

IIGCC Banks Working Group

Investor Call to Banks for Action

Banks have a critical role to play in supporting decarbonisation to deliver a stable climate. Through the provision of a variety of financial services, banks enable investment in real world activities across entire economies. They are, therefore, instrumental in ensuring that capital flows underpin the global transition to a well below 2°C and preferably 1.5°C decarbonisation pathway, the goals set by 193 nations in the 2015 Paris Climate Agreement.

In keeping with our responsibility as investors to act in our clients' and beneficiaries' best interests, we are committed to engage with banks to ensure climate-related financial risks and opportunities are properly managed. Not only is this important to protect and enhance banks' profitability and capital strength, but it is vital to protect broader economic prosperity¹.

Where banks fail to consider the climate implications of their financing activities, they risk exacerbating economically and socially damaging climate change, and thereby threaten investment returns across geographies and sectors. Conversely, prudent climate risk management will provide a more secure basis for sustained economic growth and enduring returns for investors.

There are also substantial opportunities associated with the energy transition, with the IEA estimating that clean energy investment will need to reach around \$4 trillion annually by 2030² to achieve a stable climate. Just as banks helped to finance the industrialisation and development of economies over the last two centuries, they have a critical role in financing continued economic prosperity in this century. They can achieve this by allocating capital in a way that transitions high emitting technologies and helps to rapidly scale up low carbon solutions.

A growing number of banks recognise the centrality of the climate challenge to their future success. Currently, 131 banks across 41 countries and representing almost 40% of global banking assets, have pledged to align their activities with a 1.5°C outcome through the Net Zero Banking Alliance³.

While we applaud the initiative taken by these leading banks, the level of urgency needs to ratchet up. According to the latest United Nation's assessment, the world is failing to halt dangerous climate change⁴. The report highlights that "only an urgent system-wide transformation can avoid climate disaster". This cannot be achieved without determined action by banks as key actors in driving capital allocation in the real economy.

1 Network for Greening the Financial System Technical document. Guide for Supervisors: Integrating climate-related and environmental risks into prudential supervision. May 2020. See [here](#).

2 IEA Net Zero by 2050: A Roadmap for the Global Energy Sector. May 2021. See [here](#).

3 Members of the Net-Zero Banking Alliance (see [here](#)). Membership number as of 01 June 2023.

4 UNEP Emissions Gap Report 2022. Published 27 October 2022. See [here](#).

Against this backdrop, we have reiterated a call to action to accelerate progress towards a net zero global economy. The call has four high-level expectations for banks:

- I. A clear commitment** to support the goal of net-zero GHG emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C;
- II. Science-based short- and medium-term targets⁵** supported by **credible transition plans** detailing how these targets will be met, including critical dependencies;
- III. Strong climate governance** that ensures board responsibility for delivery of the net zero transition plan, effective **internal controls** and **Paris-aligned lobbying** of governments and other key stakeholders, and;
- IV. Regular reporting on delivery of climate commitments**, following guidance by the Task Force for Climate Related Disclosures, and **climate-related financial reporting**.

We acknowledge that the banks' ability to meet the expectations listed above depends on the legal and regulatory environments in which they operate and their individual circumstances. There are inevitably geographical and sector-specific complexities to navigate. These expectations are made on the basis that governments will follow through on their commitments to support a low-carbon and just transition at a pace consistent with achieving the goals of the Paris Agreement including limiting climate change to 1.5°C. We also recognise that in some product categories or sectors that banks finance, further work is required as net zero transition methodologies or related frameworks do not yet exist. As such, the expectations here – and in more detail in the Standard – should not be seen as prescriptive for all banks or all circumstances. Rather, the intention of the Standard is to provide a compass for both investors and banks navigating towards net zero, including for engagement with public policy makers and data providers to build the necessary conditions for success.

While there will not be a one-size-fits-all strategy, our goal is to provide a consistent message to boards and senior management that banks need to address climate risks and opportunities and decarbonise their financing to protect and enhance long-term value⁶. Facilitated by IIGCC, we intend to engage with banks in Europe, Canada, and Asia to adopt ambitious but achievable commitments and disclosures.

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All written materials, communications, surveys and initiatives undertaken by IIGCC are designed solely to support investors in understanding risks and opportunities associated with climate change and take action to address them. Our work is conducted in accordance with all relevant laws, including data protection, competition laws and acting in concert rules. These materials serve as a guidance only and must not be used for competing companies to reach anticompetitive agreements. IIGCC's materials and services to members do not include financial, legal or investment advice. IIGCC's materials and services to members do not include financial, legal or investment advice.

⁵ Covering both facilitated and financed emissions, please see the [Net Zero Standard for Banks](#) for further detail on investor expectations for the banking sector.

⁶ Network for Greening the Financial System Technical document. Guide for Supervisors: Integrating climate-related and environmental risks into prudential supervision. May 2020. See [here](#).