

Net-zero Transition Plan (NZTP) workshop

GFANZ NZTP THEME: IMPLEMENTATION STRATEGY



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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.

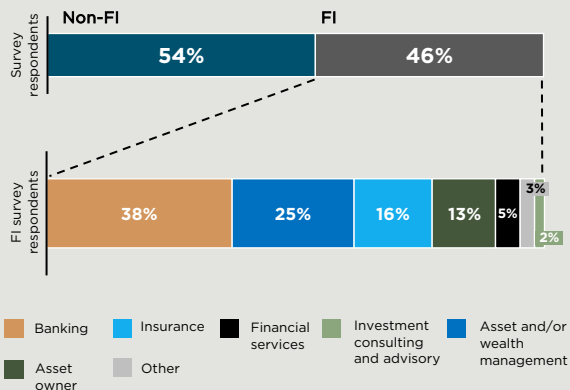
Development of the framework

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 <i>This session</i>
	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 **Implementation Strategy theme** of the NZTP framework and the three **components belonging to this theme**. It covers recommendations and guidance on the alignment of business activities, products, services, and policies with the net-zero objectives.

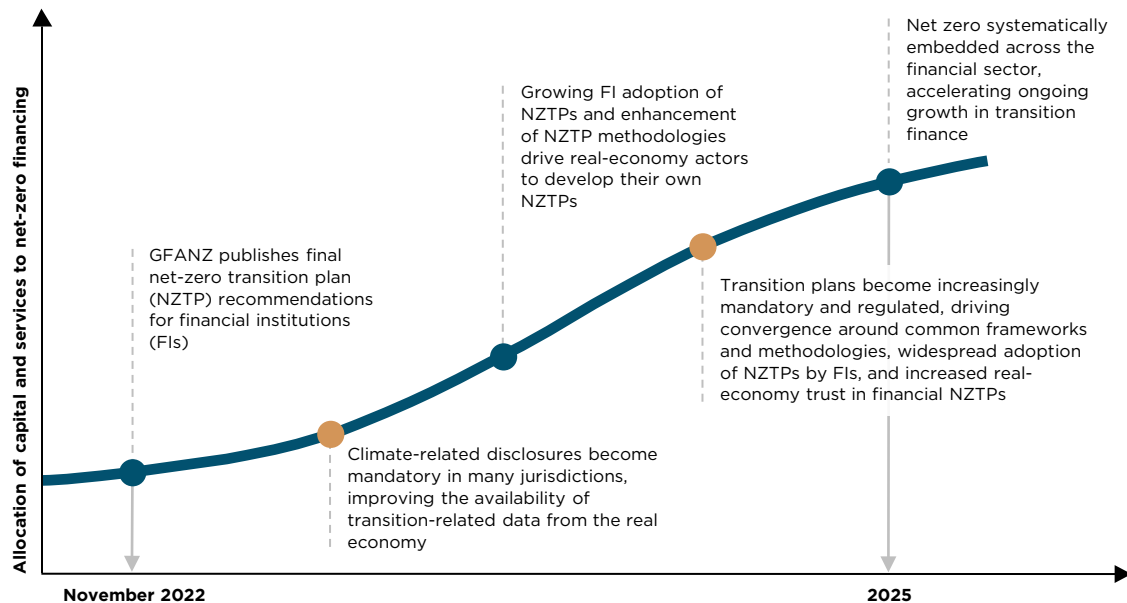
Setting expectations of net-zero transition planning

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.

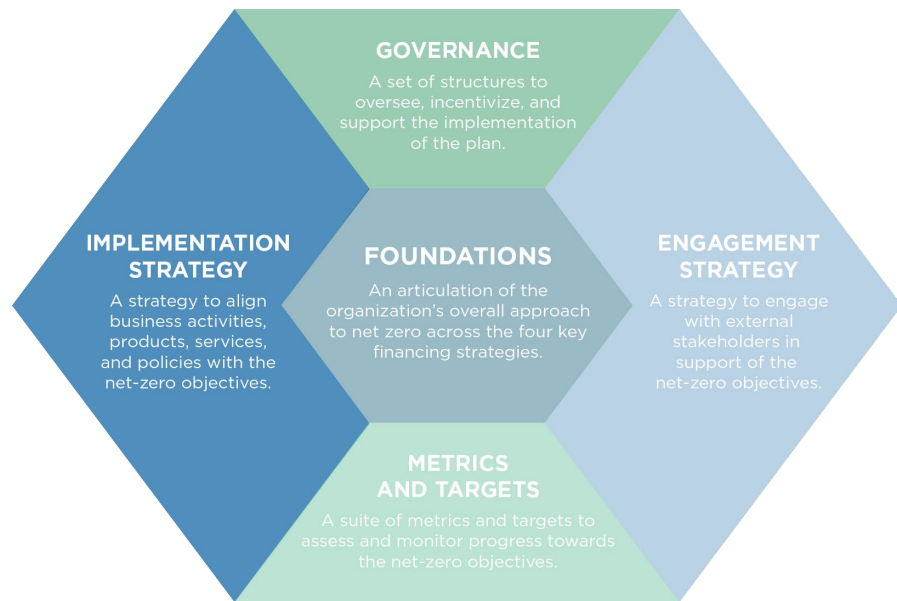
IMPLEMENTATION STRATEGY

The Implementation Strategy may be expanded, as the NZTP includes different areas of the business over time. Details of the strategy may change considering the rapid pace of change of the economic, technological, and social context and as finance teams gain knowledge and experience.



Introduction to NZTP theme Implementation Strategy

This session focuses on the Implementation Strategy 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 Implementation Strategy theme and what is its importance?

Theme components

2. What are the key aspects of a net-zero supportive product or service?
3. What are different types of internal activities and decision-making that should be assessed for net-zero aspects?
4. What is the importance of articulating policies and conditions for critical climate issues?



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](#)

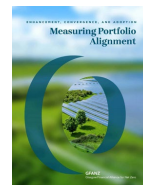
Three **additional reports** give more detailed insight into particular **areas of interest** that are of relevance to the different NZTP themes:



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](#)

Structure of the Implementation Strategy workshop

Implementation Strategy rationale

Theme components

1. Component: Products and services

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

2. Component: Activities and decision-making

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

3. Component: Policies and conditions

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

Implementation Strategy theme: **Rationale**



What is the Implementation Strategy theme?



This theme focuses on the assessment of and enhancements and additions to **core business functions** in order to **support real-economy emissions reductions**.

This includes **external-facing** financial Products and services, **internal processes** that drive the institution's financial Activities and decision-making, and top-down **institution views** on critical issues through Policies and conditions for financing climate-critical areas of work.

Why do we need the Implementation Strategy theme?

Core business activities and decision-making processes are integral to translating transition objectives and priorities into outcomes

BEFORE WE BEGIN

Your organization has identified the **approach to transitioning to net-zero**, ideally articulating Objectives and priorities within the Foundations theme and including key financing strategies.

WHAT NEEDS TO BE DONE?

In order to implement the approach, a financial institution's **core business functions need to account for net-zero climate information, risks, and opportunities**. The core business functions refer to the development, offering, monitoring, and ongoing measurement of financing activities.

HOW DOES THE IMPLEMENTATION STRATEGY THEME HELP?

The Implementation Strategy theme helps you by breaking this task down into **three components**, with best practice guidance on each. The guidance covers external offerings via **Products and services**; internal processes to enable via **Activities and decision-making**; and **Policies and conditions** that capture and define boundaries for your business to operate within to support achieving your commitments and targets.



Products and services



Activities and decision-making



Policies and conditions

Questions for discussion and reflection



- Which internal processes within your business could be Aligned/are already aligning to the net-zero transition?
- How is your organization currently structured and which teams would be included in the development and execution Implementation Strategy?

Implementation Strategy component: **Products and services**





1. Component: Products and services

Overview and relevance



RECOMMENDATION

Use existing and new products and services to support and increase clients' and portfolio companies' efforts to transition in line with 1.5 degrees C net-zero pathways. Include accelerating and scaling the net-zero transition in the real economy, providing transition-related education and advice, and supporting portfolio decarbonization in accordance with the institution's net-zero transition strategy.

Why is this component important?

Through its products and services, a financial institution can:



facilitate and accelerate GHG emissions reduction;



signal to the real economy that transition strategies will be supported with capital or insurance coverage; and



educate clients, portfolio companies, and broader society on the need for the net-zero transition

To this end, financial institutions' finance and investment vehicles, insurance products, and financial services can be aligned with the financial institutions' and their clients' net-zero objectives.

Getting started with Products and services

Existing products and services will need to be prioritized and reviewed for how they are or could be supporting real-economy emissions reductions possibly using the **four key financing strategies** as guides.

New products and services can be developed with the net-zero commitment in mind. The product development team as well as the client- or portfolio company-facing teams would be involved.

In both cases, the net-zero needs of the client or portfolio company can be used to steer enhancements and new development.

1. Component: Products and services



Guidance

- ▶ Financial institutions should **assess if existing products and services already are in line with an orderly* transition** and what modifications (including the **development of new products and services**) would be needed for them to do so.
- ▶ If the business model allows, products and services could be designed to support the real-economy decarbonization and acceleration of climate solutions.

Which aspects should be considered when designing net-zero products and services?

Key Aspect	Considerations
Real-economy impact	Will the product or service support and/or create incentives for the client or portfolio company to decarbonize in a meaningful way, in addition to meeting the financial institution's own net-zero targets?
Transparency and integrity	Is the purpose of the product or service clear and transparent? Is it labeled clearly, tied to an industry standard, and/or verified by a third-party audit (if relevant) to avoid potential greenwashing claims?
Data availability	Are there sufficient datasets or proxies available to build the product or service, and to measure the impact of the product or service if it is offered?
Scale	Is the product or service commercially viable to allow it to scale? Is the product or service measured against specific performance indicators to ensure it is being provided at a meaningful scale?
Acceleration	Is the product or service geared toward accelerating climate solutions or the transition in hard-to-abate sectors in line with 1.5 degrees C scenarios or sectoral pathways?
Methodology	Is there freedom in the net-zero product design process to allow for creativity and innovation?

* 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.

1. Component: Products and services



Example implementation of the guidance — What resonates with you?



HSBC's support for client decarbonization accelerates and scales the net-zero transition in the real economy (sub-sector: Banking and Asset Management)

WHAT was implemented?

Supporting customers to net zero

Ethihad Airways has pledged to reduce CO2 emissions to 50% of 2019 levels by 2035 on the way to reaching net zero by 2050.

As part of this transition, we helped the UAE's national airline raise \$1.2bn with the first sustainability-linked loan in the global aviation industry to embed publicly disclosed environment, social and governance targets. We held joint ESG structuring and coordinator roles, as well as being joint bookrunner and mandated lead arranger. The targets included the amount of carbon emissions Etihad cuts from its passenger fleet, with financial penalties and incentives of up to \$5.5m.

The loan builds on a \$600m sustainability-linked Islamic bond, or sukuk, we helped arrange in October 2020.



HOW does it showcase a net-zero relevant product?

In line with GFANZ's recommendation to **develop products and services that accelerate and scale the net-zero transition** in the real economy and support portfolio decarbonization, HSBC aims to support the transition of its customers, working with clients across sectors on their sustainability and emissions reduction goals.¹

This example from HSBC's 2021 report is an illustration of a product that tackles a particularly hard-to-abate sector, aviation, and includes both incentives to encourage climate mitigation activity and penalties to show credibility on the impact/intended objective of the loan.

¹ HSBC Holdings plc. *Annual Report and Accounts 2021*, 2022, p. 34.

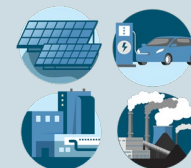
Questions for discussion and reflection



- What is a key product or financial service for your institution and how can it support net-zero transition of the intended client or portfolio company?
 - Share examples of existing or upcoming products and services that support your climate goals and priorities. Discuss lessons learned from the creation of and client reception of such products.
- How could products and services in your organization be designed to support the key financing strategies?



For an overview of the four financing strategies, refer to the appendix of this workshop.
For details, refer to the [dedicated workshop](#).



Implementation Strategy component: **Activities and decision-making**



2. Component: Activities and decision-making



Overview and relevance



RECOMMENDATION

Embed the financial institution's net-zero objectives and priorities in its core evaluation and decision-making tools and processes to support its net-zero commitment. This applies to both top-down/oversight structures and bottom-up tools and actions.

Why is this component important?

Activities and decision-making can be used to:



Financial institutions use **analytical tools and review processes to evaluate and inform decisions on all financing activities**, including risk-return ratios in investments, underwriting, lending, approving new clients, and more. These tools and processes form the core business operations, and most do not account for transition objectives.



If institutions are to align business activities with net-zero commitments, then they **should integrate net-zero data, targets, and objectives** into these evaluation and decision-making tools and processes.

Getting started with Activities and decision-making

A helpful first step is the determination of which activities and decision-making processes are key to providing products and services in net-zero critical sectors and geographies linked with the net-zero objectives previously outlined or in significant parts of the business portfolio.

After that, tools and processes can be adapted to take into account information regarding the net-zero transition, or novel tools and processes could be designed.

2. Component: Activities and decision-making



Guidance

- ▶ The integration of net-zero data, targets, and objectives should be **guided by the specific objective for the business**, staying mindful of sector-specific priority transition activities.
- ▶ Criteria used in decision-making should **reflect any conditions laid out in policies** ([see next component](#)).
- ▶ Both bottom-up tools and top-down oversight structures should be considered:

Bottom-up: Where possible, transition-relevant data, information, and implications could be integrated into the analytical processes, statements, terms of reference, or procedures underpinning the core decision-making processes. Examples could be:



- adjusting factors in risk models and expected return models;
- adding transition-related diligence questions to committee processes or reviews of third parties;
- utilizing a recognized framework (e.g., Green Bond Principles, Green Loan Principles, Climate Bonds Initiative) to assess plans for sustainability-linked finance; and
- incorporating client and portfolio company transition plans/progress; third-party assessments of client/portfolio company actions; sector decarbonization pathways; emissions mitigation technology uptake.

Top-down: Top-down tools that inform the core decision-making processes could be adjusted, e.g., by using the following:



- taxonomy-based ratios;
- internal carbon pricing;
- green capital weighting;
- carbon budgets;
- assigned changes to assets based on transition readiness; and
- internal thresholds aligned to financed emissions interim targets.

2. Component: Activities and decision-making



Example implementation of the guidance – What resonates with you?

Groupe BPCE Green Weighting Factor (sub-sector: Banking)

WHAT was implemented?

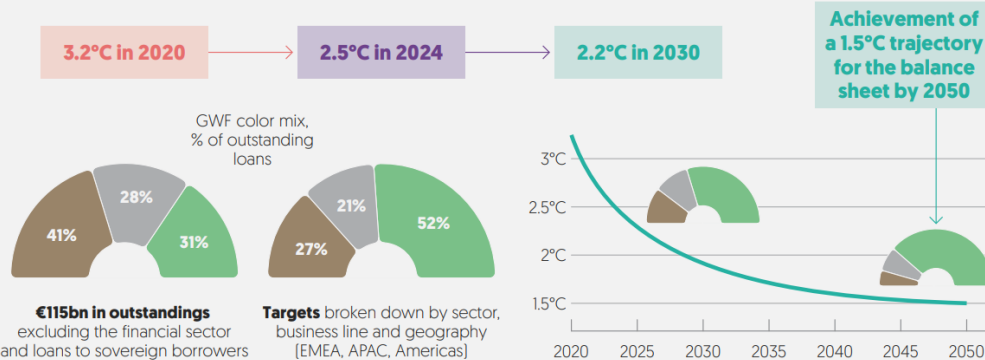
The Green Weighting Factor (GWF) tool, developed by the Groupe BPCE subsidiary Natixis Corporate and Investment Banking, is an example of how net-zero objectives and priorities can be embedded into evaluation and decision-making processes of major financial institutions.

The tool assigns a seven-level climate rating to assets, financed products, or borrowers, considering the asset's climate impact along with other sustainability indicators. This allows the systematic integration of climate change and sustainability in financing activities.¹

In use for more than two years, the tool is now fully deployed and helping to modulate exposure to transition risk and overall target setting.²

Alignment of the Natixis CIB portfolio

From climate impact to the trajectory of portfolio alignment for the Corporate & Investment Banking division using the GWF



HOW does it showcase enhancement of an internal process?

The tool has helped to **embed net-zero objectives** and priorities in **core processes** of evaluation and decision-making across financing activities. It can give useful insights for both top-down oversight and bottom-up actions.

¹ Natixis. *TCFD Report 2021: Tackling climate change.*
² Groupe BPCE. *TCFD: The Groupe BPCE Climate Report*, 2021, p. 45.

Questions for discussion and reflection



- What are the key internal processes that shape how your institution does business and decide who to do business with? How could these internal processes be adapted to support real-economy net-zero transition?
- Share lessons learned or existing challenges as you are trying to shape internal processes to enable implementation of your net-zero commitment.

Implementation Strategy component: **Policies and conditions**



3. Component: Policies and conditions



Overview and relevance






RECOMMENDATION

Establish and apply policies and conditions on priority sectors and activities, such as thermal coal, oil and gas, and deforestation. Include other sectors and activities that are high-emitting, or otherwise harmful to the climate, to define business boundaries in line with the institution's net-zero objectives and priorities.

Why is this component important?


Policies and conditions can be used to:

-  **manage** a financial institution's interaction with high-emitting activities and physical assets;
-  **transition** those assets to a net-zero pathway; and
-  **speed** the real-economy transition to net zero.

Assets and activities might be emissions-intensive in and of themselves or contribute to increased GHG emissions downstream. Policies and conditions set out a **clear management process** for priority areas, allowing continued flow of financing, and communicate the organization's intentions both internally and externally.

Getting started with Policies and conditions

Financial institutions could assess their exposure to critical net-zero relevant issues to guide policymaking. Understanding the approach to net zero set in Foundations and underpinned by detailed sectoral pathways will help to determine the conditions under which financing can continue to flow in these areas. Priority areas to be assessed include, but are not limited to, thermal coal, oil and gas, and deforestation.

 Guidance on the use of sectoral pathways is available in the GFANZ [Sectoral Pathways for Financial Institutions](#) report.



3. Component: Policies and conditions

Guidance

- ▶ Policies should be based on **scientific transition pathways** as well as the most robust **sector-specific information available**.
- ▶ **Regular reviews and updates** of policies should evaluate progress against timelines and objectives, reflecting developments in data availability and scientific understanding.

Potential elements in policies on emissions-intensive assets/activities

Element	Considerations
Objective	The overarching goal of the policy, how it supports implementation of the institution's net-zero transition ambition and priorities, and how it is informed by science.
Scope	The type of company, asset, project, and/or activity, as well as the consideration across the supply chain, to which the policy applies. Examples include companies whose share of revenue generated by specific activity (e.g., coal-fired power) exceed a threshold, a list of specific project types (e.g., gas pipelines), or geographies (e.g., the Amazon Basin). Scope could include the types of business activities within the financial institution (e.g., lending, underwriting, investing, advising, services) to which the policy applies, with the aim to cover the whole business where feasible over time.
Conditions	Criteria or conditions consistent with a science-based net-zero transition and under which the financial institution provides products and services within the activities, geographies, and sectors/business areas defined in the policy. For instance, the institution's policy could require more extensive due diligence on particular clients or portfolio companies, or a transition or managed phaseout plan. Engagement programs may focus on influencing companies to decarbonize operations.
Exclusions	Specific prohibited companies, assets, projects, and/or activities that cannot be served or financed by the financial institution upon conditions not being met. Examples include the prohibition of services or financing to entities in scope that do not have mitigation plans or whose activities involve expansion of high-emitting sources. Any exclusions that a financial institution chooses to apply should be informed by science-based pathways and determined unilaterally.
Timelines	A road map for the transition to net zero in the context of the policy, outlining when and under what circumstances the new and existing conditions and exclusions will apply. These timelines should be consistent with the science-based pathways used to set net-zero targets.
Transparency	Disclosure of methodology used within the policy, metrics used to demonstrate compliance and/or progress, and the governance and review process associated with the policy. Additionally, financial institutions should disclose the policies' scope and percentage coverage of the portfolio or otherwise, and any changes to the scope or coverage change.

3. Component: Policies and conditions



Example implementation of the guidance – What resonates with you?



Key Element	Priority area	Industry examples
Scope	Oil and gas	NatWest: “Stop lending and underwriting to all major oil and gas producers unless they have a credible transition plan aligned with the 2015 Paris Agreement in place by end of 2021.” ^{1, 2}
Conditions	Thermal coal	Bank of America: “Unless those facilities employ technology that is focused on complete or near elimination of atmospheric carbon emissions, such as carbon capture technology.” ³
Exclusions	Thermal coal	Crédit Agricole: “The Bank will not participate in dedicated financing for the development of new coal-fired power plants or their expansions, regardless of the country.” ⁴
Timeline	Deforestation	Financial Sector Commitment Letter on Eliminating Commodity-driven Deforestation: “Commit to use best efforts to eliminate forest-risk agricultural commodity-driven deforestation activities at the companies in our investment portfolios and in our financing activities by 2025...” ⁵

1 NatWest Group. *2020 Environmental, Social and Governance supplement*, 2020.

2 NatWest Group. *Climate-related Disclosures Report*, 2021.

3 Bank of America. *Bank of America Corporation Environmental and Social Risk Policy (ESRP) Framework*, June 2022.

4 Crédit Agricole Group. *Crédit Agricole Group CSR Sector Policy – Coal-fired power plants*, 2020.

5 *Financial Sector Commitment Letter on Eliminating Commodity-driven Deforestation*, 2021.

! The Policy examples section in the [Financial Institution Net-zero Transition Plans – Supplemental Information](#) report offers an in-depth discussion and examples of thermal coal, oil and gas, and deforestation policies and conditions in the financial sector.



3. Component: Policies and conditions

Example implementation of the guidance — What resonates with you?



LGIM’s policy on thermal coal (sub-sector: Asset Management)

WHAT was implemented?

“Through the implementation of this Coal Exclusion Policy, Legal & General Investment Management (Holdings) Limited (LGIM(H)) and its subsidiaries will exclude from investments those companies that are involved in the mining and extraction of thermal coal as set out in the Policy Scope below.”¹

Policy scope

Coal/oil sand classification and revenue threshold

This policy applies to:

- Companies involved in the mining and extraction of thermal coal. The scope of this policy does not extend to metallurgical coal⁵
- Screening will be carried out and exclusions will be applied to those companies that generate 20% or more of their revenues from coal mining and extraction
- Companies involved in thermal coal power generation:
- Screening will be carried out and exclusions will be applied to those companies that generate 20% or more of revenues from coal-fired power generation
 - Where a company has set out a clear Paris-aligned plan to phase out coal by 2030 in OECD, and by 2040 in non-OECD, we retain the ability to invest
 - Where a company has non-coal subsidiaries, we retain the ability to fund specific issuing entities
- Companies that derive more than 20% of revenues from oil sands (sand and rock material that contain crude bitumen)
- Additional capacity exclusions will be applied to portfolios implementing LGIM's Future World Protection List (FWPL)

New investments and coal phase out

- For funds we have committed to manage in line with net-zero emissions, LGIM will exclude, in addition to the above, companies making new investments in thermal coal and oil sands
- Across all LGIM funds, we will use active and escalating engagement with the aim of ensuring no new thermal coal generation is developed and no further oil sand resources are exploited
- Across all LGIM funds, we will use active and escalating engagement with the aim of ensuring that phase-out of existing unabated capacity and activity is undertaken in line with net zero pathways. This will take into consideration the need for a just transition in countries or regions where there is significant economic dependence on thermal coal power or mining

HOW does it showcase a net-zero relevant product?

GFANZ recommends the use of policies to define the interactions of financial institutions with high-emitting sectors, allowing their continued stewardship in the transition of high-emitting assets.

By outlining and committing to a clear policy on coal, LGIM can **continue its involvement** and investment in companies whose activities span the coal sector. All policy elements recommended by GFANZ are present in LGIM’s coal policy statement (scope, conditions, exclusions, timeline), although not all are included on this slide.

This continued involvement can be translated — as is envisaged here — into the managed phaseout of high-emitting assets and thus into **speeding up the real-economy transition** to net zero.

LGIM further communicated their policy openly, making their **intentions clear internally and externally**.

¹ LGIM. *LGIM's policy on coal*, 2022.

Questions for discussion and reflection

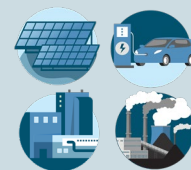


- Where (geographies, sectors, funds, asset classes, products) is your firm exposed to or able to effect change in critical climate issues?
- What are examples of existing net-zero policies or net-zero policies your firm is thinking of implementing? Share experiences and challenges that were encountered along the way.

- Discuss how policies and conditions in your organization might support the key financing strategies.



For an overview of the four financing strategies, refer to the appendix of this workshop.
For details, refer to the [dedicated workshop](#).

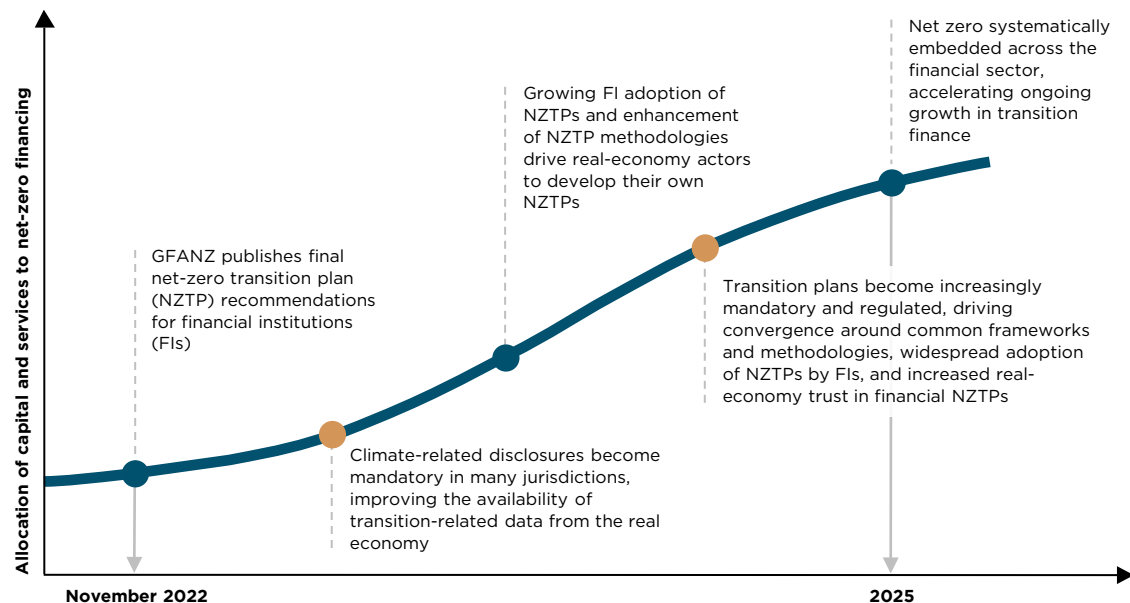


End thoughts



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.

Suggestion for next workshop:
Engagement Strategy

... for an overview of the Engagement Strategy theme (i.e., how to engage with external stakeholders (including real-economy companies) in support of net-zero objectives).

Other modules and FAQ

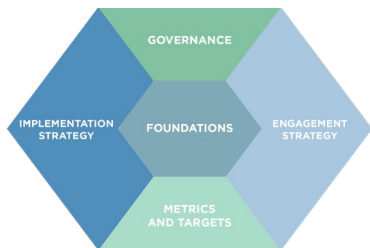
Basics	An introduction to net zero, GFANZ, and the NZTP
	Where to start with the GFANZ NZTP?
	Transition Finance: Basics
GFANZ NZTP themes	 Foundations
	 Implementation Strategy <i>This session</i>
	 Engagement Strategy
	 Metrics and Targets
	 Governance
Real-economy transition plans	Basics for real-economy 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

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

In this workshop, you have learned ...



What is the Implementation Strategy theme and what is its importance?



- The Implementation Strategy theme outlines how previously set objectives and targets can be implemented throughout the core business.
- The recommendations cover products and services that are key to allocating and securing capital for emissions reduction in the real economy; the internal analytics and processes that drive financing activity; and policies for financing climate-critical activities.

What are the key aspects of a net-zero supportive product or service?



- Key aspects of a net-zero product or service are:
 - real-economy impact (Will the product support or incentivize decarbonization meaningfully?);
 - transparency and integrity (Is the product's/service's purpose clear? Has it been audited to prevent greenwashing?);
 - data availability (Are there sufficient datasets to design and measure impact of the product/service?);
 - scale (Can the product or service be deployed at a meaningful scale?);
 - acceleration (Does the product or service speed up the transition?); and
 - methodology (Does the design allow for creativity and innovation?).

What are different types of internal activities and decision-making that should be assessed for net-zero aspects?



- Both bottom-up tools and analytical processes and top-down decision-making structures should be assessed.
- Examples could be:
 - Bottom-up: adjusting factors in risk models; adding transition-related diligence questions to committee processes
 - Top-down: internal carbon pricing; carbon budgets

What is the importance of articulating policies and conditions for critical climate issues?



- The articulation of clear policies and conditions allows financing to continue to flow to high-emitting sectors that need to transition.
- In their absence, financing would be withdrawn, causing paper decarbonization and continued emissions.
- Conditions for the management of such interactions must be in line with science-based pathways.



Appendix



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](#).

