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Green Banks Express Frustration After Net-Zero Banking Alliance Declines to Impose Restrictions on Fossil-Fuel Financing

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The **Net-Zero Banking Alliance ("NZBA")**, the UN-led coalition of global banks "committed to aligning their lending investment portfolios with net-zero emissions by 2050," is facing backlash from certain sustainability-focused banks after it declined to impose binding limitations on fossil-fuel financing. At least one bank has left the alliance in opposition and others have expressed **similar frustration**, contending that the NZBA's decision is "disappointing and discouraging," "frustrating," and "incompatible with net zero." The decision was made in response to large U.S. banks threatening to leave the alliance if such restrictions were imposed.

To achieve the NZBA's climate goals, Bloomberg analysts estimate that the ratio of investment in low-carbon to investment in fossil energy supplies must reach 4-to-1 by 2030. Last month, Bloomberg **reported** that most NZBA members have provided more financing for planet-warming fossil fuels than low-carbon energy projects, with their current average energy ratio (low carbon to non-low carbon) at .92 to 1. In 2021, NZBA banks funded $1.2 trillion of energy supply-related financing, with $585 billion going towards low-carbon energy and $636 billion towards fossil fuels.

Taking the Temperature: While the members of NZBA are "committed to aligning their lending and investment portfolios with net-zero emissions by 2050," the appropriate methods and timing for achieving this goal are subject to significant debate. As we discussed last year, a number of large U.S. banks, concerned about potential greenwashing challenges and the "anti-ESG" movement in the U.S., considered withdrawing from the United Nations' Glasgow Financial Alliance for Net Zero ("GFANZ," and of which NZBA is the banking member) after GFANZ signaled that it would require its members to comply with the Race to Zero minimum standards, which include a "commitment to achieve net zero across 'all emissions scopes.'" In December last year, Vanguard announced that it was withdrawing from the Net Zero Asset Managers initiative amid questions raised by the Minority Staff of the U.S. Senate Committee on

Banking, Housing and Urban Affairs over whether it is appropriate for passive investment managers to engage with issuers on “stewardship” issues such as climate change. On the other hand, notwithstanding these challenges, financial institutions around the world continue to articulate emissions financing reduction plans and related governance approaches to assess progress toward those goals. As we have reported, for the foreseeable future, banks and asset managers will have to continue navigating competing demands and priorities on the part of regulators, government, and stockholders to carve out a path forward on climate-related issues.

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