

To: Jane Ho, AIGCC
Liam Kelley-St. Clair, CDP
Kirsten Spalding, Ceres
Maja Filipovic, IIGCC
Madeleine Hill, IGCC
Jack Balsdon, PRI

CC: Advisory Group, NZAM

Re: Urging NZAM to provide clear guidance for members on Race to Zero criteria

We are writing as a group of 23 civil society organizations to urge the Net Zero Asset Managers Initiative (NZAM) to update the expectations for its members to reflect the recently published Race to Zero (RTZ) criteria.¹

As you are no doubt aware, the continued accreditation of NZAM as a RTZ partner is contingent on the Initiative's adoption of the latest RTZ criteria. Furthermore, continued participation in the Glasgow Financial Alliance for Net Zero (GFANZ) will also depend on alignment with RTZ as explained in its 2021 Progress Report.²

We therefore expect that, at a minimum, NZAM must provide clear guidance to its members on how best to bring their policies into alignment with the new RTZ criteria. Such guidance should be completed in time for NZAM members to be able to update their policies by the June 2023 deadline for compliance.

Currently, NZAM guidance falls well short of the expectations recently laid out by RTZ. We have outlined below some key areas where the NZAM guidelines must be updated in order to align with the RTZ criteria.

1. **Commit to 1.5C scenarios with no or limited overshoot.** In order to align with RTZ criteria, NZAM members must set targets and lay out transition plans that align their strategies with no or low overshoot 1.5C scenarios.
 - a. **Ensure targets include absolute emissions.** Portfolio targets should address either absolute or both absolute and intensity goals. As the Interpretation Guide acknowledges, except in cases where sectoral growth is necessary to achieve climate goals (e.g., renewable energy), "absolute emissions targets are necessary for ensuring real-world reductions."
2. **Commit to manage all assets in all asset-classes in line with the attainment of net zero emissions by 2050 or sooner.** According to a May 2022 progress report, of the members that have published targets, only 39% of their total assets on average are committed to be managed in line with achieving net zero by 2050

¹ [Race to Zero Starting Line and Leadership Practices 3.0](#)

² GFANZ made clear in its [2021 Progress Report](#) that "All GFANZ members must align with the Race to Zero criteria."

or sooner.³ However, the RTZ criteria makes clear that credible net zero goals for financial institutions must encompass all activities and all assets managed by the institution: “Targets must cover all greenhouse gas emissions... For financial entities, including all portfolio/financed/facilitated/insured emissions.” This should apply to both actively and passively managed funds. As part of this, NZAM should issue clear guidance on target setting for passively managed funds.

3. **Publicly disclose a Transition Plan covering actions to be taken within the next 12 months, 2-3 years, and by 2030.** The “Starting Line” criteria emphasize that Transition Plans must not only have 2030 targets “which reflect maximum effort toward or beyond a fair share of the 50% global reduction in CO₂”, but that the plans must include immediate actions that the institution will take to achieve its interim targets. For initial targets that currently cover less than 100% of total assets, Transition Plans must include immediate actions for increasing the proportion of committed assets in the near-term.
 - a. **Prioritize actions that achieve real-world absolute emission reductions.** RTZ specifies the need for interim goals that target a 50% global reduction in CO₂. NZAM must make clear for its members that interim targets and activities to achieve those goals need to achieve a fair share of real-world emissions reductions by 2030. The Interpretation Guide, for example, recommends the use of “sector-specific targets that drive emissions reductions and do not simply shift investment from high-emitting to low-emitting sectors.”
 - b. **Develop engagement plans with accountability measures for companies that do not meet pre-set deadlines.** Actionable Transition Plans should clearly define engagement strategies with timetables for portfolio companies to achieve no/low overshoot 1.5°C aligned pathways. The NZAM commitment requires members to implement an engagement strategy with “a clear escalation and voting policy.” To align with RTZ’s 2030 targets, NZAM members should have engagement and voting policies with short-term implementation, inclusive of taking votes against management as early as this year.
4. **Pledge to adopt the policies needed to achieve the “phase down and out [of] all unabated fossil fuels.”** The RTZ criteria recognize the necessity of phasing out *all* unabated fossil fuels in order to achieve a 1.5C scenario with no or low overshoot. According to the latest Interpretation Guide language,⁴ each RTZ member “shall phase out its development, financing and facilitation of new unabated fossil fuel assets, including coal, in line with appropriate global, science-based scenarios.” As the Interpretation Guide makes clear, in application this means:

³ [Net Zero Asset Managers initiative publishes initial targets for 43 signatories as the number of asset managers committing to net zero grows to 273](#)

⁴ [Race to Zero Expert Peer Review Group Interpretation Guide, Version 2.0](#) (June 2022) and [Race to Zero Clarifications](#) (September 2022)

- a. **No new coal projects.** The Interpretation Guide explains that the IEA 2021 Net Zero scenario envisions “an immediate halt on building new coal plants and a phaseout of coal-fired electricity by 2030 in OECD countries and by 2040 in non-OECD countries.” NZAM guidance should specify that policies must address corporate as well as project finance. Additionally, Mark Carney, Michael Bloomberg and Mary Schapiro recently released a statement which states clearly that “there is no rationale for financing new coal projects.”⁵
 - b. **No new oil and gas fields.** Limiting fossil fuel expansion extends beyond coal. Again quoting the IEA 2021 Net Zero scenario, the Interpretation Guide emphasizes that alignment with a “global, science-based, just transition” means “no new oil and gas fields.”
 - c. **Achieving reductions in methane emissions.** The Interpretation Guide makes clear that targets around oil and gas should address pledges around “methane leakages, methane reductions, and emissions reductions aligned with a 1.5C pathway,” including short term targets.
 - d. **No reliance on unrealistic assumptions about the development and deployment of future technologies.** The Interpretation Guide emphasizes that scenario planning must not rely on as-yet unproven technologies. In light of this, it must be made clear that the RTZ criteria around phasing out “unabated fossil fuels” is conditional. For example, the IPCC’s Sixth Assessment Report indicates that the current global rates of deployment of carbon capture and storage (CCS) is “far below those in modeled pathways limiting global warming to 1.5°C or 2°C,”⁶ raising questions about the reliability of this technology for scenario planning.
5. **Pledge to adopt the policies needed to achieve a global just transition.** RTZ’s guidance makes clear that achieving the goals of the Paris Agreement requires addressing land-based emissions and promoting both nature-based solutions and human rights. As the Interpretation Guide makes clear, in application this means:
- a. **Achieving and maintaining deforestation- and conversion-free (DCF) operations and supply chains by 2025 at the latest.** Achieving net zero targets will require addressing sources of real-world emissions outside of fossil fuels. RTZ members will be required to address “land-based emissions” in their interim targets as part of starting line criteria.
 - b. **Protecting nature.** Beyond DCF supply chains, RTZ members are strongly encouraged to make “immediate contributions to the preservation and restoration of natural sinks,” inclusive of conserving forests, wetlands, and other ecosystems.
 - c. **Advancing a just transition by protecting Indigenous rights.** A just transition is at the heart of RTZ pledges. Part and parcel of both ensuring a just transition and preserving critical landscapes is adopting and

⁵ [Statement on “No New Coal” from Michael R. Bloomberg, Mark Carney and Mary Schapiro](#)

⁶ [IPCC, Climate Change 2022: Mitigation of Climate Change](#)

adhering to policies that respect the rights of Indigenous Peoples and local communities. Members must explain how they will support communities affected by both climate impacts and the climate transition, to address injustices and build towards a more equitable future.

- 6. Align member policy lobbying and advocacy activities with their net-zero operations** as part of the new criterion “Persuade.” In line with RTZ expectations, members’ political activities must advocate for appropriate regulation and facilitate measures to ensure that alignment to 1.5°C becomes the default for all actors.

Given the short timeline and the urgency of the matter, we request both a response outlining the process NZAM plans to take to update its guidelines so as to retain its Race to Zero accreditation and an explanation for how it will ensure its members are aware of and comply with their obligations. More specifically we seek to understand:

- 1) What is the timetable for the NZAM to update its guidelines to incorporate the Race to Zero criteria? And, at what point NZAM will make its updated guidance available to its members and to the public?
- 2) How does NZAM intend to implement its accountability measures? Specifically,
 - a) How is NZAM ensuring that its members' targets are 1.5C aligned?
 - b) The guidance laid out in the May 2022 Disclosure Report suggests that members may be delisted for failing to adequately disclose efforts.⁷ What actions may NZAM take if a member is meeting the annual disclosure requirements, but not making adequate progress toward its targets?
 - c) What actions does NZAM intend to take for members who are not setting targets on all their eligible assets?⁸
 - d) How will NZAM ensure that existing members adopt the new criteria by 15 June 2023?
 - e) What will be the consequences if new or existing NZAM members fail to comply with the criteria?

With 273 asset manager members representing over \$61.3 trillion USD in assets, NZAM has the potential, and responsibility, to play an important role in limiting global warming to 1.5°C. As the Initiative recognized in its most recent press release, “the importance of decarbonizing the global economy has only increased.”⁹ There is no time for anything less than the highest of ambitions. We look forward to seeing how NZAM will hold its members to these high ambitions.

We would appreciate a response no later than November 4, 2022, and responses will be shared with the signatories of this letter. Please direct responses to jessye.waxman@sierraclub.org.

⁷ [NZAM Initial Target Disclosure Report](#) (May 2022)

⁸ For example, BMO AM Canada’s targets only cover 0.55% AUM and Vanguard’s targets cover none of its in-house managed assets (its current targets, which only covers 4% of its AUM, are all sub-advised and doubled-counted in Wellington’s targets).

⁹ [Net Zero Asset Managers initiative publishes initial targets for 43 signatories as the number of asset managers committing to net zero grows to 273](#)

We look forward to hearing from you.

Thank you,

AnsvarligFremtid, Denmark
BankTrack, The Netherlands
Amazon Watch, United States
Americans for Financial Reform Education Fund, United States
Climate Energy Finance, Australia, India, and China
Climate Finance Action, United States
Coal Action Network, UK
Coastside Jewish Community, United States
Earth Ethics, Inc, United States
Extinction Rebellion, San Francisco Bay Area, United States
Investors for Paris Compliance, Canada
Majority Action, United State
Mid-Missouri Peaceworks, United States
New Mexico Climate Justice, United States
Public Citizen, United States
Rainforest Action Network, United States
Reclaim Finance, France
Rivers and Mountains GreenFaith Circle, United States
Seeding Sovereignty, United States
Sierra Club, United States
Stand.earth, Canada and United States
The Sunrise Project, United States and Global
350 Conejo/San Fernando Valley, United States