Aligning Your Company's Banking with Its Sustainability Goals

Why It's Important • Who to Consult • What to Ask

BankFWD × TOPO THE OUTDOOR POLICY OUTFIT

Contents

Purpose of This Guide

The following guide is designed to help your company conduct a qualitative assessment of the climate performance and trajectory of its bank(s).

By using this guide, your company can collect critical information about its banking partners' climate planning, financial exposure to fossil fuels, and environmental impact—data that is needed to ensure your company's financial management and services align with its financial and sustainability goals. The questions outlined in the guide also provide companies the opportunity to engage with their bank(s) as a supply chain partner and advocate for banks to adopt important climate policies and best practices.

The questions below are designed to collect essential information about your bank's:

- **Climate goals and progress**
- **Use of client deposits**
- **Future climate commitments and credibility**
- **Climate risk management**
- **Bank climate governance and accountability**

Importantly, this guide is only designed to help your company analyze the climate performance of its bank(s). However, when evaluating a banking partner, your company should also analyze the bank's social impact and policies. To conduct this social impact assessment, your company can utilize Beneficial State Foundation's Equitable Banking Standards, which detail a measurable pathway for all banks to achieve positive social and environmental impact.

Frequently asked questions about many of the topics covered on the following pages are listed here. If you have any additional questions about any of these topics or the bank's responses, please email contact@bankfwd.org, contact@carbonbankroll.com, and/or banks@ceres.org.

Top 10 Questions to Ask Your Company's Bank

1. **Does the bank currently measure and disclose its scope 1, 2, and 3 emissions in alignment with a science-based international standard (e.g. the Partnership for Carbon Accounting Financials (PCAF))?**
    a. If so, what percentage of the bank's reported loans and investments does its financed emissions analysis cover, and which sectors of its book does the analysis cover?
    b. If not, does the bank have a plan to start measuring and disclosing its emissions in a manner consistent with international reporting standards? Specifically, will this bank join and start reporting to **PCAF** (if yes, when might that happen)?

2. **Does the bank have a net-zero commitment that includes its scope 3 financed emissions and that a third party verifies as credible and science-based (i.e., reviewed by the Science-Based Targets Initiative (SBTi) and compatible with a 1.5°C scenario)?**
    a. Does the bank's commitment include short-term benchmarks for financed emissions reductions? If so, are those targets for reducing the absolute *volume* of emissions (versus the carbon intensity of emissions)?
        i. If yes, has the bank released a detailed transition plan for achieving those targets? Or what is the bank's timeline for releasing a detailed plan showing how it will achieve its stated net-zero and short-term targets?
    b. How reliant is the bank's net-zero commitment on carbon offsets?

3. **Do the bank's climate targets cover all financing activities, including lending, investment, and derivative portfolios as well as all capital market activities (e.g., underwriting, bonds, and merger and acquisition advice)?**
    a. What steps is the bank taking to measure, report, and reduce the climate impact of those activities?

4. **Does the bank have sector-specific commitments to reduce emissions for all its high-transition risk sectors (e.g., the energy, power, agriculture, transportation, real estate, and metal sectors, etc.)?**
    a. If the bank does not have sector-level commitments for achieving net-zero targets, does the bank have a timeframe for establishing them?
    b. Does the bank consider information related to clients' emissions, environmental impact, transition risk, and/or transition plans when making its financing decisions? If so, how does it factor in that information?

5. What percentage of the bank's total financing did coal, oil, and gas each constitute on the bank's balance sheet in 2022?

a. Did the bank's financing for fossil fuel companies increase or decrease last year?
b. What has been the bank's fossil fuel financing trajectory and history since 2015 (when the Paris Agreement was signed)?

6. Does the bank have any company-wide restrictions on financing the fossil fuel sector (e.g., restrictions on coal, gas, and/or oil)? Are these restrictions on financing for (a) specific projects and/or (b) general corporate support?

a. With relevance to our company's own business with the bank, **does the bank have any restrictions on the use of client deposits for providing (a) project-based or (b) corporate-based fossil fuel financing?** If so, what are those restrictions, and how does the bank ring-fence client deposits from fossil fuels?

7. Has the bank committed to ending all financing for fossil fuel expansion?

a. If yes, what is the bank's target date for ending that financing?
b. If not, does the bank have any established plans or targets for phasing down that financing, or is it continuing with business as usual?
c. Is the bank monitoring whether its clients continue to finance new fossil fuel expansion (e.g., the development of new fossil fuel sources, infrastructure, etc.)?
d. What protocols has the bank put in place to ensure that it does not reduce its fossil fuel exposure by simply selling or otherwise offloading its fossil fuel portfolios to other financial actors (e.g., private equity firms, etc.)?

8. Has the bank made a public commitment to provide a specific amount of "green" financing? If so, how much has it earmarked?

a. What criteria does the bank use to categorize finance as "green" versus "transition" versus more broadly "sustainable"?
    i. How much does the bank give to each kind of finance?
    ii. Does the bank use the term "green finance" to cover funding allocations that go to environmental projects that have no direct climate benefit or projects intended to support fossil fuel actors in lowering their carbon footprints?
b. How does the bank make decisions about whether or not "gray-area" technologies (e.g., blue hydrogen) or specific projects qualify as "green"?

9. Does the bank offer sustainability or green deposit financial products to its customers including but not limited to the following?

a. Accounts that use cash deposits exclusively to fund renewable energy companies
b. Energy improvement loans (consumer/business)
c. Green vehicle loans (consumer/business)
d. Green credit or debit cards that give rewards for purchasing from eco-friendly companies
e. Loans, derivatives, or other financial products with incentives linked to sustainability KPIs
f. Assistance issuing green bonds
g. Financial advisors with expertise in impact or environmental, social, and governance investing

10. Does the bank's corporate governance structure include board-level oversight and accountability for climate risk management and net-zero target achievement?

a. Is the bank's executive compensation tied to progress against your net-zero commitment?
b. Has the bank aligned its corporate lobbying activities and trade association membership with its sustainability strategy and Paris Agreement-aligned targets?
c. Do you have executive capacity dedicated to identifying and managing climate risks and opportunities?
d. Has the bank conducted a climate scenario analysis in accordance with the [instructions released by the U.S. Federal Reserve] (U.S. FED)?

"I'm naming you VP of Revolution, Action and Edgy Thinking ... on one condition ... that you promise not to change anything."

Why Take This Step?
Your Company's Bank Might Be Its Most Important Climate Partner

Whom your company banks with is one of the most important climate decisions it makes and a prime opportunity to advance meaningful climate progress.

As companies increasingly focus on combating climate change, new research reveals that for many companies, the carbon footprint generated by their investments and cash held in big banks are a significant source, and sometimes their largest source, of emissions. As a result, integrating your company's financial services into its sustainability strategy is one of the most impactful things your company can do to address climate change.

Just as companies work across all their material supply chains to reduce their emissions, companies should also manage the emissions generated by their financial supply chain—essential corporate financial activities including cash management, investing, and pensions. More than accounting for those emissions, companies should make it a key component of their corporate sustainability and net-zero objectives to work with their external financial partners (i.e., their banks) to reduce both their own company's and their banks' financial supply chain emissions.

- **Corporate banking and investing activities generate a significant carbon footprint**

  Corporate cash and investments do not just sit passively in bank accounts accruing interest. Rather, that money is used to finance everything from energy development to construction projects to small-business loans, all of which generate emissions in the real economy with attribution that can be traced back to banks and companies.

- **Banks turn companies' short-term cash into long-term investments in infrastructure that is locking in decades of emissions.**

  Banks play a foundational role determining our climate and economic future by taking short-term money and investing it in long-term infrastructure. Presently, too much of that infrastructure is furthering the climate crisis. As a result, by passively enabling their cash and investments to finance carbon-intensive sectors and infrastructure, companies have been unintentionally funding a future they are working tirelessly to avoid.

- **The financial sector is a powerful engine that is driving the climate crisis.**

  The financial sector is on track to fund emissions generation well beyond the global goal of the 1.5°C temperature increase that Intergovernmental Panel on Climate Change scientists say is required to maintain a safe planet. Therefore, a climate-safe world is not possible unless the financial sector sets robust near-term, science-based climate goals; quickly phases out the flow of finance to fossil fuels and deforestation; ramps up investments in transition across all economic sectors; and scales up innovative climate solutions.

- **Your company's financial supply chain is no different than any other supply chain.**

  Just as **material supply chains** are made up of the vendors that source and produce the components and products that your company needs to operate, ***financial supply chains*** are made up of the vendors—i.e., banks and other financial institutions—that provide your company with the financial products and services that it needs to operate.

- **There is significant variance within the financial sector for how banks are currently performing on climate and their long-term commitments.**

  As a baseline for your company's sustainable financial planning, it's important to understand the true climate performance and plans of the company's bank(s). Ultimately, companies should be evaluating their financial partners through a wide spectrum of environmental metrics to evaluate those partners' current environmental performance and the credibility of their long-term commitments.

- **Accounting for financed emissions is gaining regulatory traction**

  Companies that start measuring and integrating the emissions from their financial supply chains into their sustainability reporting now will be well-prepared to comply with forthcoming changes to recommended and/or required climate reporting guidelines.

  ### Pending Regulatory Changes

  As of January 2023, the U.S. Securities and Exchange Commission (SEC) and the coordinating body of the Greenhouse Gas (GHG) Protocol are reviewing proposed emissions reporting guidelines and regulations, which are expected to have implications for how to report on financed emissions.

  - The SEC proposed a new rule in 2022 that would require publicly traded companies, including financial institutions like banks, to disclose their activities' carbon footprint. Those guidelines underwent a public comment period and are now undergoing final review. Depending on the final version of the rule, the SEC may require, strongly encourage, or advise financial institutions and possibly companies to report their emissions from financial activities (i.e., their financed emissions) as part of scope 3 disclosures.
  - The GHG Protocol, the world's most widely used greenhouse gas accounting standard, which 9 out of 10 Fortune 500 CDP-reporting companies use, already considers companies' financed emissions to be "in-scope." According to the World Resource Institute and the World Business Council for Sustainable Development, which manage the Protocol, corporate cash and investments have always been elements of a company's scope 3, category 15 emissions—but companies have not yet been able to report those emissions due to data and methodological limitations. However, those data and methodological deficiencies no longer exist.

- **The climate performance of your company's bank may be undermining your corporate sustainability goals and commitments.**

  By evaluating your company's current financial partners and calculating its financed emissions, you may find that your company can significantly reduce its total emissions by diversifying or moving its banking business to financial firms with lower emissions profiles and a better overall environmental performance.

Outreach Template #1:
Sample Bank Outreach

Suggested framing for companies to use as a rationale for requesting a meeting to discuss their bank's climate performance (with an account manager and/or bank executive):

Our company has made an official and public commitment to reduce our emissions and achieve net zero. Climate action is now a cornerstone of our sustainability plan and a core strategic objective. (Climate action is also becoming a core concern for many of our corporate peers.) Our annual emissions are a matter of public record, and we work across our supply chains with our suppliers to measure and report their and our annual emissions so that we can best account for and reduce our company's comprehensive climate impact.

We treat our financial supply chain—essential corporate financial activities including cash management, investing, and pensions—as a core company supply chain. As a result, we are working to measure, manage, and reduce emissions from our various financial assets, activities, and relationships. Your provision of our financial services makes you a critical component of our financial supply chain. Our existing financial relationship continues to work well for us, and our aim is to maintain and strengthen our partnership as we work together to better understand and reduce our financed emissions.

Companies like ours are facing increased regulatory, financial, and reputational accountability for our impact on our communities and climate. As a part of that accountability, we are facing growing demand from our employees and consumers to produce a specific plan for measuring and reducing our financial activities' climate footprint.

As we invest increasing amounts in achieving our sustainability and net-zero targets across all pillars of our operations, we have a growing interest in ensuring that our financial supply chain emission reduction objectives and performance align with our larger corporate climate goals and that our financial activities are not undercutting those larger goals. We understand that the success of our sustainability strategy to reduce our emissions footprint is dependent upon—and increasingly inseparable from—our vendors' climate performance, which is why we are reaching out today.

Our goal in having this conversation is to work together to reduce our company's financial supply chain emissions and the associated risks that would accompany our failure to ensure the decarbonization of our finances.

We look forward to discussing this critical issue and working together to ensure our partnership is financially sound while furthering our climate objectives and generating a more positive environmental impact.

Outreach Template #2:
Building Internal Company Buy-In

The questions and points below are intended to help corporate sustainability team clearly explain the importance and value of aligning your company's financial planning—starting with its banking partnerships—with its overarching sustainability strategy.

Get to Know Your Corporate Finance Team

Corporate banking decisions have traditionally been the exclusive purview of a company's financial team. Corporate finance teams generally have certified accountants with expertise in cash management and are primarily focused on financial risk management (i.e., ensuring the organization has enough cash at the right time, preparing liquidity reports, and managing investments). Importantly, these financial teams often do not have a background in, or notable exposure to, sustainability issues or best practices.

Corporate finance teams are often close to a company's C-suite, but they historically are not necessarily close nor do they often work with the sustainability or communications team(s). Just as the sustainability team often has minimal exposure or insights into a company's cash needs and considerations, corporate accountants are largely unaware of the range of variables their sustainability colleagues juggle—but that dynamic is changing.

Corporate finance teams at large companies generally meet with their banks at least once per year as part of their standard credit risk due diligence process. Any engagement your company seeks to build with its bank(s) is likely best built through and/or led with your finance teams.

Talking Points: Sustainability Team Outreach to Treasury/Finance Teams

- **The emissions that our banking and investing generate may be one of our company's largest sources of emissions.**

  New research reveals that for many companies, the carbon footprint generated by their investments and cash held in big banks are a significant source, and sometimes their largest source, of emissions. We now have the ability to calculate those emissions and see the role our financial partners play in driving those emissions.

- **Accounting for financed emissions as part of a company's overall carbon footprint is gaining regulatory traction and increased public scrutiny.**

  Companies like ours are facing increased regulatory, financial, and reputational scrutiny and risk in relation to our impact on communities and the climate. As part of that accountability, we are facing growing demand from our employees and consumers to measure and disclose the emissions that our financial activities generate. Beginning to measure and integrate the emissions from our financial supply chain into our sustainability reporting and planning now will ensure we are well-prepared to comply with forthcoming changes to recommended and/or required climate reporting guidelines.

Pending Regulatory Changes

As of January 2023, the U.S. Securities and Exchange Commission (SEC) and the coordinating body of the Greenhouse Gas (GHG) Protocol are reviewing proposed emissions reporting guidelines and regulations, which are expected to have implications for how to report on financed emissions.

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- **Our company's financial supply chain is no different than any other supply chain.**

  Just as material supply chains are made up of the vendors that source and produce the components and products that our company needs to operate, financial supply chains are made up of the vendors—i.e., financial institutions—that provide our company with the financial products and services we need to operate. And just as we are working to reduce our emissions from our material supply chains, we must begin to expect and prepare strategies to manage the emissions from our financial supply chain too. We should hold our banking and financial partners to the same environmental standards we hold our other supply chain partners.

- **There is significant variance within the financial sector for how banks are currently performing on climate and their long-term commitments.**

  As a baseline for our company's sustainable financial planning, it's important to understand our banks' true climate performance and plans versus their public relations and advertising. Ultimately, companies should be evaluating their financial partners through a wide spectrum of environmental metrics to evaluate their current environmental performance and the credibility of their long-term commitments.

FAQs

What are scope 3 emissions?

Scope 3 emissions are indirect emissions from activities that occur in a company's value chain from assets that the company does not directly control. For a bank, scope 3 category 15 emissions, which are financed emissions, account for more than **700x** their scope 1 and 2 operational emissions. Financed emissions include a portion of emissions from each company that a bank finances.

What is the Task Force on Climate-Related Financial Disclosure (TCFD)?

The (TCFD) provides a consistent framework for financial institutions to disclose their climate-related financial risks and opportunities, including their scope 1, 2, and 3 emissions. Financial institutions have widely adopted the framework since the Financial Stability Board created the framework in 2015.

Why does it matter if lending restrictions are project-based or company-based?

More than 90% of financing to the fossil fuel sector is at the company level, so if your company's bank only has project-based financing restrictions, that policy will be less impactful than company-level restrictions. For example, if your company's bank has a restriction against financing fossil fuel projects in a certain at-risk region, it may not prevent the bank from providing general financing for a company that has fossil fuel projects in that at-risk region.

What are physical and transition risks?

Physical risk stems from chronic and acute weather conditions amplified by climate change—for example, sea level rise and extreme weather events. Transition risk is the risk arising from the transition to a net-zero economy, which regulatory changes, technological advancements, and changes in consumer preferences could drive.

What is climate scenario analysis?

Climate scenario analysis is a method to understand how future possible climate-related scenarios could impact a company's business model, assets, and profitability. Climate scenario analysis typically uses a range of scenarios with differing levels of physical and transition risk and differing speeds of transition to a net-zero economy.

Organizational Overview

BankFWD is a sustainable finance initiative founded by the members of the Rockefeller family dedicated to accelerating the transition to a just, zero-carbon economy by influencing banks to align their business strategies with the 1.5°C target of the Paris Climate Agreement. BankFWD works to accomplish that goal by building a network of individuals and organizations united in the belief that by using their collective wealth and public standing, they can persuade major banks to lead on climate by phasing out financing for fossil fuels.

The Outdoor Policy Outfit (TOPO) is a "think and do" tank that creates and implements groundbreaking solutions to the systemic problems driving the environmental crisis. As a leader in the responsible finance space, TOPO specializes in building levers that harness the untapped power of consumers to transform the financial sector into an engine for environmental and social progress. From spearheading the Carbon Bankroll Initiative to developing a first-of-its-kind global banking certification program, TOPO's team of problem solvers excel at building audacious solutions that meet the scale, complexity, and gravity of the systemic challenges we face.