C A D W A L A D E R

Assessment of Major Banks Shows Disclosure Gaps in Finance Directed Towards Climate Solutions

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The Transition Pathway Initiative ("TPI"), in partnership with the Grantham Research Institute on Climate Change and the Environment, conducted a study "[t]racking progress with the TPI Net Zero Banking Assessment Framework." As part of its assessment process, TPI used the Net Zero Baking Assessment Framework to evaluate banks' progress in managing the low-carbon transition and mitigating the impacts of climate change. The Net Zero Banking Assessment Framework comprises ten key areas: net-zero commitments; target analysis; emissions disclosure; emissions performance; decarbonization strategy (including financing conditions and capital allocation, and climate scenario analysis); climate solutions; climate policy engagement; climate governance; just transition; and financial statement disclosure.

Among the report's key findings are:

- "Banks are making progress towards incorporating climate change into their business strategies[;]"
- "[B]anks are not including all on- and off-balance sheet activities nor all high-emission sectors in their targets[,]" meaning that "banks could continue to finance high-emitting activities in the long term[;]"
- "Banks' disclosures remain partial and selective" in that they omit "key topics" like climate related risks; and
- "A lack of external standardi[z]ed methodologies and insufficient data from clients are hindering progress on banks' climate action."

More lenders are disclosing their net zero commitments (20 of the 26 banks assessed have disclosed a net zero commitment). However, of the 26 banks assessed, none disclosed the total share of finance directed towards climate change in the last year; six disclosed a commitment to immediately end all on- and off-balance sheet activities that finance new coal capacity; and three tied financing policies to sectoral targets.

TPI made several recommendations for the future, including: (i) striving to make progress on climate action despite the challenges related to lack of standardized methodologies; (ii) expanding target coverage to include all material financing activities; (iii) formulating comprehensive financing policies for high-emission sectors, covering all on- and off-balance sheet activities; (iv) including climate-related issues and risk analysis in annual reports and financial statements; and (v) expanding disclosure and governance structure to ensure an in-depth approach to climate action.

Final Thoughts

As we have been reporting for the past few years, financial institutions continue to be viewed as key players in the effort to mitigate risks posed by climate change and transition to a net zero economy. While banks are increasingly incorporating climate change into their business strategies, as the TPI report makes clear, the devil is in the details, and banks are likely going to continue to be subject to scrutiny by prudential regulators, investors and climate-focused NGOs and pressure groups. For example, as we recently discussed, the Hong Kong Monetary Authority called on its banks to ramp up net zero transition planning, and in August, non-profit disclosure organization CDP concluded that financial institutions are not accounting for nature-related risks and opportunities in their financial decision making. The banks assessed in the TPI report include the world's largest banks with global operations and therefore, will likely continue to garner attention from regulators and the private sector for their climate-related strategies.

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