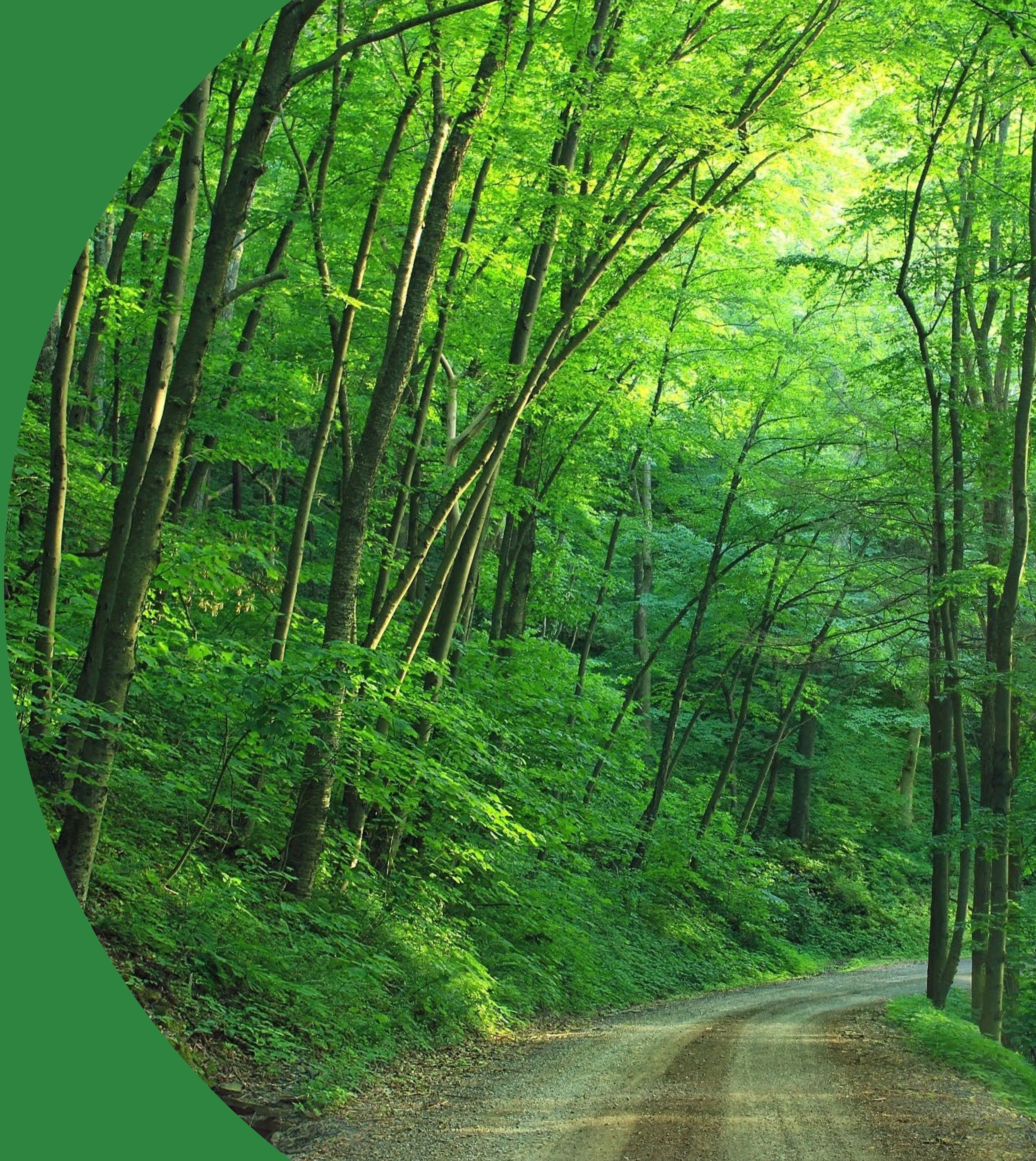
NET ZERO DELIVERY SUMMIT
Financing a Just Transition

CITY OF LONDON

From commitment to action: Tracking UK financial services' progress on the pathway to Net Zero



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Foreword

Alderman Nicholas Lyons

Rt Hon the Lord Mayor of the City of London

Chris Hayward

Policy Chairman of the City of London Corporation

In our everyday lives, it is hard to imagine anything that is 27 years away being considered a priority. However, when that priority is stopping irreversible climate change, every month and every week matters.

The year 2050 is the deadline that the UK Government has set to uphold our commitment to the Paris Agreement. This means decarbonising every sector of its economy, prioritising investment in 'clean growth' like battery technologies and renewable energy, and transforming industries sustainably. This regeneration doesn't come cheaply, so well-planned financing will be crucial if the UK is to deliver on its net zero pledges. Delivery of net zero is an essential pre-condition to sustainable economic growth.

Over the last ten years, the UK's financial services have been creating the product innovations which have been instrumental in delivering our – and the wider world's – carbon neutral initiatives, and we are pleased to see how the UK continues to demonstrate its industrial inventiveness for a modern purpose.

We are also very proud of the role the City of London Corporation has taken in supporting action on climate change. Alongside HM Government we helped launch both the Green Finance Institute and Impact Investing Institute. We support and lead initiatives which create an enabling environment for sustainable finance innovation, and provide a platform to showcase emerging best practice. Events such as our annual Net Zero Delivery Summit are crucial in discussing the successes and challenges in delivering on our climate commitments to keep us on track to 1.5 degrees.

This is a global challenge, and we will not overcome it unless we make progress together. COP28 will see the first global stocktake of Nationally Determined Contributions (NDCs), and we will know where the world stands in the fight against climate change.

It is this spirit of momentum, driving delivery and maintaining progress, that this report is centred around. We have released it to coincide with the Net Zero Delivery Summit 2023. It is an overview – undertaken by Climate Policy Initiative – of a selection of UK's financial services firms' progress against our carbon objectives, using data from their Net Zero Finance Tracker.

Thanks to the adoption of the Taskforce for Climate-related Financial Disclosures (TCFD) framework, there has been a shift in reporting on sustainability. Not only has there been more engagement by businesses, but information is being collected and reported in orderly sets, so that themes and learning can be drawn from the data. This is exactly the case with the members of the Glasgow Finance Alliance for Net Zero (GFANZ) whose data has been analysed by Climate Policy Initiative in this report. These include banks, insurance companies, asset owners and managers and other financial institutions committed to reducing their carbon impact.

What do the data tell us? The UK, along with the US, hosts the highest number of GFANZ members with more advanced responses in setting climate targets and implementing climate actions. This means they have adopted defined climate targets and have taken climate-related actions in stakeholder engagement, management practices and disclosures. The UK-based GFANZ firms are the only ones in the top five GFANZ participating countries that observed both a fall in new fossil fuel investment and increased climate-related investment. We also see some interesting trends, especially when it comes to progress across different financial sectors. For example, asset managers and banks are relatively more advanced in implementing response measures.

The more we know now, the more we can make things better in the future. This report, which the City of London Corporation intends to revisit year on year, will help us track our progress towards achieving our climate goals in the coming decades and will support financial institutions in playing their part in supporting the UK's decarbonisation.

Executive summary

The global financial services industry is increasingly recognising and responding to the urgency of climate change. In April 2021, the Glasgow Finance Alliance for Net Zero (GFANZ) was launched by UN Special Envoy on Climate Action and Finance, Mark Carney, and the UK COP26 presidency, in partnership with the UNFCCC Race to Zero campaign. GFANZ works to coordinate efforts across all sectors of the financial system to accelerate the transition to a net-zero global economy. COP26 saw unprecedented presence and engagement by the financial services industry.

Alongside increasing commitments from the industry, there have been wider efforts to build frameworks and standards that hold institutions accountable for their net zero transition. The publication of the Taskforce on Climate-Related Financial Disclosures (TCFD) recommendations; the work of the International Sustainability Standards Board (ISSB), and the establishment of the UK's Transition Plan Taskforce (TPT) are some of the highlights.

The City of London Corporation supports initiatives that promote and enable climate action, and is committed to achieving net zero across its own investments and supply chain by 2040. It also plays an active role in engaging the sector and showcasing best-practice, including with its annual Net Zero Delivery Summits (NZDS) this year hosted in partnership with the COP27 Egyptian Presidency. NZDS provides a platform for the financial services industry to take stock of progress on the commitments made at the previous COP and promotes momentum towards the next.

It is in this context that the City of London Corporation and Climate Policy Initiative jointly produced this report to examine progress made by GFANZ members in turning net zero commitments into actions, with a focus on UK-based entities. This can help us to identify achievements as well as raise awareness on challenges going into COP28.

Institutions within GFANZ's coalitions are those making their commitments transparent and accountable to the public. Whilst this report suggests the need to accelerate progress in some areas, it does not mean GFANZ members are lagging behind their pledges. This overview serves as an indicator of the actions taken by leading financial institutions, rather than providing a comprehensive overview of the entire sector. Many institutions have not made these commitments and more work needs to be done to understand progress there. In the coming years we hope to broaden our analysis to the whole of the UK financial services sector.

The role of data here is key – enabling financial institutions to better understand the wider economic impact of their activities. It can help to prioritise and scale up those which are most effective in helping to meet net zero goals. This includes consideration of how financial services can be more actively encouraged to support the transition of corporates with clear transition plans, beyond pursuing the expansion of green opportunities.

Looking ahead to COP28 – as the UK considers how to build on its target and implementation successes, it is clear that much remains to be done to secure progress to net zero. This report highlights the combined role of data and delivery in addressing the climate crisis. We will continue to work with private and public sectors worldwide to promote adoption of climate finance goals, policy engagement, and better transparency and disclosure of investment and emission data.

100%
All UK GFANZ entities have set climate targets

~100%
Almost all UK GFANZ entities have made plans to implement their climate goals

+57%
direct investments in climate solutions from UK GFANZ entities 2018-2020

Key findings:

1. **UK GFANZ members have made encouraging overall progress between 2020-2022.** The UK – alongside the US – hosted the highest number of GFANZ members with the most advanced responses in setting climate targets and implementing climate actions. This means the UK has more GFANZ members that have adopted defined climate targets, and have taken climate-related actions in stakeholder engagement, management practices and disclosures.
2. UK-based GFANZ entities are also the only ones among organisations in the top five GFANZ participating countries that **both accelerated their shift away from new fossil fuel investment and increased climate-related investment in 2022**, although fossil fuel financing remained highly prevalent.
3. **Target adoption is speeding uptake of mitigation and divestment goals led by large UK and US GFANZ asset managers.** After a significant acceleration in the last two years, all UK GFANZ organisations adopted some climate-related targets in 2022.
4. **In 2022, almost all UK GFANZ entities have made implementation plans in climate-related actions** in stakeholder engagement, management practices and disclosures, although more than half were just at planning stage. Within GFANZ, the UK had the highest number of advanced responses (18), followed by the US (15).
5. Despite the encouraging effort in target setting and implementation, we need to **accelerate actions in climate investment and transition risk management.** Fossil fuel exposure continues to present transition risks despite the UK GFANZ members'accelerated shift away from new fossil fuel investment. Green finance flows – mainly consisting of green bonds – had increased but are yet to fully take off.

Note: The current work is largely based on preliminary findings from the Net Zero Finance tracker (NZFT), hence cannot be interpreted as conclusive. More information on method is available in section 1.2 and Annex 1.

1. About this report

Global financial services institutions are ramping up their effort to address the climate crisis. Many of them have made formal climate commitments and joined key initiatives like GFANZ. Set up in April 2021, GFANZ is a global coalition of leading financial institutions committed to accelerate the decarbonisation of the economy.

Commitment is a great starting point. The next step is to realise the commitments and build a transparent mechanism that tracks transition progress. This report, jointly produced with Climate Policy Initiative (CPI), provides an early overview of the progress of UK GFANZ financial institutions in turning net zero commitments into actions, with a focus on subsectors including asset management, insurance, and banking. It also includes comparisons with GFANZ institutions outside of the UK. This can help us to identify achievements as well as raise awareness on challenges going into COP28.

1.1. The sample and data

Sample and coverage

This overview focuses exclusively on GFANZ and does not encompass other financial institutions at this stage.

Our sample includes the full GFANZ membership – 553 institutions as of December 2022[1] with a tracked combined assets under management (AUM) and owned assets[2] of US$85tn in 2022. By focusing on GFANZ institutions, the study serves as a valuable indicator of the actions taken by financial institutions that have proactively joined the alliance and are committed to achieving net-zero greenhouse gas emissions. Our study does not claim to offer a comprehensive overview of the entire financial sector efforts towards net zero goals.

Table 1 shows the top 10 countries by number of GFANZ entities included in the data. **The UK is the most represented country across GFANZ**, with 22% of the total GFANZ entities. Table 2 shows the top 10 by total assets of GFANZ entities represented in the data. Membership location is defined by registered jurisdiction.

It is important to note that net-zero actions and the level of financing tracked in this work have been attributed exclusively at the level reported by the original data source. This means that an action that is attributed to a subsidiary will not contribute to the computation of the score for the headquarters and vice versa. For example, if the data source indicated an action is attributed to US Company A's subsidiary in the UK, the action will be attributed to the UK. If the data source did not distinguish activities between the headquarter and subsidiary, the activities will be attributed to the headquarter.

Table 1: Top 10 countries by number of GFANZ entities, 2022

Country	Number of entities	%
United Kingdom	**120**	**21.7%**
USA	82	14.8%
France	37	6.7%
Switzerland	27	4.9%
Germany	25	4.5%
Canada	24	4.3%
Netherlands	23	4.2%
Japan	22	4.0%
Sweden	20	3.6%
Denmark	20	3.6%
Rest of the world	153	27.7%
Total	**553**	**100%**

Table 2: Top 10 countries by total assets of GFANZ entities, 2022

Country	Assets (US$ tn)	%
USA	24.05	28.4%
Japan	12.05	14.3%
United Kingdom	**10.72**	**12.7%**
France	10.10	11.9%
Switzerland	6.27	7.4%
Germany	4.82	5.7%
Netherlands	3.17	3.7%
Australia	2.86	3.4%
Italy	1.99	2.4%
Canada	1.52	1.8%
Rest of the world	6.99	8.3%
Total	**84.54**	**100%**

The Net Zero Finance Tracker

This report uses preliminary data from The Net Zero Finance Tracker (NZFT) developed by CPI. The tracker is a collaborative data, knowledge, and advisory platform that provides a comprehensive assessment of how public and private finance institutions are progressing on their Paris Agreement/Net Zero goals, by capturing and harmonising existing data efforts.

The NZFT was first launched in the summer of 2021 with a release of a beta version focused initially on the UK. The project is currently being expanded to cover financial institutions at the global level, starting with GFANZ entities. Figures included in the present report cover the years between 2019 and 2022, and represent preliminary figures deriving from this work including data available to CPI as of March 2023. New data will be incorporated before the release of a web dashboard in quarter three of 2023, along with higher transparency on the drivers determining progress scores.

1. Since then membership of alliances making up GFANZ has grown to over 570 and includes a new alliance, Net-zero Venture Capital Alliance (NZVCA). We are using the shorthand "GFANZ members/institutions/entities" to refer to financial institutions that are members of net-zero alliances in GFANZ.

2. Currently we cover information on assets managed and owned for about 70% of entities covered in the sample. Figures were estimated using AUM, replaced by "Total Assets" when information was missing.

1.2. Dimensions and assessment approach

Three dimensions are examined in this report, representing increasing levels of materiality and relevance of the progress reached by the various institutions; from commitments, through to on-the-ground actions, and impacts in the wider economy.[3]

The Targets dimension

The Targets dimension tracks **indicative qualitative commitment and quantitative targets** adopted to address climate change, including interim targets and the assets they cover. It signals the intent to respond, potentially resulting in future engagement and impact.

The Implementation dimension

The Implementation dimension measures whether climate considerations are factored into decision-making processes, potentially resulting in impacts. This dimension looks at **concrete qualitative changes to institution policies, governance, and investment approaches that may influence future or current capital alignment with net zero.**

The Impact dimension

The Impact dimension looks at **quantitative changes in stocks and flows of relevant targets and investments.** The dimension is organised around two types of impacts: management of transition risk and and investment in the wider economy.

Each dimension is organised around a set of underlying indicators. The full list and description of the indicators are provided in Annex 1.

The **Target** and **Implementation** dimensions are assessed qualitatively for every indicator, using a tiered "badge" system, which compares tracked actions against those understood as necessary to enable a net zero transition.

The **Impact dimension** is based on a variety of quantitative impact indicators. They comprise **activities that produce positive impacts on transition (green bonds and investment in climate solutions)[4] and activities that produce negative impacts on transition (project-level and corporate-level new fossil fuel financing).** The fossil fuel exposure metric is an indicator for transition risk management. Fossil fuel investment measures **new finance** made available at the corporate level or finance being used for the development of fossil fuel projects, **not existing holdings.** Location of impact indicators is attributed by source of flows, not destination.

No entities are currently fully aligned on any of the tracked dimensions. Entities that made an 'Advanced response' are identified as leaders.

3. The assessment approach is in alignment with the GFANZ's Recommendation and Guidance on Finance Institution Net-zero Transition Plans.

4. Investment in climate solutions measures direct funding into new climate projects via primary investment. It excludes corporate loans for potential climate solutions, where the use of proceeds is unknown. Due to limited scope, this report only covers climate solutions. It is one of the four GFANZ key net zero financing strategies (the other three being aligned, aligning and managed phaseout).

"Badge"	Target dimension	Implementation dimension
Full response	Entities have disclosed short-term and long-term mitigation targets which are validated by the Science Based Targets initiative (SBTi) and cover the majority of their portfolio, adopted full fossil fuel divestment goals, and have disclosed climate solution investment goals with a precise timeline.	Entities have a climate change lead and internal incentive systems at the board and operational levels. There is evidence that they engage with policymakers on policy reforms, adoption of standards and environmental social and governance (ESG) integration, as well as clients, and shareholders to support action. They follow Task Force on Climate-Related Financial Disclosures (TCFD) guidelines on climate risk strategy and due diligence and have appropriate systems in place to disclose progress on portfolio emissions and investment, and publish TCFD climate risk disclosures, requesting services providers to do the same.
Advanced response	Two of the three of the following minimum conditions are met: disclosure of long-term and short-term mitigation targets cover a majority of the portfolio but are not validated; divestment targets are limited to a few fossil fuel types; and, financial commitments in clean solutions are adopted but are not quantified, or do not indicate a timeline.	A majority of the following minimum conditions are met: incentive systems and climate responsibilities exist in the organisation for more than a single hierarchical level; entities engage with policymakers on some climate-related reforms; entities engage with stakeholders and clients; they follow most of the TCFD guidelines on climate risk strategy and due diligence; entities track progress on portfolio emissions and investment, and publish TCFD disclosures.
Initial response	There is evidence that targets are adopted but advanced response requirements are not yet met.	There is evidence that some action has been taken by institutions, but advanced response requirements are not yet met.
Planned response	There is evidence that institutions are planning to adopt targets.	There is evidence that institutions are planning to implement response measures.
No action	No evidence of any action on targets is available.	No evidence of any implementation action is available.

2. Progress of UK GFANZ institutions

We have seen encouraging progress by UK GFANZ institutions in the past three years, aided by their membership of net-zero alliances in GFANZ. The UK – alongside the US – hosted the highest number of GFANZ members with the most advanced responses in setting climate targets and implementing climate actions.

This means the UK has more GFANZ members that have adopted defined climate targets, and have taken climate-related actions in stakeholder engagement, management practices and disclosures.

UK entities are also the only ones in the top five GFANZ participating countries that both accelerated their shift away from new fossil fuel investment and increased climate-related investment in 2022, although fossil fuel financing remained prevalent.

2.1. Targets

After significant progress in the last two years, most assets were managed by GFANZ entities with climate-related targets by the end of 2022. Progress was mainly driven by the UN Race to Zero Campaign's push for adoption of mitigation goals. UK GFANZ entities' level of action was broadly in line with the wider GFANZ membership, with UK and US entities leading on setting more advanced targets.

In figure 1, we can see **significant progress** in the **Target dimension** for the sample of UK GFANZ entities in the past three years. **The number of UK GFANZ entities with climate targets jumped from only 15% in 2020 to 100% in 2022.**

As of 2022, around a quarter of UK GFANZ entities set more advanced targets (represented by the badge 'Advanced response'). This means they are establishing more robust targets on fossil fuel divestment, mitigation, and clean investment.

Asset managers were the leaders in establishing mitigation and divestment goals, some of which were already committing to full fossil fuel divestment. However, a vast majority – nearly 73% of entities – are still taking their first steps ('Initial response'). Further, fewer entities are progressing on climate finance targets.

If we look at target setting split by total assets instead of number of entities (figure 2), the share of responding entities in 2020 and 2021 increases. This suggests that larger entities acted earlier than smaller ones, who caught up later in 2022.

Outside of the UK (figure 3), GFANZ institutions follow similar trends[5] with a higher proportion than UK institutions responding in 2020 and 2021. When looking at the score split by assets (figure 4), larger entities seem to have moved earlier than smaller ones in 2020-2021. Unlike the UK, non-UK entities with an 'Advanced response' were mainly relatively smaller asset managers.

In terms of absolute number of actors, in 2022 **the UK and the US were the countries with the highest number of GFANZ entities with the most advanced targets** (32 and 33 provided 'Advanced response' respectively). The UK was also the country with the highest 'Initial response' (88 entities).

Figure 1: Targets – distribution of scores for UK GFANZ entities by number of institutions

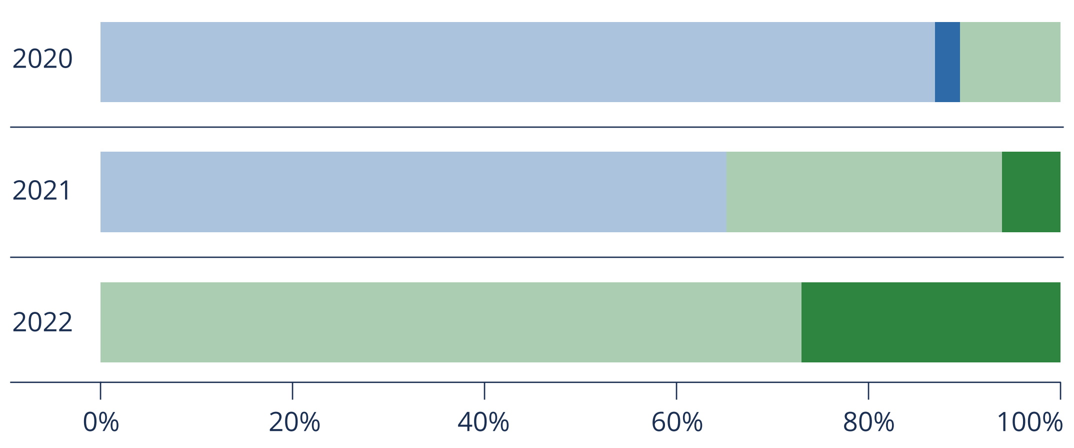


Figure 2: Targets – distribution of scores for UK GFANZ entities by managed and owned assets

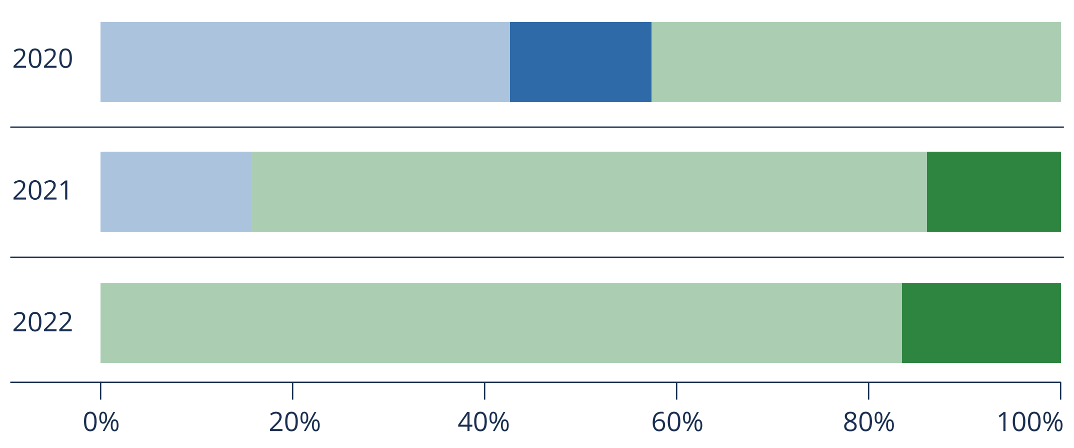


Figure 3: Targets – distribution of scores for non-UK GFANZ entities by number of institutions

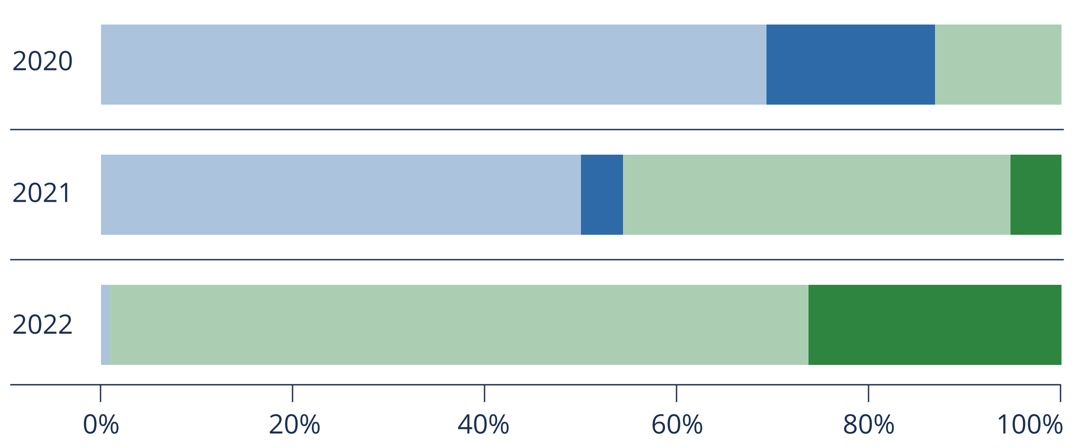
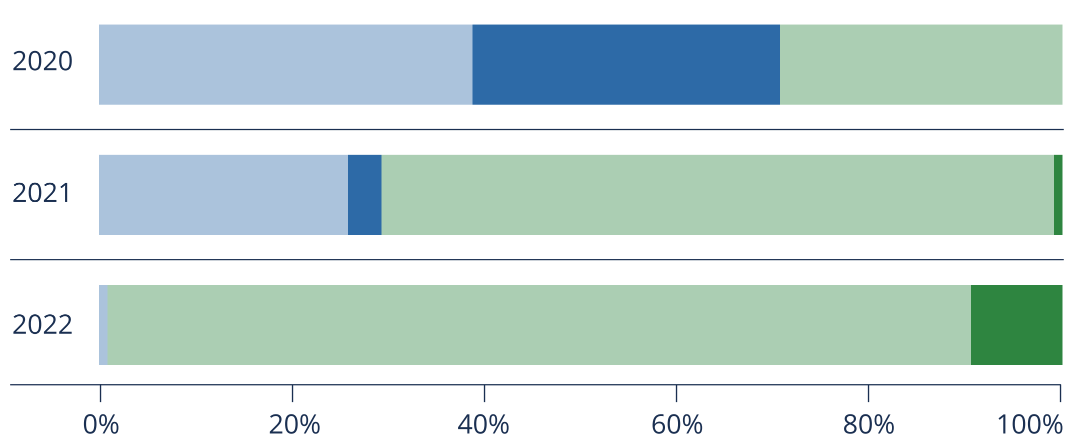


Figure 4: Targets – distribution of scores for non-UK GFANZ entities by managed and owned assets



No action   Planned response   Initial response   Advanced response   Full response

Table 3: Top 5 countries by number of GFANZ entities - distribution of Target score per country (2022)

GFANZ country	Advanced response	Initial response	Planned response	No action	No. of entities
United Kingdom	32	88	0	0	120
USA	33	49	0	0	82
France	13	24	0	0	37
Switzerland	7	20	0	0	27
Germany	6	19	0	0	25
Rest of GFANZ	57	203	0	2	262

5. Similar to the UK, in 2022 three quarters of non-UK entities scored 'Initial response' and about a quarter scored 'Advanced response'. The highest badge result is driven mainly by the indicators 'mitigation target' and 'divestment target' where a higher number of asset managers scored 'Advanced response'.

2.2. Implementation

UK GFANZ entities had been planning measures against climate change already in 2020, with two thirds of UK entities having some responses on implementation. However, implementation was still mostly at planning stage for over half of UK GFANZ entities in 2022. The UK also has the highest number of institutions with an 'Advanced response' in implementation.

Most UK GFANZ entities in 2020-2022 (figure 5) had committed to embed climate change into their decision-making processes, continuing a positive trend observed since 2015.[6] By 2022, only three entities had no actions in place.

However, only 15% of UK surveyed entities had an 'Advanced response' in implementation of climate goals and no substantial additional progress has been observed in the last three years. The majority (58%) of entities were at the 'Planned response' stage in 2022.

'Advanced response' in implementation were mainly from asset managers and owners, and to a lesser extent, banks. These were observed in clients' and shareholders' engagement, the establishment of risk strategies, management practices and disclosures, and internal climate accountability systems. Institutions that made the most progress on this metric have a dedicated responsible investment staff, and have their staff across board, management and business levels accountable for climate change related performance. Fewer actions were observed in policy engagement and the disclosure of investment and emissions data.

If we look at implementation scores by assets managed and owned instead of by number of institutions (figure 6), we can see a much higher proportion of leading entities with 'Advanced response'. This suggests that larger entities – in particular big banks - are taking the lead in the implementation of climate goals.

Outside of the UK (figures 7 and 8) we observe similar Implementation trends, with leading companies (those with an 'Advanced response') being relatively bigger entities, especially asset managers, banks, and insurers.

In terms of absolute numbers, in 2022 **the UK was the country with the highest number of 'Advanced responses'** (18, table 4). It was also the country with highest number of 'Initial responses' (29).

6. UK GFANZ entities have been implementing response measures against climate change for a long time, starting as early as 2015. This has been part of their coalitions' early commitments to engage on climate change and sustainable practices, as well as working with industry on responsible investment.

Figure 5: Implementation – distribution of scores for UK GFANZ entities by number of institutions

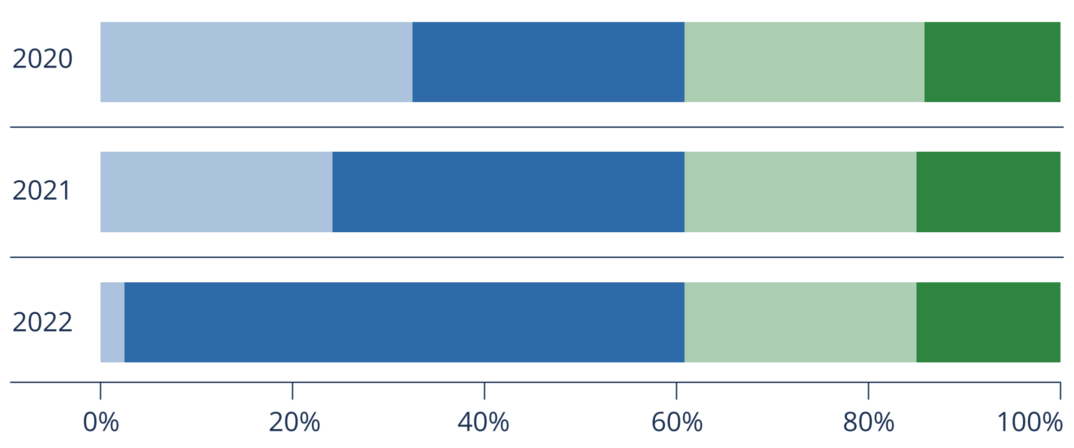


Figure 6: Implementation – distribution of scores for UK GFANZ entities by managed and owned assets

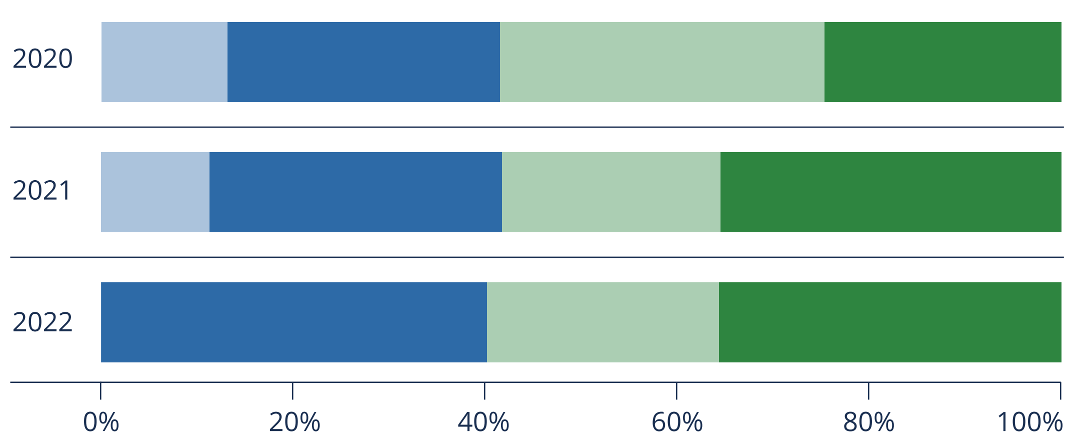


Figure 7: Implementation – distribution of scores for non-UK GFANZ entities by number of institutions

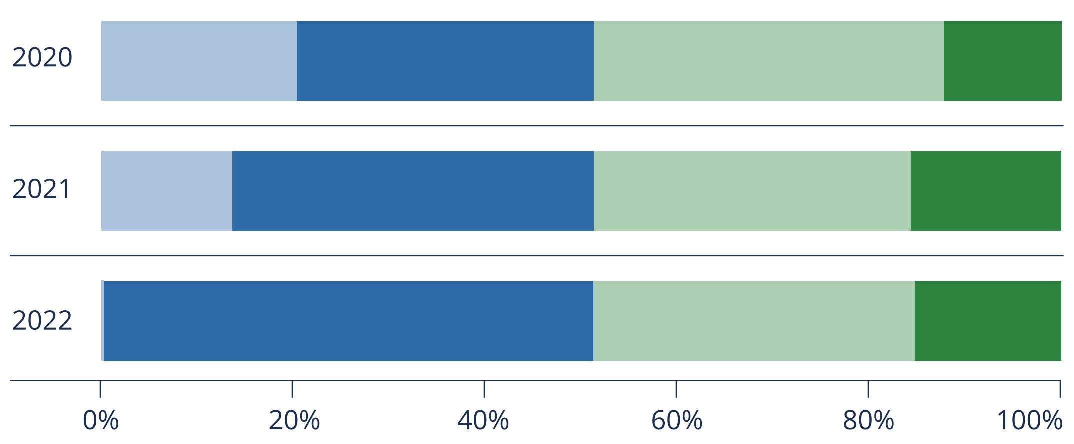
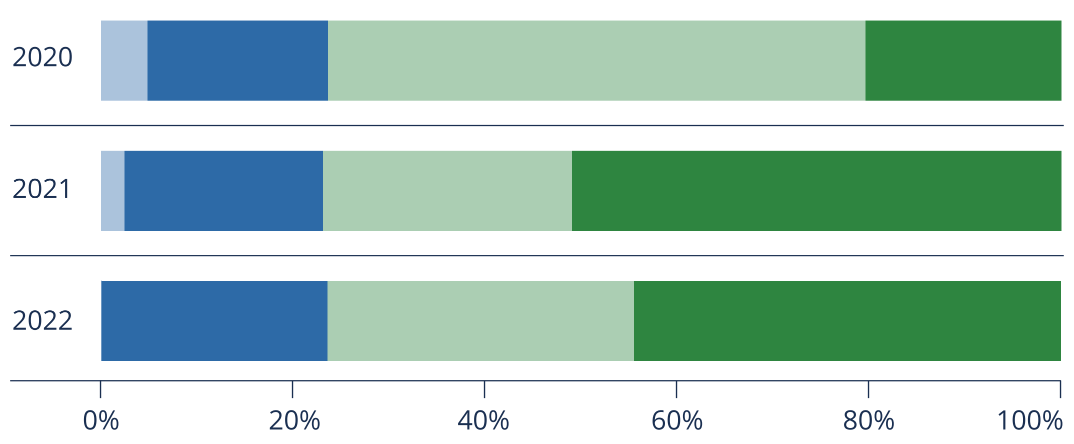


Figure 8: Implementation – distribution of scores for non-UK GFANZ entities by managed assets



No action | Planned response | Initial response | Advanced response | Full response

Table 4: Top 5 countries by number of GFANZ entities – distribution of Implementation score per country (2022)

GFANZ country	Advanced response	Initial response	Planned response	No action	No. of entities
United Kingdom	18	29	70	3	120
USA	15	27	40	0	82
France	10	11	16	0	37
Switzerland	3	8	16	0	27
Germany	3	10	12	0	25
Rest of GFANZ	35	89	137	1	262

2.3. Impact

New fossil fuel financing from GFANZ members reduced in almost all jurisdictions in 2022, but the UK was the only major country that also saw an increase in funding for climate solutions. Nevertheless, observed progress on wider economic impact in terms of climate finance and withdrawal from fossil fuel financing is yet to accelerate.

While the observed trends in climate finance flows (e.g. green bonds, investment in climate solutions) and new fossil fuel investment may be affected by limited data availability and time lags in some of the data sources,[7] broader patterns are still observable.

In the past three years (figure 9) green bond issuances by UK GFANZ institutions, mainly from banks, fluctuated at around US$1.5bn with a slight deceleration in 2021. In comparison, green bond issuances from non-UK GFANZ members slightly increased over the past three years, with funding mainly originating from GFANZ institutions based in France, Spain, and the Netherlands in 2020-2022, and absolute growth being observed mainly in the Netherlands over the same period.

Direct investment in climate solutions (figure 11) from UK GFANZ entities has instead been steadily increasing in the last years for which data is available (2018-2020) to reach over US$1.1bn in 2020, mainly from banks, private equity and venture capital.[8] Flows from non-UK GFANZ entities, however, fell in the same period.

+57%

direct investments in climate solutions from UK GFANZ entities 2018-2020

Figure 9: Green bonds – UK GFANZ (US$m)

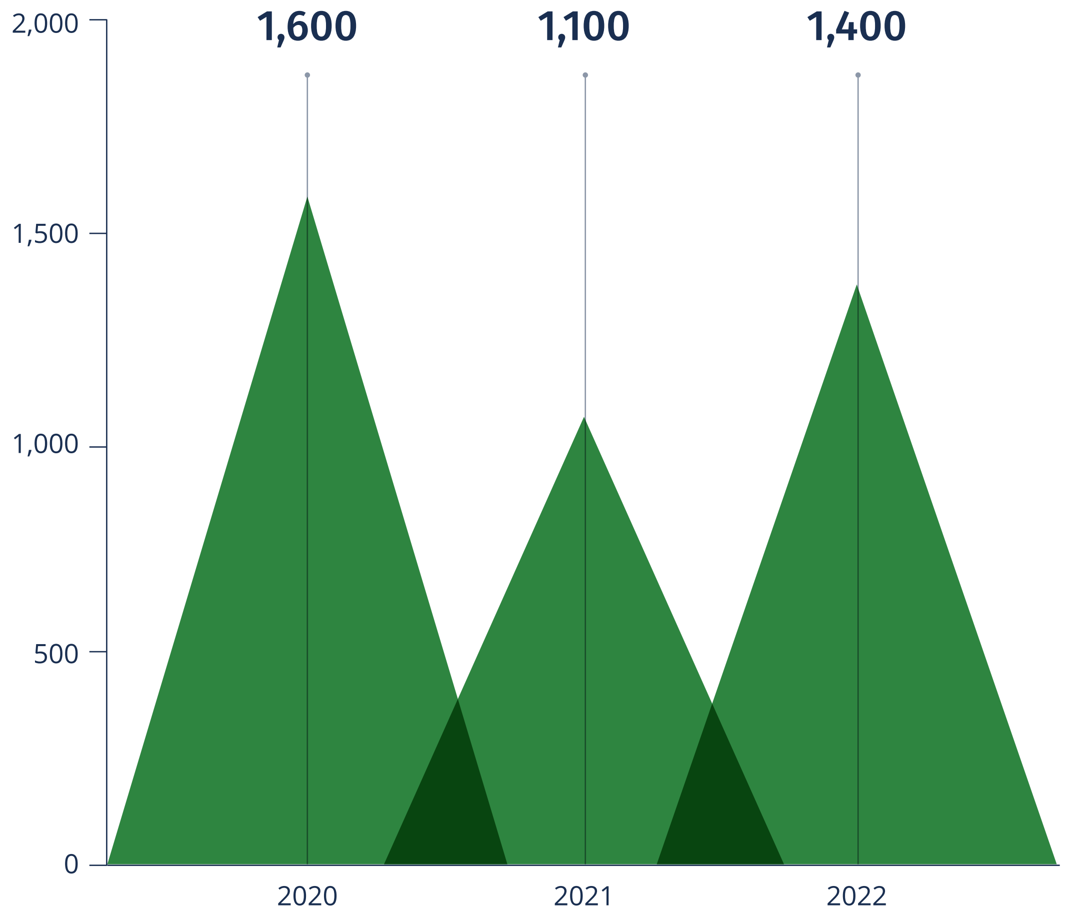


Figure 10: Green bonds – non-UK GFANZ (US$m)

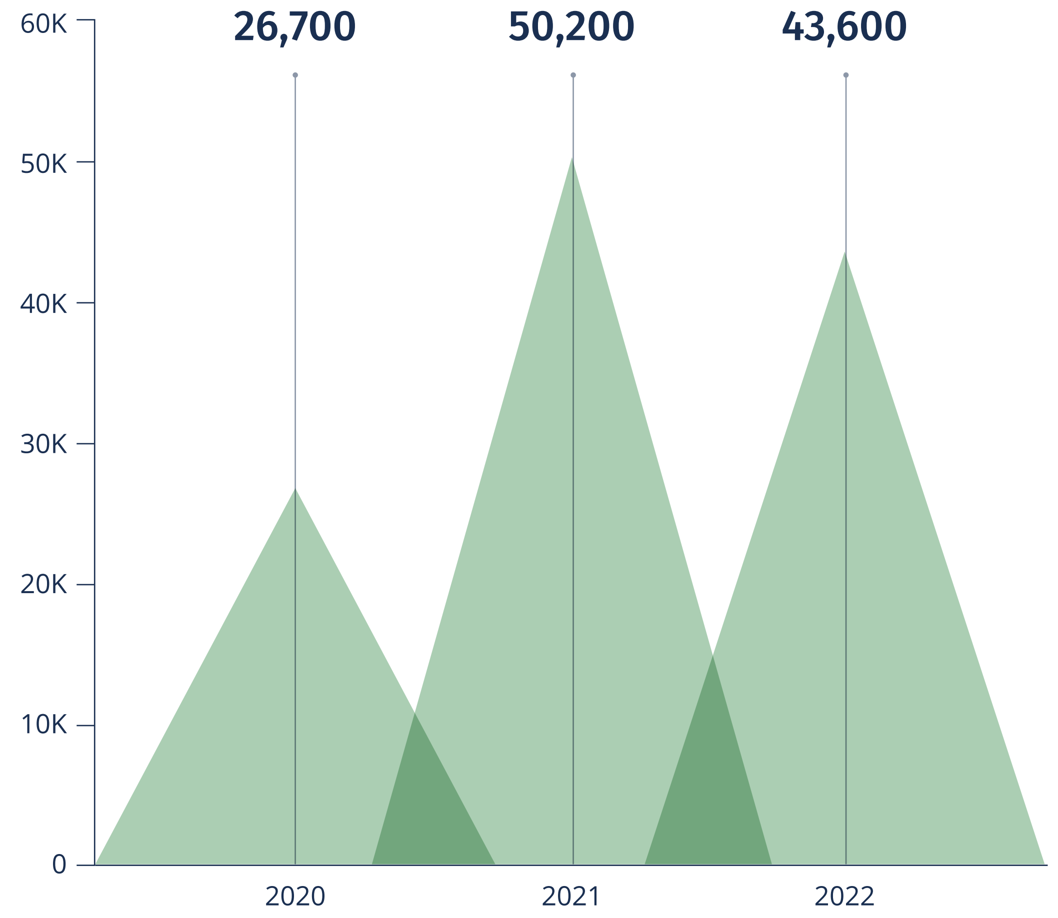


Figure 11: Direct investment in climate solutions – UK GFANZ (US$m)

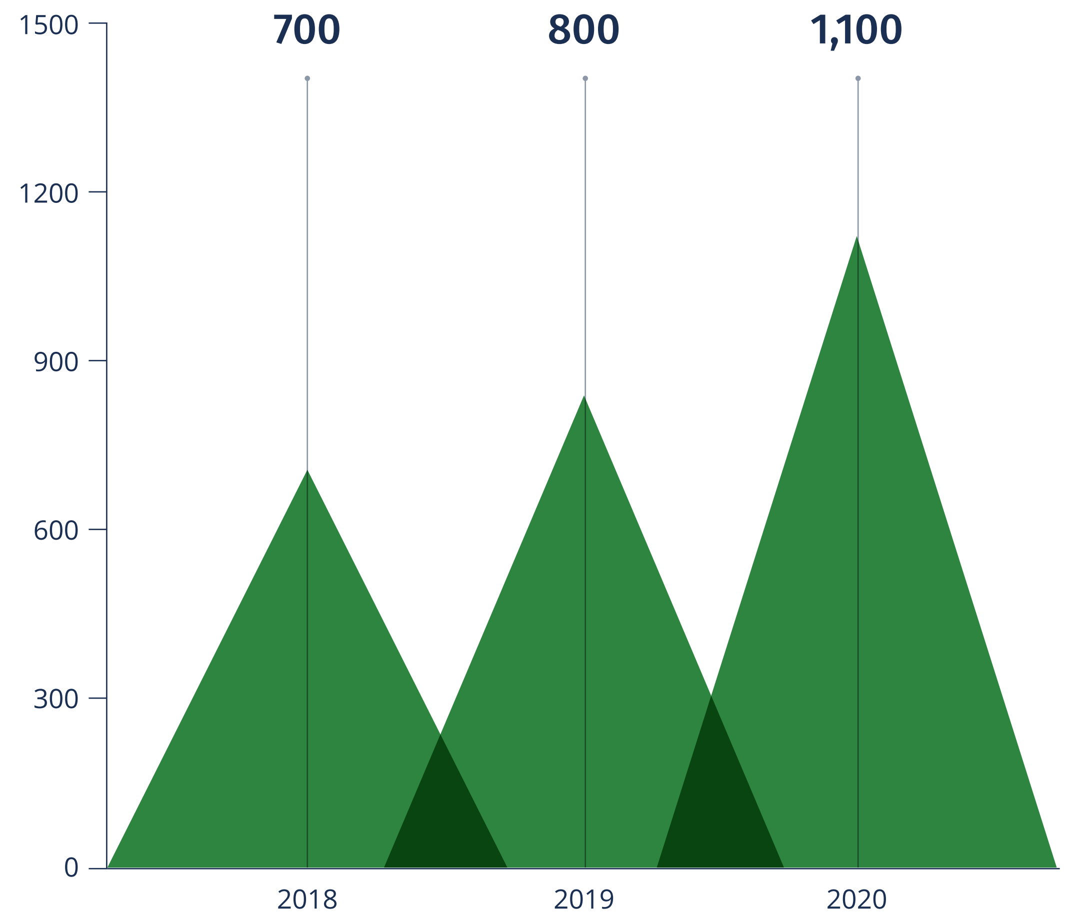
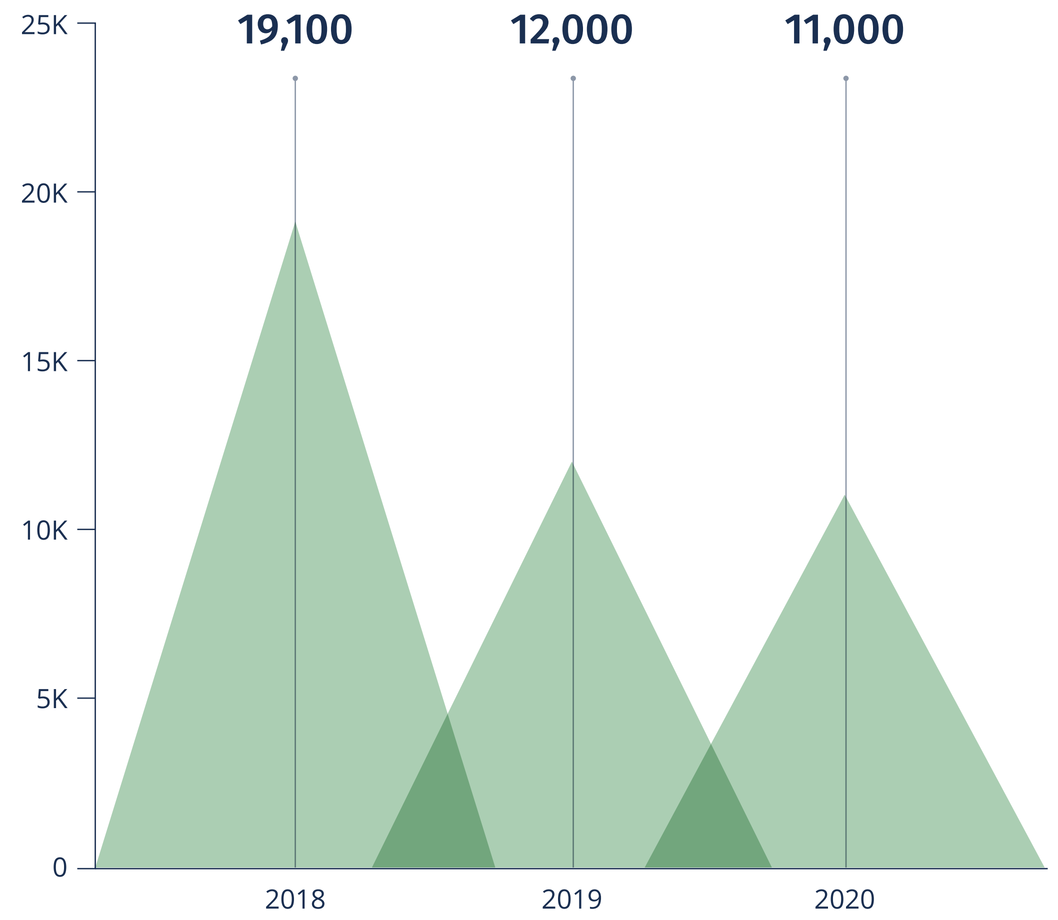


Figure 12: Direct investment in climate solutions – non-UK GFANZ (US$m)



7. Fewer private institutions report on climate related finance flows than on targets or implementation. Project-level investment in climate solutions lacks data for 2021 and 2022. New fossil fuel corporate-level investment is mainly available for banks and data on non-aligned assets and exposure to fossil fuel is instead only available for 2022.

8. Data sourced from GLCF (CPI, 2022), currently undergoing an update.

New fossil fuel financing from UK GFANZ entities has been decreasing in the last two years, both in terms of corporate-level finance and project-level finance. Observed new corporate-level fossil fuel financing from UK GFANZ entities dropped significantly by 41% to US$23.5bn in 2020-2022 (figure 13),[9] while new project-level fossil fuel financing dropped by 35% over the same period to US$150mn.

Outside of the UK, new corporate-level fossil fuel financing dropped 29% (figure 14) but new fossil fuel project-level financing saw a slight increase over the last two years (figure 16).[10]

Note that the fossil fuel investment indicator measures new financing made available to fossil fuel. Decreased fossil fuel level does not represent divestment, which refers to exit of assets linked to fossil fuel generation. Other research has shown fossil fuel financing has increased in this period.[11]

41% decrease in new fossil fuel financing from UK GFANZ entities

35% decrease in project-level new fossil fuel financing from UK GFANZ entities

29% decrease in corporate-level new fossil fuel financing from outside of the UK

Figure 13: UK GFANZ new fossil fuel corporate-level finance (US$m)

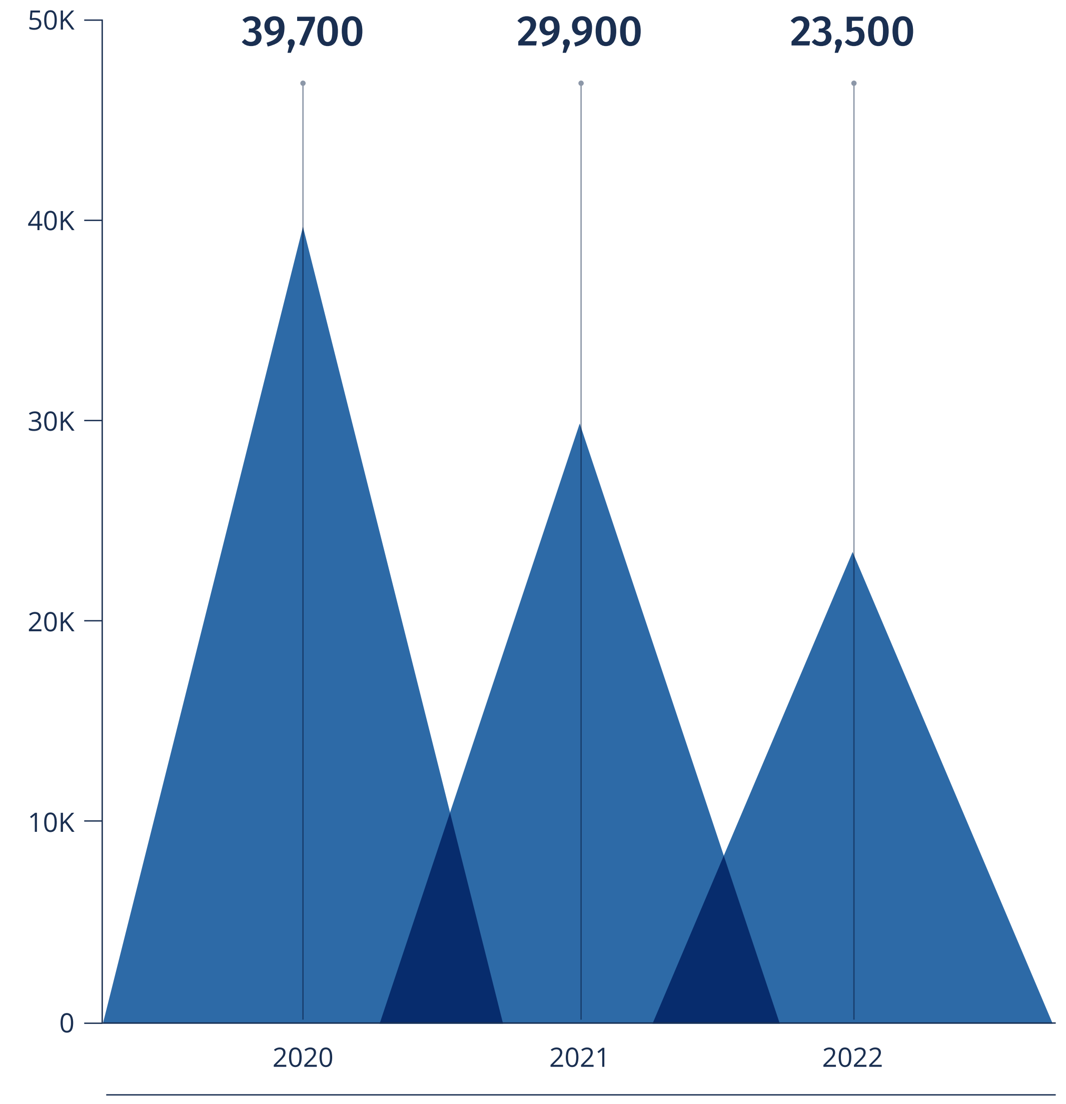


Figure 14: Non-UK GFANZ new fossil fuel corporate-level finance (US$m)

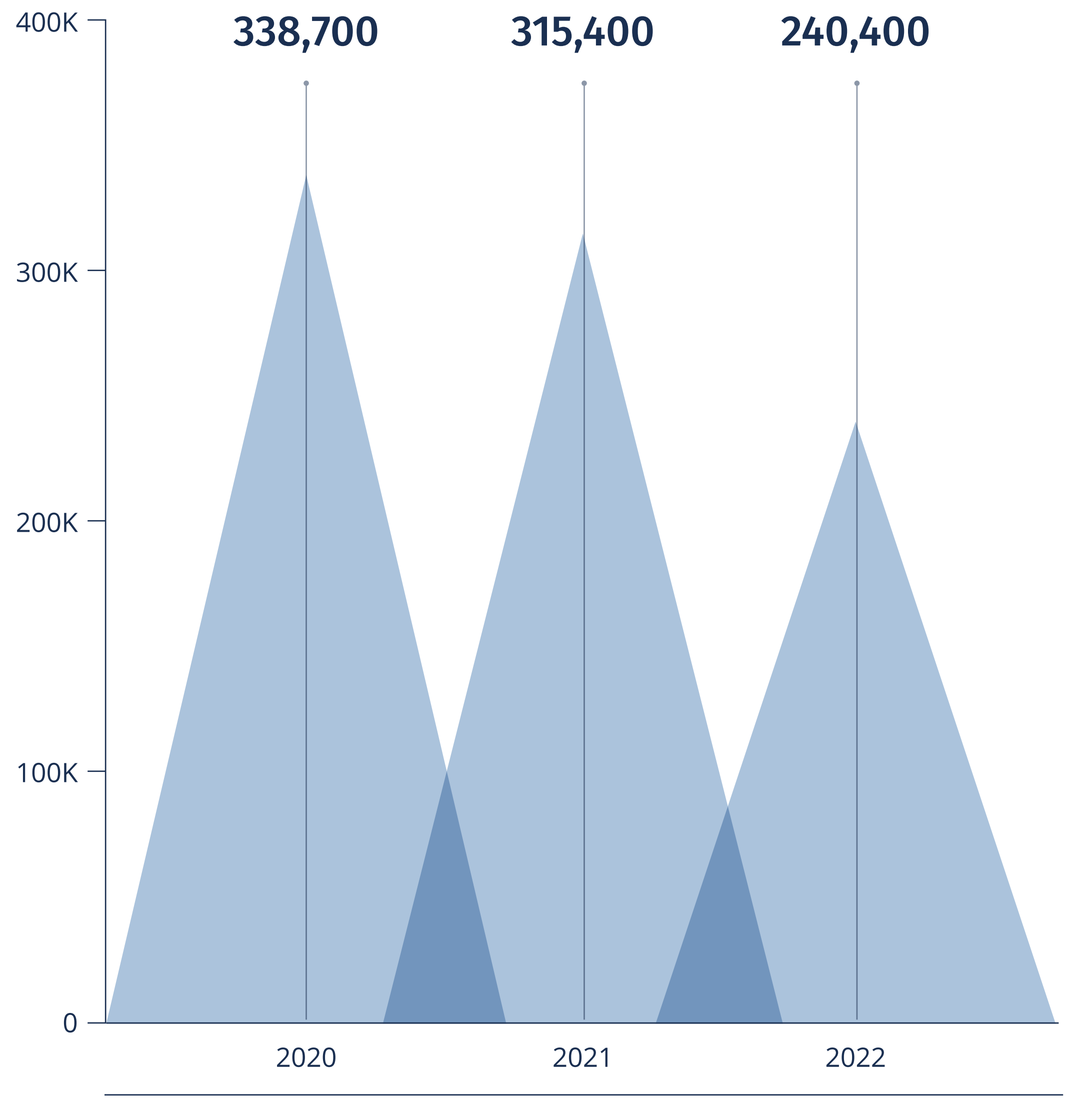


Figure 15: UK GFANZ new fossil fuel project-level finance (US$m)

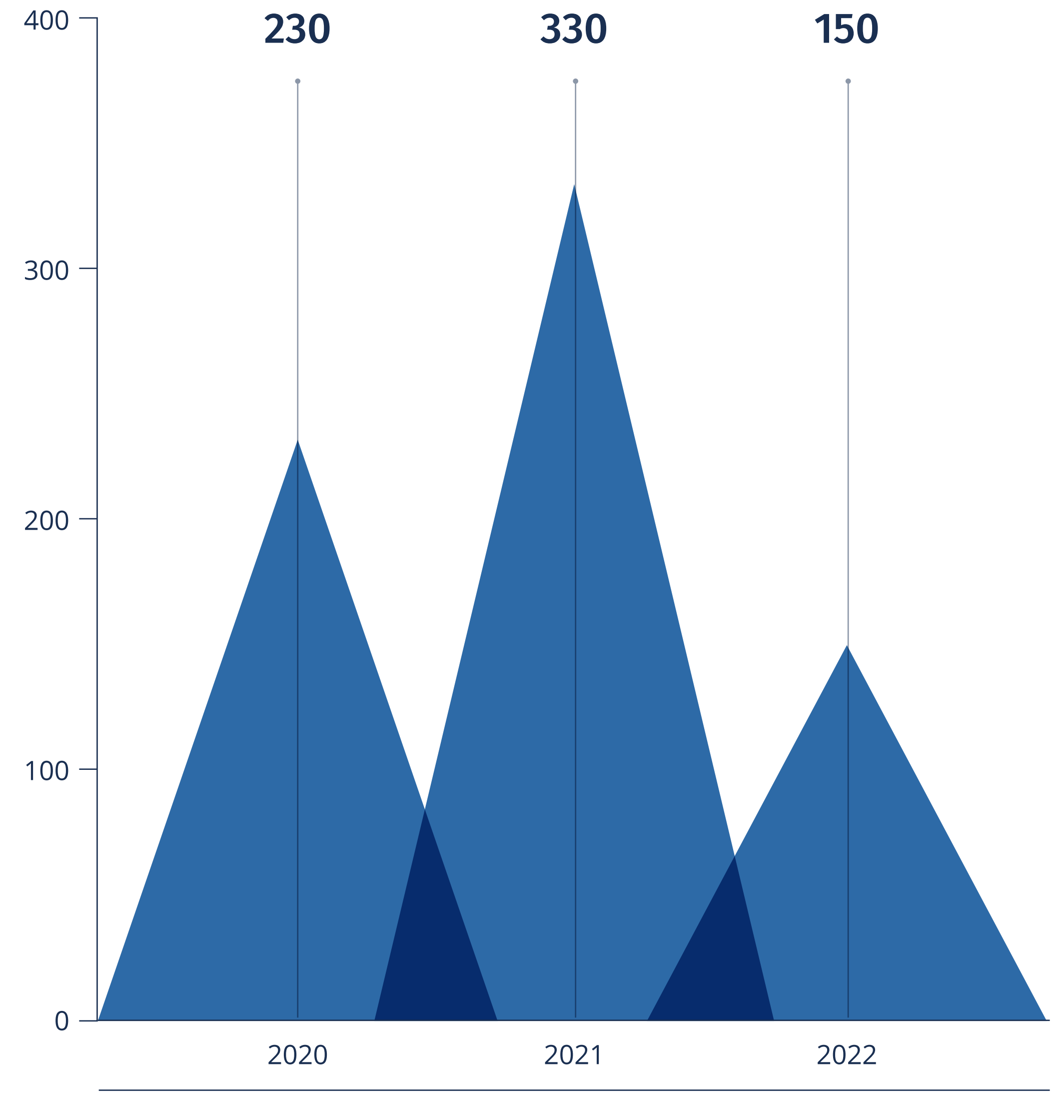
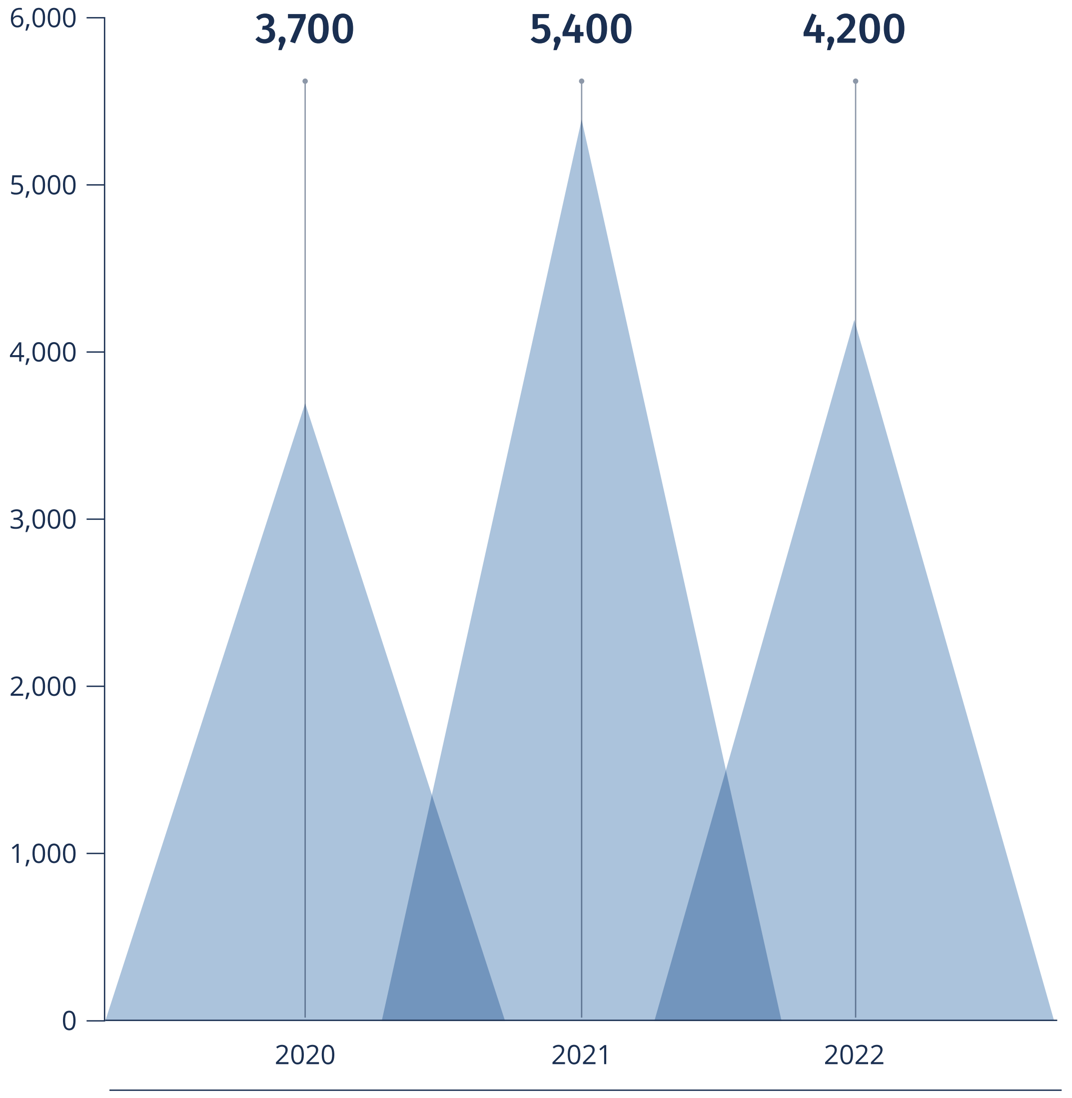


Figure 16: Non-UK GFANZ new fossil fuel project-level finance (US$m)



9. Fossil fuel corporate-level financing is sourced from "Banking on Climate Chaos" reports (Rainforst Action Network), which covers only banks.

10. Fossil fuel project-level financing is sourced from IJGlobal.

11. IEA (2022), World Energy Investment 2022.

To realistically achieve net zero, actions on climate investment and transition management need to be scaled up and accelerated at pace. Despite the drop in new fossil fuel financing, total new fossil fuel funding from GFANZ members still greatly exceeds green finance by close to five-fold, particularly corporate-level new fossil fuel financing mainly from banks. This ratio highlights the significant disparity between the two sectors, and the continued dominance of fossil fuel funding despite the growing attention towards sustainable investments. **Investment in fossil fuel continues to have an impact on the alignment of assets, which impacts the risk profile of institutions still subject to significant transition risk.**

A small sample of portfolios examined among GFANZ entities, mainly covering banks, still shows significant exposure with more than US$90bn misaligned assets for UK entities,[12] and US$900bn outside of the UK.[13] Most of the misalignment is due to exposure to fossil fuel financing, representing US$35bn for UK institutions or 39% of non-aligned assets, and US$500bn outside of the UK or 55% of non-aligned assets.

When focusing on the top five GFANZ participating countries (table 5), the US is leading on project-level investment in climate solutions, while France is leading in green bond issuances. However, the prevalence of new corporate-level fossil fuel financing is also clear in this group, which is even more striking considering the limited sample of institutions for which this metric is assessed.

Table 6 shows that **the UK was the only country that progressed in both green finance flows and fossil fuel financing. And the outlook on fossil fuel investment is positive. Despite the much higher investment levels, new fossil fuel financing is reducing in almost all jurisdictions.**

12. Covering 2 UK banks.
13. We cover 15 entities (mostly banks).

Table 5: Top 5 countries by number of GFANZ entities - investment in wider economy 2022 (US$m)

GFANZ country	Climate Solutions project-level financing (2020)	Green bonds	New fossil fuel corporate financing	New fossil fuel project-level financing
United Kingdom	1,100	1,400	23,500	150
USA	2,100	1,200	131,200	1,100
France	1,800	3,500	43,100	450
Switzerland	4	430	9,500	90
Germany	360	3,400	8,600	290
Rest of GFANZ	6,800	35,000	47,900	2,300

Table 6: Top 5 countries by number of GFANZ entities - investment in wider economy 2022 (YoY change 2021-2022)

GFANZ country	Climate Solutions project-level financing (2020-2019)	Green bonds	New fossil fuel corporate financing	New fossil fuel project-level financing
United Kingdom	34%	29%	-21%	-55%
USA	-44%	-37%	-32%	-38%
France	71%	-72%	4%	-70%
Switzerland	-92%	-51%	-37%	-63%
Germany	2%	4%	-19%	13%
Rest of GFANZ	0%	11%	-13%	38%

3. Sectoral analysis of UK GFANZ entities

The sample of UK GFANZ entities examined included 49 asset managers, 25 asset owners, 15 banks, and six insurers. Due to the higher granularity of data presented at sectoral level and the limited availability of information on assets managed and owned, we are only representing Target and Implementation results by the number of entities (figures 17 and 18).

UK GFANZ asset managers were relatively more advanced in setting up targets in 2022, in line with what has been observed for non-UK GFANZ entities. Asset managers had the highest share of entities developing an 'Advanced response', followed by insurers. Asset managers were also more advanced in implementing response measures, closely followed by asset owners and banks, although the majority of the latter were still at the planning stage.

Figure 17: 2022 distribution of Target scores for different UK GFANZ actor categories by number of institutions

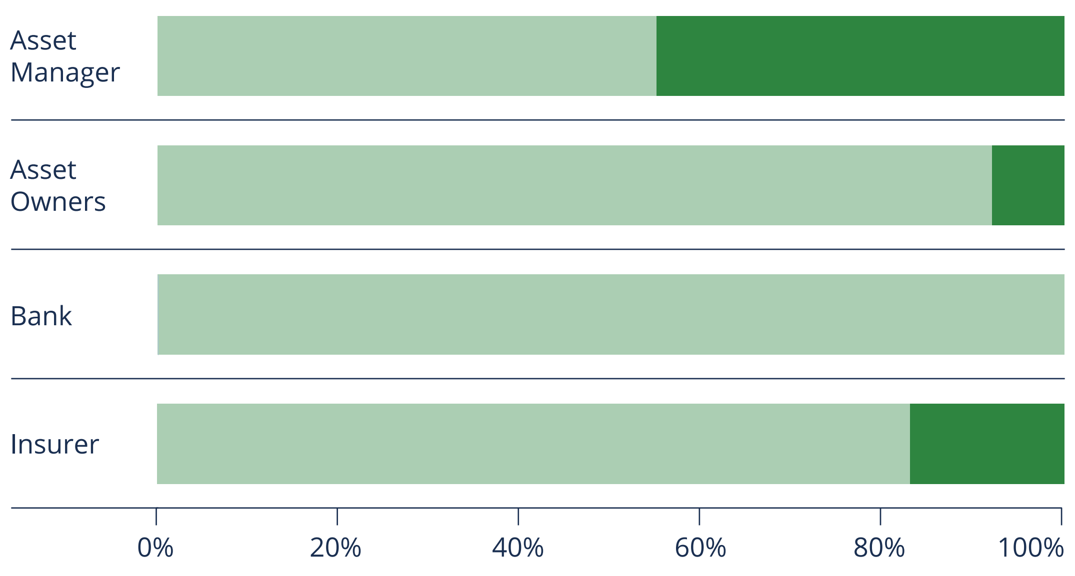
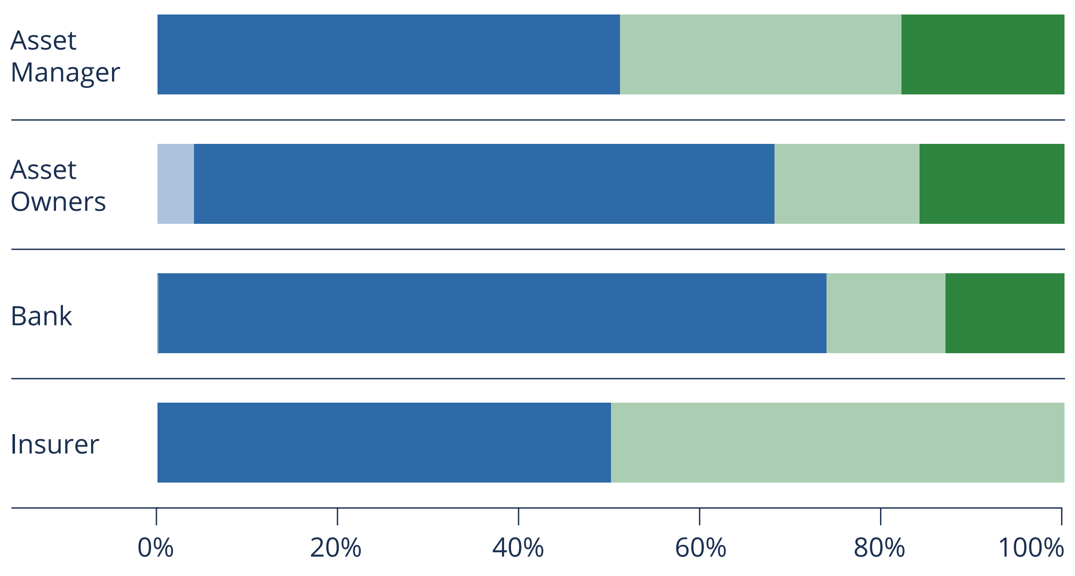
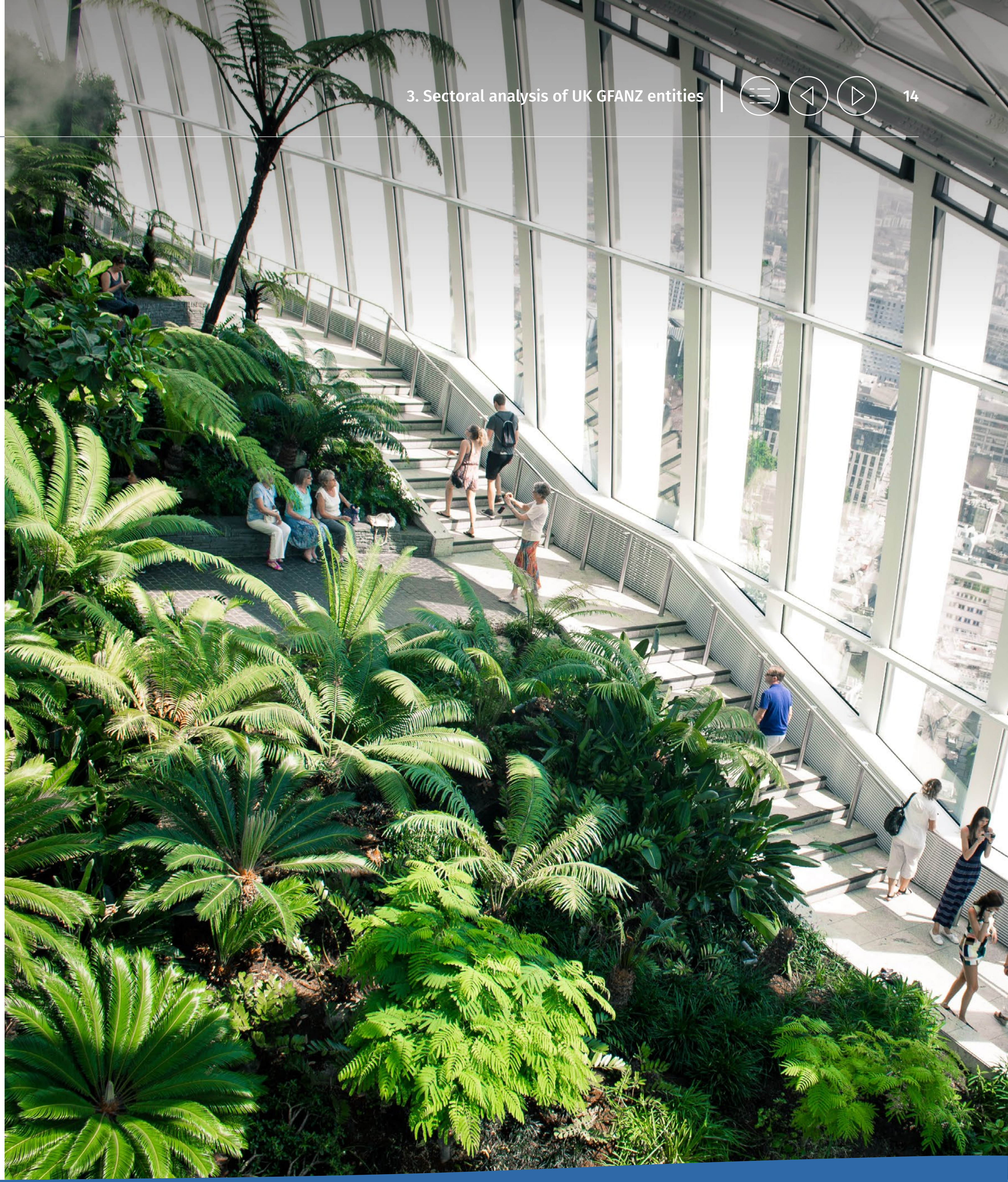


Figure 18: 2022 distribution of Implementation scores for different UK GFANZ actor categories by number of institutions



No action | Planned response | Initial response | Advanced response | Full response



3.1 Asset managers and owners

UK GFANZ asset managers and owners have mainly accelerated progress in recent years in the adoption of targets (figure 19). By the end of 2022, **almost all of them had already adopted climate targets** and 30% of them had developed an advanced response.

The most frequently observed actions undertaken by asset managers and owners were the adoption of mitigation **targets** and divestment goals. These target setting measures are proven by evidence of divestment policies on coal and other fossil fuel investments. However, no adoption of climate finance targets was observed.

More entities were planning to **implement** net zero measures over the years, but no meaningful improvements in action have been observed over the last three years. The number of 'Initial response' and 'Advanced response' entities has stagnated since 2020 (figure 20). The main actions observed here are the establishment of internal accountability frameworks and the adoption of climate risk strategies and management. Jupiter Asset Management Limited, Schroders plc, Brunel Pension Partnership and Strathclyde Pension Fund are asset managers and owners that set a good example in this dimension.

The Impact metric tracked for asset managers and owners is project level financing in climate solutions and new fossil fuel project-level financing. US$25m direct project level investment in climate solutions were observed for the last available three years (2018-2020). After years away from fossil fuel project-level financing (over 2015-2020), one asset manager engaged in fossil fuel financing again in 2021 and was solely responsible for the flows in 2021 and 2022 (figure 21).

Figure 19: Distribution of Target scores for UK GFANZ asset managers and owners by number of institutions

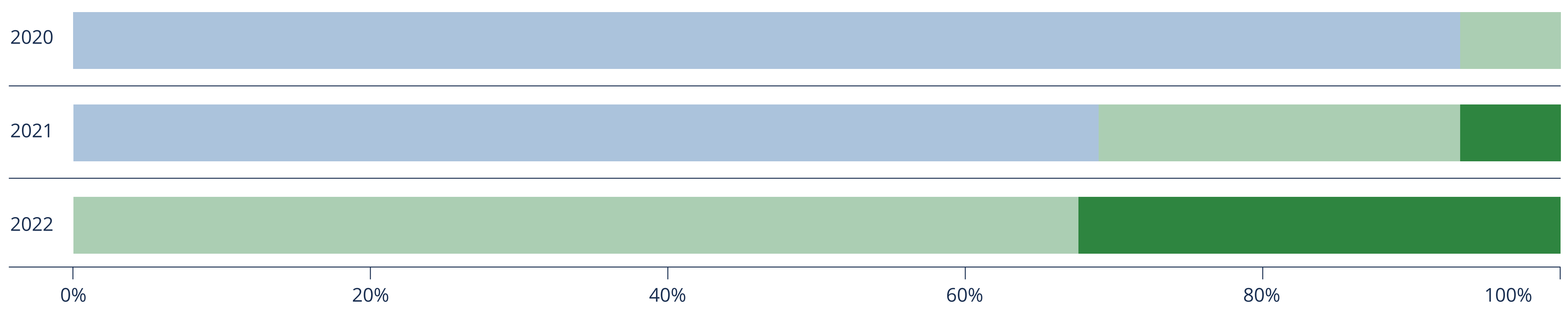


Figure 20: Distribution of Implementation scores for UK GFANZ asset managers and owners by number of institutions

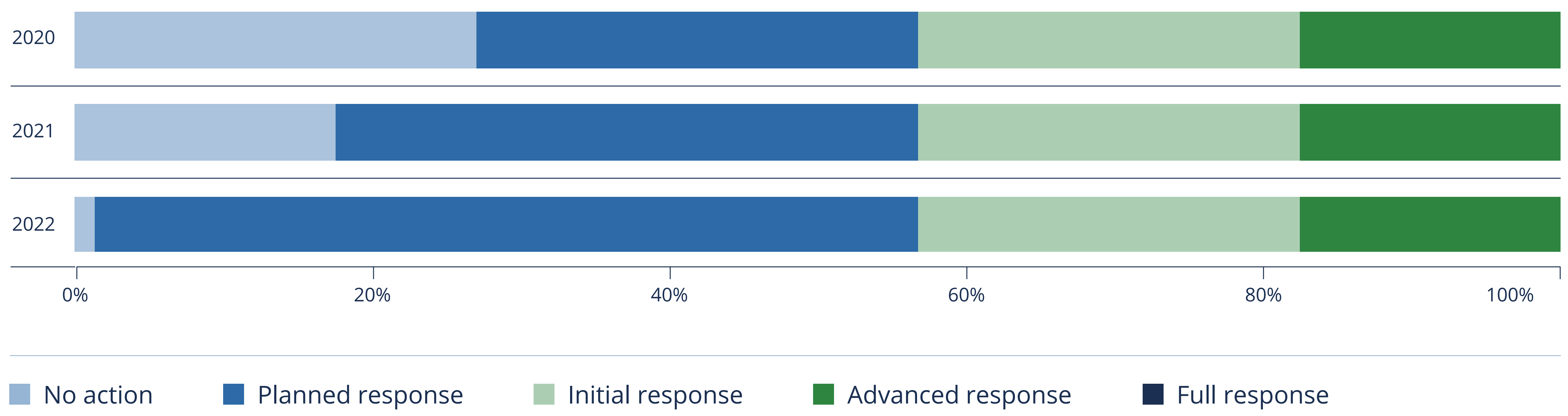
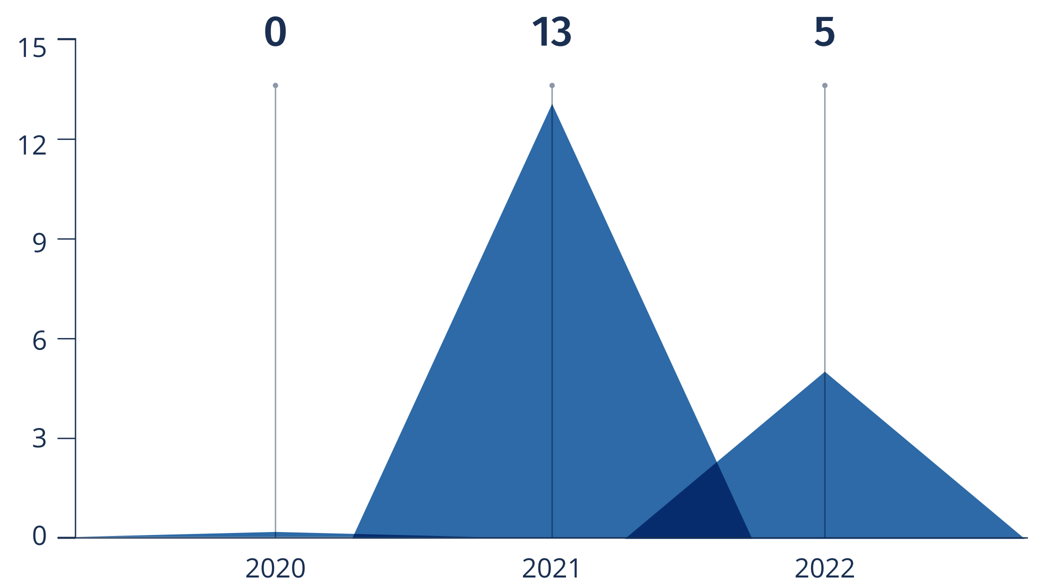


Figure 21: New fossil fuel project-level financing – UK GFANZ asset managers and owners (US$m)



30%

of UK GFANZ asset managers and owners had developed an advanced response to targets by the end of 2022.

3.2 Insurers

UK GFANZ insurers demonstrated good progress in target setting. The number of insurance companies with climate targets jumped from only two in 2020 to all six UK GFANZ insurers in 2022.

Prudential plc showcased best practice with a climate finance pledge and a divestment target consisting in a binding commitment to divest from any coal company.

In contrast, **implementation** of response actions (figure 23) had not improved much since 2020, with no insurers going beyond an 'Initial response'. These responses were mostly in shareholder/client engagement and demonstrated the use of tools to manage climate risks.

No **Impact** on the wider economy has been captured yet for UK GFANZ insurers in recent years, besides a few years of investment in climate solutions in 2015-2019.

Figure 22: Distribution of Target scores for UK GFANZ insurers by number of institutions

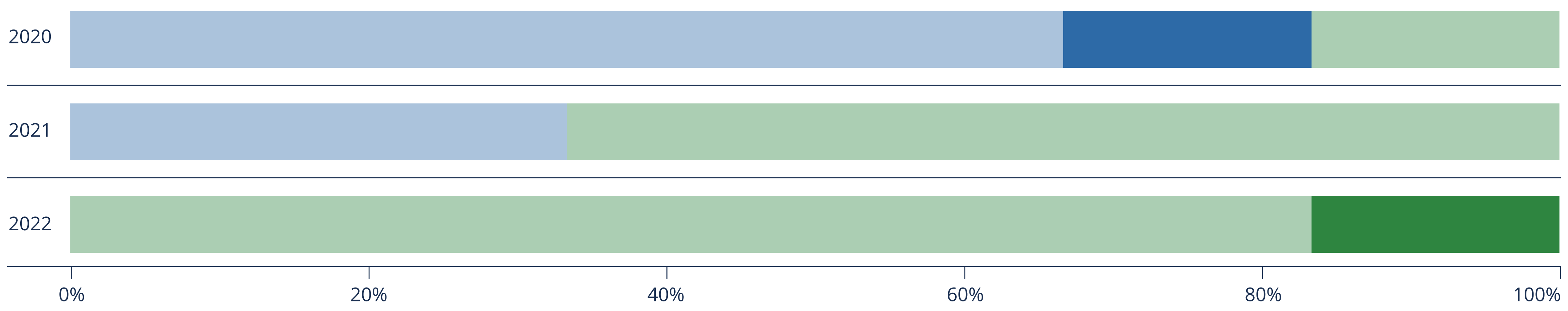
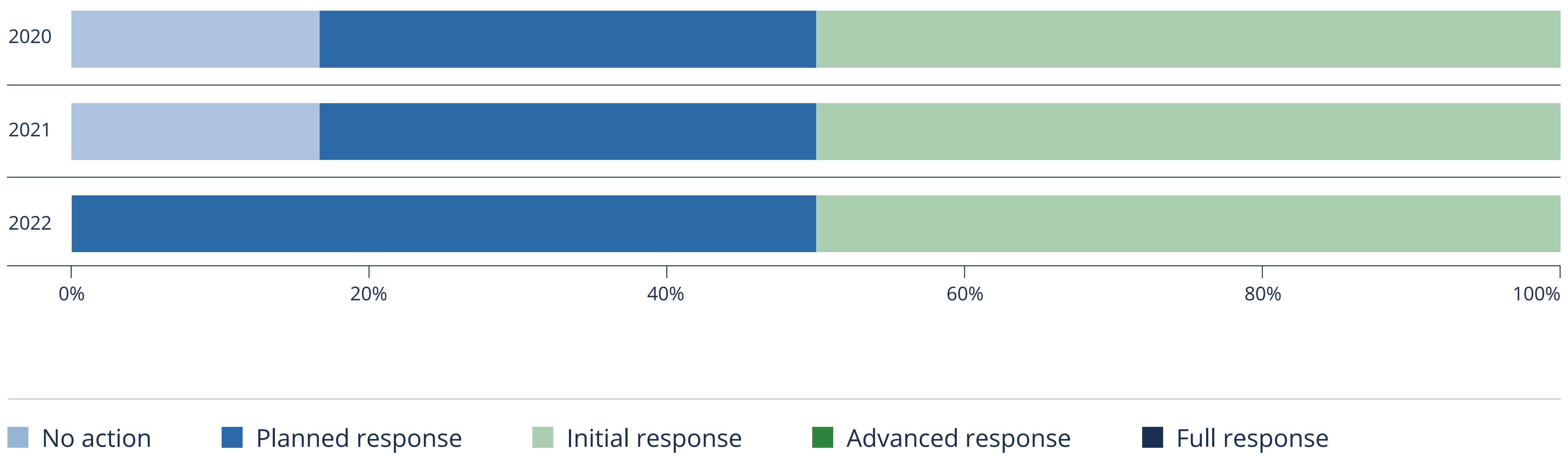


Figure 23: Distribution of Implementation scores for UK GFANZ insurers by number of institutions



3.3 Banks

While more than half of the 15 UK GFANZ banks had no plans for a target in 2020 (figure 24), by 2022 they were all taking their first steps in adopting mitigation targets. NatWest Group plc set a good example in mitigation targets, and a few banks had taken accompanying initial steps for a climate mitigation target with a climate finance commitment.

By 2022, all UK GFANZ banks had made commitments to implement climate actions. A few banks have also strengthened their response with two out of the 15 banks making an 'Advanced response' in implementation actions in 2022 (figure 25). Lloyds Banking Group plc demonstrated good practices on this aspect, through its shareholder and client engagement and emissions disclosures, followed by policy engagement, and climate risk strategy, management, and disclosure.

The main observable **Impact metric** of UK GFANZ banks in the wider economy was green bonds issuance (figure 26), reaching an average of US$1.3bn issuances per year since 2020. **A positive trend is observed in direct financing of climate solutions** (figure 27), with investment reaching US$800m in 2020 (data not available for 2021-2022).

New fossil fuel financing from UK banks had been decreasing between 2020 and 2022. While progress away from fossil fuel investment has been positive, in terms of the magnitude of investment values, most efforts in the financing of low-carbon projects have still been offset by continuous engagement in the financing of new fossil fuel projects (figures 28 and 29).

Figure 24: Distribution of Target scores for UK GFANZ banks by number of institutions

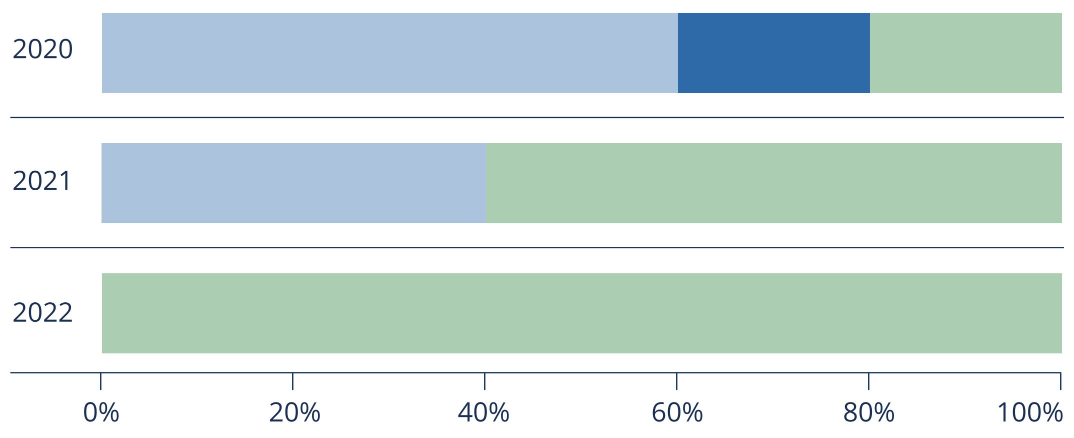
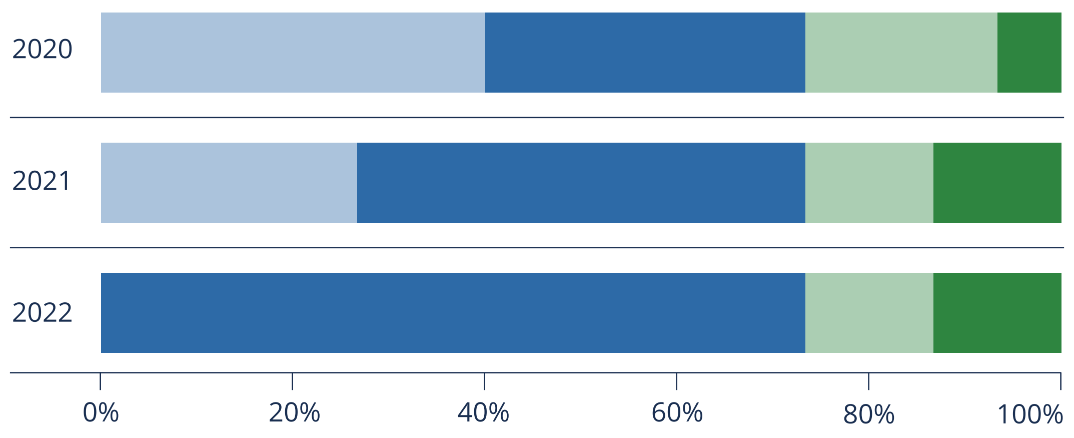


Figure 25: Distribution of Implementation scores for UK GFANZ banks by number of institutions



No action · Planned response · Initial response · Advanced response · Full response

Figure 26: Green bonds – UK GFANZ banks (US$m)

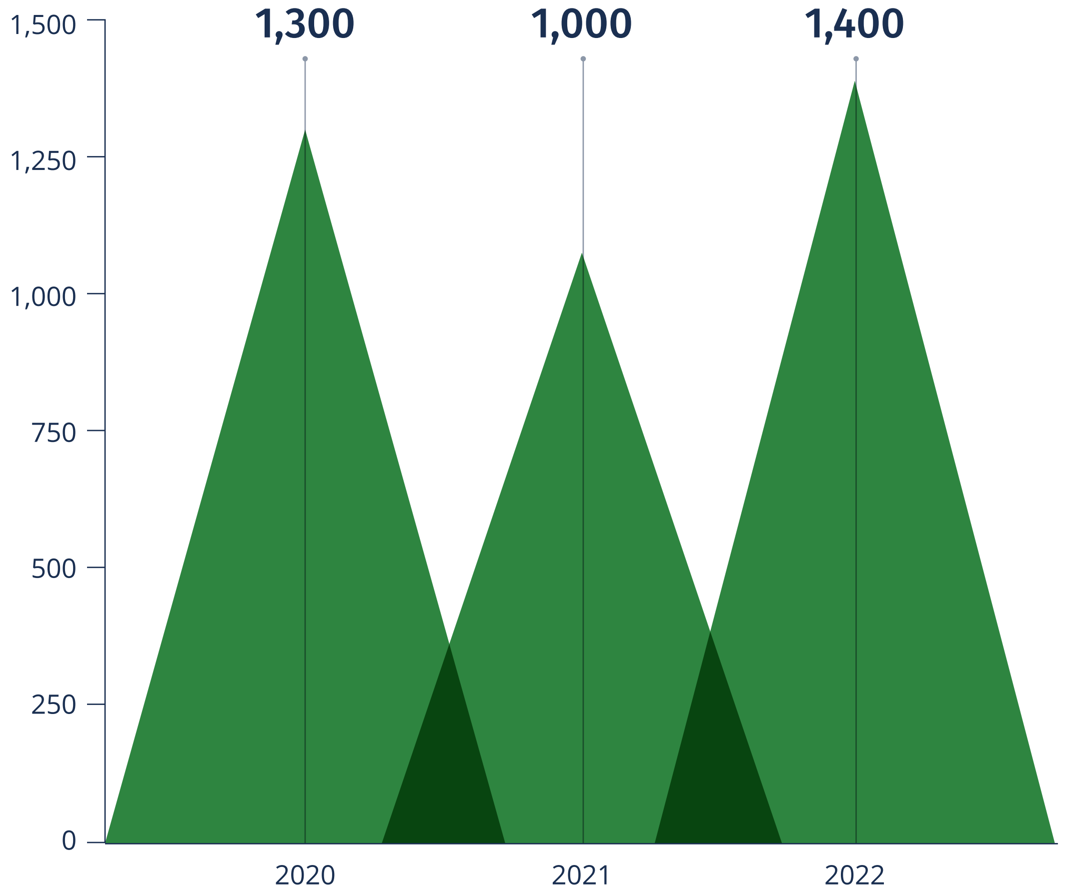


Figure 27: Direct investment in climate solutions – UK GFANZ banks (US$m)

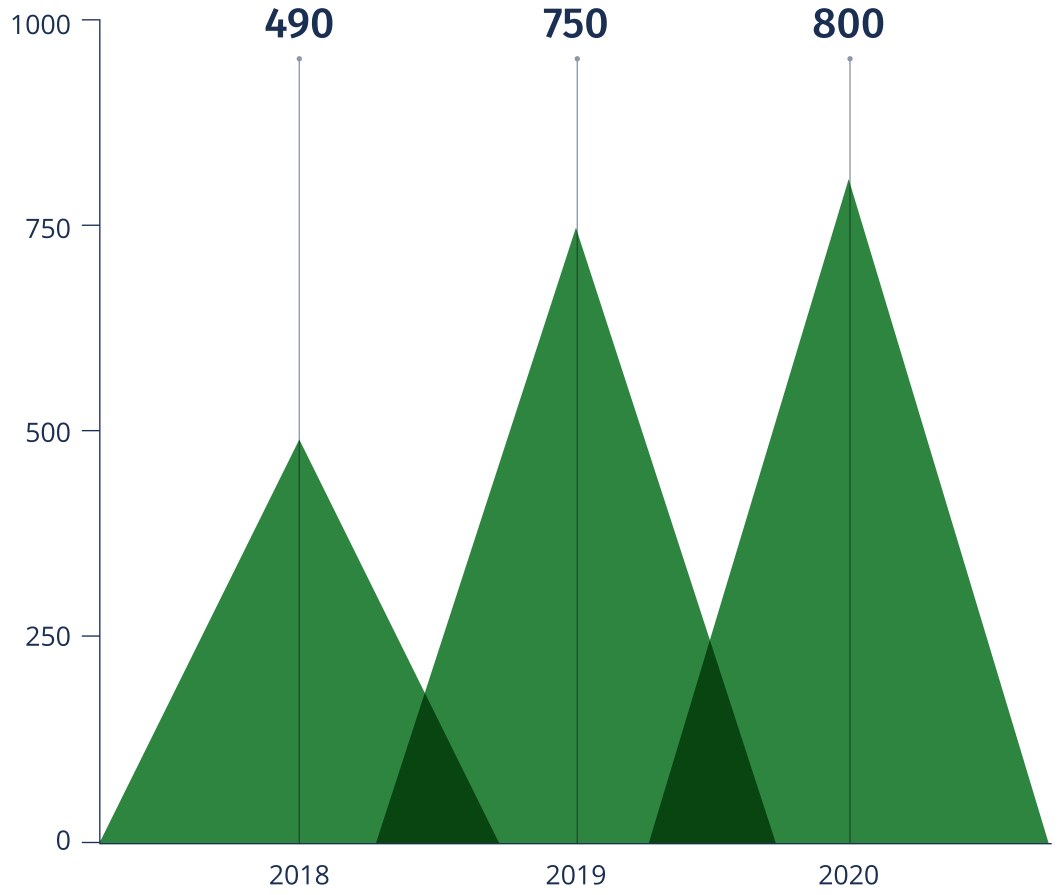


Figure 28: UK GFANZ banks' new fossil fuel corporate-level finance (US$m)

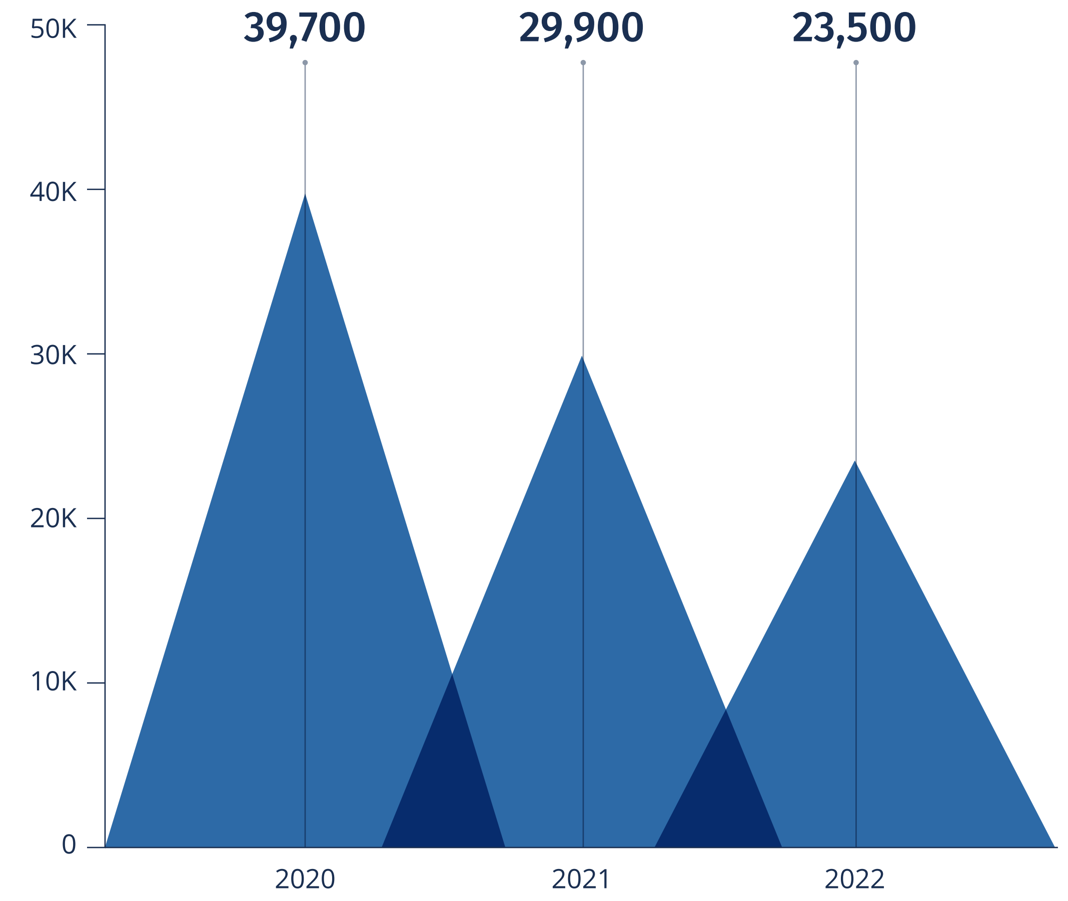
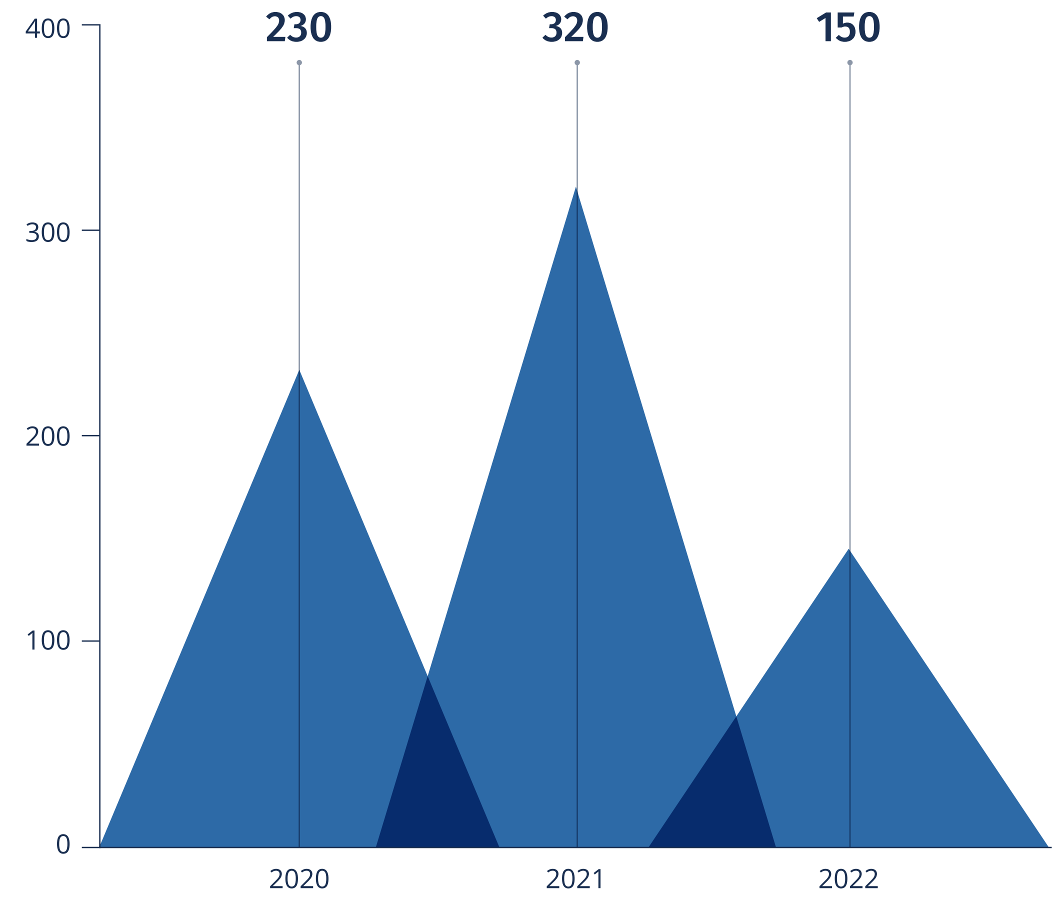


Figure 29: UK GFANZ banks' new fossil fuel project-level finance (US$m)



4. Conclusion

Achieving Net Zero and addressing the impact of climate change is one of the biggest challenges faced globally. Platforms such as COP, GFANZ, and the Net Zero Delivery Summit are collectively supporting financial institutions in their pivotal role – providing the significant capital needed to finance the transition to a zero-carbon economy by setting climate targets, and increasing climate-related investment and green finance flows.

Effective action requires setting science-based targets, implementing measures to deliver them, and assessing the real-world impact. As this report shows, GFANZ members are progressing, especially in target adoption, which has accelerated. UK GFANZ members are making tangible progress on target setting and implementation, at the same time shifting away from new fossil fuel investment and increasing climate-related investment.

But the real-world impact remains challenging and, in particular, transition risk is still evident. Fossil fuel financing is still prevalent, impacting the risk profile of financial institutions. The role of data here is key – enabling financial institutions to better understand the impact of their activities on the wider economy. And to prioritise and scale up those which are most effective in helping meet Net Zero goals. This includes consideration of how financial services can be more actively encouraged to support the transition of corporates with clear transition plans, beyond pursuing the expansion of green opportunities.

This year's NZDS focuses on the challenge of effective delivery. At this halfway point between COP 27 and COP 28 – as the UK looks at how to build on its target and implementation successes – our report highlights the combined role of data and delivery in addressing the climate crisis. We will continue to work with private and public sectors worldwide to promote adoption of climate finance goals, policy engagement, and better transparency and disclosure of investment and emission data. In the coming years we hope to broaden our analysis to the whole of the UK financial services sector.

NET ZERO DELIVERY SUMMIT
Financing a Just Transition

CITY OF LONDON

Annex 1: Indicators and data sources

Methodological note:

The City of London Corporation produced this publication using initial data and analysis sourced from Climate Policy Initiative's Net Zero Finance Tracker (NZFT). The data used for this study is collected as part of CPI's (Climate Policy Initiative) aggregation and standardisation efforts under the Net Zero Finance Tracker, which is scheduled to be launched in the third quarter of this year. The data presented is derived from resources accessed as of March 2023.

Year-to-year changes, especially those prior to 2022, are influenced by various factors, including enhanced responses and better disclosures. However, limited availability of past data may also impact these changes. Therefore, figures should be considered with caution.

The NZFT is presently undergoing updates. The data are derived from an ongoing process aimed at continuously refining and enhancing the accuracy of our findings. It is then important to emphasise that this review represents an intermediate stage of analysis and should not be interpreted as a completed study. Transparency is of utmost importance to us, and we welcome expert input regarding the development of the beta tracker, and we eagerly anticipate receiving further insights over time.

Note: Sources that are currently undergoing an update or that have time lags include: PRI (data until 2020), GLCF (data until 2020, currently undergoing an update).

	Indicator	Sources
Targets	**The adoption of a mitigation target:** The indicator describes whether institutions have set clear targets for climate action (primarily reducing their emissions), whether those are quantitative targets or general, and whether they are disclosed transparently.	SBTi, PRB, NZAOA, NZAM, NZIA, PAII, NZBA, RTZ
	The adoption of climate finance goals: The indicator describes whether institutions have set and disclosed clear, accountable, and measurable targets to provide a volume of financial services and investments for climate action.	Green Targets, NZAOA
	The adoption of divestment goals: The indicator describes whether the institution has announced a clear target to divest from fossil fuels, with a clearly defined scope.	Fossil Free Divestment, NZAM
Implementation	**Internal accountability frameworks:** The indicator measures to what extent accountability and incentives exist for chief and operations-level staff, as well as whether dedicated climate change responsible person(s) exist in the organisation to coordinate climate action.	PRI, FinanceMap, PRB
	Shareholder and client engagement: The indicator measures whether the organisation commits to engaging shareholders or clients on climate action and whether there is evidence of the organisation taking the necessary steps by mandating climate reporting requirements or through active ownership.	PRI, FinanceMap, NZAM, NZIA, PAII, PSI, Climate Action 100+
	Policy engagement: The indicator describes the commitment to and intensity of engagement with government and industry representatives on climate change.	FinanceMap, PSI, PRI, BEI, WMB, IA, NZAM, PAII, NZIA, NZAOA
	Climate risk strategy: The indicator is based on pillar two of TCFD's framework, about disclosure of the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	FinanceMap, PRI, TCFD, CAFI
	Climate risk management: The indicator is based on pillar three of TCFD's framework, about disclosure of how the organisation identifies, assesses, and manages climate-related risks, in short: the organisation's internal climate risk due diligence and related procedures.	FinanceMap, PRI, GCAP, CDP, TCFD, CAFI, CPLC, WMB
	Disclosure of emissions data: The indicator measures whether the organisation is committing to disclose its emissions, and whether there is evidence that emissions are already been tracked by the organisation. Tracking of emissions that covers the full range of activities (scope 1, 2, and 3) is here rated higher.	PRI, Climate Action 100+, TCFD, PAII, NZAM, NZIA
	Disclosure of investment data: The indicator assesses whether the organisation has set up, or plans to set up, internal procedures that allow for the harmonised disclosure of green investment data, as well as investment in high-emissions activities.	WRI, CAFI
	Disclosure of climate risk: The indicator describes whether an organisation has committed to the disclosure of climate risks and whether it started disclosures.	FinanceMap, PCAF, PRI, NZBA, NZAOA, CAFI
Impact	**Fossil fuel corporate-level financing:** The indicator tracks new financing of fossil fuel companies by financial institutions.	Rainforest Action Network, Banktrack, Indigenous Environmental Network, OilChange, Reclaim Finance, Sierra Club, Urgewald
	Fossil fuel project-level financing: The indicator tracks new financing of fossil fuel projects by financial institutions.	IJ Global
	Green bonds: The indicator tracks issuance of bond instruments related to development of green projects	BNEF, CBI
	Project-level investment in climate solutions: The indicator measures how entities have directly contributed to the funding of new climate projects via primary investment.	GLCF
	Aligned/not aligned assets: The indicator measures how entities' portfolio emissions, or financed emissions, align, or misalign with decarbonisation pathways. The focus of the analysis is the portfolio of a portfolio value exposed to companies of which the primary business activities are in the automotive, power, upstream oil and gas production, or coal mining sectors.	FinanceMap
	Exposure to fossil fuel: The indicator measures entities' material exposure to fossil fuel investments at risk of being stranded. Exposure is examined for a subset of the institution's portfolio for which information exists on exposure to companies of which the primary sector of operations is in, or uniquely associated with, upstream or midstream oil and gas, and coal mining sectors.	FinanceMap, Fossil Free Divestment

List of sources

- Banking Environment Initiative (BEI)
- Bloomberg New Energy Finance (BNEF), Climate Action 100+ (CA 100+)
- Climate Action in Financial Institutions (CAFI)
- Climate Bonds Initiative (CBI)
- CDP
- CPI's Global Landscape of Climate finance (GLCF)
- Carbon Pricing Leadership Coalition (CPLC)
- FinanceMap (2Di FM)
- Fossil Free Divestment (FFD)
- Global Climate Action Portal (GCAP)
- IJ Global, Investor Agenda (IA)
- Net Zero Asset Managers initiative (NZAM)
- Net-Zero Asset Owner Alliance (NZAOA)
- Net Zero Banking Alliance (NZBA)
- Net Zero Insurance Alliance (NZIA)
- Paris Aligned Investment Initiative (PAII)
- Partnership for Carbon Accounting Financials (PCAF)
- Principles for Responsible Banking (PRB)
- Principles for Sustainable Insurance (PSI)
- Race To Zero (RTZ)
- Rainforest Action Network (RAN)
- Science Based Targets (SBTi)

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THE GLOBAL CITY

About the Global City campaign

The Global City campaign is the City of London Corporation's overarching initiative to promote the UK as a world-leading international financial centre. It showcases the UK as a great place for financial and professional services firms to invest, locate and grow.

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About the City of London Corporation

The City of London Corporation is the governing body of the Square Mile dedicated to a vibrant and thriving City, supporting a diverse and sustainable London within a globally successful UK.

We aim to:

- Contribute to a flourishing society
- Support a thriving economy
- Shape outstanding environments

By strengthening the connections, capacity and character of the City, London and the UK for the benefit of people who live, work and visit here.

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About Climate Policy Initiative

CPI is an analysis and advisory organisation with deep expertise in finance and policy. Our mission is to help governments, businesses, and financial institutions drive economic growth while addressing climate change. CPI has six offices around the world in Brazil, India, Indonesia, the United Kingdom, and the United States. An important part of CPI's work is developing analysis and tools to ensure public and private efforts on Paris Agreement targets are feasible, of integrity, and scalable. CPI's work in this area includes the Framework for Sustainable Finance Integrity and the Net Zero Finance Tracker.

climatepolicyinitiative.org