

RECOMMENDATIONS AND GUIDANCE

Financial Institution Net-zero Transition Plans



GFANZ

Glasgow Financial Alliance for Net Zero

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Important notice

This document is a public consultation draft report of a workstream of the Glasgow Financial Alliance for Net Zero ("GFANZ") which aims to provide non-binding guidance and recommendations to financial institutions and the public sector on net-zero transition plans (the "Report"). For the avoidance of doubt, nothing express or implied in the Report is intended to create legal relations and the Report does not create legally enforceable obligations.

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GFANZ members have signed up to the ambitious commitments of their respective sector-specific alliances and are not automatically expected to adopt the principles and frameworks communicated within this report, although we expect all members to increase their ambition over time.

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How to participate in the consultation

On behalf of the Glasgow Financial Alliance for Net Zero (GFANZ) Principals¹, we are pleased to share our interim report for consultation: **Recommendations and Guidance on Net-zero Transition Plans for the Financial Sector**.

The release of this report is accompanied by a six-week public consultation, running until July 27 2022.

To provide feedback, please respond to the survey [available here](#).

Thank you for taking the time to review this report and respond to the questions. GFANZ will take the responses into consideration when releasing the final recommendations and guidance in the fall of 2022.

¹ [GFANZ](#) is led by a Principals Group comprising Chief Executive Officers from financial institutions that have joined a net-zero alliance anchored in the UN Race to Zero.

Executive summary

This report introduces GFANZ's² proposed recommendations and guidance to deliver a global framework for ambitious and credible net-zero transition plans for financial institutions across the financial sector.

Over 500 financial institutions have come together to form GFANZ, committing to achieving net-zero greenhouse gas (GHG) emissions by 2050 in support of the global transition to a net-zero economy to limit global warming to 1.5 degrees C. A financial institution's net-zero transition plan should translate its net-zero commitment into a coherent strategy with specific objectives and actions aimed at reducing real-economy GHG emissions against which progress can be assessed. This report identifies and describes how financial institutions can operationalize their own net zero commitments and support real-economy transition.

The voluntary recommendations and guidance are underpinned by the view that delivering on net-zero commitments is only possible if transition planning aligns finance and related services with the reduction of GHG emissions in the real economy. Hence, the focus of this report is on the GHG emissions that GFANZ members finance and support (as opposed to their own operational emissions). This report identifies four key approaches for financial institutions to support real-economy GHG emissions reductions: 1) financing or enabling the development and scaling of climate solutions to replace high-emitting technologies or services; 2) financing or enabling companies already aligned to a 1.5 degrees C pathway; 3) financing or enabling the transition of

real-economy firms, according to robust net-zero transition plans; and 4) financing or enabling the accelerated managed phaseout of high-emitting assets. The four approaches to net zero mentioned above, particularly the third and fourth on financing related to 'transition' and 'managed phaseout', while essential approaches to the transition, have the possibility of leading to the greenwashing of business-as-usual financing activities. Without clearer guardrails in place that enable transparency and accountability, financing for high-emitting companies and assets should be vigorously scrutinized to ensure net-zero alignment.

A GLOBAL, PAN-SECTOR APPROACH TO NET-ZERO TRANSITION PLANS

The recommendations and guidance were developed by representatives from the GFANZ membership, and draws on guidance produced by financial sector net-zero alliances and a wide range of civil society and technical bodies.

Providing globally applicable, pan-financial sector guidance supports greater comparability across financial institutions operating across borders and in global markets, and gives policymakers, regulators, and standard setters clear, consistent, and decision-useful information and a broad foundation for mandating effective financial institution transition planning.

Because financial institutions may invest in, lend to, underwrite insurance for, or provide financial services to other financial institutions, they may

² For the purposes of this report, the term "GFANZ" refers to the [GFANZ Principals Group](#). These recommendations and views herein reflect those of GFANZ developed by the GFANZ secretariat-managed workstreams and in collaboration with net-zero financial sector-specific alliances.

be interested in those institutions' transition plans to support their own decision-making and transition plan development. A pan-sector framework provides a shared understanding of the elements of a net-zero transition plan, allowing financial institutions to better evaluate how other institutions' plans may enable or impede their own net-zero strategies.

Moreover, a common framework may make it easier to consider transition plans in aggregate across the sector. A sector-wide view can provide policymakers with insight into the sector's overall progress at financing and enabling the transition to net zero, and with the ability to identify critical interdependencies between the net-zero strategies of different types of financial institutions.

DEFINITION AND PURPOSE OF A NET-ZERO TRANSITION PLAN

GFANZ defines a net-zero transition plan as 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 reductions in line with achieving global net zero. For GFANZ members, a transition plan must be consistent with achieving net zero by 2050, at the latest, in line with global efforts to limit warming to 1.5 degrees C, above preindustrial levels, with low or no overshoot. A financial institution's net-zero transition plan should represent the strategic alignment of its core business and look beyond its own risk profile to support the net-zero transition in the real economy.

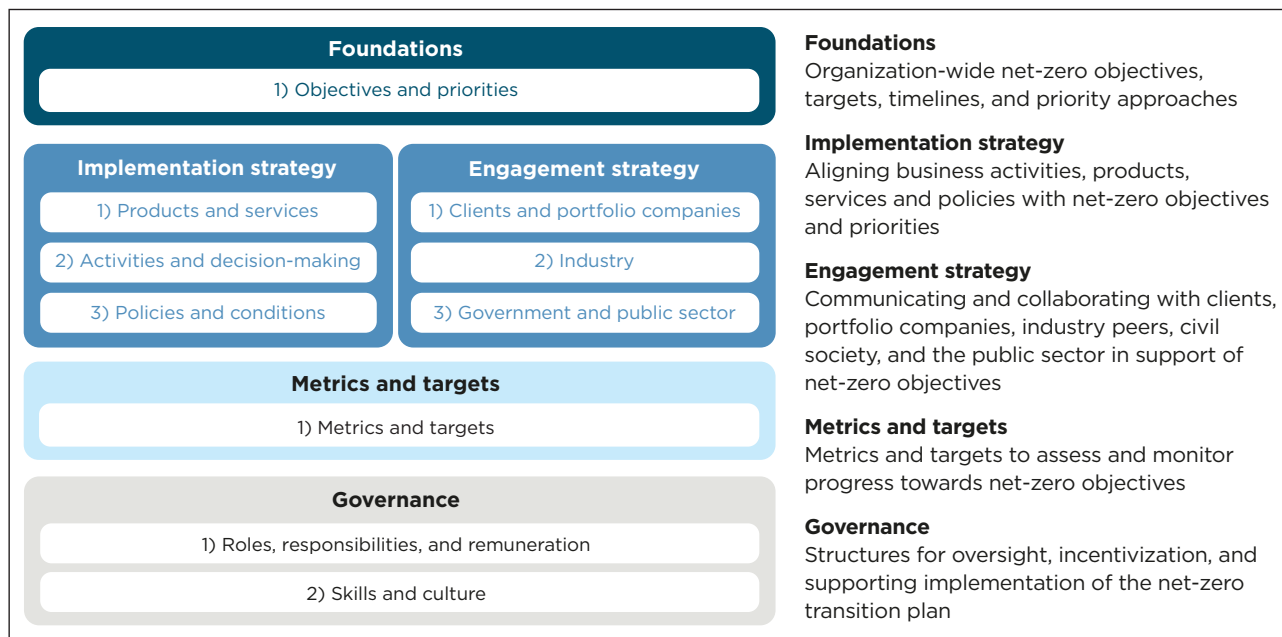
Net-zero transition plans are both a strategic planning tool and a practical action plan. Additionally, because transitioning to a net-zero economy will be an ongoing and iterative process, a financial institution's transition plan should be reviewed and updated periodically.

ELEMENTS OF A CREDIBLE PLAN

GFANZ believes that a credible net-zero transition plan is one that is actionable, focused on near-term action, and aligned with a carbon budget for limiting warming to 1.5 degrees C with low or no overshoot, according to the latest findings of the Intergovernmental Panel on Climate Change³ (IPCC). GFANZ recommends a financial institution's net-zero transition plan address ten core components, grouped into five themes (see Figure 1). This report provides recommendations, guidance, and illustrative examples for each component.

³ [Climate Change 2022: Mitigation of Climate Change Summary for Policymakers. IPCC, 2022.](#)

Figure 1: GFANZ financial institution net-zero transition plan framework



AREAS FOR FURTHER WORK

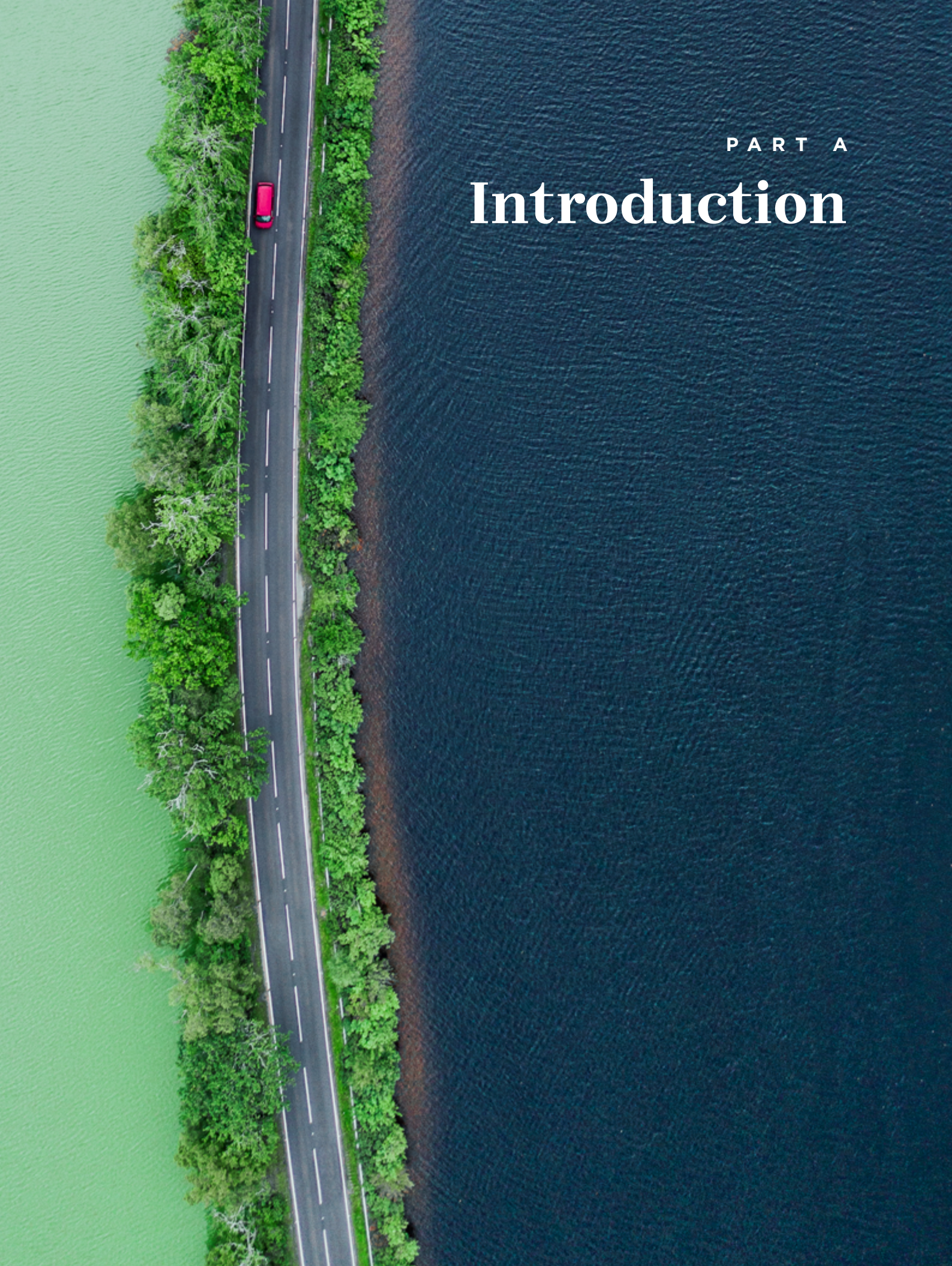
This report identifies and discusses areas that require further work to enhance a global, pan-sector approach to transition planning, including adaptation and resilience; carbon credits; data challenges; a just transition; and biodiversity and nature-based solutions. GFANZ is closely monitoring the many expert groups working on these issues and will consider updating its recommendations as appropriate.

PUBLIC CONSULTATION

GFANZ is seeking feedback on the recommendations and guidance outlined in this consultation so that a voluntary framework can be finalized ahead of COP27⁴ and GFANZ members and the wider financial sector can begin to deploy the framework.

While the finalized recommendations and guidance are intended to establish a durable global framework for transition plans, GFANZ will continue to work to advance the quality and development of net-zero transition plans through collaboration with net-zero alliances, the broader financial sector, policymakers, and civil society. GFANZ recognizes the challenges associated with adopting and implementing the framework and measuring progress against transition plans, but believes that near-term adoption will drive rapid evolution of practices and techniques, which, in turn, should further improve the quality of transition plans and, ultimately, support capital allocation aligned with the net-zero transition.

⁴ COP refers to the Conference of the Parties to the UN Framework Convention on Climate Change (UNFCCC). COP27 refers to the 2022 UN Climate Change Conference, scheduled for November 2022.



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 2021 Glasgow Climate Pact, through which they resolved to “pursue efforts to limit the temperature increase to [1.5 degrees C].”⁵ At the time of writing, 128 countries, representing 90% of global GDP, have made a net-zero commitment⁶ and over 10,000 companies, organizations, or subnational governments have joined the UN Race to Zero, committing to achieve net-zero carbon emissions by 2050, at the latest.⁷

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.”⁸ 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.”⁹

Net zero: This term refers to a state when anthropogenic emissions of greenhouse gasses 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, either within the value chain or through purchase of valid offset credits.¹⁰

1.5 degrees C-aligned: 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.¹¹ 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”.

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

6 <https://zerotracker.net>

7 <https://climateaction.unfccc.int/Initiatives?id=138>

8 [IPCC. “Climate Change 2022 Impacts, Adaptation, and Vulnerability: Summary for Policymakers”, p. 16—17.](#)

9 *Ibid.*, p. 15.

10 [United Nations. Race to Zero Lexicon, April 2021.](#)

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

In order to achieve these commitments and drastically reduce GHG emissions, real-economy firms, supported by clear policy signals from government and capital and related services from the finance sector, must decarbonize their business activities and scale climate solutions to replace GHG-emitting assets, products, and services. According to a recent analysis by BloombergNEF (BNEF), this will require an unprecedented increase in financing, with global investment in energy infrastructure alone requiring an additional \$3 trillion annually over the next decade, including a tripling of current annual clean-energy investment.¹² GFANZ was founded because investment of this scale requires the mobilization of the entire financial system.¹³

Private finance has the scale to mobilize the necessary capital with more than 500 GFANZ members, representing around 40% of global private financial assets, committed to the goal of net zero by 2050. With deliberate and ambitious action, supported by clear policy signals from governments, the financial sector can enable a global transition to net zero that helps avoid the worst impacts of climate change, minimizes risks to financial stability and stranded assets, and is orderly¹⁴ across countries and communities.

In addition, governments and regulators of the world's largest economies are requiring financial institutions and real-economy firms to disclose climate-related risks and opportunities, including the need for forward-looking disclosures on

climate strategy.¹⁵ This includes specific reference to transition plans that articulate how firms will achieve transition objectives, whether stemming from national policy or their own commitments.¹⁶

Currently, there is limited financial sector-wide guidance to support firms in developing and implementing credible, science-aligned transition plans. This report is designed to provide guidance to financial institutions, to support their efforts to implement smart and practical solutions, 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. Financial institutions are significant intermediaries that support activity in the real economy — production and consumption by households, businesses, and government — through their lending, investing, underwriting, and advising activities.

¹² [New Energy Outlook 2021, BNEF, 2021](#).

¹³ [GFANZ Progress Report, November 2021](#).

¹⁴ 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 CO₂ 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.

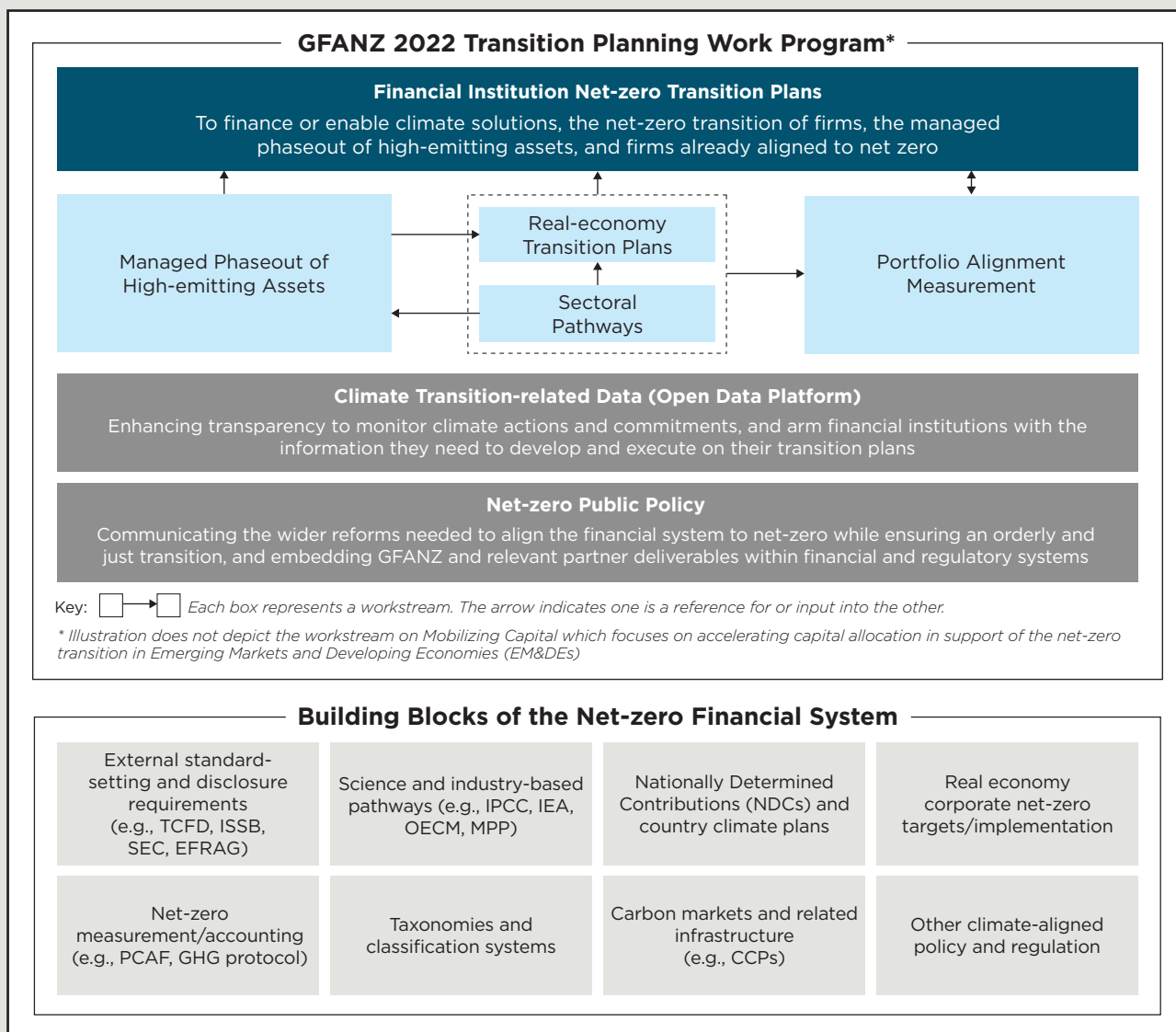
¹⁵ [TCFD 2021 Status Report, pp. 5–6](#).

¹⁶ 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.

BACKGROUND ON GFANZ WORK PROGRAM

GFANZ is a global coalition of leading financial institutions in the UN’s Race to Zero 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 net-zero alliances, representing more than 500 members, into one 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.¹⁷

Figure 2: GFANZ 2022 work program¹⁸



17 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 Investment Initiative \(PAII\)](#).

18 In this report, orderly is defined as: early, ambitious action to a net zero CO₂ emissions economy, following the definition provided by NGFS. Noting that disorderly is defined as: action that is late, disruptive, sudden and / or unanticipated. [NGFS Climate Scenarios for central banks and supervisors, 2020](#).

The elements of the GFANZ work program under Financial Institution Net-zero Transition Plans are all connected and intended to collectively support financial institutions' net-zero transition planning and implementation efforts. For the provision of finance to be aligned with net-zero goals, financial institutions need to understand and evaluate the transition strategies of their clients and portfolio companies.

GFANZ's work on real-economy transition plans will support this by delineating the financial sector's expectations for real-economy firms' transition plans to ensure that they include specific, consistent information that financial institutions can use in decision-making.

Sectoral pathways help inform transition strategy development for both real-economy firms and financial institutions, providing information on the alignment of real-economy activities with net-zero objectives.

Portfolio alignment metrics contribute to methodologies for evaluating the alignment of financial portfolios with net-zero objectives.

One approach to net zero-aligned finance is financing or enabling the early retirement of high-emitting assets, informed by sectoral pathways. The GFANZ work on Managed Phaseout sets out preliminary thinking and a work plan to support the use of early retirement as part of net-zero transition planning for both financial institutions and real-economy firms.

Aligning the financial sector with the net-zero transition

The financial system plays a vital role in facilitating the allocation of capital throughout the economy. Financial institutions support the real economy by allocating capital and providing related services to firms to enable their current business activities and finance forward-looking strategies. To support an orderly transition to net zero, GFANZ believes that financial institutions should redirect that capital and supporting products and services, to encourage ambitious and credible net-zero strategies and emissions reductions by their clients and portfolio companies. Four key approaches in which the financial sector can support the real-economy net-zero transition include:

- 1. Financing or enabling the development and scaling of climate solutions to replace high-emitting technologies or services.** This approach proactively encourages the expansion of climate solutions in the real economy, critical to achieving economy-wide emissions reductions and a prerequisite for providing clean alternatives to high-emitting activities and a just transition.
- 2. Financing or enabling companies that are already aligned to a 1.5 degrees C pathway.** This approach supports climate leaders and signals that the finance sector is seeking transition alignment behavior from the real-economy companies with which it does business.

3. Financing or enabling the transition of real-economy firms according to transparent and robust net-zero transition plans¹⁹ in line with 1.5 degrees C-aligned sectoral pathways.²⁰ This approach supports the implementation of transition plans by firms in both high-emitting and lower-emitting sectors, and should be appropriately conditional. Firms can also work to influence others to support the transition, e.g. policymakers and standard setters.

4. Financing or enabling the accelerated managed phaseout (e.g., via early retirement) of high-emitting physical assets, as outlined by a managed phaseout framework.²¹ GFANZ believes this activity is essential to reducing global emissions and supporting a smooth economic transition.

Climate solutions: Technologies directly contributing to the elimination of real-economy GHG emissions, and services supporting the expansion of these technologies, that financial institutions can support in order to enable the global transition to net zero. These solutions include scaling up zero-carbon alternatives to high-emitting activities — a prerequisite to phasing out high-emitting assets.

All these approaches will be required across the financial sector to support the orderly net-zero transition of the global economy.

The four approaches to net zero mentioned above, particularly the third and fourth on financing

¹⁹ GFANZ, Introductory Note on Expectations for Real-economy Transition Plans, 2022.

²⁰ GFANZ, Guidance on use of Sectoral Pathways for Financial Institutions, 2022.

²¹ GFANZ, The Managed Phaseout of High-emitting Assets, 2022.

related to ‘transition’ and ‘managed phaseout’, while essential approaches to the transition, have the possibility of leading to the greenwashing of business-as-usual financing activities. Without clearer guardrails in place that enable transparency and accountability, financing for high-emitting companies and assets should be vigorously scrutinized to ensure net-zero alignment.

GFANZ’s program of work will help strengthen these guardrails and help clarify what financing is truly in furtherance of the net-zero transition, including by: issuing guidance on transition plans, sectoral pathways, managed phaseout, and portfolio alignment measurement; advocating for more ambitious climate policy from governments; and increasing the accessibility of climate transition data, including better information on transition-related capital allocation, through a new open data platform.²² However, GFANZ also recognizes the need for other actors in the ecosystem to contribute to this effort, including through more granular and fit-for-purpose sectoral pathways; higher-ambition public policy (e.g., climate disclosure including of transition plans, taxonomies, and clarity on national plans to transition specific sectors to net zero); higher-ambition action by the real economy (e.g., accelerated uptake of emerging technologies, adoption of robust transition plans); and the development of relevant methodologies and accounting practices (e.g., insured emissions and disclosure of relevant assumptions).

GFANZ members should work with all relevant clients and portfolio companies to ensure they are setting credible targets and plans, to support not only expanding climate solutions, but also delivering near-term real-world GHG emissions reductions, in line with the need for substantial

reductions by 2030. This includes identifying their most significant sources of financed emissions and developing strategies to finance their reduction.

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.²³ These projects require appropriate scrutiny and governance to ensure that emissions reductions occur as planned. The GFANZ Secretariat has published a framework for the managed phaseout of high-emitting assets, 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.

Transition assets: Technologies or services that may reduce GHG emissions relative to prevalent alternatives, and thus play a role in the transition, but that ultimately do not enable the elimination of GHG emissions. This may include fuels like natural gas as an alternative to coal in some jurisdictions. Financial institutions’ support of these assets should be clearly defined in order to ensure that short-term emissions reductions do not prevent the development of climate solutions that enable the economy-wide transition to net zero. Transition assets may be replaced with cleaner options as the net-zero transition advances.

²² [Source:](#) GFANZ. French President Emmanuel Macron and UN Secretary General’s Special Envoy for Climate Ambition and Solutions Michael R. Bloomberg Announce a Climate Data Steering Committee to advise how to Capture and Create Open, Centralized Climate Data to Accelerate the Transition Towards a Resilient, Net Zero Global Economy, 3 June 2022. Potential data fields subject to approval by the Climate Data Steering Group.

²³ 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 degree C.”

Actions taken by financial institutions to decarbonize their portfolios may have unintended consequences: for example, reducing financed emissions by selling the high-emitting assets²⁴ in a portfolio or ending 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.²⁵ Accordingly, financial institutions should focus not only on *reducing their financed emissions*, but also on *financing emissions reductions*.

Some transition strategies, particularly providing capital to high-emitting companies to support their transition, may not result in immediate reductions in GHG emissions for a financial institution, but are necessary actions to support an orderly whole-economy transition to net zero by 2050. Such strategies should be pursued with the highest levels of governance, transparency, and external scrutiny to ensure that emissions reductions occur as planned in line with 1.5 degrees C pathways.

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 fossil fuel financing — to ensure continuity of energy supply in the interim — should be consistent with a 1.5 degrees C pathway to ensure the energy sector continues along a net-zero transition and is not creating 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 reductions by 2030 across all sectors, the IPCC warns that it will be impossible to limit global warming to 1.5 degrees C.²¹

24 In this report, unless specified, “assets” can refer to physical or financial assets and sometimes 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 gets its value from a contractual right or ownership claim. Cash, stocks, bonds, mutual funds, and bank deposits are all examples of financial assets.

25 [Bank of England Executive Director Sarah Breeden highlighted this risk in a recent speech.](#)

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 reductions in line with achieving global net zero. For GFANZ members, a transition plan must be consistent with achieving net zero by 2050, at the latest, in line with global efforts to limit warming to 1.5 degrees C, above preindustrial levels, with low or no overshoot.^{27, 28, 29}

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. It should be used to define and articulate how the financial institution will use four key approaches (see page 6) to achieve net-zero emissions and articulate how they will measure and govern their effectiveness. This means revisiting strategies, governance, incentives, and other fundamental business considerations. A transition plan allows for accountability and signals to both internal and external audiences that an institution’s steps toward net zero are deliberate, transparent, and have high integrity.

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 provide the clear, consistent, and decision-useful information needed by other stakeholders including regulators and governments. The recommendations and guidance have global applicability to encourage consistency in approaches across the sector.

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 as context changes. At the same time, our understanding of what constitutes best practice will evolve and we will continue efforts to refine the recommendations and guidance during this consultation and in years to come in collaboration with our net-zero partners across the financial sector.

While our focus is on developing a global pan-sector set of recommendations and guidance that financial institutions can begin to use immediately, an important part of the commitment that members

26 <https://www.ipcc.ch/2022/04/04/ipcc-ar6-wgiii-pressrelease>

27 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°C limited overshoot.”

28 These requirements reflect sector-specific alliance member commitments, with minimum criteria established by the [Race to Zero](#). The Race to Zero criteria consultation process has recommended including low/no overshoot in the [Race to Zero commitment](#).

29 [As part of the UN Race to Zero, GFANZ members have also committed to setting an interim target \(by 2030 or sooner\) reflecting maximum effort toward or beyond a fair share of the 50% global reduction in emissions required by 2030 identified in the IPCC Special Report on Global Warming of 1.5C.](#)

have made is to develop, and in some cases disclose, transition plans.³⁰ Financial institutions should be transparent about key elements of their transition plan in a clear, consistent, and comparable way. The recommendations and guidance set out here are designed to help identify important elements of disclosure, while financial institutions themselves are beginning to make such disclosures on a voluntary basis.³¹

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 better inform them of progress. This includes:

- 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 microprudential and macroprudential regulators with insight into how financial institutions' transitions, individually and collectively, may impact firm-specific and sector-wide financial stability risks.
- 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.
- Providing civil society with a global, pan-sector view of net-zero transition planning for financial institutions that will allow monitoring and measurement of progress across the sector.

30 The Net Zero Asset Managers initiative and the Paris Aligned Investment Initiative require an "Investor Climate Action Plan"; this term can be used interchangeably with "transition plan."

31 [In October 2021, the TCFD published guidance on disclosing transition plans for all sectors here](#): The suggested disclosure content specific to this report shown in Table 2 is consistent with the TCFD guidance.

This report

The purpose of this report is to set out globally applicable recommendations and guidance for transition planning by financial institutions and 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, focused on the near term, based on climate science, and against which there is accountability and appropriate transparency.³²

The recommendations in this report build on the work of the [Task Force on Climate-related Financial Disclosures](#) (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. 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, in addition to identifying areas for further work. We have included illustrative examples from individual institutions. These are not intended to represent “best practice” nor represent the entirety of guidance for a component.^{33,34} Instead, the examples are included because they may help financial institutions interpret the guidance for their own practices.

APPLYING THE RECOMMENDATIONS AND GUIDANCE

The GFANZ net-zero transition plan recommendations and guidance are voluntary and were developed to apply broadly across various types of financial institutions and jurisdictions. They should not be seen as superseding national or local requirements. Where national or local requirements exist, financial institutions should develop, implement, and disclose net-zero transition plans accordingly. Nonetheless, even in those jurisdictions, the GFANZ recommendations and guidance may be instructive.

GFANZ recognizes that different types of financial institutions have fundamentally different business models, serve a range of clients and stakeholders, face different constraints, and interact with the real economy in different ways. However, common across the financial sector is the financial support and enablement of real-economy business activities.

The recommendations and guidance are intended to be widely applicable and support consistency in development and use across the sector. In addition to this report, financial institutions are encouraged to follow targeted guidance developed by their sector-specific net-zero alliances.

³² 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.

³³ 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.

³⁴ We are grateful to the Principals Group members and workstream members for providing support in developing the case studies. We welcome the suggestion of any other examples from GFANZ members and the wider sector.

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 risks and opportunities. The TCFD recommends describing how resilient a financial institution's strategy is to climate-related risks and opportunities by leveraging a set of climate-related scenarios. Scenario analysis helps identify how business strategies might change in response to these risks and opportunities. Net-zero transition planning describes how strategies will align to 1.5 degrees C pathways, accelerating the transition to a net-zero global economy and thereby minimizing the increasing climate impacts.

In October 2021, the TCFD published guidance on disclosing transition plans for all sectors, noting that “organizations’ transition plans are of particular interest to users, especially when they are seeking to verify the credibility of organizations’ commitments related to climate change.”^{35, 36} This 2021 guidance does not, however, include 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 scientific objective: to support global efforts to limit temperature increases to 1.5 degrees C and reach net-zero emissions by 2050. For financial institutions, a net-zero transition plan should build on its TCFD-related work, using findings from its scenario analysis, to detail the business levers the institution will use to turn its net-zero commitment into real-world outcomes.

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.

³⁵ [TCFD Status Report, 2021](#).

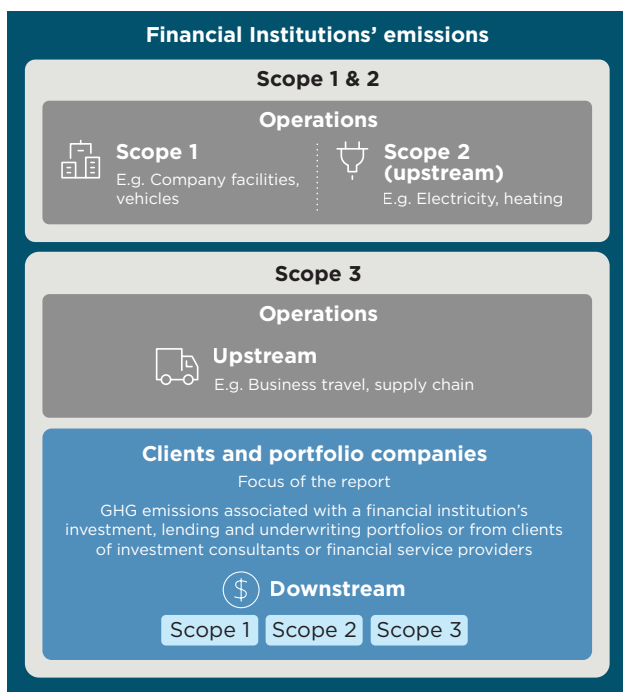
³⁶ [TCFD, Guidance on Metrics, Targets, and Transition Plans, 2021](#).

DEFINING THE SCOPE OF EMISSIONS COVERED BY THESE RECOMMENDATIONS

This report focuses on financial institutions’ Scope 3 financed emissions consistent with the sector-specific net-zero alliance commitments. Financial institutions will have a much larger impact on global GHG emissions by targeting the reduction of their financed GHG emissions, which are significantly larger than their operational emissions.³⁷ 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.^{38, 39, 40}

As shown in Figure 3, financial institutions’ net-zero commitments should cover at least the Scope 1 and Scope 2 emissions from client or portfolio company emissions. They should also cover Scope 3 emissions of clients or portfolio companies in sectors that are significant climate change contributors or where company Scope 3 emissions are material and can be incorporated based on data availability. 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 3: 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.

Climate-related risk management is closely related to transition planning, but focuses on 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.

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

38 https://ghgprotocol.org/sites/default/files/standards_supporting/Chapter15.pdf and <https://carbonaccountingfinancials.com/standard>

39 This report uses “financed emissions” and “portfolio emissions” interchangeably.

40 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).

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 rely on some common metrics and targets (such as GHG emissions) and are mutually supportive: risk management can help achieve net-zero goals, while implementing a net-zero plan can contribute to mitigation of both physical climate and transition risks.

Adaptation and resilience finance are still nascent and evolving.⁴¹ 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.

41 Please see "Adaptation and resilience" as an area for future work in Part C of this report.

Summary of recommendations

The recommendations of this report are organized into five themes and ten components: Figure 4 shows the framework that has guided the thinking for this work. Table 1 is a summary of recommendations that financial institutions should undertake to develop their net-zero transition plans. Further guidance for each recommendation can be found in Part B of this report, along with examples.

All financial institutions that set net-zero targets should disclose their interim and long-term targets and progress against the targets, as well as the actions they have taken, and will take, to further that progress in line with Race to Zero criteria. GFANZ recommends that financial institutions disclose their net-zero transition plans to stakeholders and disclose progress against their plans with their climate disclosures at least annually. To that end, the table of recommendations includes disclosure suggestions, but is not an exhaustive list.

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 risks and opportunities previously identified through TCFD reporting, and the residual risk to the organization from incorporating the actions outlined in the transition plan. GFANZ provides suggestions on possible disclosure content in Table 1.

If disclosing a transition plan within the framework of the TCFD, the GFANZ Foundations, Implementation Strategy, and Engagement Strategy themes may most appropriately accompany the TCFD Strategy disclosure because they describe the net-zero activities needed to deliver on the financial institution's commitment. The GFANZ Metrics and Targets theme aligns with the TCFD Metrics and Targets disclosure recommendations. Similarly, the GFANZ Governance theme aligns with the TCFD Governance disclosure recommendations.

Figure 4: GFANZ financial institution net-zero transition plan framework

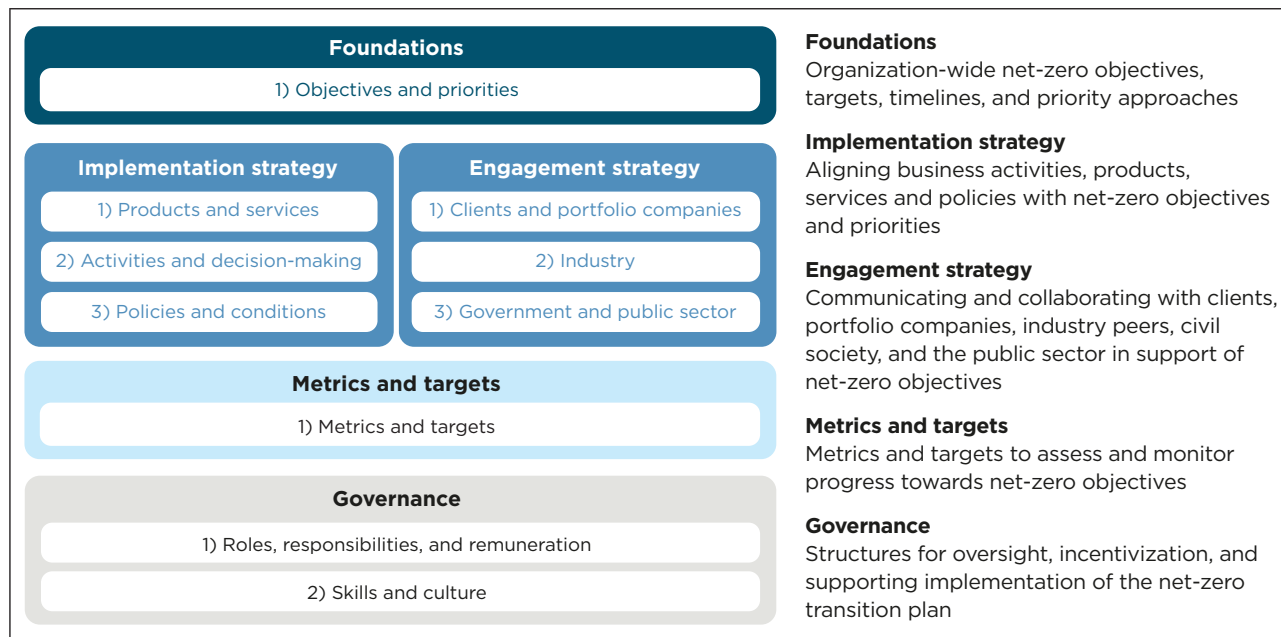



Table 1: Summary of GFANZ recommendations

COMPONENT	RECOMMENDATIONS	SUGGESTED DISCLOSURE
FOUNDATIONS		
1) Objectives and priorities	Define the organization’s objectives to reach net zero by 2050 or sooner, with measurable targets, milestones, and timelines, and identify the priority approaches of net zero transition action considering financing climate solutions, decarbonization through seeking net-zero-aligned clients and portfolio companies, working to bring clients and portfolio companies into net-zero alignment, and supporting managed phaseout projects.	<ul style="list-style-type: none"> • Short-, medium-, and long-term ambition, commitments, and strategy to achieve net zero by 2050 • Relevant activities and portfolios related to the net-zero ambition • Prioritized key approaches to climate solutions, aligning client and portfolio emissions, and managed phaseout • Assumptions, scope, uncertainties, and key methodologies associated with the transition plan • Supporting financial plans, budgets, and related financial targets (e.g., amount of capital and other expenditures supporting decarbonization strategy) • Risks, benefits, and impacts expected from implementation

COMPONENT	RECOMMENDATIONS	SUGGESTED DISCLOSURE
IMPLEMENTATION STRATEGY		
1) Products and services	Align existing and new products and services with a 1.5 degrees C net-zero pathway to accelerate and scale the net-zero transition in the real economy, provide transition-related education and advice, and support portfolio decarbonization in accordance with the institution's net-zero transition strategy.	<ul style="list-style-type: none"> • Description of how transition strategy will be embedded within products and services • Summary of transition-aligned products and services or changes to key products and services
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.	<ul style="list-style-type: none"> • Description of how transition strategy will be embedded within decision-making processes, tools, and policies • Summary of changes to key decision-making processes • Significant choices or decisions that provide context into the changes to decision-making processes
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 within lending, investment, and underwriting portfolios 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"> • Conditions the institution will use to manage investment in, or provision of, services to sectors or activities that significantly contribute to global climate change • Net-zero policies developed/in use (disclose complete list of policies) and areas for further work
ENGAGEMENT STRATEGY		
1) 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.	<ul style="list-style-type: none"> • Summary of engagement objectives and approach, including prioritization of clients and portfolio companies • Details on progress and outcomes of engagement activities
2) Industry	Proactively engage with peers in the industry to a) exchange transition expertise as appropriate, and collectively work on common challenges; and b) represent the financial sector's views cohesively to external stakeholders such as clients and governments.	<ul style="list-style-type: none"> • Summary of engagement objectives, activities, outcomes • Significant collaborations or participation in industry initiatives
3) Government and public sector	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 do not contravene any net-zero commitments of the institution. Review portfolio companies' lobbying and advocacy efforts and utilize engagement levers to encourage consistency with the institution's own net-zero objectives. Discuss clean investment plans and policies with governments and other key stakeholders to help attract private investment in climate solutions.	<ul style="list-style-type: none"> • Summary of engagement activities, including topics and audiences (including efforts to align indirect lobbying activities, if relevant) • Overview of how engagement activities are assessed and aligned with the net-zero transition

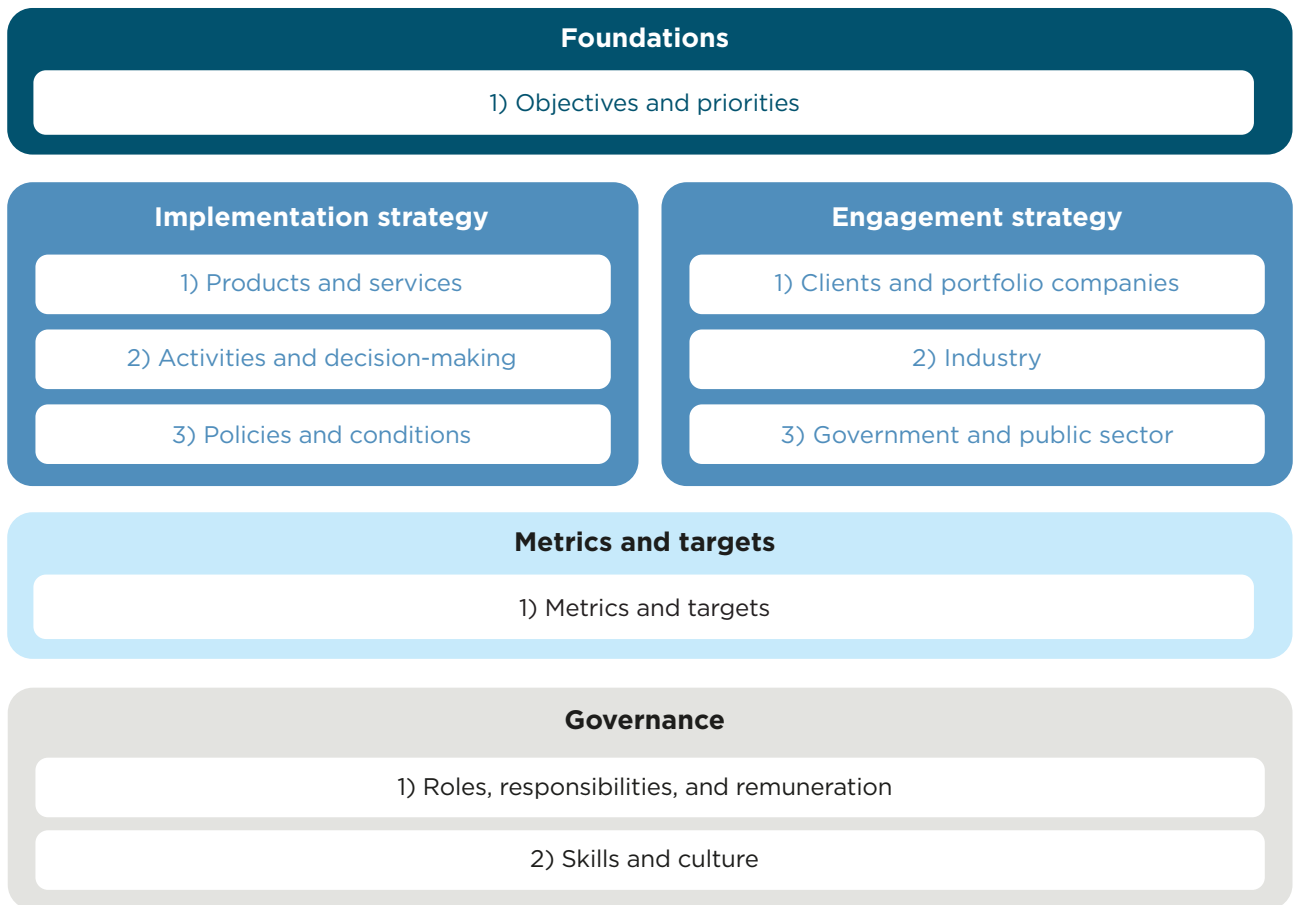
COMPONENT	RECOMMENDATIONS	SUGGESTED DISCLOSURE
METRICS AND TARGETS		
1) Metrics and targets	Set targets against key metrics that support the net-zero strategy and priorities, including targets for support and scaling of climate solutions, engagement, internal implementation, financed GHG emissions, and where relevant, managed phaseout projects. Monitor a range of metrics to assess progress in implementing the net-zero transition plan.	<ul style="list-style-type: none"> • Clear definition of metrics that will be tracked, including scope and coverage of each • Interim and final targets • Baseline, current, and projected financed emissions GHG footprint as Scope 1 + 2 and Scope 3 • Methodology and scope of assumptions, outlining the relevant science the targets are based on • Significant choices or decisions that provide context on targets • Progress against a clearly identified portfolio alignment metric
GOVERNANCE		
1) Roles, responsibilities, and remuneration	Define roles for Board and senior management so they have ownership, oversight, and responsibility for the net-zero targets. Assign appropriate individuals and teams to all aspects of both design and delivery. Review the transition plan regularly to ensure material updates/developments are incorporated, challenges are reviewed as an opportunity to course correct, and implementation risks are being managed.	<ul style="list-style-type: none"> • Governance structure and reporting processes for the net-zero transition plan • Policies that outline accountability for oversight and execution • Capability and capacity building • Resources required to implement or revise policies, products, and services • Approach to incentives and remuneration, linked to performance targets, strategy, and outcomes
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.	<ul style="list-style-type: none"> • Summary of existing and required knowledge/skills • Summary of resource requirements and change management program to embed transition plan elements into culture and practice

An aerial photograph of a large-scale solar farm. At the top center, there is a central power station or inverter hub with several white structures. A dense network of solar panels is arranged in a grid pattern across the lower half of the image. A prominent feature is a large, curved array of solar panels that extends from the central hub, curving to the left and then back towards the center. The background is a clear, bright sky.

PART B

Recommendations and Guidance

GFANZ financial institution net-zero transition plan framework



Foundations

Organization-wide net-zero objectives, targets, timelines, and priority approaches

Implementation strategy

Aligning business activities, products, services and policies with net-zero objectives and priorities

Engagement strategy

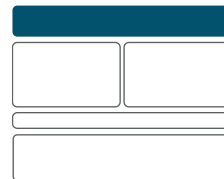
Communicating and collaborating with clients, portfolio companies, industry peers, civil society, and the public sector in support of net-zero objectives

Metrics and targets

Metrics and targets to assess and monitor progress towards net-zero objectives

Governance

Structures for oversight, incentivization, and supporting implementation of the net-zero transition plan



THEME

Foundations

Clear net-zero objectives and priorities underpin a credible transition plan.^{42,43}

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 them, 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 ambition and priority areas.

Many ambition statements will be defined by the commitments of the sector-specific alliance they joined, but 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 the size of the organization, their business model, influence, operating environment, portfolio and client characteristics, and geographic coverage as outlined in Part A. As detailed on page 6, the key approaches they prioritize to fulfilling their net-zero commitment may focus on financing climate solutions, supporting already aligned firms, supporting real-economy firms’ transition strategies, and managing phaseout projects. Defining these priorities allow the 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, with measurable targets, milestones, and timelines, and identify the priority approaches³⁸ of net-zero transition action considering financing climate solutions, decarbonization through seeking net zero-aligned clients and portfolio companies, working to bring clients and portfolio companies into net-zero alignment, and supporting managed phaseout projects.

Overview and relevance: Clear net-zero objectives along with priority key approaches 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 how its net-zero objectives and enabling transition plan will be embedded within the wider organization and corporate strategy.

42 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.

43 Four key approaches to net-zero transition for financial institutions were outlined in Part A.

To do so, leaders should consider how it will manage climate and business realities and trade-offs, including with other ESG ambitions,⁴⁴ and embed decarbonization in corporate financial plans, budgets, financial targets, and capital allocation decisions.

Financial institutions should, at minimum, set objectives in line with their sector-specific alliance commitment letters that include the following elements:

- **Scope:** Net-zero sector-specific alliances may allow for staged implementation to net zero or options for the extent of the net-zero ambition (e.g., whether to include Scope 3 of portfolio company emissions, sectors). Financial institutions should provide rationale for the decisions they have made in these regards. Institutions should consider specifying what was included as well as what was excluded from their objectives, to facilitate comparisons and to identify future undertakings.
- **Timing:** Some financial institutions may choose to be more ambitious than the sector-specific alliance commitment. If they intend to achieve net-zero emissions sooner than the date set by the alliance, this timing should be included.
- **GHG emissions reduction targets:** Net-zero objectives should include interim targets in the short term (2030 and earlier) and 2050 targets for the institution's portfolio GHG emissions (financed emissions⁴⁵).

Objectives should support the real-economy transition to net zero, which should prioritize key approaches depending on the financial institution's size, their business model, influence, operating environment, portfolio and client characteristics, and geographic coverage among other factors. The scale and extent of investment needed for each of the following key approaches can be informed by sectoral pathways.

- Financing or enabling the development and scaling of climate solutions to replace high-emitting technologies or services and support real-economy emissions reductions. This should include directing capital and related services to opportunities such as early-stage climate technology and solutions to bring them into mainstream; later-stage climate solutions to scale and increase deployment; new infrastructure needed for the low-carbon economy, and understanding and addressing risks associated with new zero-carbon activities and industries.
- Financing or enabling companies 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 other efforts to continuing supporting firms well on their way to transition.
- Financing or enabling the transition of real-economy firms according to transparent and robust net-zero transition plans in line with 1.5 degrees C-aligned sectoral pathways. This approach should be conditional on clients and portfolio companies developing and implementing a net-zero transition plan, as quickly as possible, in line with sectoral pathways, as they become available. Institutions should also include modifying or developing products and services that are consistent with this approach; seeking new clients and portfolio companies willing to align their businesses consistent with 1.5 degrees C pathways; and integrating use of proceeds consideration as a conditionality of financing.⁴⁶

⁴⁴ With respect to items such as budgeting, resource allocation decisions, and effects on profitability.

⁴⁵ As defined in the section "This report."

⁴⁶ GFANZ, Introductory Note on Expectations for Real-economy Transition Plans, 2022 and GFANZ, Guidance on use of Sectoral Pathways for Financial Institutions, 2022.

- Financing or enabling the accelerated managed phaseout of high-emitting assets. This approach should include actions such as engaging with clients and portfolio companies to identify such opportunities and developing products and services to support an orderly phaseout.⁴⁷

Financial institutions should provide a clear and structured articulation of the overarching principles, assumptions, timing, and geographical and business 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 equivalent role, and in addition to setting the objective, should explain 1) how the institution is considering the prioritization of key approaches listed above and how these will affect their financed emissions, and 2) how it plans to address potential conflicts between its net-zero ambitions and profit-making opportunities.

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);⁴⁸
- business context, such as how an 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 reductions, objectives that target medium-term outcomes (within portfolios and the real economy); and
- geographical context, such as 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, whether it will rely on particular sectoral pathways, and whether it applies exclusions or additional conditions or criteria, in line with credible transition scenarios or sectoral pathways.⁴⁹

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.

47 GFANZ, The Managed Phaseout of High-emitting Assets, 2022.

48 [For example, RMI's IMPACT+ Principles for Climate-Aligned Finance.](#)

49 GFANZ, Guidance on use of Sectoral Pathways for Financial Institutions, 2022.

Example 1: Aviva’s Climate Transition Plan defines objectives

Sub-sector: Insurance

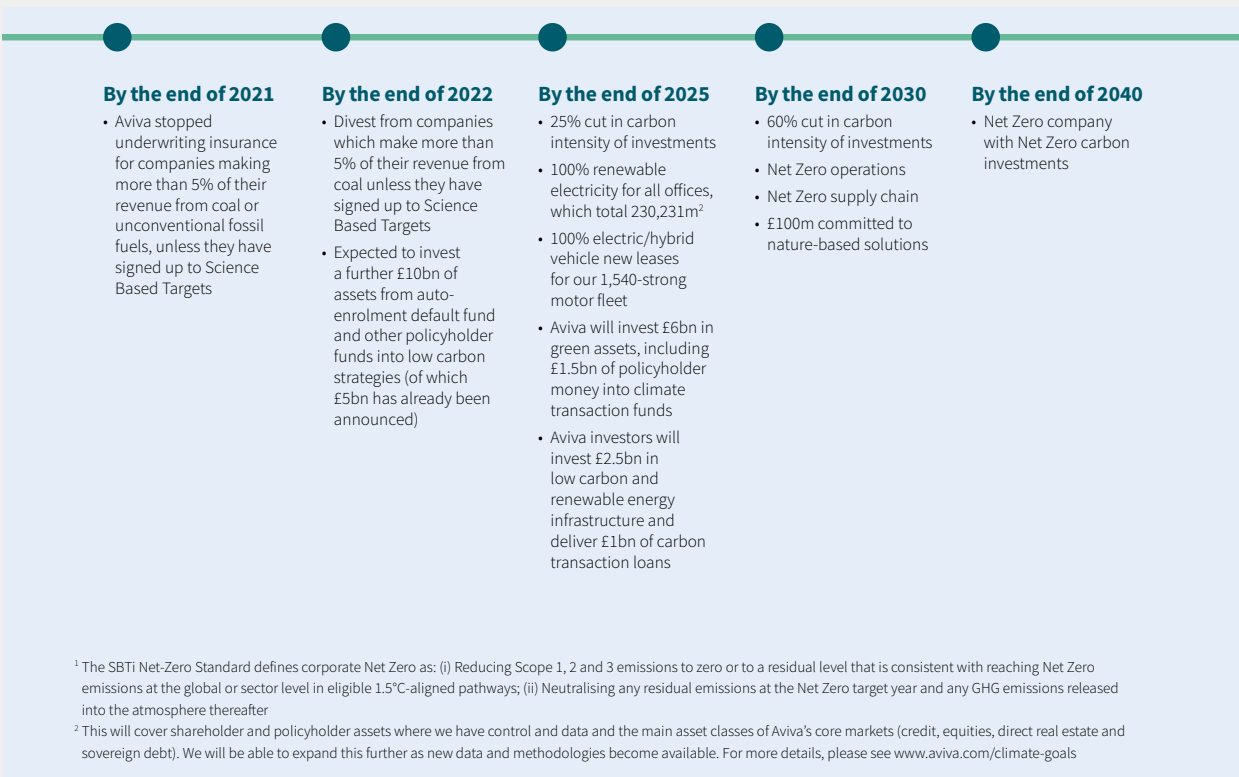
Aviva’s first iteration of its Climate Transition Plan⁵⁰ launched in March 2022, provides an explicit discussion of the company’s objectives, strategy, and priorities. This corresponds closely to the GFANZ recommendations.

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 many of its peers, and its sub-sector alliance commitment. Aviva, a member of NZIA, 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).



50 [Climate Transition Plan, First Release, Aviva.](#)

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 demonstrates this and 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."⁵¹ 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, 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 acted.

Example 2: Robeco's ambition and roadmap

Sub-sector: Asset Management

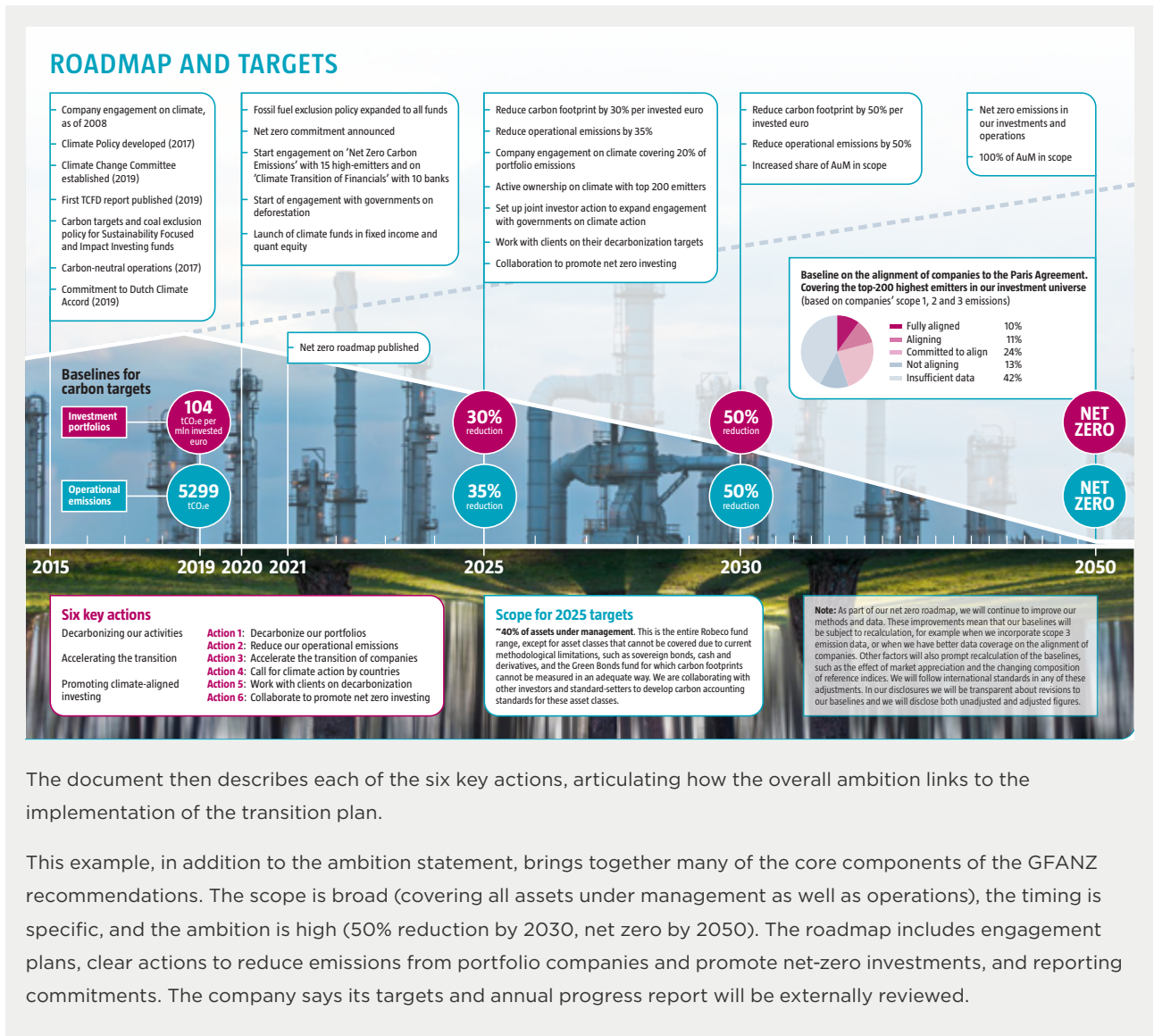
Robeco, an international asset manager owned by Japan's ORIX Corporation and a member of NZAM, produced its Net Zero Roadmap⁵² in October 2021, which communicates the company's commitment and plan. In addition to setting out Robeco's interim targets, the roadmap document contains a clear commitment statement, 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.

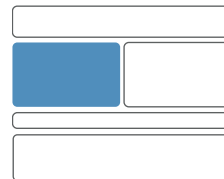
⁵¹ Page 6, Ibid.

⁵² <https://www.robeco.com/docm/docu-robeco-roadmap-to-net-zero.pdf>



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

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.



THEME

Implementation Strategy

A financial institution has to integrate net-zero transition into its core business activities and decision-making processes to translate 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 reductions in the real economy; the internal analytics and processes that determine with whom the financial institution will do business and under what criteria; and policies that set out conditions for financing in climate-critical activities.

1) COMPONENT: PRODUCTS AND SERVICES

Recommendation

Align existing and new products and services with a 1.5 degrees C net-zero pathway to accelerate and scale the net-zero transition in the real economy, provide transition-related education and advice, and support portfolio decarbonization in accordance with the institution's net-zero transition strategy.

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. Products and services can be geared to do the following:

Overview and relevance: Through its products and services, a financial institution can facilitate and accelerate GHG emissions reductions; 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, finance and investment vehicles, insurance products, and financial services need to be aligned with the financial institution's and their clients' net-zero objectives.

- 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-emission and zero-emission 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 toward assets that have a clear transition plan in place (e.g., indices or funds based on transition-aligned sectoral 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, or educating clients on trade-offs, such as pursuing a low GHG footprint versus an overweight allocation to a low-emission fund; insurance brokers could engage with clients to help them take steps toward reducing their GHG emissions in order to be allowed to purchase a specific insurance policy.

Because products and services are highly specific to different financial institutions and may span

multiple business lines, an institution should, at minimum, 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.

Table 2: Aspects of net-zero product design

KEY ASPECT	CONSIDERATIONS
Real-economy impact	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?
Transparency and integrity	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?
Data availability	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?
Scale	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?
Acceleration	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?

Example 3: Bradesco's green export credit note

Sub-sector: Banking

In 2020, Banco Bradesco S.A., a member of NZBA, structured the first green export credit note in the Brazilian market.⁵³

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,⁵⁴ which was developed with technical assistance from Bradesco. The aluminum company's framework received a second-party opinion from SITAWI⁵⁵ 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 set up 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 2024.⁵⁶

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 offers a direct-to-customer loan product for solar power equipment.⁵⁷

⁵³ [Bradesco's Integrated Report \(page 59\). 2020.](#)

⁵⁴ [Companhia Brasileira de Alumínio \(CBA\) Green Financing Framework 2020.](#)

⁵⁵ A Brazilian nongovernmental advisory organization.

⁵⁶ [Volkswagen contracts a line of credit linked to an ESG commitment \(translated\). Inside EVs, February 2022.](#)

⁵⁷ [Climate Change Management at Bradesco, Bradesco, June 2021.](#)

Example 4. HSBC's support for client decarbonization

Sub-sector: Banking and Asset Management

HSBC is supporting its customers on their net-zero transition and works with clients in different sectors on their sustainability and GHG emissions reduction goals.⁵⁸ 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, a member of NZBA, 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 investment⁵⁹ target of between \$750 billion and \$1 trillion by 2030.⁶⁰ In 2021, HSBC:

- organized two large-scale, aviation sector sustainability-linked loans:
 - Etihad airline company raised \$1.2 billion, with targets including emissions reductions 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 Management⁶¹ to establish natural capital funds to address nature-related issues and climate change, for both emerging and developed markets;⁶²
- 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;⁶³ and
- introduced green mortgages for customers in the UAE and Singapore to finance the purchase of homes accredited as energy efficient.⁶⁴

58 [HSBC Holdings plc's Annual Report and Accounts 2021](#).

59 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 their 2021 annual report and accounts](#).

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

61 [Climate Asset Management](#).

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

63 [HSBC UK launches £500M Green SME Fund, HSBC, 2021](#).

64 [Annual Report and Accounts 2021, HSBC Holdings plc](#).

Example 5: Moody's expands climate offerings

Sub-sector: Financial Service Providers

Moody's Corporation, the integrated risk assessment firm, is committed to achieving net-zero emissions across its operations and value chain by 2040. As a member of the NZFSPA, 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.⁶⁵

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,⁶⁶ 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.⁶⁷ This product allows users to assess the forward-looking trajectory of companies' emissions based on GHG emissions reduction targets.⁶⁸ Using this information, banks and asset managers can monitor the net-zero alignment of their portfolios, benchmarking their emissions targets against peer targets.⁶⁹

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.⁷⁰ MIS also provides detailed Carbon Transition Assessments for rated companies in sectors that are most exposed to these risks.⁷¹

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

66 Moody's ESG Solutions: Corporate emission targets failing to keep pace with 1.5°C trajectory, 8 December 2021, [[Moody's ESG Solutions](#)] at p. 3.

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

68 Moody's ESG Solutions: Corporate emission targets failing to keep pace with 1.5°C trajectory, 8 December 2021, [[Moody's ESG Solutions](#)] at p. 3.

69 <https://esg.moody's.io/climatesolutions>.

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

71 Moody's 2021 TCFD Report, at 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 and a member of NZBA, the 29 million homes in the UK account for 16% of the country's total carbon emissions.⁷² 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, the society:^{73, 74, 75}

- 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 included 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 regulation and educating them about energy efficiency;
- progressed its Oakfield development in Swindon, consisting of 239 homes built to high environmental standards, which is hoped 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.

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.

The society 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.⁷⁶ Nationwide has introduced its products to cater for the increase in demand expected as policies and regulations are introduced.

⁷² [Nationwide Climate-related Financial Disclosures 2022.](#)

⁷³ <https://www.nationwide.co.uk/-/assets/nationwidecouk/documents/about/how-we-are-run/results-and-accounts/2020-2021/climate-related-financial-disclosures-2021.pdf>

⁷⁴ [Join Our Solar Panel Pilot, Nationwide.](#)

⁷⁵ [Nationwide Climate-related Financial Disclosures 2022.](#)

⁷⁶ [Nationwide Climate-related Financial Disclosures 2022.](#)

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.

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 currently 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:

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

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:

- 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; 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.

Financial institutions should consider adjusting the top-down tools that inform the core decision-making processes. Such mechanisms could include:

- 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

Example 7: Groupe BPCE Green Weighting Factor

Sub-sector: Banking

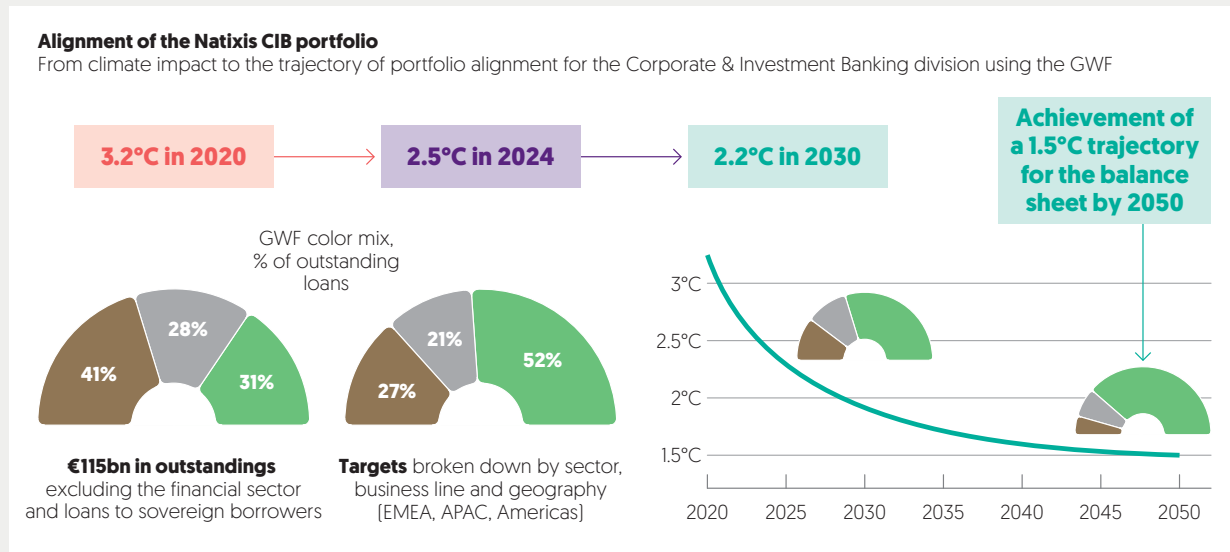
Natixis Corporate & Investment Banking (CIB), a subsidiary of the French banking group Groupe BPCE, has developed a dedicated tool to support climate-related decision-making. Groupe BPCE, a member of the NZBA, is gradually extending this work to cover all its lending portfolios (excluding the financial 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 the CIB financing activities and is described in the Groupe BPCE 2021 TCFD Report.⁷⁷

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 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.

The Groupe BPCE Climate Report, October 2021⁷⁸



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

78 [The Group BPCE Climate Report \(page 45\), October 2021.](#)

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, as recommended by GFANZ.

Example 8: How WTW helps clients make key climate decisions

Sub-sector: Investment Consultant

WTW is a global investment consultant and a member of NZICI. 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:⁷⁹

1. Fiduciary (outsourced) investment services

To achieve its net-zero objective,⁸⁰ 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 developing asset allocation, benchmarking, climate scenario analysis, net-zero considerations in manager selection and reporting, plus identifying new climate solutions.

⁷⁹ [2020 UK Stewardship Code, WTW, 2021.](#)

⁸⁰ [Our Pledge: Net zero greenhouse gas emissions by 2050 for our discretionary investment portfolios, WTW, 2021.](#)

A notable service used across both services is WTW's net-zero reporting framework which includes Carbon Journey Planning and a Climate Dashboard.⁸¹ The Carbon Journey Planning⁸² 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.⁸³ 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, consistent with GFANZ recommendations. The Climate Dashboard has been designed to support WTW's clients in their decisions on asset allocation, manager selection, and performance monitoring, helping clients achieve their net-zero commitments.

81 <https://www.wtwco.com/-/media/WTW/Insights/campaigns/example-climate-dashboard.pdf?modified=20220511112132>

82 An example of this in practice for Lloyds Banking Group can be found at <https://www.wtwco.com/-/media/WTW/Insights/2021/01/case-study-carbon-journey-planning.pdf?modified=20210118133336>

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

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 within lending, investment, and underwriting portfolios 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.

given their importance in achieving GHG emissions reductions and reaching net zero globally by 2050. Bodies such as the IEA and IPCC agree that the shift away from fossil fuels over time is critical to the achievement of net zero. Halting deforestation that drives forest loss is a priority because forests absorb vast amounts of carbon dioxide. Agreements related to phasing out coal, methane, and halting deforestation were spotlighted at COP26 and the Glasgow Climate Pact included a specific focus on fossil fuels, non-CO₂ gases and nature and ecosystems.^{84, 85}

Overview and relevance: Policies and conditions can be used to manage a financial institution's interaction with high-emitting activities and physical assets, transition those assets to a net-zero pathway, and 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 issues 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 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

Beyond the priority topics listed previously, financial institutions should implement policies to cover a wider range of issues related to the net-zero transition and where relevant to their organization; for example, methane and biodiversity.

Policies should be anchored in the science-based transition scenarios used to set the organization's net-zero targets, and 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,⁸⁶ and best available information on how to manage an orderly phaseout.⁸⁷

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; relevant

84 [Global Coal to Clean Power Transition Statement, COP26, 2021](#); [Glasgow Leaders' Declaration on Forests and Land Use, COP26, 2021](#); [The Glasgow Climate Pact, COP26 Presidency, 2021](#); [Global Methane Pledge](#); [Financial Sector Commitment Letter on Eliminating Agricultural Commodity-Driver Deforestation, Race to Zero, 2021](#); [PPCA Finance Principles, Accessed 02/02/2022](#).

85 [The Glasgow Climate Pact, COP26, 2021](#). The Pact calls for "the phasedown of unabated coal power," "further actions to reduce by 2030 . . . methane," and emphasizes "protecting, conserving, and restoring nature and ecosystems . . . including forests."

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

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

timelines; and the policy should be transparent as described in Table 3. If companies are unable or unwilling to meet the conditions and standards after suitable engagement, financial institutions could divest or stop doing business with those companies.

See section starting on page 75 (“Policy examples”) for an in-depth discussion and examples of thermal coal, oil and gas, and deforestation policies and conditions examples in the financial sector.

Table 3: Elements in policies on emissions-intensive assets/activities

ELEMENT	DESCRIPTION
Objective	A statement on the overarching goal of the policy, and how it supports implementation of the institution’s net-zero transition ambition and priorities.
Scope	Description of the type of company, asset, project, and/or activity to which the policy applies. Examples include the share of a company’s revenue generated by specific activity (e.g., coal-fired power), list of specific project types (e.g., gas pipelines), or geographies (e.g., the Amazon Basin). Scope could include which 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.
Conditions	Criteria or conditions consistent with a 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. ⁸⁸ Engagement programs may focus on influencing companies to decarbonize operations.
Exclusions	Specific prohibited companies, assets, projects, and/or activities that cannot be served or financed by the financial institution upon conditions not being met. 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.
Timelines	A roadmap for the transition to net zero in the context of the policy, outlining when and under which circumstances the new and existing conditions and exclusions will apply. These timelines should be consistent with the science-based scenarios used to set net-zero targets.
Transparency	Disclosure of methodology used within 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 scope and percentage coverage of the policies on the portfolio or otherwise.

88 GFANZ, The Managed Phaseout of High-emitting Assets. 2022.

Tables 4–6 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 finance sector.

Table 4: Examples of elements in thermal coal policies

KEY ELEMENTS	INDUSTRY EXAMPLES
Scope	<p>NZBA: “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.”⁸⁹</p> <p>SBTi: “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.”⁹⁰</p>
Conditions	<p>Axa: “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°C ambition, and report regularly on progress.”⁹¹</p> <p>Bank of America: “Unless those facilities employ technology that is focused on complete or near elimination of atmospheric carbon emissions, such as carbon capture technology.”⁹²</p> <p>Mitsubishi UFJ Financial Group, Inc. (MUFG): “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.”⁹³</p>
Exclusions	<p>NZAOA: “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.”⁹⁴</p> <p>PAII Net Zero Investment Framework (NZIF): “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).”⁹⁵</p>
Timeline	<p>Citigroup Inc (Citi): “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).”⁹⁶</p> <p>IEA: Net Zero Emissions (NZE) scenario. involves the phaseout of unabated coal power plants by 2040.⁹⁷</p> <p>PPCA: Encourages members to commit to phase out coal by 2030 in the OECD and EU, and by no later than 2050 in the rest of the world.⁹⁸</p>

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

90 [Financial Sector Science-Based Targets Guidance, Version 1.0, SBTi, 2022.](#)

91 [Responsible Investing: Axa IM Climate Risks Policy, Axa IM, 2021.](#)

92 [Bank of America Corporation Environmental and Social Risk Policy Framework, Bank of America, February 2021.](#)

93 [Revision of the MUFG Environmental and Social Policy Framework, MUFG, 2021.](#)

94 [Thermal Coal Position, NZAOA.](#)

95 [Net Zero Investment Framework Implementation Guide, PAII.](#)

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

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

98 [UK Government’s PPCA Declaration, 2017](#)

Table 5: Examples of elements in oil and gas policies

KEY ELEMENTS	INDUSTRY EXAMPLES
Scope	<p>Intesa Sanpaolo: 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.”⁹⁹</p> <ul style="list-style-type: none"> • Tar sands (oil sands) • Shale/tight oil and gas • Onshore/offshore oil and offshore gas in the Arctic region • Oil in the Amazon headwaters <p>NatWest: “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.”^{100, 101}</p>
Conditions	<p>Swiss Re: “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.”^{102, 103}</p> <p>Wells Fargo: “Our environmental and social risk assessment is one factor in approving a transaction or a relationship. If an issue is identified during due diligence, we reach out to the client to understand mitigating measures and monitor implementation.” For example, “for customers involved in fracking, we seek a deeper understanding of material environmental and social issues including impacts on water, air, land, transportation, and community, including indigenous peoples.”¹⁰⁴</p>
Exclusions	<p>Allianz: “As of 1st of January 2023 we will not issue new single-site/stand-alone P&C insurance policies/coverages and not provide new funding for projects in:</p> <ul style="list-style-type: none"> • exploration and development of new oil and new gas fields (upstream) • construction of new midstream infrastructure related to oil • construction of new oil power plants • 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 <p>As of 1st of July 2023, we will also not renew single-site/stand-alone policies/coverages for elements above.”¹⁰⁵</p> <p>Dai-ichi Life: “No longer engaging in finance for new thermal power generation by means of fossil fuels (includes coal, petroleum, and gas).”¹⁰⁶</p> <p>PAII NZIF: “It is recommended that investors should not allocate additional capital to companies which are . . . taking forward new exploitation of tar sands.”¹⁰⁷</p>
Timeline	<p>CDPQ: “Complete our exit from oil production by the end of 2022.”¹⁰⁸</p>

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

100 [NatWest Group’s 2020 Environmental, Social and Governance supplement, 2020.](#)

101 [NatWest Group’s 2021 Climate-related Disclosures Report, 2021](#) defines a Credible Transition Plan assessment criteria as having a quantitative assessment using an independent 3rd 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; a management review and assessment by the NatWest Group Reputation Risk Committee.

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

103 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, it will consider other frameworks to assess oil and gas companies.

104 [Environmental and Social Risk Management Framework, Wells Fargo, June 2018.](#)

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

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

107 [Net Zero Investment Framework Implementation Guide, PAII.](#)

108 [Climate Strategy, CDPQ, 2021.](#)

Table 6: Examples of elements in deforestation policies

KEY ELEMENTS	INDUSTRY EXAMPLES
Scope	<p>Citi: “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.”¹⁰⁹</p> <p>Santander: Defines a list of high-risk activities and high-risk geographies.¹¹⁰</p>
Conditions	<p>MUFG: “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.”¹¹¹</p> <p>LGIM: 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.^{112, 113}</p>

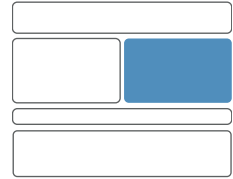
109 [Sustainable Forestry Standard, Citigroup.](#)

110 [Soft Commodities Sector General Policy, Santander Group, No Date.](#)

111 [Revision of the MUFG Environmental and Social Policy Framework, MUFG, 2021.](#)

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

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



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 accelerate the transition to net zero by using their influence 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:

1. Engage with clients and portfolio companies.
2. Engage with financial sector peers and industry associations.
3. 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 have influence on their clients' and portfolio companies' major business decisions, including how clients and portfolio companies approach the transition to net zero. Different types of institutions have different levers of influence, and the nature of engagement, therefore, varies broadly, ranging from advising or educating to active shareholder voting.

Guidance — How to engage: Financial institutions should develop an engagement strategy that supports their overall net-zero strategy, with the goal of driving real-economy decarbonization. Consider tailoring the organization's strategy to its ability to influence outcomes, as well as the needs and context of specific clients or portfolio companies.

The engagement strategy should specify clear objectives — the desired behaviors or results from clients or portfolio companies (including implementing a net-zero transition plan).

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. Engagement requires a commitment of typically several years and a collaborative approach.

For larger companies in the real economy, financial institutions should clearly define their expectations and consider offering support to clients and portfolio companies in developing and implementing a near-term, science-based transition plan. Small- and medium-sized enterprises may not have transition plans formally defined, but financial institutions can raise awareness about decarbonization expectations and persuade small and medium companies to adopt more sustainable strategies.¹¹⁴

114 GFANZ, Introductory Note on Expectations for Real-economy Transition Plans. 2022.

Examples of engagement include:

- Discuss expectations and provide feedback to clients/portfolio companies in the appropriate governance or leadership forums (the nature of these conversations will vary depending on the relationship).
- Issue public statements and letters to influence a sector or call for a client/portfolio company to take specific actions.
- Discuss accelerated managed phaseout potential for high-emitting physical assets.
- Work with peers to utilize influence and resources and present a clear and united objective to the engagement target.¹¹⁵
- For banks, develop client assessment methodologies or dashboards incorporating sector-specific and geography-specific considerations to track performance and prioritize engagement with clients to support their transition and ultimately use to steer portfolios.
- For asset managers with publicly traded portfolio companies, participate in proxy voting regarding portfolio companies' net-zero strategies, Board candidates, or shareholder proposals.
- For insurers, collaborate to understand changing risk profiles of new and scaling climate solutions, as well as decarbonization technology deployment for existing high-emitting assets, and provide new collaborations (e.g., facilities, captives) to pool and share risks and inform risk profiles.
- Hold information sessions to raise clients' awareness of climate-related risks and opportunities and, where appropriate, encourage investment in net-zero-aligned assets or investment products.
- For asset owners, include requirements in Requests for Proposals (RFPs) on asset managers' net-zero activities, including climate-related proxy voting, engagement approaches, and methodologies to assess carbon exposures.

An escalation process should also be a critical part of an engagement strategy. When clients or portfolio companies show little or no response to engagement, a financial institution should consider using stewardship levers, such as voting to remove accountable directors, or financing levers, such as more onerous/costly lending conditions or, as a last resort, opting to divest.¹¹⁶

Guidance — Topics: A sample of recommended engagement topics include:

- collection and/or disclosure of improved transition-related data;
- encouraging net-zero commitments and development of transition plans;
- monitoring and supporting actions pursuant to net-zero transition plans;
- understanding evolving risks and new risks created by novel technologies and new business models, and companies' risk-transfer needs;
- sharing lessons learned, new developments, and resources;
- communicating expectations in line with an institution's own net-zero plan, including any criteria or conditions that may affect the relationship;
- requesting information or advising on strategic decision-making and investment required to transition business models;
- holding leadership accountable for net-zero transition progress, including integrating net-zero commitments into remuneration for CEO and other senior decision-makers;
- consideration of social impacts of the transition in client/portfolio company activities; and
- encouraging new networks of companies to support transition products, managed phaseout, transition-related infrastructure, and assets.

Please see the Introductory Note on Expectations for Real-economy Transition Plans for information that may inform engagement.¹¹⁷

¹¹⁵ For example, see CA100+

¹¹⁶ See guidance from [Climate Action 100+](#), [CERES](#), [the Investor Agenda](#), and [UNPRI](#).

¹¹⁷ GFANZ, Introductory Note on Expectations for Real-economy Transition Plans. 2022.

Example 9: Aviva’s engagement program with teeth

Sub-sector: Insurer

In its Climate Transition Plan,¹¹⁸ 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.

Aviva emphasizes the importance of engaging in the first instance, while considering divesting where necessary: “it’s crucial to pair emission reduction targets with engagement targets to encourage the decarbonisation of our investees rather than just divesting and switching to lower carbon emitting sectors.”¹¹⁹

Target Engagement with teeth to drive the transition	Activities in 2021	Outcomes and 2022 Priorities
	<ul style="list-style-type: none"> • 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 • 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 	<ul style="list-style-type: none"> • 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 • In 2023, we will complete our engagement escalation process for the 30 largest carbon emitters globally

Aviva’s focused approach to influence high emitters corresponds to the GFANZ recommendation to encourage highly ambitious transition strategies, plans, and progress 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,” defined as improvements in one of the following: targets, transition plan, governance, disclosures, or lobbying.¹²⁰

118 [Climate Transition Plan, First Release, Aviva.](#)
 119 [Climate Transition Plan, First Release, Aviva.](#)
 120 [Climate Transition Plan, First Release, Aviva.](#)

Example 10: AXA Investment Managers (AXA IM) takes “three strikes, you’re out” escalation approach for portfolio companies

Sub-sector: Asset Management

As active asset managers and members of NZAM, AXA IM takes seriously 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 they don’t see progress and strong commitments from companies, [they] need to be brave and bold in [their] investment decisions and be ready to divest.¹²¹

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.¹²² AXA IM’s approach involves evaluating high-impact companies and issuers, and grouping them into categories to inform ongoing decision-making.

With respect to companies AXA IM considers to be a laggard, AXA IM will apply a “three strikes and you’re out” approach.¹²³ This means that if AXA IM does not feel the company’s progress on their net-zero path is substantial within three years (2025), it will divest from the laggard so that it can reallocate the capital to climate transition leaders.

The approach is consistent with GFANZ guidance that an escalation process should be part of an 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.

121 AXA Investment Managers Corporate News: AXA IM further strengthens its climate actions to accelerate its contribution to a low-carbon world, 8 November 2021, <https://www.axa-im.com/axa-im-further-strengthens-its-climate-actions-accelerate-its-contribution-low-carbon-world> [AXA IM Nov. 2021 News Release]

122 AXA Investment Managers Corporate News: AXA IM further strengthens its climate actions to accelerate its contribution to a low-carbon world, 8 November 2021, <https://www.axa-im.com/axa-im-further-strengthens-its-climate-actions-accelerate-its-contribution-low-carbon-world> [AXA IM Nov. 2021 News Release]

123 AXA Investment Managers: 2021 Active Ownership and Stewardship Report, May 2022, [AXA IM Active Ownership Report] at p. 10.

Example 11: BlackRock's public-private finance vehicle — Climate Finance Partnership

Sub-sector: Asset Management

BlackRock, the world's largest asset manager, and a member of the NZAM initiative, completed the fundraise of its Climate Finance Partnership (CFP) Fund in October 2021, achieving a \$673 million final close,¹²⁴ exceeding their 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:

- **Blended Finance Structure:** CFP uses a structure that seeks to de-risk the opportunity set in emerging markets for institutional investors. 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, 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, bringing together leaders in the field of ESG risk identification and management. CFP and its investors will further benefit from 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 parts of the world that need it most.

124 <https://www.blackrock.com/corporate/literature/continuous-disclosure-and-important-information/tcf-report-2021-blkinc.pdf>

Example 12: Dai-ichi Life's strategy for engaging portfolio companies on emissions

Sub-sector: Insurance

The Dai-ichi Life Insurance Company, a member of the NZAOA, 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.¹²⁵ In line with the Asset Owners Alliance (AOA) protocol, in 2021, Dai-ichi conducted targeted climate-related engagements aimed at pursuing net zero-aligned actions with the 50 companies with the most emissions in its investment portfolio. Dai-ichi has also been participating in collaborative engagement initiatives such as Climate Action 100+ and Institutional Investors Collective Engagement Forum (IICEF) to enhance its engagement activities.

With regard to climate change issues, and in line with GFANZ recommendations and guidance, 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:

Tracking engagement milestones

- ① Raise issue: Dai-ichi Life raises a matter it considers to be an issue with a company
- ② Recognize issue: The company recognizes that it must address this issue
- ③ Address issue: The company begins addressing the issue
- ④ Solve issue: Dai-ichi Life confirms that the issue has been solved

Progress of
engagement


Dai-ichi's Tracking engagement milestones¹²⁶

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. 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 CO₂ 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 the above chart) and will continue engaging, pushing it to conduct more sophisticated scenario analysis and to support its emissions reduction initiatives.

¹²⁵ [Dai-ichi Life: Responsible Investment Report 2021](#).

¹²⁶ [Dai-ichi Life: Responsible Investment Report 2021](#).

2) COMPONENT: INDUSTRY

Recommendation

Proactively engage with peers in the industry to 1) exchange transition expertise as appropriate, 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 or to 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,¹²⁷ any of the following objectives that are consistent with their net-zero priorities:

1) Learn from other institutions through discussion, and share non-competitive, non-confidential details of tools, data, and methodologies that enable and accelerate implementation of a transition plan.

- Collaborate where appropriate to solve challenges that arise in 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.

- Encourage additional and accelerated uptake of net-zero transition plans across the industry by being transparent about implementation experiences/lessons learned.
- Engage in cross-sector initiatives in the real economy to help accelerate the phaseout of high-emitting assets and roll out of transition infrastructure.
- Seek common approaches or frameworks to support comparability, driving further momentum and accountability.
- Work to encourage government net-zero targets and strategies; promote government policies, regulations, and environments that facilitate net zero-aligned investment; and encourage science-based public policies that incorporate transition considerations.

2) Consolidate 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.¹²⁸
- Participate in one of the many industry working groups and task forces that advance the development of technical approaches and methodologies for net-zero implementation,¹²⁹ and engage with key actors across the ecosystem, individually and/or collectively, including stock exchanges, and index and data providers.

¹²⁷ Industry-related bodies may include civil society and non-governmental organizations providing subject-matter expertise, targeted initiatives, and collaborative opportunities among other purposes (e.g., ShareAction, WWF, World Resources Institute, and others).

¹²⁸ Examples include MPP, SMI, First Mover Coalition, Climate Transition Pathways.

¹²⁹ Examples include GFANZ's workstreams and the [Centre for Climate Aligned Finance](#).

3) Sign up to public and climate transition specific commitments.¹³⁰

- Jointly develop or publicly support industry-wide calls to action aimed at policymakers, regulators, supervisors, and global standard setters.¹³¹
- Enter into bilateral and multilateral engagements with both financial institutions and stakeholders outside the sector to build industry and system-wide thought leadership and enable solutions. Partnerships could include real-economy firms, governments, and 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.

Example 13: Global lenders unite 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 to help decarbonize the sector.¹³²

GHG emissions from aviation are considered hard to abate, and to achieve net-zero aviation emissions by 2050,¹³³ the sector will require more efficient aircraft, new aviation technology, and sustainable aviation fuels. The SBTi estimated in its Aviation Guidance¹³⁴ 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 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 emissions from the aircraft, airlines, and lessors that they finance are in line with 1.5 degrees C climate targets.

This effort corresponds to GFANZ guidance to engage in cross-sector initiatives in the real economy to help 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.

¹³⁰ Examples include the [Powering Past Coal Alliance declaration](#), [the Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation](#), and the [Global Methane Pledge](#).

¹³¹ Examples include [GFANZ's "Call to Action" and the Investor Agenda's "Global Investor Statement to Governments on the Climate Crisis"](#).

¹³² <https://rmi.org/press-release/banks-chart-flight-path-to-decarbonize-aviation/>

¹³³ <https://www.iata.org/en/programs/environment/flynetzero/>

¹³⁴ https://sciencebasedtargets.org/resources/files/SBTi_AviationGuidanceAug2021.pdf

Example 14: Investor Climate Action Plans (ICAPs): New York State Common Retirement Fund's Climate Action Plan

The Investor Agenda¹³⁵ is a collaboration of groups that work with investors—AIGCC, CDP, Ceres, IGCC, IIGCC, PRI, and UNEP FI¹³⁶ — 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 ICAPs, the ICAPs Expectations Ladder,¹³⁷ 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 emissions 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 followed this guidance is the New York State Common Retirement Fund (CRF), one of the largest public pension plans in the United States.¹³⁸ It published its Climate Action Plan¹³⁹ 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 2040.¹⁴⁰ In April 2021, CRF issued a progress report on its Climate Action Plan.¹⁴¹ In this report, CRF explains how it uses engagement to help mitigate its climate-related risks.¹⁴² 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.¹⁴³ It urges companies to establish transition strategies, develop strategic CapEx planning, adopt GHG emissions targets, and to disclose emissions data and other key climate disclosures. In addition, it engages its top global equity and fixed income external managers in areas of climate governance, risk management, engagement and 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.¹⁴⁴ Its advocacy work includes testifying, providing public comments, and participating in state, national, and international forums.

135 <https://theinvestoragenda.org/>

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

137 [Investor Climate Action Plans \(ICAPs\) Expectations Ladder](#).

138 <https://www.osc.state.ny.us/common-retirement-fund>

139 [New York State Common Retirement Fund Climate Action Plan 2019](#)

140 <https://www.osc.state.ny.us/press/releases/2020/12/new-york-state-pension-fund-sets-2040-net-zero-carbon-emissions-target>

141 Progress Report on the New York State Common Retirement Fund's Climate Action Plan, [\(Progress Report\) April 2021](#).

142 Progress Report on the New York State Common Retirement Fund's Climate Action Plan, [\(Progress Report\) April 2021](#).

143 CRF identifies these 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. Progress Report at page 13.

144 Progress Report on the New York State Common Retirement Fund's Climate Action Plan, [\(Progress Report\) April 2021](#).

3) COMPONENT: GOVERNMENT AND PUBLIC SECTOR

Recommendation

Ensure that direct and indirect¹³⁶ lobbying and public-sector engagement advocate for policies that support or enable an accelerated and orderly transition to net zero, and do not contravene any net-zero commitments of the institution. Review portfolio companies' lobbying and advocacy efforts and utilize engagement levers to encourage consistency with the institution's own net-zero objectives. Discuss clean investment plans and policies with governments and other key stakeholders to help attract private investment in climate solutions.

Overview and relevance: Public policy and regulation shape international and national, regional, state, 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.¹⁴⁵

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 Action¹⁴⁷ (published in October 2021) and could be used to guide engagement with government and public sector.

These include:

- 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, and include credible and well-communicated strategies for different sectors.
- Regulation: Mandating disclosure of climate-related information, including how companies will achieve net-zero commitments. Establishing mandates for regulators and supervisors to consider climate change from a financial stability perspective. Revisiting regulations that may discourage or prevent investment in climate solutions, such as antitrust law that may be seen as an obstacle to the cooperation needed between competitors to achieve positive climate change objectives.
- Enabling environments for net zero-aligned investment: Encouraging science-based public policies that signal to the market that governments have a long-term commitment to the transition, through incorporation of transition considerations in planning, long-term favorable financing options, clear rules, procurement regimes, and other mechanisms.¹⁴⁸
- Accelerating the real-economy transition through incentives and policies: Developing policy-based mechanisms for pricing externalities of carbon emissions. Making public investment in climate solutions and technology and infrastructure to support the energy transition. Correcting market distortions such as fossil fuel subsidies.

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

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

147 [GFANZ, Policy Call to Action, 2021](#).

148 See the [Climate Finance Leadership Initiative's Private Sector Considerations for Policymakers](#).

Guidance — How to engage:

Financial institutions should ensure that policy engagement is supportive of net zero. Financial institutions should conduct internal audits of direct and indirect policy positions and ensure these are aligned with its net-zero commitments and with the overall transition to a net-zero economy.^{149, 150, 151}

Some approaches to engagement include:

- Ensure financial industry trade associations' climate policy positions and lobbying activities are aligned with achieving net zero by 2050 and limiting warming to 1.5 degrees C. Develop a plan for disengaging with trade associations or other bodies that advocate for policies that impede 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 attending key international meetings with the goal of advocating for net zero-aligned public policy at senior levels.
 - Support efforts led by reputable international and national organizations working toward net-zero policy objectives. Ensure all feedback and comments provided to public institutions as part of policy consultations—whether submitted as an individual institution, via a trade association, or in partnership with peers—is in line with net-zero objectives. 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.¹⁵²
 - 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.

149 [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.

150 [Influence Map's LobbyMap Methodology illustrates how financial institutions' lobbying activities can be assessed, UNFCC and UNEP definitions from their Guide for Responsible Corporate Engagement in Climate Policy apply.](#)

151 [The Global Standard on Climate Lobbying](#) promotes attention to and action on corporate climate lobbying for the investor community.

152 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 15: Impax advocacy on climate solutions

Sub-sector: Asset Management

Impax Asset Management is a UK-based asset management group and a member of NZAM, demonstrating 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 policy supportive of a low-carbon, sustainable economy.

Reflecting its commitment to policy advocacy, Impax has established a Global Policy Group, with a dedicated lead and senior membership including the CEO, which brings together expertise from across the firm to implement a rolling three-year advocacy plan focused on engagement with policymakers in Europe and the U.S. 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.¹⁵³

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,¹⁵⁴ 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,¹⁵⁵ which called 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°C Alive: Closing the Gap in the 2020s,¹⁵⁶ which set out the key actions needed, sector by sector, to deliver the Paris Agreement; and
- the emergence of “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 report¹⁵⁷ 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 recommendations¹⁵⁸ that informed the SEC's proposed rule published in March 2022.

153 <https://www.gov.uk/government/groups/energy-innovation-board>

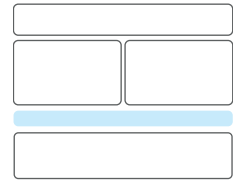
154 <https://impaxam.com/wp-content/uploads/2020/07/Clean-investment-roadmaps.pdf?pwmm=2231>

155 <https://theinvestoragenda.org/wp-content/uploads/2021/09/2021-Global-Investor-Statement-to-Governments-on-the-Climate-Crisis.pdf>

156 <https://www.energy-transitions.org/publications/keeping-1-5-alive/#:-:text=The%20latest%20report%20by%20thewarming%20to%201.5%C2%BC>

157 <https://www.fca.org.uk/publication/corporate/climate-financial-risk-forum-guide-2021-data-metrics.pdf>

158 <https://www.sec.gov/comments/climate-disclosure/cll12-8902021-242438.pdf>



THEME

Metrics and targets

Financial institutions set targets to provide quantitative, measurable goals for their net-zero ambition. Specific, transition-related metrics are selected to measure progress toward the targets. Both targets and metrics provide credibility and clarity when financial institutions communicate their net-zero strategy to internal and external stakeholders. Well-formulated targets allow for the assessment of an organization's long-term decarbonization strategy, as well as its interim activities and results.

1) COMPONENT: METRICS AND TARGETS

Recommendation

Set targets against key metrics that support the net-zero strategy and priorities, including targets for support and scaling of climate solutions, engagement, internal implementation, financed GHG emissions, and where relevant, managed phaseout projects. Monitor a range of metrics to assess progress in implementing the net-zero transition plan.

Overview and relevance: Quantitative metrics and targets are required to ground the net-zero ambition in specific objectives and concrete actions, and track progress over time. The appropriate metrics and targets for a given financial institution will depend on its overall ambition and priorities. Progress on all aspects of the strategy should be measured and may include portfolio GHG emissions reductions, real-economy transition support, alignment with a 1.5 degrees C pathway, phasing out high-emitting assets, engagement, and internal implementation milestones.

GFANZ acknowledges that specific metrics and targets methodologies may be more suited for a certain sector or approach to net-zero financing

and that there are challenges in using certain metrics, and in the availability and quality of data. Some of these are discussed in the [Data chapter](#) and the [Net-zero target-setting chapter](#) in Part C of this report. However, these challenges are not a reason to delay target setting or measurement. Data availability and analytical methodologies are rapidly evolving and the direction of travel for emissions reductions is as important as accuracy.

In addition, GFANZ recognizes that client and portfolio companies' Scope 3 emissions are critical for financial institutions to evaluate in their metrics and targets setting. Many regulators and industry bodies have highlighted the importance of including Scope 3 financed emissions.¹⁵⁹

Guidance: Selection and calculation of metrics and targets should be aligned with industry guidance to support transparency and comparability across the sector. Institutions should regularly review targets according to their sector-specific guidance, and on an ad hoc basis where there are material updates or developments in data, methodology, business models, or if targets are reached sooner than anticipated.

159 [SBTi's Foundations for Science-based Net-zero Target Setting in the Financial Sector \(Version 1.0, April 2022\)](#) includes a "completeness" principle that calls for portfolio companies' Scope 3 emissions to be addressed and where data availability is an issue, to include all scopes of a portfolio company's emissions in the engagement process to improve disclosure and transparency to influence target setting. TCFD's 2021 Implementation Guidance was revised to say that "All organizations should consider disclosing Scope 3 GHG emissions."

In addition, the targets set to support the institution's net-zero strategy and priorities should be designed to have reporting timelines that are integrated with other corporate strategy and capital planning targets to facilitate joint reviews by the Board (or equivalent body) and senior management committees.

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.¹⁶⁰

Institutions should monitor multiple metrics to track implementation and progress toward their net-zero target, as described below. GFANZ acknowledges that an over-emphasis on portfolio footprint reduction targets may have unintended consequences of reducing financing support to real-economy emissions reduction efforts. The guidance below is a non-exhaustive list of metrics and targets methodology categories that could be used to monitor and set targets across the four key approaches discussed on page 6 as well as gauge progress of the transition plan implementation. It includes financed emissions reductions metrics, but these should be balanced with real-economy metrics in line with an institution's objectives and priorities. Multiple metrics and targets may be needed to ensure that financing is supporting real-world decarbonization. Constructing a target framework that best accounts for key approaches of climate solutions, incentivizing real-world decarbonization efforts, and managed phaseout requires further research (see section "[Net-zero target setting](#)").

1. Financed GHG emissions reductions targets

Financed emissions reductions targets and the methodology to develop them should be chosen in alignment with sector-specific guidance, where available, or with industry standards. Emissions reductions targets should be consistent with 1.5 degrees C scenarios and sectoral pathways where available to reach net-zero emissions by 2050, and include interim targets for 2030 or sooner. Financial institutions should consider using low or no-overshoot scenarios wherever possible. Key elements of GHG emissions reduction target-setting methodologies include:

- GHG emissions in scope (Scopes 1 and 2 and, Scope 3 based on materiality)¹⁶¹
- business activities in scope (sectors and/or lines of business)
- baseline year¹⁶²
- target years for interim and net-zero targets
- percentage of portfolio covered by targets

Financial institutions can use a range of metrics to set targets and track progress in reducing portfolio GHG emissions. Examples are listed in Table 7. Multiple metrics may be needed to assess different aspects of an institution's portfolio and business activities (e.g., across different sectors).

Greenhouse gases, including carbon dioxide, methane, and nitrous oxide, should be considered within GHG metrics.¹⁶³

160 [A Corporate Accounting and Reporting Standard Revised, GHG Protocol.](#)

161 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.

162 GFANZ recommends that Financial institutions select a baseline based on years that are recent and representative, following sector-specific alliance guidance and taking into account considerations such as COVID-19.

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

Table 7: Examples of financed emissions metrics

CATEGORY	EXAMPLES
Coverage ¹⁶⁴	Activities covered by financed GHG emissions
	Financed GHG emissions covered by target (%)
Absolute	Portfolio/sub-portfolio/sector-level Scope 1 GHG emissions (mtCO ₂ e) (and equivalent for Scope 2 and Scope 3)
Intensity-based	Portfolio/sub-portfolio/sector-level economic intensity (mtCO ₂ e/\$ revenue, \$ lent/\$ million investment or \$ AUM)
	Portfolio/sub-portfolio/sector-specific physical intensity (mtCO ₂ e/metric)
Alignment-based	Portfolio alignment metrics ¹⁶⁵
	Capacity-based metrics (to assess the technologies and asset-level distribution needed for Paris Alignment) ¹⁶⁶
	Binary target measurement metrics (e.g., percentage of investments or portfolio companies with declared net-zero or Paris-aligned targets) ¹⁶⁷

Table 8 lists sources of guidance on important methodological questions in defining GHG emissions metrics.

Table 8. Sources for metric methodologies

CATEGORY	SOURCES OF GUIDANCE
Definition of portfolio company emissions	GHG Protocol ¹⁶⁷
Calculation of financed emissions	PCAF ^{168,169}
Definition of physical intensity metrics	SBTi, ¹⁷⁰ TPI, ¹⁷¹ PCAF, PACTA ¹⁷²
Portfolio alignment metrics	PAT, ¹⁷³ GFANZ, ¹⁷⁴ SBTi
Selection of reference scenario	Sector-specific alliance guidance ¹⁷⁵
Treatment of carbon credits	SBTi, ¹⁷⁶ Sector-specific alliance guidance ¹⁷⁷

164 This broadly corresponds to the definition Scope 3 Category 15 emissions under the GHG Protocol, but also includes insurance-associated emissions.

165 GFANZ's 2022 Concept Note on Portfolio Alignment Measurement, sets out the findings from broad engagement by the GFANZ team that sought to understand how alignment metrics are used and what barriers are in place to their wider adoption.

166 [Foundations for Science-Based Net-Zero Target Setting in the Financial Sector Draft for Public Comment, SBTi, 2021.](#)

167 A Corporate Accounting and Reporting Standard Revised, [GHG Protocol.](#)

168 The Global GHG Accounting and Reporting Standard for the Financial Industry, PCAF, 2020.

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

170 [Foundations for Science-Based Net-Zero Target Setting in the Financial Sector Draft for Public Comment, SBTi, 2021; Financial Sector Science-Based Targets Guidance, SBTi, 2022.](#)

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

172 Paris Agreement Capital Transition Assessment (PACTA), [2 Degrees Investing Initiative, 2018.](#)

173 [Measuring Portfolio Alignment, PAT, 2020.](#)

174 GFANZ 2022 Concept Note on Portfolio Alignment Measurement.

175 GFANZ, Guidance on use of Sectoral Pathways for Financial Institutions. 2022.

176 [Foundations for Science-Based Net-Zero Target Setting in the Financial Sector Draft for Public Comment, SBTi, 2021; Financial Sector Science-Based Targets Guidance, SBTi, 2022.](#)

177 Please also refer to Part 3 of this report, under Carbon credits.

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

2. Real-economy transition metrics

Financial institutions should use metrics to monitor and describe progress in supporting, scaling, and accelerating the transition in the real economy in accordance with the objectives of their net-zero strategy. Targets should be set for financial products and services that are focused on real-economy GHG emissions reductions and climate solutions, and should reflect the key approaches they intend to take, allowing for measurement of progress toward emissions reductions. A financial institution may commit to increase their capital allocation toward certain sectors or project types, or may require net-zero transition plans for their counterparties.

An important class of metrics relies on activity-based taxonomies. These allow financial institutions to identify financing tied to specific activities that can be classified as green, sustainable, or transition. Overall, these allow the creation of a number of metrics such as:

- capital invested, deployed, or committed toward green and transition-aligned activities, as defined in a taxonomy of activities (e.g., the EU taxonomy,¹⁷⁸ which is under consultation at time of writing);
- capital invested, deployed, or committed toward climate solution businesses and projects as defined in industry guidance (e.g., standards available such as IIGCC)¹⁷⁹; and

- green asset ratios showing the proportion of loans, capital, or insurance written on “green assets” as defined by taxonomies.

Other metrics financial institutions can consider tracking for the real-economy transition include:

- proportion of GHG portfolio emissions reductions allocated between those driven by changes in portfolio composition, and those driven by changes in the underlying companies;
- proportion of GHG financed emissions, clients, or portfolio companies with a transparent and robust net-zero transition plan in place in line with 1.5 degrees C-aligned sectoral pathways where available;¹⁸⁰
- proportion of clients or portfolio companies who enable the transition to net zero with products and services;
- capital invested, deployed, or committed toward managed phase out schemes that accelerate the retirement of high-emitting assets;
- progress toward planned retirements of financed assets under managed phase-out schemes or for specific emissions reduction goals of transition assets; and
- portfolio and sub-portfolio coverage metrics, such as proportion of clients or portfolio companies (overall or within an industry sector) that have set their own science-based targets.

The NZIA notes that, for insurers, one approach of many to target setting includes “Insuring the transition” targets:¹⁸¹ these targets would be set on the amount of insurance (e.g., gross written premium) being sold to companies that would represent 1.5 degrees C and net zero-aligned portfolios that are aligned with a green taxonomy (e.g., EU Sustainable Finance Taxonomy) and/or that are responsible for driving the transition.

178 [EU Taxonomy for sustainable activities.](#)

179 [Climate Investment Roadmap: A tool to help investors accelerate the energy transition through investment and engagement. IIGCC, April 2022.](#)

180 Please see Introductory Note on Expectations for Real-economy Transition Plans (GFANZ, 2022) and Guidance on use of Sectoral Pathways for Financial Institutions (GFANZ, 2022).

181 [Insuring the net-zero transition: Evolving thinking and practices. Net-Zero Insurance Alliance, 2022](#)

Where possible, real-economy targets and metrics should be stress tested to assess how a financial 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).

3. Net-zero transition plan implementation metrics

Financial institutions should set targets and monitor metrics that indicate progress in implementing their net-zero strategy. These could pertain to any of the components discussed in this document. Some of the most prominent examples in the industry today relate to engagement.

Engagement metrics can include:

- number and types of climate-related engagement activities (by portfolio and by topic/theme);
- climate-related voting metrics, such as proportion of climate resolutions voted on;
- outcomes, such as percentage of climate-related engagements that led to a material positive change in company operations/activities;
- engagement escalation activities, such as number of non-responsive companies facing conditions, restrictions, or exclusions;
- collaboration activities with academia, peers, NGOs, and real-economy actors to tackle shared challenges; and
- number of advocacy engagements with governments and policymakers on climate-related policies and outcomes.

Internal implementation metrics should also be considered to track the change in business processes, culture, and skills needed across the institution.

These metrics can include:

- number of training sessions completed by employees with specific responsibilities in the net-zero transition plan, and/or percentage of employee population aware of the organization's net-zero transition ambition, strategy, and priorities;
- number or proportion of individuals with remuneration linked to progress against and achievement of targets;
- proportion of senior management remuneration covered by net-zero commitment targets;
- analysis of climate representation at senior levels;
- percentage of internal reporting processes that include net-zero transition;
- number of policies reviewed for relevance to net-zero transition commitment; and
- percentage of internal analytical processes reviewed or revised to reflect the net-zero transition commitment.

Metrics to monitor progress on changing portfolio composition should be considered and could include:

- carbon-adjusted portfolio performance metrics, such as green risk-weighted assets;
- description of how climate considerations have been embedded into the risk/return analysis of strategic asset allocation and other core business decisions, for example, with the help of forward-looking portfolio alignment metrics and other metrics relevant to the four key approaches to transition; and
- portfolio alignment measurement, based on the recommendations of the 2022 GFANZ report on Portfolio Alignment Measurement, as a forward-looking approach to measuring ambition and progress of the portfolio or individual assets or clients.¹⁸²

¹⁸² GFANZ's 2022 Concept Note on Portfolio Alignment Measurement.

Example 16: Goldman Sachs' carbon-focused metrics and targets

Sub-sector: Banking and Asset Management

Goldman Sachs (GS) believes that the most impact it can have in the global climate transition is to drive decarbonization in the real economy in partnership with its clients. Recognizing that its clients will require a diverse set of advice, capital, and financing solutions to measure, manage, and execute on their decarbonization strategies, GS set 2030 targets that include both direct and facilitated financing activities.

Capital markets facilitation is not currently a requirement of the NZBA (of which GS is a member); however, GS considers it a core service it provides to clients. Though GS recognizes there is currently no accepted industry-wide guidance in emissions intensity accounting for capital markets-facilitated financing, GS does include capital markets facilitation in its definition for what is in scope for net-zero target setting because developing new structures, products, and tools is core to its strategy of helping clients set and execute their own climate transition plans.

In setting its 2030 targets, GS selected three initial target sectors — oil and gas; power; and auto manufacturing. GS selected these sectors based on their materiality to both global emissions and its own portfolio (approximately 38% of its total portfolio of carbon-intensive activities), sufficient data availability, and the firm's unique position to engage its clients in these sectors. To measure these emissions, GS uses a physical emissions intensity metric, i.e., kilograms of CO₂e per megawatt hour of electricity. Using this metric enables the firm to manage and support its clients in transition by normalizing for company size and scale of production, allowing for growth in businesses that are emissions-efficient, and reducing volatility as a result of short-term changes in production levels. Moreover, use of a physical intensity metric also ensures that the firm is not constrained from providing capital to clients on transactions that result in meaningful carbon reduction and improved carbon performance of the economy, nor shifts in client activity on a year-by-year basis.

Under the banner of Carbonomics, GS's research series,¹⁸³ GS introduced interim targets relative to alternative scenarios that are consistent with the ambition of the Paris Agreement and the carbon budget projections of the IPCC.¹⁸⁴ GS's analysis highlights where significant capital, innovation and collaboration will be required to address current gaps between the benchmark 1.5 degrees C-aligned scenarios and the current state of policies, commitments, and technologies. The use of target ranges demonstrates the dependency on system level action, where the collective impact of public policy, corporate action, technological advancements, and changes to consumer behavior will be needed to align the world to a net-zero pathway, which may not follow a linear trajectory.

¹⁸³ [Accelerating Transition: TCFD Report 2021, Goldman Sachs.](#)

¹⁸⁴ The Goldman Sachs Carbonomics 1.5°C net zero path assumes a carbon budget for remaining net cumulative CO₂ emissions from all sources from 2020 to be c.500 GtCO₂, in line with the IPCC AR6 WGI Summary for Policymakers, and consistent with a 50% probability of limiting warming to 1.5°C by 2100.

Example 17: Intesa Sanpaolo sets 2030 emissions reduction targets in four sectors

Sub-sector: Banking

Italian banking group Intesa Sanpaolo (ISP) released its 2022–2025 Business Plan in February 2022. The plan is underpinned by four key pillars, one being ISP’s commitment to ESG and specifically to achieving net-zero emissions, in terms of its own emissions by 2030 and in terms of loan and investment portfolios, asset management, and insurance emissions by 2050. ISP has also committed to contributing €115 billion in financing to society and green transition between 2022–2025, of which €88 billion are committed to lending to support the green transition (including net zero) and the circular economy.¹⁸⁵

In the 2022–2025 Business Plan, ISP—a member of the NZBA and other sector-specific net-zero alliances—made significant commitments to climate and communicated its 2030 financed emissions reduction interim targets for four priority high-emitting sectors.¹⁸⁶

Net-Zero aligned targets for 2030 in high-emitting sectors⁽¹⁾...

	Sector and scope	Metrics	Baseline 2019⁽³⁾	Target 2030⁽⁴⁾
High-emitting sectors⁽¹⁾	Oil & Gas⁽²⁾ (Scope 1, 2, 3)	gCO ₂ e/MJ	64	52-58
	Power generation (Scope 1, 2)	kgCO ₂ e/MWh	214	110
	Automotive (Scope 3)	gCO ₂ e/km	162	95
	Coal mining <i>(exclusion policy)</i>	€ bn exposure	0.2	0 by 2025

1) Sectors consistent with NZBA. Reference scenario: IEA Net-Zero 2050.

2) The Group already has a policy in place to phase out unconventional oil and gas by 2030.

3) Portfolio composition as of 6/30/21, latest available emissions data as of FY19.

4) Targets may be updated over time following the evolution of the emissions calculation methodology, the regular updates required by NZBA and SBTi, and any issuance of new external guidelines.

185 https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/comunicati-stampa-en/2022/02/20220204_BP_uk.pdf

186 Page 69 https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/presentazioni-en/2022/Piano%20di%20Impresa_2022-2025_UK.pdf

ISP also disclosed that its 2030 emissions reduction targets cover more than 60% of the Non-Financial Corporates portfolio financed emissions.¹⁸⁷ The group also noted that its targets may be updated over time as emissions calculation methodologies evolve and industry requirements and external guidance are updated. ISP has also committed to seeking SBTi certification.

Parallel to its financed GHG emissions reduction targets, ISP committed €88 billion to sustainable lending, of which €8 billion is allocated to the circular economy; has set the target of planting over 100 million trees; and is targeting assets under management invested in ESG products to €156 billion in 2025 from €110 billion in 2021. Also, ISP has disclosed that its subsidiaries, Eurizon, Fideuram Asset Management SGR, Fideuram Asset Management (Ireland), Asteria Investment Management, and Intesa Sanpaolo Vita Group are working to publish their first targets in the coming months, within one year from becoming a signatory, in line with the guidelines set out by the NZAM and the NZAOA, to which the companies have committed. ISP's target-setting approach clearly reflects its consideration of interim targets, focus on high-emitting sectors, and move to include real-economy impact.

Example 18: MUFG's carbon focused metrics and targets

Sub-sector: Banking

MUFG, a member of NZBA, has committed to achieving net-zero GHG emissions from its financed portfolio by 2050. In line with the GFANZ recommendations, the company's targets consider both MUFG's operational emissions reduction targets as well as the impact in the real economy. In MUFG's 2022 Progress Report, the company updated its targets using three broad categories:¹⁸⁸

1. Net-zero GHG emissions from the financed portfolio

- net-zero GHG emissions from the financed portfolio by 2050
- power sector interim target: reduce emissions intensity to 156-192gCO₂e/kWh by 2030 (from 2019 baseline)
- oil and gas sector interim target: reduce absolute emissions by 15%-28% by 2030 (from 2019 baseline)

2. Decarbonization through financial services

- target of ¥35 trillion cumulative investment into sustainable finance (with ¥35 trillion being for the environment specifically) by FY2030
- reduce project financing of coal-fired power generation by 50% by FY2030 and by 100% by FY2040 (from FY2019 baseline)
- reduce corporate financing of coal-fired power generation by 100% by FY2040

¹⁸⁷ In sectors identified by the Net-Zero Banking Alliance.

¹⁸⁸ [MUFG Progress Report: Moving towards Carbon Neutrality, April 2022](#).

3. Net-zero GHG emissions from own operations (out of scope for GFANZ guidance)

- net zero by 2030
- completely shift to 100% renewable energy for electricity procured domestically by FY2022

In setting interim targets for GHG emissions from the financed portfolio (category 1), MUFG used four guiding approaches: science-based, standardized and transparent, data quality, and sector-specific.

In addition to target setting, MUFG measures and monitors a wider range of metrics, including:

- arrangement of loans and project finance for sustainable finance
- underwriting and sales of Green Bonds
- carbon-related assets (e.g., credit amounts)
- the credit balance of project finance and corporate finance for coal-fired power generation

MUFG is also reporting on performance against targets, therefore, transparently reporting on its progress.¹⁸⁹

Metric	Credit amount related to coal-fired power generation — Project finance (balance of lending)
Target	Reduce the balance by 50% by the end of FY 2030 from the FY 2019 level and reduce it to zero by FY 2040 ¹
Results	US\$3,774 million (as of the end of FY 2020) ²

(1) Projects that contribute to the transition toward a decarbonized society are exceptional following the MUFG Environmental and Social Policy Framework.

(2) As of the end of FY2019: US\$3.58 million.

Example 19: Ninety One’s emissions metrics and targets¹⁸⁹

Sub-sector: Asset Management

Global investment manager Ninety One joined NZAM in July 2021. The South African- and UK-based asset manager has set an overall target based on the SBTi portfolio coverage approach, focusing on its largest sources of emissions. This is driven by its objective to support real-world decarbonization. Across the business, this involves investing in companies that deliver different components of the transition to net zero: low-carbon and sustainable solutions; enablers of transition; and higher emitters requiring “transition finance” and engagement to shift their business models.

The Global Environment portfolio invests in companies providing solutions and enabling the transition. Believing that no single data point or metric can describe whether a company is delivering this role in the transition to net zero, it has implemented a sustainability data dashboard to help investors compare the portfolio to other investments.¹⁹⁰

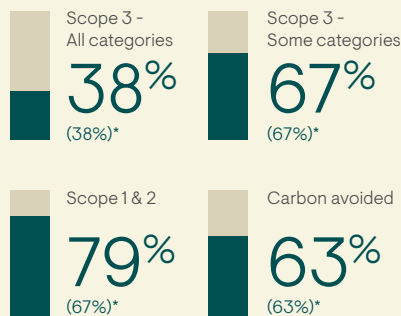
189 [MUFG Sustainability Report 2021](#).

190 [Ninety One, Global Environment Impact report, October 2021 at p.3](#).

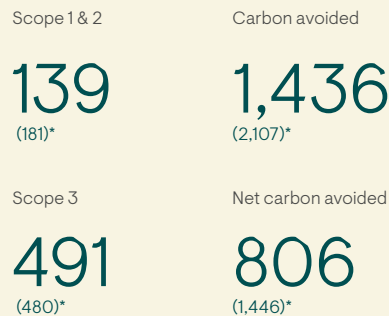
The dashboard compares aggregate portfolio carbon data metrics for the period covered in the current Impact Report versus the previous report.¹⁹¹ The dashboard shows the percentage of portfolio companies reporting GHG emissions and GHG emissions footprints for Scopes 1 and 2, Scope 3, carbon avoided, and carbon intensity. The notes to the dashboard provide useful context and explanation, particularly with respect to metrics related to Scope 3.

Sustainability data dashboard

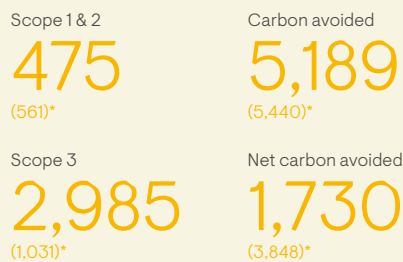
% of portfolio companies reporting emissions



Footprint (tCO₂e for US\$1m invested)



Carbon intensity (weighted average tCO₂e/US\$m revenue)



Renewable energy generated (MWh for US\$1m invested)



Given its view that portfolio-level metrics are not always indicative of the underlying sustainability performance of its investments, Ninety One provides detailed position-level reporting that it believes tells the stories behind the data for all companies in the portfolio.¹⁹² Each company summary report (consisting of two pages per company) includes information on a range of quantitative and qualitative metrics, including taxonomy eligible revenue, environmental data progression, EU taxonomy assessment, net-zero targets, decarbonization, and engagement progress and goals. GHG emissions reporting is also a key focus for all its engagements, even for companies it considers at the better end of the reporting spectrum.¹⁹³

191 [Ninety One, Global Environment Impact report, October 2021 at p.10.](#)

192 [Ninety One, Global Environment Impact report, October 2021 at p.27-79.](#)

193 [Ninety One, Global Environment Impact report, October 2021 at p.2.](#)

Example 20: SBTi's net-zero guiding principles

SBTi is a multinational organization dedicated to promoting the adoption of science-based target setting by companies and financial institutions 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 financial institution 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 financial institutions to sufficiently contribute to helping achieve the global goal of net-zero emissions at a planetary level.”¹⁹⁴

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.”

To drive the action needed to meet societal climate and sustainability goals, the SBTi stresses the principle of “completeness.” This means that financial institutions should ensure their net-zero targets lead to a state that is compatible with reaching net-zero emissions at the global level.¹⁹⁵ To achieve this, the SBTi says financial institutions should address all operational and financing activities — not just those they can directly influence.

The SBTi sets out its expectations that financial institutions should “transition and align their financing activities to net zero in line with pathways that achieve the Paris Agreement”¹⁹⁶ in its “science-based ambition” principle. This principle encourages financial institutions to consider both the synergies and trade-offs between different pathways.

The SBTi understands that actions financial institutions 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 financial institutions “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.”¹⁹⁷

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 financial institutions should consider both the financing of decarbonization efforts as well as climate solutions.¹⁹⁸

All four of the SBTi’s principles are in full alignment with GFANZ’s views. In addition to these principles, the SBTi’s report provides further detail on metrics and targets for different types of financial institution, and the opportunity to assess and validate science-based targets.

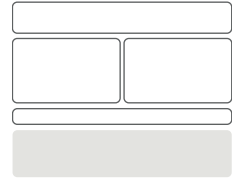
194 SBTi Foundations for Science-Based Net-Zero Target Setting for the Financial Sector Version 1.0, April 2022 ([SBTi Foundations Report](#)) at p. 7.

195 SBTi Foundations Report at p. 27.

196 SBTi Foundations Report at p. 28.

197 SBTi Foundations Report at p. 29.

198 SBTi Foundations Report at p. 30.



THEME

Governance

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

The senior personnel will be responsible for ensuring that various teams have the required 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 is another layer of accountability.

1) COMPONENT: ROLES, RESPONSIBILITIES, AND REMUNERATION

Recommendation

Define roles for Board and senior management so they have ownership, oversight, and responsibility for the net-zero targets. Assign appropriate individuals and teams to all aspects of both design and delivery. 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 being managed.

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 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. See Example 5.

Overview and relevance: Ultimate accountability rests with the Chief Executive Officer and the Board of Directors, or similar governance structure, 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.

The net-zero transition will be a multiyear effort and the institution’s ambition and strategic approach should survive 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 21: Sample guidance from organizations ^{199,200}

Investor Agenda (IA)¹⁹⁹

“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)

TCFD²⁰⁰

“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.”

Financial institutions should ensure there are clear roles, responsibilities, and remuneration for the design and execution of the transition plan 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; access to specialist advisors; and resources and tools to ensure effective implementation to stay informed on 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 9 suggests key functions that might be involved, in addition to teams leading sustainability efforts. The examples are not exhaustive.

Table 9: Internal stakeholders

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

199 Investor Climate Actions Plans (ICAPs) Expectations Ladder, [The Investor Agenda, 2021](#).

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

Moreover, financial institutions should ensure regular reporting on the status of the transition plan to the Board and senior management, with relevant reporting thresholds and escalation protocols in place. In addition to business metrics already reported, the key 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
- report 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.

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 consider accounting for both when targets are met and when they are not (i.e., reward individuals for meeting or exceeding specific performance indicators related to the implementation of the net-zero transition plan, or reduce compensation/ bonus if indicators are not met).

These incentives can be designed to:

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

Example 22: Sample incentive guidance from organizations

CDP²⁰¹

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

TCFD²⁰²

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

TPI²⁰³

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

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

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

203 [Management Quality and Carbon Performance, Version 4.0, TPI, 2021.](#)

Example 23: 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, a member of NZBA, is taking a three-pronged approach:²⁰⁴

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

Barclays' climate and sustainability strategy is reflected in the compensation plans for its executive directors.²⁰⁵

The performance measures for each of the 2022 bonus and the 2022-2024 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
- align financing with the goals of the Paris Agreement
- reduce operational and supply chain carbon footprint and increase use of renewable energy
- progress toward green financing commitments.

Example 24: Citi forms governance and business teams to drive its net-zero plan²⁰⁴²⁰⁵

Sub-sector: Banking

Global bank and NZBA member 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”.²⁰⁶ 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:

1. Senior executives are held accountable for business performance through specific 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.

204 <https://home.barclays/content/dam/home-barclays/documents/citizenship/Sustainability/Barclays-Climate-Strategy-Targets-and-Progress-2022-Final.pdf>

205 <https://home.barclays/who-we-are/our-governance/remuneration-report/>

206 <https://www.citigroup.com/citi/sustainability/data/taskforce-on-climate-related-financial-disclosures-report-2021.pdf>

2. 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.

In addition to embedding climate change into remuneration considerations, 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, which is mandated to collectively build knowledge on net zero, inform decisions on methodology, and ensure that information is flowing across Citi's businesses. Additionally, it 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 created teams to do this, 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 25: MSCI's clear roles and responsibilities

Sub-sector: Financial Service Providers

MSCI is a major provider of indices, data, and analytics to the financial and investment industry, and a founding member of the NZFSPA, committing itself to align 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."²⁰⁷ As part of this, MSCI provides and is further developing a wide range of climate-focused data and analytics products and services.²⁰⁸

In line with GFANZ recommendations, MSCI has established governance processes and structures with clear roles and responsibilities for realizing this strategy. In its 2020 TCFD Report²⁰⁹, 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.²¹⁰

²⁰⁷ [MSCI 2021 Annual Report](#).

²⁰⁸ MCSI 2022 Annual Meeting of Shareholders and Proxy Statement, at p. 58 [[MCSI 2022 Proxy Statement](#)]

²⁰⁹ MSCI: Enabling Sustainable Investing: Task Force on Climate-related Financial Disclosures (TCFD) Report December 2020 [[MSCI 2020 TCFD Report](#)]

²¹⁰ <https://ir.msci.com/static-files/56e6fc9f-c575-4bba-aa86-7c39572e2d30> p. 13

Goals related to climate change are also key performance indicators (KPIs) that factor into the compensation of certain executives. While all of 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 help clients transition to a net-zero world.²¹¹ In 2022, all members of the company's Executive Committee, a committee comprised of 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.

211 MCSI 2022 Annual Meeting of Shareholders and Proxy Statement [[MCSI 2022 Proxy Statement](#)], at p. 73

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 demand significant 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 survive changes in the Board and senior management. It therefore 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 appropriate to their role, ranging from strategic oversight of the net-zero transition plan from the Board and senior management to day-to-day plan execution by employees. They should consider providing ongoing training, as needed, and access to subject matter expertise and climate-related resources.

An ambitious net-zero transition plan requires a reorientation and culture change. As part of this change program, the institution should build broader awareness of 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. Awareness and understanding will facilitate integration of the transition objectives into decision-making across the organization.

Example 26: Sample training guidance²¹²

“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.”

212 [The Good Transition Plan, Climate Safe Lending Network, 2021](#)

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.

Table 10: Highlights of how some financial institutions have started to achieve this

FINANCIAL INSTITUTION	EXCERPTS
Commercial International Bank ²¹³	<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>
KCB ²¹⁴	<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>
Wells Fargo ²¹⁵	<p>“Wells Fargo Green Teams are formal networks of environmentally conscious employees who engage in sustainability- and conservation-related projects at work and in their communities around the world. They are sponsored by certain senior leaders with accountability for sustainability performance and policy. Green Team members help improve our operational efficiency, conserve resources, and reduce environmental impacts, while engaging coworkers and raising awareness of sustainable opportunities at work and in the community. Green Teams support climate mitigation by educating colleagues on topics such as reducing and reusing materials in the office and alternative commuter opportunities. For example, certain Green Teams have established groups of bike enthusiasts to replace drive-alone commuting.”</p>

213 [Sustainable Finance Policy, Commercial International Bank, 2021.](#)

214 [Accelerating the Future Together: 2020 Sustainability Report, KCB, 2021.](#)

215 [2020 TCFD Report, Wells Fargo, 2021.](#)

Example 27: Bank of America's training for employees to support clients' transition to net zero

Sub-sector: Banking

Bank of America, a founding member of the NZBA, 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.²¹⁶ 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 Environmental, Social, and Governance; Climate; and Sustainable Finance college that is available to all teammates.²¹⁷ 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 align with the GFANZ recommendations related to 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 help accelerate the transition to net zero.

216 [Bank of America: Approach to Zero, April 2022 \[BoA Report\] at p. 1](#)

217 BoA Report at p. 3.

PART C

Policy Examples And Areas Of Further Work



Part C of this report does not make recommendations on financial sector net-zero transition plan implementation. Rather, it reflects GFANZ research and observations on current industry practices.

Policy examples

This section provides additional examples of how some financial institutions are dealing with select high-priority sectors. It is intended to function as a resource for stakeholders that are considering or developing policies and conditions, and other interested parties.

A financial institution's net-zero transition plan should include policies and conditions on key climate-related topics that are designed to accelerate the real-economy transition. As recommended earlier in this report (in Component: Policies and conditions), the priority topics are thermal coal, oil and gas, and deforestation.

These sectors have been highlighted given their importance in achieving GHG emissions reductions and reaching net zero globally by 2050. Bodies such as the IEA and IPCC agree that the shift away from fossil fuels over time is critical to the achievement of net zero.

Halting deforestation that drives forest loss is a priority because forests absorb vast amounts of carbon dioxide. Agreements related to phasing out coal and methane and halting deforestation were spotlighted at COP26.^{218,219,220,221,222,223}

GFANZ took stock of existing policies, industry guidance, and sector-specific alliance positions to ascertain current practices for policies on these issues, and to raise the collective ambition where there is an opportunity to do so.

Please refer to the “Component: Policies and conditions” for GFANZ recommendations and guidance, which this section builds upon through specific examples and detailed discussion. It offers more detailed information and examples of how financial institutions apply the elements of the Policies and Conditions recommendation. It also provides resources developed in the financial sector or by NGOs.²²⁴

218 [Global Coal To Clean Power Transition Statement, COP26, 2021.](#)

219 [Glasgow Leaders' Declaration on Forests and Land Use, COP26, 2021.](#)

220 [The Glasgow Climate Pact, COP26 Presidency, 2021.](#)

221 [Global Methane Pledge.](#)

222 [Financial Sector Commitment Letter on Eliminating Agricultural Commodity-Driver Deforestation, Race to Zero, 2021.](#)

223 [PPCA Finance Principles, Accessed 02/02/2022.](#)

224 Sources: [Glasgow Leaders' declaration on forests and land use, UKCOP26, 2021](#); [Call for Climate action announcement from private finance institutions, UKCOP26, 2021](#); [Global Coal to Clean Power Transition Statement, UKCOP26, 2021](#); [Annual Report, Forest500, 2022](#); [Deforestation Dividends, Global Witness, 2021](#); [Finance Principles, Powering Past Coal Alliance, 2020](#); [Deforestation commitment letter, Race to Zero, 2021](#); [Banking on Climate Chaos, Rainforest Action Network, 2022](#); [Oil and Gas policy tracker, Reclaim Finance, 2022](#); [Financial Sector Science-Based Targets Guidance, SBTi, 2022](#); [A guideline on the use of Deforestation Risk Mitigation Solutions for Financial Institutions, Sustainable Finance Platform.](#)

DEEP DIVE: THERMAL COAL POLICIES

A wide range of financial institutions have established thermal coal²²⁵ policies (covering both mining and power generation). While they contain similar elements, there is variety in how these are applied. Industry practices in use at the time of writing are summarized below.

Table 11: Thermal coal policy elements

ELEMENT	DESCRIPTION (from policies and conditions component)	INDUSTRY PRACTICES
Objective	A statement on the overarching goal of the policy, and how it supports implementation of the institution’s net-zero transition ambition and priorities.	Policies typically seek to phase out the use of thermal coal for power generation.
Scope	Description of the type of company, asset, project, and/or activity to which the policy applies. Examples include the share of a company’s revenue generated by specific activity (e.g., coal-fired power), list of specific project types (e.g., gas pipelines), or geographies (e.g., the Amazon Basin). Scope could include which 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.	Policies typically define a threshold at which the policy applies (e.g., percentage of total revenues derived from thermal coal).
Conditions	Criteria or conditions consistent with a 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. Engagement programs may focus on influencing companies to decarbonize operations.	Policies allow for a range of situations where business is allowed, provided conditions are met (such as having science-based targets or Paris Agreement-aligned transition plans).
Exclusions	Specific prohibited companies, assets, projects, and/or activities that cannot be served or financed by the financial institution upon conditions not being met. 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.	Some policies prohibit all activities; others specify certain types of activities (e.g., financing new coal-fired power stations).
Timelines	A roadmap for the transition to net zero in the context of the policy, outlining when and under which circumstances the new and existing conditions and exclusions will apply. These timelines should be consistent with the science-based scenarios used to set net-zero targets.	Many policies state that thermal coal must be phased out, but timelines to do so vary from today to 2050.

²²⁵ Coal typically has two uses: thermal and metallurgical. Thermal coal is used in energy production, whereas metallurgical coal is used to make coke, a reactant in steel-making. The policies discussed within this section refer to thermal coal.

Thermal coal: Policy objective

Many net-zero scenarios, such as the IEA NZE, and IPCC’s P1, P2, and P3 scenarios, include the phaseout of unabated thermal coal, and this is widely reflected in coal policies’ objectives or ambition statements and conditions for financing. Specifically, the IEA’s NZE scenario states that no new unabated coal plants should be approved for development beyond 2021, that unabated coal should be phased out in advanced economies by 2030, and in the rest of the world by 2040.²²⁶

Thermal coal: Scope

In a review of policies, percentage of revenue from coal-related activities was the metric most commonly used to define application of the policy (e.g., 10% or more of an entity’s revenue from coal mining). Other metrics used to a lesser extent included share of production, reserves, generation, or generating capacity from coal.

Specifics, such as the revenue percent threshold and type of coal-related activity, varied widely. Table 1 highlights the range of revenue share cutoffs used across a sample within the industry. Implementing a lower cutoff means that the policy is imposed upon a greater proportion of companies. For instance, large-diversified companies may have coal operations that constitute only a small percentage of their overall revenues. External guidance providers such as SBTi and NZBA recommend that a coal company is defined as one that generates greater than 5% of revenues from the thermal coal value chain.^{227, 228}

The scope of coal-related activities covered in policies was often broad, but not inclusive of the whole supply chain. Terms such as “thermal coal utilities,” “mining,” “power generation,” “transmission,” or more broadly, “coal-related activities” were used. These terms are open to

interpretation and may introduce a risk that the policy is not applied to clients and portfolio companies in the thermal coal value chain (e.g., in transportation, due to a lack of specificity).

Table 12: Threshold ranges for 20 surveyed financial institutions

REVENUE THRESHOLD	NUMBER OF FINANCIAL INSTITUTIONS
0%–5%	1
6%–10%	1
11%–20%	5
21%–30%	4
31%–40%	1
> 40%	2
Did not disclose	6

Thermal coal: Conditions

Policies should set out the conditions for doing business with clients and portfolio companies that have thermal coal operations or assets. Generally, conditions are additional steps a counterparty needs to take, or specific conditions that need to be in place, such that the financial institution is confident that an activity is transition-aligned or progressing to become transition-aligned. In some cases, these conditions apply for a period of time before a broader exclusion is applied.

Examples of conditions used by financial institutions include:

- strategy to transition away from coal at a pace compatible with the scientific pathways of limiting global warming to 1.5 degrees C;
- an independently verified transition plan;
- regular reporting of progress against the net-zero transition plan and associated interim targets;

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

227 [Financial Sector Science-Based Targets Guidance, Version 1.0, SBTi, 2022.](#)

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

- facilities employing technology for the complete or near elimination of atmospheric carbon emissions, such as carbon capture technology;
- following recommended practices for the managed phaseout of high-emitting assets;²²⁹ and
- justifying the use of coal in particular countries as part of a clear and identifiable energy transition pathway for that country, providing secure energy where an alternative is unavailable.²³⁰

Thermal Coal: Exclusions

Thermal coal exclusions focus on the financing approach toward new versus existing projects. This is an important clarification for financial institutions and can impact their exposure and portfolio emissions significantly. Most policies now exclude new projects,²³¹ but only some are divesting/phasing out existing projects; others take a conditional approach. Financial institutions do not typically differentiate between types of business (e.g., equity investments vs. credit).

Example 28: Santander Group and coal

Santander Group will not directly invest in and/or provide financial products and/or services to the following activities in any client segment.²³²

1. From 2030, any entities with more than 10% of revenues, on a consolidated basis, derived from coal-fired power generation.
2. Project-related financing for coal-fired power plant projects worldwide, or for the expansion of existing coal-fired plants or for the construction or development of associated infrastructure.

Thermal coal: Timelines

The timeline typically provides a target date for the full phaseout of exposure to coal. This timeline is anchored in robust third-party net-zero scenarios, and the energy transition in the countries of operation. Current practices vary across organizations. A number of institutions have committed to a full phaseout by 2030 for OECD countries and 2040 for the rest of the world, consistent with SBTi and PPCA guidance, the COP26 Global Coal to Clean Power Transition Statement, and with net-zero scenarios, including the latest IPCC WGIII report, that shows a need for a rapid acceleration away from unabated fossil fuels to have any chance to keep global warming to 1.5 degrees C.^{233, 234, 235, 236}

229 GFANZ, The Managed Phaseout of High-emitting Assets. 2022.

230 Financial institutions should consider limiting the financing of coal to maintenance and retrofitting, rather than new coal plants.

231 For example, see guidance from [Reclaim Finance — How to exit coal: 10 criteria for evaluating corporate coal phaseout plans, Reclaim Finance, 2021](#).

232 [Environmental, Social & Climate Change Risk Management Policy, Santander Group, 2022](#).

233 [Financial Sector Science-Based Targets Guidance, Version 1.0, SBTi, 2022](#).

234 [PPCA Finance Principles, Accessed 02/02/2022](#)

235 [Global Coal to Clean Power Transition Statement, COP26, 2021](#).

236 IPCC. Assessment Six. WGIII Mitigation of Climate Change. 2022.

DEEP DIVE: OIL AND GAS POLICIES

All major net-zero scenarios assume a transition from fossil fuels to renewable energy sources leading to the decline of oil and gas, and information on the transition supports conditions of continued business of these activities.²³⁷ For example, an analysis by BNEF surveyed four key net-zero scenarios from IEA and the UN IPCC,²³⁸ and found that the investment in fossil fuels and electricity supply required varies from \$11.1 trillion to \$17.7 trillion over a 2030 horizon and \$23.8 trillion to \$47.7 trillion over a 2050 horizon, reflecting the level of capital that will be required to finance an orderly transition of fossil fuels to clean alternatives.²³⁹ Recognizing the importance of this issue, GFANZ has been facilitating engagement between scenario developers, oil and gas industry groups, and financial institutions to support the development and use of sectoral pathways to inform decision-making.²⁴⁰

Reflecting the complexity of the topic and differences in financial sector business models, institutions take a variety of approaches to oil and gas policies. Some tend to focus on specific activities within the sector, targeting those with the greatest environmental impact. Others have taken a more holistic approach, setting out their position on the sector as a whole and the activities that will be supported over a defined time horizon.

Decarbonization pathways for oil are significantly different than for natural gas. Natural gas is seen as a transition fuel in some markets, while oil products have a wide range of different uses. Within these broad categories, further sub-categories have different emissions characteristics and wider environmental impacts, and are expected to play different roles in the transition. These differences should be taken into account. However, since many companies operate across both oil and gas, many financial institutions have treated them similarly. GFANZ is exploring these issues and implications for financing.²⁴¹ Industry practices in use at the time of writing are summarized in Table 13.

237 Scenarios include those from IEA, NGFS, IPCC, OECM, and TPI. Reference Guidance on use of Sectoral Pathways for Financial Institutions (GFANZ, 2022.) and Counting Cash in Paris Aligned Pathways (BNEF, 2022).

238 IEA NZE, IPCC P1, P2 and P3.

239 [Counting Cash in Paris Aligned Pathways: projected energy investment requirements under IEA and IPCC de-carbonization scenarios, BNEF, May 2022.](#)

240 GFANZ, Guidance on use of Sectoral Pathways for Financial Institutions. 2022.

241 GFANZ, Guidance on use of Sectoral Pathways for Financial Institutions. 2022.

Table 13: Oil and gas policy elements

ELEMENT	DESCRIPTION (from policies and conditions component)	INDUSTRY PRACTICES
Scope	<p>Description of the type of company, asset, project, and/or activity to which the policy applies. Examples include the share of a company’s revenue generated by specific activity (e.g., coal-fired power), list of specific project types (e.g., gas pipelines), or geographies (e.g., the Amazon Basin).</p> <p>Scope could include which 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.</p>	<p>Some policies identify companies active in specific activities, for instance, categorizing by origin of fuel (e.g., shale gas, Arctic oil) or type of activity (e.g., exploration, extraction). Others consider the sector holistically.</p>
Conditions	<p>Criteria or conditions consistent with a 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. Engagement programs may focus on influencing companies to decarbonize operations.</p>	<p>Institutions’ oil and gas policies may permit continued business because of the fuels’ role in the transition, and lack of viable alternatives in certain regions and applications. The conditions may include having approved science-based targets and alignment to the Paris Agreement.</p>
Exclusions	<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.</p>	<p>Policies use various classifications (fuel type, activity type, or a broad sector definition) to impose exclusions/prohibitions on business.</p>
Timelines	<p>A roadmap for the transition to net zero in the context of the policy, outlining when and under which circumstances the new and existing conditions and exclusions will apply. These timelines should be consistent with the science-based scenarios used to set net-zero targets.</p>	<p>Most policies focus on existing restrictions, rather than future-looking statements. Policies are starting to integrate science-based and sector bottom-up decarbonization pathways (where available), timelines, and deadlines.</p>

Oil and gas: Scope

Industry research demonstrated two approaches that financial institutions often use when defining application of their oil and gas policies. One option is to view the sector holistically and apply policies to the whole sector; for example, apply it to all major oil and gas producers. This approach makes it difficult to recognize the different climate and transition characteristics of oil usage versus natural gas usage. Oil is often used for transportation, and low- or no-emission alternatives are rapidly moving into the mainstream. In contrast, natural gas often serves as a peak fuel in power grids, and providing energy reliability and security that would provide a similar function are yet to be developed at scale. With these different use cases, the conditions for business and timelines should likely be different.

Other financial institutions focus on specific fuel types or activity types or whether the financing is required for new oil and gas fields. While the granularity differs, institutions tend to use the following classifications:

1. Exploration & Production: conventional oil and gas
2. Exploration & Production: unconventional oil and gas (i.e., oil sands, shale gas, ultra-deepwater, Arctic)
3. Midstream
4. Downstream

This approach reflects the complexity within the sector, even as many companies are considered to be integrated. It also allows different conditions and timelines as financial institutions acknowledge the role of oil versus gas in the transition across regions.

Oil and gas: Conditions and exclusions

Conditions are used to determine when products and services can be offered. In the absence of counterparties meeting specified conditions, the client or asset would be excluded.

Examples of conditions from our stocktake include the following (financial institutions are working on evaluating transition plans, and criteria is changing at a rapid pace; also, the GFANZ Workstream on Real Economy Net-zero Transition Plans will publish information this year that will further develop on financial institutions' expectations for real-economy transition plans):

- credible strategy to transition away from fossil fuels at a pace compatible with the scientific pathways of limiting global warming to 1.5 degrees C;
- an independently verified transition plan;
- regular reporting of progress against the net-zero transition plan and associated interim targets;
- facilities employing technology that allows complete or near elimination of atmospheric carbon emissions, such as carbon capture technology;
- following recommended practices for the managed phaseout of high-emitting assets²⁴²; and
- justifying the use of oil and gas in particular countries, as part of a clear and identifiable energy transition pathway, providing secure energy where an alternative is unavailable.

While not widely seen in the policies reviewed, the two fuels have differentiating characteristics:

- The majority of oil emissions occur downstream in the combustion of distillate products in transportation, while natural gas emissions occur via methane leakage, flaring, industrial processes, and combustion for electricity generation. Technology and market solutions to address these emissions will differ.
- Consumption of oil versus natural gas in certain regions depends on factors such as viability and accessibility to alternatives, technological maturity of the region, and cost effectiveness.

²⁴² GFANZ, The Managed Phaseout of High-emitting Assets. 2022.

These contextual considerations could affect the timing of managed phaseout, and could identify opportunities to finance the phaseout of a physical asset.

Oil and gas: Timelines

Financial institutions do not commonly commit to a blanket phaseout date for oil and gas. Policies typically outline the oil and gas restrictions currently in place, and very few have made forward-looking statements around increased stringency. Timelines should be revisited as per the policy review process to integrate the latest information on the role of oil and gas in the net-zero transition, for example, by using sectoral decarbonization pathways as they are developed or other net-zero scenarios from sources such as the IEA.^{243, 244}

DEEP DIVE: POLICIES ON ACTIVITIES THAT CONTRIBUTE TO DEFORESTATION

More than 23% of the world's emissions stem from land-use activity, including logging, deforestation, and farming.²⁴⁵ According to the WWF, 92% of Parties' Nationally Determined Contributions in October 2021 consider measures to address nature loss in their fight against climate change.²⁴⁶

Activities contributing to deforestation are becoming a priority for financial institutions to measure and manage, reflecting the important role natural systems play in capturing and sequestering carbon. There is growing consensus that the world will not reach net zero by 2050 unless we halt and reverse deforestation within a decade, and as described by IPCC, forest restoration

would contribute substantially toward the goals of the Paris Agreement.²⁴⁷ At COP26, many financial institutions signed the Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation.²⁴⁸ Additionally, SDG 13 (SDG 13: climate action), integral to the Paris Agreement, urges companies to take urgent action to combat climate change and its impacts. Three of its five targets include building climate resilience, climate risk mitigation, and adaptation, all closely linked to the issues associated with deforestation.²⁴⁹

Financial institutions are taking varying approaches, including policies, in their efforts to contribute to halting deforestation. Industry guidance and disclosure frameworks, such as the work from the Taskforce on Nature-related Financial Disclosures (TNFD), are still in development.

Industry practices in use at the time of writing are summarized in Table 14.

243 [IEA Oil and Gas Industry in energy transition, 2022](#) and [IEA Net Zero by 2050 — A Roadmap for the Global Energy Sector](#).

244 Other sources include: [OECM 1.5 pathway](#), [TPI O&G benchmark](#), [NGFS Net Zero by 2050 scenarios](#).

245 [Over 100 leaders make landmark pledge to end deforestation at COP26, UK Prime Minister's Office, 2021](#).

246 [NDCs — A Force for Nature?, 4th Edition, WWF, 2021](#).

247 [Climate Change 2022. Impacts, Adaptation and Vulnerability: Summary for Policy Makers, IPCC, 2022](#).

248 [Financial Sector Commitment Letter on Eliminating Agricultural Commodity-Driven Deforestation, Race to Zero, 2021](#).

249 [Goal 13 of the SDGs](#).

Table 14: Policy elements for activities contributing to deforestation

ELEMENT	DESCRIPTION (from policies and conditions component)	INDUSTRY PRACTICES
Objective	A statement on the overarching goal of the policy, and how it supports implementation of the institution’s net-zero transition ambition and priorities.	Policies express a clear ambition on deforestation. The Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation is one example. ²⁵⁰
Scope	<p>Description of the type of company, asset, project, and/or activity to which the policy applies. Examples include the share of a company’s revenue generated by specific activity (e.g., coal-fired power), list of specific project types (e.g., gas pipelines), or geographies (e.g., the Amazon Basin).</p> <p>Scope could include which 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.</p>	Focus on activities or commodities with high deforestation risk e.g., palm oil. Some policies focus only on companies that operate in regions where deforestation is common; others apply the policy to a company’s supply chain.
Conditions	Criteria or conditions consistent with a 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. Engagement programs may focus on influencing companies to decarbonize operations.	Policies specify activities and geographies that must undergo heightened scrutiny due to association with deforestation (related to rare species, palm oil, soy, cattle, and timber production). The financial institution assesses the counterparty according to a set of criteria or requires third-party certification for sustainable forestry practices before agreeing to do business.
Exclusions	<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.</p>	Policies typically include a list of prohibited activities, such as illegal logging, deforestation of a primary forest, and extraction from high conservation value forests.
Timelines	A roadmap for the transition to net zero in the context of the policy, outlining when and under which circumstances the new and existing conditions and exclusions will apply. These timelines should be consistent with the science-based scenarios used to set net-zero targets.	Policies often allow for a grace period while counterparties work toward an independent certification or assessment. This defers the introduction of exclusions or restrictions.

250 [Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation, Race to Zero, 2021.](#)

Deforestation activities: Scope

Risk that there are activities contributing to deforestation can exist in a counterparty’s operations, both directly and indirectly through its supply chains. This makes it complex to assess and identify who is subject to the policy. Financial institutions tend to first identify high-risk areas and activities and then require heightened diligence on clients and portfolio companies active in these areas.

Activities deemed to be high risk in contributing to deforestation may include the following:

- illegal logging
- logging of primary forest (including tropical moist forests, temperate, and boreal forests)
- unsustainable harvesting/harvesting of rare species
- extraction from officially protected areas, high conservation value forests, high carbon stock forests, or those deemed environmentally sensitive
- land clearance by burning/fire
- extraction and sale of native tropical wood species
- palm oil, soy, cattle, and timber production that converts biodiverse forests into pasture or single-crop plantations
- clearance or extraction of, or new plantation development on, forested peatlands

Deforestation activities: Conditions

Where a potentially high-risk activity is identified, financial institutions often impose greater scrutiny. Due diligence may involve desk research, interaction with the company, external experts, and non-governmental organizations.

Financial institutions compensate for the lack of transparency into exposure by using rigorous assessments, but currently, there is no common industry approach.

Some conditions in forestry-focused policies include:

1. Certification requirements

Certifications typically accepted include:

- Roundtable on Sustainable Palm Oil (RSPO)
- Round Table on Responsible Soy (RTRS)
- Global Roundtable for Sustainable Beef (GRSB)
- Forest Stewardship Council (FSC)
- The Programme for the Endorsement of Forest Certification (PEFC)
- The Soft Commodities Compact developed by the Banking Environment Initiative
- The Equator Principles
- Global Canopy Forest 500 ranking
- Basel Criteria for Responsible Soy Production
- DP disclosure

Example 29: MUFG’s Environmental and Social Policy Framework

“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 (“FSC”) and Programme for the Endorsement of Forest Certification (“PEFC”), 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.”²⁵¹

251 [Revision of the MUFG Environmental and Social Policy Framework, MUFG, 2021.](#)

2. Greater due diligence around exposure and compliance with the policy, through assessment procedures that emphasize traceability.

Example 30: LGIM's Climate Impact Pledge Sector Guides

"Assess companies' net zero pathways including 'Level of traceability of "forest risk commodities" across supply chain' and 'Percentage of commodities purchased under no deforestation principles' and 'Does the company have comprehensive zero-deforestation and regenerative agriculture policies?' (food). Assess companies' net zero pathways including 'Traceability of fibres and compliance with zero-deforestation principles?' and 'Does the company have a fully comprehensive zero-deforestation policy?' (apparel)".^{252, 253}

Deforestation activities: Exclusions

Some deforestation policies list prohibited activities, which preclude a financial institution from doing business with an institution engaging in these activities.

The prohibited (or restricted) activities typically listed include illegal logging, deforestation of a primary forest, and extraction from high conservation value forests.

Deforestation activities: Timelines

Some policies defer prohibitions or restrictions for a grace period while counterparties work toward an independent certification or assessment of their activities. One example is that commitments should be consistent with the Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation,²⁵⁴ which commits financial institutions to a series of measurable targets and actions.

By the end of 2022: Assess exposure to deforestation risk through financing or investment, with a focus on "forest-risk" agricultural commodities — palm oil, soy, cattle products, timber, and pulp and paper — that are understood to be tied to the most significant deforestation impacts. Establish lending, investment, and/or insurance policies addressing exposure to agricultural commodity-driven deforestation. Engage with the highest-risk clients and assets on deforestation in their supply chains, operations, and/or financing. Engage with governments/public-sector organizations on policies that help businesses to avoid deforestation risks and impacts.

By 2023: Disclose deforestation risk and mitigation activities in portfolios, including due diligence and engagement.

By 2025: Publicly report credible progress on the milestones to eliminate deforestation driven by "forest-risk" agricultural commodities in portfolios. Provide financial products/services only to clients that have met risk-reduction criteria. Increase investment in nature-based solutions.

Nature-based solutions are actions to protect, sustainably manage, and restore natural and modified ecosystems in ways that address societal challenges effectively and adaptively, to provide both human well-being and biodiversity benefits.²⁵⁵

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

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

254 [Financial Sector Commitment Letter on Eliminating Agricultural Commodity-Driven Deforestation, Race to Zero, 2021.](#)

255 [Guidance for using the IUCN Global Standard for Nature-based Solutions, International Union for Conservation of Nature \(IUCN\), 2020.](#)

Areas for further work

This section does not make recommendations on financial sector net-zero transition plan implementation. Rather, it reflects GFANZ research and observations on challenging areas that require further work to develop a more comprehensive pan-sector approach.

These issues include **adaptation and resilience, carbon credits, data, a just transition, and biodiversity and nature-based solutions**. Industry guidance and practice in these areas are quickly evolving, with many expert groups working to clarify definitions and sector needs. In the meantime, GFANZ encourages financial institutions to consider these issues when drafting net-zero transition plans. This section summarizes recent developments.

Adaptation and resilience

The physical effects of climate change will occur with increasing severity and frequency and “many of these risks are unavoidable in the near-term, irrespective of emission scenario.”²⁵⁶ The impacts can be divided into those driven by events (acute) and those caused by longer-term shifts in climate patterns (chronic), such as changes in rainfall and sustained higher temperatures.²⁵⁷ The latest IPCC report states that “current global financial flows for adaptation, including from public and private finance sources, are insufficient for and constrain implementation of adaptation options.”²⁵⁸

Resilience is the ability of systems to cope with or bounce back from a hazardous event, trend, or disturbance while maintaining their essential functions, identities, and structures. Increasing resilience to acute and chronic climate impacts requires adaptation measures.²⁵⁹

RESILIENCE AND FINANCE

Traditional financial risk management focuses on potential negative impacts on the value and stability of an asset, client, or portfolio company. Financial institutions can manage and mitigate negative financial risks from physical impacts of climate change in various ways. Portfolios can be diversified across sectors and regions and assets can obtain insurance. Institutions also have an opportunity to finance adaptation projects or companies that contribute to resilience.

Longer-term, financial institutions can help societies increase their resilience to the worsening impacts of climate change through large-scale adaptation projects. However, these projects may require a regional or global scale, and years, if not decades, to complete.

Resilience financing is still nascent. Current examples include parametric insurance, which pays out based on a trigger event, and critical infrastructure financing often related to major economic centers. Financial institutions can also incorporate resilience principles — such as preventing deforestation — into their policies.

CHALLENGES TO OVERCOME

The alignment of finance with climate resilience poses numerous challenges:

- unclear definitions, lack of agreed goals and unquantified standards;
- difficulty assessing the financial impact of resilience based on assumptions and scenarios, and the need for location-specific context;
- lack of standard methodologies and data to measure adaptation risk and resilience; and
- difficulty capturing external factors, such as environmental degradation, in valuation methods.

²⁵⁶ IPCC, “Climate Change 2022 Impacts, Adaptation, and Vulnerability: Summary for Policymakers”.

²⁵⁷ [Driving Finance Today for the Climate Resilient Society of Tomorrow for the Global Commission on Adaptation, United Nations Environment Programme, 2019.](#)

²⁵⁸ IPCC, “Climate Change 2022 Impacts, Adaptation, and Vulnerability: Summary for Policymakers”.

²⁵⁹ [AR5 WGII Glossary, IPCC, 2015.](#)

CONSIDERATIONS FOR FUTURE WORK

GFANZ encourages financial institutions to consider the role of adaptation and resilience finance within their strategies around climate change, and to share learnings across the industry. Developing a strategy around adaptation and resilience will likely build on the climate-related risks and opportunities a financial institution identifies in its TCFD disclosures, but may involve broader considerations. Different types of financial institutions are likely to have different levels of expertise with supporting resilience, and different business models are likely to be more directly relevant to resilience. Moreover, given geographical variation in the distribution of projected impacts of climate change, financial institutions in different regions likely have different exposures to both physical climate risks and resilience opportunities.

Broadly accepted definitions, frameworks, and methodologies around adaptation and resilience finance are needed to enable more widespread action by the financial sector. Additional work is also needed to provide structure and guidance around how adaptation and resilience may overlap with net-zero transition planning. GFANZ invites organizations developing guidance around

adaptation and resilience guidance to consider these linkages.

Organizations with relevant published guidance (not already referenced):

- Climate Policy Initiative²⁶⁰
- Coalition for Climate Resilient Investment (CCRI)²⁶¹
- Global Center on Adaptation (GCA) and UNEP FI²⁶²
- Institutional Investors Group on Climate Change (IIGCC)²⁶³
- Inter-American Development Bank²⁶⁴
- [Race to Resilience](#)
- UK Centre for Greening Finance & Investment (CGFI)²⁶⁵
- World Bank²⁶⁶

Organizations currently working on guidance:

- [Atlantic Council](#)
- NZAOA

²⁶⁰ [Framework for Sustainable Finance Integrity, CPI, 2021.](#)

²⁶¹ [Addressing physical climate risks in infrastructure investment, CCRI, 2021.](#)

²⁶² State & Trends in Adaptation Report [2020](#) and [2021](#), GCA; [The Physical Risk and Resilience Statement for the Climate Adaptation Summit, 2021.](#)

²⁶³ [Addressing physical climate risks: key steps for asset owners and asset managers, IIGCC, 2020.](#)

²⁶⁴ [A Framework and Principles for Climate Resilience Metrics in Financing Operations, IDB, 2019.](#)

²⁶⁵ [Aligning Finance with Climate-resilient Development, CGFI, 2021.](#)

²⁶⁶ [Resilience Rating System, World Bank, 2021.](#)

Carbon credits

A voluntary carbon credit is defined as “payment to receive credit for a certified unit of emission reduction or removal carried out by another actor” (Oxford Offsetting Principles). These instruments are also known as carbon offsets or verified emissions reductions (VERs). Carbon credits can raise capital for carbon reduction or removal projects, create incentives for companies to reduce emissions, and allow companies to take action to catalyze new technologies, finance emerging and developing economies’ climate ambitions, and deliver additional sustainable development goal benefits such as protecting biodiversity and supporting community development.

There are two main types of carbon credits: avoidance and removal credits. Avoidance credits are from actions that avoid GHG emissions outside of an organization’s value chain (e.g., a renewable power project). Removal credits are from actions that directly remove GHG emissions from the atmosphere and store them for a period of time long enough to fully neutralize their impacts (e.g., direct air capture technologies, afforestation). Both types of carbon credits are used in the market today and can vary in attributes and quality, including for example, how long the GHG emissions are stored for (in removal credits) or how calculations around avoided GHG emissions are made.

At the time of writing, the use of each type of credit, as well as standards for high-integrity credits, were still being debated. Both the IIF and SBTi have proposed that only removal credits should be used against targets only after emissions reduction efforts — called neutralization.

Additionally, during their own transition journey, many agree that organizations should compensate for their own emissions by purchasing carbon credits to support the real economy in achieving net-zero transition.^{267, 268}

In both of these cases, financial institutions would still face a number of challenges:

- confidence in the quality and integrity of the claims behind the credits;
- clarity on when and how to use carbon credits to meet their net-zero commitments;
- accounting for carbon credits purchased by a portfolio company versus purchased by the financial institution at a portfolio level;
- nascent carbon market structures and the rigor of standards applied in registering credits; and
- adequate supply of removal credits.

Guidance on the use of carbon credits is evolving. Several net-zero financial sector alliances (including NZBA and NZAOA) and the Race to Zero have developed or are developing such guidance for their members. SBTi will include guidance on the use of carbon credits for financial institutions in 2022 and 2023.

Three important initiatives are out for consultation at the time of this publication:

- In 2021, the UNFCCC Race to Zero Climate Champions campaign established criteria for joining that included guidance on the use of carbon credits. They are currently revisiting a number of the principles including the “Offsetting, carbon removals and responsible communication of claims” and have issued a consultation to consider further guidance.

267 [High Ambition Path to Net Zero, IFF.](#)

268 [Foundations for Science Based Net-Zero Target Setting in the Financial Sector, SBTi, 2021.](#)

- The Integrity Council for Voluntary Carbon Markets²⁶⁹ has established a governance structure to improve the transparency and integrity of the market. It will develop a standard classification for carbon credits building on core principles laid out by the Taskforce on Scaling Voluntary Carbon Markets.²⁷⁰
- The Voluntary Carbon Markets Integrity Initiative²⁷¹ is a multi-stakeholder platform that began operations in 2021 to draft guidance and recommendations on credible, net zero-aligned participation in voluntary carbon markets.²⁷² Also, at COP26 there was significant progress on carbon markets with Article 6 Rulebook for the new Global Carbon Market Mechanism agreed.²⁷³ At the same time, a wide range of private sector initiatives are seeking to bring scale and integrity to voluntary carbon markets. New propositions being developed and launched include new trading venues and contracts, enhancements to the post-trade infrastructure (e.g., registries, meta-registries, settlement processes), new forms of market data, and solutions focused on the financing of new projects.
- Contribute to the work of industry bodies to help develop standards for classifying, assessing, and verifying the integrity of carbon credits.
- Compensate in neutralizing their emissions on the path to net zero as outlined in the High Ambition Statement issued by industry leaders in 2021.²⁷⁴ Consider an allocation strategy that promotes removals credits for Scope 1 emissions, clean energy power purchase agreements (PPAs) and high-quality renewable energy credits (RECs) for Scope 2, and incredible avoidance/carbon sink preservation for Scope 3.

GFANZ will revisit this topic once the consultations for the Race to Zero Criteria, the ICVCM, and VCMI have concluded, and consider inclusion of the recommendation in its final publication.

Some actions that financial institutions should consider in the meantime include:

- Consider any credits purchased by portfolio companies/clients separately from their emissions in assessing progress toward net-zero targets.
- Advocate for disclosure of information regarding the type of credits purchased and their accounting methodologies with respect to net-zero claims.

269 <https://icvcm.org>

270 [Core Carbon Principles, IC-VCMI.](#)

271 <https://vcmintegrity.org>

272 [Roadmap: Ensuring High-Integrity Voluntary Carbon Markets, VCMI.](#)

273 [COP26: Article 6 Rulebook For The New Global Carbon Market Mechanism Agreed, Clifford Chance, 2021.](#)

274 [Taskforce on Scaling Voluntary Carbon Markets: Calling for a High Ambition Path to Net-Zero.](#)

Data

Net-zero transition plans rely on extensive data. Financial institutions need a range of data to set meaningful targets, to drive business strategies and decision-making toward those targets, and to calculate the metrics used to monitor progress. Those targets and metrics are, in turn, a key data output that may be used by a financial institution's stakeholders to monitor results and press for accountability.

Key data challenges to overcome include inconsistent definitions, limited availability, variable quality, and analytical methodologies that are not harmonized. These are significant issues for organizations seeking to develop credible transition plans and effectively measure execution.

Significant work has been done by actors such as the TCFD, CDP, and more recently, the International Sustainability Standards Board (ISSB) to provide structure to corporate disclosure of sustainability and climate-related data. Disclosure is also potentially becoming mandatory in certain jurisdictions, which could improve availability of data inputs for transition plans. That said, transition-related data disclosure is still in development and challenges remain.

Key challenges include:

- low levels of disclosure of GHG emissions across emission Scopes 1, 2, and 3, as well as inconsistent views on the materiality of Scope 3 emissions across industries;
- lack of generally accepted methodologies for some financial sector business activities (e.g. off-balance sheet, sovereigns, underwriting) that prevent firms from creating comprehensive baseline emissions exposure and target setting;
- considerations for more granular use of proceeds information from financial institutions and real-economy companies to better identify how capital is supporting business as usual, transition activities, and climate solutions;
- non-standardized disclosure of emissions reduction targets paired with the lack of taxonomies to account for climate solutions and managed phaseout projects;
- the appropriate selection of climate transition pathways given inherent methodological challenges across top-down and bottom-up pathway construction; and
- access to data necessary to set robust financing and investment policies across the value chain of extractive industries and industries contributing to negative environmental externalities.

In response to these challenges, which are described in more detail below, GFANZ will develop recommendations on key transition-related metrics to be used by financial institutions and for real-economy entities in order to encourage transparency for data critical to the development of robust transition plans. Through efforts by the GFANZ data team to track key performance indicators of the GFANZ membership, we have determined that open, standardized transition-related data will be beneficial to furthering the goals of the initiative and of the global net-zero transition as a whole. We therefore plan to engage in the development of an open-data repository for transition data, and will support efforts on the part of the NZFSPA to develop analytics to support the needs of market actors in their transition-planning workflows.

CONSIDERATIONS FOR FUTURE WORK

Real-economy data challenges

Scopes 1, 2, and 3 emissions data for real-economy companies can be disclosed at rates as low as 30% of companies for Scope 1, and 20% for Scope 3.²⁷⁵ Small- and mid-sized enterprises (SMEs) and companies in emerging markets and developing economies (EM&DEs) report emissions data at even lower rates.

Even where disclosed, there are challenges to using the data. Emissions reporting may not cover 100% of an organization's operations. Organizations have different timelines for reporting sustainability metrics and reporting may face significant lags. Emissions accounting methodologies continue to evolve and reported emissions may change from year to year based on updated methodologies.

Due to the lack of consistent and universal emissions data, financial institutions rely on imputation methodologies to bridge gaps in disclosure. Emissions estimation methodologies are imperfect and may introduce inaccuracies. At a portfolio level, further error can be introduced because financial institutions rely on multiple data providers to access emissions data across portfolio constituents. Data providers have different coverage of investment universes and use different assumptions to estimate non-public emissions data. Further work to increase transparency on emissions estimation methodologies is needed.

Recent developments in climate disclosure should drive further real-economy disclosure and standardization. For example, the U.S. Securities and Exchange Commission recently proposed rules to require public companies to disclose important

climate-related information, including GHG emissions data, information on climate-related risks, and certain climate-related financial metrics.²⁷⁶

The ISSB published its Exposure Draft on IFRS S2 Climate-related Disclosures, which is currently open for consultation.²⁷⁷

Standardization will take time and these challenges will continue to be prevalent in the market. GFANZ will assess possible supplemental data guidance in 2023. In spite of challenges with real-economy data, firms should move forward in the development of their transition plans. While data challenges remain, firms are recommended to provide as much transparency as possible into the inputs of their plans.

Financial institution data challenges: target setting and monitoring

As discussed in Theme 4: Metrics and Targets of this document, setting ambitious, specific targets is an essential component of a net-zero transition plan. Today, there is significant inconsistency: financial institutions disclose not only different types of targets (e.g., emissions reduction targets, climate solutions targets), they also use inconsistent calculation methodologies. This stems from a lack of sector-wide standards for targets, methodological challenges, and the real-economy data challenges noted previously.

Financial institutions will need to set targets that reflect multifaceted strategies to support the net-zero transition. Yet there are currently no standard taxonomies that define “climate solutions” or “transition assets,” making it difficult for institutions to set comparable targets for these strategies and track performance against them.

²⁷⁵ Approximately 30% of companies covered by the Bloomberg ESG Universe publicly disclosed Scope 1 GHG emissions in 2020, with Scope 3 GHG emissions available for less than 18% of companies. A March 2022 MSCI study found that 69% of companies reporting to CDP did not disclose Scope 3 emissions. [“Reported Emission Footprints: The Challenge is Real”](#).

²⁷⁶ [The Enhancement and Standardization of Climate-Related Disclosures for Investors, Securities and Exchange Commission, 2022](#).

²⁷⁷ [Exposure Draft, IFRS S2 Climate-related Disclosure, ISSB, 2022](#).

GFANZ encourages further research into the development of common taxonomies to be used across standard setters and data providers, to enable ratios that provide greater transparency into support for climate solutions versus high-emitting assets and companies (e.g., ratios of clean energy financing versus fossil fuel financing, to measure alignment with investment requirements of energy sector net-zero pathways).

When determining target scope, financial institutions have different views of where financed Scope 3 emissions are considered “material,” skewing toward industries with high Scope 3 downstream emissions, and therefore, potentially under-accounting for industries where Scope 3 upstream emissions are prevalent due to concentrated operations in a company’s supply chain. Frequently this is attributed to limited disclosure and poor estimation methodology. It is material to note that the disclosure rate of sectors whose data are considered to be of higher quality (i.e., energy) tend to be similarly low as compared to key upstream emitting sectors.²⁷⁸ The predominant difference being that downstream emissions estimates based on sold products can be estimated more rigorously.

During the target-setting process, transition pathways are an important tool. These pathways can be used to set targets and benchmark portfolio alignment with a specific ambition to limit temperature rise (e.g., 1.5 degrees C).

Pathways can be based as top-down or bottom-up approaches. The top-down approach is designed to apply carbon budgets and other variables to model the transition of the economy as a whole system. They require a lot of simplification to apply these carbon budgets to specific sectors and regions. Bottom-up pathways tend to be industry

specific or cover at most a subset of industries. They are often built upon industry views of what is feasible in terms of transitioning of business models, technologies, and market demands. There is also limited connection back to the global carbon budget.

The aggregation of targets across a portfolio produces a challenge to developing a topline view on that portfolio’s net-zero performance. In particular, combinations of targets derived using bottom-up models often exceed such a science-aligned budget as they sometimes assume higher emissions reductions in other sectors.

While bottom-up pathways will not be inclusive of sufficient nuance to accommodate firms with complicated sectoral mappings, top-down targets also will lack inclusion of industry, technology (e.g., CCUS, energy efficiency, infrastructure), and regional or country specificity or feasibility. The wide range of assumptions leveraged across pathways introduces risk if a given assumption changes or proves to be inaccurate. Financial institutions infrequently disclose the pathways they have used to develop their targets, and so conducting any form of diligence on the downstream impacts of this is not currently feasible. This area of work is currently underway in GFANZ Workstream on Sectoral Pathways, but may need further work to address the issues described previously.

²⁷⁸ In the Bloomberg ESG Universe, approximately 12% of Energy companies and 15% of Utilities report on Scope 3 downstream emissions, while 12% of Consumer Discretionary companies, 13% of Consumer Staples companies, and 12% of Materials companies report on Scope 3 upstream emissions (BICS Sector Classification).

Financial institution data challenges: policy development

As financial institutions begin to develop plans to support their commitments and implement restriction-based or conditional policies there is a need to effectively screen portfolio constituents. This practice is leveraged for sectors such as coal and oil and gas, as well as deforestation. There are two fundamental data challenges for this practice. First, revenue segmentation for real-economy actors is reported inconsistently and is contingent upon the specific sectoral classification used for categorization. Geographic revenue segmentation can be an alternative means of screening for certain policies. At this point, however, geographic segmentation is predominantly reported in terms of location of sales of end products rather than location of production of goods. Secondly, the leveraging of revenue segmentation at the company level can easily ignore actors in a company's value chain that may not meet restriction requirements (i.e., transportation services for coal).

Increased transparency in the reporting of locations of firm facilities and, where possible, information relating to relative value and environmental impacts of their facility footprint would be helpful.

Data management for net-zero transition plans

The development of a net-zero transition plan requires large-scale data collection and management. Institutions will need to develop the data infrastructure necessary to enable climate data sharing for all relevant use cases across the organization. Financial institutions can work with their data providers, as well as clients and portfolio companies, to ensure that they are collecting the right data; they are able to verify and assess the data for accuracy and completeness; and the data are accessible to the parties who need it. Issues with data quality and lack of normalization increase the level of effort for organizations to consolidate necessary data, which can impede transition plan development. The need for strong

data management practices may be prohibitive to smaller financial institutions.

Stakeholders with limited capacity for internal data management infrastructure may benefit from the development of central climate data repositories alongside improved, more transparent reporting and the development of assurance mechanisms to validate data.

Net-zero target setting

As part of this report, GFANZ considered the maturity of target setting against the four key approaches financial institutions can use to redirect capital and financial products and services to support transition in the real economy. Financial institutions' choices of metrics and targets could have unintended consequences of disincentivizing support for real-economy GHG emissions reductions. The recent SBTi report on science-based net-zero target setting summarizes these issues.²⁷⁹

A narrow focus on financed emissions in target setting and measurement might incentivize selecting low-emission assets and clients, as this would reduce a financial institution's footprint quickly and in a manner for which established accounting methodologies exist.²⁸⁰ However, such an approach does not guarantee that portfolio assets and clients are aligned to a 1.5 degrees C pathway or that emissions in the real economy are reduced. At a global level, this approach redirects capital away from high-emitting portfolio companies and clients that require capital and other services to enable their net-zero transition.

Various metrics and methodological considerations around target setting could address parts of this challenge but need further investigation.

- Non-emissions-based metrics, such as those related to an allocation, such as financial investment, percentage of business, or more granular use of proceeds based on “green/transition/gray” taxonomies, or characteristics of engagement plans, can be used to monitor financial support of climate solutions.

- Forward-looking portfolio alignment metrics can be used to assess if clients and portfolio companies are aligned to a 1.5 degrees C pathway consistent with a financial institution's net-zero objective.
- Institutions can set sectoral targets, using both absolute and intensity emissions metrics with a baseline recalculation policy to minimize incentives to shift from assets and clients in a high-emitting sector to a low-emitting sector.
- Application of these approaches is still in the early stages and there is a lack of consistency across the financial sector in the use of these metrics and targets. Some metrics still lack consistency in their calculation and link to 1.5 degrees C pathways. Careful consideration should be given to the choice of metrics and further work needs to be done to clarify how these metrics or a suite of metrics can be best used to ensure a net-zero transition for finance supports real-economy emissions reductions.

²⁷⁹ SBTi. 2022. [Foundations for science-based net-zero target setting in the financial sector. Version 1.0.](#)

²⁸⁰ In general, referencing PCAF and GHG Protocol methodologies and guidance.

Just transition

A just transition to net zero is an evolving area. While trillions of dollars of capital are needed to fund the green transition, “we must also support millions of people and small and medium sized businesses as they go green,” as discussed in the GFANZ Call to Action.

The importance of a just transition is emphasized in the Paris Agreement Article 4.1, highlighting that achievement should be “on the basis of equity, and in the context of sustainable development and efforts to eradicate poverty.” Furthermore, the Paris Agreement outlines 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. This emphasizes the importance of a just transition within the context of net zero, and the close links to the SDGs: SDG 1 (No Poverty), SDG 2 (Zero Hunger), SDG 5 (Gender Equality), SDG 8 (Decent Work and Economic Growth), and SDG 10 (Reduced Inequalities).^{281, 282, 283}

GFANZ recognizes the need for further work and consultation to develop the concept of a just transition that is pertinent to financial institutions. GFANZ intends to reassess this topic as part of its

2023 workplan. That will allow time to consult with experts inside and outside the financial sector, and to examine the implications of recommendations in various jurisdictions.

CONSIDERATIONS FOR FUTURE WORK

The transition to net zero will affect many areas of the economy and society. Discussions about pathways have therefore been accompanied by calls for a “just” transition.

In general, this means anticipating and addressing the social implications of a transition to a low-carbon economy. These may be broadly defined as caring for “climate-vulnerable” populations and ensuring that workers and their families are not overly disadvantaged or left behind.^{284, 285} More broadly, the transition away from high-GHG-emitting practices could have impacts on human rights and on jobs and livelihoods.

A just transition is consistent with the Paris Agreement, and commitments to the UN’s Sustainable Development Goals.^{286, 287} Organizations should be aware of how decarbonization of the real economy will impact areas such as employment, quality of life, and access to resources. It is important that financial institutions assess the

281 [Credible decarbonisation and transition for corporates in Asia](#), Singapore Exchange, 2021.

282 [The Sustainable Development Goals](#).

283 [The Paris Agreement](#), 2015.

284 [“We care for the climate-vulnerable” is one of the key focus areas in the Allianz Group Climate Change Strategy](#).

285 [How investors can support an equitable transition to net zero](#), IGCC, 2021.

286 [“The Paris Agreement stated the imperative of just transition as essential elements of climate action.” Just Transition of the Workforce, and the Creation of Decent Work and Quality Jobs](#), UN, 2020.

287 [“The just transition concept links to 14 of the 17 Sustainable Development Goals, explicitly drawing together SDGs 12 — climate action, 10 — reduced inequalities, 8 — decent work and economic growth, and 7 — affordable and clean energy.” “What is a just transition.” European Bank for Reconstruction and Development.](#)

impacts and trade-offs associated with the design and delivery of their transition plans, and how these may differ between regions.

Institutions could also consider how to proactively engage excluded populations, including women, through transition-related activities. Excluded populations are likely to have less access to financial services, and be underrepresented in decision-making, meaning that climate finance is less likely to take their needs into account. Groups such as the Women in Finance Climate Action Group have explored how financial institutions can better integrate gender-related considerations — such as expanding women’s financial inclusion, access to climate finance, and incorporating gender metrics and data in reporting to improve climate outcomes.²⁸⁸ Financial institutions could integrate gender diversity in climate-related leadership roles, recognizing the importance of diversity in effective and inclusive decision-making.

While guidance to finance has been limited to date, there are some initial considerations for financial institutions:

- Investors can engage with portfolio companies to raise the profile of just transition risks and opportunities. Companies can embed a just transition into their climate strategies and financing plans. Consensus documents such as the ILO guidelines can be used to press for improvements in the social dimension. Investors can actively seek to finance companies that are committed to a positive social impact for workers, communities, and consumers.^{289, 290}

- Financial institutions can bring the just transition into their purpose and culture. They can outline an action plan that identifies financial targets and is accompanied by training and awareness-raising among staff. For customers, they can develop financial products that contribute to achieving net-zero in a socially inclusive manner.²⁹¹
- Insurance companies can align their underwriting strategies at the individual firm and sector levels to support a responsible transition away from GHG emissions-intensive activities, and insurance products such as pensions, critical illness, and other life and health protection products can play a part in the evolution of social protection systems to support a just transition.²⁹²
- Financial institutions can advocate for policies regionally, nationally, and globally that support a just transition.
- When reviewing and setting climate strategy, financial institutions should also assess the social (e.g., employment) impacts of the transition and pursue dialogue with workers or key intermediaries to integrate just transition factors into policies.
- Financial institutions’ should always ensure just transition is part of policy dialogue at sub-national and international levels.

Financial institutions’ need to ensure that all staff, including the Board and senior management, understand the just transition factor and/or receive training on just transition.

288 [“Women in Finance Climate Action Group,” 2021 report.](#)

289 [Guidelines for a just transition towards environmentally sustainable economies and societies for all, ILO, 2015.](#)

290 [Climate change and the just transition. Guide for investor action, Grantham Research Institute, 2018.](#)

291 [Financing climate action with positive social impact: How banking can support a just transition in the UK, Grantham Research Institute, 2020.](#)

292 [Insuring the net-zero transition: Evolving thinking and practices, Net-Zero Insurance Alliance, 2022.](#)

Table 15 Examples of just transition measures outlines the measures some financial institutions are incorporating into their net-zero initiatives. These often start from a principles-based approach and then articulate ambitions, strategies, and policy statements.

What constitutes a just transition depends heavily on context. For example:

- **Location:** Different locations face different disadvantages around the transition. In some locations, remote communities have few other options to make a decent livelihood. In other locations, financial services and products are unavailable and obtaining financing for climate solutions or insurance protection is difficult.
- **Role:** The impact of the net-zero transition will be different for workers, disadvantaged communities, remote communities, and users of the products/services being phased out.
- **Type of climate solution:** Communities in the global south might provide resources for climate solutions technology, but not benefit financially.

Sector: Skills used in traditional mining might be transferrable to sustainable mining, but an aging workforce in oil and gas might require substantial re-skilling. Even if skills are transferrable to new industries, the new opportunities may not be available in the same geographic areas and relocating is not always possible or easy.

This variability is one reason for the lack of a standard definition of a just transition. Also, there are no standard metrics by which to measure and monitor a just transition. However, the idea that it should “do no significant harm” and come with social safeguards is part of the European Commission’s Recovery and Resilience Facility regulation.

Much of the work on the just transition so far has been geared toward the real economy. Further consideration is needed about the role of financial institutions, as the sector may not have transparency into the community impacts of portfolio company or client decisions.

Table 15: Examples of just transition measures

FINANCIAL INSTITUTION

Allianz’ [Care for the Climate-Vulnerable](#)

“As well as working to combat climate change, we reduce the impacts of climate risks, incentivize preventive measures to increase customers’ resilience and compensate for climate-related damages by providing insurance.”

“The higher the level of insurance coverage of a country, the more resilient it is to extreme natural events. We aim to help provide climate risk insurance for up to 400 million people in the most vulnerable developing countries by 2020 through our active support of the InsuResilience Global Partnership.”

Citi’s [Net Zero Ambition Statement](#)

“After an initial implementation period, we will review the scope of our net zero plan to assess which additional sectors to include and how best to incorporate additional areas of our business in a way that achieves meaningful emissions reductions in the real economy as part of a just transition.”

ICEA Lion’s [Commitment to Creating Value](#)

“Shared value refers to policies and operating practices that enhance the competitiveness of an organization while simultaneously advancing economic and social conditions in the communities it operates.”

“Creating shared value is at the core of our business strategy. This helps us focus on the right kind of profits — profits that create societal benefits rather than diminish them. Below is an illustration of how our strategy creates shared value and aligns to the Sustainable Development Goals (SDGs).”



ICEA Lion Life Assurance 2021 integrated report

Organizations with relevant publications
(not already referenced):

- [Business and Human Rights Resource Centre](#)²⁹³
- [Business for Inclusive Growth \(B4IG\)](#)²⁹⁴
- [Ceres](#)²⁹⁵
- [Clifford Chance LLP, the Institute for Human Rights and Business and the CDC Group](#)²⁹⁶
- [Council for Inclusive Capitalism](#)²⁹⁷
- [EU Commission](#)²⁹⁸
- [Harvard University](#)²⁹⁹
- [Interfaith Center on Corporate Responsibility](#)³⁰⁰
- [Investor Agenda](#)³⁰¹
- [Just Transition Centre](#)³⁰²
- [London School of Economics and Political Science, and Grantham Research Institute on Climate Change and the Environment](#)³⁰³
- [Sustainable Markets Initiative \(SMI\)](#)³⁰⁴
- [The Energy and Resources Institute \(TERI\)](#)³⁰⁵
- [World Benchmarking Alliance \(WBA\)](#)³⁰⁶

293 [Fast and Fair Renewable energy investments, Business and Human Rights Centre, 2019.](#)

294 [Putting people at the heart of climate change, B4IG, 2021.](#)

295 [Practices for Just, Sustainable, and Equitable development of clean energy, Ceres, 2020.](#)

296 [A White Paper on Just Transition in the Banking sector, Clifford Chance, 2021.](#)

297 [Achieving a Just Energy Transition: A Framework for Company Action, Council for Inclusive Capitalism.](#)

298 [The Just Transition Mechanism: making sure no one is left behind, EU Commission.](#)

299 [Investing in a Just Transition Initiative, Harvard Kennedy School and Initiative for Responsible Investment.](#)

300 [Just Transition to a Clean Energy Economy, Interfaith Center on Corporate Responsibility.](#)

301 [Investor Climate Actions Plans \(ICAPs\) Expectations Ladder, The Investor Agenda, 2021.](#)

302 [A report for the OECD, Just Transition Centre.](#)

303 [Just zero: 2021 report of the UK Financing a Just Transition Alliance, Grantham Institute, 2021.](#)

304 [A Practitioner's Guide for Banks, SMI, 2021.](#)

305 [Coal dependence and the need for a just transition, TERI, 2021.](#) [Harnessing opportunities for a just transition in India, TERI, 2021.](#)

306 [Financial System Benchmark, WBA, 2021.](#)

Biodiversity and nature-based solutions

Methodologies for managing biodiversity and using nature-based solutions in the finance sector are under development. Until guidance has been published, financial institutions can support the work in development, and reflect the recommendations from the [Taskforce on Nature-related Financial Disclosures](#) (TNFD) in their strategies and operations.

GFANZ will continue to follow the work in development, including that by the TNFD. It also encourages members to engage with this work. Following COP27, and the publication of the TNFD's recommendations, GFANZ will reassess for 2023.

Considerations for future work

More than half the world's economic output is highly or moderately dependent on nature, according to the WEF.³⁰⁷ Organizations rely on the land, ocean, freshwater systems, and atmosphere for ecosystem services, such as a clean and regular water supply. Biodiversity in nature supports the ecosystem assets and services upon which people and industries depend.³⁰⁸

However, nature is under threat, and the physical impact of climate change is one of five direct drivers of nature loss, according to the TNFD. Financial institutions are exposed to nature and biodiversity risks through their lending and investment portfolios as well as underwriting activities.³⁰⁹ These risks highlight the necessity, and opportunity, for financial institutions to protect nature and biodiversity. Supporting

healthy ecosystems and biodiversity also has great potential to support climate mitigation, and therefore could be part of a net-zero transition plan. Nature-based solutions refer to nature's ability to remove carbon dioxide from the atmosphere.

Work is underway to define roles and opportunities for financial institutions to use nature-based solutions as tools both to combat climate change and achieve net zero, and to manage nature-related financial risks.

In transition plans, some financial institutions aim to do no harm and protect nature and biodiversity—for example, portfolio screening to prevent the financing of deforestation. Others aim to restore nature through measures such as dedicated impact funds for restoration.

The role of nature-based solutions in climate are often summarized as follows:³¹⁰

1. Ecosystem conservation—stopping further loss of stored carbon (e.g., halting deforestation)
2. Ecosystem restoration—rehabilitating already-degraded ecosystems (e.g., reforestation)
3. Improving land management practices—switching to more sustainable practices (e.g., agroforestry)

In the context of achieving net zero, several studies have estimated the mitigation potential of nature-based solutions could be between 10 and 12 billion tonnes of CO₂e per year.³¹¹

307 [Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy, World Economic Forum, 2020.](#)

308 [Nature-related Risk & Opportunity Management and Disclosure Framework, Beta v0.1 Release, TNFD, 2022.](#)

309 [Beyond 'Business as Usual': Biodiversity Targets and Finance, UNEP-FI, 2022.](#)

310 [Can 'nature-based solutions' help address climate change? Climate Brief, 2021.](#)

311 [Can 'nature-based solutions' help address climate change? Climate Brief, 2021.](#)

Example 31: Biodiversity examples

Bancolombia will not finance projects related to “the production, commercialization, or usage of any of the products, substances and activities mentioned involved in Commercial operations of forest harvesting or the purchase of equipment for those ends, aimed to be used in virgin humid tropical rainforest.”³¹²

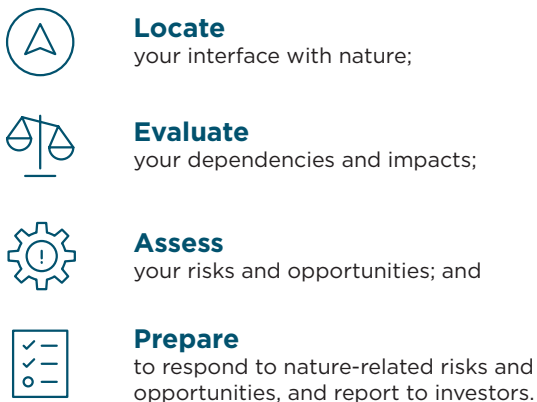
AXA’s dedicated climate and biodiversity impact investing fund is a private equity vehicle which supports global solutions that conserve natural capital and ecosystems, promote resource efficiency and sustainability, and protect and empower vulnerable communities whose livelihoods are affected by the challenges of climate change and ecosystem degradation.³¹³

As financial institutions increasingly explore and support nature-based solutions, they are starting to systematically examine their impacts and dependencies on nature. One assessment approach, being developed by the TNFD, is called LEAP.³¹⁴

Financial institutions are also introducing nature-focused biodiversity programs that aim to protect and restore land, oceans, fresh water, and the atmosphere. Though these programs may not aim to remove emissions, their benefits include increased resilience to the inevitable physical impacts of climate change.

Figure 5: The LEAP approach

The LEAP approach involves four core phases of analytic activity:



Financial institutions do not have the information they need or standard methodologies to measure and monitor the opportunities from biodiversity and nature-based solutions—or the impact of nature-related activities on their net-zero transitions.

Tools and frameworks are also needed to ensure that nature-based solutions promote co-benefits and do not lead to unintended consequences. For example, biofuels have a better GHG emissions footprint than fossil fuels, but large-scale plantations of energy crops can hurt biodiversity.

312 https://www.banktrack.org/download/160412_controversialissuespolicy_pdf/160412_controversialissuespolicy.pdf

313 <https://www.unpri.org/showcasing-leadership/the-axa-impact-fund-climate-and-biodiversity-making-a-difference/8972.article>

314 [Nature-related Risk & Opportunity Management and Disclosure Framework, Beta v0.1 Release, TNFD, 2022.](#)

Organizations with relevant publications (not already referenced):

- Cambridge University Institute for Sustainability Leadership (CISL)³¹⁵
- Climate Disclosure Standards Board (CDSB)³¹⁶
- Environmental Finance³¹⁷
- IBAT alliance³¹⁸
- Network for Greening the Financial System (NGFS)³¹⁹
- Partnership for Biodiversity Accounting Financials (PBAF)³²⁰
- Principles for Responsible Banking (PRB)³²¹

- Science Based Targets Network^{322, 323}
- Sustainable Insurance Forum (SIF)³²⁴
- UN Environment Programme and UNEP Financial Initiative and Global Canopy³²⁵
- World Economic Forum (WEF)³²⁶

Organizations currently working on guidance:

European Financial Reporting Advisory Group (EFRAG) is expected to provide a draft of an EU biodiversity disclosure standard to the European Commission.³²⁷

315 [Integrating Nature: The case for action on nature-related financial risks, CISL, 2022. Handbook for Nature-related Financial Risks, CISL, 2021. Financial materiality of biodiversity loss and land degradation, CISL, 2020.](#)

316 [Application guidance for biodiversity-related disclosures, CDSB, 2021.](#)

317 [Investing in Nature: Private Finance for Nature-based Resilience, Environmental Finance, 2019.](#)

318 <https://www.ibat-alliance.org/?locale=en>

319 [Biodiversity and financial stability: building the case for action, NGFS, 2021.](#)

320 [Paving the way towards a harmonised biodiversity accounting approach for the financial sector, PBAF Netherlands, 2020.](#)

321 [Guidance on Biodiversity Target-setting, Principles for Responsible Banking, PRB, 2021.](#)

322 ["Building on the momentum of the SBTi, the SBTN is working to enable companies and cities to set targets for climate and nature."](#)

323 [Science-based Targets for Nature, Initial Guidance for Business, SBTN, 2020.](#)

324 [Nature-Related Risks in the Global Insurance Sector, SIF, 2021.](#)

325 [Beyond 'Business as Usual': Biodiversity Targets and Finance, UNEP, 2020.](#)

326 [Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy, WEF, 2020.](#)

327 <https://www.globalreporting.org/about-gri/news-center/efrag-and-gri-to-co-construct-biodiversity-standard/>

For more information, please visit gfanzero.com