RECOMMENDATIONS FOR BANKS 2025

SUMMARY

INTRODUCTION

Long-term global warming is currently estimated to be between 1.34 and 1.41°C compared to the 1850-1900 baseline.[1]

As the Intergovernmental Panel on Climate Change (IPCC) has repeatedly warned, limiting global warming to 1.5°C is essential to avoiding catastrophic changes to the environment and human life. Every additional increment of global warming worsens the impact and even at 1.5°C – and even more so at 2°C – climate change will have major consequences on our societies and ecosystems. Indeed, the consequences of climate change have become painfully obvious in recent years.

However, according to the United Nations,[2] current policies would lead to a 3.1°C temperature rise by the end of this century and a rise of 2.6 to 2.8°C even if climate pledges are met. According to the IPCC's Sixth Assessment Report, CO2 emissions must be cut by 50%, and emissions of all major greenhouse gases (GHGs) by 45% by 2030 to stay on track to limit global warming to 1.5°C.[3] Only an urgent system-wide transformation can deliver the necessary emission cuts.

Reducing GHG emissions requires a rapid reduction in fossil fuel supply and consumption, and a commitment to this is a key climate policy litmus test. But, achieving cuts at this scale requires breaking with current trends: governments are in aggregate planning to produce around 110% more fossil fuels in 2030 than would be consistent with limiting global warming to 1.5°C, and 69% more by 2040.[4] Existing and currently planned fossil fuel infrastructure alone would emit about 850 GtCO2, 350 GtCO2[5] more than the quantity of CO2 that humanity can still emit to keep global warming at 1.5°C.[6]

[1] World Meteorological Organization, Provisional State of the Global Climate in 2024, 2025.
[2] UNEP, Emissions Gap Report 2024, October 2024
[3] The numbers in this table are rounded to the nearest 5. The Summary for Policymakers cites the necessary reductions as 43% GHGs and 48% CO2. IPCC, Sixth Assessment report. Climate Change 2022: Mitigation of Climate Change, Technical Summary Table TS-2, p.71, April 2022.
[4] UNEP, Production gap report 2023, October 2023. The magnitude of the production gap is also projected to grow over time: by 2050, planned fossil fuel production is 350% and 150% above the levels consistent with limiting warming to 1.5°C or 2°C, respectively.
[5] IPCC, Sixth Assessment report. Climate Change 2022: Mitigation of Climate Change, B.7.1, p. 20, April 2022)
[6] Working group II of IPCC, Technical Summary of the 6th assessment report, November 2021

The last ten years have been the warmest years on record.[7] Between 1970 and 2021, there were 11,778 reported disasters related to weather, climate, and water hazards. These events resulted in approximately 2 million deaths and caused US$4.3 trillion in economic losses.[8] If urgent action is not taken, climate change could cost the world's economy US$178 trillion by 2070.[9] As of 2024, the annual global adaptation finance gap is estimated at US $187–359 billion per year, despite public adaptation finance flows increasing to US $28 billion in 2022.[10] The cost of humanitarian assistance due to the climate crisis could double by 2050 (US$20 billion per year),[11] and 216 million people could be forced to migrate within their own countries by 2050.[12]

To achieve the necessary emission cuts, alternatives to fossil fuels must be massively deployed. The International Energy Agency (IEA) identified the tripling of the global capacity of renewables by 2030, to replace fossil fuels, as the main lever to decarbonize our energy supply system[13]. To that end, financial flows and services must be redirected from high-emitting activities to sustainable ones. Annual finance flows for the energy transition need to rise from US$1.8 trillion in 2023 to more than US$4.5 trillion by 2030 - of which US$2.5 trillion for renewable power, grids and battery storage to stay on track for 1.5°C,.[14] Concretely, for every US$1 spent globally on fossil fuels in 2030, more than US$10 must be spent on the energy transition, of which 6 dollars for sustainable power supply and 4 dollars for energy efficiency and end-uses transformation.[15]

In light of the urgent situation explained above, this document lays out essential demands for banks to align with the international goal of limiting global warming to 1.5°C.

[7] World Meteorological Organization, The past ten years 2015-2024 are the ten warmest years on record, January 2025
[8] World Meteorological Organization, Economic costs of weather-related disasters soars but early warnings save lives, 2023
[9] *Ibid.*
[10] UNEP, Adaptation finance gap report, 2024.
[11] ICFR, The cost of doing nothing, December 2019
[12] World Bank, Groundswell Part 2: Acting on Internal Climate Migration, September 2021
[13] IEA, Net Zero Roadmap (2023 update)
[14] Ibid and IEA, WEI 2024
[15] IEA, WEO 2023

TRANSITION PLANS: A BEDROCK FOR BANKS' CLIMATE ACTION

Banks do not only finance "today's economy", they finance the economy of next year, of 2030, 2040 and the decades after. By providing loans, advisory services and underwriting bonds, they help companies to develop new projects, to launch products and to expand. Banks are actively shaping the economy of the future. But, if they model it like the one of the present, they perpetuate the status quo at the center of the climate and environmental crisis.

To chart a new course, we need a new map and new navigation tools. Providing sufficient ambition, robustness and enforcement, climate transition plans can play that role. They bring together the many changes a bank must make to transform its business model, from disclosure and governance to clear actions and policies.

FIVE STEPS IN TRANSITION PLANNING

In its report *Financial institutions transition plans: how to drive real-economy decarbonization* (December 2024), Reclaim Finance lays out recommendations for robust transition plans for banks, investors and (re)insurers divided in five key steps:

1. **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. It is essential that the methods used to calculate the targets reflect concrete impacts on GHG emissions without recurring to weighing factors that distort their outcome. The table below summarizes the necessary steps to take into consideration to set robust decarbonization targets.
2. **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.

3. **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. 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...).
4. **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.
5. **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. 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 for financial institutions to tackle them.

RECOMMENDATIONS FOR BANKS' TRANSITION PLANS

While some of the key aspects of a bank's transition plan that are at the core of Reclaim Finance's work and expertise - namely its fossil fuel, power and steel sectoral policies - are detailed in deeper length later in this document, the below table summarizes important additional elements for a robust transition plan. More detail on these elements is available in the report *Financial institutions transition plans: how to drive real-economy decarbonization* (December 2024).

Step	Key recommendations
Decarbonization	Sectoral targets for short, medium and long-term covering at

targets	least the highest emitting sectors[16] and the most material value chain segments. Coverage of all material financial service in scope 3.15 (scope 3 category 15 of the GHG protocol, all on and off balance sheet activities). Coverage of all material GHGs. Specific methane targets should be set for the highest methane emitting sectors. Use of Sectoral Portfolio Weighted Average Physical Intensity (WAPI) metrics for all sectors except for the fossil fuel sector where financial volume reduction targets should be used instead of absolute financed and facilitated emission targets[17]. Base targets on 1.5°C no/low overshoot pathways with limited reliance on negative emissions and provide granular information on the alignment between targets and reference pathways (for more detail on scenario selection, see the dedicated page) Exclude carbon credits from targets Disclose information on data quality, potential data gaps and improvements
Decarbonization strategy	Define an action plan to reach targets, including a quantification of expected GHG reductions by action. Exclude support to fossil fuels from all ESG/sustainable product offering and services. Provide estimates for locked-in emissions, focusing on high emitting sectors. Set an energy supply ratio (at least disclose the ratio of fossil fuels investments to sustainable power supply investments). Banks can use the methodology developed by the Institut Louis Bachelier. Set targets for loans and bond underwriting for the sustainable power supply sector

[16] Coal, oil and gas, power generation, heavy industries (iron and steel, cement, aluminum), transports (automotive, maritime, aviation), real estate (residential and commercial, including mortgages), agriculture

[17] PCAF-based metrics (e.g. absolute financed emissions) are inadequate for setting targets that aim to reduce banks' contribution to climate change, as they include potentially volatile financial components (e.g. linked to corporate value) which can vary exogenously to banks' capital allocation strategy and borrowers' climate performance. This means that targets may be reached without changes in banks' financing or companies' real-world emissions.

	Set 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 Define a robust fossil fuel policy - as defined later in this document Define a robust policy to decarbonize power generation - as defined later in this document Define a robust policy to decarbonize the steel sector - as defined later in this document
Public and private engagement strategy	Define a robust public advocacy policy including: - A public review of direct and indirect advocacy activities to ensure their complete consistency with climate targets and international goals. - Near-term actions to address any misalignment of advocacy activities (including leaving misaligned representative bodies). - An identification of the public policies considered essential to achieve climate goals and what role they can play in the asset managers' decarbonization. Define a robust engagement policy covering all activities - as defined later in this document
Reporting and governance	Track and report on "real-world economy" GHG emission metrics from their portfolio's companies. Track and report on all metrics used to set GHG and non-GHG targets. Report extensive elements enabling to understand the progress made on targets, including elements on action taken, their results and the conduct of engagement. Address any high risk of missing a target or missed targets with corrective actions. Report on "phaseout emission", namely emissions related to the closure of coal power plants respecting key guidelines. Set responsibility and oversight for climate-related matters and the implementation of the transition plan at board level. Review the competencies of the board and upper management on climate and provide relevant training when necessary.

	Tie transition plan objectives to the remuneration of board members and upper management: - Using concrete and measurable indicators, and; - Ensuring these components make up for a sufficient share of compensation and no other incentives are working against climate objectives. Integrate climate-related matters into financial statements. Establish a clear and robust review process for the transition plan. Submit the transition plan to the vote of shareholders ("Say on Climate").
Just Transition and Biodiversity	Commit to end support to deforestation and peatland loss by 2025, and to ecosystem conversion by 2030. Adopt policies to phase-out support to activities that are major contributors to nature degradation and/or biodiversity depletion, including at least: - The end of financial services to companies with a high risk of deforestation and to companies active in highly sensitive areas. - Measures ensuring companies whose activities present potential risks of deforestation implement all measures necessary to reduce it. Stop the provision of financial services to projects that do not receive the Free, Prior and Informed Consent (FPIC) of impacted Indigenous communities. Adopt biodiversity and nature transition plans, including at least: - Targets, actions, accountability mechanisms and intended resources to respond and contribute to the transition implied by the KunmingMontreal Global Biodiversity Framework (GBF) objective to halt biodiversity loss, reverse it by 2030, and put nature on a path to recovery by 2050. - A topdown broad assessment of the impact and dependencies on nature of their portfolios, and of the nature-related risks and opportunities. Explain how the transition plan is compatible with a just transition and provide KPIs to assess this. Explain how the input of key stakeholders - including affected communities and industry workers - has been integrated to the transition plan.

Additionally, we highlight that climate transition plans are also useful tools at the disposal of banks to assess the progress (or lack of progress) of their clients. When analyzing the practices of the companies they support and engaging with them, banks should ensure they set and implement robust climate transition plans coherent with the recommendations of Reclaim Finance's report *Corporate climate transition plans: What to look for* (January 2024).

GENERAL RECOMMENDATIONS FOR THE ENERGY SECTOR

KEY ALIGNMENT AND COMPANY ASSESSMENT RESOURCES

Banks shall adopt a NZTP aimed at contributing to the goal of limiting global warming to 1.5°C. This plan must be developed based on credible and robust science-based scenarios.

Alignment and carbon neutrality commitments and pledges mean that banks' emissions targets are based on no or low overshoot 1.5°C pathways with limited use of negative emissions. Relying on large quantities of negative emissions increases the risk of overshooting the temperature target in case carbon capture technologies and solutions are not deployed or effective at scale and/or do not ensure the permanence of the GHG removals.

In the present document, the term "1.5°C scenario" is used as shorthand for low or no overshoot 1.5°C scenarios with limited use of negative emissions.

When banks refer to the Paris Agreement, they shall make it clear that they are aligning with the Agreement's stronger target of limiting global warming to 1.5°C, not the weaker "well below 2°C" objective.

It is recommended to use the following scenarios for referring to 1.5°C global scenarios with no or low overshoot and limited use of negative emissions:

- The Net Zero Emissions by 2050 Scenario (NZE) by the IEA. This was first published in May 2021 and updated in the World Energy Outlook.[18]
- The twenty-six 1.5°C no or low overshoot scenarios published in the IPCC's 6th Assessment Report and identified by the International Institution for Sustainable Development (IISD) as not relying on unrealistic amounts of negative emissions.[19]

[18] IEA, World Energy Outlook 2024.
[19] International Institution for Sustainable Development, Lighting the Path: What IPCC energy pathways tell us about Paris-aligned policies and investments, 2022.

- One Earth Climate Model (OECM) by the University of Technology Sydney Institute for Sustainable Futures and supported by the UN-Convened Net-Zero Asset Owner Alliance (AOA). The OECM includes the use of nature-based removals increasing over time to 1.4 GtCO2 per year by 2050 to compensate for cement process emissions. It does not use technological carbon capture and storage. It includes regional data, and sectoral pathways covering Scope 1, 2 and 3 emissions.[20]

It is recommended to use the following resources for assessing the credibility of the corporate and financial institution transition plans:

- The Science Based Targets initiative (SBTi)[21] and its sectoral target-setting methodologies and validation process. Science-based targets are useful to assess whether companies have set decarbonization targets aligned with the Paris Agreement, but are not in themselves sufficient to do so. They do not ensure that companies are on track to meet these targets, nor that they are implementing the changes in business models and activities that are necessary for 1.5° scenarios.
- The Climate Action 100 + benchmark[22] by five investor networks (PRI, AIGCC, Ceres, IGCC and IIGCC). This benchmark provides some useful indicators to assess the credibility of company transition plans, notably regarding carbon neutrality and intermediate decarbonization targets, climate disclosures, governance and capex allocation.
- The Assessing Low Carbon Transition (ACT)[23] by the French Environmental Agency (ADEME) and the CDP. The intent of this methodology is to provide a granular analysis of company transition plans and their implementation. While the overall rating attributed does not provide a clear benchmark for alignment with a 1.5°C trajectory, the methodology contains useful information and data that can be used to assess the credibility of transition plans.
- The PACTA scenario analysis program, now hosted by Rocky Mountain Institute (RMI). [24]
- The Assessment of oil and gas companies' climate strategy and Power Transition Tracker developed by NGOs including Reclaim Finance. These tools contain useful information and data that can be used to assess the credibility of large oil and gas diversified companies and large European utilities.

COMPANY DATABASES TO BE USED

Banks shall indicate in their climate policy which database(s) they use to apply their restriction rules.

[20] One Earth Climate Model
[21] Science Based tTargets initiative
[22] Climate Action 100 + benchmark
[23] ACT initiative
[24] PACTA Climate Alignment Assessment of the Austrian Financial Sector

For their sectoral **coal policies**, banks shall use the Global Coal Exit list (GCEL) and the Metallurgical Coal Exit List (MCEL) updated annually by Urgewald.

The GCEL gives access to information about 2,800 companies playing a significant role in the thermal coal value chain (coal miners, coal power producers, companies involved in coal exploration, processing, trading, transport, logistics, engineering, transmission, equipment manufacturing, coal to gas/liquids production, coal-related services in operation & maintenance/mining/procurement and construction/advisory, underground coal gasification, and other coal-related activities), which meet at least one of the following criteria:

- Companies with coal power, coal mining or coal infrastructure expansion plans.
- A coal share of revenue or power production of at least 10%.
- An annual thermal coal production of at least 10 Mt.
- An installed coal-fired power capacity of at least 5 GW.

Companies on the GCEL represent more than 90% of global thermal coal production and global coal-fired capacity.

The MCEL provides information on 160 companies worldwide that are pursuing 252 metallurgical coal expansion projects in 18 countries - either building new mines or expanding existing ones. The list only covers companies with metallurgical coal expansion plans as they can and should be excluded immediately from financial institutions since current metallurgical coal capacity is sufficient to meet the demand through to 2050.[25] Since many companies produce both thermal and metallurgical coal, there is significant overlap between the GCEL and the MCEL. Using both lists ensures that all companies involved in coal expansion are covered.

For their sectoral policies in oil and gas including all the value chain (including power), banks shall use the Global Oil & Gas Exit list (GOGEL), updated annually by Urgewald. This database gives data on the activities of oil and gas companies according to the following criteria:

- Oil and gas production.
- Short-term expansion plans.
- Part of short term expansion plans that overshoot IEA's NZE
- Capital expenditures on oil and gas exploration.
- Fossil fuel share of revenue.
- Reputational risk projects.
- Pipeline, LNG export terminal capacity and LNG import terminal capacity expansion plans.
- Oil power and gas power expansion plans.

[25] IEA, Net Zero by 2050, 2021

Other databases provided by private market players could be used in addition to the GCEL, MCEL and GOGEL. However, we recommend to use them with caution: forward-looking data about the expansion plans of companies and their activities in some unconventional oil and gas sectors might be missing, as well as granular information necessary to identify the relevant corporate level (group and subsidiaries) exposed to a specific activity. Banks should also make sure that the definitions used match their own policies.

POINTS OF ATTENTION FOR THE OIL AND GAS SECTOR

In order to evaluate a company's exposure to a specific sector, it is recommended that banks use a **metric** based on absolute values (million barrels of oil equivalent (mmboe) in production or in reserve, tCO2e in scope 1, 2 and 3, etc.). [26] Relative values (% of revenue, % of GHG emissions, % of power assets fired by coal or with more than X gCO2e/kWh in average, etc.) can be used as additional indicators applicable to the whole value chain or for specialized companies (joint ventures dedicated to a specific project, oil and gas service companies, mining or coal power companies, etc.).

When banks adopt measures related to unconventional oil and gas, it is recommended that they use a definition matching the one used by the GOGEL, which includes the following sectors:

- Extra heavy oil (API gravity index < 15)
- Tar sands
- Coal bed methane
- Fracking
- Ultra-deep offshore oil and gas (depth > 1,500 meters)[27]
- Oil and gas resources located in Arctic area as defined by the Arctic Council's Assessment and Monitoring Programme (AMAP)[28]

[26] The halt to expansion stipulated by the IEA in its NZE relates to the opening of new production fields. Furthermore, the research of the analysts who built the GOGEL shows that the data on company revenues is unfortunately very approximate. Indeed, private data providers, in the absence of accurate reporting from companies, are often forced to estimate the share of revenues derived from unconventional hydrocarbons from a production amount and a proxy on revenues.
Not only is the data unreliable, but this results in an underestimate of the share of unconventional in companies' activities - for example, a 20% revenue criterion in shale gas covers a much smaller number of companies than a 20% production criterion. Finally, a growing number of companies are diversifying, increasing their activities in midstream and power generation, without decreasing their hydrocarbon production, including in unconventional. As a result, the share of unconventional oil in their revenues is decreasing without a decrease in production in absolute value.
There is therefore no decrease in the climate impact of these companies. The revenue metric can be justified when the assessment is carried out on all or a significant part of the value chain, beyond production, even though it would be possible to have an assessment based on volumes transported for what comes under the midstream.
[27] Energy Policy, The impact of water depth on safety and environmental performance in offshore oil and gas production, Volume 55, 2013, Pages 699-705, April 2013
[28] For more information: Reclaim Finance, Drill, baby, drill. How banks, investors and insurers are driving oil and gas expansion in the Arctic, September 2021

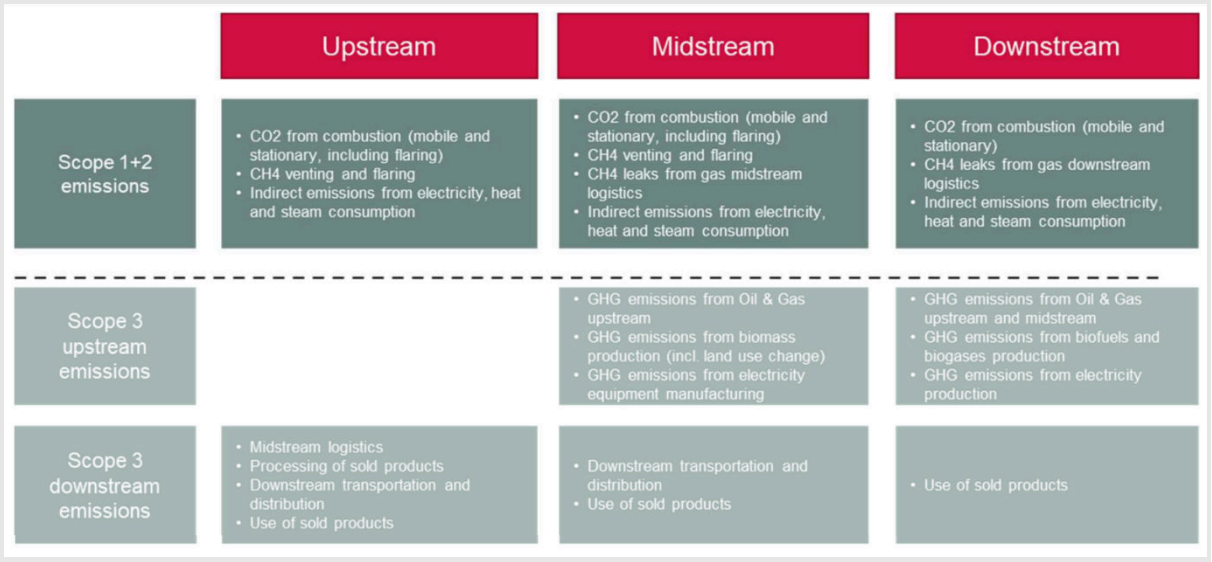
Banks could also rely on the definition recommended by the Scientific and Expert Committee of Paris' Observatory of Sustainable Finance[29], which also includes tight oil and gas,[30] gas hydrates,[31] and oil shale.

Where the oil and gas sector policy refers to the upstream, midstream and downstream sectors, particularly in the expectations for portfolio companies' climate transition plans, the breakdown of associated activities to which it applies shall be read as follows.[32]

Upstream	**Midstream**	**Downstream**
Exploration Drilling Production Processing	Transportation by rail, road, pipeline, and shipping Pure trading Storage Gas liquefaction LNG regasification	Oil Refining Distribution Retail Use (power, heating, etc.) Energy efficiency services

[29] Observatoire de la finance durable, Recommandations du Comité Scientifique et d'Expertise portant sur les hydrocarbures non conventionnels et les stratégies d'alignement, p. 10, Septembre 2021
[30] Ibid.
[31] Ibid.
[32] ADEME, Methodology of ACT in Oil & gas sector, p. 10, February 2021

Where the oil and gas sector policy refers to Scope 1, 2 and 3 GHG emissions, particularly in the expectations for portfolio companies' climate transition plans, the breakdown of the different associated emissions sources to which it applies is as follows:



Source: ACT Methodology for the Oil and Gas sector (ADEME, CDP)

DEFINITIONS

This section provides definitions of some important terms used in this document.

Company in transition – A company with a credible decarbonization plan aligned with a 1.5°C scenario with low or no overshoot and a limited volume of negative GHG emissions, including at least a comprehensive and public climate transition plan, and respecting key milestones such as the end of fossil fuel expansion.

Climate transition plan (for companies) – A set of commitments, implementation and monitoring measures undertaken by a company to contribute to the fight against global warming. Such a policy must be comprehensive and credible and shall aim at contributing to limiting global warming to 1.5°C with low or no overshoot and a limited volume of negative GHG emissions. The plan should be sufficiently legible to be easily assessed by banks.

Net zero transition plan (NZPT) – A set of general and sectoral policies adopted by banks to publicly detail how they intend to decarbonise their financing, investment, and advisory activities along a 1.5°C scenario with low or no overshoot and a limited volume of negative GHG emissions.

Coal developer – Companies are identified as coal developers if they meet at least one of the following criteria:

- **Mining**: companies engaged in coal exploration activities, planning to develop new coal mines, extend their coal mines by applying for new permits or that are involved in coal exploration activities.
- **Power**: companies planning to develop new coal-fired power capacity of at least 100 MW prorated (based on a company's ownership of a project, or on the number of companies involved in a project).
- **Services**: companies involved in the development or expansion of coal transportation assets or infrastructure assets dedicated to support coal mines, coal transportation and coal-to-gas facilities.

Such companies are listed in the "Expansion" criteria of the Global Coal Exit List and in the Metallurgical Coal Exit List.

- Companies extending the lifetime of existing coal mines and/or coal plants.
- Companies purchasing existing coal assets.
- Companies selling services or equipment supporting coal expansion.

Oil & gas developers - Companies intending to add oil and/or gas resources to their production capacities in the short term (at least 20 mmboe of resources to their production portfolio in the near future), i.e. resources associated with assets under development and field evaluation (the two stages preceding production), or in the long term by their involvement in exploration activities; or companies with oil and/or gas pipelines or LNG terminals proposed or under construction.

Infrastructure coal project – Transportation assets or infrastructure assets dedicated to support coal mines, coal transportation and coal-to-gas facilities.

New upstream oil and gas projects – Exploration or development of new oil and gas fields (i.e. fields that are not yet in production), or the redevelopment or expansion of existing fields already in production.

New midstream oil and gas projects – Development of new oil and gas transportation and storage infrastructure, including pipelines and LNG export or import terminals, or the expansion of existing operating infrastructures.

Power producer – Company involved in the production of electricity, either as a utility or an operator of power generation facilities.

Restriction – A measure consisting of the partial exclusion of a type of activity, business or project from financial services (e.g. ending some but not all financial services to these activities, increasing the interest rate on a loan (or green weighting factor[33]), etc.). The restriction may be related to being temporary, being subject to a threshold or having specific exemptions.

[33] For more information, see Natixis, Green Weighting Factor, 2020.

Sustainable power supply – Electricity production, transmission and distribution, and storage, from sustainable energy sources by installations with limited impact on climate, ecosystems and that meet human rights standards such as free, prior and informed consent of Indigenous Peoples (FPIC) throughout the value chain, including in the future. This includes solar (photovoltaic and thermal), wind (on and offshore), some hydro, wave and tidal, geothermal, battery storage, and electricity grids modernization.

Energy efficiency – equipment and technologies that improve stability of the energy system and maximise sustainable energies integration, such as mini-grids or off-grid renewable systems, energy storage, demand reduction and management and grid modernisation.

Unabated power plant – Power plant with no facilities to capture GHG emissions during operation.

Unsustainable power – Electricity production from sources and technologies that are incompatible with the timeline of a 1.5°C trajectory, and/or that has a significant impact on the climate, ecosystems and human rights throughout the value chain in which it operates, including in the future. This includes nuclear, industrial-scale biogas and biomass plants, hydropower plants that do not comply with the recommendations of the World Commission on Dams[34], waste-to-energy and any form of hydrogen that is not produced directly from sustainable energy sources.

Energy supply financing ratios – Difference between the volume of financing for fossil fuels and those for sustainable power. A ratio X:1 means that for each dollar allocated to fossil fuels, X dollars are allocated to sustainable power. According to the IEA's NZE scenario, the annual investment ratio between "clean energy" and fossil fuels must reach 10:1 by 2030. Concretely, this means that every dollar allocated to the fossil fuels sector is counterbalanced by 10 dollars allocated to the sustainable energy sector. Among these 10 dollars, 6 dollars goes to sustainable power supply and 4 dollars to energy efficiency and end-use transformation.

[34] The World Commission on Dams, Dams and development. A new framework for decision-making, November 2000.

COAL SECTOR

GENERAL SECTOR OVERVIEW

The coal sector is a long way from aligning with 1.5 °C and even continues to expand.[35]
In 2015, the world's installed coal capacity was 1,910 GW. In 2024, it equals 2,126 GW. Over the past year alone, global coal-fired capacity grew by 30 GW, a net increase that is larger than Poland's entire coal plant fleet. 40% of companies listed on the 2024 GCEL are coal developers and plan to either develop new thermal coal mines, coal transport infrastructure or coal power plants.

Beyond its major contribution to global warming, coal poses serious environmental and public health issues: coal was responsible for over 60% of global SO2 emissions[36] while air pollution from outdoor sources caused more than four million premature deaths in 2021 (85% of which were in emerging and developing countries). The IMF estimated the world can realize a global net social benefit equivalent to US$85 trillion by phasing out coal.[37]

OVERALL OBJECTIVES

According to the IPCC, UNEP and IEA, for the coal sector to be aligned with the objective of limiting global warming to 1.5°C, several conditions must be met.

The development of coal mines must stop immediately: 89% of coal reserves proven in 2018 must remain unextracted in 2050.[38] Therefore, no new coal mines must be developed, and the lifetimes of existing mines must not be extended.[39]

Investment in coal supply must fall by 70% from 2023 to 2030, with the remaining coal-related investment focused on maintaining production at existing mines and on reducing their emissions intensity while waiting for definitive closure.

Coal demand must fall by 44% by 2030, and by 90% by 2050[40] and all coal power plants must be closed by 2030 in OECD countries and Europe and by 2040 worldwide.[41]

Coal mine methane emissions must decline about 70% from 2021 levels by 2030 and about 95% by 2050.[42] This result can only be achieved through large-scale mine closures.[43]

---

[35] The 2024 Global Coal Exit List: Too Much Coal and Too Little Exit, Urgewald, 2024.
[36] International Energy Agency, Coal in Net Zero Transition: Strategies for rapid, secure, and people-centred change, November 2022
[37] International Monetary Fund, The Great Carbon Arbitrage, June 2022
[38] Nature, Unextractable fossil fuels in a 1.5 °C world, September 2021
[39] International Energy Agency, Accelerating Just Transitions for the Coal Sector, March 2024
[40] *Ibid.*
[41] Climate Analytics, Coal phase-out
[42] 3.2.1 International Energy Agency, Net Zero by 2050 : A roadmap for the global energy sector, § 3.2.1, October 2021
[43] International Energy Agency, Coal in Net Zero Transition: Strategies for rapid, secure, and people-centred change, § 1.4.4, November 2022

RECOMMENDATIONS FOR RULES AND STANDARDS

1. Recommendations on targeted restrictions at project level

Banks shall immediately end financial services, including advisory services, project and dedicated financing to new coal mines, plants, or infrastructure projects, expansion of existing projects or retrofits extending the life of existing projects.

2. Recommendations on targeted restrictions at corporate level

Expectations

Banks shall expect portfolio coal companies to have no plans for coal expansion, and to adopt a credible and public thermal coal phase-out plan aligned with a 1.5°C scenario. Such a plan shall include, at least, the following indicators:[44]

- ✔ A commitment to close all the global thermal coal facilities in the OECD and European countries by 2030, and globally by 2040.

- ✔ No coal expansion plans, including the development of new coal mines (both thermal and metallurgical), plants and infrastructure, the expansion or retrofits extending the life of existing projects, as well as the purchase of existing assets without a clear commitment to close them by 2030 if located in the OECD or European countries, or by 2040 elsewhere.
- ✔ A coal phase-out plan which includes:
  - → Facility-by-facility closure dates.[45] Assets shall not be sold or converted to fossil-based activities or biomass;
  - → Just and sustainable transition plans, including guarantees concerning the capacity to fund and implement all worker and environmental obligations (decontamination, retraining, infrastructure decommissioning, etc.).[46]

In case the facility is not closed but sold, banks shall expect strong guarantees that the new owner will:

- Close the facility before 2030 if it is located in the OECD or European countries, or before 2040 elsewhere.
- Not convert coal plants to fossil fuel-fired or biomass-fired plants.

[44] For more information : Reclaim Finance, How to exit coal : 10 criteria for evaluating corporate coal phase-out plans, October 2021
[45] For more information : Climate Analytics, Global and regional coal phase-out requirements of the Paris Agreement: Insights from the IPCC Special Report on 1.5°C, September 2019
[46] For more information : International Energy Agency, Phasing out unabated coal : current status and three case studies, October 2021. Beyond Coal, Just transition in the context of European power utilities and Banks, August 2020.

- Provide sufficient financial means and measures to ensure that all social and environmental obligations are duly met.

In case the facility is not closed but converted to another use, banks shall expect strong guarantees from the coal company and implement sanctions in case the guarantees are broken.[47]

Claims of future retrofitting with carbon capture and storage (CCS) or conversion to fossil gas, biogas, hydrogen, biomass, or ammonia co-firing shall not be used to delay coal-fired plant closures.[48]

Restrictions

Banks shall adopt time-bound restrictions on coal companies, with the aim of preventing the expansion of the coal sector and supporting its phase-out. Achieving these measures will require banks to:

- ✔ Make public their expectations from coal companies and associated exclusions.
- ✔ Define and implement engagement towards the relevant companies to induce them to meet expectations.
- ✔ Define and implement a progressive and systematic escalation strategy that would ultimately lead to stop providing financial services to companies that don't meet the expectations after a predefined period of time.

In priority, banks shall immediately end support to coal expansion by:

- ✔ Immediately committing to stop providing financial services to all companies which participate in the expansion of the coal sector (i.e. involved in the development of new coal mines, plants or infrastructure). Alongside this investment restriction, the engagement policy must make clear that companies must adopt a credible and public coal phase-out plan aligned with a 1.5°C scenario.

Banks shall also immediately commit to a global thermal coal phase-out by 2040 with the intermediary date of 2030 for Europe/OECD for thermal coal mining and coal power.

[47] *Ibid.*
[48] For more information : International Energy Agency, CCS Retrofit : Analysis of the Globally Installed Coal-Fired Power Plant Fleet, 2012. Bloomberg NEF, Japan's Ammonia-Coal Co-Firing Strategy a Costly Approach to Decarbonization, Renewables Present More Economic Alternative, September 2022

Banks shall adopt timed restrictive measures to progressively reduce their exposure to the coal sector and encourage portfolio companies to progressively phase out their coal activities, guided by the adoption of a credible and public coal phase-out plan aligned with a 1.5°C scenario (see expectations described above).

They should follow the thresholds of the Global Coal Exit List and stop financial servicesin companies which derive more than 10% of their revenues from thermal coal mining, more than 10% of their power production or installed power capacity from coal, and companies which produce annually more than 10 million tons of thermal coal or with more than 5 GW of coal-fired power capacity.

Exceptions

An exception to the above measures may be made for project financing or dedicated financing to energy transition activities (e.g. the deployment of sustainable energy). Dedicated financing (for example via use of proceeds bonds) must be explicitly earmarked and must not be used for other activities. More specifically, an exception could be tolerated for green bonds or other sustainable use of proceeds bonds if the issuer's definition of green is rigorously verified.

A Second Party Opinion on the issuer's framework alone does not guarantee the sustainable attributes of these debt instruments. It is recommended for financial institutions to have a public framework that clearly defines the projects they may finance with sustainable debt market instruments and to verify the compatibility of the overall strategy of the issuer with their own commitments.

This exception must remain temporary, and only apply for the time needed for the company to align its corporate strategy with a 1.5°C scenario. It shall not apply to coal developers.

Sustainability-linked bonds (SLBs) or any general-purpose corporate bonds shall not be subject to such an exception because the financing is not earmarked for specific activities and could be used for unsustainable activities.

Banks should commit to phasing out their coal trading activities in a manner consistent with the timetable recommended by science.

Metallurgical coal and steel decarbonization

Banks shall also immediately seek to end support to metallurgical coal expansion by:

- ✔ Immediately committing to stop providing financial services to all companies which are involved in the expansion of metallurgical coal (i.e. involved in the development of new metallurgical coal mines or the expansion of existing ones, as listed on the MCEL).

- ✔ Requiring metallurgical coal companies in their portfolio to commit to reducing the methane intensity of coal mines. Until metallurgical coal mines are closed, banks should engage with metallurgical coal producing companies and demand they mitigate the methane emissions of their operating mines.

Banks must also seek to adopt a comprehensive approach to steel decarbonization, by simultaneously making commitments regarding steel companies using metallurgical coal and those involved in the overall transition of the sector. This includes:

- ✔ Commitment to stop providing financial services in steel companies developing new blast furnaces or relining existing ones beyond 2025 in the OECD, and beyond 2030 in the rest of the world.[49]

- ✔ Commitment to increase financing for key enabling sectors for steel decarbonization, including sustainable energy production and green hydrogen for steelmaking.[50]

[49] https://netzeroindustry.org/net-zero-steel-methodology-and-key-implications/
[50] The use of green hydrogen should be exclusively saved for sectors, like steelmaking, which have limited technical options to decarbonize.

OIL & GAS SECTOR

GENERAL SECTOR OVERVIEW

Over half of global emissions are related to the production or use of oil and gas.[51]

Instead of aligning with 1.5°C, oil and gas companies are continuing to develop massive new capacity for oil and gas production and transport. Global fossil fuel investments have increased each year from 2020 to 2024.[52] According to the IPCC, cumulative capital expenditure (CAPEX) / operating expenses (OPEX) for the exploration and extraction of oil and gas in new fields is expected to reach more than US$4.2 trillion in total between 2020 and 2030 and climb to US$570 billion annually by the end of the decade.[53]

The massive gap between industry projections of oil and gas production trajectories and a 1.5°C scenario increases related financial risks: over US$1 trillion of oil and gas assets risk becoming stranded when climate action will be strengthened and with the development of alternative energy sources.[54] In all three IEA scenarios, all fossil fuels, including gas, is peaking by the end of the decade and decreasing beyond.[55] According to the Global Oil and Gas Exit List, 578 upstream companies intend to tap into 239.3 billion barrels of oil equivalent (bnboe) of new resources in the coming years, two thirds of which will overshoot the IEA's 1.5°C scenario. This trend is not set to die down: recent announcements from major European oil and gas companies, which are among the largest expanders of oil and gas supply, show that none of them plans to reduce their hydrocarbon production.[56]

OVERALL OBJECTIVES

According to the IPCC, UNEP and the IEA, for the oil and gas sector to be aligned with a 1.5°C scenario, the expansion of oil and gas production must stop immediately.[57] No exploration for new resources is required, and no new oil and gas fields are necessary, beyond those already committed as of 2021.[58] Many of the LNG facilities currently under construction or at the planning stage are not needed: new LNG export terminals are unnecessary to meet demand in the IEA's NZE,[59] and given the current utilization rate of LNG import terminals, especially in Europe,[60] most new facilities could become stranded in the near future. In addition to their climate impacts, all these fossil fuel projects have immediate consequences on human health and the environment.

[51] Our world in data, CO_2 emissions by fuel.
[52] International Energy Agency, World Energy Investment 2025, June 2025.
[53] IISD, Lighting the Path: What IPCC energy pathways tell us about Paris-aligned policies and investments, June 2022.
[54] Carbon Tracker, Unburnable Carbon: Ten Years On, June 2022
[55] IEA, World Energy Outlook 2024, page 17.
[56] Reclaim Finance, European Oil and Gas Companies Backtrack on Climate, May 2025.
[57] IEA, World Energy Outlook 2024, page 239.
[58] IEA, Net Zero by 2050, page 152, 2021.
[59] IEA, World Energy Outlook 2024, page 53.
[60] Institute for Energy Economics and Financial Analysis, European LNG Tracker, last updated February 2025.

As early as in the IEA's 2022 World Energy Outlook, it is stated that declining demand for oil and gas in their NZE scenario can be met "through continued investment in existing production assets without the need for any new long lead-time projects."[61] In the NZE, fossil gas demand drops from 4,186 billion cubic meters (bcm) in 2023 to 882 bcm in 2050,[62] while oil demand drops from 98.1 million barrels per day (mb/d) in 2024 to 23 mb/d in 2050.[63] For both oil and gas, a drop in demand of 5% per year on average is forecasted to reach these levels.[64]

Investments in oil and gas decline even faster than demand in the NZE, falling by around 50% from the 2017-21 average through 2030 for both oil and fossil gas.[65] Continued investment in existing fossil fuel operations is needed to reduce their emissions-intensity, especially of methane. Energy-related methane emissions drop by 75% by 2030 in the NZE through reducing leakage and venting and decreasing fossil fuel extraction.[66]

RECOMMENDATIONS FOR RULES AND STANDARDS

Banks shall adopt a phase-out date for oil and gas upstream and midstream activities by 2050. Banks shall disclose the database used to evaluate the companies exposed to the oil and gas sector. It is recommended to use the GOGEL.

What to expect from companies

Banks shall expect oil and gas companies operating in upstream and midstream sectors to commit to cease their expansion plans and to meet, in the short-term, the following minimal criteria:

- ✔ Immediately commit to a 2050 net-zero objective based on a 1.5°C scenario on their scope 1, 2 and 3 GHG emissions.
- ✔ Meet milestones, including:
  - → End of new upstream and LNG projects.
  - → Adoption of oil AND gas production reduction targets by 2030.

[61] International Energy Agency, World Energy Outlook 2022, p.164, November 2022
[62] IEA, World Energy Outlook 2024, p.144.
[63] IEA, World Energy Outlook 2024, p.137.
[64] IEA, World Energy Outlook 2024, p.309.
[65] International Energy Agency, World Energy Outlook 2022, Figure 3.22, November 2022
[66] International Energy Agency, World Energy Outlook 2022, p.64, November 2022

→ Allocation of most of CAPEX to "clean"[67] energy.[68]

✔ Adopt a comprehensive climate transition plan that allows banks to assess its alignment with a 1.5°C scenario with low or no overshoot and a limited volume of negative GHG emissions.

A comprehensive climate transition plan[69] shall include, at least, the following indicators:

✔ Short- and medium-term GHG emissions reduction targets on Scopes 1, 2 and 3, expressed in both absolute and intensity terms, encompassing all its activities.
✔ Possible contribution of captured GHG volumes to achieving emissions reduction targets.
✔ Any carbon removal approaches that may be implemented shall be only to complement reduction targets.
✔ Targeted energy production mix evolution for short- and medium-term.
✔ Short- and medium-term CAPEX plans disaggregated by activity and by allocation between maintenance and development of the Company's assets.
✔ Short- and medium-term OPEX disaggregated by activity and by cost item.
✔ Explanation of baseline scenario used to set decarbonization targets and how this considers the best available science.
✔ Envisaged actions to reduce methane emissions along the value chain, including flaring, leakage control and venting.[70]

[67] According to the IEA, "for producers that choose to diversify and are looking to align with the aims of the Paris Agreement, our bottom-up analysis of cash flows in a 1.5 °C scenario suggests that a reasonable ambition is for at least 50% of capital expenditures to go towards "clean" energy projects by 2030, on top of the investment needed to reduce scope 1 and 2 emissions." It is important to note that the O&G industry is currently far from reaching this threshold, the IEA highlighted that the total capex dedicated to "clean" energy was 2,7% of the total in 2022, and mainly for unsustainable solutions such as CCS and bioenergy." (source: IEA, Oil and Gas Industry in Net Zero Transition, 2023).
[68] The categories of investment include: in power, generation from renewable sources, nuclear and fossil fuels fitted with CCUS, plus battery storage and electricity grids; in efficiency, energy efficiency in buildings, industry and transport, excluding aviation bunkers and domestic navigation; in end-use applications, direct use of renewables, electric vehicles, electrification in buildings, industry and international marine transport, plus use of hydrogen, hydrogen-based fuels, CCUS in industry and direct air capture; and in fuel supply, low-emissions fuels, liquid biofuels and biogases and hydrogen-based fuels.
[69] See Corporate climate transition plans: what to look for, Reclaim Finance, 2024.
[70] International Energy Agency, Curtailing Methane Emissions from Fossil Fuel Operations Pathways to a 75% cut by 2030, October 2021

Exceptions

An exception to the above measures may be made for dedicated investment to activities compatible with a 1.5°C trajectory, such as the deployment of sustainable power infrastructures.

Any dedicated bonds (e.g. *use of proceeds bonds*) must be explicitly earmarked and must not be used for other activities. More specifically, an exception could be tolerated for green bonds or other sustainable use of proceeds bonds if the issuer's definition of green is rigorously verified.

A Second Party Opinion on the issuer's framework alone does not guarantee the sustainable attributes of these debt instruments.

It is recommended for asset managers to have a public framework that clearly defines the dedicated companies or bonds they may invest in with sustainable debt market instruments and to verify the compatibility of the overall strategy of the issuer with their own commitments.

This exception must remain temporary, and only apply for the time needed for the company to align its corporate strategy with a 1.5°C scenario.

Sustainable Linked Bonds (SLBs) or any general-purpose corporate financing shall not be subject to such an exception because the financing is not earmarked for specific activities and could be used for unsustainable activities.

POWER SECTOR

GENERAL SECTOR OVERVIEW

Coal-fired power generation is one of the highest emitting sectors in the world.[71] It is estimated that 42% of global coal plants were running at a loss in 2018, and this number is projected to rise to 56% by 2030. By 2040, 72% will be unprofitable. Even with a "below 2°C" scenario, coal owners will likely face over US$267 billion in stranded assets.[72]

For its part, and despite its repeated depiction over the past couple of decades as a "clean alternative" to coal, fossil gas power emits high levels of GHGs, particularly when methane emissions from its production and transport are considered.[73] The systematic development of gas-fired power plants (gas plants), as a replacement for coal or to meet the increasing demand for electricity, must be avoided as it would hinder the achievement of carbon neutrality in electrical systems.

OVERALL OBJECTIVES

According to the IPCC and IEA, for the power generation sector to be aligned with a 1.5°C scenario, fossil fuel power capacity must stop expanding and almost all unabated plants should be closed by 2040 worldwide.[74,75] In the OECD and Europe, coal plants should be closed by 2030 and fossil gas plants by 2035.[76] There must be an immediate halt to approvals for new coal plants.[77] No new unabated fossil gas plants shall be built since they commonly have an operational lifetime of at least 30 years.[78] The systematic development of gas plants as a replacement for coal or to meet the increasing demand for electricity must be avoided as it would hinder the achievement of carbon neutrality in electrical systems.

[71] WRI, Where Do Emissions Come From? 4 Charts Explain Greenhouse Gas Emissions by Sector
[72] Carbon Tracker, Powering Down Coal: Navigating the economic and financial risks in the last years of coal power, November 2018
[73] A fossil gas combined-cycle plant can emit 403 to 513 gCO2e/kWh from a life cycle perspective compared to 751 to 1095 gCO2e/kWh for coal power. (UNECE, Carbon Neutrality in the UNECE Region: Integrated Life-cycle Assessment of Electricity Sources, March 2022).
[74] IISD, Lighting the Path, June 2022, p.7 and 10
[75] IEA, Net Zero Roadmap A Global Pathway to Keep the 1.5 °C Goal in Reach, 2023 Update, p.83&92
[76] International Energy Agency, Coal in Net Zero Transition: Strategies for rapid, secure and people-centred change, November 2022
[77] IEA, Net Zero by 2050: A roadmap for the global energy sector, October 2021
[78] IISD, Lighting the Path: What IPCC energy pathways tell us about Paris-aligned policies and investments, June 2022

But ending the financing of the fossil fuel system does not mean reducing the financing of the energy sector, quite the contrary. The capital flowing annually to the energy sector needs to double by the end of the decade to get our energy system on track with the 1.5°C objective.[79] This means not only shifting existing financing away from fossil fuels but also attracting additional financing toward sustainable power supply.

More specifically, by 2030, annual investments in renewable power (mainly wind and solar), power grids and battery storage need to double from 2023 levels while annual investments in fossil fuels must decrease by 60% by 2030. In the NZE scenario, for every one dollar spent globally on fossil fuels by 2030, at least ten dollars must be invested in what the IEA classifies as "clean energy and efficiency investments".[80] This breaks down into six dollars in energy supply (mainly power generation, storage, transmission and distribution) - or a 6:1 ratio -, and four dollars in energy efficiency and end-use transformation.

As capital providers, banks enable and steer investments through their financing products and services. The IEA states: "These economy-wide ratios provide an important guide for financial actors looking to assess their equity and lending portfolios against net zero targets." Banks should use this ratio to assess the balance between fossil fuel financing and sustainable power supply financing.

To reach this ratio, priority should be given to sustainable power supply alternatives. All flexibility options must be utilized first, also large-scale battery storage systems and better load management in the energy system. All of this must take priority over the construction of new fossil power plants. The long-term economics of gas plants, in comparison with sustainable power supply, are changing quickly. In more and more cases, including in Europe and some parts of the United States[81], battery operators are already supplying back-up power to grids at a price competitive with gas plants.

RECOMMENDATIONS FOR RULES AND STANDARDS

Banks shall commit to stop financing the expansion of fossil power, and ensure a fossil fuel phase out according to the following timeframe:

- ✔ Coal power in OECD and European countries by 2030, and in other countries by 2040.
- ✔ Gas power in OECD and European countries by 2035, and in other countries by 2040.[82]

As a primary lever in the transformation of the power generation sector, banks should:

[79] IEA, Net Zero by 2050: A roadmap for the global energy sector, p.81, October 2023
[80] IEA, World Energy Outlook 2022, p.62, November 2022
[81] Reuters, Giant batteries drain economics of gas power plants, November 2023
[82] Around 2040 in China and by 2045 in other emerging markets and developing economies. IEA, Net Zero Roadmap A Global Pathway to Keep the 1.5 °C Goal in Reach, 2023 Update, p.79

- Implement a sectoral exclusion policy on fossil gas in power generation that is aligned with a fossil gas phase-out by 2035 in Europe and OECD countries, and by 2040 worldwide.[83]
- Achieve a 6:1 financing ratio[84] in favor of sustainable power[85] supply over fossil fuels by 2030.

Specific recommendations for gas power[86]

Financing criteria at project level

Default approach: No new gas plant should be eligible for financial support, even for plants planning a conversion to "alternative" gases (including bioenergy or green hydrogen[87]). **Limited exceptions might be allowed and must be subjected to the following conditions:**

Business front offices must refer to the head office for approval before they proceed with the exception. The project must comply with the following requirements:

In OECD and European countries, the project concerns OCGT peaker[88] plant, with a carbon intensity inferior to 425 gCO2eq/kWh.

Outside OECD and European countries, the project concerns:

- OCGT plant with a carbon intensity inferior to 425 gCO2eq/kWh;
- CCGT plant with a carbon intensity inferior to 240 gCO2eq/kWh.

These carbon intensity thresholds must not be based on Carbon capture and storage (CCS) infrastructure.

An independent impact assessment must be conducted and made publicly available. It must:

- Demonstrate that no project already under development, nor any interconnection capacity, can replace the identified need for production capacity;

[83] Around 2040 in China and by 2045 in other emerging markets and developing economies. IEA, Net Zero Roadmap A Global Pathway to Keep the 1.5 °C Goal in Reach, 2023 Update, p.79
[84] Reclaim Finance, 6:1, a ratio to successfully transform our energy system, February 2024.
[85] Sustainable power technologies are defined as: wind, solar, storage, power grids, geothermal, hydropower (retrofit and upgraded), and ocean power. Reclaim Finance, The limits of (not so) clean energy, October 2023.
[86] To know more about the role of gas power in the power system, see Recommendations for banks, Gas power policy, p.5 to 8.
[87] Green hydrogen production is essential for the decarbonization of other industrial sectors, such as steel and long-distance maritime transport, which have fewer alternatives for emission reduction. Given its limited availability, green hydrogen should be prioritized for these sectors, while the electricity production sector has other means of decarbonization, such as sustainable energy sources combined with flexibility. See Recommendations for banks, Gas power policy, p.5 to 8.
[88] According to EU BAT, peakers operate only tens or hundreds of hours a year (source). According to the industry, peakers run less than 1500 hours (source). According to CleanGroup, peakers have a maximum capacity factor of 15% - 1314 hours (source).

- Demonstrate that no alternatives of renewable energy, energy efficiency (including reduced electricity consumption through better demand management) for new captive projects, development of electrical grids, large-scale battery storage systems or better load management, and a mix of these different solutions, can replace the identified need for production capacity;
- Demonstrate the project's compatibility with national decarbonization commitments/plans and the carbon neutrality trajectories of the power sector in the NZE scenario; Include the long-term economic viability of the power plant project, not just short-term, including considering periods of high gas prices.

The project must include a system of measuring and reducing methane emissions, including methane leaks.

3) Financial services provided through these exceptions must be disclosed annually by the financial institution in its sustainability reporting or climate reporting, with open access to the related impact assessment. The reporting must include the number of gas plants supported under the exception framework with the reasons for the exception.

Financing criteria at corporate level

Banks should immediately commit to end all financial services to gas power expansion and phase-out their exposure to gas power, by 2035 in OECD and European countries and by 2040 in the rest of the world.[89]

To that end, banks shall also adopt time-bound restrictions regarding companies involved in gas power development (i.e. with projects of gas plants proposed and/or under construction), with the aim of preventing its expansion and supporting its replacement with sustainable power alternatives. Achieving these measures will require banks to:

- Make public their expectations from relevant companies (i.e. companies involved in the power supply sector, in particular power utilities) and associated exclusions.
- Engage with the relevant companies to induce them to meet expectations, with the commitment to stop providing all financial services to companies that don't meet the expectations.

Company selection

Banks shall adopt time-bound restrictive measures to end all support to gas power expansion by stopping providing financial services to "gas power developers", such as defined in the Global Oil & Gas Exit List (GOGEL).

Exclusion criteria

Banks shall condition further financial services to those companies to:

[89] Around 2040 in China and by 2045 in other emerging markets and developing economies. IEA, Net Zero Roadmap A Global Pathway to Keep the 1.5 °C Goal in Reach, 2023 Update, p.79

- By January 2026, the end of gas power development. Rare exceptions can be tolerated, only if they comply with the criteria detailed in section II-B. Compliance with the exceptions criteria shall be publicly disclosed by the bank;
- By January 2027, a public commitment to phase-out gas power aligned with a 1.5°C scenario and the objective to decarbonize the power sector, by 2035 in OECD and European countries, and by 2040 in the rest of the world;[90]
- By January 2028, a detailed asset-by-asset closure (and not selling nor converting to "alternative" gases) timetable aligned with a 1.5°C and the objective to decarbonize the power sector, by 2035 in OECD and European countries, and by 2040 in the rest of the world.[91]

Possible exceptions for dedicated financing

Temporary exceptions to the above measures may be made only for project financing or, with certain conditions, to dedicated financing (for example via use of proceeds bonds). Such financing must be explicitly earmarked for activities related to sustainable power supply and must not be used for other activities. General purpose financing shall not be subject to such an exception, as the financing could be used for unsustainable activities.

For example, an exception could be tolerated for green bonds, or other use of proceeds bonds, if the issuer's definition of "green" is rigorously verified and strictly limited to sustainable power supply activities[92]. A Second Party Opinion on the issuer's framework alone does not guarantee the sustainable attributes of these debt instruments. It is recommended for banks to have a public framework that clearly defines the activities they may finance with sustainable debt market instruments and to verify the compatibility of the overall strategy of the issuer with their own commitments.

This exception must remain temporary and only apply for a limited amount of time. The bank should set a deadline for this exception by which the company must align its corporate strategy with a 1.5°C scenario and comply with the criteria mentioned in this policy.

[90] Around 2040 in China and by 2045 in other emerging markets and developing economies. IEA, Net Zero Roadmap A Global Pathway to Keep the 1.5 °C Goal in Reach, 2023 Update, p.79
[91] Ibid
[92] See Reclaim Finance's definition of sustainable power supply.

Specific recommendations for sustainable power[93]

Recommendations for credible commitments

To fully engage in the transformation of the power sector, banks must not only stop financing new fossil fuels activities, but also make concrete and science-based commitments with defined time horizons to increase their financing for sustainable power supply.

A. Define a transparent and accurate scope for sustainable power supply

As stated in part II, banks should avoid vague terms such as “renewables”, “low carbon” or “clean”. We encourage banks to:

- **Explicitly define the scope of solution**s, by listing clearly the energy sources and technologies included and the criteria applied.
- **Refer to “sustainable” power supply** and define the scope as previously described, explicitly including storage and grids, and excluding unsustainable energy sources.

B. Set financial targets for sustainable power supply: dedicated financing and energy supply financing ratio

Banks’ climate strategy should not rely solely on decarbonisation targets to align with the IEA's NZE trajectory. A credible strategy should demonstrate the actual change in financing activities, through dedicated financial targets. We encourage banks to set at least:

- A target for **financing dedicated to sustainable power supply**.
- A target for an **Energy Supply Financing Ratio of 6:1 by 2030**, i.e. every dollar toward fossil fuels is matched by 6 dollars for sustainable power supply.

In addition to a transparent scope (as defined previously), **financial products and services covered by the targets should be explicitly detailed**. The ratio should cover at least loans and bonds emissions and the entire value chain of fossil fuels. On the other hand, financial services dedicated to M&A or refinancing should not be included, both targets should exclusively cover the development of new capacity.

[93] Sustainable power supply includes solar (photovoltaic and thermal), wind (on and offshore), some hydro, wave and tidal, and geothermal. This also includes developing more flexible electricity grids (including transmission & distribution infrastructure, battery storage and seasonal storage), modernization (new and refurbishment) and off-grid sustainable power (mini-grid or standalone). More details in Recommendations for banks, Financing sustainable power supply, p.2 and 3.

C. Apply proper transparency on data disclosure

Banks **should publicly disclose their energy supply financing ratio and their financial support for sustainable power supply**. This support should be detailed by products and services, sector by sector, and provide visibility on the actual new capacity deployed and on the geographical repartition:

- The breakdown should detail financing by sector of power supply (production, storage, grids) by energy sources and technologies. This should also include financing of components & equipment manufacturers.
- Financed installed capacities should be detailed by energy sources and technology, including storage capacity.
- The breakdown for financing products and services should be detailed at least for loans, bonds emissions, and other capital market activities.
- The geographical breakdown should show financing for (1) non-OECD countries, (2) OECD countries excluding Europe, (3) Europe and (4) China.

What to expect from power utilities[94]

Banks shall expect portfolio utilities and power generation companies to meet the following minimal criteria:

- Align with a 1.5°C pathway with no or low overshoot and a limited volume of negative emissions.
- Commit to carbon neutrality by 2035 in Europe and OECD countries, and by 2045 worldwide.
- Commit to fossil gas phase-out by 2035 in Europe and OECD countries, and by 2045 worldwide.
- Commit to coal phase-out by 2030 in Europe and OECD countries, and by 2045 worldwide.
- Set up a plant-by-plant closure plan for coal and fossil gas power plants that excludes sale or conversion and that is compliant with a coal phase-out by 2030 and fossil gas phase-out by 2035 in Europe and OECD countries, and by 2040 worldwide.
- Not invest in new fossil gas, coal power plants, nor in new LNG projects.
- Avoid financing "false solutions", some of which depend on the continued use of fossil fuel resources: hydrogen for power, biomethane, biogas, biomass, nuclear.
- Adopt a comprehensive climate transition plan that allows banks to assess its alignment with a 1.5°C scenario.

The climate transition plan shall include, at a minimum, the following indicators:

✔ Explanation of baseline scenario used to set decarbonization targets and how this takes into account the best available science.[95]

[94] Reclaim Finance, What to expect from power utilities transition plans?, 2024.
[95] Reclaim Finance, Climate Scenarios: Picking a Safe Path to a Sustainable Future, 2024

- ✔ Short-and medium-term emissions reduction targets providing absolute values, addressing gross emissions, and covering all scopes (1, 2 and 3), all the entity value chain and activities, and all greenhouse gases.
- ✔ The level of emissions compensation the company will rely on to achieve emissions reduction targets.
- ✔ A specific emissions target for methane to monitor and report on methane emissions.
- ✔ Current energy mix and targeted energy mix by 2030 (in capacity or generation).
- ✔ Capacity targets for wind and solar by 2030.
- ✔ Capacity or Research and Development (R&D) targets for power grids, storage, batteries by 2030.
- ✔ Last year and near term CapEx plans, disaggregated by activity (coal, oil, gas, bioenergy, hydrogen, wind, solar, hydropower, storage, flexibility, etc.).

Banks should require corporate climate transition plans to include a credible plan for dated closures of unsustainable assets, detailed on a facility-by-facility basis. These closures must be planned at a pace consistent with a 1.5°C scenario and accompanied by just transition plans, and funding for implementing all social and environmental obligations.[96]

Claims that a future power plant will be retrofitted with carbon capture and storage or conversion to "low-carbon energy sources" (such as biogas or hydrogen[97]) shall not be used to delay a fossil fuel-fired plant's closure.[98]

Banks shall not consider a decarbonization target or a net-zero commitment as a substitute for a credible climate transition plan.

[96] IEA, Phasing out unabated coal: current status and three case studies, October 2021. Beyond Coal, Just transition in the context of European power utilities and Banks, August 2020.
[97] Although these technologies provide a potential advantage in terms of lowering GHG emissions for electricity generation, their level of maturity is far too low and the cost of conversion far too high to expect a reduction in emissions from the sector in the medium term. For example, current production level for low-carbon hydrogen is only around 0.5% of current hydrogen production being from low-carbon sources, that is about 0.03% of global fossil gas production (Source : IGU, Global Renewable and low-carbon gas report, 2021).
[98] IEA, CCS Retrofit: Analysis of the globally installed coal-fired power plant fleet, 2012.

CLIMATE LOBBYING

Banks shall adopt a responsible lobbying policy consistent with a 1.5°C scenario.

All lobbying activities in which banks participate and that are aimed at influencing public officials (direct lobbying, such as governments, legislators, regulators, administration, international organisations, etc.) and public opinion (indirect lobbying, such as journalists, scientists, artists, etc.) shall apply to all their employees, subsidiaries and contractors, all business areas, and all operational jurisdictions.

Banks shall commit, through a published code of conduct, to:

- Align climate change-related lobbying objectives and activities with a 1.5°C objective and establish an annual monitoring and review process to ensure that all direct and indirect climate change lobbying activities follow this commitment.[xci]
- Disclose, for all geographies, the climate change related lobbying objectives and recommendations (especially position papers submitted to public officials), as well as the assessment of the influence that this lobbying has had on (a) supporting ambitious public climate change policy, and (b) the company's ability to deliver its own corporate transition strategy.
- Disclose, for all geographies, their membership of, support for and involvement in all lobbying groups engaged in climate change-related lobbying.
- Establish a clear framework for escalation concerning misalignment between lobbying positions adopted by these groups and the 1.5°C scenario[xcii]. This escalation should include leaving such lobbying groups if their activities are detrimental to reaching the 1.5°C target.
- Disclose the agenda of meetings with public authorities and the nature of the public decisions targeted by the lobbying activities.
- Disclose the budget spent on climate change-related lobbying, including the budget spent directly, through the previously mentioned lobbying institutions and through consulting firms or other external bodies.
- Create or participate in coalitions that have the specific purpose of lobbying in support of the 1.5°C objective.
- Commit not to challenge the phase out of fossil fuel facilities through investor-state dispute settlement mechanisms (ISDS) and other legal mechanisms. [xciii]
- Commit to disseminate only science-based, up-to-date, and verifiable information or arguments, and not disseminate deliberately biased information.
- Name a senior decision-maker who is responsible for implementing these policies.
- Create or participate in coalitions with the specific purpose of lobbying in support of the 1.5°C objective. These should integrate all kinds of financial institutions, data providers, rating agencies, shareholder voting agencies, etc.

- Sign the Global Standard on Responsible Climate Lobbying (RCLS) [xciv]

For more information, banks can refer to the methodology of indicator 7 (NZTP engagement) set by the Climate Action 100+ and the *Recommendation of the Council on Principles for Transparency and Integrity in Lobbying* published by the OECD.