GREENPEACE

What to do about Canadian banks 'quiet quitting' their climate commitments?

June 2023

Executive Summary

There is a broad consensus that we need to massively shift private finance out of fossil fuels and into climate solutions if we are to meet the goals of the Paris climate agreement.

Canada could and should be a leader in aligning private finance with our climate objectives because our banks are an out-sized part of the problem. RBC was the largest funder of coal, oil and gas in 2022, while Scotiabank, TD, BMO and CIBC all made the top 15 of global banks. Collectively, they have provided over $1 trillion to coal, oil and gas companies since the Paris Agreement was signed.

Yet instead Canadian banks are trying to hide behind US anti-trust legislation to 'quiet quit' their net zero climate commitments.

On one hand, the banks are increasingly being exposed as greenwashers by journalists and others due to their unwillingness to meet the United Nations' new, science-based net-zero criteria, as well as their own climate commitments. Their ongoing support for fossil fuels means that Canada's big banks cross all of the UN's 'red lines on greenwashing'.

Do Canadian banks stay within the UN Red Lines on Greenwashing?
UN criteria for net zero commitments from banks

	Don't finance fossil fuel expansion	50% cut in financed emissions by 2030	Set absolute reduction targets	Don't lobby against net-zero policies
RBC	✗	✗	✗	✗
Scotiabank	✗	✗	✗	✗
TD	✗	✗	✗	✗
BMO	✗	✗	Partial	✗
CIBC	✗	✗	✗	✗

On the other hand, U.S. Republican politicians and fossil fuel interests are demanding that they forgo any efforts to phase out fossil fuel financing or face charges of collusion under anti-trust legislation. The banks are using these legislative threats coming from south of the border in order to argue that they cannot be held to standards set by voluntary programs like Race to Zero.

The solution to this dilemma is simple: codify the net zero criteria (which the banks claim they are committed to achieving) in law, as companies can not 'collude' if they are simply meeting regulatory requirements.

Greenwashing by the banks and legal threats from fossil fuel interests vividly illustrate how voluntary programs have reached the limit of their effectiveness. It is time for our federal government to, in the words of a motion with cross-party support that is currently before Parliament, "use all legislative and regulatory tools at its disposal to align Canada's financial system with the Paris Agreement made by the Conference of Parties under the United Nations Framework Convention on Climate Change."

The government can use the UN red lines on greenwashing as a starting point for this program of legislative and regulatory reform.

WHAT TO DO ABOUT CANADIAN BANKS 'QUIET QUITTING' THEIR CLIMATE COMMITMENTS?

Growing recognition that fossil fuel finance is destabilizing the climate and the financial system

There is broad agreement within the academic and policy communities that avoiding the worst impacts of climate change will require a massive shift in investment from high carbon assets (like fossil fuels) to low-carbon assets (like renewable energy, improved energy efficiency and the electrification of heating/cooling and transportation).[1]

We are still a long way away from achieving this. The most recent report of the Intergovernmental Panel on Climate Change (IPCC), for example, found that "insufficient financing, and a lack of political frameworks and incentives for finance, are key causes of the implementation gaps for both mitigation and adaptation…. Public and private finance flows for fossil fuels are still greater than those for climate adaptation and mitigation."[2]

There is also a growing recognition that climate change poses a risk to the financial system. This threat came to prominence in 2015 when the Governor of the Bank of England and Chairman of the G20's Financial Stability Board (as well as the former Governor of the Bank of Canada) Mark Carney gave a speech entitled "Breaking the

Tragedy of the Horizon" where he identified three broad channels through which climate change can affect financial stability:

1. **Physical risks:** the impacts today on insurance liabilities and the value of financial assets that arise from climate- and weather-related events, such as floods and storms that damage property or disrupt trade.
2. **Liability risks:** the impacts that could arise tomorrow if parties who have suffered loss or damage from the effects of climate change seek compensation from those they hold responsible. Such claims could come decades in the future, but have the potential to hit carbon extractors and emitters – and, if they have liability cover, their insurers – the hardest.
3. **Transition risks:** the financial risks which could result from the process of adjustment towards a lower-carbon economy. Changes in policy, technology and physical risks could prompt a reassessment of the value of a large range of assets as costs and opportunities become apparent.[3]

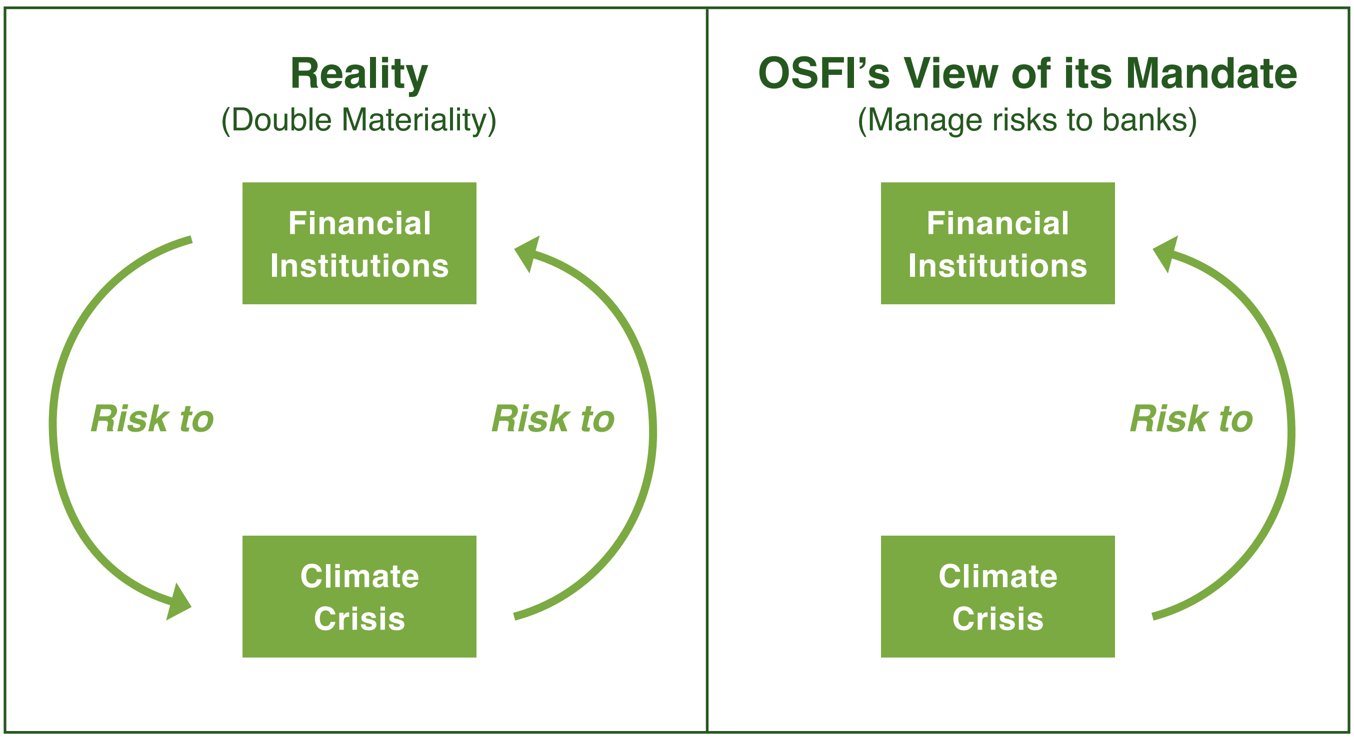
Carney's primary point was that financial sector players have such a strong focus on the short-term that "once climate change becomes a defining issue for financial stability, it may already be too late."[4]

There were two strands of work that came out of this growing recognition of climate change's threat to financial stability. The first was to develop a better information basis for assessing risk, which led to the 2017 release of wide-ranging disclosure and governance recommendations by the Task Force on Climate-related Financial Disclosures (TCFD).[5] The second was the establishment (also in 2017) of the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), to develop common approaches for financial regulators on climate-related risk management and to mobilize mainstream finance to support the transition toward a sustainable economy.[6]

The first strand - protecting banks and investors' bottom lines from physical, liability and transition risks associated with climate change through better disclosure - is gradually being codified within financial regulatory systems. This includes *Guideline B-15: Climate Risk Management*[7] issued in March 2023 by Canada's federal banking regulator, the Office of the Superintendent of Financial Institutions (OSFI).

The second strand - protecting the climate from banks and investors by redirecting finance from fossil fuels to climate solutions - is still nascent. In Canada, OSFI has argued that so-called "double materiality"[8] (protecting banks against climate risk and protecting the climate from banks' short-sighted pursuit of profits) lies outside its mandate.[9]

In his April 2023 audit of OSFI's role in supervising climate risk, the federal Commissioner of Environment and Sustainable Development found that OSFI was taking too narrow an interpretation of its mandate: "Although OSFI's mandate has not changed, the Canadian legal landscape has, specifically as it relates to Canada's environmental and sustainable development goals." These changes meant "OSFI's upcoming strategy is required to contribute to meeting the federal strategy's goals. The federal strategy's whole-of-government approach to sustainable development has ambitious goals, including a target of achieving 40% to 45% greenhouse gas emission reductions below 2005 levels by 2030 and achieving net-zero greenhouse gas emissions by 2050"[10] (emphasis added).



Graphic: OSFI ignores double materiality

Ultimately, the Commissioner's audit made the key finding that "OSFI's strategy to tackle climate-related financial risks aims to improve the resilience of federally regulated financial institutions but will remain short of incentivizing the transition to a net-zero emissions economy."[11]

THE UN CALLS OUT CANADIAN BANKS FOR GREENWASHING

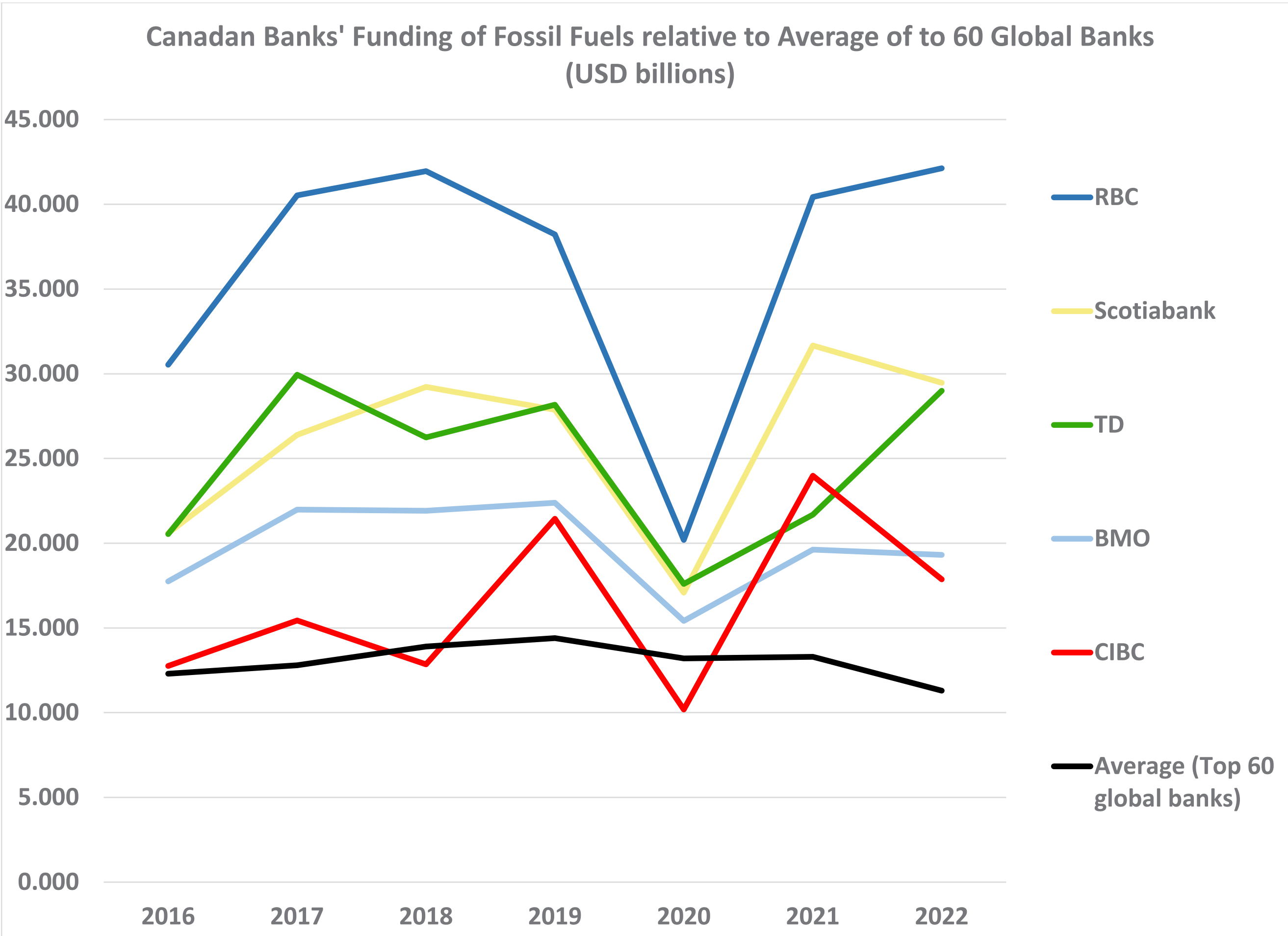
"It's time to draw a red line around greenwashing"

CATHERINE MCKENNA

Chair of the UN High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities in *Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions* (November 2022).[12]

The Commissioner's finding comes at a time when Canadian banks are under heavy criticism for their globally-significant role in perpetuating this mismatch, wherein money continues to flow to fossil fuels rather than to climate solutions.[13] In response to criticism, Canada's big five banks all made public 'net zero' commitments in October 2021.[14]

Yet in spite of these commitments, Canadian banks are rising through the ranks of the largest financiers of fossil fuels in the world. According to the 2023 Banking on Climate Chaos report, Canadian banks provided 20.4 percent of funding that went to fossil fuels from the 60 largest banks in the world, up from 13.8 percent in 2016. RBC was the largest funder of coal, oil and gas in the world in 2022, while Scotiabank, TD, BMO and CIBC all made the top 15 of global banks. Collectively, they have provided over CDN $1 trillion (USD 862 billion) to coal, oil and gas companies since the Paris Agreement was signed.[15]



Data source: Banking on Climate Chaos (2023)

The United Nations has called them out on this contradiction between their formal net zero commitments and growing support for fossil fuels.

Canada's Big Five banks (as members of the United Nations-sponsored Net Zero Banking Alliance, or NZBA) and Desjardins (as a member of the UN-sponsored Net Zero Asset Managers Initiative, or NZAMI) have committed to being 'net zero' by 2050.[16] NZBA and NZAMI, along with comparable groups for insurers, pension funds, asset owners, investment consultants and financial service providers are part of the Glasgow Financial Alliance for Net Zero (GFANZ). GFANZ was launched in April 2021 by UN Special Envoy on Climate Action and Finance Mark Carney and the COP26 presidency, in partnership with the UNFCCC Race to Zero campaign, to coordinate efforts across all sectors of the financial system to accelerate the transition to a net-zero global economy.[17]

GFANZ members used to be (see "GFANZ 'quiet quits' Race to Zero below for more) part of the UN Race to Zero campaign, which includes financial institutions, other companies, municipal and state/provincial governments, as well as educational and health care institutions.

To provide coherence across these various sectors, and to guard against greenwashing (misleading or deceptive publicity disseminated by an organization so as to present an environmentally responsible public image), the UN established what it describes as a 'red line around greenwashing': a common set of criteria that would clarify what constitutes a science-based approach to achieving net zero emissions by 2050.

These criteria were first laid out in June 2022 by the Expert Peer Review Group to the UN's Race to Zero initiative, which gave banks one year to publish a plan for coming into compliance.[18] The criteria were formalized in *Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions*,[19] a report of the High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities. The report was released at the November 2022 UN Climate Conference in Egypt with the personal participation of the Secretary General of the UN, who said "We must have zero tolerance for net-zero greenwashing. Today's Expert Group report is a how-to guide to ensure credible, accountable net-zero pledges."[20]

According to Race to Zero, "All existing members and Partner organisations will need to meet the criteria by 15th June 2023 at the latest."[21] Canada's big five banks have all published their plans to meet their net zero commitment but, as detailed below, none of these plans meet or exceed the UN's minimum criteria.

UN Race to Zero criteria[22]	RBC	Scotiabank	TD	BMO	CIBC
Don't fund new fossil fuels.[23]	4th largest support for fossil fuel expansion in the world in 2022 (USD 6.59 billion)	3rd largest support for fossil fuel expansion in the world in 2022 (USD 6.95 billion)	14th largest support for fossil fuel expansion in the world in 2022 (USD 4.27 billion)	6th largest support for fossil fuel expansion in the world in 2022 (USD 6.07 billion)	25th largest support for fossil fuel expansion in the world in 2022 (USD 2.57 billion)
Interim target of at least 50% reduction in absolute emissions by 2030 (targets here are for oil and gas) for scopes 1-3 emissions.	35% reduction in CO2e intensity from 2019 baseline for Scopes 1 & 2. 11-27% reduction in intensity for scope 3.[24]	30% improvement in CO2e emissions intensity from 2019 baseline. No scope 3 emissions.[25]	29% reduction in emissions intensity for scopes 1-3 from 2019 baseline.[26]	33% reduction in portfolio emissions intensity from 2019 baseline for scopes 1 & 2. 24% in absolute scope 3 emissions.[27]	35% reduction in emissions intensity scopes 1 & 2 emissions from 2020 levels. 27% reduction in emissions intensity for scope 3 emissions. Targets Include carbon removal credits.[28]
Set absolute targets	Intensity target	Intensity target	Intensity target	Intensity and absolute targets	Intensity target
Include all portfolio/ financed/ facilitated/ insured emissions.[29]	Misses substantial financing activities in portfolios covered (i.e. underwriting and full committed loans).	Underwriting not included, full committed loans only for its oil and gas portfolio.	Emissions included would benefit from more clarity, specifically which asset classes are covered.	Does not include full committed loan amounts or underwriting activities. Emissions included would benefit from more clarity, specifically which asset classes are covered.	Does not include emissions associated with full committed loan amounts for its oil and gas or power portfolios, or underwriting activities. Would benefit from more clarity, specifically which asset classes are covered.
Align external policy and engagement, including member-ship in associations, to the goal of halving emissions by 2030 and reaching global (net) zero by 2050.	All of the big five are members of the Canadian Bankers Association, which has opposed mandatory climate risk disclosure.[30] They are also vocal political supporters of expanding fossil fuel production.[31] All of the big five banks opposed climate resolutions at their 2022 Annual General Meetings.[32]				

The new criteria were not well-received by banks who would have to follow them and some banks threatened to leave the UN-led initiative. It started with anonymous sources at three big U.S. banks telling the Financial Times that they were considering pulling out of the Glasgow Financial Alliance for Net Zero due to the new Race to Zero criteria. According to the report, "some of the most significant members of the Glasgow Financial Alliance for Net Zero have said they feel blindsided by tougher UN climate criteria and are worried about the legal risks of participation."[33] One senior executive was quoted as saying "What if we get it wrong, make a mistake or someone lies? Then the bank can be sued, that is an unacceptable risk."

Anonymous sources at Canadian banks subsequently told the Globe and Mail that they were considering pulling out of GFANZ.[34]

Their concerns, the bankers claimed, were two-fold: the new criteria were too strict and potentially exposed them to legal risk.

On the former, Canadian banks felt that the UN was "moving the yardsticks" with its requirement to phase out fossil fuel funding.[35] The UN countered that they were simply making explicit what had always been implicit.[36]

Environmental and Indigenous organizations had warned in October 2021 that banks might be joining GFANZ as a public relations move, wherein membership was designed to send a message to the public, investors and government regulators that they are taking action on climate, but without expecting any consequences for inaction.[37] This use of voluntary programs has been played out many times before, where an industry under pressure over its misdeeds and/or pollution sets up a voluntary initiative to look like it's taking the issue seriously and to prevent government regulation. It was pioneered by the Canadian chemical industry when they created the Responsible Care program to "stave off" demands for tighter regulation in the aftermath of the deadly 1984 Bhopal disaster and replicated in the climate space by the Voluntary Challenge Registry in the 1990s which didn't reduce GHGs, but was successful in giving "the appearance of action."[38]

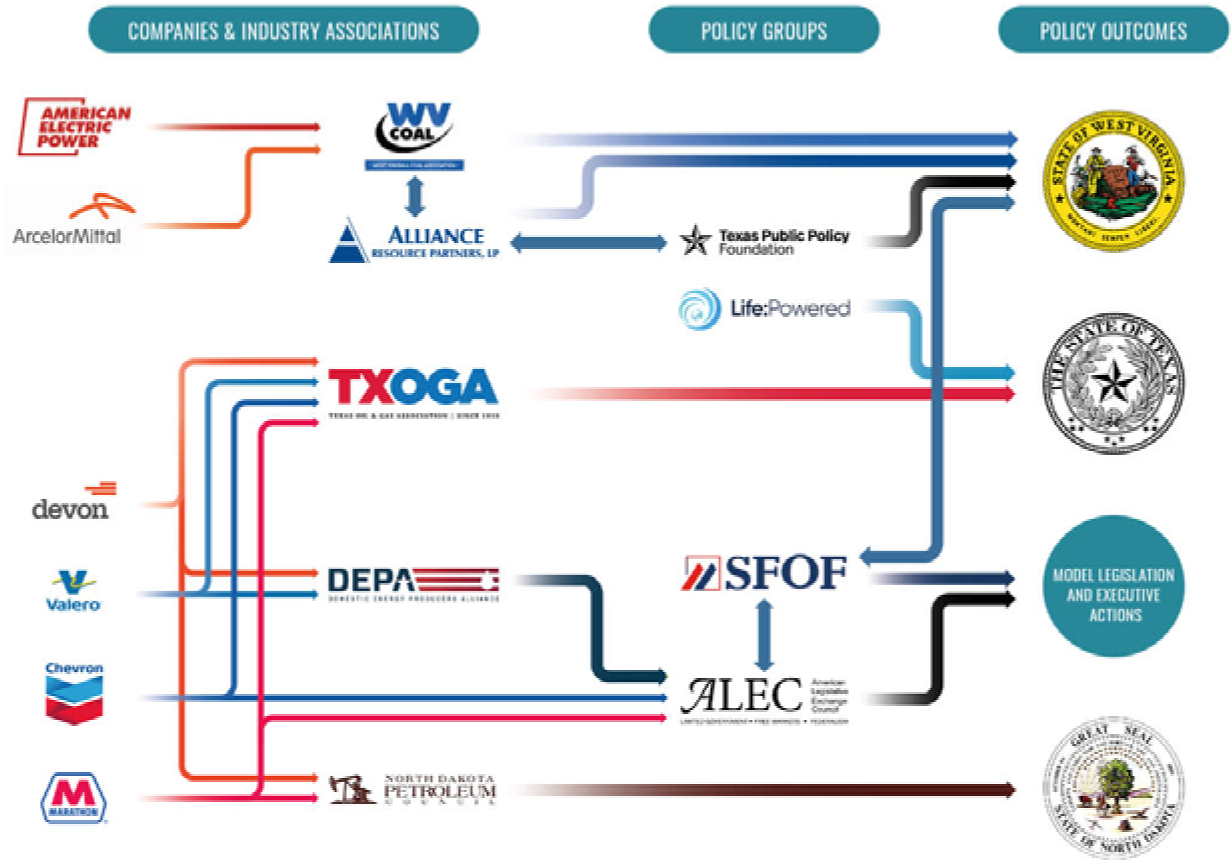
This time, however, the UN called the bankers' bluff. Rather than letting the companies decide whether or not they were doing 'enough', they set clear milestones. And if companies didn't meet them, they faced a real (and embarrassing) possibility of being kicked out.

THE FOSSIL FUEL SECTOR CREATES AN 'ANTI-ESG' MOVEMENT

At the same time that voluntary programs were being critiqued as greenwash, fossil fuel interests were developing a legal strategy to attack financial institutions' climate commitments.[39] This led to banks and asset managers like Blackrock being threatened with lawsuits for 'colluding' against coal, oil or gas if they restricted financing for fossil fuels or engaged in other measures often grouped under the label of ESG (environment, social and governance).[40]

At the same time that the new UN criteria were coming out, RBC found itself caught up in efforts by Texas to limit action by banks against gun manufacturers and fossil fuel companies. Texas passed laws that bar state contracts, including in its sizable municipal bond market, from going to banks and other financial institutions that either boycott energy companies or "discriminate" against a firearm entity or trade association.[41] Unlike Blackrock and the European banks Credit Suisse and UBS, RBC was ultimately able to convince Texas legislators that its climate policies were "mild enough" to pass Texas' test on whether banks are boycotting oil and gas companies. This, however, was taken by environmental campaigners as evidence that the bank wasn't serious about its net-zero commitments.[42]

The anti-ESG campaign is not, as it is sometimes portrayed in the media, simply part of the 'culture wars' or general 'anti-woke' sentiment. It is a well-funded, strategic move by fossil fuel interests to protect their position that has increased attacks on corporate ESG commitments as they come closer to being codified in law or accepted practice. An expose in the New York Times has detailed how the same dark money, fossil fuel-funded groups that used to finance and run climate denial campaigns are now "weaponizing" Republican state treasurers to go after banks or investors who restrict funding to oil, coal or gas.[43] Influence Map has provided additional detail on the role of fossil fuel companies and industry associations in funding the movement and drafting legislation.[44]



Source: Influence Map (2023). Anti-ESG and the Fossil Fuel Sector: How the sector helped spark the US backlash movement.

The 'anti-ESG' campaign has drawn support from high-profile Republican politicians like US Senate minority leader Mitch McConnell and Florida governor Ron DeSantis. Officials in Republican-led US states have launched investigations over how asset managers vote on shareholder proposals, and state legislators are considering or have passed laws requiring government pension funds to divest from money managers who consider climate or racial equity concerns in their investing.[45]

They have also gone after individuals involved with the UN Race to Zero campaign. The co-chair of the UN's Race to Zero advisory panel, Oxford professor Thomas Hale, was shocked to learn that he could be sued personally under anti-trust laws for "simply being explicit that expanding coal production is not a part of any credible scientific scenarios to achieving the goals of the Paris Agreement."[46]

Like the earlier climate denial campaigns that delayed action for decades,[47] this new push has had an impact. In December 2022, Vanguard left the Net Zero Asset Managers initiative in the midst of an inquiry from Texas about the company's ESG practices. U.S. Bancorp appeared to soften its Environmental and Social

Risk Policy to avoid being placed on West Virginia's restricted financial institutions list. In March 2023 Munich Re withdrew from the Net Zero Insurance Alliance, citing antitrust concerns. Shortly thereafter, Zurich Insurance Group followed suit.[48] By early 2023, a dozen big US financial companies including BlackRock, Blackstone, KKR and T Rowe Price had warned that the anti-ESG movement represented a material risk to the companies.[49] Lloyds of London has warned that the UN must make its criteria less prescriptive, or insurance companies will leave.[50]

GFANZ 'QUIET QUITS' RACE TO ZERO, REINFORCING CALLS FOR REGULATION

Race to Zero tweaked the wording of their criteria in mid-September to preempt legal action,[51] but concerns continued as the anti-ESG campaign gained traction. Facing the prospect of mass defections, GFANZ 'quiet quit' Race to Zero by changing the GFANZ membership terms to allow member groups to set their own path to net zero rather than requiring them to closely follow the criteria set by Race to Zero.

In its 2021 progress report, GFANZ stressed that "To ensure credibility and consistency, access to GFANZ is grounded in the UN's Race to Zero campaign" and that "all GFANZ members must align with the Race to Zero."[52]

GFANZ's 2022 progress report set a much lower bar, where they were simply to "take note" of the Race to Zero criteria (i.e. they should consider the criteria, but do not have to comply with them): "Going forward, the Alliances will continue to evaluate and update their membership criteria, as and when the science, technology, and policy contexts evolve, in a manner that is consistent with the diverse economic, legal, and regulatory contexts in which the signatories operate. In doing so the Alliances will take note of the advice and guidance of the UN Climate Change High Level Champions and the Race to Zero" alongside other bodies and "engage actively with them."[53]

GFANZ's break with credible, science-based criteria was complete.

In their assault on ESG measures, the fossil fuel industry and their political allies may have overplayed its hand.

By attacking voluntary initiatives like GFANZ and Race to Zero, the anti-ESG movement is making a powerful case for governments to step in and establish clear rules with minimum expectations through legislation and/or regulation. In the word of Race to Zero's co-chair Thomas Hale:

> *First, as climate politics get existential, the battle over corporate climate action is going to get more intense. Vested interests are pushing back, hard. Hiding behind flimsy legal pretext will not work. Companies with fuzzy net zero targets, trying to keep both sides happy, will be in the crosshairs. Clarity and rigour are needed.*
>
> *Two, the rules governing the economy need to catch up to our climate goals. The fact that anti-competition law, created to safeguard the public interest, could be manipulated to work against it shows the need for urgent reform. Credible voluntary action builds momentum for these changes, but regulators need to step up.*[54]

The UN High Level Working Group chaired by Canada's former Environment Minister Catherine McKenna echoed this point:

> *To effectively tackle greenwashing and ensure a level playing field, non state actors need to move from voluntary initiatives to regulated requirements for net zero. Verification and enforcement in the voluntary space is challenging. Many large non-state actors— especially privately held companies and state-owned enterprises — have not yet made net zero commitments which raises competitiveness concerns. This picture is changing fast, but it still requires the resolve of governments and regulators to level up the global playing field. This is why we call for regulation starting with large corporate emitters including assurance on their net zero pledges and mandatory annual progress reporting.*[55]

CONCLUSION:

It is time to regulate the banks

GFANZ members' decision to break with the UN Race to Zero was likely a combination of concern over being called out over greenwashing and a (potential) legal risk of being charged with collusion or losing lucrative government business in Republican-held U.S. states.

In either case, by breaking ties with the UN, banks have made it clear that national governments must set rules to force bankers to do what they can't or won't on their own: align their loan and investment strategies with a zero-carbon world.

There is public and cross-partisan support for such an approach. In polling conducted by Angus Reid for Greenpeace Canada, 70% of Canadians agreed with the statement that the government should require banks to bring their fossil fuel financing activities in line with efforts to address climate change, including reducing their financial support for fossil fuels.[56]

In May 2023, Liberal MP Ian Turnbull (with the support of MPs from the New Democratic Party, Bloc Quebecois and Green Party) tabled a motion in Parliament calling for this. The motion reads: "That, in the opinion of the House, the government should use all legislative and regulatory tools at its disposal to align Canada's financial system with the Paris Agreement made by the Conference of Parties under the United Nations Framework Convention on Climate Change."[57]

Canada's Commissioner for Environment and Sustainable Development has made the case for this now being within the mandate of the federal banking regulator.[58]

There is no shortage of ideas on how to accomplish this goal.

Environmental and investor groups have drafted a Roadmap to a Sustainable Financial System in Canada[59] that addresses how a requirement for financial institutions, federal entities and corporations to adopt a Credible Climate Plan could be implemented under existing legislation. The UN Race to Zero net zero criteria could form the basis for what constitutes a Credible Climate Plan.

When it comes to legislative change in Canada, Senator Rosa Gonzalez has introduced a private members bill, the Climate Aligned Finance Act, that establishes climate alignment as a superseding duty for regulators and incorporates measures to enforce science-based targets on financial institutions, with an aim of ensuring greater climate resilience across our whole financial ecosystem.[60]

Greenpeace Canada has made recommendations to both the Office of the Superintendent of Financial Institutions[61] and the Bank of Canada[62] on how to shift our financial regulatory system from one focused on managing climate-related risks to bankers' bottom lines, to one that takes a precautionary approach that aligns the financial system with the achievement of our climate goals. We believe that the outcomes of any new regulatory or legislative framework should, at a minimum, include requirements for financial institutions to:

1. Integrate the findings of the IEA Net Zero scenario into their climate strategies. This would include a prohibition on the financing of new fossil fuel projects, as well as new corporate level financing of companies expanding fossil fuel production and transportation.

2. Present absolute emission reduction targets that reduce their financed emissions by at least 50% by 2030, in line with science-based pathways to limiting warming to 1.5˚C.

3. Uphold, affirm and respect Indigenous rights, including through a commitment to adhere to policies and practices that ensure the Free, Prior and Informed Consent (FPIC) of Indigenous peoples as defined in the United Nations Declaration of The Rights of Indigenous Peoples (UNDRIP) under Article 32.

4. Commit to protect and restore biodiversity in all financing activities. These strategies should be created in deep partnership with Indigenous Peoples, whose rights and knowledge are key to the regeneration and responsible stewardship of stolen lands.

Campaigns by environmental and Indigenous organizations - and the aggressive counterattacks from fossil fuel interests - have created a political momentum for Paris-aligned financial regulation. Greenpeace Canada looks forward to helping to craft these vital new rules over the coming year.

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Greenpeace Canada is an independent campaigning organization, which uses non-violent, creative confrontation to expose global environmental problems, and to force the solutions which are essential to a green and peaceful future. Greenpeace's goal is to ensure the ability of the Earth to nurture life in all its diversity.

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