

How to evaluate a bank's net zero plan

In the past year, eight Canadian banks joined the Net Zero Banking Alliance (NZBA) and ten – including RBC and Scotiabank – have become signatories to PCAF, the carbon accounting standard. By joining the NZBA, banks commit to setting interim targets by November 2022 which should be far more ambitious than existing commitments, such as to reduce financing of coal or Arctic drilling. RBC and TD just published their net-zero transition plans and we expect others will soon too. But how can reporters tell if a bank's net zero plan is effective or just greenwashing? Below is a guide, with key questions, to help journalists evaluate a bank's net zero plan, adapted from the [Good Transition Plan](#), a guide developed with 100 global climate-finance experts, from bankers to academics.

1. **Ask if the plan is 1.5 aligned**

A key factor for determining credibility of any net-zero plan is whether the climate strategy is consistent with stabilising global heating at 1.5°C. There are a range of possible trajectories for reaching net-zero by 2050 but, ultimately, it's the *cumulative* carbon emissions between now and the net-zero point that determine where temperatures will stabilise. Staying below 1.5°C requires early and aggressive action to cut climate pollution. Failure to implement rapid and immediate emissions cuts will make achieving 1.5°C impossible later. Any plan that only aligns with 1.5°C by way of a large emissions overshoot should not be considered climate safe because the potential for large-scale carbon removals beyond 2050 is highly uncertain.

2. **Does the plan measure the bank's climate impact across all of its businesses?**

Tools, such as the Partnership for Carbon Accounting Financials ([PCAF](#)), allow banks to measure their financed emissions from on-balance sheet lending. But what about the bank's off-balance sheet activities, such as *underwriting, capital markets and advisory*? These can account for more than half of a bank's financed emissions. Ask

what the bank is doing to measure off-balance sheet financed emissions (until tools for this are available from PCAF and others). Also, ask what scope it is measuring – until recently, some banks only measured their own operational emissions (e.g., their offices and travel) rather than what they financed, despite this being around 1% or less of their impact. Is the bank counting its 'scope 3' emissions, which includes the indirect emissions from its clients that it is financing?

3. **Ask if the targets are focused on absolute reductions or emissions intensity: a major difference**

Achieving net-zero requires reductions in absolute emissions. Are the bank's targets expressed in terms of absolute reductions of climate emissions or as relative emissions intensity? 'Intensity' might be expressed in terms of the emissions per \$ of revenue or the emissions per unit of production (such as kWh of energy produced). Under the terms of the Net Zero Banking Alliance convened by the United Nations Environment Program Finance Initiative (UNEP-FI), banks will be required to break down targets in each sector. Within the next few years, the plan should cover

the entire portfolio, but most banks will start with the highest-impact sectors first. For these sectoral targets, having an intensity target can often mean that 'passive' changes will automatically drive down intensities without the companies having to make any absolute reductions, for example because of technology improvements or if a client acquires more renewable businesses while still growing their oil and gas production.

4. **Does the bank's plan commit to reducing its fair share of emissions?**

No matter how the bank expresses its targets, can it demonstrate that it reflects a 'fair share of the 50% global reduction in emissions globally by 2030' (as outlined by the UN's Race to Zero Campaign and reinforced by [Mark Carney](#) at COP26)? If a bank's absolute emissions reductions are less than 50% by 2030, then which financial institutions do they suggest should pick up the slack? Logically, those banks with the highest carbon emissions should reduce the greatest amount. Given that Canadian banks are relatively overweight in carbon emissions (having financed over [\\$700bn](#) of fossil fuels since the Paris Agreement) it is likely that their targets would need to be significantly more ambitious than 50% by 2030 to be considered 'fair' on the global stage.

5. **Is the bank planning to train its employees on climate and sustainability?**

A climate training programme is key for banks to be able to work with their clients on the energy transition, so that bank staff can push clients on accountability and transparency, monitor and disclose how well bank clients are doing over time, and use the bank's expertise and influence to drive the big industrial transformations needed. Good training is needed at every level from relationship management to board members. Are bank staff confident in understanding climate risks and the carbon impacts of their clients' activities? Can they support clients through their transition by

offering insights, introductions, and innovative financing solutions? Does the bank consider its impacts across climate, nature, society, and the economy?

6. **Does the bank say when it will stop the flow of finance into fossil fuels and deforestation?**

Banks cannot support clients to transition if the client has no decarbonisation plan. The endpoint of client engagement must include the possibility of banks ending the relationship if the client has no credible transition plan in place. Does the bank acknowledge this? And does it state how long its patience will last? The IEA [says](#) that "there is no need for investment in new fossil fuel supply in our net-zero pathway". This is challenging for Canadian banks, given the expansion plans of many of their oil and gas customers and the extensive cross-over between boards of banks, pensions and boards of the oil and gas sector. A credible net-zero plan for a bank should set clear limits on how much it will finance new fossil fuel-linked exploration and production, clear expectations that clients will adopt climate safe transition plans of their own and show a willingness by the bank's leadership to terminate client relationships if necessary.

7. **Is the bank relying on carbon offsets to make its net zero plan stack up?**

A plan that relies on carbon offsets may not be giving enough attention to the fundamental objective of reducing emissions. A credible net zero target should include offsets *only as a last resort* after all steps to avoid or reduce emissions have been taken, and then only when the offset includes validated carbon *removals* - i.e., technologies or solutions that permanently remove and store carbon from the atmosphere. Offsets should not be used to justify business as usual and can never be based on avoided emissions, such as from installing renewable energy that do not actually remove carbon from the atmosphere.

8. **Is the bank revising its pay structures to support the reduction of emissions?**

Banks cannot maintain bonuses and incentives for business as usual. Doing so would strongly diminish its credibility and ability to change its business to meet climate objectives. Ask to what extent discretionary pay is being made conditional on the achievement of climate goals set out in the bank's net zero transition plan and how these goals are reflected in the way staff will be assessed and remunerated in future.

9. **Does the bank have an internal carbon price?**

Integrating climate impact into the pricing of loans and internal capital models is a key part of a successful climate transition plan. Some banks are placing an internal price on carbon to balance their commercial decisions. Scotiabank is the only Canadian bank to [introduce](#) a \$30/tCO₂ internal price of carbon (around

€20), but that compares poorly to the actual price of carbon trading in Europe and the UK right now, which has been three to four times [higher](#) over the last year. As a minimum, internal shadow carbon prices should be set to align with Canada's Federal carbon price backstop of \$65/tonne by 2023, rising to \$170/tonne in 2030.

10. **Has the bank aligned its advocacy to a climate safe future?**

Regulation helps to set the speed of transition and banks have high lobby influence. Banks should use their collective influence with government and regulators to support rules that help the transition, such as mandatory climate risk disclosure and net-zero transition plans across the Canadian economy, and to cease lobbying that hinders it. Has the bank reviewed its lobbying policies? Which positions has it changed?

For more information on what constitutes a 'good' climate strategy for a bank – see the [Good Transition Plan](#), published by the Climate Safe Lending Network (2021). It includes references to 16 independent perspectives on target setting for banks and was co-created by over 100 stakeholders from across the world including banks, investors, NGOs, academics, think tanks and regulators.

