Asia-Pacific Case Studies on Components of Financial Institution Net-zero Transition Plans

Supplementary Report to GFANZ's Recommendations and Guidance on Financial Institution Net-zero Transition Plans

JUNE 2023

GFANZ
Glasgow Financial Alliance for Net Zero

Contents

Important Notice

*This case study report was produced by the Asia-Pacific (**APAC**) Network of the Glasgow Financial Alliance for Net Zero (**GFANZ**) with contributions from GFANZ sector-specific alliance member financial institutions. This report aims to provide context for the APAC region on the various themes and components of the net-zero transition plan (**NZTP**) set out in GFANZ's Recommendations and Guidance on Financial Institution Net-zero Transition Plans (November 2022). For the avoidance of doubt, nothing expressed or implied in the report is intended to prescribe a specific course of action. This report does not create legal relations or legally enforceable obligations of any kind. Each GFANZ sector-specific alliance member unilaterally determines whether, and the extent to which, it will adopt any of the potential courses of action described in this report.*

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Members of the eight 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 report, 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.

Acknowledgements

GFANZ would like to acknowledge and express our gratitude to the numerous GFANZ sector-specific alliance members who submitted the case studies in this report. This does not imply that the case studies included herein are endorsed by every GFANZ sector-specific alliance member firm, including the firms represented on the Principals Group and the APAC Advisory Board. We also thank the GFANZ APAC Network's partners, the Institute for Global Environmental Strategies (IGES) and the Korea Sustainable Investing Forum (KoSIF), for providing in-country support in the case study developments. The case studies were edited by the GFANZ APAC Network Secretariat with support from the GFANZ Central Secretariat.

Introduction

GFANZ published its "Recommendations and Guidance on Financial Institution Net-zero Transition Plans" in November 2022. The report presents a voluntary, pan-sector, globally applicable framework for net-zero transition planning. The publication describes how financial institutions across the financial system can operationalize their net-zero commitments and support the real-economy transition. It outlines ten components under five themes that GFANZ considers as vital elements of a credible net-zero transition plan.

Since GFANZ published its guidance, leading financial institutions around the world have developed and are starting to implement net-zero transition plans. However, transition planning is an extensive, institution-wide process which requires time, resources, and capacity-building — and many financial institutions, particularly those in emerging markets and developing economies (EMDEs), are relatively early in this journey. In recognition of this, the GFANZ APAC Network has compiled this collection of case studies from GFANZ APAC members with the hope that sharing regional practices and context to the framework's themes and components provides value to the financial community. The report does not prescribe a specific course of action; or specific practices; rather, it offers information and options that may help financial institutions implement GFANZ guidance in their net-zero transition planning. We encourage institutions to start where they can and share their experiences with GFANZ while working toward full implementation.

This report presents 12 case studies that illustrate some net-zero practices of financial institutions in the APAC region. The case studies have been organized according to the five themes and ten components of the GFANZ financial institutions (FI) NZTP framework.[1]

Box 1. What is a net-zero transition plan[2]

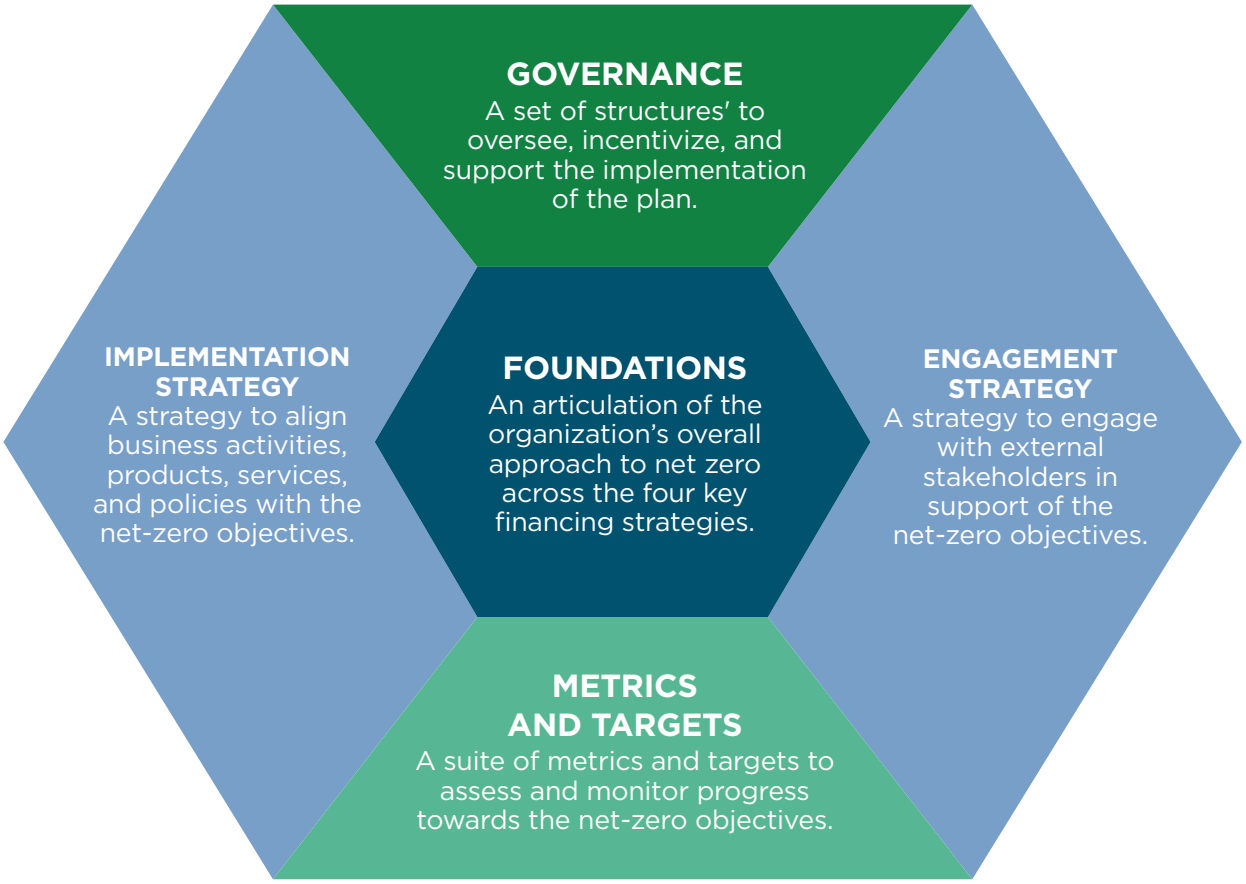
GFANZ defines a net-zero transition plan as follows: ***A net-zero transition plan is a set of goals, actions, and accountability mechanisms to align an organization's business activities with a pathway to net-zero GHG emissions that delivers real-economy emissions reduction in line with achieving global net zero. For GFANZ*** [sector-specific alliance] ***members, a transition plan should be consistent with achieving net zero by 2050, at the latest, in line with commitments and global efforts to limit warming to 1.5 degrees C, above pre-industrial levels, with low or no overshoot.***[3,4,5]

Net-zero transition plans are foundational to operationalizing commitments and demonstrating the credibility of a financial institution's net-zero pledge. A transition plan is both a strategic planning tool and a practical action plan. It translates an institution's net-zero commitment into specific objectives and actions that are aimed at reducing real-economy GHG emissions. A transition plan supports accountability and signals to both internal and external audiences that an institution's steps toward net zero are deliberate, transparent, and can be monitored. It also illustrates to stakeholders that a financial institution is taking the transition risks it faces seriously, working to mitigate them as the transition to a net-zero economy progresses.

1 GFANZ. Recommendations and Guidance on Financial Institution Net-zero Transition Plans, 2022
2 GFANZ. Recommendations and Guidance on Financial Institution Net-zero Transition Plans, 2022, p.14
3 Pathways giving at least 50% probability based on current knowledge of limiting global warming to below 1.5 degrees C are classified as "no overshoot," while those limiting warming to below 1.6 degrees C and returning to 1.5 degrees C by 2100 are classified as "1.5 degrees C limited overshoot.".
4 This reflects sector-specific alliance member commitments.
5 Through their net-zero alliances, members have all committed to setting an interim target for 2030 or sooner.

Figures 1 and 2 present a summary of the NZTP framework and recommendations that financial institutions should implement as they develop their net-zero transition plans.

Figure 1. GFANZ financial institution net-zero transition plan framework[6]



6 GFANZ. Recommendations and Guidance on Financial Institution Net-zero Transition Plans, 2022, p.22

Figure 2. Summary of Recommendations[7]

Foundations

1. Objectives and priorities
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.

Implementation Strategy

1. Products and services
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.

2. Activities and decision-making
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.

3. Policies and conditions
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.

Engagement Strategy

1. Engagement with clients and portfolio companies
Proactively and constructively provide feedback and support to clients and portfolio companies to encourage net zero-aligned transition strategies, plans, and progress with an escalation framework with consequences when engagement is ineffective.

2. Engagement with industry
Proactively engage with peers in the industry to 1) as appropriate, exchange transition expertise and collectively work on common challenges and 2) represent the financial sector's views cohesively to external stakeholders, such as clients and governments.

3. Engagement with government and public sector
Direct and indirect lobbying and public-sector engagement should, in a consistent manner, support an orderly transition to net zero, and as appropriate, encourage consistency of clients' and portfolio companies' lobbying and advocacy efforts with the institution's own net-zero objectives.

Metrics and Targets

1. Metrics and targets
Establish a suite of metrics and targets to drive execution of the net-zero transition plan and monitor progress of results in the near, medium, and long term. Include metrics and targets focused on aligning financial activity in support of the real-economy net-zero transition; on executing the transition plan; and on measuring changes in client and portfolio GHG emissions.

Governance

1. Roles, responsibilities, and remuneration
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.

2. Skills and culture
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.

7 GFANZ. Recommendations and Guidance on Financial Institution Net-zero Transition Plans, 2022 p.23

THEME

Foundations

1) COMPONENT: **OBJECTIVES AND PRIORITIES**

Example 1. Stewart Investors – Targets focused on investee companies' disclosure
Sub-sector: Asset Management

GFANZ recommends that financial institutions 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. This case study documents the linkage between objectives, priorities and target setting at an asset manager, Stewart Investors.

Company profile
Stewart Investors, an asset manager within the First Sentier Investors group and part of MUFG, invests in quality companies well positioned to contribute to, and benefit from, sustainable development. In 2021 its portfolios were approximately 90% lower in financed emissions than its corresponding benchmarks, free of fossil fuel extraction companies, and had more than 50% of companies contributing to climate change solutions.[8]

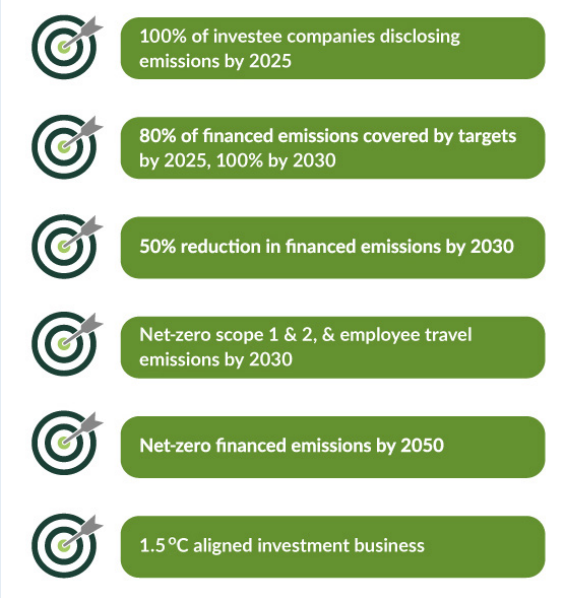
Its first investment strategy in 1988 and its first sustainable development-focused strategy in 2005 were both Asia-Pacific equity strategies. While Stewart Investors now offers a suite of global and regional strategies, more than 80% of its equity share emissions originate in the Asia-Pacific region. The 10 largest contributors to its carbon footprint are from the region, while emissions disclosure and target setting are lower in its APAC investments than in its European and worldwide strategies. APAC is therefore seen as a key region for addressing climate change and other sustainable development challenges, particularly human development.

Objectives and priorities set out in its 2021 Climate Report
Stewart Investors published its first dedicated climate report in 2021,[9] which provides clients and other stakeholders a view of its portfolio emissions, fossil fuel services company exposures, contributions to solutions, and engagement activity. It notes that it is working to encourage investee companies to reduce their carbon emissions and grow their contributions to climate change solutions. Its net-zero targets were developed with its investment objectives, strategies, and portfolio characteristics in mind. Highlights of its net-zero targets are shown in Box 2.

8 Stewart Investors. Climate Report 2021, The race to zero.
9 Stewart Investors. Climate Report 2021, The race to zero.

Box 2. Highlights of Stewart Investors' net-zero targets

- "We are fully committed to investing and operating in a manner that aligns with and supports a zero-carbon economy."
- "Consistent with the Net Zero Asset Managers initiative we have set a target of reducing financed emissions by 50% by 2030, using 2019 as a base year. We have also set a target of achieving net-zero emissions by 2050."
- "Achieving this goal will require the companies we invest in to disclose emissions information and set aligned targets. We will encourage all companies to report their carbon footprint by 2025, with the goal that companies contributing 80% of our portfolios' emissions have targets set by 2025. These two targets will underpin our climate-related engagements in the years ahead."



Source: Stewart Investors. Climate Report 2021, The race to zero.

Target addressing data challenges

Emissions disclosure by companies remains inconsistent or incomplete, the report notes. This lack of accurate data means Stewart Investors relies on estimates, rather than hard data, for its own emissions calculations and disclosure. It therefore set a target to directly obtain emissions data from 100% of its investee companies by 2025. This target was relevant because its investment approach (active and bottom-up, rather than top-down) and resulting portfolios are vastly different from benchmarks and top-down models.

Reducing portfolio emissions by 50% by 2030 will require investee companies to disclose their emissions information and set climate science-aligned targets. Stewart Investors is engaging with companies for improvements in their disclosure and target setting, and will follow up with companies where emissions are rising to understand their future plans. Across its Asia-Pacific strategies, where it has the largest capital exposure, only 28% to 36% of investee companies have set some form of target.

THEME

Implementation Strategy

1) COMPONENT: **PRODUCTS AND SERVICES**

Example 2. DBS Group – Managed phaseout of coal-fired power plants in Indonesia
Sub-sector: Banking

GFANZ identifies four key financing strategies that it believes are essential to driving the real-economy transition. One of these four strategies is financing or enabling the accelerated managed phaseout (e.g., early retirement) of high-emitting physical assets. This case study describes DBS Group's financing strategy for the managed phaseout of coal-fired power plants. It features the financial advisory services DBS is providing to the Indonesia Investment Authority (INA) to identify assets for managed phase out, structure a transaction, and secure financing partners.

Company profiles of DBS and INA

DBS Group Holdings (DBS) is a leading financial services group in Asia with a presence in 19 markets. Headquartered and listed in Singapore, DBS is in the three key Asian axes of growth: Greater China, Southeast Asia and South Asia. DBS was the first Singaporean bank to sign up to the Net-Zero Banking Alliance (NZBA) in 2021. The bank has committed to reduce its financed emissions in the power sector by 47% by 2030 compared to its 2020 baseline. While part of this commitment involves tilting the power sector loan book toward renewables, DBS also seeks to support its clients in their decarbonization journeys, particularly in the phaseout of coal power generation.

The Indonesia Investment Authority (INA) is Indonesia's sovereign wealth fund mandated to increase investment to support country's sustainable development and build wealth for its future generations. INA conducts investment activities and collaborates with leading global and domestic investment institutions in sectors that strengthen Indonesia's advantages and provide optimal risk-adjusted returns. Established in early 2021, INA focuses its investments that deliver not only economic but also social values while upholding industry-leading ESG and governance standards.

Supporting the managed phaseout of coal-fired power plants

Phasing out the use of coal is critical for decarbonizing Asia's power sector. Coal-fired power plants (CFPPs) generate over 55% of the Asia-Pacific region's electricity. Indonesia's fleet of CFPPs is young, and will emit greenhouse gases for years to come unless steps are taken now to mitigate their emissions.[10] To support the transition away from fossil fuels, DBS offers financial advisory services relating to CFPP phaseout – an offering that brings together its strength in project financing with its growing sustainable finance capabilities.

10 IEA report, Enhancing Indonesia's Power System, 2022

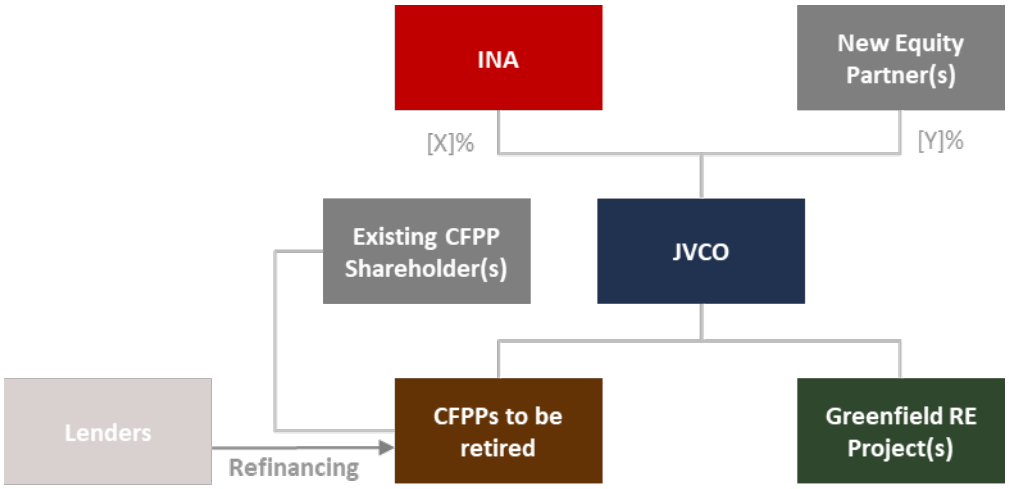
The managed phaseout (MPO) of high-emitting assets is a relatively nascent concept and there are only a handful of successful transactions, especially in emerging markets and developing economies. As such, DBS is developing new solutions to many challenges. In 2022, DBS was appointed the financial advisor to the INA, with three key mandates:

1. **Asset identification -** Identify CFPPs owned by independent power producers that INA could acquire for the purpose of retiring ahead of their economic and technical end-of-life. An asset identification framework was developed to screen potential transactions to ensure credibility and additionality (i.e., the transaction enabled phaseout of coal plants that would otherwise not have retired). Some of the key criteria included: (a) age of the plant – to be less than 10 years old, to focus on plants that can bring about meaningful savings of CO2; (b) early retirement potential – to reduce meaningful the plant's operating life; and (c) technology – to focus on more high carbon emitting plants, such as 'sub-critical' CFPPs.

2. **Transaction structuring -** Structure these transactions to ensure they are credible from a transition perspective and financially viable for INA. Transactions are structured to lower the cost of capital by leveraging catalytic and concessionary capital sources (e.g., multilateral development banks (MDBs), impact funds, etc.) and selecting the right mix of debt and equity. The savings from the 'blending' of this financing are then directed toward reducing the life of the CFPP and to cover the costs of decommissioning. Together with its client, DBS will also work with local government authorities to facilitate a just transition process that will address social consequences and look to provide new economic opportunities for affected communities. Carbon credits for emissions avoided because of early plant closure are also explored as a potential cashflow stream to boost financial viability.

3. **Securing equity and debt partners -** Secure relevant equity and debt partners for the transactions. DBS engaged a wide range of financial institutions, including banks, asset managers, MDBs and philanthropic funds, to mobilize a coalition of blended finance sources.

Figure 3. Illustrative example of financing the managed phaseout of coal-fired power plants



Source: DBS.

Challenges and solutions

As a pioneer in structuring the MPO of high-emitting assets, DBS is finding solutions to challenges that include transaction complexity, accounting for portfolio emissions, and bringing industry peers on board. These issues are discussed below.

- **Establishing a multidisciplinary team:** Institutional CFPP phaseout transactions are inherently complex, requiring capabilities from across the bank's departments – sustainability, debt, and equity, among others. Internally, DBS had to build a multidisciplinary working team of diverse individuals. The DBS team developed new ways of working and established an operating rhythm that worked across teams, allowing DBS to deliver an integrated CFPP phaseout advisory 'product' to INA and other clients.

- **Accounting for financed emissions:** The team had to grapple with how to account for the financed emissions attributable to CFPP phaseouts. Financing the phaseouts, particularly the most-polluting 'sub-critical' plants, would result in a short-term spike in DBS' portfolio emissions, putting the bank further away from its 2030 interim targets. To address this, DBS decided to report emissions from CFPP phaseouts separately from its wider portfolio emissions for clarity and transparency, ensuring that CFPP transactions do not obfuscate other net-zero initiatives and progress.

- **Establishing the credibility of MPO:** Externally, DBS had to persuade other financial institutions that participating in CFPP phaseouts can be a credible transition financing strategy. To address the potential reputational risk, DBS developed a robust asset identification framework (described previously) and is playing a key role in the GFANZ Asia-Pacific Network workstream developing guidance on CFPP phaseouts in APAC. The objective is to produce practical, voluntary guidance to ensure that CFPP transactions are credible, financially viable, and socio-economically inclusive.

IMPLEMENTATION STRATEGY

Example 3. Sumitomo Mitsui Banking Corporation (SMBC) – Establishing an internal financing framework to support hard-to-abate sectors
Sub-sector: Banking

GFANZ recommends that financial institutions integrate transition data, targets and objectives into the analytical tools and review processes that are used to evaluate and inform decisions on financing activities. The integration should be guided by any specific net-zero objective or target for that business and mindful of sector-specific priority transition activities. This case study documents the development of SMBC's internal financing framework to support the net-zero transition in hard-to-abate sectors.

Company profile
Sumitomo Mitsui Banking Corporation (SMBC) is one of Japan's leading banks and the core unit of Sumitomo Mitsui Financial Group (SMBC Group or the Group). As a NZBA member since 2021, the Group recognizes its role in supporting the net-zero transition of the real economy. In addition to financing environmental projects that advance decarbonization, such as renewable energy, the Group considers it important to finance clients in hard-to-abate sectors as they take transition measures, such as energy conservation and fuel conversion.

Supporting the net-zero transition in hard-to-abate sectors
In Japan, the Ministry of Economy, Trade and Industry, the Ministry of the Environment, and the Financial Services Agency formulated the "Basic Guidelines on Climate Transition Finance" in May 2021 to support the growth of transition finance. It is defined as financing that promotes long-term, strategic GHG emissions-reduction initiatives that are taken by a company to tackle climate change for the achievement of a decarbonized society. The guidelines, which align with the International Capital Market Association's (ICMA) Climate Transition Finance Handbook 2020, are intended to encourage labelled fundraising and financing, such as transition bonds and loans. SMBC participated as a committee member in the guidelines' development.

In May 2023, following the publication of NZBA's "Transition Finance Guide", SMBC Group established its "Transition Finance Playbook," which documents its definition of transition finance as well as procedures for identifying and assessing transition finance. Transition finance is underpinned by four principles: Do no significant harm; No carbon lock-in; Best available technology; and Just transition. The two sectors initially covered in the playbook are power and oil and gas, which need the most transition support. There are plans to broaden the scope to other high-emitting sectors in future. The playbook refers to international guidelines, and received a second party opinion from DNV Business Assurance Japan Co., Ltd.

When providing transition finance, the Group evaluates clients on their transition strategy and/or the alignment of the assets to be financed with the objectives of the Paris Agreement. See details in Box 3 below. Information is based on engagements with the customer and on third-party evaluations, where available.

A newly established Sustainability Division under the Group Chief Sustainability Officer works with its relationship managers to explain the concept of transition finance and the Group's investment framework to its customers. After these evaluations and engagements, SMBC decides on the advisability of the financing.

11 GFANZ. Recommendations and Guidance on Financial Institution Net-zero Transition Plans, 2022, p.46

IMPLEMENTATION STRATEGY

Box 3. SMBC's approach to transition finance

Transition finance assessment differs by the financing products.

Project Finance and Use of Proceeds

Step 1: Evaluate the assets	• Assets are assessed based on internal taxonomy • The internal taxonomy has been developed according to best practice, regional differences and pathways, and technological information. To the extent possible, it takes into account alignment with national transition plans / pathways.
Step 2: Evaluate entity-level transition strategy	• Assess the transition strategy of the project's main sponsor or the borrower, using the criteria under General Corporate Finance below

General Corporate Finance

Evaluate entity-level transition strategy	Main criteria are:
	• Participation in sectoral / national initiatives to address climate change, or pledge to address climate change with international initiatives such as RE100 and SBTi
	• Commitment for net zero by 2050
	• Disclosure of GHG emissions
	• Reduction targets for GHG emissions
	• Concrete transition strategies to achieve the targets
	  ° a science-based climate transition strategy which includes credible targets and pathways, aligned with the 1.5 degree C pathway
	  ° climate transition strategy includes an investment plan
	• Clear governance oversight to implement the transition strategy
	• Appropriate key performance indicators

Source: SMBC Group. Transition Finance Playbook, 2023.

IMPLEMENTATION STRATEGY

2) COMPONENT: ACTIVITIES AND DECISION-MAKING

Example 4. City Bank – Financing Bangladesh's first corporate green sukuk
Sub-sector: Banking

GFANZ recommends that financial institutions 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. This case study documents City Bank's role in the issuance of Bangladesh's first corporate green sukuk, a Sharia-compliant instrument similar to a bond. In this relatively new market, structuring the instrument as an attractive investment opportunity required efforts from participants, regulators/policy makers, and other stakeholders.

Company profile
The City Bank Ltd. (City Bank) is one of the leading banks in Bangladesh. As such, it understands its actions, operations, and the entities it finances affect climate change, both positively and adversely. Incorporating rigorous environmental and social due diligence into its lending process, City Bank financed more than 985 green projects in 2022. Since joining the NZBA in March 2022, City Bank has become increasingly interested in financing businesses that provide low-carbon solutions and generate solar power. To continue driving progress in the transition, the bank is participating in the development of new products and services.

Box 4. What is a green sukuk or green Islamic bond[12,13]

Sukuk, also known as Islamic bonds, are Sharia-compliant, fixed-income capital markets instruments. A sukuk is an interest-free bond that generates returns to investors without infringing the principles of Islamic law, which prohibits the payment of interest. A sukuk is also referred to as a 'lease certificate' because investors have ownership of the sukuk's underlying assets and returns are generated from rental payments.

For a sukuk to be considered "green", it must also comply with standards such as the ICMA's Green Bond Principles. Under the ASEAN Green Bond Standards, sukuk is covered with bonds. Further, Malaysia and Indonesia have national green sukuk standards - Sustainable and Responsible Investment Sukuk Framework (Malaysia) and Green Bond and Green Sukuk Framework (Indonesia).

Supporting Bangladesh's first corporate green sukuk[14]
City Bank Capital Resources Limited, a subsidiary of City Bank, was the lead issue manager in Bangladesh's first corporate green sukuk, Beximco Green-Sukuk Al Istisna'a. The five-year green sukuk issued in December 2022 raised BDT 30 billion (approximately US$350 million) to fund two large-scale solar power plants totaling 230 megawatts (MW), and the purchase of machines

12 World Bank. Pioneering the Green Sukuk: Three Years On, 2020.
13 Dina Azhgaliyeva. Green Islamic Bonds, 2021.
14 City Bank Capital. Introducing the Debut Beximco Green-Sukuk Al Istisna'a, 2021.

and equipment to develop the country's largest green textile factory. The solar power plants include the 200 MW Teesta Solar Limited and have a 20-year power purchase agreement with the government. The textile factory will install energy- and water-efficient technologies, such as heat recovery exhaust gas boilers, recovery of steam condensate water, and more efficient looms and dyeing machines.

The originator, Beximco Limited, is part of an industrial conglomerate with global energy, retail and manufacturing clients. With the sukuk market being relatively new, it was important to structure the issue to make it attractive to investors. The sukuk offered a market competitive return (base rate of 9% with possibility of higher returns) and a convertible feature which enables investors to convert their investment into ordinary shares of Beximco Limited over time. This sukuk is listed in the main board of the country, making it a liquid instrument. The environmental aspect of the underlying projects and the possibility for a higher return encouraged 20 banks, along with brokerage firms, insurance and asset management companies, to subscribe to the issue. This shows the appetite of the banking sector to invest in Islamic securities as well as green financing. City Bank, along with two of its sister concerns, invested in the green sukuk.

Challenges and solutions

Being the first of its kind, the Beximco green sukuk faced challenges in meeting regulatory requirements. A sukuk is an asset-backed security, which meant that assets equivalent to the size of the issuance needed to be transferred to a special purpose vehicle (SPV), increasing regulatory costs. Overall, the inaugural structure was supported by regulatory bodies. To ensure a return that would attract investors, and in response to City Bank's request, certain exemptions from the debt security rules were obtained. The National Board of Revenue exempted the SPV from various income taxes and exempted VAT on the lease of the sukuk assets.

Looking ahead

The sukuk market is dynamic and evolving. It is expected that the market appetite for green and sustainable investments will grow as product innovation is embraced, regulators and policy makers increase investor rights, and product incentives are enhanced. City Bank is committed to supporting the net-zero transition through financing, while improving the quality of life for all.

IMPLEMENTATION STRATEGY

Example 5. Metrics Credit Partners – Bespoke rating methodology for private debt seeks to improve data and engagement

Sub-sector: Asset Management

GFANZ recommends that financial institutions embed net-zero objectives and priorities in core evaluation and decision-making tools and processes to support their net-zero commitment. This case study documents Metrics Credit Partners' development of an in-house methodology to overcome data challenges with unlisted investee companies, allowing the lender to rate companies and engage with them on transition plans. The case study also notes actions taken under the themes of engagement and governance (skills and culture).

Company profile

Metrics Credit Partners (Metrics) is a leading Australian non-bank lender and specialist private debt manager with A$14 billion in assets under management (AUM). Metrics offers clients investments across private debt and credit, private equity and commercial real estate debt and equity. Metrics joined the Net Zero Asset Managers initiative (NZAM) in November 2021 and made its initial target disclosure in November 2022, covering 97.5% of its AUM. The disclosure included a commitment to align its Scope 1, 2 and 3 portfolio temperature score from 3.2 degrees C in 2021 to 2.5 degrees C by 2027 across its investments in corporate loans, private equity, and project finance. It continues to work toward verification of its targets by the Science Based Targets initiative (SBTi).

Overcoming data challenges with unlisted companies

Metrics provides private credit funding to Australian and New Zealand businesses and is a significant lender to the commercial property sector. Most of its investee companies are not publicly listed on a stock exchange; they typically do not report publicly on ESG- and sustainability-related issues, and many do not yet collect climate-related data. This posed an information challenge in terms of analyzing investee companies, as well as reporting on Metrics' financed emissions. In addition to the lack of data, Metrics needed to identify a large, robust data set against which it could benchmark its portfolio companies, and a ratings framework that properly identifies and assigns weighting to issues relevant to the industries Metrics finances.

The company developed a proprietary ESG and sustainability rating methodology, supported by bespoke industry-specific investee company questionnaires. These were designed to obtain data and objective insights to allow Metrics to assign an ESG and sustainability rating to each investee company. The methodology means industry-specific sustainability considerations, including emissions, are embedded in its core investment management decision-making processes. In June 2022, Metrics set a target to rate its entire portfolio. The process was expected to take one year from inception to delivery – covering planning, setting up the process, surveying portfolio companies, analyzing responses and assigning ratings.

Through the questionnaires, Metrics aims to more accurately measure and report its financed emissions, and improve engagement with its investee companies about emissions to drive a reduction of its total financed emissions, in line with its net-zero commitment. The questionnaires are also designed to assess the awareness of management of climate risk and the suitability of the company's strategic response. The questions are periodically reviewed to ensure they remain relevant and material.

Each investee company is rated at the time of Metrics' initial investment and each rating will be reassessed annually. An entity's ESG rating is first determined by evaluating its environmental, social, and governance profiles taking into account sector/region risk and entity-specific risk. The sustainability rating of an entity is then determined by assessing the capabilities of its senior management team and board. The sustainability rating can influence the ESG rating.

Each rating is presented to Metrics' Investment Committee for consideration and approval. The process informs strategic engagement priorities, including engagement on transition strategy. The investee company's ESG and sustainability rating, and its performance over time and against its peers, will be a relevant factor in deciding whether to maintain or increase support for the entity. The ratings process also guides Metrics analysts as they build their expertise in industry-specific climate risk assessment and management, and engagement on the entities' transition plans provides opportunities to build the relationship teams' sector-specific transition knowledge.

Challenges and solutions

Metrics developed its proprietary rating framework after determining there was no market solution or methodology suitable to its needs. It incorporated features from various sources and developed tailored questionnaires, bearing in mind the level of sophistication of its borrowers in each industry. In some sectors, it deliberately kept questionnaires brief and high level. In developing its rating methodology, Metrics overcame multiple challenges:

- Its clients are asked to complete many similar surveys, so obtaining buy-in from investment directors to assess their clients using a questionnaire was a challenge.
- Its existing analyst pool had not yet developed specialist sustainability knowledge. Analysts and investment directors were therefore educated on the value and importance of obtaining data and engaging with investee companies.
- Analysts were provided with clear guidance on which KPIs to focus on, where to find benchmarking data, and how to score performance.

Rigorous oversight ensures consistency of ratings across the portfolio. Analysts and investment directors were motivated by feedback from investors on their desire for better quality data on Metrics' financed emissions, and for progress in reducing those emissions. Relationship teams were involved in the questionnaire design, build and delivery. A script and Q&A materials were created to support the surveys. In developing the online questionnaire, the Metrics IT team initially lacked sufficient resources and expertise that would enable the company to effectively capture, maintain and analyze data from the questionnaire responses. Additional time was required to fully understand the technology and associated complexity in delivering such solutions.

Looking ahead

Metrics aims to improve data quality each year, to more accurately track and report progress over time and across industry sectors. When the data set is more developed, it may be possible for Metrics to develop models that factor emissions performance and climate change preparedness into its pricing matrix.

Not all investee companies can provide full responses to the questionnaires, as some do not yet collect data. Metrics will encourage these companies to start measuring and reporting relevant data, and work with them to improve data quality. It will also expand the range of questions over time to more closely tailor the questionnaires to each investee company's industry. Metrics plans to develop resources to share with investee companies to help them calculate their emissions, set science-based reduction targets, and identify and implement emissions reduction strategies.

IMPLEMENTATION STRATEGY

3) COMPONENT: POLICIES AND CONDITIONS

Example 6. CIMB Group – First emerging market bank to set progressive coal policy
Sub-sector: Banking

GFANZ recommends that financial institutions establish and apply policies and conditions on priority sectors and activities, such as thermal coal, oil and gas, and deforestation. This case study documents the internal processes that enabled CIMB Group to become the first emerging market bank to set a coal policy. It also explains the targets around coal.

Company profile
CIMB Group Holdings Berhad (CIMB or the Group) is one of the Asia-Pacific region's leading banking groups and Malaysia's second largest financial services provider by assets. Headquartered in Kuala Lumpur, the Group offers consumer banking, commercial banking, investment banking, Islamic banking, and asset management products and services. It is present in all 10 ASEAN nations. CIMB was the first ASEAN bank to join NZBA, and the first banking group in Southeast Asia to commit to phasing out coal from its portfolio by 2040.

Setting progressive coal policy and 2030 targets for thermal coal mining
In 2020, CIMB introduced its position statement on coal. This has been published in its "Sustainable Finance Framework (June 2022)" which lays out CIMB's commitment to phase out coal from its portfolio by 2040, as part of the Group's effort to align with the 1.5 degrees C goal of the Paris Agreement.

CIMB started discussions with its business units across the region and with NGOs on developing a Coal Sector Guide in early 2020. At the time, coal powered 44% of the electricity in ASEAN countries, where CIMB operates, with ever-increasing energy needs, and sustainability awareness was still nascent. (See the "Challenges and solutions" section for details of the year-long effort to develop and implement the guide.)

Since 2021, the guide prohibited asset-level or general corporate financing for new thermal coal mines and coal-fired power plants, as well as expansions, except where there is an existing commitment. In addition, it set out the expectation for companies such as electric utilities that rely on coal as a fuel source to diversify and reduce the share of coal in their power mix. The guide applies in all countries in which CIMB operates.

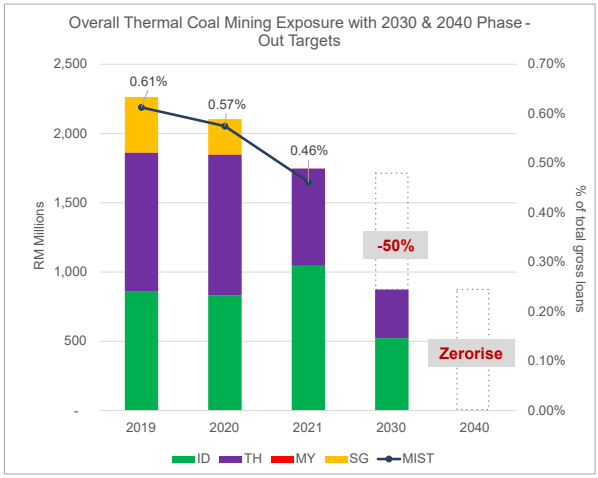
The guide stipulates that clients that operate existing thermal coal mines and coal-fired power plants are to have established an Environmental Impact Assessment (EIA) as required by national law, and environmental plans covering key risks as well as mitigation and monitoring processes.

In addition, coal-fired power generation clients are to have established a time-bound diversification strategy to reduce the share of coal in their energy generation mix. CIMB has engaged with its clients to understand their plans, progress, and challenges in diversifying away from coal. It also communicated its expectations and highlighted the outcomes of its Paris Agreement Capital Transition Assessment (PACTA) scenario analysis to help clients align their projected outcomes with the temperature goals of the Paris Agreement.

In September 2022, CIMB announced its Scope 3 financed emissions baseline,[15] which will enable it to set sector-specific interim climate targets and design transition plans for carbon-intensive sectors. Thermal coal mining is one of the first two sectors where CIMB has set 2030 interim targets, making it the first Malaysian bank and second ASEAN bank to publish such targets in alignment with globally recognized scenarios. Starting from its end-2021 position, CIMB aims to halve financing and investment exposure to the thermal coal mining sector by 2030 as an interim target.

15 CIMB Group. CIMB establishes Scope 3 financed emissions baseline, 2022

Figure 4: CIMB's Climate Target for Thermal Coal Mining



Source: CIMB.

Exposure Target

- **Halve** thermal coal mining sector exposure by 2030 from 2021 (base year)

Scenario

- IEA Net Zero Emissions (NZE) 2050, which states that no new thermal coal mines are required post 2021

Boundary

- Thermal coal mining clients, i.e. generate >5% of their revenues from thermal coal mining
- Excludes other segments of the coal value chain such as contractors, transportation, manufacturing
- Coal-fired power plants will be covered under the power generation sector target

Target Coverage

- Lending, excluding off-balance sheet credit exposures
- Includes corporate bonds held for sale/maturity (FVOCI and AC)

Challenges and solutions

When CIMB started discussions with business units and NGOs on the Coal Sector Guide in early 2020, almost none of its clients in that sector had a net-zero commitment. Although the coal sector represented less than 1% of the Group's financing exposure, the guide was the first ESG decision that could result in the potential loss of revenue and clients.

Developing and implementing the guide took a year's worth of extensive internal negotiation and socialization at all levels. The sustainability team started engaging relationship managers and clients early in the process to obtain the required data points and discuss areas for collaboration and areas where support was required. It was also important to educate colleagues and clients on the negative impacts of coal on climate, the bank's role in facilitating these impacts, and the availability of clean energy alternatives. Agreement was eventually achieved, premised heavily on the fact that the coal sector represents a significant source of transition risk for CIMB.

WWF Malaysia and the Institute for Energy Economics and Financial Analysis supported CIMB in crafting its Coal Sector Guide. They helped the Group understand relevant global, national and market trends, including the potential growth of renewable energy within the region, as well as government plans to scale up clean energy.

At the same time, CIMB noticed markets had started shifting away from coal as global and regional stakeholders increasingly adopt transition plans. The Global Energy Monitor reported that in 2020, Bangladesh, Indonesia, the Philippines and Vietnam moved to cancel 62GW of planned coal-fired power capacity.[16] In 2021, in CIMB's largest market, Malaysia, the government announced it would stop building new coal-fired power plants and shift its focus toward clean and renewable energy. Indonesia plans to rapidly ramp up renewable energy capacity as well. As of 2022, approximately three-quarters of Malaysia's banking sector had followed suit by making commitments to limit or phase out financing of coal-related activities.[17]

To implement the guide, Group employees had to understand the requirements, be able to engage their clients on coal topics, and consider sustainability factors in business decision-making. To this end, extensive training was conducted to bring business relationship managers up to speed.

16 Global Energy Monitor. Boom and Bust 2021: Tracking the Global Coal Plan Pipeline, 2021.
17 Joint Committee on Climate Change (JC3). Report on the Sustainable Finance Landscape in Malaysia, 2022.

THEME

Engagement Strategy

1) COMPONENT: CLIENTS AND PORTFOLIO COMPANIES

Example 7. abrdn – Forward-looking strategy for transitioning companies in Asia
Sub-sector: Asset Management

GFANZ identifies four key financing strategies that it believes are essential to driving the real-economy transition. This case study discusses the financing strategy for supporting entities that are "aligning" to a 1.5 degrees C pathway. It features abrdn's investment strategies designed to support companies, especially in high-emitting sectors, that have credible, clear and timebound transition plans. It also discusses client engagement to obtain forward-looking information.

Company profile
abrdn is a global investment company and asset manager headquartered in the U.K. In 2022, the company celebrated 30 years in the Asia-Pacific region. As of 31 December 2022, abrdn managed £16.4 billion in assets in the region, with Asia being a key growth market for its investments business.

Committed to playing its part in tackling climate change, abrdn joined the NZAM initiative in March 2021. It published its Net Zero Directed Investing strategy in November 2021, which made the commitment to reduce the carbon intensity of its investment assets by 50% by 2030 against a 2019 baseline. This target is an average across all the assets in scope, i.e., equities, corporate credit, quantitative strategies, real estate, discretionary and selected multi-asset funds.

The company plans to achieve this target through: (i) the provision of net-zero investment solutions to clients, notably by identifying transition leaders and climate solutions; (ii) active ownership, through engagement to drive GHG emissions reduction in the real economy; and (iii) the use of tools, such as its proprietary carbon footprinting and climate scenario analysis tools.

Driving real economy decarbonization — Global climate-focused investments
As part of a wider range of sustainable investment strategies, abrdn has developed climate-focused investment solutions to support its net-zero commitment. In particular, the company has developed a climate transition bond strategy. Its objectives include driving real-world emissions reductions; reducing exposure to transition risks; increasing climate resilience; and capturing new commercial and growth opportunities that arise from the transition to a low-carbon world.

While global in scope, this strategy has an allocation of around 25% to emerging markets, which include Asian markets, and has been structured around the three pillars below:

- 'Leaders': abrdn invests in companies that are in high-emitting sectors but have ambitious and credible decarbonization targets;
- 'Solutions': it targets companies that help the wider economy to decarbonize (e.g., the circular economy, energy efficiency, electrification, energy storage and renewable energy sectors); and
- 'Adaptors': investments that help address physical climate risks.

Investment solutions tailored to Asia
In addition to the above, abrdn has developed sustainable investment solutions specific to Asia. One of its Asian sustainable bond strategies has been designed to not only recognize ESG leaders of today, but to also support companies that have credible, clear and timebound transition plans.

While some of these companies, for instance in high-emitting sectors, may be screened out by typical sustainable fund strategies that use backward-looking data, abrdn believes investors can benefit from adopting a more forward-looking approach – for example, by looking beyond today's carbon footprint information. This would allow investors to meaningfully support and capture the growing opportunities as an increasing number of Asian companies embark on the low-carbon transition.

To that effect, abrdn's sustainable bond strategy has a dedicated allocation to transitioning companies. Its fund managers assess the companies' short-, medium- and long-term decarbonization targets against credible science-based transition pathways relevant to their industry sectors and region. Additionally, abrdn evaluates whether these targets are backed by strong governance and a clear commitment from the company leadership. This due diligence is complemented by abrdn's ongoing engagement with issuers, as well as its process to select green, social and sustainability bonds where the issuer can demonstrate a strong transition strategy.

Challenges and solutions
One of the challenges identified early in the development of the Asian sustainable bond strategy was the potential for greenwashing and reputation risks, given the exposure to companies in high-emitting sectors. There were extensive discussions between the investment desks, product development, sustainability and compliance teams on how to ensure decarbonization targets are credible.

Another challenge was obtaining data and information on the ESG practices of investee companies. With an increasing number of countries adopting regulations on ESG and climate-related disclosures, the regulatory landscape in Asia is evolving fast. However, publicly available data is still relatively patchy and there are concerns over reliability. Many companies in Asia are still relatively early in their transition journey, which means they are at risk of being excluded from many sustainability funds if investors rely solely on publicly available ESG information or ESG ratings.

Given the growing importance of supporting the low-carbon economy transition in APAC, abrdn complements publicly available data and information sourced from third-party providers with direct engagement with companies in the region. This enables abrdn to better understand how companies address the ESG issues material to their activities, and to form a forward-looking view of their ESG practices, including measures to meet their decarbonization commitments.

abrdn has two dedicated ESG experts on its APAC Fixed Income desk, in addition to its central Sustainability Group. Having a local presence with ESG and climate expertise enables abrdn to meaningfully engage with companies and investors in the region and analyze the underlying investments. The mix of global and regional experience has also enabled abrdn to share insights into global best practice and investor expectations. By doing so, abrdn seeks to support companies in their transition journeys and drive improvements in investee companies' net-zero transition plans and disclosures.

ENGAGEMENT STRATEGY

Example 8. Mizuho Financial Group – Client engagement drives net-zero transition planning and climate-related risk management
Sub-sector: Banking

This case study documents the relationship between climate-related risk management and net-zero transition planning at Mizuho Financial Group. The company has expanded client engagement to manage risks to its own business, assess the transition status of clients, and identify transition finance opportunities.

Company profile
Mizuho Financial Group (Mizuho or the Group), based in Japan, is one of the world's largest financial institutions, offering banking, securities and asset management capabilities. In 2022, the Group formulated its approach to achieving net zero by 2050, and its net-zero transition plan (NZTP). The plan clarifies its medium- to long-term strategy and initiatives and integrates climate-related risk management objectives.

Highlights of Mizuho's NZTP[18]

1. **Net-zero GHG emissions reduction targets:** Become carbon neutral for Scope 1 and 2 (emissions from Mizuho's own business activities) by FY2030; begin setting mid-term (2030) targets for Scope 3 (emissions from financing and investment); achieve net zero by 2050 for Scope 3.

2. **Strengthening low-carbon business:** Strengthen support for the transition by engaging with clients and providing financial and non-financial solutions.

3. **Improving climate-related risk management:** Continually enhance risk management frameworks and policies that aim to create a business base resilient to climate change impacts.

Recap: The relationship between risk and transition planning

Financial institutions' net-zero transition planning is a forward-looking plan of action to implement a net-zero commitment. The plan should represent the strategic alignment of a financial institution's core business and build upon, but look beyond, an institution's own risk profile to support the net-zero transition in the real economy. Net-zero transition planning will be informed by firms' efforts to identify climate-related risks and opportunities, in particular transition risks. For further information, see p.19-20 of Financial Institution Net-Zero Transition Plans.

4. **Strengthening capabilities through industry and stakeholder engagements:** Strengthen employee capabilities to achieve net zero through training and information sessions, participating in international initiatives, and cooperating with diverse stakeholders.

Overview of client engagement strategy
Mizuho is strengthening its work on climate-related opportunities and risks as well as supporting the transition to net zero through client engagement and purposeful, constructive dialogue. For all clients, specific support for transition and decarbonization strategies is offered. In doing so, Mizuho expects to improve resilience to climate change at its own group of companies as well as among its clients.

18 Mizuho Financial Group, Inc. Strengthening our sustainability action, 2022.

ENGAGEMENT STRATEGY

In FY2021 Mizuho engaged with approximately 1,000 corporate clients as part of its annual review of clients' responses to environmental and social risk. It also implemented engagements aimed at encouraging clients' sustainability initiatives with around 1,300 corporate clients, of which 600 were on climate change. Through these engagements it aims to provide clients with financial and non-financial solutions such as transition strategy planning, support for innovation that contributes to decarbonization, and risk management.

Mizuho also supports the transition of companies in high-emitting industries. The starting point is engagement.

Managing transition risk through engagement

In its 2022 TCFD Report, Mizuho discussed the link between climate risk management and net-zero transition planning. It said the results of its scenario analysis reaffirmed the importance of society conducting an orderly transition, and it would therefore strengthen its efforts in:

- in-depth engagement with clients
- support for business structure transformation through sustainable finance and other means
- participation in policy engagement that includes private-public partnerships

In its client engagement work, Mizuho asks clients to share their transition strategies. The bank confirms the status of their transition strategies and provides support to help execute the strategies, such as sustainable finance.

Mizuho developed a framework to confirm the credibility and transparency of its clients' transition strategies. The framework follows the four elements in the International Capital Market Association's Climate Transition Finance Handbook:[19]

- climate transition strategy and governance
- business model environmental materiality
- science-based strategy including targets and pathways
- implementation transparency

Mizuho added a fifth element, the outlook for decarbonization technology development or adoption, and has started applying this framework to clients in the electric power sector.

Mizuho's client engagement strengthens the bank's own climate risk management and journey to net zero, because it can better understand clients' response to transition risk. In particular, it monitors the progress of clients in the energy, power and resource sectors. Based on information obtained from client disclosures, interviews, and other sources, Mizuho assesses clients' responses to transition risk from Low to High, using the four classifications below.

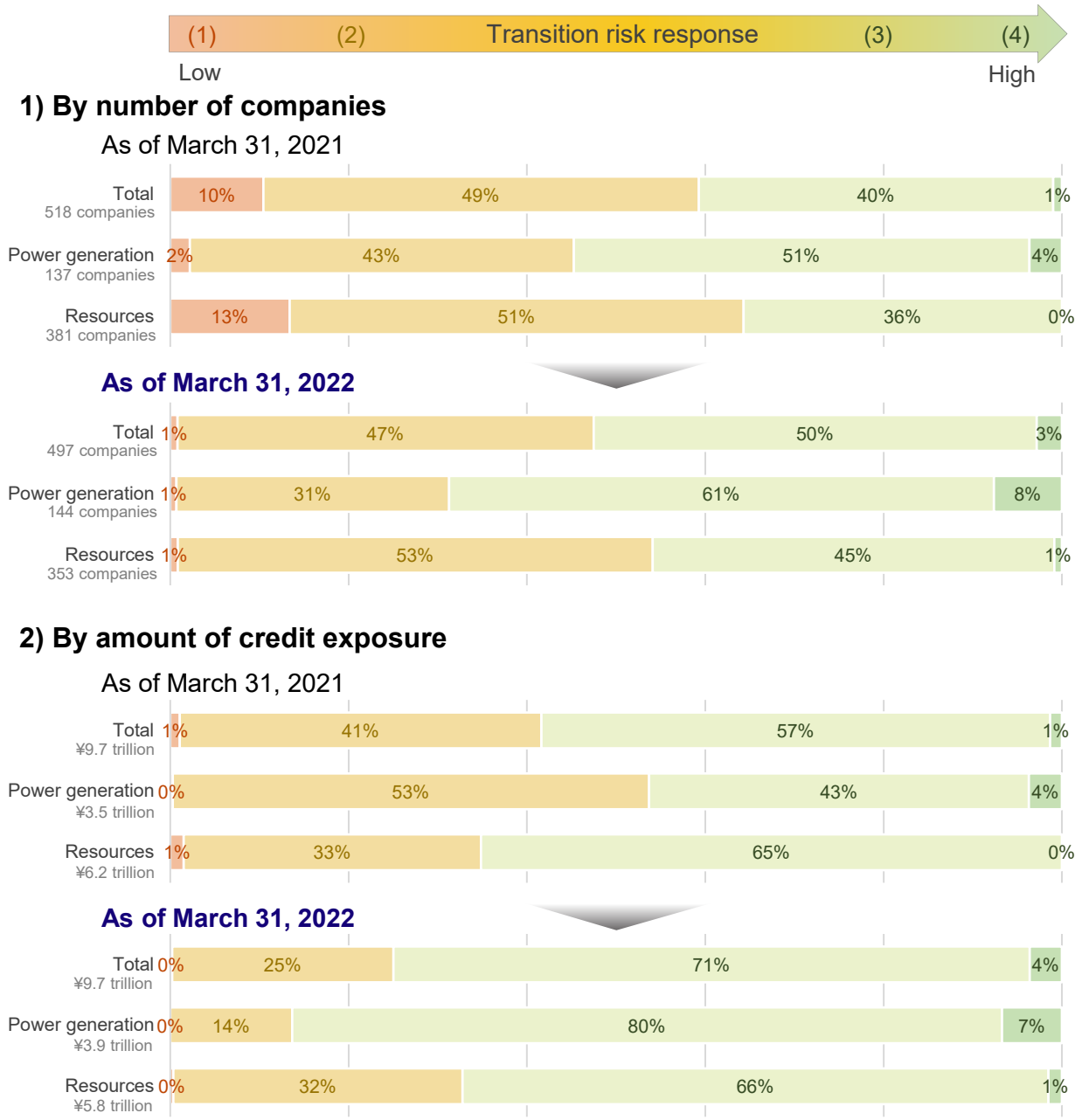
(1) Has no policy to address transition risk and has set no targets
(2) Has a strategy to address transition risk and has set targets
(3) Has set targets aligned to the Paris Agreement and is implementing specific initiatives
(4) Has met the requirements in (3) and also obtained third-party certification

19 International Capital Market Association. Climate Transition Finance Handbook, 2020.

ENGAGEMENT STRATEGY

Figure 5 below shows clients made steady progress in addressing transition risk in FY2021. Specific examples of progress that Mizuho has seen from engagement include a public commitment to net zero by 2050 and setting of targets, and proof-of-concept trials of next-generation technology. When the bank does not see progress from engagement in carbon-related sectors, it "carefully considers" whether to continue business with that client.

Figure 5. Mizuho's client progress on addressing transition risk



Source: Mizuho Financial Group. Mizuho TCFD Report, 2022

ENGAGEMENT STRATEGY

2) COMPONENT: INDUSTRY

Example 9. Moody's Corporation – Bringing clarity to complex interrelated climate impacts through client and industry engagement

Sub-sector: Financial Service Providers

GFANZ recommends that financial institutions proactively and constructively provide feedback and support to clients to encourage net zero-aligned transition strategies. It also recommends engagement with peers in the industry to, as appropriate, exchange transition expertise and collectively work on common challenges and represent the financial sector's views cohesively to external stakeholders. This case study documents Moody's Corporation engagement activities in the Asia-Pacific region, including participation in global and regional initiatives and knowledge sharing events.

Company profile

Moody's Corporation (Moody's), a global integrated risk assessment firm, was a founding member of the Net Zero Financial Service Providers Alliance (NZFSPA). The company commits to align all relevant products and services to achieve net-zero GHG emissions by 2050, and to achieve net-zero emissions across its own operations and value chain by 2040.[20] Moody's was one of the first companies to have its near- and long-term net-zero targets validated by the SBTi.

Empowering customers and peers to make climate-informed decisions

Across the Asia-Pacific region, the integration of climate-related risks and opportunities in financial considerations is developing, and climate-related standards also vary significantly. Moody's is committed to helping APAC customers and peers better understand how climate-related considerations affect financial performance and investment decision-making, because greater transparency, more informed decisions, and fair access to information help open the door to shared progress. The company's integrated engagement approach is described below.

- **Institutional outreach:** Moody's participates in global industry-wide efforts with private and public groups such as the Task Force on Climate-related Financial Disclosures (TCFD), Taskforce on Nature-related Financial Disclosures (TNFD), the NZFSPA and GFANZ. Moody's also participates in regionally focused initiatives, collaborating with associations such as the Australian Sustainable Finance Institute, Asia Securities Industry & Financial Markets Association, Asia Investor Group on Climate Change, and Hong Kong Green Finance Association.
- **Active market outreach:** The company's dedicated digital channel, Moody's Sustainability in Focus, highlights events on ESG performance, climate risk analytics and sustainable investing. Moody's also hosts and strategically sponsors ESG and climate-focused events, such as Moody's APAC ESG Conference.[21]
- **Thought leadership:** Moody's continues to expand its thematic research on key trends in ESG, climate, sustainable finance, and their credit implications. Examples include the 2022 report on Just Transition in emerging markets,[22] which looked at transition impacts on sovereign issuers, their role in financing initiatives, and effects on workforces and communities. Moody's has also published various net-zero assessments focused on the APAC region.[23] These research pieces cover markets including China, India, and Association of Southeast Asian Nations (ASEAN) member states rated by Moody's. Some key research findings are summarized below.

20 Moody's. Moody's|Sustainability, 2023.
21 Moody's. APAC ESG Conference, 2022.
22 Moody's. Just Transition, 2022.
23 Moody's. APAC net zero reports include: China: Path to net-zero emissions points to bumpy transition for fossil fuel-driven sectors, May 27, 2021; India: Policy challenges could hinder momentum toward net zero, putting onus on private sector and investors, April 19, 2022; Southeast Asia: Commodity reliance challenges transition, while regional cooperation supports green finance potential, Oct 03, 2022.

ENGAGEMENT STRATEGY

BOX 5. Moody's APAC Net Zero Reports

Market	Key Takeaways
China	China's carbon-reduction targets put emissions on course to peak by 2030 and indicate that more aggressive and potentially disruptive reductions will occur to achieve carbon neutrality by 2060. Companies involved in renewable energy, batteries, construction and electric vehicles will benefit, while financial institutions will be compelled to adapt to rapid shifts in the technological and regulatory environment, and to changes in borrower behavior. Growing global momentum and investor pressure will increase pressure on Chinese producers to conform to global standards and accelerate emissions reductions over time.
India	India's high growth potential and large agricultural sector will pose hurdles to the implementation of carbon transition policies, putting a greater onus on private investors and companies to invest in decarbonization. Large, non-financial companies across the auto, chemicals, steel, and utilities sectors have announced net-zero targets that are well ahead of the Indian authorities' goal, while government-linked companies are lagging. Indian banks' significant loans to carbon-intensive sectors expose them to transition risks.
ASEAN region*	Exposure to physical climate risk is material for most rated ASEAN economies. Emphasis on energy security and reliability will sustain fossil fuel dependence. The dominance of state-owned enterprises in the energy and utilities sectors signals that the brunt of transition costs will likely be borne by these companies. However, their greater focus on natural gas mitigates transition costs compared with oil-heavy peers in other regions. Banks' exposure to carbon-intensive sectors poses asset risks in the long term. The track record of regional cooperation supports potential for green finance and consistent carbon-pricing mechanism.

*includes Moody's rated ASEAN member states: Laos, Vietnam, Malaysia, Singapore, Indonesia, Philippines, Thailand and Cambodia

- **Internal and external education:** To narrow the climate knowledge gap within Moody's and in the broader market, the company's experts share knowledge and contribute to academia and industry organizations' capacity-building efforts. For example, Moody's collaborated with the CFA Institute on an ESG and climate risk assessment session to help APAC colleagues better understand market trends. The Global Compact Network Singapore and the Association of Banks of Singapore also invited Moody's personnel to speak on sustainable finance topics at capacity-building programs for local market participants.

THEME

Metrics and Targets

1) COMPONENT: METRICS AND TARGETS

Example 10. Industrial Bank of Korea – Targets to support the net-zero transition of SMEs in a public policy bank
Sub-sector: Banking

GFANZ recommends that institutions establish a suite of metrics and targets to drive execution of the net-zero transition plan and monitor progress of results. Include metrics and targets focused on aligning financial activity in support of the real-economy net-zero transition; on executing the transition plan; and on measuring changes in client and portfolio GHG emissions. This case study describes Industrial Bank of Korea's interim targets for 2030, and plans to support SMEs in the transition.

Company profile
Industrial Bank of Korea (IBK) is a public policy bank owned 59.5% by the South Korean government and established in 1961 to support the economic activities of small and medium enterprises (SMEs). As a member of the NZBA since September 2021, it aspires to be a leading carbon management bank. The bank has set two goals: 2040 carbon neutrality for its operations, and 2050 financial asset carbon neutrality,[24] along with an interim goal to reduce operational GHG emissions by 54% by 2030 compared to a 2020 baseline. By 2030, IBK aims to quadruple the ratio of green loans to total new loans to meet its interim net-zero goals, and plans to ramp up new investment in renewable energy.

Supporting the net-zero transition of SMEs
Unlike large enterprises, SMEs are not subject to emissions regulations or ESG management requirements. They have fewer incentives to cut emissions and have less capital and human resources to do so. Green transition can be a high-cost, long- payback strategy, which is a significant cost burden for SMEs.

With its expertise in SME finance, IBK is in a prime position to help SMEs make the green transition. As a policy financial institution, it is also tasked to ensure SMEs are not marginalized in the transition to a low-carbon economy.

IBK is expanding finance to support the green transition, such as increasing investment in renewable energy. To support SMEs in their transitions, the bank is developing green finance products specialized for SMEs, such as sustainability-linked loans, and has set a target to expand this share to 13% of the total supply by 2030. It will also assist SMEs with non-financial activities, depending on their ESG maturity level, such as providing ESG-related consulting services and training.

24 Industrial Bank of Korea, Sustainability Report, 2022.

METRICS AND TARGETS

Korean SMEs' Net-Zero Transition Landscape

57%
Approx. 57% of SMEs indicate achieving net zero by 2050 would be difficult but necessary.

61%
Approx. 61% of SMEs identified 'regulation' as the main motive for their transition efforts.

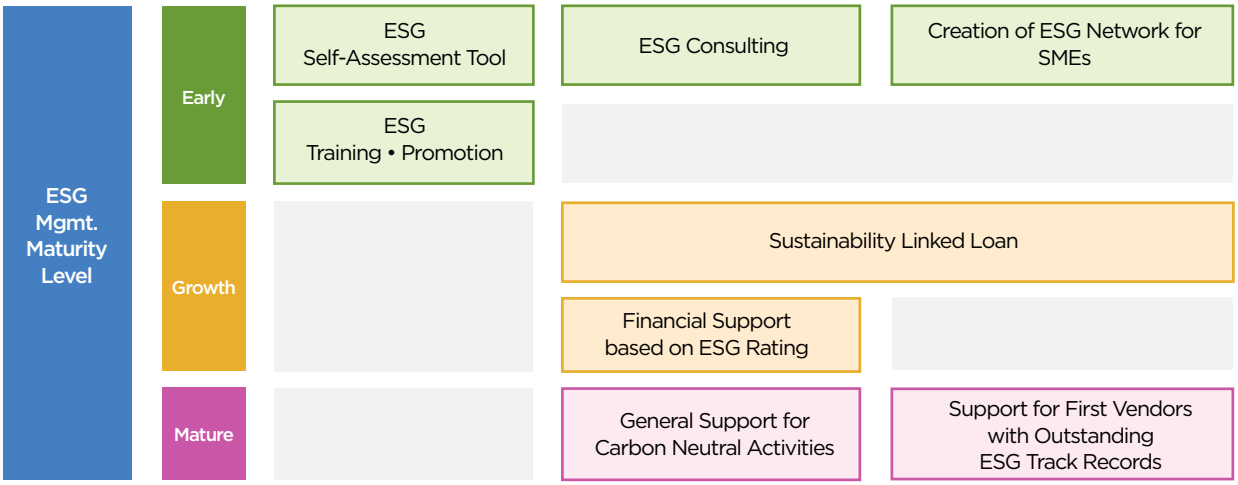
69%
Approx. 69% of SMEs are experiencing difficulties in keeping up with the net-zero pledge.

40%
SMEs' biggest challenge with green transition is 'cost'. Approx. 40% of SMEs have interest coverage ratio below 1.

+
SMEs are asking for increased policy-based funding and transition-related R&D.

Source: "Industrial Bank of Korea. Green Transition for Korean SMEs – Current condition and challenges, 2022

Figure 6. IBK's planned support for SMEs' green transition



Source: "Industrial Bank of Korea. Green Transition for Korean SMEs – Current condition and challenges, 2022

Example 11. Shinhan Financial Group – Financed emissions management system used for multiple purposes
Sub-sector: Banking

Metrics and targets provide credibility and clarity when financial institutions communicate their net-zero strategy to internal and external stakeholders. Quantitative metrics and targets are necessary to ground net-zero ambition in specific objectives and concrete actions, and to track progress over time. This case study documents how Shinhan Financial Group developed and is using a financed emissions management system.

Company profile
In 2020, Shinhan Financial Group (Shinhan or the Group), based in South Korea, became the first financial group in East Asia to declare its commitment to achieve carbon neutrality of financed emissions by 2050. The Group set a net-zero strategy called the "Zero Carbon Drive," which supports carbon neutrality actions of Shinhan's client companies through financial products and services that reflect ESG in corporate valuation models, promote eco-friendly finance, and provide ESG consulting services for SMEs.

Building a Financed Emission Management System
The Zero Carbon Drive needs to be implemented through the sales floor, but in 2020, there was no information or data on carbon available to the sales channel. Further, information on a company's carbon footprint is required to calculate financed emissions, but Korean companies lacked third-party certified environmental disclosure. As a result, there were concerns about the Group's ability to implement its net-zero commitments, as subsidiaries did not have sufficient data to make appropriate decisions. Shinhan decided the fastest way to proceed was to take a proactive approach through trial-and-error experiences.

Shinhan was the first Korean financial company to join the Partnership for Carbon Accounting Financials (PCAF), and in 2022 it became the first to develop a financed emissions measurement and monitoring system. It categorizes the Group's financial assets into six asset groups in accordance with GHG accounting standards set by PCAF, and determines and regularly monitors financed emissions.

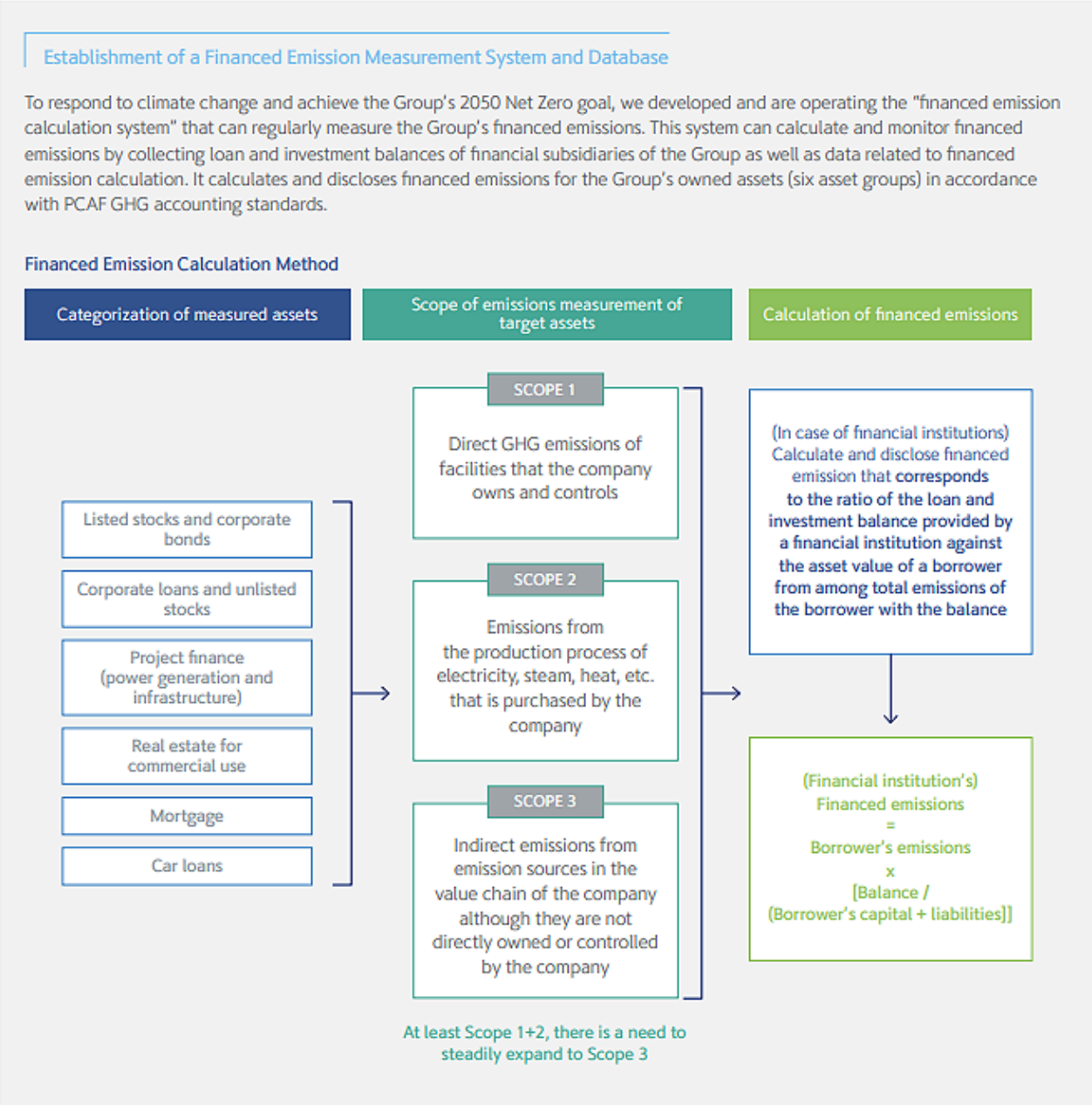
The system took about a year to develop from the initial design to model building and implementation. The information produced can be viewed any time, even by the sales team, and includes data on the scale of financed emissions, intensity and industry characteristics. Using the system, Shinhan conducts systematic management of asset classes, customers, business groups and high-emission companies. Customers' relevant data is obtained from the top 500 high emitters within the Group subsidiaries, and is updated with the latest data from corporate disclosures, data providers, credit agencies and the Ministry of Environment.

The financed emissions management system is also used together with an ESG evaluation model and factored into the loan screening process, as well as in climate risk modelling. Using this system, Shinhan portfolio managers can identify high-emission businesses and sensitive areas. Monitoring results are shared with the Risk Policy Committee, Risk Management Committee, and ESG Steering Committee. The measured financed emissions data is also used as reference index for business, such as in product development, and for strategy, such as in transition plan development.

Shinhan measured emissions for financial assets totalling KRW 248.6 trillion as of November 30, 2022, and plans to expand the scope of measured assets. By conducting the PCAF-based financed emissions measurements and building a database, Shinhan was able to establish emissions intensity reduction goals by industry through to 2050.[25]

25 Shinhan Financial Group. TCFD Report, 2021.

Figure 7. Shinhan's reduction goals by industry



Source: Shinhan Financial Group. TCFD Report, 2021.

THEME

Governance

1) COMPONENT: ROLES, RESPONSIBILITIES, AND REMUNERATION

Example 12. KB Financial Group – Harnessing collective capabilities though effective governance
Sub-sector: Banking

Governance structures are key mechanisms for enabling financial institutions to oversee progress toward net-zero targets. The outcome of a net-zero transition plan will flow directly from governance and leadership tone. Identifying senior personnel for specific oversight and implementation roles and responsibilities, and linking remuneration, where structure allows, to achieving progress, will ensure appropriate resources are deployed. This case study documents KB Financial Group's climate-related governance roles and responsibilities.

Company profile
KB Financial Group (KB or the Group), based in South Korea, is a founding member of the NZBA, having committed to net zero in April 2021. To develop a robust governance system, KB has set a target of building management indicators and dashboards for transitioning to net zero at the board level by 2024, fostering climate expertise, and internalizing climate change response capabilities.

KB's approach to governance
KB aims to harness the collective capabilities of its group subsidiaries to tackle the challenges of climate change. To turn its commitment into action through transition planning, policies and strategies, the Group needed to establish an appropriate corporate governance structure. Existing structures were insufficient to support net zero decision-making because of conflicts of interest between business units, a lack of climate-related expertise, and the absence of clear roles and responsibilities between departments for climate change response. It was therefore crucial to revamp the governance system to establish group-level climate strategies, strengthen executive capabilities within the organization, including at subsidiaries and various business units, and facilitate informed decision-making by the board of directors and management.

Updating KB's governance system
To deal with these needs, KB established a climate-responsive governance structure. Its elements include establishing an ESG Committee of the board with participation by directors and management; and specifying sustainability-related roles and responsibilities, and linking them with performance monitoring.

Establishment of the ESG Committee: The ESG Committee, a sub-committee of the board of directors, was established in March 2020, a first among Korean financial institutions. At the time, the country had low awareness of climate change. The ESG Committee was formed to anticipate and proactively respond to rapidly changing global trends. It serves as the highest decision-making body on climate change by overseeing the creation, approval, and implementation of group-wide strategies and policies related to climate change and ESG. The ESG Committee differs from typical sub-committees in that it includes both internal and external directors, thereby combining external directors' advisory role and the implementation power of executive management.

Establishment of ESG strategies: The ESG Committee approves the Group's primary ESG strategies and policies. Some of them are introduced below.

1. **Declaration of Anti-Coal Financing:** Prompted by global investment trends and demands from environmental groups, the ESG Committee discussed the environmental risks associated with coal power generation and the need for proactive risk management. As a result, KB issued its "Anti-Coal Declaration" in September 2020, ending investments in new coal power project. It was the first anti-coal declaration by a commercial financial institution in Korea.

2. **Promotion of carbon neutrality:** In June 2021, KB established 'KB Net Zero S.T.A.R,' a mid- to long-term strategy for carbon neutrality, and declared it would be carbon neutral in operational emissions by 2040, and in portfolio emissions by 2050. The ESG Committee had started discussing the possibility of targets in early 2020. However, it realized that declaring carbon neutrality without international guidelines for financed emissions (Scope 3) would be pointless. Once PCAF announced the "Measurement Standards for Financial Emissions" and SBTi announced its "Guidelines for Science-Based Reduction Targets," the ESG Committee started to establish carbon-neutral targets. A working group initiated operational activities and developed carbon-neutral targets using science-based methods that comply with global standards. KB's carbon-neutral targets were the first in Asia to obtain SBTi approval in the financial sector.

3. **Performing a practical role:** The ESG Committee established the Group's major climate change response strategies, such as the 'Group Environmental and Social Risk Management (ESRM) Best Practices' in October 2021. Climate-related strategies and policies were confirmed through a resolution, rather than an agenda item reported to the ESG Committee. This shows the ESG Committee does not just review climate matters; instead, it assumes a hands-on role by making practical decisions that can be put into action.

4. **Sustainability-linked compensation:** KB introduced indicators related to climate change and sustainability in management's performance monitoring to accelerate the transition to net zero. Key measurements directly related to executive compensation include reducing Scopes 1 and 2 carbon emissions, and expanding financial products related to climate change and ESG.

Establishment of the ESG management system: The first ESG management system was established at the holding company and its subsidiaries in 2020 to implement and extend climate change response measures. Subsequently, the board of directors agreed that it was crucial to expedite the response to climate change and reinforce integration with group-wide management strategies. This led to the establishment of the ESG headquarters at the end of 2021, which became a unit under the Chief Strategy Officer (CSO), responsible for overseeing the ESG management system. The Group's top executives, including the group CSO and ESG leaders, are responsible for supervising the implementation of ESG management strategies. These are carried out by the ESG organizations within the Group's subsidiaries. The subsidiaries are developing detailed net-zero promotion strategies for each business unit and tracking their implementation progress.

Latest developments
While the ESG Committee is the top decision-making body for addressing climate change and ESG management, other Board committees, such as the Audit Committee and Risk Management Committee, have their own roles and responsibilities for accelerating the shift toward net zero. The Audit Committee is taking on a more practical role in auditing by assessing whether climate change risks are being adequately considered in the Group's management activities. Meanwhile, the Risk Management Committee is strengthening its risk system to proactively identify potential risks and develop response procedures that will help achieve the net-zero target.

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