THROWING FUEL ON THE FIRE:

GFANZ financing of fossil fuel expansion

RECLAIM Finance

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FOREWORD

The inescapable conclusion from climate science is that our window for limiting global warming to the key threshold of 1.5°C is fast closing. All sectors must take action, and private finance, which stands at the heart of the global economy, has a vital role to play, along with governments and other actors.

Last year I had the honour to join a UN High-Level Expert Group on net-zero commitments by non-state entities. One of our key recommendations is that financial institutions cannot claim to be net zero while financing new fossil fuel supply. As the IEA and IPCC have shown, the fossil fuel infrastructure that is planned or already under development will exhaust the remaining carbon budget.

It is to the credit of many of the biggest players in global private finance that they have accepted their role in addressing the climate crisis and have joined the Glasgow Financial Alliance for Net-Zero (GFANZ). In doing so, they have committed not just to reaching net zero by 2050, but also to the 1.5°C target, and to taking immediate action to halve emissions by 2030, now just eight years away.

This report shows that the message on the incompatibility of net zero and fossil fuel expansion is yet to be taken on board by the big GFANZ players. They are continuing to pour hundreds of billions of dollars into the biggest corporations that are developing new fossil fuel projects. These projects can only be judged as economically viable if it is assumed that they will keep carbon flowing into the atmosphere for decades to come.

The guidelines of GFANZ's sectoral alliances, and the policies of the alliances' financial institution members, must urgently be upgraded to push funding away from fossil fuel infrastructure and toward clean energy. And as the UN Secretary General's High-Level Expert Group has recommended, this redirection in finance must be rapid and deep — and done in a way that enhances equity, justice, empowers women, and respects Indigenous rights.

Achieving these goals is a massive challenge, and one in which the finance sector's actions must be complemented with government policy and unprecedented society-wide efforts. But in signing up to the initiative, GFANZ members have declared themselves to be part of the fight for 1.5°. So it is time for their CEOs to show true leadership and to take on the hard work needed to meet the challenge of financing a net zero world.

By Amanda Starbuck
Member, High-level Expert Group on the Net Zero Emissions Commitments of Non-State Entities

EXECUTIVE SUMMARY

The leading banks, asset owners and managers of the seven sectoral alliances that make up the Glasgow Financial Alliance for Net Zero (GFANZ) are continuing to pour hundreds of billions of dollars into the expansion of the coal, oil and fossil gas industries.

- The Intergovernmental Panel on Climate Change (IPCC), International Energy Agency (IEA) and numerous scientific and policy bodies recognize that we must rapidly phase out fossil fuels over the coming decades and that there is no room in the 1.5°C carbon budget for the emissions from any new fossil fuel supply projects. Financing new coal mines or oil and gas fields will either lock-in decades of carbon-budget breaking emissions or be stranded by changing economics or regulations.
- The GFANZ sectoral alliances are partners of the UN's Race to Zero campaign and obligated to follow their criteria. These criteria include phasing out their support for new "unabated fossil fuel assets". GFANZ's leadership issued a statement in August 2022 welcoming the new Race to Zero criteria and stressing that "new coal capacity is inconsistent with achieving net zero." The UN's high-level group on net zero has also called on financiers to end their support for fossil expansion.
- New research from Reclaim Finance analyses the financing and investment in fossil expansionists of 161 of the members of the most significant GFANZ sectoral alliances: the Net-Zero Banking Alliance (NZBA); Net Zero Asset Managers initiative (NZAM); Net-Zero Asset Owner Alliance (AOA); and Net-Zero Insurance Alliance (NZIA). We found that since joining GFANZ, these financial institutions have financed at least 211 of the world's largest expanders of coal mining, transport and power, and of oil and gas production and transport.

Only a handful of the financial institution members of GFANZ have policies that meaningfully restrict finance to companies developing new fossil supply projects. The GFANZ sectoral alliances fail to adequately address fossil fuel expansion, and even where individual alliances have issued limited anti-fossil expansion positions, they have failed to ensure that their members incorporate these positions into their policies.

- Out of 161 GFANZ members covered in this report and assessed in Reclaim Finance's Coal Policy Tool, only 61 have a policy that excludes some support for companies developing some types of new coal projects. Of these, only nine (all French except for Italian bank UniCredit) have adopted robust policies to end financial services for all companies planning new coal mines, plants and related infrastructure.
- The overwhelming majority of GFANZ members lack meaningful restrictions on any type of oil and gas financing. Out of 161 GFANZ members covered in this report and assessed in Reclaim Finance's Oil and Gas Policy Tracker, only La Banque Postale has a robust policy ending support to oil and gas companies developing new supply projects. Seven others — all French — have moderate oil and gas expansion policies with some loopholes.

The failure of GFANZ members to adopt meaningful fossil fuel expansion policies — and the failure of the sectoral alliances to adopt guidelines requiring their members to do so — mean that these financial institutions have kept the money pipeline flowing to the leading fossil expanders.

- Between their date of joining and August 2022, the 56 top banks in the NZBA provided at least US$269 billion to 102 of the major fossil fuel expanders. This was made up of US$168 billion through 134 syndicated loans to 77 companies, and US$101 billion in debt and equity for 74 fossil expanders through 215 underwriting transactions.
- These 102 companies are currently planning to bring into production an extra 137 billion barrels of oil equivalent, equal to 60% of the new oil and gas the industry intends to bring on-line by 2030. They are also planning to build 92 additional gigawatts of coal power (roughly equal to the current coal plant capacity of Japan and South Africa combined).

- Citi, BNP Paribas, HSBC, Mitsubishi UFJ and Société Générale are all founder members of the NZBA. A month after NZBA was launched, all participated in a massive US$10 billion syndicated loan to Saudi Aramco, the company with the largest global oil and gas expansion plans. Almost a year later, these same banks helped provide Aramco with a US$14 billion revolving loan. Another founder member, Bank of America, participated in this revolver to Aramco and in a March 2022 US$13 billion deal for an LNG terminal in Louisiana. It was also the global coordinator of a December 2021 underwriting transaction for US$1.2 billion in bonds for Chinese company SPIC, one of the world's biggest coal plant developers. JPMorgan Chase joined the NZBA in October 2021 and two months later acted as joint bookrunner for the SPIC deal. In November 2021 it helped underwrite US$580 million in bonds for Gazprom, Russia's largest company, and the world's third largest oil and gas expander. JPMorgan also participated in the financing for the Louisiana LNG terminal and the March 2022 revolving loan to Aramco.
- As of September 2022, the 58 largest asset managers in NZAM held at least US$847 billion of stocks and bonds in 201 fossil fuel expanders. Around 90% of these holdings were in oil and gas expansionists with a total of 165 billion barrels of oil equivalent under development and field evaluation (72% of the amount the industry is planning to bring into production by 2030). The coal companies held by NZAM members in scope of this report had plans to develop 257 gigawatts of new coal power plants (more than the total capacity of the Indian coal plant fleet in 2021).
- BlackRock is the largest GFANZ investor in fossil fuel expansion, with stock and bond holdings of US$23 billion in coal developers and US$170 billion in oil and gas developers. Vanguard (which withdrew from NZAM in December 2022) was narrowly behind BlackRock with overall holdings of US$184 billion in fossil developers. Capital Group was a distant third with overall fossil developer holdings of US$94 billion.
- It is extremely difficult to find comprehensive data for the holdings of most of the pension funds and insurers in the asset-owner and insurance alliances. Available data at the group level (which includes the asset manager arms for some AOA and NZIA members, but likely excludes many parent institution holdings), shows that 42 of the largest members of the AOA held stocks and bonds worth at least US$34 billion in fossil fuel expanders as of September 2022. The 15 insurance companies in scope of our analysis held at least US$25 billion in fossil developers.

If they are to be seen as credible, the alliances' guidelines and protocols need urgently to be updated to require their members to phase out the provision of financial services for fossil fuel expansion. Measures to address fossil fuel expansion must be incorporated into the guidelines and protocols of the GFANZ sectoral alliances, and the policies of their members. These measures include:

- Act on the positions in the GFANZ leadership's "No New Coal" statement and immediately drop support for the developers of new coal projects.
- Withdraw support from companies expanding oil and gas expansion and ensure that they phase out fossil fuels on low- or no-overshoot 1.5°C trajectories.
- Adopt robust corporate engagement policies with clearly defined demands and escalation strategies that include meaningful financial sanctions. GFANZ members must not support transactions that shift high-carbon assets to new owners who intend to keep them operating in breach of 1.5°C-aligned scenarios.
- Financial institution and corporate transition plans must address fossil fuel expansion. Financial institution transition plans must outline robust engagement practices.
- The Race to Zero and the sectoral alliances must ensure compliance with their criteria, guidelines and protocols via robust accountability mechanisms.
- GFANZ members must bring their lobbying activities into line with efforts to end fossil fuel expansion.

INTRODUCTION

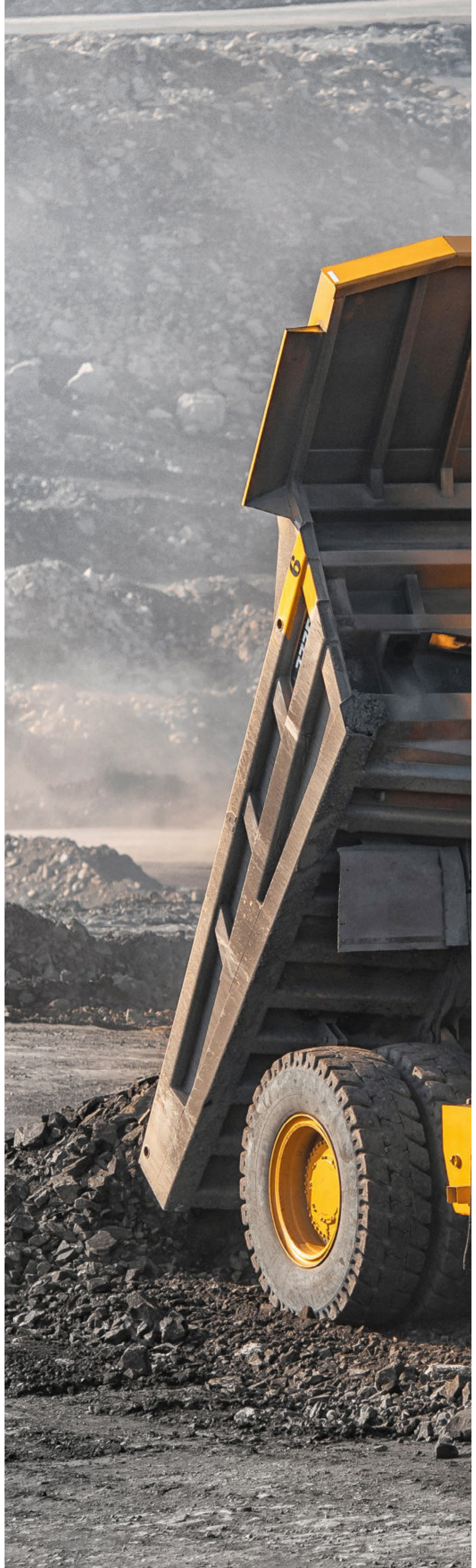
The Glasgow Financial Alliance for Net Zero (GFANZ) was launched in April 2021 by UN climate envoy Mark Carney in collaboration with the UN Race to Zero Campaign.[1] Carney now co-chairs the alliance along with Michael Bloomberg. Its seven sectoral alliances have over 550 members from 50 jurisdictions including many of the world's most powerful investors, banks and insurers.[2] These financial institutions represent total managed and owned assets of more than US$150 trillion.[3] GFANZ claims that this represents around 40% of the world's private financial assets.[4] The sheer size of the network means that if the financial sector is to act on its responsibility to help address the climate crisis, it is through GFANZ and its alliances and their individual financial institution members that this must happen.

GFANZ states that it is "committed to accelerating and mainstreaming the decarbonization of the world economy and reaching net zero emissions by 2050."[5] A key early step in decarbonizing the world economy, as has been repeatedly emphasized in policy and scientific studies in recent years, is to stop the expansion of the fossil fuel industry. Yet this report shows that GFANZ members have continued pouring hundreds of billions of dollars into the companies most involved in developing new coal mining, power and transport projects, as well as those most involved in exploring and extracting oil and fossil gas and building pipelines and LNG terminals.

All the financial institutions in GFANZ are members of one of the sectoral alliances and agree to comply with their alliance's guidelines and protocols. Initially GFANZ also insisted that all its "members must align with" the criteria of the UN Race to Zero Campaign.[6] These criteria stated that members must commit to a "fair share" of the 50% cut in global CO_2 emissions needed by 2030 in order for global warming to stay under 1.5°C.[7] When GFANZ was launched, Race to Zero said little about what measures should be taken to meet this 2030 target. However in 2022 it released new criteria clarifying that each Race to Zero member "shall phase out its development, financing, and facilitation of new unabated fossil assets".[8]

This tightening of the Race to Zero criteria led to a pushback from some GFANZ members, and especially the big US banks. As a result, GFANZ announced in October 2022 that their members would no longer be required to join the Race to Zero. The sectoral alliances themselves, however, continue to be partners of the Race to Zero — and so their members remain committed to complying with its criteria.[9]

Regardless of GFANZ's formal relationship with the Race to Zero, the scientific and policy imperative for its members to stop financing new fossil fuel supply remains unchanged. Indeed the political pressure to stop locking in future emissions through financing new fossil supply has only increased with the release in November 2022 of the report of the UN's expert group on net zero commitments. This concluded that financial institutions "cannot claim to be net-zero while continuing to build or invest in new fossil fuel supply."[10]



In this report, we analyze the volume of financing from major GFANZ members to the companies doing most to expand the supply of fossil fuels. And we seek to understand how the guidelines of the GFANZ sectoral alliances and the policies of their individual financial institutions fall short, and what changes in these guidelines and policies are needed if GFANZ members are to shut off the pipeline of money to the fossil expanders.

GFANZ members who continue to finance fossil expansion are acting directly against the alliance's commitment to do its "fair share" of the effort needed to halve global emissions by 2030. They are enabling the construction of new fossil fuel supply projects that are designed and financially justified on the assumption that they will keep producing for decades, in many cases after the 2050 deadline when GFANZ members accept that the world must be net zero.

Financing fossil expansion means handing to the fossil fuel industry funds that could have gone to building out renewables and batteries, developing new electric powered arc-steel furnaces, or helping to pay for a just phaseout of coal and gas power plants. In continuing to finance fossil expansion, GFANZ members are sending a message to the rest of the finance sector, to industry, and to governments, that as long as the fossil companies want to keep destroying the climate upon which we all depend, that the finance will be there to support them.

A Note on Methodology:

This report analyses the volumes of financing provided to fossil fuel expanders from the largest members of the four GFANZ sectoral alliances with the most owned or managed assets. We cover 161 of the financial institutions in GFANZ. The coverage for each alliance is given below (the sum of the number in each alliance is greater than the total number of institutions covered as ten members of the NZIA are also members of the AOA):[11]

- **Net-Zero Banking Alliance (NZBA):** 56 of its largest members accounting for over 90% of balance sheet assets of banks in the alliance
- **Net Zero Asset Managers initiative (NZAM):** 58 members and over 80% of the initiative's total assets under management
- **Net-Zero Asset Owner Alliance (AOA):** 42 members and over 85% of the alliance's assets under management
- **Net-Zero Insurance Alliance (NZIA):** 15 members

For asset managers and owners, we analyze their holdings of stocks and bonds in fossil fuel expanders as of September 2022. For banks, we look at the volume of loans and underwriting provided between the date they joined the NZBA and August 2022. Because of gaps in commercially available data sources, our estimates are necessarily incomplete and underestimate the true scale of financing from GFANZ to fossil fuel expanders. Non-syndicated bank loans, for example, are not captured in our data. Bond holdings are significantly undercounted.

We have only very incomplete data for asset owners (mainly pension funds and insurance companies). For those asset owners with asset management affiliates it is not possible to comprehensively separate owned assets from assets managed for third parties. Our figures for the members of the AOA and NZIA use the best data available to us which is group-level assets both owned and managed. An unknown number of AOA and NZIA members' assets are likely managed by external asset managers and some of them counted in our NZAM data.

We define fossil fuel expanders according to the criteria of the Global Coal Exit List (GCEL) and the Global Oil and Gas Exist List (GOGEL). We cover 368 coal companies (at the group level) planning new power plants, mines, and associated infrastructure; the largest 91 upstream oil and gas companies involved in exploring for and developing new fields; and the 77 largest midstream companies developing oil and gas pipelines and LNG terminals. Out of these 493 fossil fuel companies, we were able to identify 211 which received finance from the GFANZ members in scope of our research. For more on our methodology see Appendix 11.

FIGURE 1: GFANZ ALLIANCES KEY STATISTICS (As of mid-November 2022)

Net-Zero Banking Alliance (NZBA)

- 122 members
- US$72 trillion in assets
- around 40% of total global banking assets[12]

Out of which this report covers

- 56 members
- US$66 trillion in assets

Net Zero Asset Managers initiative (NZAM)

- 291 members
- US$66 trillion assets under management (AUM)
- over half of estimated global AUM at the end of 2021[13]

Out of which this report covers

- 58 members
- US$53 trillion AUM

Net-Zero Asset Owner Alliance (AOA)

- 80 members
- US$11 trillion AUM[14]

Out of which this report covers

- 42 members
- US$9.5 trillion AUM

1. FEEDING THE ADDICTION: GFANZ MEMBERS ARE POURING CAPITAL INTO FOSSIL FUEL EXPANSION

a. The money pipeline keeps flowing

The science is unequivocal that burning all the carbon in the reserves of oil, gas and coal that are already under production will blow us past the 1.5°C and even 2°C carbon budgets. This was shown in Oil Change International's groundbreaking The Sky's Limit report in 2016. Their finding has been strengthened by numerous subsequent scientific and policy studies. Financing major new fossil fuel supply projects is both a bet that fossil fuel consumption will remain strong for years and we will fail to avoid the catastrophic impacts of warming the planet beyond 1.5°C, and an attempt to make that outcome more likely.

The argument against investments in new fossil fuel supply received its most important validation with the publication of the International Energy Agency's landmark "Net Zero by 2050" report in May 2021. The IEA's executive director Fatih Birol said at the time that if governments are serious about the climate crisis, "there can be no new investments in oil, gas and coal, from now – from this year."[15] The IEA confirmed this conclusion in its 2022 World Energy Investment and World Energy Outlook reports. In April 2022 the IPCC's Working Group III warned that building new long-lived fossil fuel infrastructure "may ... lock societies into carbon-intensive lifestyles and practices for many decades".[16]

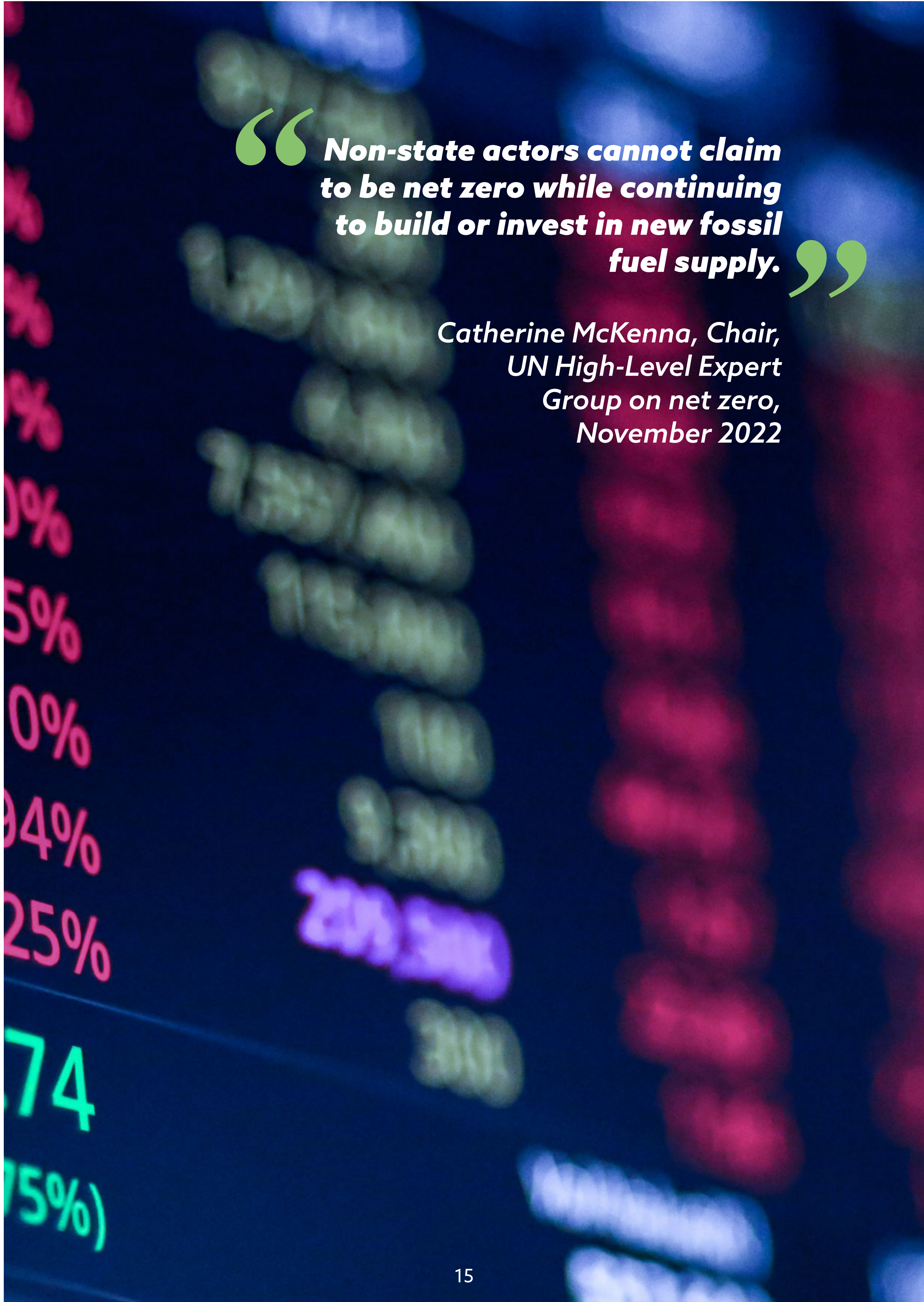
Despite this broad scientific and policy consensus on the need to halt finance for projects that increase the supply of fossil fuels, our analysis shows that the banks and investors in GFANZ have continued to pump money into the biggest companies behind fossil expansion.

Banks

Between the date at which each bank joined the alliance and August 2022, the 56 largest members of the Net-Zero Banking Alliance (NZBA) provided finance from loans and underwriting totaling US$269 billion to 102 of the large fossil fuel expanders covered by this report. Of this amount, US$168 billion (62%) was provided through 134 syndicated loans to 77 companies; and US$101 billion in new debt and equity for 74 fossil expanders through 215 underwriting transactions.

Around four-fifths of NZBA member finance went to oil and gas companies. These companies had 137 billion barrels of oil equivalent under development and field evaluation according to September 2022 numbers from the Global Oil and Gas Exit List. This is 60% of the total amount of untapped resources that the oil and gas industry is planning to bring into production by 2030. The coal companies receiving bank finance in the scope of this study have 92 gigawatts of coal power under development according to the Global Coal Exit List (by comparison this is just under the coal plant capacity of Japan and South Africa combined as of mid-2022).

Citi, one of the founder members of the NZBA, provided US$30.5 billion via 136 lending and underwriting transactions to the largest fossil fuel expanders between the



"Non-state actors cannot claim to be net zero while continuing to build or invest in new fossil fuel supply."

Catherine McKenna, Chair, UN High-Level Expert Group on net zero, November 2022

Table 1: Top 20 NZBA bankers of largest fossil fuel expanders (from date of joining NZBA to August 2022)

Bank	Country	Date joined NZBA	Number of coal developers	Number of coal transactions	Coal developer finance (US$ mn)	Coal developer policy	Number of O&G developers	Number of O&G transactions	O&G developer finance (US$ mn)	O&G developer policy	Total number of developers*	Total number of transactions*	Total developer finance (US$ mn)*
			Coal				Oil and gas				All fossil fuels		
Citigroup	United States	04/21	12	22	4,801		51	119	27,106		62	136	30,509
Bank of America	United States	04/21	6	6	751		45	118	22,124		51	124	22,874
Mitsubishi UFJ Financial	Japan	06/21	19	63	8,373		40	104	17,765		57	154	22,741
Mizuho Financial	Japan	10/21	16	69	9,459		30	61	11,336		45	126	19,314
JPMorgan Chase	United States	10/21	7	7	1,369		35	65	15,438		42	72	16,807
HSBC	United Kingdom	04/21	7	9	1,222		21	49	10,845		28	58	12,067
SMBC Group	Japan	10/21	12	22	3,285		27	52	9,157		38	73	11,542
Morgan Stanley	United States	04/21	2	2	225		32	71	11,192		33	72	11,417
Royal Bank of Canada	Canada	10/21	-**	-**	-**		23	52	9,865		23	52	9,865
Deutsche Bank	Germany	04/21	3	3	644		15	30	8,970		17	32	9,164
Barclays	United Kingdom	04/21	4	4	381		27	54	8,455		31	58	8,836
Toronto-Dominion Bank	Canada	10/21	1	1	157		17	36	7,392		18	37	7,550
Scotiabank	Canada	10/21	1	1	157		19	41	6,981		20	42	7,139
BNP Paribas	France	04/21	4	6	905		15	24	6,191	***	19	30	7,096
Société Générale	France	04/21	1	1	37		14	32	6,598	***	15	33	6,635
Crédit Agricole	France	06/21	4	4	402		20	42	5,886		24	46	6,288
Credit Suisse	Switzerland	04/21	1	1	54		21	50	6,061		22	51	6,115
Wells Fargo	United States	10/21	-**	-**	-**		23	45	5,870		23	45	5,870
BMO Financial Group	Canada	10/21	-**	-**	-**		8	20	5,503		8	20	5,503
Standard Chartered	United Kingdom	04/21	7	10	863		14	25	3,962		21	35	4,825

No policy | Very limited | Moderate | Strong policy

Some companies are both coal and O&G developers. The numbers for total developers, total transactions and total finance therefore do not equal the sum of the respective numbers in the coal and O&G columns.
*** No information found, or the transactions were deemed out of scope.*
**** These institutions indirectly restrict financing to some oil and/or gas supply expanders through policies targeting unconventional oil and gas, rather than through policies specifically mentioning and targeting expansion.*

NZBA's launch in April 2021 and August 2022. Bank of America, another founder, provided US$22.9 billion over this period, via 124 transactions. Mitsubishi UFJ Financial, also a founder, provided US$22.7 billion, via 154 transactions.[17] Another Japanese megabank, Mizhuo Financial, has provided $19.3 billion to fossil expanders via 126 transactions despite only joining the NZBA in October 2021. JPMorgan Chase joined the alliance at the same time as Mizhuo and has provided US$16.8 billion in 72 transactions (see Table 1).

Investors

As of September 2022, the 58 largest asset managers in NZAM held at least US$847 billion in the stocks (89%) and bonds (11%) of fossil fuel developers. Around 90% of these holdings were in oil and gas expansionists with a total of 165 billion barrels of oil equivalent under development and field evaluation (72% of the amount the industry is planning to bring into production by 2030). The coal companies held by NZAM members in scope of this report had plans to develop 257 gigawatts of new coal power plants (more than the total capacity of the Indian coal plant fleet in 2021).

Not surprisingly given its domination of the global asset management industry, BlackRock is the largest investor in fossil fuel expansion, with holdings of US$191 billion, 89% of this in oil and gas. It is followed by the other US asset management giants Vanguard[18] (US$184 billion); Capital Group (US$94 billion) and State Street (US$87.5 billion). The top nine investors in fossil expansion are all from the US. Number ten is Amundi from France, part of the Crédit Agricole group (US$10.3 billion) (See Table 2).

According to our available data, in September 2022, the 20 members of the Net-Zero Asset Owner Alliance (AOA) with the largest holdings in fossil expanders, collectively owned and managed at least US$34 billion of stocks and bonds in the companies we cover. Allianz led with US$10 billion (US$9 billion of this made up of funds in Allianz's US asset management subsidiary PIMCO which is not a GFANZ member). In second place is the huge Californian state employee pension fund CalPERS (US$6.7 billion), followed by the Quebecois pension fund CDPQ (US$4.15 billion), and Japanese life insurer Meiji Yasuda (US$3.1 billion). As is explained in the methodological appendix, data availability is very poor for asset owners, and the actual amount of fossil fuel assets owned by AOA members is likely much higher than indicated here.

Out of these top 20 AOA members, six are also members of the Net-Zero Insurance Alliance (NZIA). We have identified a total of US23 billion in holdings in fossil expanders from the NZIA members in scope of our research (a similar proviso on data applies to the NZIA as to the AOA). We have not analyzed the amount of insurance coverage provided to fossil fuel expanders by NZIA members as there is no accessible comprehensive data linking specific insurers to specific companies and projects.

b. Business as usual

A look at a timetable of the closing dates of loans from the NZBA banks to fossil expanders over the six quarters in our data since the launch of the alliance shows no clear trend over time. An example is Mitusbishi UFJ, which has done more loan transactions to fossil expanders since joining NZBA than any other bank (92). It did three transactions in the second quarter of 2021, but 19 in Q2 2022. On the other hand the Japanese megabank did 17 transactions in Q3 2021 and only 11 in Q3 2022. Other banks show a similar seemingly random pattern of quarterly deals. What is clear however is that the NZBA banks have continued financing big deals to big fossil fuel expanders.

The NZBA was launched in April 2021. The following month, Citi participated in a US$10 billion syndicated loan to Saudi Aramco (the company with the biggest oil and gas expansion plans globally), and led the underwriting of US$1.6 billion in bonds and equity to Abu Dhabi National Oil Company (ADNOC — the world's fifth biggest oil and gas expander). In June 2021 Citi helped underwrite US$12.5 billion in bonds to QatarEnergy (the second biggest expander), and US$1.5 billion

in bonds to Russia's largest company Gazprom (third top expander). In August 2021 it took part in a US$10 billion syndicated loan to ExxonMobil (sixth top expander); and then in November it helped underwrite US$1.5 billion in bonds to Shell (twelfth top expander). In April 2022 Citi participated in a US$14 billion revolving loan to Saudi Aramco.[19]

Bank of America was another of the founder members of the NZBA. It joined Citi and others in the June 2021 underwriting deal with QatarEnergy; the August 2021 loan to ExxonMobil; and the April 2022 revolver to Aramco. In March 2022, Bank of America participated in a US$13 billion project finance deal for the Plaquemines LNG export project in Louisiana and an associated pipeline. The project has agreements to sell LNG until at least 2041, by which time the IEA shows that world fossil gas consumption should have fallen by almost half.[20]

Founder member BNP Paribas joined Citi on both loans to Aramco and the deals with ExxonMobil and Shell. In April 2022 it participated in a US$8 billion revolver to French major TotalEnergies (seventh top expander).

Other NZBA founder members which participated in the deals described above include:

- Barclays (ExxonMobil, Shell and TotalEnergies);
- HSBC (Aramco (both), QatarEnergy, ExxonMobil);
- Société Générale (Aramco (both), ExxonMobil, TotalEnergies); and
- Mitsubishi UFJ (Aramco (both), Qatar Energy).

In October 2021, JPMorgan Chase, Mizuho and Unicredit joined the NZBA. The following month they participated in a syndicate that underwrote the sale of US$580 million in corporate bonds for Gazprom. JPMorgan and Mizuho both participated in the April 2022 deals to Aramco and TotalEnergies.

Banks have similarly continued pouring money into coal developers despite joining the NZBA. Bank of America underwrote US$133 million in bonds for Chinese company State Power Investment Corporation (SPIC) in December 2021 as part of a transaction worth US$1.2 billion, and for which the bank acted as global coordinator. JPMorgan, which had joined NZBA two months earlier, played an important role in this mega-deal as a joint bookrunner. SPIC is one of the world's biggest coal plant developers with plans to build over 12 gigawatts of projects in China and Turkey.[21] In November 2021, JPMorgan participated in the underwriting of US$788 million of shares for Vedanta Resources.[22] Vedanta is developing several new coal mines in India and has a long and ongoing record of land disputes with local people.[23]

Citi has participated in two US$520 million loans to Mitsubishi Corporation; one in April 2021 and another in September that year. Mitsubishi Corporation is developing 1.2 gigawatts of coal power projects in Vietnam. Morgan Stanley, also a founder member of the NZBA, participated in the underwriting of US$100 million of bonds for Mitsubishi Corporation in July 2021. The previous month it helped underwrite US$125 million in bonds for another Japanese company, Sumitomo, which is developing 2.4 gigawatts of new coal power projects in Vietnam and Indonesia.[24]

c. Policy failures

One does not have to look far to see an important reason why GFANZ members are continuing to finance fossil fuel expanders: very few of them have adopted policies that would prevent them from doing so. The GFANZ alliance's favored approach of setting decarbonization targets is unlikely to do anything to change this, at least in the short term (see Box p.28). Reclaim Finance's Coal Policy Tool (CPT) rates the coal sector policies of major financial institutions, including 161 of the largest GFANZ members. It shows that, as of mid-November 2022, only 61 out of these 161 GFANZ members have a policy that excludes some support for coal companies developing some types of new coal projects (a score of between 1 and 10 in the CPT). Of these 61 institutions with some type of coal developer finance exclusion, only nine have adopted robust policies to end financial services for all companies planning new coal

Table 2: Top 20 NZAM investors in largest fossil fuel expanders (as of September 2022)

	Country of parent company	Date joined NZAM	Number of coal developers	Total coal holdings (US$ mn)	Coal developers policy	Number of O&G developers	Total O&G holdings (US$ mn)	O&G expansion policy	Total number of developers*	Total developer holdings (US$ mn)*
			Coal			Oil and gas			All fossil fuels	
BlackRock	United States	03/21	85	23,372		92	170,091		173	190,887
Vanguard**	United States	03/21	91	18,814		90	167,170		175	184,071
Capital Group	United States	08/22	10	1,816		58	91,988		67	93,794
State Street Global Advisors	United States	04/21	89	4,300		90	83,510		175	87,507
JP Morgan AM	United States	11/21	70	3,267		88	30,811		153	33,784
Franklin Templeton	United States	07/21	74	2,196		90	24,054		159	26,220
T. Rowe Price	United States	05/22	27	1,282		74	23,637		99	24,789
Northern Trust	United States	08/22	76	1,568		84	16,754		156	18,231
Invesco Limited	United States	03/21	73	1,361		87	16,575		155	17,869
Amundi Asset Management	France	07/21	62	644		78	16,435		136	17,006
LGIM	United Kingdom	12/20	74	874		86	12,302		155	13,130
UBS AM	Switzerland	12/20	60	1,235		82	10,207		138	11,343
DWS	Germany	12/20	68	1,018		84	9,558		148	10,412
Schroders	United Kingdom	12/20	39	895		80	8,377		116	9,044
Credit Suisse Asset Management	Switzerland	04/22	65	593		81	7,531		142	8,075
Nomura Asset Management	Japan	11/21	56	6,358		80	3,148		132	7,608
Macquarie Asset Management	Australia	03/21	25	340		67	6,962		89	7,268
Fidelity International	Bermuda	12/20	60	820		74	5,646		129	6,276
HSBC Asset Management	United Kingdom	07/21	71	1,164		77	4,761		144	5,772
abrdn (ex Aberdeen Standard Investments)	United Kingdom	03/21	54	1,016		77	4,283		127	5,218

No policy — Very limited — Moderate — Strong policy

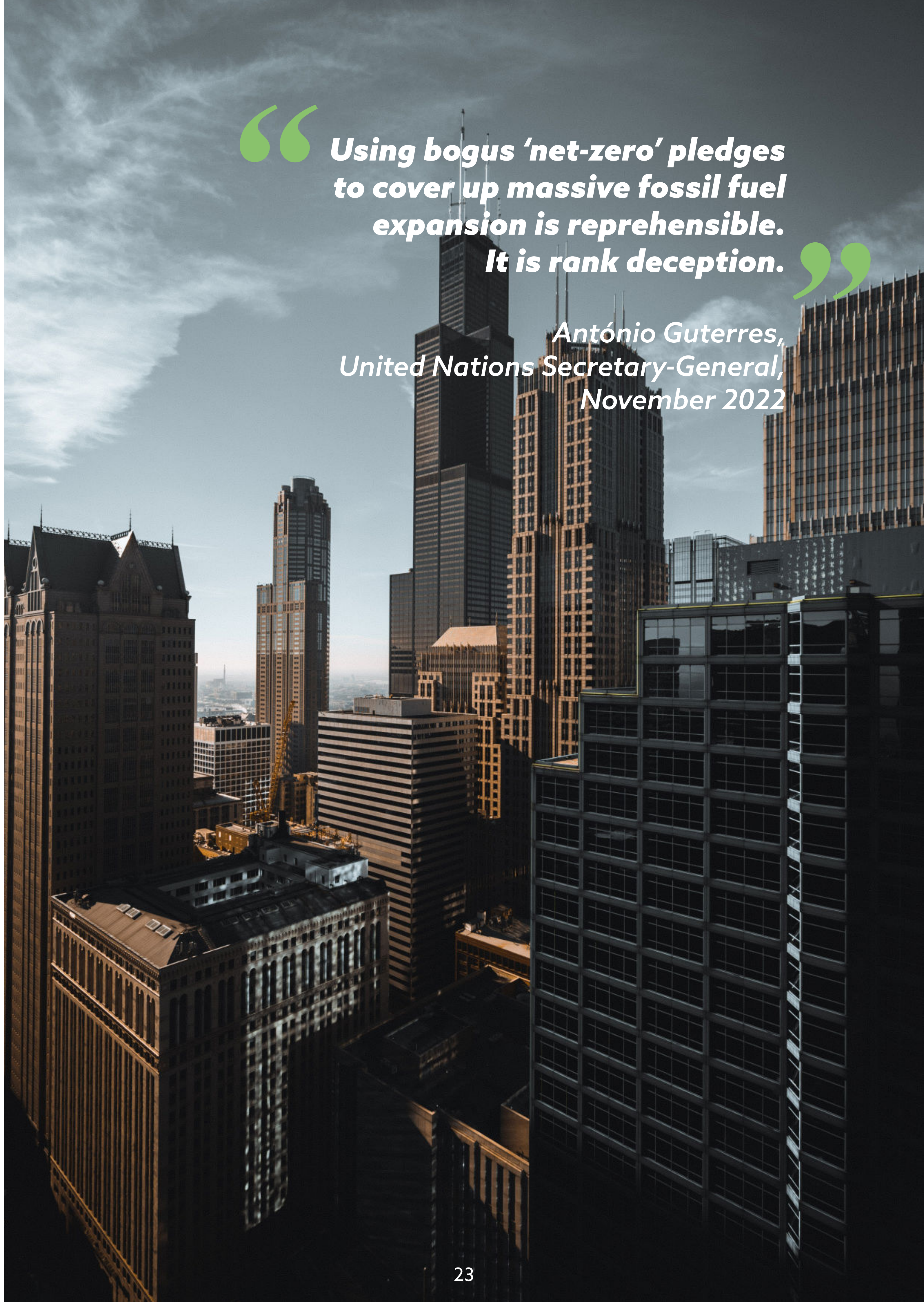
*Some companies are both coal and O&G developers. The numbers for total developers and total holdings therefore do not equal the sum of the respective numbers in the coal and O&G columns.
** Vanguard withdrew from NZAM in December 2022

mines, plants and related infrastructure (a CPT score of 9 or 10).

It is noteworthy that of the nine GFANZ members with robust coal developer policies, all but one — Italian bank UniCredit — are headquartered in France. And of the 61 members with at least a basic coal developer exclusion policy, only three are headquartered outside of Europe — notably DBS in Singapore and TD Bank in Canada (both with very limited policies). Citi in the US has a coal developer exclusion policy that is unfit for purpose: it excludes only new clients with plans to build coal power plants. It has no restrictions on existing clients, and has no restrictions on new clients planning coal mines or transport infrastructure.[25] Research by Global Energy Monitor shows that Citi was the top non-Asian banker of coal expanders between 2019 and 2021.[26] The example of Citi shows the need for comprehensive coal developer policies with teeth which cover existing clients.

As is explained below, the AOA published a position paper in November 2020 calling for a halt to financial services for new coal projects. Yet as of mid-November 2022, of the 42 largest AOA members evaluated in the Coal Policy Tool, only 12 had impactful policies restricting investment in companies planning new coal projects. Meanwhile founding members AMF, CalPERS and CDPQ still have no coal developer restriction policy of any kind. According to the available data, AMF has negligible holdings in coal developers (US$2 million). CalPERS, however, has coal developer holdings of US$1.1 billion; and CDPQ, US$661 million.[27] More than three years after the launch of the AOA in September 2019 and almost two after the release of their coal position paper, of the 12 founding members, only French government-owned investor Caisse des Dépôts et Consignations (CDC), has a robust policy on coal developers.

While GFANZ members' actions on coal expansion are still far from adequate, those on oil and gas expansion are even worse. Out of the 161 members of GFANZ analyzed by the Oil and Gas Policy Tracker, only one — La Banque Postale — has a robust policy ending support to oil and gas companies developing new supply projects. Seven others (all French) — Anaxis, CNP Assurances, MAIF, SCOR (as an asset owner), MACIF, Abeille Assurances and Groupama — have moderate policies. An additional five European NZBA members — Commerzbank, Lloyds Bank, NatWest, Crédit Mutuel and Handelsbanken — have very limited policies restricting support for oil and/or gas supply expanders.[28] Twenty-one others — of which only CDPQ and the UN Joint Staff Pension Fund are based outside of Europe — indirectly restrict financing to some oil and/or gas supply expanders (they do this through policies that restrict support for some unconventional oil and gas sectors, rather than via policies specifically targeting expansion). The overwhelming majority of GFANZ members lack meaningful restrictions on any type of oil and gas financing.



2. TURNING A BLIND EYE: THE SECTORAL ALLIANCES' UNWILLINGNESS TO ADDRESS FOSSIL EXPANSION

a. The sectoral alliances' timid steps on fossil expansion

As explained above, individual financial institutions have failed to adopt the policies required to stop fossil expansion and to align with 1.5°C. GFANZ and its sectoral alliances therefore need to step up and ensure that their members adopt robust policies on fossil expansion. So far they have failed to do so. While three of the seven GFANZ sectoral alliances — the AOA, NZAM, and the Paris Aligned Asset Owners (PAAO)[29] — partially or indirectly address the issue of fossil fuel expansion, all fail to do so in a meaningful way.

The AOA has gone much the furthest on expansion. It released a coal paper in November 2020 which calls for "an immediate cancellation of all new thermal coal projects, including thermal coal plants, coal mines and related infrastructure". The paper states that "no further thermal coal power plants should be financed, insured, built, developed or planned."[30]

The AOA also incorporated some "no expansion" language in the January 2022 update of its Target Setting Protocol, its detailed set of guidelines for setting, meeting and reporting on targets. In addition to ruling out financing for any new coal projects, this 2022 protocol includes language ruling out financing for upstream oil projects beyond those already committed by the end of 2021 (echoing the position in the IEA's net-zero roadmap).[31] Importantly, however, this language covers only direct investments in infrastructure projects and not the AOA members' far more significant holdings of oil company stocks and bonds. The 2022 protocol also states that members which choose to set sectoral targets for energy and utilities should "withdraw financing from new coal related assets and new oil and gas companies and respectively refrain from investing in . . . assets that support the expansion of coal, oil, or gas production."[32]

While these recommendations are an important step in the right direction, they will unfortunately in themselves do very little to keep investment away from fossil fuel expanders. AOA members are not major direct investors in fossil fuel infrastructure, and as of July 2022 only one AOA member had set an infrastructure target.[33] Furthermore, only nine of its members have so far chosen to set targets for the energy and utilities sectors.[34] Like other sectoral targets, these are currently optional under the AOA's rules. Most AOA members have opted to set "sub-portfolio" targets for cutting financed emissions across specific asset classes such as the stocks and bonds in their investment portfolios. The AOA's requirements for setting sub-portfolio targets do not mention stopping finance for fossil expansion.

The PAAO has 57 members, almost half of which are small- and medium-size UK pension funds. It pre-dates the establishment of GFANZ but was later brought under its umbrella.[36] Its "Net Zero Investment Framework" (NZIF) "recommends" that investors "should not allocate additional capital to companies which are planning or constructing new thermal coal projects and associated infrastructure (power, mining) or taking forward new exploitation of tar sands."[37]

NZAM does not itself set any explicit requirements on fossil fuel expansion although its governing body "recognizes and endorses" three target-setting approaches with "no-expansion" elements, including the PAII's NZIF and the AOA's Target Setting Protocol.[38] Serious methodological problems with NZAM's approach (see Box, p.26) means that its members can wholly ignore the issue of fossil expansion.[39]

b. A troubled relationship endures: GFANZ and the Race to Zero

The release of the new Race to Zero criteria in June 2022 was an opportunity for GFANZ and its sectoral alliances to start a serious conversation with their members on developing policies to restrict finance for fossil fuel expansion. To some extent, GFANZ's leadership did attempt to start this conversation with the release in August 2022 of a statement by co-chairs Mark Carney and Michael Bloomberg, along with vice-chair Mary Schapiro, with the clear and direct title "No New Coal." The GFANZ leaders say "we want to be equivocal on this point: there is no rationale for financing new coal projects (original emphasis)." They note that "all rigorous science-based pathways" show that "new coal capacity (both extraction and power generation) is inconsistent with achieving net zero and limiting global warming to 1.5°C." The statement also cites the Race to Zero on the need to end "the development, financing and facilitation" of new assets for all fossil fuels.[40]

Unfortunately the alliances and their members did not respond in any meaningful way to this statement. Indeed, soon after it was issued, reports started to appear in the media claiming that some major banks, and in particular JPMorgan, Morgan Stanley and Bank of America, were threatening to leave the NZBA. The reasons given were concerns over potential breaches of anti-competition law, and because the banks felt "blindsided" by the tougher Race to Zero criteria.[41] Apparently competition lawyers had flagged the language in the Race to Zero's updated criteria explicitly stating the need to end support for all new coal projects.

Another factor which may have impacted the banks' thinking was a paper from DLA Piper, one of the world's largest global law firms, which was also published in August 2022. This warned that any US corporation making net-zero claims they did not intend to meet "is in danger of [Federal Trade Commission] enforcement action, which could result in significant investigative and litigation costs, large financial penalties, and negative publicity."[42]

In September the Race to Zero sought advice from competition lawyers and modified its language to address these anti-trust concerns.[43] This was not, however, sufficient to mollify the banks. On 17 October, Tracey McDermott, head of compliance at Standard Chartered and chair of the NZBA published an open letter to its members stressing that the alliance had an autonomous governance structure and that its membership of GFANZ "does not impose any additional or different obligations on NZBA members."[44] Ten days later, GFANZ issued its second annual progress report which quietly dropped any mention of its previous requirement that its members needed to join the Race to Zero.[45] GFANZ then issued a statement saying that "members are encouraged, but not required, to partner with the Race to Zero."[46]

However this downgrading of GFANZ's links to the Race to Zero was not enough to satisfy its more retrograde members. Vanguard, the world's second largest asset manager, pulled out of NZAM in mid-December and other defections are possible.[47] This is especially true in the US where supposedly "woke" financial institutions are under coordinated attack from conservative politicians.[48] In reality it may be to GFANZ's advantage to lose its foot-draggers: the NZAM commitment undertaken by Vanguard was effectively meaningless (see below). Its further involvement in the initiative may only have dragged down others' targets by showing the absurdly low level of ambition that its members can get away with.

If Vanguard feared that its membership of NZAM still bound it to the criteria of the Race to Zero, it was in reality correct. All the sectoral alliances remain partners of the Race to Zero and so their members are still supposed to comply with the Race's criteria, regardless of GFANZ's requirements. GFANZ recognizes this on its website, saying that

> "Each sector-specific alliance is anchored in the Race to Zero campaign . . . Firms agree to meet both Race to Zero and other net-zero commitment criteria decided by their sector-specific alliance . . . GFANZ therefore indirectly requires that Race to Zero criteria are met."[49]

Regardless of the formal relationship between the Race to Zero and GFANZ and its sectoral alliances, the Race to Zero criteria are still a global standard against which the actions of any financial institution that claims to be committed to net zero will be judged — and ending support for fossil fuel expansion is one of these actions. It is also important that the Race to Zero's criteria have been reiterated and elaborated by the high-level group on net-zero commitments convened by UN Secretary-General Antonio Guterres. The group's final report, launched by Guterres at COP27 in Egypt, states that financial institution transition plans:

> "must include an immediate end of: (i) lending, (ii) underwriting, and (iii) investments in any company planning new coal infrastructure, power plants, and mines . . .oil and gas phase-out policies from financial institutions must include a commitment to end financing and investing in support of: (i) exploration for new oil and gas fields, (ii) expansion of oil and gas reserves, and (iii) oil and gas production."[50]

Both the Race to Zero and the UN high-level group insist on financial institutions producing transition plans outlining how they will meet their commitments under the initiative. GFANZ also states that its members are committed to "setting and executing" transition plans.[51] Its recommendations and guidance for financial institution net-zero transition plans[52] note that financial institution transition plans may include coal, oil and gas policies and exclude financing for entities "whose activities involve expansion of high-emitting sources."[53] 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 roadmap] or equivalent scenarios ought to be a prerequisite for a transition plan to be credible."[54]

"I would be very careful not to use the Russian invasion of Ukraine as an excuse in order to initiate large-scale investments in fossil fuels"

Fatih Birol,
Executive Director,
International Energy Agency,
July 2022

Why Decarbonization Targets are Insufficient – And Why NZAM's Are Especially Bad

The NZBA, AOA and NZAM require their members to adopt decarbonization targets either for individual high-emitting sectors or for portfolio classes such as corporate equity and listed bonds (the NZIA is still to release a target-setting protocol). However, none of the methodologies for these targets addresses fossil fuel expansion, and unless they do they will not guarantee a rapid end to all financial services to fossil fuel expansion.

In addition to not directly addressing fossil expansion, the NZBA, AOA and NZAM target-setting methodologies, and the targets that have been set so far, suffer from numerous problems:

- **Falling exposure to fossil fuels does not prevent finance for long-term emitting projects:** Existing methodologies address "financed emissions," the emissions attributed to financial institutions from their lending and investments. Banks can make short-term loans for new long-term infrastructure like coal mines and LNG terminals which will only show as financed emissions for the few years it will take for loans to be paid off, while the emissions from the projects may continue for decades.
- **Inadequate timelines:** Only the AOA requires targets to be set for 2025 (and then every five years after that date). The other alliances also require targets to be set on a five-year basis – but only starting in 2030. This means that the alliances cannot hold their members accountable to the immediate and rapid annual reductions that are required if the 50% by 2030 target is realistically to be met. And because climate is impacted by cumulative emissions, what is most important is not what is the level of emissions in 2030, but how many tons of greenhouse gasses are released between now and 2030.
- **Inadequate coverage:** The NZBA does not yet require its members to set targets to reduce emissions from their underwriting activities, despite these making up around half of banks' total fossil fuel financing.[55]
- **Inadequate numerical targets:** Only the AOA's 2030 sub-portfolio target requirements (49-65% cut in CO_2-equivalent emissions) could be said to be consistent with the Race to Zero's requirement that decarbonization targets must represent a fair share of the global target of cutting emissions by 50% by the end of this decade.[56] The NZBA's Guidelines give only a vague requirement that its sectoral targets "shall at least align with the temperature goals of the Paris Agreement and support the transition towards a NZ economy by 2050."[57] The result is that banks appear to be free to set targets at whatever levels they want. Thirty-one NZBA members have set 2030 targets for the oil and gas sector; these vary from a 71% reduction, down to only a 9% reduction. Furthermore many of these targets are largely meaningless because they are based on inappropriate or undisclosed metrics (see below).
- **A failure to count what counts:** The Race to Zero and the UN high-level group on net zero say that decarbonization targets must be based on absolute emission metrics; and must include the Scope 3 emissions of companies where these are material (which is certainly the case for the fossil fuel industry). Yet none of the GFANZ alliances insist that targets be based on absolute emissions (as opposed to emissions intensity), and all leave it to the discretion of their members whether to include their clients' and investees' Scope 3 emissions.
  - Of the 31 banks with oil and gas targets, just 15 are explicitly based on absolute emissions of CO_2-equivalent (meaning that they include the warming impact of not just CO_2 but also methane, an important part of the climate footprint of the fossil gas industry). The other banks' targets are based on four different absolute and intensity metrics, and five of the banks don't even disclose what they are measuring. Using intensity metrics, "reduction" targets can be met while real emissions increase (or at least fall much less than is necessary).[58] The emissions intensity of Canada's oil and gas sector fell by 13% between 2005 and 2020, for example, while the actual emissions of the sector rose by 8%.[59]
  - Most NZAM and AOA members who have set targets have done so based on the emissions intensity of their portfolios — the emissions per invested dollar. This means that as the size of portfolios grows their emission intensity goes down without any drop in actual emissions. At a nominal (non-inflation adjusted) average annual growth of 5% the emission intensity of a portfolio would drop by a third between 2022 and 2030 without any drop in real-world emissions; with a nominal return of 9% per year, an NZAM member could claim to hit the Race to Zero target of halving its financed emissions, with zero actual decrease in emissions.
- **Lack of transparency:** Financial institutions rightly highlight the difficulties of getting accurate emissions data from their investees and clients. This is true of Scope 1 and 2 emissions, and is even more the case for Scope 3. While emissions disclosures appear to be improving, the problems with corporate emissions data mean that progress toward meeting decarbonization targets is inherently hard to monitor. And while financial institutions will find it hard to monitor the emissions trajectories of the companies in their portfolios it is going to be even more difficult for outside analysts to monitor and verify the decarbonization trajectories of hundreds of financial institutions with tens of thousands of clients and investees.

When net zero means zero action

NZAM has a unique and particularly problematic approach to target setting. Its members' headline targets are based not on actual reductions to their financed emissions, but on the percentage of their assets under management (AUM) which is supposedly aligned to net zero. This percentage is to reach 100% of assets by 2050 — but NZAM sets no interim requirements for the percentage of AUM that should be net-zero aligned in 2030 or any other year.

Some of the NZAM members' 2030 targets are absurdly low. The worst is **BMO Global Asset Management Canada** which has committed to aligning a mere 0.55% of its AUM with net zero by 2030. **Vanguard** was on the surface second worse with a 4% target — but could be said to have been even less ambitious than BMO GAM as this 4% of AUM were all assets which are sub-advised by another NZAM member, Wellington – and so also counted in Wellington's targets. As Morningstar argues, this means that Vanguard's target was effectively 0% of their in-house managed assets.[60]

Another problem is the ambiguity over the issue of when these "net-zero aligned" assets will actually lead to real-world emission reductions. NZAM's methodology implies that if its members' investees continue business-as-usual until 2029 and only then announce they are going to start "aligning with net zero" this would be treated as sufficient to meet the NZAM 2030 target.

Another problem arises from NZAM allowing its members to set "portfolio coverage" targets which are based not on emission reductions but on the percentage of companies in their portfolios which have committed to setting Science Based Targets (SBTs). This means than an asset manager can meet its target even if its investees increase emissions from now until 2029 and then at the last minute announce they are going to set SBTs (and with the SBT initiative methodology it can be years between companies announcing they are committed to SBTs and actually starting to cut emissions). As of November 2022, 39 asset managers out of 169 that have set targets have chosen to use only the "portfolio coverage" approach.

These inherent drawbacks of decarbonization targets mean that they cannot be relied upon on their own to deliver the emission reductions that the Race to Zero calls for. They must be complemented by policies that directly address to need to end fossil fuel expansion and phase out fossil fuels.

3. MIND THE GAP: WHAT THE ALLIANCES AND THEIR MEMBERS NEED TO DO TO END EXPANSION

Our data on GFANZ member financing and policies related to fossil fuel expansion show there is a massive gap between the global standards on net zero and what GFANZ's members are currently doing. We describe below some of the key actions that the alliances must take if they are to close this gap. These actions need to be taken in addition to any portfolio and/or sectoral decarbonization targets.

a. Use ongoing processes to align with Race to Zero

Several of the GFANZ alliances are already committed to timetables to produce new or updated guidelines for their members. These processes should be taken as opportunities to bring these alliances' guidelines into alignment with the Race to Zero.

- The AOA is committed to annual reviews of its target setting protocol. The next review is an opportunity to require its members to end investments in fossil expanders, in particular within their widely used sub-portfolio targets.
- The NZBA has not committed to reviewing its guidelines until April 2024. But this timetable is no longer tenable given that its members are supposed to align with the new Race to Zero criteria by June 2023.[61] If they are to do so, NZBA will need to issue new guidelines well before June.
- NZAM has not set itself a timetable for updating its highly unsatisfactory guidelines for its members, but if it is to align with the Race to Zero it will need to do so, and soon.

b. Stop supporting coal

The alliances need to act on the GFANZ leaders' "No New Coal" statement and insist in their guidelines and protocols that their members immediately drop all forms of support for companies developing new coal projects. The services covered must include lending, bond purchases, capital markets underwriting, insurance, and advisory services, including on mergers and acquisitions. Beyond the requirement to stop expansion, GFANZ members must also ensure that all coal companies in their portfolios have facility-by-facility plans to phase out all coal projects by 2030 in the OECD and other industrialized countries, and 2040 worldwide.[62] GFANZ members must also commit to closing down coal facilities and not selling them to new owners.

c. Withdraw support from companies expanding oil and gas production

All net-zero alliances need to require their members to cease buying new stocks and bonds of oil and gas expanders. Their members must also engage with their existing clients and investees to ensure that they cancel any plans to increase oil and gas production by the end of 2023. If clients and investees do not do so, then GFANZ members must suspend financial support to them. Financial support must be permanently ceased if the clients and investees have not ended fossil fuel expansion by the end of 2024. GFANZ members must also insist on a similar engagement timetable with clients and investees to ensure that they develop plans to phase out all production and consumption of oil and gas. This phase out must be in line with achieving the Race to Zero goal of a just fossil fuel phase out aligned with no- or low-overshoot scenarios that do not make "unrealistic assumptions on development and deployment of future technologies."[63]

d. Require their members to adopt robust engagement policies

The GFANZ alliances must insist on their members adopting meaningful policies for their engagement with their investees and clients. Robust engagement approaches include clearly defined demands, a clearly delineated escalation strategy ending with meaningful financial sanctions, and in the case of equity investors, transparent criteria for shareholder votes, and disclosure on voting records. GFANZ members should also report at least annually on the concrete results (or lack thereof) of their engagement strategies. It is vital that GFANZ members are not allowed to use vague claims of "engagement" as an excuse for continuing to provide financial support for companies that continue to expand fossil fuel production and consumption.

Financiers can exert pressure on companies from numerous angles.[64] Examples include "graduated divestment" whereby shares are sold off over time if companies do not meet emission-reduction or other benchmarks; withholding of bank loans and insurance until clear conditions are met; a refusal to underwrite issuances of debt, or buy new bonds, for oil and gas companies until they drop their expansion plans; an exclusion of fossil fuel expanders from passive indices; and refusal of stock exchanges to list new coal, oil or gas companies.[65]

e. Include no-expansion and engagement policies in transition plans

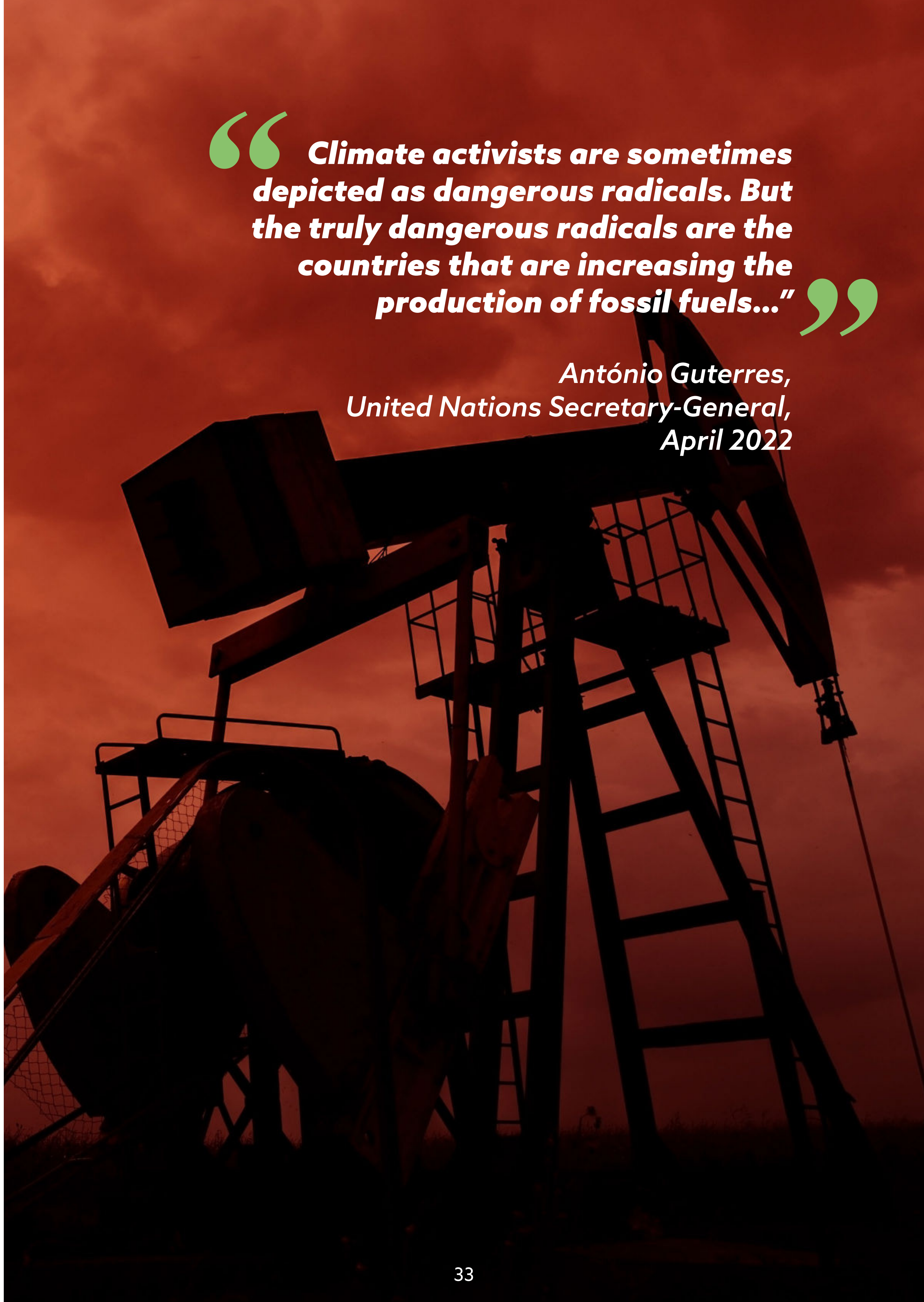
Both GFANZ members, and the companies they finance, should develop transition plans. Financial institution transition plans could be a powerful tool in efforts to push fossil fuel companies to stop expansion. But to ensure this, the GFANZ alliances must insist that their members' transition plans include clear criteria for their clients and investees, including deadlines on ending support for fossil expansion. Financial institution transition plans must include mechanisms for monitoring the implementation of corporate transition plans; and clear and meaningful sanctions for companies that do not adopt them according to a preset timetable.[66]

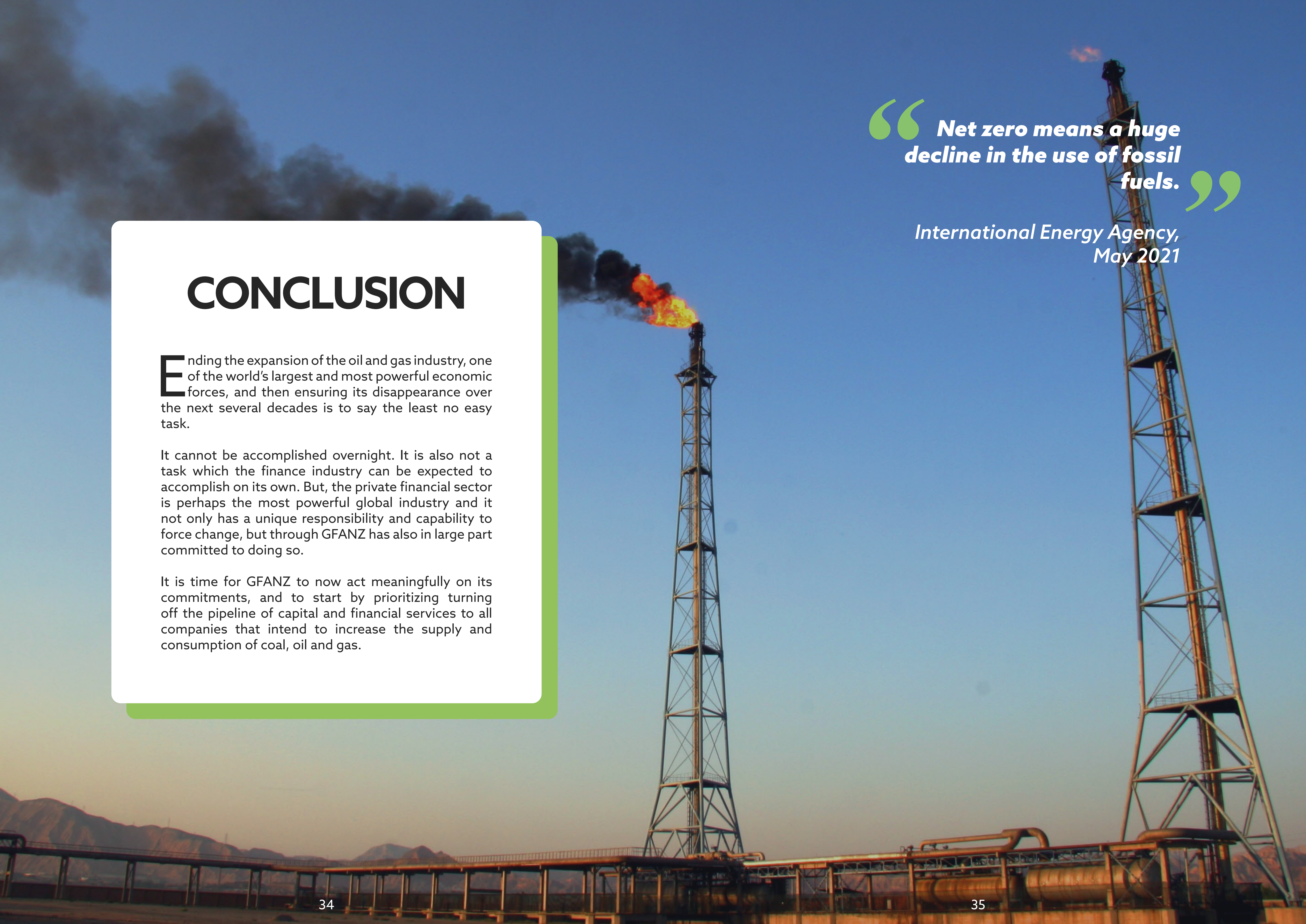
f. Enforce no-expansion requirements via robust accountability mechanisms

NZAM, AOA and NZBA have developed accountability mechanisms which are supposed to ensure that their members comply with the alliances' guidelines.[67] The Race to Zero is supposedly developing its own mechanism.[68] While the aim of the mechanisms is to ensure compliance and not to remove members from the alliances, to be effective the entities will need to show themselves willing to use these mechanisms up to the point of delisting, including against large and high-profile members. The accountability mechanisms must also be used to punish failure to meet targets: as currently worded they could be used only against members that do not even meet the low bar of just setting targets and disclosing their progress toward meeting them.

g. Stop lobbying for fossil fuel expansion

The Race to Zero added a new criterion of "Persuade" in 2022. This requires members to "align external policy and engagement, including membership in associations, to the goal of halving emissions by 2030". Aligning lobbying and advocacy with net-zero commitments is also one of the key recommendations of the UN's high-level group on net zero. GFANZ alliances should require that their members do not do any policy lobbying which seeks to encourage fossil fuel expansion, such as pushing governments to give new exploration licenses and leases, or to subsidize new production. Similarly they should publicly withdraw from any associations involved in such lobbying. Keeping 1.5°C alive requires a halt to the fossil fuel industry's disastrous lobbying for new projects, and the members of GFANZ have a unique leverage and responsibility to ensure that this lobbying is stopped.





CONCLUSION

Ending the expansion of the oil and gas industry, one of the world's largest and most powerful economic forces, and then ensuring its disappearance over the next several decades is to say the least no easy task.

It cannot be accomplished overnight. It is also not a task which the finance industry can be expected to accomplish on its own. But, the private financial sector is perhaps the most powerful global industry and it not only has a unique responsibility and capability to force change, but through GFANZ has also in large part committed to doing so.

It is time for GFANZ to now act meaningfully on its commitments, and to start by prioritizing turning off the pipeline of capital and financial services to all companies that intend to increase the supply and consumption of coal, oil and gas.

> ***"Net zero means a huge decline in the use of fossil fuels."***
>
> *International Energy Agency, May 2021*

APPENDICES

Appendix 1: Top 30 O&G upstream developers that received financing from GFANZ members – Resources under development and CAPEX figures from the 2022 Global Oil and Gas Exit List

Company	HQ	Resources under Development and Field Evaluation as of September 2022 (mmboe)	Exploration CAPEX 3-year average (2020-2022 - in US$ mn)	Aggregate NZBA member financing (from respective join date to August 2022 – in US$ mn)	Total investments by NZAM members (as of September 2022 – in US$ mn)
Saudi Arabian Oil Company (Saudi Aramco)	Saudi Arabia	19,961	2,199	11,732	2,955
QatarEnergy	Qatar	17,692	294	15,776	2,208
PJSC Gazprom	Russia	13,639	601	1,019	180
Petróleo Brasileiro SA – Petrobras	Brazil	8,043	633	5,929	12,697
Abu Dhabi National Oil Company (ADNOC)	United Arab Emirates	7,562	25	2,677	518
Exxon Mobil Corporation	United States	7,161	1,402	7,000	109,115
TotalEnergies SE	France	6,854	1,013	9,982	42,569
Chevron Corporation	United States	5,422	1,353	-*	76,157
PAO NOVATEK	Russia	4,648	224	-*	692
Shell plc	Netherlands	4,398	2,329	1,500	66,067
CNOOC Ltd	China	4,226	2,505	-*	774
ConocoPhillips	United States	3,674	867	7,291	49,822
Equinor ASA	Norway	3,119	1,203	3,158	11,596
BP plc	United Kingdom	3,066	1,104	4,180	24,304
Woodside Petroleum Ltd	Australia	2,573	171	1,536	9,192
China Petroleum & Chemical Corporation (Sinopec Corp)	China	2,399	1,677	-*	2,393
PetroChina Company Ltd	China	2,394	4,952	-*	1,759
Eni SpA	Italy	2,390	788	13,181	6,972
EQT Corporation	United States	2,276	35	3,809	9,183
EOG Resources Inc	United States	2,223	345	-*	31,495
China National Petroleum Corporation (CNPC)	China	1,892	20	-*	492
Petroliam Nasional Berhad (Petronas)	Malaysia	1,685	537	2,407	1,058
Chesapeake Energy Corporation	United States	1,644	44	-*	4,461
Occidental Petroleum Corporation	United States	1,585	484	4,377	18,162
Southwestern Energy Company	United States	1,576	48	11,674	3,732
Oil and Natural Gas Corporation Ltd (ONGC)	India	1,532	1,288	119	1,139
Cenovus Energy Inc	Canada	1,419	32	979	10,461
PJSC Rosneft Oil Company	Russia	1,395	824	-*	5,684
Pioneer Natural Resources Company	United States	1,350	1,410	269	26,416
Devon Energy Corporation	United States	1,349	206	1,309	1,524

No information was found in our research.

Appendix 2: Top 30 coal power developers that received financing from GFANZ members – Coal power expansion plans from the 2022 Global Coal Exit List

Company	HQ	Expansion Plans Coal Power (Prorated) in MW	Total NZBA member financing (from respective join date to August 2022 – in US$ mn)	Total investments by NZAM members (as of September 2022 – in US$ mn)
China Huaneng Group Co Ltd	China	24,414	-*	326
China Energy Investment Corp (China Energy)	China	20,635	-*	1,514
Power Finance Corporation Ltd	India	16,000	354	717
China Huadian Corporation Ltd	China	14,745	-*	101
State Power Investment Corp Ltd	China	12,450	1,034	352
China Datang Corporation Ltd	China	12,077	-*	99
Jinneng Group Co Ltd	China	12,070	-*	5
Shaanxi Coal and Chemical Industry Group Co Ltd	China	11,948	-*	208
NTPC Ltd	India	11,558	125	1,807
China Resources Power Holdings Co Ltd	China	10,912	237	456
Adani Group	India	9,045	341	1,939
Anhui Province Energy Group Co Ltd	China	6,424	-*	4
GCM Resources plc	United Kingdom	6,000	-*	0
Yanzhou Coal Mining Co Ltd	China	5,885	-*	699
Beijing Energy Holding Co Ltd	China	5,193	-*	5
Perusahaan Listrik Negara (Persero) PT	Indonesia	5,165	-*	747
State Development & Investment Corp Ltd	China	4,980	-*	102
NLC India Ltd	India	4,730	-*	13
En+ Group MKPAO	Russia	3,640	-*	187
Guangdong Energy Group Co Ltd	China	3,384	-*	2
Vietnam Electricity	Vietnam	3,317	-*	1
China National Coal Group Corporation	China	3,212	-*	153
Jiangsu Guoxin Group Co Ltd	China	3,000	-*	4
Guizhou Panjiang Refined Coal Co Ltd	China	2,747	-*	5
Huayang New Material Technology Group Co Ltd	China	2,736	-*	25
Inter Rao PAO	Russia	2,010	-*	141
Shaanxi Yanchang Petroleum Group Co Ltd	China	2,000	-*	3
Hubei Energy Group Co Ltd	China	2,000	-*	12
China Energy Engineering Group Co Ltd	China	1,980	-*	16
Sumitomo Corp	Japan	1,855	2,769	4,263

**No information found, or the transactions were deemed out of scope.*

Appendix 3

United States GFANZ Members' Fossil Fuel Expansion Financing

NZBA member financing of the largest fossil fuel expanders (loans and underwriting from date of joining NZBA to August 2022)

Bank	Date joined NZBA	Financing for coal developers (US$ mn)	Coal developer policy	Financing for O&G developers (US$ mn)	Oil & Gas developer policy	Total financing for fossil fuel expansion (US$ mn)
Citigroup	04/21	4,801		27,106		30,509
Bank of America	04/21	751		22,124		22,874
JPMorgan Chase	10/21	1,369		15,438		16,807
Morgan Stanley	04/21	225		11,292		11,417
Wells Fargo	10/21	-*		5,870		5,870

**No transactions were identified in our research.*

NZAM investments in the largest fossil fuel expanders (bonds and shares as of September 2022)

Investor	Date joined NZAM	Holdings in coal developers (US$ mn)	Coal developer policy	Holdings in O&G developers (US$ mn)	O&G developer policy	Total holdings in fossil fuels expanders (US$ mn)
BlackRock	03/21	23,372		170,091		190,887
Vanguard	03/21	18,814		167,170		184,071
Capital Group	08/22	1,816		91,988		93,794
State Street Global Advisors	04/21	4,300		83,510		87,507
JP Morgan AM	11/21	3,267		30,811		33,784

Appendix 4

Canada GFANZ Members' Fossil Fuel Expansion Financing

NZBA member financing of the largest fossil fuel expanders (loans and underwriting from date of joining NZBA to August 2022)

Bank	Date joined NZBA	Financing for coal developers (US$ mn)	Coal developer policy	Financing for O&G developers (US$ mn)	Oil & Gas developer policy	Total financing for fossil fuel expansion (US$ mn)
Royal Bank of Canada	10/21	-*		9,865		9,865
Toronto-Dominion Bank	10/21	157		7,392		7,550
Scotiabank	10/21	157		6,981		7,139
BMO Financial Group	10/21	-*		5,503		5,503
CIBC	10/21	-*		4,646		4,646

**Transactions were identified to coal companies; however, since these companies ceased to develop new coal capacity in 2022, these transactions were placed out of scope of this study.*

NZAM investments in the largest fossil fuel expanders (bonds and shares as of September 2022)

Investor	Date joined NZAM	Holdings in coal developers (US$ mn)	Coal developer policy	Holdings in O&G developers (US$ mn)	O&G developer policy	Total holdings in fossil fuels expanders (US$ mn)
BMO Global Asset Management	12/20	225		4,684		4,885
Brookfield Asset Management	03/21	4		2,107		2,110

Appendix 5

Japan GFANZ Members' Fossil Fuel Expansion Financing

NZBA member financing of the largest fossil fuel expanders (loans and underwriting from date of joining NZBA to August 2022)

Bank	Date joined NZBA	Financing for coal developers (US$ mn)	Coal developer policy	Financing for O&G developers (US$ mn)	Oil & Gas developer policy	Total financing for fossil fuel expansion (US$ mn)
Mitsubishi UFJ Financial	06/21	8,373		17,765		22,741
Mizuho Financial	10/21	9,459		11,336		19,314
SMBC Group	10/21	3,285		9,157		11,542
Nomura	09/21	3,148		854		3,944
Sumitomo Mitsui Trust	10/21	1,566		973		1,639

NZAM investments in the largest fossil fuel expanders (bonds and shares as of September 2022)

Investor	Date joined NZAM	Holdings in coal developers (US$ mn)	Coal developer policy	Holdings in O&G developers (US$ mn)	O&G developer policy	Total holdings in fossil fuels expanders (US$ mn)
Nomura Asset Management	11/21	6,358		3,148		7,608
Mitsubishi UFJ Trust & Banking Corp	11/21	2,448		2,969		4,209
Nissay AM	03/21	1,603		1,563		3,141
Mitsubishi UFJ Kokusai Asset Management	11/21	2,448		1,082		1,952
Sumitomo Mitsui Trust Asset Management	07/21	1,275		470		1,715

Appendix 6

UK GFANZ Members' Fossil Fuel Expansion Financing

NZBA member financing of the largest fossil fuel expanders (loans and underwriting from date of joining NZBA to August 2022)

Bank	Date joined NZBA	Financing for coal developers (US$ mn)	Coal developer policy	Financing for O&G developers (US$ mn)	Oil & Gas developer policy	Total financing for fossil fuel expansion (US$ mn)
HSBC	04/21	1,222		10,845		12,067
Barclays	04/21	381		8,455		8,836
Standard Chartered	04/21	863		3,962		4,825
NatWest	04/21	-*		475		475
Lloyds Banking Group	04/21	-*		236		236

**No transactions were identified in our research.*

NZAM investments in the largest fossil fuel expanders (bonds and shares as of September 2022)

Investor	Date joined NZAM	Holdings in coal developers (US$ mn)	Coal developer policy	Holdings in O&G developers (US$ mn)	O&G developer policy	Total holdings in fossil fuels expanders (US$ mn)
LGIM	12/20	874		12,302		13,130
Schroders	12/20	895		8,377		9,044
HSBC Asset Management	07/21	1,164		4,761		5,772
abrdn (ex Aberdeen Standard Investments)	03/21	1,016		4,283		5,218
Aviva Investors	03/21	244		4,419		4,633

Appendix 7

France GFANZ Members' Fossil Fuel Expansion Financing

NZBA member financing of the largest fossil fuel expanders (loans and underwriting from date of joining NZBA to August 2022)

Bank	Date joined NZBA	Financing for coal developers (US$ mn)	Coal developer policy	Financing for O&G developers (US$ mn)	Oil & Gas developer policy	Total financing for fossil fuel expansion (US$ mn)
BNP Paribas	04/21	905		6,191	*	7,096
Societe Generale	04/21	37		6,598	*	6,635
Crédit Agricole	06/21	402		5,886		6,288
Groupe BPCE/ Natixis	06/21	75		3,146	*	3,221

** These institutions indirectly restrict financing to some oil and/or gas supply expanders through policies targeting unconventional oil and gas, rather than through policies specifically mentioning and targeting expansion.*

NZAM investments in the largest fossil fuel expanders (bonds and shares as of September 2022)

Investor	Date joined NZAM	Holdings in coal developers (US$ mn)	Coal developer policy	Holdings in O&G developers (US$ mn)	O&G developer policy	Total holdings in fossil fuels expanders (US$ mn)
Amundi Asset Management	07/21	644		16,435		17,006
BNP Paribas Asset Management	11/21	296		2,499	*	2,749
AXA IM	12/20	34		1,121	*	1,139
La Banque Postale Asset Management	03/21	-**		744	*	744
Rothschild & Co Asset Management Europe	11/21	1		199		200

** These institutions indirectly restrict financing to some oil and/or gas supply expanders through policies targeting unconventional oil and gas, rather than through policies specifically mentioning and targeting expansion.*
***No transactions were identified in our research.*

Appendix 8

Germany GFANZ Members' Fossil Fuel Expansion Financing

NZBA member financing of the largest fossil fuel expanders (loans and underwriting from date of joining NZBA to August 2022)

Bank	Date joined NZBA	Financing for coal developers (US$ mn)	Coal developer policy	Financing for O&G developers (US$ mn)	Oil & Gas developer policy	Total financing for fossil fuel expansion (US$ mn)
Deutsche Bank	04/21	644		8,970		9,164
Commerzbank	04/21	-*		219		219

**No transactions were identified in our research.*

NZAM investments in the largest fossil fuel expanders (bonds and shares as of September 2022)

Investor	Date joined NZAM	Holdings in coal developers (US$ mn)	Coal developer policy	Holdings in O&G developers (US$ mn)	O&G developer policy	Total holdings in fossil fuels expanders (US$ mn)
DWS	12/20	1,018		9,558		10,412
Allianz (AGI)	03/21	242		4,180		4,351
Union Asset Management Holding AG	11/21	47		3,220		3,257
Deka Investment GmbH	11/21	285		1,817		2,085

Appendix 9

Italy GFANZ Members' Fossil Fuel Expansion Financing

NZBA member financing of the largest fossil fuel expanders (loans and underwriting from date of joining NZBA to August 2022)

Bank	Date joined NZBA	Financing for coal developers (US$ mn)	Coal developer policy	Financing for O&G developers (US$ mn)	Oil & Gas developer policy	Total financing for fossil fuel expansion (US$ mn)
Intesa Sanpaolo	10/21	157		1,576		1,734
UniCredit	10/21	-**		948	*	948

*These institutions indirectly restrict financing to some oil and/or gas supply expanders through policies targeting unconventional oil and gas, rather than through policies specifically mentioning and targeting expansion.
**No transactions were identified in our research.

NZAM investments in the largest fossil fuel expanders (bonds and shares as of September 2022)

Investor	Date joined NZAM	Holdings in coal developers (US$ mn)	Coal developer policy	Holdings in O&G developers (US$ mn)	O&G developer policy	Total holdings in fossil fuels expanders (US$ mn)
Eurizon Capital	11/21	300		1,708		1,925

Appendix 10

Switzerland GFANZ Members' Fossil Fuel Expansion Financing

NZBA member financing of the largest fossil fuel expanders (loans and underwriting from date of joining NZBA to August 2022)

Bank	Date joined NZBA	Financing for coal developers (US$ mn)	Coal developer policy	Financing for O&G developers (US$ mn)	Oil & Gas developer policy	Total financing for fossil fuel expansion (US$ mn)
Credit Suisse	04/21	54		6,061		6,115
UBS	04/21	973		925		1,897

NZAM investments in the largest fossil fuel expanders (bonds and shares as of September 2022)

Investor	Date joined NZAM	Holdings in coal developers (US$ mn)	Coal developer policy	Holdings in O&G developers (US$ mn)	O&G developer policy	Total holdings in fossil fuels expanders (US$ mn)
UBS AM	12/20	1,235		10,207		11,343
Credit Suisse Asset Management	04/22	593		7,531		8,075
Pictet Group	11/21	250		2,064		2,285
Swiss Life	05/22	13		166		178

Appendix 11: Methodology used in this report

1. Financial institutions in scope of the report

This report analyses the volumes of financing provided to fossil fuel expanders from the largest members of four GFANZ sectoral alliances: the Net-Zero Banking Alliance (NZBA), the Net Zero Asset Managers initiative (NZAM), the Net-Zero Asset Owner Alliance (AOA), and the Net-Zero Insurance Alliance (NZIA).

Asset owner transactions are unfortunately mostly missing from the financial databases to which we have access, seriously impacting our coverage for holdings of the AOA and NZIA. What data we have for the AOA is given at the group level and is mostly from the small number of pension funds which disclose their holdings, and from the transactions of their asset manager subsidiaries (which may or may have separately joined NZAM).

We cover 161 out of a total of more than 550 financial institutions in GFANZ as of August 2022 for creditors, and September 2022 for investors. NZBA members are selected based on their listing in the 2022 S&P world's 100 largest banks. NZAM and AOA members are selected based on their listing in the 2022 Thinking Ahead Institute top 100 asset managers and top 100 asset owners. A few large AOA members were added so that the report covers at least 80% of the alliance's total assets under management (AUM). NZIA members were selected based on their coverage in the 2022 Insure our Future Scorecard.

We have also covered French GFANZ signatories since most of them have committed to exclude — to various extents — fossil fuels from their financing. These French financial institutions provide a useful point of comparison for what can be done in terms of fossil fuel exclusion policies.

All the GFANZ members selected are assessed in Reclaim Finance's Coal Policy Tool and Oil and Gas Policy Tracker.

For the NZAOA and NZAM, we analyzed total equity and bond holdings in fossil fuel expanders as of the end of September 2022. For NZBA, we assess the volume of loans and underwriting services provided between the data they joined and August 2022. As a result, our report features:

- Net-Zero Banking Alliance: we cover 56 members accounting for over 90% of the alliance's total balance sheet assets. 47 of these banks were found to have in-scope transactions.
- Net Zero Asset Managers initiative: 58 members and over 80% of its total AUM. 53 were found to have in-scope transactions.
- Net-Zero Asset Owner Alliance: we cover 42 of its members and over 85% of its total AUM. 27 asset owners were found to have in-scope transactions.
- Net-Zero Insurance Alliance: 15 members are included for the policy analysis. Poor transparency in the sector means we are not able to cover insurance transactions to specific projects or fossil expansion companies. As noted above data for insurer investments is also limited.

2. Fossil fuel companies in scope of the report

Coal developers

We define coal developers according to the criteria of the Global Coal Exit List (GCEL):

- Companies planning to develop new coal-fired power capacity of at least 100 MW.
- Companies engaged in coal exploration activities; planning to develop new coal mines or extending existing coal mines.
- Companies involved in the development or expansion of coal transportation assets or other coal-related infrastructure such as coal-to-gas facilities.

Our research spans the publication of the GCEL databases from both 2021 to 2022. We limit our scope to coal developers in 2021 who continued to develop in 2022. This gives 368 coal companies.

Oil & gas developers

We used the Global Oil and Gas Exit List (GOGEL) to select the 100 largest upstream companies exploring for and developing new oil and gas fields, and the top 100 midstream companies developing oil and gas pipelines and LNG terminals. Because some developers fell out of these lists in the November 2022 update of GOGEL, we reduced the numbers to 91 upstream and 77 midstream companies.

There is therefore a total of 493 in-scope companies at the group level. Out of these, 221 companies received finance from the GFANZ members in scope of our research. However, it is important to note that a substantial portion of the in-scope companies are held by private equity, which means that no data is available for a large portion of their financing flows.

3. Exchanges with financial institutions before publication

The financial institutions explicitly mentioned in the report have been contacted by Reclaim Finance and were given the possibility of accessing and reviewing the financial data that concerned them before publication of the report. The consultation period was over the month of November 2022. Calls were held between Reclaim Finance and several financial institutions at their request.

The data providers relied on for this report, namely Refinitiv, Bloomberg and IJGlobal, may be subject to error and by contacting the financial institutions we seek to reduce the risk of publishing inaccurate information. Where a dispute over a transaction or holding is identified, we seek confirmation from external sources and make adjustments where necessary.

4. Research and analysis

a. Policy analysis

We focus on GFANZ member policies on fossil fuel expansion. These policies are scored in the "Developers" criteria of the Coal Policy Tool (CPT) and in the "Expansion" criteria of the Oil and Gas Policy Tracker (OGPT).

On coal, we classified policies as follows:

- "Robust" policies refer to those scored 9 or 10 in the CPT (i.e. exclusion of companies with coal mines, plants and infrastructure expansion plans).
- "Moderate" policies refer to those scored 7 or 8 in the CPT (i.e. exclusion of all companies with coal power expansion plans, or exclusion of companies with coal mines, plants and infrastructure expansion plans but with exceptions).
- "Very limited" policies refer to those scored between 1 and 6 in the CPT (i.e. large exceptions and/or exemptions, lack of clarity, etc.).

On oil and gas, we identified policies as follows:

- "Robust" policies refer to those scored 9 or 10 in the OGPT (i.e. exclusion of all companies listed in GOGEL — upstream and midstream — or at least accounting for more than 90% of global resources under development).
- "Moderate" policies refer to those scored between 6 and 8 in the OGPT (i.e. exclusion of companies with upstream expansion plans accounting for at least 60% of global resources under development).
- "Very limited" policies refer to those scored between 1 and 5 in the OGPT (i.e. exclusion of companies with upstream expansion plans accounting for less than 50% of global resources under development, and every other kind of weak exclusion of oil and gas expansion: large exceptions, no details provided, etc.). We have also considered the indirect exclusion of oil and gas supply expanders through the exclusion of unconventional oil and gas sectors. These exclusions are identified as "Very limited*" in the tables.

b. Financial research and analysis

Our financial research was carried out by research institute Profundo. Profundo relies primarily on data from Bloomberg and Refinitiv as well as project finance data from IJGlobal. For some pension funds, investment data were collected directly from the funds' disclosures. For various reasons, commercial banks' lending to the fossil fuel industry and institutional investors' holdings in the fossil fuel industry are likely significantly higher than calculated by Profundo. Generally, financial databases record loans and underwriting issuances when these are provided by a syndicate of financial institutions. The financial databases used for this study rarely detail bilateral loans – where a company borrows money from only one bank, rather than from a group of lenders.

On the investment side, equity data tends to be more complete; however, poor transparency leaves gaps in the bondholding data. Profundo believes that their research probably captures less than one-third of the bonds held by institutional investors. On the ownership side, many pension funds and insurers do not report on their holdings at all. As such we are unable to clearly identify the precise holdings attributable to these institutions.

Bank participation in syndicated loans and in the underwriting of bond and share issuance, were recorded from financial databases as well as company and media publications. Where the individual bank commitment is not disclosed, an estimate is calculated. Profundo bases this estimate on the fees the bank received as a proportion of total fees. If this fee data is not available, they calculate the bookratio by considering the number of bookrunners alongside the number of participants.

In this report, bank involvement in transactions is classified as the FI's participation in the overall underwriting or loan package. There are certain cases wherein the data providers do not specify differences in packages, only tranches. To fill these gaps we, again, take a conservative approach and use the date of issue as a proxy. This assumes that a company will only release one package on a specific date. In reality, this is not always the case, leading to a probable downward bias in the figures.

For "ESG instruments", we exclude any bond or loan where the use of proceeds are solely listed as "green bond/loan" or "sustainability bond/loan" in the databases. This is a conservative approach, given the lack of a clear regulatory standard for what can and cannot be classified as green finance. However, we consider sustainability-linked bonds and loans to be in scope due to the significant uncertainty over the credentials of this class of assets.

In contrast to the methodology used in the Banking on Climate Chaos report, we do not adjust financing numbers for the percentage of a company's revenue coming from fossil fuels. This means that we take into account the full sum a bank is providing to a company or the full investment an investor has in a company. In the case of large, diversified companies, it is likely that the full amount will not be used entirely for the fossil fuel part of the business. However, we cannot with sufficient certainty assess which share of the financing is used for companies' fossil fuel operations, especially if they are still developing new assets. Using only a share of the financing, for example based on a company's coal share of revenue, would risk understating the amount of financing that could potentially go towards fossil fuel infrastructure. For more detailed explanations on the financial research used in this report, please refer to Profundo's methodology document.

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47. MarketWatch, 'Anti-woke' reaction? Fund giant Vanguard quits net-zero climate alliance, 7 December 2022
48. Financial Times, Ron DeSantis's war on woke puts BlackRock on the frontline, 7 December 2022
49. gfanzero.com/membership, "Member commitments", accessed 6 December 2022
50. UN High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities, Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions, 8 November 2022
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52. Reclaim Finance, GFANZ issues transition plan recommendations and a Call to Action, 3 November 2022
53. GFANZ, Financial Institution Net-Zero Transition Plans: Fundamentals, Recommendations, and Guidance, November 2022, p.52.
54. C. Wison et al., Oxford Sustainable Finance Group, Implications of the IEA Net Zero Emissions by 2050 Scenario for Net Zero Committed Financial Institutions: Briefing Paper," p.22, 2022. This report notes that financial institution transition plans should also clarify that there should be no financing for M&A activities "to avoid a loophole whereby new reserves are developed by another company and then bought" (p.22).
55. RAN et al., Banking on Climate Chaos, p.19, March 2022
56. NZAOA, Target Setting Protocol: Second edition, January 2022
57. NZBA, Guidelines for Climate Target Setting for Banks, April 2021
58. Reclaim Finance, NZBA after 18 months: A muddle of low ambition, non-comparable targets, 15 November 2022
59. Greenpeace, Racing to Zero: Canadian Banks' Dubious Net Zero Commitments, p.16, August 2022
60. Morningstar Manager Research, Net Zero Asset Managers Initiative: As asset managers disclose their targets, commitments vary wildly. What's an investor to do? 7 July 2022
61. The NZBA Guidelines state that they will "be reviewed at least every three years, and sooner when required." Clearly the new Race to Zero criteria mean that a review is required now. See also ShareAction et al., Open letter to UNEP Finance Initiative, 14 September 2022
62. Reclaim Finance/urgewald, How to Exit Coal: 10 criteria for evaluating corporate coal phase-out plans, October 2021
63. Race to Zero Expert Peer Review Group, Interpretation Guide, Version 2.0, para 5.b.iv., June 2022
64. Reclaim Finance believes that divestment and engagement are not opposites, but rather that both are necessary for effective pressure on the corporate sector (see e.g. Reclaim Finance, Engagement Actionnarial: Les investisseurs au service du statu quo, February 2022). One argument used to argue against divestment is highlighted in a report that GFANZ commissioned from consultants McKinsey ("GFANZ, The Managed Phaseout of High-Emitting Assets," p.15, June 2022). This argues that "divestment movements may result in overall GHG emission increases . . . as high-emitting assets are transferred to companies and/or countries that are less sensitive to decarbonization pressures." McKinsey provides no quantitative evidence for this claim, but does cite a study from the US Environmental Defense Fund (EDF) that found 155 transactions worth over US$86 billion in recent years that involved companies with net-zero commitments selling assets to companies with no such commitments. However financial institutions, including GFANZ members, are not just bystanders on these deals. The EDF report shows that the top three financial advisors on the oil and gas mergers and acquisitions they analyzed were Goldman Sachs, JPMorgan and Citi — all members of the NZBA (Environmental Defense Fund, "Transferred Emissions: How Risks in Oil and Gas M&A Could Hamper the Energy Transition," 2022, p.23).
65. Pressing companies on numerous financial fronts is likely to be much more effective than a pure divestment approach – and would seem to be an obvious approach for a multi-sectoral alliance like GFANZ to advocate. Furthermore, understanding that financial pressure on the fossil fuel industry is not just an issue of divesting ownership stakes is important when assessing how pressure can be brought to bear on state-owned oil companies which may not have shareholders but rely on other financial services such as banking. Between 2016 and 2019 state-owned Saudi Aramco was the 3rd biggest recipient among major oil and gas companies of financing from the 10 leading global banks. Pemex was the 5th biggest recipient and Petrobras the 7th biggest (see RAN et al., Banking on Climate Chaos, p.14, March 2022). For a proposal for stock exchanges to ban listings of new fossil fuel company IPOs see Carbon Tracker, Carbon Tracker welcomes London signing Fossil Fuel Non-Proliferation Treaty, 27 June 2022.
66. Two examples from NZBA members illustrate the need for financial institutions to build transparency, monitoring and accountability into their requirements for corporate transition plans. The February 2020 climate policy of NatWest states they will stop lending and underwriting to major oil and gas producers unless they have a credible transition plan in place by the end of 2021. Danske Bank, announced in March 2021 that it will "not offer financial services to oil & gas exploration and production companies that do not set a credible transition plan in line with the Paris Agreement by 2023." Yet neither bank has explained what they expect from such plans, what actions they have taken to monitor their implementation, or what consequences they have taken, or intend to take, for any non-implementation.
67. NZBA, Governance arrangements, pp.8-9, November 2021; AOA, Governance, pp.12-13, March 2022; AIGCC/CDP/Ceres/IGCC/IIGCC/PRI, Net Zero Asset Managers Initiative: Initial Target Disclosure Report, pp.10-11, May 2022
68. Race to Zero/Race to Resilience, Taking Stock of Progress – September 2022, p.5
69. Reclaim Finance was unable to contact 3 financial institutions: Nippon Life Insurance, Meiji Yasuda Life Insurance, Brookfield Asset Management.

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THROWING FUEL ON THE FIRE:
GFANZ financing of fossil fuel expansion

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 financial players, 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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