OFFICE OF THE NEW YORK CITY
COMPTROLLER

Corporate Governance & Responsible Investment

Vote FOR the New York City Retirement Systems' Clean Energy Investment Ratio Shareholder Proposals at This Year's Bank Annual Meetings

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The Proposals

Request:
Disclose clean energy financing ratio & methodology

Resolved:

Shareholders request that **each company** ("Company") disclose annually its Clean Energy Supply Financing Ratio ("Ratio"), defined as its total financing through equity and debt underwriting, and project finance, in low-carbon energy supply as a proportion of that in fossil-fuel energy supply. The disclosure, prepared at reasonable expense and excluding confidential information, shall describe the Company's methodology, including what it classifies as "low carbon" or "fossil fuel."

Clean Energy Financing Ratio = Financing of low-carbon energy supply relative to financing of fossil-fuel energy supply.

- Financing defined to include equity and debt underwriting, and project finance, consistent with BNEF methodology
- See Appendix A for definition of energy supply

Proposal's supporting statement also recommends, at management's discretion, Goldman Sachs:

- Set timebound ratio targets aligned with its net zero commitments
- Consult BloombergNEF's (BNEF) "Financing the Transition: Energy Supply Investment and Bank Financing Activity"[1] report when setting Ratio targets and defining "low carbon" and "fossil fuel" financing
- Work to establish standardized industrywide methodologies
- Address/Include lending

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6 focus companies

1. Royal Bank of Canada
2. Bank of America
3. Goldman Sachs
4. Morgan Stanley
5. JP Morgan – Withdrawn based on ratio disclosure commitment
6. Citigroup – Withdrawn based on ratio disclosure commitment

✓ Among the largest energy supply lenders and underwriters

✓ Net Zero Banking Alliance (NZBA) members and have thus committed to:
- Achieve net zero greenhouse gas (GHG) emissions for financing activities by 2050
- Set Intensity and/or absolute targets
- Annually disclose absolute financed emissions

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10 reasons to vote FOR the Proposal

1. As linchpins of the global economic system, large banks broadly exposed to financial stability risks posed by climate change
2. Enhances investors' ability to assess the bank's transition risks and opportunities, progress towards its net zero commitments and the pace and scale of its energy transition
3. Proposal seeks disclosure – it is not prescriptive as to methodology or definitions
4. Energy transition is a significant profit-generating opportunity that has been turbocharged in the U.S. by Inflation Reduction Act
5. Each bank has made robust commitments to sustainable finance, but investors need enhanced disclosure to track actual clean energy financing
6. Provides investors with a reliable, decision-useful clean energy financing ratio from the bank itself, not third-party estimates
7. Complements and supplements bank's climate-related financial disclosures
8. Provides opportunity to demonstrate leadership in financing the energy transition
9. Citigroup's and JPMorgan's commitment to ratio disclosure demonstrates feasibility
10. Voluntary disclosure benefits investors in the near term and does not preclude standardization of ratio methodology

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The Risks

Largest banks broadly exposed to climate and transition risk

Numerous (≥11) global government regulators and organizations identify climate change as emerging and increasing threat to financial stability (see Appendix B)

Forecasted financial impacts are extensive

- Marsh McLennan estimates that climate change will put 2% of global financial assets at risk by 2100, and up to 10% by 2100 in a worst-case scenario[2]
- The U.S. economy could lose 1% - 4% of GDP annually by the end of the century through effects to mortality, labor and the energy sector alone under a high emissions scenario[3] (Energy Policy Institute at the University of Chicago)

"**Climate risk is highly concentrated in the largest U.S. financial institutions**, which are major financiers of the industries driving climate change through either lending, underwriting, investing, or some combination of these activities."[4]

"**Transition risk is about mismatches in resources.** Indeed, the energy market's underlying issue is a mismatch in investments. Capex in fossil fuels has slowed to levels consistent with a net-zero future, but investment in renewables has lagged."[5] (Blackrock Investment Institute)

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The Science

Clean energy financing must TRIPLE by 2030

- Reaching net zero greenhouse gas (GHG) emissions by 2050 is necessary to avoid most devastating consequences of climate change (IPCC)[6]
- IEA projects that reaching net zero by 2050 will require a tripling in global annual clean energy investment by 2030[7]
- The pace at which low-carbon energy supply is scaled up will dictate the rate at which fossil fuels are phased down
- Ratio integrates trends in both clean and fossil fuel financing
- BNEF concluded that its Ratio estimate must reach 4:1 by 2030 to achieve net zero emissions by 2050[8]
  - Aligned with most referenced 1.5C–aligned pathways, including the IEA Net Zero Emissions 2050 that informed Goldman Sachs' target setting
  - BNEF report commissioned by Glasgow Financial Alliance for Net Zero (GFANZ)

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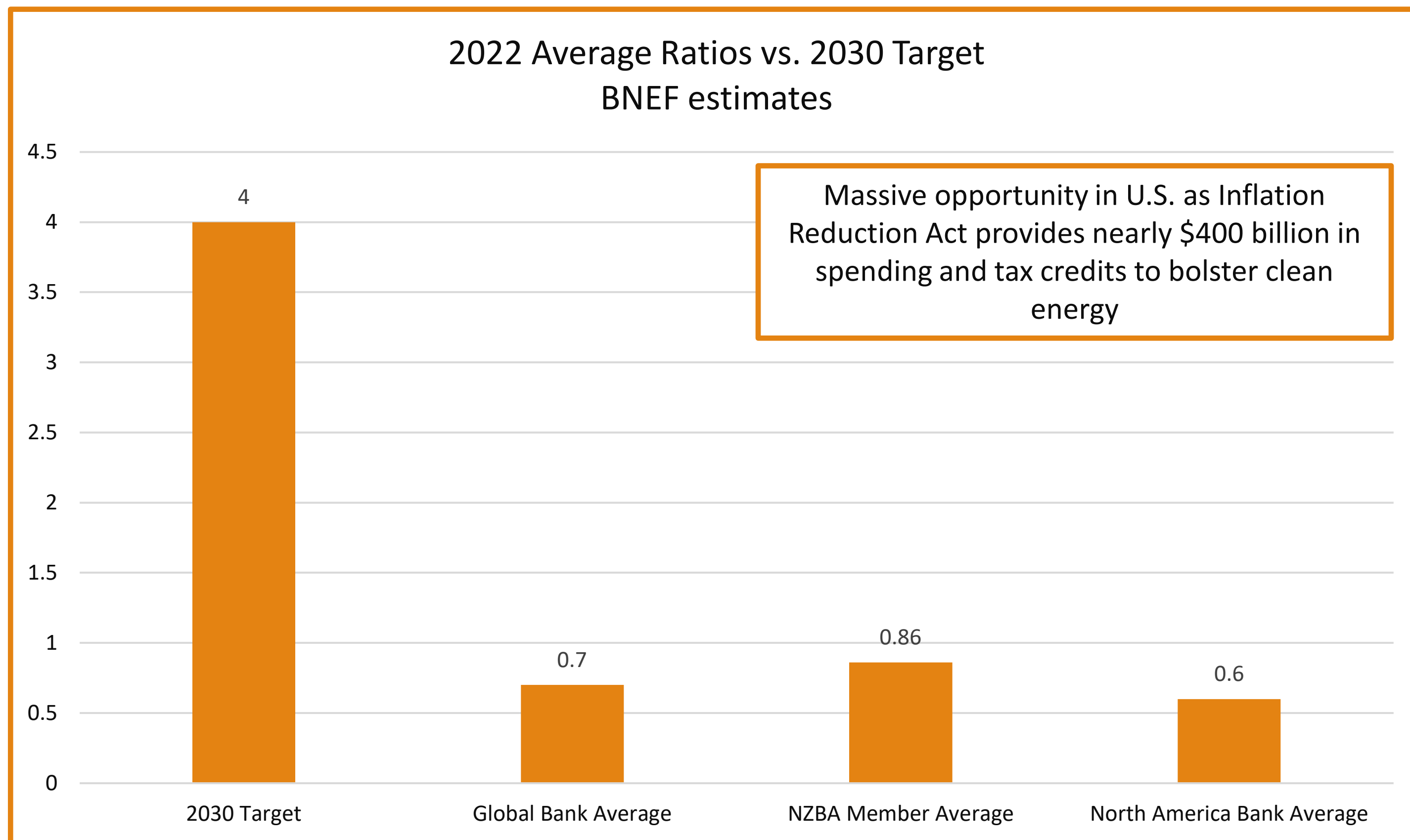
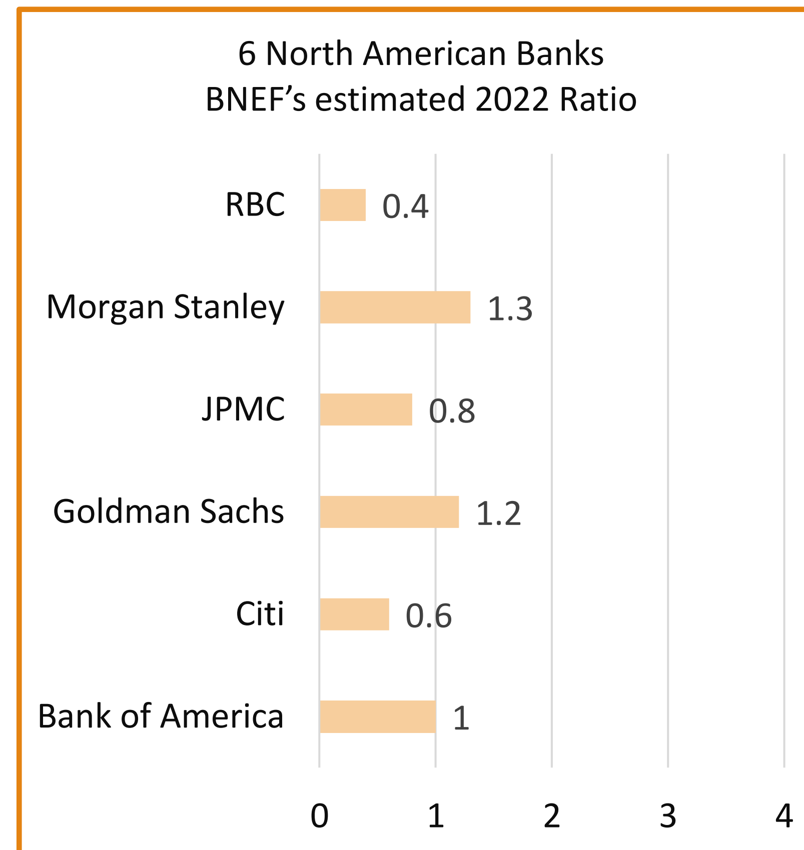
The Opportunity

Banks' ratio gaps signal value creation opportunity





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BCG sees $7 trillion in banks’ value creation from energy transition

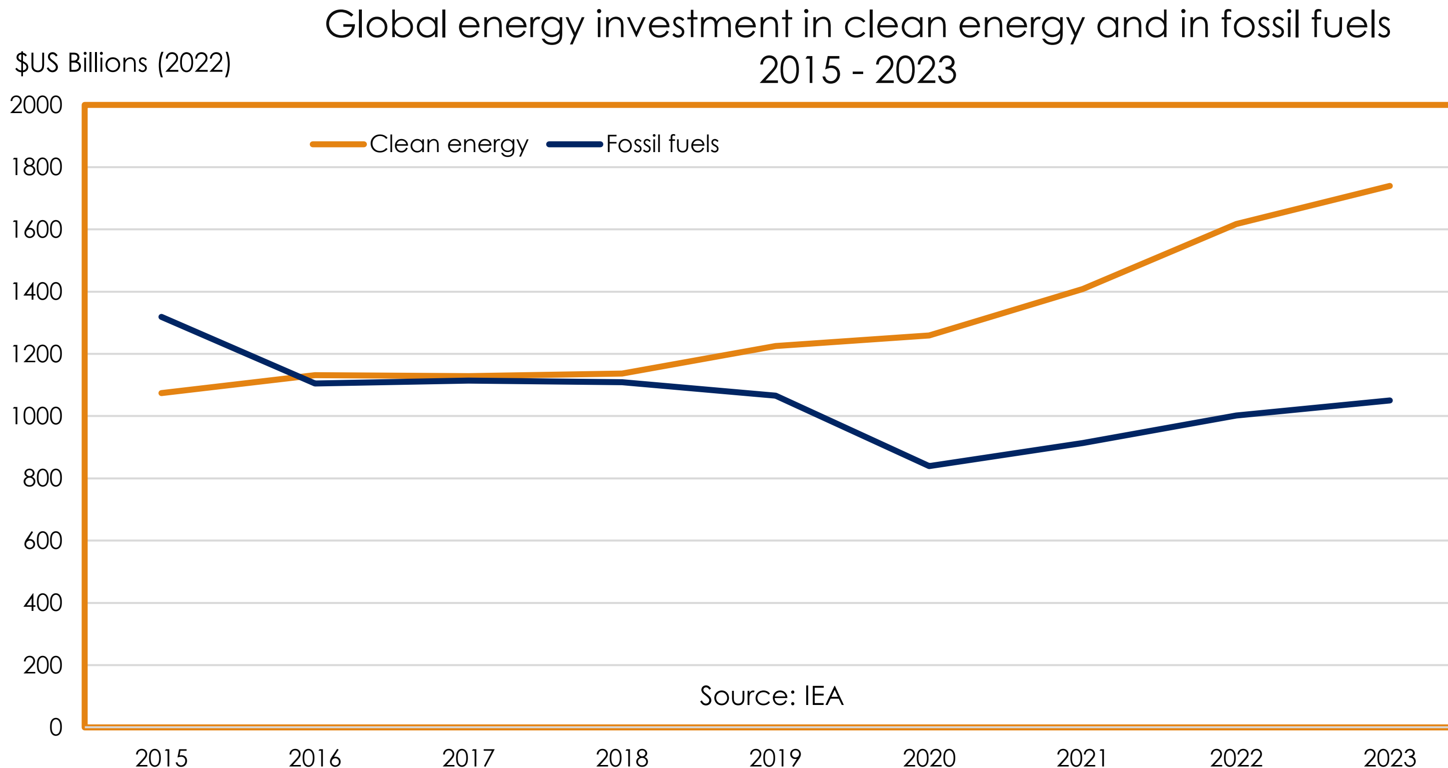
“**Banks are not likely to return to the profitability levels and valuations that existed prior to the global financial crisis.** Yet they have the opportunity to earn more than their cost of equity on a sustainable basis and increase valuations.

We estimate that at least $7 trillion in value can be created. This corresponds to roughly doubling current valuations in the coming five years by taking a fair share of expected growth and improving price-to-book ratios.

It is critical for banks to set their sights on this target. The goal is not only to create shareholder value but also to meet their obligations to drive economic growth and finance the climate transition. These aspirations can be reached if banks take a step back, get to the bottom of their performance issues, and set a bold agenda. This agenda needs to promote growth, significantly improve productivity, and make them more appealing to investors to enable additional capital infusion.”

Boston Consulting Group (BCG), January 2024[9]

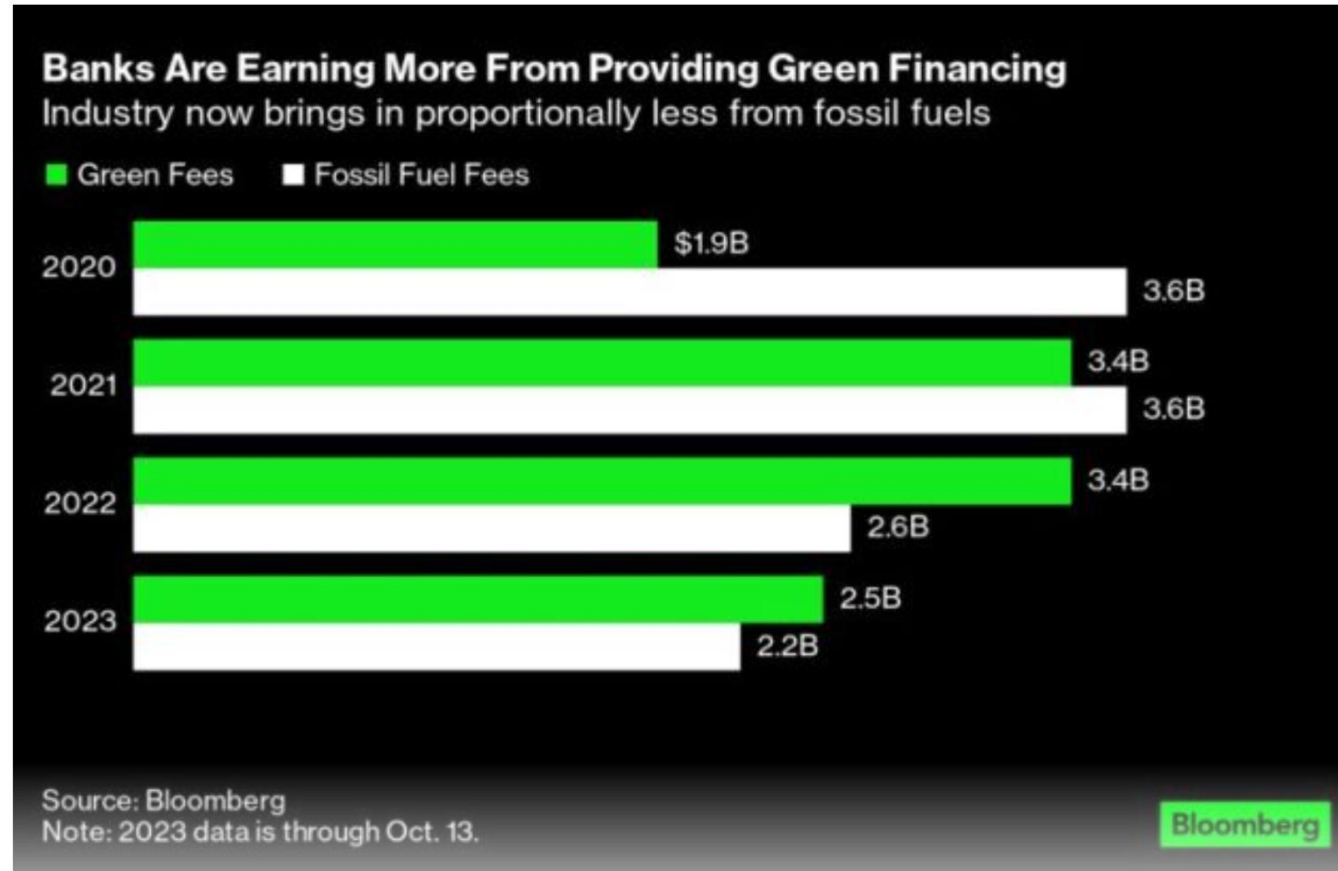
Energy transition is underway – Banks expected to play key role



"The transition is happening, and companies and investors need to have a view on how it's evolving. Companies must decide how to revamp their business models, where to invest and what operations to phase out."[10]
(BlackRock Investment Institute, 2022)

"Governments will place high expectations on banks to be role models and catalysts for change on climate transition."[11]
(Boston Consulting Group, January 2024)

Banks earn more from financing clean energy



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Complimentary
Disclosure

Benefits of Clean Energy Financing Ratio disclosure

- Complements and supplements current disclosures, especially financed emissions
  - Relies on internal dollar-based data rather than emissions that may present data availability and reliability challenges
    - Financed emissions disclosure and targets are essential, but often rely on voluntary client disclosure (e.g. for private companies and non-accelerated filers in U.S.)
  - Highlights real economy impacts of banks' energy supply financing
- Focuses on pace and scale of investment in climate solutions
- Provides disclosure specific to relative financing of clean and fossil fuel energy supply, where decision-useful disclosure is currently limited
- Addresses debt & equity underwriting, which NZBA identifies as the most relevant off-balance sheet activity for banks to address for facilitating GHG emissions reductions and mitigating climate impact[12]
  - Underwriting, not direct lending, accounts for the bulk of banking sector's energy-related financing[13]
  - Underwriting not captured by European Union disclosure rules (Green Asset Ratio)

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Royal Bank of Canada Shareholder Proposal 1
Upcoming Annual Meeting: April 11, 2024

Ratio enables investors to assess pace and scale of investment in clean energy relative to fossil fuels.

Fossil Fuel Strategy

- Third-parties estimated that RBC has financed approximately $250 billion to fossil fuels since the Paris Agreement, fourth largest in the world[14]
- 2022 BNEF estimated ratio of 0.4:1 is the lowest of the focus bank

Low-Carbon Financing Commitment

- Committed in 2021 to $500 billion to "sustainable finance" by 2025, includes investments in low-carbon technology and projects[15]
- Announced in March 2024 new goals to increase renewables lending by 3X and to allocate $1 billion to support the development and scaling of innovative climate solutions by 2030[16]

Disclosure

- Reported $103 billion in "Sustainable Finance in 2023, approximately 8% of which deployed towards "renewable energy"
- Recently announced Transition Readiness Framework does not address relative amounts of clean energy and fossil fuel finance

Goldman Sachs Proposal 8
Upcoming Annual Meeting: April 24, 2024

Ratio enables investors to assess pace and scale of investment in clean energy relative to fossil fuels.

Fossil Fuel Strategy

- Third-parties estimate that Goldman Sachs has financed approximately $143 billion to fossil fuels since the Paris Agreement, based on Bloomberg league tables (include but not limited to company disclosures)[17]
- Fossil fuel financing declined to $9 billion in 2022 from $21 billion in 2021
- 2022 BNEF estimated ratio of 1.2, one of the highest among focus banks

Low-Carbon Financing Commitment

- 10-year $750 billion "sustainable financing, investing and advisory activity" target separated into two categories without targets: 1) climate transition and 2) inclusive growth[18]

Disclosure

- Financed emissions targets for power and energy sectors--which are based on emissions intensity, not absolute emissions -- do not allow investors to assess actual emissions reductions
- 2023 TCFD Report discloses $215 billion achieved toward "Climate Transition" commitment, includes clean energy, but lacks specificity with respect to low carbon energy supply[19]
- Contrary to implication in opposition statement, Green Asset Ratio does not render requested Ratio unnecessary (see slide 16)

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Bank of America Proposal 7
Upcoming Annual Meeting: April 24, 2024

Ratio enables investors to assess pace and scale of investment in clean energy relative to fossil fuels.

Fossil Fuel Strategy

- Third-parties estimate that Bank of America has financed approximately $280 billion to fossil fuels since the Paris Agreement, fourth largest in the world[20]
- Reversal of bank's policy to not finance new coal mines, coal-fired power plants, and arctic drilling indicates potential change in strategy and risk exposure, warranting further disclosure

Low-Carbon Financing Commitment

- $1.5 trillion "sustainable finance" goal across the firm by 2030 in alignment with the UN SDGs, of which $1 trillion dedicated to "Environmental Transition"

Disclosure

- Financed emissions targets -- which are based on emissions intensity, not absolute emissions -- do not allow investors to assess actual emissions reductions
- Deployed $410 billion in "sustainable finance" in 2022, of which $235 billion was deployed to the "Environmental Transition," which encompasses "low-carbon energy, energy efficiency, and sustainable transportation…water conservation, land use and waste"[21]
- Reported investment in Environmental Transition lacks specificity with respect to energy supply financing

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Morgan Stanley Proposal

Ratio enables investors to assess pace and scale of investment in clean energy relative to fossil fuels.

Fossil Fuel Strategy

- Third-parties estimate that Morgan Stanley has financed approximately $153 billion to fossil fuels since the Paris Agreement, based on Bloomberg league tables (include but not limited to company's SEC disclosures)[22]
- Disclosure-only proposal does not request change in strategy, affect management's discretion, nor conflict with financed emissions disclosures, contrary to implication in opposition statement

Low-Carbon Financing Commitment

- Announced $1 trillion, 10-year commitment to "sustainable finance," which includes $750 billion towards "low-carbon and green solutions," which includes clean energy, adaptation, clean mobility, and other environmental solutions

Disclosure

- Financed emissions targets -- which are based on emissions intensity not also absolute emissions -- and do not allow investors to assess actual emissions reductions
- Reported $550 billion deployed to "low-carbon and green solutions" lacks specificity with respect to energy supply[23]
- Client Strategy Assessment Framework will not address energy supply financing activity

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Appendix A

What is energy supply?

	Production and supply	Manufacturing

Low-carbon	Company revenue driven by low-carbon sources of energy production. This includes renewables, storage, biofuels and nuclear.
	Grid technology upgrades often tend to accompany cleaner capacity and also allow the smoother integration of renewables, so transmission and distribution is considered green.
	• Solar
	• Wind
	• Geothermal
	• Hydropower
	• Storage
	• Marine power
	• Biofuels and biomass
	• Nuclear
	• Electricity grid
	• Hydrogen and CO2 transport/storage
		Company revenue driven by the development of plants/facilities manufacturing low-carbon energy equipment. This includes equipment and services, such as modules, turbines and components.
		We include smart grid equipment due to the direct enablement of clean power on the grid.
		• Plant development
		  • Solar, biomass, wind
		• Smart grid equipment
		• Clean energy equipment
		  • Solar cells/modules, inverters
		• Wind turbines
		• Geothermal equipment
		• Hydro equipment
		• Fuel cells
		• Nuclear equipment

Fossil Fuels	Company revenue driven by fossil-fuel-based sources of energy production. This includes coal, oil and gas, and utility fossil-fuel power generation for electricity and heating/cooling. This also includes the transportation and refining businesses.
	• Utilities
	  • Fossil-fuel power generation
	  • Heating and cooling
	• Coal
	  • Mining
	  • Rail/freight
	• Oil and gas
	  • Exploration and production
	  • Transport
	  • Refining
	  • Marketing/trading
	  • Filling stations
		Company revenue driven by the equipment used to support power generation from fossil-based sources. This includes equipment, parts and services, such as generators and boilers.
		• Equipment and infrastructure
		  • Generators
		  • Power generation equipment, parts and services
		  • Power boilers and heat exchangers
		  • Oilfield chemicals

Source: BNEF

Appendix B

Global regulators identifying climate change as financial stability threat

1. Financial Stability Board (UK)[1]
2. Financial Stability Oversight Council[2]
3. Commodity Futures Trading Commission (CFTC)[3]
4. Bank for International Settlements[4]
5. European Central Bank[5]
6. Basel Committee on Banking Supervision[6]
7. Organisation for Economic Co-operation and Development (OECD)[7]
8. Network of Central Banks and Supervisors for Greening the Financial System[8]
9. Federal Reserve[9]
10. Office of the Comptroller of the Currency (OCC)[10]
11. Federal Deposit Insurance Corporation (FDIC)[11]

Source Links

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Endnotes

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