ESG Matters - US

JPMorgan Chase: key insights from climate strategy meeting with mgmt.

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A closer look at JPM's climate strategy

On November 20, we hosted a hybrid group meeting with JP Morgan's (JPM) Global Head of Corporate Advisory and Sustainable Solutions (Rama Variankaval) for an in-depth discussion on the company's climate strategy. Given the role of the Financials sector in funding the energy transition and reducing emissions in portfolio companies, our discussion focused heavily on JPM's green financing ambitions, financed emissions targets (GHG emissions associated with the with investment and lending activity), as well as the implications of the IRA and the Basel-III Endgame proposal.

IRA tailwind, Basel & rates headwinds to green investing

Mr. Variankaval sees the IRA as a massive catalyst for green investments yet suggests that the IRA's 300-500bps reduction in cost of capital is currently negated by increased rates and risk premia. Mr. Variankaval also noted that the higher levels of capital required to comply with Federal Reserve's "Basel III endgame" proposal could make certain green products and services uneconomical (see JPMorgan Chase & Co.: Higher for longer). Excluding this impact however, Mr. Variankaval estimates that renewable tax equity financing could triple or even quadruple over time thanks to the IRA.

A new approach to calculating financed emissions

JPMorgan has established specific emission reduction targets for eight carbon-intensive sectors in its financing portfolio, aligning with their 2050 net-zero emissions objectives. Although the bank has introduced new GHG reduction goals for shipping and aluminum in the 2023 climate report, targets for its Real Estate and Agriculture portfolios are yet to be set. Among these targets, JPM has introduced a new Energy Mix target for end-use (Scope 3) emissions from all energy sources (i.e., including both - oil & gas and zero carbon sources, like solar and wind). The current "energy mix target," aims to cut the carbon intensity of its energy financing portfolio by 36% by 2030 (using 2019 as a baseline). While this could theoretically reduce its financed emissions without cutting support to the oil and gas sector, JPM anticipates a shift toward cleaner energy sources over time.

The opportunity for methane abatement

To reduce Scope 1 and 2 emissions of Oil & Gas companies in its portfolio, JPM is supporting and financing methane solutions. Although the Oil & Gas sector is responsible for 40% of global methane emissions, three-quarters of these emissions could be avoided using existing technologies (source: IEA). Solutions that address emissions from the intentional venting, waste burning, or equipment leaks in sector is not only cost-effective but also a straightforward approach to bring more gas to market (and helping to improve energy security). JPM also noted that they plan to urge oil and gas firms to establish emission intensity goals, and contemplate third-party audits.

Related Research

FAQs on supply chain emissions

Decarbonization 101: what we learned from Corporate America

JPMorgan Chase & Co.: Higher for longer)

IRA – Inflation Reduction Act

GHG – Greenhouse gas

Refer to important disclosures on page 6 to 8.

Takeaways: JPM climate-focused meeting

On November 20, 2023, BofA's US ESG Team and US Banks Team hosted a hybrid group meeting with JPM's Rama Variankaval, Global Head of Corporate Advisory and Sustainable Solutions, for an in-depth discussion with investors. Overall, we came away with a better understanding of JPM's approach to climate.

Inflation Reduction Act (IRA) tailwind to green investing

Mr. Variankaval sees the Inflation Reduction Act (IRA) as a massive secular catalyst for green investing that reduces cost of capital by 300-500 bps (per JPM's estimate). At present, this cost of capital reduction is negated by the increase in rates and risk premia (a cyclical trend), causing green investments to take a hit in recent months. However, Mr. Variankaval has hope that the cyclical challenges will recede even as the secular benefits from the IRA remain, and that the green companies that survive this period will come out stronger as a result.

Targeting $1trn in green financing

JPM has a Sustainable Development Target with the goal to finance and facilitate more than $2.5 trillion over 10 years to address climate change and contribute to sustainable development. As part of this goal, JPM aims to finance and facilitate $1 trillion in green financing (i.e., financing via a green product or of a green company) over 10 years. To identify opportunities to meet the $1 trillion target, JPM analyzed what their client base could look like in 5-10 years given broader decarbonization trends, how to allocate capital given climate risk, and how product innovation could support clients. For example, JPM has raised equity for solar company Nextracker, acted as a Joint Placement Agent on a $1 billion equity placement to capitalize a new passenger electric vehicle (EV) subsidiary for Tata Motors, and is working with Consumer companies to ensure they have access to sufficient recycled plastic supply to meet their targets.

Basel implications for JPM's green investments

As part of the firm's broader green objective, JPM is directing some of its capital toward investments aimed at enhancing environmental sustainability. However, higher levels capital required to comply with Federal Reserve's "Basel III endgame" proposal could make certain green products and services uneconomical. JPM CFO Jeremy Barnum had previously acknowledged the need to "exit" businesses if proposed rules aren't modified. The renewable energy tax equity financing business, for example, would be impacted by the proposed increase in risk weighting of non-publicly traded equity from 100% currently to 400%. Management mentioned that JPM is among the largest players in the $20B tax equity market and expect this market to grow to $60-90B post the IRA (excluding the impact from higher capital requirements).

Tackling financed emissions

Financed emissions, a specific type of Scope 3 emissions that refers to the carbon intensity of a company's investments and lending activity, make up the majority of Financials companies' Scope 3 emissions in the S&P 500 and are increasingly coming under shareholder scrutiny (Exhibit 1). See our reports FAQs on supply chain emissions and Decarbonization 101: what we learned from Corporate America.

Exhibit 1: Fossil fuel financing & underwriting is now a focus among shareholders
Number of climate-related shareholder proxy proposals for US S&P 500 companies by topic, 1/2020-11/2023

Source: Bloomberg Intelligence, BofA US ESG Research. Note: Proposals were manually categorized into topics according to their title. A proposal may be tagged as belonging to more than one topic, for example if shareholders are requesting both emission reduction targets and reporting on emissions.

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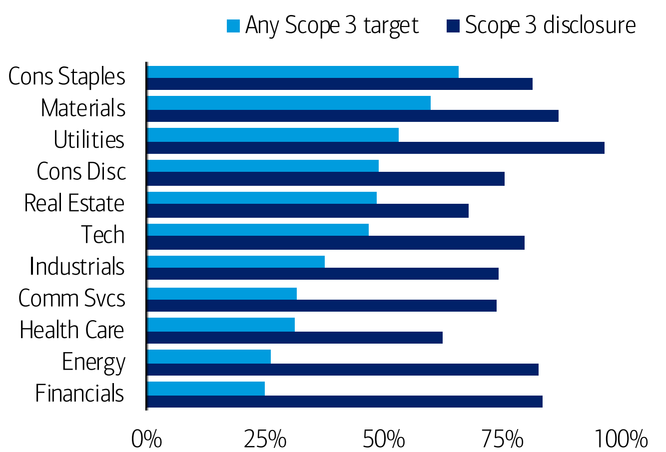
Prioritizing sectors on emissions, exposure, and impact

Although Financials companies lag other sectors, in setting Scope 3 targets (Exhibit 2), JPM has set financed emissions intensity targets for eight priority carbon-intensive sectors (Energy Mix, Oil & Gas Operational, Electric Power, Auto Manufacturing, Iron & Steel, Cement, Aviation, Shipping, and Aluminum). JPM identified these priority sectors based on three factors: (1) each sector's global emissions, (2) each sector's exposure within the JPM portfolio, and (3) the ability for JPM to engage with the sector on decarbonization strategies. Agriculture and Real Estate remain as the two key carbon-intensive sectors where JPM has not yet set a target, due to the less mature decarbonization pathways in these sectors at present.

Exhibit 2: Financials lagging in Scope 3 disclosures
Percent of S&P 500 companies by sector that disclose scope 3 emissions and have a scope 3 target, as of 11/2023



Source: BofA US ESG Research, ICE

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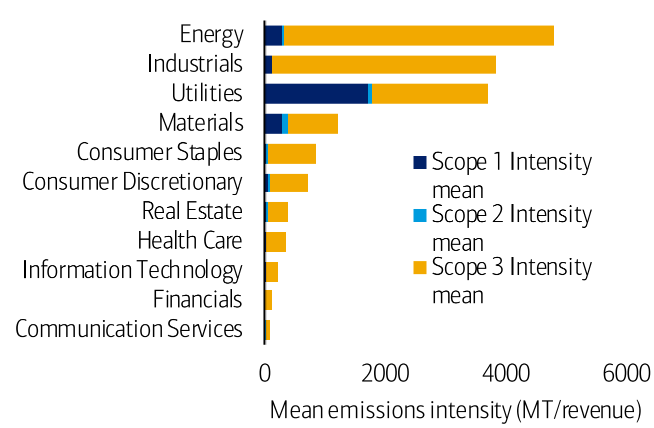
Exhibit 3: JPM is prioritizing carbon-intensive industries like Energy, Industrials, and Utilities
Mean scope 1, 2, and 3 emissions intensity for the S&P 500 in metric tons per million USD in revenue, as of 11/2023



Source: BofA US ESG Research, ICE. Reported data used where available. Where not available, emissions were imputed using the median sector emissions.

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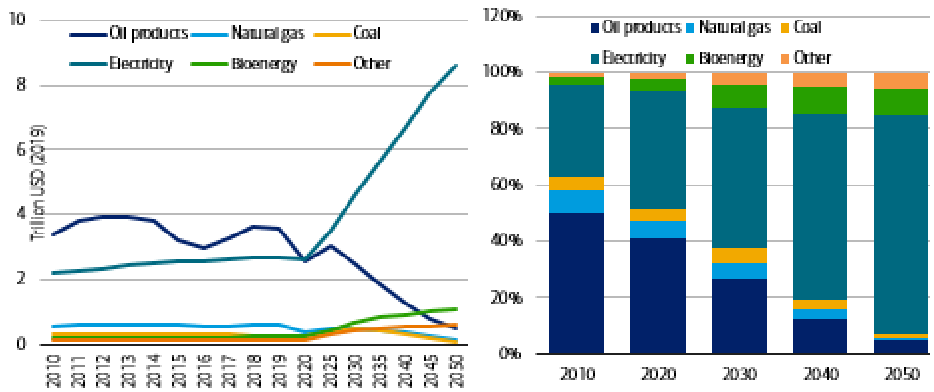
New target to better track energy transition financing

Prior to 2023, like the other big banks, JPM had set a GHG emission reduction target for the Scope 3 emission intensity of the Oil & Gas companies in their financing portfolio (-15% by 2030). This year, however, JPM widened the boundary of this target (now called "Energy Mix target") to also include Scope 3 emissions from Electric Power companies that provide zero- and low-carbon power generation (like renewables and biofuels). While expanding the target, JPM also adjusted the target to be more ambitious (36% reduction in carbon intensity by 2030). The new target was chosen to better capture the shift in fuel mix needed for net zero and to balance the trade-offs between fossil-fuel based and zero- or low-carbon energy sources in achieving net zero. To make progress on this target, JPM aims to: (1) increase financing of zero-carbon power generation (like renewables), (2) reduce Oil & Gas scope 3 intensity (e.g., by shifting from oil to natural gas or implementing carbon capture), and (3) decrease Oil & Gas sector financing.

Exhibit 4: Trillions of dollars will need to shift between energy sources to reach net zero
Spend on energy sources per IEA net zero scenario



Source: IEA

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Methane abatement is good for climate, business, and energy security

In addition to the new Energy Mix target, JPM has a separate 2030 target for reducing Oil & Gas operational (Scope 1 and 2) emissions. This target was increased from 35% to 45% this year to align with the IEA NZE scenario. JPM views methane abatement as a significant opportunity to achieve this target, as ~75% of Oil & Gas' methane emissions could be reduced using existing technologies (source: IEA). Methane, which is >25x more potent as a greenhouse gas than CO_2, is responsible for ~30% of the rise in global temperatures since the Industrial Revolution (source: US EPA; IEA). The energy sector contributes ~40% of the global methane emissions from human activity (source: IEA).

In many cases, embracing sustainable practices also results in cost savings (see our report Greenflation: pay now or pay more later). Beyond the climate impact, reducing methane emissions would allow Oil & Gas companies to bring more natural gas to market, thus improving energy security and offsetting all or much of the costs of methane capture. The IEA found that ~40% of methane emissions from Oil & Gas operations could be avoided at no net cost based on average natural gas prices from 2017-2021 (this goes up to ~60% of methane emissions when using 2022 prices).

The amount of methane that could be captured from Oil & Gas operations with existing technologies is equivalent to more than the European Union's total annual gas imports from Russia prior to the invasion of Ukraine (source: IEA)

To support methane abatement, JPM (1) deploys capital to enable methane solutions to scale, (2) delivers financing that supports companies in reducing their operational emissions, (3) engages with stakeholders on methane and flaring mitigation technology and practice, and (4) evaluates Oil & Gas companies' methane emissions as part of its environmental and social due diligence process.

Calculating emissions using PCAF framework

JPM reports the absolute emissions from its capital markets activities and includes 100% of its share in bond underwritings. In calculating absolute emissions, JPM follows the methodology recommended by the Partnership for Carbon Accounting Financials (PCAF), a widely used industry standard. However, JPM also publishes absolute emissions data using its own methodology that seeks to avoid volatility that can skew banks' emissions data. JPM's methodology involves using a three-year average for company value and a 12-month monthly average for committed financing.

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[R1] Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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