Whereas: Climate change poses a systemic risk, with estimated global GDP loss of 11-14% by midcentury under current trajectories.[1] The climate crisis is primarily caused by fossil fuel production and combustion, which is enabled by funding from financial institutions.

According to scientific consensus, limiting warming to 1.5°C means that the world cannot develop new oil and gas fields or coal mines beyond those already approved (new fossil fuel exploration and development).[2] Furthermore, existing fossil fuel supplies are sufficient to satisfy global energy needs.[3] New oil and gas fields would not produce in time to mitigate current energy market turmoil resulting from the Ukraine War.[4]

Morgan Stanley (MS) has committed to align its financing with the goals of the Paris Agreement,[5] achieving net-zero emissions by 2050, consistent with limiting global warming to 1.5°C.[6] However, MS' current policies and practices are not net-zero aligned.

MS is among the world's largest funders of fossil fuels, providing $137 billion in lending and underwriting to fossil fuel companies during 2016-2021, including $61 billion to 100 top companies engaged in new fossil fuel exploration and development.[7]

Without a policy to phase out financing of new fossil fuel exploration and development, MS is unlikely to meet its climate commitments and merits scrutiny for material risks that may include:

- Greenwashing: Banking and securities regulators are tightening and enforcing greenwashing regulations, which could result in major fines and settlements.[8]
- Regulation: Central banks, including the Fed, are starting to implement climate stress tests[9] and scenario analyses,[10] and some have begun to propose increased capital requirements for banks' climate risks.[11]
- Competition: Dozens of global banks have adopted policies to phase out financial support for new oil and gas fields[12] and coal mines.[13]
- Reputation: Campaigns targeting MS' climate policies include hundreds of organizations with tens of millions of global members and supporters, including current and potential MS customers.[14]

By exacerbating climate change, MS is increasing systemic risk, which will have significant negative impacts – including physical risks and transition risks[15] – for itself and for diversified investors.

Best practices for banks to achieve net zero involve financing of companies reducing scopes 1-3 absolute emissions and allocating capital in line with science-based, independently verified short, medium and long-term decarbonization targets. Organizations like the Science Based Targets initiative and Transition Pathway Initiative can provide independent verification of decarbonization targets.

RESOLVED: Shareholders request that the Board of Directors adopt a policy for a time-bound phase-out of MS' lending and underwriting to projects and companies engaging in new fossil fuel exploration and development.

Supporting Statement: This proposal is intended, in the discretion of board and management, to enable support for MS' energy clients' low-carbon transition.

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[1] https://www.swissre.com/media/press-release/nr-20210422-economics-of-climate-change-risks.html
[2] https://www.iisd.org/system/files/2022-10/navigating-energy-transitions-mapping-road-to-1.5.pdf
[3] https://www.ipcc.ch/report/ar6/wg3/resources/spm-headline-statements/
[4] https://www.iea.org/commentaries/what-does-the-current-global-energy-crisis-mean-for-energy-investment
[5] https://www.morganstanley.com/about-us/sustainability-at-morgan-stanley/net-zero-financed-emissions
[6] https://www.unepfi.org/net-zero-banking/commitment/
[7] http://bankingonclimatechaos.org/
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