

Net-zero Transition Plan (NZTP) workshop

GFANZ NZTP THEME: GOVERNANCE



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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.



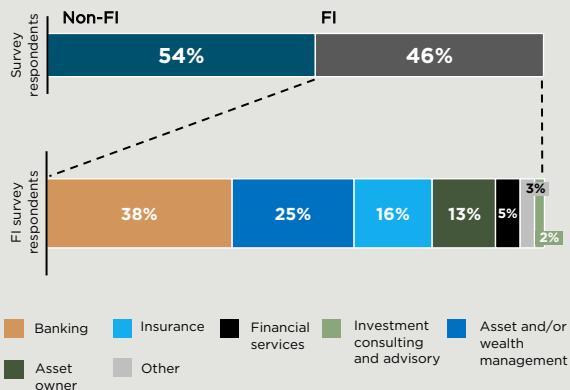
Development of the framework

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
	Implementation Strategy
	Engagement Strategy
	Metrics and Targets
	Governance <i>This session</i>
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 **Governance theme** of the NZTP framework and the **two components belonging to this theme**. It looks at the rationale for adapting governance structures in aid of a NZTP and the associated **recommendation and guidance** on roles, responsibilities, and remuneration as well as the skills and culture required for the implementation of a NZTP. This theme will provide the **underlying governance processes that support the NZTP**.

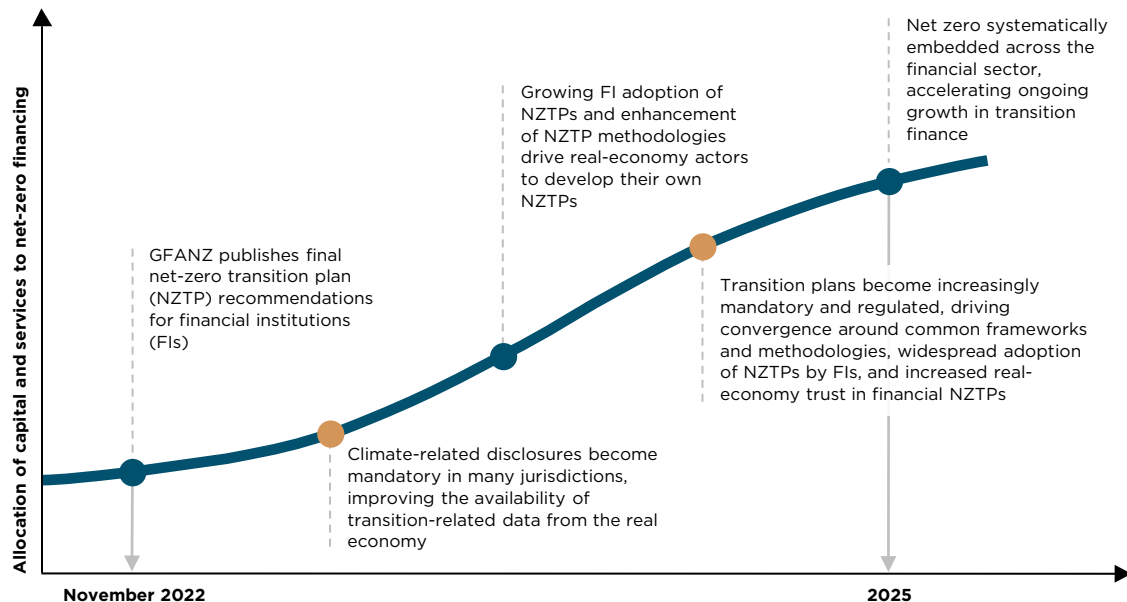
Setting expectations of net-zero transition planning

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.

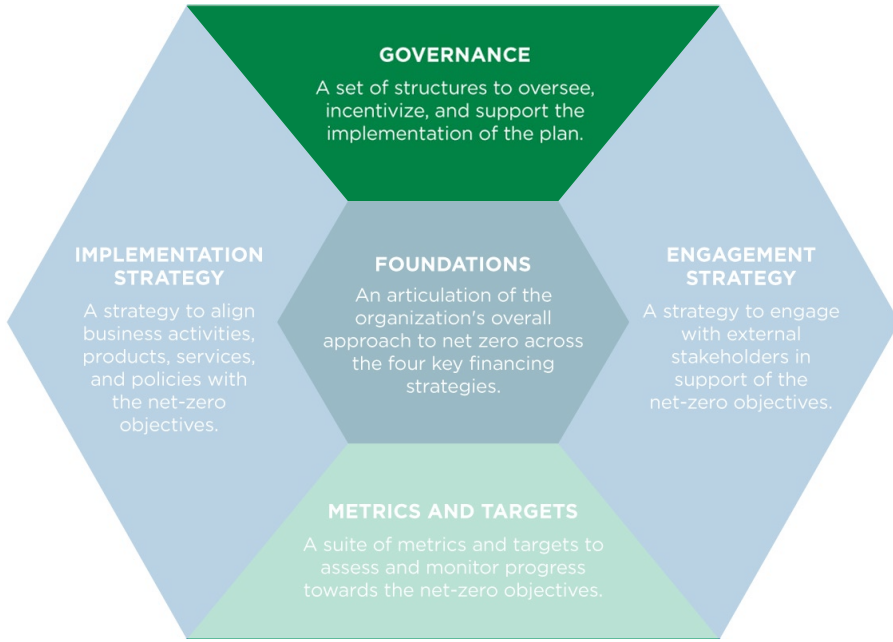
GOVERNANCE

Committing to transitioning to net zero is a strategic decision and will involve multiple areas of a firm. Leadership, staff buy-in, and internal accountability is required to achieve the desired outcomes.



Introduction to NZTP theme Governance

This session focuses on the Governance theme of the GFANZ NZTP framework



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 ...

Introduction and rationale

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

Theme components

3. How does clarity on roles support internal accountability?
4. Why is there a need for a focus on skills and culture across the organization?



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](#)

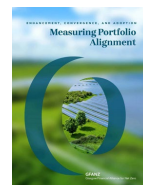
Three **additional reports** give more detailed insight into particular **areas of interest** that are of relevance to the different NZTP themes:



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](#)

Question for discussion and reflection



- Is climate expertise currently represented at different levels of your organization's governance? Consider staff, senior executives, and the Board.

Structure of the Governance theme workshop

Governance rationale

Theme components

1. Component: Roles, responsibilities, and remuneration

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

2. Component: Skills and culture

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

Governance theme: **Rationale**



What is the Governance theme?

The Governance theme focuses on the internal structures that **oversee and support the implementation** of the transition plan.



In its first component, this theme outlines the **roles, responsibilities, and remuneration** to set the tone and ensure internal accountability and drivers.

The second component focuses on an internal **culture** that will support the transition and gives guidance for the development of **climate transition-related skills** across teams, fostering greater internal engagement.

Why do we need the Governance theme?

Appropriate governance structures are needed to oversee progress to net zero

BEFORE WE BEGIN

Your organization is getting ready to execute on a net-zero commitment and the breadth and depth of work needed requires internal project management controls and structure.

WHAT NEEDS TO BE DONE?

Develop clarity on who is doing what, how progress will be measured, incentives, and accountability reporting.

HOW DOES THE GOVERNANCE THEME HELP?

The right governance structures in place provide accountability in reaching net-zero targets. Climate-related governance should be integrated at the **highest levels** of a financial institution and should **flow down to every part** of the organization through **training, education, and engagement**.

The Governance theme offers recommendations on the identification of senior personnel for specific oversight and implementation **roles and responsibilities**, as well as linking remuneration at all levels, where possible, to achievement of net-zero targets.

Further guidance under this theme covers the **culture and skills** required to prepare staff for their roles and ensure high levels of engagement and accountability throughout internal structures.



Roles, responsibilities, and remuneration



Skills and culture

Question for discussion and reflection



- Discuss how clearly defined governance structures (and identify any key ones) in support of net zero would help to deliver progress on the transition.

Governance
component:
**Roles,
responsibilities,
and remuneration**



1. Component: Roles, responsibilities, and remuneration



Overview and relevance



RECOMMENDATION

Define roles for the Board or strategy oversight body and senior management ensuring they have ownership, oversight, and responsibility for the net-zero targets. Assign appropriate individuals and teams to all aspects of both design and delivery of the transition plan. Use remuneration incentives for all roles, where possible. Review the transition plan regularly to ensure material updates/developments are incorporated; challenges are reviewed as an opportunity to correct course; and implementation risks are properly managed.

Why is this component important?



To keep the transition process on track, parties at **all levels of the organization must take responsibility.**



Chief executive officers and the governance bodies responsible for strategic oversight must set a bold, actionable plan and ensure implementation. **Design and execution of the plan must be embedded across different functions** within the organization.



Establishing effective governance processes and structures, with **clear roles, responsibilities, and remuneration**, is critical to the success of the plan's design and execution. 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.

Getting started with Roles, responsibilities, and remuneration

Following the initial commitment to net zero, oversight roles should be assigned to multiple individuals across the organization. Not only the initial design but also subsequent implementation, oversight, and review of the transition plan require dedicated roles and appropriate incentives.



1. Component: Roles, responsibilities, and remuneration



Guidance

- ▶ **Changing leadership tone:**
 - A governance body should have a clear mandate and authority in the oversight of transition planning, and consider including members with climate-related expertise.
- ▶ **A multiyear effort:**
 - Changes in management should not affect the overall progress and continuity of the transition plan.
 - Creating a transition-oriented culture and skills across the organization can help embed the transition objectives within core business practices and keep the plan on track as management changes.
- ▶ **Responsibility across all levels:**
 - Clear transition-related roles, responsibilities, and remuneration should be established throughout the organization.
 - Beyond dedicated sustainability/climate/environmental functions, a range of internal stakeholders may be involved in the implementation of the components of a NZTP.
- ▶ **Regular reporting:**
 - Regular reports on the status of the transition plan should be delivered to the governance body and gauge progress along all themes of the transition plan as well as real-economy metrics.
- ▶ **Incentives to drive the transition:**
 - Remuneration should be used to incentivize successful implementation of the transition plan.
 - Incentives at all levels should consider both interim and long-term goals and be reviewed regularly.

1. Component: Roles, responsibilities, and remuneration



Example implementation of the guidance — What resonates with you?



MSCI's clear roles and responsibilities (sub-sector: Financial Service Provider)

WHAT was implemented?

“Our Board’s four standing committees oversee the management of specific risks and the execution of strategic opportunities, including climate-related risks and opportunities that fall within the committee’s area of responsibility. The committee chairs provide regular updates to the full Board on the activities of their committees. The Board’s committees are the Compensation and Talent Management Committee, the Audit Committee, the Nominating and Corporate Governance Committee and the Strategy and Finance Committee.”

[...]

“Under our executive compensation program, executives [...] receive cash bonuses based on the achievement of certain financial performance metrics and individual key performance indicators (KPIs). Our Compensation and Talent Management Committee is responsible for ensuring our incentive awards align with our strategic goals and reviewing, approving and assessing the attainment of those goals, including financial performance metrics and KPIs.”



HOW do MSCI's roles and responsibilities support its net-zero commitment?

Within its 2020 TCFD report, MSCI outlined clear roles and responsibilities for realizing its net-zero strategy, in line with GFANZ recommendations.

It assigned a **clear mandate to the Board and its standing committees** with a strong focus on climate change.

Regular updates are provided to the Board on climate-related progress.

While limited to certain executive roles, climate-based KPIs factor into **remuneration** in some instances.

1 MSCI. *MSCI: Enabling Sustainable Investing: Task Force on Climate-related Financial Disclosures (TCFD) Report*, 2020.

Questions for discussion and reflection



- What is the governance structure of your institution currently? Who manages strategic and tactical decisions?
- Who in that structure should be a net-zero champion?
- Who in that structure will be tasked with day-to-day implementation?



Governance component: **Skills and culture**



2. Component: Skills and culture



Overview and relevance



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.

Why is this component important?



Net-zero transition plans involve **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 be designed to continue being implemented, regardless of changes in the Board and senior management. Therefore, adoption of the plan requires a **commitment to culture change, communication, broader training for employees, and innovation** across the financial institution.

Getting started with Skills and culture

Get started by identifying what knowledge and skills will be required at different levels of the organization and providing adequate training opportunities to staff.

At the same time, open communication about the transition plan and the changes to the organization's culture that it entails will foster a helpful environment for its success.



2. Component: Skills and culture



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 and knowledge** appropriate to their role (including strategic oversight from the Board, other governance bodies, and senior management, as well as plan execution by employees).
- ▶ Skill and knowledge gaps at all levels should be addressed by providing **ongoing training opportunities**.
- ▶ **External climate expertise and up-to-date information** should be available to staff at all levels.
- ▶ An ambitious net-zero transition plan requires an **organization-wide reorientation and culture change**. Awareness and understanding of the transition plan should be fostered throughout the organization.

2. Component: Skills and culture



Example implementation of the guidance — What resonates with you?



TD's Climate Target Operating Model and ESG Centre of Expertise (sub-sector: Banking)

WHAT was implemented?

"TD's ESG Centre of Expertise (COE) was established in 2021 to bring together the experience, expertise and talent of colleagues working on ESG issues across the enterprise in order to coordinate and streamline efforts and provide thoughts leadership to support decision-making. The COE uses its six-hub model to facilitate knowledge sharing, insights and coordination in key areas such as research, policies, risk management and reporting. Together, these hubs build on and help integrate the overall enterprise ESG strategy to meet increasing stakeholder expectations, oversee TD's ESG performance and disclosure processes, and lead external engagement on ESG matters."¹



HOW do TD's training efforts support its net-zero commitment?

TD has mobilized its ESG Centre of Expertise to **deliver on and embed its strategy throughout the organization.**

In line with GFANZ guidance, it provides the **education and access to up-to-date climate information** that is required for individuals to perform their assigned roles in the transition plan.

Placing the Centre of Expertise at the heart of their organization and linking it closely with a **Target Operating Model (TOM)** suggests that culture and skills across the organization are increasingly aligning to the net-zero transition.

¹ TD, *Building Tomorrow Together: 2021 Environmental, Social and Governance Report*, 2021.



Questions for discussion and reflection



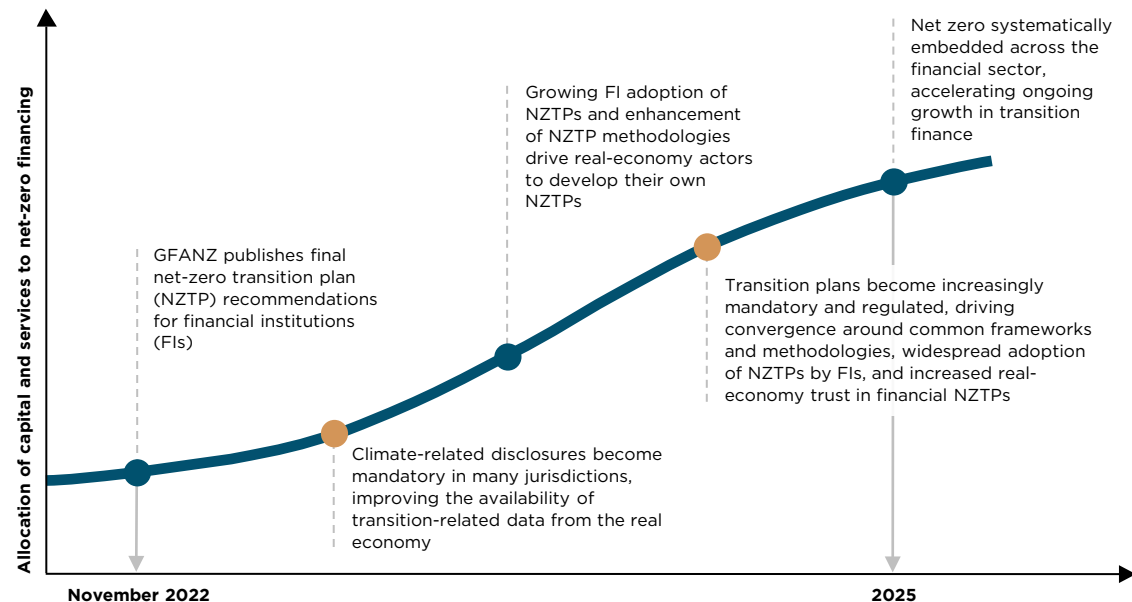
- What is the current level of skills and knowledge across the different levels of your organization (i.e., staff, senior management, Board)?
- Where are the gaps in knowledge?
 - What training activities should be prioritized to close knowledge gaps across the different layers of your organization?

End thoughts



Setting expectations of net-zero transition planning

An illustrative timeline of the global adoption of NZTP development








Governance structures will need to accommodate new roles and responsibilities as the transition progresses both inside the organization and externally across the industry.

Suggestion for next workshop:
Transition Finance: Basics

... for a high-level overview of the four key financing strategies and the decarbonization contribution methodology of Expected Emissions Reductions.



Other modules and FAQ

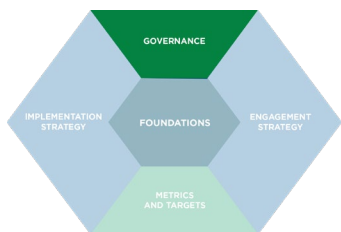
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 A helpful FAQ about the GFANZ NZTP can be found [here](#).

In this workshop, you have learned ...



What is the Governance theme within the GFANZ NZTP framework?



- The Governance theme encompasses the structures to oversee, incentivize, and support the implementation of the transition plan. This relates both to assigning specific roles to teams and individuals, and to providing adequate training and resources for those roles to be fulfilled.

What is the importance of the Governance theme?

- Without effective governance structures in place, the efficient design, implementation, and development of a transition plan are impossible.
- Internal governance structures from oversight to day-to-day implementation roles must have clarity regarding their role and responsibilities in the transition.
- The adjustment of overall company culture and fostering of relevant skills throughout the organization help keep the transition planning effort on track even when management changes occur.

How does clarity on roles support internal accountability?



- Creating a clear set of roles across the organization means that responsibility for the success of transition planning is embedded within the organization.
- Not only dedicated sustainability/climate/environmental functions, but a range of stakeholders, can be assigned clear responsibilities to further the transition.
- Spreading responsibilities across all levels while maintaining clarity supports internal accountability and keeps the transition on track.

Why is there a need for a focus on skills and culture across the organization?



- The transition to net zero is a multiyear effort that requires commitment to culture change, communication, development of new skills, and innovation across the entire organization.
- By furthering the needed skills among staff and communicating clearly about net-zero targets and pathways to achieve them, organizations can create an environment that will drive the necessary processes, regardless of changes in Board and senior management.

