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Report Makes Recommendations for Financial Institutions to Advance Climate-Action Initiatives

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In a report published in June 2023, the Columbia Center on Sustainable Investment (CCSI) claims that many financial institutions' climate strategies are not currently aligned with global climate goals under the Paris Agreement. The report, entitled **"Finance For Zero: Redefining Financial-Sector Action to Achieve Global Climate Goals,"** also states that the financial sector's climate commitments are sometimes overstated or misrepresented due to a reliance on misaligned targets or metrics.

The report focuses on three types of financial institutions: asset owners, asset managers, and banks. The report highlights that these financial institutions, along with other market participants like insurance companies and rating agencies, have important roles in achieving climate goals. The CCSI acknowledges that the absence of a clear public policy framework presents challenges to the sector but makes several key recommendations:

1. *Clear, Transparent Communications*

The report emphasizes that financial institutions should "be clear and unambiguous about their climate commitments, and use robust and relevant targets, metrics, and methodologies that are aligned with their goals." For example, the report states that the Glasgow Financial Alliance for Net Zero stated that "over $130 trillion of private capital is committed to transforming the economy for net zero" but that this figure does not reflect new capital allocated to climate goals but rather "is the sum of assets under management or controlled by the member financial institutions." The report calls on financial institutions to release clear communications regarding climate-related pledges, particularly “whether their goal is to contribute to climate action or to mitigate risk and how business strategies will be aligned to achieve those goals.”

2. *Stop Anti-Climate-Action Lobbying*

The CCSI urges financial institutions to cease anti-climate-action lobbying and focus on “how new finance is being directed and whether new finance is contributing to and not undermining a rapid and just transition.” The **report highlighted** that an assessment of the lobbying positions of 80 financial institutions showed that, “both directly and through industry associations, many [financial institutions] are more ‘obstructive’ than ‘supportive’ of climate policy.”

3. *Adopt Strong Climate-Related Governance*

The report recommends that financial institutions employ strong corporate governance embedding climate commitments at both board level as well as in day-to-day management. “Having in place clear internal oversight structures and mandates, incentives, and monitoring and review processes is necessary to ensure climate commitments are taken seriously by all the internal stakeholders who need to prioritize meeting them,” the report noted.

4. *Contribute to Filling Gaps in Metrics and Methodologies*

The CCSI highlights that current practices for calculating carbon emissions are inconsistent and in many cases lead to underreporting. Under the frameworks based on the GHG Protocol (the most widely used greenhouse gas accounting standards), companies are “not required to disclose how they calculated their emissions estimates,” such as the “type of research they did to rigorously prepare for their disclosures.” Different scenarios are used by companies using the science-based targets (SBTs) benchmarks, which leads to more inconsistency. CCSI highlighted that “there should be more alignment and consensus among [financial institutions] on what scenarios to use (in particular, when it comes to carbon budget and probability).”

Taking the Temperature: The CCSI report identifies that to stay on track for the Paris Agreement’s 1.5°C goal, there is a need for a significant increase in non-fossil fuel investments. The report echoes the concerns of certain climate-focused investor groups, which have been taking increasingly interventionist steps to scrutinize and influence the transition approaches of major financial institutions. In February, a group of investors representing over $1.5 trillion AUM urged five major European banks to stop financing new oil and gas fields by the end of this year. In March this year, a French bank was sued over its fossil fuel financing strategies. A report published by the London School of Economics’ Grantham Institute on trends in climate litigation identified actions focused on the financial sector as one of the key categories of emerging ‘strategic’ litigation.