Comments on June 2022 consultation draft of GFANZ document: "Financial Institution Net-Zero Transition Plans: Recommendations and Guidance"

19 July, 2022

How to respond to the consultation?

The GFANZ consultation is open until July 27th. You can respond by directly filling out this online survey.

Below are Reclaim Finance's responses to the survey. The parts in red are questions posed by GFANZ in their consultation. Reclaim Finance's responses are in black. The screenshots show our responses to multiple choice questions.

Organizations and stakeholders are encouraged to adapt the text below to provide their own response to the consultation.

Reclaim Finance's response

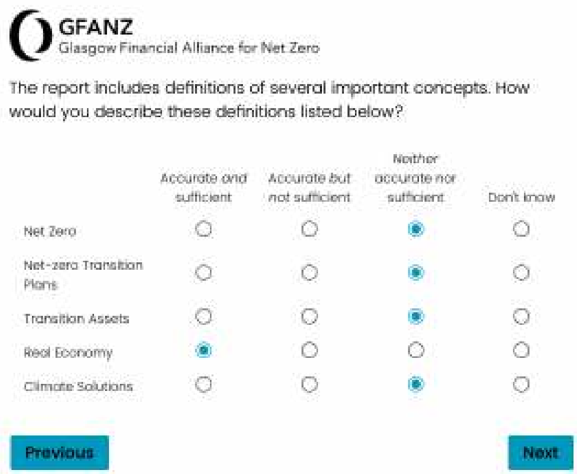
You said the four key approaches do not cover all of the options for financial institutions to consider in supporting the transition to net zero. Please explain why you gave that answer.

These approaches should make explicit mention of 3 key factors in meaningful transition plans which are included in the new Race to Zero (RTZ) criteria:

- The 2030 target of a 50% reduction in financed/facilitated/insured emissions. Reaching this target is vital for aligning with 1.5°C, which has been re-emphasized in the new RTZ criteria, and as well as in the IPCC AR6 WG3 report. Yet it is mentioned only once in the consultation draft — and this is only in a footnote (fn29 on p.9);
- An end to support for new fossil fuel supply projects. This is currently mentioned only once in the draft (under "Exclusions" on p.38) despite the RTZ requiring that its members must "must restrict the development, financing, and facilitation of new fossil assets." As is noted by the Sustainable Finance Group at the University of Oxford's Smith School, "ending fossil reserves expansion in line with the IEA [Net Zero road map] or equivalent scenarios ought to be a prerequisite for a transition plan to be credible." ("Implications of the IEA Net Zero

[Emissions by 2050 Scenario for Net Zero Committed Financial Institutions: Briefing Paper,"](#) C. Wison et al., Oxford Sustainable Finance Group, 2022, p.22)

- Targets and timetables to ensure the RTZ requirement of "phasing down and out of all unabated fossil fuels as part of a global, just transition".



GFANZ
Glasgow Financial Alliance for Net Zero

The report includes definitions of several important concepts. How would you describe these definitions listed below?

	Accurate and sufficient	Accurate but not sufficient	Neither accurate nor sufficient	Don't know
Net Zero	○	○	●	○
Net-zero Transition Plans	○	○	●	○
Transition Assets	○	○	●	○
Real Economy	●	○	○	○
Climate Solutions	○	○	●	○

Previous Next

You said the definition of ***Net Zero*** *was neither accurate nor sufficient. Please explain why you gave that answer.*

The definition on p.2 leaves out an important part of the definition in the [RTZ Lexicon](#) on which it is based – that the neutralization of residual emissions should be via "like-for-like removals" such as "permanent removals for fossil carbon emissions". Permanent should be defined as **at least 1,000 years** to be "like-for-like" with fossil carbon emissions. (Note that "Frontier" which is a private sector initiative to buy an initial $925M of permanent carbon removal by 2030 funded by Stripe, Alphabet, Shopify, Meta, and McKinsey uses the Stripe definition of permanent as being more than 1,000 years (see https://frontierclimate.com/ and https://stripe.com/blog/first-negative-emissions-purchases#criteria-table). Also note that IPCC implies permanent equals more than 10,000 years ("essentially permanently (over ten thousand years))" (AR6 WGIII p.12-47). This indicates that using more than a thousand years as a definition of permanent is not conservative.

GFANZ should also add the language in the RTZ Lexicon's definition of net zero that clarifies that "the transition path to net zero and the time at which net zero is achieved are critical, as global warming is driven primarily by the stock of GHGs in the atmosphere."

GFANZ should also refer to the language on residual emissions in SBTi's [Net Zero Standard](#) which sets an expectation that in most cases residual emissions will be the final 10% of a company's emissions:

“Although most companies will reduce emissions by at least 90% through their long-term science-based targets, some residual emissions may remain.” (p.10) and “To meet these conditions, an economy-wide emissions reduction of at least 90% by 2050 informs the level of residual emissions for most companies (p.15).

*You said the definition of **Net-zero Transaction Plans** was neither accurate nor sufficient. Please explain why you gave that answer.*

The definition given on p.9 should be expanded to include compliance with the criteria of the Race to Zero, including that transition plans must include actions over immediate (1 year), short (2-3 year) and medium (by 2030) timeframes; and that the 2030 target is to cut financed/facilitated/insured emissions by an amount that is equivalent to a fair share of the global effort to halve carbon dioxide emissions compared to 2019. It should also clarify that transition plans need to include actions to ensure that investee/client companies stop expanding fossil fuel supply and set a timetable to phase “down and out all unabated fossil fuels as part of a global, just transition”.

*You said the definition of **Transition Assets** was neither accurate nor sufficient. Please explain why you gave that answer.*

The definition should not promote the highly controversial position that fossil gas is a “transition” fuel. Note e.g. that the recent sectoral pathways paper by the AOA-supported OECM shows fossil gas Scope 3 emissions being reduced by 7% 2019-25 and 18% 2019-2030. Note also the recent paper in *Nature Energy* by Kemfert at al. which concludes that fossil gas as “a fossil fuel with a high climate impact, often hidden under a misleading narrative, which hinders decarbonization via infrastructure expansion, and so creates carbon lock-in effects and bears high economic risk, cannot be a solution towards a zero-emission future.” (“The expansion of natural gas infrastructure puts energy transitions at risk,” Nature Energy, 4 July 2022).

Also note that the IPCC in AR6 WG3 states that: “Estimates of future CO2 emissions from existing fossil fuel infrastructures already exceed remaining cumulative net CO2 emissions in pathways limiting warming to 1.5°C (>50%) with no or limited overshoot (high confidence).” The IPCC continues that given the “long lifetimes” of these assets, they “may influence the rate of transformation substantially and lock societies into carbon-intensive lifestyles and practices for many decades”. (IPCC, AR6 WG III, p.2-68).

Also the statement “Transition assets **may be** replaced with cleaner options. . . ” should be replaced with “Transition assets **must be** replaced with . . .)

You said the definition of **Climate Solutions** was *neither accurate nor sufficient.* Please explain why you gave that answer.

The definition of “climate solutions” on p.6 is too narrowly focused on technological solutions and services supporting the expansion of these technologies. Some important climate solutions are non-technological and can be supported by GFANZ members in various ways, including through policy advocacy, and beyond the value chain compensation measures. Examples include urban planning approaches that encourage density and use of public transit, and protecting ecosystems by promoting land rights of Indigenous People and other natural resource-based communities.

*Do you have any other input on **Part A - Introduction** of the report?*

Part A rightly notes the danger of greenwashing under transition plans, and the need for “clearer guardrails in place that enable transparency and accountability”, and states that “financing for high-emitting companies and assets should be vigorously scrutinized to ensure net-zero alignment” (p.7). It also notes (p.11) that “credible” plans must allow for “accountability and appropriate transparency.”

However the text omits clear guidance for what the GFANZ alliances should do ensure transparency, accountability and vigorous scrutiny in the transition plans of their members — and the transition plans that their members require from their clients and investees. Text should be added requiring GFANZ alliances to require their members to adopt Race to Zero-aligned transition plans and be subject to exclusion from the alliances via their accountability mechanisms if they do not do this (the existing language on p.11 is inadequate in that it only “encourages” financial institutions to follow the guidance of their sector-specific alliances). Similarly alliance members need to require credible transition plans from their clients and investees and this needs to be made a requirement of the continued provision of financial services. This will require alliance members building their capacity to monitor the development and implementation of client/investee transition plans.

The text on p.7 referring to “the need for substantial reductions by 2030” and on p.8 referring to “deep emission reductions by 2030” should be clarified with language explaining that these both mean 50% reduction by 2030 as per the Race to Zero and IPCC.

Language on p.8 referring to clients/investees selling off high-emitting assets should clarify that engagement with clients/investees should aim to ensure that high-emitting assets are closed down rather than sold, and that GFANZ members should not assist in any such asset sales e.g. via M&A advice and financing, and should not provide investments, insurance or banking services in companies that buy high-emitting assets in order to keep them in operation.

The 2nd para on p.8 claims that there may be times when a high-emitting company needs capital to transition and that if financial institutions provide this capital it must be done with the highest level of external scrutiny to ensure that 1.5°C-aligned emission reductions occur. This scrutiny should include clear time-bound demands that companies stop developing new high-emitting assets and that capital for transition will be withheld after a year if a company refuses to comply.

It is stated on p.10 that transition plans should be regularly reviewed and updated. It should be added that given the fast changing economic and technological context plans should be reviewed on an annual basis.

In Table 1. Summary of GFANZ recommendations

- FOUNDATIONS Section 1) Objectives and Priorities: should mention the 50% by 2030 target.

- IMPLEMENTATION STRATEGY Section 3): Policies and Conditions: should mention the need for policies to stop financing of fossil fuel expansion

- ENGAGEMENT STRATEGY Section 1) Clients and portfolio companies: The ‘suggested disclosure’ part should make explicit mention of the need to disclose the escalation framework for engagement

- METRICS AND TARGETS: This should state that in most cases absolute emissions metrics are necessary for ensuring real-world reductions, as is stated in the Race to Zero Interpretation Guide (p.8).

To advance the development of global, pan-sector standards for net-zero metrics and targets, which topics would be most helpful for the industry to focus on?

Other topics, please specify:

Targets for the "phase down and out" of fossil fuels in line with e.g. the UN Production Gap Report, the OECM sectoral pathways report, and IPCC WG3 AR6 (as clarified in the IISD’s Lighting the Path report).

Comments on Part B.

GFANZ
Glasgow Financial Alliance for Net Zero

In the following questions, we will give you an opportunity to provide more detailed feedback on the recommendations and guidance per component. Please indicate which of the components you would like to provide additional feedback on. Select all that apply.

- [x] Objectives and priorities
- [ ] Products and services
- [ ] Activities and decision-making
- [x] Policies and conditions
- [x] Engagement – Clients and portfolio companies
- [ ] Engagement – Industry
- [ ] Engagement – Government and public sector
- [x] Metrics and targets
- [ ] Roles, responsibilities, and remuneration
- [ ] Skills and culture
- [ ] I am not interested in providing additional feedback on any of the components

Previous | Next

GFANZ
Glasgow Financial Alliance for Net Zero

Next, we have a few questions focused on **Part B – Recommendations and guidance.**

Please think about financial institutions in general.

Considering the GFANZ recommendations and guidance, please assess the expected level of difficulty of implementing each component.

	Very difficult	Somewhat difficult	Not very difficult	Not at all difficult	Don't know
Objectives and priorities	○	○	●	○	○
Products and services	○	○	●	○	○
Activities and decision-making	○	○	●	○	○
Policies and conditions	○	○	●	○	○
Engagement – Clients and portfolio companies	○	○	●	○	○
Engagement – Industry	○	○	●	○	○
Engagement – Government and public sector	○	○	●	○	○
Metrics and targets	○	○	●	○	○
Roles, responsibilities, and remuneration	○	○	●	○	○
Skills and culture	○	○	●	○	○

Previous | Next

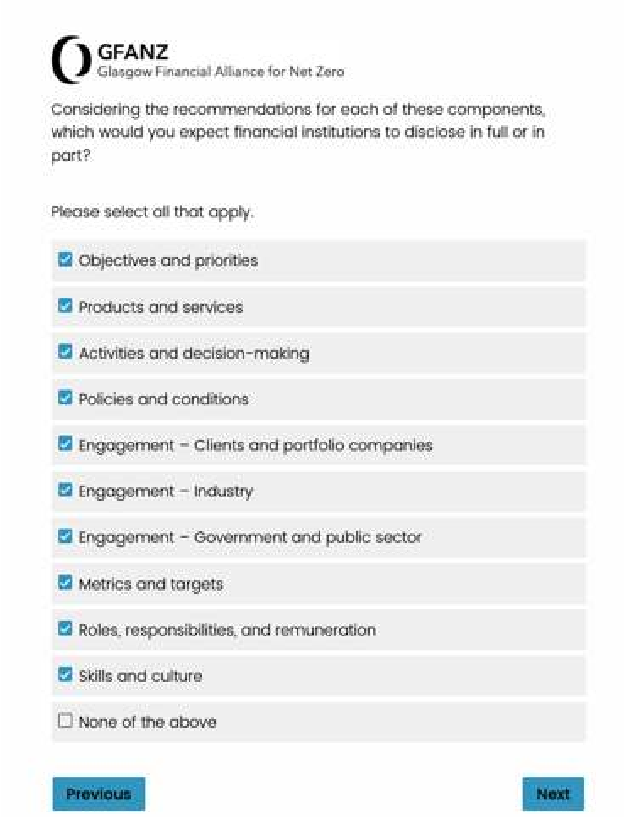
GFANZ
Glasgow Financial Alliance for Net Zero

Please think about the Objectives and priorities component, referring to pages 21-23 in the report.

Does the guidance for this component cover the key implementation considerations for the recommendation? The guidance...

- ○ Provides sufficient information to implement the recommendation
- ● Misses key considerations needed to implement the recommendation
- ○ Provides more information than is needed to implement the recommendation
- ○ Unsure

Previous | Next



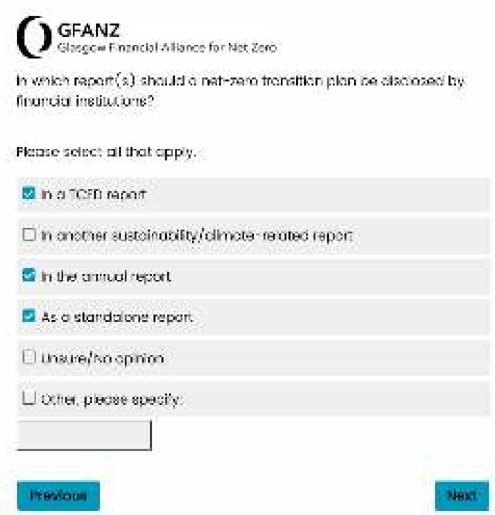
GFANZ
Glasgow Financial Alliance for Net Zero

Considering the recommendations for each of these components, which would you expect financial institutions to disclose in full or in part?

Please select all that apply.

- [x] Objectives and priorities
- [x] Products and services
- [x] Activities and decision-making
- [x] Policies and conditions
- [x] Engagement – Clients and portfolio companies
- [x] Engagement – Industry
- [x] Engagement – Government and public sector
- [x] Metrics and targets
- [x] Roles, responsibilities, and remuneration
- [x] Skills and culture
- [ ] None of the above

Previous Next



GFANZ
Glasgow Financial Alliance for Net Zero

In which report(s) should a net-zero transition plan be disclosed by financial institutions?

Please select all that apply.

- [x] In a TCFD report
- [ ] In another sustainability/climate-related report
- [x] In the annual report
- [x] As a standalone report
- [ ] Unsure/No opinion
- [ ] Other, please specify:

Previous Next

1) Objectives and Priorities

Scope: The wording here is ambiguous but seems to weaken guidance elsewhere in this document and the Race to Zero criteria on the importance of including portfolio company emissions. It should be clarified that Scope 3 emissions should immediately be covered in targets and not phased in later, especially for high-emitting sectors such as fossil fuels and others covered in the OECM sectoral pathways report where Scope 3 emissions contribute the bulk of emissions (see the related language in footnote 161 of the draft which mentions need for Scope 3 emissions to be included in high-emitting sectors).

Timing: Again the wording is ambiguous here. It should be clarified that both 2030 and 2050 targets should cover portfolio emissions, and that 2030 targets need to be aligned with the 50% cut in CO2 required by RTZ.

GFANZ recommends that financial institutions should develop policies with respect to coal, oil & gas, and deforestation. Are there other priority areas you believe all FIs should develop policies on?

All the 12 high-emitting sectors covered in the May 2022 OECM sectoral pathways paper.

Engagement Strategy:

The guidance should clarify that "divestment" in the sense of divesting holdings in companies is just one form of financial sanction that can be applied to laggard companies. Other forms of sanctions can include e.g. insurers refusing to renew policies or issue new ones; banks refusing to renew or make new loans, or underwrite new issuances or provide M&A advisory services; investors refusing to buy new bonds; index providers and asset managers cooperating to exclude sectors/companies from passive indices; and refusal of stock exchanges to list new coal, oil or gas companies.

The section on escalation strategies should be expanded to clarify that successful use of escalation should include clearly defined demands with benchmarks and deadlines, and clear consequences for failure to meet them, transparent criteria for shareholder votes, and disclosure on voting records and of the concrete results (or lack thereof) of engagement strategies.

Metrics and Targets

Section 1 on p.55 mentions interim targets for 2030 – but fails to mention that under the RTZ etc. these targets should be a 50% reduction.

Section 1 also says "FIs should consider using low or no-overshoot scenarios wherever possible". This is a weak formulation which is inconsistent with wording on e.g. pages iv and 9 which defines a net-zero transition plan as one using low or no overshoot scenarios. This language must be strengthened to say "FIs should use low or no-overshoot scenarios". Similarly the statement on p.55 that "GHGs including CO_2, CH_4 and N_2O should be **considered with** GHG metrics" should be changed to "GHGs including CO_2, CH_4 and N_2O should be **included in** GHG metrics." (Note that AOA, NZBA, NZIA and PAII base their targets on CO_2e or "GHGs").

Footnote 161 on p.55 contains useful recommendations on Scope 3 emissions for high-emitting sectors and should be incorporated into the main text.

The examples of financed emission metrics includes mtCO_2e/$ revenue. This is a highly problematic and misleading metric which e.g. would show falling "emissions" for the oil industry purely because of rising oil prices. This metric should not be included here.

PART C: POLICY EXAMPLES AND AREAS OF FURTHER WORK

Part C of the report provides clarity on several concepts, as well as insight into next steps. Please feel free to share reactions to **Part C** below, including any thoughts on the areas for future work that are identified.

The reference to "sectoral decarbonization pathways" on p.82 should refer to the OECM's new sectoral pathways.

Carbon Credits

The 3rd bullet point on p.90 is ambiguous/weak in stating that FIs should consider credits separately from their emissions. This should be strengthened (and brought into alignment with the RTZ) by saying "FIs should require portfolio companies/clients to report any offsets purchased separately from emission reductions and the provenance and type of any offsets used should be clearly documented."

The 2nd sentence final bullet point on p.90 is confusing and problematic and should be deleted: "4 Consider an allocation strategy that promotes removals credits for Scope 1 emissions, clean energy power purchase agreements (PPAs) and high-quality renewable energy credits (RECs) for Scope 2, and incredible (sic) avoidance/carbon sink preservation for Scope 3." It is nowhere explained why there should be different types of offsets used for different scopes. RECs are highly contested and should not be promoted by GFANZ (see e.g. "Companies use of RECs masks inaction on carbon emissions," *Science Daily*, June 14, 2022). Clean energy PPAs are not an offsetting or crediting mechanism. And avoided emissions and biological sinks are the most problematic types of voluntary credits and should not be used to offset Scope 3 emissions which are by orders of magnitude the most significant scope of emissions from financial institutions.

The statement that GFANZ will revisit the issue of carbon credits once the ICVCM and VCMI have concluded is worrying given the considerable controversy around both of these initiatives (see e.g. "VCMI: Carbon or Greenwashing Market?" Reclaim Finance, 23 June 2022). Any GFANZ position on carbon credits/offsetting should be consistent with the Race to Zero position on this issue.

Data

This section should mention the use of the open source Global Coal Exit List and Global Oil and Gas Exit List for fossil fuel production numbers.

Net zero target setting

This section contains unwarranted assertions that shifting capital to low-emission assets and clients is inherently problematic and that capital should not be shifted away from high-emitting portfolio companies and clients. The tone of this section is antithetical to the entire purpose of this document which is to promote the transition of capital from high-emitting to low-emitting activities and companies. This short section seems mostly to either replicate or contradict statements elsewhere in the report and its value is not clear.

Just transition

This section should mention that plans for the managed phaseout of high-emitting assets are key to ensuring a just transition. Among the important requirements of transition plans are that they should include asset-by-asset closure timetables and plans for meeting environmental, worker and community obligations.

Biodiversity and nature-based solutions

The statement that “nature-based solutions refer to nature’s ability to remove CO_2 from the atmosphere” is extremely reductionist. “Nature-based solutions” can meet a huge range of desirable climate and other goals and at the very least will impact GHGs other than only CO_2.