

FINAL REPORT

# Financial Institution Net-zero Transition Plans

Fundamentals, Recommendations, and Guidance

NOVEMBER 2022



**GFANZ**

Glasgow Financial Alliance for Net Zero

This **Fundamentals, Recommendations, and Guidance** document presents voluntary, pan-sector, globally-applicable recommendations of the elements of a net-zero transition plan with accompanying guidance, examples, and case studies. Also contained herein are details on the core concepts that GFANZ believes underlie the elements of a net-zero transition plan. It is one of three documents that comprise the report Financial Institution Net-zero Transition Plans. Readers are referred to the first document, **Executive Summary**, for a high-level overview of the key concepts in the report. Readers are further directed to the third document, **Supplemental Information**, for additional examples for components Policies and conditions and Metrics and targets, discussion on closely related topics where further work and refinement would be beneficial, and appendices with reference material.

# Acknowledgments

This report was developed by the GFANZ workstream on Financial Institution Net-zero Transition Plans, and consensus-endorsed by the GFANZ Principals Group and Steering Group, with input from the Advisory Panel, as outlined in the GFANZ Terms of Reference. This does not imply that every finding included herein is endorsed by every GFANZ sector-specific alliance member firm, including the firms represented on the Principals Group. The workstream was supported by the GFANZ Secretariat. Oliver Wyman provided knowledge and advisory support.

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GFANZ would like to thank all those who have contributed to our work and development of this report in support of a net-zero climate transition.

### **Important notice**

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# How to Read This Report

This document is a report produced by the Glasgow Financial Alliance for Net Zero (“GFANZ”), which aims to provide financial institutions with background on potential avenues for meeting net-zero commitments intended to address the financial and economic risks and opportunities posed by climate change and the transitions that would be necessary to mitigate those risks. In particular, this report sets out a framework for transition finance, identifying four financing strategies that could facilitate real-economy transitions. The report includes components, arranged under themes, of potential net-zero transition plans. Each component includes recommendations, case studies, and examples. The report does not prescribe a specific course of action but offers information and options to help those financial institutions preparing net-zero transition plans.

Sector-specific alliance member firms include many different types of financial institution, including banks, insurers, asset owners, asset managers, financial service providers, and investment consultants. The report recognizes that financial institutions operate in different contractual and regulatory environments that may impact their approaches to the net-zero transition recommendations and voluntary/non-binding, guidance outlined in this report. GFANZ acknowledges that net-zero transition plans will vary by institution and jurisdiction and will depend on the individual characteristics of financial institutions, including size, business model, sector coverage, fiduciary duty toward their clients, and other factors. The purpose of this report is to provide information that may inform financial institutions’ independent investment decision-making process in accordance with their contractual duties and the regulatory environment in which they operate.

For the purposes of this report, the term “GFANZ” refers to the [GFANZ Principals Group](#).

**Voluntary guidance:** This report presents a voluntary framework for financial institutions to apply when developing and implementing net-zero transition plans. Financial institutions are encouraged to use all five themes in the recommendations, but may choose to focus on a subset of the themes that they determine appropriate for their organization. Financial institutions are encouraged to use these recommendations wherever possible, but not superseding jurisdictional requirements on transition planning or climate-related financial disclosure where such requirements exist, or contractual requirements, including mandates with clients. Some types of financial institutions may also have unique legal or regulatory constraints that may differ by jurisdiction and that may impact the extent to which individual elements of this guidance should be considered.

**Pan-sector approach:** These recommendations and guidance present a pan-sector approach to transition planning. The principle behind each recommendation or piece of guidance aims to be applicable to institutions across the financial sector and to act as a reference for regulators and policymakers. Specific methodological approaches or considerations for individual components may differ by type of financial institution, and the relevance may vary for different types of institutions. The report is principles-based so that it can be interpreted and applied at the discretion of individual financial institutions’ own processes and policies. Financial institutions are encouraged to use these recommendations and guidance alongside the guidance produced by sector-specific net-zero alliances and other organizations.

**Unique roles for different financial institutions:**

Because this guidance is pan-sector, it does not reflect the different roles financial institution types play within the industry. Thus, as they develop their transition plans, financial institutions are encouraged to consider these types of relationships, focusing where they can on the areas where they are likely to be able to support client and portfolio company net-zero strategies and manage climate-related financial risk while considering all elements in this framework. Each financial institution is encouraged to implement the guidance based on considerations such as its business model and the contractual and regulatory environment within which it operates. The recommendations and guidance herein should be considered by financial institutions as resources and considerations that may be consulted as part of their transition planning efforts, not as a specific course of action.

**Focus on development and implementation:**

This framework aims to provide an approach for developing and implementing transition plans, rather than specific guidance on disclosing transition plans. While GFANZ encourages transparent disclosure of transition plans, this report does not intend to provide detailed guidance on disclosure. Each financial institution should determine specific content, location, and frequency for disclosing the components of its

transition plan, consistent with the requirements of their respective sector-specific alliances, business confidentiality, and jurisdictional requirements, if any. When preparing disclosures, institutions should consider the TCFD's Principles for Effective Disclosures.<sup>20</sup>

**Institution-wide approach to transition planning:**

This guidance focuses on addressing transition planning from the perspective of the whole of a financial institution. In other words, the focus is on aligning the financial institution's overall business strategy with the net-zero transition using the ten components. The guidance details how this strategy can be implemented throughout an organization but does not go into significant depth for individual business areas, product lines, or asset classes. Financial institutions should look to their net-zero alliance and other guidance providers for greater detail on how net-zero strategies can be developed and implemented at the level of specific products, services, and transactions.

**Living guidance:** GFANZ acknowledges that supporting pathways, tools, and methodologies may not yet be available for all situations and policy, regulation, technology, and science are evolving, often at a rapid pace. As financial institutions develop and execute net-zero transition plans more widely, we expect the necessary tools, methodologies, and datasets to further develop.

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20 TCFD. [Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures](#), October 2021.

# Foreword from the co-chairs and vice-chair of GFANZ



**Mike Bloomberg**

Co-Chair, GFANZ and UN Special Envoy on Climate Ambition and Solutions

A handwritten signature in black ink that reads "Michael R. Bloomberg".



**Mark Carney**

Co-Chair, GFANZ and UN Special Envoy for Climate Action and Finance

A handwritten signature in black ink that reads "Mark Carney".



**Mary Schapiro**

Vice Chair, GFANZ and Head, GFANZ Secretariat

A handwritten signature in black ink that reads "Mary Schapiro".

Since it was launched in April 2021, the Glasgow Financial Alliance for Net Zero (GFANZ) has been developing tools and methodologies to support financial institutions' efforts to turn net-zero commitments into real action. With this report, we are pleased to provide a framework that offers resources and considerations for financial institution net-zero transition plans, in support of the financial sector's efforts turning net-zero commitment into financial decision-making and support the orderly transition of the global economy to net zero.

By now, the financial and economic risks posed by climate change and the measures necessary to mitigate it are readily apparent. The science is clear: To have a 50% chance of keeping global warming to 1.5 degrees C and avoiding the worst impacts of climate change, we must achieve about a 50% reduction in emissions by 2030. Current

challenges in the global energy market, significantly exacerbated by the Russian invasion of Ukraine, have highlighted the complexity and imperative of securing an orderly transition, including the need to rapidly scale climate solutions to provide cleaner, more affordable, and more reliable replacements for unabated fossil fuels.

This transition to net zero requires companies across the whole economy to change behaviors through application of innovative technologies and new ways of doing business. At the same time, the transition should be a just one, accounting for impacts on cost of living, communities and workers. It should also protect nature and biodiversity given their close connection to climate. All corners of the financial sector will play a pivotal role in enabling such a whole-economy transition — from firms that oversee global capital allocation, financing, and risk management to those that supply them with services, advice, and systems.

The 550+ members of the sector-specific alliances that comprise GFANZ have all committed to addressing the financial and economic risks and opportunities involved in achieving net zero. Translating these long-term commitments into action requires clear, detailed plans to help ensure the steps taken by the financial sector result in real-economy emissions reductions. The voluntary recommendations, to be implemented by each financial institution according to its role and business model, and guidance in this framework provide a set of resources and considerations for financial institutions for the financing and enablement of climate solutions, firms that are transitioning, and the managed phaseout of high-emitting physical assets.

By establishing a pan-financial sector approach to transition planning, to the extent possible, taking into consideration each financial institution's specific function in the financial sector, GFANZ aims to help financial institutions tackle joint challenges in a consistent way. This also enables comparability across the sector as stakeholders work to hold financial institutions accountable

to their commitments. GFANZ believes this pan-financial sector framework will provide policymakers and regulators with the necessary insights to better understand efforts to mitigate climate-related risk, and to assess progress toward realizing national climate commitments. The framework also provides governments and standard-setters with a common global approach to inform disclosure guidance to further improve transparency and accountability.

We would like to acknowledge and express our gratitude to the numerous organizations which produced the resources highlighted throughout this report and especially thank the many individuals and institutions who have volunteered their time in developing this framework. In particular, we are grateful to Aviva and HSBC, which co-led the workstream that developed this report.

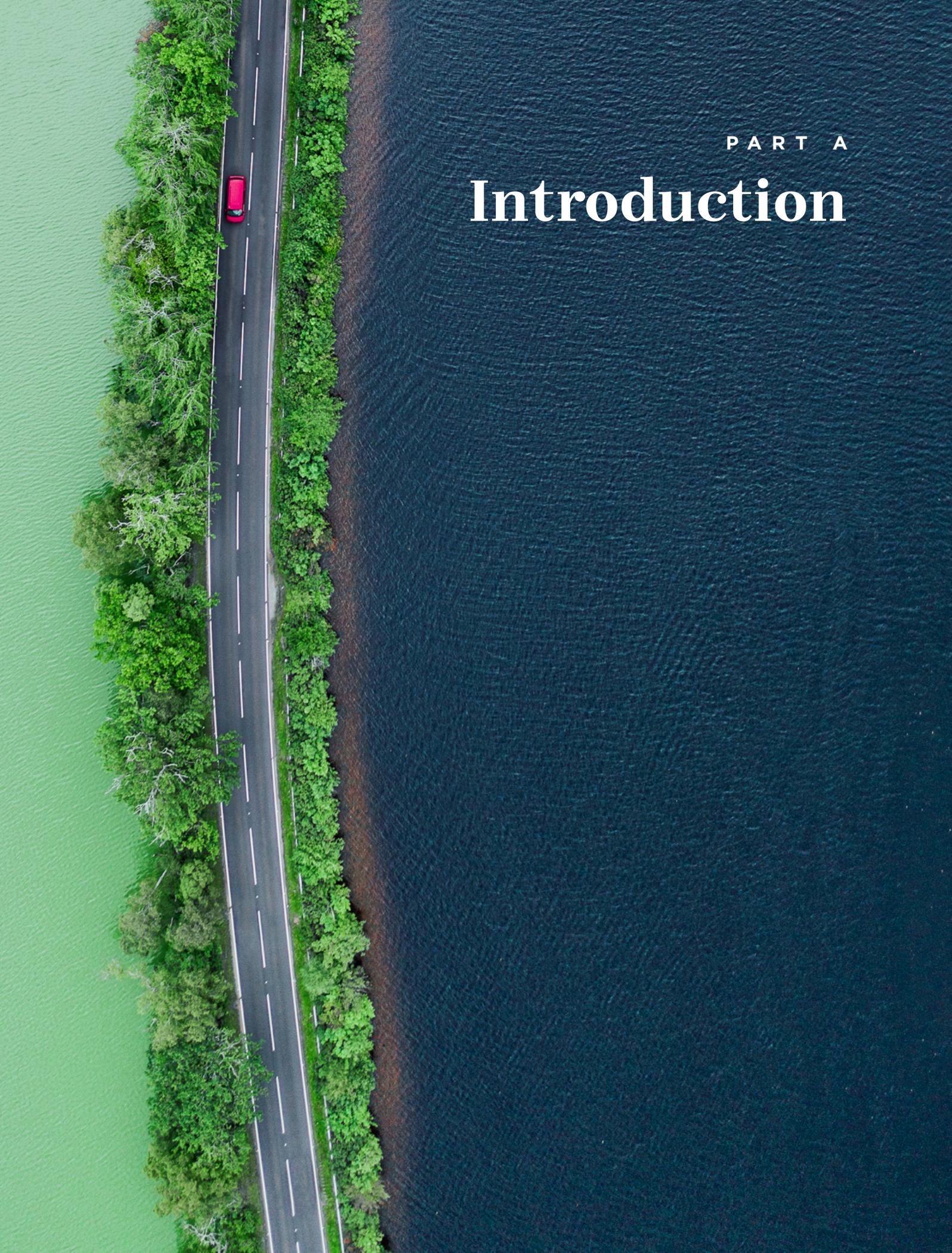
We trust that financial institutions will find this report helpful in developing their transition plans, and encourage policymakers and regulators to reference this report as they consider policy regarding transition plans for the financial sector.

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PART A

# Introduction



# Background and rationale

Governments and private-sector firms around the world have committed to achieving net zero with the goal of limiting global warming to 1.5 degrees C. Nearly 200 countries signed the Glasgow Climate Pact 2021, through which they resolved to “pursue efforts to limit the temperature increase to [1.5 degrees C].”<sup>21</sup> At the time of writing, 137 countries, representing 91% of global GDP, have made a net-zero commitment along with thousands of companies, cities, regions, and other organizations.<sup>22</sup>

These efforts are driven by the growing understanding of climate impacts. The latest assessment report from the IPCC highlights that, to date, climate change “has caused widespread adverse impacts and related losses and damages to nature and people,” and that projected “mid- and long-term impacts are up to multiple times higher than currently observed.”<sup>23</sup> This includes substantial risks to human health, cities, infrastructure, ecosystems, food production, and water availability, and is projected to cause significant increases in displacement and premature deaths, in addition to significant economic damages. The IPCC report states that “near-term actions that limit global warming to close to 1.5 degrees C would substantially reduce projected losses and damages related to climate change in human systems and ecosystems, compared to higher warming levels.”<sup>24</sup>

**Net zero:** This term refers to a state when anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals. Organizations are considered to have reached a state of net zero when they reduce their GHG emissions following science-based pathways, with any remaining GHG emissions attributable to that organization being fully neutralized by like-for-like removals exclusively claimed by that organization, either within the value chain or through purchase of valid offset credits.<sup>25</sup>

**1.5 degrees C-aligned pathway:** A pathway of emissions of greenhouse gases and other climate forcers that provides an approximately one-in-two to two-in-three chance, given current knowledge of the climate response, of global warming either remaining below 1.5 degrees C or returning to 1.5 degrees C by around 2100 following an overshoot.<sup>26</sup> Pathways giving at least 50% probability based on current knowledge of limiting global warming to below 1.5 degrees C are classified as “no overshoot,” while those limiting warming to below 1.6 degrees C and returning to 1.5 degrees C by 2100 are classified as 1.5 degrees C “low overshoot.”<sup>27</sup>

21 UNFCCC. [Glasgow Climate Pact 2021](#), 2021, p. 3.

22 Illustrative, not exhaustive sources include: [Net Zero Tracker Beta](#) Also see individual campaigns including: [We Mean Business Coalition](#). [Net Zero Futures](#).

23 IPCC. [Climate Change 2022: Impacts, Adaptation, and Vulnerability: Summary for Policymakers](#), March 2022, p. 9 and p. 14.

24 Ibid., p. 13.

25 SBTi. [SBTi Corporate Net-Zero Standard](#), 2022.

26 IPCC. [Annex 1: Glossary](#), 2018.

27 IPCC. [Summary for Policymakers](#), 2018, p. 24.

TCFD has stated “transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes” and further that the nature and speed of the transition may pose varying levels of financial risk to organizations”.<sup>28</sup> In its April 2022 report, the IPCC indicated that limiting global warming to around 1.5 degrees C requires greenhouse gas emissions to peak before 2025 at the latest and be reduced by 43% by 2030, reaching net zero by 2050.<sup>29</sup>

In order to achieve these commitments and drastically reduce GHG emissions, real-economy firms, supported by clear policy signals from government and finance, and related services from the financial sector, would have to decarbonize their business activities and scale climate solutions to replace GHG-emitting assets, products, and services.<sup>30</sup> According to a recent analysis by BloombergNEF (BNEF), this will require an unprecedented increase in financing, such that by the end of this decade, we need to scale clean energy investment such that for every dollar maintaining fossil fuel energy capacity, at least four are invested in clean energy infrastructure.<sup>31</sup> The IEA also projects that the economy will need to more than triple annual clean energy investment

this decade to around \$4 trillion by 2030 to limit warming to 1.5 degrees C.<sup>32</sup> In addition, other studies estimate cumulative global investment requirements of US\$109–\$275 trillion to reach net-zero emissions by 2050.<sup>33</sup> GFANZ was founded because investment of this scale requires the mobilization of the entire financial system.<sup>34</sup>

The private financial sector has the scale to mobilize the necessary capital and financing with more than 500 financial institutions, representing around 40% of global financial assets, committed to the goal of net zero by 2050 through membership in one of the financial sector-specific alliances comprising GFANZ. With deliberate and ambitious action, alongside government and real-economy efforts, the financial sector can help enable a global transition to net zero that helps avoid the worst impacts of climate change, minimizes firm-specific transition risks and stranded assets as well as broader risks to financial stability, and is just and orderly<sup>35</sup> across countries and communities.

In addition, governments and regulators of some of the world’s largest economies are requiring financial institutions and real-economy firms to disclose climate-related risks and opportunities, including

28 TCFD. [Final report: Recommendations of the Task Force on Climate-related Financial Disclosures](#), 2017.

29 IPCC. [Climate Change 2022: Mitigation of Climate Change: Working Group III Contribution to the IPCC Sixth Assessment Report](#), April 4, 2022, p. 21. Note that the report also states that global CO<sub>2</sub> emissions would fall to 48% below 2019 levels by 2030 for the same outcomes.

30 In this report, terms such as “financing,” “capital,” “finance,” “related services,” and variations thereof are meant to encompass the financial activities and decision-making of all financial institution types including equity, debt, insurance, and services to secure the above.

31 BNEF. [Investment Requirements of a Low-Carbon World: Energy Supply Investment Ratios](#), October 2022.

32 IEA. [World Energy Outlook](#), 2021.

33 FTSE Russell. [Green equity exposure in a 1.5°C scenario](#), September 2022. The upper estimate is from McKinsey & Company. [The net zero transition: what it would cost, what it could bring](#), January 2022 and Network for Greening the Financial System. [Climate Scenarios Database Technical Documentation using the REMIND-MagPIE \(Phase 2\) model](#), June 2021.

34 GFANZ. [The Glasgow Financial Alliance for Net Zero](#), November 2021.

35 GFANZ uses the term “orderly transition” to refer to a net-zero transition in which both private-sector action and public-policy changes are early and ambitious, thereby limiting economic disruption related to the transition (e.g., mismatch between renewable energy supply and energy demand). For reference, the Network for Greening the Financial System (NGFS), which develops climate scenarios used by regulators and others, defines “orderly scenarios” as those with “early, ambitious action to a net zero CO<sub>2</sub> emissions economy,” as opposed to disorderly scenarios (with “action that is late, disruptive, sudden and/or unanticipated”). In an orderly transition, both physical climate risks and transition risks are minimized relative to disorderly transitions or scenarios where planned emissions reductions are not achieved. (NGFS. [NGFS Climate Scenarios for Central Banks and Supervisors](#), 2020.) [The Paris Agreement, Article 4.1](#), highlighted that achievement should be “on the basis of equity, and in the context of sustainable development and efforts to eradicate poverty,” and the agreement acknowledged that “human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity” are equally important.

forward-looking disclosures on climate strategy.<sup>36</sup> This includes specific reference to transition plans that articulate how firms expect to achieve transition objectives, whether stemming from national policy or their own commitments.<sup>37</sup> Currently, there is limited financial sector-wide resources to support firms in developing and implementing credible, science-aligned transition plans. This report is designed to provide voluntary recommendations and guidance to financial institutions to support their efforts to develop and implement net-zero

transition plans, and to the public sector to inform policies on transition planning. We have sought to develop recommendations and guidance with global, cross-sectoral applicability to reduce the frictions that could otherwise impede the financial sector from playing its full part in delivering on our collective climate goals.

**Real economy:** This refers to economic activity outside of the financial sector.

## This report

Transition plans translate an institution’s net-zero commitment into specific objectives and actions that are aimed at reducing real-economy GHG emissions, and providing credibility and accountability to net-zero commitments.

This report sets out GFANZ’s view on transition finance, identifying four key financing strategies that GFANZ believes are essential to driving the real-economy transition. In order to deliver transition finance with rigor and accountability, GFANZ introduces ten components, arranged under five themes, of credible net-zero transition plans. Each component comprises a recommendation, guidance, case studies, and examples. The report also identifies possible areas for further work that financial market participants should consider as the sector advances its transition planning efforts.

GFANZ aims to accelerate adoption of current best practices (recognizing that these will inevitably change) and promote consistency in the development and use of transition plans across the financial sector. We have included illustrative examples from individual institutions representing efforts to address one or more elements of the guidance for specific components. These are not intended to represent “best practice” nor represent the entirety of guidance for a component.<sup>38</sup> Instead, the examples are included because they may help financial institutions interpret individual elements of the guidance for their own practices.

GFANZ is grateful to our partners, the sector-specific net-zero alliances, and to the wide range of organizations that have developed detailed guidance and other resources in the area of transition planning and on which this report is based.

<sup>36</sup> TCFD. [2021 Status Report](#), October 2021, p. 5–6.

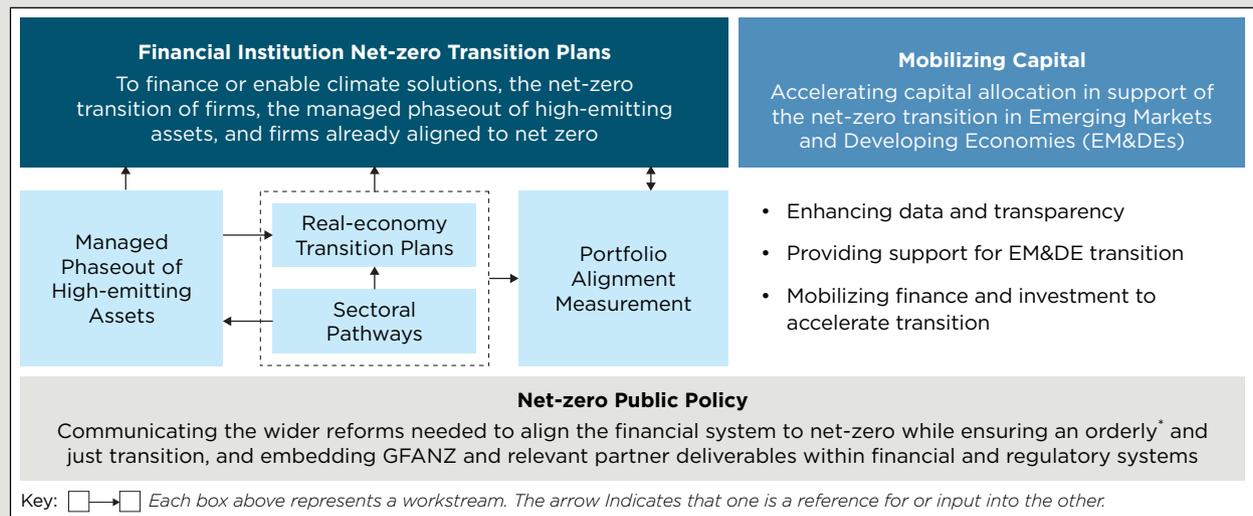
<sup>37</sup> For example, the UK government has formed a Transition Planning Taskforce to develop a “gold standard” for disclosure of transition plans, and the EU’s EFRAG has issued draft European Sustainability Reporting Standards for consultation that include aspects of transition planning for disclosure.

<sup>38</sup> The mention of specific financial institutions or example net-zero transition-related activities does not imply that they are endorsed by GFANZ or its members in preference to others of similar nature that are not mentioned.

**BOX 1. BACKGROUND ON GFANZ WORK PROGRAM**

GFANZ is a global coalition of leading financial institutions that is committed to accelerating and mainstreaming the decarbonization of the world economy and reaching net-zero emissions by 2050. GFANZ brings together seven financial sector-specific net-zero alliances, representing more than 500 members, into a global strategic alliance to address common challenges and elevate best practices across the sector. GFANZ core areas of work are practitioner-led and advised by leading technical civil society organizations.<sup>39</sup>

**Figure 1. GFANZ 2022 work program**



**Climate Transition-related Data – Climate Data Steering Committee**  
GFANZ is supporting efforts to enhance transparency to monitor climate actions and commitments, and arm financial institutions with the information they need to develop and execute on their transition plans

**Energy Transition**  
The GFANZ Secretariat is working with other organizations to assess challenges and issues particular to the energy sector transition and the role of the financial sector

\*GFANZ uses the term “energy transition” to refer to a net-zero transition in which both private sector and public policy changes are early and ambitious, thereby limiting economic disruption related to the transition (e.g. mismatch between renewable energy supply and energy demand). For reference, the Network for Greening the Financial System (NGFS), which develops climate scenarios used by regulators and others, defines “orderly scenarios” as those with “early, ambitious action to a net-zero GHG emissions economy,” as opposed to disorderly scenarios (with “action that is late, disruptive, sudden and/or unanticipated”). In an orderly transition, both physical climate risks and transition risks are minimized relative to disorderly transitions or scenarios where planned emissions reductions are not achieved. This explanation applies to all mentions of the term “orderly transition” in this document.

39 The alliances are the Net Zero Asset Managers initiative (NZAM), the Net-Zero Asset Owner Alliance (NZAOA), the Net-Zero Banking Alliance (NZBA), the Net Zero Financial Service Providers Alliance (NZFSPA), the Net-Zero Insurance Alliance (NZIA), the Net Zero Investment Consultants Initiative (NZICI), and the Paris Aligned Asset Owners (PAAO).

As part of the 2022 work program, GFANZ developed a series of related tools, frameworks, and other resources to support transition planning across the financial sector, with the goal of financing and enabling the real-economy transition to net zero. Collectively, this work provides a framework to ensure that financial institutions' net-zero transition plans are grounded in science and provide appropriate accountability.

In addition to this report on net-zero transition plans for financial institutions, this work includes:

[Guidance on Use of Sectoral Pathways for Financial Institutions](#), which provides a framework for comparing and assessing sectoral pathways, to help financial institutions and other pathway users understand how pathways differ and evaluate their suitability for their transition planning processes.

[Expectations for Real-economy Transition Plans](#), which presents the expectations of net zero-committed financial institutions for real-economy companies' transition plans, provides clarity regarding the landscape of existing guidance and methodologies, and outlines the components of real-economy transition plans and progress reporting most useful for financial institutions in their decision-making.

Also anticipated are Net-zero Pathways Analysis and Expectations for Transition Plans on specific sectors that will supplement the sectoral pathway and real-economy transition plan guidance. Each report will take a deeper dive into the scenarios, modeling, assumptions, and decarbonization levers of pathways for these sectors; key implications for financial institutions; and transition plan components and guidance specific to these high-emitting sectors.

[Managed Phaseout of High-emitting Assets](#), which sets out managed phaseout as a net zero-aligned strategy for an asset, or as part of a company's strategy, in support of an orderly and just transition. The report provides a high-level approach to support the identification of assets where managed phaseout could be appropriate, offers an overview of potential financial mechanisms that could support managed phaseout, and includes initial guidance on the features of a credible asset-level phaseout plan.

[Measuring Portfolio Alignment: Driving Enhancement, Convergence, and Adoption](#) builds on the work of the Portfolio Alignment Team to provide a practitioner perspective for measuring the alignment of financial institution business activities with the goals of the Paris Agreement and net-zero objectives. The report outlines enhanced guidance for designing, selecting, and implementing forward-looking portfolio alignment metrics, in addition to illustrative quantitative and practitioner use cases.

PART B

# Net-zero transition for the financial sector



# Defining transition finance

## ALIGNING THE FINANCIAL SECTOR WITH THE NET-ZERO TRANSITION

Financial institutions have a vital role in supporting the real economy by facilitating the allocation of capital and providing related services. GFANZ is providing recommendations and guidance in this framework for financial institutions to assess their existing business activities with a lens of climate and emissions reduction as a significant driver. Activities include all aspects of the financial sector, including redirecting capital, providing net zero-aligned financial products and services, working with real-economy firms as they develop and implement ambitious and credible strategies and activities for the transition, and engaging with policymakers to create an enabling environment for these changes.

**Climate solutions:** Technologies, services, tools, or social and behavioral changes that directly contribute to the elimination, removal, or reduction of real-economy GHG emissions or that directly support the expansion of these solutions. These solutions include scaling up zero-carbon alternatives to high-emitting activities — a prerequisite to phasing out high-emitting assets — as well as nature-based solutions and carbon removal technologies.<sup>40</sup>

Actions taken by financial institutions to decarbonize their portfolios and businesses may not drive real-world decarbonization; for example, reducing financed emissions by selling the high-emitting assets in a portfolio<sup>41</sup> or ending existing business with high-emitting firms does not necessarily decrease global GHG emissions, as buyers or new providers of capital may not be committed to net-zero goals.<sup>42</sup> Financial institutions should consider the potential for real-economy emissions reduction in their activities, recognizing that the greatest emissions reduction may be achieved by directing financing and related services to — rather than divesting from — firms and assets that need to transition. In other words, financial institutions should focus not only on **reducing their financed emissions**, but also on **financing emissions reduction**. GFANZ believes that such an approach to transition finance is essential to driving the real-economy transition.

GFANZ has identified four key financing strategies that define transition finance. These strategies (shown on the next page) are inclusive of financing, investment, insurance, and related products and services that are critical to delivering real-economy emissions reduction in support of an orderly, net-zero transition of the global economy:

<sup>40</sup> In this report, “climate solutions” is used to refer to solutions that support mitigation of climate change and emissions reduction. GFANZ acknowledges that a broader use of the term may include solutions that are aimed at developing adaptation.

<sup>41</sup> In this report, unless specified, “assets” can refer to physical or financial assets or both depending on the application to various financial products, services, and business models. Physical assets are also known as tangible assets. For most businesses, physical assets usually refer to properties, equipment, and inventory. A financial asset is an asset that derives its value from a contractual right or ownership claim. Cash, stocks, bonds, mutual funds, and bank deposits are all examples of financial assets.

<sup>42</sup> Bank of England Executive Director Sarah Breeden highlighted this risk in a [speech](#).

**1. Climate solutions:** Financing or enabling entities and activities that develop and scale climate solutions. This strategy encourages the expansion of low-emitting technologies and services, including nature-based solutions, to replace high-emitting technologies or services, remove greenhouse gases from the atmosphere, or otherwise accelerate the net-zero transition in a just manner. An example may be a company that produces green hydrogen or a project on regenerative agriculture.

**2. Aligned:** Financing or enabling entities that are already aligned to a 1.5 degrees C pathway. This strategy supports climate leaders and signals that the financial sector is seeking transition alignment behavior from the real-economy companies with which it does business.<sup>43</sup> An example may be a company with an SBTi-validated target and whose progress reports demonstrate achievement against the target or a company whose climate transition plan and performance is assessed by the World Benchmarking Alliance.

**3. Aligning:** Financing or enabling entities committed to transitioning in line with 1.5 degrees C-aligned pathways. This strategy supports both high-emitting and low-emitting firms that have robust net-zero transition plans,<sup>44</sup> set targets aligned to sectoral pathways,<sup>45</sup> and implement changes in their business to deliver on their net-zero targets. An example may be a manufacturer who is implementing energy efficiency and clean energy projects to reduce its Scope 1 and 2 emissions or a retailer engaging with its supply chain to invest in Scope 3 emissions reduction projects.

**4. Managed phaseout:** Financing or enabling the accelerated managed phaseout (e.g., via early retirement) of high-emitting physical assets.<sup>46</sup>

This strategy facilitates significant emissions reduction by the identification and planned early retirement of assets while managing critical issues of service continuity and community interests. GFANZ believes this activity is essential to reducing global emissions and supporting a smooth and just economic transition. An example may be an identified fossil fuel power plant with a plan in place for early decommissioning on a timeframe consistent with the broader net-zero trajectory.

**Managed phaseout projects:** Targeted efforts to reduce GHG emissions through accelerated retirement of high-emitting physical assets (shortening their operating life). Financial institutions can finance or enable strategies for managed phaseout of these assets within a defined science-aligned time horizon, thereby limiting the likelihood that these assets will be stranded in a low-carbon future.<sup>47</sup> These projects require appropriate scrutiny and governance to ensure that emissions reduction occurs as planned. Further information can be found in the Managed Phaseout of High-emitting Assets report, which outlines the challenges and opportunities for financial institutions in these transactions, as well as details on how financial institutions can develop strategies for managed phaseout projects.

43 Financial institutions could use emissions disclosures, portfolio alignment metrics, and transition plans for assessing alignment, as well as third-party verification programs where available. Financial institutions should be transparent about the methodologies and data they are using to determine alignment while industry standards are still maturing. Note that while the pool of already-aligned companies is currently small, it is expected to grow as the transition progresses.

44 GFANZ. [Expectations for Real-economy Transition Plans](#), 2022.

45 GFANZ. [Guidance on Use of Sectoral Pathways for Financial Institutions](#), 2022.

46 Please see [The Managed Phaseout of High-emitting Assets](#), 2022, by GFANZ for a discussion on the need for an identification framework for eligible assets.

47 IPCC's [AR6](#) cites the "combined global discounted value of the unburned fossil fuels and stranded fossil fuel infrastructure has been projected to be around 1-4 trillion dollars from 2015 to 2050 to limit global warming to approximately 2 degree C, and it will be higher if global warming is limited to approximately 1.5 degrees C." p. 36-37.

**Transition finance:** Investment, financing, insurance, and related products and services that are necessary to support an orderly, real-economy transition to net zero as described by the four key financing strategies that finance or enable 1) entities and activities that develop and scale climate solutions; 2) entities that are already aligned to a 1.5 degrees C pathway; 3) entities committed to transitioning in line with 1.5 degrees C-aligned pathways; or 4) the accelerated managed phaseout of high-emitting physical assets.

**Scenario:** Projections of what can happen by creating plausible, coherent, and internally consistent descriptions of possible climate change futures. Scenarios are not predictions of the future.<sup>48</sup>

**Pathway:** A goal-oriented scenario or combination of scenarios answering the question “What needs to happen?” to accomplish a specific objective (e.g., what are the steps needed to reach net zero by 2050, limit global warming to 1.5 degrees C, with low or no overshoot?).<sup>49</sup>

While the financing strategies are not intended to serve as a formal taxonomy, they can provide a lens for understanding whether and how particular assets, activities, or clients may be aligned to the transition. In the early stages of the transition, opportunities to finance or enable companies, projects, real assets, and sovereigns under these financing strategies may be limited. As the global community progresses toward net zero, GFANZ expects the availability of such opportunities to increase and the allocation of portfolios to these four key financing strategies to grow correspondingly.

These financing strategies should inform business strategy and support decision-making across the organization, along with other key financial, risk,

and noneconomic considerations. They provide an approach to net-zero financing that recognizes that climate-related risks — transition and physical — should be integrated into financial decision-making.

The above financing strategies may not be mutually exclusive, and some transactions or activities might support multiple strategies. For example, firms developing climate solutions may be already aligned to net zero or in the process of aligning.

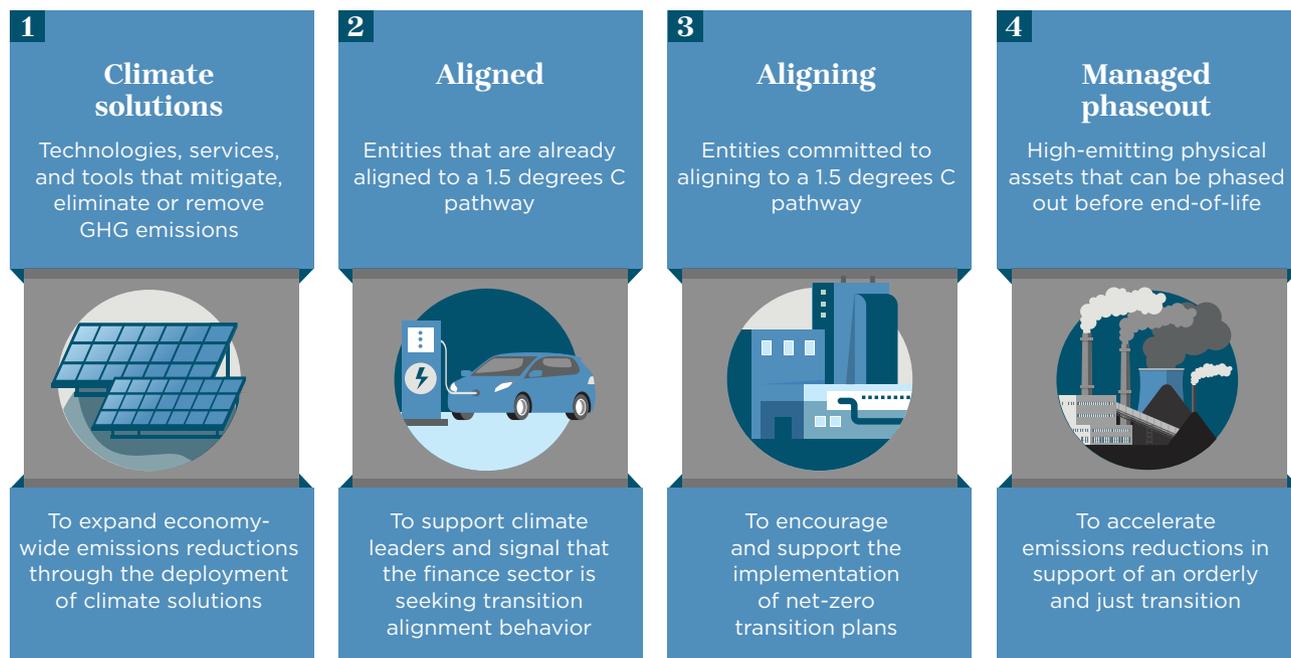
Financial activity across all four key financing strategies may also intersect with areas of just transition and biodiversity and nature. These are areas of active work by various initiatives as laid out in the [Financial Institution Net-zero Transition Plans – Supplemental Information report](#). Considerations for financial institutions in these areas could range from avoiding unintended negative effects on social groups or nature to seeking societal and nature co-benefits alongside transition activities while pan-sector standards are built.

A high level of rigor and accountability in the application of the four key financing strategies is critical to ensure that financial institutions are supporting a whole-economy transition while achieving emissions reduction in the needed timeframes. The transition plan framework in this report — consisting of five themes comprising ten components, detailed in [Part C](#) — provide resources and considerations for financial institutions on financing, investment, and financial services; measuring progress; and structuring governance of ambitious and credible transition plans. The framework structure of the five themes supports the provision of finance and related services to real-economy activities that advance the net-zero transition. These activities may not result in immediate reductions in financed (or equivalent) GHG emissions for a financial institution but are necessary actions to support an orderly whole-economy transition to net zero by 2050.

48 Definition taken from GFANZ. [Guidance on Use of Sectoral Pathways for Financial Institutions](#), 2022.

49 Definition taken from GFANZ. [Guidance on Use of Sectoral Pathways for Financial Institutions](#), 2022.

**Figure 2. Four key net-zero financing strategies**



**BOX 2. SECTORAL PATHWAYS FOR FINANCIAL INSTITUTIONS<sup>50</sup>**

An orderly transition to net zero entails the continued availability of essential goods and services to the global economy while replacing high-emitting technologies with low-emitting or carbon-free alternatives. This requires reimagining the technologies and sometimes business models of certain sectors such that the carbon intensity and absolute emissions of those sectors decline over time. The nature of that shift, including its pace and related economic activities, is referred to as a “pathway.” Sectoral pathways provide the link between the science of the remaining carbon budget and the detailed steps that a specific sector could take to reduce GHG emissions to a particular level in a specified timeframe.

GFANZ’s report [Guidance on Use of Sectoral Pathways for Financial Institutions](#) is intended as a guide to support financial institutions’ use of sectoral pathways in creating net-zero transition plans; in aligning of their portfolios; and in engaging with real-economy firms. By providing a framework for comparing pathways by commonly referenced providers (e.g., IPCC, IEA, OECM, MPP), financial institutions can understand the assumptions and outputs of the different pathways and choose the pathways most appropriate for their net-zero objectives. The framework ensures they understand the types, timeframes, and scale of investments they may need to make or discontinue. GFANZ will supplement this report with sector-specific reports that will include analyses of net-zero, 1.5 degrees C-aligned pathways.

Pathway developers can also use the insights provided in the report to improve the usability of their pathways.

50 GFANZ. [Guidance on Use of Sectoral Pathways for Financial Institutions](#), 2022.

GFANZ’s program of work will help further adoption and clarify what financing is in furtherance of the net-zero transition, including resources and considerations on transition plans for real-economy firms,<sup>51</sup> sectoral pathways,<sup>52</sup> managed phaseout,<sup>53</sup> and portfolio alignment measurement;<sup>54</sup> promoting more ambitious climate policy from governments;<sup>55</sup> and increasing the accessibility of climate transition data, including better information on transition-related capital allocation, through support of a new open data public utility.<sup>56</sup>

GFANZ recognizes that financial institutions implementing the recommendations and guidance contained in this report will face challenges. The private financial sector’s actions will influence the pace and shape of the transition but will be more effective with ambitious policy action from governments in line with the net-zero pledges they have made. Additional action may be needed from government and other actors in the ecosystem, particularly relating to business with or investment in high-emitting sectors and emerging markets and developing economies. Progress is needed in these areas, among others:

- more granular and fit-for-purpose regional and sectoral pathways, to identify priorities for public policy and investment opportunities in climate solutions and to better inform net-zero alignment for specific real-economy companies and activities;
- higher-ambition public policy to accelerate the transition e.g., climate disclosure that includes transition plans, taxonomies, and clarity on

national plans to transition specific sectors to net zero (the GFANZ Policy Call to Action outlines the areas where government action is needed to accelerate the transition<sup>57</sup>);

- higher-ambition action by real-economy companies (e.g., accelerated uptake of emerging technologies, adoption of robust transition plans); and
- the development of relevant methodologies and accounting practices for businesses and asset classes where they do not currently exist (e.g., methodologies for insured and facilitated emissions).

The current challenges in global energy markets, significantly exacerbated by the Russian invasion of Ukraine, have highlighted the complexity and the imperative of securing an orderly transition. This requires rapid scaling of climate solutions to replace fossil fuels and the accelerated phaseout of fossil fuel energy sources in an orderly and just manner. At the same time, any financing to fossil fuel companies — to ensure continuity of energy supply in the interim — should consider the timelines in a science-based 1.5 degrees C pathway to ensure the energy sector continues along a net-zero transition and is not supporting the development of assets that will be stranded.

GFANZ urges financial institutions to be aggressive when developing their net-zero strategies, as the next few years are crucial for the state of climate change. Without deep emissions reduction by 2030 across all sectors, the IPCC warns that it will be impossible to limit global warming to 1.5 degrees C.<sup>58</sup>

51 GFANZ. [Expectations for Real-economy Transition Plans](#), 2022.

52 GFANZ. [Guidance on Use of Sectoral Pathways for Financial Institutions](#), 2022.

53 GFANZ. [Managed Phaseout of High-emitting Assets](#), 2022.

54 GFANZ. [Measuring Portfolio Alignment: Driving Enhancement, Convergence, and Adoption](#), 2022.

55 GFANZ. [Call to Action: One Year On](#), 2022.

56 [Announcement of the Net Zero Data Public Utility](#), 2022.

57 Please see Appendix 5 for details in the [Financial Institution Net-zero Transition Plans — Supplemental Information](#) report.

58 IPCC. [The evidence is clear: the time for action is now. We can halve emissions by 2030](#), April 4, 2022.

**Figure 3. How the financial sector supports the global real economy in reaching net zero**



--- Financial institutions    --- Real economy

# Net-zero transition plans

GFANZ defines a net-zero transition plan as follows:

***A net-zero transition plan is a set of goals, actions, and accountability mechanisms to align an organization’s business activities with a pathway to net-zero GHG emissions that delivers real-economy emissions reduction in line with achieving global net zero. For GFANZ members, a transition plan should be consistent with achieving net zero by 2050, at the latest, in line with commitments and global efforts to limit warming to 1.5 degrees C, above pre-industrial levels, with low or no overshoot.<sup>59, 60, 61</sup>***

Net-zero transition plans are foundational to operationalizing commitments and demonstrating the credibility of a financial institution’s net-zero pledge. A transition plan is both a strategic planning tool and a practical action plan. It translates an institution’s net-zero commitment into specific objectives and actions that are aimed at reducing real-economy GHG emissions. A transition plan supports accountability and signals to both internal and external audiences that an institution’s steps toward net zero are deliberate, transparent, and can be monitored. It also illustrates to stakeholders that a financial institution is taking the transition risks it faces seriously, working to mitigate them as the transition to a net-zero economy progresses.

The breadth of a net-zero transition plan requires revisiting strategies, governance, incentives, and other fundamental business considerations. The four key financing strategies provide a lens through which an institution can review its entire business. The review should assess how the allocation of capital and provision of related services can enable real-economy GHG emissions reduction and thus form the basis of a transition strategy that can be embedded throughout the organization. The details of a transition plan should articulate how the strategy will be executed and how the institution will measure and govern its effectiveness. Details differ depending on an institution’s business model, operating environment (economic and geographic), sphere of influence, and portfolio composition.

Executing on a transition plan requires action across various areas within a financial institution, but also from a financial institution’s clients or portfolio companies. Financial institutions should work with all relevant clients and portfolio companies to understand their targets and plans, to support not only expanding climate solutions, but also delivering near-term, real-world GHG emissions reduction in line with the need for substantial reductions by 2030. This includes identifying their most significant sources of emissions and developing strategies to finance their reduction.

59 Pathways giving at least 50% probability based on current knowledge of limiting global warming to below 1.5 degrees C are classified as “no overshoot,” while those limiting warming to below 1.6 degrees C and returning to 1.5 degrees C by 2100 are classified as “1.5 degrees C limited overshoot.”

60 These requirements reflect sector-specific alliance member commitments.

61 Through their net-zero alliances, members have all committed to setting an interim target for 2030 or sooner.

In developing this guidance, we have taken a comprehensive approach to identifying the core common elements that a credible transition plan should contain if it is to be practically useful to a financial institution and enable the financial institution to fulfill its commitment. While the focus is on providing guidance for financial institutions' implementation of transition strategies, the recommendations and guidance also highlight the clear, consistent, and decision-useful types of information needed by other stakeholders including regulators and governments. The recommendations and guidance have global applicability to encourage consistency in financing strategies across the sector, although implementation will depend on each institution's specific role and business model.

Transition planning is not a one-time exercise. As the global net-zero transition progresses and financial institutions assess their strategies with improved and new climate-related scenarios and sectoral pathways, it is important that transition plans are regularly reviewed and updated, especially in light of the rapid pace of change. At the same time, our understanding of what constitutes best practice will evolve, and we will continue efforts to refine the recommendations and guidance in years to come in collaboration with our net-zero partners across the financial sector.

An economy-wide net-zero transition requires effort from multiple stakeholders. GFANZ is committed to engaging with wider stakeholders including financial regulators, supervisors, industry initiatives, real-economy representatives, and civil society organizations to ensure that application of these recommendations and guidance will produce the information they need to evaluate transition planning efforts and the associated climate risk mitigation, and better inform them of progress.

This includes:

- providing microprudential and macroprudential supervisors and regulators with insight into how financial institutions' transitions, individually and collectively, may impact firm-specific and sector-wide financial stability risks, including transparency on the efforts individual firms are taking to mitigate their transition risks;
- providing governments and policymakers with insight into how the financial system, through its capital allocation, is able to support the transition to net zero, and to identify challenges requiring policy intervention, such that governments can deliver on their own commitments to net zero;
- providing securities regulators and other stakeholders with insight into the actions being taken by financial institutions and companies to deliver on their stated commitments;
- providing real-economy companies with a view to the transition-related information that financial institutions need for their own net-zero transition plan and therefore expect from real-economy companies; and
- providing civil society with the consistent information to form a global, pan-sector view of net-zero transition planning for financial institutions that will allow monitoring and measurement of progress across the sector.

# Related topics

The purpose of this report is to set out globally applicable, voluntary recommendations and guidance for transition planning by financial institutions, GFANZ’s view on the key components of a credible net-zero transition plan, and to provide case studies and examples to accelerate adoption. A “credible” plan refers to one that is actionable, measurable, with long-term targets but focused on near-term action, based on climate science, and against which there is accountability and transparency on underlying strategy and progress.<sup>62</sup>

Members of the sector-specific alliances comprising GFANZ have each committed to support the goal of net-zero greenhouse gas emissions by 2050 or sooner, in line with global efforts under the Paris Agreement. Each sector alliance establishes the commitment criteria for membership. Commitments include achieving net zero by 2050 at the latest and setting interim targets for 2030 reflecting maximum effort toward a fair share of the 50% global reduction in GHG emissions needed by 2030. Commitment criteria are understood differently by each sectoral alliance comprising GFANZ, as each sector has different functions and roles in the financial system. In particular, for institutions

acting as fiduciaries to their beneficiaries, the scope of financing services and products may be reliant on financial risks associated with transition to net zero. This framework can be helpful to develop and implement net-zero transition plans in line with these timelines and commitments. Other financial institutions may find this report useful whether they have yet to publicly commit to net zero or if they have net-zero targets beyond 2050. These institutions are encouraged to prioritize near-term action and ground their transition planning process in climate science and pathways aligned to 1.5 degrees C.

The recommendations in this report build on the work of the Task Force on Climate-related Financial Disclosures<sup>63</sup> (TCFD); guidance and insights developed by the sector-specific net-zero alliances; research from non-government organizations (NGOs), scientists, academics, industry, and other technical experts; and learnings from financial institutions that have already developed transition plans.<sup>64</sup> GFANZ is grateful to the wide range of organizations referenced in this report that have developed guidance and other resources to support the critical work of transition planning.

62 This report focuses on implementation of net-zero transition plans, rather than disclosure. Please see [Table 1](#) for high-level guidance on suggested disclosure of transition plan components.

63 The TCFD was established by the Financial Stability Board to provide recommendations for more effective disclosure of climate-related financial information. The TCFD recommendations have seen widespread adoption by private-sector companies, and more than 4,000 organizations from over 100 jurisdictions publicly support the TCFD. Supporters include over 1,500 financial institutions responsible for \$220 trillion in assets. In addition, several jurisdictions have finalized or proposed climate-related financial disclosure requirements in line with the TCFD recommendations. TCFD. 2022 TCFD Status Report, 2022.

64 Please see Appendix 3 for a mapping of select industry frameworks to the GFANZ FI NZTP framework in the [Financial Institution Net-zero Transition Plans – Supplemental Information report](#).

**BOX 3. BUILDING ON TCFD: CLIMATE-RELATED FINANCIAL DISCLOSURE, AND NET-ZERO PLANS**

The TCFD provides important, widely-accepted recommendations and implementing guidelines for disclosing climate-related financial information. The TCFD recommends companies, including financial institutions, describe how resilient their strategies are to climate-related risks and opportunities — including those related to physical climate impacts and impacts of the transition to a lower-carbon economy — by leveraging a set of climate-related scenarios. Scenario analysis can help companies frame and assess the potential range of plausible business, strategic, and financial impacts from climate change and the associated management actions that may need to be considered in strategic and financial plans. Net-zero transition planning describes how strategies will support 1.5 degrees C alignment, accelerating the transition to a net-zero global economy and thereby minimizing the likelihood of increasing climate impacts.

In October 2021, the TCFD published additional guidance on disclosing climate-related metrics and targets and key information from transition plans for all sectors, noting that “organizations’ transition plans are of particular interest to users (e.g., investors, lenders, and insurance underwriters), especially when they are seeking to verify the credibility of organizations’ commitments related to climate change.”<sup>65, 66</sup> The Task Force’s guidance — intended to cover a wide range of organizations — provides high-level information on considerations for transition plans and key information to disclose. As such, the guidance does not provide transition plan guidance specific to the financial sector or address how firms can develop and implement these plans.

This report complements the TCFD guidance on transition plans by presenting recommendations and guidance for financial institutions to develop and execute on net-zero transition plans. A net-zero transition plan has a specific, forward-looking objective: to support global efforts to limit temperature increases to 1.5 degrees C and reach net-zero emissions by 2050. In doing so, it also serves to provide details on how an organization is working to mitigate the transition risk it faces. For financial institutions, a net-zero transition plan should build on its TCFD-related or other climate-related disclosure work. The plan should use findings from its scenario analysis to detail the business levers the institution will use to achieve goals around both emissions reduction and transition risk mitigation and, therefore, ultimately contribute to addressing systemic climate risk.

GFANZ recognizes that transition plan disclosure provides transparency and enhances the credibility of financial institutions’ net-zero transition efforts and, collectively, those of the financial sector. GFANZ has provided suggestions on what this disclosure might include but recognizes that developing detailed recommendations for disclosure requires a separate effort to properly consider more detailed disclosure guidance than what is covered in this report.

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65 TCFD. [2021 Status Report](#), October 2021.

66 TCFD. [Guidance on Metrics, Targets, and Transition Plans](#), October 2021.

## DISCLOSURE

While the focus of this framework is on developing and implementing transition plans, an important part of the commitment that financial institutions have made through their sector-specific alliances is disclosure. Financial institutions themselves are beginning to make such disclosures on a voluntary basis and should continue to do so following guidance and requirements from various domestic and international bodies. This guidance is not focused on disclosure, but GFANZ believes financial institutions should be transparent about key elements of their transition plan in a clear, consistent, and comparable way. GFANZ recommends that financial institutions disclose their net-zero transition plans, including interim targets, to stakeholders and disclose progress against their plans with their climate disclosures at least annually.

Each financial institution should determine specific content, location, and frequency for disclosing the components of its transition plan, consistent with the requirements of their respective sector-specific alliances and jurisdictional requirements, if any. When preparing disclosure, institutions should consider the [TCFD's Principles for Effective Disclosures](#). An organization should indicate how its transition plan forms part of its response to climate-related risks and opportunities previously identified through TCFD reporting, and the residual risk to the organization from incorporating the actions outlined in the transition plan.

## DEFINING THE SCOPE OF EMISSIONS COVERED BY THESE RECOMMENDATIONS

This report covers financial institutions' Scope 3 financed emissions<sup>67</sup> consistent with the sector-specific net-zero alliance commitments. Scope 3 methodologies are still evolving, including in the financial sectors where the same real-economy emissions can be counted multiple times in the investment chain. The concept of financed emissions, especially relevant for banks and asset owners, is complemented by other evolving approaches appropriate to asset managers, insurers, service providers, and other financial services actors.

Financial institutions will have a much greater impact on global GHG emissions by targeting the reduction of their financed GHG emissions, which are significantly larger than their operational emissions.<sup>68</sup> These emissions include those associated with a financial institution's investment, lending, and underwriting portfolios, or from clients of investment consultants or financial service providers.<sup>69, 70, 71</sup>

As shown in [Figure 4](#), financial institutions' net-zero commitments should cover at least the Scope 1 and Scope 2 emissions associated with clients or portfolio companies. They should also cover Scope 3 emissions associated with clients or portfolio companies in sectors that are significant climate change contributors or where company Scope 3 emissions are material and can be incorporated

67 For the purposes of this report, "financed emissions" or "portfolio emissions" include those associated with a financial institution's investment, lending, and underwriting portfolios, or from clients of investment consultants or financial service providers.

68 CDP found that [financed emissions could be 700 times greater than a financial institution's own operational emissions](#).

69 PCAF. [GHG Protocol Chapter 15](#). Also, [The Global GHG Accounting and Reporting Standard for the Financial Industry](#).

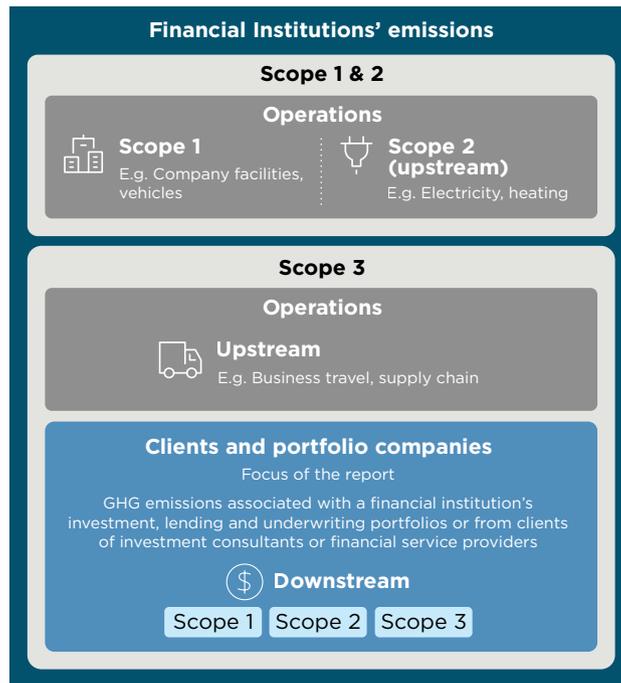
70 This report uses "financed emissions" and "portfolio emissions" interchangeably.

71 GFANZ encourages the use of the PCAF Standards, built on and accepted by the GHG Inventory Protocol, Category 15, and acknowledges their ongoing work to further develop and refine methodological guidance to measure and disclose GHG emissions associated with different asset classes and categories of financial activity and for financial institutions to utilize these standards, as appropriate, as they are released (e.g., at the time of writing, PCAF is working on insured emissions and capital market instruments methodologies).

based on data availability.<sup>72</sup> While this report does not cover emissions from a financial institution's own operations, such as supply chains or employee

travel, GFANZ recommends that all scopes of GHG emissions should be actively managed and disclosed.

**Figure 4. Overview of GHG emissions scope for financial institutions**



## THE RELATIONSHIP BETWEEN NET-ZERO TRANSITION PLANNING, FINANCIAL RISK MANAGEMENT, AND ADAPTATION FINANCE

The recommendations and guidance in this report are focused on a forward-looking plan of action toward a net-zero commitment that can be implemented by a financial institution.

While there is significant overlap between climate-related risk management and transition planning, each activity has different objectives. Climate-related risk management focuses on the integration of climate-related financial risks into risk governance, processes, and strategies. The net-

zero transition plan should represent the strategic alignment of a financial institution's core business and build upon, but look beyond, an institution's own risk profile to support the net-zero transition in the real economy.

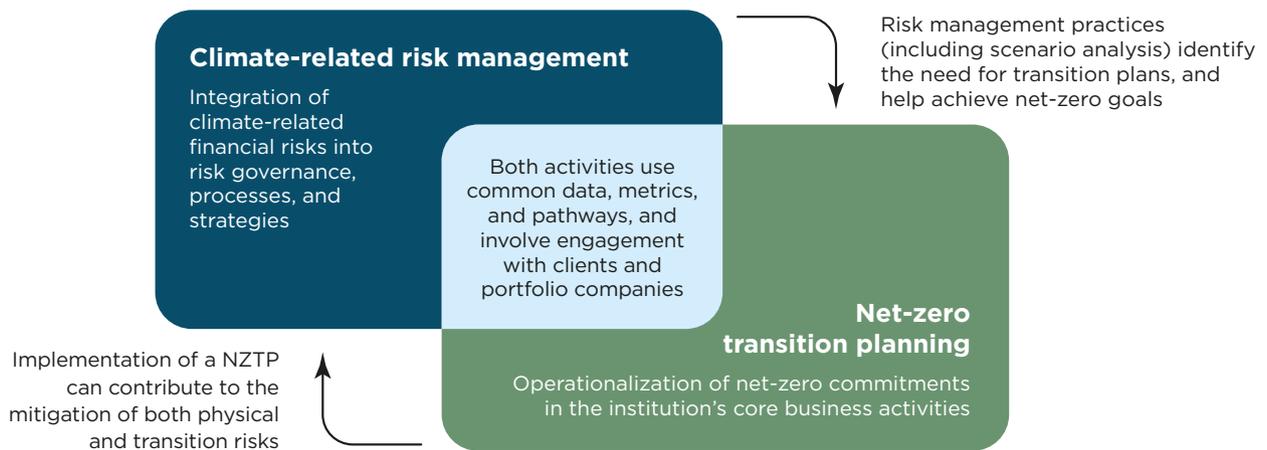
As seen in [Figure 5](#), net-zero transition planning will be informed by firms' efforts to identify climate-related risks and opportunities, in particular transition risks. Transition risks include a broad range of risks, including the possibility that high-emitting assets or activities will lose value or be stranded in a low-carbon future, as well as new risks stemming from the scaling of climate solution technologies and processes. Moreover, transition planning and climate risk management

<sup>72</sup> Greenhouse gases, including carbon dioxide, methane, and nitrous oxide, should be considered within GHG metrics and targets (see Appendix 2 in the [Financial Institution Net-zero Transition Plans — Supplemental Information](#) report).

use common metrics and targets (such as GHG emissions) and are mutually supportive: Effective pricing and understanding of climate-related risks can support transition planning efforts and can drive changes in the behavior of both financial

institutions and real-economy firms. At the same time, transition planning addresses an institution's transition risk and, when efforts are aggregated across the financial sector, aims to help mitigate physical climate risk.

**Figure 5. The relationship between risk and transition planning**



Adaptation and finance to build resilience are still nascent and evolving.<sup>73</sup> Aligning finance with climate resilience aims to strengthen the ability of a region or community to withstand physical impacts of climate change, including risks to which financial institutions may be exposed. Net-zero transition plans are focused on climate change mitigation. Carried out globally, actions aligned with the net-zero transition aim to mitigate future physical impacts from climate change by limiting projected warming.

While adaptation financing is not designed to decarbonize the real economy, financial institutions should consider pursuing opportunities where mitigation and adaptation efforts are closely linked and support both sets of objectives. At a minimum, mitigation efforts should be reviewed for unintended consequences that impede adaptation efforts.

<sup>73</sup> Please see “Adaptation and resilience” as an area for future work in the [Financial Institution Net-zero Transition Plans – Supplemental Information](#) report.

# Working with our partners

The recommendations and guidance in this report are pan-sector and aim to be broadly applicable to all types of financial institutions. This report is built on the invaluable industry-specific knowledge and expertise of the financial sector-specific net-zero alliances that comprise GFANZ. The alliances have produced resources and guidance on the net-zero transition targeted to their members' specific business models and regulatory constraints. The alliances' guidance – covering target setting, transition planning, and related efforts – though tailored to their specific industries, contributes immeasurably to the creation of a clear path forward that is vital to mobilizing the entire financial sector and reducing fragmentation.

This report is intended to be complementary to, rather than supersede, industry-specific resources already in use by alliance members. The recommendations and guidance herein aim to encourage greater consistency, ambition, and comparability across the financial sector. The guidance in this report can be used in many ways, depending on the financial institution type and maturity of its net-zero transition.

For financial institutions in alliances that have not yet developed an overarching transition planning framework, this report provides such a framework, alongside more targeted guidance on specific components from the net-zero alliance(s). For financial institutions that have already developed transition plans based on alliance guidance, this report provides additional details or examples on individual components.

GFANZ encourages financial institutions to use the recommendations, guidance, and case studies in this report alongside the guidance produced by their relevant net-zero alliance(s). Financial institutions should look to their net-zero alliance when considering how this framework can be applied to support implementation of their net-zero commitment.

# Summary of recommendations

The recommendations of this report are organized into five themes and ten components: Figure 6 shows the framework that has guided the thinking for this work.

**Figure 6. GFANZ financial institution net-zero transition plan framework**

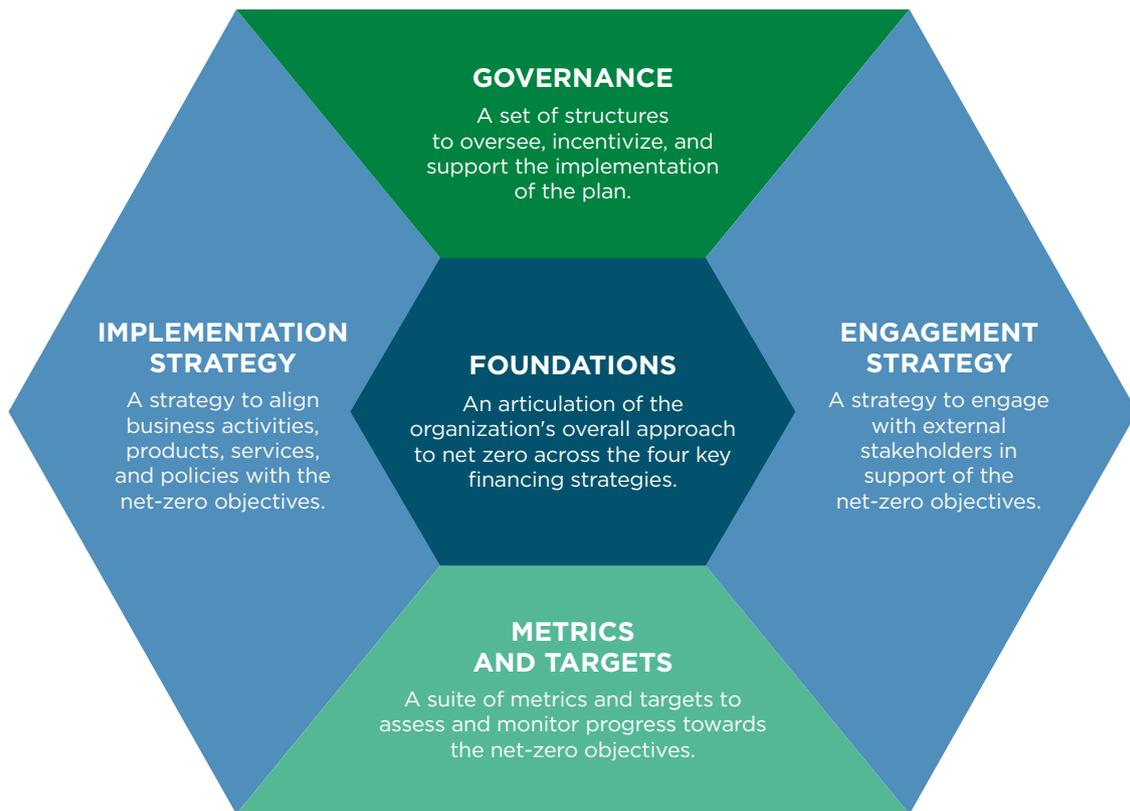
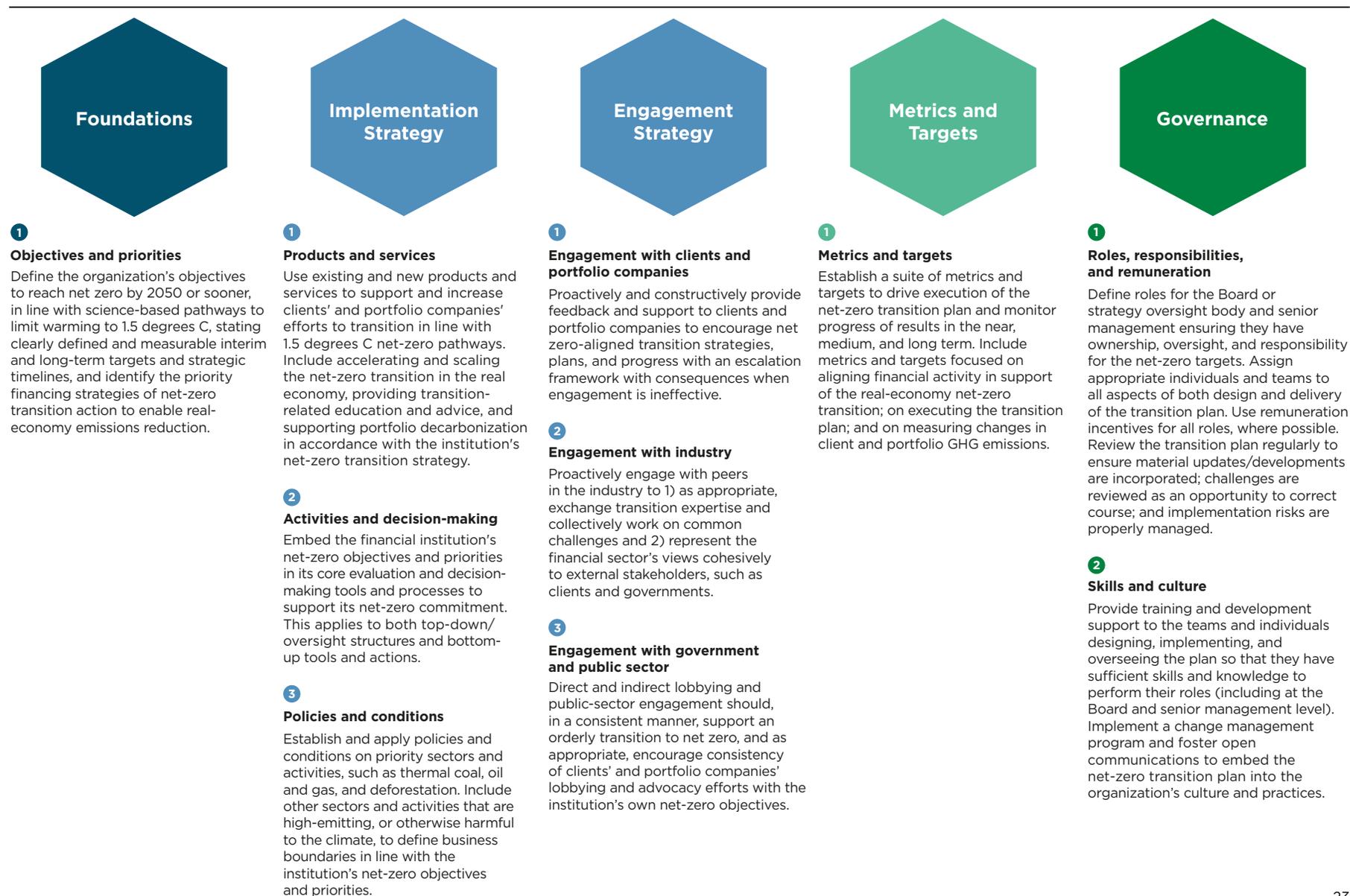


Table 1 and Figure 7 present a summary of recommendations that financial institutions should implement as they develop their net-zero transition plans. Further guidance for each recommendation can be found in [Part C](#) of this report, along with examples.

GFANZ provides suggestions on possible disclosure content in Table 1. The suggestions aim to be complementary to any requirements in line with regulatory disclosures or chosen disclosure platforms, but it is not an exhaustive list.

*If disclosing a transition plan within the framework of the TCFD, Foundations, Implementation Strategy, and Engagement Strategy themes may fit with the TCFD Strategy disclosure because they discuss how a financial institution may approach its strategy to align with the net-zero transition. Further, the Metrics and Targets theme aligns with the TCFD Metrics and Targets disclosure recommendations. Lastly, the Governance theme aligns with the TCFD Governance disclosure recommendations.*

**Figure 7. Summary of recommendations**

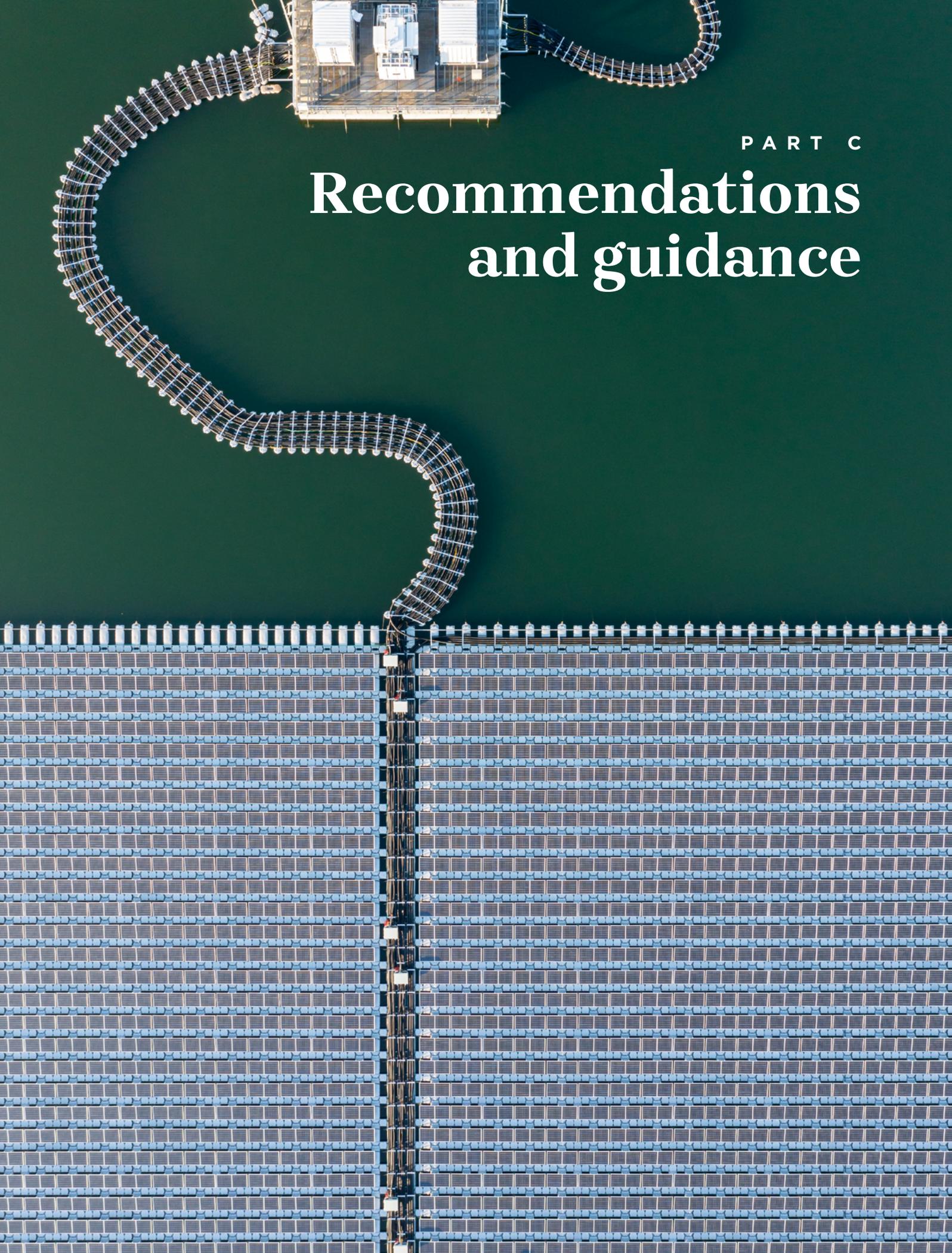


**Table 1. Summary of GFANZ recommendations**

COMPONENT	RECOMMENDATIONS	OPTIONAL DISCLOSURE
<b>FOUNDATIONS</b>		
<b>1) Objectives and priorities</b>	Define the organization’s objectives to reach net zero by 2050 or sooner, in line with science-based pathways to limit warming to 1.5 degrees C, stating clearly defined and measurable interim and long-term targets and strategic timelines, and identify the priority financing strategies of net-zero transition action to enable real-economy emissions reduction.	<ul style="list-style-type: none"> <li>• interim and long-term ambition, commitments, and strategy to achieve net zero by 2050</li> <li>• relevant activities and portfolios related to the net-zero ambition</li> <li>• prioritized key financing strategies to climate solutions, aligned and aligning entities, and managed phaseout and how these fit within the broader firm climate and corporate strategies</li> <li>• assumptions, scope, uncertainties, and key methodologies associated with the transition plan</li> <li>• supporting financial plans, budgets, and related financial targets</li> <li>• risks, opportunities, and impacts expected from implementation</li> <li>• how the concepts of just transition and nature will be factored into the net-zero transition plan</li> <li>• the plan for use of carbon credits during progress toward interim and final targets and after the net-zero target is reached</li> </ul>
<b>IMPLEMENTATION STRATEGY</b>		
<b>1) Products and services</b>	Use existing and new products and services to support and increase clients’ and portfolio companies’ efforts to transition in line with 1.5 degrees C net-zero pathways. Include accelerating and scaling the net-zero transition in the real economy, providing transition-related education and advice, and supporting portfolio decarbonization in accordance with the institution’s net-zero transition strategy.	<ul style="list-style-type: none"> <li>• description of how transition strategy will be embedded within the design of products and services to maximize opportunities</li> <li>• summary of any transition-aligned products and services</li> <li>• summary of any changes to key products and services</li> </ul>
<b>2) Activities and decision-making</b>	Embed the financial institution’s net-zero objectives and priorities in its core evaluation and decision-making tools and processes to support its net-zero commitment. This applies to both top-down/oversight structures and bottom-up tools and actions.	<ul style="list-style-type: none"> <li>• description of how transition strategy will be embedded within decision-making processes, tools, and policies</li> <li>• summary of changes to core decision-making processes</li> <li>• significant choices or decisions that provide context into the changes to decision-making processes</li> </ul>
<b>3) Policies and conditions</b>	Establish and apply policies and conditions on priority sectors and activities, such as thermal coal, oil and gas, and deforestation. Include other sectors and activities that are high-emitting, or otherwise harmful to the climate, to define business boundaries in line with the institution’s net-zero objectives and priorities.	<ul style="list-style-type: none"> <li>• conditions the institution will use to manage business with sectors or activities that significantly contribute to global climate change</li> <li>• net-zero policies developed/in use and their portfolio scope and coverage and areas for further work</li> <li>• methodology used within policy, metrics used to demonstrate compliance and/or progress, and the associated governance and review processes</li> <li>• if relevant, articulate the key milestones and actions of a managed phaseout plan, such as phaseout timing, and any key assumptions or uncertainties with the plan</li> </ul>

COMPONENT	RECOMMENDATIONS	OPTIONAL DISCLOSURE
<b>ENGAGEMENT STRATEGY</b>		
<b>1) Clients and portfolio companies</b>	Proactively and constructively provide feedback and support to clients and portfolio companies to encourage net zero-aligned transition strategies, plans, and progress with an escalation framework with consequences when engagement is ineffective.	<ul style="list-style-type: none"> <li>summary of engagement objectives and approach, including prioritization of clients and portfolio companies, and escalation process and timelines</li> <li>details on progress of engagement activities</li> <li>if relevant, describe engagement with companies about the design of their managed phaseout plan and progress against it, and the key metrics agreed</li> </ul>
<b>2) Industry</b>	Proactively engage with peers in the industry to 1) as appropriate, exchange transition expertise and collectively work on common challenges and 2) represent the financial sector’s views cohesively to external stakeholders, such as clients and governments.	<ul style="list-style-type: none"> <li>summary of engagement objectives and approach, including prioritization of clients and portfolio companies, and escalation process and timelines</li> <li>details on progress of engagement activities</li> <li>if relevant, describe engagement with companies about the design of their managed phaseout plan and progress against it, and the key metrics agreed</li> </ul>
<b>3) Government and public sector</b>	Direct and indirect lobbying and public-sector engagement should, in a consistent manner, support an orderly transition to net zero, and as appropriate, encourage consistency of clients’ and portfolio companies’ lobbying and advocacy efforts with the institution’s own net-zero objectives.	<ul style="list-style-type: none"> <li>summary of engagement activities, including topics and audiences (including efforts to align indirect lobbying activities, if relevant)</li> <li>overview of how engagement activities are assessed and aligned with the net-zero transition</li> <li>details on progress of engagement activities</li> </ul>
<b>METRICS AND TARGETS</b>		
<b>1) Metrics and targets</b>	Establish a suite of metrics and targets to drive execution of the net-zero transition plan and monitor progress of results in the near, medium, and long term. Include metrics and targets focused on aligning financial activity in support of the real-economy net-zero transition; on executing the transition plan; and on measuring changes in client and portfolio GHG emissions.	<ul style="list-style-type: none"> <li>clear definition of metrics that will be tracked across categories: real-economy transition (through the four key financing strategies), plan execution, and financed emissions, including scope and coverage of each</li> <li>quantitative and qualitative interim and final targets</li> <li>baseline, current, and projected financed emissions GHG footprint as Scope 1 &amp; 2 and Scope 3, and the emissions neutralization milestones, stating how you plan to ultimately neutralize any residual emissions by 2050 through high-quality, permanent removals</li> <li>methodology and scope of assumptions, outlining the relevant science on which targets are based</li> <li>significant choices or decisions that provide context on targets</li> <li>progress against a clearly identified portfolio alignment metric</li> <li>metrics monitored on the use and quality of carbon credits</li> <li>frequency of review and updates of metrics and targets, and log of previous updates</li> <li>use of sectoral pathways in setting targets in real-economy transition and financed emissions</li> </ul>

COMPONENT	RECOMMENDATIONS	OPTIONAL DISCLOSURE
<b>GOVERNANCE</b>		
<b>1) Roles, responsibilities, and remuneration</b>	<p>Define roles for the Board or strategy oversight body and senior management ensuring they have ownership, oversight, and responsibility for the net-zero targets. Assign appropriate individuals and teams to all aspects of both design and delivery of the transition plan. Use remuneration incentives for all roles, where possible. Review the transition plan regularly to ensure material updates/developments are incorporated; challenges are reviewed as an opportunity to correct course; and implementation risks are properly managed.</p>	<ul style="list-style-type: none"> <li>• governance structure and reporting processes for approval, oversight, and reporting associated with the net-zero transition plan</li> <li>• policies that outline responsibility and accountability for the execution of the transition plan, and the relevant authority</li> <li>• resources required to implement or revise policies, products, and services</li> <li>• approach to incentives and remuneration, linked to net-zero transition plan objectives, priorities, strategy, and targets</li> <li>• outcome and results of any independent review or third-party assurance</li> </ul>
<b>2) Skills and culture</b>	<p>Provide training and development support to the teams and individuals designing, implementing, and overseeing the plan so that they have sufficient skills and knowledge to perform their roles (including at the Board and senior management level). Implement a change management program and foster open communications to embed the net-zero transition plan into the organization’s culture and practices.</p>	<ul style="list-style-type: none"> <li>• summary of existing and required capacity, capabilities, skills and knowledge, and method of assessment</li> <li>• summary of resource requirements and change management program to embed transition plan elements into culture and practice</li> <li>• summary of access to climate-related resources</li> </ul>

An aerial photograph of a massive fiber optic network. At the top center, a central hub or station is visible, with a complex arrangement of white and grey equipment. From this hub, a thick, multi-stranded cable extends downwards and then curves to the left, forming a large, sweeping arc. This cable then continues downwards and curves to the right, eventually connecting to a vast, rectangular grid of smaller, individual fiber optic cables that stretch across the bottom half of the image. The entire network is set against a dark, clear sky.

PART C

# Recommendations and guidance

# Use of the FI NZTP Framework

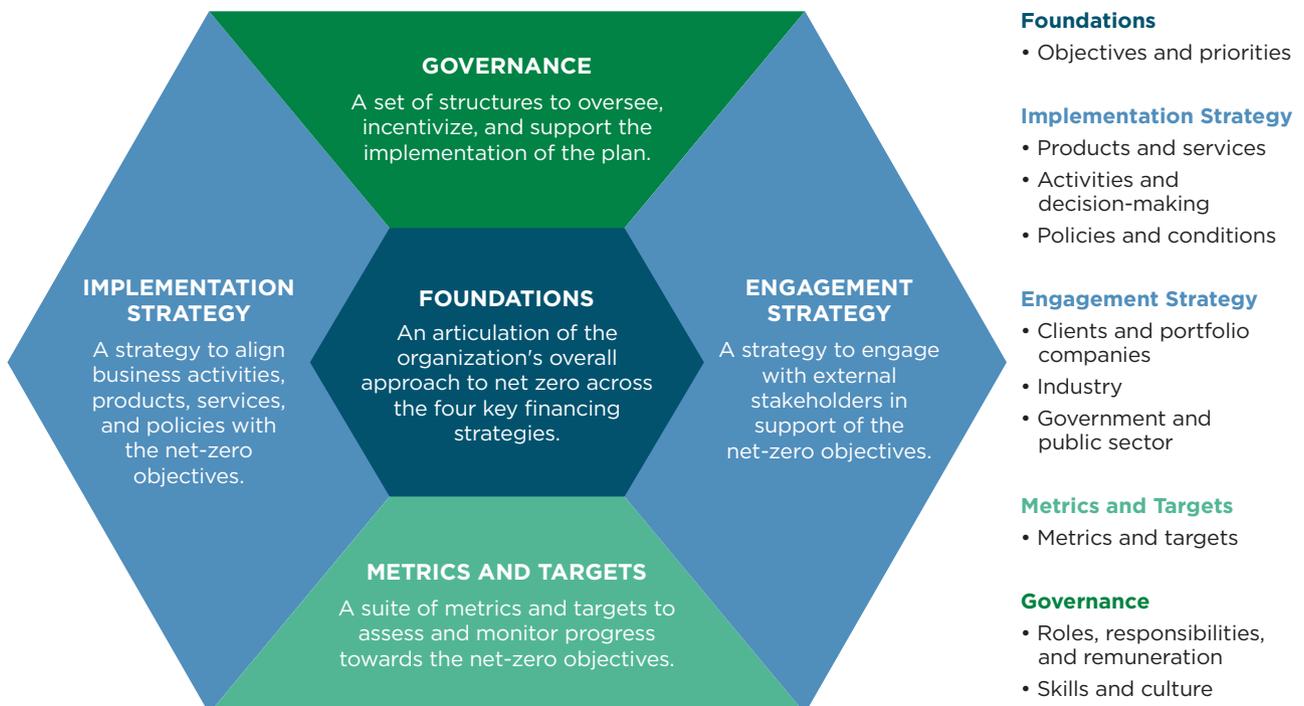
This section provides recommendations and guidance on the components GFANZ believes are essential for a credible net-zero transition plan from a financial institution. GFANZ acknowledges that the act of developing net-zero transition plans will vary by jurisdiction and will depend on the individual characteristics of each financial institution, including size, business model, sector coverage, and other factors. The following recommendations and guidance use a principles-based approach to allow for such flexibility, but GFANZ encourages financial institutions to address all components where possible. We have included examples and case studies to illustrate specific elements of the guidance in practice at the time of writing.

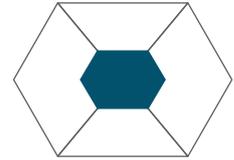
GFANZ also acknowledges that supporting pathways, tools, and methodologies may not

be available for all situations, but expects that implementation of specific components will mature and change over time as financial institutions develop and execute net-zero transition plans more widely, and as the circumstances — including risks, opportunities, and regulatory considerations — evolve.

Please refer to the “[How to read this report](#)” at the beginning of this report for the overarching considerations the reader should keep in mind when reading the following recommendations and guidance. These include the voluntary nature of the recommendations and guidance, the need to interpret this guidance within the financial institution’s individual business characteristics and jurisdictions within which it operates, and from an implementation rather than disclosure point of view.

**Figure 8. GFANZ financial institution net-zero transition plan framework**





## THEME

# Foundations

Clear net-zero objectives and priorities underpin a detailed, credible transition plan.<sup>74</sup>

Once a financial institution has committed to achieving net-zero GHG emissions by 2050 or sooner, it should articulate its objectives and priorities, along with specifics such as targets, the timeline for achieving objectives, and how they will be achieved. Joining one of the net-zero sector-specific alliances adds credibility, as does a statement from a senior executive communicating the institution's net-zero objective and priority areas. Many ambition statements will be defined by the commitments of the sector-specific alliance the financial institution joined. However, there is some flexibility in defining the specific objectives, scope, and approaches to achieving the targets, including allowance for more ambitious goals.

Financial institutions will take different approaches to achieving net-zero targets and prioritize areas of their business depending on factors including the size of the organization, their business model, influence, operating environment, portfolio and client characteristics, and geographic coverage. As detailed in the “Defining transition finance” section, the key financing strategies that financial institutions may choose to prioritize are focused on financing climate solutions, supporting already aligned firms, supporting real-economy firms committed to aligning, and financing managed phaseout projects. Defining these priorities allows an institution to develop a detailed and strategic net-zero transition plan. The plan, guided by the objectives and priorities, will include decisions such as resourcing, incentives, which analytical processes to modify, and how to adapt priority business units, products and services, engagement plans, and other core business levers.

## 1) COMPONENT: OBJECTIVES AND PRIORITIES

### Recommendation

Define the organization's objectives to reach net zero by 2050 or sooner, in line with science-based pathways to limit warming to 1.5 degrees C, stating clearly defined and measurable interim and long-term targets<sup>74</sup> and strategic timelines, and identify the priority financing strategies<sup>75</sup> of net-zero transition action to enable real-economy emissions reduction.

**Overview and relevance:** Clear net-zero objectives along with priority key financing strategies provide clarity to internal stakeholders; allow external stakeholders to assess the appropriateness of the proposed actions against the stated ambition; and allow one financial institution's transition objectives to be compared to its peers.

**Guidance:** A financial institution should articulate its transition objectives and how they will be embedded within the wider organization and corporate strategy.

<sup>74</sup> A “credible” plan in this report refers to one that is actionable, focused on the near term, and aligned with a 1.5 degrees C carbon budget with low or no overshoot, according to the latest findings of the IPCC.

<sup>75</sup> Through their net-zero alliances, members have all committed to setting an interim target for 2030 or sooner.

<sup>76</sup> Four key financing strategies to support the net-zero transition for financial institutions were outlined in [Part B](#).

This articulation of objectives and strategy should guide the overall transition plan, providing a bridge from high-level commitments the financial institution has made to the specific changes they will make to their business and operations (as discussed in the “[Implementation Strategy](#),” “[Engagement Strategy](#),” “[Metrics and Targets](#),” and “[Governance](#)” sections). As such, a financial institution’s objectives and priorities should include its interim and long-term targets (for which guidance is provided in the “[Metrics and Targets](#)” section) and should detail the institution’s high-level approach for how it is planning to achieve them.

A financial institution’s Objectives and priorities should reflect its overarching net-zero commitment. For members of the financial sector-specific alliances comprising GFANZ, this includes, at a minimum, their alliance commitment. Objectives should include the following elements:

- **Coverage:** Net-zero sector-specific alliances may allow for staged implementation to net zero or options for the extent of activities covered by interim targets (e.g., focusing interim targets on specific high-emitting sectors). Financial institutions should provide the rationale for the decisions they have made in these regards. Institutions should consider specifying what was included in and what was excluded from their objectives to facilitate comparisons. Given the rapid development of data, tools, and methodologies in this space, financial institutions should regularly revisit sectors, activities, or other elements not included in their current transition plans.

- **Timelines:** Financial institutions should articulate how net-zero transition plan actions will be staged, for example over the immediate (1 year), short (2–3 years), and medium (by 2030) timeframes. Net-zero transition plans should consider defining how they expect their longer-term (by 2050) strategy to evolve from current approaches to meet their net-zero target date. Plans should include both interim GHG emissions targets (2030 or earlier)<sup>77</sup> and net-zero targets (2050 or earlier targets).
- **Key climate topics:** While the transition to net zero involves the whole economy, certain sectors and activities are central to aligning with a low- or no-overshoot 1.5 degrees C-aligned pathway. Financial institutions should consider articulating how they plan to address such topics throughout their transition plans, in particular through policies and conditions. Two such topics highlighted at COP26 were the need to halt and reverse deforestation by 2030 and the need to transition away from unabated fossil fuels.<sup>78</sup>

Financial institutions should state how they will prioritize different key financing strategies to support the real-economy transition to net zero.<sup>79</sup> Prioritization of key financing strategy(ies) may depend on the financial institution’s size, business model, levers of influence, operating environment, portfolio and client characteristics and emissions profiles, and geographic coverage, among other factors. The application of the Implementation Strategy and Engagement Strategy themes should be guided by the prioritized financing strategies.

77 In the context of a net-zero transition plan, various years and intervals are specified by the net-zero alliances and industry authorities, such as SBTi. Short-term are between five and ten years maximum with mention of 2025 and 2030 as “interim” targets. The year 2040 is also used as an interim year.

78 United Nations, [COP26 Together for our planet](#).

79 GFANZ expects that financial institutions will use various combinations of strategies and tactics to achieve a net-zero transition as also acknowledged by SBTi in their description of possible mitigation strategies in their report [Foundations for Science-Based Net-Zero Target Setting in the Financial Sector](#).

The key financing strategies (introduced in [Part B](#)) for financial institutions to support the real-economy net-zero transition include the following:

- **Climate solutions: Financing or enabling entities and activities that develop and scale climate solutions.** This should include financing, investing, and related services supporting activities such as early-stage climate technologies and services to bring them into mainstream; later-stage climate solutions to scale and increase deployment; new infrastructure needed for the low-carbon economy; nature-based solutions; and understanding and addressing risks associated with new zero-carbon activities and industries.
- **Aligned: Financing or enabling entities that are already aligned to a 1.5 degrees C pathway.** Actions to do so should include shifting portfolio allocations and financial services toward real-economy companies or sectors that are more advanced in their transition; developing new financial products that focus on such real-economy companies; and related financial services to continue supporting firms well on their way to transition.
- **Aligning: Financing or enabling entities committed to transitioning in line with 1.5 degrees C-aligned pathways.** Actions under this strategy should detail how the institutions identify companies, assets, or projects in early stages of transition, beginning to transition, and advanced in transitioning. Actions should include adapting their product and services consistent with this strategy; seeking new clients and portfolio companies willing to align their business consistent with 1.5 degrees C sectoral pathways;<sup>80</sup> and integrating use of proceeds concept. Institutions should consider defining conditions for determining whether net zero-committed entities who are developing a net-zero transition plan can be included as “aligning” for internal purposes.<sup>81</sup>
- **Managed phaseout: Financing or enabling the accelerated managed phaseout (e.g., early retirement) of high-emitting physical assets.** Actions under this strategy should include levers such as engaging with clients and portfolio companies to identify opportunities to accelerate the phaseout, and developing products and services to support an orderly phaseout.<sup>82</sup>

80 GFANZ. [Guidance on Use of Sectoral Pathways for Financial Institutions](#), June 2022.

81 GFANZ recognizes that many entities are in the early stages of implementing their net-zero commitment and that it requires time to develop a credible net-zero transition plan. The focus of “aligning” is on progress toward full implementation of a net-zero transition plan with an urgency on near-term action. GFANZ recognizes there is a gray area where entities may be committed and taking significant steps in implementing but are still developing their net-zero transition plan. Disclosure from these entities will be essential to assessing progress as detailed in GFANZ’s [Expectations for Real-economy Transition Plans](#), 2022.

82 GFANZ. [The Managed Phaseout of High-emitting Assets](#), June 2022, p. 28-29. Figure 11 in the cited report represents initial features that companies of financial institutions may be expected to provide as part of their transition plans in reference to managed phaseout.

**Figure 9. Key levers for financing strategies**

We encourage financial institutions to apply all components to their organization but recognize emphasis on specific components may be more helpful when considering particular key financing strategies.

Foundations, metrics and targets, and governance are equally relevant for all financing strategies as they are overarching accountability structures.

Special emphasis on the following strategy components may be helpful. Some examples include: Assessing a firm’s transition to net zero may require new analysis in activities and decision making; Focusing financial services at scaling climate solutions could be covered under products and services; Identifying a physical asset for managed phase out may be covered under engagement with portfolio companies.



		1 CLIMATE SOLUTIONS	2 ALIGNED	3 ALIGNING	4 MANAGED PHASEOUT
<b>Foundations</b>	Objectives and priorities	[Light blue bar]			
<b>Implementation Strategy</b>	Products and services	●	●	●	●
	Activities and decision-making	●	●	●	●
	Policies and conditions	●	●	●	●
<b>Engagement Strategy</b>	Clients and portfolio companies	●	●	●	●
	Industry	●	●	●	●
	Government and public sector	●	●	●	●
<b>Metrics and Targets</b>	Metrics and targets	[Light blue bar]			
<b>Governance</b>	Roles, responsibilities, and remuneration	[Light blue bar]			
	Skills and culture	[Light blue bar]			

● Of particular relevance    ● Generally covers

Financial institutions should provide a clear and structured articulation of the principles, assumptions, and context that pertain to their transition plans. A statement should be from, or endorsed by, an institution's senior executive, such as the Chief Executive Officer, Board Chairperson, or someone in an equivalent oversight role. The statement should explain: 1) how the institution is considering the prioritization of key financing strategies listed above and how these will affect their GHG emissions, and 2) whether and how the net-zero transition will impact the institution's overall business strategy. Where appropriate and possible, such statements should be endorsed by the Board (or equivalent strategic oversight body). Institutions should also consider articulating:

- overarching principles — such as just transition or intersection with other climate topics (e.g., climate-related financial risk, adaptation, and resilience);<sup>83, 84</sup>
- business context — for example, how the institution's size, business units/operating models, departments, products, and services will affect or contribute to overall net-zero objectives;
- assumptions — transition pathway uncertainties and implementation challenges;
- timing — in addition to near-term GHG emissions reduction, objectives that target medium-term outcomes (within portfolios and the real economy); and
- geographical context — for example, differences in policy and regulatory environments, regional business activity, other country or region-specific risks and opportunities.

In describing its objectives and approach, an institution should consider providing a high-level discussion of any sector-specific strategies; whether it takes a top-down or bottom-up approach;<sup>85</sup> whether it will rely on particular

science-based sectoral pathways; and whether it applies exclusions or additional conditions or criteria, in line with credible transition scenarios or pathways.

#### BOX 4. JUST TRANSITION AND NATURE IN NET-ZERO TRANSITION PLANS

GFANZ believes the transition to a net-zero economy should be a just transition and should strengthen nature and biodiversity.

Transition activities, such as replacing high-emitting activities with low-emitting alternatives, have the potential to disadvantage workers, communities, and already marginalized social groups. At the same time, transition activities can also contribute positively to economic opportunity, energy access and affordability, and community resilience.

Transition activities can also have unintended negative consequences on nature and biodiversity. At the same time, protecting nature and biodiversity can play an important role in mitigating climate change, and transition activities can be pursued in ways that contribute positively to nature.

GFANZ has outlined these important topics as areas requiring further work to develop pan-sector guidance on how financial institutions can integrate them into transition plans, discussed in the [Financial Institution Net-zero Transition Plans – Supplemental Information](#) report. In the meantime, financial institutions can use existing guidance and develop their own understanding and practice to factor these topics into the objectives and priorities of their net-zero transition plans.

<sup>83</sup> For example, RMI's [IMPACT+ Principles for Climate-Aligned Finance](#).

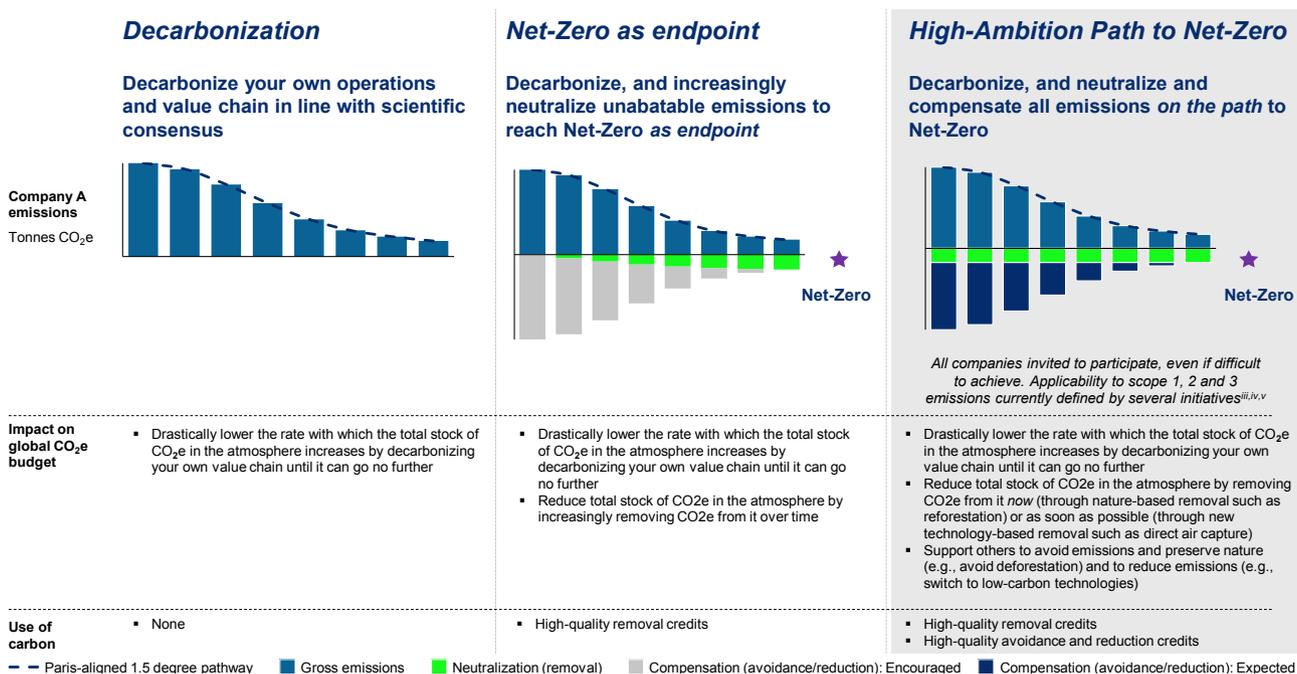
<sup>84</sup> Banks may also refer to NZBA's core guiding principles on Transition Finance. NZBA. [NZBA Transition Finance Guide](#), October 2022.

<sup>85</sup> A top-down approach refers to decision-making at the highest level or looking at the big picture and filtering down to the teams. A bottom-up approach refers to starting with the details and building up to a corporate strategy. For example, PAII's Net Zero Investment Framework (NZIF) approach for setting objectives and targets at the portfolio and asset class levels would be considered bottom-up.

An institution should also articulate whether and how it intends to use carbon credits. While primary focus is on decarbonization and real-economy emissions reduction within the financial institution’s value chain, institutions may use carbon removal credits to neutralize residual emissions that are not feasible to eliminate. Moreover, firms may opt to pursue a “high ambition path to net zero” and compensate for emissions in addition to decarbonization efforts, thus purchasing carbon credits as they are working to drive down absolute

emissions.<sup>86</sup> For both these uses, firms should articulate their strategy and considerations such as type and quality of credits the institution will source, the emissions outside the value chain that the institution intends to compensate with credits, and how credits will be used to neutralize residual emissions. Please see the “Carbon credits” section in the [Financial Institution Net-zero Transition Plans – Supplemental Information](#) report and “[Component: Metrics and targets](#)” for more information.

**Figure 10. Carbon credits “high-ambition path” illustration<sup>87</sup>**



Ultimately, an institution’s net-zero objectives and priorities should articulate how the financial institution’s strategy aims to align with the net-zero transition immediately and over the long term. Where relevant, a financial institution should integrate its objectives and priorities in internal policies that govern company strategy; business practices; products and services; and other

core business areas to drive change throughout the institution. To support the integration, considerations should be embedded into corporate financial plans including budgets and internal resource allocation decisions. Objectives and priorities should be reviewed at regular intervals, considering the rapid pace of change of the economic, technological, and social context.

86 Institute of International Finance (IIF). [Calling for a High Ambition Path to Net Zero](#), July 2021.

87 IIF. [Calling for a High Ambition Path to Net Zero](#), July 2021.

**Example 1. Aviva’s Climate Transition Plan defines objectives**

Sub-sector: Insurance

Aviva’s first iteration of its Climate Transition Plan,<sup>88</sup> launched in March 2022, provides an explicit discussion of the company’s objectives, strategy, and priorities. This corresponds closely to the GFANZ recommendations.

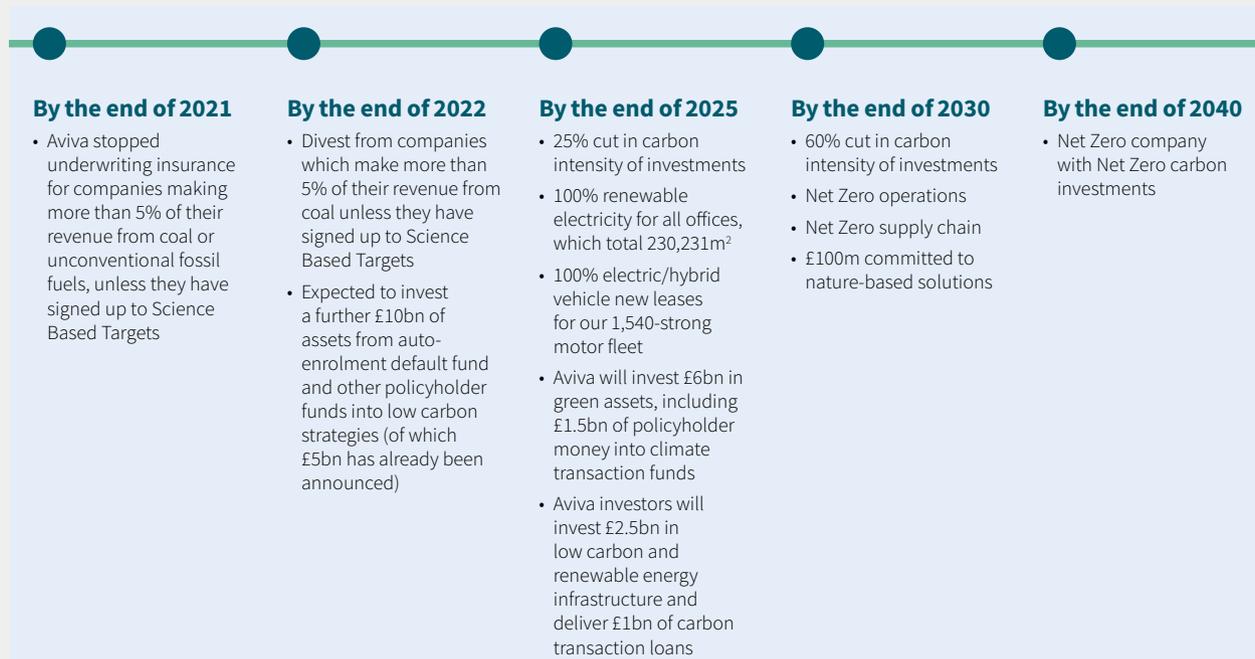
It presents a short ambition statement that clearly specifies the company’s priority areas and scope, and contains an accelerated timeframe (i.e., earlier than 2050) compared to its sub-sector alliance commitment. Aviva states:

**“We pledge to be a Net Zero company by 2040, abating the carbon emissions we produce ourselves and from our suppliers by 2030, from our insurance book by 2040, and from customers’ and shareholders’ investments by 2040.”**

Footnotes to this statement provide definitions of “corporate net zero” and “asset coverage” for readers interested in technical details, and a link to a web page for more information.

Using a simple timeline, Aviva details its roadmap, including interim climate goals and targets, with the interval between the targets shorter in the short term and longer in the long term. This shows that it has considered immediate steps while allowing for regular reviews and potential adjustments to be made along the way. Aviva is also preparing its science-based targets for submission to the Science Based Targets initiative (SBTi).

**Figure 11. Aviva’s timeline**



<sup>1</sup> The SBTi Net-Zero Standard defines corporate Net Zero as: (i) Reducing Scope 1, 2 and 3 emissions to zero or to a residual level that is consistent with reaching Net Zero emissions at the global or sector level in eligible 1.5°C-aligned pathways; (ii) Neutralising any residual emissions at the Net Zero target year and any GHG emissions released into the atmosphere thereafter

<sup>2</sup> This will cover shareholder and policyholder assets where we have control and data and the main asset classes of Aviva’s core markets (credit, equities, direct real estate and sovereign debt). We will be able to expand this further as new data and methodologies become available. For more details, please see [www.aviva.com/climate-goals](http://www.aviva.com/climate-goals)

Additionally, the Climate Transition Plan connects Aviva's objectives to targets and actions. The company explains its current and future activities to achieve net zero for Scopes 1, 2, and 3 emissions by 2040; reach net zero in its operations by 2030; and increase its sustainable investments. For each objective, Aviva sets out actions and levers to implement. It also discusses complementary objectives related to the highest carbon-emitting sectors; supporting people as the economy changes (relating to a just transition); the dependencies and impact on biodiversity and the influence it can bring to bear on various actors who help shape global economies and financial markets; and planning its future carbon-removal offsets (negative emissions).

GFANZ guidance is that financial institutions should articulate how their plan will be embedded within the wider organization. Aviva states, "To deliver this plan will require action on our investments and underwriting, which between them account for around 90% of our current emissions, alongside how we run and operate our business." The company explains how it will deliver on its pledges, and how it is organizing efforts into five functional streams: Investments, Internal Operations, Supply Chain, General Insurance Underwriting, and Claims Management. The plan also touches on governance and long-term incentive plans, demonstrating the considerations taken in developing the transition plan.

Aviva signals that this is the first release of its plan, and it will refresh and strengthen its plan over time. For the sector, Aviva considers that many pieces of the puzzle are still missing: The data is imperfect; methodologies are incomplete. These will evolve over time; however, Aviva believed it could no longer wait for everything to be neatly laid out before it developed and started to implement a plan.

## Example 2. Robeco's ambition and roadmap

Sub-sector: Asset Management

Robeco, an international asset manager owned by Japan's ORIX Corporation, produced its Net Zero Roadmap<sup>89</sup> in October 2021, which communicates the company's commitment and plan. In addition to setting out Robeco's interim targets, the roadmap document contains a clear commitment statement, which includes two of GFANZ's recommended elements: scope and timing.

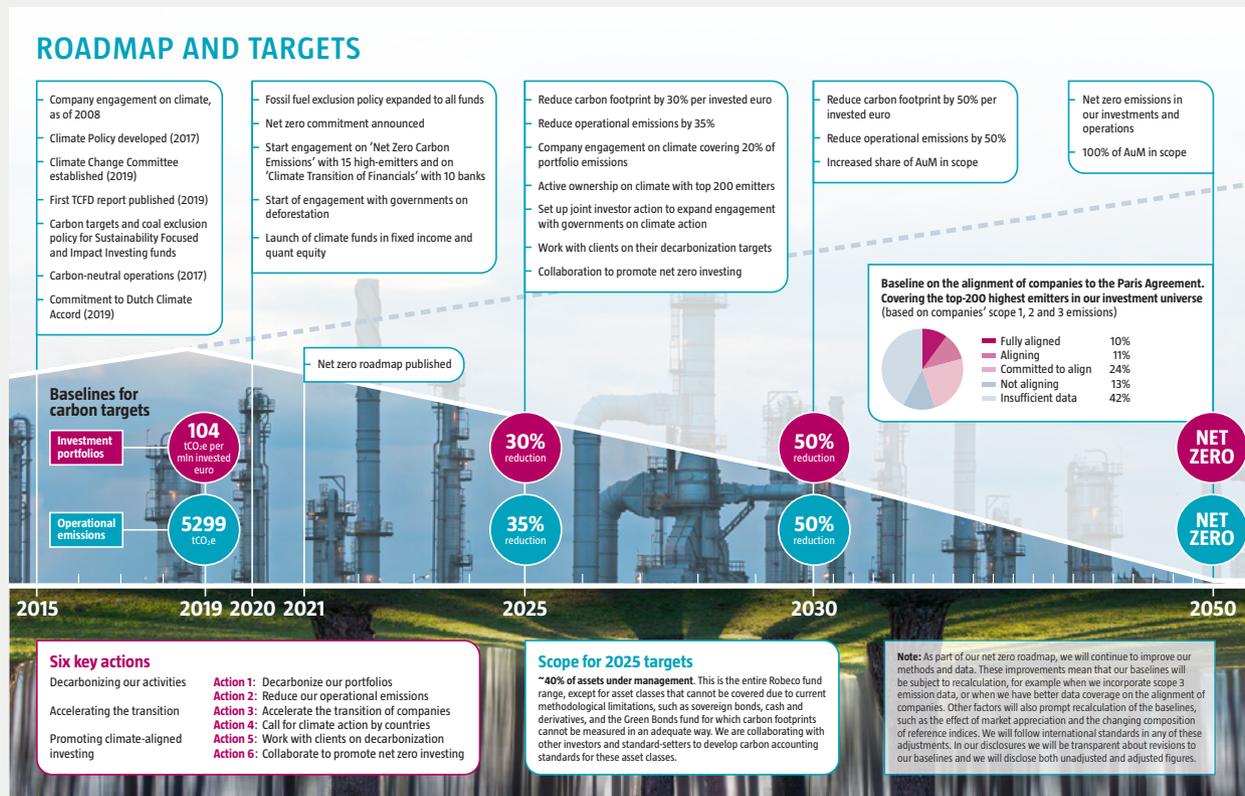
"Our commitment: Robeco is committed to achieving net zero greenhouse gas emissions across all its assets under management by 2050. We commit to this goal because it's part of our responsible stewardship and because we are convinced it's in the long-term interest of our clients and our investment performance. Our vision is that safeguarding economic, environmental and social assets is a prerequisite for a healthy economy and the generation of attractive returns in the future."

An infographic lays out the company's baseline emissions for investment portfolios and operational emissions (2019), interim GHG emissions reduction targets for 2025 and 2030, and key actions to be taken to achieve the reductions.

The document then describes each of the six key actions, articulating how the overall ambition links to the implementation of the transition plan.

<sup>89</sup> Robeco. [Navigating the Climate Transition: Robeco's roadmap to net zero emissions by 2050](#), October 2021.

Figure 12. Robeco’s roadmap and targets



This example, in addition to the ambition statement, brings together many of the core components of the GFANZ recommendations. The scope is broad (covering all assets under management as well as operations), the timing is specific, and the ambition is high (50% reduction by 2030, net zero by 2050). The roadmap includes engagement plans, clear actions to reduce emissions from portfolio companies and promote net-zero investments, and reporting commitments. The company says its targets and annual progress report will be externally reviewed.

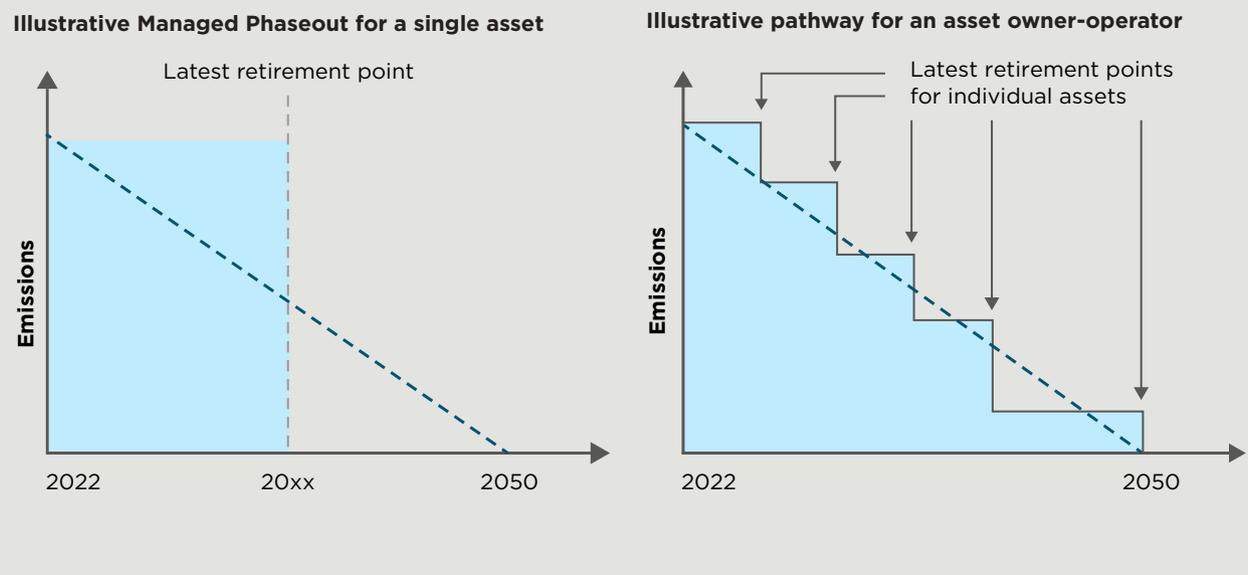
**BOX 5. A NET-ZERO TRANSITION PLAN INCLUDING THE MANAGED PHASEOUT OF HIGH-EMITTING ASSETS**

The Managed Phaseout approach outlined by GFANZ<sup>90</sup> allows financial institutions to provide asset owner-operators clarity that finance for high-emitting assets can be provided, but that it should be conditional on plans to cease operation of those assets over a timeframe that is consistent with the net-zero transition. The Managed Phaseout approach is an emerging area of transition finance.

The approach recognizes that some high-emitting assets will need to be operated while no/low-carbon alternatives are being developed. This can be an equivalent approach to a net-zero GHG emissions reduction pathway if the retirement date is 1.5 degrees C-aligned or earlier. The Managed Phaseout approach is relevant: to assets that may be viable today but are either at financial risk as the global economy decarbonizes or are inconsistent with a 1.5 degrees C-aligned transition in their current operations; and where assets cannot be redeveloped or retrofitted and so need to be retired over a suitable timeframe.

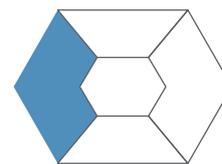
Figure 13 shows the illustrative GHG emissions profiles for a single asset and a portfolio of assets. For a single asset, a possible 1.5 degrees C-aligned GHG emissions profile could be for GHG emissions to remain largely constant and then stop completely upon closure (left graph). The latest retirement point would need to be calibrated to be aligned with a 1.5 degrees C pathway. A company operating several high-emitting assets could potentially retire them at different times (right graph).

**Figure 13. Some high-emitting assets can continue to be operated in the short term, as long as a 1.5 degrees C-aligned retirement date is set<sup>91</sup>**



90 GFANZ. [The Managed Phaseout of High-emitting Assets](#), June 2022.

91 GFANZ. [The Managed Phaseout of High-emitting Assets](#), June 2022.



## THEME

# Implementation Strategy

A financial institution's core business activities and decision-making processes are integral to translating its transition objectives and priorities into concrete goals and desired outcomes for business teams. The Implementation Strategy recommendations focus on the products and services that are key to allocating and securing capital for emissions reduction in the real economy; the internal analytics and processes that drive financing activity; and policies for financing climate-critical activities.

## 1) COMPONENT: PRODUCTS AND SERVICES

### Recommendation

Use existing and new products and services to support and increase clients' and portfolio companies' efforts to transition in line with 1.5 degrees C net-zero pathways. Include accelerating and scaling the net-zero transition in the real economy, providing transition-related education and advice, and supporting portfolio decarbonization in accordance with the institution's net-zero transition strategy.

**Overview and relevance:** Through its products and services, a financial institution can facilitate and accelerate GHG emissions reduction; signal to the real economy that transition strategies will be supported with capital or insurance coverage; and educate clients, portfolio companies, and broader society on the need for the net-zero transition. To this end, financial institutions' finance and investment vehicles, insurance products, and financial services can be aligned with the financial institution's and their clients' net-zero objectives.

**Guidance:** Financial institutions should assess whether and how their existing products and services support and de-risk the net-zero transition, whether and how they could be modified to do so, and whether new "climate-aligned" products and services are required. Where relevant (depending on the institution's business model), ensure that the suite of products and services sufficiently supports real-economy decarbonization and acceleration of climate solutions.<sup>92</sup> Products and services can be geared to do the following:

- Provide financing, investment, insurance, or other services that support companies and activities developing climate solutions or enabling the net-zero transition (e.g., financing that is conditional on phaseout of high-emitting assets or partnerships with government to share risks across the value chain; insurers could develop/offer insurance and reinsurance products and solutions for low-emissions and zero-emissions technologies that enable capital flows).
- Reduce portfolio or financed GHG emissions in alignment with a recognized decarbonization pathway, or construct a portfolio that is geared

<sup>92</sup> An example of a new product that covers this type of investment is the [European Investment Bank's Venture Debt](#) to fill the financing market gap faced by high-growth, innovation-focused companies.

toward assets that have a clear transition plan in place (e.g., indices or funds based on transition-aligned pathways, Outsourced Chief Investment Officer (OCIO) services that include transition considerations).

- Educate and advise clients and counterparties on the net-zero transition. Examples include educating small- and medium-sized businesses on transition risks; educating clients on trade-offs, such as pursuing a low GHG footprint versus an overweight allocation to a low-emissions fund; insurance brokers could engage with clients to help them take steps toward reducing their GHG emissions to be allowed to purchase a specific insurance policy; and pension funds could educate their beneficiaries on net zero-related considerations.

Because products and services are highly specific to different financial institutions and may span multiple business lines, an institution should focus on products and services within its major areas of business (i.e., where it has significant influence, a large network, or greatest potential for decarbonization or real-economy transition acceleration).

When designing products and services, financial institutions should consider a few key aspects to ensure suitable alignment with 1.5 degrees C pathways and the institution’s net-zero objectives and targets, as well as effective deployment. The key aspects that form the conditions around the business relationship should be clearly communicated.

**Table 2. Aspects of net-zero product design**

KEY ASPECT	CONSIDERATIONS
<b>Real-economy impact</b>	Will the product or service support and/or create incentives for the client or portfolio company to decarbonize in a meaningful way, in addition to meeting the financial institution’s own net-zero targets?
<b>Transparency and integrity</b>	Is the purpose of the product or service clear and transparent? Is it labeled clearly, tied to an industry standard, and/or verified by a third-party audit (if relevant) to avoid potential greenwashing claims?
<b>Data availability</b>	Are there sufficient datasets or proxies available to build the product or service, and to measure the impact of the product or service if it is offered?
<b>Scale</b>	Is the product or service commercially viable to allow it to scale? Is the product or service measured against specific performance indicators to ensure it is being provided at a meaningful scale?
<b>Acceleration</b>	Is the product or service geared toward accelerating climate solutions or the transition in hard-to-abate sectors in line with 1.5 degrees C scenarios or sectoral pathways? <sup>93</sup>
<b>Methodology</b>	Is there freedom in the net-zero product design process to allow for creativity and innovation?

93 GFANZ. [Guidance on Use of Sectoral Pathways for Financial Institutions](#), 2022, and anticipated further work on sector-specific pathways.

**Example 3. Bradesco's green export credit note**

Sub-sector: Banking

In 2020, Banco Bradesco S.A. structured the first green export credit note in the Brazilian market.<sup>94</sup>

Bradesco worked with Companhia Brasileira de Alumínio (CBA), a vertically integrated aluminum company, on a BRL 250 million credit note — a loan to exporting clients — to support CBA to reduce the carbon footprint of its aluminum production.

Loan proceeds are targeted toward CBA projects that improve environmental indicators involving, among other benefits, the reduction in the carbon emissions per ton of aluminum produced. The use of proceeds will adhere to the criteria of CBA's Green Financing Framework,<sup>95</sup> which was developed with technical assistance from Bradesco. The aluminum company's framework received a second-party opinion from SITAWI<sup>96</sup> that indicates capital raised will be allocated to projects and assets with a positive environmental impact, aligned with international best practices (Green Bond Principles, Green Loan Principles, and United Nations Sustainable Development Goals [UN SDGs]).

The green export credit note to CBA was Bradesco's first ESG-labeled operation and shows how its investment bank unit is engaging with, and financing, clients in the transition to a low-carbon economy, consistent with GFANZ recommendations. Bradesco is working to develop further customized solutions to help corporate clients achieve their objectives and environmental goals through loan operations as well as in the capital markets.

Similarly, Bradesco supported Volkswagen with a BRL 500 million green export credit note, which ensures that the vehicle manufacturer is committed to reduce its Scope 1 GHG emissions by 12% by replacing 20% of natural gas consumption with biomethane by 2024, and achieve 25.6% of women in leadership positions, ensuring at least 24.8% of women in management and executive management positions, by 2024.<sup>97</sup>

As for other net zero-supportive products and services, Bradesco is one of Brazil's main financial agents for renewable energy projects (in 2020, it advised on 15 operations focused on generation, transmission, and distribution of energy from renewable sources). It also participates in a program offering loans with special interest rates for farmers to remediate pastureland and forests and adopt farming technologies that help reduce GHG emissions, and it offers a direct-to-customer loan product for solar power equipment.<sup>98</sup>

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94 Bradesco. [Integrated Report 2020](#), May 24, 2020, p. 59.

95 CBA. [Green Financing Framework 2020](#), 2020.

96 A Brazilian non-governmental advisory organization.

97 Inside EVs. [Volkswagen contracts a line of credit linked to an ESG commitment](#), February 5, 2022.

98 Bradesco. [Climate Change Management at Bradesco](#), June 2022.

**Example 4. HSBC's support for client decarbonization**

Sub-sector: Banking and Asset Management

HSBC aims to support its customers on their net-zero transition and works with clients in different sectors on their sustainability and GHG emissions reduction goals.<sup>99</sup> This corresponds to the GFANZ recommendation to develop products and services that will accelerate and scale the net-zero transition in the real economy and support portfolio decarbonization. To do this, HSBC provides clients with a range of products and services aligned to the transition, while contributing to its own net-zero targets. Relatedly, these initiatives contribute to HSBC's sustainable finance and investment<sup>100</sup> target of between \$750 billion and \$1 trillion by 2030.<sup>101</sup> In 2021, HSBC:

- organized two large-scale, aviation sector sustainability-linked loans:
  - Etihad airline company raised \$1.2 billion, with targets including emissions reduction for the passenger fleet, with financial penalties and incentives of up to \$5.5 million.
  - British Airways plc raised £1 billion linked to aircraft fuel efficiency.
- attracted international and domestic investors when Greece-based Public Power Corporation issued a €650 million high-yield sustainability-linked bond, committing the company to reduce its carbon emissions, or face higher financing costs;
- launched HSBC Pollination [Climate Asset Management](#) to establish natural capital funds to address nature-related issues and climate change, for both emerging and developed markets;<sup>102</sup>
- launched a £500 million Green SME Fund to support businesses in the transition to a low-carbon economy, outlining criteria for green activities across a range of sub-categories;<sup>103</sup> and
- introduced green mortgages for customers in the UAE and Singapore to finance the purchase of homes accredited as energy efficient.<sup>104</sup>

99 HSBC Holdings plc. [Annual Report and Accounts 2021](#), February 2022.

100 HSBC defines “sustainable finance and investment” as any form of financial service that integrates ESG criteria into business or investment decisions; and financing, investing, and advisory activities that support the achievement of UN SDGs, including but not limited to the aims of the Paris Agreement on climate change. The SDGs, also known as the Global Goals, were adopted by all UN member states in 2015 as a universal call to action to end poverty, protect the planet, and ensure that all people enjoy peace and prosperity by 2030, according to its [2021 annual report and accounts](#).

101 The breakdown of HSBC's sustainable finance and investment progress is included in its [ESG Datapack](#). The detailed definitions of the contributing activities for sustainable finance are available in the revised Sustainable Finance and Investment Data Dictionary, 2021. Please refer to their ESG Datapack, Sustainable Finance and Investment Data Dictionary, and PwC Assurance Report.

102 HSBC. [Climate Asset Management](#), 2020.

103 HSBC. [HSBC UK Launches £500M Green SME Fund](#), November 5, 2021.

104 HSBC Holdings plc. [Annual Report and Accounts 2021](#), February 2022.

**Example 5. Moody's expands climate offerings**

Sub-sector: Financial Service Providers

Moody's Corporation, an integrated risk assessment firm, is committed to achieving net-zero emissions across its operations and value chain by 2040. Moody's views the delivery of new products and services, research and development, and innovation as crucial pillars of its net-zero strategy. The company describes its role in the race to net zero as bringing clarity to the complex and interrelated macroeconomic, financial, and social impacts of climate change.<sup>105</sup>

It organizes its climate-related products and services into two broad offerings:

**1. New solutions to support customers in understanding portfolio alignment and climate risk**

In 2021, Moody's launched Climate Solutions,<sup>106</sup> a product suite dedicated to the identification, quantification, monitoring, and integration of climate risk into financial decision-making. For example, Temperature Alignment Data assesses how individual companies' emissions targets align with global temperature benchmarks.<sup>107</sup> This product allows users to assess the forward-looking trajectory of companies' emissions based on GHG emissions reduction targets.<sup>108</sup> Using this information, banks and asset managers can monitor the net-zero alignment of their portfolios, benchmarking their emissions targets against peer targets.

Other products in the Climate Solutions product suite include CreditLens™, which aims to enable lenders to assess and integrate the impact of climate on a customer's credit quality, as part of existing credit origination processes; and Supply Chain Catalyst, which aims to enable the assessment of climate risk throughout the supply chain.

**2. Embedding climate analysis into credit ratings**

In 2021, Moody's Investors Service (MIS) provided greater transparency into how ESG and climate considerations are integrated into its credit ratings by embedding ESG Issuer Profile Scores (including carbon transition scores) and Credit Impact Scores into credit ratings.<sup>109</sup> MIS also provides detailed Carbon Transition Assessments for rated companies in sectors that are most exposed to these risks.<sup>110</sup>

105 Moody's. [2021 TCFD Report](#), 2021.

106 Moody's. [Corporate emissions targets failing to keep pace with 1.5 degree C trajectory](#), December 8, 2021, p. 3.

107 Moody's. [2021 TCFD Report](#), 2021, p. 8.

108 Moody's. [Corporate emissions targets failing to keep pace with 1.5 degree C trajectory](#), December 8, 2021, p. 2.

109 Moody's. [Four components to MIS integration of ESG](#).

110 Moody's. [2021 TCFD Report](#), 2021, p. 8.

**Example 6. Nationwide's ambition to lead the greening of UK homes**

Sub-sector: Retail Banking, Insurance

According to Nationwide Building Society, a mutual owned by its 16.3 million members, the 29 million homes in the UK account for 16% of the country's total carbon emissions.<sup>111</sup> Reducing these emissions and addressing the barriers to retrofit is a cross-industry challenge.

For its part, Nationwide has developed new green products and services focused on home energy efficiency to help reach its commitment to net zero by 2050. By offering innovative financing programs, it aims to improve the energy performance certificate (EPC) ratings of its mortgage portfolio such that by 2030, at least 50% of homes on its mortgage book will be EPC C or better. Nationwide has launched propositions across three key real estate markets:

1. Purchasing of new energy-efficient homes
2. Retrofitting for homeowners
3. Retrofitting for landlords

In 2020–21, Nationwide:<sup>112, 113, 114</sup>

- launched a Green Additional Borrowing mortgage product to its members to help make energy-efficient home improvements;
- partnered with Switchd to offer its members and colleagues a free six-month trial of their auto-energy tariff switching service, which includes green options;
- launched a solar panel pilot program with MakeMyHouseGreen, aiming to help 300 customers install solar panels on their homes;
- contacted approximately 70,000 The Mortgage Works customers (around 33% of Nationwide's buy-to-let book) who did not appear to have a valid EPC, with the aim to remind them of the regulation and educate them about energy efficiency;
- progressed its Oakfield development in Swindon, consisting of 239 homes built to high environmental standards, which it hopes will provide a blueprint for future sustainable homes;
- launched the Green Reward Mortgage product to members, offering cash back for properties with an EPC of A or high B; and
- launched the Green Further Advance Mortgage to The Mortgage Works customers to help them make energy-efficient home improvements.

111 Nationwide Building Society. [Climate-related Financial Disclosures 2022](#), 2022.

112 Nationwide Building Society. [Climate-related Financial Disclosures 2021](#), 2021.

113 Nationwide Building Society and MakeMyHouseGreen. [Find the right green products for you](#).

114 Nationwide Building Society. [Climate-related Financial Disclosures 2022](#), 2022.

Through its products and services, Nationwide is attempting to accelerate the net-zero transition in the real economy and is providing transition-related education and advice to retail customers, consistent with GFANZ recommendations.

Nationwide notes, however, that public policy changes are also required if it is to meet its net-zero objectives. Government policies and regulations promoting high energy-efficiency standards for new homes and retrofit incentives for homeowners and occupiers to cut their carbon emissions are considered particularly important for reaching a net-zero economy.<sup>115</sup> Nationwide has introduced its products to cater to the increase in demand expected as policies and regulations are introduced.

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<sup>115</sup> Ibid., p. 55.

## 2) COMPONENT: ACTIVITIES AND DECISION-MAKING

**Recommendation**

Embed the financial institution's net-zero objectives and priorities in its core evaluation and decision-making tools and processes to support its net-zero commitment. This applies to both top-down/oversight structures and bottom-up tools and actions.

- transaction approvals
- lending approvals
- investment mandate allocations
- direct investment allocations
- credit underwriting
- insurance underwriting
- client and/or investment due diligence

**Overview and relevance:** Financial institutions use analytical tools and review processes to evaluate and inform decisions on all financing activities, including risk-return ratios in investments, underwriting, lending, approving new clients, and more. These tools and processes form the core business operations, and most do not account for transition objectives. If institutions are to align business activities with net-zero commitments, then they should integrate net-zero data, targets, and objectives into these evaluation and decision-making tools and processes.

**Guidance:** The integration should be guided by any specific net-zero objective or target for that business and mindful of sector-specific priority transition activities. Where there is no specific objective or target, processes should still align with the institution's net-zero ambition. Core decision-making processes vary across the financial sector, and may involve the following:

Criteria used in decision-making should reflect any conditions laid out in policies. Where possible, consider adjustments that integrate transition-relevant data, information, and implications into the detailed analytical processes, statements, terms of reference, or procedures that underpin the core decision-making processes. For instance, by:

- adjusting factors in risk models and expected return models, such as discount rate or credit quality/ratings, based on a view of the transition;
- adding transition-related diligence questions to committee processes or reviews of third parties, such as asset managers, OCIOs, investment consultants, and subject matter experts;
- utilizing a recognized framework<sup>116</sup> to assess the plan for sustainability-linked finance; and
- incorporating client and portfolio company transition plans/progress; third-party assessments of client/portfolio company actions; sector decarbonization pathways; and emissions mitigation technology uptake in the market.

<sup>116</sup> Examples include the Green Bond Principles, Green Loan Principles, and the work of the Climate Bonds Initiative.

Financial institutions should consider adjusting the top-down tools that inform their core decision-making processes. For example, such adjustments could include using the following:

- taxonomy-based ratios (e.g., green asset ratio, sustainable asset ratio)
- internal carbon pricing
- green capital weighting
- carbon budgets
- assigned changes to asset ratings based on transition readiness
- internal thresholds aligned to financed emissions interim targets

Table 3 outlines examples from a sample of financial institutions of how a portfolio might change following the implementation of decision-making processes consistent with the previously stated guidance.

**Table 3. Tracking progress in a portfolio**

**FINANCIAL INSTITUTION TRACKING OF PROGRESS**

**ING<sup>117</sup>** Launched in 2018, the Terra approach was designed to enable ING to measure and steer alignment of its lending portfolio with the Paris Agreement goals. In its 2021 Climate Report, ING reported that five of nine sectors are on track with climate alignment pathways, with three others close, and only one not on track.

**Barclays<sup>118</sup>** Using its BlueTrack™ methodology to measure, track, and set targets on its financed emissions, Barclays is now reporting progress against its 2020 baselines. The BlueTrack™ methodology allows Barclays to make active choices to reshape their portfolio within their “carbon limit” for each sector, estimating the emissions that their clients produce and how those emissions should be linked to the financing they provide.

2 Reducing our financed emissions		By the end of 2025	2021 Performance	By the end of 2030 <sup>6</sup>
Portfolio reduction targets	Energy	▪ -15% absolute CO <sub>2</sub> emission reduction against a 2020 baseline (Scopes 1, 2 and 3)	▪ -22% absolute CO <sub>2</sub> emission reduction	▪ -40% absolute CO <sub>2</sub> e <sup>7</sup> emission reduction against a 2020 baseline of 78.5 MtCO <sub>2</sub> e (Scopes 1, 2 and 3)
	Power	▪ -30% CO <sub>2</sub> emission intensity reduction against a 2020 baseline (Scope 1)	▪ -8% CO <sub>2</sub> emission intensity reduction	▪ -50% to -69% CO <sub>2</sub> emission intensity reduction against a 2020 baseline of 320 kgCO <sub>2</sub> /MWh (Scope 1)
	Cement	n/a	n/a	▪ -20% to -26% CO <sub>2</sub> e emission intensity reduction against a 2021 baseline of 0.620 MtCO <sub>2</sub> e/Mt (Scopes 1 and 2)
	Steel	n/a	n/a	▪ -20% to -40% CO <sub>2</sub> e emission intensity reduction against a 2021 baseline of 1.926 MtCO <sub>2</sub> e/Mt (Scopes 1 and 2)

**Rockefeller Brothers Fund (RBF)<sup>119</sup>** Following its pledge to a two-step process to divest from fossil fuels (reduce exposure to coal and tar sands, and analysis of exposure to other fossil fuel investments), as of March 31, 2022, RBF’s exposure to coal and tar sands has been reduced to 0.05% of their total portfolio. (At the time of RBF’s first comprehensive analysis of its exposure in April 2014, it was 1.6%.) The fund’s total fossil fuel exposure is estimated to be 0.3% (in April 2014, it was 6.6%).<sup>120</sup>

117 ING. [2021 Climate Report](#), 2021.

118 Barclays. [Barclays’ Climate Strategy, Targets and Progress](#), 2022.

119 RBF. [Fossil Fuel Divestment](#).

120 The fund uses the MSCI Fossil Fuel Reserves Screen to evaluate its fossil fuel exposure for publicly listed holdings. All public companies with evidence of owning fossil fuel reserves, regardless of industry, are captured in the screen. For private holdings and funds where individual holdings are not available, total energy sector exposure is used to conservatively estimate fossil fuel exposure.

### Example 7. Groupe BPCE Green Weighting Factor

Sub-sector: Banking

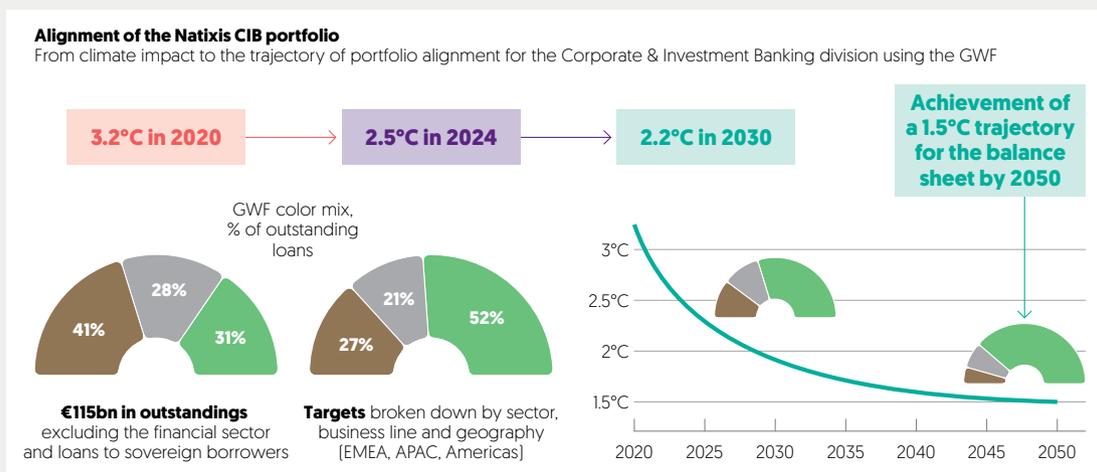
Natixis Corporate and Investment Banking (CIB), a subsidiary of the French banking group Groupe BPCE, has developed a dedicated tool to support climate-related decision-making. Groupe BPCE is gradually extending this work to cover all its lending portfolios (excluding the financial sector and sovereign issuers).

The Green Weighting Factor (GWF) tool assigns a climate rating to assets, financed products, or borrowers. It is a seven-level color rating resulting from an assessment of the climate impact of the transaction, incorporating environmental externalities. The bank assesses indicators on water, biodiversity, waste, and air pollution, though the weighting of each metric depends on the sector or project. This proprietary tool enables systematic integration of climate change in CIB financing activities and is described in the Groupe BPCE 2021 TCFD Report.<sup>121</sup>

A GWF rating is assigned whenever credit is granted, and the rating is reviewed regularly. Natixis CIB uses the GWF tool to measure and steer its share of balance sheet assets that are most exposed to transition risk. All “green” financing is assigned a reduction in analytical risk-weighted assets of up to 50% for the greenest. This metric is increased by up to 24%, however, for financing that has a negative impact on the climate. By adjusting the expected return on each loan according to its environmental and climate impact, teams are encouraged to favor green financing solutions (for an equivalent level of credit risk). The tool was also used in the decision to exit client relationships that had no potential to become aligned with net-zero objectives.<sup>122</sup>

The tool has been in use for more than two years, and ratings fluctuate as both the methodology and client disclosure evolve. While it took time to fully implement and train employees, the GWF is now fully deployed and targets have been set for every CIB line of business. Senior management emphasizes the importance of the GWF, which has also been integrated into CIB’s Risk Appetite Framework.

Figure 14. The Groupe BPCE Climate Report, October 2021<sup>123</sup>



121 Natixis. [TCFD Report 2021: Tackling climate change.](#)

122 Natixis. [TCFD Report 2021: Tackling climate change.](#) p. 20.

123 Group BPCE. [TCFD: The Group BPCE Climate Report](#), October 2021, p. 45.

As well, in the context of Groupe BPCE's 2024 strategic plan, the GWF has supported the ongoing measurement of climate impact and activity-specific target setting for each business line, sector, and geography using two main indicators: 1) the mix of GWF ratings and 2) the bank balance sheet temperature trajectory. Groupe BPCE will use the tool for its retail activities to rate customers and their maturity in terms of addressing the climate-related and environmental challenges of their sector.

The GWF tool is an example of how a major financial institution can embed its net-zero objectives and priorities into its core evaluation and decision-making processes.

### **Example 8. How WTW helps clients make key climate decisions**

Sub-sector: Investment Consultant

WTW is a global investment consultant. Investment consultants can play a vital role in supporting the net-zero transition, acting as a critical link between asset managers and asset owners. Across the services provided, investment consultants can integrate climate-related criteria into their clients' decision-making processes. For asset owners, they can provide strategic advice on investment criteria, asset allocation, and asset manager selection, helping them to make decisions that align with their own net-zero commitments. And for asset managers, they can provide guidance on climate solutions and capabilities, encouraging them, through their rating process, to incorporate net-zero considerations.

Since making its net-zero commitment in 2021, WTW has already embedded key climate-related considerations within its two main types of services:<sup>124</sup>

#### **1. Fiduciary (outsourced) investment services**

To achieve its net-zero objective,<sup>125</sup> WTW uses multiple levers to decarbonize the existing assets in its fiduciary portfolios, including changes to risk management and asset allocation, manager selection, index design, stewardship, and policy-level engagement. Additionally, it makes new investments in climate solutions, such as sustainable agriculture, forestry, and renewable energy.

#### **2. Advisory investment services**

WTW helps its clients make decisions about the risks and opportunities of climate change through a range of advisory services, including helping clients develop climate beliefs, asset allocation, benchmarking, climate scenario analysis, net-zero considerations in manager selection and reporting, plus identifying new climate solutions.

124 WTW. [2020 UK Stewardship Code](#), 2021.

125 WTW. [Our pledge: Net zero greenhouse gas emissions by 2050 for our discretionary investment portfolios](#), 2021.

WTW uses its net-zero reporting framework, which includes Carbon Journey Planning and a Climate Dashboard across both services.<sup>126</sup> The Carbon Journey Planning<sup>127</sup> sets out a pathway of emissions and an annual carbon budget for investment portfolios that is consistent with the net-zero transition. Carbon Journey Planning has been designed to feed into asset owners' decision-making when changing asset allocation or awarding new asset management mandates. The Climate Dashboard was inspired by the Climate Financial Risk Forum's data and metrics guidance.<sup>128</sup> It incorporates data and metrics across five themes: transition risk, physical risk, carbon footprint, alignment, and climate solutions. It is also supplemented by the reporting of engagement activities. The Climate Dashboard has been designed to support WTW's clients in their decisions on asset allocation, manager selection, and performance monitoring, and in helping clients achieve their net-zero commitments.

### **Example 9. Railpen's Climate Risk and Net Zero Alignment (CRIANZA) framework and tool for decision-making**

Sub-sector: Asset Management

Railway Pension Investments Limited (Railpen) is a wholly owned subsidiary of Railways Pension Trustee Company Limited, the corporate trustee of the UK's railway pension schemes (the Trustee). Railpen oversees the day-to-day operation of the railway pension schemes and is the investment manager for the schemes.

In 2021, a new Risk Governance Framework was introduced, and Railpen also updated its Investment Beliefs to explicitly reference climate change. Railpen incorporates assessment of climate risk and net-zero alignment into investment decisions using CRIANZA (Climate Risk And Net Zero Alignment), a proprietary framework and developed in-house. CRIANZA, a bottom-up portfolio assessment tool, is used to assess individual companies on their climate risk and net-zero alignment.

CRIANZA is currently used to assess the key emitters contributing to 70% of Railpen's financed emissions in material sectors in listed equities,<sup>129</sup> but it has been designed to be applied across asset classes and to analyze sponsoring employers in the future.<sup>130</sup> It incorporates sector-specific features and can be used for risk management, regulatory reporting, and to identify gaps in a company's practice, informing discussions and engagement.

For each company, CRIANZA produces a risk score (ranging from 1 [low] to 5 [high] risk) and a net-zero alignment status (Not Aligned, Committed, Aligning, or Fully Aligned). The alignment scores are determined using a milestone-based approach also outlined in the IIGCC Net Zero Stewardship Toolkit<sup>131</sup> to assess and score a company's alignment with a net-zero pathway. The objective of the portfolio alignment assessment is "to enable a feedback loop between company analysis and company engagement."<sup>132</sup>

<sup>126</sup> For example, WTW. [Climate Dashboard](#).

<sup>127</sup> An example of this in practice for Lloyds Banking Group can be found [here](#).

<sup>128</sup> Climate Financial Risk Forum. [Climate Financial Risk Forum Guide 2021: Climate Data and Metrics](#), 2021.

<sup>129</sup> Railways Pension Scheme. [Taskforce on Climate-Related Financial Disclosures](#), p. 55.

<sup>130</sup> *Ibid.*, p. 48.

<sup>131</sup> IIGCC. [Net Zero Stewardship Toolkit](#), p. 13.

<sup>132</sup> Railways Pension Scheme. [Taskforce on Climate-Related Financial Disclosures](#), p. 49.

The assessment criteria are shown in the figure below.<sup>133</sup> They feature many of the net-zero transition plan components and considerations set out by GFANZ in this document.

**Figure 15. CRIANZA's Net Zero Alignment Assessment Criteria**

As part of the 2021 net-zero plan, Railpen Trustees have set a target that, by 2040, 100% of AUM in material sectors should be “aligning” or “fully aligned.” In 2021, based on the analysis of 70% of financed emissions, which is 10% of overall AUM, 1% of AUM in material sectors fell into these categories. Progressing this further, the CRIANZA assessment can be carried out on all holdings in material sectors and may result in the percentage in “aligning” or “fully aligned” companies to potentially be higher. The CRIANZA assessment criteria will influence future decision-making and engagement.

Railpen also uses the CRIANZA framework to assess companies for purposes of its Net Zero Engagement Plan (NZEP).<sup>134</sup> The NZEP uses a four-step approach of prioritization, analysis, engagement and voting, and reporting of decarbonization impact on portfolio companies.



133 See Figure 5.4.4.2.1 in Railways Pension Scheme. [Taskforce on Climate-Related Financial Disclosures](#), p. 49.

134 See Figure 6.4.1.1. in Railways Pension Scheme. [Taskforce on Climate-Related Financial Disclosures](#), p. 57.

## 3) COMPONENT: POLICIES AND CONDITIONS

## Recommendation

Establish and apply policies and conditions on priority sectors and activities, such as thermal coal, oil and gas, and deforestation. Include other sectors and activities that are high-emitting, or otherwise harmful to the climate, to define business boundaries in line with the institution's net-zero objectives and priorities.

**Overview and relevance:** Policies and conditions can be used to manage a financial institution's interaction with high-emitting activities and physical assets; to transition those assets to a net-zero pathway; and to speed the real-economy transition to net zero. Assets and activities might be emissions-intensive in and of themselves or contribute to increased GHG emissions downstream. Policies and conditions set out a clear management process for priority areas and communicate the organization's intentions both internally and externally.

**Guidance:** Financial institutions should develop and implement policies and conditions that are clear and comprehensive and that support the realization of the institution's net-zero transition plan.

Policies and conditions should apply to high-emitting sectors and activities, such as thermal

coal and oil and gas, and harmful activities such as deforestation, if relevant to the institution's business. These sectors have been highlighted because of their contribution to GHG emissions. Their importance in achieving GHG emissions reductions places them at risk of greater business disruption as a result of climate risk and potential government action leading to firm-specific transition risk and potential for stranded assets. Coal power plants produce one-fifth of global GHG emissions.<sup>135</sup> Scopes 1, 2, and 3 emissions from the oil and gas sector represent between 33% and 40% of global GHG emissions.<sup>136</sup> Bodies such as the IEA and IPCC agree that the rapid shift away from fossil fuels is critical to achieving net zero, with widely used pathways projecting a significant decline in the use of coal, oil, and gas through 2050.<sup>137</sup>

Halting deforestation is a priority because forests absorb vast amounts of carbon dioxide and forest loss both eliminates carbon sinks and contributes directly to GHG emissions.<sup>138</sup> Approximately 22% of the world's emissions stem from land-use activity, including logging, deforestation, and farming, and half of that from deforestation.<sup>139</sup> Agreements related to phasing out coal and methane and halting deforestation were spotlighted at COP26 and the Glasgow Climate Pact included a specific focus on fossil fuels, non-CO<sub>2</sub> gases, and nature and ecosystems.<sup>140, 141</sup>

135 IEA. [It's critical to tackle coal emissions](#), October 8, 2021.

136 Analysis based on International Energy Agency, [Global Energy Review: CO<sub>2</sub> Emissions in 2021](#), 2022, Energy and process CO<sub>2</sub> emissions; International Energy Agency, [Global Methane Tracker](#), 2022, World methane emissions from all sources, and World methane emissions from energy sources; assumed that 1 ton methane = 25 tonnes CO<sub>2</sub>e; and Estimates of total emissions vary between 50 Gt CO<sub>2</sub>e and 60 Gt CO<sub>2</sub>e from [United Nations Environment Programme Emissions Gap Report 2020](#), 59.1 Gt CO<sub>2</sub> eq., 2019; [World Resources Institute](#), 48.9 Gt CO<sub>2</sub>e.

137 IPCC. [Climate Change 2022: Mitigation of Climate Change: Summary for Policymakers](#), 2022, p. 28.

138 Grantham Research Institute on Climate Change and the Environment. [What is the role of deforestation in climate change and how can 'Reducing Emissions from Deforestation and Degradation' \(REDD+\) help?](#) January 8, 2018.

139 IPCC. [Climate Change 2022: Mitigation of Climate Change: Summary for Policymakers](#), 2022.

140 COP26. [Global Coal to Clean Power Transition Statement](#), November 4, 2021, and [Forests, Agriculture and Commodity Trade](#), November 2, 2021; COP26 Presidency. [COP26: The Glasgow Climate Pact](#), 2021; European Commission and the United States of America. [Global Methane Pledge](#), 2021; [Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation](#), November 2, 2021; and [PPCA Declaration](#).

141 UNFCCC. [Report of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement](#), March 8, 2022. The Glasgow Climate Pact included herein calls for "the phasedown of unabated coal power" and "further actions to reduce by 2030...methane" and emphasizes "protecting, conserving, and restoring nature and ecosystems...including forests."

Beyond the priority areas listed previously, financial institutions should consider implementing policies to cover other issues related to the net-zero transition, including methane and biodiversity, where they are relevant to their organization.

Policies should be anchored in science-based transition scenarios and pathways used to set the organization’s net-zero targets, and should reflect the strategy taken by the institution to support decarbonization in the real economy. Policies may also draw from sectoral decarbonization pathways, where available, to ground the conditions in a robust, credible methodology<sup>142</sup> and best available information on how to manage an orderly phaseout.<sup>143</sup>

Policies and conditions should be regularly reviewed and updated. This should include evaluating progress against policy timelines and objectives, reflecting updates in data availability, and considering scientific understanding.

In their policies, institutions should consider including a clear objective connected to net zero; a definition of the sectors and activities to which the policy applies; conditions and standards for ongoing business engagement; details of any restrictions or exclusions that apply; and relevant timelines. As well, the policy should be transparent. Table 4 sets out the potential policy elements and a description of examples of what they might include. If companies are unable or unwilling to meet the conditions and standards after suitable engagement, financial institutions should consider having an escalation process.

See Policy examples section in the [Financial Institution Net-zero Transition Plans – Supplemental Information](#) report for an in-depth discussion and examples of thermal coal, oil and gas, and deforestation policies and conditions in the financial sector.

**Table 4. Elements in policies on emissions-intensive assets/activities – Considerations**

ELEMENT	DESCRIPTION
<b>Objective</b>	The overarching goal of the policy, how it supports implementation of the institution’s net-zero transition ambition and priorities, and how it is informed by science.
<b>Scope</b>	The type of company, asset, project, and/or activity, as well as the consideration across the supply chain, to which the policy applies. Examples include companies whose share of revenue generated by specific activity (e.g., coal-fired power) exceed a threshold, a list of specific project types (e.g., gas pipelines), or geographies (e.g., the Amazon Basin).  Scope could include the types of business activities within the financial institution (e.g., lending, underwriting, investing, advising, services) to which the policy applies, with the aim to cover the whole business where feasible over time.
<b>Conditions</b>	Criteria or conditions consistent with a science-based net-zero transition and under which the financial institution provides products and services within the activities, geographies, and sectors/business areas defined in the policy. For instance, the institution’s policy could require more extensive due diligence on particular clients or portfolio companies, or a transition or managed phaseout plan. <sup>144</sup> Engagement programs may focus on influencing companies to decarbonize operations.

142 GFANZ. [Introductory Note on Expectations for Real-economy Transition Plans](#), 2022, and [Guidance on Use of Sectoral Pathways for Financial Institutions](#), 2022.

143 GFANZ. [The Managed Phaseout of High-emitting Assets](#), 2022.

144 GFANZ. [The Managed Phaseout of High-emitting Assets](#), 2022.

ELEMENT	DESCRIPTION
<b>Exclusions</b>	<p>Specific prohibited companies, assets, projects, and/or activities that cannot be served or financed by the financial institution upon conditions not being met.</p> <p>Examples include the prohibition of services or financing to entities in scope that do not have mitigation plans or whose activities involve expansion of high-emitting sources. Any exclusions which a financial institution chooses to apply should be informed by science-based pathways and determined unilaterally.</p>
<b>Timelines</b>	<p>A roadmap for the transition to net zero in the context of the policy, outlining when and under what circumstances the new and existing conditions and exclusions will apply. These timelines should be consistent with the science-based pathways used to set net-zero targets.</p>
<b>Transparency</b>	<p>Disclosure of methodology used within the policy, metrics used to demonstrate compliance, and/or progress, and the governance and review process associated with the policy. Additionally, financial institutions should disclose the policies' scope and percentage coverage of the portfolio or otherwise, and any changes to the scope or coverage change.</p>

Table 5 to Table 7 present examples of how the previously stated elements are found in policies on thermal coal, oil and gas, and deforestation, based on a review of existing policies in the financial sector.

**Table 5. Examples of elements in thermal coal policies**

KEY ELEMENTS	INDUSTRY EXAMPLES
<b>Scope</b>	<p><b>NZBA:</b> “Any client with more than 5% of their revenues coming directly from thermal coal mining, and electricity generation activities shall be included in the scope of targets.”<sup>145</sup></p> <p><b>SBTi:</b> “Coal companies are defined as companies with greater than 5% of revenues from thermal coal mining, exploration and drilling, mining services, processing, trading, transport and logistics, equipment manufacturing, operations and maintenance services, engineering, procurement and construction services, transmission and distribution of coal-fired electricity, coal to liquids and coal to gas.”<sup>146</sup></p>
<b>Conditions</b>	<p><b>Axa:</b> “An engagement initiative was launched targeting issuers which are exposed to coal but are below our exclusion thresholds, to inform them of our decision, and ask them to define robust transition plans, implementing Science-Based Carbon Reduction targets and Transition Pathways in line with the Paris Agreement’s +1.5 degree C ambition, and report regularly on progress.”<sup>147</sup></p> <p><b>Bank of America:</b> “Unless those facilities employ technology that is focused on complete or near elimination of atmospheric carbon emissions, such as carbon capture technology.”<sup>148</sup></p> <p><b>Mitsubishi UFJ Financial Group, Inc. (MUFG):</b> “Coal-fired power generations equipped with carbon capture, utilization and storage (CCUS), mixed combustion, and other technologies necessary to achieve the Paris Agreement target may be considered on an individual basis.”<sup>149</sup></p>

145 NZBA. [Guidelines for Climate Target Setting for Banks](#), April 2021.

146 SBTi. [Financial Sector Science-Based Targets Guidance](#), version 1.0, February 2022.

147 AXA IM. [Responsible Investing: AXA IM Climate Risks Policy](#), April 2021.

148 Bank of America. [Bank of America Corporation Environmental and Social Risk Policy \(ESRP\) Framework](#), June 2022.

149 MUFG. [MUFG Environmental and Social Policy Framework](#), May 2022.

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**KEY ELEMENTS**    **INDUSTRY EXAMPLES**


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<b>Exclusions</b>	<p><b>Credit Agricole:</b> “The Bank will not participate in dedicated financing for the development of new coal-fired power plants or their expansions, regardless of the country.”<sup>150</sup></p> <p><b>NZAOA:</b> “Other than coal plants currently under active construction, no further thermal coal power plants should be financed, insured, built, developed or planned. There should be an immediate cancellation of all new thermal coal projects, including thermal coal plant, coal mines and related infrastructure (i.e., supplying products or services to thermal coal-based projects or business models) that are in pre-construction phase.”<sup>151</sup></p> <p><b>PAII NZIF:</b> “It is recommended that investors should not allocate additional capital to companies which are planning or constructing new thermal coal projects and associated infrastructure (power, mining).”<sup>152</sup></p>
<b>Timeline</b>	<p><b>Citigroup Inc (Citi):</b> “It is our expectation that such strategies will align with Paris Agreement decarbonization pathways by 2030 (for clients with power generation in OECD countries) and by 2040 (for clients with power generation in non-OECD countries).”<sup>153</sup></p> <p><b>Credit Agricole:</b> “For the continuation of financial services from 2021, the Bank expects its clients to develop and communicate to it an [sic] phasing out plan in line with the timetable recommended by climate science (2030 for EU and OECD countries and 2040 for the rest of the world), including a commitment not to develop new projects.”<sup>154</sup></p> <p><b>IA ICAPs:</b> “A clear position should be developed on engaging high emitting investments (including adopting a formal fossil fuel policy), consistent with any climate pledges made. [...] investors should adopt a robust and science-based policy for the organization in relation to fossil fuel phaseout. This policy may also recognize the need for a just transition in countries or regions where there is significant dependence on thermal coal power or mining and reflect regional differences in speed of phaseout consistent with 1.5 degree C scenarios.”<sup>155</sup></p> <p><b>IEA:</b> The Net Zero Emissions (NZE) scenario involves the phaseout of unabated coal power plants in advanced economies by 2030 and globally by 2040.<sup>156</sup></p> <p><b>PPCA:</b> Requires phase-out on science-based timelines to meet Paris, with specific dates set in the PPCA Declaration.<sup>157</sup></p>

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150 Credit Agricole Group. [Credit Agricole Group CSR Sector Policy – Coal-fired power plants](#), March 2020.

151 NZAOA. [Thermal Coal Position](#).

152 PAII. [Net Zero Investment Framework: Implementation Guide](#), version 1.0, March 2021.

153 Citigroup. [Environmental and Social Policy Framework](#), March 2022.

154 Credit Agricole Group. [Credit Agricole Group CSR Sector Policy – Coal-fired power plants](#), March 2020.

155 Investor Agenda. [Investor Climate Action Plans \(ICAPs\) Guidance on Using the Expectations Ladder](#), July 2022, p. 19.

156 IEA. [Net Zero by 2050: A Roadmap for the Global Energy Sector](#), October 2021.

157 PPCA. [PPCA Declaration](#), 2017.

**Table 6. Examples of elements in oil and gas policies**

KEY ELEMENTS	INDUSTRY EXAMPLES
Scope	<p><b>Intesa Sanpaolo:</b> Policy applies “to the unconventional resources as described [below], in upstream activities, such as exploration and mining, and midstream activities, such as transport through pipelines solely linked to exploration and mining of unconventional resources.”<sup>158</sup></p> <ul style="list-style-type: none"> <li>• Tar sands (oil sands)</li> <li>• Shale/tight oil and gas</li> <li>• Onshore/offshore oil and offshore gas in the Arctic region</li> <li>• Oil in the Amazon headwaters</li> </ul> <p><b>NatWest:</b> “Stop lending and underwriting to all major oil and gas producers unless they have a credible transition plan aligned with the 2015 Paris Agreement in place by end of 2021.”<sup>159, 160</sup></p>
Conditions	<p><b>Swiss Re:</b> “By 2025, half of our overall oil and gas premiums are to come from companies that are aligned with net zero by 2050, as per SBTi or a comparable, credible third-party assessment. These ambitions will be translated into net-zero alignment targets once guidance based on science-based target setting becomes available.”<sup>161, 162</sup></p>
Exclusions	<p><b>Allianz:</b> “As of 1st of January 2023 we will not issue new single-site/stand-alone P&amp;C insurance policies/coverages and not provide new funding for projects in:</p> <ul style="list-style-type: none"> <li>• exploration and development of new oil and new gas fields (upstream)</li> <li>• construction of new midstream infrastructure related to oil</li> <li>• construction of new oil power plants</li> <li>• practices relating to Arctic (as defined by AMAP13, excluding operations in Norwegian territories) and Antarctic, coal-bed methane, extra-heavy oil and oil sands, as well as ultra-deep sea. This pertains to both new and existing projects/operations</li> </ul> <p>As of 1st of July 2023, we will also not renew single-site/stand-alone policies/coverages for elements above.”<sup>163</sup></p> <p><b>Dai-ichi Life:</b> “No longer engaging in finance for new thermal power generation by means of fossil fuels (includes coal, petroleum, and gas).”<sup>164</sup></p> <p><b>PAII NZIF:</b> “It is recommended that investors should not allocate additional capital to companies which are...taking forward new exploitation of tar sands.”<sup>165</sup></p>

158 Intesa Sanpaolo. [Rules for lending operations in the unconventional oil and gas sector](#), July 2021.

159 NatWest Group. [2020 Environmental, Social and Governance supplement](#), 2020.

160 NatWest Group. [Climate-related Disclosures Report, 2021](#). This report defines a Credible Transition Plan assessment criteria as having a quantitative assessment using an independent third-party proprietary model (calculating a temperature alignment score) to assess alignment with the 2015 Paris Agreement; a credibility assessment with the use of a standardized scorecard; and a management review and assessment by the NatWest Group Reputation Risk Committee.

161 Swiss Re. [Sustainability Report 2021](#), 2021.

162 Swiss Re anticipates that the SBTi oil and gas framework will become available before its new oil and gas policy becomes effective. For the scenario that the framework is not available for, it will consider other frameworks to assess oil and gas companies.

163 Allianz. [Statement on Oil and Gas Business Models](#), April 2022.

164 Dai-ichi Life Group. [Responsible Investment Report 2021](#), 2021.

165 PAII. [Net Zero Investment Framework Implementation Guide](#), version 1.0, March 2021.

**KEY ELEMENTS    INDUSTRY EXAMPLES**

<b>Timeline</b>	<p><b>CDPQ:</b> “Complete our exit from oil production by the end of 2022.”<sup>166</sup></p> <p><b>IA ICAPs:</b> “A clear position should be developed on engaging high emitting investments (including adopting a formal fossil fuel policy), consistent with any climate pledges made. [...] investors should adopt a robust and science-based policy for the organization in relation to fossil fuel phase out. This policy may also recognize the need for a just transition in countries or regions where there is significant dependence on thermal coal power or mining and reflect regional differences in speed of phase out consistent with 1.5 degree C scenarios.”<sup>167</sup></p> <p><b>IEA:</b> The NZE scenario involves no new oil and gas fields approved for development after 2021 and phaseout of all unabated oil power plants by 2040.<sup>168</sup></p> <p><b>Nest:</b> “We will decarbonise our portfolio. This will include divesting by set dates from companies involved in thermal coal, oil sands and arctic drilling, reducing other carbon-intensive holdings and investing more money in companies that are developing solutions such as renewable energy infrastructure and low-carbon technologies. We will continue to exclude from our investment portfolios: — all companies making new developments in these activities — all companies with more than 10% of revenues from these activities by 2023 — then all companies still involved in these activities by 2025 if they have not committed to a full, accountable phase-out by 2030 at the latest”<sup>169</sup></p>
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**Table 7. Examples of elements in deforestation policies**

**KEY ELEMENTS    INDUSTRY EXAMPLES**

<b>Scope</b>	<p><b>Citi:</b> “Customers that are directly involved, as a material business line, in logging or primary processing of timber (includes milling of logs for pulp, paper, sawnwood, plywood or veneer). This includes all customers who are engaged in harvesting or processing of forest resources from either natural forests or plantations.”<sup>170</sup></p> <p><b>Global Canopy:</b> “Finance provided to clients/holdings (including companies, projects, and financial institutions) which produce, process, procure and finance the highest-risk agricultural commodities, which are responsible for over two-thirds of tropical deforestation including: Soy; Cattle products (including beef and leather); Palm oil; Timber; and Pulp and paper.”<sup>171</sup></p> <p><b>Santander:</b> Defines a list of high-risk activities and high-risk geographies.<sup>172</sup></p>
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166 CDPQ. [Climate Strategy](#), 2021.

167 Investor Agenda. [Investor Climate Action Plans \(ICAPs\) Guidance on Using the Expectations Ladder](#), July 2022, p. 19.

168 IEA. [Net Zero by 2050: A Roadmap for the Global Energy Sector](#), October 2021.

169 Nest. [Climate change risk policy](#), December 2021.

170 Citi. [Sustainable Forestry Standard](#), 2013.

171 Global Canopy. [Eliminating Commodity-Driven Deforestation, Finance Sector Roadmap](#), February 2022.

172 Santander Group. [Environmental, Social & Climate Change Risk Management Policy](#).

## KEY ELEMENTS    INDUSTRY EXAMPLES

<b>Conditions</b>	<p><b>MUFG:</b> “When we consider providing financing for logging businesses, including management of forest plantations, we conduct an assessment of clients to ensure that developments and management are conducted in an environmentally and socially responsible manner. In addition to confirming that illegal logging and deforestation in high conservation value areas are not involved, we request our clients to certify the relevant operations according to internationally recognized certification organizations such as Forest Stewardship Council and Programme for the Endorsement of Forest Certification, when providing finance to the subject business activities mentioned above, in countries other than High Income OECD countries. We will request our clients to submit action plans to achieve certification when relevant operations are not certified.”<sup>173</sup></p> <p><b>LGIM:</b> Assesses companies’ net-zero pathways by looking at traceability of select forest commodities across supply chains, percentage of purchases under zero-deforestation principles, existence of deforestation and regenerative agriculture policies, and compliance with zero-deforestation principles.<sup>174, 175</sup></p>
<b>Timeline</b>	<p><b>Financial Sector Commitment Letter on Eliminating Commodity-driven Deforestation:</b> “Commit to use best efforts to eliminate forest-risk agricultural commodity-driven deforestation activities at the companies in our investment portfolios and in our financing activities by 2025...”<sup>176</sup></p>

**Example 10. LGIM’s policy on thermal coal, oil sands, and deforestation**

Sub-sector: Asset Management

Legal and General Investment Management (LGIM), one of the world’s largest asset managers, has set a 2030 target for 70% of its eligible investments to be managed in line with achieving net-zero carbon emissions by 2050.<sup>177</sup> Where possible, LGIM has implemented its policies and conditions with features including:

- a clear objective connected to net zero;
- definition of the sectors and activities to which the policy applies;
- details of any restrictions or exclusions that apply;
- relevant timelines; and
- transparency.

Launched in 2016, the Climate Impact Pledge<sup>178</sup> is LGIM’s targeted campaign to address the issue of climate change. Since 2020, LGIM has expanded its assessment<sup>179</sup> to include around 1,000 companies in 15 climate-critical sectors, responsible for more than half of GHG emissions from the world’s largest publicly listed companies.

173 MUFG. [MUFG Environmental and Social Policy Framework](#), May 2022.

174 LGIM. [Climate Impact Pledge Sector Guide: Net zero: food](#), 2021.

175 LGIM. [Climate Impact Pledge Sector Guide: Net zero: apparel](#), 2021.

176 [Financial Sector Commitment Letter on Eliminating Commodity-driven Deforestation](#). November 2, 2021.

177 NZAM. [Initial Target Disclosure Report](#), May 2022.

178 LGIM’s Climate Impact Pledge 2022 report is available for professional investors only.

179 Assessment involves Paris Agreement alignment and evaluating the level to which global warming companies’ plans are aligned, as well as their net-zero ambitions.

A key pillar in the assessment framework is scenario analysis, which includes the comparison of a company's emissions reduction efforts against the sectoral pathways necessary to be in line with the Paris Agreement. Under the Pledge, those targeted companies that are not meeting LGIM's minimum expectations around climate change may face a voting sanction. In other words, LGIM, on behalf of its clients, may vote against these companies, if appropriate, or ultimately, remove them from selected funds.<sup>180</sup>

More broadly, LGIM's commitments include a specific policy related to thermal coal and oil sands<sup>181</sup> as well as commitments to address agricultural deforestation and work with clients to set decarbonization goals and develop investment solutions to support them.

### Thermal coal

LGIM has:<sup>182</sup>

- the ability to invest in a company if it has set out a clear Paris-aligned plan to phase out coal by 2030 in OECD countries, and by 2040 in non-OECD countries;
- the ability to fund specific issuing entities if a company has non-coal subsidiaries; and
- applied the exclusion policy to companies that generate 20% or more of their revenues from thermal coal mining and/or thermal coal-fired power generation<sup>183</sup> unless they meet the above conditions.

### Oil and gas

LGIM has:<sup>184</sup>

- under its Climate Impact Pledge, the ability to vote against companies that do not meet their minimum standards in relation to Scope 3 emissions disclosure<sup>185</sup> and oil-related expansion plans, and do not make sufficient progress on areas of engagement;
- through its exclusion policy, sanctioned companies that derive more than 20% of their revenues from oil sands; and
- committed to exclude (in addition to the above criteria) companies making new investments in oil sands from those funds that LGIM has committed to manage in line with reducing net-zero emissions.

<sup>180</sup> Companies are divested from selected funds with £87 billion in assets (LGIM, as of December 31, 2021), including funds in the Future World fund range and all auto-enrollment default funds in L&G Workplace Pensions and the L&G Mastertrust. Companies are divested up to a prespecified limit for funds that track market indices; if this limit is reached, holdings are reduced rather than fully divested.

<sup>181</sup> Oil sands are sands that contain bitumen deposits. LGIM. [LGIM's policy on coal](#), 2022.

<sup>182</sup> LGIM. [LGIM's policy on coal](#), 2022.

<sup>183</sup> The scope of the policy does not extend to metallurgical coal.

<sup>184</sup> Reference LGIM's documents: Climate Impact Pledge: Oil and gas sector guides, [LGIM's policy on coal](#), June 2022, and Climate Impact Pledge Report 2022 (only available for professional investors).

<sup>185</sup> Scope 3 emissions are indirect emissions that occur in a company's value chain.

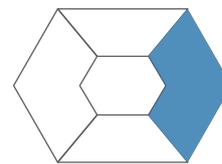
**Deforestation**

LGIM has:<sup>186</sup>

- under its Climate Impact Pledge, introduced an assessment of companies in the Food sector on its approach to reducing GHG emissions in their supply chain from agriculture, forestry, and other land use. This includes an assessment of the level of traceability of forest risk commodities (tradeable goods that come from tropical forest ecosystems) across its supply chain, and the percentage of commodities purchased under no deforestation principles;
- sanctioned companies in the Food and Apparel sectors that do not have a deforestation policy with sufficient coverage (e.g., for beef, cattle, and soy); and
- committed to strive to eliminate agricultural commodity-driven deforestation from its investment portfolios.

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<sup>186</sup> Reference LGIM's documents: Climate Impact Pledge: Food sector guides, Climate Impact Pledge: Apparel sector guides, and Climate Impact Pledge Report 2022 (only available for professional investors).



## THEME

# Engagement Strategy

Given their roles as trusted providers of capital, insurance, and other financial services, or as owners of companies, institutions in the financial sector can support the transition to net zero by engaging with a wide range of stakeholders. There are three main engagement approaches financial institutions can use to help implement net-zero ambitions, strategies, and targets:

- Engage with clients and portfolio companies.
- Engage with financial sector peers and industry associations.
- Engage with governments and the public sector.

## 1) COMPONENT: CLIENTS AND PORTFOLIO COMPANIES

### Recommendation

Proactively and constructively provide feedback and support to clients and portfolio companies to encourage net zero-aligned transition strategies, plans, and progress with an escalation framework with consequences when engagement is ineffective.

**Overview and relevance:** Financial institutions can play a significant role in supporting and advising clients and portfolio companies on their approach the transition to net zero. Different types of institutions have different capabilities and client mixes, and the nature of engagement, therefore, varies broadly.

**Guidance:** Financial institutions should develop an engagement strategy that supports their overall net-zero strategy consistent with their commitment. The strategy should be tailored to the institution's business model, as well as the needs and context of specific clients or portfolio companies and the relationship between the financial institution and the company. Financial institutions should review existing client and portfolio company engagement

to ensure that efforts are consistent with the nature of their net-zero objectives or transition strategy, and work to bring existing efforts in line with their net-zero engagement strategy.

The engagement strategy should include the following characteristics:

- **Clear objectives:** the desired behaviors, requests, or results from clients or portfolio companies (including implementing a net-zero transition plan).
- **Timing of engagement:** length of engagement, deadlines, and milestones to indicate progress.
- **Coverage:** extent of engagement over client and company portfolios (e.g., as a percentage of the portfolio) and how to prioritize if 100% engagement has not been reached (e.g., by greatest potential influence or highest emissions).
- **Method of engagement:** including meetings, letters, conferences, educational material, and other forms of engagement selected based on engagement target and relationship (e.g., equity ownership, debt holder, client) and other considerations including levers available to the financial institution (e.g., side letters, insurance contracts) or length of time of the relationship or influence.

Engagement in support of net-zero objectives requires a baseline understanding of the client's or portfolio company's business with respect to climate impacts. Sectoral pathways can be used as a benchmark for comparison and assessment of the business or the project where finance is requested. Depending on the goals of a particular engagement effort, engagement may require a commitment of several years and a collaborative approach, along with a clear escalation process.

An escalation process with consistent and transparent criteria that are communicated to the client and portfolio companies should also be a critical part of an engagement strategy. This may include sharing the financial institution's net-zero transition plan and policies and conditions with clients and portfolio companies. When clients or portfolio companies show little or no response to the engagement, a financial institution should consider using the business levers available to it according to its business relationship. These levers will differ and include stewardship actions such as proxy voting, shareholder resolutions, and voting to remove directors who have failed in their accountability; financing levers such as more onerous/costly lending conditions and refusal to engage in new business; and, as a last resort, cessation of the relationship either as a service or product provider, or opting to divest.<sup>187</sup>

Financial institutions should consider appropriate collaboration to promote a clear and consistent engagement objective and streamline the information request to the real-economy companies. Working together, as appropriate,

can magnify an individual institution's effort to encourage clients and portfolio companies to progress work on net-zero commitments. For example, financial institutions can consider joining industry groups that engage with clients and portfolio companies on behalf of a group of financial institutions.<sup>188</sup>

The following are examples of client/company-specific engagement activities and subjects. Many of these can be designed to be specific two-way communication with clients and portfolio companies:

- Share net-zero objectives and priorities with clients and companies, including specific timelines and consequences, as articulated in the financial institution's net-zero transition plan and receive feedback on such. Such discussions may include clarifying or explaining to clients/companies the policies and conditions the institution is implementing or any other criteria that may impact access to or cost of capital. The discussions may also include topics about the social impacts of the client/portfolio company's activities.
- Support and advise on topics specific to the company or client, such as identifying potential high-emitting physical assets accelerated for managed phaseout, developing their own interim and long-term net-zero commitments and science-based transition plan, or aligning their business to a net-zero pathway.<sup>189</sup>
- Request information on strategic decision-making and investment required to transition business models and provide advice, lessons learned, and resources, if applicable.

<sup>187</sup> See guidance from [CA100+](#), [CERES](#), [Investor Agenda](#), [UN PRI](#), and [CDP](#) (science-based targets campaign and non-disclosure campaign).

<sup>188</sup> For example, see [CA100+](#) and the [PRI Collaboration Platform](#).

<sup>189</sup> For example, banks can refer to: NZBA. [NZBA Transition Finance Guide](#), October 2022. and University of Cambridge Institute for Sustainability Leadership and Banking Environment Initiative. [Let's Discuss Climate: The essential guide to bank-client engagement](#), May 2021.

- Obtain transition-related data<sup>190</sup> through a range of interactions such as direct engagement, due diligence, and onboarding processes.
- Monitor and support client actions pursuant to net-zero transition plans.
- Convene forums for targeted roles such as CEOs of clients and portfolio companies to appropriately raise awareness of climate-related risks and opportunities and encourage investment in net zero-aligned assets or investment products.
- Encourage companies and clients who have not already sought external validation of metrics, targets, and net-zero transition plans (e.g., using SBTi, Climate Transition Pathways, World Benchmarking Alliance) to do so.
- Hold leadership accountable for net-zero transition progress, including the potential integration of remuneration for senior decision-makers.
- Exercise rights with respect to proxy voting,<sup>191</sup> director voting, and shareholder resolutions to signal to companies the financial institution's expectations for net-zero transition disclosure, planning, and strategy.<sup>192</sup>
- Collaborate with clients and portfolio companies on a range of topics including understanding risk transfer needs from changing risk profiles of new and scaling climate solutions and business models; deploying decarbonization technology for existing high-carbon assets.
- Provide new collaborations (e.g., facilities, captives) to pool and share risks and inform risk profiles.
- Include items in Requests for Proposals related to net-zero activities, such as the respondent's position on climate-related expertise, climate-related proxy voting, engagement approaches, and methodologies to assess climate-related financial risk.
- Develop client assessment methodologies or dashboards incorporating sector-specific and geography-specific considerations to track client performance, prioritize engagements, and use as engagement topics.<sup>193</sup>
- Encourage formation of new networks of companies to support transition products, managed phaseout, transition-related infrastructure, and assets.

The following are examples of engaging simultaneously with multiple clients and portfolio companies where there is no opportunity for individual dialogue:

- Host or participate in governance and leadership forums on topics related to the net-zero transition.
- Issue public statements, commentary, and calls to action aimed at accelerating the transition to net zero.
- Hold or participate in information sessions on the transition to net zero for various audiences/groups.
- Participate in initiatives and/or organizations aimed at accelerating the transition to net zero.
- Participate in collaborations and/or initiatives aimed at understanding and forwarding climate solutions.
- Disclose own net-zero goals, timelines, transition plans, activities, and expectations.

190 This refers to data that can be used to inform on the transition to a net-zero economy, or more broadly, climate change mitigation. It is inclusive of, but not limited to, data on entity emissions, targets, transition strategies, transition-related investment, and climate-related risks and opportunities.

191 For example, NZAOA have developed [guidance](#) on engagement of asset managers on this topic.

192 Further discussion relevant for asset owners and asset managers can be found [here](#).

193 For example, banks can refer to: University of Cambridge Institute for Sustainability Leadership, Banking Environment Initiative, and UNEP-FI. [Leadership Strategies for Client Engagement: Advancing climate-related assessments](#), 2022.

Following engagement on the previously stated topics, feedback and insights from clients and portfolio companies and outcomes from stewardship conversations should be reflected in the financial institution's transition plan.

Please see the Expectations for Real-economy Transition Plans report for information that may inform engagement.<sup>194</sup>

#### BOX 6. EXPECTATIONS FOR REAL-ECONOMY TRANSITION PLANS (EXCERPT FROM THE EXECUTIVE SUMMARY)<sup>195</sup>

For the global economy to reach net zero, annual greenhouse gas emissions from activities of real-economy companies need to rapidly reduce, while financial institutions allocate capital and use their influence as shareholders and/or financial partners to support and catalyze such action.<sup>196</sup> It is critical to have dialogue and associated flows of data between companies and financial institutions. Disclosure of transition plans of real-economy firms, including the detailed assumptions and data that underpins them, enables effective engagement and capital allocation across the financial ecosystem.

GFANZ aims to improve this data flow by increasing the implementation and disclosure of transition plans by real-economy companies. The Expectations for Real-economy Transition Plans report serves as a practical guide for financial institutions engaging with real-economy companies and for these companies when building transition plans and disclosing progress against them. The report provides clarity regarding the data financial institutions expect from their real economy clients and portfolio companies. Rather than inventing a new framework, the report uses existing guidance and frameworks to arrive at the themes, components, and sub-elements financial institutions expect in real-economy transition plans.

#### Example 11. Aviva's engagement program with teeth

Sub-sector: Insurer

In its Climate Transition Plan,<sup>197</sup> Aviva describes how its engagement program relates to its ambition and strategy, and “has teeth” in order to drive the transition to net-zero emissions.

The company discusses its Aviva Investors (AI)-led climate engagement escalation program, which is focused on 30 systemically important carbon emitters in the oil and gas, metals and mining, and utilities sectors held in its investment portfolios. Aviva is prepared to send a message to all companies through voting actions when those companies do not have adequate climate plans or do not act quickly enough.

194 GFANZ. [Expectations for Real-economy transition plans](#), 2022.

195 GFANZ. [Expectations for Real-economy transition plans](#), 2022.

196 IPCC. [AR6 Report: Working Group III](#), 2022.

197 Aviva. [Aviva's Climate Transition Plan](#), First Release, 2021.

Aviva emphasizes the importance of engaging in the first instance, while considering divesting where necessary: “[I]t’s crucial to pair emissions reduction targets with engagement targets to encourage the decarbonisation of our investees rather than just divesting and switching to lower carbon emitting sectors.”<sup>198</sup>

Target	Activities in 2021	Outcomes and 2022 Priorities
<p><b>Engagement with teeth to drive the transition</b></p>	<ul style="list-style-type: none"> <li>• We announced our climate engagement escalation programme, through which we seek to influence 30 systemically important carbon emitters, in which we invest, that currently produce 30% of global Scope 3 emissions in the oil and gas, metals and mining, and utilities sectors</li> <li>• More widely, through our annual letter to Chairs of companies we have advised we may vote against re-election of directors at companies that do not make adequate climate plans, and in two years divest from those that do not comply</li> </ul>	<ul style="list-style-type: none"> <li>• At the beginning of 2022 Aviva Investors Chief Executive Officer, Mark Versey, wrote to 37 finance ministers and central bank governors for countries whose sovereign debt we hold</li> <li>• In 2023, we will complete our engagement escalation process for the 30 largest carbon emitters globally</li> </ul>

Aviva’s approach aims to encourage ambitious transition strategies, plans, and progress from portfolio companies, with an escalation framework when engagement is ineffective.

Aviva reported that, in 2021, AI undertook 112 engagements (meetings and written communication) with the 30 companies in scope and recorded 95 engagement “wins,” which it defined as improvements in one of the following: targets, transition plan, governance, disclosures, or lobbying.<sup>199</sup>

**Example 12. AXA Investment Managers (AXA IM) takes a “three strikes, you’re out” escalation approach for portfolio companies**

Sub-sector: Asset Management

As active asset managers, AXA IM considers its power to influence portfolio companies’ behavior. It believes “engagement and open dialogue with companies and clients is crucial to understanding and influencing the net-zero trajectories.” As noted by AXA IM’s Executive Chairman, “if we don’t see progress and strong commitments from companies, we need to be brave and bold in their investment decisions and be ready to divest”.<sup>200</sup>

Beginning in 2022, AXA IM, the asset management arm of the French multinational insurance company, began applying a stronger climate lens in making its investment decisions.<sup>201</sup> AXA IM’s approach involves evaluating high-impact companies and issuers, and grouping them into categories to inform ongoing decision-making.

198 Ibid., p. 15.

199 Ibid., p. 19.

200 AXA IM Corporate. [AXA IM further strengthens its climate actions to accelerate its contribution to a low-carbon world](#), November 8, 2021.

201 Ibid.

With respect to companies AXA IM considers to be laggards, AXA IM will apply a “three strikes and you’re out” approach.<sup>202</sup> This means that if AXA IM does not feel the company’s progress on its net-zero path is substantial within three years (2025), AXA IM will divest from the company so that it can reallocate the capital to climate transition leaders.

This example is one approach of an escalation process for a portfolio company engagement strategy. When clients or portfolio companies show little or no response to calls for climate action, a financial institution should consider using the stewardship or financing levers at its disposal.

### **Example 13. BlackRock’s public-private finance vehicle — Climate Finance Partnership**

Sub-sector: Asset Management

BlackRock, the world’s largest asset manager, completed the fundraise of its Climate Finance Partnership (CFP) Fund in October 2021, achieving a \$673 million final close,<sup>203</sup> exceeding its target by 35%. The CFP is a public-private finance vehicle, first announced in September 2018, that is focused on investing in climate infrastructure across emerging and developing markets. CFP is supported by a diverse global investor group including governments, philanthropies, and institutional investors.

The Climate Finance Partnership is built on the following:

**Blended Finance Structure:** CFP uses a structure that seeks to de-risk the investment in emerging markets for institutional investors.<sup>204</sup> The governments of France, Germany, and Japan, together with U.S. philanthropic institutions and a global multi-energy company, participate through a subordinated equity tranche to incentivize private investors to participate.

**Climate Infrastructure Investing:** CFP aims to invest in climate solutions such as onshore wind and utility-scale and distributed solar PV, and supporting climate infrastructure such as battery storage and clean transmission projects. Through these investments, the CFP aims to reduce potential emissions from emerging markets by preventing the need for incremental fossil fuel development and generation while providing access to affordable, reliable, clean energy.

**ESG Risk Identification, Management, and Reporting:** CFP is implementing an ESG framework compliant with International Finance Corporation (IFC) performance standards to support the entire life cycle of its investments. CFP has also put together a collaborative committee composed of experts across BlackRock and some of CFP’s investors, seeking to bring together leaders in the field of ESG risk identification and management. CFP and its investors will also feature measurement and reporting aligned with the UN SDGs, Global Impact Investing Network (GIIN), and Impact Reporting and Investment Standards (IRIS).

This fundraising effort is an example of how financial institutions can engage with private and public partners, including their clients, to mobilize institutional capital for the transition in emerging markets.

<sup>202</sup> AXA IM. 2021 [Active Ownership and Stewardship Report](#), May 2022, p. 10.

<sup>203</sup> Blackrock. [TCFD Report 2021](#), 2021.

<sup>204</sup> Ibid., p. 21.

**Example 14. Dai-ichi Life's strategy for engaging portfolio companies on emissions**

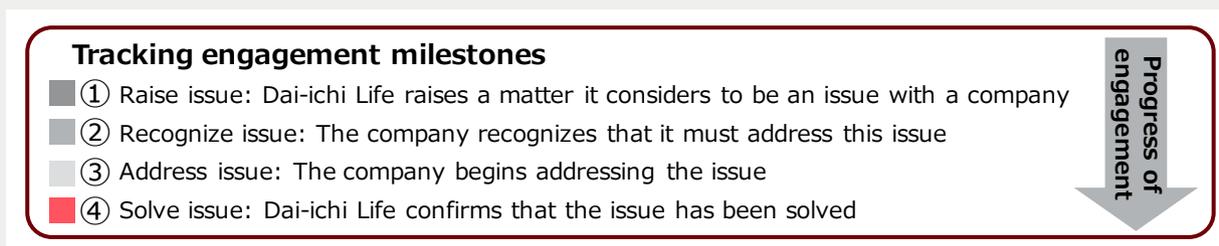
Sub-sector: Insurance

The Dai-ichi Life Insurance Company has developed a strategy that includes engagement with portfolio companies on setting ambitious GHG emissions reduction targets and on disclosure regarding the financial impact of climate change.<sup>205</sup> In line with the Net-zero Asset Owners Alliance (NZAOA) protocol, in 2021, Dai-ichi conducted targeted climate-related engagements aimed at pursuing net zero-aligned actions with the 50 companies in its investment portfolio with the highest emissions. Dai-ichi has also been participating in collaborative engagement initiatives such as Climate Action 100+ and Institutional Investors Collective Engagement Forum (IICEF) to add to its engagement activities.

With regard to climate change issues, Dai-ichi asks companies to 1) set ambitious reduction targets consistent with the Paris Agreement, 2) formulate a concrete roadmap to achieve the targets, and 3) integrate the targets and roadmap into their medium- and long-term strategies.

Dai-ichi tracks engagement progress based on four milestones:

**Figure 16: Dai-ichi engagement milestones**



If a company does not show any improvement on ESG issues, including climate change, Dai-ichi will vote to oppose reappointment of representative directors. In Dai-ichi's experience, the majority of companies are willing to engage in dialogue and they do improve on issues Dai-ichi raises. Despite its best efforts to support transition, if a company refuses to recognize or address an issue Dai-ichi has raised, Dai-ichi will take that into account in its investment decision-making and may ultimately divest its holding.

Achieving all four milestones can take some time. For example, Dai-ichi has been engaging with an iron and steel company since 2016.<sup>206</sup> Dai-ichi first engaged the company about setting climate change targets and creating a roadmap to reduce its GHG emissions. In 2019, the company endorsed TCFD and disclosed its scenario analysis results. By 2021, the company disclosed its CO<sub>2</sub> emissions reduction targets. Getting to that point required six engagement sessions. Dai-ichi classifies the climate change issues as having been "addressed" by the portfolio company (milestone 3 in Figure 16) and will continue engaging, pushing it to conduct more sophisticated scenario analysis and to support its emissions reduction initiatives.

<sup>205</sup> Dai-ichi Life Group. [Responsible Investment Report 2021](#), 2021.

<sup>206</sup> Ibid., p. 46.

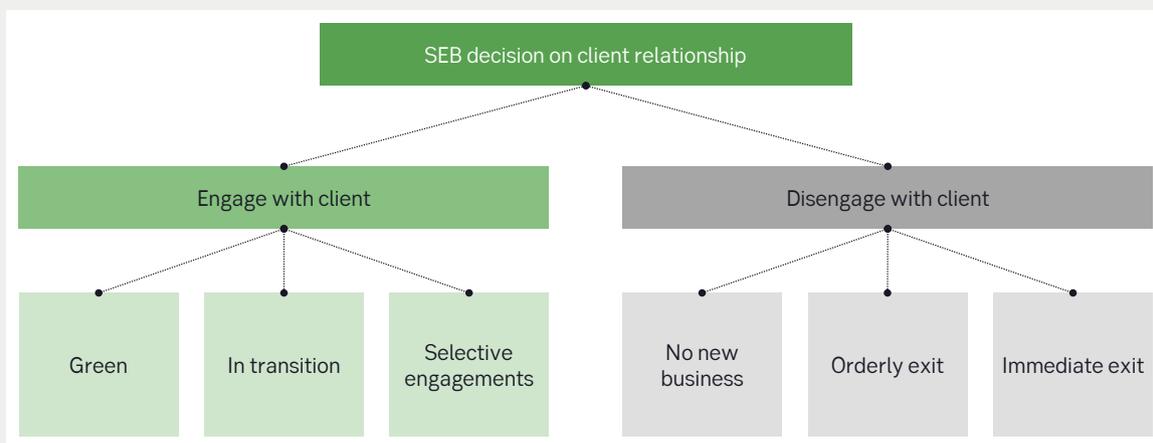
**Example 15. Swedish bank SEB focus on customers and society**

Sub-sector: Banking

Swedish bank SEB has placed “supporting our customers and society at large” at the center of its efforts to accelerate change.<sup>207</sup> Recognizing that as a bank, it interacts with large corporations and financial institutions, SMEs, private individuals, employees, shareholders, and wider society, SEB sees engagement as an opportunity to achieve its “strong ambition to accelerate the pace towards a sustainable future.”<sup>208</sup>

SEB has outlined how it will engage customers to make a positive impact through engagement, including those it has identified as green, in transition, or suitable for selective engagement. At the same time, where it finds that a customer’s convictions do not align with SEB’s, it will not shy away from phasing out engagement with that client in an orderly fashion. Figure 17 shows how SEB approaches engaging – and disengaging, when necessary – with companies in its credit portfolio.<sup>209</sup>

**Figure 17. SEB’s engagement outcome tree**



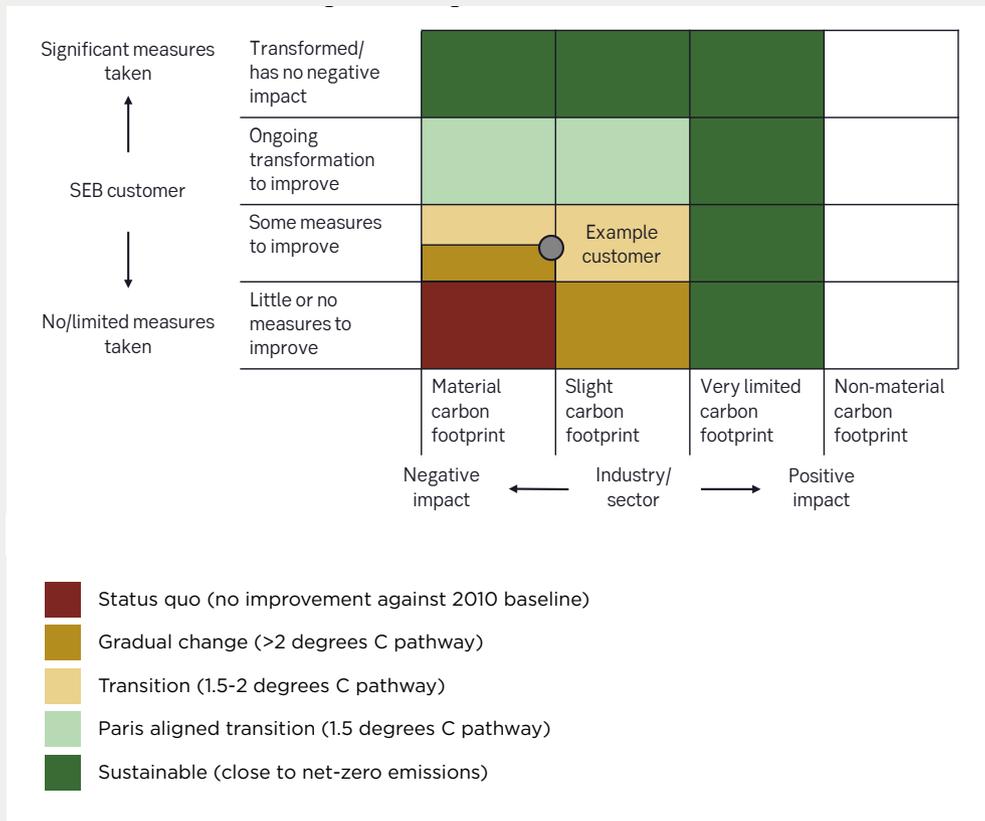
SEB assesses customers’ current GHG emissions, public data, and information from direct engagement to place them within its Climate Classification Model (Figure 18), which is based on alignment with the Paris Agreement.

207 SEB. [Accelerating change](#), November 2021.

208 SEB. [Accelerating change](#), November 2021.

209 SEB. [Accelerating change](#), November 2021.

**Figure 18. Climate classification model**



By the end of 2021, SEB had classified 45% of credit exposure of customers with material carbon footprints<sup>210</sup> and 25% of credit exposure of customers with a slight carbon footprint, and has set out its ambition to track customers' transition over time with annual reviews to support its ongoing engagement efforts.<sup>211, 212</sup>

210 Measured as share of credit exposure.

211 Measured as share of credit exposure.

212 SEB. [Accelerating change](#), November 2021.

## 2) COMPONENT: INDUSTRY

## Recommendation

Proactively engage with peers in the industry to 1) as appropriate, exchange transition expertise and collectively work on common challenges and 2) represent the financial sector's views cohesively to external stakeholders, such as clients and governments.

**Overview and relevance:** No single financial institution will determine the success of the global transition to net zero and limit global warming to 1.5 degrees C. A collective effort is required from finance, the public sector, civil society, and the real economy. Sharing transition lessons learned, pooling resources to address common challenges where appropriate, and developing collaborative initiatives will benefit all institutions' transition plans.

**Guidance:** Financial institutions should pursue with peers (where relevant, appropriate, and in compliance with all applicable antitrust laws) and other industry-related bodies working in these areas,<sup>213</sup> any of the following objectives that are consistent with their net-zero priorities and support 1.5 degrees C alignment:

1. **Learn from other institutions** through discussion, and share noncompetitive, nonconfidential details about tools, data, and methodologies that enable and accelerate the design, implementation, assessment, and review of a net-zero transition plan. For example:
  - encourage adoption of net-zero transition plans across the industry, particularly with less advanced peers, by being transparent about implementation experiences/ lessons learned;
  - seek common approaches or frameworks to support comparability, driving further momentum and accountability;
  - collaborate where appropriate to solve challenges that arise in designing and executing a transition plan. For example, pursue joint transactions or financing vehicles to increase scale of net zero-focused services and tools, such as industrial clusters for hydrogen or carbon capture storage technologies;
  - engage in cross-sector initiatives in the real economy to help accelerate the phaseout of high-emitting assets and rollout of transition infrastructure; and
  - work to encourage appropriate government net-zero targets and strategies; promote government policies, regulations, and environments that facilitate net zero-aligned investment; advocate against policies that may act as roadblocks to the net-zero transition; and encourage science-based public policies that incorporate transition considerations.

213 Industry-related bodies may include civil society and nongovernmental organizations providing subject matter expertise, targeted initiatives, and collaborative opportunities, among other purposes (e.g., Council for Inclusive Capitalism's Just Energy Transition Framework for Company Action, ShareAction, WWF, World Resources Institute).

**2. Represent a pan-financial sector view on critical issues**, including those communicated to governments, the public sector, and real-economy counterparties. Financial institutions can contribute to sector-wide ambition and solutions in multiple ways. They can:

- join a sector-specific net-zero alliance that brings peers together under a common set of commitments, and help members implement those commitments;
- join relevant industry initiatives that focus on net-zero transition planning for a specific sector or on a specific topic;<sup>214</sup>
- participate in sector-specific or pan-sector finance group(s) that are working toward consistency on expectations for real-economy companies on information needs, such as real-economy disclosure; and
- work to address and overcome data challenges by collecting consistent data.

**3. Sign on to public climate transition-specific commitments.**<sup>215</sup>

- Jointly develop or publicly support industry-wide calls to action aimed at policymakers, regulators, supervisors, and global standard setters.<sup>216</sup>
- Enter into bilateral and multilateral engagements with both financial institutions and stakeholders outside the sector to build industry- and system-wide thought leadership and to enable solutions. Partnerships could be with real-economy firms, governments, or civil society organizations. Examples include climate and net-zero data utility efforts, open-source analytics solutions, industry-wide reporting solutions, platforms to scale the financing available for the energy transition, and innovative low-carbon technologies.
- Lead or participate in public webinars, events, or panels to enable knowledge sharing on a mass scale across the industry or pan-sector, on both technical and operational topics relating to the net-zero transition.

<sup>214</sup> Examples include MPP, SMI, First Mover Coalition, and Climate Transition Pathways.

<sup>215</sup> Examples include the [Powering Past Coal Alliance Declaration](#), [the Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation](#), and the [Global Methane Pledge](#).

<sup>216</sup> Examples include GFANZ's [Call to Action](#) and the Investor Agenda's [2021 Global Investor Statement to Governments on the Climate Crisis](#).

**Example 16. Global lenders work to decarbonize aircraft emissions**

Sub-sector: Banking

RMI's Center for Climate-Aligned Finance is partnering with six banks that are active in the aviation sector with the goal of helping decarbonize the sector.<sup>217</sup>

GHG emissions from aviation are considered hard to abate, and to achieve net-zero aviation emissions by 2050, the sector will require more efficient aircraft, new aviation technology, and sustainable aviation fuels.<sup>218</sup> The SBTi estimated in its Aviation Guidance<sup>219</sup> that the sector needs to reduce its carbon intensity by 35% to 40% between 2019 and 2035, and by 65% between 2019 and 2050. The six banks acknowledged that “the financial sector will play a crucial role in funding the technologies, projects, and companies involved in this net-zero transition.”

In April 2022, the banks announced the Aviation Climate-Aligned Finance Working Group, which aspires to collectively define common goals for action for aviation sector decarbonization before the end of 2022. Financial institutions participating in a framework being developed would agree to annually assess and disclose the degree to which the GHG from the aircraft, airlines, and lessors that they finance are in line with 1.5 degrees C climate targets.

This effort shows how engagement in cross-sector initiatives in the real economy may help to accelerate the managed phaseout of high-emitting assets and rollout of transition infrastructure, and to seek common approaches or frameworks to support comparability, driving further momentum and accountability.

The six banks aim to create consistency and transparency in reporting and measuring progress to climate targets. Financial institutions using the climate-aligned framework will be able to assess the emissions of their aviation loan books, and work with their clients to report their emissions, fund lower-carbon solutions, and support investments in new technologies. The intent is to design the framework for rapid adoption by aviation financiers globally. The working group will invite other financial institutions to adopt the climate-aligned finance framework by the end of 2022.

217 RMI. [Six Global Financial Institutions Chart a Flight Path to Decarbonizing Aviation](#), April 7, 2022.

218 IATA. [Our Commitment to Fly Net Zero by 2050](#), October 4, 2021.

219 SBTi. [Science-Based Target Setting for the Aviation Sector](#), version 1.0, August 2021.

**Example 17. ICAPs — New York State Common Retirement Fund’s Climate Action Plan**

Sub-sector: Asset Owner

The [Investor Agenda](#) is a collaboration of groups that work with investors — AIGCC, CDP, Ceres, IGCC, IIGCC, PRI, and UNEP FI<sup>220</sup> — focused on developing guidance for investors to address the climate crisis and advocating collectively for public policy to accelerate the net-zero transition.

The Investor Agenda released a framework for Investor Climate Action Plans (ICAPs), the ICAPs Expectations Ladder,<sup>221</sup> in May 2021 to provide investors with clear expectations for issuing and implementing comprehensive climate action plans to support the goal of a net-zero economy by 2050 or sooner. The ICAPs Expectations Ladder summarizes the key climate actions investors can take in the four focus areas of the Investor Agenda: investment, corporate engagement, policy advocacy, and investor disclosure. Governance is a crosscutting theme across all four areas.

An example of an investor who has developed a climate action plan following this guidance is the New York State Common Retirement Fund (CRF), one of the largest public pension plans in the United States. It published its Climate Action Plan<sup>222</sup> in June 2019, which sets out its climate-related assessments, investments, engagement, and advocacy work.

Following publication of its Climate Action Plan, in December 2020, CRF announced its commitment to reduce GHG emissions from its entire portfolio to net zero by 2040.<sup>223</sup> In April 2021 CRF issued a progress report on its Climate Action Plan.<sup>224</sup> In this report, CRF explains how it uses engagement to help mitigate its climate-related risks. It files climate change-related shareholder resolutions, and it recently updated its proxy voting guidelines to include specific climate guidelines.

CRF performs direct engagement with portfolio companies in high-impact climate sectors.<sup>225</sup> It urges companies to establish transition strategies, to develop strategic CapEx planning, to adopt GHG emissions targets, and to disclose emissions data and other key climate-related disclosures. In addition, it engages its top global equity and fixed income external managers in areas of climate governance, risk management, engagement, proxy voting, and TCFD reporting.

As part of its public policy advocacy work, CRF has weighed in on a number of important climate-related investment and regulatory issues.<sup>226</sup> Its advocacy work includes testifying, providing public comments, and participating in state, national, and international forums.

220 Asia Investor Group on Climate Change (AIGCC), Investor Group on Climate Change (IGCC), Principles for Responsible Investment (PRI).

221 Investor Agenda, [Investor Climate Action Plans \(ICAPs\) Expectations Ladder](#), May 2021.

222 CRF, [Climate Action Plan 2019](#), June 2019.

223 CRF, [New York State Pension Fund Sets 2040 Net Zero Carbon Emissions Target](#), December 9, 2020.

224 CRF, [Progress Report on the New York State Common Retirement Fund’s Climate Action Plan](#), April 2021.

225 Ibid., p. 13. CRF identifies the following as being high-impact climate sectors: oil and gas production, coal mining, electric and natural gas utilities, automobile manufacturing, airlines, banking, materials, and real estate industries.

226 Ibid., p. 16.

## 3) COMPONENT: GOVERNMENT AND PUBLIC SECTOR

## Recommendation

Direct and indirect<sup>222</sup> lobbying and public-sector engagement should, in a consistent manner, support an orderly transition to net zero, and as appropriate, encourage consistency of clients' and portfolio companies' lobbying and advocacy efforts with the institution's own net-zero objectives.

**Overview and relevance:** Public policy and regulation shape international, national, regional, and local strategies for transitioning to net zero, and will have significant impact on real-economy corporations as well as financial institutions. Financial institutions engage with a range of government and public-sector institutions on a broad set of topics through advocacy, lobbying, and other indirect channels, with the goal of influencing the direction of policy and regulation.<sup>228, 229</sup>

**Guidance:** Financial institutions engaging with public-sector institutions should proactively include topics that support or enable an accelerated and orderly transition to net zero. Several of these topics were laid out in the GFANZ Policy Call to Action (published in October 2021, with an update on progress published in November 2022) and could be used to guide engagement with government and public sector. Examples include the following:

- **National net-zero targets and strategies:** Establishing interim and 2050 targets at the country level that bring economies in line with 1.5 degrees C scenarios, underpinned by an economy-wide transition plan, including credible and well-communicated strategies for different sectors, derived from credible, science-based sectoral pathways.<sup>230</sup> Setting a strategy for the transition of energy systems, ensuring stability of energy supply consistent with net-zero targets and managed phaseout of high-emitting assets.
- **Aligning regulation with net-zero delivery:** Establishing clear and consistent policy regarding disclosure of climate-related information, including transition plans. Providing guidance on transition planning, promoting global consistency. Supporting regulators and supervisors to consider climate change from a financial stability perspective. Encouraging regulations that support an orderly transition to net zero.<sup>231, 232</sup>
- **Pricing the externalities of carbon emissions:** Establishing direct and indirect carbon pricing instruments to change the economics of high-emitting activities. Supporting the development of high-integrity private voluntary carbon markets.
- **Accelerating the real-economy transition through incentives and policies:** Catalyzing private investment to enable the real-economy transition, including by scaling up production capacity; designing market models for low-carbon technologies and other climate solutions;

227 Via a third party on behalf of the institution, such as an industry trade association.

228 "Government/public sector" is defined broadly in this context, and includes policymakers, central banks, regulators, supervisors, and standard setters.

229 WGIII of IPCC emphasizes the importance of policy packages as well as individual policies, to enable innovation and build capacity to support a shift toward equitable low-emissions futures. Refer to the [Climate Change 2022: Mitigation of Climate Change: Summary for Policymakers](#) report.

230 GFANZ. [Guidance on Use of Sectoral Pathways for Financial Institutions](#), June 2022.

231 The NZIA paper, [Insuring the net-zero transition: Evolving thinking and practices](#), 2022, offers the following observation: "Government policies that have a positive environmental impact often require more than one company to make changes...A key question for the NZIA is therefore how to implement cross-industry environmental initiatives while complying with antitrust laws and regulation...the NZIA and its members have begun to engage with antitrust regulators in global jurisdictions on the impact of antitrust laws and regulations on the net-zero agenda and the benefits possible with industry cooperation and approaches such as open standard setting." p. 34.

232 NZBA suggests that issues should be discussed with international standard setters, jurisdictional policymakers, and other stakeholders. NZBA. [NZBA Transition Finance Guide](#), October 2022.

and defining fiscal incentives to reduce the “green” premium. Supporting communities and individuals to transition, including via demand reduction strategies and (re)training schemes. Publishing planned activities to safeguard nature, both immediate and long-term, and prevent deforestation.

- **Mobilizing capital flows to emerging markets and developing economies:** Delivering an enhanced Country Platform framework that delivers on the aspects proposed within GFANZ’s Country Platform Statement.<sup>233</sup> Exploring a potential coordinating and monitoring mechanism, as well as technical assistance to countries, to support scaling and testing the Country Platform model across multiple geographies. Encouraging the MDBs to set their own net-zero targets and pilot reforms that can channel private climate finance more effectively.

Financial institutions should work to ensure that policy engagement strategies are supportive of net zero and they should set out clear, objective statements with their focus areas for government support. To do so, financial institutions should conduct reviews of direct and indirect policy positions to see that they are aligned with the institution’s net-zero commitments and with the overall transition to a net-zero economy.<sup>234, 235, 236</sup>

Some approaches to government and public-sector engagement include the following:

- Review and discuss if financial sector trade associations’ climate policy positions and lobbying activities are aligned with achieving

net zero by 2050 and limiting warming to 1.5 degrees C. Engage with trade associations or other bodies to encourage them to advocate for net-zero objectives.

- Seek opportunities for senior-level dialogue with government leaders to demonstrate private-sector leadership on climate goals and support of specific net zero-aligned policies. This could include participating in key international meetings to promote net zero-aligned public policy at senior levels.
- Provide feedback, as an individual institution, via a trade association, or in partnership with peers, to consultation processes launched by regulators and policymakers. Work to align the institution’s feedback and comments provided to public institutions as part of relevant policy consultations with net-zero objectives or commitments. If relevant, broaden the scope of feedback offered to proactively support net zero-aligned policies.
- Provide feedback, as an individual institution, via a trade association, or in partnership with peers, to consultation processes launched by standard setters and multilateral organizations and NGOs that could eventually inform policy recommendations.<sup>237</sup>
- Publish original research and reports that set out the case for policy action on climate change and/or conduct media and public outreach calling for policy action on climate change. Provide analysis to highlight the essential role of public policy in achieving emissions reduction in specific sectors and across the economy.

<sup>233</sup> GFANZ. Mobilization Statement of Support 2.0, 2022.

<sup>234</sup> [Ceres’ Blueprint for responsible policy engagement on climate change](#) provides guidance on how to conduct an audit of indirect and direct lobbying positions on climate change. Guidance is also provided on systematizing decision-making on public policy engagement on climate change; getting the Board to engage on climate policy; and acting to align both direct and indirect lobbying with science-based climate policies.

<sup>235</sup> [Influence Map’s LobbyMap Methodology](#) illustrates how financial institutions’ lobbying activities can be assessed. UNFCCC and UNEP definitions from their [Guide for Responsible Corporate Engagement in Climate Policy](#) apply.

<sup>236</sup> [The Global Standard on Responsible Climate Lobbying](#) promotes attention to and action on corporate climate lobbying for the investor community.

<sup>237</sup> The [IIGCC’s Policy Programme](#) offers an example of an investor coalition that helps “to inform the policy dialogue and perspective of key stakeholders, to ensure investor policy positions are well communicated, understood and reflected in final decisions and legislation.”

**Example 18. Impax advocacy on climate solutions**

Sub-sector: Asset Management

Impax Asset Management is a UK-based asset management group working to demonstrate its commitment to reaching net-zero GHG emissions by 2050, in line with global efforts to limit warming to 1.5 degrees C. Since its inception in 1998, Impax has invested in companies and assets that lead or benefit from the transition to a more sustainable economy. Impax sees active engagement as a key part of its role and collaborates with clients and others to create policies supportive of a low-carbon, sustainable economy.

Impax has established a Global Policy Group, with a dedicated lead and senior membership including the CEO. The group brings together expertise from across the firm to implement a rolling three-year advocacy plan focused on engagement with policymakers in Europe and the United States. Impax deploys a variety of advocacy approaches, ranging from traditional interventions (e.g., consultations and sign-on letters) to more proactive activity (e.g., publishing perspectives and funding research). Impax also applies its environmental markets expertise to stimulate innovation in science and technology, such as through its CEO's role as an independent director on the UK government's [Net Zero Innovation Board](#).

In the last two years, Impax has focused its activities on financing the energy transition; nature-based solutions; physical climate risk; and greening the finance industry. In early 2020, Impax produced a Clean Investment Roadmaps white paper,<sup>238</sup> which called for governments to make investment opportunities more explicit by breaking down their national climate goals into clear sectoral roadmaps. The white paper also called on policymakers to establish dialogues with investors and other key stakeholders on the design of policies likely to attract finance into the solutions needed in each sector.

Impax actively contributed to commitments and calls to action that emerged at COP26, including:

- the Investor Agenda Global Investor Statement to Governments on the Climate Crisis,<sup>239</sup> which calls for governments to strengthen their NDCs to align with a transition to net zero; commit to a clear decarbonization roadmap for each carbon-intensive sector; implement domestic policies to incentivize private investments; and commit to mandatory climate disclosures;
- the Energy Transitions Commission (ETC) report Keeping 1.5 degree C Alive: Closing the Gap in the 2020s,<sup>240</sup> which set out the key actions needed, sector by sector, to deliver the Paris Agreement; and
- various “coalitions of the willing” that committed to ambitious global action in key sectors (e.g., the PPCA, the Natural Capital Investment Alliance, investor commitment to deforestation-free portfolios, and NZAM).

During 2021, Impax also advocated in favor of improvements to the regulation of climate-related disclosures. It was a lead author of the Climate Financial Risk Forum's Climate Data and Metrics report<sup>241</sup> whose recommendations were referenced in the FCA's subsequent consultation on TCFD implementation. In response to the SEC's request for inputs on climate disclosure, Impax submitted a set of detailed recommendations<sup>242</sup> that informed the SEC's proposed rule published in March 2022.

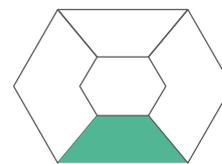
238 Impax Asset Management. [Clean Investment Roadmaps: A framework for building clean energy economies](#), July 2020.

239 Investor Agenda. [2021 Global Investor Statement to Governments on the Climate Crisis](#), September 2021.

240 ETC. [Keeping 1.5 degree C Alive: Closing the Gap in the 2020s](#), September 2021.

241 CFRP. [Climate Financial Risk Forum Guide 2021: Climate Data and Metrics](#), 2021.

242 U.S. SEC. [Response to the Commissioner's Questions of March 15, 2021, About Investor Interest in the Financial Impact of Climate Change](#), June 9, 2021.



## THEME

# Metrics and Targets

Metrics and targets provide credibility and clarity when financial institutions communicate their net-zero strategy to internal and external stakeholders. Quantitative metrics and targets are necessary to ground net-zero ambition in specific objectives and concrete actions, and to track progress over time. Well-formulated targets allow for the assessment of an organization’s long-term decarbonization strategy, as well as its interim activities and results. The appropriate metrics and targets for a given financial institution will depend on its overall objectives and priorities. This theme focuses on the selection and use of metrics and targets.

## 1) COMPONENT: METRICS AND TARGETS

### Recommendation

Establish a suite of metrics and targets to drive execution of the net-zero transition plan and monitor progress of results in the near, medium, and long term. Include metrics and targets focused on aligning financial activity in support of the real-economy net-zero transition; on executing the transition plan; and on measuring changes in client and portfolio GHG emissions.

**Overview and relevance:** This report acknowledges that specific metrics and targets methodologies may be more suited to a certain sector or net-zero financing approach. As well, the report recognizes there are challenges in using certain metrics, and in the availability and quality of data. Some of these challenges, including the early stage of metrics related to the four key financing strategies, are discussed in the “Expansion of metrics and targets” and “Data” sections in the [Financial Institution Net-](#)

[zero Transition Plans — Supplemental Information](#) report. However, these challenges are not a reason to delay target setting or measurement, and the rapid evolution and direction of travel of data availability and measurement methodologies may inform selection of metrics and targets.

In addition, GFANZ recognizes that Scope 3 emissions of clients and portfolio companies are critical for financial institutions to evaluate in their metrics and target setting. Many regulators and industry bodies have highlighted the importance of including Scope 3 financed emissions.<sup>243, 244</sup>

Financial institutions should take care to set and use various metrics and targets appropriately. Metrics and targets can be used for multiple purposes, such as signaling commitment to net zero; driving action inside an institution; increasing understanding of client and portfolio company plans; and driving financing to real-economy transition activities.

<sup>243</sup> Scope 3 should be included at minimum for high-emitting sectors, such as the priority sectors identified in the Net Zero Asset Owners Alliance target-setting protocol, which include Oil and gas; Utilities (including coal); Transport (civil aviation, shipping, and road transport); Materials (steel, cement, and aluminum); Agriculture, forestry, and fisheries; Chemicals; Construction and buildings; Water utilities; and Textiles and leather. Financial institutions should consider other sectors for Scope 3 that are proportionally material to their financed emissions and where data allows. Financial institutions should also refer to their sector-specific alliance for guidance. ([NZAOA, Target Setting Protocol Second Edition](#)).

<sup>244</sup> Recall that this report uses “financed emissions” and “portfolio emissions” interchangeably.

Last, some essential transition actions, like supporting firms in the early stages of transition or funding the managed phaseout of high-emitting physical assets, may result in increased financed emissions in the near term but contribute to meaningful decreases in the medium or long term. To capture this progress for both interim and long-term targets, financial institutions may use multiple metrics to gain a better understanding of the effectiveness of a net-zero transition plan as a whole.

Greenhouse gases, including carbon dioxide, methane, and nitrous oxide, should be considered within GHG metrics and targets.<sup>245</sup>

#### Guidance:

##### General guidance

Selection and calculation of metrics and targets should be aligned with financial sector guidance to support transparency and comparability. Institutions should regularly review targets according to their sector-specific guidance; when

there are material updates or developments in data, methodology, business models; or if targets are met sooner than anticipated.

Where logistically possible, scheduling of emissions targets monitoring should be designed to align with reporting timelines used for other corporate strategy and capital planning targets to allow for easier integration. Common timelines facilitate joint reviews by the Board (or equivalent body) and senior management committees and create opportunity for joint consideration of all business strategies and priorities.

Where available, to provide stakeholders with independent assurance that targets and data are credible, financial institutions should consider seeking external validation for their GHG emissions targets from third parties.

Financial institutions are encouraged to set and monitor progress toward a net-zero emissions reduction target on their own operational and corporate value chain emissions, in addition to their financed emissions, to which this report applies.<sup>246</sup>

#### BOX 7. CONSIDERATIONS FOR ABSOLUTE AND INTENSITY METRICS<sup>247</sup>

A key design choice in selecting emissions and portfolio alignment metrics and targets is whether to base these on measures of absolute emissions, or some form of intensity ratio.

Absolute emissions metrics may offer the benefit of a direct link to the carbon budget and can also be applied consistently across sectors. However, they can discourage the transformation needed. Absolute metrics may disincentivize investment in transition sectors, constrain growth of low-emissions entities, and make comparability of different-sized portfolios or entities difficult.

An economic intensity metric, based on a simple calculation (e.g., emissions/revenue) can address some of the challenges above. They allow for growth, investment, and comparability across sectors

245 IPCC. [IPCC Updates Methodology for Greenhouse Gas Inventories](#), 2019. The definition excludes water vapor.

246 For more information on corporate emissions, please see World Business Council for Sustainable Development (WBCSD) and World Resources Institute (WRI). [The GHG Protocol: A Corporate Accounting and Reporting Standard Revised Edition](#), March 2004.

247 Adapted from GFANZ. [Measuring Portfolio Alignment: Driving Enhancement, Convergence, and Adoption](#), 2022.

and portfolios. However, they target emissions efficiency improvements less directly, and can also be subject to volatility through changes in the denominator that may be unrelated to climate such as changes in company revenue.

Physical intensity metrics address these concerns by scaling emissions relative to a production measure (e.g., MWh produced), which can then encourage a transformation of the business through greater use of carbon-efficient technologies and processes. However, use of sector-specific production data does not support comparability between sectors and such data for each sector may not always be available. There is also a debate over whether physical intensity metrics are best suited in the fossil fuel sectors where net-zero scenarios suggest a reduction in production is required, which may not be as easily conveyed by intensity metrics.

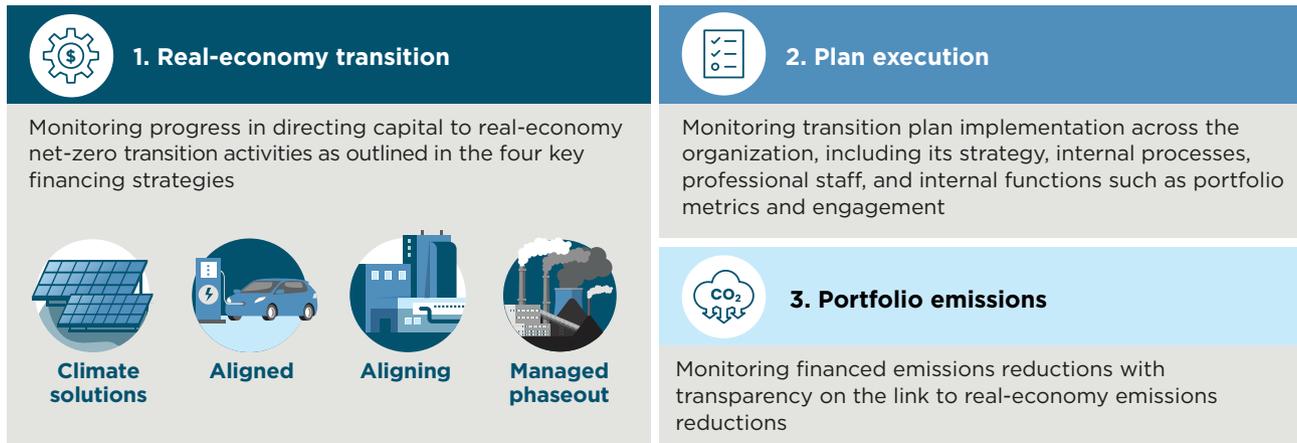
Both types of intensity metrics can result in total emissions increasing even if the carbon intensity measure used decreases. There is also a risk of volatility across both absolute and intensity metrics in high-emitting industries because of several factors such as fluctuations in revenue, production volume, and market movements. Drivers of the changes in the metrics should be tracked to attribute the change to emissions reduction efforts or other factors. Ultimately getting absolute emissions to zero is the end goal, and both absolute and intensity metrics should be considered together to measure progress of different pathways to net zero.

### Guidance by metric categories

Institutions should use multiple metrics to track progress toward their interim and final net-zero targets. GFANZ acknowledges that emphasizing portfolio emissions reduction targets, such as portfolio footprints, could have unintended consequences of reducing financing support to real-economy emissions reduction efforts as laid out in [Part B](#). Therefore, this guidance recommends complementing client and portfolio emissions

metrics with metrics that focus on real-economy emissions reductions. The latter may be related to any or all of the four key financing strategies the financial institution selected as its objectives and priorities. Also, metrics to track internal progress in executing the net-zero transition plan are key to managing the implementation of the plan. Figure 19 summarizes the three overarching categories of metrics and targets that can be used to monitor progress against net-zero objectives and priorities.

**Figure 19. Three categories of metrics and targets**



Metrics and targets for each category are meant to measure progress for different aspects of a net-zero commitment. Category 1 focuses on how financing and related services enable emissions reduction in the real economy. Category 2 focuses on the execution of the plan within a financial institution. Category 3 reflects the changes in the real economy broadly in client and company portfolios. As the rollout of the net-zero transition plan progresses, progress may be seen in category 1 and, finally, category 3.

The three categories introduced in Figure 19, which financial institutions should consider monitoring and setting targets against, are described here with detailed discussions of key considerations.

See the “Metrics and targets examples and case studies” section in the [Financial Institution Net-zero Transition Plans – Supplemental Information](#) report for examples of metrics and targets for all three categories.

**1. Metrics and targets for the real-economy transition**

Financial institutions should use metrics and targets to monitor and describe progress in supporting the key financing strategies they selected to prioritize in their transition plans. The four key financing strategies are positive actions to decarbonize the

real economy as introduced in [Part B](#) and include financing and related services to enable and support 1) climate solutions; 2) companies already aligned to net zero; 3) the transition of companies committed to aligning; and 4) the managed phaseout of high-emitting physical assets. Because these actions could temporarily increase client and portfolio emissions in the short term, using only portfolio emissions footprint metrics may not reflect the extent of transition activities the financial institution may be supporting.

Table 8 provides some illustrative examples of the potential key financing strategies may have on portfolio emissions and why use of only backward-looking portfolio footprint metrics could be misleading.

**Table 8. Example interplay between the four key financing strategies and portfolio emissions<sup>248</sup>**

KEY FINANCING STRATEGY	EXAMPLE IMPACT ON PORTFOLIO EMISSIONS (NOT EXHAUSTIVE)
1. Climate solutions	<ul style="list-style-type: none"> <li>• If a portfolio company meets increased demand for its low-emissions technology, its own emissions could likely increase and the financial institution’s overall portfolio emissions may increase proportionally.</li> <li>• Conversely, if entities using low-emissions technologies are included in the financial institution’s portfolio, overall portfolio emissions could decrease as the technology is deployed.</li> </ul>
2. Aligned	<ul style="list-style-type: none"> <li>• Portfolio emissions could decrease as more companies or clients in the portfolio are aligned to net zero.</li> </ul>
3. Aligning	<ul style="list-style-type: none"> <li>• Portfolio emissions could increase with the addition of more high-emitting real-economy firms that are just beginning to transition.</li> <li>• As firms execute their net-zero transition plans, reductions in portfolio emissions in line with 1.5 degrees C-aligned pathways take place.</li> </ul>
4. Managed phaseout	<ul style="list-style-type: none"> <li>• Portfolio emissions may initially be higher if the financial institution is financing high-emitting assets with plans to accelerate their retirement.</li> <li>• Significant reductions in portfolio emissions may only occur as the phaseout plan is completed.</li> </ul>

Where possible, a financial institution should test the assumptions around the inputs used in the calculation of real-economy targets and metrics to assess how the institution’s performance and progress may be impacted by external conditions that differ from the initial assumptions (e.g., availability of technology or government policies). Additionally, financial institutions should consider how external influences, such as regional policies and sectoral pathways, may affect their transition plan assumptions.<sup>249</sup>

Table 9 presents guidance for each approach, particularly on metrics. Such metrics could be based on emissions or on transition-related categories and should consider both backward- and forward-looking methodologies as shown

in examples in the [Financial Institution Net-zero Transition Plans – Supplemental Information](#) report.

Constructing a target framework that best accounts for key financing strategies of climate solutions, incentivizing real-world decarbonization efforts, and managed phaseout requires further research to establish net-zero benchmarks (see “Expansion of metrics and targets” section in the [Financial Institution Net-zero Transition Plans – Supplemental Information](#)). In addition, financial institutions should consider working toward expressing an umbrella metric, transition finance, to represent the proportion of their total business that relates to the four key financing strategies collectively.

248 Recall that portfolio emissions include those associated with a financial institution’s investment, lending, and underwriting portfolios, or from clients of investment consultants or financial service providers.

249 GFANZ. [Guidance on Use of Sectoral Pathways for Financial Institutions](#), June 2022.

**Table 9. Guidance for metrics and target setting across four key financing strategies to net-zero capital allocation and related services**

KEY FINANCING STRATEGY	GUIDANCE
<b>1. Climate solutions</b>	Financial institutions seeking to enable and finance the development or scaling of climate solutions should consider a range of metrics to track the impact of solutions on real-economy emissions reduction. Target setting for climate solutions is still nascent, but, where available, sectoral pathways could be used to set targets in line with the scale needed to achieve net zero. (See “Expansion of metrics and targets” section in the <a href="#">Financial Institution Net-zero Transition Plans – Supplemental Information</a> report for further discussion.)
<b>2. Aligned</b>	Financial institutions supporting those companies or assets that are already substantially aligned should determine the metrics to monitor progress of financing of this key strategy. These metrics could be drawn from criteria used to assess the current and ongoing alignment to a 1.5 degrees C pathway of the companies or assets. The criteria should also be reviewed and updated over time.
<b>3. Aligning</b>	Financial institutions supporting those companies that have committed to transition and are beginning the process, or are still transitioning, should determine metrics to monitor links between financing support and transition activities, as well as progress of financing of this key approach. These metrics could be drawn from the criteria of what “transitioning” means. This criteria will be similar to that for companies and assets already aligned to net zero but account for an earlier stage of transition activity and depend heavily on net-zero transition plans and their execution. The criteria should also be reviewed and updated periodically.
<b>4. Managed phaseout</b>	The GFANZ report <a href="#">The Managed Phaseout of High-emitting Assets</a> provides initial and preliminary guidance on a net zero-aligned approach to financing or enabling high-emitting assets where there is a plan for their early retirement. The report notes that such an approach would need its own metrics and targets. Financial institutions should consider metrics that demonstrate how a Managed Phaseout plan through early retirement will reduce emissions as well as broader impacts (e.g., related to the workforce).

**2. Metrics and targets for plan execution**

Financial institutions should set targets and monitor metrics that indicate their organization’s progress in executing on their net-zero transition. Similar to other strategic plans of the institution, clear corporate financial and operational KPIs should be monitored and reviewed on a regular basis. These could pertain to any of the themes and components discussed in this report that show activity of the institution’s teams in applying their net-zero commitment to parts of the business.

Financial institutions should select metrics and set targets for engagement programs, in alignment with sector-specific guidance, where available.

**3. Metrics and targets for financed emissions**

Financial institutions should choose financed emissions metrics and targets, and the methodology to develop them, in alignment with sector-specific guidance, where available, or with

industry standards. Multiple metrics may be needed to assess different aspects of an institution’s portfolio and business activities (e.g., across different sectors, or to distinguish between on balance sheet emissions versus those ‘facilitated’ by financial institutions on the behalf of their clients). Using both forward-looking and backward-looking metrics should be considered for a more holistic assessment (historical climate performance and future net-zero plans) of companies and clients.

Emissions reduction targets should be consistent with science-based, 1.5 degrees C-aligned scenarios and sectoral pathways, where available, to reach net-zero emissions by 2050 and should include interim targets for 2030 or sooner. Financial institutions should use low- or no-overshoot scenarios wherever available. Key elements to be included in GHG emissions reduction target-setting methodologies include:

METRICS AND TARGETS

- GHG emissions in scope (Scopes 1 and 2, and Scope 3 based on materiality);<sup>250</sup>
  - business activities in scope (sectors and/or lines of business);
  - baseline year;<sup>251</sup>
  - target years for interim and net-zero targets; and
  - percentage of portfolio covered by targets.
- Table 10 lists sources of guidance on important methodological questions in defining GHG emissions metrics.

**Table 10. Resources for metric methodologies**

CATEGORY	RESOURCES
Definition of portfolio company emissions	GHG Protocol <sup>252</sup> and jurisdiction-specific guidance <sup>253</sup>
Calculation of financed emissions	PCAF <sup>254, 255</sup>
Definition of physical and economic intensity metrics	SBTi, <sup>256</sup> TPI, <sup>257</sup> PCAF <sup>258</sup>
Portfolio alignment metrics	PAT, <sup>259</sup> GFANZ, <sup>260</sup> SBTi, PACTA <sup>261</sup>
Selection of reference scenario and/or sectoral pathway	Sector-specific alliance guidance, <sup>262</sup> GFANZ guidance, <sup>263</sup> IEA, <sup>264</sup> Mission Possible Partnership, <sup>265</sup> NGFS <sup>266</sup>
Tracking and disclosure of use of carbon credits <sup>267</sup>	SBTi, <sup>268</sup> Sector-specific alliance guidance, carbon markets initiatives <sup>269</sup>

The guidance documents listed above generally focus on one area of methodology. Where relevant, financial institutions can also refer to the Net-zero Investment Framework<sup>270</sup> and NZAOA’s Target Setting Protocol<sup>271</sup> for overarching guidance.

250 See the “[Overview and relevance](#)” section for a note on materiality thresholds for Scope 3 emissions of portfolio companies and clients.

251 Based on years that are recent and representative, following sector-specific alliance guidance and taking into account considerations such as COVID-19.

252 WBCSD and WRI. [The GHG Protocol: A Corporate Accounting and Reporting Standard](#), Revised Edition, March 2004.

253 Examples include [Environmental Protection Agency Greenhouse Gas Reporting Program \(GHGRP\)](#) and [Government of Canada technical guidance on reporting greenhouse gas emissions](#).

254 PCAF. [The Global GHG Accounting and Reporting Standard for the Financial Industry](#), 2020.

255 PCAF is also developing methodologies across more asset classes and guidance on underwriting due by the end of 2022.

256 SBTi. [Foundations for Science-Based Net-Zero Target Setting in the Financial Sector](#), 2022, and [Financial Sector Science-Based Targets Guidance](#), 2022.

257 TPI. [Methodology and indicators report](#), 2019.

258 PCAF. [The Global GHG Accounting and Reporting Standard for the Financial Industry](#), 2020.

259 PAT. [Measuring Portfolio Alignment: Technical Considerations](#), 2021.

260 GFANZ. [Measuring Portfolio Alignment: Driving Enhancement, Convergence, and Adoption](#), 2022.

261 [Paris Agreement Capital Transition Assessment](#) (PACTA) provides guidance for investors and banks to measure alignment of portfolios with climate scenarios.

262 GFANZ. [Guidance on use of Sectoral Pathways for Financial Institutions](#), 2022.

263 GFANZ. [Guidance on Use of Sectoral Pathways for Financial Institutions](#), 2022.

264 IEA. [World Energy Model](#).

265 Mission Possible Partnership. [Sector Transition Strategies](#).

266 NGFS. [NGFS Scenarios for Central Banks and Supervisors, 2022](#).

267 Also, please refer to to the “Carbon Credits” section in the [Financial Institution Net-zero Transition Plans – Supplemental Information](#) report”

268 SBTi. [Foundations for Science-Based Net-Zero Target Setting in the Financial Sector](#), 2022, and [Financial Sector Science-Based Targets Guidance](#), 2022.

269 Reference [VCM Claims Code of Practice](#).

270 PAII. [Net Zero Investment Framework: Implementation Guide](#), version 1.0, March 2021.

271 NZAOA. [Target Setting Protocol](#), second edition, January 2022.

Financial institutions should consider also developing metrics to monitor progress on changing portfolio composition, supporting the explanation of portfolio emissions increase or reduction. These metrics may include the proportion of GHG portfolio emissions reduction that are a result of changes in portfolio composition and those by changes in the underlying companies.<sup>272</sup>

Where carbon credits are used by financial institutions or their clients, financial institutions should monitor how credits are used and the type and quality of credits. The use of credits should be monitored alongside, but separate from portfolio emissions. Financial institutions should consider specifying whether credits are being used to neutralize residual emissions or to compensate emissions beyond emissions reduction targets on

the path to net zero.<sup>273</sup> Financial institutions may also set separate carbon credit targets alongside emissions reduction targets.

These metrics could include the following:

- The number of credits by type: type of credit (i.e., reduction, removal), type of mitigation activity, and the accounting methodology to measure the emissions reduction.
- Certification/verification of the credits: standards, issuing registries, and other relevant details to ensure that credits are verified to be high-quality.
- How and when the credits are used: for neutralization of residual emissions, on the path to net zero or after net zero is obtained, and/or against outside value chain emissions.

**Table 11. Examples of metrics and targets**

METRIC CATEGORY	EXAMPLE
Driving financial activity: Climate solution	BNP Paribas: <sup>274</sup> In 2015, had a target to invest €100 million by 2020 to encourage innovative start-ups to develop pioneering technologies and business models that address energy transition challenges.
Driving financial activity: Alignment	Robeco: <sup>275</sup> Measure degree of alignment of companies to the Paris Agreement covering their top-200 highest emitters in their portfolio.
Driving financial activity: Transition	CDPQ: Creating a \$10-billion envelope to support the transition of heavy emitters. <sup>276</sup>
Driving financial activity: Managed phaseout	Proportion of coal assets with a credible transition (including managed phaseout) plan, with a target to increase coverage; Avoided emissions from planned early retirement of coal assets.

272 Where the portfolio changes significantly, a recalculation of the baseline may be needed. Both the [GHG Protocol](#) and [PCAF Standard](#) call for a policy to define the circumstances that trigger a recalculation. There are additional data consistency considerations in such cases.

273 See the [Financial Institution Net-zero Transition Plans – Supplemental Information](#) report for additional information on ongoing initiatives to define standards for the use and quality of carbon credits. For example, SBTi notes that “Carbon credits may only be considered to be an option for neutralizing residual emissions or to finance additional climate mitigation beyond their science-based emission reduction targets. SBTi. [SBTi Corporate Net-zero Standard. 2022](#). (Note that the SBTi guidance for financial institutions on carbon credits refers back to this standard.)

274 BNP Paribas. [TCFD Report 2020](#), 2020.

275 Robeco. [Navigating the climate transition: Robeco’s roadmap to net zero emissions by 2050](#), October 2021.

276 CDPQ. [2021 Sustainable Investing Report](#), 2021.

METRIC CATEGORY	EXAMPLE
Executing the plan	<p><b>Citi:</b> Has two board committees responsible for oversight of the climate change policy.<sup>277</sup></p> <p><b>ING:</b> In 2020, supported the issuance of 62 green/social/sustainability-linked bonds and schuldscheins, 54 green/sustainability-linked loans, 19 sustainable structured finance transactions, and four sustainable investments transactions. An increase to 139 sustainable finance transactions in 2020 from 123 sustainable finance lending and bond transactions in 2019 showed year-on-year growth.<sup>278</sup></p>
Measuring portfolio emissions	<p><b>ING:</b> Measured that focus on their loan book in 2020 covered 42 million tons of CO<sub>2</sub>. Sixty-nine percent of the portfolio is currently measured using methodologies compliant with the Global GHG Accounting and Reporting Standard for the Financial Industry developed by PCAF.<sup>279</sup></p>

### Example 19. SBTi's net-zero guiding principles

The SBTi is an organization dedicated to promoting the adoption of science-based target setting by companies and financial institutions (FIs) as they embark on their transition to net zero. Within the net-zero ecosystem, the SBTi is unique in providing independent, transparent, and quantitative assessment of company and financial institution targets. The SBTi believes that the focus of FI net-zero targets “should not lie on reaching a state of net-zero GHG emissions within portfolios but instead, ensuring that net-zero targets incentivize FIs to sufficiently contribute to helping achieve the global goal of net-zero emissions at a planetary level.”<sup>280</sup>

In its Foundations for Science-Based Net-Zero Target Setting in the Financial Sector report, the SBTi proposed a set of four principles to “guide the formulation and assessment of net-zero targets.”<sup>281</sup>

To drive the action needed to meet societal climate and sustainability goals, the SBTi stresses the principle of “**completeness.**” This means that FIs should ensure their net-zero targets lead to a state that is “compatible with reaching net-zero emissions at the global level.”<sup>282</sup> To achieve this, the SBTi says FIs should address all operational and financing activities – not just those they can directly influence.

The SBTi sets out its expectations that FIs should “transition and align their financing activities to net zero in line with pathways that achieve the Paris Agreement”<sup>283</sup> in its “**science-based ambition**” principle. This principle encourages FIs to consider both the synergies and trade-offs between different pathways.

277 Citi, [TCFD Report 2021: Citi's Approach to Climate Change and Net Zero](#), 2021.

278 ING, [2021 Climate Report](#), 2021.

279 Ibid.

280 SBTi, [Foundations for Science-Based Net-Zero Target Setting for the Financial Sector, version 1.0, April 2022](#), p. 7.

281 Ibid., p. 27.

282 Ibid., p. 27.

283 Ibid., p. 28.

The SBTi understands that actions FIs take to achieve portfolio reductions can have different outcomes on real-world emissions, depending on how they are implemented. On this issue, the SBTi’s “**real economy impact**” principle states that FIs “should leverage their abilities to influence and engage other actors as well as focus their financing activities to help achieve economy-wide decarbonization and a just transition, and not simply reduce portfolio exposure to GHG emissions.”<sup>284</sup>

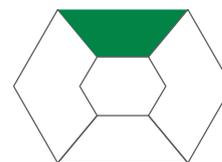
The SBTi emphasizes that the development of climate solutions is needed in parallel to the decarbonization of existing assets, with the two being complementary in supporting the economy’s transition to net zero. The SBTi’s “**decarbonization and climate solutions**” principle outlines how FIs should consider both the financing of decarbonization efforts as well as climate solutions.<sup>285</sup>

In addition to these principles, this SBTi report provides further detail on metrics and targets for different types of FIs, and the opportunity to assess and validate science-based targets.

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284 Ibid., p. 29.

285 Ibid., p. 30.



## THEME

# Governance

Governance structures are key mechanisms for enabling financial institutions to oversee progress toward net-zero targets. The outcome of a net-zero transition plan will flow directly from governance and leadership tone. Identifying senior personnel for specific oversight and implementation roles and responsibilities, and linking remuneration, where structure allows, to achieving progress, will ensure appropriate resources are deployed.

Senior personnel will be responsible for ensuring that all teams across their organization have the required climate transition-related skills, resources, and understanding to deliver the desired results. Leaders can support a culture of innovation and maximum employee engagement to find creative solutions to meeting the net-zero objectives. Transparent communication about the transition plan and ongoing progress keeps internal stakeholders up-to-date and adds another layer of accountability.

Climate-related governance should be integrated at the highest levels of a financial institution and should flow down to every part of the organization through training, education, and engagement.

## 1) COMPONENT: ROLES, RESPONSIBILITIES, AND REMUNERATION

### Recommendation

Define roles for the Board or strategy oversight body and senior management ensuring they have ownership, oversight, and responsibility for the net-zero targets. Assign appropriate individuals and teams to all aspects of both design and delivery of the transition plan. Use remuneration incentives for all roles, where possible. Review the transition plan regularly to ensure material updates/developments are incorporated; challenges are reviewed as an opportunity to correct course; and implementation risks are properly managed.

**Overview and relevance:** Ultimate accountability rests with the Chief Executive Officer and relevant governance body responsible for strategic oversight, to set a bold, actionable plan and ensure that the organization can adapt to effectively implement it. Several functions within a financial institution are typically involved in the design and execution of a net-zero transition plan. Establishing effective governance processes and structures, with clear roles, responsibilities, and remuneration, is critical to the success of the plan's design and execution. Remuneration and incentives for individuals should be in line with key performance indicators related to the net-zero transition plan and relevant to the individual's role.

**Guidance:** Financial institutions should establish a clear mandate, role, and authority for the Board (or equivalent governance body) and its sub-committees in the oversight of transition planning. The Board or body charged with oversight should consider including members with climate-related experience and expertise. This body should be responsible for providing advice; reviewing the suitability of the transition plan and its design; and assessing progress toward stated targets. Where authority for the above is delegated to the

institution’s senior management, this should be well documented and communicated.

The net-zero transition will be a multiyear effort and the institution’s ambition and strategic approach should provide that it continues, regardless of changes in management and Board. Integrating net-zero transition awareness and objectives within strategies and core business practices will require resources, new skills, and change management expertise.

**Example 20. Sample guidance from organizations**

**Investor Agenda (IA)<sup>286</sup>**

“Ensure that the organization’s climate change policies and plans are actively supported by the Board and senior management.” (tier 1)

“Define formal climate change responsibilities in Board and/or Board Committee Terms of Reference and role descriptions.” (tier 3)

“Report regularly to the Board and senior management on climate performance and portfolio climate risk exposures.” (tier 1)

**TCFD<sup>287</sup>**

“Approval: The board or appropriate committee of the board approves the transition plan and climate-related targets.”

“Oversight: The board or appropriate committee of the board oversees execution of the transition plan.”

**Global Association of Risk Professionals (GARP) and UNEP FI<sup>288</sup>**

outlines a Board of Directors Climate Dashboard to ensure transparent reporting to the Board, including topics across balance sheet management and own operations. The topics cover Risk, Financed emissions, Portfolio alignment, Mobilizing transition finance, Client engagement, Regulatory actions, Disclosure alignment, Audit findings, Own emissions, and Business continuity incidents.

**World Economic Forum<sup>289</sup>**

proposed “guiding principles for effective climate governance on corporate boards” including climate accountability, subject demand, board structure, materiality assessment, strategic integration, incentivization, reporting and disclosure, and exchange.

286 Investor Agenda. [Investor Climate Action Plans \(ICAPs\) Expectations Ladder](#), May 2021.

287 TCFD. [Guidance on Metrics, Targets, and Transition Plans](#), October 2021.

288 GARP and UNEP FI. [Steering the Ship: Creating Board-Level Climate Dashboards for Banks](#), July 2022.

289 World Economic Forum. [How to Set Up Effective Climate Governance on Corporate Boards: Guiding principles and questions](#), January 2019.

Financial institutions should ensure that there are clear roles, responsibilities, and remuneration for the design and execution of the transition plan in order to embed it at all levels of the organization. At the senior management level, individuals with accountability for design and delivery should be specified. These accountable individuals should have sufficient authority to deploy resources and set operational objectives. Scope of authority may cover ability to secure access to specialist advisors, to develop resources and tools to ensure effective implementation, to enhance or implement

IT systems for data collection, and to develop a network to stay informed of the progress of industry peers and other organizations that offer relevant information and insight.

Typically, responsibilities for the execution of the transition plan involve functions across the organization and cover the full scope of its business activities. Table 12 suggests key functions that might be involved, in addition to teams leading sustainability efforts. The examples are not exhaustive.

**Table 12. Internal stakeholders**

<b>COMPONENT</b>	<b>FUNCTIONS THAT MIGHT BE INVOLVED</b>
<b>Objectives and priorities</b>	Board or equivalent body, Chief Executive Officer, Senior Management, Business-line management, Legal, Strategy
<b>Products and services</b>	Business-line management, Strategy, Legal, Marketing
<b>Activities and decision-making</b>	Business-line management, Risk, Data teams
<b>Policies and conditions</b>	Risk, Compliance, Legal, Business-line management
<b>Clients' and portfolio companies' engagement</b>	Business-line management, Relationship managers/Stewardship teams, Communications
<b>Industry engagement</b>	Business-line management, Legal, Communications
<b>Government and public-sector engagement</b>	Compliance, Public Affairs/Government Relations, Legal
<b>Metrics and targets</b>	Business-line management, Finance, Data teams, Risk, Audit
<b>Roles, responsibilities, and remuneration</b>	Risk, Audit, Legal, Board or Board committee, Corporate Secretary, Investor Relations, Change Management, Communications, Human Resources
<b>Skills and culture</b>	Human Resources, Executive Management, Business-line management

Note: Sustainability, Climate, or Environmental functions may be involved across transition plan implementation.

Financial institutions should regularly report on the status of the transition plan to the Board or strategy oversight body and to senior management, with relevant reporting thresholds and escalation protocols in place. In addition to business metrics already reported, key transition-related items monitored and reported could include:

- metrics for activities supporting the real-economy transition;
- results from key engagement activities;
- change management performance indicators as the net-zero transition strategy is embedded in business processes across the organization;
- identification of key transition plan execution risks and how they are being mitigated (or accepted); and
- reports from third-party assessment of the transition plan and progress.

Financial institutions should update or refine performance criteria, role descriptions, and remuneration throughout the organization to reflect the transition plan objectives and targets, including for senior management. Remuneration for

C-suite roles could be directly linked to transition plan targets, where structures allow.

Incentives should be tailored to individuals’ roles, their progress against performance targets, and their contribution to the transition plan implementation. Incentives should be reviewed annually alongside performance and should include outcomes for both when targets are met and when they are not.

These incentives can be designed to:

- reward performance on net-zero transition objectives, where possible designing incentives to emphasize quantifiable real-economy change;
- adjust or influence internal analytics, decision-making, and offered products and services; and
- build employees’ skills and bring innovation to the activities that are aligned with net-zero objectives.

Incentives at all levels of the organization should be commensurate with the priority of the transition plan. They should consider taking into account both interim and long-term climate goals.

**Example 21. Sample incentive guidance from organizations**

**CDP<sup>290</sup>**

“Do you provide incentives for the management of climate related issues, including the attainment of targets?”

**TCFD<sup>291</sup>**

“Incentives: Remuneration and other incentives are aligned with the organization’s climate goals, as described in the transition plan.”

**TPI<sup>292</sup>**

“Does the company’s remuneration for senior executives incorporate climate change performance?”

290 CDP. [Climate Change 2022 Questionnaire](#), 2022.

291 TCFD. [Guidance on Metrics, Targets, and Transition Plans](#), October 2021.

292 TPI. [TPI’s Management Quality and Carbon Performance](#), version 4.0, November 2021.

### **Example 22. Climate and sustainability measures make up 10% of executive variable pay opportunity at Barclays**

Sub-sector: Banking

To reach its ambition to be a net-zero bank by 2050, Barclays is taking a three-pronged approach:<sup>293</sup>

- Achieve net-zero operations.
- Reduce financed emissions.
- Finance the transition.

Barclays' climate and sustainability strategy is reflected in the compensation plans for its executive directors.<sup>294</sup>

The performance measures for each of the 2022 bonus and the 2022–2024 Long Term Incentive Plan (LTIP), set by the Remuneration Committee of the Barclays PLC Board, include a 10% weighting for climate and sustainability. This section primarily focuses on climate-related measures, including:

- progress toward achieving the ambition to be a net-zero bank by 2050;
- alignment of financing with the goals of the Paris Agreement;
- reduction of operational and supply chain carbon footprint and increase use of renewable energy; and
- progress toward green financing commitments.

### **Example 23. Citi forms governance and business teams to drive its net-zero plan**

Sub-sector: Banking

Global bank Citi has committed to achieving net-zero emissions associated with its financing by 2050, which involves “rethinking our business and helping our clients rethink theirs.”<sup>295</sup> While the plan is still being formulated, Citi’s 2021 TCFD report outlines some aspects already in place. Specifically, the report discusses remuneration and employee training and upskilling to demonstrate how roles, responsibilities, and remuneration, as well as skills and culture, in line with GFANZ recommendations and guidance, are being considered in the organization.

The management of climate change efforts is considered in Citi’s discretionary incentive compensation program in two ways:

- Certain senior executives have performance scorecards that include metrics designated on a position-by-position basis. Metrics include progress on Citi’s \$1 trillion Sustainable Finance Goal and milestones for the development of its net-zero plan.
- Climate change strategy and risk management performance goals are incorporated into annual goals and performance review processes for several of Citi’s senior managers and their teams who are responsible for developing and implementing the approach to climate change.

<sup>293</sup> Barclays. [Barclays' Climate Strategy, Targets and Progress 2022](#), March 22, 2022.

<sup>294</sup> Barclays. [Remuneration](#).

<sup>295</sup> Citi. [TCFD Report 2021: Citi's Approach to Climate Change and Net Zero](#), 2022.

In addition, Citi is investing in the skills and expertise of its employees. It has established a Net Zero Task Force, led by its Chief Sustainability Officer, with leaders from across the business. The task force was formed to collectively build knowledge on net zero, inform decisions on methodology, and ensure that information is flowing across Citi's businesses. Additionally, Citi has formed sustainability and transitions teams in the lines of business to share expertise and more effectively evaluate and pursue client opportunities. "Through these teams, we have increased the climate fluency of our business team leaders, allowing climate considerations to be better integrated into our business decision-making," the company stated in its 2021 TCFD report.

Citi acknowledges that a net-zero target must be translated into policies, procedures, and programs that guide sustainable finance operations. While Citi has begun this work, it notes that "we are still developing internal processes in several areas, particularly in identifying metrics and performance indicators to demonstrate Citi's progress in achieving the targets in our net-zero plan while simultaneously managing our level of risk and returns on our portfolios."

#### **Example 24. MSCI's clear roles and responsibilities**

Sub-sector: Financial Service Provider

MSCI provides indices, data, and analytics to the financial and investment industry. It has committed to aligning all relevant services and products to achieve net-zero GHG emissions by 2050 or sooner. It has also defined one of its strategic pillars of growth to "Lead the enablement of ESG and climate investment integration."<sup>296</sup> As part of this, MSCI provides and is further developing a wide range of climate-focused data and analytics products and services.<sup>297</sup>

MSCI has established governance processes and structures with clear roles and responsibilities for realizing this strategy. In its 2020 TCFD report,<sup>298</sup> it set out a governance and reporting structure that included describing the responsibilities of the Board's standing committees, including the allocation of responsibilities with respect to climate change. The Board receives regular updates on MSCI's net-zero commitment and other climate-related initiatives. MSCI also leveraged its in-house expertise around climate science and climate-related solutions to inform Board education sessions that strengthened the Board's foundational knowledge of climate, including on net-zero commitments.<sup>299</sup>

Goals related to climate change are also KPIs that factor into the compensation of certain executives. While all its executive officers support its climate initiatives, MSCI's 2022 proxy statement specifically describes actions taken by the CEO and the General Counsel to advance MSCI's climate capabilities and to help clients transition to a net-zero world.<sup>300</sup> In 2022, all members of the company's Executive Committee, a committee comprising 23 of the company's senior-most leaders, will include a climate commitment goal in their 2022 individual KPIs that they will be assessed against in 2023.

<sup>296</sup> MSCI. [2021 Annual Report](#).

<sup>297</sup> MSCI. [2022 Annual Meeting of Shareholders and Proxy Statement](#), March 2022, p. 73.

<sup>298</sup> MSCI. [MSCI: Enabling Sustainable Investing: Task Force on Climate-related Financial Disclosures \(TCFD\) Report](#), December 2020.

<sup>299</sup> MSCI. [2022 Annual Meeting of Shareholders and Proxy Statement](#), March 2022, p. 13.

<sup>300</sup> Ibid., p. 73 and p. 78.

## 2) COMPONENT: SKILLS AND CULTURE

### Recommendation

Provide training and development support to the teams and individuals designing, implementing, and overseeing the plan so that they have sufficient skills and knowledge to perform their roles (including at the Board and senior management level). Implement a change management program and foster open communications to embed the net-zero transition plan into the organization's culture and practices.

**Overview and relevance:** Net-zero transition plans involve organizational change, with potentially significant impacts on business lines and employees. Proper skills, training, and communication are needed to ensure that plans are implemented as designed and implementation risks are managed. Implementing a net-zero transition will be a multiyear effort and should be designed to continue being implemented, regardless of changes in the Board and senior management. Therefore, adoption of the plan requires a commitment to culture change, communication, broader training for employees, and innovation across the financial institution.

**Guidance:** Financial institutions should provide support required for individuals to perform their assigned roles in designing and implementing transition plans.

Organizations should consider conducting assessments to determine if key individuals have the required skills and knowledge appropriate to their role. Roles range from strategic oversight

of the net-zero transition plan from the Board, strategy oversight bodies, and senior management to day-to-day plan execution by employees.

Financial institutions should consider providing ongoing and relevant training at every level of the organization, including the highest strategic levels, and transparent processes should be in place to assess and improve skills and knowledge gaps. Organizations may also want to consider making skills and training accessible to key vendors and value chain partners.<sup>301</sup>

All levels of the institution should have access to external climate experts and resources for deep technical knowledge as appropriate and as internal teams start to build their climate skills. Teams may need to be kept abreast of new developments in science and industry and such resources should be refreshed, as needed.

An ambitious net-zero transition plan requires an organization-wide reorientation and culture change. As part of a change program, the institution should consider building broader awareness and understanding of the transition plan, so employees throughout the organization understand how and why the institution is adapting its business; what is expected of them; and how they can contribute. Employees could be engaged and educated on the transition plan through initiatives like employee engagement surveys, and integrated learning plans. Employee skill sets could be assessed in performance evaluations and interviews. Awareness and understanding will facilitate integration of the transition objectives into decision-making across the organization and help create employee buy-in at all levels.

<sup>301</sup> Specific transition skills may include building familiarity with accepted sustainability standards, which will vary based on the financial institution's type, geography, and jurisdiction and may include frameworks like the European Union's Taxonomy, the U.S. Securities and Exchange Commission's proposed rules on climate disclosure, or the Science Based Targets initiative's guidance for the financial sector. Another example of transition skills and training could be technical competency around scenario analysis and science-based transition pathways.

**Example 25. Sample training guidance****Climate Safe Lending Network<sup>302</sup>**

“All staff need to have a solid understanding of the overall strategy and the specific role that they play in contributing to success.”

“Training should be integrated with work functions and processes instead of being treated as a one-off skills development session.”

“Relationship managers trained on Paris alignment. Sustainability/ESG team as coordinators and innovators.”

“Sustainability and ESG leads will need to support the process along with people who are skilled in change management.”

**Investor Agenda ICAPs<sup>303</sup>**

“Education and training can be done in-house, preferably in collaboration with experts in relevant aspects of sustainability risks or in offsite sessions conducted by established programs. The competencies and capabilities of the Board, senior management and investment teams should be formally and annually assessed with the results and criteria for assessment disclosed.”

A net-zero transition will require considerable change and innovation across the organization. Some ways that people managers can support employees through this change include:

- identify challenges that arise as opportunities to deepen dialogue with the teams;
- encourage diverse views and difficult conversations as a way to build understanding;
- update senior management on metrics and data that show progress (in addition to completed milestones) to integrate transition understanding among teams;
- facilitate clear communication from senior management and the Board or strategy oversight body on climate strategy, scopes, and net-zero targets; and
- create cross-departmental teams or networks to facilitate reflection on transition plan implementation, including individuals’ concerns and perspectives on the transition.

302 Climate Safe Lending Network. [The Good Transition Plan](#), October 2021.

303 Investor Agenda. [Investor Climate Action Plans \(ICAPs\) Guidance on Using the Expectations Ladder](#), July 2022, p. 43.

**Table 13. Highlights of how some financial institutions have started to achieve organizational change**

FINANCIAL INSTITUTION	EXCERPTS
<b>Commercial International Bank (CIB)</b> <sup>304</sup>	<p>“CIB works on ensuring sustainable capacity building and providing a knowledge-sharing platform for the Bank’s employees, clients, and the financial industry. This is to increase the awareness level and/or technical expertise of CIB’s employees in different functions.”</p> <p>“Sustainability risks and opportunities are positioned at the top of the Bank’s Board of Directors’ agenda who are committed to advancing the Bank’s governance structures to ensure the integration of ESG into the Bank’s policies, operations and culture.”</p>
<b>KCB</b> <sup>305</sup>	<p>“We have been able to achieve these milestones by placing sustainability at the forefront of KCB business culture. It is present in our training, integrated in staff KPIs, recruitment processes, policies, as well as our 10-point action plan. Entrenching sustainability in culture and operations means that we always consider our economic, social and environmental impact before we make any decision as an organisation. Building this culture has been one of our most laudable achievements — as it has enabled us to place sustainability at the heart of our new strategy, informing in many ways trends that will affect our customers and business in the future.”</p>

**Example 26. TD’s Climate Target Operating Model (TOM) and ESG Center of Expertise (COE)**

Sub-sector: Banking

In November 2020, TD announced its Climate Action Plan, including a target to achieve net-zero GHG emissions associated with its operations and financing activities by 2050.<sup>306, 307</sup> Since announcing the plan and targets, TD has joined NZBA and has also announced interim Scope 3 emissions targets for key sectors.<sup>308</sup> TD’s ESG strategy is coordinated across the bank and increasingly integrated into its business as usual practices, including through the establishment of its Climate TOM and ESG COE, which have been mobilized to deliver on and embed TD’s ESG strategy throughout the organization.<sup>309</sup>

TD’s Climate TOM represents an important step toward implementing the actions necessary to reduce the bank’s GHG emissions, further embed enterprise climate-related risk management practices into its business activities, and capitalize on climate-related opportunities.<sup>310</sup> The Climate TOM is a framework that outlines how functions, capabilities, governance, and supporting infrastructure will be configured or managed to achieve the strategic

304 Commercial International Bank. [Sustainable Finance Policy](#), January 10, 2021.

305 KCB. [Accelerating the Future Together: 2020 Sustainability Report](#), 2021.

306 TD. [2021 TD’s Climate Action Plan: Report on Progress and Update on TCFD](#), 2021.

307 TD Bank Group Newsroom. [TD Commits to Ambitious Climate Action Plan and Targets Net-Zero Emissions by 2050](#), November 2020.

308 TD. [2021 TD’s Climate Action Plan: Report on Progress and Update on TCFD](#), 2021, p. 3.

309 TD. [Building Tomorrow Together: 2021 Environmental, Social and Governance Report](#), 2021, p. 11.

310 *Ibid.*, p. 11.

objectives of the enterprise's Climate Action Plan.<sup>311</sup> TD developed its Climate TOM and roadmap<sup>312</sup> working with TD stakeholders to assess the bank's "current state" practice relative to agreed "target state" capabilities, identify the actions necessary to reach the "target state," and outline the roles and responsibilities of the various teams involved in the implementation. The roadmap describes key milestones TD is focused on achieving over a three- to four-year period to build the required climate capabilities and supporting infrastructure.<sup>313</sup>

The ESG COE and Climate TOM work very closely together. The COE was created in 2021 to bring together the experience, expertise, and talent of colleagues working on ESG issues across the enterprise.<sup>314</sup> TD uses both a top-down and bottom-up approach to embedding ESG within its business and culture, in addition to focusing on educating leadership in key ESG areas to support alignment across the enterprise. The ESG COE coordinates expanding ESG expertise, including understanding climate change, within TD's lines of business.<sup>315</sup> The ESG COE also facilitates coordination and knowledge-sharing across key areas including research, policies, risk management, sustainable financing, and reporting.<sup>316</sup>

TD has also linked senior executive compensation with the bank's ESG performance, further reinforcing the importance of ESG as a core component of TD's business strategy and future.<sup>317</sup> These factors further demonstrate TD's commitment toward creating a culture where colleagues can contribute to and are responsible for advancing the enterprise's Climate Action Plan.

### **Example 27. Bank of America's training for employees to support clients' transition to net zero** Sub-sector: Banking

Bank of America is committed to helping finance the transition to net zero before 2050. One of the five pillars in its "Approach to Zero™" framework strategy is assisting clients in their own net-zero objectives.<sup>318</sup> Because a key aspect of its Approach to Zero™ includes extensive engagement with its clients across all lines of business, the company has developed net-zero awareness training for its banking, credit, and risk teammates to increase their knowledge of how best to support clients in reaching net zero.

It has created an online ESG (environmental, social, and governance), Climate, and Sustainable Finance college that is available to all teammates.<sup>319</sup> The aim of the training is to deepen employees' understanding of the primary decarbonization strategies for individual sectors and the financing solutions Bank of America can offer to assist clients in their net-zero transition. These training initiatives focus on developing skills and knowledge to help enable employees, managers, and teams across lines of business with the design and implementation of products and services that will support the acceleration of the transition to net zero.

311 TD. [2021 TD's Climate Action Plan: Report on Progress and Update on TCFD](#), 2021, p. 15.

312 Ibid., p. 15.

313 Ibid., p. 6.

314 TD. [Building Tomorrow Together: 2021 Environmental, Social and Governance Report](#), 2021, p. 11.

315 Ibid., p. 11.

316 Ibid., p. 11.

317 Ibid., p. 5.

318 Bank of America. [Approach to Zero](#), April 2022, p. 1.

319 Ibid., p. 3.

PART D

# Look ahead

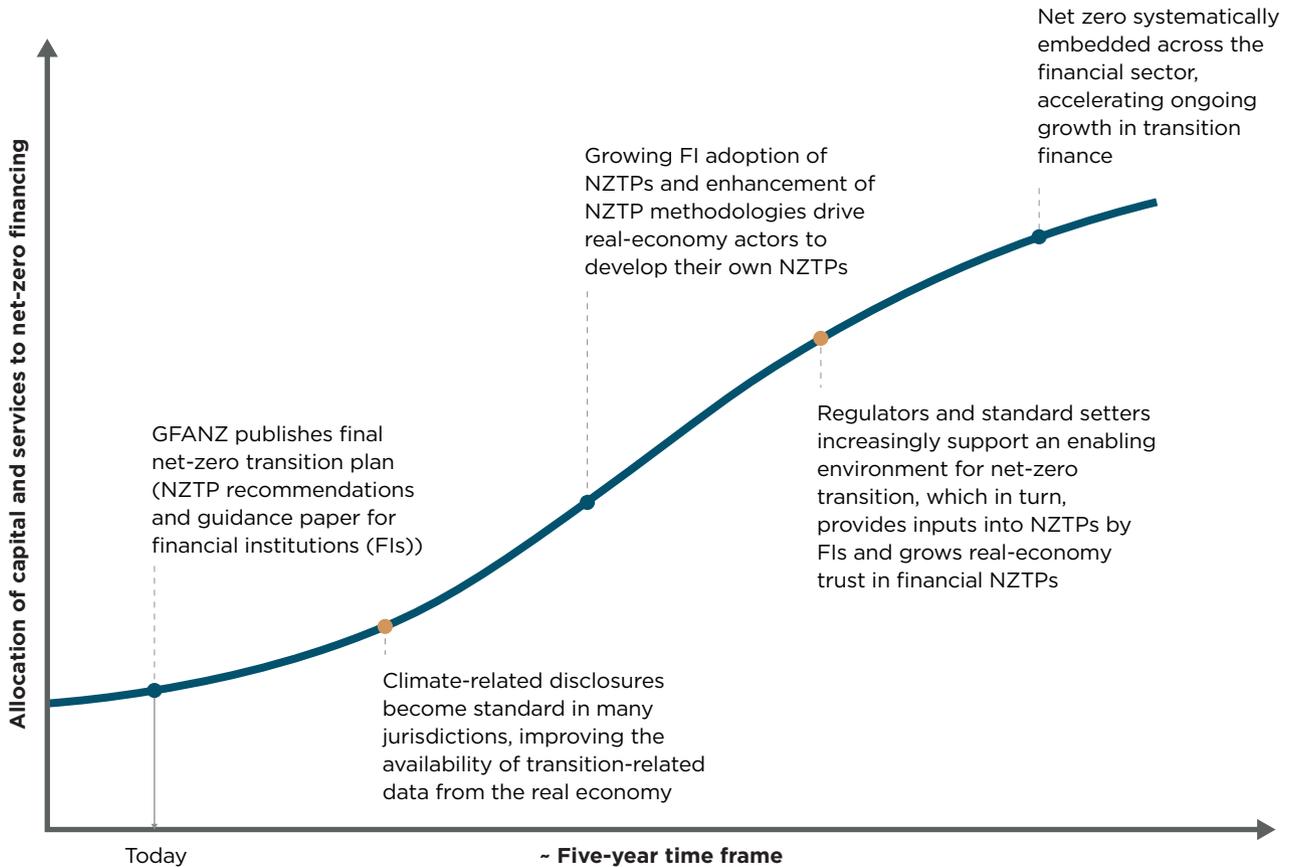


# The way forward

GFANZ offers the recommendations and guidance in this report to support financial institutions as they develop their net-zero transition plans with a focus on delivering real-economy emissions reductions in line with net-zero commitments.

Developing and implementing a credible transition plan in line with these recommendations supports institutions in their efforts to operationalize their commitments.

**Figure 20. Example industry-wide implementation of net-zero transition plans**



This report is being published at a time when the financial sector’s approach toward net zero, including net-zero transition plans (NZTPs), is quickly evolving. The TCFD provided a framework for disclosing how climate-related risks and opportunities can be material to financial returns.

Supporting financial sector commitments to net zero that reflect the pledges from governments and real-economy firms, GFANZ is expanding on the work of the TCFD with resources on the development of NZTPs. Despite challenges, membership in the sector-specific net-zero

alliances is increasing and financial institutions are developing and implementing NZTPs, pointing to increased commitment and action to realize those commitments. Figure 22 sets out an illustrative path for how NZTPs could mature in the industry over the next five years.

Realization of this path will require the widespread adoption of NZTPs by financial institutions. To enable this adoption, the financial sector requires increased availability of high-quality transition-related data and transition plans from real-economy firms; the improvement and harmonization of transition planning methodologies from target setting to reporting standards; and near-term action by policymakers.

Overall, transition plan implementation should increase financial flows toward the four key financing strategies outlined in this report, ultimately supporting the real-economy net-zero transition. Over time, the ratio of allocation between transition finance versus clients and portfolio companies who do not fall under the key financing strategies is expected to evolve as the real-economy transition progresses. For example, there could be a larger allocation to “climate

solutions” as opportunities related to solutions expand in number and scale; greater attention and allocation to “managed phaseout” as the practice becomes mainstream; and expansion in the “aligning” and “aligned” categories as more real-economy, net-zero commitments are made and implemented. Eventually, net-zero considerations should become systemically embedded across the financial sector.

To achieve this, GFANZ encourages financial institutions to heed the guidance in this report and their net-zero, sector-specific alliance by developing and implementing NZTPs and evaluating their strategies against the four key financing strategies. Real-economy firms would also benefit from setting net-zero commitments and developing ambitious NZTPs, given the scale of the financial sector’s commitment to net-zero alignment. For policymakers, establishing clear and consistent policy around transition-related disclosures could catalyze action at the scale needed to realize the ambition of the Paris Agreement. Cooperation between all key stakeholders is critical to accelerate widespread development and implementation of NZTPs in support of achieving net zero and limiting warming to 1.5 degrees C.

Please see

**Section 1:** [Executive Summary](#)

**Section 3:** [Supplemental Information](#)

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