

## **RACE TO ZERO AND GFANZ: ENSURING THE RIGOUR AND IMPACT OF FINANCIAL SECTOR NET ZERO COMMITMENTS AND ACTION**

The financial industry is a critical enabler of efforts to decarbonise the global economy. Supported and underpinned by strong policy action, every company, bank, insurer, and investor will need to adjust their business models, develop credible plans for the transition to a net zero-carbon, climate resilient future, and then implement those plans. Such a radical economic overhaul will require a more-than tripling of annual clean energy investment globally by the end of the decade to \$4 trillion, with over half of this in emerging markets and developing countries<sup>1</sup>. To meet this \$100 trillion challenge, the core of the global financial system must align their activities with net zero.

The [Glasgow Financial Alliance for Net Zero \(GFANZ\)](#) was launched precisely with this aim: to raise standards, drive ambition and ensure net zero commitments are transparent, credible and consistent, using the criteria and architecture of the UN's Race to Zero.

While much work lies ahead, there is significant momentum and credible, impactful action, with the core of the financial system now committing to decarbonise rapidly with public science-based targets and disclosure. If implemented faithfully, the upswell in commitments can deliver the investments needed to achieve net zero. Fulfilling this potential, and building confidence in it, will be a key challenge in the months and years ahead. The COP26 Private Finance Hub and the High-Level Climate Action Champions are therefore taking steps to secure this by:

- Channelling momentum to finalise a credible net zero framework
- Ensuring rigorous membership criteria and thorough, independent entry process
- Reviewing entry criteria upwards each year and monitoring the ongoing rigour of alliances
- Managing member commitments, governance and processes for removing members where necessary
- Spurring leadership beyond the baseline, including accelerating the phase-out of fossil fuels in line with the science
- Providing a forum for collaborative problem-solving
- Welcoming challenge from independent experts through a formal advisory committee and other channels
- Pushing the frontiers of transition planning, including working towards establishing a permanent regulatory footing

### **1. The starting line: Transparent, consistent, science-aligned ambition**

#### Channelling momentum to a credible net zero framework

**Race to Zero sets the baseline for robust net zero commitments across sectors**, while also pushing the boundaries of leadership and best practice. The message has been clear and impactful: to be inside the tent at Glasgow, financial firms must, at minimum, be part of Race to Zero and so GFANZ. For most member firms, publically committing to the detailed, specific requirements of Race to Zero and GFANZ has been a very big step. Public pressure has helped to spur momentum, and that momentum of GFANZ has demonstrated that the core of the financial system is mobilising to be part of the global climate solution. We are proud to have members from every corner of the world: Bangladesh to Brazil, Canada to the Caribbean, Kenya to Korea, Singapore to South Africa.

#### Ensuring rigorous criteria and thorough, independent entry process

All GFANZ members must **meet the [minimum criteria](#)** for joining Race to Zero. The [partner initiatives](#) in Race to Zero are responsible for managing their members to meet these criteria. Each partner initiative

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<sup>1</sup> [IEA Net Zero by 2050 Report](#)

undergoes a thorough [application process](#), managed by an **independent Expert Peer Review Group** of academics and experts, to ensure the minimum criteria are met and that appropriate governance structures are in place. This group receives finance advice from a more technically specialist Finance Sector Expert Review Group.

In substantive terms, the Race to Zero criteria that all GFANZ members must align with include:

- Use **science-based guidelines** to reach net-zero emissions across all emissions scopes by 2050
- Set **2030 interim targets** that represent a fair share of the 50% **decarbonisation** required by the end of the decade
- Take **immediate action** to begin decarbonising, including within the coming 12 months
- Set and publish a net **zero transition strategy**
- Commit to **transparent, annual, public reporting** and accounting on progress against those targets
- Adhere to **strict restrictions on use of offsets**<sup>2</sup>

Each sub-sector within GFANZ has further [detailed criteria](#) that are tailored to harness the most meaningful contributions of the entire financial sector value chain.

## **2. Maintaining credibility in line with science**

To ensure ongoing credibility of targets, and advance the frontier of best practice, Race to Zero undertakes an **annual review of its entry criteria**. These were [last updated in April 2021](#), following a public consultation with a wide range of stakeholders. The process will be repeated again early in 2022, under the leadership of the Expert Peer Review Group.

The High-Level Champions have also [publically consulted](#) on the future shape of Race to Zero, to support the action needed to implement member commitments and strengthen the campaign beyond COP26 to accelerate the transition to a zero-carbon economy. The consultation covered four key areas: the creation of verifiable plans; tracking action and measuring impact; encouraging positive policy to ensure integrity; and supporting members and holding them accountable to their commitments.

This will inform the work plans of Race to Zero partners, the Expert Peer Review Group and others as the High-Level Champions implement the next phase of Race to Zero.

### **Managing member commitments**

If the world were already aligned to net zero, we wouldn't have a climate crisis. GFANZ and Race to Zero are inclusive of high-ambition firms willing to commit to the high standards required. We aim to create systemic change. The Race to Zero entry criteria set the starting line in the race, and it follows that members are at different stages of their decarbonisation journeys, with sub-sector and regional nuances. Some have only just made their commitments, whilst others are well along their way to implementing them. The strength of the progress will be evidenced and assessed beyond COP26, when more detailed interim targets, transition plans and actions are published. Public accountability and scrutiny of member actions will be key, and Race to Zero is working with funders to strengthen the capacity of NGOs to assess the quality and implementation of transition strategies.

Partner initiatives that join Race to Zero are responsible for managing their members to meet the entry criteria. We encourage them to report transparently on processes for reviewing, engaging and removing members that fail to live up to their published commitments, with appropriate governance and escalation processes. Partner initiatives have already removed members from the Race to Zero campaign on this basis.

To strengthen good practice further, **Race to Zero founded the Finance Sector Expert Group**. Part of its role is to help ensure coordinated robustness across finance sub-sectors and to maintain and increase ambition in line with science. Specifically, we have asked this group to: (i) **review the findings of independent trackers of net zero commitments**, considering how the community can foster a transparent,

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<sup>2</sup> For Race to Zero criteria and interpretation guide on offsets see [here](#), [here](#) and [here](#).

rigorous and coherent analysis of progress; and (ii) **develop guidance for finance partner initiatives on membership review processes.**

### **3. The race: Raising ambition of near-term action**

Whilst GFANZ starts with commitments, its real purpose is climate action.

#### Accelerating phase out of fossil fuels – spurring leadership beyond the baseline

Race to Zero was launched in June 2020 with a focus on net zero targets and actions. Its minimum criteria do not include specific requirements relating to any particular sector. Nonetheless, all 1.5C-aligned scenarios are clear that accelerating the phase-out of fossil fuels is essential for achieving the goals of the Paris Agreement.

To push leading firms for ambition beyond the entry criteria, the COP26 President, Mark Carney and the High-Level Champions launched a **public call** for [financial firms to announce new ambitious actions at COP26](#), including:

- Committing to phase out coal finance and addressing the implications of the IEA's net zero analysis for the energy system and all sectors of the economy;
- Announcing new net-zero- and adaptation-aligned financing in developing countries and emerging markets; and
- Committing to best efforts to eliminate agricultural commodity-driven deforestation impacts of the companies in investment portfolios and in financing activities by 2025.

GFANZ and the sub-sector alliances that form part of it are actively engaging members on the implications of 1.5C, including no/low overshoot scenarios and the IEA's net zero roadmap, and encouraging transparency on actions taken. Through the joint call to action to G20 governments, GFANZ members themselves are calling for policy action, including a phase-out of coal and oil by 2040 with a just transition and removal of fossil fuel subsidies, and for transition planning to be put on a regulatory footing<sup>3</sup>.

#### Providing a forum for collaborative problem-solving

GFANZ is accelerating the best practice tools and methodologies that are essential for ensuring that climate is at the heart of every financial decision. Its **seven workstreams are organized to drive commitment, engagement, investment, and, ultimately, net zero alignment**. This includes:

- driving upwards convergence around best practice corporate and financial institution net zero transition plans;
- supporting the creation of frameworks and metrics needed to measure portfolio and sectoral net zero alignment; and
- mobilising the capital required to enable the transition to net-zero in every country, including emerging markets and developing countries.

A report outlining our work to date will be launched at COP26. Following COP26, momentum will intensify in this hard but vital work of implementation and acceleration.

#### Welcoming challenge from independent experts

Whilst GFANZ is practitioner-led, the deep technical expertise of the academic, scientific and climate action communities play a central role in rising to the challenge of creating a net-zero global economy. The work of GFANZ stands on the shoulders of innumerable actors in the sustainable finance community, who have driven climate action for years.

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<sup>3</sup> See <https://assets.bbhub.io/company/sites/63/2021/10/GFANZ-call-to-action.pdf> and <https://theinvestoragenda.org/wp-content/uploads/2021/09/2021-Global-Investor-Statement-to-Governments-on-the-Climate-Crisis.pdf>

In addition to the independent Expert Peer Review Group, which determines whether initiatives are eligible to join Race to Zero, GFANZ receives guidance from its [Advisory Panel of 20 independent experts from around the world](#), and the 7 NGOs that convene the sub-sector alliances of GFANZ. The goal is to bring together the best thinking from across the system to accelerate progress, mainstream best practices, and promote upward convergence on frameworks and tools to solve the sector's thorniest net zero challenges. Across the GFANZ workstreams, the Advisory Panel and other NGO partners have already provided rigorous challenge and advice.

At the sub-sector level, many of the alliances in GFANZ and Race to Zero were only established in recent months, spurred on by COP26. This is a sign of the great strides made to mainstream meaningful climate action. It has catalysed much-needed work to develop the necessary methodologies, including for measuring emissions and setting interim targets. For example, the Steering Group of the Net Zero Banking Alliance has committed to incorporate facilitated emissions into target-setting and disclosure once accepted methodologies have been developed and adopted, particularly that of the Partnership for Carbon Accounting Financials (PCAF). There is much to play for, with important scope for progress and collaboration. We encourage the wider community of technical experts and civil society to be part of the conversation.

#### Pushing the frontiers of transition planning, including working towards a regulatory footing

Financial firms who join GFANZ are fundamentally agreeing to reshape their business activity over the short, medium and long term to deliver a net zero future.

GFANZ will be working closely with policymakers, standard-setters, and regulators next year to support those who want to start **moving transition plans to a rules-based (regulatory) footing**. This helps drive forward firms' request of policymakers in the recent GFANZ [Call to Action](#) to "set a target for mandatory... net zero transition plans by 2024".

GFANZ and Race to Zero are also working closely with climate foundations who will be committing substantial new resourcing and drawing on multi-stakeholder expertise to **strengthen monitoring of the quality and implementation of targets, transitions strategies, and associated financial flows**. This will allow all stakeholders to access and understand this crucial information. Many valuable initiatives have already embarked on this important task, such as the One Planet Data Hub. We welcome these initiatives and will work to scale, mainstream and encourage upwards convergence of the work.

Mark Carney

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