

Net-zero Transition Plan (NZTP) workshop

GFANZ NZTP THEME: FOUNDATIONS



Legal disclaimer

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Members of the financial sector-specific net-zero alliances comprising GFANZ have signed up to the ambitious commitments of their respective alliances and are not automatically expected to adopt the principles and frameworks communicated within this material, although we expect all members to increase their ambition over time, so long as it is consistent with members’ fiduciary and contractual duties and applicable laws and regulations, including securities, banking, and antitrust laws.



How to use the GFANZ recommendations and guidance

This material presents recommendations and guidance by the Glasgow Financial Alliance for Net Zero (“GFANZ”), aiming to provide financial institutions with background on potential avenues for meeting net-zero commitments intended to address the financial and economic risks and opportunities posed by climate change and the transitions that would be necessary to mitigate those risks.

This series of workshops seeks to familiarize the audience with a framework for transition finance. The recommendations and guidance presented here do not prescribe a specific course of action but offer information and options to help those financial institutions preparing net-zero transition plans.

Important points to consider before engaging with the material are:

- **Voluntary guidance:** Adoption of the GFANZ NZTP framework is voluntary. Use of all aspects (themes and components) of the framework is encouraged; the use of a subset of the most relevant themes and components is also an option.
- **A pan-sector approach:** The recommendations and guidance outlined in this series of workshops present a pan-sector approach to transition planning, aiming to be applicable to institutions across the financial sector and to act as a reference for regulators and policymakers.
- **Unique roles for different financial institutions:** Due to the pan-sector approach taken, the recommendations and guidance do not reflect the different roles financial institution types play within the industry. Financial institutions are encouraged to consider their unique role in formulating their transition plan.
- **Focus on development and implementation:** The framework outlined here provides an approach for developing and implementing transition plans, rather than specific guidance on the disclosure of transition plans (for an example of such guidance on disclosure, please refer to the UK TPT).
- **Institution-wide approach to transition planning:** The guidance focuses on embedding the net-zero transition within a financial institution’s overall business strategy but does not go into significant depth for individual business areas, product lines, or asset classes.
- **Living guidance:** The supporting pathways, tools, and methodologies may not yet be available for all situations, with policy, regulation, technology, and science often developing at a rapid pace.



Acknowledgments

GFANZ would like to thank the sector-specific alliances and their respective secretariat teams for their support and collaboration.

- Net Zero Asset Managers initiative ([NZAM](#))
- Net Zero Asset Owner Alliance ([NZA OA](#))
- Net-Zero Banking Alliance ([NZBA](#))
- Net Zero Financial Service Providers Alliance ([NZFSPA](#))
- Net-Zero Insurance Alliance ([NZIA](#))
- Net Zero Investment Consultants Initiative ([NZICI](#))
- Paris Aligned Asset Owners ([PAAO](#))
- Venture Climate Alliance ([VCA](#))



We encourage financial institutions to contact the alliances above for sector-specific criteria and guidance.

GFANZ is also thankful for the close collaboration with the [Transition Plan Taskforce](#) in ensuring a consistent approach to transition plan disclosure and implementation throughout the framework development in 2022.



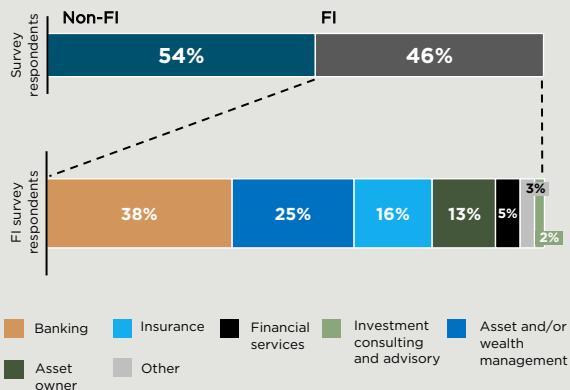
Development of the framework

The recommendations presented here build on — and are complementary to — guidance and criteria issued by sector-specific alliances and other industry bodies, and amplify existing messages across the financial sector.

The development of GFANZ recommendations and guidance included an open consultation process that received a high level of engagement:

-  **64,440** users reached digitally
-  **34,200** page views
-  **654** clicked on the survey URL
-  **187** entities engaged
-  **900+** comments reviewed

Summary of consultation engagement



A selection of related transition frameworks:¹

	Report	Who the framework applies to
CA 100+	Disclosure Framework Indicator Summary	Real economy
CBI	Transition Finance for Transforming Companies	Financial institutions
CDP	CDP Climate Change 2022 Questionnaire and CDP Technical Note: Reporting on Transition Plans	Corporates and financial institutions
IA ICAPs	Guidance and Expectations Ladder	Investors
ICMA	Climate Transition Finance Handbook and The Green Bond Principles Guidance Handbook 2022	Financial institutions
NZAOA	Target Setting Protocol	Asset owners and managers
NZBA	Guidelines for Climate Target Setting for Banks	Banks
NZIA	Insuring the net-zero Transition: Evolving Thinking and Practices	Insurers
PAAO NZIF	Net Zero Investment Framework	Investors
SBTi	Foundations for Science-Based Net-Zero Target Setting in the Financial Sector and Financial Sector Science-Based Targets Guidance	Financial institutions
TCFD	Metrics, Targets, and Transition Plans	Corporates and financial institutions
TPI	Methodology and Indicators report	Real economy

¹ Table as per GFANZ. [Financial Institution Net-zero Transition Plans – Supplemental Information](#), November 2022.

The GFANZ workshop series

The **GFANZ Workshop in a Box** series aims to provide an overview of the GFANZ guidance on net-zero transition planning for financial institutions and real-economy companies. It is suitable for those new to this space, or for senior management and board members who need a high-level understanding of the challenges of net zero, the GFANZ initiative, and provides a high-level overview of the GFANZ NZTP framework and expectations from real-economy companies.

Basics	An introduction to net zero, GFANZ, and the NZTP
	Where to start with the GFANZ NZTP?
	Transition Finance: Basics
GFANZ NZTP themes	Foundations <i>This session</i>
	Implementation Strategy
	Engagement Strategy
	Metrics and Targets
	Governance
Real-economy transition plans	Basics for real-economy transition plans
	Themes of real-economy transition plans — Part 1
	Themes of real-economy transition plans — Part 2
Transition Finance	Four Key Transition Financing Strategies
	Decarbonization Contribution Methodologies

Workshops are independent of each other and can be viewed in any order. Each workshop takes approximately one hour.

For those less familiar with this area, the **Introduction** workshop provides helpful baseline information, and **Where to start with the GFANZ NZTP?** focuses on outlining the practicalities of the framework.

Transition finance and the four key financing strategies that define it lie at the heart of the framework and are introduced in detail in a set of dedicated workshops as well as being considered in the context of each workshop on the GFANZ NZTP themes.

For those ready to discuss specific technical aspects of a NZTP, each theme of the NZTP is covered (**Foundations, Implementation Strategy, Engagement Strategy, Metrics and Targets, Governance**).

Use of themes takes into account differences between finance and the real-economy. The **Basics for real-economy transition plans** workshop overviews these differences and **Part 1** and **Part 2** considers the application of each theme to real-economy companies in detail.

Audience participation is encouraged by slides with suggested questions (marked by the symbol to the right) for discussions and where specific examples for the use of the guidance are outlined.



In case your sessions with these workshops lead to questions or uncover the need for further workshops on specific topics, please get in touch by filling out [this form](#).

Further information on the GFANZ recommendations and ongoing work can be accessed on the [GFANZ website](#).

Introduction





This workshop dives into the **Foundations theme** of the NZTP framework and the **single component belonging to this theme**. It looks at the rationale for clarifying the foundation of a NZTP and the associated **recommendation and guidance** on setting objectives and priorities. This theme will provide the **boundaries and drivers for the full NZTP**.

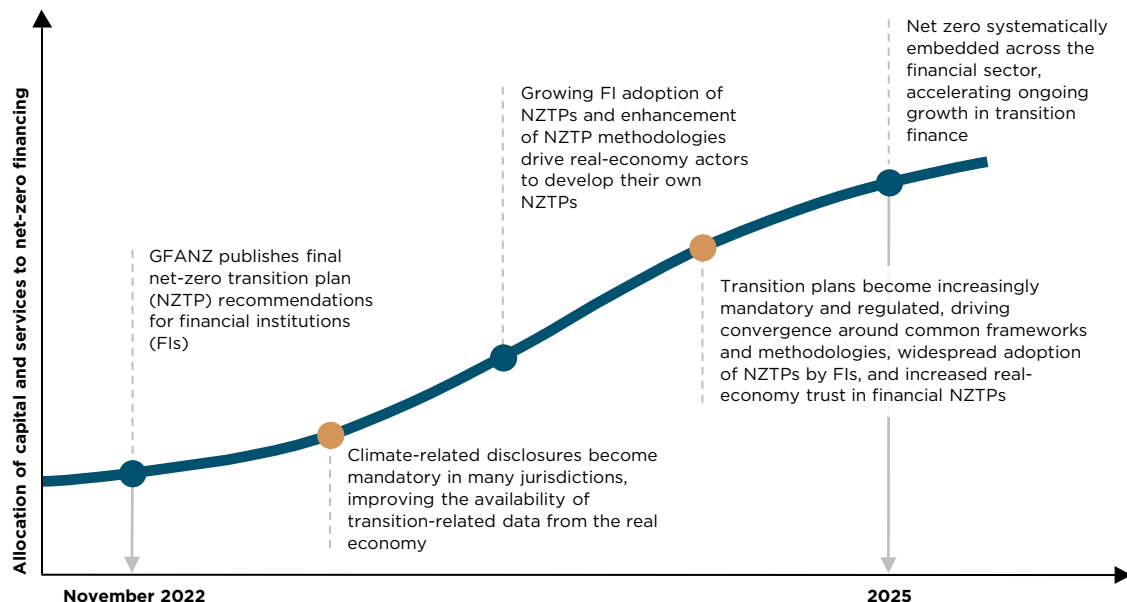
Setting expectations of net-zero transition planning

An illustrative timeline of the global adoption of NZTP development

Organizations will undergo a process to implement all elements of a NZTP over time. The adoption of NZTPs is expected to increase progressively as data and methodologies for net-zero transition plans mature.

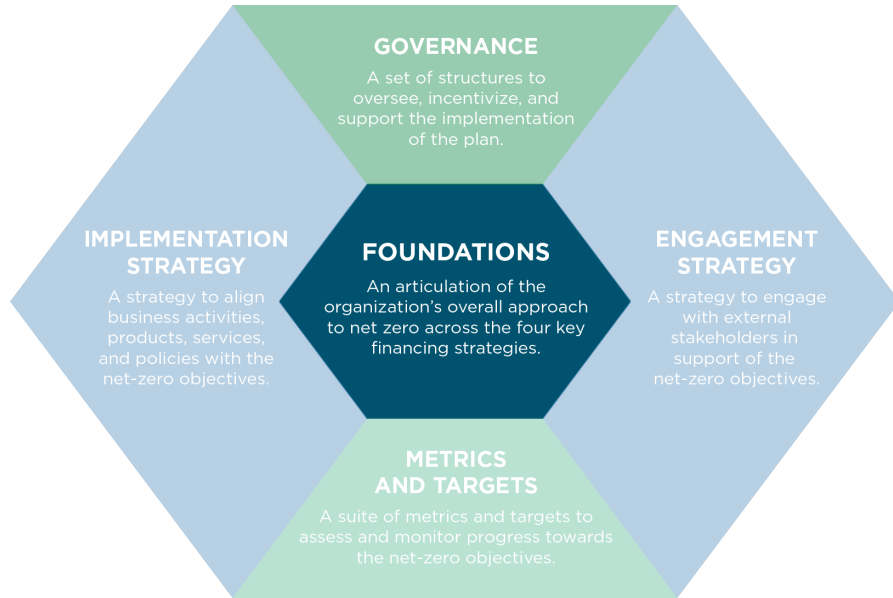
FOUNDATIONS

Clear articulation of interim and long-term transition objectives and priorities as outlined in the Foundations theme is a critical step in translating commitments into action. Understanding your approach to realizing a net-zero commitment provides the drivers and guardrails for the implementation of the strategy.



Introduction to NZTP theme Foundations

This session focuses on the Foundations theme and its component Objectives and priorities



Foundations:

- Objectives and priorities



Implementation Strategy:

- Products and services
- Activities and decision-making
- Policies and conditions



Engagement Strategy:

- Clients and portfolio companies
- Industry
- Government and public sector



Metrics and Targets:

- Metrics and targets



Governance:

- Roles, responsibilities, and remuneration
- Skills and culture

In this workshop, you will learn ...

Rationale

1. What is the Foundations theme within the GFANZ NZTP framework?
2. What is the importance of the Foundations theme?

Four key financing strategies

3. How can the four key financing strategies be incorporated into the Foundations theme?

Setting Objectives and priorities

4. What are the considerations in setting Objectives and priorities?



GFANZ publications

Several GFANZ publications provide helpful information for all aspects of transition planning

Two **major publications** detail the GFANZ NZTP framework for **financial institutions** as well as its application in the **real economy**:



Recommendations and Guidance on Financial Institution Net-zero Transition Plans

This publication describes how financial institutions across the financial system can operationalize their net-zero commitments and support the real-economy transition.

- ↓ [Download the executive summary](#)
- ↓ [Download the report](#)
- ↓ [Download the supplemental material](#)



Expectations for Real-economy Transition Plans

This report distills existing guidance to bring clarity and help companies in the real economy develop credible transition plans. Additionally, the report brings much-needed consistency on metrics and data points required by financial institutions to evaluate the progress and credibility of companies' net-zero transition plans.

- ↓ [Download the report](#)

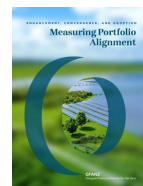
Three **additional reports** give more detailed insight into particular **areas of interest** that are of relevance to the different NZTP themes:



Guidance on Use of Sectoral Pathways for Financial Institutions

This publication offers guidance and a framework to help financial institutions evaluate suitability of sectoral pathways in their transition planning process and implementation efforts.

- ↓ [Download the report](#)



Measuring Portfolio Alignment: Enhancement, Convergence, and Adoption

This publication provides a practitioner perspective for measuring the alignment of investment, lending, and underwriting activities with the goals of the Paris Agreement and critical 2050 global net-zero objectives.

- ↓ [Download the report](#)



Managed Phaseout of High-emitting Assets

This publication provides a preliminary and high-level approach to support the identification of and guidance regarding assets where managed phaseout could be appropriate.

- ↓ [Download the report](#)

Questions for discussion and reflection



- What role do clear objectives and priorities play in your department/organization for non-climate strategies and targets? Are they used/helpful?
- Has your organization previously articulated its approach to net zero? Were specific targets and time frames included?

Structure of the Foundations theme workshop

Foundations rationale

Transition finance and the four financing strategies

Theme component

Component: Objectives and priorities

- a. Overview and relevance
- b. Guidance
- c. Example implementation of the guidance

Point of interest: Just transition and nature; carbon credits



Foundations theme: **Rationale**



What is the Foundations theme?

Foundations, in the form of objectives and priorities, are the **basis for the approach** an institution takes **to realizing its net-zero commitment**.



Each institution is different and the NZTP was written to be flexible for many different types of financial institutions — so the high-level **net-zero commitment must be translated to be fit for purpose** for each institution/company.

Clear foundations are an **articulation of the purpose and direction** to a plan of action that will shape the individual components or tactics of the net-zero transition plan.

Why do we need the Foundations theme?

Foundations provide structure to a NZTP and keep it on track

BEFORE WE BEGIN Your organization has made a net-zero commitment or is looking to make a **commitment to transition to net zero**.

WHAT NEEDS TO BE DONE? Similar to outlining specific objectives and priorities to meet a high-level business target, a net-zero transition plan outlines how a company will reach their overarching net-zero goal with **key objectives and priorities**.

HOW DOES THE FOUNDATIONS THEME HELP?

By defining the organization's objectives with a clear **scope, prioritized areas**, and measurable **targets and timelines**, the Foundations theme and its Objectives and priorities component serves as the grounding basis and high-level road map for internal stakeholders to align to as they **develop plans to execute at a tactical level**.

The objectives will also be a **reference** to internal and external stakeholders, supporting better **informed decision-making, accountability**, and **focus** on the individual components of the net-zero plan.

Prioritization should focus on how an organization intends to use the **four key financing strategies** in the pursuit of real-economy net-zero transition.



Financing climate solutions



Decarbonization through seeking net-zero-aligned clients and portfolio companies



Working to bring clients and portfolio companies into net-zero alignment



Supporting managed phaseout projects

Question for discussion and reflection



- Discuss how clarity on the approach to delivering a high-level net-zero commitment might help build support in your department/organization and ultimately help achieve net zero.

Foundations
theme:
**The four key
financing
strategies**



Transition finance and the four financing strategies

Enabling an orderly* transition in the real economy

What is transition finance?

Transition finance is investment, financing, insurance, and related products and services that are necessary to support an orderly, real-economy transition to net zero as described by the **four key financing strategies**, which finance or enable:

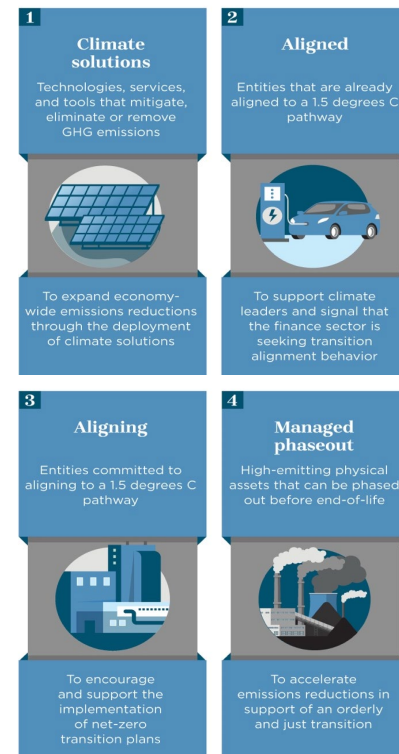
1. Entities and activities that develop and scale **climate solutions**;
2. Entities that are already **aligned** to a 1.5 degrees C pathway;
3. Entities **committed to transitioning** in line with 1.5 degrees c-aligned pathways; and
4. The accelerated **managed phaseout** of high-emitting physical assets.

Financing emissions reductions rather than reducing financed emissions

The GFANZ NZTP provides **a framework to support the provision of finance and related services toward real-economy activities** that advance the net-zero transition. These activities may not result in immediate reductions in financed GHG emissions but are necessary actions to support an orderly whole-economy transition to net zero by 2050. Financial institutions should consider that the greatest emissions reductions may be achieved by directing financing and related services to — rather than divesting from — firms and assets that need to transition.

! Further detail on the four financing strategies is available in a dedicated [workshop](#).





* 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.



Prioritizing the four key financing strategies

The opportunities to support each strategy differ between financial institutions (examples not exhaustive)

- ➔ The Foundations theme is underpinned by a statement on how the FI intends to prioritize key financing strategies to support the real economy in reaching net zero.
- ➔ The ability of a financial institution to prioritize each of the strategies depends on business model, available resources, and geography.

Key financing strategy	Examples of prioritization considerations:	Examples of implementation:*
 <p>Climate solutions Financing or enabling entities and activities that develop and scale climate solutions.</p>	<p>High relevance: Experience in VC with start-ups and tech companies</p> <p>Less relevance: Financing of non-product/services-based assets such as retail mortgages</p>	<p>Private equity firm: Targeting opportunities to invest in controlling stakes in climate technology companies ready to scale</p> <p>Bank: Local credit union offering incentives for homeowners to renovate homes for better energy efficiency</p>
 <p>Aligned Financing or enabling entities that are already aligned to a 1.5 degrees C pathway.</p>	<p>High relevance: Developed analytical capability to review and assess real-economy company climate plans</p> <p>Less relevance: Products and services for SME with less transparency/lack of data and reporting</p>	<p>Large asset manager: Data and human resources to collect and analyze companies' NZTPs against scenario pathways</p> <p>P&C insurer: Data efforts are focused on physical risk with small businesses lacking resources to publish climate reports</p>
 <p>Aligning Financing or enabling entities committed to transitioning in line with 1.5 degrees C-aligned pathways.</p>	<p>High relevance: Resources for engagement activities and deep relationships with real-economy clients and portfolio companies</p> <p>Less relevance: Lack of resources and/or established channels for engagement and influence</p>	<p>Data provider: Products geared to support climate analysis and transition</p> <p>Small endowment: Joining an engagement initiative or issuing general statements</p>
 <p>Managed phaseout Financing or enabling the accelerated managed phaseout (e.g., via early retirement) of high-emitting physical assets.</p>	<p>High relevance: Financing companies in geographical locations with a large number of high-emitting assets</p> <p>Less relevance: Portfolios of clients or portfolio companies outside of the energy sector</p>	<p>Large asset owner: Incentivizing the gradual decommissioning of a large fossil fuel power plant</p> <p>Small, local institution: Incentivizing the decommissioning of old, inefficient farming equipment</p>

! * Note that these are examples that illustrate possible actions to implement the four strategies once they have been prioritized within the Foundations theme of a NZTP.

Questions for discussion and reflection



- Discuss/explore how you might prioritize each financing strategy across your business. Consider the following:
 - region
 - sector
 - asset class
- Select a key financing strategy and workshop how a business might change decisions based on it.

Foundations component: **Objectives and priorities**



Component: Objectives and priorities

Overview and relevance



RECOMMENDATION

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

Why is this component important?

Defining net-zero objectives and priorities helps to:



provide clarity to enable implementation through identifying priorities, measurable targets, and timelines to internal stakeholders;



allow stakeholders (internal and external) to **assess the progress** of the proposed actions against the stated ambition; and



ensure comparability between the transition objectives of financial institutions.

By doing so, this component grounds an organization's execution of their net-zero commitments by establishing priorities and measurable goalposts that are applicable across business and operations.

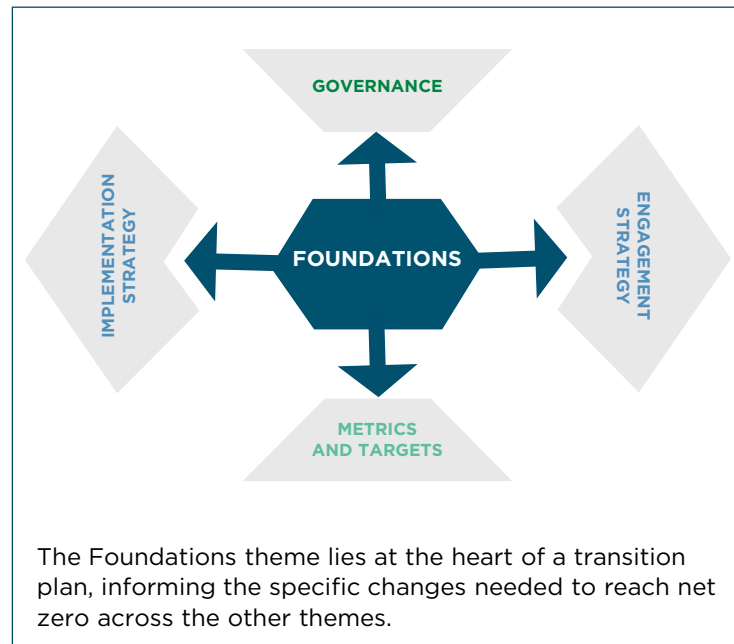
Getting started with Objectives and priorities

Each financial institution has its own business model, operations structure, resourcing, geographical coverage, and strengths and weaknesses. Once a net-zero commitment has been made, a company's approach to realizing the commitment should be articulated with the above in mind. In particular, the business model and strategy should be reviewed to identifying key areas where the four key financing strategies may be prioritized.

Component: Objectives and priorities

Guidance

- ▶ A financial institution should articulate **transition objectives and how they will be embedded** within the wider organization and corporate strategy.
- ▶ This articulation should **guide the overall transition plan**, providing a bridge from high-level commitments the financial institution has made to the specific changes they will make to their business and operations.
- ▶ **Objectives** should include information on the following:
 - **coverage** (e.g., extent of activities covered by interim targets; activities/sectors in and excluded from the plan)
 - **timelines** (How will activities be staged in the short and long term?; How is the strategy expected to evolve?)
 - **key climate topics** (How does the organization plan to address pivotal topics such as deforestation and the transition away from unabated fossil fuels?)
- ▶ Financial institutions should state how they will **prioritize different key financing strategies** to support the real-economy transition to net zero.
- ▶ Financial institutions should provide a clear and structured articulation of the **principles, assumptions, and context** that pertain to their transition plans, including:
 - how the institution is considering the prioritization of key financing strategies and how this will affect their GHG emissions and
 - if and how the net-zero transition will impact the institution's overall business strategy.



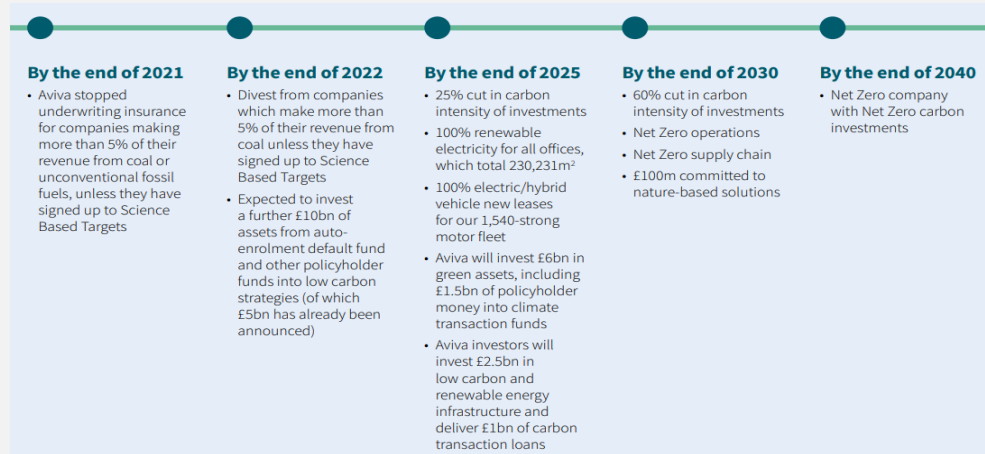
Component: Objectives and priorities

Example implementation of the guidance — What resonates with you?



Aviva's Climate Transition Plan defines objectives (sub-sector: Insurance)

WHAT was implemented?



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

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

HOW do Aviva's objectives support its net-zero commitment?

Aviva's first iteration of its Climate Transition Plan¹ provides the company's **objectives, strategy, and priorities**, in line with GFANZ recommendations, to provide detail on how they will reach net zero by 2040.

Short- and long-term ambitions are detailed in their statement with specific targets. It describes approaches to support high-emitting sectors as well as climate solutions.

The plan is **explicitly embedded in the five functional streams within the organization** (Investments, Internal Operations, Supply Chain, General Insurance Underwriting, and Claims Management).

Aviva signals that further updates will be made as methodologies mature and data becomes available.

¹ Aviva. *Aviva's Climate Transition Plan, First Release*, 2021.

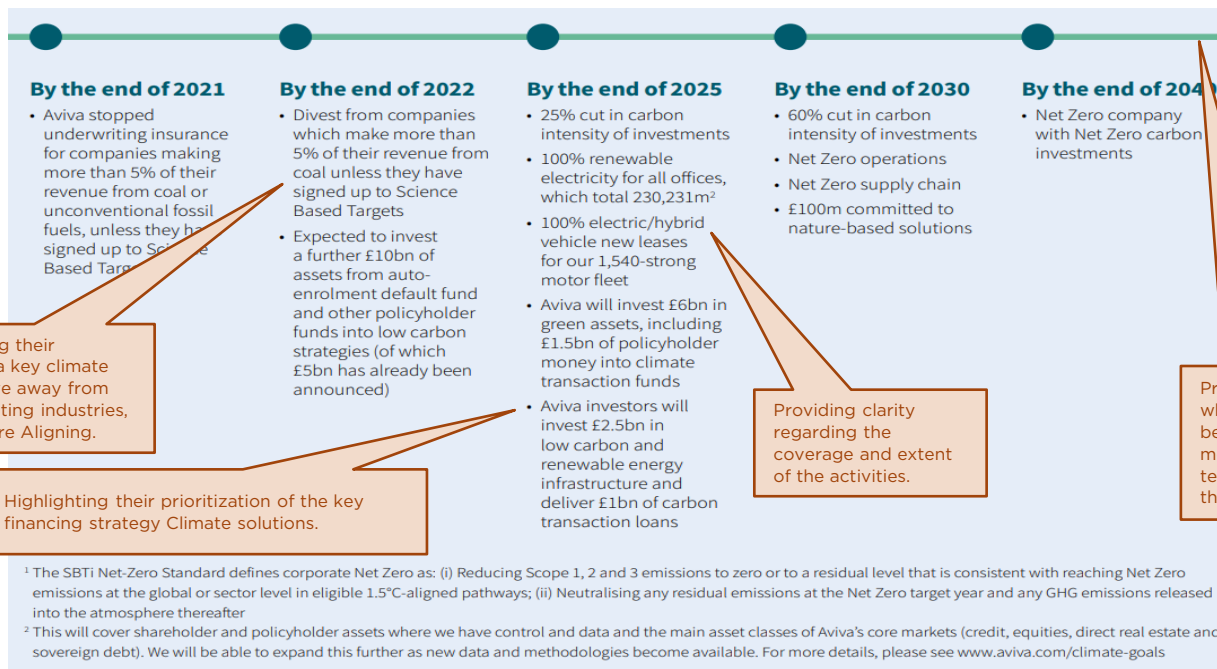
Component: Objectives and priorities

Example implementation of the guidance — What resonates with you?



Aviva's Climate Transition Plan defines objectives (sub-sector: Insurance)

HOW do Aviva's objectives support its net-zero commitment? — IN DETAIL



Source Aviva. *Aviva's Climate Transition Plan, First Release*, 2021.



Point of interest:
**Just transition
and nature;
carbon credits**



Point of interest: Just transition and nature; carbon credits

Important aspects to consider in the context of the Foundations theme

Just transition and nature



Some transition activities might have **unintended negative effects** on communities and nature, while others can offer **co-benefits**.

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

Where transition activities take a just transition into account, they can lead to increased community resilience and contribute to economic opportunity. Activities that offer co-benefits for natural systems can play an important role in climate change mitigation, on top of the direct positive effects of contributing positively to nature.



Both the **just transition and nature positivity should be factored into the objectives and priorities** of net-zero transition plans, and organizations may refer to the [Financial Institution Net-zero Transition Plans – Supplemental Information](#) report for further discussion of these important topics.

Carbon credits

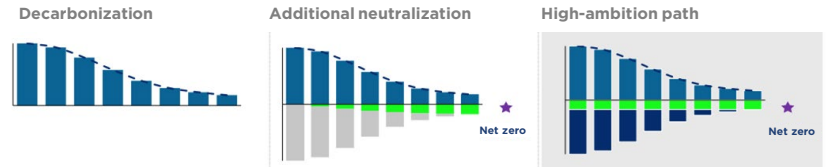


The organization's intentions regarding the use of carbon credits should be articulated as part of the Foundations theme. The quality of offsets must always be considered carefully.

Decarbonization and real-economy emissions reduction must always be the primary focus of transition planning, but carbon removal credits may be used to neutralize emissions that are not feasible to eliminate.

Organizations may also opt for a **“high-ambition path to net zero”** where carbon credits are purchased to compensate for emissions in addition to decarbonization efforts.

Further information on carbon credits is available in [Financial Institution Net-zero Transition Plans – Supplemental Information](#).



Work on these two critical issues continues across the industry.

Image source: Generation. [Making Sense of Climate Change. Climate Disclosure and Action – a Guide for Companies](#), 2022.



Questions for discussion and reflection



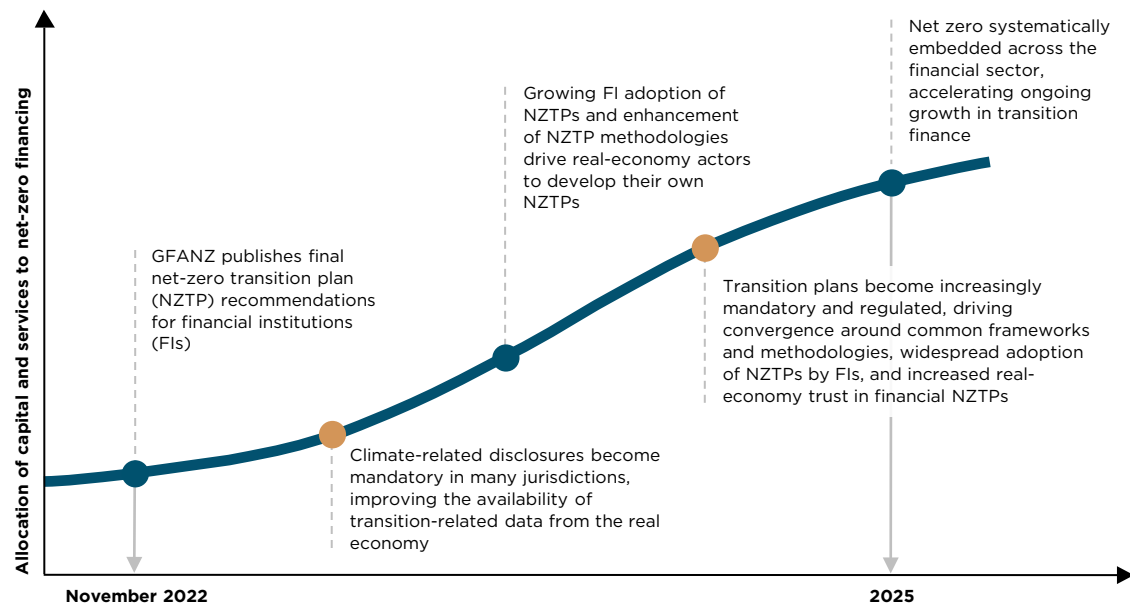
- Does your company already have overall climate objectives or priorities that provide decision-useful information for internal stakeholders?
 - If so, how would you expand them based on the GFANZ NZTP guidance?
- Bonus question: Are considerations of the just transition/nature a part of your organization's net-zero strategy? What is your organization's stance on carbon credits?

End thoughts



Setting expectations of net-zero transition planning

An illustrative timeline of the global adoption of NZTP development








Objectives and priorities may take time to develop and then flow through an organization. They may also need to be updated as better or new data becomes available or opportunities develop.

Suggestion for next workshop:
Implementation Strategy

... for an overview of the Implementation Strategy theme (i.e., how the net-zero objectives can be embedded across business functions).



Other modules and FAQ

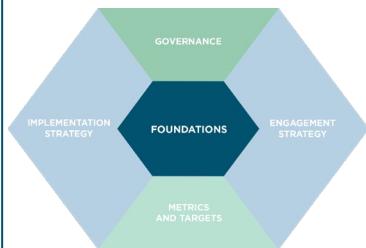
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 A helpful FAQ about the GFANZ NZTP can be found [here](#).

In this workshop, you have learned ...

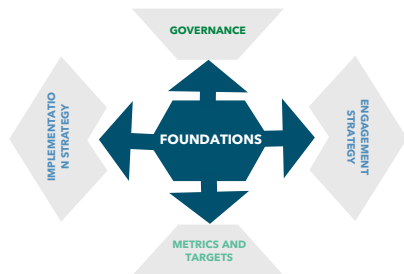


What is the Foundations theme within the GFANZ NZTP framework?



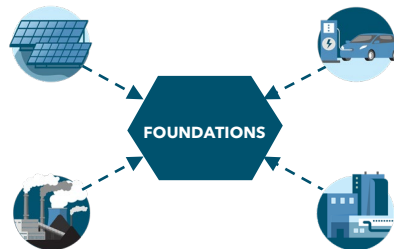
- The Foundations theme encompasses the articulation of the organization's objective to reach net zero by 2050 or sooner and the prioritization of the four key financing strategies to achieve this aim.

What is the importance of the Foundations theme?



- Clear net-zero objectives along with priority key financing strategies provide clarity to internal and external stakeholders and allow comparisons with other organizations.
- Clarity on Foundations is a key point to transition planning, influencing decisions along the other four themes.

How can the four key financing strategies be incorporated into the Foundations theme?



- Once the organization's net-zero objective has been articulated, the existing business model and operations should be reviewed to identify key areas where the four key financing strategies may be prioritized.
- Instead of paper decarbonization, prioritization of these financing strategies enables financial flows to reduce real-economy emissions, furthering the global goal of net zero by 2050.

What are the considerations in setting Objectives and priorities?

- Objectives and priorities outline how the net-zero transition commitment will be embedded within the wider organization and corporate strategy.
- Clarity on coverage, timelines, and key climate topics can guide the transition plan, ensuring high-level commitments are translated into action.
- Depending on the unique circumstances of the financial institutions, the four key financing strategies can be prioritized to different degrees.
- When communicating about Objectives and priorities, the prioritization of the financing strategies and impacts of transition planning on business strategy are prominent considerations.



