

Di Maio, Carlo et al.

**Research Report**

## An examination of net-zero commitments by the world's largest banks: Promising beginnings, significant room for improvement

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## Occasional Paper Series

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### An examination of net-zero commitments by the world's largest banks

Promising beginnings, significant room for  
improvement

No 334

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# Abstract

We examined the net-zero commitments made by Global Systemically Important Banks (G-SIBs). In recent years, large banks have significantly increased their ambition and now disclose more details regarding their net-zero targets. There is also growing convergence, with the vast majority of G-SIBs now being part of net-zero alliances. Despite this progress, some practices should be further improved. We assessed climate-related risks disclosures publicly available for G-SIBs in 2022. The paper gives an overview about potentially problematic disclosure practices with regards to their net-zero commitments. It identifies and discusses a number of observations, such as the significant differences in sectoral targets used despite many banks sharing the same goal, the widespread use of caveats, the missing clarity regarding exposures to carbon-intensive sectors, the lack of clarity of “green financing” goals, and the reliance on carbon offsets by some institutions. The identified issues may impact banks’ reputation and litigation risk and risk management. The paper explains how the introduction of comparable international rules on climate disclosure and the introduction of transition plans, as envisaged and partly already in place in the European Union, could help mitigate these risks.

**Keywords:** net-zero commitments, disclosures, climate scenarios, transition plans, greenwashing, litigation risk

**JEL codes:** G2, G21, G28, Q5, Q54

# Executive summary

**In this paper, we present the results of a review of the net-zero commitments disclosed by the world's largest banks, and the associated risks of misrepresentation.**

**We examined the net-zero commitments of global systemically important banks (G-SIBs) contained in their publicly available disclosures as of late 2022. 25 of these 30 G-SIBs have made public net-zero commitments.** Recently, large banks have significantly increased their stated ambitions and disclosed further details regarding their net-zero targets. There is also growing convergence on the use of net-zero commitments, with for example the vast majority of G-SIBs forming part of the Net-Zero Banking Alliance (NZBA). Despite this progress, however, some of the information available in G-SIBs' disclosures still raises questions at this stage with respect to the consistency with these net-zero commitments. Specific problematic practices include from our supervisory perspective limited information sharing, tentative or merely aspirational language and commitments to unclear goals such as "carbon neutrality".

**While banks widely use the tool of portfolio alignment to illustrate their net-zero convergence, we have observed several areas for improvement relating to the choice of underlying scenarios and pathways and the use of this tool.**

Banks often select scenarios or pathways that do not reflect their portfolio allocation or geographical exposures. Banks sometimes also use outdated scenarios or benchmarks, or use their own methodologies without providing evidence for their scientific credibility. It is noted, however, that some banks have already announced the use of net-zero scenarios going forward, especially as data gaps are remediated and more granular scenarios become available.

**Some gaps also arise with regard to financial institutions' exposures to certain sectors, as the portfolio coverage of metrics and targets does not systematically allow conclusions to be drawn on the bank's alignment with the net-zero trajectory.** Banks often report their exposure to certain high-emitting sectors but do not cover the rest of their balance sheet, making net-zero assessments difficult. Targets sometimes only cover a narrow selection of sectors or a limited range of activities or subsectors. While many banks have developed and implemented exclusion policies, on closer inspection it is often unclear how such policies contribute to net-zero alignment.

**Target-setting could be improved substantially, as the targets are not sufficiently comparable, and the methodological description of the targets is often very vague.** We found that while banks have made significant progress in setting and disclosing targets, they have very divergent approaches regarding the selection of base years and interim targets. It is noted that this may currently be due to data gaps and ongoing methodology development. The unclear use of carbon offsets and credits is a further point we noticed, as well as the focus on specific portfolios in the balance sheet and the non-inclusion of facilitated operations in

target-setting. It is very complex to assess sustainable finance targets in the absence of a common taxonomy of sustainable activities or a clear and internationally accepted definition of transition finance. In addition, sustainable finance targets rarely cover a significant part of the portfolio to credibly contribute to the bank's net-zero strategy.

**Table 1**

G-SIBs' disclosures that risk creating doubt about the soundness of their net-zero commitments

| Type                         | Section   | Illustration of areas for improvement   |
|------------------------------|-----------|---|
| Commitments made             | 3.1 & 3.2 | A bank publicly discloses that its commercial real estate (CRE) portfolio is on track to fulfil its net-zero commitment, while it only includes less than one-third of its overall exposure to CRE when assessing its alignment with this net-zero commitment.  |
| Portfolio alignment          | 3.3       | A bank's internally developed 1.5°C net-zero pathway is disconnected from its key strategic decisions and objectives, implying a significant overshooting of its carbon budget and thus also greenwashing risk.   |
| Exposures to certain sectors | 3.4       | In its disclosures, the oil and gas (O&G) guidance of a bank with one of the highest worldwide exposures to the fossil fuel sector limits its exclusions to O&G production and exploration in the Arctic Circle, while the bank has never provided such financial services in the first place.  |
| Targets and indicators       | 3.5       | A bank discloses its targets only in percentages against previous years' benchmarks, which in turn are also expressed in percentages. It is therefore impossible to determine the absolute value of the bank's greenhouse gas (GHG) emissions.<br><br>A bank discloses targets for 2030. For some of its sectoral targets, the bank only discloses exposure reduction targets without providing any substantiation from a methodological or scientific point of view. |

**The highlighted areas for improvement are relevant for supervisors from a prudential perspective.** Incomplete or simply poor net-zero commitments could result in litigation and reputation risk in view of recent legal cases, and as such they need to be designed with care and based on facts. Furthermore, these issues can arise from inadequate or malfunctioning internal governance and risk management of net-zero commitments, which, as outlined in the [ECB's guide on climate-related and environmental risks](#), fall within the mandate of prudential supervisors. As such, we find that it is of a paramount importance to further improve public disclosures.

**We conclude by highlighting the need to improve overall comparability and reliability by defining a common minimum framework, further supporting existing market standards. This is already the case in some jurisdictions, such as the European Union, where the disclosure requirements of the Capital Requirements Regulation and the Corporate Sustainability Reporting Directive and the transition plan obligation of the Capital Requirements Directive constitute a common baseline for private initiatives like the Partnership for Carbon Accounting Financials.** These existing frameworks could be further leveraged on. At international level, the combination of interoperable global regulation and privately led initiatives could help establish comparable disclosure requirements, covering both the net-zero transition and associated risks.

**On disclosures, the global financial and prudential<sup>1</sup> frameworks could be more stringent as regards the choice of metrics and targets and could better reference alignment metrics as well as absolute targets in terms of financed emissions and sustainable finance goals.** To this end, they should ensure interoperability with significant privately led initiatives. These targets should cover a

<sup>1</sup> Via ISSB standards and the Basel Committee Pillar 3 framework respectively.

material part of the bank's balance sheet and facilitated operations, while relying on credible, scientifically grounded and regularly updated net-zero scenarios. Banks should disclose how they are actively steering their business and lending portfolios to achieve their net-zero targets.

**The integration of a comprehensive transition planning framework into global banks' risk management processes can help them understand the impact of their strategic actions and risk management tools to achieve net-zero goals, thereby allowing better disclosures.** Transition plans ensure that targets and milestones set across different time intervals can be comprehensively embedded in the bank's day-to-day business monitoring. Banks will also be better equipped to disclose how they live up to their net-zero commitments.



**Table 2**

Overview of recommendations to address the areas for improvement identified in the paper

| Type of regulation      | Areas for improvement                                | Mitigating action provided by disclosures  |
|-------------------------|--|--|
| <b>Disclosures</b>      | Inaccurate portfolio selection for alignment targets | <ul style="list-style-type: none"> <li>- Banks should disclose alignment metrics to compare the current and projected emission intensity of key carbon-intensive sectors within a loan book to an emission intensity prescribed by a climate change scenario. These metrics should be complementary for each sector to targets expressed in absolute amounts, such as financed emissions. Other metrics like technology/fuel mix and production volume trajectory should also be considered.</li> <li>- Alignment metrics and net-zero targets in general should cover a significant proportion of a bank's loan book and all of its material portfolios, including investment portfolios. Banks should be transparent about the share of assets covered by these targets.</li> <li>- Net-zero targets should encompass capital market activities and all facilitated transactions that may be responsible for additional GHG emissions. This means that targets should also cover facilitated emissions.</li> </ul> |
|                         | Outdated milestones and targets                      | <ul style="list-style-type: none"> <li>- Banks should include, where relevant, the time series of disclosed metrics to enable comparisons. The base year of metrics should always be disclosed and consistent. In case of changes in the base year, the bank should provide the reasoning behind such a methodological change.</li> </ul>  |
|                         | No integration in portfolio steering                 | <ul style="list-style-type: none"> <li>- The measurement unit of disclosed metrics should be aligned with banks' financial statements to allow stakeholders to assess the impact of net-zero targets on financial performance. Similarly, if banks decide to amend the "end value" of a target compared with the previous year, they need to explain the reasoning behind such a decision.</li> <li>- Alignment metrics and targets should imply active steering of a portfolio. Banks cannot passively wait for their clients to make a transition consistent with a net-zero pathway and transfer the responsibility for failure to reach net zero to their clients. This also means that banks should disclose their rules and procedures supporting their active role in fostering this transition.</li> </ul>   |
|                         | Use of scenarios that are not credible               | <ul style="list-style-type: none"> <li>- Disclosure frameworks should only reference net-zero scenarios that are scientifically grounded. If a baseline scenario like IEA NZE2050 does not cover a specific sector, other scenarios can be considered to the extent they are consistent with a net-zero pathway. Disclosures should be complemented with relevant methodological disclosures if the former are not publicly available.</li> <li>- Disclosure frameworks should limit the use of carbon credits or carbon offsets to banks' own operations, which should in general be distinguished from other net-zero objectives.</li> </ul>   |
|                         | Lack of accountability for alignment targets         | <ul style="list-style-type: none"> <li>- Disclosures of sustainable investments and objectives should be better framed. They should ideally refer to a well-grounded taxonomy. In order to be considered in the net-zero strategy of a bank, the disclosure of such targets should be granular enough to understand the impact per sector and the proportion of the balance sheet and business affected by these financing objectives. These targets should be associated with alignment metrics and targets in absolute amounts and should be embedded in the bank's strategy.</li> </ul>   |
| <b>Transition plans</b> | Inaccurate portfolio selection for alignment targets | <ul style="list-style-type: none"> <li>- Robust materiality assessment of the exposure to transition risk is the starting point of a proper transition planning process. Via the materiality assessment, banks can identify their most critical portfolios for the purpose of setting milestones and targets.</li> </ul>   |
|                         | Use of low-quality proxies                           | <ul style="list-style-type: none"> <li>- Proper transition planning relies on the collection of granular data from counterparties. Via transition planning, banks can identify data needs as well as existing data gaps and define remedial actions. The availability of granular data reduces the risk of misrepresenting the bank's net-zero alignment.</li> </ul>   |
|                         | Lack of accountability on alignment targets          | <ul style="list-style-type: none"> <li>- Banks publishing net-zero alignment goals without a proper internal discussion risk overlooking the implications, also for reputational and legal risk, of such commitments. Proper internal governance of the transition planning process ensures that comprehensive discussion takes place, also at the highest level of a bank's hierarchy, on the bank's approach to net-zero alignment. Banks also gain a sense of the importance of clearly allocating roles and responsibilities.</li> </ul>   |
|                         | Outdated milestones and targets                      | <ul style="list-style-type: none"> <li>- In the absence of an internal transition planning process, banks may not investigate or detect the need to update milestones and targets. This risk is relevant, especially considering that external stakeholders may rely on these outdated targets for their decision-making, for instance in the case of investment decisions. This may trigger not only accountability issues, but also reputational and legal consequences.</li> </ul>  |
|                         | Use of scenarios that are not credible               | <ul style="list-style-type: none"> <li>- When transition planning is embedded in business decision-making, it is in the best interest of the bank to base net-zero targets on scientifically credible scenarios and pathways. Indeed, only the use of such tools can ensure a higher degree of confidence in the probability of materialisation of climate-related and environmental risks. The use of scientifically sound approaches also allows banks to properly grasp the impact of increased acute and chronic physical risk related to inaction.</li> </ul>   |
|                         | No integration in portfolio steering                 | <ul style="list-style-type: none"> <li>- When net-zero alignment goals are disconnected from a bank's management, portfolio allocation and balance sheet evolution are likely to be inconsistent with the bank's public commitments. Conversely, the integration of transition planning in strategic decision-making, as well as in key risk management processes (e.g. risk appetite, ICAAP, funding and liquidity plans), will ensure the early detection of possible misalignment with respect to public targets. This will allow the bank to properly manage its commitments as well as external communication on the topic.</li> </ul>  |

# 1 Introduction

In recent years there has been a surge in net-zero commitments in the financial sector, particularly among large banks. While these commitments had been publicised to some extent beforehand, net-zero alliances like the Glasgow Financial Alliance for Net Zero (GFANZ) and its banking element the Net-Zero Banking Alliance (NZBA) provided more structure and rules around the way these commitments should be expressed and communicated to stakeholders, leading to the disclosure of more quantitative information to support net-zero claims. Banks' net-zero commitments are currently not subject to prudential regulation, although several policy working groups and certain jurisdictions have started considering standardised disclosure requirements and the benefit of transition planning for the financial soundness of banks. Parallel to these developments, civil society has also started challenging financial institutions on their commitments, with regular accusations of greenwashing reported in the media and ongoing legal action over this kind of communication.

It is essential that banks' disclosures on climate-related matters are transparent, reliable and comparable so that investors and other stakeholders have a good understanding of an institution's approach to said issues in the provision of its services and structuring of its products and can gauge the resilience of its business models to climate-related and environmental risks.

By reviewing very large banks' net-zero commitments in detail, this paper aims to identify possible areas for improvement and inconsistencies that could cast doubt on the soundness of net-zero claims. This, in turn, could result in accusations of greenwashing, especially considering that the proposed joint definition of greenwashing by the European Supervisory Authorities (ESAs) explicitly includes entity-level greenwashing<sup>2</sup>. The paper argues for necessary policy developments to address weaknesses and greenwashing risk and proposes several policy options, through disclosures and transition plans, to help achieve this goal.

## 1.1 Greenwashing: tentative definition and relevance for banking supervision

In recent years, banks around the world have communicated on the importance of climate-related and environmental risks and have significantly fleshed out their climate-related disclosures. However, as shown by the results of the ECB's third assessment of the progress European banks have made in disclosing climate and

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<sup>2</sup> EBA (2023), "[ESAs present common understanding of greenwashing and warn on related risks](#)", 1 June: "The ESAs understand greenwashing as a practice where sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product, or financial services. This practice may be misleading to consumers, investors, or other market participants."

environmental risks<sup>3</sup>, the quality of disclosures is assessed in the large majority of cases to be low, and several important shortcomings and areas for improvement remain. Some of them are further examined in this paper, with a particular focus on net-zero commitments.

This is all the more important given that the objective of the Paris Agreement to limit the global temperature increase to 1.5°C requires a massive transition of the economy that will affect all sectors. It means that banks, like other financial sector participants, will need to adjust their business models and develop plans to align their balance sheets to this transition. Transparency on the risk profiles of banks and on their tangible efforts to align their portfolios will give market participants meaningful information with which to compare banks' risk profiles, including potential revaluations of assets in the event of misaligned trajectories.

As shown in this paper, the vast majority of the world's largest banks that fall within the scope of our assessment have now committed themselves to net zero, often by joining initiatives such as the NZBA, and have started to fulfil NZBA requirements by updating their disclosures. However, it should be noted that some insurance companies have recently withdrawn from a net-zero alliance and that some banks have also considered doing so.<sup>4</sup>

Moreover, virtually all banks make reference to the Task Force on Climate-Related Financial Disclosures (TCFD), with the majority also issuing separate TCFD reports. While welcoming banks' ambition to improve the sustainability profile of their business and the many steps they have taken to reach this goal, we also highlight that the perceived lack of appropriate disclosures to substantiate banks' path to net zero may trigger concerns over such commitments.

Taken together, the identified weaknesses carry the risk of allegations of entity-level "greenwashing". The ESAs define greenwashing as "a practice where sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an **entity**, a financial product, or financial services. This practice may be misleading to consumers, investors, or other market participants.". For the purposes of this paper, the concept of greenwashing is restricted to climate change.

The concept is developed in more detail in Section 4.

Greenwashing can be relevant for banks and banking supervision from multiple perspectives. While the exact definition of greenwashing lies outside the scope of prudential supervision, we consider a few areas where the concept is relevant for banking supervision. First, there is a clear reputational risk, as even the mere allegation of greenwashing can have a significant impact on an institution's reputation. Second, as greenwashing may lead to litigation, there is an obvious

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<sup>3</sup> ECB (2023), "[The importance of being transparent: A review of climate-related and environmental risks disclosures practices and trends](#)", April.

<sup>4</sup> See Reuters (2023), "[ESG Watch: Is it curtains for Mark Carney's green alliance, or just teething problems?](#)", 26 April.

impact on litigation risk, which is considered as an operational risk<sup>5</sup>. Third, greenwashing practices may be the result of poor risk management practices at the bank. For example, in the absence of proper internal risk management, a bank may fail to collect all relevant data, which in turn will lead to false conclusions on its exposure to climate risk in its disclosures. Fourth, there is an interrelationship with governance risk, as banks are expected to have appropriate allocations of responsibilities in their organisational structure to mitigate these risks.

Risks that could arise as a result of greenwashing are also reflected in the ECB's expectations set out in its 2020 guide on climate-related and environmental risks.<sup>6</sup> According to Expectation 9.2 of the guide, institutions are expected to evaluate the extent to which the nature of the activities in which they are involved increases the risk of a negative financial impact arising from future reputational damage, liability and/or litigation. As per Expectation 5.5, institutions are also expected to define the tasks and responsibilities of the compliance function by ensuring that compliance risks stemming from climate-related and environmental risks are duly considered and effectively integrated in all relevant processes. Finally, according to Expectation 13, institutions are expected to publish meaningful information and key metrics on climate-related and environmental risks that they deem to be material.

## 1.2 Overview of current private and regulatory initiatives related to disclosures of net-zero commitments

While many jurisdictions where global systemically important banks (G-SIBs) are located have implemented regulation relevant for disclosure and/or greenwashing for asset managers, few have taken concrete actions for banks. The legal landscape is arguably most developed in the EU.

A crucial piece of legislation in the EU is the Taxonomy Regulation<sup>7</sup>. The Taxonomy Regulation provides a common definition of environmentally sustainable activities. The Climate Delegated Act adopted under the Taxonomy Regulation then defines technical screening criteria for the first of these two environmental objectives, i.e. climate change mitigation and climate change adaptation, while the Environmental Delegated Act that will be applicable from January 2024 does so for the other four environmental objectives. The Taxonomy Regulation also requires banks to disclose the environmental objective(s) that financial products promoting environmental characteristics contribute to.

Furthermore, large banks are already required to disclose information on environmental, social and governance (ESG) risks, including physical risks and transition risks, under the Capital Requirements Regulation (CRR)<sup>8</sup>. The disclosure

<sup>5</sup> See definition of operational risk in Basel Framework, OPE 10.1.

<sup>6</sup> ECB (2020), "[Guide on climate-related and environmental risks](#)", November.

<sup>7</sup> Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.

<sup>8</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012.

requirements are supplemented by Implementing Technical Standards (ITS) developed by the European Banking Authority (EBA). These require the disclosure of comparable quantitative information on exposures to carbon-related assets and assets subject to chronic and acute climate change events, as well as on institutions' mitigating actions supporting their counterparties in the transition to a carbon-neutral economy and adaptation to climate change. The templates provided by the EBA ensure that disclosures by large EU banks should be fully comparable going forward. In addition, banks in the EU will also fall into the scope of the Corporate Sustainability Reporting Directive (CSRD)<sup>9</sup>, which will require them to report on a variety of sustainability matters. The CSRD also enshrines the concept of “double materiality”, whereby the risks to the undertaking and the impacts of the undertaking each represent one materiality perspective.

On the reorientation of capital flows towards more sustainable investments, the EU's Sustainable Finance Disclosure Regulation (SFDR)<sup>10</sup> requires banks, insofar as they provide portfolio management, investment advice or insurance advice, to disclose information at both the entity level, on the consideration of sustainability risks and adverse sustainability impacts, and at the product level, on additional information for the promotion of environmental or social characteristics or a sustainable investment objective. The goal of the SFDR is to prevent misleading sustainability statements and therefore greenwashing at the product level. Banks should for instance disclose in their pre-contractual disclosures how sustainability risks might affect the returns of the financial products made available (“outside-in”) and how these products consider principal adverse impacts on sustainability factors (“inside-out”). The disclosure requirements are further detailed by the Regulatory Technical Standards (RTS) developed by the ESAs.

Transition plans are also being introduced into the EU legal landscape: for example, the recast of the Capital Requirements Directive (CRD)<sup>11</sup> will include a requirement to integrate transition plans into banks' management. Transition plans will also be required under the CSRD and under the proposed Corporate Sustainability Due Diligence Directive (CSDDD)<sup>12</sup>, which will in general impose obligations on certain large companies to conduct human rights and environmental due diligence. Valuable guidance regarding transition planning is contained in the European Commission's recent draft recommendation on facilitating finance for the transition to a sustainable economy<sup>13</sup>. Among other things, it recommends the use of science-based decarbonisation scenarios and pathways, highlighting the need to use 1.5°C

<sup>9</sup> Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting.

<sup>10</sup> Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

<sup>11</sup> Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks, and amending Directive 2014/59/EU.

<sup>12</sup> Proposal for a Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937.

<sup>13</sup> Commission Recommendation (EU) 2023/1425 of 27 June 2023 on facilitating finance for the transition to a sustainable economy.

scenarios with no or limited overshoot. Similar requirements are absent in most other jurisdictions, except Canada and Switzerland.

Further legislation referring to the phenomenon of greenwashing outside the financial sector is discussed in Section 4.

The following table<sup>14</sup> provides an overview of legislative initiatives in other jurisdictions where G-SIBs are seated:

**Table 3**

Legislative initiatives related to net-zero commitments across jurisdictions

| Type           | Banks' disclosures   | Transition plans for banks  |
|----------------|--|---|
| EU             | Taxonomy Regulation, CRR, CSRD   | CSRD, revised CRD, CSDDD  |
| Canada         | Climate-related disclosure standards for listed issuers and funds – Guideline B-15   | Guideline B-15, Chapter 1, Paragraph I-3  |
| China          | ESG-related amendments to the Disclosure Rules Applicable to Listed Companies and Guidance for Enterprise ESG Disclosure                                       | N/A   |
| Japan          | Mandatory TCFD reporting for some listed companies in development  | N/A   |
| Switzerland    | Ordinance on climate disclosures <sup>15</sup> , based on the TCFD, which requires banks to publish climate disclosures and transition plans from January 2024 | Ordinance on climate disclosures, based on the TCFD, which requires banks to publish transition plans from January 2024 |
| United States  | SEC Climate Disclosures for Public Companies in development <sup>16</sup>  | N/A   |
| United Kingdom | Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022, based on the TCFD <sup>17</sup>  | N/A   |

In addition to legislation, various non-governmental initiatives contain quite detailed guidance on disclosure and net-zero commitments. Due to their inherent international nature and the worldwide uptake, these initiatives have already contributed to significant improvements in the comparability of disclosures and commitments.

## NZBA

One prominent private initiative is the NZBA. Convened by the [United Nations Environment Programme Finance Initiative \(UNEP FI\)](#), as the banking element of GFANZ and the climate-focused element of the [Principles for Responsible Banking](#), its goal is to “accelerate science-based climate target setting and develop common practice”<sup>18</sup>.

<sup>14</sup> Some information in the table is taken from the article by Andreas Fillmann and Hannah Kendrick, [ESG Laws Across the World](#), Lexology.

<sup>15</sup> [Ordinance on climate disclosures](#). See “[Federal Council brings ordinance on mandatory climate disclosures for large companies into force as of 1 January 2024](#)”, 23 November 2022.

<sup>16</sup> [SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors](#).

<sup>17</sup> [Companies \(Strategic Report\) \(Climate-related Financial Disclosure\) Regulations 2022](#). The UK government has also announced that it will publish UK Sustainability Disclosure Standards (SDS) based on the Sustainability Disclosure Standards issued by the ISSB by July 2024. See official statement [here](#). Moreover, the UK HM Treasury launched a [Transition Plan Taskforce](#) working on transition plans.

<sup>18</sup> See [Net-Zero Banking Alliance](#).

All banks joining the NZBA are required to sign a commitment statement to align their lending and investment portfolios with pathways to net-zero by 2050 or sooner. The target-setting element of the NZBA's mission is underpinned by the UNEP FI [Guidelines for Climate Target Setting for Banks](#). They outline four principles for target-setting:

1. banks shall set and publicly disclose long-term and intermediate targets to support meeting the temperature goals of the Paris Agreement;
2. banks shall establish an emissions baseline and annually measure and report the emissions profile of their lending portfolios and investment activities.
3. banks shall use widely accepted science-based decarbonisation scenarios to set both long-term and intermediate targets that are aligned with the temperature goals of the Paris Agreement;
4. banks shall regularly review targets to ensure consistency with current climate science.

Within 18 months of joining, institutions are expected to set 2030 (or sooner) targets and a 2050 target. Intermediary targets should also be set every five years from 2030 onwards. Signatories can consult the [Intermediate Target Disclosure Checklist](#) to ensure the bank's intermediate targets meet the criteria set out above. Banks' initial 2030 targets should focus on priority sectors where the bank can have the most significant impact, i.e. the most greenhouse gas (GHG)-intensive sectors within their portfolios, with further sector targets to be set within 36 months.

Of the 30 G-SIBs, 25 banks are members of GFANZ (see also Section 3.1). This indicates that, while not setting binding requirements, it has received widespread industrial acceptance.

## TCFD

The TCFD was created by the Financial Stability Board (FSB). Its recommendations on climate-related financial disclosures are applicable across jurisdictions and sectors and have increasingly been used around the world, with some jurisdictions, including the United Kingdom, basing their mandatory disclosure requirements on the TCFD. The recommendations are structured around the following four thematic areas:

- governance;
- strategy;
- risk management;
- metrics and targets.

These four areas are supplemented by recommended disclosures and guidance, with supplemental guidance being available for the financial sector (and other specific sectors).

The TCFD recommends taking into consideration different climate-related scenarios, including a 2°C or lower scenario. For banks, disclosure should cover GHG emissions for lending and other financial intermediary business activities, where data and methodologies allow, calculated in line with the PCAF (Partnership for Carbon Accounting Financials) standard or a comparable methodology. Another specific recommendation is that banks should provide the metrics used to assess the impact of climate-related risks in the short, medium and long term. They should also provide the amount and percentage of carbon-related assets relative to total assets and should describe the extent to which their lending and other financial intermediary business activities are aligned with a well-below 2°C scenario, using whichever approach or metrics best suit their organisational context and capabilities.

Regarding implementation, the TCFD envisages that disclosures should be included in mainstream financial filings. They also establish seven principles for effective disclosures, including that disclosures should be specific, complete, clear, balanced and understandable; that they should be consistent over time, reliable, verifiable and objective; and that they should be comparable among companies within a sector, industry or portfolio. It is worth noting that the monitoring of progress with TCFD disclosures will be taken over by the International Financial Reporting Standards (IFRS) Foundation from 2024.<sup>19</sup>

All G-SIBs make reference to the TCFD in their disclosure documents, even if exact commitments and references vary. Almost two-thirds of these banks also publish a separate TCFD report, sometimes in addition to their regular sustainability report. This shows the global acceptance of the framework.

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<sup>19</sup> IFRS (2023), “[IFRS Foundation welcomes culmination of TCFD work and transfer of TCFD monitoring responsibilities to ISSB from 2024](#)”, 10 July.



## 2 Methodology

Exposure to climate-related and environmental risk is identified as a key vulnerability in the ECB's supervisory priorities for 2022-24<sup>20</sup>, and stepping up efforts in addressing climate change is a priority for 2023-25.<sup>21</sup> As part of its supervisory work on the transparency of banks' risk profiles, the ECB regularly reviews the disclosure of climate-related and environmental risks among significant institutions (SIs) and a select number of less significant institutions (LSIs). The ECB published the results of its latest assessment in April 2023.<sup>22</sup> This paper builds on the abovementioned disclosure exercise.

This assessment is based on publicly available disclosures from the 30 G-SIBs<sup>23</sup>, also covering disclosures of 22 G-SIBs with a parent based outside the EU (non-EU G-SIBs). We assessed documents at the highest level of banking consolidation based on information available as of the end of 2022. Due to this cut-off date, the documents in scope consist of publicly available disclosures with a reference date of the end of 2021, or a later date where already published at the end of 2022. This means that information published after this date, including any new targets set, was generally not taken into account. Due to language constraints, a few specific reports from some banks could not be fully assessed. The information typically considered in the assessment included (where available) annual reports, non-financial reports, sustainability reports, TCFD reports and Pillar 3 reports. The authors of this paper conducted a review of these disclosures focusing on a specific set of questions relating to (1) the scope and content of any climate-related commitments made, (2) disclosures regarding portfolio alignment, (3) information on exposures to certain sectors, and (4) targets and indicators set by banks (see annex for detailed questions). Disclosures and potential gaps were not put forward for comment or discussion to the institutions under review.

The focus of the assessment was on disclosures at the entity level of the bank. Potential greenwashing arising at the product level, or, for example, in providing investment services, may also be an issue but does not fall under the ECB's mandate and is also not covered by this paper.

Finally, it should be noted that our analysis assumes that entity-level misrepresentation of net-zero commitments may lead to greenwashing allegations, even though the exact legal consequences may differ in each jurisdiction.

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<sup>20</sup> ECB Banking Supervision, "[Supervisory priorities for 2022-2024](#)".

<sup>21</sup> ECB Banking Supervision, "[SSM supervisory priorities for 2023-2025](#)".

<sup>22</sup> ECB (2023), "[The importance of being transparent: A review of climate-related and environmental risks disclosures practices and trends](#)", April.

<sup>23</sup> The full list is available on the [FSB's website](#). It is noted that the assessment was partly conducted before the takeover of Credit Suisse by UBS and therefore still includes Credit Suisse as a separate entity.

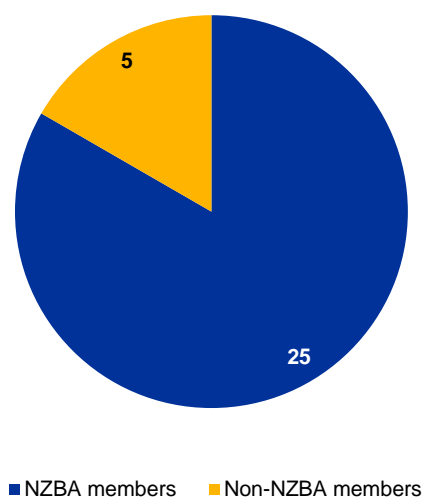
### 3 Key findings relating to net-zero commitments

#### 3.1 Almost all G-SIBs have communicated publicly on net-zero commitments

In recent years, there has been a significant positive development with regard to banks' net-zero commitments. Almost all G-SIBs have formed a commitment towards net zero, which is also substantiated by joining international alliances such as NZBA. In total, 25 G-SIBs have committed to reaching net zero by 2050, and all of these G-SIBs are members of NZBA or other GFANZ alliances<sup>24</sup>. One bank has not yet committed to net zero, but one of its subsidiaries has. Most G-SIBs play a leading role in international net-zero alliances, underpinning their commitment.

In one jurisdiction only (China), we found that no G-SIB has committed to net zero yet. These banks are also not part of GFANZ or any international alliance with clear net-zero targets. For this reason, we were not able to assess Chinese banks to the same level of detail.

**Chart 1**  
NZBA membership



Forming a commitment is just the first step towards net zero. To actually fulfil their commitments, banks need to have a plan that involves setting intermediate (2030 or before) and final targets and creating policies for sectors contributing to climate change, and many banks have already formulated such plans. The NZBA requires its

<sup>24</sup> Either by virtue of their membership of NZBA or of NZAM (Net Zero Asset Managers initiative). This includes all EU G-SIBs.

signatories to set their first targets within 18 months of signing. 22 of the 25 G-SIBs committed to net zero have already disclosed intermediate targets for at least some of the high-emitting sectors. However, only three banks have reported targets for 2025 and 2050 (Section 3.5).

Another positive development is the observed convergence regarding the type of scenarios used to define targets. Some G-SIBs have and still use internally developed scenarios; however, most use the International Energy Agency's (IEA's) net zero emissions (NZE) scenario (developed with the aim of limiting the global temperature rise to 1.5°C) as the basis for at least some targets. Overall, 63% of G-SIBs state that they update their scenario regularly, and banks have started to phase out the IEA sustainable development scenario (SDS) (well below 2°C). However, some banks continue to rely on the IEA SDS for some of their sectoral targets, despite a general commitment to the IEA NZE, which could lead to allegations of cherry-picking.

While net-zero commitments are becoming more widespread, we observe a number of trends across banks with regard to their scope of application. The first relates to the evolving nature of the net-zero commitments made, as we see that banks sometimes change the portfolios within scope of their commitments from year to year. Such changes can be explicit but also more subtle. For example, one bank's original commitment covered its entire lending portfolio, while its recently updated commitment only covers the portfolio's most carbon-intensive parts. In order to remain credible, it is important that banks stick to a consistent definition of their net-zero commitments.

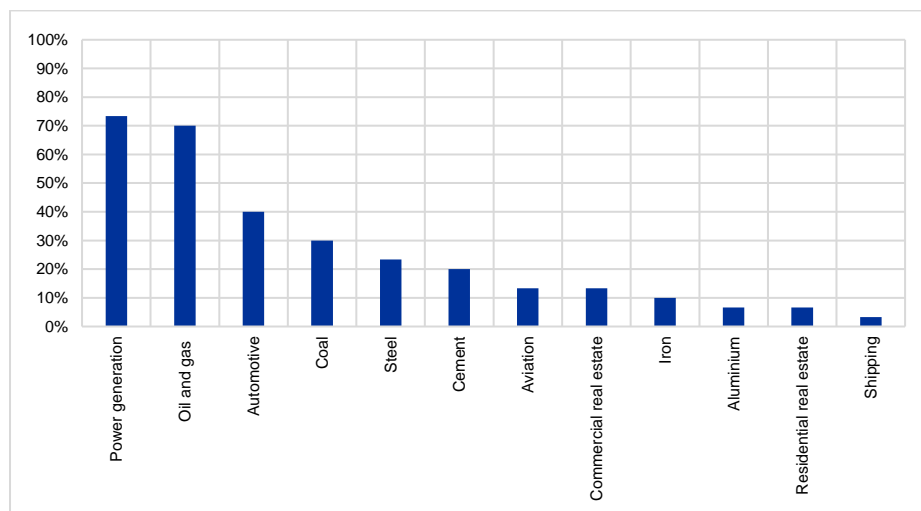
We also observe that some sector portfolios are more likely to be included in the scope of commitments than others (Chart 2). Power generation and oil and gas portfolios, for instance, are included in scope by more than two-thirds of banks. Given their relatively high carbon intensity, it is promising that these portfolios are typically in scope. Conversely, some portfolios are only sporadically addressed by commitments. Residential and commercial real estate portfolios are such examples. Those portfolios make up a major part of banks' balance sheets in some regions. As the operation of buildings accounts for up to 27% of total energy sector emissions, commercial and residential real estate play a critical role in the transition<sup>25</sup>.

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<sup>25</sup> Source: [Buildings – Analysis](#) - IEA.

**Chart 2**

Percentage of G-SIBs with targets per sector



Note: The categories "oil and gas" and "coal" include banks that disclosed targets for energy or fossil fuels.

There are multiple reasons for these diverging trends across banks. The first relevant factor is the availability of industry standards and methodological frameworks to measure carbon emissions and monitor alignment with the net-zero trajectory. For some sectors, such common methodologies are more advanced than others. Second, banks that announced net-zero commitments more recently typically have less mature practices and a smaller scope of application. Lastly, we observe that some banks are focusing their disclosures on portfolios, or parts of portfolios, for which they are already – or likely to become – aligned with the net-zero trajectory, while remaining more vague on other portfolios.

### Box 1

#### Illustration of an incomplete scope of disclosure

A bank publicly discloses that its commercial real estate (CRE) portfolio is on track to fulfil its net-zero commitment. However, the bank only includes less than one-third of its overall exposure to CRE in its assessment of net-zero alignment. It does not disclose further information on the remaining part of the CRE portfolio, which is likely to have a relatively higher level of emission intensity, among other reasons because less stringent energy efficiency regulations are applicable in the regions where those real estate assets are located. The bank nevertheless concludes in its disclosures, based on a small subset of its CRE portfolio, that the portfolio as a whole is on track to become net zero.

## 3.2 Commitments are too broadly defined

Most of the banks in scope have made an alignment-related commitment (25 of 30 banks). However, most banks fail to substantiate their commitments via their disclosures. Several banks substantiate their net-zero commitment by disclosing

their participation in the NZBA; however, they do not state concretely how they intend to fulfil this commitment. Specifically, there is no concrete and overarching information linking the net-zero goal with the scenarios, metrics and/or portfolios disclosed. Sharing such information is vital to enhance transparency and substantiate banks' disclosures.

The wording used in commitments varies significantly across banks. Most of the G-SIBs that have made net-zero commitments do not use the term “commitment” per se but merely refer to an “aspiration” or “ambition” to become net zero, raising concerns about their willingness to fulfil such commitments. In accordance with this vague language, most G-SIBs caveat their commitment with many disclaimers, sometimes exceeding one page. These disclaimers cover different topics but often point out that the ability of banks to reach net-zero emissions by 2050 depends on several factors beyond their control, including but not limited to legal and regulatory regimes, technological advancements and consumer behaviour. Some disclaimers also shift responsibility to the bank's clients.

A further example of misrepresentation of net-zero targets is the case of banks disclosing net-zero alignment solely based on their own operations or their green financing portfolio. Such banks do not fairly disclose the alignment of their entire balance sheet.

Importantly, some G-SIBs that have made net-zero commitments claim to have committed to (or, in four cases, already achieved) “carbon neutrality”; as well as being different from net zero, this concept has also not been sufficiently defined scientifically. Indeed, due to the misleading nature of this concept, its communication has been even restricted in some countries such as France<sup>26</sup>. The concept has been also generally applied to banks' own operations, mostly through compensation, adding to the confusion around the bank's net-zero commitment.

### 3.3 The scope of portfolio alignment metrics could be further enhanced

We observe that portfolio alignment has been widely used. With this tool, banks aim to disclose how their exposures align, over time, with a pathway that allows carbon emissions to be kept within the applicable carbon budget. In other words, companies financed by these banks should not emit, over time, more CO<sub>2</sub> equivalent than that defined by scientific consensus as the maximum amount permitted to keep global temperatures within 1.5°C above pre-industrial levels.<sup>27</sup>

For net-zero commitments to be substantiated, it is important that banks fully disclose the current and forward-looking financed emissions of their portfolio, as well as the actions undertaken to transition, over time, to a net-zero pathway. However,

<sup>26</sup> In France, new provisions of the [Environmental Code](#) (Article D229-106 to 109) only allow advertisements with claims such as “zero carbon” or “100% offset” if strict conditions are met.

<sup>27</sup> Using a 1.5°C scenario is, for example, also recommended in the European Commission's recent - Recommendation (EU) 2023/1425 of 27 June 2023 on facilitating finance for the transition to a sustainable economy.

we rarely find evidence of such granular disclosure, with G-SIBs often disclosing an incomplete set of information.

Table 4 lists the most common shortcomings identified with respect to disclosures on net-zero portfolio alignment:

**Table 4**  
Common weaknesses related to the disclosure of portfolio alignment approaches

| Type                                 | Description   |
|--------------------------------------|---|
| No alignment monitoring of targets   | Overly general statements on the scenarios and/or pathways used as benchmarks for portfolio alignment metrics, without further specifying or disclosing current and forward-looking comparisons of the bank's target with the selected benchmark  |
| Selective use of scenarios           | Selection of benchmark scenarios and/or pathways as benchmark that do not reflect the bank's portfolio allocation (e.g. the scenario does not cover the most relevant sectoral exposure of the bank) or geographical mix (e.g. the scenario does not cover the geographies in which the bank operates, or covers only world averages) |
| Outdated scenarios                   | Use of outdated scenarios that target global warming of approximately 2°C, while stating the commitment to align with a 1.5°C pathway   |
| Outdated benchmarks                  | Use of outdated benchmarks that have since been updated, without clearly stating that this may result in overshooting   |
| Use of unscientific methodologies    | Use of own methodologies, while not providing any evidence of the scientific credibility of such methodologies and of their comparability with scientific pathways  |
| No integration in portfolio steering | No disclosure of follow-up actions resulting from portfolio alignment monitoring. For example, there is no description of actions (e.g. impact on risk appetite statement limits, exclusion policies and/or portfolio steering decisions) when the bank's portfolios are not aligned with the selected benchmark scenario             |

## Box 2

### Illustration of a scenario overshooting a 1.5°C pathway

A bank has announced a target to align its business with a net-zero-by-2050 pathway. However, the bank derives its net-zero targets from an internally developed pathway, and the methodology used actually relies on a well-below 2°C scenario, implying a significant overshooting of its carbon budget compared with a 1.5°C net-zero pathway. The bank further states that it will continue to operate its business in line with the dominant market conditions, which could potentially constitute a deviation from its own net-zero ambition. The bank also states that, should economic systems not change quickly enough, it is confident of steering its portfolio, through its own actions, toward a carbon budget consistent with a close-to-but-above 2°C scenario. The bank states that this outcome will still ensure it meets the goal of the Paris Agreement. While the strategic decisions underlying the positioning of the bank in terms of its transition pathway are clearly communicated, the bank elsewhere continues to disclose its ambition to align with a 1.5°C pathway.

## 3.4 Exposures to carbon-intensive sectors could be better framed

Analysing banks' exposures is key to assessing their vulnerability to sectors contributing to climate change. Hence, these analyses should precede the definition

of future and current targets. Despite this, several G-SIBs still do not disclose at all or only disclose limited information about their exposure to high-emitting sectors, making it difficult to assess whether targets/sectoral policies are comprehensive. Banks often report their exposure to high-emitting sectors but do not report their total exposure, making it difficult to assess how material the exposure to that sector is compared with their overall balance sheet.

Another common trend is that the bank's exposure does not align with its disclosed targets. The reported exposures are often less granular than the disclosed targets; for instance, a G-SIB has a target for aviation but only reports its exposure in a summarised category that involves several other sectors.

Furthermore, G-SIBs do not always align their selection of portfolios in scope for net-zero targets with their assessment of sectoral exposures. For example, a bank may categorise a sector as being high-risk or moderate-risk, but still include no target for it, or include a target that only relates to part of the sector. Moreover, it is often not straightforward to assess which activities are included in the targets. The headlines of the disclosures and web pages usually highlight the sectors for which targets are available. However, in many cases, the disclosures available on the net-zero methodology adopted by the bank reveal that these targets only refer to a portion of such sectoral exposures, such as upstream activities with the omission of midstream and downstream activities. Conversely, banks tend to include targets for those sectors that are considered high-emitting sectors even if they do not necessarily have a high exposure to these sectors. This provides a misleading picture, as only a small part of their total portfolio – sometimes less than 10% – is covered by the bank's targets. A mixture of sectoral targets/policies can also be observed, which, without further explanation, risks being perceived as cherry-picking. In other words, several banks only cover some sectors (with no plans to include further sectors) without further specification and substantiation, even though significant exposures to other sectors exist.

### Box 3

#### Illustration of targets covering a minor share of a bank's total exposures

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A bank discloses that its exposures to sectors perceived as contributing to climate change are coherent and consistent with its targets by highlighting that the targeted sectors are responsible for most of the global direct and indirect emissions of these sectors. A closer look, however, reveals that these targets cover only about 5% of the bank's loan portfolio exposure, which means that the bank did not set targets for the vast majority of its loan portfolio exposure. In the absence of disclosures on the full portfolio, it is therefore impossible to assess whether the bank's choice of sectors is appropriate, as the bank potentially has significant exposures to other sectors responsible for global direct and indirect emissions. On the basis of the disclosures made, it is not possible to assess and validate whether the targeted sectors are indeed the most carbon-intensive of the bank.

Banks joining market initiatives, like GFANZ, are expected to base their considerations on scientifically grounded methodologies. One relevant source is the

IEA's World Energy Outlook<sup>28</sup>, which highlights that existing capital will need to shift from fossil fuels to clean energy technologies in order to reach net-zero emissions by 2050. At present, however, it is often unclear from the disclosures made how banks that have committed to net zero incorporate these scientific considerations. For example, G-SIBs often have adopted exclusion policies that are limited in scope, making it impossible to assess their alignment with net-zero commitments. For instance, credit policies regularly merely focus on limitations to project-related fossil fuel financing in the (often restricted definition of the) Arctic region, in which – other than corporate finance – multiple G-SIBs seldom or never engaged in the first place. For other fossil fuel activities, G-SIBs in some instances only disclose the requirement of an “enhanced risk review process” or “enhanced due diligence”, often without further specifying what these processes entail.

Importantly, however, G-SIBs often disclose (general and not well-defined) exceptions to these exclusion policies, including but not limited to clients “supporting” or “making appropriate progress on” the low-carbon transition. The exact scope and consequences of this support are often not substantiated, making it difficult to assess whether such transition financing indeed aligns with net-zero commitments. While there is no expectation that a net-zero commitment should determine a general withdrawal of financing to the fossil fuel sector, banks should still disclose how their oil and gas policies relate to their net-zero commitment. Such disclosures should be meaningful and verifiable.

#### Box 4

##### Illustration of sectoral policies that do not align with net-zero ambitions

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The oil and gas guidance of a bank with one of the highest worldwide exposures to the fossil fuel sector only excludes project-specific financial services for oil and gas production and exploration in the Arctic Circle. However, the bank clearly states that it did not provide such financial services in the first place. Other project-specific financial services for oil and gas production and exploration only require increased risk review processes or due diligence. The definitions of these increased risk review processes or due diligence are not included in the guidance, with the disclosures providing no details on how such policies relate to the overall net-zero commitment. The International Energy Agency requires institutions to stop financing new projects but does not require them to discontinue existing financing or projects that are already operational. However, if a bank decides to impose oil and gas policies on itself, these should be meaningful and verifiable. By disclosing a limited exclusion policy, the bank gives the impression of phasing out oil and gas. This is a misleading presentation of the bank's business strategy, which could be perceived as a greenwashing practice.

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<sup>28</sup> See IEA (2022), [World Energy Outlook 2022](#).



### 3.5 The design of targets and indicators varies significantly across banks

As also highlighted by the TCFD<sup>29</sup>, comprehensive disclosures, inter alia, on the metrics and targets deployed by an institution for its assessment and risk management allows third parties to assess said institution's practices more constructively on the basis of, among other factors, prospective risk-adjusted returns, capacity to meet financial obligations, exposure to climate-related issues and robustness in management thereof, and progress in said risks' mitigation.

An important parameter of banks' stated commitments is the timeline for achieving net zero, as unclear or unambitious timelines could constitute a considerable threat to their credibility, essentially translated as reputational risk. Banks that commit to achieving net zero in the distant future will be seen as less credible than banks employing shorter-term targets and disclosing said interim targets in a transparent and reliable manner. The following sections provide an overview of areas for improvement with regard to the setting of targets.

#### Choice of base year

Regarding the second principle of the bank-led UNEP FI [Guidelines for Climate Target Setting for Banks](#) on the selection of a base year against which targets are measured, considerable deviation is observed in the choice of a base-year threshold for comparable institutions that joined the NZBA at the same time. Said base-year thresholds vary from 2018 to 2021 in the disclosures assessed, raising questions about the rationale behind this selection. While it is understood that banks may choose the base year depending on data availability and quality, it is often not sufficiently disclosed how the selection of a different base year would change the required adjustment towards a net-zero pathway, hence undermining the credibility of the information disclosed. In addition, this deviation hinders the comparability of the information by stakeholders and may also lead to misinterpretation of the progress made by banks. The above concerns are reinforced by the fact that in four cases the institutions in the sample used different base-year thresholds for the analysis of each of their carbon-intensive portfolios, while in another seven cases no base year thresholds were disclosed.

#### Box 5

##### Several base years as a starting point

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One institution outlines in its climate report three different base years per sector to measure and steer its loan book, and only in one case includes Scope 3 emissions. Against this background, the institution reports progress regarding its climate alignment, stating it is on track with its alignment pathway for five out of a total nine carbon-intensive sectors.

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<sup>29</sup> See Chapter C.4 of TCFD (2021), "[Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures](#)", October.

### Choice of years for future targets

There are also noticeable discrepancies in institutions' approach to target years, in particular interim targets for specific sectors.

As outlined in Section 1.2, institutions joining the NZBA are expected to set targets for 2030 (or sooner) and 2050 within 18 months of joining, with their initial targets focusing on priority sectors where the bank has the most significant impact. Intermediary targets should also be set every five years from 2030 onwards. In this regard, as of year-end 2022 we note that:

- (a) 20 institutions have announced (some) sectoral targets for 2030;
- (b) only three institutions have disclosed sectoral targets for 2025;
- (c) only three institutions have defined sectoral targets for 2050;
- (d) no institution has disclosed interim targets beyond 2030.

The stark differences are difficult to explain considering that many banks have identified the same sectors – such as oil and gas, power generation, steel and automotive – as sectors relevant for target-setting.

In the same context, another concerning matter is that some banks express targets only in percentage values compared to the baseline year or previous years' targets set by the bank. It is often very difficult to trace the nominal value of the baseline year in the disclosures of previous years. This creates additional challenges when verifying if progress is actually being made with respect to the bank's commitment. Assessing progress against previous years does not allow for a clear comparison with respect to forward-looking targets. In some cases, these forward-looking targets are also absent, raising the likelihood that the institution's commitment to a net-zero pathway is unsubstantiated. A further challenge arises from the absence of clear information in the disclosures, where often the actual target must be derived from several different information sources spread across multiple pages.

**Table 5**

Sectoral targets for oil and gas set by different institutions

| Subsector                                      | Bank    | Metric   | Intensity or absolute metric  | Base year | Reduction target by 2025 in % | Reduction target by 2030 in %   | Reduction target by 2050 in % | Scenario  |
|--|---------|--|---|-----------|-------------------------------|---|-------------------------------|---|
| Upstream                                       | Bank 1  | MtCO <sub>2</sub>  | Absolute metric (Scope 3)   | 2021      | NA                            | 23%   | 90%                           | IEA NZE   |
| Upstream                                       | Bank 2  | MtCO <sub>2</sub>  | Absolute metric (Scope 3)   | 2020      | NA                            | 30%   | NA                            | IEA NZE   |
| Upstream, downstream and integrated subsectors | Bank 3  | gCO <sub>2</sub> e/MJ  | Intensity metric (Scope 3)  | 2019      | NA                            | 11-27%  | NA                            | IEA NZE   |
| Upstream, midstream, downstream                | Bank 4  | MtCO <sub>2</sub>  | Absolute metric (Scopes 1, 2 and 3)   | 2020      | NA                            | 30%   | NA                            | IEA NZE   |
| Upstream                                       | Bank 5  | Mtoe (%Δ EJ)   | NA  | 2019      | 10%                           | NA  | NA                            | IEA SDS   |
| Unclear  | Bank 6  | MtCO <sub>2</sub>  | Absolute metric (Scopes 1, 2 and 3)   | 2019      | NA                            | 26%   | NA                            | NGFS Orderly Net Zero 2050  |
| Upstream                                       | Bank 7  | NA   | Absolute metric   | 2019      | NA                            | 19%   | 69%                           | IEA NZE   |
| Upstream and downstream                        | Bank 8  | Op. carbon intensity: gCO <sub>2</sub> e/MJ; End Use carbon intensity: g CO <sub>2</sub> /MJ | Intensity metric Scopes 1 and 2: CO <sub>2</sub> and methane emissions from production and refining of oil, natural gas, bioenergy and other energy products<br>Scope 3: end-use CO <sub>2</sub> emissions from combustion of oil and natural gas | 2019      | NA                            | 1. 75% reduction in methane emissions<br>2. 90% reduction in carbon dioxide emissions from flaring<br>3. 15% reduction in carbon dioxide emissions associated with other energy use | NA                            | Operational: IEA SDS with methane added based on supplemental IEA data<br>End-use: IEA SDS with adjustments |
| Upstream and downstream                        | Bank 9  | gCO <sub>2</sub> e/MJ  | Intensity metric (Scopes 1, 2 and 3)  | 2019      | NA                            | 17-22%  | NA                            | Internally developed scenario based on IPCC   |
| Upstream and integrated/diversified            | Bank 10 | MtCO <sub>2</sub> e  | Absolute metric (Scopes 1, 2 and 3)   | 2019      | NA                            | 34%   | NA                            | IEA NZE   |
| Upstream                                       | Bank 12 | MtCO <sub>2</sub> e  | Absolute metric (Scopes 1, 2 and 3)   | 2020      | NA                            | 12-29%  | NA                            | IEA SDS and IEA NZE   |
| Upstream                                       | Bank 13 | MtCO <sub>2</sub> e  | Absolute metric (Scopes 1, 2 and 3)   | 2019      | NA                            | 15-18%  | NA                            | IEA NZE   |
| Upstream and downstream                        | Bank 14 | gCO <sub>2</sub> e/MJ  | Intensity metric (Scopes 1, 2 and 3)  | 2020      | >10%                          | NA  | NA                            | IEA NZE   |

## Box 6

### Use of percentages instead of absolute amounts

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One institution has disclosed targets only in percentages against previous years' benchmarks, which in turn are also expressed in percentages. In a 2021 publication, the bank announced a reduction in Scope 1 and 2 greenhouse gas (GHG) emissions for its own operations compared with a base year of 2018. In 2015, a reduction in Scope 1 and 2 GHG emissions was announced in percentage value, this time against a 2008 base year. However, the nominal value for this percentage fluctuation could not be found.

### Choice of sectoral targets

Another observation tied to the setting of targets is the unclear timeline for the development of further sectoral targets as well as the comprehensiveness of these sectoral targets. Although many banks have taken steps to comply with their commitment and disclose targets for some of their most carbon-intensive portfolios, certain discrepancies are noted.

- (a) While some institutions disclose their exposures to carbon-intensive sectors, they only set targets for a small subset of these sectors. These institutions do not specify timelines for introducing targets for the full scope of carbon-intensive exposures.

## Box 7

### Illustration of targets not covering all relevant sectors

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One institution provides a comprehensive table of its credit exposures to sectors perceived as contributing to climate change, including a breakdown of subsectors. For each sector, the level of risk relating to physical and transition risk is also disclosed. Nonetheless, the same bank only discloses targets in the two most carbon-intensive sectors reported, while not disclosing any targets for other sectors that the bank has assessed as highly susceptible to climate transition risks, such as agricultural products.

- (b) As already stated above (in Section 3.4), in cases of exposure to complex industries of multifaceted business activity, such as mining or oil and gas, there have been instances where institutions have disclosed generic targets applicable to these industries without specifying the type of activities these targets apply to.

## Box 8

### Illustration of targets excluding some relevant subsectors

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A bank discloses the inclusion of key sectors exposed to transition risk in its 2030 financing activity targets. It also illustrates the subsectors included in its financed emissions, emissions intensity reporting and net-zero targets. However, despite setting targets for several carbon-intensive sectors, the bank explicitly excludes from those targets several subsectors (for example, the target presented for oil and gas does not apply to oil and gas storage, equipment and drilling).

- (c) An institution discloses targets in certain carbon-intensive sectors but does not provide an overall outline of the related exposures in its portfolio. It is therefore impossible to assess whether the targets are realistic.

## Box 9

### Illustration of inconsistent approaches to sectoral targets

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A bank discloses several targets for 2030. For some sectors, the bank also discloses methodologies, the scope of metrics, scenarios used and data quality scores. For other sectors, the institution only discloses exposure reduction targets without substantiating those targets from a methodological or scientific point of view. The divestment targets are therefore difficult to understand and verify.

#### Business coverage of targets

There is doubt as to whether net-zero targets encompass all relevant emissions of interest. For the majority of the banks in the sample, targets for financed emissions cover only a subset of banks' lending exposures. Nonetheless, said targets do not appear to apply to facilitated emissions linked to funding activities, where banks play a critical role in facilitating market access through underwriting, securitisation and advisory services (off-balance sheet). Taking into consideration the argumentation put forward in the discussions prior to the release of the PCAF standards<sup>30</sup> for the reporting of facilitated emissions pertaining to weightings and time periods, our review of disclosures shows that:

- (a) there are double standards in the disclosure of targets for financed and facilitated emissions, casting doubt over a bank's real climate impact;
- (b) significant emissions are still unaccounted for, leading to a potentially flawed or misleading representation of a bank's contribution to climate change in light of its involvement in capital market facilitation;
- (c) the large fluctuations in capital market volumes and their dominance over lending exposures in banks' portfolios could potentially lead to arbitrage decisions when discouraging banks from lending and encouraging them to proceed with off-balance-sheet operations, making it even more challenging to operationalise targets.

### 3.5.1

#### The use of carbon credits or carbon offsets is not systematic but lacks sufficient scientific grounding

Both carbon offsets (e.g. a reduction in GHG emissions to compensate for emissions elsewhere) and carbon credits (e.g. a transferrable instrument representing an emission reduction of a certain CO<sub>2</sub> amount, or an equivalent amount of other GHGs, that is purchased by a party with the purpose of counting said reduction

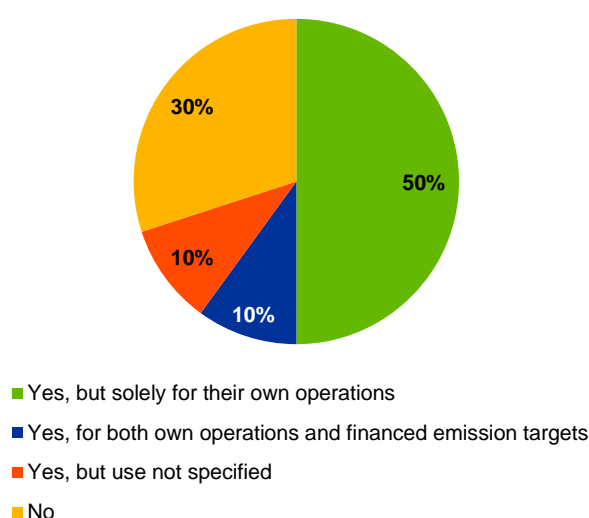
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<sup>30</sup> See PCAF (2022), "[Capital Market Instruments: Proposed Methodology for Facilitated Emissions 2022](#)", September.

towards its own GHG reduction goals)<sup>31</sup> are used to achieve GHG reduction targets. Half of the banks in the sample use carbon offsets/credits for their own operations, whereas only 10% use them to (also) reduce their portfolio emissions. Only five banks provide clear references to a scientific basis for said carbon/offsets, while three state they are currently laying the groundwork to proceed with carbon credits. It is notable that two institutions claim carbon neutrality in their own operations solely through the usage of carbon offsets/credits, which could be perceived as defying the purpose of actually reducing their carbon emissions.<sup>32</sup>

**Chart 3**

Use of carbon credits/offsets by institutions



### 3.5.2 “Green financing” targets are not clear or comparable across banks

In addition to net-zero targets, many banks also have “green financing” targets, i.e. targets to commit certain amounts to finance “green” or “sustainable” purposes by a certain date. There are a wide variety of financing commitments by banks in the sample, which makes it not only challenging to compare the targets and the ambition of those targets, but also to assess the level of effort needed to achieve them.

First, there is variety in terms of target year, with either short-term to medium-term targets (2023, 2024 or 2025) or longer-term targets (2030 or 2050). Sometimes this information is not available at all. The starting point is often not clear either, meaning

<sup>31</sup> See the definitions contained in the [Carbon Offset Guide](#) of the Carbon Offset Research and Education program.

<sup>32</sup> In general, the use of carbon offsets or credits should be subject to strict conditions, such as the standards outlined by UNEP-FI. These restrict reliance on carbon offsetting for the achievement of end-state net zero to carbon removals to balance residual emissions where there are limited technologically or financially viable alternatives to eliminate emissions. In addition, offsets should always be additional and certified.

for instance that the amount of assets that already qualified for the target when the quantitative objective was defined is not known.

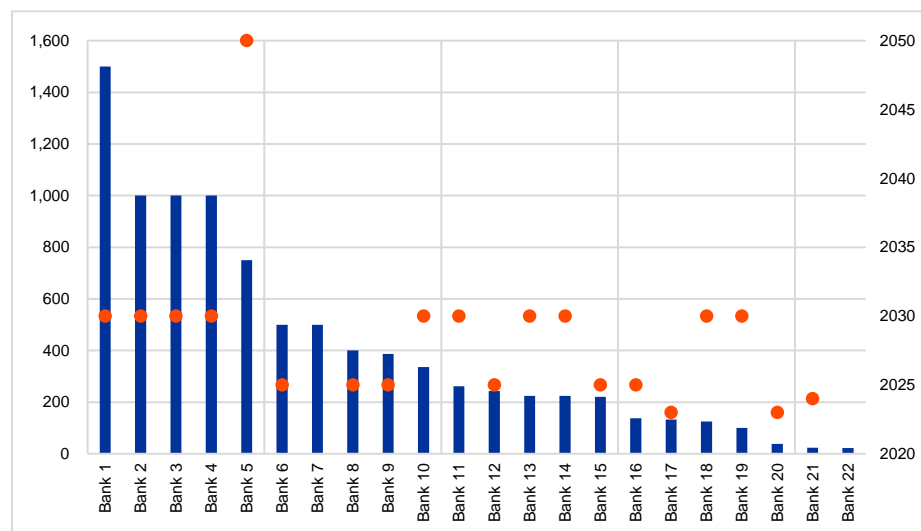
Second, there is variety in terms of amounts to be dedicated to the target, ranging from USD 22 billion to USD 1,500 billion, with an average of USD 415 billion and a total of USD 9,126 billion for the banks that disclosed such targets. The amounts are almost never disclosed in proportion to the relevant portfolios at stake: a USD 22 billion target in a balance sheet exceeding USD 1 trillion (less than 2% of total assets) might cast some doubt about the level of ambition of such targets and whether they will really contribute to the net-zero commitment of the bank. Overall, these commitments of USD 9,126 billion represent less than 10% of the total assets of the banks in the sample.<sup>33</sup> As such, there is doubt as to how banks can claim to become net zero with so few green assets or equivalents in their portfolio by 2030 or 2050.

#### Chart 4

##### Sustainable finance commitments by G-SIBs

###### Significant variation in amounts committed to the transition

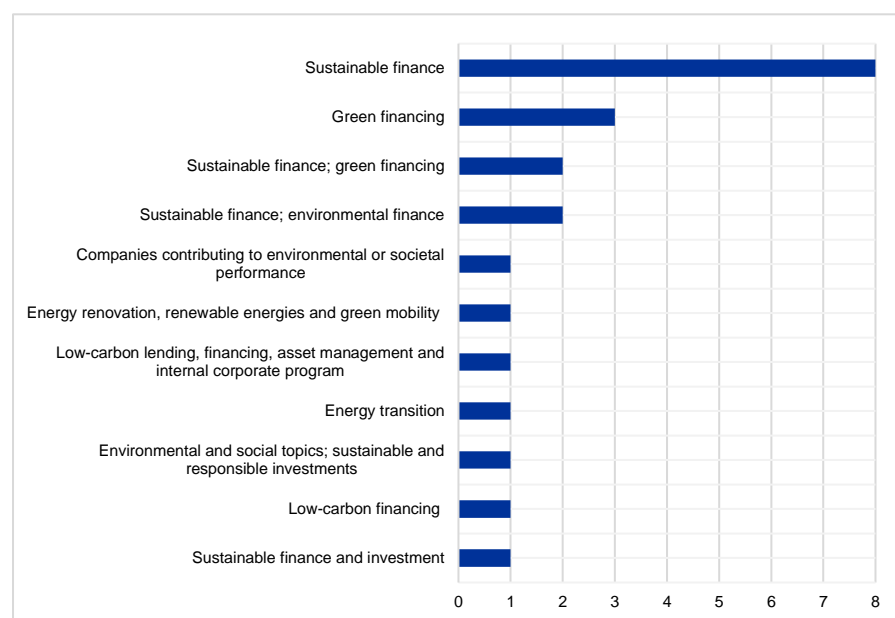
(green financing commitment in USD billion, by bank, and related target year)



<sup>33</sup> Defined as total exposures for use according to the Basel III leverage ratio framework as of the end of 2021.

**Chart 5****Sustainable finance commitments by G-SIBs****Broad range of commitments**

(number of sustainable commitments, by nature of commitment)



Last but not least, there is significant variety in the scope of targets. Targets observed refer to sustainable finance; green activities, initiatives or financing; green bonds; low-carbon financing; sustainable business; environmental and social projects; energy transition; energy renovation; renewable energies and green mobility; and companies contributing to environmental or societal performance. In several instances, climate objectives are mixed with other social or governance objectives, making it challenging to identify the share that will contribute to banks' net-zero objective. Only EU banks are subject to the EU taxonomy and Green Asset Ratio disclosure (due in 2024), which can help make such commitments comparable, but so far there are no references to those eligible assets. In general, "green financing" or similar goals are not clearly explained or defined, or are defined only very broadly. Some banks provide more information than others (from a few lines to more than ten pages) on criteria. The financing can be freely allocated by the bank itself, without external verification, and there is a suspicion that the criteria chosen by the bank tend to best fit their portfolio and specific business lines and geographies. There are even targets phrased as "aspirations" with ensuing doubt about the strength of such commitments. Another issue is that banks do not properly disclose how they approach transition finance, namely to what extent a loan granted to a company with operations in sustainable sectors as well as in carbon-intensive activities is classified as "green". Finally, the types of financing covered by the targets also vary significantly. Some banks only include loans, while others also cover other investments.



## Box 10

### Link between sustainable objectives and carbon-neutrality claims

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A bank discloses its “sustainable finance goal” under the heading “carbon neutrality declaration” on its website, where it outlines its net-zero alignment strategy. However, from looking at the disclosed documents, it is impossible to discern how the bank’s sustainable finance goal relates to its goal of reaching net-zero emissions. In particular, only around half of its “sustainable finance target” is earmarked for the environmental field, while the rest is available for a variety of “social” projects, including the financing of start-ups. As no clear conclusions can be drawn on the relationship between the net-zero goal and the sustainable finance commitment, such a statement could mislead stakeholders, who might misinterpret the amount pledged as directly contributing to the net-zero goal.

Last, disclosures of sustainable finance targets would benefit from additional information on the type of financing for projects that cannot yet be qualified as green. Banks can finance projects that are already aligned with the EU taxonomy for instance, but they can also finance projects for a company whose activities are currently not aligned but which is undergoing a transition requiring significant investments. In this respect, the EU Commission’s recent draft recommendation on facilitating finance for the transition to a sustainable economy clarifies the concept of transition finance. It also highlights how banks can contribute to a more sustainable economy “by reflecting transition financing objectives in their lending or investment strategy”.

## Box 11

### Information architecture

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It has become apparent that the desired transparency and integrity of the information provided by banks in the sample are still a work in progress, despite the marked headway towards reliability. As outlined in Section 1.2, EU banks are or will be subject to mandatory disclosure regulations (Corporate Sustainability Reporting Directive, Pillar 3 environmental, social and governance disclosure requirements), which will enhance the availability and standardisation of climate-related information. Focusing on this specific analysis, our review has also highlighted several flaws regarding the presentation of information and its reader-friendliness.

(a) First, there are instances where the most recent document pertaining to climate-risk disclosures directs the reader to previous years’ publications to supplement the existing information. One example, also mentioned above, of disclosures that could not be perceived as transparent or reader-friendly would be those whereby effort is required to detect the actual base year against which progress is being measured for the different sectors. In other cases, the reader is directed to several other documents, whether to refer to the sustainability strategy or to identify new carbon-intensive sectors added to the institution’s scope for reduction targets. Regarding the latter, an overview of the institution’s exposures, when published, is more often than not contained in an entirely different document.

(b) Second, despite the sophisticated wording that institutions use to relay critical information, we frequently observed the absence of a specific disclosure on the scientific approach underlying the banks’ target-setting and reduction measures and practices. It is evident, however, that

stakeholders would benefit immensely from an explicit and clear scientific substantiation of the sectoral targets selected, of the reduction strategies employed and of the mitigating practices in place to compensate for potential mishaps.

(c) Third, the expectation that the reader should first detect and then combine information in a variety of documents could result in severe misconceptions, which may in turn lead to the filing of complaints and subsequent administrative or legal proceedings. By the same token, misleading information in the institutions' disclosures and segregated concepts or unconnected pictures may also hinder stakeholders' understanding.

(d) Lastly, comparability, an important aspect of the usefulness of the available information, is still inadequately addressed. Fragmented climate disclosures, multiple reporting frameworks and different approaches to information architecture demonstrate the importance of homogeneous climate disclosure standards, which can aid stakeholders' risk assessment, investment decisions and strategic planning.

## 4 Greenwashing: an undefined concept with potentially severe consequences

The areas for improvement identified in Section 3 could, on their own but in particular if taken together, lead to allegations of greenwashing against the relevant banks.

While the concept of greenwashing is regularly referred to by regulators, non-governmental organisations (NGOs) and other stakeholders, a concrete, singular definition of greenwashing is still lacking.

In dictionaries, greenwashing is commonly understood as the “creation or propagation of an unfounded or misleading environmentalist image” (Oxford English Dictionary), “behaviour or activities that make people believe that a company is doing more to protect the environment than it really is” (Cambridge Dictionary) or the “act or practice of making a product, policy, activity, etc. appear to be more environmentally friendly or less environmentally damaging than it really is” (Merriam-Webster Dictionary). Authors have defined greenwashing as “the selective disclosure of positive information about a company’s environmental or social performance, while withholding negative information on these dimensions”<sup>34</sup> or “a deliberate act by an organization to obscure potentially harmful information or deliver information in a way that portrays a false image that the organization is green or eco-friendly (cares about the environment).”<sup>35</sup>

In the EU, the Taxonomy Regulation refers to greenwashing as “the practice of gaining an unfair competitive advantage by marketing a financial product as environmentally friendly, when in fact basic environmental standards have not been met”.<sup>36</sup> The guidance on the implementation/application of the Unfair Commercial Practices Directive establishes that greenwashing occurs if claims that a good or a service has a positive or no impact on the environment or is less damaging to the environment than competing goods or services are not true or cannot be verified.<sup>37</sup> The proposal for the Green Claims Directive simply refers to greenwashing as

<sup>34</sup> Lyon, T.P. and Maxwell, J.W. (2011), “Greenwash: Corporate Environmental Disclosure under Threat of Audit”, *Journal of Economics & Management Strategy*, Vol. 20, No 1, pp. 3-41.

<sup>35</sup> Mitchell, L. and Ramey, W.D. (2011), “Look How Green I Am! An Individual-Level Explanation of Greenwashing”, *Journal of Applied Business and Economics*, Vol. 12, No 6, pp. 40-45.

<sup>36</sup> Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, at recital 11.

See also the similar definition in the Sustainability Finance Disclosure Regulation: “the practice of gaining an unfair competitive advantage by recommending a financial product as environmentally friendly or sustainable, when in fact that financial product does not meet basic environmental or other sustainability-related standards”, Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of “do no significant harm”, specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports, at recital 16.

<sup>37</sup> Commission Staff Working Document, Guidance on the implementation/application of Directive 2005/29/EC on Unfair Commercial Practices, SWD(2016) 163 final.

“unclear or not well-substantiated environmental claims”.<sup>38</sup> The ESAs understand greenwashing as a practice where sustainability-related statements, declarations, actions or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product or financial services. This practice may be misleading to consumers, investors or other market participants.<sup>39</sup>

While these definitions share some common aspects, upon closer examination, they differ quite substantially. In particular, while some definitions require a deliberate act and would thus not cover negligent behaviour or actions, most do not contain such a requirement. It is particularly noteworthy that the ESAs’ recently published joint definition makes clear that greenwashing practices can also arise at the entity level, which is a novelty compared with the other EU definitions outlined above. In fact, the EBA report makes clear that in the EU, the “most common type of (alleged) greenwashing in the banking sector seems [to be] at entity level”<sup>40</sup>, which is in line with the findings of this paper.

## 4.1 The legal consequences of greenwashing allegations can be severe

Despite the absence of a homogenous definition, allegations of greenwashing can have manifold effects. The effects on banks and the sustainable investment value chain have been outlined in the progress reports published by the EBA<sup>41</sup> and ESMA<sup>42</sup>. Building on the findings of these two reports in particular, we have identified several potential legal consequences of greenwashing allegations.

While the most obvious result may be reputational repercussions arising from bad publicity, which can negatively affect investors’ views, there are also multiple possible legal consequences. Many jurisdictions establish the possibility of regulatory or administrative actions for greenwashing claims. For example, the US Securities and Exchange Commission (SEC) has established its own enforcement task force to identify potential violations, including material gaps or misstatements in issuers’ disclosure of climate risks under existing rules, and has already issued significant penalties.<sup>43</sup> In other jurisdictions, authorities responsible for advertisements have taken action with regard to misleading marketing campaigns by banks.<sup>44</sup> In many countries, individuals but also certain associations can bring civil claims for misleading statements, often based on consumer protection law. Within

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<sup>38</sup> Proposal for a Directive of the European Parliament and of the Council on substantiation and communication of explicit environmental claims (Green Claims Directive), COM/2023/166 final.

<sup>39</sup> EBA (2023), “[ESAs present common understanding of greenwashing and warn on related risks](#)”, June.

<sup>40</sup> EBA (2023), “[EBA Progress Report on greenwashing monitoring and supervision](#)”, May, p. 30.

<sup>41</sup> EBA (2023), “[EBA Progress Report on greenwashing monitoring and supervision](#)”, May, p. 33 et seqq.

<sup>42</sup> ESMA (2023), “[Progress Report on Greenwashing](#)”, May, p. 17 et seqq.

<sup>43</sup> See SEC, “[Enforcement Task Force Focused on Climate and ESG Issues](#)”, also for an overview of cases.

<sup>44</sup> See, for example, the UK Advertising Standards Authority (“ASA”), which [held](#) in October 2022 that an advertisement of a British bank referring inter alia to its support for clients in their transition to net zero was misleading. In France, new provisions of the Environmental Code (Article D229-106 to 109) only allow advertisements with claims such as “zero carbon” or “100% offset” if strict conditions are met.

the EU, national legislation incorporates the Unfair Commercial Practices Directive<sup>45</sup>, which inter alia deals with misleading commercial practices. In some countries, the applied standard is particularly strict when statements refer to environmental benefits.<sup>46</sup> Many of the claims have so far focused on marketing materials and resulted in the revocation of the relevant statement. However, depending on the applicable law, applicants may also be able to obtain monetary damages. In the EU, the Representative Actions Directive<sup>47</sup> will make it easier to bring claims for damages as it enables certain groups to make compensation claims on behalf of consumers.

While many of the above frameworks are primarily used for greenwashing at the product level and/or are based on advertisements, cases have also been filed against companies alleging their failure to provide adequate climate-related disclosures to investors and consumers. Such claims have been based on different legal bases, including corporate and securities law.<sup>48</sup>

Furthermore, the European Commission has unveiled a proposal for a directive on corporate sustainability due diligence (CSDDD)<sup>49</sup>. The due diligence measures would require the identification, prevention and mitigation of human rights and environmental impacts connected with companies' own operations as well as in relation to their subsidiaries and value chains. Non-compliant companies could be subject to pecuniary sanctions and civil liability, imposed by designated supervisory authorities operating throughout the EU.

Another potential avenue for greenwashing claims is shareholder activism, which may also be used to hold board members personally liable. For example, a group of shareholders started a derivative claim against 11 directors of oil company Shell, alleging that Shell's climate strategy is flawed.<sup>50</sup> While this case was dismissed, it is conceivable that similar claims could be brought against board members of banks. NGOs have also relied on the Organisation for Economic Co-operation and Development's guidelines for multinational enterprises to bring complaints against financial institutions before the respective national contact points.<sup>51</sup> Finally,

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<sup>45</sup> EU Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market (Unfair Commercial Practices Directive). Note that a legislative process has started to amend this directive. Moreover, the European Commission recently published its proposal for a Green Claims Directive, COM/2023/166 final. Similar rules also exist in other jurisdictions. In the United Kingdom, see Unfair Trading Regulation 2008 (Regulations 5 and 6), supplemented by the Competition and Markets Authority's (CMA's) [Green Claims Code](#), and [Updated Guidance](#) by the ASA on carbon-neutral and net-zero claims in advertising. For the United States, see Section 5 of the Federal Trade Commission (FTC) Act and the [FTC's Green Guides](#).

<sup>46</sup> See Landgericht Stuttgart, 36 O 92/21 with further references.

<sup>47</sup> Directive (EU) 2020/1828 of the European Parliament and of the Council of 25 November 2020 on representative actions for the protection of the collective interests of consumers and repealing Directive 2009/22/EC.

<sup>48</sup> Benjamin, L. and Setzer, J. (2022), "[Climate-Washing Litigation: Legal Liability for Misleading Climate Communications](#)", CSSN Research Report 2022:1, January, p. 12.

<sup>49</sup> Proposal for a Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937.

<sup>50</sup> See an overview of the case here: [ClientEarth vs. Shell's Board of Directors](#). The case was ultimately dismissed on the basis that the requirements of a prima facie case were not met.

<sup>51</sup> See, for example, [Friends of the Earth Australia and Others vs. ANZ Bank Group Limited; BankTrack et al vs. ING Bank](#).

depending on the applicable law, criminal proceedings may also be possible.<sup>52</sup> In general, NGOs have found creative avenues for climate-related claims in recent years, and courts in some jurisdictions are increasingly open to finding in their favour.<sup>53</sup>

This underlines that, in addition to growing reputational risk and the impact on banks' risk management and governance, (potential) litigation risk may be significantly affected by greenwashing allegations. In turn, the impacts of (threatened or initiated) litigation may be manifold from the perspective of prudential supervision specifically. For example, following greenwashing allegations and associated police raids, the CEO of DWS resigned immediately last year.<sup>54</sup> From a prudential perspective, this example shows that greenwashing and its consequences can affect the governance of institutions when boards are affected by such cases. In addition, litigation related to the issuance of traded "ESG" instruments can also affect prudential supervision. A recent study found a causal link between climate litigation and stock prices, with a filing or an unfavourable court decision in such a case estimated to reduce firm value by -0.41% on average.<sup>55</sup>

In this context, it should also be borne in mind that the outcome of the litigation may not be the decisive factor, as significant costs can occur even in cases where the court or administrative authority ultimately finds in the bank's favour.

## Box 12

### Examples of cases related to greenwashing

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Cases alleging greenwashing are not a theoretical concept. It has been estimated that, as of 2022, more than 20 judicial and 27 administrative complaints alleging greenwashing have been filed in different jurisdictions around the world.<sup>56</sup> The following four examples show the variety of such cases.

#### Guy and Kim Abrahams vs. Commonwealth Bank of Australia<sup>57</sup>

In 2021 two shareholders of the Commonwealth Bank of Australia brought a claim before the Federal Court of Australia based on their right to inspect the bank's books. They alleged that the bank's financing of oil and gas projects was inconsistent with its public climate-related statements and commitments. The court ruled in favour of the plaintiffs, granting them access to confidential documents relating to the relevant oil and gas projects and thereby allowing them to assess the

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<sup>52</sup> For example, in the state of New York, the Attorney General relied on the so-called Martin Act, which can be a basis for both criminal and civil liability, to argue that an oil company's external communications on the proxy cost of carbon dioxide were misleading. See Goldman, R.B., Ewing, K.A. and Shargel, D.A. (2022) "Litigation and Enforcement Impact of the SEC's Proposed Rules on Climate-Related Disclosure", *National Law Review*, Vol. XII, No 118.

<sup>53</sup> For an overview of climate litigation more generally, see Setzer, J. and Higham, C. (2023), "Global trends in climate change litigation: 2023 snapshot", June.

<sup>54</sup> Financial Times (2022), "DWS chief resigns after police raid over greenwashing claims", 1 June.

<sup>55</sup> Sato, M., Gostlow, G., Higham, C., Setzer, J. and Venmans, F. (2023), "Impacts of climate litigation on firm value", *Working Papers*, No 421, Centre for Climate Change Economics and Policy, May.

<sup>56</sup> Benjamin, L. and Setzer, J. (2022), "Climate-Washing Litigation: Legal Liability for Misleading Climate Communications", CSSN Research Report 2022:1, January, p. 5. This includes cases in the United States, Australia, France, the Netherlands, Italy, New Zealand, Denmark and South Korea.

<sup>57</sup> See case overview at the Climate Change Litigation Database [here](#).

ESG impacts of the projects and their alignment with the goals of the Paris Agreement. While no update on the case is available, the information obtained could be used in a next step by the shareholders to challenge the bank on its net-zero commitments.

#### **UK Advertising Standards Authority vs. HSBC<sup>58</sup>**

In 2022 the UK Advertising Standards Authority issued a decision to the detriment of HSBC holding that the advertisements “HSBC is aiming to provide up to \$1 trillion in financing and investment globally to help our clients transition to net zero” and “we’re helping to plant 2 million trees which will lock in 1.25 million tonnes of carbon in their lifetime” were misleading, as they could be misunderstood in a way that HSBC was making a “positive overall environmental contribution as a company”. It further held that consumers would not expect that HSBC “would also be simultaneously involved in the financing of businesses which made significant contributions to carbon dioxide and other greenhouse gas emissions and would continue to do so for many years into the future.” As a result, the bank was ordered to stop further use of the campaign and that any future marketing of the bank should not “omit material information about its contribution to carbon dioxide and greenhouse gas emissions.”

#### **Notre Affaire à Tous et al. vs. BNP Paribas<sup>59</sup>**

In February 2023 three French NGOs sued the French bank BNP Paribas before the Judicial Court of Paris. The claim is based on the French Duty of Vigilance Law (Loi de vigilance), which requires that companies, including banks, establish a plan to prevent the violation of environmental damage that may occur in the course of their business. While not directly focused on greenwashing, the claimants allege multiple shortcomings in BNP Paribas’s plan that are also relevant for disclosure as discussed in this paper, including lack of clarity and insufficient information on the bank’s financing and investments (e.g. no information on Scope 3 emissions is given). Moreover, they claim that the bank will fail to meet its commitment to become “carbon-neutral” by 2050, and that this failure may constitute an enforceable breach of a unilateral commitment or of a quasi-contract.

#### **FossielVrij NL vs. KLM<sup>60</sup>**

In July 2022 a Dutch non-governmental organisation (NGO) filed a suit against airline company KLM. Relying on the Unfair Commercial Practices Directive, the Dutch Advertising Code and the violation of an (unwritten) standard of care, they allege that KLM’s “Fly Responsibly” marketing campaign, including in particular its offering of the purchase of carbon offsets to consumers, constitute greenwashing. The claim builds on a decision by the Dutch Advertisement Code Commission which considered parts of the campaign misleading. The case is currently pending before the Amsterdam District Court, which in June 2023 decided that the claim was admissible, permitting for the first time an NGO to bring a greenwashing claim under the Dutch class action law. Similar allegations have been brought against other airline companies, including in a recent complaint before the commission brought by the Bureau Européen des Unions de Consommateurs (BEUC)<sup>61</sup>, as well as companies active in other sectors.

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<sup>58</sup> See ASA ruling [here](#).

<sup>59</sup> See case overview at the Climate Change Litigation Database [here](#).

<sup>60</sup> See case overview at the Climate Change Litigation Database [here](#).

<sup>61</sup> BEUC (2023), “[Consumer groups launch EU-wide complaint against 17 airlines for greenwashing](#)”, 22 June.



## 4.2 Greenwashing allegations can have supervisory consequences

For prudential and banking supervisors, greenwashing issues for supervised entities can have implications that go beyond the well-known market transparency considerations. Indeed, disclosures rely on the functioning of complex internal processes that involve several organisational layers and control functions. Poor or inaccurate climate-related disclosures may result from intended actions as well as from lack of knowledge and data and/or oversight. They could be the result of failing risk management processes that aim to ensure sound disclosure practices. While defining greenwashing and establishing its exact scope is not the task of prudential and banking supervisors, the broadness of potentially affected areas relevant for banking supervision highlights the importance of greenwashing for prudential and banking supervisors as users of this concept.

It is generally well documented that accurate and reliable climate-related disclosures rely on the advancement of the bank's internal processes. However, banks may feel under pressure to disclose concrete and detailed information on their net-zero plans, also due to increased scrutiny by investors and more generally stakeholders. The urge to respond to such pressure with inaccurate disclosures, rather than transparently sharing the current (very basic) level of progress on the topic of net-zero alignment, may be one of the key factors driving up greenwashing risk in the banking sector. This behaviour is also driven by the lack of a comparable global baseline, increasing pressure on banks when their peers disclose large, albeit inaccurate, amounts of information.

According to our observations, most existing cases and regulations on greenwashing refer to specific products, or target communication or commercial practices. At the same time, we currently see a concrete effort to develop detailed guidelines regarding net-zero claims at entity level, namely through market initiatives. The fact that the ESAs' proposed definition of greenwashing explicitly also encompasses greenwashing at entity level signals a turning point from a regulatory perspective. This is critical for several reasons. First, it is important to develop a globally recognised framework for the disclosure of net-zero commitments, as these disclosures are highly valuable in understanding the willingness of the bank to support a trend. It is also important that such frameworks allow external stakeholders to comprehensively assess a bank's progress towards its first intermediary target. Conversely, banks run the risk of reputational shocks should their inability to meet their commitments become known only several years after the initial publication of the net-zero commitments. Second, poor practices by some entities may cast doubt on the usefulness of net-zero commitments and deter more companies from joining net-zero alliances, ultimately affecting the financing of the transition to a more sustainable economy. The next section explores potential avenues to complement market initiatives with global minimum baseline regulation that could help support the framing of net-zero commitments.



**Table 6****Weaknesses and supervisory responses**

| Type of weakness  | Description  | Potential supervisory response   |
|---|--|--|
| <b>Lack of oversight from management body</b>               | Supervised entities may publish inaccurate or false information on their net-zero alignment due to lack of oversight from the management body, which does not properly control or understand the implications of net-zero alignment claims. <sup>62 63</sup>                                     | In such cases, the management body may not possess adequate collective knowledge, skills and experience to be able to understand the institution's activities, including the main risks. As such, the collective suitability of the management body may have to be reassessed. As climate-related risks also form part of the Fit and Proper assessment of the ECB <sup>64</sup> , such shortcomings may become relevant for future assessments. |
| <b>Unclear decision-making process</b>                      | Inadequate allocation of responsibilities can result in severe gaps in the decision-making process, where none of the bank's managers are accountable to ensure that climate-related disclosures fairly reflect the bank's understanding of the matter. <sup>65</sup>                            | This case warrants supervisory intervention on the governance arrangements of the bank.  |
| <b>Failures of the risk management function</b>             | In this case, inaccurate disclosures originate from the inability of the risk management function to properly monitor and report climate-related information. Hence, information channelled outside the organisation is faulty and/or misleading. <sup>66</sup>                                  | The supervisory response in this case is focused on requiring the bank to ensure that climate-related risks are properly embedded in its risk management framework, so that the bank has reliable and up-to-date information for external communication purposes.  |
| <b>Limited or missing challenge from the audit function</b> | Due to lack of authority, knowledge or capabilities, the audit function may be unable to detect inaccurate or misleading information derived from one of the issues outlined above, as well as from outright fraud attempts. <sup>67</sup>   | Requiring the bank to strengthen the audit function, by means of more knowledgeable staff or amended reporting lines, can mitigate these shortcomings.   |
| <b>Lack of assessment of compliance risk</b>                | Banks may publish inadequate disclosures as they do not fully understand the legal implications of such action. In this case, the compliance function is unable to properly assess applicable laws and regulations and ensure that the disclosures comply with them. <sup>68</sup>               | Supervisory intervention could focus on requiring the bank to improve the knowledge of its compliance function.  |
| <b>Ineffective information and communication systems</b>    | Inaccurate data aggregation processes and tools can result from the inability of banks' information systems to correctly aggregate climate-related data. This can be due to the inability of the information system to aggregate or retrieve relevant climate-related information. <sup>69</sup> | Supervisory follow-up in case of shortcomings of the information and communication systems usually relies on demanding long-term remediation plans, while putting in place appropriate short-term workarounds. If the probability of severely misstating risks is high, temporary capital measures are possible.   |

<sup>62</sup> See Expectation 3 (in particular 3.4), ECB, "[Guide on climate-related and environmental risks](#)", November 2020.

<sup>63</sup> See EBA/GL/2021/05 on Internal Governance (paras 20, 23, 25, 152)

<sup>64</sup> See ECB, "[Guide to fit and proper assessments](#)", December 2021, in particular Chapter 3.5, and Expectation 3.2, ECB, "[Guide on climate-related and environmental risks](#)", November 2020.

<sup>65</sup> See Expectations 3.1 and 5, ECB, "[Guide on climate-related and environmental risks](#)", November 2020.

<sup>66</sup> See Expectations 3.3 and 5.4, ECB, "[Guide on climate-related and environmental risks](#)", November 2020.

<sup>67</sup> See Expectation 5.6, ECB, "[Guide on climate-related and environmental risks](#)", November 2020.

<sup>68</sup> See Expectation 5.5, ECB, "[Guide on climate-related and environmental risks](#)", November 2020, and EBA/GL/2021/05 on Internal Governance.

<sup>69</sup> See Expectation 6.4, ECB, "[Guide on climate-related and environmental risks](#)", November 2020.

## 5 Which frameworks can increase the transparency of banks' commitments?

Existing market initiatives already establish a clear framework that banks committed to net zero need to adhere to. These initiatives have been crucial in mainstreaming the discussion on net-zero alignment and advancing the methodological debate. In addition, such initiatives have helped to overcome, via private commitments, the lack of political feasibility to implement, via regulation, binding net-zero requirements in jurisdictions with conflicting economic interests. The fact that almost all G-SIBs have joined market initiatives and started to adhere to their requirements is proof of their worldwide impact and success. We are convinced that such private initiatives will continue to play a key role in the transition of the economy; however, we have identified a few areas where recommendations and guidance for banks could be strengthened. This refers particularly to the objective of ensuring that disclosed climate-related information is comparable, verifiable, timely, understandable, complete, neutral and accurate.

Possible approaches to improve net-zero commitments rely on (1) the international design and reporting of alignment metrics, and (2) banks' internal transition planning process. Without aiming to be prescriptive as regards methodologies, there are certain key features of net-zero commitment disclosures, such as the choice of sectors that are material for a bank, the type of target and benchmarks that are used, and the interplay between green financing and alignment targets that can be clarified in the global standards. This global framework, interoperable with successful private initiatives, would create a complementary baseline for banks that wish to commit to net-zero alignment. Methodological frameworks designed by market initiatives would then provide detailed implementation guidance. A disclosure framework for net-zero commitments that is grounded in a minimum global baseline could also contribute to mitigate reputational and legal risks for disclosing banks. Last, such a framework would allow for better comparability across banks, eventually providing markets with key information needed to price the risks and opportunities of the banks they wish to invest in.

### 5.1 Development areas for market initiatives related to net-zero alignment

Banks are currently often allowed to disclose their net-zero commitments before setting intermediary targets. This approach results in many banks overplaying their net-zero commitment in this initial period, despite lacking a clear view and strategy on the operationalisation of their net-zero strategy. A possible adjustment could be to allow banks to associate with market initiatives only upon publication of their first set of interim targets. We also observe some divergence across banks in terms of the significance of their exposures to carbon-intensive sectors for the purpose of

prioritising their intermediate targets. One solution could be to provide more guidance for a comprehensive disclosure of the materiality assessment underlying the portfolio selection, allowing stakeholders to understand differences across banks in their portfolio selection for target-setting. Last, scientific evidence shows that immediate and decisive action is needed in the short term to achieve net-zero goals. Market initiatives could push to expect more short-term targets (e.g. within three years) to improve the perceived reliability of such commitments.

Market initiatives could also provide more guidance on how to enhance the comparability and standardisation of information concerning net-zero commitments disclosed by associated banks. Banks' disclosures are often structured according to specific topics such as governance, strategy, risk management and metrics/impacts/targets. Even though the structure is widely used, the bank-specific content does not allow reported information to be compared.

## 5.2 The need for a global baseline framework for net-zero commitments

It is our view that market initiatives should continue to drive the global discussion on net-zero alignment. Nonetheless, a global baseline framework could help to increase transparency and further reduce the risks arising from potentially misleading statements on net-zero commitments. Two regulatory products could help here: establishing minimum comparable disclosure requirements on net-zero alignment at international level and requiring transition plans as part of a sound risk management approach by banks.

With regard to **disclosure**, as described in Section 1.2, the legislation in the EU can currently be considered as comparably more advanced than elsewhere. For example, under the CRR<sup>70</sup>, large banks with issued securities that are admitted to trading on a regulated market of any Member State already have to disclose qualitative and quantitative information on ESG risks. These disclosure rules will be further advanced in the upcoming CRR3/CRD6 review. The current EBA ITS on Pillar 3 already contain a template of banks' sectoral alignment metrics, which helps to standardise the disclosure of such targets. It also provides a clear reference to a net-zero scenario from the IEA (NZE 2050), while leaving freedom to select metrics and sectors.

In order to address the areas for improvement identified in this paper and therefore limit greenwashing risks, it is critical that upcoming global disclosure regulations provide a common framework for net-zero claims, leveraging on the experience of the EBA ITS on Pillar 3. The TFCR, under the umbrella of the Basel Committee on Banking Supervision, will issue a consultation paper on the Pillar 3 disclosure framework for climate-related financial risks by the end of 2023.<sup>71</sup> This framework

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<sup>70</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012.

<sup>71</sup> BIS (2023), "Basel Committee to review recent market developments, advances work on climate-related financial risks, and reviews Basel Core Principles", 23 March.

would complement and be interoperable with parallel disclosure initiatives under way by the International Sustainability Standards Board (ISSB) and other authorities.

As in the case of the European Union, with the EBA ITS on Pillar 3, it is of utmost importance that disclosure requirements for banks in the context of Pillar 3 establish a global baseline in order for market-led standards to be more effective. Considering the significant reputational risks that a misalignment with the objectives of the Paris Agreement entails and the specific greenwashing risks related to misrepresentation of net-zero objectives highlighted in this paper, introducing alignment metrics into the prudential scope of disclosures can contribute to improving the comparability of disclosed information as well as provide a baseline to develop more ambitious market-led initiatives.

To address the areas for improvement related to the disclosures of net-zero objectives, global standard-setting bodies like the Basel Committee or ISSB should ideally reference the common rules listed in the table below in their disclosure frameworks for banks.

**Table 7**  
Mapping of most common areas for improvement and related mitigation provided by disclosures

| Type  | Mitigating action provided by disclosures  |
|---|--|
| <b>Inaccurate portfolio selection for alignment targets</b> | Banks should disclose alignment metrics to compare the current and projected emission intensity of key carbon-intensive sectors within a loan book to an emission intensity prescribed by a climate change scenario. These metrics should be complementary for each sector to targets expressed in absolute amounts, such as financed emissions. Other metrics like technology/fuel mix and production volume trajectory should also be considered.  |
|   | Banks should include, where relevant, the time series of disclosed metrics to enable comparisons. The base year of metrics should always be disclosed and consistent. In case of changes in the base year, the bank should provide the reasoning behind such a methodological change.  |
|   | Alignment metrics and net-zero targets in general should cover a significant proportion of a bank's loan book and all of its material portfolios, including investment portfolios. Banks should be transparent about the share of assets covered by these targets.   |
| <b>No integration in portfolio steering</b>                 | The measurement unit of disclosed metrics should be aligned with banks' financial statements to allow stakeholders to assess the impact of net-zero targets on financial performance. Similarly, if banks decide to amend the "end value" of a target compared with the previous year, they need to explain the reasoning behind such a decision.  |
|   | Alignment metrics and targets should imply active steering of a portfolio. Banks cannot passively wait for their clients to make a transition consistent with a net-zero pathway and transfer the responsibility for failure to reach net zero to their clients. This also means that banks should disclose their rules and procedures supporting their active role in fostering this transition.  |
| <b>Use of scenarios that are not credible</b>               | Disclosure frameworks should only reference net-zero scenarios that are scientifically grounded. If a baseline scenario like IEA NZE2050 does not cover a specific sector, other scenarios can be considered to the extent they are consistent with a net-zero pathway. Disclosures should be complemented with relevant methodological disclosures if the former are not publicly available.  |
|   | Disclosure frameworks should limit the use of carbon credits or carbon offsets to banks' own operations, which should in general be distinguished from other net-zero objectives.  |
| <b>Reduced scope of net-zero targets</b>                    | Net-zero targets should encompass capital market activities and all facilitated transactions that can be responsible for additional GHG emissions. It means that targets should also cover facilitated emissions.  |
| <b>Lack of accountability for alignment targets</b>         | Disclosures of sustainable investments and objectives should be better framed. They should ideally refer to a well-grounded taxonomy. In order to be considered in the net-zero strategy of a bank, the disclosure of such targets should be granular enough to understand the impact per sector and the proportion of the balance sheet and business affected by these financing objectives. These targets should be associated with alignment metrics and targets in absolute amounts and should be embedded in the bank's strategy. |

The second key element to mitigating the risk of greenwashing and misleading disclosures is the integration of a comprehensive framework for **transition plans** into banks' management. Via transition plans, banks can gain an overview of the impact of the strategic actions and risk management tools deployed to achieve net-zero alignment goals as well as the risks of missing such goals. The clear articulation of all transition plan-related processes and actions will ensure a comprehensive understanding of how a bank is positioning itself throughout the transition to a climate-resilient and sustainable economy.

Specifically, transition plans ensure that institutions identify, measure, manage and monitor climate-related and environmental risks over short-term, medium-term and long-term horizons. Accordingly, targets and milestones set across different time intervals can be comprehensively embedded in day-to-day business monitoring. Banks that have advanced transition planning capabilities are less likely to incorrectly measure or misreport their milestones and targets. This, in turn, largely alleviates the risks of facing greenwashing allegations and suffering reputational damage or litigation. The table below provides an overview of how greenwashing risk can be reduced by developing, for the purpose of banks' internal use, sound and comprehensive transition plans.

**Table 8**

Mapping of most common areas for improvement and related mitigation provided by transition planning

| Type  | Mitigating action provided by transition planning   |
|---|---|
| <b>Inaccurate portfolio selection for alignment targets</b> | Robust materiality assessment of the exposure to transition risk is the starting point of a proper transition planning process. Via the materiality assessment, banks can identify their most critical portfolios for the purpose of setting milestones and targets.  |
| <b>Use of low-quality proxies</b>                           | Proper transition planning relies on the collection of granular data from counterparties. Via transition planning, banks can identify data needs as well as existing data gaps and define remedial actions. The availability of granular data reduces the risk of misrepresenting the bank's net-zero alignment.  |
| <b>Lack of accountability on alignment targets</b>          | Banks publishing net-zero alignment goals without a proper internal discussion risk overlooking the implications, also for reputational and legal risk, of such commitments. Proper internal governance of the transition planning process ensures that comprehensive discussion takes place, also at the highest level of a bank's hierarchy, on the bank's approach to net-zero alignment. Banks also gain a sense of the importance of clearly allocating roles and responsibilities.  |
| <b>Outdated milestones and targets</b>                      | In the absence of an internal transition planning process, banks may not investigate or detect the need to update milestones and targets. This risk is relevant, especially considering that external stakeholders may rely on these outdated targets for their decision-making, for instance in the case of investment decisions. This may trigger not only accountability issues, but also reputational and legal consequences.   |
| <b>Use of unscientific methodologies</b>                    | When transition planning is embedded in business decision-making, it is in the best interest of the bank to base net-zero targets on scientifically credible scenarios and pathways. Indeed, only the use of such tools can ensure a higher degree of confidence in the probability of materialisation of climate-related and environmental risks. The use of scientifically sound approaches also allows banks to properly grasp the impact of increased acute and chronic physical risk related to inaction.  |
| <b>No integration in portfolio steering</b>                 | When net-zero alignment goals are disconnected from a bank's management, portfolio allocation and balance sheet evolution are likely to be inconsistent with the bank's public commitments. Conversely, the integration of transition planning in strategic decision-making, as well as in key risk management processes (e.g. risk appetite, ICAAP, funding and liquidity plans), will ensure the early detection of possible misalignment with respect to public targets. This will allow the bank to properly manage its commitments as well as external communication on the topic. |

With a sound internal transition plan, banks will be better equipped to disclose relevant information showing how they support the transition and how they are on the way to net zero. While mandatory alignment with net-zero pathways does not

exist for banks, several institutions like the ECB have highlighted the risk for banks of failing to adapt to a transitioning economy in light of the objectives of the Paris Agreement. In the EU, transition plans will be required under the recast of the CRD and will fall under the scope of prudential supervision. Moreover, the EU Commission's recent draft recommendation on facilitating finance for the transition to a sustainable economy aims to clarify the concept of transition finance. It highlights how transition finance will be necessary over the coming years to ensure a timely and orderly transition, and that banks "can contribute to the financing of the transition by reflecting transition financing objectives in their lending or investment strategy" by using credible transition plans as well as tools from the EU sustainable finance framework. In addition, the recommendation provides valuable guidance on transition planning, recommending inter alia the use of science-based decarbonisation scenarios and pathways and highlighting the need to use 1.5°C scenarios with no or limited overshoot. The abovementioned EU regulatory requirements, which partially also exist in Canada and Switzerland, can constitute the common baseline upon which market initiatives can further specify modelling choices and disclosure approaches. It is important, however, that this common baseline is also established at global level in the context of the work related to banks' transition planning and use of climate scenario analyses that the TFCR is undertaking within its 2023-24 programme. This common baseline would help to minimise the risk of misrepresentation at entity level in many instances.

## 6 Annex

The following questions were assessed for all 30 G-SIBs:

- Does the institution disclose a commitment to align its exposures with the Paris Agreement objectives? (e.g. GFANZ)
- Is this commitment formulated, presented and substantiated?
- Does the institution disclose the alignment of some of its portfolios (e.g. PACTA) with transition objectives?
- What kind of climate scenario analysis program or similar tool offered by a service provider (e.g. PACTA - Paris Agreement Capital Transition Assessment) is used?
- Is this program or tool focused on specific portfolios? Please describe.
- If the bank has committed to any membership of net-zero alliances (e.g. GFANZ, NZBA), how is this membership presented and substantiated?
- Is the bank using a scenario to support its commitment to align to the Paris Agreement or its membership of net-zero alliances?
- What scenario is used?
- If a reference scenario is used, is there evidence that such scenario is regularly updated? Please describe.
- If a reference scenario is used, is there evidence that such scenario is scientifically grounded? Please describe.
- To what geographic region (if any) does the scenario relate?
- Is the geographic region chosen consistent with the bank's geographic exposures?
- Is the same scenario used throughout the documents (either financial or non-financial disclosure) or are different scenarios used for different purposes (e.g. a current policies scenario for accounting/financial purposes but a net-zero scenario for non-financial disclosure purposes)?
- If different scenarios are used, is this justified (e.g. as one scenario may not cover sectors that are relevant for the bank)?
- Does the bank state that it excludes certain sectors/portfolios/geographies from the commitment? Please describe.

- Does the institution describe its exposures to sectors perceived as contributing to climate change, which might create reputational risks for the financial institution?
- Does the bank describe how it ensures that exposures to carbon-intensive sectors (e.g. oil&gas, coal, agriculture, transport, iron/steel) are coherent and consistent with its climate-related objectives?
- Do these descriptions provide details on the activities underlying such sectors (e.g. splitting investments into upstream, midstream and downstream activities)?
- Are such descriptions comprehensive or is the bank excluding relevant carbon-intensive activities from such description (e.g. for oil&gas, the bank only reports on arctic oil exploration but does not disclose information on financing of gas pipelines)? If the answer is "no", please describe which sectors the bank is leaving out.
- Does the bank have sectoral policies in place?
- If the bank communicates its sectoral policies, does it describe in which cases it may decide to not apply such sectoral policies (e.g. the bank has a coal phase-out policy but still finances some coal projects under certain conditions)? Please describe.
- Did the institution have a climate and/or environmental-related target related to their portfolios that was active in the reporting year?
- If yes, which type of target is it (e.g. a target to reduce financed emissions by a certain amount, to "net zero", to reduce energy intensity of the portfolio, to phase out investments in certain industries or similar targets)?
- Are the definitions of such targets clearly reported by the bank, e.g. a definition of net zero?
- If a reference scenario is used, is the target consistent with the scenario (e.g. referring to the same temperature threshold)?
- Does the bank use or plans to use carbon offsets or credits to reach its target?
- What kind of carbon offsets or credits are used and for what purpose are they used (e.g. to compensate the bank's own operations' emissions or portfolio emissions)? Please describe.
- Are corporate sustainability and portfolio targets consistent and coherent?
- Is the bank differentiating between its impact on reducing emissions in the real world and reducing emissions in its portfolio?
- Does the bank have a "green financing"/"ESG" or a similar target referring to its financing?



- Is such a "green" financing target clearly defined, quantified and significant? Please describe.

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