



# GFANZ Net-zero Transition Planning

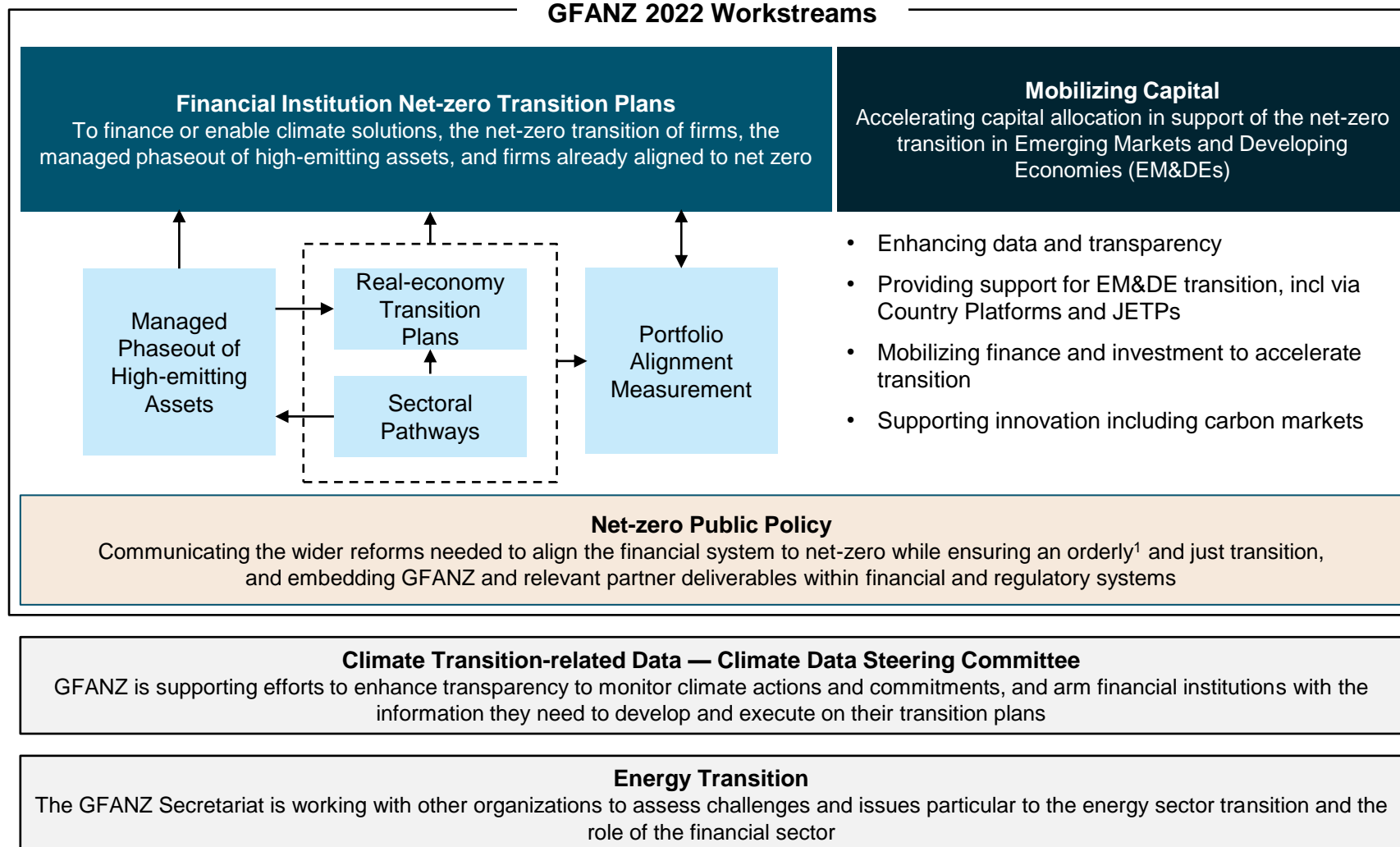
Discussion materials

November 2022

**GFANZ**  
Glasgow Financial Alliance for Net Zero





# GFANZ 2022 work program

## GFANZ 2022 Workstreams



1. 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 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.

# Transition finance should support real-economy emissions reductions as part of an orderly transition to net zero

Key Financing Strategy	Description
 <h2>Climate solutions</h2> <p>Financing or enabling entities and activities that develop and scale climate solutions.</p>	<p>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.</p> <p><i>An example may be a company that produces green hydrogen or a project on regenerative agriculture.</i></p>
 <h2>Aligned</h2> <p>Financing or enabling entities that are already aligned to a 1.5 degrees C pathway.</p>	<p>This strategy supports climate leaders and signals that the financial sector is seeking transition alignment behaviour from the real-economy companies with which it does business.</p> <p><i>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.</i></p>
 <h2>Aligning</h2> <p>Financing or enabling entities committed to transitioning in line with 1.5 degrees C-aligned pathways.</p>	<p>This strategy supports both high-emitting and low-emitting firms that have robust net-zero transition plans, set targets aligned to sectoral pathways, and implement changes in their business to deliver on their net-zero targets.</p> <p><i>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.</i></p>
 <h2>Managed phaseout</h2> <p>Financing or enabling the accelerated managed phaseout (e.g., via early retirement) of high-emitting physical assets.</p>	<p>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.</p> <p><i>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.</i></p>

# Avoiding “paper decarbonization”

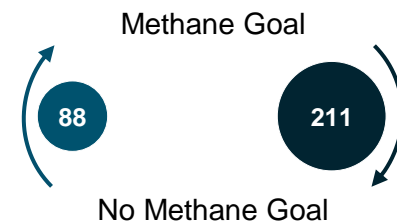
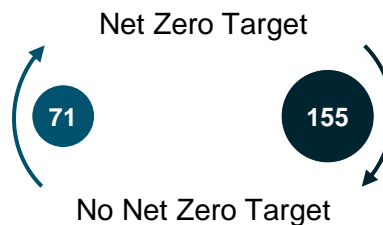
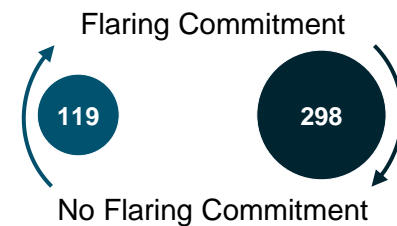
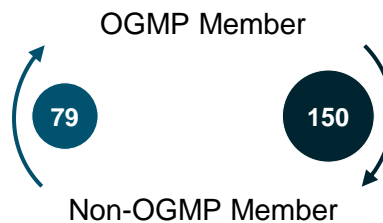
**Withdrawing finance, e.g., by divesting high-emitting assets, can have unintended consequences**

- It could prolong the life of high-emitting assets
- Worsen emissions profile
- Lose influence over decarbonization strategy
- Sectors and countries that need the most investment to transition may be cut off from net-zero aligned finance

The recommended approach is to ***steward emissions out of the economy, not simply pass them to someone else***

**Oil and gas assets have mainly transferred to those with reduced environmental commitments**

Number of transactions



Changes in Environmental Commitments from Asset Transfers (2017-21)  
Source: Environmental Defense Fund



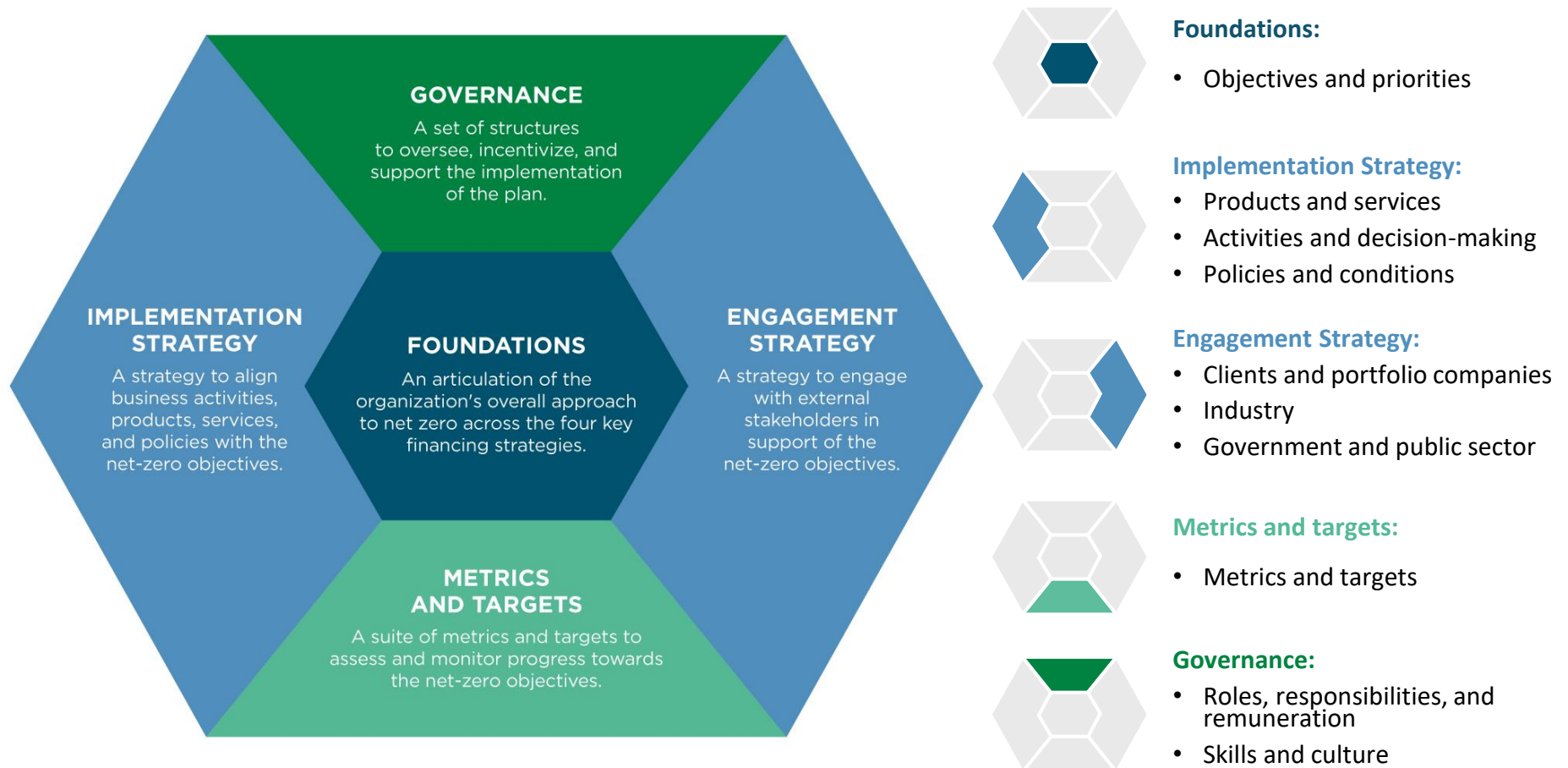
## Definition of a net-zero transition plan

# NET-ZERO TRANSITION PLAN

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 preindustrial levels, with low or no overshoot.

# GFANZ has developed a global, pan-financial sector framework for net-zero transition plans



# Recommendations and guidance based on 5 themes and 10 components

## Foundations

### 1 Objectives and priorities

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.

## Implementation Strategy

### 1 Products and services

Use existing and new products and services to support and increase clients' and portfolio companies' efforts to transition in line with 1.5 degree 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.

### 2 Activities and decision-making

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.

### 3 Policies and conditions

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.

## Engagement Strategy

### 1 Engagement with clients and portfolio companies

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.

### 2 Industry

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.

### 3 Government and public sector

Work to ensure that direct and indirect lobbying and public-sector engagement advocate for policies that support or enable an accelerated and orderly transition to net zero and that such engagement activities do not contravene any net-zero commitments the institution has made. Utilize engagement levers to encourage consistency of client and portfolio companies' lobbying and advocacy efforts with the institution's own net-zero objectives.

## Metrics and Targets

### 1 Metrics and targets

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 driving financial activity to support real-economy net-zero transition; on executing the transition plan; and on measuring changes in client and portfolio GHG emissions.

## Governance

### 1 Roles, responsibilities, and remuneration

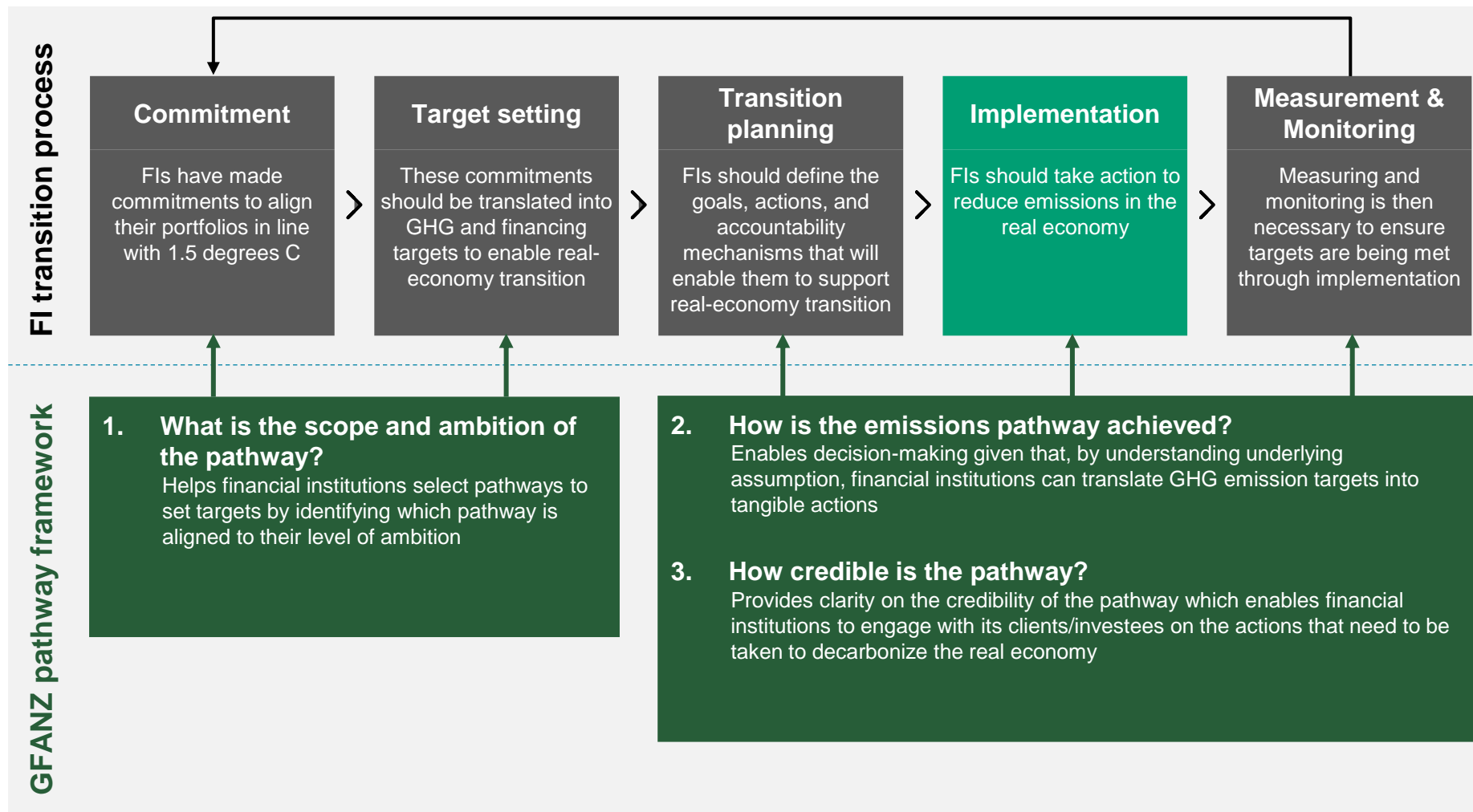
Define roles for the Board or strategy oversight body and senior management ensuring they have ownership, oversight, and responsibility for the net-zero targets. Assign appropriate individuals and teams to all aspects of both design and delivery of the transition plan. Use remuneration incentives for 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.

### 2 Skills and culture

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.



# GFANZ sectoral pathway framework main questions along financial institutions' transition planning process





EXPECTATIONS FOR

# Real-economy Transition Plans



**GFANZ**

Glasgow Financial Alliance for Net Zero

# GFANZ workstream on Real-economy Transition Plans

## Objectives of the workstream

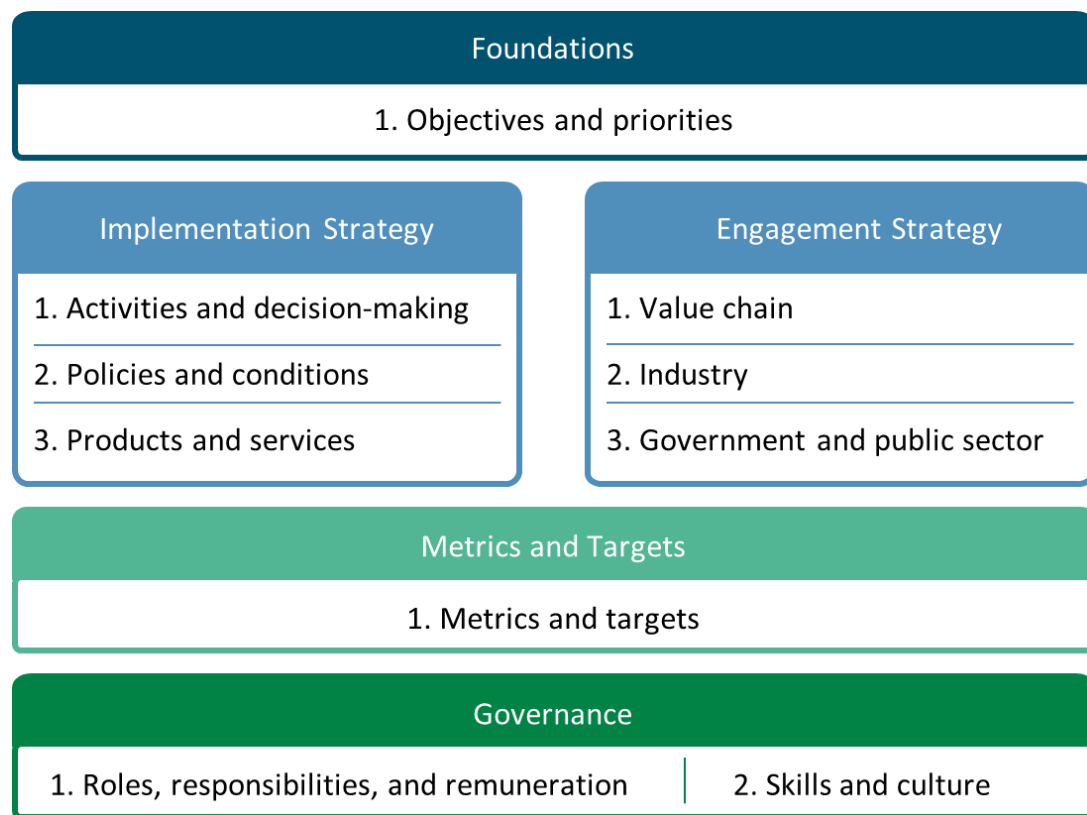
- Develop **practical guidance for real-economy companies** to reference when building and disclosing transition plans
- Promote better understanding, use, and uptake of **existing guidance/frameworks, as opposed to creating new guidance**
- Provide guidance to feed into **regulatory framework development**
- Provide a pan-sector view of financial institution expectations to companies to **drive standardization of requests for information**

## Objectives of the report

- This report **helps companies in the real economy understand and navigate the growing expectations from financial institutions** that are aligning their investment and finance strategies with net zero
- It **outlines the components of a real-economy transition plan that are relevant for financial institutions** and provides examples on how these components are shifting the way in which financial institutions allocate capital and services in the real-economy

# Components relevant for disclosure

GFANZ has identified 5 transition plan themes from existing guidance broken out by 10 components for disclosure, that financial institutions find relevant when evaluating a company's transition plan



- The Foundations theme outlines **what the company's end goal is with respect to climate change** and its high-level strategy to get there by articulating the overall company-wide objectives (e.g., net-zero), targets, timelines, and priority approaches
- The Implementation Strategy theme outlines **how the company will align business activities and operations** with its climate objectives and priorities
- The Engagement Strategy theme outlines **how the company will influence others to support its transition objectives/strategy** and accelerate the transition of the whole economy
- The Metrics and Targets theme outlines **quantitative goals against which to measure the progress and success of a company's transition plan** implementation over time
- The Governance theme outlines **how the company is structured** to provide oversight, incentivize, and support the implementation of the transition plan

# To support SMEs and companies that are starting to develop transition plans, this workstream has outlined the components that are considered most critical

## Most critical components for SMEs and companies starting to develop transition plans

Theme	Component	(1) Perspectives from financial institutions	(2) Use of component	(3) # of initiatives
Foundations	Objectives and priorities	Helpful for understanding a company's driving goals	Goal	8
Implementation Strategy	Activities and decision-making	Outlines a company's actions and how it plans to implement its transition plan	Action	6
	Policies and conditions	Provides evidence that the transition plan is supported by clear policies	Enabler	1
	Products and services	Outlines how the company's commercial activity supports the transition plan	Action	6
Engagement Strategy	Value chain	Provides evidence that transition plan accounts for dependencies within the value chain	Enabler	4
	Industry	Provides evidence that a company is committed to industry-wide action	Enabler	4
	Government and public sector	Provides evidence that the transition plan accounts for policy dependencies	Enabler	3
Metrics and Targets	Metrics and targets	Outlines a company's targets and enables tracking of progress and cross-comparison	Goal	8
Governance	Roles, resp., and remuneration	Outlines the mechanisms in place to enable accountability and execution	Action	6
	Skills and culture	Provides evidence of the strategic priority of the transition plan within company	Enabler	4

Expectations related to the sophistication and detail of transition plans may vary. For large, well resource companies in the most impacted sectors, financial institutions may expect detailed plans.

### These components have been prioritized based on:

1. Perspectives from financial institutions.
2. The type of information the component discloses—in other words, if the component outlines the company's goal; if it describes the actions needed to reach the goal; or if it is an enabler that supports climate-related actions).
3. The number of global standards and initiatives that include the relevant component.

