

TOWARDS A GLOBAL BASELINE FOR

# Net-zero Transition Planning



**GFANZ**

Glasgow Financial Alliance for Net Zero

## IMPORTANT NOTICE

This document is a publication of the Glasgow Financial Alliance for Net Zero (“GFANZ”) which aims to introduce, and provide an overview of, a set of resources published by GFANZ on 15 June 2022 to support financial institutions’ efforts to finance and enable the whole-economy transition to net zero (the “Publication”). For the avoidance of doubt, nothing express or implied in the Publication is intended to create legal relations and the Publication 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 Publication, although we expect all members to increase their ambition over time.

# Towards a Global Baseline for Net-zero Transition Planning

*On June 15, 2022, the Glasgow Financial Alliance for Net Zero (GFANZ)<sup>1</sup> published a set of resources to support financial institutions' efforts to finance and enable the whole-economy transition to net zero. GFANZ is a global coalition of seven sector-specific alliances organized under the umbrella of the United Nations Framework Convention on Climate Change (UNFCCC) Race to Zero campaign ("UN Race to Zero"). Each alliance sets commitment criteria for its members, anchored in the starting line criteria of the UN Race to Zero.<sup>2</sup> The recommendations and guidance published by GFANZ are voluntary and aim to support financial institutions in developing and implementing credible, high-ambition strategies for achieving net zero. GFANZ hopes this work can inform future regulation to guarantee high standards in private-sector net-zero action.*

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. As of June 2022, over 130 countries, representing 90% of global GDP, have made net-zero commitments.<sup>3</sup> Further, over 10,000 companies, organizations, and subnational governments have joined the UN Race to Zero, committing to achieve net-zero greenhouse gas (GHG) emissions by 2050 at the latest.<sup>4</sup>

To fulfill these commitments and drastically reduce GHG emissions, real-economy<sup>5</sup> firms, with the support of governments and the financial sector, must decarbonize their business activities and scale climate solutions to replace GHG-emitting assets, products, and services. The scale of capital needed is significant: for clean energy alone, the International Energy Agency's net-zero pathway requires annual investment this decade to triple

from current levels.<sup>6</sup> GFANZ — a coalition of over 500 financial institutions committed to achieving net zero by 2050 — was founded because investment of this scale requires mobilizing the entire financial sector.

For the financial sector to fulfill its net-zero commitments and effectively support the transition, financial institutions should develop strategies to align their business activities with a net-zero pathway that limits warming to 1.5 degrees C. As stated in the report published for consultation, *Recommendations and Guidance on Financial Institution Net-zero Transition Plans*, GFANZ recommends financial institutions support the whole-economy net-zero transition through four key approaches:

- (i) financing or enabling the development and scaling of climate solutions to replace high-emitting technologies, activities, or services;

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1 For more background information on GFANZ see Annex 1.

2 GFANZ membership is open to any firm meeting the published entry criteria (and who becomes a member of) the relevant sector-specific alliances. All of the sector-specific alliances are listed and guidance on how to join them is provided through [www.gfanzero.com](http://www.gfanzero.com). More information on the UN Race to Zero starting line criteria can be found here: [www.climatechampions.unfccc.int/join-the-race/](http://www.climatechampions.unfccc.int/join-the-race/).

3 Source: [Net Zero Tracker](#). Overview of the 2,000 largest publicly traded companies in the world by revenue, June 2022.

4 Source: Global Climate Action NAZCA. Climate Ambition Alliance: Race to Zero. May 2022.

5 "Real-economy" refers to economic activity outside of the financial sector.

6 Source: IEA. World Energy Outlook 2021, October 2021.

- (ii) financing or enabling companies that are already aligned to a 1.5 degrees C pathway;
- (iii) 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; and
- (iv) financing or enabling the accelerated, managed phaseout of high-emitting physical assets.

To translate their net-zero commitments into action, financial institutions should develop a “net-zero transition plan” that articulates their transition goals, the specific actions they will take, and the accountability mechanisms they will implement to ensure their plans are credible. Financial institutions’ transition plans should finance or enable activities that lead to reductions in emissions and support the global economy’s transition to net zero — in line with the four approaches outlined above. The GFANZ report for consultation, *Recommendations and Guidance on Financial Institution Net-zero Transition Plans*, aims to support the development of credible transition plans across the financial sector.

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.

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.<sup>7</sup> 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).

## OVERVIEW OF GFANZ WORK PROGRAM AND RESOURCES PUBLISHED

To fill the gap given the current absence of official policy and requirements, GFANZ has published a framework for financial institutions’ net zero transition plans, released for consultation alongside several connected resources, to encourage a common approach to credible transition planning. Collectively, these five documents comprise a set of related tools, frameworks, and other resources to support transition planning across the financial sector, with the goal of enabling and financing the real-economy transition to net-zero:

- Recommendations and Guidance on Financial Institution Net-zero Transition Plans
- Guidance on Use of Sectoral Pathways for Financial Institutions
- 2022 Concept Note on Portfolio Alignment Measurement
- Introductory Note on Expectations for Real-economy Transition Plans
- Managed Phaseout of High-emitting Assets Report

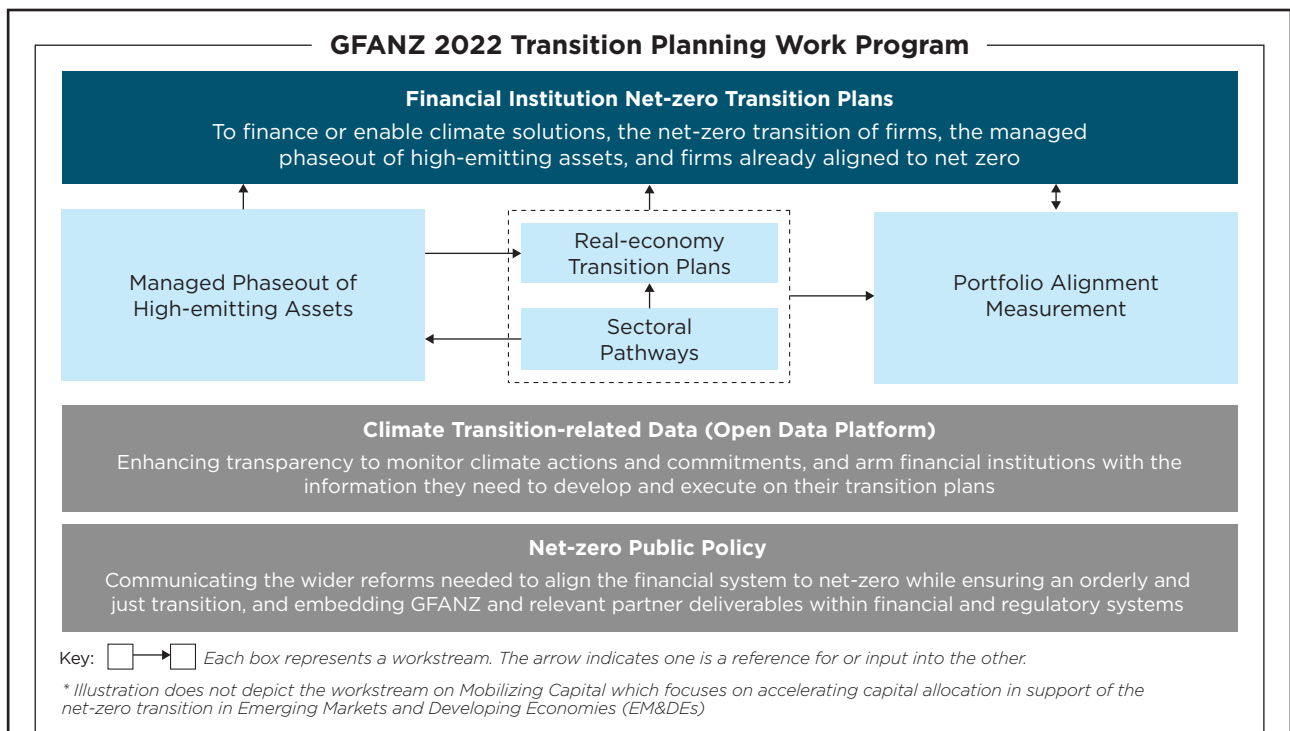
<sup>7</sup> Source: GFANZ. [French President Emmanuel Macron and UN Secretary General’s Special Envoy for Climate Ambition and Solutions Michael R. Bloomberg Announce a Climate Data Steering Committee to advise how to Capture and Create Open, Centralized Climate Data to Accelerate the Transition Towards a Resilient, Net Zero Global Economy](#), 3 June 2022. Potential data fields subject to approval by the Climate Data Steering Group.

The recommendations and guidance provided by GFANZ are voluntary and take into account related efforts from the sector-specific net-zero alliances and their associated networks. GFANZ hopes that its work will assist policymakers, regulators, and external, net-zero standard-setters as they produce rules and guidance around transition plans. Given the urgency needed to achieve near-term climate commitments, GFANZ encourages members to

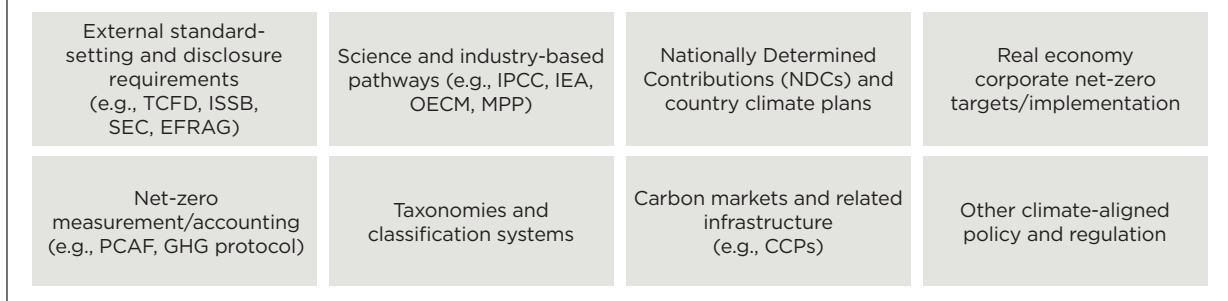
develop, implement, and publish transition plans as soon as possible.

GFANZ invites all stakeholders to read these documents and participate in the 6-week consultation on *Recommendations and Guidance on Financial Institution Net-zero Transition Plans*. GFANZ also welcomes feedback on the additional resources published.<sup>8</sup>

**GFANZ 2022 Transition Planning Work Program**



**Building Blocks of the Net-zero Financial System**



8 Feedback or questions can be sent to [inquiries@gfanzero.com](mailto:inquiries@gfanzero.com).

# Recommendations and Guidance on Financial Institution Net-zero Transition Plans

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[Link to the draft report for consultation](#)

[Link to consultation feedback portal](#)

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GFANZ is consulting on voluntary recommendations and guidance for financial institutions to develop net-zero transition plans. The proposed framework is intended to be globally applicable and relevant to all types of financial institutions. GFANZ believes the private and public sectors will benefit greatly from this pan-sector approach, supporting greater comparability for financial institutions operating across borders and in global markets, and gives policymakers, regulators, and standard setters clearer, more consistent, and decision-useful information (see Annex 2). Importantly, this work also takes into account transition plan-related efforts from the net-zero alliances and their associated networks.

GFANZ believes that a credible net-zero transition plan is one that is actionable, focused on near-term action, grounded in medium and long-term milestones, 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 Change (IPCC). GFANZ recommends a financial institution's net-zero transition plan address 10 core components, grouped into five themes: Foundations, Implementation Strategy, Engagement Strategy, Metrics and Targets, and Governance. The report provides recommendations, guidance, and illustrative examples for each component.

The recommendations and guidance on financial institution net-zero transition plans have been published for consultation to gather feedback from stakeholders across the financial system and civil society, before final voluntary recommendations and guidance are published later in 2022. GFANZ invites all interested parties to read the consultation draft and participate in the survey, open for six weeks from June 15, 2022.

## Guidance on Use of Sectoral Pathways for Financial Institutions

[Link to the Report](#)

Sectoral pathways are models that detail potential roadmaps for a given sector to reduce emissions to a defined level in a specified timeframe. They include assumptions about changes in technologies, business models, economics, and other considerations, and can be used as a benchmark for understanding whether certain activities, investments, and targets are in line with achieving net-zero objectives. Financial institutions use them to set targets, make net-zero-aligned financing decisions, and monitor progress. An understanding of the model composition, use-cases, and limitations of various pathways is critical for financial institutions to effectively develop and execute on a transition plan.

The GFANZ Workstream on Sectoral Pathways has produced guidance for financial institutions so that they can better use sectoral pathways as part of their transition planning and implementation efforts. This includes a framework for comparing and assessing sectoral pathways that provides users with a consistent set of questions to consider for understanding the scope and ambition of the pathway, the underlying assumptions that explain how the pathway is achieved, and the credibility of the pathway. Collectively, this framework helps pathway users understand how pathways differ and evaluate their suitability for their transition planning process.

## Introductory Note on Expectations for Real-economy Transition Plans

[Link to the Introductory Note](#)

To finance and enable the transition to net zero, financial institutions will have to work with and support clients and portfolio companies as they

develop and implement their own transition plans. The GFANZ Workstream on Real-economy Transition Plans is developing a report to clarify what information the financial sector expects from real-economy firms' transition plans and progress reporting. This Introductory Note provides initial insights into a transition plan framework, which is designed to align with the framework for financial institutions' own net-zero transition plans. Clear, comparable transition plans and implementation progress from real-economy firms will enable financial institutions to evaluate whether their financing decisions and other services are in line with their transition objectives.

## 2022 Concept Note on Portfolio Alignment Measurement

[Link to the Concept Note](#)

Portfolio alignment metrics provide forward-looking ways to evaluate the alignment of investment, lending, and underwriting activities with net-zero objectives. As such, they are useful in both implementing transition plans and monitoring ambition and progress towards net-zero objectives. However, portfolio alignment metrics are relatively new and thus financial institutions face several challenges in using them. To address these barriers to adoption, the GFANZ Workstream on Portfolio Alignment Measurement will recommend enhancements to portfolio alignment methodologies in a report to be released in advance of COP27.<sup>9</sup> The report will seek to refine best practice guidance and drive enhancement, convergence on emerging methodological best practices, and adoption of portfolio alignment metrics. Ahead of then, the workstream has published a Concept Note that outlines the workstream's plan and shares an initial view on potential enhancements to be made this year. It was drafted with input from more than 30 financial industry practitioners.

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<sup>9</sup> COP27 refers to the 27th session of the Conference of the Parties to the UNFCCC; COP27 will take place in Sharm El-Sheikh, Egypt, in November 2022.

## Managed Phaseout of High-emitting Assets Report

### [Link to the Report](#)

Financing or enabling the managed phaseout of high-emitting assets — i.e., through their early retirement — is a key approach financial institutions can take to support the real-economy net-zero transition. This paper sets out Managed Phaseout as a net-zero aligned strategy for an asset, or as part of a company's strategy, in support of an orderly<sup>10</sup> and just transition. Importantly, this approach supports a role for financial institutions to responsibly steward high-emitting assets out of the economy over a defined timeline consistent with the net-zero transition. This can avoid potential unintended consequences of financial institutions simply withdrawing finance from activities that may be vital for the economy in the short term, only to be financed by those with less climate ambition.

This Paper provides a preliminary and high-level approach to support the identification of assets where Managed Phaseout could be appropriate, offers an initial overview of potential financial mechanisms that could support Managed Phaseout, and includes initial guidance on the features of a credible asset-level Phaseout plan. It sets out nine actions for GFANZ to pursue, in collaboration with partners, to build on these initial frameworks and help support Managed Phaseout as a credible net zero-aligned strategy to support the decarbonization of the global economy.

## THE ROAD AHEAD

GFANZ's release on 15 June 2022 represents the first step toward providing the tools and guidance to support the financial sector's role in financing and enabling the transition of the global economy to net zero. Ahead of COP27, GFANZ will publish:

- Recommendations and Guidance on Net-zero Transition Plans for the Financial Sector;
- Expectations for Real-economy Transition Plans;
- Sector-specific briefs on the oil & gas, steel, and aviation sectors<sup>11</sup>, bringing together detail on the pathways for those sectors with relevant guidance on transition plan components for companies within them;
- Guidance on portfolio alignment measurement, providing enhancements to the 2021 Portfolio Alignment Team report<sup>12</sup>;
- A private sector statement on "country platforms"<sup>13</sup> that shares a set of considerations that government leaders can incorporate into the design of these efforts to encourage greater private capital flows to emerging markets and developing economies (EM&DEs);
- Research on the flows of private sector capital to support the net-zero transition in EM&DEs;
- An update of GFANZ's view on the public policy actions needed to enable the net-zero transition.<sup>14</sup>

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

11 These areas are highlighted given their emissions profiles and abatement potential.

12 Source: Portfolio Alignment Team. [Measuring Portfolio Alignment: Technical Report](#), 2021.

13 Also known as Just Energy Transition Partnerships (JETPs).

14 This will follow GFANZ's [Call to Action](#), issued in October 2021, that called on governments of the G20 to take action on climate change.



In addition to publishing these resources, GFANZ is working to support the transition in practical ways across the sector. For example, GFANZ is building out its global presence and member connectivity by launching networks in Asia Pacific,<sup>15</sup> Africa, and Latin America to support capacity-building of financial institutions in parts of the world currently underrepresented in GFANZ membership. In addition, GFANZ is executing on an ambitious workplan around mobilizing capital to emerging markets and developing economies (EM&DEs), including establishing tailored country solutions and supporting efforts of major economies to establish country platforms, and supporting various market-making initiatives<sup>16</sup> to accelerate the net-zero alignment of major EM&DEs.

GFANZ will help lead the recently announced Climate Data Steering Committee which will develop recommendations on how to capture and build centralized, comprehensive, open data to accelerate the net-zero transition.<sup>17</sup> This work will bring transparency and accountability to company net-zero commitments and improve the capabilities of financial institutions to develop and execute on net-zero transition plans.

Further, under the auspices of GFANZ's Workstream on Net-zero Public Policy, GFANZ is engaging with governments and international bodies to encourage the adoption of more ambitious climate policy that will enable the financial sector and real economy to more rapidly transition. GFANZ's public sector engagement is especially focused on net-zero transition planning and efforts to support capital mobilization to EM&DEs.

GFANZ works closely with a broad array of groups in the net-zero ecosystem, including private financial institutions, technical NGOs, research institutions, advocacy groups, governmental organizations, international bodies, and others. GFANZ workstreams and consultative bodies include representatives from roughly 100 organizations. While GFANZ efforts are pan-sector, it relies on the net-zero alliances that comprise GFANZ to address sector-specific issues and support their members' implementation efforts.

15 Source: GFANZ. [GFANZ Launches Asia-Pacific Network to Support Asia-Pacific Financial Institutions' Move to Net Zero](#), 8 June 2022.

16 For more details see the [GFANZ Progress Report](#) (November 2021).

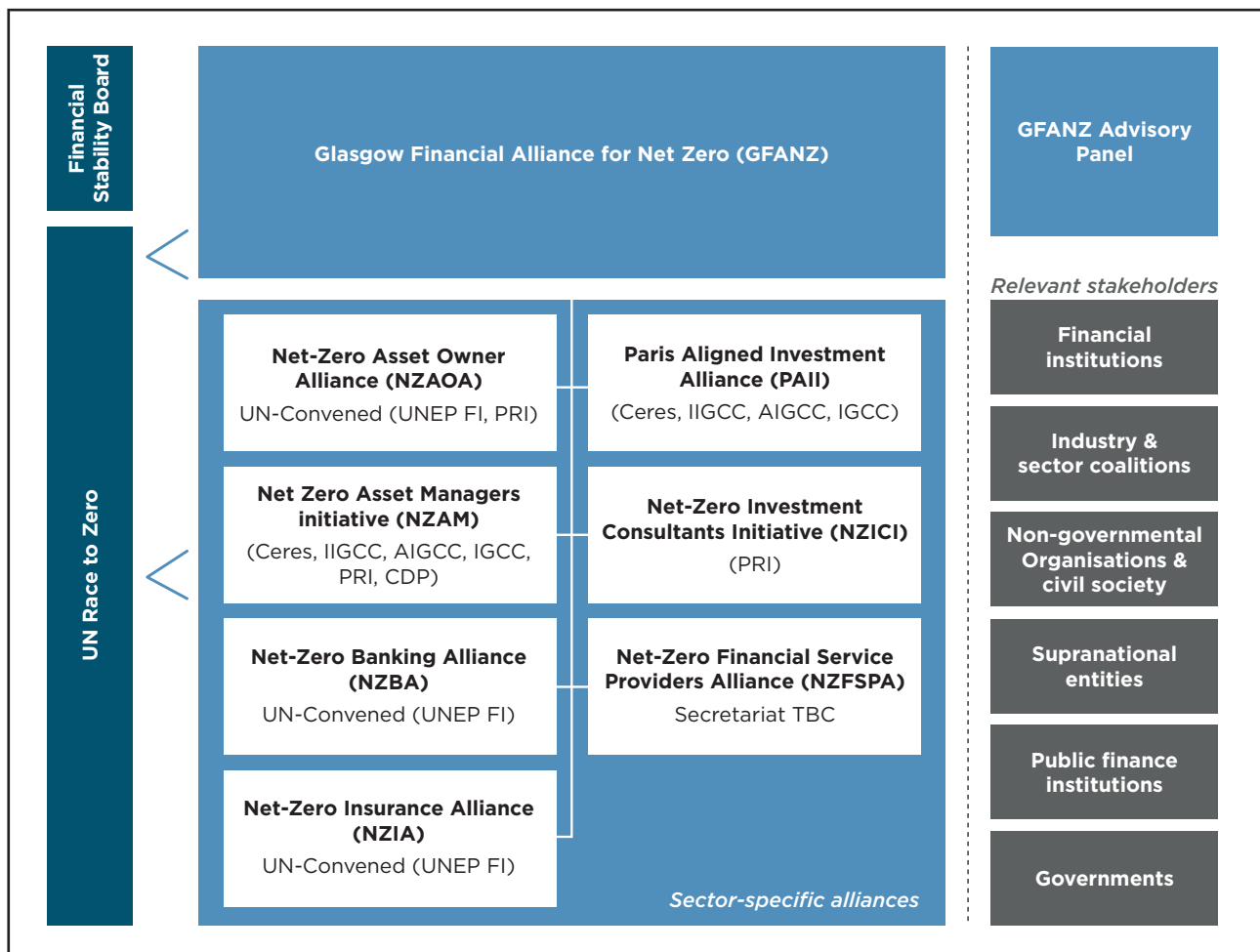
17 Source: GFANZ. [French President Emmanuel Macron and UN Secretary General's Special Envoy for Climate Ambition and Solutions Michael R. Bloomberg Announce a Climate Data Steering Committee to advise how to Capture and Create Open, Centralized Climate Data to Accelerate the Transition Towards a Resilient,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

## ANNEX 1: ADDITIONAL INFORMATION ON GFANZ

The Glasgow Financial Alliance for Net Zero (GFANZ) is a global coalition of financial institutions in the UN Race to Zero that is committed to accelerating and mainstreaming the decarbonization of the global economy and reaching net-zero emissions by 2050. GFANZ brings together seven financial sector net-zero alliances, representing more than 500 members, into a pan-sector global strategic alliance to address common challenges and elevate best practices across the sector.<sup>18</sup>

The UNFCCC Race to Zero campaign (“UN Race to Zero”) is the UN-backed global campaign rallying non-state actors — including companies, cities, regions, and financial and educational institutions — to take rigorous and immediate action to halve global net-zero carbon emissions by 2030 and achieve net zero by 2050. All members are committed to the same overarching goal: reducing emissions across all scopes swiftly and fairly in line with the Paris Agreement, with transparent action plans and robust near-term targets. The seven financial sector net-zero alliances build upon the UN Race to Zero starting line criteria to establish commitment criteria reflecting the unique business models of their industries.

GFANZ structure diagram<sup>19</sup>



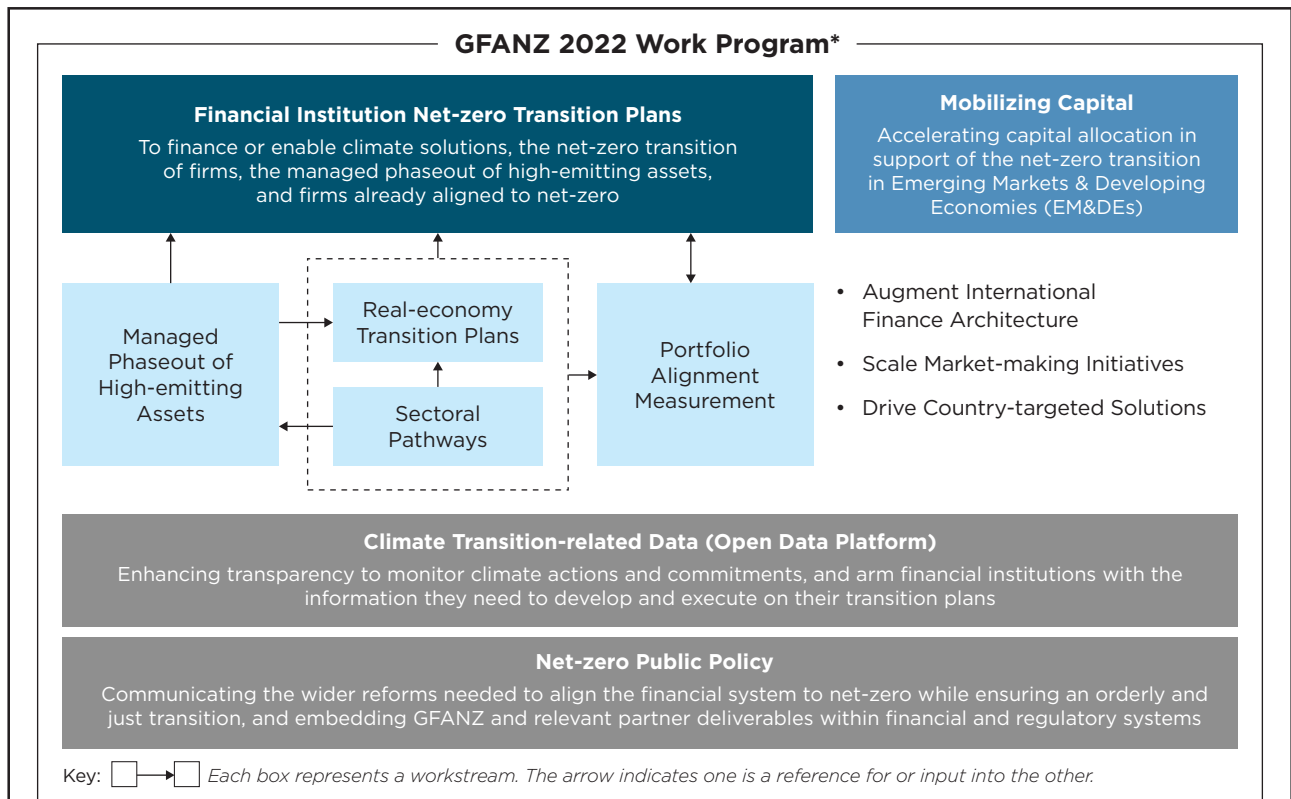
18 The alliances are: the [Net Zero Asset Managers initiative](#), the [Net-Zero Asset Owner Alliance](#), the [Net-Zero Banking Alliance](#), the [Net Zero Financial Service Providers Alliance](#), the [Net-Zero Insurance Alliance](#), the [Net Zero Investment Consultants Initiative](#), and the [Paris Aligned Investment Initiative](#).

19 GFANZ will periodically report on progress to the Financial Stability Board.

GFANZ provides a practitioner-led forum for financial firms to collaborate on substantive, cross-cutting issues that will accelerate the alignment of financing activities with net zero and support efforts by all companies, organizations, and countries to achieve the goals reaffirmed in the Glasgow Climate Pact to limit warming to 1.5 degrees C. GFANZ has four core areas of work in 2022, with workstreams led by financial-sector practitioners and advised by leading technical civil-society organizations:

- Net-zero transition planning
  - Financial Institution Net-Zero Transition Plans
  - Sectoral Pathways
  - Real-economy Net-Zero Transition Plans
  - Portfolio Alignment Measurement
  - Managed Phaseout of High-emitting Assets
- Mobilizing Capital to Emerging Markets & Developing Economies
- Climate Transition-related Data (Open Data Platform)
- Net-zero Public Policy

**GFANZ 2022 Work Program**



**Building Blocks of the Net-zero Financial System**

External standard-setting and disclosure requirements (e.g., TCFD, ISSB, SEC, EFRAG)	Science and industry-based pathways (e.g., IPCC, IEA, OECM, MPP)	Nationally Determined Contributions (NDCs) and country climate plans	Real economy corporate net-zero targets/implementation
Net-zero measurement/accounting (e.g., PCAF, GHG protocol)	Taxonomies and classification systems	Carbon markets and related infrastructure (e.g., CCPs)	Other climate-aligned policy and regulation

GFANZ is led by a Principals Group consisting of senior executives (e.g., Chief Executive Officers) of member institutions. GFANZ Senior Leadership include Co-Chairs Mark Carney, UN Special Envoy on Climate Action and Finance, and Michael Bloomberg, UN Special Envoy on Climate Ambition and Solutions; Vice Chair and Head of the GFANZ Secretariat Mary Schapiro; and Nigel Topping, UN Climate Change High-Level Champion for COP26.

The GFANZ Steering Group, consisting of representatives of Principals Group firms and net-zero alliance secretariats, ensures connectivity and collaboration across workstreams and alliance secretariats. The GFANZ Advisory Panel, consisting of representatives from leading technical civil society and research organizations and chaired by Nili Gilbert, provides technical input to workstream deliverables.

For more information on GFANZ, please visit [gfanzero.com](https://gfanzero.com).

## ANNEX 2: MOTIVATIONS TO DEVELOP TRANSITION PLANS ACROSS THE PRIVATE AND PUBLIC SECTORS

Just as the private sector increasingly adopts and benefits from the voluntary disclosure of climate-related financial risks and opportunities<sup>20</sup>, there is growing recognition of the utility of transition planning by financial institutions. For example, in developing and disclosing a transition plan using a globally-consistent framework, firms can:

- translate their net-zero commitments into transparent, comprehensible strategies and actions;
- ensure that their staff, clients, portfolio companies, and other stakeholders (e.g., supply chain partners) who are tasked with executing on the net-zero commitment understand exactly what is expected of them;
- provide transparency to investors, consumers, and others who have a stake in the firm's success and require an understanding of how the firm will align to net zero;
- contribute to the cross-comparability of transition planning across the sector, allowing for clear benchmarking of their plan.

As evidenced by recent global efforts, including those by the United States Securities and Exchange Commission (SEC)<sup>21</sup>, the European Financial Reporting Advisory Group (EFRAG)<sup>22</sup>, the United Kingdom's Transition Plan Taskforce (UK TPT)<sup>23</sup>, the G20 Sustainable Finance Working Group (SFWG)<sup>24</sup>,

20 For example, the Taskforce on Climate-related Financial Disclosures (TCFD) had >3,400 supporters across 95 countries (as of June 2022).

21 The SEC has proposed [rules](#) around climate-related disclosures, including "transition plans" which they define as "a registrant's strategy and implementation plan to reduce climate-related risks."

22 EFRAG has been designated by the European Commission to define disclosure standards for the Commission's proposed Corporate and Sustainability Reporting Directive (CSRD). This includes a [climate standard](#), which outlines proposed disclosure requirements for transition plans.

23 The UK Transition Plan Taskforce was launched to develop a gold standard for transition plans in the UK. The taskforce will develop a sector-neutral framework to enable companies across all sectors to develop meaningful plans to support the transition, and has launched a public [Call for Evidence](#).

24 One of the [goals of the G20's SFWG](#) will be to develop a transition finance framework and identify reporting practices for transition considerations, including transition plan disclosures.

Japan's Financial Services Authority (JFSA)<sup>25</sup>, and the International Sustainability Standards Board (ISSB)<sup>26</sup>, the public sector is embracing the private sector development and disclosure of transition plans. For example, global uptake of a common transition plan framework provides:

- securities regulators with standardized visibility into the activities firms are undertaking to meet their net-zero commitments, ensuring that they are high-integrity, not greenwashed, verifiable, and easy to understand, including to investors;
- supervisors with visibility into potential financial stability risks that could arise from changes — or lack thereof — in firms' climate-related business and financing activities, including a holistic picture of how the financial sector will shift strategies and exposures in the net-zero transition;
- policymakers with a means of monitoring private sector compliance with economy-wide climate objectives, rules, and laws.

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25 Japan's Financial Services Authority issued [guidance on transition finance](#) in 2021, which touched on governance and disclosure of "climate transition strategies and plans." It is not legally binding guidance.

26 ISSB's [climate-related disclosure](#) draft (under consultation) touches on transition plans in the context of a firm's disclosures of climate-related risks and opportunities on its strategy and decision-making.

For more information, please visit [gfanzero.com](http://gfanzero.com)