

Net-zero Transition Plan (NZTP) workshop

BASICS FOR REAL-ECONOMY TRANSITION PLANS

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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 and related information

This material presents a synthesis of guidance on financial institutions' expectations of real-economy company transition disclosure by the Glasgow Financial Alliance for Net Zero ("GFANZ"). It aims to provide financial institutions with background on potential avenues for engagement with real-economy companies and information from real-economy companies to inform the allocation of capital and services. It can also inform real-economy companies that are developing their transition plans.

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

The expectations related to transition plans presented here draw from, and make reference to, existing transition plan guidance, rather than creating a new framework.

Disclosure framework and data collection

Outlines the components that companies should disclose against and provides guidance on how each component should be disclosed



Standards and regulatory frameworks

ISSB

IFRS®

TPT Transition Plan Taskforce



EFrag European Financial Reporting Advisory Group

Target-setting methodologies and validation

Provides guidance for companies to estimate, set, and disclose GHG emission targets; provides and assessment and validation of targets



*Carbon performance dimension

Transition plan assessment tools

Evaluates and assesses a company's transition and GHG emission targets based on reported data, sectoral pathways and disclosure frameworks



ACT ASSESSING LOW CARBON TRANSITION®

*Management quality dimension

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.

The GFANZ workshop series

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

Basics	An introduction to net zero, GFANZ, and the NZTP
	Where to start with the GFANZ NZTP?
	Transition Finance: Basics
GFANZ NZTP themes	Foundations
	Implementation Strategy
	Engagement Strategy
	Metrics and Targets
	Governance
Real-economy transition plans	Basics for real-economy transition plans <i>This session</i>
	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 shows how the NZTP's themes can be applied to real-economy companies. It is suitable as an introduction for finance professionals engaging with real-economy companies and/or assessing real-economy transition plans. It may also provide information for public and private real-economy companies preparing transition plans for the first time.

Setting expectations of net-zero transition planning

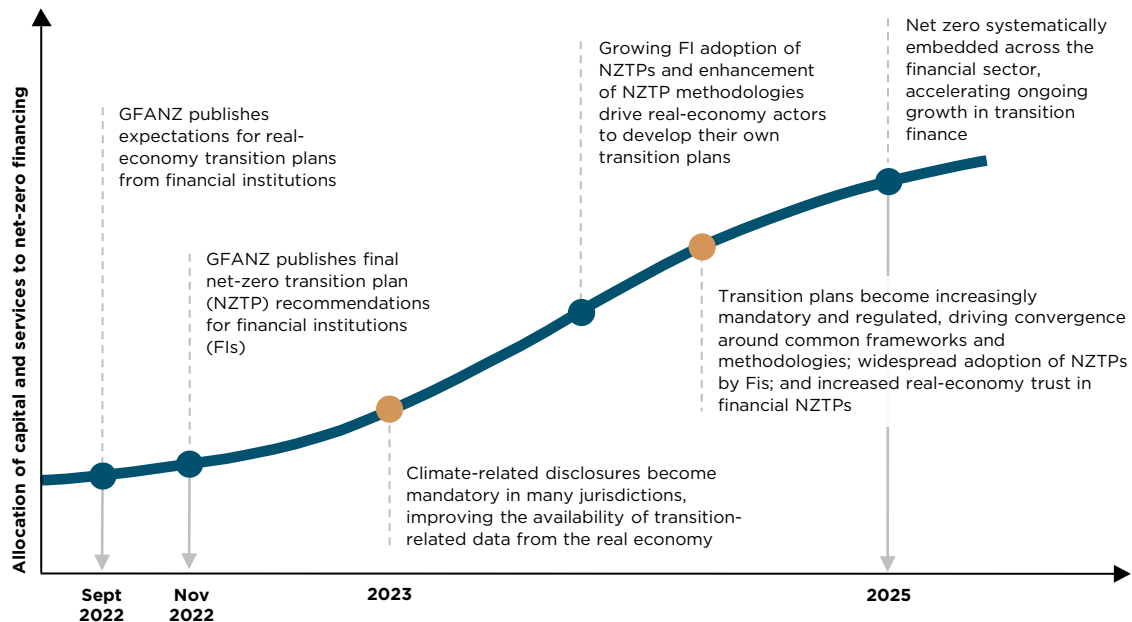
An illustrative timeline of the global adoption of NZTP development

At the time of writing, transition plans are still relatively nascent, with the majority of companies not having developed one. For plans that do exist, comprehensiveness and credibility are key areas of improvement.^{1,2}

Increasingly, transition plans have been included in climate-related disclosure standards. Organizations will undergo a process to implement all the elements of a transition plan over time.

Early adopters are likely to gain a learning advantage and those with credible plans may increasingly be able to access products and services tailored to the low-carbon business models.

“Start Early and Learn by Doing”



¹ CDP "Are companies developing credible climate transition plans?" 2023.

² FTSE Russell. "Mind the gaps: Clarifying corporate carbon," 2022.

Establishing a common language of transition planning

Mapping components of real-economy transition plans against existing frameworks

The GFANZ framework looked at various initiatives covering different aspects of transition planning, seeking to develop a common language of transition planning between the financial sector and the real economy.

GFANZ does not endorse any specific initiative; it aims to promote the use and uptake of existing initiatives and to facilitate the process for companies to retrieve detailed guidance from different initiatives with respect to the key components.

The application of these components is expected to vary based on the size and complexity of the company and the complexity of its transition plan (to help companies prioritize, further guidance is provided in the report).

THEME	COMPONENT	SUB-COMPONENT	DISCLOSURE AND DATA COLLECTION			TARGET-SETTING & VALIDATION		ASSESSMENT TOOLS		
			TCFD	ISSB	CDP	SBTI	TPI-CP	ACT	CA 100+	TPI-MQ
Foundations	Objectives and priorities	• Objectives and overarching strategy								
		• Governing principles								
Implementation Strategy	Activities and decision-making	• Business planning and operations								
		• Financial planning								
		• Sensitivity analysis								
	Policies and conditions	• Transition-related policies								
		• Nature-based impact								
	Products and services	• Products and services								
Engagement Strategy	Value chain	• Clients/portfolio companies and suppliers								
	Industry	• Industry peers								
	Government and public sector	• Government and public sector								
Metrics and Targets	Metrics and targets	• GHG emissions metrics								
		• Sectoral pathways								
		• Carbon credits								
		• Business and operational metrics								
		• Financial metrics								
		• Nature-based metrics								
		• Governance metrics								
Governance	Roles, responsibilities, and remuneration	• Board oversight and reporting								
		• Roles and responsibilities								
		• Incentives and remuneration								
	Skills and culture	• Skills and trainings								
		• Change management and culture								

In this workshop, you will learn ...

1. Why is it important for real-economy companies to disclose transition plans?
2. What are the themes and components of real-economy transition plans?
3. How do you use GFANZ's "Expectations of real-economy transition plans"?



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 distils 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](#)

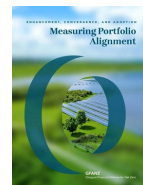
Three **additional reports** give more detailed insight into particular **areas of interest** that are of relevance to the different NZTP themes:



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 Basics for real-economy transition plans workshop

Expectations for real-economy transition plans

Why are real-economy transition plans important?

Introduction to real-economy transition plans

A common language of transition planning

How transition plan information is used by financial institutions

The transition planning process turns net zero into strategy

Real-economy transition plans provide strategic information for financial institutions

Assessing credible transition plans requires tools

Spotlight on: Sectoral pathways

Getting started

Expectations for real-economy transition plans



Why are real-economy transition plans important?



Financial institutions are developing net-zero transition plans that will impact their decision-making processes.



Real-economy transition plans are the most effective way for companies to provide financial institutions with information regarding their transition strategy.



Companies with credible transition plans may increasingly be able to access products and services tailored to low-carbon business models.

Beyond the increased access to financial products aimed at transitioning companies, transition plans help to identify opportunities to save cost, mitigate risk, and optimize opportunities overall.

Employees, clients, and civil society can be attracted and retained by the credibility afforded by a comprehensive transition plan.

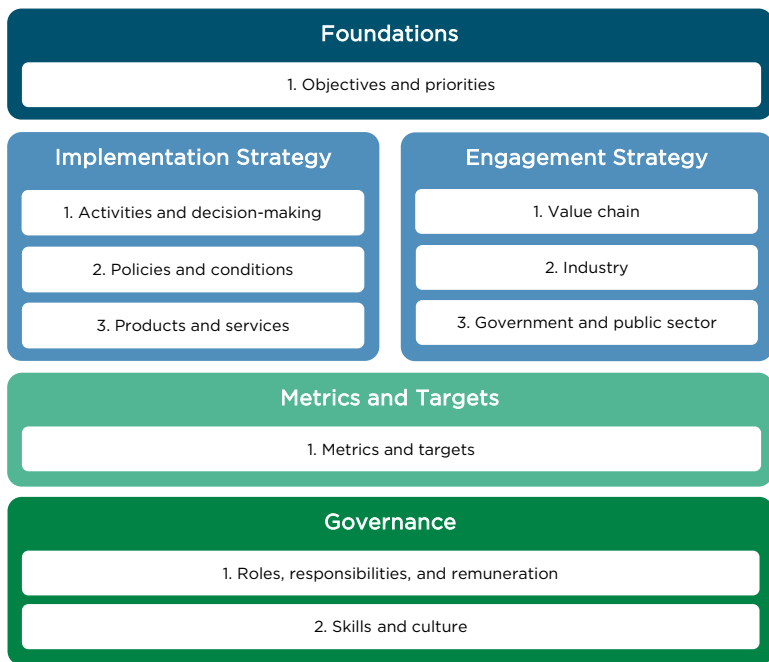
Transition plans translate net-zero commitments into specific objectives and actions that are aimed at reducing real-economy **GHG emissions, and providing credibility and accountability to net-zero commitments.**

For the global economy to reach net zero, action from companies in the real economy and financial institutions is required.



Introduction to real-economy transition plans

Real-economy transition plans comprise five themes and ten components.



- The Foundations theme outlines **what the company's end goal could be with respect to climate change** and its high-level strategy to get there by articulating the overall company-wide objectives (e.g., net zero), targets, timelines, and priority approaches
- The Implementation Strategy theme outlines **how the company could align business activities and operations** with its climate objectives and priorities
- The Engagement Strategy theme outlines **how the company could seek to influence others to support its transition objectives/strategy** and accelerate the transition of the whole economy
- The Metrics and Targets theme outlines **quantitative goals that could be used to measure the progress and success of a company's transition plan** implementation over time
- The Governance theme outlines **how the company could be structured** to provide oversight, incentivize, and support the implementation of the transition plan

! Full details for Expectations for Real-economy Transition Plans are available in the [report](#).

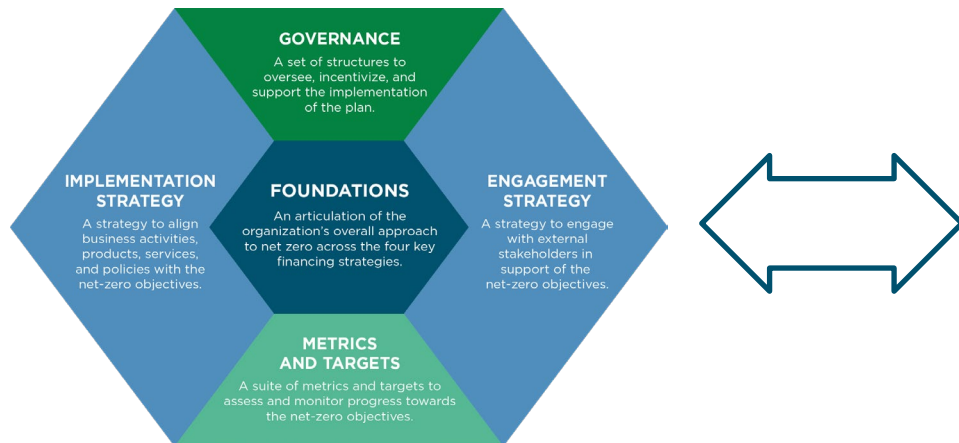
A common language of transition planning

The five themes and ten components of real-economy transition plans are mirrored in the framework for financial institution transition plans, enabling efficient communication and transparency.

What is a net-zero transition plan?

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.

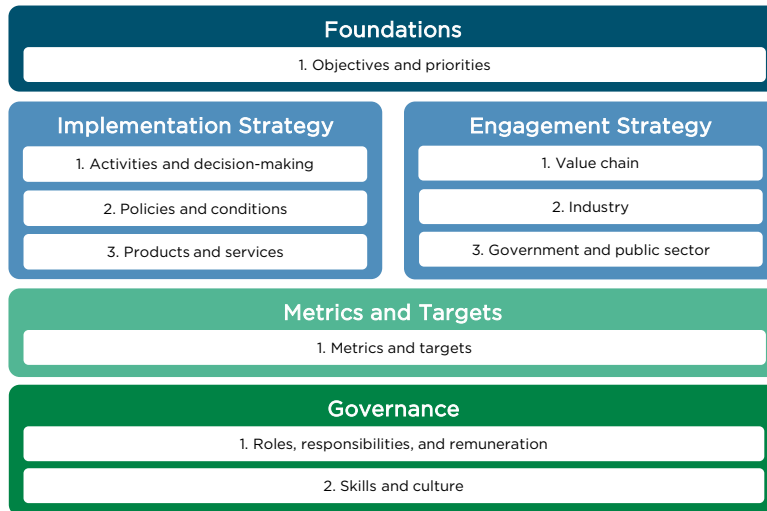
From the [Financial Institution Net-zero Transition Plan](#) report



Note that the first component of the Engagement Strategy theme for financial institution transition plans is about clients and portfolio companies, while for this component the real-economy transition plan framework considers engagement with the value chain.

What is the role of a real-economy transition plan?

GFANZ acknowledges that different constraints exist across sectors and/or at regional levels regarding the ability of real-economy companies to achieve rapid near-term decarbonization in support of a 2050 goal. A real-economy transition plan can provide transparency regarding the decision logic behind the organization's own specific choices on the five themes relevant to a financial institution's net-zero transition plan.



Questions for discussion and reflection



- What are your organization's strategic goals regarding transitioning to net zero or decarbonizing? Are these goals applied throughout the organization?
- What are the drivers for your organization to transition? Can you articulate the role of risk management and opportunity optimization in this strategy?
- What would appropriate targets and time frames be?

How transition plan information is used by financial institutions



The transition planning process turns net zero into strategy

A net-zero transition plan is a central part of a financial institution's transition to net zero



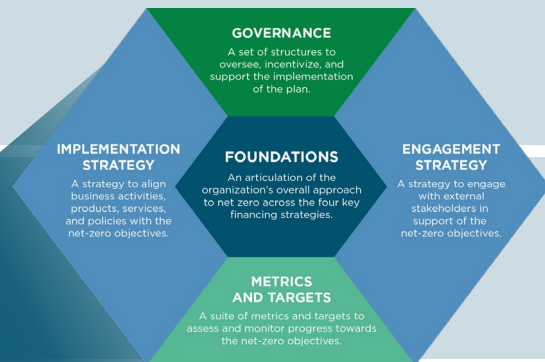
Turning commitment into strategy

Once a financial institution has committed to transition to net zero and is beginning to set targets for this process, the development of a credible transition plan is crucial to ensure commitments can be acted on.



Net zero for financial institutions means transition of the real economy

Over 40% of world's private finance has committed to net zero. Successfully realizing these net-zero commitments requires financial institutions to support the real economy with products and services or, in some cases, closely collaborate with the real economy and provide financial products and services to facilitate real-world GHG emissions reductions.



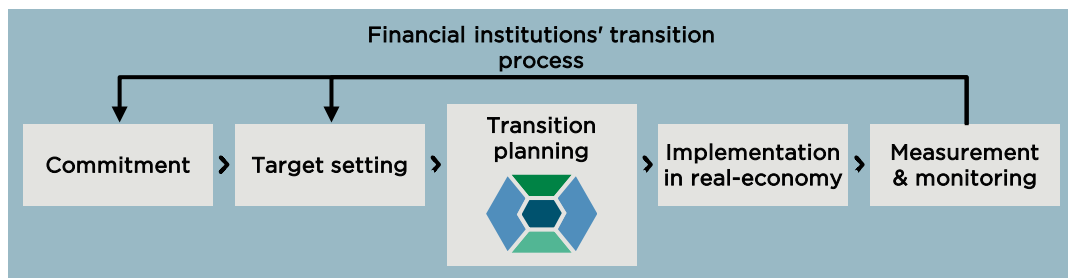
Financial institutions' transition process



Real-economy transition plans provide strategic information for financial institutions

Implementing the transition process has implication for companies

Financial institutions are developing net-zero transition plans that include adjusting their decision-making processes, leading to significant implications for companies.

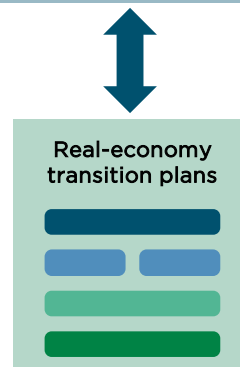


Companies' climate strategies and targets may influence access

Companies' access to financial products and services may be increasingly dependent on their climate targets and strategies, and on their progress against these targets. Companies of all sizes, across all industries globally, will be affected by the alignment of capital to net-zero commitments.^{1,2}

Transition plans provide this strategic information

Real-economy transition plans are the most effective way for companies to provide financial institutions with information regarding their net-zero transition strategy and their level of ambition to accelerate the transition.



¹ Roughly 44% of financial institutions are now assessing if their clients/portfolio companies are aligned to the ambition set on the Paris Agreement (CDP, *Now for Nature: The Decade of Delivery*, March 2022, p. 14).

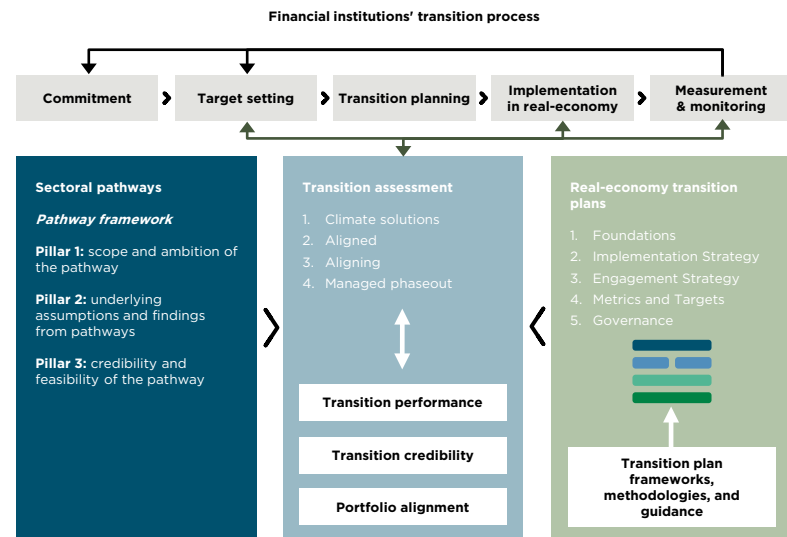
² Financial institutions understand that SMEs may not be able to disclose the same level of detail, at least initially. See [Expectations for Real-economy Transition Plans](#) Prioritization of components for SMEs for more detail on this.

Assessing credible transition plans requires tools

Financial institutions integrate assessment of a company's transition into their transition and decision-making process

Transition plan ratings

Data providers, NGOs, and financial institutions translate the information into assessment/ratings of targets and transition plans.



GFANZ has provided guidance and tools to support transition planning

A financial institution's approach to credibility of transition plans depends upon their conditions, policies, and engagement with clients and portfolio companies.



Sectoral pathways

Financial institutions use sectoral pathways as tools to help benchmark ambition and performance of companies' transition.



Portfolio alignment

Sectoral pathways can be used in portfolio alignment measurement — includes methods and metrics such as:

- Binary target measurement
- Benchmark divergence from pathways
- Implied temperature ratings (ITRs)
- Maturity scale alignment

Use cases for portfolio alignment metrics

- Disclosure of net-zero progress
- Engagement
- Investment research and selection
- Portfolio construction
- Manager selection and monitoring
- Calibration and monitoring of net-zero targets

Example: assessing credible transition plans

Example — What resonates with you?



La Banque Postale Asset Management assessment framework¹ — Part 1

Example of assessments across components of real-economy transition plans:

1. Foundations

- Does the company disclose its climate strategy along the lines of an established climate disclosure/assessment framework, such as TCFD?
- Does the company formally state the ambition, or target, to contribute to the net-zero global GHG emissions targets by 2050, or its own carbon neutrality?
- What is the quality of current GHG reporting (scope, activity coverage, methodological consistency)?

2. Implementation Strategy

- How consistent are the company's climate targets with respect to its global strategic planning, CapEx, and M&A perspectives?

3. Metrics and Targets

- Has the company defined GHG emission reduction targets in the short, medium, and long term that encompass its Scope 1, 2 and, most significant, Scope 3 emissions?
- Are those targets aligned on a 1.5 degrees C pathway?
- Does the company significantly rely on carbon offsetting to achieve its GHG targets?
- Is the climate data audited by a third party?
- Are the GHG emission reduction targets approved under a scientific standard (e.g., SBTi)?

4. Governance

- Does the executive remuneration policy include criteria linked to achieving these GHG emissions reduction targets?
- Has the company committed to submit the transition plan to frequent shareholder vote at the AGM through a Say on Climate resolution?

¹ LBP AM, [Group voting policy](#), 2022.

Example: assessing credible transition plans

Example — What resonates with you?



La Banque Postale Asset Management assessment framework¹ — Part 2

LBP AM's assessment may be complemented by sector specific considerations. The assessment is performed by the internal teams (responsible investment team and portfolio managers) and informed by companies' AGM material and sustainability reports, proxy analysis, and third-party sources (e.g., CDP data). Results are shared with companies as part of the ongoing governance and/or climate dialogue.

Based on the assessment, LBP AM will vote either for or against a company's transition plan, or potentially other resources, at AGMs (or abstain from voting). For instance, in Q1 and Q2 2022, LBP AM voted on 26 Say on Climate resolutions, supporting 14 of them and voting against 12 that did not meet its criteria, suggesting to the latter companies to further develop and resubmit their plan to a vote.

Lack of information on specific components of transition plans can be a motivation for not supporting the transition plan at the AGM. Therefore, LBP AM contributes to the work of the French Sustainable Investment Forum, calling for more frequent and standardized Say on Climate disclosures, to ensure that investors can cast informed votes on transition plans.

How does the La Banque Postale's assessment framework support its own transition plan?

La Banque Postale's framework provides a systematic look at a real-economy company's transition plan to provide details that fit into the themes of its own net-zero transition plan.

La Banque Postale's framework covers key themes and details specific to the priorities of La Banque Postale and provides decision-useful information for shareholder voting — a form of engagement.

¹ LBP AM, [Group voting policy](#), 2022.

Questions for discussion and reflection



- How can a transition plan help your organization?
- Who would you need to involve in pulling together your transition plan?
- Discuss what stakeholders you would be communicating your transition plan to and what benefits you would seek to gain.

Spotlight on: **Sectoral pathways**



Sectoral consideration for transition assessment

Sectoral pathways can be used to benchmark progress

GFANZ's Guidance on Use of Sectoral Pathways for Financial Institutions provides a framework for comparing and assessing sectoral pathways, and for evaluating their suitability for transition planning processes.

Understanding the assumptions and outputs of the different pathways provides information on timeframes, implications for your sector, and scale of transition.

There are many pathway/scenario modelling organizations, some of these include:

- International Energy Agency (IEA)
- Mission Possible Partnership (MPP)
- Network for Greening Financial System (NGFS)
- Intended Policy Response (IPR)
- International Panel on Climate Change (IPCC)

Aspects when considering sectoral pathways:



What are the available 1.5 degrees C-aligned pathways for this sector?



What are the key levers assumed in the pathways to reduce GHG emissions in the sector?



What are the assumed investment requirements to enable the transition?



What are the key actions to support the real-economy transition?



How are the pathways similar and different in how they achieve net zero?



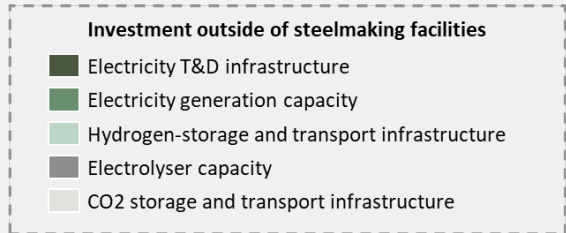
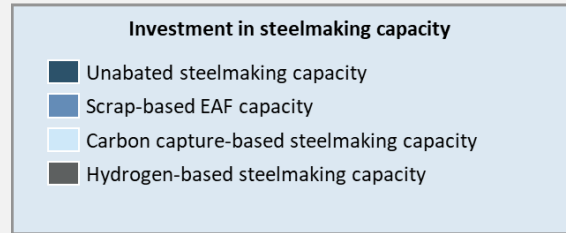
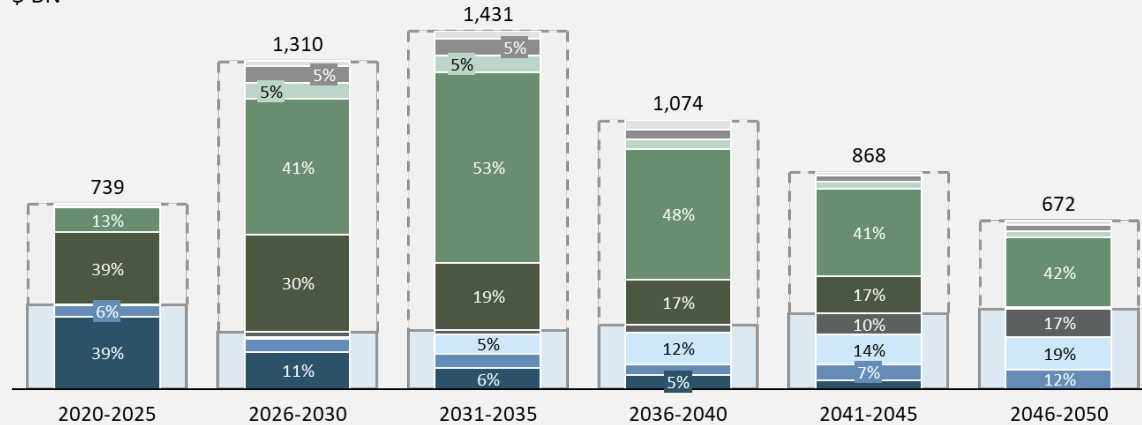
What are the key components of a transition plan relevant for financial institutions in the sector?

Example: Mission Possible Partnership steel pathway

Example implementation of a sectoral pathway – What resonates with you?



Total investment required to enable the transition
\$ BN



How does the Mission Possible Partnership steel sector pathway inform transition in the steel sector?

The MPP pathway on steel provides detailed information on their assumptions around steel production by different types of technology over time.

These changes in technology underpin the assumptions needed to achieve the pathway and guide firms on the timing of replacement of existing technology.

This type of information may be useful in business strategy, capex allocation, financial planning, etc.

Getting started



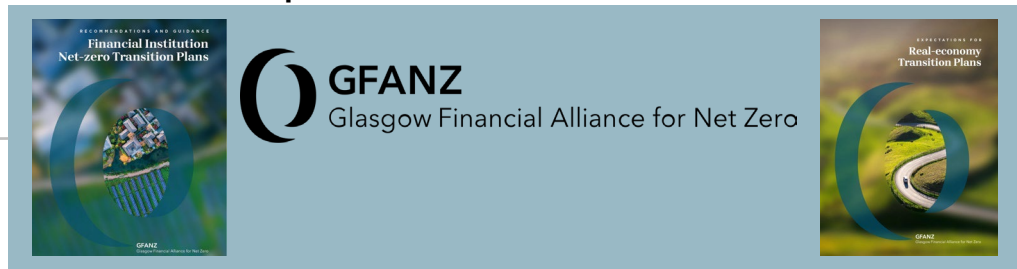
Transition planning disclosure in TPT and ISSB S2

Implementation and reporting standards frameworks, such as TCFD and ISSB's IFRS S2, reference transition plan disclosure without providing a complete framework for creation and implementation of transition plans, or the full disclosure of the components of a transition plan.

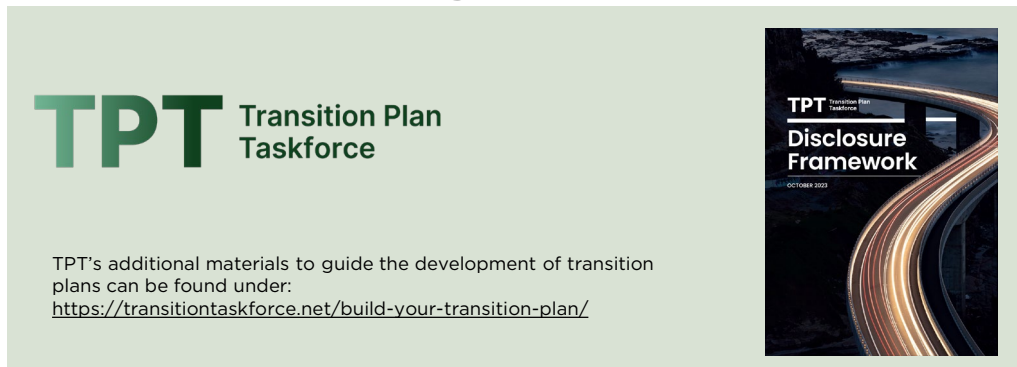
Financial, Sustainability and Climate Disclosure



Transition Plan Implementation and Disclosure



TPT focuses on disclosure using the same framework elements as GFANZ



Priorities for SME (small and medium enterprise) disclosure

Highlighted here are the most critical components SMEs and companies starting to develop transition plans should focus on.

Expectations related to the sophistication and detail of transition plans may vary. For large, well-resourced companies in the most impacted sectors, financial institutions may expect detailed plans.

For SMEs and companies starting out on their transition plan, components have been prioritized based on:

1. Perspectives from financial institutions.
2. The type of information the component discloses – in other words, whether the component outlines the company’s goal; or whether it describes the actions needed to reach the goal; or whether it is an enabler that supports climate-related actions.
3. The number of global standards and initiatives that include the relevant component

Theme	Component	(1) Perspectives from financial institutions	(2) Use of component	(3) Number of initiatives
Foundations	Objectives and priorities	Helpful for understanding a company's driving goals	Goal	8
Implementation Strategy	Activities and decision-making	Outlines a company's actions and how it plans to implement its transition plan	Action	6
	Policies and conditions	Provides evidence that the transition plan is supported by clear policies	Enabler	1
Engagement Strategy	Products and services	Outlines how the company's commercial activity supports the transition plan	Action	6
	Value chain	Provides evidence that the transition plan accounts for dependencies within the value chain	Enabler	4
	Industry	Provides evidence that the company is committed to industry-wide action	Enabler	4
Metrics and Targets	Government and public sector	Provides evidence that the transition plan accounts for policy dependencies	Enabler	3
	Metrics and targets	Outlines a company's targets and enables tracking of progress and cross-comparison	Goal	8
Governance	Roles, responsibilities, and remuneration	Outlines the mechanisms in place to enable accountability and execution	Action	6
	Skills and culture	Provides evidence of the strategic priority of the transition plan within company	Enabler	4

Questions for discussion and reflection



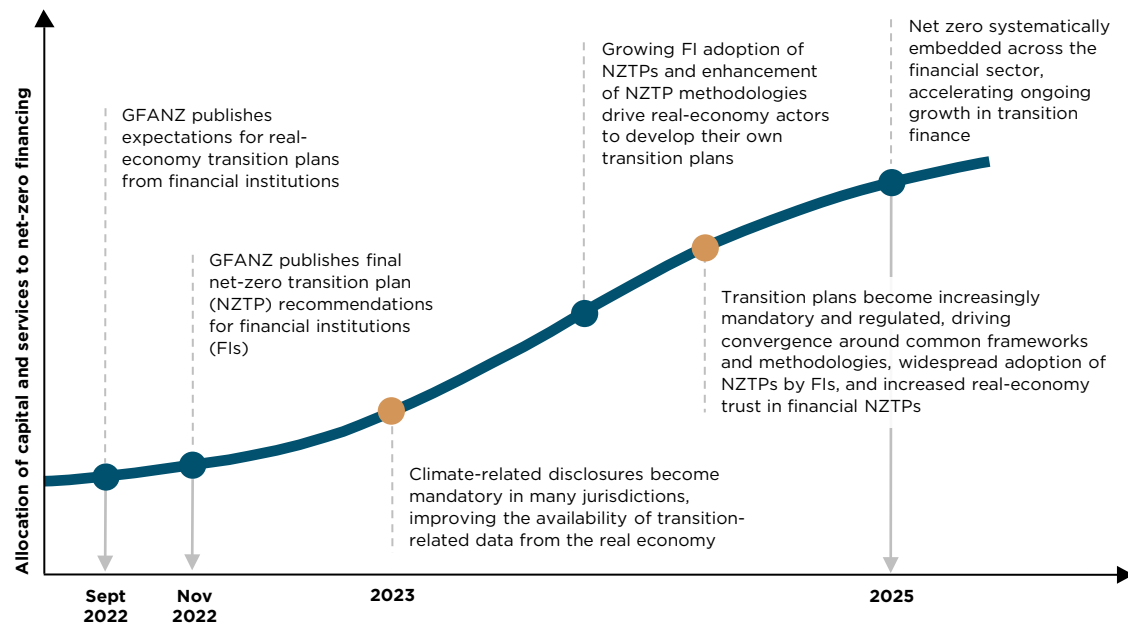
- Where is your organization already disclosing this and related material?
- As per the five themes and ten components, what would be a priority for your organization and why?

End thoughts



Setting expectations of net-zero transition planning

An illustrative timeline of the global adoption of NZTP development








Transition plans may take time to develop and then flow through an organization but it is important and potentially commercially advantageous to get started. Transition plans may also need to be updated as better or new data becomes available or as opportunities develop.

Suggestion for next workshop:
Themes of real-economy transition plans – Part 1

... for a deeper dive into the real-economy transition plan themes Foundations, Implementation Strategy, and Engagement Strategy, their components, and some examples.

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
	 Engagement Strategy
	 Metrics and Targets
	 Governance
Real-economy transition plans	Basics for real-economy transition plans <i>This session</i>
	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 ...



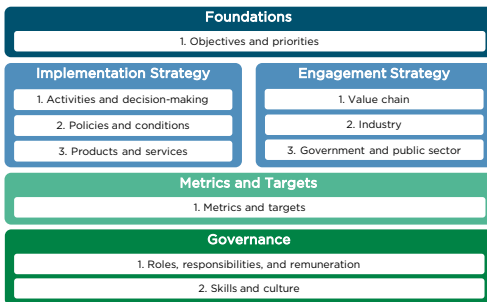
Why is it important for real-economy companies to disclose transition plans?

- Transition plans translate net-zero commitments into specific objectives and actions that are aimed at reducing real-economy GHG emissions, and provide credibility and accountability to net-zero commitments.
- Real-economy transition plans are the most efficient way for companies to provide financial institutions with information regarding their transition strategy; companies with credible transition plans may increasingly be able to access products and services tailored to low-carbon business models.
- Transition plans also help to identify opportunities to save cost, mitigate risk, and optimize opportunities; employees, clients and civil society can be attracted and retained by your credibility.



What are the themes and components of real-economy transition plans?

- Transition plans have five themes and ten components, representing the need to embed transition into the organizational strategy, operations, policies, and culture for the plan to succeed.
- SMEs and companies just starting on their transition should focus on five of the components, reflecting priorities and capacity within their organization.



How do you use "Expectations for Real-economy Transition Plans?"

- Financial institutions may find the themes and components helpful in engagement with real-economy companies or for assessment of real-economy transition plans.
- Real-economy companies may find the information useful when constructing and disclosing transition plans to provide financial institution with relevant information in finance decision-making.
- Disclosure recommendations exist in current frameworks and real-economy companies may already be disclosing some elements of a transition plan.
- Priority elements of a transition plan signal a place to start.
- Other information, such as sectoral pathways, may be used as inputs to real-economy transition planning.



