



CIMS vs. NZBA Climate Target Setting:

Cross-Fertilizing Best Practices

About

2° Investing Initiative (hereinafter referred to as 2DII) is an international, non-profit think tank working to align financial markets and regulations with the Paris Agreement goals. Working with offices in Paris and Berlin, 2DII coordinates some of the world's largest research projects on climate metrics in financial markets. To ensure our independence and the intellectual integrity of our work, we have a multi-stakeholder governance and funding structure, with representatives from a diverse array of financial institutions, regulators, policymakers, universities, and NGOs.

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Background

Over the past few years, there have been a growing number of financial sector initiatives, aiming at embedding environmental aspects, with the most mature ones focusing on targets related to climate change mitigation¹. Climate targets can take varied forms from absolute targets on global warming to engagement in reducing greenhouse gas (hereinafter referred to as GHG) emissions. Initiatives such as Coal Divest and Climate Action 100+ represent specific strategic approaches, while net-zero pledges and net-zero targets are often focused on portfolio alignment² goals. Viewed through the lens of the transition risk, alignment objectives hold significant relevance for many reasons. One key reason is their potential to be utilized as a tool for facilitating changes in the real economy³.

Some of the above-mentioned initiatives request that signatories commit to reaching their alignment targets through impact, rather than through portfolio reallocations. However, these commitments can obstruct the impact goals they aim to advance, and stymieing the development of truly impactful actions.

For a financial institution (hereinafter referred to as FI), having an “Impact” on climate goals means being an active driver of a real-world GHG emissions reduction of investee companies. This involves initiating tangible changes in these companies' operations to lower their carbon footprint. This is all the more important that, solely on carbon, more than 90 percent of emissions of a FI⁴ is stemming from its scope 3 emissions.⁵ Meanwhile, portfolio alignment refers to the composition of a financial portfolio in which the average investee company at the portfolio level is on a transition pathway commensurate with the Paris Agreement. The alignment “score” can be expressed in many ways, from temperature in degrees Celsius (T°C scores) to technology capacity alignment. These measures are rooted in the concept of exposure logic, which focuses on the extent of a portfolio's exposure to climate-related risks.

Different strategies exist for aligning a financial portfolio with the Paris Agreement's climate goals, ranging from reallocating assets to disinvestment. The ultimate decision lies in considering which option would produce a real impact on the investee companies. The key is to choose a strategy that meaningfully impacts the companies in the portfolio, thus contributing to broader economic changes aligned with these climate goals. Although most alignment exercises focus on the portfolio reallocations approach due to its longer maturity, its effectiveness in diminishing real emissions is less certain and there is no proof that it can lead to changes in the

¹ The MIT defines climate targets as follows: “Targets are the limits that scientists and policymakers set in plans to combat climate change” ([Climate Targets | MIT Climate Portal](#)).

² Portfolio alignment, in reference to the Paris Agreement, refers to the composition of a financial portfolio in which the average investee company at the portfolio level is on a transition pathway commensurate with the Paris Agreement.

³ Available at: [The Good, the Bad, and the Uncertain: Contributions of Volunteered Geographic Information to Community Disaster Resilience \(manchester.ac.uk\)](#)

⁴ Available at: <https://www.revue-banque.fr/archive/empreinte-carbone-dans-finance-defi-scope-3-PXRBB00179>

⁵ Scope 3 emissions are all indirect emissions which occur in the value chain of the investee. Available at: https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf

companies' activities or the economy⁶. For reallocations to truly drive change, they would need to be implemented on a massive and coordinated scale⁷⁸. This would signal a strong market demand for sustainable practices, potentially influencing company activities more directly.

While portfolio reallocations can contribute to climate change mitigation, it does not directly and automatically have an impact on reducing GHG emissions. For an FI that commits to directly combat climate change, adopting an impact-based approach, along with setting specific impact-based targets, is considered as a far more effective approach. Moreover, recent research performed by 2° Investing Initiative (hereinafter referred to as 2DII) reveals a significant trend among European retail investors. On average, 53 percent of European respondents express a willingness to constitute an environmental impact with their savings⁹. These responses underscore a growing retail investor demand for strategies that combine impact, and value alignment with personal or societal values, and financial returns. These findings underline a pivotal shift in investor approach, indicating that FIs can reflect customer's expectations in their strategies while more significantly contributing to climate change mitigation.

Despite the efforts of FIs to align their portfolios with climate goals, there has been limited focus on understanding and quantifying their ultimate impact on reducing GHG emissions in the real economy. The prevailing measure of “success” for these strategies often revolves around the ability of financial institutions to “decarbonize their portfolios” or “align their portfolios with climate goals” in some form – independent of the extent to which this leads to decarbonization in the economy more generally. While portfolio alignment serves as a valuable strategy for various purposes (e.g., risk management), no concrete evidence exists that it leads to tangible decarbonization in the real economy¹⁰¹¹.

At a time when immediate action is needed to remain well below the 2° temperature rise limit by the end of the century, the financial sector in turn is required to adopt frameworks that underscore and prioritize impact-oriented climate strategies which should be measurable social and environmental impact alongside a financial return¹². With that, 2DII designates impact as “*a clear and causal demonstrable relationship between a financial institution's actions and a change in the real world, particularly a reduction in GHG emissions*”¹³. This approach is essential for FIs to contribute meaningfully to the global fight against climate change.

⁶ Available at: <https://www.mckinsey.com/capabilities/risk-and-resilience/our-insights/aligning-portfolios-with-climate-goals-a-new-approach-for-financial-institutions>

⁷ Available at: <https://greenfiscalspolicy.org/blog/a-big-push-for-brazil-coordinated-investments-for-a-sustainable-development-path/>

⁸ For further information on commonly used several types of sustainable capital allocation and their capacity to influence the market prices, please see the 2DII's “Discussion Paper Series on Investor Impact Mechanisms”, available at: <https://2degrees-investing.org/wp-content/uploads/2023/03/Discussion-paper-5-market-signaling.pdf>

⁹ Available at: <https://2degrees-investing.org/resource/retail-clients-sustainable-investment/>

¹⁰ Available at: <https://www.mckinsey.com/capabilities/risk-and-resilience/our-insights/aligning-portfolios-with-climate-goals-a-new-approach-for-financial-institutions>

¹¹ Available at: <https://www.greenbiz.com/article/how-financial-institutions-can-overcome-barriers-climate-alignment>

¹² The core characteristics of impact investing is available at: <https://thegiin.org/characteristics/>

¹³ Available at: <https://2degrees-investing.org/wp-content/uploads/2021/04/Climate-Impact-Mgmt-System.pdf>

To respond to the challenges above, 2DII has developed a Climate Impact Management System (hereinafter referred to as CIMS) to assist FIs in setting up climate strategies designed to maximize their contribution to climate change mitigation. The goal of the CIMS is to help financial institutions design climate strategies for maximum impact on climate change mitigation. It is especially valuable for financial institutions that have undertaken long-term net-zero commitments. The CIMS framework can be applied at the product, business line, or institutional level. While it is primarily designed for financial institutions, it can also inform the development of labelling or certification schemes for financial products. It is key to notice that the CIMS framework is also a useful tool to design transition plans. The climate actions supporting the CIMS framework echo principles and tools highlighted in several international frameworks to assess credible transition plans, for instance in relation to engagement policies.

The impact of a financial institution to diminish adverse effect of climate change is measured by the extent to which its actions lead to observable changes in reducing GHG emissions. To effectively guide FIs in this direction, two prominent frameworks are in place: the CIMS and the Glasgow Financial Alliance for Net Zero (GFANZ) target-setting guidelines. Both are designed with a common objective: to help FIs maximize their impact on mitigating climate change by focusing on the reduction of real-world emissions and have the ambition to serve as a blueprint for future regulation. These frameworks are not only tools for current climate strategy enhancement but also aim to set precedents for future regulatory standards in climate change mitigation.

In this paper, 2DII cross-analyses CIMS with one of the GFANZ methodologies, specifically the Net Zero Banking Alliance (NZBA) methodologies. Thus, 2DII intends to:

- Target the Net Zero alliances follow-up and synthesize their net-zero commitments, comparing the mechanisms they used with the Climate Impact Management System's mechanisms, and drawing recommendations based on this analysis;
- Analyze whether these methodologies actually cross-fertilize each other in the sense of overarching alignment and impact strategies, which could in turn advocate the financial institutions in the design of climate strategies; and,
- Conclude as to the interoperability of CIMS and net-zero methodologies.

The Rise of Net-Zero Alliances

The pivotal role of financial systems in the climate crisis and the prospectivity of their operations to facilitate sustainable transition is now widely recognized. Finance has become increasingly outstanding in the climate disputes since Article 2.1(c) of the Paris Agreement was adopted¹⁴. Since then, the public debate has gradually been filled with proposals to operationalize this article and thus mobilize financial systems to address climate issues. A recurring pattern has risen in the emergence of these proposals: from the development of propositions by private initiatives such as practitioners and NGOs to the uptake of these propositions by regulatory bodies. This trend was particularly evident between 2014 and 2018 period when various initiatives (Carbon Tracker's pioneer reports, The Portfolio Decarbonization Coalition, the Montreal Carbon Pledge, etc.) formulated informational and prudential¹⁵ propositions (Baer et al., 2021) that have been transposed into national and continental regulations (French Art 173 in 2014, and EU's Sustainable Finance Action Plan in 2018 in the aftermath of the High Level Expert Group's report in 2016) and adopted by international authorities such as ones from the Network for Greening the Financial System (NGFS) in 2017. However, the shortcomings of this informational-prudential approach regarding its contribution to climate change mitigation started to be increasingly questioned. Academics (Baer et al., 2021; Chenet, 2021; Dziwok & Jäger, 2021) and NGOs, private initiatives are now shifting towards an impact-oriented approach, focusing more directly on tangible outcomes in climate change mitigation.

GFANZ was established with the dual purpose of increasing the number of net zero-committed financial institutions and creating a platform for addressing sector-wide and cross-cutting challenges in the pathway to net zero and ensuring that high levels of ambition are met with credible impactful climate actions¹⁶. Along with this, GFANZ seeks to ensure that the impact-oriented portfolio alignment pledges are backed by solid targets and include defined transition plans. In addition, GFANZ aims at expediting the financial flows toward emerging markets & developing countries, thereby advocating global decarbonization efforts.

Among these pioneering contribution-oriented alliances under the GFANZ¹⁷ umbrella, the Net Zero Banking Alliance (NZBA) emerged as a key initiative. The NZBA is a universal group of banks that are pledged to align their lending and investment portfolios to support the low-carbon transition of the real economy by 2050, which is convened by the UN, part of the GFANZ and Race to Zero¹⁸. The NZBA was launched in April 2021 and currently has members of 141 banks representing 41% of global banking assets¹⁹. In addition, the United

¹⁴ (Zamarioli et al., 2021)

¹⁵ (Baer et al., 2021) define “promotional” propositions as those aiming at contributing directly to climate change mitigation, as opposed to “prudential” propositions that aim at ensuring financial stability in the face of climate risks.

¹⁶ Available at: <https://www.gfanzero.com/about/>

¹⁷ Please see 2DII's “Financing the Future: Global Shift to Net-Zero Alliances” policy brief.

¹⁸ Ibid.

¹⁹ Available at: [Our Members – United Nations Environment – Finance Initiative \(unepfi.org\)](https://www.unepfi.org/our-members)

Nations Environment Finance Initiative's (UNEP FI) Collective Commitment to Climate Action (CCCA) group of 38 signatories has constituted the target-setting guidelines for the NZBA for credible, robust, and impactful target setting to accomplish the objectives of the Paris Agreement.

On the other hand, CIMS is one of the leading impact-oriented methodologies that can be used by financial institutions as a means of designing impactful strategies to support real-world GHG emission reduction, detailed in Section IV. Both CIMS and GFANZ's target-setting guidelines are aligned in the same objective; aiming to guide FIs in maximizing their impact on climate change mitigation via the reduction of real-world emissions and potentially serving as a blueprint for future regulation.

The NZBA encompasses a comprehensive set of guidelines to guide its members. In Guideline 1²⁰, banks are obligated to set and publicly disclose their long- and short-term targets to underpin their objectives. Long-term targets must be aligned with the Paris Agreement goals and include 2050 (long-term) and 2030 (short-term) climate strategies. The banks shall develop their climate strategies considering the level of absolute emissions and/or sector-specific emission intensity in their portfolio. Emissions are categorized into three different scopes based on the GHG Protocol²¹ for lending and investment activities. Members have 12 months from joining to set their targets, which should be backed by actions, milestones, published guidelines, transition plans, and policies. Banks are required to measure and report annual progress based on interim targets and long-term targets.

In Guideline 2²², banks must establish an emission baseline, subsequently measure, and disclose annual emissions profile of their lending portfolios and investment activities. Each bank must disclose their asset classes, specifying the scope and boundary, as well as the measurement methods and metrics used at portfolio, asset class, or sector level. In Guideline 3²³, the use of credible climate scenarios is binding. Banks shall use their individual scenarios, in addition to those from credible and well-recognized, e.g. IPCC and IEA. The final Guideline²⁴ mandates that banks are committed to periodically reviewing their climate targets, at least every 5 years. Banks must update their baseline data and scenarios, and as climate science evolves, banks should reassess their methodologies and targets at the earliest practical opportunity.

The Climate Impact Management System (CIMS)²⁵ developed by 2DII is designed to offer financial institutions a comprehensive roadmap for developing, refining, and effectively communicating strategies that have a significant impact on climate change. This system is more than a set of guidelines; it is a dynamic framework that helps FIs to design and implement climate strategies with a focus on maximizing their impact on climate change mitigation. This framework can be applied at the product, business line, or institutional level.

²⁰ Available at: [UNEP-FI-Guidelines-for-Climate-Change-Target-Setting.pdf \(unepfi.org\)](#)

²¹ Available at: [Homepage | GHG Protocol](#)

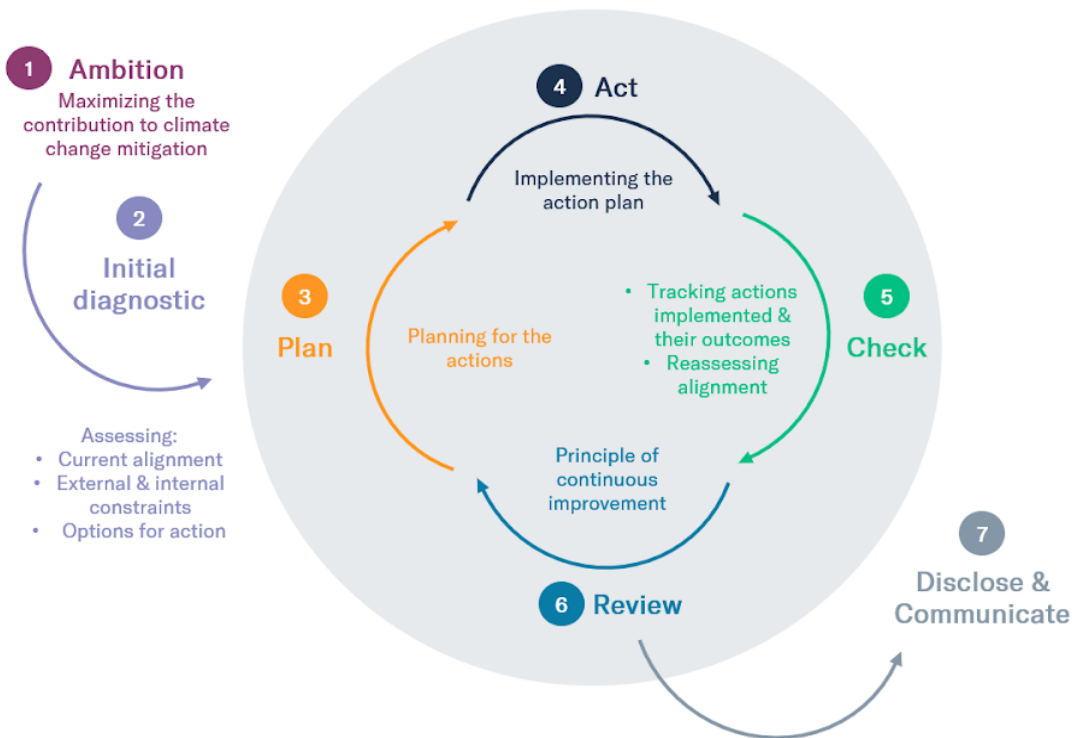
²² Available at: [UNEP-FI-Guidelines-for-Climate-Change-Target-Setting.pdf \(unepfi.org\)](#)

²³ Ibid.

²⁴ Ibid.

²⁵ Available at: [Climate-Impact-Mgmt-System.pdf \(2degrees-investing.org\)](#)

The figure below illustrates the various steps of the CIMS:



The Climate Impact Management System is structured as a multi-step process to optimize the climate change mitigation efforts of FIs. Initially, it guides FIs in listing their current climate actions and understanding how they can best modify them to maximize their contribution to climate change mitigation based on available science and their specific constraints (steps 1 & 2). Then, it assists them in planning for this contribution (step 3) and monitoring it (steps 4 & 5). Finally, step 6 outlines a process for continuous improvement of the contribution. Guidance on how to communicate the contribution and disclose the process followed is provided in step 7.

NZBA vs. CIMS

At the core of both the CIMS and the NZBA is the concept of "impact," which designates a causal, demonstrable relationship between a financial institution's action and tangible real-world change in GHG emission reductions. The FI's impact is the share of the observed change that was caused by the FI's actions. Both CIMS and NZBA necessitate an initial assessment of a financial institution's current performance, followed by an exploration of two key dimensions: the FIs' contribution to real-world changes and tangible improvements that these contributions bring about. Particularly, both frameworks are designed to serve as a blueprint for future regulatory frameworks with the overarching goal of setting precedents.

The NZBA target-setting guidelines and the CIMS framework share many overlapping elements, some of which are enumerated in Table 1 below. These commonalities constitute a solid foundation for potential convergence and cross-fertilization of the two approaches. Both methodologies are considered voluntary environmental tools for financial institutions to evaluate, disclose, and improve their environmental performances, while also striving to align with the Paris Agreement's goals, targeting significant climate action by 2030 and aiming for broader goals by 2050. It is crucial to note that, there are no binding rules for investors to implement alignment methodologies on their portfolios.

Commonalities
Being voluntary climate management tools
Science-based approach
Aiming GHG emission reduction in the real world
Supporting orderly transitions
Open-source methodology
Investor contribution categories ²⁶

Table 1. Commonalities of the target-setting methodologies

²⁶ IMP (2019), A Guide to Classifying the Impact of an Investment.

CIMS and NZBA support financial institutions in refining their targets, utilizing scientific approaches that consider the pursued objectives and required actions. While NZBA aims at driving impact through collective actions of FIs, CIMS more individually facilitates GHG emissions reduction in the real world through impactful actions in the financial institutions' client relationships, products, and services. These methodologies are designed to include categories of similar climate actions such as engagement, exclusion, divestment, etc. However, given their open-source nature, there has been room for other action types to accommodate in the frameworks. Over time, these features can expand and diversify.

While both the CIMS and the NZBA aim to guide FIs in climate change mitigation, there are notable differences between the two frameworks, which primarily revolve around their scope, alignment requirements, and choice of reference scenarios. One key distinction is in how portfolio alignment targets are approached. NZBA may encourage FIs to reallocate their portfolios, which could lead to a shift in investment focus but not necessarily direct reductions in greenhouse gas emissions at individual level. In contrast, the CIMS framework aims to guide FIs in defining the best possible strategy, taking into consideration its constraints, based on scientific evaluation methods. It focuses on a “maximization under constraints” of an FI's impact potential to contribute to climate change mitigation. CIMS does not impose an alignment target; rather, it follows an approach based on the assessment of the FIs' impact potential. While NZBA focuses on an overarching portfolio alignment goal which should lead to collective impact, CIMS is based on the assessment of individual actions' impact potentials.

The CIMS and NZBA differ substantially in their focus and approach. CIMS is tailored to “entity-specific” focusing on climate strategies that are specific for an institution, business line, or product. This individual-specific approach allows for a more nuanced and targeted strategy development, considering the unique characteristics and needs of each entity. On the other hand, NZBA focuses on priority sectors in terms of GHG Scope level²⁷ in their portfolios such as renewables, real estate, agriculture, and steel. Since crucial gaps remain, some partners of the coalition, including the Financial Services Task Force²⁸, demanded the removal of sector-specific targets and only determined focal point sectors. Instead, they propose focusing on key sectors that offer credible and feasible transition pathways towards net zero emissions.

CIMS stands out for its flexibility in action identification that (i) are applicable given the constraints and (ii) have the highest expected impact to maximize the impact potential of the FI's portfolios under constraint. This dual focus ensures that the strategies developed are both practical and effective in maximizing the climate impact potential of the financial institution's portfolios, even under diverse constraints. Therefore, while NZBA provides a broader, sector-oriented framework, CIMS offers a more tailored and methodological approach. Significantly, CIMS operates independently of the systemic approach, ensuring its effectiveness irrespective of the behaviors of other financial institutions. This aspect is particularly crucial in the current context where

²⁷ Available at: [The Commitment – United Nations Environment – Finance Initiative \(unepfi.org\)](https://www.unepfi.org/)

²⁸ Available at: [Green Banks Are Starting to Leave Net-Zero Industry Group - Bloomberg](https://www.bloomberg.com/news/articles/2021-03-11-green-banks-are-starting-to-leave-net-zero-industry-group)

numerous banks are exiting alliances, underscoring the need for strategies that are adaptable and resilient to such shifts in the financial sector. This distinctiveness empowers FIs to develop and implement climate strategies that are both realistic and impactful, tailored to their unique circumstances.

Furthermore, CIMS and NZBA differ in their approach to the selection of reference scenarios for climate targets. While the NZBA requires banks to be cautious in setting targets, it also allows them considerable leeway. Although the NZBA framework highly recommends using the IPCC scenarios, it allows member banks significant flexibility, enabling them to create and implement their own tailored scenarios. Additionally, it offers the option to adopt and modify scenarios provided by authoritative bodies like the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC). In other words, the NZBA might allow for less ambitious scenarios although they are expected to align with the temperature objectives outlined in the Paris Agreement. A recent study examining the coal policies of NZBA members, discovered that only 20% of these policies align with the International Energy Agency (IEA) scenarios.²⁹ For instance, according to Barclays' Climate Strategy and Progress Report, Barclays has revised its oil and gas target to align with the IEA's Net Zero Emissions (NZE) scenario. However, its 2030 targets for the power, cement, and steel sectors span a wider range, with the upper limit matching the NZE and the lower limit based on the bank's assessment of sector-specific and client-specific pathways and commitments.³⁰

In the CIMS framework, financial institutions initially match their contributions with objectives of climate improvement where they execute this analysis in the second step which is "the initial diagnostic phase". Initially, these institutions evaluate their portfolios to assess current alignment with climate goals. Subsequently, FIs identify "the maximal impact potential"³¹ by determining constraints that restrain action potential and define a bucket of feasible climate actions. Once the high-level stakes are properly understood, FIs then proceed to assess the overall alignment of the portfolio with the 1.5°C baseline scenarios³² inherited from the Paris Agreement. This critical step aids in identifying the key sectors and specific investees in its portfolio and facilitates the detailed analysis of the alignment of their portfolios based on science-based climate scenarios.

²⁹ Available at: [Analysis: Banks' net-zero promises falling short - Capital Monitor](#)

³⁰ Available at: <https://home.barclays/content/dam/home-barclays/documents/citizenship/Sustainability/Barclays-Climate-Strategy-Targets-and-Progress-2022-Final.pdf>

³¹ 2DII defines 'impact potential maximization' as a maximization of the expected impact of an organization, branch or product, the expected impact being defined as the probability of having an impact multiplied by the scale of the impact. In other words, 'impact potential maximization' as a method to assess the overall effect by considering both the likelihood of making an impact and the magnitude of that impact. Available at: <https://2degrees-investing.org/wp-content/uploads/2021/04/Climate-Impact-Mgmt-System.pdf>

³² The Paris Agreement outlines credible pathways to limit global warming to 1.5°C, compared to the pre-industrial levels and related global GHG pathways. Assessing alignment with the 1.5°C goal involves evaluating if an organization's actions are on track to limit global warming to 1.5°C above pre-industrial levels. This means analyzing if their GHG emission reduction strategies, investment decisions, and operational practices align with the pathways and targets set by the Paris Agreement to avoid surpassing this critical threshold. For example, a company's transition plan towards renewable energy sources, efficiency improvements, and carbon offset initiatives would be scrutinized for their potential to contribute to the global effort to maintain or reduce the temperature increase to 1.5°C.

Additionally, CIMS places a strong emphasis on meticulously tracking and evaluating the effectiveness of each climate action, specifically in terms of its capability to contribute to tangible reductions in real-world emissions. To this end, the CIMS recommends using a Climate Action Template, inspired by the ISO 14097³³ and sharing this template with academics interested in assessing the impact of climate actions. Such ex-ante documentation of climate actions and ex-post assessment of their efficacy is not required in the NZBA's framework. On the other hand, the UN High-Level Expert Group (UN HLEG) recommends reporting in a standardized, transparent and publicly accessible format via UNFCCC Global Climate Action Portal. This recommendation is a commendable and a positive move towards enhancing transparency and facilitating the widespread sharing of results.

Table 2 below summarizes the differences between the two frameworks.

CIMS	NZBA
Optimization of their impact potential within existing constraints	Articulated around an overarching portfolio alignment goal
Can be specified for the entity, business line, product, institution, etc. where the impact is to be maximized	Sectors are prioritized depending on GHG Scope level in portfolios
Only IEA and IPCC scenarios are adaptable	Offers the flexibility to create a customized baseline scenario
Individual approach	Collective approach
Utilize the Climate Action Template for both ex-ante documentation and ex-post efficacy evaluation	No specific template has been mandated for ex-ante documentation and ex-post efficacy evaluation

Table 2. Differences amongst the target-setting methodologies.

The NZBA established an October 2022 deadline for its member banks to set their climate targets. By this deadline, 62³⁴ banks had disclosed their targets for 2050, with some opting for even earlier dates. While numerous banks have revealed their targets, a few of their counterparts failed to meet the deadline for establishing theirs³⁵. The remaining banks joined the alliance after its launch are expected to set their initial targets within an 18-month timeframe.

³³ The Template cannot, to date, be deemed "compliant" with the ISO, as some questions were taken out for user-friendliness purposes. A "Climate Action Template" that can assist FIs in planning for their strategy and recording their intended actions and their AOOI chains.

³⁴ The majority of these banks consist of the alliance's 43 original members, who were given until October 2022 to establish their initial targets.

³⁵ Available at: <https://shareaction.org/reports/nzba-round-1-an-assessment-of-banks-decarbonisation-targets>

Of the 62 banks that have established climate targets³⁶, there is a commendable diversity in the sectors being addressed. Notably, a significant portion of these banks, amounting to 45, have focused their efforts on reducing emissions in the power generation sector. These targets are predominantly set with a 2030 deadline, highlighting a collective commitment towards substantial environmental change within this decade. Furthermore, demonstrating an even more ambitious stance, two of these banks are aiming to achieve their emission reduction goals by 2025, setting a precedent for rapid and impactful climate action in the banking industry.

In the oil and gas sector, 31 banks have delineated specific targets. The transport industry also sees significant focus, with 24 banks setting targets: 20 targeting automotive emissions, 9 focusing on aviation, and 6 on shipping. Additionally, 23 banks are aiming to reduce emissions in commercial and/or residential real estate. In the industrial sector, 11 banks have targets for the cement industry, 7 for steel, with an additional 4 specifically for the iron and steel sectors, and 8 banks have outlined targets for coal emissions, which include various focuses such as thermal coal, metallurgical coal, and a combination of coal, oil, and gas emissions. Furthermore, the agricultural and aluminium industries are also being targeted, with 3 banks setting goals in each of these sectors.

The NZBA Intermediate Target Disclosure Checklist demonstrates that³⁷, targets should be constituted for either all or a substantial portion of the carbon-intensive sectors. However, targets are established for an average of less than three sectors out of nine carbon-intensive sectors³⁸, outlined in guidelines, per bank. While the guideline clarifies sector-specific definitions³⁹, the specifics regarding how to segment intra-sector are left to the judgment of the members.

³⁶ Available at: [GFANZ-2022-Progress-Report.pdf \(bbhub.io\)](#)

³⁷ Available at: [unepfi.org/wordpress/wp-content/uploads/2022/06/NZBA-intermediate-target-disclosure-checklist.pdf](#)

³⁸ Agriculture; aluminum; cement; coal; commercial and residential real estate; iron and steel; oil and gas; power generation; and transport.

³⁹ Sectors are defined according to internationally recognized sector classification codes, such as the NACE, SIC, GICS or NAICS codes.

NZBA: Challenges and Controversies

The NZBA is committed to fostering collective action to direct financial flows which is necessary to establish a net-zero banking industry. However, some of the major banks have declared their withdrawal from the alliance and aim to continue operating their transition plans in isolation⁴⁰. A notable example is GLS Bank, recognized as Germany's one of the most environmentally friendly banks and a founding member of the NZBA, which has departed from this climate-finance alliance. Even though GLS Bank has not issued a public statement, it is understood as an attempt to differentiate itself from the members that continue to finance fossil-fuel projects, especially in Africa⁴¹.

GFANZ was established amidst high expectations set by COP26. However, within the GFANZ community, particularly the NZBA, financial institutions have been criticized for exploiting loopholes due to the non-binding nature of GFANZ's rules⁴². Notably, according to the other member banks' claims, some signatories, including major Wall Street Banks, continue to finance new fossil-fuel infrastructure projects, along with their expansion, exploration, and lobbying efforts⁴³. Despite scientific evidence advocating for a phase-down and eventual phase-out of existing coal capacities, these financial institutions persist in investing in companies engaged in coal mining and coal-fired power generation. In response to these issues, the NZBA has only offered guidelines⁴⁴ that financial institutions are expected to integrate into their pledges and strategies, without providing a more robust, enforceable framework.

The GFANZ has faced scrutiny, particularly for its 'too strict' rules. Early last year, Race to Zero updated its membership criteria proposing stringent commitment rules and targets. This included the requirement for publicly disclosing transition plans within 12 months, emphasizing the requirement for all members pledged to net zero to encompass every aspect of emissions across all scopes, and new criterion to prevent lobbying⁴⁵ for the financial institutions to comply with (until Race to Zero published "interpretative update" and GFANZ drops the requirement for its members to commit to the UN's climate action campaign, Race to Zero). In response, major Wall Street Banks threatened to pull out of the alliance due to binding fossil-finance restrictions, the potential for even stricter reinforcement, and a fear of being sued due to different climate policies amending as

⁴⁰ Please see 2DII's "Financing the Future: Global Shift to Net-Zero Alliances" policy brief.

⁴¹ Available at: [Green Banks Are Starting to Leave Net-Zero Industry Group - Bloomberg](#)

⁴² Available at: [Bank group accused of exploiting loopholes and 'greenwashing' in climate pledge | Climate crisis | The Guardian](#)

⁴³ Available at: [Wall Street Banks Face New Pressure to Cut Fossil-Fuel Financing - Bloomberg](#)

⁴⁴ Available at: <https://www.unepfi.org/wordpress/wp-content/uploads/2021/04/UNEP-FI-Guidelines-for-Climate-Change-Target-Setting.pdf>

⁴⁵ Available at: ['Race to Zero' campaign updates criteria to raise the bar on net zero delivery - Climate Champions \(unfccc.int\)](#)

per jurisdictions and asked unbearable legal liabilities over demanding transition pledges. Recently, some signatories in the alliance have recently asserted that they "feel blindsided by tougher UN climate criteria and are worried about the legal risks of participation"⁴⁶.

2DII's recently published paper "Financing the Future: Global Shift to Net-Zero Alliances" communicates the challenges confronting the GFANZ due to stringent "Race to Zero" requirements, antitrust concerns—especially in the U.S., and the lack of participation from key carbon-emitting countries such as China, Russia, and India — three of the world's top carbon-emitting countries⁴⁷. All Russian and Indian banks and major funding providers to the fossil fuel project of China declined to participate⁴⁸. From the outset, the imposed requirements of the "Race to Zero" allowed little room for voluntary commitments and independent decision-making authority by the financial institutions. This was especially evident in the United States, where the antitrust divisions closely examined the situation, revealed the risks and concerns of acting together, and the potential for gaining unfair advantages over competitors.

The alliance's strict mandates have led to increasing antitrust questions, as some interpreted financial institutions' collaborative efforts as violating antitrust laws. This concern was echoed in a congressional hearing, the US Department of Justice and the Federal Trade Commission stated that "antitrust exemption" would not be applied to any financial actors that shift their financial sources towards ESG investments⁴⁹. Besides, the Committee on the Judiciary, a Standing Committee within Congress, has been investigating potential U.S. antitrust law violations among the members of the NZAM and GFANZ. The Committee claimed their concerns that such regulations and coordination could restrict freedom and destabilize economic welfare in the USA, particularly by severely limiting the usage of coal, oil, and gas, thus affecting businesses and consumer choices, which not only puts businesses in a tight spot but also narrows down options for consumers.⁵⁰

Given aforementioned controversies, numerous and notable members have been exiting⁵¹. Key exits include the world's largest asset managers, banks and insurance companies. For instance, Vanguard withdrawn from the NZAM, while Munich RE, AXA, Scor SE, Allianz, Lloyds Bank, Zurich Insurance Group, Australian pension fund, CBUS have discounted its membership from NZIA.

The alliance members have been expecting to employ a more prescriptive approach to achieve the intended outcomes. However, a considerable number of NZBA members indicate that there is still a lack of a

⁴⁶ Available at: [Major U.S. banks threaten to leave Mark Carney's climate alliance - FT | Reuters](#)

⁴⁷ Available at: <https://www.wri.org/insights/interactive-chart-shows-changes-worlds-top-10-emitters>

⁴⁸ Available at: [The \\$130 Trillion GFANZ Coalition Is Just More 'Blah Blah Blah' \(institutionalinvestor.com\)](#)

⁴⁹ Hearing, U.S. Senate Subcommittee on Competition Policy, Antitrust and Consumer Rights, Oversight of Federal Enforcement of the Antitrust Laws (Sep. 20, 2022), available at: <https://www.judiciary.senate.gov/committee-activity/hearings/oversight-of-federal-enforcement-of-the-antitrust-laws>

⁵⁰ For further information, please see the Sections 3 and 4 "Financing the Future: Global Shift to Net-Zero Alliances".

⁵¹ The NZIA contends that concerns regarding antitrust and competition rules were addressed during its formation. The 'Goals in Relation to Antitrust and Competition Laws Guidance' was published in January 2023 by the NZIA Antitrust Working Group.

concrete strategy to address their climate and environmental impact adequately. Impractical and legally binding targets without consultation and vaguely defined guidelines have been strongly stressed by many of the banks⁵². Moreover, the credibility of the alliance is questioned due to rumours of lobbying, limited participation from leading emerging markets, lack of transparency, and threats of member banks leaving. Additionally, the distribution of portfolio allocations among NZBA members does not accurately reflect an equitable share of absolute emissions reduction across all their activities. To effectively tackle these challenges, banks need to develop the transition plans which should ensure transparency and align corporate advocacy with science-based climate targets. Additionally, they should involve monitoring, reporting activities to stakeholders, setting interim targets, and undertaking cohesive actions aimed at achieving net-zero emissions by 2050.

More on this topic is discussed on a separate study conducted by 2DII names “Financing the Future: Global Shift to Net-Zero Alliances”. This following study analyses NZA’s current controversies and finishes with some recommendations as to how to harmonize NZA’s requirements allowing for Fis to better embark in their net zero paths.

⁵² Available at: [Race to Zero aims to soothe banks' concerns \(capitalmonitor.ai\)](https://www.capitalmonitor.ai/news/race-to-zero-aims-to-soothe-banks-concerns)

Recommendations

The need for regulatory uptake of impact target-setting frameworks

Given both the ambition of NZ target-setting frameworks (serving as blueprints for future regulations) and the limitations of voluntary frameworks discussed above, it seems necessary to investigate the extent to which these frameworks could be translated into regulation. As a next step, a dedicated policy study could be conducted to investigate avenues for adding a prescriptive and promotional dimension to the currently informational and prudential-oriented EU sustainable finance regulation (Baer et al., 2021), possibly leveraging existing impact target setting frameworks.

Through the CIMS framework, FI's climate action targets and pledges are of voluntary nature. Although the voluntary decisions and objectives of financial institutions are supported by their clients and governmental agencies, and even though these are announced in their annual meetings or published in annual reports, they are not binding nor of penal nature. Although these institutions set ambitious targets, it is seen from the results that they deviate from their climate targets due to the difficulties encountered during the process. These may include lack of knowledge, inadequacy of resources and structured systems.

Unlike the voluntary approach, a regulatory approach within some scope of responsibilities might be designed. This may be specified for a sector or industrial process, or semi-voluntary sector-based contributions. Through created implementing command and control policies, a regulatory framework can be established that enables financial institutions in the market and the participants to effectively govern decarbonization risks. This approach supports firms and consumers in contributing to broader societal advantages, accelerating the shift towards a net-zero emissions economy. This aligns with commitments from governments and regulatory bodies.

CIMS can be used as an operationalization tool for net-zero commitments

The NZBA recognizes the current impracticality of assessing the quality of targets, attributing this to a variety of factors. These include the diverse range of carbon accounting methodologies in use, the inadequately defined segmentation within sectors, and the discretionary implementation of guidelines, among others⁵³. Additionally, it's currently unfeasible to gauge the potential impact of these targets on global emissions, and speculating on the likelihood of individual members achieving their intermediate targets is unattainable. Given the circumstances, there's an urgent need to implement new and/or revised target setting guidelines. To enhance the effectiveness of these disclosure and target-setting standards, it is crucial to foster collaboration between policymakers and stakeholders. This collaboration must aim at adopting legally binding requirements based on recommendations of existing frameworks.

⁵³ Available at: [BankTrack – NZBA after 18 months: A muddle of low ambition, non-comparable targets](#)

The CIMS methodology, with its clear guidelines and framework, can advocate FIs in setting and tracking their targets, and identify climate-related risks and opportunities in their portfolios regardless of the sector-specific concentration. To enhance the effectiveness of these efforts, we believe that integrating CIMS with existing frameworks could be beneficial, allowing for preparation and implementation of credible transition plans. As such, and to maximize adoption by FIs, we are convinced that the two frameworks might be contemplated as cross-fertilising tools. 2DII could further assist the alliances by disseminating the Climate Action Template, further adapting it into a practical tool, and identifying implementation challenges.

CIMS can be recognized as a supporting tool to implement credible transition plans

Credible and clear net-zero transition plans including need of means that match the targets' ambition are crucial to the decarbonisation of financial institutions and to inform other sectors of the economy. As our preceding analysis namely “Financing the Future: Global Shift to Net-Zero Alliances” suggests, adopting more ambitious investment strategies in various sectors, setting phase-out goals for oil & gas portfolios distinct from coal holdings, and establishing clear interim targets are key steps as well as defining and assessing the robustness of transition plan⁵⁴. These measures not only aid in decarbonization but also provide investors and stakeholders with a more transparent view of transition trajectories.

An analysis of international disclosure frameworks to assess credible transition plans allows to identify several commonalities, such as:

- Common objective of reducing real-world GHG emissions
- Alignment on a 1.5°C scenario with interim targets
- Comprehensive assessment of governance and strategy of the entity
- Focus on actionable tools (such as remuneration, engagement, advocacy, value-chain, ...)
- Planning and monitoring financial and non-financial actions, setting KPIs
- Integrating reporting obligations

2DII's CIMS framework is in sync with global institutional climate goals and disclosure standards on credible transition plans, making their application more relevant and impactful for financial institutions. The CIMS incorporates the aforementioned elements and can integrate governance models and financial planning strategies that are advocated by these frameworks. This would help in creating robust transition plans for financial entities, ensuring an orderly transition to a low-carbon economy. On top of this alignment, CIMS provides for a dynamic assessment of the financial institution's progress. The long research track-record of 2DII in relation to identifying impact for financial institutions is a great asset in this regard.

⁵⁴ Available at: <https://agirpourlatransition.ademe.fr/entreprises/aides-financieres/20230504/act-assessing-low-carbon-transition-france-2023>

The verification standards for corporate transition plans are contingent upon factors such as the plan's contents, corporate operations, national and regional taxonomies, and applicable jurisdictions. Despite the absence of an international framework for accrediting credible corporate transition plans, certain initiatives do establish verifiers or verification standards. For instance, ACT methodology by ADEME represents a critical step forward in corporate strategies are not only ambitious but also grounded on transition plans. It provides a clear framework aiming to increase the number of companies wishing to adopt decarbonization strategies and relevant transition plans, and to report transparently on their strategy⁵⁵. These standards are either recommended or mandated for compliance with specific certifications, offering valuable guidance to users and preparers of transition plans regarding the suitability of various verifiers. CIMS and other methodologies such as the ACT methodology are complementary and can provide a complete set of tools to financial institutions to establish credible transition plans and monitor their progress towards impact strategies in time.

CIMS can help FIs calibrating their communication to avoid impact-washing and enhance transparency

The phenomena of 'impact washing' and 'greenwashing' exploit the growing market demand for green and sustainable products, and investors often misleadingly claim their environmental and societal impact. While Environmental, Social, and Governance (ESG) reporting began as a voluntary exercise aimed at fostering a holistic strategy for long-term stability, it is now recognized that much of this information is financially significant. Consequently, it falls under general legal obligations that mandate the disclosure of material information in specific sections of annual financial reports. To achieve this, banks should ensure that their established objectives, based on their overall lending commitments, should include all their exposures and not a limited part of them.⁵⁶

- In line with this, the final phase in the CIMS impact target setting involves disclosing both the actions taken and the strategy formation process. Considering the shared overarching goals and actionable measures of CIMS and the NZBA guidelines in reducing emissions in the real economy, combining their protocols could create a robust joint disclosure framework. On top of that, as aforementioned, the UN HLEG recommends that information related to net-zero engagement, progress, any changes, including greenhouse gas data, etc., must be submitted to UNFCCC Global Climate Change Action Portal for them for comparison with the baseline target that financial institutions & companies set. This would increase transparency, provide an overall assessment of members' performance, clarify disclosed data, address data gaps, inconsistencies and detail activities, ultimately contributing to a more transparent and accountable decarbonization process.

⁵⁵ Available at: <https://agirpoulatransition.ademe.fr/entreprises/aides-financieres/20230504/act-assessing-low-carbon-transition-france-2023?cible=79>

⁵⁶ This includes both utilized and unused exposures, referring to credit lines or financial commitments that have been approved by a bank but have not yet been utilized by the borrower, in their disclosures about financed emissions.

Conclusion

This comprehensive analysis underscores the emergence and interplay of methodologies like the CIMS and the NZBA guidelines which highlights a growing recognition of the need for more impactful, transparent, and accountable approaches to significant step-forward in the financial sector's approach to climate change mitigation. As this paper along with 2DII's **Financing the Future: Global Shift to Net-Zero Alliances** delves into detail; while portfolio alignment strategies that are advocated by the NZ alliances are crucial, they might often lack a direct impact on GHG emissions reduction. With that, the CIMS approach, emphasizing tangible actions and outcomes, offers a more direct pathway to climate impact in real-world GHG emission reductions. Therefore, the alignment of CIMS with NZBA guidelines suggests an emerging trend towards frameworks that not only guide but also demand accountability and transparency in climate strategy implementation. By focusing on actionable measures and the impact of financial institutions on the real economy, CIMS complements and strengthens the NZBA's approach.

As the financial sector confronts these challenges, the role of regulatory bodies becomes increasingly significant. There's a clear indication of the need for a transition from purely informational and voluntary approaches to more prescriptive regulatory frameworks. Such frameworks would not only guide but also mandate financial institutions to adopt strategies that contribute meaningfully to the global fight against climate change.

2DII has successfully pilot-tested the CIMS framework, which included the collection of feedback from banks, insurance, and other financial stakeholders. Within this scope, CIMS, which consists of 7 main steps and cross-controlled sub-steps, is a stringent methodology that combines with NZBA protocols for a financial institution in terms of measuring and evaluating its own processes. Besides, CIMS is a pivotal tool for developing credible transition plans oriented towards impact, offering data-driven insights for setting realistic goals and providing a customizable framework to address specific needs of financial institutions. Its systematic approach is ideal for comprehensive planning, including scenario analysis to anticipate future climate impacts. Additionally, CIMS ensures that transition plans are compliant with evolving regulations and facilitates transparent reporting and stakeholder engagement. This combination of features makes CIMS an essential resource for organizations aiming to create resilient and effective strategies for climate transition. Therefore, CIMS and NZA protocols' integration offers a comprehensive pathway for financial institutions. It enables them to not only align their portfolios in theory but also implement strategies that increase impact potential on global emissions reduction. Besides, their interoperability serves as a model for how diverse climate frameworks can be harmonized and complemented to achieve greater effectiveness, guiding the financial sector towards a more sustainable and accountable future in its role in combating climate change.

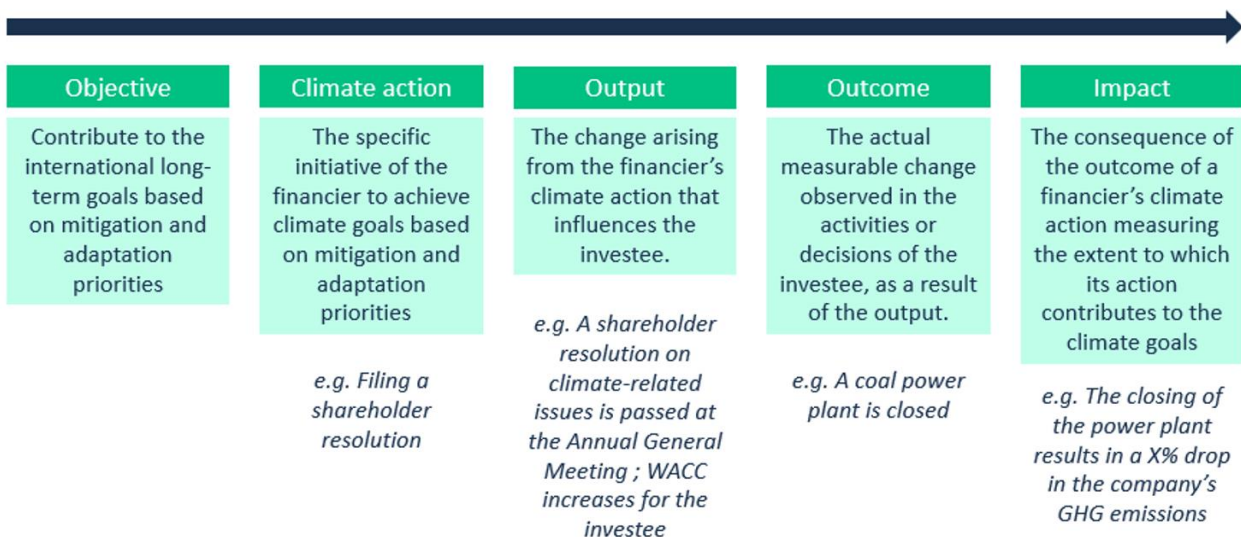
Annex

The climate action template is an excel template designed to assist financial institutions with describing truly trackable and impactful climate actions. The template builds on the preliminary recommendations of the ISO 14097, which lays out a framework for assessing and reporting investments and financing activities regarding climate change.

The climate action template can be used both as a tool for the FI to design its action around impact generation, and/or by researchers (internal or external to the FI) to track the impact of the action ex-post.

On top of general information regarding the FI and its existing climate commitments, the climate action template requires the following information to be provided:

- Details about the climate actions to be implemented and how it will be implemented
- A list of the companies targeted
- Details regarding the outputs and outcomes that they expect the action to trigger (following the ISO standard’s definition of output and outcome – see visual below)
- The expected causal chain(s) linking the action to the outcome



There is a tab for each action in the excel file, with questions tailored to the characteristics of the action.

Engagement with investee(s)

Questions	Answers	Any comment?	Guidance
1 Please specify the type of engagement action(s) that you are planning on conducting.			Please select one of the answers suggested in the drop-down menu, or type your own answer in the "any comment?" column. In case you conducted several types of engagement actions with the same objective, you can select multiple responses.
2 If applicable, please specify whether you engage yourself or through a service provider.			Please select one of the answers suggested in the drop-down menu.
3 If you selected "through a service provider", please specify the name of the service provider and, if your selected provider wasn't part of the proposed list, an url to the website of the service provider.			Please select one of the answers suggested in the drop-down menu, or type your own answer in the "any comment?" column, along with the url to the website of the service provider.
4 Please select the topic of your engagement action.			Please select one of the answers suggested in the drop-down menu, or type your own answer in the "any comment?" column.
5 Please specify the reason(s) for targeting the targeted investee(s).			Please select one (or several) of the answers suggested in the drop-down menu, or type your own answer(s) in the "any comment?" column.
6 Is the climate action a group action?			Please select "yes" or "no" in the drop-down menu in the "answer" column.
7 If you selected "yes", please specify the name of the coalition & provide a url (if applicable).			Please type your answer in the "answer" column.
8 Please specify the start date of the engagement process			Please use a DD/MM/YYYY format ; if you don't know the exact date or month, you can either answer by MM/YYYY or YYYY only. If you don't know, type "I don't know".
9 If applicable, please specify the expected end date of the engagement process.			Please use a DD/MM/YYYY format ; if you don't know the exact date or month, you can either answer by MM/YYYY or YYYY only. If you don't know, type "I don't know".

Explanations of possible outcomes

The outcome is the actual measurable change observed in the activities or the decisions of the investee, as a result of the output.

Type of targeted decisions	Definition
Capital expenditure plans	Require a company to modify its capital expenditure plans for sustainability reasons.
R&D expenditure plans	Require a company to modify its R&D expenditure plans for sustainability reasons.
Green House Gases emissions	Require a company to reduce its greenhouse gas emissions.
Product design/production plans	Require a company to modify the design of its products or its production plans for sustainability reasons.
Operational procedures	Require a company to modify the design of its operational procedures for sustainability reasons.
Supply chain management	Require a company to modify the management of its supply chain for sustainability reasons.
Selection & deployment of products and services	Require a company to modify the way it selects or deploys its products and/or services for sustainability reasons.
Compliance with relevant standards	Require a company to comply with climate-related standards that are relevant to its operations.
Dividen policy	Require linking a company's dividend policies with sustainability and climate related outcomes.
Sustainability-linked remuneration	Require executive compensation and climate related targets.
Board representation	Require stakeholder representation on the board or delegated committee for climate change issues.
Political lobbying & spending	Require companies to engage in political lobbying and spending in a manner and agenda consistent with climate goals.
Environmental impact disclosure	Require a company to disclose on the direct environmental impact of their operations, including how their operations pose environmental risks to public health.
General climate risk disclosure	Require a company to disclose climate change.
Climate-related target setting	Requires the setting of climate-related targets.
Sustainability ratings	Require a company to put in place the actions needed to improve its sustainability ratings.
Climate education of management and/or staff	Require a company to educate employees on climate issues.
Climate-related international, state or local policies	Require policy makers to implement climate-related policies.

