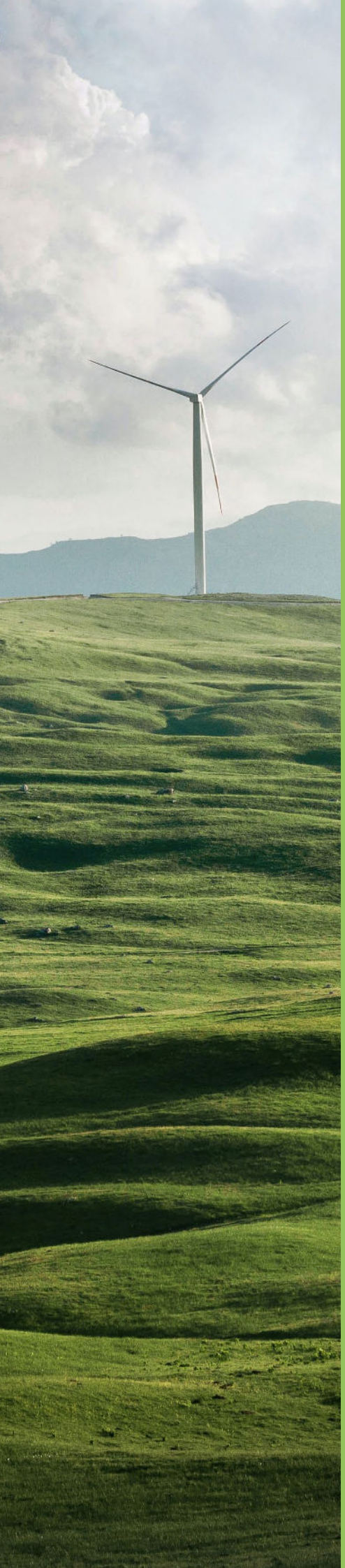

FINANCIAL INSTITUTIONS' TRANSITION PLANS:

How to drive real-economy decarbonization

RECLAIM Finance

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INTRODUCTION

FINANCIAL TRANSITION PLANNING, A TOOL FOR GLOBAL DECARBONIZATION

Financial institutions do not finance "today's economy", they finance the economy of next year, of 2030, 2040 and the decades after. The services they provide enable companies to develop new projects, to launch products and to expand. A bank lending to a company helps it invest or continue operating and worries about its ability to repay the loan in the future. An investor voting at a general assembly is giving company leadership freedom to carry out its strategy, thus supporting it. An insurer providing coverage to a new infrastructure is considering its exposure to damages that could occur. In a word, financial institutions are shaping the economy of the future. But, if they model it like the one of present time, they perpetuate the status quo at the center of the climate and environmental crisis.

To chart a new course, we need a new map. We believe that – providing sufficient ambition, robustness and enforcement is ensured - transition plans can play that role. Indeed, transition plans are progressively becoming one of the main criteria to assess how financial companies tackle - or fail to tackle - climate change in their strategies.

Banks, investors and insurers have already been publishing climate reports and documents giving information on how they adapted their business models to consider climate change and take on related risks and opportunities. They also began to consider how the companies they finance should transition, putting forward "transition plan" frameworks and assessment metrics.[1] In parallel, the relevance of transition plans for financial supervision has been acknowledged by the Network for Greening the Financial System (NGFS).[2]

These make for fertile ground for transition plans to emerge as the leading "forward-looking" information to understand whether financial institutions are seriously considering the need to transition and are devoting sufficient resources and efforts to it. In the end, transition plans could become the go to document for supervisors, policymakers, clients and investors. However, this ideal state is very much a fictional one. In the absence of common standards to define the content of plans and establish minimum requirements to ensure their quality, transition plans are incomparable, very challenging to assess and of widely diverging quality and ambition.[3]

In fact, regulatory and supervisory obligations regarding the content and implementation of transition plan remain incomplete and vague. The European Union leads the transition planning trend with reporting obligations for large companies. EU financial institutions will have to specifically disclose their transition plans - covering both their impact on the climate and their exposure to climate-related risks - to comply with the Corporate Sustainability Reporting Directive (CSRD), the Capital Requirement Directive (CRD) and Solvency II.[4] At the same time, many large EU and non-EU companies including those from the financial sector will have to adopt and implement such plans following the Corporate Sustainability Due Diligence Directive (CSDDD).[5] However, all these directives and related application requirements do not ensure the adoption of plans that would align with climate goals or even prevent the development of the most harmful activities. And, beyond the EU, transition plan requirements are still slowly emerging - for example in the United Kingdom and Canada[6] - and are similarly unprecise.

With a high probability of ill-designed plans, this situation will only enable greenwashing,[7] thus delaying potential stricter regulations and contributing to the climate breakdown as well as a rise in financial risks. To avoid such a disastrous outcome, Reclaim Finance builds on its analysis of corporate climate transition planning frameworks published in January 2024 to define the recommendations to build a financial transition plan presented in this document. Part I provides detailed recommendations for the content of the plans. Based on these recommendations, Part II lays out "red flags" that represent major flaws in financial transition plans and can be used to quickly identify greenwashing. While mirroring the structure of Reclaim Finance's Corporate Climate Transition Plan framework and its main features, the content has been significantly adapted to integrate the specificities of financial institutions. Further differences between banks, asset managers, asset owners and insurers/reinsurers are considered through key specific criteria, as well as through the prioritization of financial services discussed in Part III.

1. ASSESSMENT CRITERIA FOR FINANCIAL INSTITUTION TRANSITION PLANS

A climate transition plan should outline a robust strategy that shows that an entity has the ambition to transition at a pace aligned with the 1.5°C objective and has adopted the plans, processes, and tools to achieve it. To do so, financial institutions' climate transition plans should fully include the recommendations laid out in this section.

Step 1 – Decarbonization targets

Robust decarbonization targets are an essential feature of a climate transition plan. These targets are essential to guide the progressive reduction of GHG emissions, in line with global and sectoral emission trajectories that keep global warming under 1.5°C. Without such targets, it is simply impossible to determine whether the future emission levels of the entity are compatible with climate mitigation goals. When it comes to the financial sector, targets should give an overview of the institution's ambition and its approach to the decarbonization of the individual sectors it supports as well as to the various types of financial services it provides.

Decarbonization target types:

Financial institutions shall set targets at the sectoral level.[8]

Financial institutions may also set portfolio-wide targets. These should be based on metrics that do not use financial components, such as the ones proposed in "Real economy" emissions monitoring" in Step 4.

Emissions coverage:

Financial institutions shall set separate short-, medium- and long-term targets.

Financial institutions shall cover all GHGs[9] in their targets.

Financial institutions shall set separate footprint calculations and targets for their own emissions (Scopes 1, 2 and 3 excluding category 15), and for their "financed emissions" (Scope 3.15).[10]

Regarding Scope 3.15 emissions, financial institutions shall separate the following (when applicable) in their footprint calculations and targets:

- Scope 3 category 15: financed emissions (resulting from on and off-balance sheet financing and investments, including investments made on behalf of third parties).
- Scope 3 category 15: facilitated emissions (resulting from other financial services being provided to third parties, including capital market services and advisory).
- Scope 3 category 15: insurance-related emissions (resulting from providing insurance services to third parties).

Financial institutions shall include all material[11] scope 1, 2 and 3 emissions of underlying companies in their Scope 3.15 footprint and targets calculation.

Financial services and sectoral coverage:

Financial institutions shall cover all material[12] financial services in their Scope 3.15 emissions reduction targets, and for financial consortiums, all entities within their organizational boundaries (using a financial or operational control approach).[13]

Financial institutions should adopt sectoral targets covering all material[14] individual sectors within each material financial service. These targets shall at least cover the following

nine high emitting sectors: agriculture, aluminum, cement, coal, commercial and residential real estate, iron and steel, oil and gas, power generation, and transport (aviation, shipping, automotive).[15] For each sector, all material parts of the value chain shall be included.[16]

For asset managers and asset owners, decarbonization targets may be reflected at the level of each mandate.

Disaggregation:

Targets shall be duly differentiated by sector, business segment / asset classes / business lines[17] as well as scopes and gases when relevant.

Data quality:

Regarding data quality as part of Scope 3.15 emissions calculations:

- Financial institutions must disclose any discrepancies, reliability and quality concerns regarding the data underlying all footprint and target calculations (reported companies' emissions, third party data providers, proxies, etc.). This includes for example in-depth analysis of any unexpected and significant variations in reported company emissions.
- When GHG emissions data of clients or issuers (in particular Scope 3 data) is either not available or if the quality of data disclosed by clients or issuers can be questioned, financial institutions shall use third-party data providers or publicly recognized sources (checking for the consistency of figures), or make their own calculations relying on best-available proxies and estimates. However, such reliance shall be duly disclosed and justified, and high-end estimates shall always be used to avoid manipulating emission figures.

Financial institutions must disclose how they contribute to the improvement of Scope 3 data quality and the mitigation of gaps and quality concerns. They should notably:

- Disclose the Partnership for Carbon Accounting Financials (PCAF) data quality scoring (disaggregated, as much as possible, by sector and asset class, with underlying assumptions).[18]
- In jurisdictions[19] where companies are mandated to publish scope 1-3 emissions (including in the EU), refrain from providing financial services to companies that do not disclose sufficient elements on these emissions.[20] Outside of these jurisdictions, engage with companies in high emitting sectors that do not disclose sufficient elements on their scope 1-3 emissions, setting a clear timeline for them to provide this information and stop providing financial services to those that do not.

Target timeline:

Financial institutions shall include in their Transition Plan targets for 2030, every 5 years thereafter, and a final target aiming for carbon neutrality by 2050 at the latest.

Target metric types:

At sectoral level, for all sectors except fossil fuel supply sectors, financial institutions shall set Sectoral Portfolio Weighted Average Physical Intensity[21] (WAPI; intensities of borrowers/investees weighed against the relative portfolio exposure) targets:

$$\sum_c \frac{FIN_c}{TOT\ FIN} \times CEI_c = \sum_c \frac{FIN_c}{TOT\ FIN} \times \frac{CE_c}{PROD_c}$$

where c = Company c
FIN = Company exposure
TOT FIN = Total sectoral portfolio financing
CE(I) = Company emissions (intensity)
PROD = Company production/output

For fossil fuel supply sectors (that must be phased out rather than decarbonized), financial institutions shall not use emissions intensity targets but exclusively financial exposure targets, covering all material financial services.

The issue with attribution factors in decarbonization targets

The Partnership for Carbon Accounting Financials (PCAF) is an industry-led initiative which emits guidance on reporting emissions induced by financing institutions' financial services. The initial objective of PCAF was to attribute to each financial institution the share of financed companies' emissions for which they're deemed responsible. To do this, an "attribution factor" is used to weigh company emissions (see equation below), calculated as the ratio between outstanding financing to company divided by company value, which is (i) EVIC for listed companies, (ii) total equity and debt book value for private companies.

PCAF "financed emissions" formula

$$\sum_c \frac{FIN_c}{CV_c} \times CE_c$$

where c = Company c
FIN = Company exposure
CE = Company emissions
CV = Company value

PCAF guidance initially relates to disclosures but is widely used by banks for target setting. It is part of a set of carbon footprinting metrics recommended by TCFD,[22] for example with the Weighted Average Carbon Intensity (WACI), which is used by investors for target setting and normalizes company emissions by their revenues.

However, the financial components used in these metrics may vary in a way that is not directly correlated to the real-world emissions of companies. Granoff et al. (2024)[23] shows the volatility of EVIC in several high-emitting industries, and that the use of book value may reduce but not eliminate this problem. Induced volatility may impact (positively or negatively) the path of financial institutions toward their decarbonization targets. For example, banks' oil and gas targets are mostly based on absolute financed emissions metrics, meaning that the sharp increase in the valuation of oil and gas assets following the Covid crisis and invasion of Ukraine led to targets being sometimes achieved years in advance. Of course, such a "success" is misleading: banks did not reduce their financing to oil and gas sector and companies did not cut their emissions during this period.

While some object that attribution studies - aiming to differentiate the contribution of each component in the evolution of the metric - can solve the problem, these can be complex, opaque, and are unlikely to be thoroughly implemented any time soon.

PCAF financed emissions may give an idea of how to attribute companies' emissions to financial institutions, and to some extent, compare them. But decarbonization targets must be consistent metrics that show the evolution of real-world emissions linked to financial institutions' portfolios. Their goal is to hold financial institutions accountable for the emissions they contribute to generate, and in the end, accountability should not be sacrificed for the sake of accounting.

When relevant, financial institutions should also set portfolio-wide targets based on the metrics presented in Step 4 "Real-world economy GHG emission monitoring".

Underlying climate scenarios and alignment:

Financial institutions shall base their Scope 3.15 decarbonization targets on 1.5°C no/low overshot pathways relying on a limited volume of negative emissions.[24] Such pathways include the IEA NZE (2023 update) or NGFS NZE / Low Demand scenarios.[25]

For each sectoral target, financial institutions shall clearly disclose on a graph: (i) the benchmark 1.5°C scenario pathway; (ii) their targets with an indicative emission trajectory between each target. Financial institutions shall demonstrate adequately that their targets are aligned with the selected 1.5° pathway.[26]

Financial institutions shall not use target ranges (i.e. two reduction rates with different benchmark scenarios and ambitions).

Financial institutions shall use scenarios from widely recognized and reputable sources. Proprietary scenarios shall not be used.

Financial institutions shall strive to use a benchmark scenario that best represents the composition of their sectoral portfolio. When relevant,[27] financial institutions should use available national or regional sectoral scenarios.

Base year:

Targets must be set against the most recent year where data is available unless this year significantly differs from the normal activities and emissions of the institution.

In such cases, and for the base year to always remain recent and representative, baseline value can be calculated on a three-year average calculated on recent years.

Furthermore, if the relevance of the target is compromised by a material change in the entity's structure, the target should be re-baselined with a clear explanation of the reason and method.

Minimum medium-term ambition:

Targets must ensure that emissions do not rise above their base year value and are coherent with a reduction of at least 43% of GHG emissions in absolute terms by 2030 compared to 2019.[28]

Minimum long-term ambition:

Financial institutions shall target (for all sectors and portfolio-wide) carbon neutrality by 2050 at the latest and to sustain it after. This implies a reduction of emissions of at least 90%[29] by 2050 compared to 2019.

Long-term targets should ideally aim to reach zero emission - not net-zero - by 2050 at the latest and to be net negative after.

Methane emissions:

Financial institutions shall set specific methane emission targets for each one of the highest methane emitting sectors (i.e. energy, agriculture and waste management and disposal).

For non-energy sectors, methane emissions should drop by at least 30% by 2030 compared to 2022.[30] For energy sectors, they should decrease by at least 75% over the same period, in line with the IEA Net-Zero by 2050 scenario.[31]

Carbon offsets:

Financial institutions shall not use offsets to reach their own emissions reduction targets.

Regarding Scope 3.15 emissions reduction targets, they shall not use offsets purchased / retired by themselves and shall not count clients' / issuers' purchased / retired offsets until sufficient emission reductions have already been achieved by them (i.e. with 90% or higher GHG emission reduction from baseline and all abatement options have been pursued).[32]

Carbon credits can be purchased as a voluntary effort to support climate mitigation ("beyond value chain mitigation"),[33] in which cases they should be accounted separately from any target and sufficient quality should be ensured.[34]

Carbon capture and storage by supported companies:

Carbon removals can be carried out by supported companies directly in their own value chains, but financial institutions should use conservative assumptions when assessing whether these plans are realistic and compatible with the climate commitments.[35]

Step 2 – Decarbonization strategy

While the drastic reduction of GHG emissions necessary to keep global warming under 1.5°C requires a drastic shift in financial institutions' operations, decarbonization targets do not give information on the actions and steps planned to achieve this. In other words, decarbonization targets set a destination for banks, investors and insurers, without charting the course they plan to take to arrive there, nor providing the navigation tools. To arrive safe and sound, financial institutions must adopt transition plans that back up targets with a detailed decarbonization strategy. It is this strategy that will show which levers they will use to reach targets and contribute to a deep transformation of the companies they provide financial services to.

Decarbonization action plan:

Financial institutions shall define, disclose and commit to an action plan laying out the measures planned to reach short-, medium- and longer-term targets.[36] This action plan should include a quantification of expected reductions by action. The actions disclosed shall cover 100% of the targeted short term (before 2030), and at least 75% of medium term (from 2030 to 2039), and 50% of long-term targets reductions (from 2040 onward).

Financial institutions' action plan should include in particular:

- Portfolio allocation strategies (by sector, geography, asset class / financial service), lending, bond structuring and insurance policies set up to reach climate goals (Scope 3.15 emissions reduction targets).
- Deployment of dedicated transition financing mechanisms and facilities, including mechanisms for the financing of fossil fuel assets (early) retirement and for the acceleration of sustainable power deployment. This implies the definition of strategies regarding project-focused financing, including advisory services.
- Adaptation and change of product offering (including not offering some products and developing new ones) and measures taken to favor the shift to sustainable offerings.
- Client / issuer engagement strategy and its expected results (see section on public and private engagement).
- Decarbonization actions related to financial institutions' own emissions (Scope 1, 2 and 3 (non 3.15), e.g. limiting air travel, reducing energy consumption in own offices…). Those actions shall be clearly separated from actions related to its Scope 3.15 targets.

Climate-related, sustainable or ESG funds and products proposed by financial institutions shall strictly exclude support to fossil fuel development.[37]

Locked-in emissions:

Financial institutions must provide a qualitative and quantitative assessment of the potential locked-in GHG emissions resulting from their on- and off-balance sheet financing and investments, capital market services and advisory, insurance underwriting and any other financial service provided. These estimates shall be provided by type of financial service and by sector.

The estimates should focus on GHG and energy intensive sectors, including the nine high emitting sectors listed in Step 1: Decarbonization Targets,[38] and must at least cover coal, oil and gas, and power sectors.[39] The list of sectors included must be explicitly defined. The assessment at the level of underlying assets and companies must at least cover:

- Key assets, defined as both existing and planned assets;[40]
- Scope 1 and 2 emissions over the assets' operating lifetime;
- Scope 3 from use of sold products over the assets' operating lifetime.

Financial and non-emission-based targets:

Financial institutions shall define a set of non-emission-based sectoral and portfolio alignment targets. Such targets shall be defined for each material business activity of the financial institution (lending, capital markets, third party asset management, investment,

insurance...), and apply to all entities within the financial institution's organizational boundaries.

1. Energy-related targets

a. Energy Supply Ratio

Financial institutions shall adopt a target for reaching a ratio of at least six dollars in sustainable power supply for each dollar annually lent, invested, facilitated or insured in fossil fuels, by 2030.[41]

Financial institutions that do not provide services to fossil fuels should not set such targets and should focus on below sustainable power financing instead.

The Sustainable Power Policy Tracker

The Sustainable Power Policy Tracker is designed to track the commitments adopted by the top 60 banks worldwide regarding their support for sustainable power supply. It evaluates and compares these commitments, identifies loopholes and promotes good practice. Its primary objective is simple: to ensure that banks are adopting the necessary commitments on sustainable power supply to effectively contribute to achieve the 1.5°C climate goal.

The methodology is based on five criteria. Four are dedicated to assessing banks' support to alternatives to fossil fuels for the power sector. Banks are rated on a scale from 0 (worst) to 5 (best). The last criterion is focused on restrictions to finance new fossil-fired power plants. Banks are ranked from Red (no or very weak restrictions) to Green (robust restrictions).

- "Sustainable power scope", which rates bank's definition of sustainable power supply scope. Fossil-related technologies, such as CCS, and unsustainable solutions, such as bioenergy, should not be integrated in the scope.
- "Financial target" which rates bank's financial target for sustainable power supply. The target should be consistent and aim to triple the power sector financing targeted at sustainable solutions.
- "Financing ratio", which rates bank's publication and commitment to an energy financing ratio. The ratio should cover the entire value chain of fossil fuels and cover capital markets activities. A target should be set to achieve at least a 6:1 ratio by 2030.
- "Transparency", which rates bank's disclosure practices for financial and non-financial items in the power sector. Specific financial data (such as the financing volumes and the ratio) and non-financial data (such as geographic repartition) should be disclosed.
- "Fossil power expansion", which evaluates bank's attitude toward coal plants and gas plants, and the companies that develop them. Banks should adopt robust restrictions regarding coal plants developers and gas plants developers.

Each bank is analyzed in detail to highlight the strengths and weaknesses of its commitment to support the transformation of the power sector on a trajectory that is compatible with the 1.5°C objective. This tracker is a live tool, its content is updated whenever a new commitment is published.

b. Sustainable power financing

Financial institutions shall adopt a target for sustainable power supply financing that:

- Does not include support to unsustainable solutions, such as CCS, hydrogen produced from fossil fuels, and bioenergy.[42]
- Aims to at least triple support to sustainable power supply.
- Is set with a medium-term objective for 2030 at the latest, with a baseline not before 2021 or less than three years prior to the target being set.

c. Additional energy targets

Financial institutions should also include targets for:

- Reducing financial services volumes tied to fossil fuels (e.g. "Sectoral Portfolio Financing Volume" (SPFV) targets[43]).
- Reducing the production of fossil fuels from supported companies in line with the chosen 1.5°C no/low overshot scenario relying on a limited volume of negative emission and/or reducing the capex dedicated to fossil fuels by supported companies in line with this scenario.[44]
- Increasing the volume of investment, lending, facilitated financing and/or insurance dedicated to coal, oil and gas infrastructure retirement,[45] providing strict safeguards are put in place.[46]

2. "Climate solutions" targets

Beyond the energy sector, financial institutions shall provide a transparent, precise and detailed definition of climate solutions and set targets to contribute to their development.[47] Capex alignment targets should especially be considered.[48]

The definition of climate solutions must strictly exclude infrastructure and activities in the fossil fuel value chain, as well as activities significantly contributing to increase fossil fuel demand. The alignment of this definition with international frameworks (e.g. taxonomies) could be disclosed.

3. Portfolio share of companies committed to transition targets

Financial institutions shall define targets that show how an increasing share of the companies they provide financial services to are on a realistic path to transition their activities in line with the 1.5°C goal.

This could notably include targets for:

- The share (weighted average of corporate exposures) of companies with 1.5°C science-based targets[49] and/or absolute decarbonization targets coherent with a 1.5°C no/low overshot pathway relying on limited volumes of negative emissions.
- The share (weighted average of corporate exposures) of companies with a climate transition plan meeting key expectation, notably building on Reclaim Finance's "red flags" identified in Part II.[50]

Phasing out support to fossil fuels:

Within their transition plan, financial institutions shall adopt sectoral policies that ensure:

- An immediate end to any new financial services provided to the development of coal,[51] oil and gas production projects and coal power projects, and to the companies that develop them.[52]
- An immediate end to any financial service to the development of LNG export projects and to the companies that develop them.[53]
- The phase out of all financial services to the thermal coal sector (including all value chain segments: mining, transport, combustion, and other infrastructure) by 2030 in the OECD and 2040 worldwide.

Within their transition plan, financial institutions shall adopt policies to contribute to fossil fuel demand reduction. Providing their central role in fossil fuel consumption and relevance to global decarbonization, these policies shall notably cover the power[54] and steel[55] sectors:

- Financial institutions shall ensure all power sector companies they provide financial services to are committed to reach carbon neutrality by 2035 in the EU and OECD and 2040 worldwide at the latest in line with the IEA NZE scenario and to phase-out unabated oil and gas power by the same dates.[56] This means that any development of new gas power plant must be considered with extreme caution. They must solely be devoted to ensuring flexibility in a renewable-based power system, only in the absence of sustainable solutions and when they are paired with guarantees on early closure.[57]
- Financial institutions shall stop the provision of financial services, including advisory services and dedicated financing, to new blast furnaces and to the relining of existing blast furnaces. They shall also commit to stop the provision of financial services to companies that have plans to develop new blast furnaces or to reline existing ones.[58]

The Coal Policy Tracker and the Oil and Gas Policy Tracker

The Coal Policy Tracker and the Oil and Gas Policy Tracker are designed to track the commitments taken by top financial institutions worldwide, highlight the good practices, and shed light on the existing loopholes to be avoided. Their primary objective is simple: to ensure the financial sector is adopting effective coal and oil and gas policies to forcefully contribute to the 1.5°C climate goal. They also enable customers, media, financial institutions and other stakeholders to easily navigate the coal and oil and gas policy jungles.

The Coal Policy Tracker's methodology is based on seven criteria. Five are dedicated to assessing the financial support to the thermal coal industry, while the two last ones address the metallurgical coal sector. The criteria cover both project level specific financing and general corporate finance. They score financial institutions' sector policies according to their exclusion of the expansion of both the thermal and metallurgical coal sectors. They also assess the exclusion of the main thermal coal companies above specific relative and absolute thresholds, as well as the quality of their thermal coal phase-out commitments.

The Oil and Gas Policy Tracker's methodology is based on seven criteria. Three are dedicated to assessing the financial support to the oil and gas upstream and midstream industries, while the four others focus on unconventional oil and gas sectors: the Arctic, fracking, tar sands and ultra deep water. The criteria cover conventional oil and gas expansion both at the project and corporate levels, and the quality of the phase-out and the engagement of the financial institution with companies in the sector on this issue. The criteria regarding unconventional oil and gas cover both the exclusion of projects and the phase-out from these sectors.

Financial institutions are rated on a scale from 0 (worst) to 10 (best) and/or with a color code from red (worst) to green (best). Each financial institution is analyzed with specific recommendations to improve its existing commitments, with the aim to adopt robust and impactful sector policies. The trackers are updated on a continuous basis.

Financial institutions should also investigate coal, oil and gas companies' plans for the decommissioning and disposal of fossil fuel infrastructure.[59]

Risk and opportunities:

Financial institutions must include an assessment of their exposure to climate-related risks and opportunities, in line with major reporting frameworks - like the EU ESRS - and with relevant supervisory expectations.[60] For a proper assessment of these risks, financial institutions must provide detailed information on the assumptions underpinning their plans and GHG targets, including estimates for the potential impact of each assumption.

Step 3 – Public and private engagement strategy

Engagement strategies are a prominent part of the decarbonization strategy of financial institutions. While engagement has long been used by investors, it is also relevant to banks and insurers. Indeed, all financial institutions' emissions mainly come from the financial services they provide. Emissions banks, investors and insurers are responsible for can be significantly reduced by changing the way they select who they provide services to, but reaching a state of carbon neutrality and ambitious targets also requires reducing the "real-world" emissions at the level of supported companies themselves. Engagement can contribute to this outcome if it is conducted in a meaningful way, following a clear timeline and strategy.[61] Furthermore, engagement can also help create the enabling conditions to reach climate goals, for example through lobbying in favor of climate action and new practices from service providers (rating agencies, index providers...).

Lobbying activities[62]

Financial institutions shall:

- Review their direct and indirect advocacy activities to ensure their complete consistency with their own targets and international climate goals.[63] The results of this review must be disclosed and – if not already achieved — included in the near-term actions planned to ensure full alignment.
- Address any misalignment from trade associations or other representative bodies by setting up an escalation process that should ultimately result in leaving them if they do not sufficiently modify their positions and advocacy.
- Define what public policies are essential to achieve climate goals and what role they can play in their own decarbonization.

Financial institutions are encouraged to build on the Lobby Map methodology and tool from Influence Map to build relevant climate lobbying strategies.[64]

Corporate engagement[65]

Financial institutions' transition plan must feature a detailed engagement strategy meeting all the below requirements regarding:

1. The scope of application:

- Apply the engagement policy to all activities, all geographies and all asset classes. Disclose the precise scope covered by the engagement policy and justifications for all activities, geographies or asset classes not yet covered.
- Disclose key metrics regarding corporate engagement, including the:
  - » Number of companies engaged globally;
  - » Share of companies engaged individually or collectively.
  - » **For asset managers and asset owners** - Share of assets under management corresponding to the companies engaged.
  - » **For asset managers and asset owners** - Share of the portfolio's greenhouse gas emissions covered by engagement initiatives.
  - » **For banks** – Share of the lending and underwriting activities covered by engagement initiatives.
  - » **For insurers and reinsurers** – Share of insurance or reinsurance activities covered by engagement initiatives.
- Disclose the prioritization criteria and method used to define the list of companies engaged.
- Disclose the complete list of companies engaged.

2. Engagement goals:

- Disclose overall engagement goals (general and sector specific).[66]
- Set time-bound specific demands addressed to companies engaged, by sector and by company.[67]

3. The types of engagement:

- Establish a list of the types of engagement measures / activities undertaken (individual, collective, sectoral) and explain how they are selected and implemented.
- Establish a list of tools used (private meetings, resolution filed, etc.) and explain how they are selected and implemented.

4. A description of each step of the escalation strategy:

- Disclose intermediate and final deadlines corresponding to each demand.
- Disclose tools and types of engagement used for each step of the escalation process.

For asset owners and asset managers - The engagement strategy should be associated with a voting policy that:

- Sets a minimum share of proposed resolutions and companies for which the investor commits to take part in voting and discloses the corresponding share of assets under management.
- Discloses the prioritization criteria and method used to define the resolutions and companies concerned.
- Disclose the share of the assets under management for which clients' exercises voting rights themselves.
- For each type of resolution, discloses the criteria a company must meet for the investor to vote for, to vote against, or to abstain, and justify the link between these criteria and the demands covered in the engagement policy.

Asset managers and owners are encouraged to drive companies to annually propose a "Say on Climate" at general assemblies.[68]

For companies developing new fossil fuel projects, and for other companies when engagement demands have not been met by the set deadlines despite the application of the escalation strategy, financial institutions must:

1. Cease to provide any new financial service to the company, and
2. **For asset managers and asset owners** - Use existing voting rights and investor influence to block the companies' inadequate plans and allocate all related dividends to investment in sustainable activities and donations.[69]

Step 4 – Reporting and governance

Once the targets have been defined and the relevant strategy to reach them set, the implementation of the plan relies on reporting and governance mechanisms. Without such mechanisms it is not possible to monitor progress and correct course, create incentives, and ensure accountability.

Reporting

"Real-world economy" GHG emissions monitoring

Financial institutions shall track "real-world economy" GHG emission metrics from their portfolio's companies. All emissions shall be reported at sectoral, asset class, business line[70] and portfolio-wide levels, calculating and disclosing separately financed, facilitated and insurance-associated GHG emissions.

At the sectoral level, they shall track absolute (unweighted / unattributed)[71] emissions ("Absolute Sectoral Portfolio Emissions", ASPE):

$$\sum_c CE_c$$

where c = Company c
CE = Company emissions

At portfolio-wide level, they should track (and may use these metrics to set portfolio-wide targets):

- Weighted-average portfolio absolute emissions:

$$\sum_c \frac{FIN_c}{TOT\ FIN} \times CE_c$$

where c = Company c
FIN = Company exposure
TOT FIN = Total sectoral portfolio financing
CE = Company emissions

- Weighted-average portfolio emissions intensity:

$$\frac{\sum_c \frac{FIN_c}{TOT\ FIN} \times CE_c}{TOT\ FIN}$$

where c = Company c
FIN = Company exposure
TOT FIN = Total sectoral portfolio financing
CE = Company emissions

Progress on the implementation of the plan

Financial institutions shall report at least annually on the progress made on their transition plans. This requires:

- Annually disclosing GHG emissions and their evolution, notably based on the GHG Protocol, as well as specific information on the factors that led to GHG variations, and the measures and actions taken by the financial institution. GHG disclosures shall enable to follow progress on reaching the decarbonization targets defined in Step 1.
- Annually disclosing financial and non-financial information regarding their support to the energy transition. Disclosures shall enable to follow progress on reaching the financial and non-financial targets defined in Step 2.
- Annually disclosing detailed information on the engagement strategy. For asset owners and managers, this includes information on how the voting policy was applied and carried out, with: the share of votes against management recommendations; the share of votes that differed from proxy advisor recommendations; the share of votes that differed from the voting policy, and explanation of the rationale; the number of resolutions filed.

When reporting shows any target has been missed or is likely to be missed, financial institutions shall provide an action plan clarifying which steps will be taken to reach that target or get under the related emission trajectory.

Disclosures must be made annually and in an open format. Financial institutions are encouraged to submit their reporting to standardized platforms including Carbon Disclosure Project (CDP) and the UNFCCC Global Climate Portal.

Financial institutions should seek third-party verification of their GHG emissions reporting. They should provide qualitative information on the limitations of their reporting, and the steps taken to mitigate these. They are encouraged to take specific measures to precisely establish emission levels in the highest emitting sectors.[72]

Phaseout emission

Emissions from financial services provided to close coal infrastructure ("coal retirement")[73] should be ringfenced in a "phaseout emission" category:

- This category must only include emissions from financial services tied to projects respecting the ten guiding principles from Coal Retirement Mechanism set up by NGOs.[74]
- The methodology for calculating emission volumes in the phaseout emission category shall be transparent. It must be based on recent emissions from each coal infrastructure and their expected lifetime.

Governance[75]

Board responsibility and competency: Financial institutions must set responsibility and oversight for climate-related matters and the implementation of the transition plan at board level.[76] They must review the competencies of the board and upper management on the topic and provide relevant training when necessary.

Remuneration and incentives: Financial institutions must tie transition plan objectives to the remuneration of board members and upper management. In doing so, they must

use concrete and measurable indicators and ensure that climate-related components constitute a sufficient share of compensation and that no other incentives are working against climate objectives.[77]

Integration in financial statements: Financial institutions must integrate climate-related matters into their financial statements.[78] They are encouraged to provide detailed information on the financial viability of their plan. Auditors should also assess this dimension.

Review process of the transition plan: Financial institutions must establish a clear review process for their transition plan. They should at least review it:

- every three years.
- in case of major changes, either in the entity's value chain or externally.
- in case of changes regarding the scientific elements available, and notably the remaining carbon budget.

Say on Climate: Financial institutions should annually submit their transition plan to the vote of shareholders.[79] Significant shareholder opposition to the plan should require it to be updated and made more ambitious.[80]

Step 5 – Just Transition and Biodiversity

Climate transition plans logically focus on GHG emissions and the actions and steps that must be taken to reduce them. However, their consequences, compatibility and interlinkages with the protection of natural ecosystems as well as their social and human impact must also be considered. Besides, it is common knowledge that financial institutions are contributing to nature degradation and biodiversity loss, while simultaneously being exposed to related risks.[81] *Therefore, they should not adopt a carbon tunnel vision and should duly examine the impact on and dependencies of their activities on biodiversity and the just transition, with a view to have an integrated approach. If these issues are only marginally covered in currently available methodologies, the below elements set a general direction of travel for financial institutions to tackle them.*

Avoiding deforestation and nature depletion:

Beyond fossil fuels, financial institutions shall adopt policies to phase-out their support to economic activities that are major contributors to nature degradation and/or biodiversity depletion.[82] This includes activities related to deforestation and peatland loss by 2025, and to ecosystem conversion by 2030.[83] These policies shall be applicable within the scope of their entire organizational boundaries.
Concretely, financial institutions shall adopt sectoral policies[84] that:

1. Stop the provision of financial services to companies with a high risk of deforestation and to companies active in highly sensitive areas (notably using the IUCN / UN-WCMC "World Database on Protected Areas (WDPA)).[85]

2. Ensure that companies which activities present potential risks of deforestation implement all measures necessary to reduce it.[86]

Financial institutions should use best practice methodologies to identify companies with the highest risk, such as: the Forest500 ranking, the list of companies in the Banking on Biodiversity Collapse (BOBC) report, the UCL IPP methodology on financial interactions with ecosystem tipping points.[87]

Additionally, and to preserve indigenous rights including in sensitive areas, financial institutions shall also stop the provision of financial services to projects that do not receive the Free, Prior and Informed Consent (FPIC) of impacted Indigenous communities in accordance with the United Nations Declaration on the Rights of Indigenous Peoples.[88]

Biodiversity preservation:

Financial institutions shall adopt biodiversity and nature transition plans. These plans include the financial institutions' targets, actions, accountability mechanisms and intended resources to respond and contribute to the transition implied by the Kunming-Montreal Global Biodiversity Framework (GBF) objective to halt biodiversity loss, reverse it by 2030, and put nature on a path to recovery by 2050.

Financial institutions may notably build on:

- WWF's Nature in Transition Plans report.[89]
- The ESRS disclosures regarding biodiversity transition plans.[90]
- The Science Based Target for Nature guidance and tools.[91]
- The Taskforce on Nature-related Financial Disclosures (TNFD) guidance and LEAP (Locate interface with nature, Evaluate impact and dependencies, Assess risk and opportunities, Prepare to respond and report on material nature-related issues) approach.[92]

Financial institutions shall carry out a top-down broad assessment of the impact and dependencies on nature of their portfolios, and of the nature-related risks and opportunities. They should seek to deepen the impact and dependencies assessment for it to be location-specific, linking it more precisely to the activities of their portfolio's companies and indicators related to changes in the state of nature (e.g. species extinction risks) or the availability of ecosystem services. If data availability at company level is insufficient, they may use country-level industry proxies.

Financial institutions shall also explain how nature / biodiversity-related considerations integrate in their climate-related objectives, highlighting any potential synergies or trade-offs.

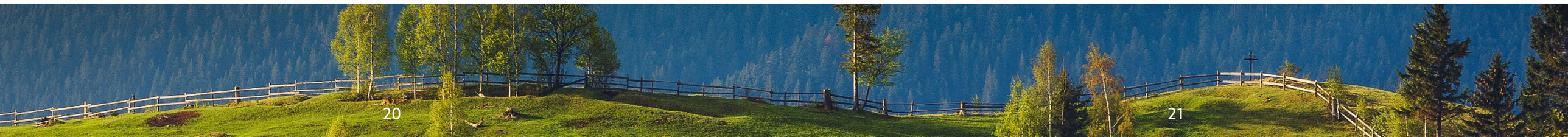
Financial institutions should use existing and developing recognized tools, benchmarking and cross-referencing them, and justifying their adequacy. These tools include, among others, and in particular for impact and dependencies assessment:

- Exploring Natural Capital Opportunities, Risks and Exposure (ENCORE) tool and database;[93]
- Biodiversity Impact Analytics – Global Biodiversity Score (BIA-GBS) tool and database; [94]
- Iceberg Data Lab Corporate Biodiversity Footprint (CBF) tool for biodiversity footprinting.[95]

Just Transition:

Financial institutions shall explain how their transition plan is compatible with a just transition and provide KPIs to assess this.[96] Commitment to social projects or an inclusive economy cannot be considered as just transition elements if they are not directly related to changes caused by climate change and/or the climate transition.

Financial institutions should explain how the input of key stakeholders has been integrated to the transition plan. Elements should especially be provided on the actions planned to mitigate potential negative impacts on workers and affected communities.[97]



2. RED FLAG INDICATORS TO UNCOVER FINANCIAL INSTITUTION'S GREENWASHING

This section summarizes red flag indicators that – when they are identified - reveal major gaps and inconsistencies in financial climate transition plans. They should be used to screen plans to sideline those that clearly amount to greenwashing. However, the mere absence of red flags does not mean that a plan is sufficiently robust. Additional elements must be considered when conducting a full analysis of a plan, including the minimum criteria developed in part I of this briefing.

Step 1 – Decarbonization targets

Partial or unclear coverage:

Scope 3.15 emission reduction targets (including insurance-associated emissions):[98]

- **Sector:** the sectoral boundaries (value chain segments) of sectoral portfolio targets are not clearly and transparently outlined and / or material[99] value chain segments are excluded.
- **Financing services:** material[100] financial services are not covered by Scope 3.15 targets (e.g. capital market activities excluded by banks in decarbonization targets) and / or methodologies fail to describe clearly and transparently in-scope financial services.
- **GHGs:** GHGs included in targets' scope are not clearly and transparently specified and / or material[101] GHGs are excluded therefrom.
- **Scopes:** emission scopes included in the targets' boundaries are not clearly and transparently specified and / or material[102] emission scopes are excluded therefrom.
- **Jurisdictions / geographies:** the geographical scopes of targets are not specified and / or material jurisdictions are excluded therefrom.

Irrelevant or unprecise timeline for targets:

For all emission reduction targets:

- No intermediary targets are set (at least every 5 years after the initial target year).
- No target to reach carbon neutrality or zero GHG emissions by 2050 at the latest is set.

Inadequate target types:

Scope 3.15 emission reduction targets (including insurance-associated emissions):

- Within each sector, targets are only based on metrics that include financial components (e.g. financed companies' corporate (market or book) value or revenues, such as in PCAF attribution factor), that may be decorrelated from companies' real-world emissions.
- Only physical intensity metrics are used for the fossil fuel sector target.
- Only Portfolio Coverage Targets (PCTs) (e.g. based on % of portfolio's companies with SBTi-validated targets) are set.

Inappropriate baseline:

For all emission reduction targets:

- The target's base year is not recent (i.e. set more than three years before first year of reporting) and / or not representative.

Insufficient ambition:

Scope 3.15 emission reduction targets (including insurance-associated emissions):

- Benchmark climate scenario selection and alignment:
  - » The climate scenario used for target setting is not benchmarked against a 1.5°C-aligned low/no overshot scenario with a limited level of negative emissions.
  - » After three (or more) reporting years, the metric does not follow the indicated pathway towards the target.
- Carbon offsets purchased or retired by the financial institutions are considered in Scope 3.15 emission reduction targets.

Low transparency on target setting methodologies:

For all emission reduction targets:

- The financial institution does not disclose clearly and transparently its target-setting methodology.

Scope 3.15 emission reduction targets (including insurance-associated emissions):

- For portfolio-wide / sectoral portfolio targets, portfolio aggregation formulas (of client-level metrics) are not disclosed.

Step 2 – Decarbonization strategy

Unrealistic or insufficiently substantiated decarbonization action plan:

- No action plan is provided / or / the action plan does not cover short-, medium- and long-term targets.
- The actions are not linked to expected quantitative GHG emissions reductions for scope 3.15.

Support to oil and gas development:

- The transition plan does not immediately rule out all financial services to new oil and gas production projects and to the companies that develop them.
- The transition plan does not immediately rule out all financial services to new liquified natural gas (LNG) export terminals and to the companies that develop them.
- The transition plan does not establish criteria restricting support to the downstream part of the oil and gas value chain (i.e. end of new financial services to new gas power projects).

No coal-phase-out strategy:

- The transition plan does not immediately rule out all financial services to new coal production and coal power projects and to the companies that develop them. All grades of coal shall be included.[103]
- The transition plan does not ensure a phase-out of thermal coal in all financial services and portfolios by 2030 in the OECD and 2040 worldwide.

Harmful activities branded as sustainable or climate solutions:

- No definition is given for sustainable energy and/or climate solutions. / or / Fossil fuel-related activities are included in the definition of sustainable energy and/or climate solutions.

Locked-in emissions are not tackled:

- No qualitative and quantitative assessment of the potential locked-in GHG emissions is provided, or the assessment does not cover at least coal, oil and gas and power.
- No explanation is provided of plans to manage exposure to GHG/energy-intensive assets.

Step 3: Public and private engagement strategy

Lobbying activities are not clearly aligned with climate goals:

- No public review of direct and indirect advocacy activities /or/ Review that show that advocacy activities are not fully aligned, and no short-term action is proposed to remedy this.
- Representative entities (industry bodies, corporate lobbies…) are not included in the scope of the climate review of advocacy activities.

Vague or incomplete engagement:

- The outcomes of engagement and how it contributes to targets are not disclosed.
- No escalation process is defined to ensure the effectiveness of engagement, with timebound consequences for engaged stakeholders.
- For asset managers and asset owners – The engagement strategy is not associated with a transparent and coherent voting policy.

Step 4: Reporting and governance

Insufficient reporting to monitor progress:

- Financed, facilitated and insured associated emissions are not reported / or / not reported separately / or / are only reported using attribution factors.
- The entity does not report annually on progress /or/ Reporting is insufficient to monitor progress.

Low level of responsibility and incentives:

- No responsibility and oversight of climate-related matters and of the implementation of the plan at board level.
- No review of the climate-related competencies of the board and upper management.

No clear review process for the transition plan:

- No review process set /or/ the review process set does not ensure a regular review of the plan.

Step 5: Just transition and biodiversity

Activities harmful to the environment and nature are not considered:

- No commitment to stop contributing to deforestation and peatland loss by 2025, and to ecosystem conversion by 2030 at the latest.
- No criteria to restrict support to activities with a large negative impact on biodiversity and nature loss, including to activities and companies with a high deforestation risk, and to companies active in highly sensitive areas.

The need for a Just Transition is ignored:

- No explanation of how the transition plan is compatible with a just transition and/or no KPIs to assess this dimension.

3. PRIORITIZING IMPACT IN TRANSITION PLANNING

Financial institutions are not a homogenous category. These institutions provide a vast array of services, meaning they have different levers to contribute to the decarbonization of the economy. Transition plans should be designed to include these specificities. In this briefing, this has been partly accounted for through the identification of specific criteria for banks, asset managers, asset owners and (re)insurers. However, it is more clearly done in this section through the identification of the different financial services provided by each institution type and a prioritization of the inclusion of the services with the most real-world impact in the scope of the transition plan.

Anyone that wishes to contribute to the transition of the finance sector should have a clear end goal: covering all financial services and types of assets. The transition plan should ultimately apply to all activities. No areas of the bank, asset manager, asset owner or (re)insurer's business should be left out. Nonetheless, it should also be noted that not all financial services and assets have the same climate impact and potential to contribute to reduce emissions.

Some operations – like granting a loan, arranging and structuring bonds, giving financial advice on projects or providing insurance coverage – have a direct impact on activities, company practices and related emissions. Failure to get insurance coverage or to secure financing can easily derail a polluting project. And, on the contrary, favorable financing and insurance conditions are significant incentives to advance a sustainable project. Similarly, a company that faces difficulties in accessing capital because of an insufficient climate strategy is likely to review it to preserve its investment capacity and attractiveness. However, for some types of assets and services the link to emissions is much less clear – for example cash equivalents or health insurance – or the financial institutions have less ability to shift its practices - including for most personal lines insurance, sovereign bonds and consumer loans.

From a climate perspective, this means that working on some financial services is much more likely to deliver emission reductions than others, especially in the short term. Given the need to immediately reduce emissions at a fast pace, and the resource and time losses that focusing on "low impact" services could generate, it is reasonable to prioritize key financial services to be targeted in financial transition plans. While such a prioritization does not the change the end goal of a total inclusion of financial services in the scope of the transition plan, it means that this could be delivered at a later stage following further methodological progress and an already well-advanced shift in "higher impact" financial services.

The below table presents this prioritization framework for various types of financial services. High priority services and assets identified in the table must be immediately included in the scope of the transition plans and related metrics.

Inclusion of financial services in transition plans ranked by order of priority

	High priority (immediate and full inclusion)	Middle priority (exploratory work could be needed for future inclusion)	Low priority (inclusion possible in the future, exclusion has marginal impact on the transition)
Lending	• General purpose loans and guarantees to corporates and SMEs (incl. bridge loans). • Project finance. • Asset-based loans and guarantees. • Commodity Trade Finance - Energy. • Other loans with known use of proceed. • Motor vehicles loans Mortgages. • Commercial real estate loans and guarantees.	• Loans to local authorities and other public entities. • Consumer loans (other than dedicated to motor vehicles). • Supranational and sovereign loans. • Margin based and security. • Commodity Trade Finance – Mineral and metals and Agriculture.	• Bridging loans without underlying assets available.
Investing	• Project finance / known use of proceeds. • Listed equities. • Corporate bonds. • Private equity. • Securitized fixed income. • Real estate. • Funds investing in any of the above.	• Funds with non-transparent strategy (hedge…). • Derivatives. • Supranational and sovereign bonds.	• Cash and cash equivalent. • Commodity trading.
Capital Market Activities (CMA)	• Listed equity (IPO, diluted follow-on public offering, special purpose acquisition IPO) [corporates, projects or assets; primary market]. • Debt (public issuance of debt securities, private placement of debt securities, commercial paper issuance, issuance of securitized fixed income instruments, syndicated loans) [corporates, projects or assets; primary market]. • Advisory services.	• Issuance of sovereign bonds, covered bonds, securitized products, derivative products. • Trading of bonds and equities in the secondary market.	• Derivatives trading and sales (including futures, options, interest rates swaps, repos, forex).
Insurance Underwriting	• Primary insurance and reinsurance (facultative and obligatory reinsurance, or treaties). • Commercial lines: » Project based insurance (construction all risks – CAR – and erection all risks – EAR). » Commercial insurance for identified assets. » All other commercial insurance except the ones on middle to low priority. » Surety bonds. » Directors and Officers insurance. • Personal insurance for motor and homeowner insurance. • Retrocession. • Brokerage activities.	• Alternative insurance through capital market. • Captive programs. • Structured trade credit insurance. • All personal lines, excluding motor and homeowners' insurance.	• Life and health insurance. • Unit linked contracts. • Agriculture, government schemes and arrangement.

CONCLUSION

PLUGGING THE FINANCIAL TRANSITION PLAN REGULATION GAP

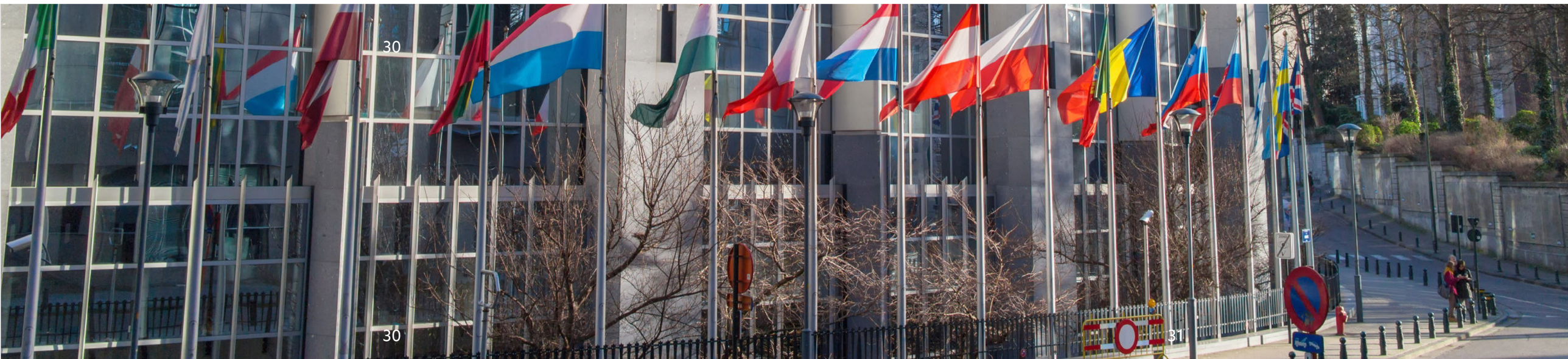
When it comes to reducing GHG emissions and mitigating climate change, transition plans are both an opportunity and a threat. The adoption and implementation of robust and ambitious transition plans by financial institutions can contribute to shift company practices and to the development of equally strong plans from non-financial corporations. Banks, investors and (re)insurers that would adopt such plans would answer the demands of their clients, investors, civil society stakeholders, policymakers, and regulators. On the contrary, greenwashed plans would provide continued shelter to polluters and disincentivize "real economy" transition. They would generate confusion and mislead clients, investors and supervisors. Ultimately, they would result in disastrous environmental and human consequences, as well as heightened financial risks.[104]

To ensure that finance transition plans launch a virtuous circle, policymakers and supervisors must step in. Since the adoption of the Paris Agreement, the 60 biggest banks alone have provided $6.9 trillion to oil and gas companies.[105] This trend has not stopped, despite climate change's consequences claiming more and more human lives.[106] In fact, the many climate commitments taken by the finance industry are yet to produce significant changes and often look more like greenwashing operations.[107] And, when meaningful voluntary policies are implemented – for example the "coal phase-out» policies put forward by French banks – they still leave room for operations at odds with global climate goals.[108]

Emerging transition planning regulations fail to consider this. The transparency requirements they include are much too vague to ensure financial institutions report accurate, meaningful and comparable information.[109] For example, based on current practices, banks are likely to report decarbonization targets that are not linked to real world emissions and misrepresent their contribution to GHG emissions.[110] Similarly, information reported on the exposure to fossil fuels can easily dissimulate support to new production development incompatible with climate goals.[111] Furthermore, this transparency focus does not actually require financial institutions to align with the 1.5°C goal, nor does it mean their progress will be monitored and failure will have consequences.[112]

In this context, the content of transition plans must be clearly defined, and their implementation ensured. Reclaim Finance urges:

- Financial institutions to:
  - » Adopt robust climate transition plan that meets the criteria identified in this briefing. This urgently requires defining a fossil fuel policy that cuts all financial services to new fossil fuel production, coal power and LNG export terminals and to the companies that develop them.
  - » Engage other companies on the adoption of robust transition plans leveraging the criteria identified by Reclaim Finance in *Corporate Climate Transition Plans: What to Look For*. They should use the list of "Red Flag Indicators" in this report to identify companies with insufficient plans.
- Auditors,[113] supervisors, and civil society stakeholders to:
  - » Use the criteria in this briefing to assess financial institutions climate transition plans, notably identifying potential cases of greenwashing and insufficient climate-related risk management using the "Red Flag Indicators".
  - » Build clear expectations on financial institutions climate transition plans leveraging the criteria in this briefing.[114]
- Policymakers to:
  - » Make the adoption and implementation of climate transition plans by financial institutions mandatory, using the criteria and red flags to set minimum guidance on their content.[115]
  - » Set up a mechanism to ensure that companies are held accountable for implementing their climate transition plans and devote sufficient resources to the authority tasked with this mission.
  - » Condition the use of all "climate/sustainable/ESG" labels and funds to the adoption of climate transition plans that meet the criteria in this briefing and in *Corporate Climate Transition Plans: What to Look For*.[116]



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GLOSSARY

Scope 3.15

The GHG Protocol includes in Scope 3.15 "Investments"[117] financial services such as equity, debt with known Use of Proceeds (UoP), or project finance. Other financial services are considered as "optional", e.g. debt investments (with unknown UoP), managed investments and clients' services, and other investments or financial services (financial contracts, insurance contracts).

PCAF guidance differentiates three types of Scope 3.15 emissions:

- Scope 3 category 15: financed emissions (resulting from on and off-balance sheet financing and investments, including investments made on behalf of third parties).
- Scope 3 category 15: facilitated emissions (resulting from other financial services being provided to third parties, including capital market services and advisory).
- Scope 3 category 15: insurance-related emissions (resulting from providing insurance services to third parties).

In this document, "Scope 3.15 emissions" relates to all these services, including "insurance-associated emissions" (comprising insurance underwriting activities) as per PCAF terminology. Financial services that are currently out-of-scope of PCAF methodologies are also in the scope of this document (e.g. green bonds in financed emissions or EAR and CAR insurance services in insurance-associated emissions), as clarified by the financial services prioritization table in Part III.

Materiality (Scope 3.15)

For Scope 3.15 emissions reduction targets, a financial service is considered as material if it represents more than 5% of the financial institution's revenues.

More specifically, for Scope 3.15 sectoral portfolio emission reduction targets:

1. a sector is deemed material if it represents more than 5% of the financial institution's exposure for a given financial service,
2. a value chain segment / GHG / Scope is regarded as material if it represents more than 5% of the sector's emissions.

Target types

Decarbonization targets can be based on several types of metrics, e.g.:

- Absolute emissions (kgCO2(e)).
- Financial metrics (EUR, USD, etc.).
- Physical intensity metrics (gCO2(e) per output unit (e.g., MWh, TJ, pkm, rpk/rtk, m^2, etc.).
- Financial intensity metrics (gCO2(e) / EUR, USD, etc.).
- Alignment scores (%).
- Temperatures (temperature alignment rating).

The following paragraphs focus on absolute emissions, physical intensity metrics and financial metrics, which are deemed appropriate for target-setting.

Absolute emissions

Most banks disclose financed emissions according to the standard PCAF formula, which weights the client companies' emissions with an attribution factor, a ratio between financing and company value. Absolute financed emissions formula is mostly used in the fossil fuel sectors (coal, O&G).

Due to the use of an attribution factor, and as company value may be subject to fluctuations (especially volatile components such as EVIC), the evolution of absolute financed emissions may be decorrelated from that of financed companies' real-world emissions.

This document therefore suggests other types of absolute emissions metrics, such as the Absolute Sectoral Portfolio Emissions (ASPE) or weighted-average portfolio absolute emissions. ASPE shall be tracked at the sectoral and portfolio-level, while weighted-average portfolio absolute emissions should also be monitored to compensate for ASPE's limitations (e.g. no diminution of absolute emissions even in the case of a partial disengagement of / reduction of exposure to a high-emitting company).

Physical emissions intensity

Physical emissions intensity metrics may be useful as they help to compare benchmark scenarios and indicate to which extent a sectoral portfolio is aligned / converges with a certain pathway (e.g., SBTi SDA). Financial institutions notably justify their use of these metrics by a relatively straightforward relation between them and the decarbonization efforts made by companies.

One way of aggregating clients' physical emissions intensities at the sectoral portfolio level is to use the Weighted Average Physical Intensity (WAPI) formula. It is already often used by banks today.

Financial targets

Financial targets relate to the reduction of financial institutions' exposure to a given sector. They are notably designated as "Sectoral Portfolio Financing Volume" (SPFV) in this document. They are currently used by some banks for lending exposure reduction objectives, especially in fossil fuel supply sectors, for which they are particularly fit. All their coverage parameters (in-scope financial services, value chain segments, in-scope company criteria (e.g. revenue / production threshold), etc.) and indicator (total exposure, % of sectoral exposure to financial service, etc.) shall be transparently and comprehensively disclosed.

Portfolio coverage targets

"Portfolio coverage targets" (PCT) can be calculated at the sectoral or portfolio-wide level and are particularly useful to track the alignment of a given portfolio on a set of criteria. They shall be calculated as the weighted sums (against relative exposure of each of the portfolio's companies) of Boolean (1/0) indicators (e.g. criteria / conditions such as: company has SBTi-validated targets, company has a robust Transition Plan, etc.).

High emitting sectors

Among GFANZ alliances, the Net Zero Banking Alliance (NZBA) is the only one to require sectoral decarbonization targets in nine priority sectors: agriculture, aluminum, cement, coal, commercial and residential real estate, iron and steel, oil and gas, power generation, and transport (aviation, shipping, automotive).

These twelve carbon-intensive areas - if differentiating commercial from residential real estate and the three transportation sectors - account for the vast majority of global GHG emissions today.

References

1. For example, see: Climate Action 100+'s (CA100+) *Net-Zero Company Benchmark;* IIGCC's *Investor Expectations of Corporate Transition Plans: From A to Zero*; GFANZ's *Expectations for Real Economy Transition Plans*.
2. The NGFS published a series of reports around transition planning in 2024, after a 2023 "stock-take" acknowledged their relevance for supervision.
3. For a discussion about the limitations of current EU regulations and a preliminary analysis of how Reclaim Finance's recommendations on transition plans can contribute to meaningfully applying them, see *Corporate Climate Transition Plans, What to Look For* (January 2024).
4. The CRD applies to banks, while Solvency II applied to insurers. Transition plan requirements in both directives are prudential transition plans, focusing on financial risks. Solvency II plans are related to insurers' investments.
5. The CSDDD includes a requirement to adopt a transition plan and to ensure sufficient means are devoted to implementing it. Companies that have a transition plan that complies with reporting requirements under the CSRD will be considered compliant with CSDDD by default. Unlike the rest of the CSDDD, that do not cover most financial services, the transition plan requirement inside the directive means financial institutions' plan must cover relevant financial services.
6. In Canada, the Office of the Superintendent of Financial Institutions (OFSI) asks financial institutions to develop prudential transition plans. In the UK, the Transition Plan Taskforce (TPT) has developed several sectoral standards for transition plan disclosures that are likely to be used by the Labour government to design new transition plan requirements.
7. In November 2024, Reclaim Finance published the report *European banks and transition: time for a reality check* that showed how major European banks were still massively contributing to fossil fuel development at odds with climate goals. In the absence of a drastic change in practices, these findings discredit any transition plan that these banks would publish.
8. If calculated properly, sectoral targets can relatively easily be linked to the real-world transformation of companies and decarbonization efforts. They also enable financial institutions to have coherent approach with all companies of the same sector and to prioritize action on high carbon sectors responsible for a large share of global emissions. Sectoral targets are notably used through the SBTi Sectoral Decarbonization Approach (SDA) and PACTA methodology.
9. The GHGs are listed in the Kyoto Protocol. The protocol includes: 1) Carbon dioxide (CO2); 2) Methane (CH4); 3) Nitrous oxide (N2O); 4) Sulfur hexafluoride (SF6); 5) Hydrofluorocarbons (HFCs); 6) Perfluorocarbons (PFCs).
10. GHG Protocol includes in Scope 3.15 "Investments" financial services such as equity, debt with known Use of Proceeds, project finance. Other financial services are considered as "optional": debt investments (with unknown UoP), managed investments and clients' services, and other investments or financial services (financial contracts, insurance contracts). In this document, "Scope 3.15 emissions" relate to all these services, including "insurance-associated emissions" (comprising insurance underwriting activities), as per PCAF terminology.
11. A Scope is regarded as material if it represents more than 5% of a given sector's emissions.
12. A financial service is considered as material if it represents more than 5% of the financial institution's revenues.
13. Financial institutions shall transparently and comprehensively disclose (i) the organizational boundary, with all in-scope entities, (ii) a materiality assessment of all the financial services provided by each of the entities.
14. A sector is deemed material if it represents more than 5% of the financial institution's exposure for a given financial service.
15. These sectors represent a large majority of global GHG emissions. NZBA also recommends banks set targets for these nine sectors.
16. A value chain / segment is considered material if it represents more than 5% of a given sector's emissions.
17. Disaggregating by business lines is relevant solely to insurers and reinsurers.
18. PCAF data quality score establishes a scale from 1 (highest quality) to 5 (lowest quality). For more information on data quality scores, see notably CDP and PCAF's report on the topic and the alignment of their scoring system.
19. In the European Union, the Corporate Sustainability Reporting Directive (CSRD) requires companies to disclose GHG emissions on scope 1-3. Additionally, many jurisdictions are currently discussing and adopting disclosure requirements based on the IFRS S1 and S2 that also cover these emission scopes.

20. Sufficient emission disclosure can be assessed using the criteria identified in Reclaim Finance's *Corporate Climate Transition Plans: What to look for*.
21. For heterogeneous sectors such as agriculture, mining or chemicals, financial institutions should disaggregate and set different targets for each subsector. If not judged feasible (data availability, multisectoral integrated companies, too few companies in sub-portfolios), financial institutions may aggregate by using economic emissions intensity metrics or aggregate indicators for the denominator (e.g. CuEq for mining sector); however, they shall duly and transparently justify this choice and disclose all hypotheses underlying calculations.
22. See TCFD Implementation Guidance Annex
23. Ilmi Granoff and Tonya Lee, Shocking financed emissions: the effect of economic volatility on the portfolio footprinting of financial institutions, Columbia Law School - Sabin Center for Climate Change Law, 2024
24. Reclaim Finance, "Climate Scenarios: picking a safe path to a sustainable future", consulted in November 2024
25. Other "limited negative emission"pathways can be identified by applying to 1.5°C no/low overshoot pathways (like the IPCC's C1 pathways) the reasonable negative emission ranges identified by the IISD Navigating the Energy Transitions.
26. The basis of all climate scenarios is the notion of carbon budget. Through a top-down approach, the carbon budget is allocated to each sector. However, for pathways expressed in physical emissions intensity, it's not always easy to verify the alignment with a 1.5°C-aligned carbon budget. Indeed, transforming physical emissions intensity into absolute emissions requires data about physical output (i.e. "production curves") which may prove difficult to obtain or to project at the level of a financial institution's portfolio. In this context, financial institutions should (1) seek to get their targets based on a Sectoral Decarbonization Approach (SDA) validated by the SBTi, and (2) disclose all assumptions underlying the justification for the alignment of the portfolio, including projections of productions and when relevant technology shares with related emissions factors.
27. Regional or national scenarios can be relevant when a significant part of sectoral exposure is in one country or region. For instance, the IEA NZE 2050 global scenario is not representative for a power generation sectoral portfolio which is skewed towards EU / OECD countries.
28. The minimum 43% reduction in absolute emissions compared to 2030 is derived from the last IPCC report on climate change mitigation. However, we acknowledge that this global reduction does not apply in the same way across sectors and activities. While some sectors – including power production – must decarbonize faster, some others could go at a slower pace. Here the targets must be consistent with the selected underlying 1.5°C pathway.
29. The Science Based Target initiative (SBTi) requires companies to reduce emissions by at least 90% by 2050 and to compensate remaining emissions to reach carbon neutrality. This 90% threshold is broadly used as a reference, though sectoral specificities can be considered. For example, the SBTi acknowledges that the power sector can fully decarbonize, reaching a level of close to zero residual emissions by 2050.
30. The 30% reduction is aligned with the Global Methane Pledge launched at COP26.
31. A 75% reduction of methane emissions from 2022 to 2030 for the energy sector is required to keep global warming to 1.5°C according to the International Energy Agency (IEA) Net-Zero Emission (NZE) scenario and Global Methane Tracker.
32. As highlighted in Reclaim Finance's report on Corporate Climate Transition Plans, offset must not be counted toward reaching intermediate targets. They can solely be taken into account to reach carbon neutrality once sufficient (at least 90%) reductions have already been achieved, and if no alternative method exists to further reduce emissions. Financial institutions should push companies to follow this recommendation, meaning that the offsetting of residual emissions would take place at the level of underlying companies and not at the level of financial institutions.
33. Financial institutions can refer to the SBTi guidance on Beyond Value Chain Mitigation (BVCM).
34. Financial institutions should ensure that any offsets they purchase are additional and represent permanent removals. Furthermore, offsets must not result in adverse consequences for local populations. The type and quantity of offsets to be used must be disclosed, along with data on the certifying agencies and identifiers to ensure that offsets are not double counted.
35. For recommendations on carbon capture and storage in the value chain of non-financial companies, see the report *Corporate Climate Transition Plan: What to Look For* (January 2024).
36. The purchase of carbon offsets cannot be classified as a decarbonization action.
37. It is worth noting that several financial sustainability labels exclude fossil fuel developers. This is notably the case of the two French labels Greenfin and Social Responsible Investment (SRI). Similarly, some green bond frameworks – including from Carbon Bond Initiative – strictly exclude fossil fuel activities.
38. The nine emitting sectors are: agriculture; aluminum; cement; coal; commercial and residential real estate; iron and steel; oil and gas; power generation; and transport (aviation, shipping, automotive). They are also identified by the NZBA.

39. Coal, oil and gas respectively generated 43%, 33% and 23% of global GHG emissions in 2021.
40. Assets for which a construction / exploration permit has been granted shall be included in the scope.
41. When setting up a ratio:
    - Banks shall not limit it to credit exposure but cover capital market activities as well (including underwriting).
    - Insurers shall at least cover engineering and construction lines (including EAR and CAR) and conduct calculation using their share of the insured value. They should strive to cover all insurance to projects and companies.
    - The entire fossil fuel value chain - and not solely upstream - shall be covered.
    - Allocation of general corporate financing or insurance to mixed companies (non-pure players) shall be based on their capex.
42. See Reclaim Finance's definition of sustainable power.
43. SPFV targets are used by a few banks today in the fossil fuel sectors. For coal, they translate the intention to phase-out (i.e. reduce exposure to zero), usually following a common schedule (2030 for OECD countries, 2040 for the rest of the world). For the oil and gas sector, they are only used by a few banks, and only cover credit exposure to (pure play) upstream oil and / or gas clients (i.e. exclude capital market activities and other segments of O&G value chains).
44. Financial institutions can notably use the IEA NZE that includes data on the evolution of fossil fuel production and of fossil fuel capex.
45. Even though phasing-out coal is internationally recognized as one of the most meaningful steps to mitigate climate change and improve health, coal retirement is yet to benefit from significant financial institution support. In fact, many financial institutions continue to support the development of the sector.
46. Principles for financing coal retirement have been issued by civil society organizations, including Reclaim Finance.
47. Financial institutions can build on the Independent Science Based Taxonomy.
48. Capex alignment targets can be used to ensure investment in the current years and next few years are coherent with a rapid ramp up of climate solutions and a switch of sector/company technology mix toward them. Short-term capex alignment provides major information regarding the compatibility of the sector/company planned activities with climate goals. While no consensual methodologies have been established to build such targets so far, some examples of targets and metrics related to capex can already be found today, including:
    - The "green asset ratio" (GAR) for capex tied to EU Sustainable Taxonomy reporting requirements. PACTA "Technology Mix" metric.
    - The evaluation of the alignment of oil and gas capex / cost curves from Carbon Tracker initiative.
49. "Science-based targets" (SBTs) are targets validated by the SBTi. To be considered, targets should be based on the 1.5°C and – when available – Net Zero standard of the SBTi. SBTs are not equivalent to transition plans and validation does not ensure that the company is truly planning to transition and has the strategy to do so. SBTs must not be used to justify continued support to companies conducting activities at odds with climate related goals, including those developing new fossil fuel infrastructures.
50. So far, transition plans are not standardized and monitored. This means that any SPC relying on them should be based on its own analysis grid that enables the financial institution to ensure the plans reach a minimum quality standard. This notably means searching for "red lines" that would disqualify the plans, such as the ones identified by Reclaim Finance.
51. Coal policies must cover all grades of coal, no matter their end use.
52. For insurers, an immediate stop of construction all risks (CAR) and erection all risks (EAR) insurance must notably be ensured.
53. See Reclaim Finance, *Frozen Gas, Boiling Planet: How the support of banks and investors to LNG fuels a climate disaster*, December 2024
54. Electricity and heat generation alone represented 39% of global GHG emissions in 2021 according to the IEA.
55. The steel sector is responsible for 7% of global GHG emissions, making decarbonizing steel production essential to reach climate goals. This decarbonization is achievable, providing swift action as underlined in Reclaim Finance's report *Debunking 10 steel decarbonization myths: insights for financial institutions* (2024).
56. According to the IEA, "abated" oil and gas power production will occupy only a very marginal role in electricity production in the future. The use of CCS for power production has repeatedly proven unreliable. The high cost of this option also makes it unlikely to compete with low-cost renewable power. Financial institutions should therefore drive power producers to phase-out all fossil-based power generation, beyond "unabated" capacities.

57. Financial institutions should thoroughly assess the transition plans put forward by power companies, notably relying on the methodology built by Reclaim Finance and allies inside the Beyond Fossil Fuel coalition.
58. Companies that are building or relining blast furnaces that will go online after January 2028 and beyond should notably be excluded to avoid a lock-in effect on the steel sector. These companies should be excluded immediately if blast furnaces are developed or relined in the OECD.
59. Financial institutions can notably use the analysis of oil and gas companies' strategies from Reclaim Finance.
60. Financial institutions should refer to supervisory requirements and expectations from their national authorities.
61. Without a clear timeline and strategy, engagement can serve as an excuse to delay action. This has been the case for fossil fuel companies, where major investors have claimed to favor engagement approaches while continuously failing to push companies to transform their strategies and adopt fossil fuel reduction plans. Collective engagement alone cannot provide guarantees and have so far failed to demonstrate significant results.
62. Beyond the specific recommendations in the briefing, financial institutions can rely on *the Global Standard on Responsible Climate Lobbying*.
63. Indirect advocacy includes all advocacy carried out by institutions that the financial institution directly supports or is a member of.
64. The *LobbyMap* is the world's leading database on corporate and industry association climate policy engagement, covering 500 companies and 250 industry associations.
65. For asset managers and owners, engagement and voting policy recommendations are discussed in Reclaim Finance *Climate stewardship: A guide for effective engagement and voting practices* (2023).
66. Engagement goals should be linked to individual company engaged.
67. For coal, oil and gas, power and steel companies, relevant demands are identified in Reclaim Finance's report on engagement. The adoption of a corporate Climate Transition plan meeting the recommendations of Reclaim Finance's report is another relevant demand.
68. The "Say on climate" should cover both the validation of the strategy and the monitoring of its implementation.
69. In February 2024, Reclaim Finance wrote to 50 investors to urge them to adopt new engagement practices regarding the oil and gas sector.
70. For insurers, two separate categories can be used for this reporting: 1) Insured associated emissions for new projects (notably related to construction & engineering lines of insurers - CAR and EAR insurance products). 2) Insured associated emissions for companies through insurance programs (including property insurance, and liability insurance).
71. The problems related to the use of weightings and attribution factors are discussed in Reclaim Finance's report on bank targets *Targeting Net Zero The need to redesign bank decarbonization targets* (September 2024). While this report focuses on banks, the issues identified would be largely similar for investors and insurers.
72. Financial institutions are notably encouraged to look at the methane emissions reported by energy companies and to check their reliability using external methods such as satellite research. Satellite data on methane emissions are becoming more readily available, including through public databases such as Carbonmapper or the UN International Methane Emission Observatory Eye on Methane data platform.
73. This "phaseout emission" metric can be extended to financial services to retire oil and gas infrastructures.
74. See: Reclaim Finance and al, *Ten guiding principles for financing coal retirement mechanisms*, 2023
75. For general recommendations on climate governance, see the OECD *Principles on Climate Change and Corporate Governance* (2022).
76. Additional recommendations on board level responsibility can be found in the World Economic Forum (WEF) *How to Set Up Effective Climate Governance on Corporate Boards Guiding principles and questions* (2019).
77. Financial institutions are encouraged to ensure financial incentives related to the objectives of the transition plan reach a significant share of total variable remuneration and to disclose this share.
78. See the ESMA report *Disclosures of climate related matters in financial statements* (2023).
79. The Say on Climate resolution was notably identified as an important practice by the French Market Authority and its internal climate commission. Furthermore, in October 2023, a coalition of investors collectively holding £1.8trn in assets sent letters to 35 chairs of FTSE 350 companies asking them to organize votes on their climate transition plans at next years' AGMs.

80. As mentioned by the Climate and Sustainable Finance Committee of the French Market Authority, 20% of shareholder opposing the resolution can be considered a significant opposition to the plan.

81. Nature-related risks remain relatively little explored, but their relevance and magnitude are already acknowledged by central banks and supervisors. Warnings on the topic have been issued through the NGFS or the ECB.

82. Seven commodities are closely tied to a high risk of deforestation: beef, soy, palm oil, cocoa, rubber, coffee and wood products. These commodities accounted for 57% of all agriculture-linked deforestation between 2001 and 2015.

83. Financial institutions should notably look at the six sectors identified in the Banking on Biodiversity Collapse 2024.

84. Financial institutions can build on the preliminary practices identified following the application of the article 29 of the French Climate-Energy Law. However, these practices remain insufficient to avoid support to biodiversity and nature depletion.

85. The World Database on Protected Areas (WDPA) lists 305,192 officially recognized protected areas, covering over 91 million square meters.

86. The Forest500 ranking can be used to assess general company practices regarding deforestation. Additionally, all companies listed in the *Banking on Biodiversity Collapse* report should be considered to have a major negative impact and be excluded. Financial institutions can also carry out internal analysis to identify problematic companies, for example using the databases and methodology presented in the study "Financial system interactions with ecosystem tipping points: evidence from the Brazilian Amazon and Indonesian peatlands" (2024).

87. See: Global Canopy, "Forest 500 company ranking", consulted in November 2024 / Forest and Finance, *Banking on Biodiversity Collapse 2024*, 2024 / Lydia Marsden and al, "Financial interactions with ecosystem tipping points", *UCL IPP*, 2024

88. The Declaration on the Rights of Indigenous Peoples requires States to consult and cooperate in good faith with the Indigenous Peoples concerned through their own representative institutions in order to obtain their free, prior and informed consent before adopting and implementing legislative or administrative measures that may affect them.

89. See WWF's *Nature in Transition Plans* report (2023).

90. The ESRS E4 are the ones directly related to biodiversity and the adoption of a biodiversity transition plan.

91. See Science Based Targets Network's *Corporate Manual for Science based targets for nature*.

92. See the Task Force on Nature-related Financial Disclosures' (TNFD) *Discussion paper on nature transition plans* (November 2024) and *Guidance on the identification and assessment of nature-related issues: the LEAP approach* (October 2023).

93. See Exploring Natural Capital Opportunities, Risks and Exposure database (consulted in November 2024).

94. See Le Global Biodiversity Score from Caisse Des Dépôts et Consignation (CDC) (consulted in November 2024).

95. See Corporate Biodiversity Footprint (CBF) from Iceberg Datalab (consulted in November 2024).

96. Financial institutions are encouraged to explore the World Benchmarking Alliance (WBA) Just Transition approach and the work of the Just Transition Finance Lab.

97. Financial institutions should consider elements from the International Labour Organization (ILO), the Climate Justice Alliance, and the Just Transition Center of the International Trade Union Confederation (ITUC).

98. GHG Protocol includes in Scope 3.15 "Investments" financial services such as equity, debt with known Use of Proceeds, project finance. Other financial services are considered as "optional": debt investments (with unknown UoP), managed investments and clients' services, and other investments or financial services (financial contracts, insurance contracts). In this document, "Scope 3.15 emissions" relate to all these services, including "insurance-associated emissions" (comprising insurance underwriting activities), as per PCAF terminology.

99. For Scope 3.15 emissions reduction targets, a financial service is considered as material if it represents more than 5% of the financial institution's revenues. More specifically, for Scope 3.15 sectoral portfolio emission reduction targets: (i) a sector is deemed material if it represents more than 5% of the financial institution's exposure for a given financial service. (ii) a value chain segment / GHG / Scope is regarded as material if it represents more than 5% of the sector's emissions.

100. See footnote 99.

101. See footnote 99.

102. See footnote 99.

103. All grades of coal include both metallurgical coal and thermal coal.

104. Economists and financial supervisors have notably stressed that an orderly transition delivers the best outcome for the economy and for financial stability. Due to their forward-looking nature, transition plans appear as important tools to make such an orderly transition happen. However, insufficient or misleading plans that would delay action would contribute to increase the chance of a disorderly transition.

105. See the *Banking on Climate Chaos 2024*.

106. For example, with their involvement in 982 deals to upstream or midstream oil and gas developers since 2021, the 20 largest European banks are hindering the energy transition. Over 2021-2023, 72% of the financing from these banks to the top 6 European oil and gas majors was for fossil fuels.

107. For example:

- The NZBA requires its members to set decarbonization targets. Yet, an analysis of these targets revealed they didn't deliver emission reduction and cannot be linked to climate mitigation progress.
- GFANZ members have continued to support fossil fuel development.

108. See Reclaim Finance's research on the coal transactions carried out by French banks despite the adoption of "coal phase-out" policies.

109. For a preliminary discussion of the limitations of the CSRD requirements related to transition plans, see Reclaim Finance's report *Corporate Climate Transition Plans: What to Look For* (2024).

110. Most bank decarbonization targets are not fit for purpose and need to be redesigned to deliver effective emissions cuts, Reclaim Finance finds, following a detailed analysis of the sectoral targets set by 30 of the largest banks in the UN-convened Net Zero Banking Alliance (NZBA).

111. Financial exposure is a relative metric, meaning that a low exposure does not entail that:

- The financial institution provides a low volume of financial services to the sector. For example, a large investor can provide significant amounts of financing to harmful activities (in absolute terms) while these activities still make up for a small share of its portfolio (in relative terms);
- The financial institution does not support companies or projects that are fundamentally incompatible with climate goals (i.e. new fossil fuel production development). Indeed, remaining exposure can originate from support to especially harmful companies. The exposure metric does not give qualitative information or guarantees.

112. The Guide published by the Climate and Sustainable Finance Committee of the French Market Authority on ESRS transition plans provides details on necessary content and clarifies how the various indicators apply. The Guide features several essential elements that would contribute to a qualitative ESRS transition plan, including an end to the support to fossil fuel development.

113. The ATP-Col initiative provides an approach for auditors to meaningfully assess the quality of plans.

114. In the EU, the EBA and EIOPA have been given mandates to come forward with proposals related to the management of sustainability/ESG risks. This includes potential new supervisory expectations regarding transition planning. Additionally, the ECB's *Supervisory expectations relating to risk management and disclosure* published in 2020 could be reviewed to include transition planning elements.

115. Companies falling under the scope of the EU CSDDD will have to adopt CSRD compliant plans to devote sufficient resources to implementing them. However, as the CSRD and ESRS remain vague, plans can be CSRD compliant while remaining of a low quality. To avoid the emergence of greenwashed plans, further specification should be given on what they must contain, including the key elements identified in this briefing and in the report *Corporate Climate Transition Plans: What to Look For* (2024).

116. Regarding the upcoming review of the EU SFDR directive, see the advocacy note "SFDR: Three changes to make sustainable finance disclosures useful".

117. GHG Protocol Technical Guidance for Calculating Scope 3 Emissions, Chapter 15

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FINANCIAL INSTITUTIONS' TRANSITION PLANS
How to drive real-economy decarbonization

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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