BANKS: HIGH CARBON HIDDEN RISKS

RAINFOREST ACTION NETWORK

CARBON FOOTPRINT:
THE HIDDEN RISKS OF FINANCED EMISSIONS

Large banks are driving climate change by pumping billions of dollars into carbon-intensive extreme fossil fuels and tropical deforestation, with significant hidden environmental, social and governance (ESG) risks. While banks report their operational emissions, emissions resulting from their financing activities can be 100x larger[1] and are typically undisclosed. Climate change can have enormous financial implications, as recognized in the Recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) published in June 2017. "Responsible Investment" indexes such as the MSCI ACWI Low Carbon Target Index deceptively classify banks as "low-carbon" even as they heavily finance dangerous new carbon emissions (see below). The Paris Climate Agreement goal of keeping temperature rise to 1.5˚C won't be achievable if banks and investors continue to fund and facilitate the burning and destruction of high-carbon assets. It's time for banks to fully disclose the carbon footprint of their financing, decarbonize their portfolios, and accelerate the transition towards a sustainable low-carbon future (see **Recommendations** in the back).

BANK	LARGEST INVESTORS (PRI MEMBER)[6]	DISCLOSED GREENHOUSE GAS EMISSIONS (3 YEARS, tCO_2e)		
		OPERATIONAL[7]	EQUATOR PRINCIPLES PROJECT FINANCE[8]	CORPORATE FINANCE[9]
JPMorgan Chase & Co.	1. Vanguard 2. BlackRock 3. State Street 4. Capital Group 5. Fidelity	**3.6 M** (FY: 2014-2016)	Unreported	Unreported
citi	1. BlackRock 2. Vanguard 3. State Street 4. Fidelity 5. BPCE Group	**2.9 M** (FY: 2014-2016)	**17.4 M** (Partial) (FY: 2014-2016)	Unreported
HSBC	1. BlackRock 2. JPMorgan Chase 3. Vanguard 4. Legal & General 5. Norges	**2.1 M** (FY: 2014-2016)	Unreported	Unreported
MUFG	1. GPIF 2. Vanguard 3. BlackRock 4. Nomura 5. Norges	**0.8 M** (FY: 2013-2015)	Unreported	Unreported
MIZUHO	1. GPIF 2. Sumitomo Mitsui Trust 3. Nomura 4. Vanguard 5. BlackRock	**0.7 M** (FY: 2013-2015)	**4 M** (Partial) (FY: 2013-2015)	Unreported
Deutsche Bank	1. HNA Group Co 2. BlackRock 3. Deutsche Bank 4. Goldman Sachs 5. Vanguard	**0.8 M** (FY: 2014-2016)	Unreported	Unreported

KEY FACTS ON CLIMATE RISK AND THE FINANCIAL SECTOR

- **Fossil fuels contribute 65% of global GHG emissions.** "Extreme fossil fuels" include some of the most carbon-intensive energy subsectors: Tar sands, Arctic and ultra-deep offshore oil; coal mining and coal-fired power; and North American LNG export terminals.[2]

- **Tropical deforestation & degradation contribute 14-21% of global GHG emissions**, largely driven by conversion of forests and peatlands for palm oil, pulp & paper, rubber, timber, soy, and beef. [3]

- **Banks in Japan, Malaysia, China, and Indonesia** are the largest financiers of deforestation-risk commodity sectors in Southeast Asia. Most have no safeguards to prevent funding further deforestation or related land rights violations.[4]

- **Banks in the US, Canada, and Europe** lead financing of tar sands development. **Banks in China, the US, and Japan** lead financing of coal.[5]

MSCI LOW CARBON INDEX WEIGHT[10]	UNREPORTED CLIMATE RISK EXPOSURE (LOANS AND UNDERWRITING, 2014-2016)		ESG POLICY ASSESSMENT	
	EXTREME FOSSIL FUELS[11]	TROPICAL DEFORESTATION[12]	EXTREME FOSSIL FUELS[13]	DEFORESTATION AND RIGHTS[14]
0.78%	**$20.0 B** Tar Sands: $3.2 B Coal: $5.3 B	**$360 M** Palm Oil: $111 M Pulp & Paper: $4 M	C-	D+
0.49%	**$13.1 B** Tar Sands: $2.2 B Coal: $4.0 B	**$166 M** Palm Oil: $72 M Pulp & Paper: $23 M	C-	C+
0.48%	**$13.2 B** Tar Sands: $3.4 B Coal: $1.5 B	**$479 M** Palm Oil: $322 M Pulp & Paper: $4 M	D+	C+
0.22%	**$9.1 B** Tar Sands: $720 M Coal: $3.9 B	**$855 M** Palm Oil: $484 M Pulp & Paper: $149 M	F	D-
0.13%	**$7.3 B** Tar Sands: $327 M Coal: $2.9 B	**$1.4 B** Palm Oil: $462 M Pulp & Paper: $415 M	F	D-
0.13%	**$11.6 B** Tar Sands: $853 M Coal: $4.6 B	**$40 M** Palm Oil: $5 M Pulp & Paper: $4 M	C-	C-

RECOMMENDATIONS TO PRI MEMBERS

1. Align investment policies with the objectives of the Paris Climate Accord, the UN Guiding Principles on Business & Human Rights, and the 2030 Sustainable Development Goals [PRI Principle 1]

2. Incorporate climate, deforestation, and human rights issues into investment analysis and decision-making processes. [PRI Principle 1]

3. **Engage with banks and other companies exposed to climate, deforestation, and human rights risks, and exercise voting rights and file shareholder resolutions that support sustainable, low-carbon and equitable development**. [PRI Principle 2] This includes:
    » No new lending or investment in extreme fossil fuels and time-bound phase out from these sectors.
    » Protection of High Carbon Stock and High Conservation Value areas and peatlands.
    » Respect for human rights, including tenure rights and ILO core labor rights, and the right to Free, Prior and Informed Consent (FPIC) by affected communities, as enshrined in the UN Declaration on the Rights of Indigenous Peoples.

4. Seek robust disclosure of climate, deforestation, and human rights risks, including all financed emissions from fossil fuels and land- use, consistent with the TCFD recommendations, GHG Protocol, and GRI guidelines. [PRI Principle 3]

5. Ensure investment service providers (e.g. MSCI) provide accurate assessments of company ESG exposure, including financed emissions. [PRI Principle 4]

6. **Promote regulatory reform that supports robust disclosure and due diligence on climate, deforestation, and human rights risks.** [PRI Principle 4]

7. Publicly disclose how climate, deforestation, and human rights risk issues are integrated within your investment practices and active ownership activities. [PRI Principle 6]

REFERENCES

1. See, for example, Rainforest Action Network and BankTrack, *Bankrolling Climate Disruption: The Impacts of the Banking Sector's Financed Emissions*, 2012, http://bit.ly/2f643sE

2. Center for Global Development, *Why Forests? Why Now? The Science, Economics and Politics of Tropical Forests and Climate Change*, 2016, and Rainforest Action Network, BankTrack, Sierra Club, Oil Change International, *Banking on Climate Change: Fossil Fuel Finance Report Card 2017*, www.ran.org/banking_on_climate_change

3. See Rainforest Action Network, *Every Investor Has A Responsibility: A Forests & Finance Dossier*, 2017, http://bit.ly/2fbbKOe

4. ForestsandFinance.org

5. *Fossil Fuel Finance Report Card 2017*

6. Thomson Reuters, June 2017. Investor information as of most recent filing date. Principles for Responsible Investment (PRI) signatories available at: www.unpri.org/directory/

7. "Operational emissions" include Scope 1, 2 and 3 emissions (business travel). Data derived from company reports and websites.

8. Project finance emissions result from Equator Principles-related carbon accounting. Citigroup reports 30-year plant life emissions for project-financed thermal power plants. Mizuho reports 1-year plant emissions for project-financed fossil fuel-fired power plants. Data derived from company reports and websites.

9. Corporate finance emissions refer to GHG emissions by companies in which a financial institution invests through debt or equity not included in project finance. For more info, see www.banktrack.org/show/pages/banks_and_financed_emissions

10. Holdings in MSCI ACWI Low Carbon Target Index are as of Sept 5 2017.

11. *Fossil Fuel Finance Report Card 2017*

12. ForestsandFinance.org, 'Explore the data'

13. *Fossil Fuel Finance Report Card 2017*

14. ForestsandFinance.org, 'Bank Profiles.' Grades correspond to the following assessments on forestsandfinance.org: A: 25-30, B: 20-24, C: 15-19, D: 10-14: F: 0-9.

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