

Review 2021 | Preview 2022



Climate Safe
Lending Network



About the Climate Safe Lending Network

The **Climate Safe Lending Network** (CSLN) is a transatlantic multistakeholder collaborative dedicated to accelerating the decarbonisation of the banking sector to secure a climate-safe world. The Network brings together senior leaders and changemakers within banks, investment firms, NGOs, financial regulation and policy, businesses, and academia to collectively explore how they can play their optimum role in accelerating change.

CSLN is a program of Green America's **Center for Sustainability Solutions**. Green America is a not-for-profit organisation, founded in 1982, focused on economic strategies to address global climate, environmental and social justice crises.

About the Author

James Vaccaro is the Executive Director of the Climate Safe Lending Network. James is a strategist and systems thinker with a background in sustainable finance. He was previously Director of Strategy for Triodos Bank and has over 20 years senior management experience in sustainable banking investment. He has also been a Non-Executive Director for a broad range of environmental and social businesses. James has served as a member of several advisory groups on sustainable finance including UNEP FI & UN Principles for Responsible Banking. He is a Senior Associate of the University of Cambridge Institute for Sustainable Leadership and a partner at NOW Partners.

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The team at **UNEP-FI & UN Principles for Responsible Banking** for their support on our research reports and continued collaboration in driving change in the banking sector. And **UNEP**, where James Vaccaro was a lead author of the UN's GEO for Business Brief: **Changing Finance to Catalyze Transformation** (UN, 2021)

The **Global Alliance for Banking on Values** for inviting us to their North American CEO meeting and Communications Community of Practice to discuss climate and COP26, and the **Institute for Social Banking** for inviting us to contribute to Expert Exchange sessions for social bankers on climate finance.

The whole team at **GFANZ** (where CSLN serves as an Advisory Panel member) with special thanks to **Alex Michie** (Head of GFANZ) and **Nili Gilbert** (Chair, Advisory Panel).

Ceres for their support and participation and leading research underpinning financial regulatory reform. And the **Center for American Progress** for organising the Financial Regulation Platform which is an invaluable network in the US.

Finance Watch for their thought leadership and advocacy for changes to macroprudential frameworks that address climate risks and societal needs. Thanks to **Greg Ford** for helping to prepare and edit **The Good Transition Plan**. We are hugely appreciative to **David Barmes** (co-author of **Financial Stability in a Planetary Emergency**) and the team at **Positive Money** who helped to set up CSLN's Climate Safe Policy Initiative.

We are proud to work alongside **Reclaim Finance**, **Rainforest Action Network**, **Interfaith Center on Corporate Responsibility** and **Share Action** on fossil fuel lending.

It has been a pleasure to work with groups in the UK focused on the run-up to COP26 in catalysing a Paris-Aligned Financial System – including **E3G**, **World Wide Fund for Nature**, **Client Earth**, **Bankers for Net Zero**, **Aldersgate Group**, **Greenpeace**, and **Global Witness**.

The following organisations for contributing valuable input into our work and for inviting CSLN to contribute to their papers: **World Resources Institute**, **Accounting for Sustainability**, **Carbon Disclosure Project**, **Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science**, **South Pole**, and the **Cambridge Institute for Sustainable Leadership**.



We are very privileged to partner with the **Finance Innovation Lab** on the **Climate Safe Learning Lab**, including the **Climate Safe Lending Fellowship Programme**, led by **Lydia Hascott** – and associates, including **Becca Bartholomew**, **Natalie Tucker** and **Ally Spencer**, who design and facilitate these impactful learning experiences.

We have been inspired by the many organisations contributing to our **Climate Safe Prosumers &**

Influencers Initiative, including **BankFWD** and **The Outdoor Policy Outfit**. We look forward to more exciting developments around influencing banks to transition to climate-safe lending practices with this group in 2022 and beyond.

Special thanks to **Green America** for providing organisational support and to our funders, including the **William & Flora Hewlett Foundation**, **Partners for a New Economy**, and **Swiss Philanthropy Foundation**.



INTRODUCTION

Our goal is that by 2025, bank lending is consistent with staying below a 1.5°C global temperature increase. Achieving climate safety by 2025 means that:

- The trajectory of banks' activities are fully aligned with the Paris Climate Agreement (consistent with keeping the increase in global temperature to 1.5°C);
- Setting science-based targets for scopes 1-3, including client-scope 3 for relevant high-carbon sectors;
- Reaching net zero greenhouse gas emissions well before 2050; and
- Incorporating strategies for a socially equitable and just transition and integrating broader sustainability factors such as nature, biodiversity, health, and wellbeing.

To accomplish this goal, we mobilise public, private, and civic sector leaders in the global banking system to collectively source and scale innovative, system-wide solutions for accelerating the decarbonisation of the banking sector and real economy.

COP26 has been a galvanizing year for finance, but 2022 is all about implementation: developing the detailed strategies that could make all the difference in the decades to come.

Read on for a review of key accomplishments by the Climate Safe Lending Network (CSLN) in 2021 and a preview of our plans in 2022 for aligning bank lending with climate safe scenarios.

If you would like to take part in the network, which includes participating in upcoming events and initiatives described in this report, contact us at connect@climatesafelending.org.

CLIMATE LEADERSHIP IN BANKS

Making commitments

The **Net Zero Banking Alliance** was launched in April 2021 bringing together **95 banks** that have made net zero commitments. This alliance is part of **GFANZ** (the Glasgow Financial Alliance for Net Zero, chaired by Mark Carney) acting across the Financial Sector. CSLN serves as a member of the GFANZ **Advisory Panel**.

This is a very significant proportion of the banking sector taking an important step forward in comparison to the 74 countries with net zero policies (see below):

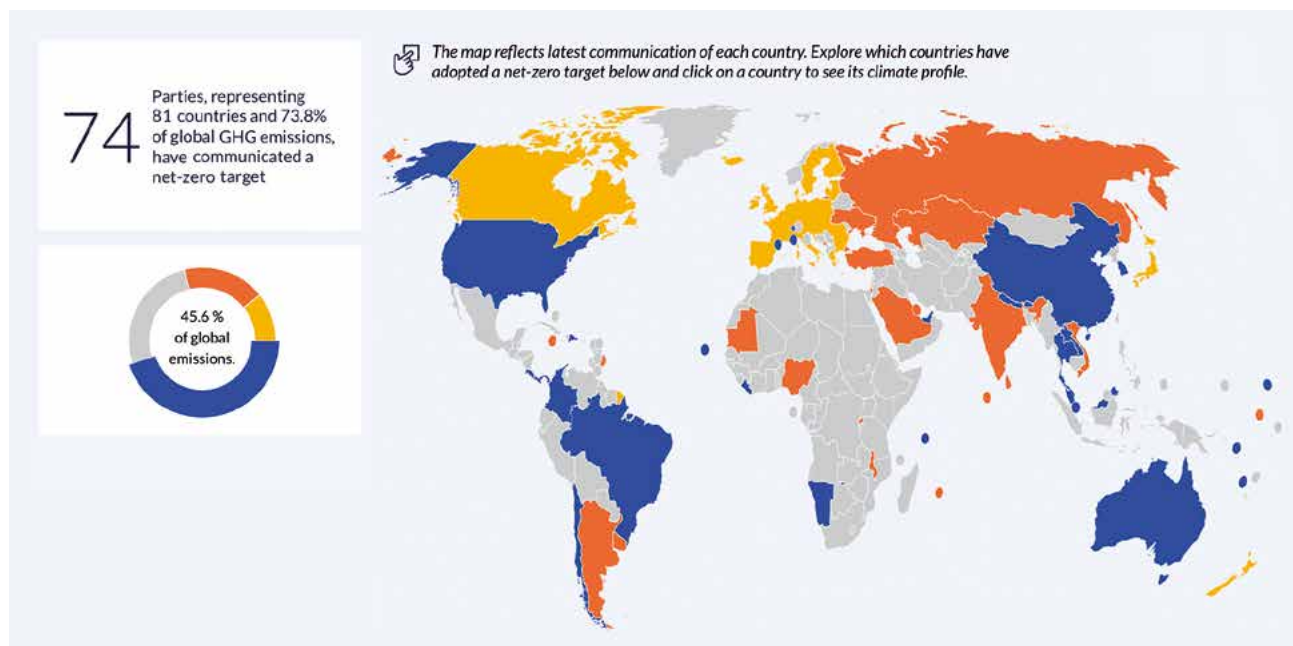
Net Zero Banking Alliance

95
BANKS

39
COUNTRIES

US\$66trn
TOTAL
ASSETS

43%
OF GLOBAL
BANKING ASSETS



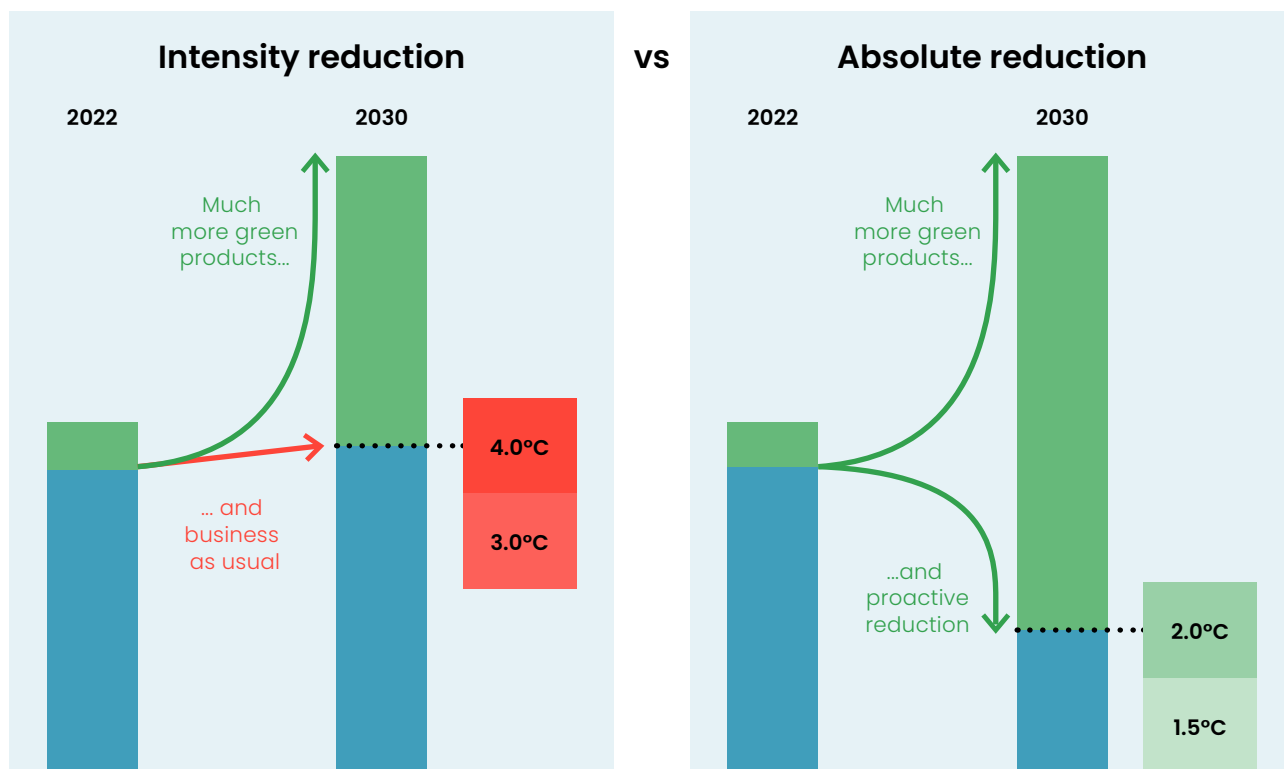
Within 18 months, banks will be required to put together their detailed plans for sector decarbonisation and set interim targets for 2030 or sooner. There's a huge premium for the climate in banks putting their best foot forward in target setting, since a slow start could mean continued investment into activities that will generate emissions for decades, adding to the cumulative atmospheric concentrations of greenhouse gas (GHG).

It will become increasingly important for banks to demonstrate to stakeholders that there is legitimacy and substance to their net zero targets. In November 2021, the Science Based Targets Initiative launched a consultation on new validation criteria for net zero

targets for financial institutions. A new framework is expected for banks to have their Net Zero Science Based targets approved in 2022.

It's also important to look at what is happening to the flows of finance – with a priority to stop creating more damage through financing companies contributing to the expansion and exploration of fossil fuels, or continued deforestation. Banks who have set 'emission intensity' targets (to compensate for growth in portfolio) will also need to look at how they both grow their positive climate solutions and proactively phase out harmful activities.

And the numbers are obviously critically important. As Mark Carney said at COP26, by being part of the **Race to Zero**,



Strategies will require BOTH reducing harmful (high emission) activity AND growing new green climate solutions

Financial Institutions “are committing to deliver their fair share of 50% emissions reductions by 2030.”

That would mean that those banks who are more heavily invested in high-carbon assets, situated in countries with the resources to decarbonise and manage relationships with clients who most need to transition, should be delivering **substantially more than 50% emissions reduction by 2030** for this to count as a ‘fair share’.

In **2022**, as annual reports reveal insights on financed emissions and banks produce their detailed targets and transition plans, we will work towards supporting the banking sector to ‘ratchet up’ its ambition and pick up the pace of implementing Transition Plans. We will encourage peer learning and stakeholder engagement to highlight practices that can help accelerate progress in decarbonising the banking sector and real economy.

Growing Intrapreneurship

The **Climate Safe Lending Fellowship Programme** launched in October 2021 with **23 Fellows** working for climate action within banks across North America, Europe, South Africa, India and United Arab Emirates. Climate Safe Lending Fellows work in a variety of functions, including sustainability, risk, client management, learning and development, and innovation and product development.

An initial two-day intensive retreat in October focused on building trust between bankers and laying the foundations for effective collaboration moving forward.

A core workshop was held in November exploring the role the Fellows will play as a systems leader. Peer coaching as well as individual support have also featured along the journey thus far.

There’s already positive momentum building amongst the new Fellows with encouraging feedback:

“It’s already beginning to change how I’m thinking. I’m excited and hopeful for the next six months and what we’re all going to come out with.”

“Covered a lot of ground very efficiently and reaffirmed my wish to join the [fellowship]. Was easier than I expected to both contribute and receive benefit.”

During the second half of this leadership development programme, Fellows will attend monthly core workshops focused on individual, interpersonal, organisational, and systemic change respectively. Fellows will also attend monthly peer coaching sessions to troubleshoot solutions to live challenges they are facing in taking climate action within their bank. Additionally, we will hold one-to-one sessions with each Fellow to determine additional bespoke support we can provide, such as, mentors, connections, and resources to support them in achieving their learning goals.



POLICY AND CLIMATE FINANCE REGULATION

Regenerating Regulation

Over the course of 2021, we have engaged with many of the leading central banks and regulators – including the Federal Reserve, Bank of England, Bank of Canada, South African Reserve Bank, Banque de France, Dutch Central Bank, Hungarian National Bank, European Central Bank (ECB) and the Basel Committee on Banking Supervision (BCBS). We've had participation in the network from politicians and government policy advisors working on reforming financial regulation and have contributed to several roundtables and conferences on topics including **Stress Testing**, (during Sustainable Investment Forum North America 2021) and **Transition Plans** (at COP26).

We provided input into many policy processes – for example the **European Banking Authority consultation on Pillar-3 disclosures** arguing for full-look through in emissions accounting to ensure that climate risk disclosures are not 'hidden' by layers of financial intermediaries. We also met with the representatives of Gary Gensler's team at the US Securities and Exchange Commission to raise the importance of including full Scope 3 as part of Climate Change Disclosures.

We recognise the challenges that regulators experience – often having the social pressure to act effectively, mandates that can be ambiguous on long term environmental risks and stretched resources. In 2022, we will be exploring the development of a Policy Fellowship/

Regulatory Learning Lab (based on our **Climate Safe Lending Fellowship** for bankers) to connect policy makers and regulators to discuss the inner challenges of making change within the complex environment of financial regulation.

The 'emerging consensus' on climate safe financial policy

The power of a diverse multistakeholder network is to be able to recognise the emerging patterns and latent consensus across the whole system. It was, therefore, invaluable to have over 50 experts participating in a detailed survey on the impact and feasibility of financial regulatory interventions to address climate risk. The resulting research paper: **Financial Stability in a Planetary Emergency** (produced as part of **UNEP-FI's COP26 Climate Thought Leadership series**) sets out the priority focus for policy interventions needed for climate finance regulation. Our launch event for this paper in April 2021 featured Ali Zaidi, Deputy White House National Climate Advisor, as keynote speaker and a panel discussion with senior leaders from the Group of Thirty, Club of Rome, Grantham Research Institute at the London School of Economics, and European Banking Authority that was moderated by a representative of the Federal Reserve Bank of New York. Over 300 sustainable finance professionals registered to attend this engaging webinar.



Financial Stability in a Planetary Emergency

Covered in:



This report was covered widely in the media, and there has already been progress on implementing some of these climate safe policy proposals:

1) Get tougher on buffers: Adjusting capital rules to account for climate-related financial risks limiting exposure to carbon-intensive loans, building up capital buffers, and incentivising investment in lower-carbon sectors.

In **June 2021**, BCBS regulators applied the same precautionary approach to the [trading of cryptocurrencies](#).

In **October 2021**, Finance Watch developed a proposal for taking capital requirements a step further, focusing on new fossil fuel finance (highlighted by the International Energy Agency as contradictory to maintaining a 1.5°C world) under the '[One-for-One](#)' rule.

In **November 2021**, BCBS opened a [public consultation](#) through 16th February 2022 on managing climate risks. Participants across the network, particularly banks, have highlighted how much regional/national differences in regulations can lead to regulatory arbitrage that prevents consequential action on climate change. Participation in this consultation is a rare chance to influence the international architecture for finance flows.

2) Policing the journey: Regulators setting out a clear framework for what Paris and net-zero alignment mean in practice, and the consequences of falling short of expectations.

At COP26 in **November 2021**, the UK Chancellor, Rishi Sunak set out policies to require Net Zero Transition Plans from listed companies and financial institutions by 2023. It's highly likely that other countries may follow this lead. A taskforce is being set up in the UK to determine what the requirements should be. That's in addition to a UN taskforce and GFANZ providing recommendations later in 2022. In all of these processes, we hope to provide input on the basis of [The Good Transition Plan](#) – CSLN's report and continuous research on the most effective ways to help banks develop climate action strategies for addressing climate change.

3) From KYC to KYCO₂: Introducing mandatory KYCO₂ rules based on ID verification processes to ensure banks are collecting sufficient climate and environmental impact data from clients, particularly clients that have the greatest climate impact.

It's clear that banks need to collect a lot more climate data to understand risks and inform strategies. However, as Frank Elderson at the European Central Bank recently underlined, even **patchy data is a good start**; dispelling the myth that data gaps prevent action. The two most powerful questions that banks should ask themselves when considering data gaps are: What do we ask for? What would we do with this data if we had it?

The evolution of the Partnership for Carbon Accounting Financials (PCAF) – now widely adopted by banks as the standard reporting tool for financed emissions – is working collaboratively to improve data quality. In the Netherlands the **Central Bureau of Statistics** is collaborating with banks to provide more reliable emissions data on mortgage portfolios.

In **2022**, many banks are likely to produce their PCAF 'carbon accounts' for portfolios. That helps with market transparency, but it will also help banks recognise where their hotspots are and where they have clients who could benefit from learning from their peers in making emission reductions. That's how banks can act as catalysts; using data proactively to manage risks and influence improvements in the real economy.

In **2022**, we are keen to review how banks are optimising these opportunities and streamlining the collection and analysis of data to leverage their transition plans as well as how regulators can help level up the playing field by taking more interest in how banks are managing this aspect of their responsibility.

4) A 'bad bank' for bad assets: Creation of a 'bad bank' by national, regional, or multilateral agencies to manage banks' legacy exposures to high carbon assets.

It was only a week after our consultation for *Financial Stability in a Planetary Emergency* closed in February 2021 when Larry Fink of Blackrock **proposed a bad bank**. This concept rests on the ability of a new entity to manage the responsible winding-down of high-carbon assets. For bad banks created in the wake of the 2008 financial crisis, the 'responsibility' was generally to return as much government capital back to lessen the burden on citizens. However, the concept here not only acts pre-emptively but also needs to balance far more influence in determining what 'responsible' winding down means. This will need to take account of the following needs: accelerate emission reductions; support re-employment of workers and regeneration of local communities; maintain health and safety procedures without corners being cut; and ensure that there is a fair distribution of contributions from stakeholders (shareholders, banks, etc.) to avoid moral hazard and promote better business practices going forward.

In **2022**, we aim to work with participants across the network to further develop the idea of a 'resolution fund' that responds to the needs of decarbonisation and is designed to ensure social justice for all.

5) A green light for lending: Create incentivised green wholesale lending, refinancing or credit enhancement facilities, to accelerate the transition to net zero.

Positive Money, a founding member of CSLN, launched the **Green Central Banking Scorecard** in 2021 that ranks the climate alignment of central bank policies. At the top of this list is the People's Bank of China, who recently announced a new re-lending tool to support carbon emission reduction. Lenders first provide carbon emission reduction loans to companies and then they can apply for loans from the central bank equal to 60% of the principal, at an interest rate of 1.75%. Both the ECB and Bank of England have also set out plans to green their monetary policy and bond purchase programs. However, whilst these actions are specifically designed to support the European Green Deal and UK Net Zero Target respectively, the same motivations are not yet being used to underpin regulatory policy.

In the UK, the new UK Infrastructure Bank (designed to replace the European Investment Bank's activity in the UK) announced its first transaction in December 2020 – an unsubsidised solar farms fund – with £500m planned for new infrastructure which represents a significant investment. But it's the role of public banks in helping to de-risk less commercially developed climate solutions where the most impact could be made. In 2022, we will collect research on the areas where central banks and public finance could make the most difference to help commercial banks accelerate a sustainable, just transition.

6) Leaving no one behind: Introducing an updated climate and communities reinvestment act that redirects capital towards supporting community resilience and climate action through diverse networks of local and specialist financial institutions.

Following the Financial Innovation Roundtable event CSLN co-hosted with the Federal Reserve Bank of San Francisco and the Carsey School of Public Policy at the University of New Hampshire, we produced a **report** in March 2021 focused on the social and community implications of climate change and detailed specific proposals for action.

In **2022**, we aim to build on the concept of a climate version of the Community Reinvestment Act and co-design policy interventions that will drive a just transition with equality and social justice at its core.



CLIMATE SAFE LENDING NETWORK – INSIDE AND OUT

Our network convenings bring together between 60-100 people across the full spectrum of stakeholder groups for immersive discussions. Individuals participate as themselves, bringing their expertise, institutional knowledge, and leadership to constructive, creative, and courageous dialogues.

We often use innovative methods to convene network discussions. In May 2021, we worked with Game Designer, David Finnigan, to develop a simulation, “The Pledge”, based on climate target and strategy setting for banks. Participants from across the network participated in a ‘bank team’, competing against each other to be the most profitable while maintaining planetary wellbeing. In 2022, we will produce a shareable version of The Pledge version 2.0 for network members to play within their own organisations and stakeholder groups.

In September 2021, we drew upon the network to help co-create *The Good Transition Plan*. This guide pulls

together stakeholder expectations and emerging best practices to inform the development of bank transition plans in the year ahead. We expect there to be many new ideas and practices resulting from this process, so we intend to build upon *The Good Transition Plan* in 2022 with an updated version for COP27.

Network Convenings for 2022

Central to the work of the network is bringing together members to share information, generate ideas, and develop collaborative relationships for collectively transforming the banking system.

At our convenings in 2021, over 100 climate finance leaders advanced the collective conversation from reflecting on the nature and adequacy of net zero targets and identifying critical shifts to accelerate the decarbonisation of the banking sector to aligning around



*Germany has halved the length of time it will take to phase out coal – from 2038 to 2030.
Could banks halve the time to meet their targets in 2022?*



the key elements of a good transition plan and collectively articulating what such a plan looks like in practice.

In 2022, we will host a series of multistakeholder gatherings to co-create bolder, catalytic strategies for accelerating the decarbonisation of the banking sector and real economy.

10th and 11th February 2022

Picking up the pace: How can banks ratchet-up in the race to zero?

Over two half-days we will explore how banks can ratchet up their climate action, client engagement, and innovation capabilities. Sustainable finance professionals from across the global banking system – including bankers, investors, academics, civil society leaders, regulators, policy makers and other experts – will engage in radically honest conversations about what it will really take to reach net zero and deliver a fair share of the 50% global emissions reductions needed by 2030.

Through thoughtfully facilitated dialogue we'll explore these topics:

- **Whether and how banks could 'ratchet up' their own commitments and plans:** What would need to take place for banks and the economy to transition faster?
- **The materiality of engagement:** How much difference can banks make to their clients through different engagement strategies?
- **Proactively developing the climate solutions pipeline:** How might banks, policy makers and investors work together to increase the flow of capital to transformational climate solutions?
- **Reframing 'bankability' as a function of banks' abilities:** How might banks develop capabilities for understanding new risks and impacts to catalyze transitions in the economy?

June 2022

This network convening will focus on opportunities for banks to advance their journey along the **Climate Safe Lending Pathway**. In particular, we will explore the second and third horizons of the Three Horizons Model for Climate Safe Lending, as described in our seminal report, *Taking the Carbon Out of Credit*. Attention will be given to the most effective strategies for building new sustainability solution markets. We'll also hear the experiences and initiatives from our first Climate Safe Lending Fellowship cohort.

September 2022

This network convening will focus on the primary market policy interventions that will help to unblock the flows of finance for investing in a sustainable, just transition. During this gathering we plan to explore: What are the emerging insights from initiatives around the world that are helping to align policy development with climate-aligned financial flows?

November 2022

At COP27 in Egypt, we aim to hold a global convening of the network. Proposed topics include:

- Revisiting *The Good Transition Plan* and co-creating version 2.0
- A live simulation of The Pledge about the challenges and possibilities for banks transitioning to net zero
- Discuss financial regulatory issues within the COP27 agenda as part of a policy forum

Climate Safe Prosumers & Influencers Initiative

A growing number of CSLN members are working with customer groups (individuals, family offices, faith groups, businesses, and others) to influence banks in adopting climate safe lending practices. We brought together these organisations to form the Climate Safe Prosumers & Influencers Initiative to share learning, collaborate and co-create strategies for leveraging the collective agency of clients and customer groups.

During 2021 we hosted a series of meetings to develop a shared understanding of the bank and bank customer landscapes and identify key leverage points in the banking system where intervention by customer groups could make a big difference in decarbonising bank lending and opportunities to advance their work more effectively.

Shareholders and shareholder advocacy organisations have been increasingly effective in influencing financial institutions through engagement and annual general meeting resolutions. But customer groups could also play a hugely influential role in positively orientating the direction of financial flows through banks. The first projects of the Climate Safe Prosumers & Influencers Initiative are likely to be launched early in 2022, which includes a Business Initiative for Climate Safe Banking focused on co-creating a suite of practical, actionable, and effective strategies for reducing greenhouse gas emissions in financial supply chains.



COLLABORATING ACROSS THE SYSTEM

It has been a pleasure working with all of the bankers, investors, campaigners, climate experts, academics, regulators, and policy makers in 2021. Whilst we started as a transatlantic network focused on Europe and North America, it's clear that there is appetite for these conversations from all the corners of the world. We've been delighted to welcome participants from Asia, Africa and the Middle East to network events and gatherings over the past year.

One of our priorities for 2022 is integrating JEDI (justice, equity, diversity and inclusion), nature and biodiversity lenses in the work of the network. Through network convenings and initiatives we will begin to unpack the disproportionate impact of climate change on the

most impacted communities as part of fostering an environmentally sustainable and socially equitable transition. and addressing diversity and inclusion within financial institutions and our broader network., including women, people of colour, people with disabilities, and those who are not able to advocate for themselves, by amplifying the growing awareness within the banking sector of calls for a just transition.

Events during the past year and key accomplishments described in this report have laid the groundwork in 2022 for accelerated progress for decarbonising the banking sector and real economy. We look forward to working with you in reversing the climate arrow and co-creating a climate safe world.

