

From Commitment to Action: The Role of Transition Plans in Achieving a Net Zero Economy

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- Thank you to the Lord Mayor and the City of London for hosting this COP26 event. I am delighted to speak with you and share a few reflections from my role as Vice Chair of the Glasgow Financial Alliance for Net Zero (GFANZ) and head of the GFANZ secretariat.
- As a lifelong regulator, there is nothing I believe in more than the power of well-regulated markets to drive progress. And nothing I believe in more emphatically, than the need for transparency for investors and regulators to keep markets honest, even in the chaos of an urgent race to stave off crisis.
- Climate change is an imminent threat to humanity and the global economy. The good news is, thousands of firms and over 100 countries—representing 90% of global GDP—have committed to achieving net zero greenhouse gas emissions. And through GFANZ, over 450 financial institutions have committed to reach net zero by 2050, with substantial emissions reductions by 2030.
- The bad news is, there is no clear framework for this transition and limited transparency in the steps firms are taking to support it – a potentially dangerous combination.
- GFANZ has united all parts of the financial sector to develop that path together. Pooling our expertise and working together, we are addressing data and other technical barriers, and through teamwork and the ingenuity of the financial institutions committed to net-zero, we are developing the tools and frameworks needed to make this transition possible.
- We will do this in partnership with global regulators and civil society, because even in times of great crisis, we must proceed with scrutiny and caution. We will only overcome the challenges if global finance is held to the highest standards of ambition and accountability. Now more than ever, transparency is paramount.
- To support this, GFANZ is developing a global pan-sector framework for financial institution Net Zero Transition Plans to support the transition of the global economy to net zero. Our members recognize that they need to support a whole economy transition, not just reduce emissions on paper.
- While each major type of financial institution has a different set of levers at their disposal, common across the sector is the ability to finance or enable real-economy activity. At a high level, we see four different approaches that financial institutions will need to take in support of this transition:

- First – and where I want to put the most emphasis – institutions should finance, or enable, climate solutions to replace high-emitting activities. This means growing solar, wind, and other renewables to produce carbon-free energy and reduce our reliance on fossil fuels, without increasing energy prices for consumers, in addition to investing in all the technologies needed to decarbonize our economy.
- Time is running out and we are frightfully behind where the science tells us we must be. The firms in this room hire the brightest minds in the world and have helped finance countless innovations. There is no excuse: in the case of clean energy solutions alone, we must triple annual investment flows as quickly as possible.
- Second, institutions should finance and support companies that have already aligned themselves to a pathway for net-zero. These are leading companies that have figured out how to operate in a net-zero world and may require continued finance to keep leading the pack and growing.
- Third, the financial sector must finance and enable the transition of companies that are not yet aligned to net-zero today. This includes working with companies in high-emitting or hard-to-abate sectors, like steel and aviation, to ensure that they are developing and implementing credible strategies to achieve net-zero. This is where some of the hardest work in the transition will lie, and to support these efforts, GFANZ is developing frameworks and tools that financial institutions need to ensure these efforts are transparent, appropriately ambitious, and aligned to net-zero:
 - Our workstream on Real Economy Transition Plans is developing guidance for companies to develop their own transition plans, so that financial institutions can assess and measure these companies' strategies for net zero.
 - Our workstream on Sectoral Pathways helps ensure that financial institutions can evaluate whether companies' strategies are aligned to a science-based pathway to net zero in their sector.
 - Our workstream on Portfolio Alignment Measurement brings together these components to ensure financial institutions have a forward-looking tool to measure the alignment of their portfolio companies and clients' transition plans with the goal of 1.5 degrees C.
- And fourth, financial institutions can support the managed phaseout of high-emitting assets. This means financing predicated on the early retirement of high-emitting assets that may be needed today but need to be taken out of service as

the transition progresses—since no financing will be able to put them on a net-zero pathway.

- Our work on Managed Phaseout will help establish an approach to financing the early retirement of high emitting assets that is aligned with net zero, and importantly, the guardrails and accountability mechanisms to ensure that real emissions reductions are achieved.
- Financial institutions must develop transition plans that reflect how they will support the net-zero transition in the context of their portfolio, client base, and business model, employing a mix of these four approaches.
- We have developed a framework which has recommendations and guidance across the relevant components of a transition plan, including:
 - Establishing foundational transition objectives, which set out clearly the level and scope of ambition;
 - Aligning core business strategy and activities with those objectives;
 - Ensuring that engagement with clients, portfolio companies, industry peers, civil society, and governments supports net-zero goals;
 - Setting clear targets and monitoring metrics to ensure that the plan supports the transition in the real world;
 - And establishing appropriate governance and accountability mechanisms.
- Our work on transition plans also aims to support the official sector, as governments look to set guidelines for how companies in their jurisdictions will contribute to national emissions reductions commitments. Private finance will play a role in enabling each country's transition, and transparent, consistent, and credible transition plans will be an important source of information for governments.
- A common global framework for FI transition plans is essential; and it is critical that regulators around the world mandate the development and disclosure of transition plans. But time is moving fast, and we need to move this foundational work forward while executing tangible progress on the ground.
- GFANZ member firms are putting Net Zero Transition Plans to work immediately, even before they become mandatory. Firms voluntarily developing and disclosing transition plans will produce real-world success cases to use as examples for other firms, as they meet their commitments by enabling the net-zero transition.

- Our team—and the dozens of workstream members representing GFANZ member firms and our technical Advisory Panel—are focused squarely on delivering this framework and supporting guidance for the benefit of regulators, policymakers, the financial sector, and other stakeholders, to help speed the path towards transparent, consistent, credible transition plans.
- Shortly you will hear from Minister John Glen on the tremendous work the UK is doing through the Transition Plan Taskforce to bring transition plans into reporting requirements, and thus driving forward the British economy on the path to net zero.
- We are honored to partner with the Taskforce, as it serves as a great example of how the public and private sectors can work together, without regard to politics, to support a just and orderly transition.
- The UK showed leadership in mandating climate disclosures in line with the Taskforce on Climate-Related Financial Disclosures (TCFD), and in supporting the development of a common global baseline by the International Sustainability Standards Board (or ISSB).
- The EU has long been committed to the cause of enhanced climate disclosures building on a common global foundation, and with the recent U.S. SEC climate disclosure proposal, there is now the prospect of global markets meeting consistent global standards on climate disclosure.
- These climate disclosure standards envisage forward-looking transition plans, even if there is much to do to articulate common expectations. We would encourage governments and regulators to seek global consistency, and hope that the work of GFANZ on a transition planning framework will provide that common foundation.
- The financial sector is comprised of some of the smartest and best resourced teams in the world, and I know you can do this. My team and I are here to support your success and to ensure investors and regulators have the tools they need to reward ambitious and credible transition strategies, and disincentivize delays and greenwashing.
- I consider the work of TCFD and GFANZ as the most important in my career. I hope that each of you in this room feel the same about your important role in the race to net zero, our final hope to avoid climate disaster and secure the benefits for us and future generations of a clean, sustainable economy and a vibrant, healthy planet.