

Credit for Climate Action – How Financial Institutions’ Involvement in Climate Initiatives May Impact Companies’ Access to Funds

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The Fourth National Climate Assessment, issued by the U.S. Global Change Research Program, found that climate change is already having an impact on businesses and communities across the United States.¹ The report also found that, without significant global mitigation and adaptation efforts, climate change will inflict increasing disruption and damage.² International reports have made similar findings.³ As a result of these existing and anticipated disruptions, climate change has become a major business concern for many company executives and investors.⁴

Certain members of the financial sector have been proactive in evaluating ways to reduce the greenhouse gas (“GHG”) emissions attributable to their operations and financings, adopting climate governance and risk-management actions at a greater rate than other sectors.⁵ In fact, as of this writing, each of the major U.S. banks has made a commitment to “net zero” or “Paris Aligned” reductions in their financed greenhouse gas emissions.⁶ As part of this effort, members of the financial sector have both created and joined a series of initiatives designed to better account for their “financed emissions,” or the emissions generated by the operations of entities in which a financial institution invests or to which it lends money.⁷

This trend could have potentially serious implications for the clients of these financial institutions. As financial institutions face increasing pressure to take actions to reduce their financed emissions, they will likely modify their debt and equity portfolios to align with a low-carbon future, and may possibly end up limiting, or avoiding entirely, financing certain categories of high-emission or emission-intensive activities. Such pressure would necessarily affect companies in carbon-intensive sectors that do business with these financial institutions. While there is much uncertainty regarding how these trends will play out, industrial companies, particularly those in the most carbon-intensive sectors, should consider how this potential flight of capital from their sectors creates this potential risks for them and take measures to mitigate those risks.

In this paper, we will examine financial institutions’ motivations for participating in climate-related frameworks, the provisions of such frameworks, and financial institutions’ actions taken so far in response to them. We then conclude with an examination of how companies may be able to enhance or maintain their attractiveness to financial institutions during the transition to a low-carbon future.

¹ 2 U.S. GLOB. CHANGE RESEARCH PROGRAM, FOURTH NATIONAL CLIMATE ASSESSMENT, 24–25 (2018), available at <https://nca2018.globalchange.gov>. The Fifth National Climate Assessment is expected to be available in 2023.

² *Id.*

³ See, e.g., *Summary for Policymakers*, in CLIMATE CHANGE AND LAND: AN IPCC SPECIAL REPORT 17–18 (P.R. Shukla, et al. eds., 2019), IPCC, available at <https://www.ipcc.ch/srccl/>.

⁴ See INSTITUTIONAL INVESTOR SURVEY 2020 3 (2020), MORROW SODALI, available at <https://morrrowsodali.com/uploads/insights/attachments/83713c2789adc52b596dda1ae1a79fc2.pdf>; PWC, 23RD ANNUAL GLOBAL CEO SURVEY 13 (2020), available at <https://www.pwc.com/gx/en/ceo-survey/2020/reports/pwc-23rd-global-ceo-survey.pdf>.

⁵ See, e.g., MEASURING TCFD DISCLOSURES 6, VIGEO EIRIS & FOUR TWENTY SEVEN 11 (2020), available at <http://427mt.com/wp-content/uploads/2020/09/Measuring-TCFD-Disclosures.pdf>.

⁶ See *Bank of America Announces Actions to Achieve Net Zero Greenhouse Gas Emissions Before 2050*, BANK AM. (Feb. 11, 2021), <https://newsroom.bankofamerica.com/content/newsroom/press-releases/2021/02/bank-of-america-announces-actions-to-achieve-net-zero-greenhouse.html> (outlining the Bank’s “initial steps to achieve its goal of net zero greenhouse gas (GHG) emissions in its financing activities, operations and supply chain before 2050,” building upon its “longstanding support” for the Paris Agreement); *Fortune: How One of the World’s Biggest Banks Plans to Tackle Climate Change*, J.P. MORGAN (Oct. 16, 2020), <https://www.jpmorgan.com/news/fortune-how-one-of-the-worlds-biggest-banks-plans-to-tackle-climate-change> (announcing the alignment of its financing portfolio to meet the goals of the Paris Agreement and establishing “sector-by-sector intermediate emission targets for 2030” to go into effect during 2021); *Goldman Sachs Update on Our 2030 Sustainable Finance Commitment*, GOLDMAN SACHS (Mar. 4, 2021), <https://www.goldmansachs.com/media-relations/press-releases/2021/announcement-04-mar-2021.html> (explaining that it is committed to delivering on the Paris Agreement’s ambitious goals, “including by aligning our financing activities with a net zero by 2050 pathway”); *Morgan Stanley Announces Commitment to Reach Net-Zero Financed Emissions by 2050*, MORGAN STANLEY (Sept. 21, 2020), <https://www.morganstanley.com/press-releases/morgan-stanley-announces-commitment-to-reach-net-zero-financed-e> (“Morgan Stanley today announced a new commitment to reach net-zero financed emissions by 2050.”); *Wells Fargo Sets Goal to Achieve Net Zero Greenhouse Gas Emissions by 2050*, WELLS FARGO (Mar. 8, 2021), <https://newsroom.wf.com/English/news-releases/news-release-details/2021/Wells-Fargo-Sets-Goal-to-Achieve-Net-Zero-Greenhouse-Gas-Emissions-by-2050/default.aspx> (announcing a “major step” in supporting the transition to a low-carbon economy by “setting a goal of net zero greenhouse gas emissions—including its financed emissions—by 2050” by “measur[ing] and disclos[ing] financed emissions for select carbon-intensive portfolios; set interim emission reduction targets; deploy more capital to finance innovation; and continue to work with its clients on their own emissions reductions efforts”).

⁷ See VIGEO EIRIS & FOUR TWENTY SEVEN, *supra* note 5 at 7–9. See also *Three Years into TCFD’s Final Recommendations: Lessons from Implementation in the Financial Sector*, VINSON & ELKINS (2020), available at <https://www.velaw.com/insights/three-years-into-tcfd-final-recommendations-lessons-from-implementation-in-the-financial-sector/>.

Why Are Financial Institutions Participating in Climate Initiatives?

Financial institutions experience pressure to participate in climate initiatives from a variety of sources. Climate change is a significant concern for many investors.⁸ There has also been a notable uptick in climate interest by regulatory bodies responsible for overseeing the financial sector, particularly in the United Kingdom, Oceania, and the European Union.⁹ Elements of civil society—such as non-profits and rating agencies—also influence financial institutions' climate policies.¹⁰ While much less transparent to outsiders, financial institutions may also be subject to internal pressures regarding climate issues, such as those related to the priorities of their employees, market position in recruiting new talent, or perceived competition with peers in the unfolding climate disclosure “arms race.” While the overall significance of such internal pressures is subject to debate, the combination of internal and external pressures leading in the same direction suggests to us that, in the near-term, we will likely see more major financial institutions announce aggressive climate-alignment initiatives.

Ultimately, however, financial institutions are businesses with particular operational models designed to return profits for their investors. Although historically experts warned that investments in sustainability-related initiatives necessitated sacrifices in profits,¹¹ the financial community is more recently experiencing an explosion of new Environmental, Social, and Governance (“ESG”) funds designed to attract the capital flowing into this space¹² and with fewer, if any, perceived sacrifices to investor returns.¹³ We anticipate climate risks to become another complex business risk that financial institutions must identify and manage as part of their strategy to attract capital and assess the viability and expected returns on investment from their clients' assets and operations.

Overview of Climate Risks

The financial sector interacts with nearly all aspects of the economy, and companies depend on the capital that the financial sector supplies. Like all industries, the financial industry must assess climate-related risks, although financial institutions are often uniquely positioned in their exposure to, and ability to mitigate, such risks. For example, financial institutions invested in the real estate or energy sector, are generally exposed to climate risks as investors in companies with vulnerabilities to the physical impacts of a changing climate or to policy or consumer preference changes. The financial industry is also in a position to mitigate economy-scale climate risks through their power to direct capital flows towards low-carbon transition and climate adaptation technologies and to companies that are aggressively reducing their carbon intensity or emissions and have strong incentives to do so in order to respond to the demands of their own investors.

The Taskforce on Climate-related Financial Disclosures (“TCFD”) has established the most widely accepted standard for assessing and disclosing climate-related financial risks, and it has enjoyed particular success in the financial sector.¹⁴ The TCFD

⁸ See SODALI, *supra* note 4.

⁹ See, e.g., *Australian Prudential Regulation Authority Indicates the Time for Institutions to Address Climate Risks is “Now,”* VINSON & ELKINS (2020), available at <https://www.velaw.com/insights/australian-prudential-regulation-authority-indicates-the-time-for-institutions-to-address-climate-risks-is-now/>; *European Union Supplemental Guidance on Climate-Related Disclosures*, VINSON & ELKINS (2019), available at <https://www.velaw.com/insights/european-union-supplemental-guidance-on-climate-related-disclosures/>; *Increasing Climate Disclosure Mandate in the United Kingdom*, Vinson & Elkins (2019), available at <https://www.velaw.com/insights/increasing-climate-disclosure-mandate-in-the-united-kingdom/>.

¹⁰ See, e.g., *PACTA Tool Paves the Way Towards Alignment with Paris Agreement Goals*, VINSON & ELKINS (2020), available at <https://www.velaw.com/insights/pacta-tool-paves-the-way-towards-alignment-with-paris-agreement-goals/>.

¹¹ Robert G. Eccles & Svetlana Klimenko, *The Investor Revolution: Shareholders are Getting Serious about Sustainability*, HARV. BUS. REV. MAG. (May-June 2019), available at <https://hbr.org/2019/05/the-investor-revolution> (finding that “[m]any corporate managers still equate sustainable investing with its predecessor, socially responsible investing (SRI), and believe that adhering to its principles entails sacrificing some financial return in order to make the world a better place. That view is outdated”).

¹² *ESG index funds hit \$250 billion as pandemic accelerates impact investing boom*, CNBC (Sept. 2, 2020) available at <https://www.cnbc.com/2020/09/02/esg-index-funds-hit-250-billion-as-us-investor-role-in-boom-grows.html>.

¹³ *Opinion: ESG Drives a Stake Through Friedman's Legacy*, Bloomberg (Oct. 14, 2020) available at <https://www.bloomberg.com/opinion/articles/2020-10-14/esg-drives-a-stake-through-milton-friedman-s-profit-philosophy> (finding that “The MSCI index of U.S. companies with strong ESG factors has done as advertised and matched the market as represented by its MSCI USA gauge almost perfectly”).

¹⁴ See *Supporters by Sector*, TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES, available at <https://www.fsb-tcf.org/tcfd-supporters/>. See also VIGEO EIRIS & FOUR TWENTY SEVEN, *supra* note 5.

recommendations divide risk into two major categories: (1) physical risks, including those associated with the physical impacts of climate change and (2) transition risks, including those associated with the move to a low-carbon economy.¹⁵ Although banks may differ in exactly how they interpret or weigh these risks, most use this basic risk taxonomy in their climate risk strategy.

Climate Risk Identification – Physical Risks

Physical climate risks can be acute or chronic depending on the time frame in which they occur. Financial institutions may focus on either acute, chronic, or both kinds of risks, depending on their asset holdings' location and return on investment timeframes.

Acute physical risks, such as extreme weather events, are among the most commonly discussed and easily identified climate risks. More frequent and intense weather events can result in reduced values (and reduced insurability) for assets in impacted locations.¹⁶ This, in turn, effects the value calculation of acquiring, financing, or accepting such assets as collateral. Even when extreme weather events do not damage assets, they can reduce their profitability by decreasing their operating time or disrupting supply chains.¹⁷

Chronic risks, however, can be equally deleterious. Changes in temperature and precipitation patterns can reduce productivity and cause long-term changes in availability of key inputs, such as water.¹⁸ Such risks are not hypothetical. California wildfires have destroyed homes and businesses and simultaneously created an insurability problem for real estate in the affected regions.¹⁹ Increased flooding and droughts have had noticeable impacts on agriculture operations²⁰ and climate change generally has been connected to accelerated land degradation, which reduces the efficiency of agricultural operations.²¹

Climate Risk Identification – Transition Risks

Similarly, financial institutions are examining a host of transition risks—those risks associated with a transition by society towards a low-carbon economy. For example, a significant carbon tax could materially alter the economics of carbon-intensive industries or increase the risk that assets will become “stranded” or economically infeasible to exploit.²² So too with more stringent regulatory requirements directly aimed at reducing carbon emissions. Financial institutions necessarily must consider, and prepare for, governments taking such actions to stimulate the transition to a low-carbon economy.²³ Other transition risks that financial institutions face include: legal risks, for any lawsuits related to climate-related impacts;²⁴ reputational risks, due to shifting consumer preferences and sentiment; and technological risks, as a result of disruptive technologies that can produce sudden and substantial change.²⁵

All of these risks are relevant to financial institutions' business strategies but may be assessed differently depending on its return on investment timelines and form of investment. For example, the value of a financial institution's debt portfolio is substantially

¹⁵ FINAL REPORT: RECOMMENDATIONS OF THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES 5, TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (2017), available at <https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf>.

¹⁶ CHARTING A NEW CLIMATE 38–39, UNEP FIN. INITIATIVE (2020), available at <https://www.unepfi.org/wordpress/wp-content/uploads/2020/09/Charting-a-New-Climate-UNEP-FI-TCFD-Banking-Physical-Risk.pdf>.

¹⁷ *Id.* at 2.

¹⁸ *Id.*

¹⁹ Christopher Flavelle, *Wildfires Hasten Another Climate Crisis: Homeowners Who Can't Get Insurance*, N.Y. TIMES (Sept. 10, 2020), available at <https://www.nytimes.com/2020/09/02/climate/wildfires-insurance.html>.

²⁰ John Schwartz, *A Wet Year Causes Farm Woes Far Beyond the Floodplains*, N.Y. TIMES (Nov. 21, 2019), available at <https://www.nytimes.com/2019/11/21/climate/farms-climate-change-crops.html>. See generally FOOD & AGRIC. ORG. OF THE UNITED NATIONS, DAMAGES AND LOSSES FROM CLIMATE-RELATED DISASTERS IN AGRICULTURAL SECTORS (2016), available at <http://www.fao.org/3/a-i6486e.pdf>.

²¹ FOOD & AGRIC. ORG. OF THE UNITED NATIONS, CLIMATE CHANGE: UNPACKING THE BURDEN ON FOOD SAFETY 6 (2020), available at <http://www.fao.org/3/ca8185en/CA8185EN.pdf>.

²² See EXTENDING OUR HORIZONS: ASSESSING CREDIT RISK AND OPPORTUNITY IN A CHANGING CLIMATE 33, UNEP FIN. INITIATIVE (2018), available at <https://www.unepfi.org/news/themes/climate-change/extending-our-horizons/>.

²³ See *id.* at 12.

²⁴ [See, e.g., *Mayor & City Council of Baltimore v. BP p.l.c.*, 952 F.3d 452 (4th Cir. 2020), cert. granted, ___ S. Ct. ___ 2020 WL 5847132 (U.S. Oct. 2, 2020)(No. 19-1189); *California v. BP P.L.C.*, No. C 17-06011, C 17-06012, 2019 WL 1064293 (Feb. 27, 2018), vacated and remanded, 969 F.3d 895 (9th Cir. 2020); *Commonwealth v. Exxon*, No. 1984-cv-03333 (Mass. Super. Ct., filed Oct. 24, 2019).]

²⁵ See, e.g., ESG REPORT 51, BARCLAYS (2019), available at <https://home.barclays/content/dam/home-barclays/documents/citizenship/ESG/Barclays-PLC-ESG-Report-2019.pdf>.

affected by an issuer's perceived ability to repay over a fixed period of time. As a result, risks that disrupt cash flow in the years or months until loan repayment would be of greatest concern. On the other hand, equity investors may primarily be concerned about overall enterprise value and the return upon exit. For both debt and equity, there are other aspects that will also color the analysis. For example, the length of the investment is particularly important for transition risks. Certain risks are less prominent in issuance of a three-year term loan, as opposed to an investment in a company with a thirty-year time horizon. Similarly, the investment-to-value ratio, expected remedies in events of default or bankruptcy, and other considerations may also impact how certain climate risks are evaluated.

Climate Risk Mitigation Trends

To mitigate the types of climate risks described above, financial institutions have used the voluntary frameworks described in more detail in Appendix A. Several overarching trends have emerged from these frameworks, including a focus on disclosure and standardization of terms and methodology.

In general, financial institutions are moving towards the collection and disclosure of more quantitative information related to GHG emissions and climate change. Similarly, frameworks are often designed to guard against any attempted greenwashing—or attempts to claim environmental or ESG attributes without actually improving performance—and focus quantitative data and establishing expectations around language, assessment criteria, and points of comparison to guard against these concerns.

As financial institutions begin to quantify and evaluate their financed emissions and align those numbers with a low-carbon trajectory, they will likely face pressure to require the companies that they finance to demonstrate compliance with emission-reduction targets or to shift their resources to investments that are consistent with their climate future goals. The success of asset-level companies in complying with emission-reduction targets may in turn influence how financial institutions look at subsequent financing determinations for such companies.

Implementation of Impact Reductions

Many of the voluntary frameworks included in Appendix A provide guidance as to how financial institutions can measure, account for, and disclose the climate impacts of their operations and investments. These frameworks provide less guidance regarding how participants might best modify existing practices to reduce their financed emissions. Financial institutions are thus left to create individual strategies to reduce financed emissions align portfolios with specific climate goals. The most common tools used by financial institutions in developing these strategies include: (i) portfolio target-setting, (ii) sector exclusions, and (iii) enhanced ESG diligence and outreach.

1. **Portfolio Target-Setting:** One of the most common means for a financial institution to lower its projection of its future financed emissions is to establish specific investment targets in low-carbon or carbon removal technologies, or more sustainable, low-impact management processes. For example:
 - a. **Citi:** Committed to a five-year \$250 Billion “Environmental Finance Goal” that would allocate assets towards transactions that meet at least one of eight criteria (including clean technology, renewable energy, and sustainable agriculture).²⁶
 - b. **Goldman Sachs:** Committed to deploying \$750 billion in “financing, advisory and investing activity” over the next 10 years to support a “global climate transition and inclusive growth strategies.”²⁷
 - c. **Deutsche Bank:** Announced that it expects to expand its portfolio of ESG investments under management to over €200 billion by the end of 2025.²⁸
 - d. **JPMorgan Chase:** Committed to facilitate \$200 billion in financing in 2020 for companies and projects that support the green, social, and economic development objectives of the United Nations Sustainable

²⁶ See ENVIRONMENTAL AND SOCIAL POLICY FRAMEWORK, CITI (July 2020), available at <https://www.citigroup.com/citi/sustainability/data/Environmental-and-Social-Policy-Framework.pdf>.

²⁷ See SUSTAINABLE FINANCE, THE IMPERATIVE AND THE OPPORTUNITY: GOLDMAN SACHS 2019 SUSTAINABILITY REPORT, GOLDMAN SACHS, available at <https://www.goldmansachs.com/what-we-do/sustainable-finance/documents/reports/2019-sustainability-report.pdf>.

²⁸ Deutsche Bank Creates Criteria for Classifying ESG Financing, DEUTSCHE BANK (July 31, 2020), available at https://www.db.com/newsroom_news/2020/deutsche-bank-creates-criteria-for-classifying-esg-financing-en-11653.htm.

Development Goals, in addition to a \$1 billion inaugural “green bond” issuance to fund projects related to green buildings and renewable energy.²⁹

Although certain of these targets’ criteria are built upon independent frameworks, such as the EU Sustainable Finance Taxonomy,³⁰ each financial institution ultimately decides what metrics it will use to classify its lending and investments made in furtherance of these targets. These initiatives demonstrate active measures taken by financial institutions to reduce future financed emissions, which go beyond calculation and disclosure of financed emissions across various asset classes as recommended by many current frameworks.

2. **Sector Exclusions:** In contrast to funding targets, financial institutions have also announced funding limitations or stoppages on certain industries, practices, or involvement in ecologically sensitive areas.

For example, numerous banks, including Wells Fargo and JPMorgan Chase, which have some of the largest loan exposures to fossil fuel companies,³¹ have committed to immediately cease or to taper off funding to certain coal projects and projects in the Arctic.³² The breadth and timing of the commitments vary, and the details of how these policies are implemented might not fully mitigate reputational risks.³³

Implementing sector exclusions of this nature represents a coarser approach compared to more granular portfolio target-setting, which can include active engagement with companies in the energy sector in an attempt to improve ESG performance in line with the financial institution’s broader climate goals. Implementing such exclusions demonstrates that a particular financial institution is prepared to forego potentially profitable opportunities due to inconsistency with its climate-alignment strategy or to address perceived reputational concerns.

3. **Enhanced ESG Diligence and Client Outreach:** Some financial institutions also seek to reduce their risk exposure by supplementing their standard lending diligence with enhanced review of key ESG issues, including climate concerns. For example, Citi’s lending practices require any discrepancies between a client’s operations and Citi’s Environmental and Social Risk Management policies to be addressed under an Environmental and Social Action Plan, including specific impact-reduction actions and timelines.³⁴ These plan requirements are then incorporated into financing agreements for project-related loans and monitored over the course of the loan.³⁵ For clients in the coal-fired power generation sector, Citi further expects its clients to provide their low-carbon transition climate strategies and the results of their climate scenario analyses.³⁶ Similarly, Société Générale has committed to working with its clients, specifically in the mining and

²⁹ *JPMorgan Chase Adopts Paris-Aligned Financing Commitment*, JPMORGAN CHASE (Oct. 6, 2020) available at <https://www.jpmorganchase.com/news-stories/jpmorgan-chase-adopts-paris-aligned-financing-commitment>.

³⁰ For more information, see the Vinson & Elkins blog post on this topic, available at: <https://www.velaw.com/insights/eu-sustainable-finance-taxonomy-will-categorization-bring-clarity/>.

³¹ *Biggest Banks Sustain Coal Financing Despite Defunding Drive*, FIN. TIMES (Sept. 3, 2020) (reporting that JPMorgan has over \$250 billion in exposures to fossil fuel companies, while Wells Fargo has nearly \$200 billion in such exposure), available at <https://www.ft.com/content/38d0daf6-17a4-4280-8293-d07eb6f20d02>.

³² See ENVTL., SOC. & GOV’T REPORT, WELLS FARGO (2020), available at <https://www.wellsfargo.com/assets/pdf/about/corporate-responsibility/environmental-social-governance-report.pdf> (providing that “Wells Fargo currently does not directly or indirectly provide new financing or is in the process of exiting existing relationships or reducing our exposure as contracts expire for the following activities or customers involved in them:... any project associated with the expansion of an existing or development of a new coal mine or new coal-fired power plant... [and] Equator Principles in-scope transactions in the Alaskan Arctic region”); ENVTL., SOC. & GOV’T REPORT, JPMORGAN CHASE (2019), available at <https://impact.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/documents/jpmc-cr-esg-report-2019.pdf> (stating that the firm updated its E&S Policy Framework to “expand restrictions on financing for coal mining and coal-fired power and to prohibit project financing for new oil and gas development in the Arctic”).

³³ FIN. TIMES, *supra* note 30 (citing a report by the Rainforest Action Network that the world’s 35 biggest banks have lent and underwritten \$2.7 trillion to oil, gas and coal companies since the 2015 Paris climate agreement).

³⁴ See CITI, *supra* note 25 at 15.

³⁵ *Id.*

³⁶ *Id.* (providing that Citi “will request information on GHG emissions (owned generation and purchased power); climate-related risks and opportunities impacting the client’s business strategy, including, if available, a 20C climate warming scenario analysis; a description of the company’s current efforts and future strategic plans designed to support its transition to a low-carbon energy future, including diversification options for the company’s mix of owned and purchased generation capacity to shift away from coal-fired power sources; and quantitative targets for reducing GHG emissions”).

thermal coal production sectors, to encourage climate progress through assessing “their transition plans and coal phase-out timeline.”³⁷

While current expectations for climate-progressive financial institutions are focused on disclosure, in the future financial institutions may face growing pressure to set and achieve measurable impact-reduction targets validated by quantitative, auditable information. In such cases, financial institutions might build upon the above-listed methods to expand lending access to clients in low-carbon industries while imposing further restrictions on business opportunities in carbon-intensive sectors.

Impacts on Companies Within Financial Institutions’ Portfolios

If these current trends continue, financial institutions may confront increasing pressure to restrict or halt the provision of capital to particular categories of activities. Such measures could take a variety of forms—restrictions on particular source categories, focusing on “best in class” operations in a particular category, funding only projects consistent with a low-carbon transition, or capping a portfolio at a declining level of carbon emissions. Whatever the form such limitations take, they will necessarily increase the cost of capital to affected operations (relative to a baseline where no such restrictions exist), could call into question the availability of capital for certain activities or industries, and could potentially involve a much more intrusive level of scrutiny on underlying activities. In such a situation, affected companies may be left with fewer financial institutions from which they can obtain credit, and likely on more onerous terms. Indeed, companies in certain industries, for example thermal coal, may already be experiencing increased difficulty in securing financing from climate-progressive or climate-moderate financial institutions.³⁸

Even for companies not affected by sector- or project-specific lending restrictions, prospective lenders may require much more comprehensive information regarding climate issues than a company would otherwise have developed. At a minimum such requirements would complicate efforts to obtain financing. If lenders were to require a detailed transition strategy, it would mean months of preparing, finalizing, and internally approving climate scenario analyses and quantitative emissions-reduction targets.³⁹ Such a lengthy and complex process may be inconsistent with a company’s financing timeline, anticipated operations, or expansion plans. Further, companies may also be pressured to revise existing policies or adjust any targeted emissions-reduction pathway to satisfy the requirements of their lenders.⁴⁰ As a practical matter, aggressive climate-alignment measures taken by financial institutions could significantly affect the operational independence of any entity that needs financing from that institution.

Mitigating Financing Risks

A company’s likely success in obtaining access to credit depends on many factors, including the company’s financial strength, credit needs, and business projections. Companies in sectors likely to be a focus of carbon reduction or climate-alignment efforts should consider and prepare for the possibility that financial institutions may seek to revise their lending principles and limit their involvement in companies or financing activities that no longer fit their climate-alignment strategies or risk management frameworks.

While each business is different, and the optimal financing strategy for each may vary accordingly, there are a few general approaches that companies may want to consider to reduce their financing risks and maintain attractiveness to capital sources.

Establishing a Climate Strategy

First, companies may benefit from evaluating internal risk management processes for inclusion of climate-related risks, including emissions sources in their value chain, to provide robust disclosures and explain the company’s current emissions profile and any

³⁷ TCFD REPORT 4, SOCIÉTÉ GÉNÉRALE (September 2020), available at <http://www.societegenerale.com/sites/default/files/documents/2020-10/climate-disclosure-report-20201027.pdf> (“By the end of 2021, Société Générale will review its entire portfolio and have dialogue with all client Companies with mining or power production thermal coal assets about their transition plans and coal phase out timeline.”).

³⁸ See *Financial Institutions are Restricting Thermal Coal Funding*, INST. ENERGY ECON. & FIN. ANALYSIS, available at <https://ieefa.org/finance-exiting-coal/#1596145653395-89446f18-be8d1269-34c9> (last accessed Nov. 3, 2020).

³⁹ See, e.g., *TCFD Pilot Projects – Banking*, UNEP FIN. INITIATIVE, available at <https://www.unepfi.org/banking/tcfd/> (discussing year-long project for piloting and developing certain scenario analyses and metrics).

⁴⁰ This is likely to become even more important as regulators establish parameters for sustainability funds. See, e.g., EUROPEAN BANKING AUTH. EBA ACTION PLAN ON SUSTAINABLE FINANCE (2019), available at https://eba.europa.eu/sites/default/documents/files/document_library/EBA%20Action%20plan%20on%20sustainable%20finance.pdf (discussing regulatory regime for sustainable finance, including technical screening criteria to assess sustainability of company operations).

data gaps in understanding the company's GHG emissions. In the medium- to longer-term, companies should consider opportunities for absolute emissions reductions or improvement of emissions intensity and the implications such measures could have on the availability and cost of financing due to decarbonization trends and climate-alignment measures by financial institutions.

While companies necessarily need to consider their specific situations, an optimal risk assessment and decarbonization strategy would often include:

1. Identification of the primary climate-related risks impacting the company;
2. Incorporation of climate risk mitigation strategies into a company's overall business strategy;
3. Enhanced oversight of climate strategy and risk management in the company's governance procedures, at both general management and executive levels;
4. Evaluation of the emissions sources and volumes in the company's current and, if applicable, proposed future value chain;
5. Robust modeling efforts to test both the company's current alignment with desired targets and expected emissions-reduction performance with various pathways under a variety of realistic, but stringent, scenarios; and
6. Use of consistent and verifiable tools to measure and disclose ongoing progress towards achieving such targets.

Any factors that differentiate the company from its peers may provide an advantage in obtaining financing or improving the terms on which it is obtained.

Improving Climate Disclosures

Disclosures regarding a company's overall climate strategy may have an impact on the availability or cost of financing as financial institutions implement more aggressive climate-alignment measures going forward. How a company best positions its disclosure regarding its climate strategy and emissions-reductions achievements and targets depends in part on whether a company is in a particularly carbon-intensive sector and whether that company is seen as an industry leader on climate issues. For sector leaders in carbon-intensive industries, for example, financial institutions may expect transparent and thoughtful disclosures that incorporate ESG and climate risks, describe governance strategies, set impact-reduction targets, and provide a clear strategy for achieving such targets. Leading companies may further wish to participate in, or have the information available to support the prospective bank's participation in, certain voluntary frameworks, for example, the Poseidon Principles for companies in the shipping industry. Such actions demonstrate a company's commitment to improving its climate performance, highlight existing climate efforts, and distinguish it from other competitors similarly seeking funding.

For companies in carbon-intensive sectors with less established climate action experience, potential lenders likely would expect a transparent disclosure of its climate impacts and realistic impact-reduction targets. To ensure consistency with a financial institution's climate-alignment strategy, it is possible that such institutions would seek to include covenant packages involving enhanced company reporting, lender monitoring, emissions targets, and corrective action plans should the company materially deviate from its targets.⁴¹

For companies in sectors traditionally characterized as low-carbon, investors may nonetheless begin expecting credit applicants to articulate and disclose their climate-risk management efforts, such as through established emissions-reductions policies and consideration of broader aspects of their operational emissions. For example, although generally not considered a carbon-intensive sector, tech industries may be asked to account for the emissions of their data centers or other services.⁴²

Capitalization on Emerging Business Opportunities

Depending on the speed and scope of the financial industry's low-carbon transition, even "best-in-class" companies may face difficulties in demonstrating the long-term viability of particular facilities, operations, or businesses. In such a scenario, companies involved in climate-intensive industries may have greater success in obtaining credit from financial institutions with more climate

⁴¹ Action plans have historically been used by project lenders that adhere to the Equator Principles to dictate the scope of any procedures required to bring the project or borrower into compliance with the Principles. The fourth iteration of the Equator Principles (released in July 2020 and available [here](#)) now requires participants to conduct more expansive human rights and climate change assessments.

⁴² See, e.g., *Data Centres and Data Transmission Networks*, INT'L ENERGY AGENCY (2020), available at <https://www.iea.org/reports/data-centres-and-data-transmission-networks> (discussing energy use of data industry).

progressive stances to support a pivot towards a lower-carbon business model.⁴³ Depending on the scope and the terms of each lender's metric, these types of projects may qualify for inclusion in the lenders' climate investment targets. For example, in 2017, Equinor announced its plans to transition from "a focused oil and gas company to a broad energy major" with significant projected investments in carbon capture and storage and renewable energy.⁴⁴ Similarly, in 2018, Occidental formed Oxy Low Carbon Ventures, a subsidiary focused on carbon capture, utilization, and storage technologies.⁴⁵ These business model shifts towards developing new or complementary expertise and technologies in low-carbon or carbon-negative sectors may attract climate progressive financial institution investment, in spite of the company's historic carbon-intensive nature. The impact of financial institution climate-alignment measures on the cost or availability of capital for particular project categories may be a factor in evaluating particular business strategies in some industries.

Possible Complications for Financial Institutions

The financial industry's climate-alignment strategies, including moves to decarbonize investment portfolios, appear to be gaining momentum, but several factors may complicate these efforts.

Regulatory & Legal

Financial institutions may face regulatory and legal impediments that could slow or complicate decarbonization efforts, with corresponding effects on the speed at which their carbon-intensive clients are expected to adjust. While there are numerous voluntary frameworks in which financial institutions and their clients can participate, the United States has not adopted comprehensive climate change legislation. Nor have federal agencies issued regulations requiring disclosure of specific climate risk information.⁴⁶ Though such regulations may be forthcoming in the Biden administration.

While the SEC's October 2020 revisions to disclosure requirements did not impose more detailed requirements for climate-related disclosures,⁴⁷ Acting Chair Lee has since issued a flurry of climate-focused announcements. Most notably on March 15, the SEC opened a public comment period seeking input on how to approach climate change disclosures.⁴⁸ The SEC has also announced that climate change will be among its examination priorities for 2021 and that it has created an enforcement task force that will focus on climate and ESG issues.⁴⁹

Similarly, no specific requirements have yet emerged from the Federal Reserve Board's December 2020 decision to join the Network for Greening the Financial System.⁵⁰ However, the Federal Reserve Board recently announced the creation of the

⁴³ See, e.g., TECHNICAL REPORT 51, EU TECHNICAL EXPERT GRP. ON SUSTAINABLE FIN. (2020), available at https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf (discussing benefit of incorporating "brown" criteria into EU Sustainable Finance Taxonomy in order to incentivize reductions of environmental harm).

⁴⁴ *From Oil Company to a Broad Energy Major*, AFTENPOSTEN (Oct. 2017); available at <https://www.equinor.com/en/magazine/transitioning-to-broad-energy-company.html>.

⁴⁵ *Low-Carbon Leadership*, OXY, available at <https://www.oxy.com/OurBusinesses/OxyLowCarbonVentures/Pages/default.aspx> (last visited Dec. 22, 2020).

⁴⁶ Allison Herren Lee, *Big Business's Undisclosed Climate Crisis Plans*, N.Y. TIMES (Sept. 27, 2020), available at <https://www.nytimes.com/2020/09/27/opinion/climate-change-us-companies.html>; CLIMATE-RELATED MKT. RISK SUBCOMM., MANAGING CLIMATE RISK IN THE U.S. FINANCIAL SYSTEM: REPORT OF THE CLIMATE-RELATED MARKET RISK SUBCOMMITTEE, MARKET RISK ADVISORY COMMITTEE OF THE U.S. COMMODITY FUTURES TRADING COMMISSION (2020), available at <https://www.cftc.gov/sites/default/files/2020-09/9-9-20%20Report%20of%20the%20Subcommittee%20on%20Climate-Related%20Market%20Risk%20-%20Managing%20Climate%20Risk%20in%20the%20U.S.%20Financial%20System%20for%20posting.pdf>.

⁴⁷ See Modernization of Regulation S-K Items 101, 103, and 105, 85 Fed. Reg. 63726 (Nov. 9, 2020) (to be codified at 17 C.F.R. pts. 229, 239, 240).

⁴⁸ Securities and Exchange Commission, Public Input Welcomed on Climate Change Disclosures, https://www.sec.gov/news/public-statement/lee-climate-change-disclosures?utm_medium=email&utm_source=govdelivery.

⁴⁹ SEC, SEC Division of Examinations Announces 2021 Examination Priorities, <https://www.sec.gov/news/press-release/2021-39>; SEC, SEC Announces Enforcement Task Force Focused on Climate and ESG Issues, <https://www.sec.gov/news/press-release/2021-42>.

⁵⁰ Board of Governors of the Federal Reserve System, *Federal Reserve Board Announces it has Formally Joined the Network of Central Banks and Supervisors for Greening the Financial System, or NGFS, as a Member* (Dec. 15, 2020), available at <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20201215a.htm>.

Supervision Climate Committee, which will work to identify climate-linked financial risks and ensure that supervised firms are resilient to these risks.⁵¹

Given the rapid pace of policy developments in the U.S. and the uncertainty that will persist for some time, some financial institutions may continue participating in voluntary frameworks, work to shape the Biden administration's climate regulatory agenda,⁵² and push forward with existing plans to quantify and disclose their portfolio decarbonization efforts, while other institutions may defer any efforts to enhance climate risk disclosures.

Without clearer regulatory requirements, U.S. financial institutions are largely left to decide for themselves how best to muddle through existing securities disclosure regulations as they relate to climate risks. The failure to appropriately make such disclosures and inform investors of financially material information could leave financial institutions vulnerable to enforcement by the Securities and Exchange Commission or shareholder suits,⁵³ while leaving investors frustrated about the lack of consistent and comparable ESG and climate data disclosed among companies within a particular industry.⁵⁴ In contrast, financial institutions with European operations may choose to import their EU-driven requirements to their United States operations until U.S.-specific regulations are established.⁵⁵

Legal pressures may also arise in the form of antitrust concerns caused by the rapid increase in climate collaborations among financial competitors.⁵⁶ In both Europe and the United States, courts have held that goals such as environmental protection or ethical conduct do not necessarily shield companies from antitrust allegations when they coordinate to achieve such goals and their efforts also raise prices elsewhere in the value chain.⁵⁷ Such concerns seem particularly salient to efforts that go beyond merely coordinating about how to quantify and interpret climate data and instead expressly limit funding of certain carbon-intensive products. Such agreements could be perceived as a "contract," "conspiracy," or other agreement "in restraint of trade or commerce."⁵⁸ Lessons learned from past measures intended to drive responsible investing, for example, tobacco, conflict minerals

⁵¹ Governor Lael Brainard, *The Role of Financial Institutions in Tackling the Challenges of Climate Change*, Feb. 18, 2021, <https://www.federalreserve.gov/newsevents/speech/brainard20210218a.htm>.

⁵² See Zachary Warmbrodt, *Wall Street braces for climate change scrutiny under Biden*, POLITICO (Nov. 9, 2020), available at <https://www.politico.com/news/2020/11/09/wall-street-braces-for-climate-change-scrutiny-under-biden-435539>.

⁵³ See 15 U.S.C. §§ 77d and 78n(e). Most domestic climate shareholder suits to date have focused on energy and power companies, not the financial sector; examples include, *York County v. Rambo*, No. 3:19-cv-00994 (N.D. Cal. 2019, filed Feb. 22, 2019); *In re: Exxon Mobil Corp. Derivative Litig.*, No. 3:19-cv-01067 (N.D. Tex. 2019, May 2, 2019); and *Barnes v. Edison International*, 2:18-cv-09690 (C.D. Cal. Dec. 17, 2019) (pending motion to dismiss), although financial institutions and pension funds have been the source for such litigation abroad; examples include, *McVeigh v. Retail Employees Superannuation Trust* [2018] NSD 1333 (Austl.) (alleging that a prudent trustee would have required its investment managers to provide certain climate change information and provided processes for disclosing climate change business risks to beneficiaries; the case settled in November 2020); and *Abrahams v. Commonwealth Bank of Australia* [2017] VID 8s79 (Austl.) (shareholders alleged that the Commonwealth Bank of Australia violated the Corporations Act of 2001 when it issued its 2016 annual report which failed to disclose climate change-related business risk).

⁵⁴ See, e.g., Arleen Jacobius, *Investors want more consistent ESG data, Milken attendees told*, PENSIONS & INV. (Oct. 13, 2020) available at <https://www.pionline.com/esg/investors-want-more-consistent-esg-data-milken-attendees-told> (noting that "[i]nstitutional investors using environmental, social and governance factors as a risk tool, as well as a source of investment, find the main objection is a lack of consistent data, according to panelists at the Milken Institute Global Conference, which was held virtually"); Ariel Pinchot & Giulia Christianson, *What Investors Want from Sustainability Data*, WORLD RESOURCES INST. (Feb. 2019), available at <https://www.wri.org/news/what-investors-want-sustainability-data> (finding that "[n]either the metrics nor the accounting methods are consistent. This limits comparability across companies and remains one of the greatest limitations to sustainability data").

⁵⁵ See, e.g., *The Sustainability Report Heard Round the World?*, VINSON & ELKINS (May 8, 2018), available at <https://www.velaw.com/insights/the-sustainability-report-heard-round-the-world/>.

⁵⁶ See, e.g., *Re Processed Egg Prod. Antitrust Litig.*, 851 F. Supp. 2d 867, 877 (E.D. Pa. 2012) (finding that an industry agreement to improve animal quality of life could increase prices or reduce output); see also Ben Foldy and Brent Kendall, *Justice Department Issues Civil Subpoenas to Auto Makers in California Emissions Pact Probe*, WALL ST. J. (Nov. 7, 2019) (alleging that an industry agreement to lower air emissions may raise prices or alter consumer choices).

⁵⁷ See *Antitrust: Commission Fines Producers of Washing Powder €315.2 Million in Cartel Settlement Case*, EUROPEAN COMM'N (2011), available at https://ec.europa.eu/commission/presscorner/detail/en/IP_11_473. See also David Shepardson, *U.S. Launches Antitrust Probe into California Automaker Agreement*, REUTERS (Sept. 6, 2019), available at <https://www.reuters.com/article/us-autos-emissions/u-s-launches-antitrust-probe-into-california-automaker-agreement-idUSKCN1VR1WG>; but see Brent Kendall & Timothy Puko, *Justice Dep't Drops Antitrust Probe of Auto Makers Involved in California Emissions Deal*, WALL ST. J. (Feb. 7, 2020), available at <https://www.wsj.com/articles/justice-department-drops-antitrust-probe-of-auto-makers-involved-in-california-emissions-deal-11581114207>.

⁵⁸ 15 U.S.C. § 1.

and gems, among others, may provide guidance as to how to protect both climate-alignment efforts and individual participating financial institutions.

Data Availability Limitations

Financial institutions' progress towards decarbonizing their portfolios may be complicated by the lack of consistent and reliable information available. Portfolio companies may lack the internal resources to accurately respond to lender data requests. Further, if financial institutions take different approaches about what information they choose to gather, assess and disclose, the companies underlying their portfolio disclosures may face numerous and inconsistent requests to provide climate-related data to support such disclosures. Without consistent and verifiable data, financial institutions may have difficulty in translating diverse climate risk information into a coherent climate risk assessment tool that can be consistently used to price credit terms and/or establish a lending cutoff. As a result, financial institutions may face industry pushback on data requests, or be asked to compensate the companies for the time and expense required to provide the information and analysis requested.

Leakage Concerns

Companies in carbon-intensive industries may face growing difficulties in obtaining access to needed financing from climate-progressive financial institutions, whether because such capital is simply not available or because obtaining it would require sacrificing their traditional operational independence. Asset-level reluctance to participate in their lenders' climate initiatives increases the risk of "leakage" to alternative sources of capital, potentially increasing competition for investments from financial institutions with less ambitious decarbonization targets.

Looking Forward

Many institutions in the financial sector have taken public steps to evaluate the emissions associated with the activities they support. These have been driven by a variety of pressures but predominantly rely on a host of third-party frameworks that have been developed to help financial institutions assess the extent of their financed emissions.

Government regulation in the United States has historically played a small role in financial institutions' assessment of climate risk. This will likely change going forward. The Biden administration has called for substantial action on climate change, including the development of a "climate finance plan" to "promot[e] the flow of capital toward climate-aligned investments and away from high-carbon investments."⁵⁹ Although a narrowly divided Congress reduces the likelihood of major climate legislation, the Biden administration has many other tools at its disposal to bolster climate considerations in the financial sector under existing regulatory authorities, either by mandating particular required actions or merely establishing regulatory certainty, setting a floor for further action by financial institutions.

Regardless of such legal or regulatory action, however, financial institutions are likely to continue assessing the climate risks associated with their deployment of capital. Companies should be aware of the potential for such developments and implement appropriate strategies to mitigate their climate risk and optimize future access to capital.

As discussed above, companies in the energy industry should carefully monitor these developments and assess the adequacy of their own climate disclosures and risk management practices. Such efforts may be part of a broader ESG effort or a more narrow assessment of climate risks, if that is the stated focus of the companies' lenders. Companies who are proactive in this space not only safeguard against the risks of decreased access to capital in this space, but may create opportunities for access to capital on more favorable terms through sustainability-linked loans or green bonds.⁶⁰

As a reminder, V&E's ESG Taskforce is a uniquely cross-functional team dedicated to helping companies proactively understand, manage, and, where appropriate, disclose their ESG risks and opportunities. Covering a broad range of topics and issues, including climate change, clean and sustainable energy, human rights, cybersecurity, and investor relations, the ESG Taskforce draws upon significant capabilities in our governance, environmental, and labor and employment teams. Below are a selection of the ESG Taskforce's recent thought pieces and presentations on ESG developments and trends.

⁵⁹ Exec. Order No. 14008, *Tackling the Climate Crisis at Home and Abroad*, 86 Fed. Reg. 7619 (Jan. 27, 2021).

⁶⁰ *Why Sustainable Finance is on the Rise*, Vinson & Elkins (2020), available at <https://www.velaw.com/insights/why-sustainable-finance-is-on-the-rise/>.

- [U.S. Climate Change Disclosure Regulation is Inevitable, Here's What To Do About It Now](#)
- [The ESG GC: How Your Role as Chief Legal Officer is Integral To Your Company's ESG Efforts](#)
- [The EIC and Midstream Energy Companies Embrace Standardized ESG Reporting](#)
- [Biden's Acting SEC Chair Wants Mandatory ESG Reporting](#)
- [Final Carbon Capture Regulations Should Spur Investment](#)
- [Power Shift: Regulatory Reform in a Biden Administration](#)
- [Preparing for the Future of ESG](#)

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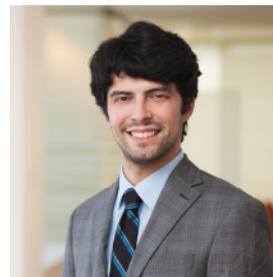


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Appendix A: Major Climate-Alignment Frameworks

Although the TCFD framework has enjoyed broad adoption in financial sector reporting, many financial institutions are participating in various other voluntary frameworks to holistically assess and manage the large, complex data involved with climate-related risks. As most frameworks have different primary functions, a financial institution will typically participate in those most related to its lending or investment portfolios. There are numerous existing frameworks, with more expected to be announced. Some of the most influential frameworks to date include:

Taskforce for Climate-Related Financial Disclosures (“TCFD”)	Center for Climate-Aligned Finance (“CCAF”)
Paris Agreement Capital Transition Assessment (“PACTA”)	Science-Based Targets Initiative (“SBTI”)
Partnership for Carbon Accounting Financials (“PCAF”)	United Nations Principles for Responsible Banking (“UNPRB”)
Poseidon Principles	United Nations Principles for Responsible Investment (“UNPRI”)

1. **TCFD.** As noted above, TCFD has enjoyed broad adoption and therefore plays an important role in spurring the discussion of climate-based financial risks across the financial industry. The TCFD framework focuses on four pillars: governance; strategy; risk management; and metrics and targets.⁶¹ Under each pillar, TCFD highlights two or three recommended disclosures to broadly capture an entity’s approach to addressing climate-related risks.⁶² As a result, the TCFD framework establishes a standard disclosure structure for what sorts of climate-related risks a company should be assessing and disclosing, though it does not necessarily provide tools for how to establish the information for those recommended disclosures, particularly regarding risk management and metrics.
2. **PACTA.** PACTA, in contrast, was developed for use by supervisors and central banks to assess their regulated entities and has been expanded to focus on arming financial institutions with data to assess their portfolio’s alignment with certain climate goals. The PACTA tool examines financial institutions’ portfolios for investments or loans in certain economic sectors with greater exposure to climate risk—power, automotive, oil and gas, coal mining, aviation, shipping, cement, and steel.⁶³ PACTA then uses available data, including prospective asset-level data, about the companies receiving those investments or loans to establish the related emissions financed, including over a multi-year trajectory.⁶⁴ This emissions data is aggregated and analyzed to determine the portfolio’s alignment with various climate scenarios.⁶⁵ Altogether, this allows financial institutions to develop a quantitative understanding of their financed emissions trajectory, as well as to locate the major sources of such financed emissions.
3. **PCAF.** PCAF also provides a quantitative approach to emissions accounting. However, unlike PACTA, it does not examine trajectories against specific climate scenarios; instead, it provides detailed guidance to financial institutions on calculating and disclosing their financed emissions in various asset classes, including listed equity and bonds, business loans, motor vehicle loans, commercial real estate, mortgages, and project finance.⁶⁶ PCAF’s goal is to ease reporting burdens for financial institutions by providing a standard method for measuring and reporting financed emissions across a financial institution’s portfolio.⁶⁷
4. **Poseidon Principles.** The Poseidon Principles also aim to facilitate financial institutions’ disclosure of quantitative information regarding financed emissions. However, it focuses solely on the shipping industry. Instead of providing

⁶¹ TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES, FINAL REPORT, *supra* note 14, at 14.

⁶² *Id.*

⁶³ See Vinson & Elkins, *PACTA Tool*, *supra* note 9.

⁶⁴ See *id.*

⁶⁵ See *id.*

⁶⁶ See *Partnership for Carbon Accounting Financial Publishes Draft Global Carbon Accounting Standard*, Vinson & Elkins (2020), available at <https://www.velaw.com/insights/partnership-for-carbon-accounting-financials-publishes-draft-global-carbon-accounting-standard/>.

⁶⁷ See *id.*

a tool that analyzes financed emissions against certain climate scenarios, the Poseidon Principles provide a structure to standardize the assessment and disclosure of lending practices with shipping sector clients.⁶⁸ In particular, it requires signatory financial institutions to annually calculate the average CO2 emissions of all vessels in which they hold an ownership or security interest and assess those averages against emissions targets set annually by the Poseidon Principles Association, with an overall goal of leading to compliance with the International Maritime Organization's goal of reducing shipping emissions by 50% (compared to 2008 levels) by 2050.⁶⁹

5. **CCAF.** CCAF is a relatively new framework, having only been announced in July 2020, but it marks one of the first major efforts by several U.S.-based banks to incorporate an overarching framework for financed emissions.⁷⁰ CCAF looks to take the lessons learned from developing the Poseidon Principles and apply it to other particularly climate-relevant sectors.⁷¹ The highlighted sectors substantially overlap with the sectors selected by PACTA.⁷² While these frameworks have not yet been developed, they will likely follow the Poseidon Principles in requiring regular assessments of financed emissions against certain specified targets.⁷³
6. **SBTI.** The SBTi is not a new framework, having been founded several years ago as a collaboration between the CDP, United Nations Global Compact, World Resources Institute, and the World Wide Fund for Nature.⁷⁴ However, SBTi's pilot program for banks was first announced on October 1, 2020.⁷⁵ The SBTi works by establishing a framework and providing validation for companies that align their decarbonization plans with science-based greenhouse gas reduction targets.⁷⁶ Like PACTA, SBTi helps financial institutions to assess the alignment of their current portfolios with certain temperature goals; however, SBTi also provides for analysis of various targets and commitments set by the financial institutions, which can be used to develop (or confirm) GHG emission reduction targets that receive official validation by the SBTi as being aligned with the science of climate change mitigation.⁷⁷
7. **UNPRB & UNPRI.** Although these are two different frameworks, the UNPRB and UNPRI have much in common. Both consist of a set of six principles, including a reporting commitment, for financial institutions to align their activities with pertinent ESG issues.⁷⁸ The frameworks allow for signatories to identify the most meaningful way for each individual financial institution to achieve shared societal goals.⁷⁹

⁶⁸ See *The Poseidon Principles: Shipping Emissions Reduction Efforts Steer into New Waters*, VINSON & ELKINS (2020), available at <https://www.velaw.com/insights/the-poseidon-principles/>.

⁶⁹ *Id.*

⁷⁰ See *Rocky Mountain Institute Launches the Center for Climate-Aligned Finance*, ROCKY MOUNTAIN INST., available at <https://rmi.org/press-release/rocky-mountain-institute-launches-the-center-for-climate-aligned-finance/> (last accessed Oct. 11, 2020).

⁷¹ *Our Approach*, CTR. CLIMATE ALIGNED FIN., available at <https://climatealignment.org/> (last accessed Oct. 11, 2020).

⁷² *Id.*

⁷³ Compare *id.*, with Vinson & Elkins, *The Poseidon Principles*, *supra* note 64.

⁷⁴ *About the Science Based Targets Initiative*, SCI. BASED TARGETS, available at <https://sciencebasedtargets.org/about-the-science-based-targets-initiative/> (last accessed Oct. 11, 2020).

⁷⁵ See *First Opportunity for Banks to Receive Stamp of Approval on Science-Based Climate Targets*, SCI. BASED TARGETS, available at <https://sciencebasedtargets.org/2020/10/01/first-opportunity-for-banks-to-receive-stamp-of-approval-on-science-based-climate-targets/> (last accessed Oct. 11, 2020).

⁷⁶ *Id.*

⁷⁷ *SBTi Finance Tool for Temperature Scoring & Portfolio Coverage*, SCI. BASED TARGETS, available at <https://sciencebasedtargets.org/financial-institutions/> (last accessed Oct. 11, 2020).

⁷⁸ Compare *What are the Principles for Responsible Investment?*, UNITED NATIONS PRI, available at <https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment> (last accessed Oct. 11, 2020), with *Principles for Responsible Banking*, UNEP FIN. INITIATIVE, available at <https://www.unepfi.org/banking/bankingprinciples/> (last accessed Oct. 11, 2020).

⁷⁹ See, e.g., *Launch of the United Nations Principles for Responsible Banking*, VINSON & ELKINS (2019), available at <https://www.velaw.com/insights/launch-of-the-united-nations-principles-for-responsible-banking/>.