset owner policies posted on the AOA's web site showed 23 of the NZAOA's members as having set 2025 sub-portfolio targets. These targets are generally at the higher end of the NZAOA's required range, and in some cases exceed it (32% in the case of Storebrand; 35% for Swiss Re; 40% for the UN Pension Fund; and 45% for PensionDanmark).⁵⁴

Some key criteria are optional, and those which are mandatory lack enforcement Unfortunately, the NZAOA also suffers from most of the shortcomings of the GFANZ-network outlined above. The problem with non-mandatory recommendations is illustrated by a review of the NZAOA member policies posted on the alliance's website. None of the asset owners' policies on the NZAOA website mention the optional

absolute emission reduction targets, and only PensionDanmark mentions a target for the Scope 3 emissions of the companies it holds.

As with the other alliances, the NZAOA still lacks procedures to sanction members who do not fulfil their commitments. **CalPERS, the huge Californian state pension fund, was one of the founder members of the NZAOA in November 2019. Yet even though NZAOA members are required to issue their targets within 12 months of joining the alliance,⁵⁵ as of mid-October 2021 CalPERS had still not published NZAOA-aligned targets.**

A related problem is the lack of an insistence that members of the NZAOA develop policies based on the alliance's positions (a GFANZ network-wide problem). The NZAOA's coal position paper clearly states that there should be no investments in any new coal projects. **Yet the Reclaim Finance Coal Policy Tool shows that at least 34 NZAOA members lack any policy to restrict investments in coal developers. The Coal Policy Tool shows only four NZAOA members as having a robust coal policy overall.**⁵⁶

Without divestment engagement lacks teeth The NZAOA, like many net zero and other finance sector climate initiatives, stresses the drawbacks of divestment strategies. The Alliance favors engagement strategies but fails to define precisely how its members can be effective when engaging with companies. Yet engagement without teeth — urging companies to change their ways without deadlines and consequences if they fail to take sufficient action — is unlikely to move the world's oil companies and other big polluters, who have for decades been fighting tooth and nail against climate action.⁵⁷

Meanwhile the rapidly growing number of investors divesting (and debanking, and deinsuring) coal and, to a lesser extent, oil and gas, is a major reason for what progress has been made in pushing fossil fuel companies to start to move in the right direction. David Blood, the former head of Goldman Sachs Asset Management, told the Financial Times in October 2021:

"You can have engagement for a while, but unless you have a clear and present commitment to divest, your engagement isn't credible. I don't think you have decades to work with companies, I think you have a couple of years. And if they're not going to actively show you the plan to decarbonise or to enhance their diversity or do different things with their communities, then you're going to have to do something different. That will likely be moving your capital elsewhere."⁵⁸

The NZAOA does not promote effective engagement strategies. It does not stress that any engagement should be linked to the threat of divestment after a stated period of time. A common argument against divestment is that once an investor has sold their stake in a company, they can no longer influence it. However, divestment does not have to be all or nothing; it can be a gradual shrinking of holdings in a company as long as it refuses to take adequate climate action. And once an investor's holdings have shrunk to zero, it can still have influence in terms of the "carrot" of the investor buying back into the company once it changes its behavior.

Engagement without divestment can have some teeth in the sense that asset owners can vote against management through climate-related shareholder resolutions and can vote out board members. However, while the NZAOA discusses working with asset owners on their strategies on proxy votes, it does not require its members to support climate resolutions or to vote out anti-climate board members.⁵⁹ Furthermore, regulations on corporate governance can restrict the ability of shareholders to file strong resolutions that would meaningfully redirect corporate strategies. Proxy voting does not remove the need for financiers to make clear they are prepared to use the ultimate weapon of removing their capital and financial services.



3. TACKLING FOSSIL FUELS: THE KEY FOR CREDIBLE NET-ZERO ALLIANCES

While transitioning to 1.5°C will require tackling transport, heavy industry, buildings, agriculture and other key sectors, it is clear that cutting support for fossil fuels is the *sine qua non* of finance sector climate action. Below is a list of five key actions on fossil fuels needed from the net-zero alliances for their commitment to 1.5°C to be considered credible. We focus on those near-term actions that are essential if we are to halve emissions by 2030

a. End financial services for companies with plans to expand fossil fuel supply

"If we want to reach net zero by 2050 we do not need any more investments in new oil, gas and coal projects," Fatih Birol, the IEA's

executive director, said in May 2021.⁶⁰ **The net-zero alliances need to make clear to their members that financial services must be withdrawn from all companies involved in expanding the supply of fossil fuels.** Based on the IEA's recommendations, this would require that companies cease exploration for or development of oil, gas or coal resources outside of fields or mines already approved for development as of 2021.⁶¹

The NZAOA has insisted that there should be no finance or insurance for new coal power plants or mines. This NZAOA demand should be extended to expansions of existing power plants and mines, and to power plants and mines — and expansions — currently under active construction. The NZAOA and all other GFANZ groups should insist that all their members adopt similar policies.

b. End financial services for all companies with coal production and coal power output above the thresholds in the Global Coal Exit List (GCEL). All remaining companies under these thresholds must adopt a robust coal phase-out plan

The GCEL thresholds are: more than 20% of revenues or electricity generation from coal; coal production above 10 million tons per year; and more than 5 GW of coal-fired capacity.⁶² The key requirements for robust coal phase-out plans are explained in the Reclaim Finance/Urgewald paper *How to Exit Coal: 10 Criteria for Evaluating Corporate Coal Phase-out Plans*.⁶³

Climate Analytics has shown that coal power must be phased out by 2030 in the OECD, Eastern Europe and the Former Soviet Union; and by 2040 at the latest in the rest of the world. **80% of the global reduction in coal generation needs to happen this decade.**⁶⁴

c. Only provide financial services to companies that have plans to significantly wind down oil and gas production during the 2020s

The 2020 *Production Gap Report*, produced by five organizations including the UN Environment Programme, shows that in 1.5°C pathways fossil fuel production needs to fall by a median of around 6% per year between 2020 and 2030. **This is broken down into annual declines of 11% for coal, 4% for oil, and 3% for fossil gas.**⁶⁵

The rates of decline laid out in the *Production Gap Report* should be considered the minimum rates necessary for 1.5°C alignment. This is because it bases its findings on scenarios that give only a 50% chance of warming staying under 1.5°C, and include a potentially technically and economically unrealistic

amount of carbon capture and storage.⁶⁶ If issues of global equity are considered, a managed decline of fossil fuel production would need to be even faster than 6% per year in wealthy countries with diversified economies, to allow poorer countries with economies that are heavily dependent on fossil production to have more time to transition.⁶⁷

Globally, there is a fortunate synchronicity between the rates at which oil and gas production needs to drop to align with 1.5°C, and the "natural depletion" rates of ageing oil and gas fields.⁶⁸ The IEA projects that global oil production would drop by around 4% per year by limiting production and investment to fields already producing or under development today, the rate that the *Production Gap Report* gives as necessary to for 1.5°C alignment.⁶⁹

In October 2020, French finance minister Bruno Le Maire called on financial institutions to stop supporting unconventional hydrocarbons.⁷⁰ This call was backed up in September 2021 by the finance ministry-supported Scientific and Expert Committee of the Sustainable Finance Observatory.⁷¹

The hydrocarbon reserves regarded as "unconventional," including shale oil and gas extracted by fracking, tar sands oil, and oil and gas in the Arctic, tend to be the most carbon- and methane-intensive, have high social and environmental impacts, and be the most expensive to extract and process and thus carry the highest risk of becoming stranded assets.⁷² A 1.5°C-aligned phase-out of oil and gas finance could begin with – but not stop at – "unconventional" forms of extraction.

d. Only provide financial services to utilities and developers with plans to phase out all their gas power production in wealthy countries by 2035, and 2040 globally

The IEA's net zero by 2050 pathway shows that electricity production needs to be completely decarbonized, mainly through the massive

ramp-up for wind and solar power, by 2035 in “advanced economies,” and by 2040 globally. The IEA projects some fossil gas power production will remain on-line in 2040, as this is fitted with carbon capture and storage. But the amount of energy generated from these plants would be less than 10% of the amount of power generated by natural gas in 2020.

Given this short timeline for the continued operation of most gas plants — just 14 years in wealthy countries and 19 years elsewhere from the time of writing this report — any new gas plants, and associated infrastructure like pipelines and LNG terminals, are at very high risk of becoming stranded assets.⁷³ An October 2021 report from Carbon Tracker found that because of competition from wind and solar power with batteries “[m]ost new build gas capacity planned will be unable to recover initial investment and should be cancelled . . . Some \$24 billion is at risk from investment in new gas plants in the US and \$3.7 billion in Europe.”⁷⁴

e. Only provide financial services to companies with plans to reduce their absolute emissions of methane from fossil fuel production by 75% from 2020-2030

According to the IPCC, methane contributed around 0.5°C of the global warming experienced in the 2010s. Of the anthropogenic sources of methane, around a third are due to fossil fuel extraction and transportation.⁷⁶ The IEA says that a net-zero pathway requires these fossil fuel methane emissions to fall by 75% between 2020 and 2030.

Around one-third of this decline would be the result of the overall reduction in fossil fuel production in this pathway. The rest would come from a long overdue effort by coal, oil and gas companies to stop methane leaking and being deliberately vented from their mines, wells, compressors and pipelines. The IEA calls these measures “the most effective means available for limiting global warming in the near term.” Nearly all of the 75% cut

in fossil fuel methane emissions could be achieved with existing technology, and nearly half of the reduction could be done with measures that would actually save money for the fossil fuel producers.⁷⁷

f. Set robust absolute emission targets without offsets and BECCS. Protection of carbon-rich ecosystems should be promoted through non-market and rights-protective approaches

While the above actions on fossil fuels should be prioritized, the net-zero alliances also need to ensure that their broader long-term net-zero financed/insured emissions targets include the highest emitting sectors like those identified by the NZBA; cover all major asset classes and financial activities (and in particular bank underwriting); include their clients’ Scope 3 emissions where these are material, especially for the fossil fuel industry and in manufacturing of fossil-fuel powered vehicles and equipment; and include absolute emissions.

The net-zero alliances should also rule out meeting 2030 climate targets through the use of offsets and negative emissions technologies such as BECCs. Funding for the protection of forests and other carbon-rich ecosystems (including through the protection of Indigenous rights) and to support regenerative agriculture should not be provided via offsets. The net-zero alliances should support proposals from the Climate Land Ambition and Rights Alliance (CLARA) for non-market approaches financed from fees on international air travel, a financial transaction tax, and a levy on fossil fuel extraction.⁷⁸



ANNEX - AN OVERVIEW OF THE NET-ZERO ALLIANCES AND INITIATIVES

1. NET-ZERO ASSET OWNER ALLIANCE (NZAOA)

The AOA was launched in September 2019 by 12 insurance companies and pension funds including Allianz, Caisse des Dépôts, Swiss Re, Zurich, Storebrand, and La Caisse de dépôt et placement du Québec. At the time of writing in mid-October 2021, it includes 58 mostly European investors with more than \$9 trillion in assets.⁷⁹ Major asset owners who have joined since the launch include AXA, Aviva, Generali, Legal & General, Nippon Life, Scor and Société Générale Assurance.⁸⁰ The strategic direction of the alliance is set by a steering group currently made up of seven of the founding members, along with UNEP-FI and the UN-Supported Principles for Responsible Investing (PRI). Allianz, whose chief investment officer conceived of the alliance, chairs the steering group.⁸¹ UNEP-FI and PRI provide the AOA with its secretariat.

In signing up to the AOA, asset owners commit to transitioning their investment portfolios to net-zero greenhouse gas emissions by 2050 consistent with a maximum rise of 1.5°C “taking into account the best available scientific knowledge including the findings of the IPCC.” To achieve this, AOA members must **establish intermediate targets every five years starting in 2025.**

The most important of the AOA documents is its *Inaugural 2025 Target Setting Protocol*, published in January 2021.

a. The protocol breaks its targets into four parts:

- Sub-portfolio emission targets;
- Sectoral emission targets;
- Engagement targets;
- Financing transition targets.

While the protocol recommends alliance members to set targets on all four parts, they are only required to set targets on engagement and two other segments of their choice.⁸²

The two emission-related targets are to be based on CO₂-equivalent (CO₂e) measurements — meaning that they need to account for the warming impact not just of carbon dioxide, but also methane, nitrous oxide, and a set of low volume but high warming impact industrial gases. The investment portfolios covered are to include all assets under management including third-party managed money and passive funds.⁸³

Sub-portfolio emission targets

Sub-portfolio targets apply across the companies held in asset classes such as listed equity, publicly-traded corporate bonds, and real estate. They are called “sub-portfolio” targets because the AOA believes that there is not yet sufficient and credible data and methodologies to measure all asset classes. In time, these targets are supposed to be extended to other asset classes such as private equity and mortgages.

Sub-portfolio targets must aim for 16-29% reductions in emissions from 2019 to 2024. The protocol recommends that the sub-portfolio targets should apply to both absolute emissions and emissions intensity, but allows members to set targets **only on an intensity basis** “particularly in the early years.”⁸⁴ The protocol says that because of concerns over data reliability, the sub-portfolio targets should only cover corporate Scope 1 and 2 emissions. Members should try to track Scope 3 emissions of their portfolio

companies and should expect that they may be incorporated into targets in future.⁸⁵

Sectoral targets

Sectoral targets apply to specific high-emitting sectors. 2025 targets should be set for at least the following sectors:

- Oil and gas
- Utilities, including coal, power plants and gas pipelines (26-39% of global emissions)
- Transport (civil aviation, shipping and road) (15-23% of global emissions)
- Steel manufacturing (5-7% of global emissions)

This list is to be extended in the future to other high-emitters such as cement, aluminum and chemicals.

Targets for utilities with coal plants should follow the guidance in the AOA’s November 2020 coal position paper. This states that there should be:

- “Other than coal plants currently under active construction, no further thermal coal power plants should be financed, insured, built, developed or planned.”
- An immediate cancellation of coal

power projects, mines and associated infrastructure that are in pre-construction phase

- A phase-out of all unabated coal-fired electricity generation in accordance with IPCC and IEA 1.5° pathways.⁸⁶

The sectoral targets are to be based on Scope 1 and 2 emissions, and Scope 3 emissions “where possible.” The AOA says that it will gather more data and require Scope 3 targets, at least for oil and gas, for the 2025-2029 target-setting period.⁸⁷

The AOA commissioned the University of Technology Sydney Institute for Sustainable Futures (ISF) to develop sectoral targets based on their One Earth Climate Model (OECM).⁸⁸ ISF provided 1.5°C-aligned Scope 1 and 2 absolute emission targets for high-polluting sectors (see Table 1 for Scope 1 reductions). However, the NZAOA does not require its members to use these OECM targets.⁸⁹ Instead, it recommends its members to develop and use production-based intensity targets and only to use absolute sectoral targets if this is in conjunction with intensity targets.⁹⁰

Table 1. Scope 1 2025 absolute emission reductions for AOA priority sectors for 1.5° alignment as per OECM (not required by AOA)

Sector	Required reduction 2019-2025 (% of CO ₂ e energy-related CO ₂ and CH ₄ emissions only)
Energy (Oil & Gas, Coal)	-30%
Utilities	-37%
Transport (aviation)	-34%
Transport (shipping)	-6%
Transport (heavy duty road)	-27%
Transport (light duty road)	-32%
Steel	-22%

Engagement targets

The AOA calls its engagement targets “perhaps the most important mechanism asset-owners have for contributing to a net-zero economy transition.” Alliance members are supposed to engage with the companies they own in order to ensure that they:⁹¹

- Commit to net-zero emissions by 2050 with interim targets;
- Develop and implement plans for their businesses “to remain viable in a climate neutral economy”;
- Support — or at least not disrupt — government climate policies;⁹²
- Enter “direct time-bound engagement dialogue with Alliance members and/or other investor initiatives.”

“Engagement” can mean bilateral discussions with companies, or as part of other engagement initiatives such as Climate Action 100+. It can also mean engaging with asset managers. The AOA has published guidelines to inform how their members engage with asset managers on their proxy votes at corporate AGMs on resolutions and other issues (such as board member elections) with a direct or indirect link to climate action.⁹³ As part of their engagement process the AOA have committed to publishing papers on tar sands, the Arctic and deforestation.⁹⁴

2. NET ZERO ASSET MANAGERS INITIATIVE (NZAMI)

The AMI launched in December 2020. It is by far the largest of the net-zero entities: as of mid-October 2021, 128 asset managers with \$43 trillion in assets under management had signed up.⁹⁷ The signatories range from small progressive money managers such as Boston Common and Trillium in the US, to the global behemoths of the industry such as BlackRock, Vanguard, State Street and Amundi. Several insurance companies including Allianz, AXA and Legal & General, have joined both the

Financing transition targets

The fourth of the AOA’s targets is aimed at increasing investments in “climate solutions,” including carbon capture technologies.⁹⁵ The AOA calls on its members to work with governments and asset managers on new clean financing mechanisms. It calls on asset owners to explore supporting green buildings, renewable energy in emerging markets, sustainable forestry, and development of green hydrogen.⁹⁶

b) Government policy engagement

AOA encourages its members to lobby governments to implement financial regulations that would promote the climate transition such as mandating climate-related disclosures, and embedding climate goals at the heart of Covid-recovery plans. Other goals for AOA policy engagement include:

- Elimination of direct and indirect fossil fuel subsidies;
- Phase-outs of coal and new internal combustion engine vehicles;
- No deforestation, no peat, no exploitation (NDPE) policies, and support for afforestation and net-zero agriculture;
- Subsidies for new technologies such as CCS and green hydrogen.

AOA and AMI, a reflection of their twin roles as both owners of assets (the premiums collected from their clients) and managers of assets for others.

The AMI is governed by six non-profit investor networks including PRI, CERES in the US, and the Europe-wide Institutional Investors Group on Climate Change (IIGCC). These networks are guided by an advisory group of asset manager executives. The AMI states

its purpose as being “to galvanize the asset management industry to commit to a goal of net-zero emissions.”⁹⁸

In the nine months after its launch the AMI has produced only a 750-word “Net Zero Asset Managers Commitment.”⁹⁹ This requires AMI members to set 2030 targets “consistent with a fair share of the 50% global reduction in CO₂” named in the IPCC’s 1.5°C report. They commit to work in partnership with their asset owner clients on decarbonization goals. No deadline is given for when these 2030 targets should be set.

The AMI members’ 2030 targets should “take account of” the Scope 1 and 2 emissions of the companies in its portfolios, and “to the extent possible” their Scope 3 emissions. No mention is made of absolute emission targets. If offsets are used to meet 2030 targets, these should be based on “long-term carbon removal, where there are no technologically and/or financially viable alternatives to eliminate emissions” — a stricter standard than that of its GFANZ peers.

3. NET-ZERO BANKING ALLIANCE (NZBA)

The NZBA was launched in April 2021 by UNEP-FI and the Financial Services Taskforce (a grouping of bank CEOs supposedly committed to a net-zero economy).¹⁰¹ As of mid-October 2021, the NZBA represented 39% of global banking assets with 82 members from 36 countries and more than \$54 trillion in total assets.¹⁰² It is led by a 12-member steering group chaired by UK bank Standard Chartered.¹⁰³

The members of the NZBA range from small progressive banks Amalgamated (USA) and Triodos (Netherlands) to some of the giants of world banking – and fossil fuel financing — such as JPMorgan Chase, Wells Fargo, Bank of America, Barclays, BNP Paribas, Citi, and Mitsubishi UFJ Financial Group (MUFG).¹⁰⁴ Its members are committed to aligning their lending and investment portfolios — but not for now their underwriting activities — with

Across all the assets they manage, AMI members are to implement “a stewardship and engagement strategy, with a clear escalation and voting policy, that is consistent with our ambition for all assets under management to achieve net-zero emissions by 2050 or sooner.” They hint at a divestment threat in saying that “we expect asset managers to be factoring in assessment of the alignment or potential alignment of assets in their investment decision making processes, which may result in decisions not to allocate capital to high carbon investments.”¹⁰⁰

AMI members also commit to “engage with actors key to the investment system including credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that products and services available to investors are consistent with the aim of achieving global net-zero emissions by 2050 or sooner.” They also should “ensure any relevant direct and indirect policy advocacy we undertake is supportive of achieving global net-zero emissions by 2050 or sooner.”

net-zero emissions by 2050.¹⁰⁵

So far the NZBA has produced a commitment statement and a short set of “Guidelines for Climate Target Setting for Banks” to be applied on a “comply-or-explain” basis.¹⁰⁶

Banks’ 2030 targets can be based on absolute and/or intensity emissions. After 2030 interim targets should be set on a five-year basis. The targets shall include their clients’ Scope 3 emissions “where data allow.”

Sectoral targets should be set for “all, or a substantial majority of” nine carbon-intensive sectors including coal, oil and gas, power generation, cement, iron and steel, and transport.¹⁰⁷ Any client with more than 5% of their revenues coming from thermal coal power or mining shall be included in the targets.

The targets cover bank lending and investment activities. But they do not cover underwriting of issuances of stocks and bonds – which makes up a large part of the capital that banks facilitate for their clients. In 2020, underwriting from the world's 60 largest banks for fossil fuel companies was nearly a third higher than their lending.¹⁰⁸ The BA states that underwriting will be considered in the next version of the guidelines.

4. NET-ZERO INSURANCE ALLIANCE (NZIA)

Eight large European insurers — AXA (Chair), Allianz, Aviva, Generali, Munich Re, SCOR, Swiss Re, and Zurich — launched the NZIA in July 2021. Like the asset owners and banks, the insurers are convened by UNEP-FI which acts as their secretariat. In founding the alliance, the insurers committed to individually transition their insurance portfolios to net-zero emissions by 2050 and 1.5° of warming.¹⁰⁹ Inside sources say that they expect soon to add more members including in the US and Asia. All the founder members of the NZIA are also members of the AOA.

The Insurance Alliance so far has released only a three-page “statement of commitment.” It says they will publish a 2030 target-setting protocol by the start of 2023. Once this protocol is released, the insurers will have six months to set their 2030 targets.¹¹⁰

5. NET ZERO INVESTMENT CONSULTANTS INITIATIVE (NZICI)

The ICI was launched in September 2021 by 12 firms, including Cambridge Associates and Willis Towers Watson (also a member of the AMI), responsible for advising on assets exceeding \$10 trillion. It is supported by PRI. The investment consultants say that by embedding net-zero considerations into their advisory work “this pioneering group can help

The use of offsets is allowed to help clients to meet their targets. The guidelines says that scenarios “shall rely conservatively” on negative emissions technologies and have “reasonable assumptions” on carbon sequestration achieved through “nature-based solutions and land use change.” The guidelines do not define “conservatively” or “reasonable.”

Separate from the target-setting process, the statement of commitment requires insurers to set underwriting criteria and guidelines for the most greenhouse gas-intensive and -emitting activities. It also commits signatories to “advocating for and engaging in governmental policies for a science-based and socially just transition of economic sectors to net zero.”

The NZIA statement stands out among the other GFANZ network commitments for its mention of the need to promote human rights, including the right to Free, Prior and Informed Consent, as articulated in the UN Declaration on the Rights of Indigenous Peoples.

The statement of commitment sets no meaningful restrictions on the use of offsets in meeting targets, saying only that they should be “additional and certified.”

the investment industry make rapid progress on climate goals.”

The ICI members explain that they provide their asset owner clients with education “on the long-term investment risks and opportunities related to climate change” as well as guidance to asset managers “about ESG capabilities and climate competence, as

well as advising on the development of new investment solutions.” They claim to provide an “often critical link between asset owners and asset managers, determining which firms and strategies are favoured for selection.”¹¹¹

ICI has published a one-page commitment and a supporting Q&A. The signatories commit to:¹¹²

- Integrating advice on net-zero alignment into their consulting services;
- Working with asset owner clients to align their portfolios to net-zero;
- Helping their clients prioritize emissions reductions “reflecting the target of 50% global emissions reduction by 2030 or sooner using existing decarbonization methodologies”;
- Assess and monitor asset managers on the integration of climate risks and opportunities in their investment decisions and stewardship and potentially “exclude fund recommendations because the asset manager lacks appropriate climate competency or because the fund is not aligned” with the Paris Agreement”;¹¹³
- Align with the Net Zero Asset Managers Initiative within two years of making this commitment, and encourage asset managers to join the initiative.

The ICI says that “advice and reporting

should cover all greenhouse gas emissions, including Scope 3 emissions . . . where data availability allows . . .” They also say that they “will recommend their clients regularly review interim targets to . . . reflect the latest thinking in terms of climate science, scenarios, data and methodologies.”

The ICI seems more aware of the drawbacks of offsets than the other GFANZ entities, noting that given the “finite availability of offsets from land use and the need to rapidly decarbonize all activities within sectors to the extent possible, it is generally accepted that investors should not allow the use of external carbon offsets as a significant long-term strategy for achievement of decarbonization goals by assets in their portfolios, except where there is no technologically or financially viable solution. Based on this, signatories will advise their clients that carbon offsets should be reserved for emissions that occur because there are no technologically and/or financially viable ways to eliminate emissions.”¹¹⁴

The ICI commits to publicly reporting progress toward these commitments at least annually. However, it is difficult to see how it will be possible to publicly report, and for outside actors to monitor, the advice that the consultants are giving to their clients.

6. NET ZERO FINANCIAL SERVICE PROVIDERS ALLIANCE (NZFSPA)

The Financial Service Providers Alliance was launched in September 2021 by 18 companies including the index provider MSCI; the rating agencies S&P Global and Moody's; the information provider Bloomberg; the London and Singapore stock exchanges; and all the Big Four global accountants, EY, Deloitte, KPMG and PWC. All are supposed to be “committed to raising the urgency of net-zero alignment and integrating net-zero alignment into relevant services and products offered to capital market participants.”¹¹⁵

This final (at the time of writing) GFANZ-

affiliated body was launched two days after the ICI. It is advised by PRI. It includes the providers of a disparate range of services to the financial industry. Its members have signed up to a short commitment statement which, perhaps necessarily given the diversity of the services offered by the providers, is more general than those of the other GFANZ groups.

The service providers say that they will “consistently raise with our key stakeholders the importance and implications of setting net-zero targets and strategies across Scopes

1, 2 and 3 emissions” and will work to “ensure our relevant services and products take into account the best available climate science, including credible emissions reduction pathways to net zero.”¹¹⁶

Index providers, under the FSPA commitment, are to create “new net zero aligned” indices. Given the massive and rapidly growing amount invested in passive funds that track

indices without any climate screening, this is an important commitment. However, producing indices which gradually squeeze out fossil fuels over the next 30 years will be of little use. Providers will need to ramp up the development of indices that exclude companies expanding fossil fuel supply – and to work with asset managers to ensure that they are used.¹¹⁷

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13. “Cities, Regions and Businesses Race to Zero Emissions,” UN Climate Change, 5 June 2020.
14. “Race to Zero Campaign,” accessed 5 October 2021.
15. The Race to Zero’s Expert Peer Review Group requires partner networks and initiatives “to operationalize “fair share” in a science-based fashion as appropriate for their members, and to explain and justify how they do this.” (“Interpretation Guide,” Race to Zero Expert Peer Review Group, April 2021).
16. The Expert Peer Review group considers acceptable “end state” targets by 2050 to include:
 - Absolute zero** – “When no GHG emissions are attributable to an actor’s activities across all scopes” (meaning Scope 1, 2 and 3 emissions - basically the actor’s own emissions and the emissions from its value chains and the companies that it finances).
 - Net zero** – “An actor reduces its emissions following science-based pathways, with any remaining GHG emissions attributable to that actor being fully neutralized by like-for-like removals (eg permanent removals for fossil carbon emissions) exclusively claimed by that actor, either within the value chain or through the purchase of valid offset credits.”
 - Climate positive** – When an actor’s GHG removals exceed its emissions and any removals are “like for like.” Pledges for “investments in natural sinks or other forms of compensation” should be separate from emission reduction pledges.
17. “Interpretation Guide,” Race to Zero Expert Peer Review Group,” April 2021.
18. “The Sky’s Limit: Why the Paris Climate Goals Require a Managed Decline of Fossil Fuel Production,” OCI, 22 September 2016.
19. “Net Zero by 2050: A Roadmap for the Global Energy Sector”, Summary for Policymakers, IEA, May 2021, p. 21.

20. “NZAOA: Statement on the Need for a Fully Developed IEA 1.5°C Scenario,” UNEP-FI, 7 January 2021.
21. “2025 Target Setting Protocol,” NZAOA, p.52.
22. “The NZIA: Statement of commitment by signatory companies,” UNEP-FI, 11 July 2021.
23. “The Global GHG Accounting and Reporting Standard for the Financial Industry,” PCAF, accessed 10 October 2021.
24. “Partnership for Carbon Accounting Financials collaborates with UN-convened Net-Zero Insurance Alliance to develop standard to measure insured emissions,” PCAF/NZIA, 6 September 2021.
25. Coalpolicytool.org; “Over 100 and Counting,” IEEFA, accessed 13 October 2021.
26. “Q&A,” NZAMI, accessed 7 October 2021.
27. The Race to Zero says that signatories must explain what actions will be taken to meet 2030 and 2050 targets within a year of joining. Logically targets would need to be set at least at the same time if not earlier as an explanation for how they will be met.
28. For critiques of the NZBA see “New bank climate initiative fails to grasp urgent need to end finance for fossil fuels: Civil society statement on the launch of the Net-Zero Banking Alliance,” BankTrack et al., 22 April 2021;
29. E.g. “Who’s in the Race to Zero,” Race to Zero, 23 September 2021.
30. “Oil, gas companies under pressure to manage Scope 3 emissions to reach net-zero goals: analysts,” IHS Markit, 22 June 2021.
31. “Briefing: What are Scope 3 emissions,” Carbon Trust, accessed 11 October 2021.
32. “Oil, gas companies under pressure to manage Scope 3 emissions to reach net-zero goals: analysts,” IHS Markit, 22 June 2021. The NZBA says that targets shall include their clients Scope 3 emissions but only “where significant and data allows.” Reclaim Finance’s position is that a “requirement” based on a self-assessed decision on materiality and data availability, is in effect only a recommendation. Our experiences with financial institutions’ policies is that where loopholes of this sort exist, they will be used in such a way as to seriously weaken the application of the requirement/recommendation.
33. A common critique of the inclusion of Scope 3 emissions in financed emissions is that it leads to multiple-counting. A bank could have to attribute the same emissions to the oil company that pumped a barrel of oil, the pipeline company that transported it, the refinery that turned it into gasoline, and the manufacturer of the car that burned it. However the point of counting and reducing financed emissions is not so that all the financed emissions numbers across financial institutions can be added up and then neatly matched on a ledger to data on global emissions. The point is to ensure companies involved in high emitting sectors across the economy are doing all that they can to reduce their emissions.
34. See e.g. “Bad Deal for the Planet: Why Carbon Offsets Aren’t Working,” International Rivers, 21 May, 2008; “Systematic over-crediting of forest offsets,” Grayson Badgley et al. (carbon)plan, 29 April 2001.
35. See e.g. “A Top US Seller of Carbon Offsets Starts Investigating Its Own Projects,” B. Elgin, Bloomberg Green, 5 April 2021.
36. “If forests go up in smoke, so can carbon offsets,” Justine Calma, *The Verge*, 13 September 2019; “Up in smoke – California fires once again highlight dangers of forest offsets,” Gilles Dufrasne, Carbon Market Watch, 22 October 2020; “Western Wildfires Are Sending Carbon Offsets Up in Smoke,” Dhana Noor, *Gizmodo*, 27 July 2021.
37. “Net-Zero Asset Owner Alliance Backs Call to Scale-up Carbon Removal from Atmosphere,” UNEP-FI, 23 September 2021.
38. “The not zero asset owner alliance? Pushing offsetting only undermines climate action,” Reclaim Finance, 1 October 2021. “Final Report,” Taskforce on Scaling Voluntary Carbon Markets, January 2021.
39. “Starting Line and Leadership Practices 2.0,” Race to Zero, April 2021.
40. “The not zero asset owner alliance? Pushing offsetting only undermines climate action,” Reclaim Finance, 1 October 2021.
41. “Global Warming of 1.5°C. An IPCC Special Report,” October 2018, p.100.
42. See e.g. “Report: Leading Approach to BECCS Worsens Climate Change,” S. Stashwick, NRDC, 13 October 2021; “Understanding the cost of the Drax BECCS plant to UK consumers,” Ember, 25 May 2021.
43. See e.g. “An Overview of Resistance against Industrial Tree Plantations in the Global South,” J.-F. Gerber, *Economic and Political Weekly*, October 2010; “A systematic review of the socio-economic impacts of large-scale tree plantations, worldwide,” A. Malkamäki et al., *Global Environmental Change*, November 2018.
44. “2025 Target Setting Protocol,” footnote 10, p.10..
45. “The NZIA: Statement of commitment by signatory companies,” footnote 3.
46. “Guidelines for Climate Target Setting for Banks,” UNEP-FI, April 2021, p.12.
47. “Inaugural 2025 Target Setting Protocol,” p.22.
48. “2025 Target Setting Protocol,” p.9. CO₂-equivalent is a metric that includes the warming impact of all the major greenhouse gases: CO₂, CH₄, N₂O, HFCs, PFCs, SF₆ and NF₃.
49. “One Earth Climate Model Plots Possible Course for Real Economy to Meet Paris 1.5°C Scenario,” UNEP-FI, 10 December 2020
50. The AOA carried out a public consultation for its 2025 Target Setting Protocol and for additions and revisions to the Protocol in late 2021.
51. “Thermal Coal Position,” NZAOA, November 2020; “The Net-Zero Asset Owner Alliance fails the litmus test for climate credibility,” Reclaim Finance, 9 November 2020.

52. "Elevating Climate Diligence on Proxy Voting Approaches," NZAOA, undated.
53. "2025 Target Setting Protocol, p.67."
54. "Net-Zero Asset Owner Alliance Member Targets (2025)," UNEP-FI/PRI, accessed 7 October 2021.
55. "2025 Target Setting Protocol," January 2021, p.15.
56. Coalpolicytool.org, accessed 7 October 2021.
57. See e.g. "Tracing Big Oil's PR war to delay action on climate change," *The Harvard Gazette*, 28 September 2021.
58. "Al Gore's 'inconvenient truth' for investors," *Financial Times*, 24 October 2021.
59. The NZBA compares favorably to the AOA in that it explicitly lists divestment as an action that can be taken to achieve targets. It is also positive that the NZBA mentions "exclusion policies" (policies excluding financing for specific sectors or activities) as a relevant action.
60. "End new oil, gas and coal funding to reach net zero, says IEA," Reuters, 17 May 2021.
61. "Net Zero by 2050: A Roadmap for the Global Energy Sector", IEA, May 2021, p.101.
62. coalexit.org
63. "How to Exit Coal: 10 Criteria for Evaluating Corporate Coal Phase-Out Plans. A briefing for financial institutions," Reclaim Finance/Urgewald, October 2021.
64. "Global and regional coal phase-out requirements of the Paris Agreement: Insights from the IPCC Special Report on 1.5°C", Climate Analytics, September 2019.
65. "The Production Gap: The discrepancy between countries' planned fossil fuel production and global production levels consistent with limiting warming to 1.5°C or 2°C," SEI/IISD/ODI/E3G/UNEP, December 2020. These rates of decline would mean that oil production in 2030 would be 35% lower than in 2019, and gas production 28% lower (Calculated in "Net Zero Standard for Oil and Gas," IIGCC, September 2021, p.13).
66. The Production Gap 1.5°C pathway depends on the oil and gas industry substantially reducing its methane emissions, and on a large number of gas power plants being fitted with effective CCS equipment after 2040.
67. "Equity, Climate Justice and Fossil Fuel Extraction," G. Muttitt and S. Kartha, Climate Policy, May 2020.
68. "Fossil Fuel Exit Strategy: An orderly wind down of coal, oil and gas to meet the Paris Agreement," S. Teske and S. Niklas, UTS ISF, June 2021, p.11. Teske and Niklas list depletion rates as 2% for coal, 4% for onshore oil, 6% for offshore oil, and 4% for gas.
69. "Net Zero by 2050: A Roadmap for the Global Energy Sector," IEA, May 2021, p.101.
70. "Climate Finance Day: French government and financial institutions adrift on climate change," Reclaim Finance, 29 October 2020.
71. "The Scientific Committee of the Paris Financial Center calls for an end to oil and gas expansion," Reclaim Finance, 22 September 2021. The expert committee recommended that French financial institutions adopt policies that exclude financing for:
 1. Exploration and production of unconventional oil and gas;
 2. Transportation infrastructure significantly dedicated to the transportation of unconventional oil or gas; and infrastructure primarily dedicated to the storage of unconventional oil and gas;
 3. LNG export terminals supplied by a significant volume of unconventional gas;
 4. Expansion projects (brownfield or greenfield) of unconventional hydrocarbons.
72. "Recommandations du Comité Scientifique et d'Expertise portant sur les hydrocarbures non conventionnels et les stratégies d'alignement," Observatoire de la finance durable, 22 September 2021.
73. Global Energy Monitor calculated in April 21 that the EU's new gas infrastructure plans risked creating more than \$100 billion in stranded assets. "Gas Is the New Coal With Risk of \$100 Billion in Stranded Assets," R. Morison, Bloomberg Green, 16 April 2021; "Proposed EU Gas Expansion Creates €87 Billion Stranded Asset Risk," GEM, April 2021.
74. "Put Gas on Standby," Carbon Tracker, 21 October 2021.
75. "The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the IPCC: Summary for Policymakers," IPCC, 2021, Figure SPM.2.
76. "Global Methane Assessment: Summary for Policymakers," UNEP/CCAC, May 2021, p.6.
77. "Curtailing Methane Emissions from Fossil Fuel Operations: Pathways to a 75% cut by 2030," IEA, October 2021.
78. "Release the Hostage! -- and Unleash Powerful Climate Action: CLARA's submission on 'Enabling ambition in Article 6 instruments,'" CLARA, 31 May 2021. In the long term the limited capacity of the biosphere to sequester carbon without causing major negative social and environmental impacts will need to be used to enable global "net negative" emissions, as shown to be necessary by the IPCC. The same applies to the use of potential industrial CO₂ removal technologies should these prove in future to be effective.
79. "Japanese Insurers Join UN-Convened Net-Zero Asset Owner Alliance; Adding \$1.4 Trillion To AUM," UNEP-FI, 15 October 2021.
80. "Alliance Members," UNEP-FI/PRI, accessed 19 October 2021.
81. The AOA lists WWF and Global Optimism as "Strategic & Scientific Partners"; IIASA, UNEP, Potsdam Institute and University of Technology Sydney as "Scientific Advisors"; and PCAF and SBTi as "Collaborators". Members can join a series of Working Groups, including on Engagement, and Monitoring, Reporting and Verification. The AOA has an agreement to collaborate with SBTi-Finance, including "to align their frameworks/Protocol". It also cooperates with the IIGCC Paris Aligned Investing Initiative and "is utilizing outcomes from the the

- PAII project as the foundation of the work" in its 2025 Target Setting Protocol ("Inaugural 2025 Target Setting Protocol," PRI/UNEP-FI, January 2021, p.25.)
82. "2025 Target Setting Protocol," p.23-24.
83. "2025 Target Setting Protocol," p.25.
84. "2025 Target Setting Protocol," p.35.
85. "2025 Target Setting Protocol," p.33.
86. "Thermal Coal Position," NZAOA, November 2020; "The Net-Zero Asset Owner Alliance fails the litmus test for climate credibility," Reclaim Finance, 9 November 2020.
87. "2025 Target Setting Protocol," p.50.
88. "2025 Target Setting Protocol," p.16.
89. "One Earth Climate Model Plots Possible Course for Real Economy to Meet Paris 1.5°C Scenario," UNEP-FI, 10 December 2020.
90. The protocol curiously states that the "reason for not recommending only setting targets on absolute emissions is to limit the risk of divestments and to stimulate emission reductions in the real economy (emphasis added)." ("2025 Target Setting Protocol," p.45).
91. "2025 Target Setting Protocol," p.55.
92. See "2025 Target Setting Protocol," p.55 and "UN-convened Net-Zero Asset Owner Alliance open letter to companies in our portfolio holdings," UNEP-FI/PRI, December 2020.
93. "Elevating Climate Diligence on Proxy Voting Approaches," NZAOA, undated.
94. 2025 Target Setting Protocol," p.57.
95. "2025 Target Setting Protocol," p.60.
96. "2025 Target Setting Protocol," p.61.
97. "Net Zero Asset Managers Initiative," NZAMI, accessed 19 October 2021.
98. Net Zero Asset Managers Initiative," NZAMI, accessed 19 October 2021.
99. "Net Zero Asset Managers Commitment," NZAMI, accessed 7 October 2021.
100. "Q&A," NZAMI, accessed 7 October 2021.
101. The Financial Services Taskforce (FSTF) was launched in February 2021. It is chaired by the CEO of HSBC and includes the CEOs of Barclays, Citi, BNP Paribas, NatWest, Standard Chartered and Bank of America. It is part of the Sustainable Markets Initiative, a venture co-chaired by Prince Charles, Prince of Wales, and Brian Moynihan, CEO of Bank of America, that was "launched with much éclat at Davos in 2020." As Euromoney has explained, it is rather difficult to understand exactly what is the purpose of the FSTF and SMI other than to give some CEOs "the opportunity to rub shoulders with royalty." ("Sustainable Finance: Taskforce or talking shop," *Euromoney*, 22 February 2021).
102. "Members," UNEP-FI, accessed 19 October 2021.
103. "NZBA announces governance," UNEP-FI, 27 July 2021.
104. "Banking on Climate Chaos 2021," RAN et al., March 2021.
105. "Net-Zero Banking Alliance," UNEP-FI, accessed 19 October 2021.
106. For critiques of the NZBA see "New bank climate initiative fails to grasp urgent need to end finance for fossil fuels: Civil society statement on the launch of the Net-Zero Banking Alliance," BankTrack et al., 22 April 2021;
107. The other sectors are agriculture, aluminum, and commercial and residential real estate.
108. "Banking on Climate Chaos 2021," RAN et al., March 2021, p.21.
109. "Net-Zero Insurance Alliance," UNEP-FI, accessed 5 October 2021.
110. "The NZIA: Statement of commitment by signatory companies," UNEP-FI, 11 July 2021.
111. "Leading investment consultants form global initiative to push for net zero," PRI, 20 September 2021.
112. "The Net Zero Investment Consultants Commitment," PRI, 20 September 2021.
113. "NZICI: Guidance and Q&A," PRI, 20 September 2021, p.3.
114. "NZICI: Guidance and Q&A," PRI, 20 September 2021, p.8.
115. "Signatories," NZFSPA, accessed 19 October 2021.
116. "Commitment," NZFSPA, accessed 19 October 2021.
117. "Passive managers urged to do more to exclude 'coal laggards'," *Financial Times*, 7 October 2021.

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IT'S NOT WHAT YOU SAY, IT'S WHAT YOU DO

Making the finance sector's net-zero alliances work for the climate

Reclaim Finance is an NGO affiliated with Friends of the Earth France. It was founded in 2020 and is 100% dedicated to issues linking finance with social and climate justice. In the context of the climate emergency and biodiversity losses, one of Reclaim Finance's priorities is to accelerate the decarbonization of financial flows. Reclaim Finance exposes the climate impacts of some financial actors, denounces the most harmful practices and puts its expertise at the service of public authorities and financial stakeholders who desire to bend existing practices to ecological imperatives.

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