

## **Rethinking “Banking Engagement”: High-Level Findings from CLFI’s March 5th, 2025 Workshop on Lender-Client Relations and the Transition to Net Zero**

### **Introduction**

On March 5, 2025, Columbia’s Climate Law & Finance Initiative (CLFI) convened a half-day workshop with industry practitioners and scholars at Columbia University.<sup>1</sup> The workshop targeted an essential, but underexplored, question: How can banks engage with borrowers and clients around climate risk and the energy transition?

Bank-company engagement presents a conundrum. Although banks fundamentally act as service providers to corporate borrowers, they also wield significant influence over these companies' decisions. Banks generally do not have a seat in boardrooms, but they do influence them. What does this mean for the transition to a net-zero economy? Portfolio engagement is a prominent instrument in transition finance, but most norms and best practices have been developed with investors in mind. Banks sometimes invest but also lend, originate, and facilitate financial transactions. Their integration of climate risk is guided by a fundamentally different set of incentives and available governance tools.

CLFI’s March 5th workshop gathered industry practitioners and scholars to develop clearer principles around banking engagement, acknowledging both the fundamental differences between investing and financing, and the opportunities that banks may have to navigate and support the transition with client counterparties productively. Over thirty participants with experience in the lending and banking sectors attended the workshop. Attendees included the employees and officers of several North American and European banks, lending institutions, and legal and risk professionals. A significant portion of attendees held roles and titles specifically related to sustainability, ESG, or climate change, but an approximately equal portion did not, with roles tied to specific regions, sectors, services, or financial products. Several academics affiliated with CLFI also attended the workshop. To encourage frank and open discussion, and to emphasize that participants were speaking on their own behalf rather than as representatives of their respective institutions, this meeting was conducted under the [Chatham House Rule](#).

This document provides a high-level summary of key discussion points from this workshop’s rich conversation, roughly organized by the workshop’s three sessions:

1. Norms and needs: What principles should guide banking engagement in connection with climate change?
2. Engagement through the lending cycle and across business lines
3. Opportunities and resources

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<sup>1</sup> The workshop was organized by Perrine Toledano, Ana M. Camelo Vega, and Tucker Wilke of the Columbia Center on Sustainable Investing and Ilmi Granoff and Felix Martin Lockman of the Sabin Center for Climate Change Law.

## Norms and Needs: What Principles Should Guide Banking Engagement in Connection with Climate Change?

The session started with a presentation by CLFI researchers on how banks use and assess corporate transition plans. The researchers shared five findings drawn from a review of publicly available corporate transition plans from ten banks:

1. *While all surveyed banks have adopted frameworks to assess client transition planning, the assessment is not standardized.*
2. *Banks prioritize emissions metrics, but vary in assessing business plans and CAPEX allocation.*
3. *Banks varied in their approach to the time horizon on which and frequency with which they assess client transition plans.*
4. *Transition plans could be a tool for business engagement, but only 50% of banks have integrated transition plans into their financial strategies.*
5. *Transition plan analyses mostly focus on the power and oil and gas sectors, while other sectors present risks and opportunities.*

The discussion centered on the evolving role of banks more broadly. It underscored key tensions among financial priorities, regulatory frameworks, and sustainability objectives, while emphasizing that climate change represents significant risks and opportunities for banks.

Several participants argued that banks must move beyond compliance-driven ESG initiatives and integrate climate risks directly into credit and investment decision-making.

A significant discussion emerged over the reliance on climate targets (e.g., net zero commitments) as a guiding principle for banking engagement. Some participants criticized the overemphasis on targets, arguing that these do not necessarily translate into meaningful change in the businesses with which they engage and may even be distracting. Instead, they suggested a risk-based approach, where climate-related risks—such as extreme weather events, regulatory changes, and shifting consumer demand—are assessed as part of traditional creditworthiness evaluations. In that context, some participants expressed skepticism that transition plan analyses were feeding credit analysis, consistent with CLFI's analysis.

Another important discussion point was the regulatory inconsistency across jurisdictions, as well as the differences in financial market structure. European banks operate under clearer climate-related lending restrictions, such as the EU Taxonomy and the ECB's double materiality mandate, whereas US banks face a more fragmented regulatory landscape characterized by political and policy uncertainty. Additionally, debt capital markets play a more prominent role in the US compared to direct lending in Europe. These disparities make it challenging to develop standardized engagement principles, particularly in industries with high emissions, such as energy and agriculture.

Finally, some participants raised concerns about market failures and governance issues that hinder effective climate-aligned financing. They noted that banks alone cannot drive systemic change—governments and policymakers must create the right incentives, such as carbon pricing, stricter emissions regulations, and regional sectoral pathways. The discussion then turned to the role of banks in signalling where policy, and policy certainty, might reduce risk and create opportunity.

### **Engagement Through the Lending Cycle and Across Business Lines**

During the next workshop session, CLFI researchers presented a brief review of the academic literature on bank engagement with borrowers. This literature review identified four categories of formal tools that banks use—or could use—to engage with their clients around climate change issues: (1) covenants and product selection, (2) information production, (3) collateral valuation and loan terms, and (4) market selection. CLFI researchers then shared two questions to spark discussion:

- How might practices and policies around climate engagement differ across the services banks provide (e.g., lending, underwriting, advising, etc.)?
- How do syndication and commoditization change climate engagement? Is fungibility in tension with good lender governance?

Throughout this session, much of the discussion revolved around climate-related covenants. CLFI presented a review of research documenting how formal loan covenants are used to control borrower risk and borrower activities. This sparked extensive discussion around the use, prevalence, and effectiveness of climate-related covenants.

Several attendees concurred with the evidence presented in the literature review that covenants have declined across the board. One attendee expressed that, in their experience, this decline in covenant use represented a secular trend across financing types and instruments, although some financing categories like project finance started from a higher baseline of covenant use. Another argued that even in project finance, U.S.-focused transactions “ha[ve] been ‘cov-light’ for decades.” This speaker attributed the relative scarcity of formal loan covenants in private and bank lending to aggressive pricing in U.S. public markets. Another participant also noted that covenant language often reflects market- and industry-specific trends, and that changes in form language issued by the Loan Syndications and Trading Association (LSTA), have significantly contributed to the overall decline in restrictive covenants within credit agreements.

However, several attendees argued that simple quantitative measures of covenants, even environmental- or climate-specific covenants, missed more substantial changes in the ways that climate change and the energy transition are integrated into credit agreement covenants. They emphasized that it was important to disentangle “negative covenants,” which require a borrower to avoid certain activities, from “financial covenants,” which directly monitor the financial status of a borrower. Several attendees mentioned that they had seen a wave of loans incorporating more sophisticated climate considerations into financial covenants.



In addition to discussing the formal tools of lender-borrower governance, many attendees noted that formal taxonomies of lender engagement tools focused too much on transaction-specific engagement, and “missed the in-between” of engagement over a longer relationship. They generally noted that these engagement taxonomies overstated the importance of formal governance tools and were eager to emphasize that the most important engagement opportunities often arise as part of a broader relationship. One attendee noted that some of their industrial clients had hundred-year relationships with their bank, and that banks were not reevaluating those relationships or closely scrutinizing the use of proceeds of specific loans. At the same time, another attendee argued that the most significant risks of climate change and the energy transition are “muted in the credit methodologies, and often occur in the long term, beyond the term of a five-year [credit] agreement.” Workshop participants generally agreed that in those circumstances, effective engagement around climate change “would provide for a stronger relationship,” but that engagement “would happen in the space between formal governance tools” over the course of multiple instruments.

While many workshop attendees argued for a more nuanced approach to long-term engagement, a number still emphasized the importance of transactional engagement as well. Participants, including those with presences in both North American and European markets, tended to stress the importance of diligence at the point of loan origination. One attendee noted that as a practice they rarely negotiated climate-related financial covenants, since “it’s too late” once a climate-related reputational, operational, or regulatory risk “shows up in the cash flow.” However, many participants emphasized significant climate-related risks that arose in transaction-level diligence processes or credit modeling. Attendees with sector-specific portfolios noted that in industries like agriculture and mining, climate-related physical risk and regulation represented some of the most significant financial risks to borrower companies. In those cases, participants highlighted the importance of diligence, disclosure, and risk-weighting practices pre-origination and pre-refinancing.

Several participants also noted that a focus on lender “governance” understated the multidirectional nature of engagement, even at the transactional level. These participants noted that engagement issues often arose as salient issues precisely because multiple participants in a transaction (including, at times, multiple members of a lender group) considered them to be material to the outcome of the transaction. One lender noted that the refinancing of revolver facilities in particular often represented a highly significant moment of collective transactional diligence, and that long-term instruments offered significant opportunities to merge relational and transactional engagement on a more climate-relevant time horizon. At the same time, some speakers pointed to the role of syndicated loans and the lowest common denominator problem—because large corporate loans are often shared among multiple banks, a single lender may struggle to incorporate climate-related conditions into a loan agreement if other lenders are less sensitive to climate risk.

A major topic was the shift from voluntary sustainability-linked finance to more embedded climate risk management. Sustainability-linked loans and bonds (which tie financing terms to environmental performance targets) were initially seen as a key tool for incentivizing greener business practices. However, one participant argued that in practice these instruments simply

increased the quality of environmental disclosures rather than changing corporate plans. There was no general consensus reached around this point, although one participant responded that in less liquid markets, like SME lending, banks retained significant ability to encourage and reward capital investments in improvements like energy efficiency and environmental performance.

## Opportunities and Resources

Participants were prompted to consider where they thought banks might better redirect resources and attention productively based on the workshop’s conversation. Panelists explored whether frontline bankers—those in direct client relationships rather than specialized ESG or risk teams—have the necessary tools and resources to navigate these discussions. Participants observed that banks have dramatically enhanced their sophistication in accessing and using climate-related data in many traditional banking functions, while also acknowledging that financial literacy regarding the identification and implications of climate risks and opportunities remains uneven. This may leave opportunities for business differentiation and risk mitigation overlooked.

A key theme was the importance of meeting clients where they are in their transition journeys, especially in the mid-market segment, where companies may not have advanced climate strategies. Banks have a crucial role in helping clients understand financial risks and opportunities tied to climate change by leveraging their advisory and financial structuring capabilities. However, regulatory pressures—such as recent Canadian efforts to regulate financed emissions as synonymous with transition risk—may divert resources away from client engagement toward compliance-driven reporting.

Another major point was that banks must break down internal silos to ensure climate and energy transition expertise is widely accessible, recognizing that this expertise has implications across various banking functions and client sectors. Participants acknowledged the difficulty of aligning internal structures to support a more cohesive climate strategy. They also pointed to the challenge of understanding the contours of the transition in light of new uncertainties, such as shifting policy contexts and the anticipated surge in energy demand driven by AI. While some banks have created dedicated climate institutes, advisories, or “think tanks,” operationalizing these insights across business lines remains a work in progress (for example, whether climate-informed advisory aligns with lending offerings aligns with risk management). There is a growing recognition that a proactive, cross-functional approach is necessary to support clients effectively as they navigate the complexities of climate risk and transition.

## About Columbia’s Climate Law and Finance Initiative (CLFI)

CLFI is a joint initiative of the Sabin Center for Climate Change Law and the Columbia Center on Sustainable Investment. Supported by seed funding from the Wells Fargo Foundation and project-specific funding from other partners and philanthropies, CLFI is a transdisciplinary hub of research and engagement at the intersection of law, policy, and finance. It seeks to drive changes in the real economy that have a positive climate impact, supporting stakeholders by addressing legal and structural barriers, strengthening regulation for finance and markets, refining metrics and methodologies, and accounting for climate risk and resilience.