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# Beyond the Headlines – Three Global Banks Update Emissions Financing Reduction Targets

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Between February 23 and March 3, three leading global financial institutions announced updated environmentally linked targets aimed at reducing by 2030 their financed emissions in carbon intensive sectors, including oil & gas, cement, iron, steel and aluminum.

The new interim targets announced by Citi include the following reductions: auto manufacturing (31% reduction in emissions intensity); commercial real estate (41% reduction in emissions intensity); energy (29% reduction in absolute emissions); power (63% reduction in emissions intensity); and thermal coal mining (90% absolute emissions reduction).

Deutsche Bank has reported that its financing of oil and gas sector declined by more than 20% in 2022, thermal coal sector by around 18% and there were year-over-year reductions in all sectors where the bank had identified an emissions reduction target. Current targets include oil and gas (23% reduction in Scope 3 upstream financed emissions by 2030 and 90% by 2050), power generation (69% reduction in Scope 1 physical emission intensity by 2030 and 100% reduction by 2050), automotive – light duty vehicles (59% reduction in tailpipe emission intensity by 2030 and 100% reduction by 2050) and steel (33% reduction in Scope 1 and 2 physical emission intensity by 2030 and 90% reduction by 2050).

HSBC disclosed updated targets of a 34% reduction in absolute on-balance sheet financed emissions in the oil and gas sector and a 75% reduction in on-balance sheet financed emissions intensity in the power and utilities sectors by 2030. HSBC added that "the choice to adopt an emissions intensity metric for Power and Utilities reflects the need to reduce global greenhouse gas emissions from power generation while also meeting growing electricity demand." Emissions intensity is a

metric that sets a target relative to an economic or operational variable. Absolute emissions reduction aims for a set target reduction.

In commenting on the process of reducing emissions financing, the banks emphasized the importance of a *transition* to a green economy that recognizes the current need for energy from fossil fuels and that issuers themselves are charting unfamiliar terrain in navigating a green transition. For example, Christian Sewing, CEO of Deutsche Bank commented on the revised targets noting that "[i]n most cases we can contribute more to reducing greenhouse gas emissions by working with our clients. But in cases where we saw no willingness on the part of a client to embark on a credible transition, we would not shy away from exiting a relationship."

Jane Fraser, CEO of Citi, noted that the "global economy still runs primarily on oil and natural gas" and that energy security is still an important issue in developing nations where the resources and infrastructure to "make a quick shift to renewables" is limited.

Taking the Temperature: While at this point there is nothing particularly novel about banks setting and updating emissions financing reduction targets, some additional insights from the Citi, Deutche Bank and HSBC announcements bear mention. First, while media focus tends to rest on climate risk, there are opportunities as well. For example, a model jointly developed by Deutsche Bank and Bain & Company showed that additional investment of "$1.4 trillion per year will be required, by the end of 2030, to meet the target of limiting global warming to 1.5 degrees Celsius by 2050," but also that the additional "annual revenue potential for banks is more than $40 billion worldwide."

Second, as we previously discussed with respect to HSBC, the Citi and Deutsche Bank reports devote considerable attention to climate-related governance. For example, Citi states that it "expanded [its] Board of Directors' oversight of certain climate-related matters such as climate risk and climate and ESG disclosures;" "[c]odified the integration of climate-related issues with certain Board committees, including incorporating oversight of our climate disclosure risk and controls environment into the Audit Committee (AC) charter and climate risk oversight into the Risk Management Committee (RMC) charter;" "[c]ommenced an ESG Disclosure Committee to support the Board and AC and provide oversight of Citi's disclosure controls and procedures;" and "[e]xpanded and realigned our Climate Risk team to be part of the Enterprise Risk Management function within Risk and further added subject matter expertise." Citi added that it also continues to "educate [its] entire Board, as well as senior management, to build out climate-related expertise and capabilities," and that "sustainability and climate-related goals are incorporated into several executive scorecards, which are key elements of performance management tied to the determination of incentive compensation for these executives." Deutsche Bank similarly has multiple organizational structures at the board and management levels devoted to sustainability governance, a focus that, in our view, is essential to assess and act on enterprise-wide climate-related risks, opportunities and data collection.

Third, we often have commented on the challenges companies confront in obtaining quality climate metrics, such as Scope 1, 2 and 3 emissions. These reports underscore the complexity involved, including the lack of consensus on how to measure emissions, use carbon offsets, chart progress on a net-zero path,

and otherwise proceed on a green transition pathway while accurately reporting on that progress. The Citi report, for example, states that "the quality and availability of climate-related data continues to be a significant challenge. At the time of the analysis disclosed in this report, the data available for calculating financed emissions and emissions intensity and measuring progress was nearly two years old, given the availability of the data at the time." The report adds that "currently, there is no single, global, cross-sector data provider that adequately and consistently covers our needed scope for data to analyze emissions and assess physical and transition risks across our operations and portfolios." Moreover, according to Citi, climate-related reporting from the bank's clients "continues to fall short of the necessary quality, quantity and consistency to permit comparability across clients, industries and sectors, which underscores the necessity of client-level engagement." As we have discussed, these challenges reinforce the need for active board and management climate-focused engagement and accurate disclosure of the limitations on climate disclosure.

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