Industry-Led, United Nations-Convened

Net-Zero Banking Alliance

Frequently Asked Questions

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Governance

What is the governance structure of the NZBA?

The Alliance is governed by a Steering Group (comprised of 12 member banks plus 1 UN seat) which oversees decision-making and strategy. The Steering Group is led by a Chair. Steering Group seats are assigned by Alliance member banks and represent a diversity of geography and business models.

The Steering Group banks are represented at two levels in the decision-making process. At the 'Principal' level, C-suite delegates of the Steering Group banks provide strategic input and ensure that the strategy is embedded at the heart of their respective firms. The 'Representative' level is comprised of working-level delegates from the Steering Group banks, who meet more regularly to tackle the on-the-ground practicalities of delivering on the net-zero commitment. The Alliance is supported and convened by the UNEP FI Secretariat, and the United Nations also holds a seat on the Steering Group.

Who is in the Steering Group of the NZBA?

The current Steering Group was appointed in July 2021 and works with the NZBA Chair (Standard Chartered) to leverage the diversity of the membership, build consensus and ensure best practices are adopted worldwide. The current members are: Amalgamated Bank, Bank of America, Banorte, BBVA, CIB, Citi, HSBC, KB Financial Group Inc., La Banque Postale, Morgan Stanley, MUFG, Standard Chartered and the United Nations.

What is the role of the UN Secretariat?

The Alliance is a bank-led alliance. The UN Secretariat provides the day-to-day administrative oversight to the Alliance and has a permanent seat on the Steering Group (SG).

More specifically, the Secretariat will:

- ensure that the Alliance meets objectives in-time and in-budget, and that it does so following the general direction provided by the Alliance SG.
- to that effect, the Secretariat is empowered to make operational decisions as a matter of due course, while strategic decisions remain the responsibility of the SG;
- support the SG;
- convene and provide input on strategic direction of the Alliance;
- coordinate regular meetings;
- provide advice and guidance on technical and structural matters facing the Alliance;

- at the direction of the NZBA leadership, prepare and conduct regular virtual calls of the working group(s) that address technical and structural matters;
- manage a secretarial budget;
- support Alliance communication;
- manage strategic outreach to potential allies and key partners, establishing linkages and regular communications with related initiatives;
- facilitate annual collection and review of the progress made and challenges faced by Members with regard to their commitment as set out in the Commitment Statement and Guidelines;
- at the direction of the SG, consult scientific and technical experts;
- facilitate the Alliance in achieving its objectives; and
- report to Race to Zero and the Glasgow Finance Alliance for Net Zero on collective progress, as required and agreed by the SG.

What are the goals of the Alliance?

The NZBA's vision for change is rooted in the idea of achieving real economy decarbonization by aligning the providers of capital with a net-zero trajectory. To this end, the Alliance aims to drive collective, aligned and credible progress toward achieving net zero emissions by 2050 in the banking sector through two structures:

Firstly, it creates a platform for demonstration of leadership and consistency and credibility of action, by providing:

- a common standard/interpretation of what it means to be aligned to a 1.5 degrees trajectory,
- accountability in demonstrating the fulfilment of the commitment,
- action in promoting banks to join the Alliance.

Secondly, it aims to provide a structured forum to support banks' transition to net zero by 2050 through:

- Facilitation of capacity building within member banks by showcasing potential approaches for 'how to' implement the commitment
- Guidance of peer learning and sharing experience to accelerate progress,
- Provision of resources, methodologies and leading practices around areas such as data.
- Identification of gaps and working with others to overcome them. This may include, but is not limited to: international organisations, peers, customers, investors, governments and other alliances,
- Providing a voice for banks to communicate on the topic of transitioning to Net Zero by 2050 in line with a 1.5°C outcome.

Members

How is a 'bank' defined by the NZBA?

Generally, the Alliance defines a bank as an entity that has a banking license to take deposits. However, other providers of capital and non-bank lenders may be considered on a case-by-case basis.

Who can join the NZBA?

Alliance membership is open to all banks domiciled in jurisdictions recognized by the United Nations. Banks do not need to be a member of UNEP FI in order to join the Alliance, though membership is highly encouraged. Membership commitment should be made at the group level, rather than by a subsidiary.[1]

The Alliance is UN-convened and bank-led. Therefore, all bank members, alongside the UN conveners, have wide-ranging responsibilities to contribute to the Alliance, its governance, its strategy and the execution of its intended actions. Banks are joining the Alliance regularly, so an up-to-date list of members can be found here: https://www.unepfi.org/net-zero-banking/members/

The Commitment

Why are banks engaged in the emissions reduction efforts of their clients?

Reducing greenhouse gas emissions is a critical issue, which will require collective action across public and private sectors. Financial institutions have an important role to play, including in the measurement, disclosure and reduction of their Scope 3 emissions.

What are members committing to?

The Alliance's primary catalyst for achieving the net-zero transition is the target setting and reporting process embedded within its central Commitment Statement. In signing the NZBA Commitment, banks agree to set targets that are:

- Robust: targets must identify carbon reductions across priority economic sectors
- Ambitious: targets must align with the 1.5°C warming ambition of the Paris Agreement
- Science-based: targets must follow a pathway that allows for no/low overshoot of the 1.5°C ambition, as defined by the best-available science-based climate scenarios

The NZBA commitment and guidelines require banks to set 2030 and 2050 net-zero targets that align with no/low-overshoot 1.5°C transition pathways as specified by credible science-based climate scenarios. This includes all key sectors involved in extracting and supplying fossil fuels (coal mining, oil & gas) as well as most key sectors involved in demanding and consuming fossil fuels (power generation, transport, real estate, cement, steel, etc.).

- 18-month targets: For members who joined the Alliance at its founding in April 2021, the first set of intermediate 2030 targets are due to be reported in autumn of 2022

[1] This is a requirement of the Race to Zero campaign, run by the UN High Level Climate Champions.

(18 months after joining). These targets will prioritize those sectors that represent the banks' largest GHG emissions and GHG intensities.
- 36-month targets: These priority targets will be followed, at the 36-month mark, by a full suite of decarbonization targets that cover a significant majority of the total of financed emissions for nine priority sectors (including agriculture, aluminum, cement, coal, commercial and residential real estate, iron and steel, oil and gas, power generation, and transport). These targets must be achieved by 2030 at the latest.

The details of the commitment are outlined in the 2-page commitment statement and the Guidelines for Climate Target Setting for Banks.

What is the scope of the NZBA commitment?

The commitment guidelines apply to the bank's lending and investment activities (Scope 3, Category 15). Banks' targets shall include their clients' Scope 1, Scope 2 and Scope 3 emissions, where significant, and where data allows; coverage is expected to increase between each review period. Banks' own Scope 1, Scope 2 and non-category 15 Scope 3 (e.g. from business travel) emissions are not addressed in the NZBA's Target Setting Guidelines; it is taken as given that banks shall target net zero emissions in their own operations well before 2050.

Sector-level targets shall be set for all, or a substantial majority of, the carbon-intensive sectors, where data and methodologies allow. These sectors include: agriculture; aluminium; cement; coal; commercial and residential real estate; iron and steel; oil and gas; power generation; and transport.

Signatories should prioritise sectors based on GHG emissions, GHG intensities and/or financial exposure in their portfolio in their first round of target setting (within 18 months of signing). Notwithstanding methodological limitations, the remaining carbon-intensive sectors from this list shall be included in subsequent rounds of target setting (within 36 months of signing). Within the agriculture and transport sectors, banks may prioritise sub-sectors based on GHG emissions and financial exposure and/or data and methodology availability. Banks shall justify their approach as part of their target-setting process.

Banks should clarify which parts of their balance sheet are encompassed by their targets. Where entities within the bank's structure carry out other types of business (such as insurance, pensions funds, or asset management), it may be appropriate for those entities to follow alternative net-zero frameworks.

Does the NZBA mandate certain climate scenarios?

Currently, the NZBA's Guidelines require banks to set 2030 and 2050 net-zero targets that align with no/low-overshoot 1.5°C transition pathways, as specified by credible science-based climate scenarios (e.g. pathways P1 and P2 of the IPCC, IEA NZ2050). This requirement is not prescriptive regarding which scenario must be used, in reflection of the continually evolving state of best-available science. The scenarios used by banks shall come from credible and well-recognised sources and shall rely conservatively on negative emissions technologies. Banks should provide rationale for the scenario(s) chosen.

The Alliance seeks to drive ambition among its members to rely on the most recent and robust science, and the Guidelines will continue to evolve over time as methodological and data approaches develop. See Guideline 3 of the Target Setting Guidelines for full information.

Does the commitment address absolute emissions or emissions intensity?

Targets shall be set based on:

- Absolute emissions; *and/or*
- Sector-specific emissions intensity (e.g. CO2e/ metric).

While a bank's targets may be supported by other approaches (e.g. production volume trajectories, technology mix) or measurements (e.g. financing targets), the targets shall nonetheless be set in absolute and/or intensity terms.

In contrast to targets, which may be set for absolute *and/or* intensity metrics, banks must provide annual reporting that covers both absolute *and i*ntensity metrics to give a complete picture.

Must banks publicly report progress?

Banks shall publicly disclose their targets and report annually on progress. The financed emissions profile of the bank's portfolio shall also be calculated and disclosed annually. This shall include, where targets have been set:

- Absolute emissions; *and*
- Portfolio-wide emissions intensity (e.g. CO2e/$ lent or invested); *and*
- Sector-specific emissions intensity (e.g. CO2e/metric).

Within 12 months of setting the targets, banks shall publish, at a minimum, a high-level transition plan providing an overview of the categories of actions expected to be undertaken to meet the targets and an approximate timeline.

How will banks approach their clients' performance on net zero commitments?

NZBA's approach is meant to complement government-led climate strategies, but not assume responsibility for achieving outcomes dependent on factors outside of the signatory bank's reasonable control, nor directly regulate capital flows to any country, sector or industry. Of key importance in the interpretation and implementation of the NZBA agreement is the commitment to a just and orderly transition to Net Zero that will strengthen individuals, communities and economies, Members are committed to doing what is within their reasonable control to assist in this just transition, including disclosing client financed emissions, establishing sectoral targets, and employing good faith efforts in their implementation of this strategy.

How will Banks address the data and methodology challenges associated with their clients' GHG emissions data?

Setting reliable interim goals for financed emissions of clients' Scope 1, 2 and 3 emissions necessarily requires the availability of reasonably supported data and methodologies. Achievement of goals will be dependent on complex and interdependent decarbonization efforts across the economy. At the present time, more and better data is still needed, particularly with respect to Scope 3 emissions. As company- and activity- level emissions data improves and technology develops, members will enhance their Scope 3 targets to help fulfil their net zero commitments in tandem with relevant national governments' regulations, public policies and mandates. Members plan to continue to work alongside government, industry and clients to develop and support clients' Scope 3 emission reduction targets in sectors for which relevant national governments are outlining sector specific transition strategies.

Will the scope and ambition of the commitment change over time?

The target setting Guidelines will evolve in line with best practice, development of scientific knowledge and availability of methodology and tools following reasonable intervals in updates. The first revision is anticipated by April 2024.

Any suggested changes to the guidelines are to be approved at Plenary level by signatories with a two-thirds majority.

Target Setting

How quickly must member banks apply these guidelines and set targets upon signing up?

At least 18 months after joining the Alliance, each bank needs to set and publish an initial set of targets that prioritize those sectors representing the bank's largest GHG emissions, GHG intensities and/or financial exposure in their portfolio.

At least 36 months after joining the Alliance, signatories will set and publish a full suite of intermediary decarbonisation targets, for attainment by 2030 at the latest, that cover both a significant majority of the total of their financed emissions as well as the emissions related to exposures to the list of the 9 pre-defined priority sectors.

Within 12 months of setting the targets (both 18- and 36-month), banks shall publish, at a minimum, a high-level transition plan providing an overview of the categories of actions expected to be undertaken to meet the targets and an approximate timeline. This time window is to allow members to align targets with their annual reporting process.

How often must member banks review the targets?

Targets shall be reviewed at a minimum every 5 years.

Targets shall be recalculated and revised as needed to reflect significant changes that might compromise the relevance and consistency of the existing targets, e.g. material portfolio changes, methodological developments.

Why do the Guidelines insist on science-based targets? Why are they essential for the net-zero target setting process?

The NZBA relies on the international climate science community to inform its target-building process, via best-available research and widely accepted integrated climate models. It is critical that targets are grounded in the best-available science to ensure that efforts to achieve a net-zero future are achieving their intended goal.

The Guidelines only talk about being Paris Aligned, and don't specify net-zero by 2050 in line with 1.5°; why is that?

At the time of their drafting, the Guidelines were intended for use by banks aiming to align with either the Paris Agreement (which specifies a warming limit "well below 2°") or the higher ambition of net-zero by 2050, in line with a 1.5° warming outcome. However, the latest science, such as that documented in the [2018 IPCC special report], highlights the significant difference in outcome between 2 and 1.5°C warming, galvanising ambition towards the latter.

The commitment statement of the NZBA specifies signatories' ambition to the 1.5°C target. Therefore, banks in the NZBA should use scenarios consistent with a 1.5°C low/no overshoot pathway. Some scenarios may be considered "Paris Aligned" but achieve net zero by 2065 or later, with warming of up to 2 degrees; these scenarios are not eligible for target-setting use by banks within the NZBA.

How is the NZBA approaching off-balance sheet activities?

There are a range of off-balance sheet activities undertaken by banks, but the one that has greatest relevance to facilitating GHG emissions reductions and associated climate impacts and should be the highest priority is that of capital markets activities, both debt and equity. NZBA's firm intention and plan is for emissions associated with capital markets activities to be included as part of 2030 target-setting as methodologies become available.

Currently there is no agreed methodology to attributing these emissions to the financial institutions facilitating their issuance. Methodology is currently being developed by the Partnership for Carbon Accounting Financials (PCAF) via its Capital Markets Working Group. This working group includes several NZBA signatories but has independent governance, and whilst NZBA is likely to recommend PCAF's methodology to signatories we would not want to preclude development of additional methodologies recognising the significant complexities associated with facilitated emissions. Our understanding is that PCAF's method will be released in October 2022. Once such methodologies are ready and adopted by the Alliance, facilitated capital markets emissions will be incorporated into 2030 target setting and disclosure requirements of the Alliance. Our expectation is that a period of around a year (currently estimated to be between October 2022 and September 2023, depending on the publication of the PCAF methodology) may be needed for NZBA members to pilot application of these methodologies (including in-house and collective assessments), meaning that the practical timeline for this to take place is likely to align to the 3-year update process for the NZBA Guidelines. In the interim, NZBA will continue to closely collaborate with PCAF on facilitated emissions and ensure that these emissions are reflected in discussions within NZBA's work tracks which will commence later this year.

Other off-balance sheet activities, such as derivatives or leasing, and their associated emissions are more complex and will require further methodology development to accurately capture.

Must all coal-related activities be included in the targets?

Any client with more than 5% of their revenues coming directly from thermal coal mining, and electricity generation activities shall be included in the scope of targets.

Can signatories apply disclaimers when reporting progress to manage liability risk?

The Guidelines are comply or explain, so omissions are possible so long as justified.

Must member banks obtain verification or assurance on targets' underlying data?

Banks are encouraged to obtain independent limited assurance over the reporting on performance against targets, including the establishment of a baseline, from their first progress report onwards.

Principles for Responsible Banking (PRB) signatories are required to have this limited assurance over their targets in place within four years of signing the Principles. For more information, see the PRB's Guidance for Assurance Providers.

Can member banks use carbon offsets to meet their targets?

In implementing and reaching targets for all scopes of emissions, carbon offsets can play a role to supplement decarbonisation in line with climate science. The reliance on carbon offsetting for achieving end-state net-zero should be restricted to carbon removals to balance residual emissions where there are limited technologically or financially viable alternatives to eliminate emissions. Offsets should always be additional and certified.

Banks should conduct appropriate due diligence on client offset claims in line with other internal processes.

Can member banks use emissions abatement technologies to meet their targets?

As member banks and their clients implement and report on their targets, all technologies that lead to the effective and permanent abatement of emissions at source can play a role. Technology deployment should also align with and support national climate plans of the countries in which banks operate, as appropriate.

Relationship between NZBA and other Initiatives

What is the relationship between the NZBA, the GFANZ and the Race to Zero?

The NZBA is the banking member of the Glasgow Financial Alliance for Net Zero (GFANZ). GFANZ is a global coalition of leading financial institutions that are committed to accelerate and mainstream the decarbonisation of the worldwide economy and reach net zero by 2050.

Race To Zero is a global campaign to rally leadership and support from businesses, cities, regions, investors for a healthy, resilient, zero carbon recovery that prevents future threats, creates decent jobs, and unlocks inclusive, sustainable growth. It mobilizes a coalition of leading net zero initiatives, representing 1,049 cities, 67 regions, 5,235 businesses, 441 of the biggest investors, and 1,039 Higher Education Institutions. These 'real economy' actors join 120 countries in the largest ever alliance committed to achieving net zero carbon emissions by 2050 at the latest.

The finance subsector alliances in the UN Race to Zero and part of GFANZ are: the Net-Zero Banking Alliance (NZBA), the Net Zero Asset Managers Initiative (NZAM), the Net-Zero Asset Owner Alliance (NZAOA), the Paris Aligned Investment Initiative (PAII), the Net-Zero Insurance Alliance (NZIA), the Net Zero Financial Service Providers Alliance (NZFSPA), and the Net Zero Investment Consultants Initiative (NZICI).

We invite you to learn more about GFANZ and about the Race to Zero campaign at their respective websites.

What is the relationship between the NZBA and the Principles for Responsible Banking?

The Principles for Responsible Banking (PRB) is UNEP FI's flagship sustainable banking framework, committing banks to align their activities with the UN Sustainable Development Goals and Paris Climate Agreement. For those PRB signatories that have identified climate as an area of impact that they want to address as part of their PRB commitment, the NZBA acts as a facilitator and an accelerator, providing a dedicated forum in which to align their activities to a pathway that observes a 1.5°C warming limit. Other accelerator commitments of the PRB include the Commitment to Financial Health & Inclusion.

The NZBA specifically addresses climate and carbon emissions, providing technical guidance, peer learning and capacity building on the development of net-zero pathways in accordance with the 1.5°C warming ambition and fulfils the climate mitigation pillar of the PRB commitment.

For those NZBA members who are also PRB signatories, the reporting process is unified across both commitments.

A significant majority of NZBA signatories are also signatories to the PRB, and we strongly encourage banks to join both frameworks. The Net-Zero Banking Alliance is also open to banks which are not PRB signatories.

What is the difference between the NZBA and the CCCA?

The Collective Commitment to Climate Action (CCCA) was launched in September 2019, with a group of pioneering banks that wished to accelerate the climate action they'd committed to as signatories of the Principles for Responsible Banking. Both the CCCA and the NZBA are convened by UNEP FI.

The CCCA commitment is consistent with a maximum temperature rise of well-below 2°C above pre-industrial levels by 2100 – equivalent to net-zero before 2065. The CCCA banks were instrumental in drafting the Guidelines for Climate Targets Setting for Banks, which underpin both the CCCA and the NZBA commitments.

The Net-Zero Banking Alliance was launched in April 2021 and is accredited as part of the Race to Zero campaign in advance of COP 26. The NZBA ambition is consistent with a maximum temperature rise of 1.5°C above pre-industrial levels by 2100, equivalent to net-zero by 2050. Due to the increasing global ambition in this space, we would encourage banks to join the Net-Zero Banking Alliance.