GFANZ
Glasgow Financial Alliance for Net Zero

Four Key Transition Financing Strategies

Transition Finance Workshop Series

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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.

Housekeeping

How to use the GFANZ Transition Finance Workshop Series

This series of workshops seeks to familiarize the audience with supplementary guidance on transition finance. The workshops are based on material that was developed by the GFANZ Secretariat and aims to provide financial institutions with background on potential technical methodologies to complement the financial sector's work on reducing financed emissions and execute their individual net-zero transition plans. The guidance presented here do not prescribe a specific course of action but offer information and options to help those financial institutions preparing net-zero transition plans.

Important points to consider before engaging with the material are:

Voluntary information: This workshop presents voluntary, non-binding supplemental information for financial institutions to consider. Financial institutions are encouraged to use this information in conjunction with the voluntary recommendations and guidance but not where superseding jurisdictional requirements on Transition Finance or related disclosure requirements, or contractual requirements, including mandates with clients. Some types of financial institutions may also have unique legal or regulatory constraints that may differ by jurisdiction and that may impact the extent to which individual elements of this workshop can be considered.

Pan-sector approach: The technical information herein aims to be applicable to institutions across the financial sector, but may not be to each individual financial institution or sector-specific alliance. This workshop is principles-based so that it can be interpreted and applied at the discretion of individual financial institutions' own processes and policies. Financial institutions are encouraged to consider this technical information alongside the guidance produced by sector specific net-zero alliances, taxonomies, and other organizations, as appropriate.

Unique roles and application for different financial institutions: Each financial institution is encouraged to review the technical information based on considerations such as its business model, portfolio exposure, relationship with clients and portfolio companies, choice of focus for net-zero financing strategy, and the contractual and regulatory environment within which it operates. The technical information herein should be considered as a resource, not as a specific course of action.

Focus on development and implementation: This workshop aims to provide technical information for further development, highlighting the existence of challenges and different understandings among sector initiatives and to begin to outline potential approaches to assessing and measuring Transition Finance exposure across the four key transition financing strategies, rather than specific guidance on disclosure. Each financial institution should determine specific content, location, and frequency for disclosing relevant information related to Transition Finance, consistent with the guidance of its respective sector-specific alliances, business confidentiality, and jurisdictional requirements, if any.

Living document: The GFANZ Secretariat acknowledges that supporting pathways, data, tools, and methodologies may be nascent or exploratory and may not yet be available for all regions, sectors, and situations, and that policy, regulation, technology, and science are evolving, often at a rapid pace. As financial institutions work to implement the Transition Finance strategies outlined here and in other technical concepts more widely, it is expected that the necessary tools, methodologies, and datasets will further develop.

Acknowledgements

This workshop is based on the GFANZ Secretariat Technical Review Note "Scaling Transition Finance and Real-Economy Decarbonization Methodologies". The GFANZ Secretariat is thankful for the participation of the financial industry, NGOs, and subject matter experts. The Note was informed by a review of other relevant frameworks developed by leading initiatives in use by market participants, in addition to four primary types of engagement: 1) Open consultation, 2) Focus groups, 3) Outreach events, 4) Webinars.

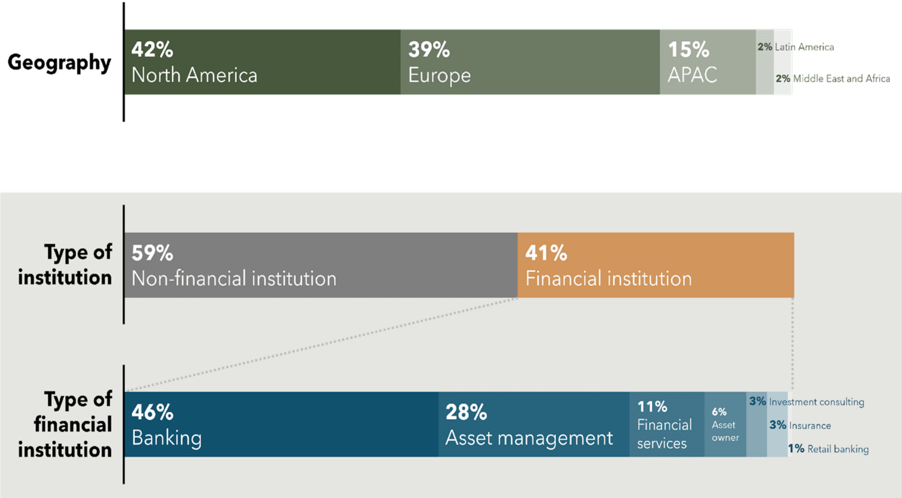
Such engagement served two primary purposes: i) to raise the level of awareness and encourage stakeholders' engagement with GFANZ's work, and ii) to solicit and inform feedback on the proposed transition financing strategies and potential decarbonization contribution methodologies.

Promoted to 15,000+ and engaged 1,700+ individuals across 120 organizations

2,000+ Downloads & **300+** Responses via consultation and bilateral engagements

15,000+ Reached with "Requests for input"

1,700+ Directly engaged via events, workshops, and working groups



The GFANZ workshop series

The **GFANZ Workshop in a Box** series aims to provide an overview of the GFANZ tools and guidance. 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 and the GFANZ initiative. The **Transition Finance series** provides a high-level overview of the GFANZ Secretariat's Technical Review Note on *Scaling Transition Finance and Real Economy Decarbonization Contribution Methodologies*.

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

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

For those less familiar with GFANZ, the **Introduction** workshop provides helpful baseline information on GFANZ and the net-zero transition plan framework.

The **Transition Finance: Basics** workshop provides a high-level overview of the four key transition finance strategies and the decarbonization contribution methodology of Expected Emissions Reductions.

This workshop, **Four Key Transition Financing Strategies,** dives deeper into the four transition financing strategies and discusses their attributes in more detail.

The **Decarbonization Contribution Methodologies** workshop outlines proposed methodologies to calculate forward-looking metrics like Expected Emissions Reductions associated with the four transition financing strategies.

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.

The trainer holding this workshop can find further information as well as a contact form to feed questions or insights from the participation sessions back to GFANZ under this link. Further information on the GFANZ recommendations and ongoing work can be accessed on the GFANZ website.

Introduction

The **Four Key Transition Financing Strategies** workshop is aimed at those already familiar with net zero, GFANZ, its mission, and the *Transition Finance: Basics workshop*. This workshop considers when and how transition finance may be approached by financial institutions as well as a review of the attributes and key considerations for applying the four key transition financing strategies.

Setting expectations of Transition Finance

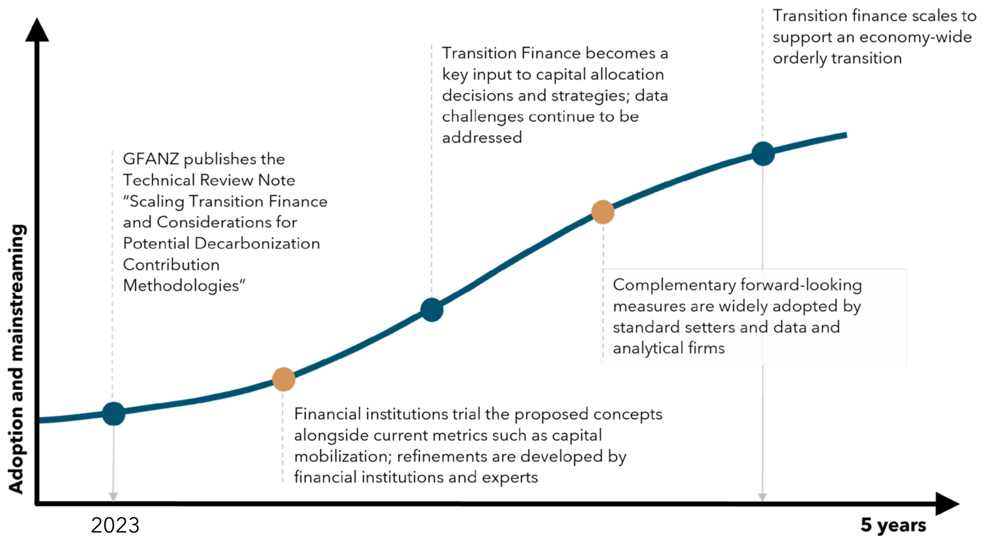
An illustrative timeline of the adoption of Transition Finance and potential decarbonization contribution methodologies

All stakeholders play a critical role in accelerating financing across the four key transition financing strategies.

Policymakers and governments can help to bring clarity to the landscape of transition finance by linking region-specific transition finance activities and national emissions reduction targets, as well as by developing supporting taxonomies, regulations, standards, and enabling policies that facilitate such activities.

The development and operationalization of net-zero transition plans by both financial institutions and real-economy companies continues to be an important lever to enable increased financial flows toward the four key transition financing strategies.

The nascency of decarbonization contribution methodologies require further refinement through testing and adoption by real-economy companies, financial institutions, and technical experts.



In this workshop, you will learn ...

- What are the four key transition financing strategies and why are they important in the context of net zero?

- How can you use the four key transition financing strategies?

- What are the attributes of…
  - Climate Solutions?
  - Aligned & Aligning?
  - Managed Phaseout?

- How do you evaluate exposures that do not yet meet the Attributes for the four key transition financing strategies?

Structure of the Four Key Transition Financing Strategies workshop

Background: The need to scale Transition Finance

Reducing financed emissions vs. financing emissions reductions

GFANZ publications

Transition Finance Explained

Transition Finance and the four key transition financing strategies

Part I: The Four Key Transition Financing Strategies

Why it matters: Use cases of Transition Finance

Application Dimensions & Degree of Association

The Four Key Transition Financing Strategies

Climate Solutions

Aligned & Aligning

Managed Phaseout

In Development

Background:
The need to scale Transition Finance

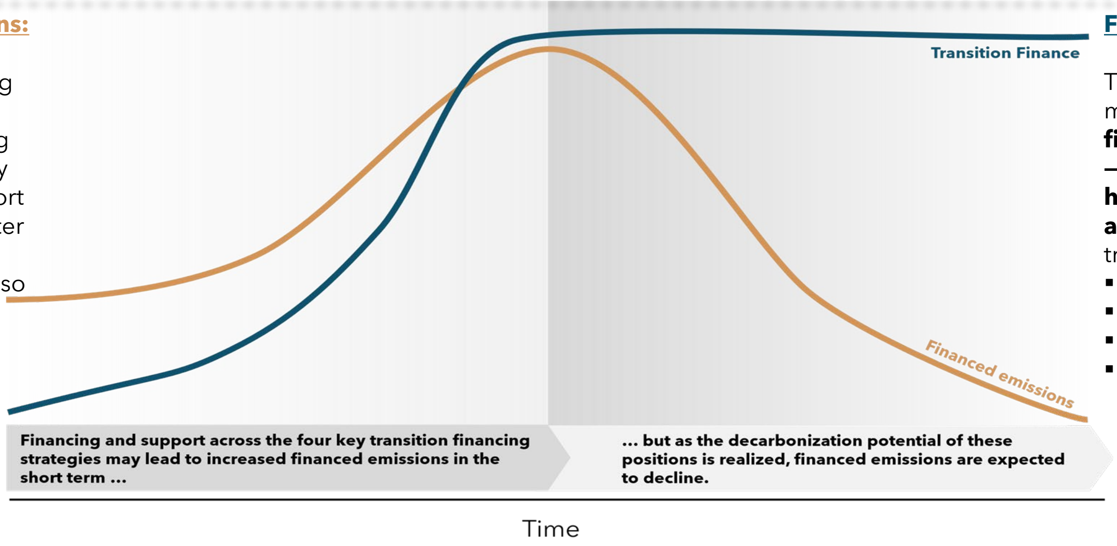
Reducing financed emissions vs. financing emissions reductions

When considering the potential impact to the planetary carbon budget, not all decarbonization and transition opportunities deliver comparable system-wide carbon reductions.

Methodological Challenge: **Global businesses have committed to bridge the funding gap and enable real-economy company transitions to net-zero emissions.** However, current mechanisms that rely solely on historical and point-in-time metrics, targets, and considerations may not adequately drive capital allocation to critical areas, such as heavy-emitting sectors. (For more background on the capital gap please see the Transition Finance Basics workshop)

Reducing Financed Emissions:

While important for evaluating how financing activities align with the carbon budget, using solely financed emissions may not drive financing and support for Climate Solutions, can deter financing of high-emitting portfolio holdings and may also deter clients from adopting strategies to meet their own targets.



Financing Emissions Reductions:

The greatest emissions reduction may be achieved **by directing financing and related services to – rather than divesting from – high-emitting sectors, entities, and assets** across the four key transition financing strategies:

- **Climate Solutions**
- **Aligned**
- **Aligning**
- **Managed Phaseout**

Clearly **defining transition finance activities and incorporating forward-looking metrics** as a complementary consideration may more fully capture the "value add" of the decarbonization potential of high-emitting exposures, thereby catalyzing Transition Finance.

GFANZ publications

GFANZ introduced the four key transition financing strategies in its NZTP framework in 2022. The GFANZ Secretariat further developed the strategies and discussed potential forward-looking measures of emissions reduction in 2023.

In the 2022 GFANZ NZTP framework, GFANZ defined Transition Finance and introduced the four key transition financing strategies that would enable an orderly* and inclusive whole-economy transition.

Recommendations and Guidance on Financial Institution Net-zero Transition Plans

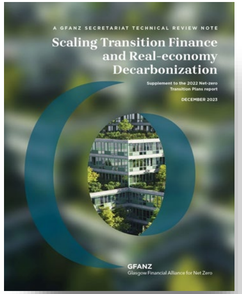
This publication describes how financial institutions across the financial system can operationalize their net-zero commitments and support the real-economy transition.

Download the summary

Download the report

Download the appendix

In 2023, the GFANZ Secretariat provided further details on the four transition financing strategies and discussed potential approaches to calculate Expected Emissions Reductions in the Technical Review Note.



Scaling Transition Finance and Real-economy Decarbonization

This GFANZ Secretariat Technical Review Note further develops the Transition Finance strategies by providing a supplement to the 2022 GFANZ NZTP guidance and discusses potential decarbonization contribution methodologies as a complement to today's metrics.

Download the report

The Technical Review Note on Scaling Transition Finance and Real-economy Decarbonization is in two parts:

Part I is a supplement to the GFANZ NZTP framework and introduces principles-based attributes for each of the GFANZ four key transition financing strategies.

Part II explores forward-looking approaches to evaluate potential decarbonization contributions in support of scaling transition finance and introduces the concept of Expected Emissions Reduction (EER).

This workshop focuses on Part I and involves a deep dive around the four key financing strategies. For more information on Part II, please see its corresponding workshop in a box here.

*GFANZ uses the term "orderly transition" to refer to a net-zero transition in which both private sector action and public policy changes are early and ambitious, thereby limiting economic disruption related to the transition (e.g., mismatch between renewable energy supply and energy demand). For reference, the Network for Greening the Financial System (NGFS), which develops climate scenarios used by regulators and others, defines "orderly scenarios" as those with "early, ambitious action to a net-zero GHG emissions economy," as opposed to disorderly scenarios (with "action that is late, disruptive, sudden and/or unanticipated"). In an orderly transition, both physical climate risks and transition risks are minimized relative to disorderly transitions or scenarios where planned emissions reductions are not achieved. This explanation applies to all mentions of the term "orderly transition" in this workshop

Transition Finance Explained

Transition Finance and the four key financing strategies

Enabling an orderly transition in the real economy

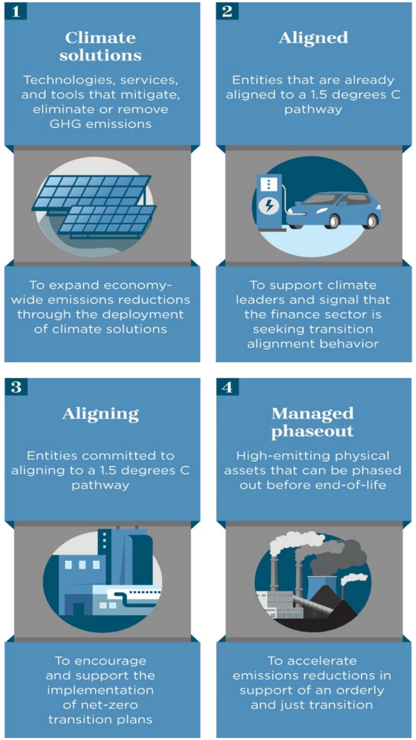
What is Transition Finance?

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

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

For the purposes of GFANZ's work, any exposure that meets the Attributes used to define a strategy would fall under the GFANZ definition of Transition Finance as set out in the NZTP framework. For added clarity, the following are general areas where the GFANZ definition of Transition Finance may differ from other frameworks:

- **Whole-economy in scope:** The GFANZ definition of Transition Finance refers to areas of financing and support needed to transition at the whole-economy level. The definition encompasses areas that need to transition to net zero (Aligning, Managed Phaseout) as well as no/low-carbon alternatives and activities (Climate Solutions, Aligned) that are needed to achieve and maintain a net-zero economy.
- **Applies to high-emitting assets and entities:** While some frameworks and taxonomies may strictly associate Transition Finance (or similar terms) with either high-emitting or no/low-carbon assets, activities, and entities, the GFANZ definition and Attributes apply to both high-emitting and no/low emitting assets and entities**.**
- **Applicable across all financial sub-sectors** (i.e., not specific to a particular asset class or product and service): The GFANZ Attributes used to define the four key transition financing strategies were designed to support assessment of the nature of the activities and output of an asset/project or entity. The definition and Attributes are pan-sector and applicable across asset classes; different products and services; and varying engagement and enabling initiatives.
- **Not region, sector, or activity specific:** The GFANZ definition of Transition Finance was not intended to serve as a formal taxonomy. The four key transition financing strategies and the Attributes are principles-based, intended to be globally applicable, and not restricted to specific industry sectors and activities.



Part I: The Four Key Transition Financing Strategies

Part I of the Technical Review Note outlines the principles-based Attributes to support the identification of financing and/or enabling initiatives across the four key transition financing strategies that may be used to screen opportunities, portfolio holdings, and clients, for their applicability.

The proposed Attributes anchor on the original GFANZ four key transition financing strategies and draw on existing guidance and select frameworks that have relevant categories; maturity scales; and/or credibility indicators; as well as feedback received through engagement efforts described earlier.

CLIMATE SOLUTIONS • Solutions • Enablers • Nature-based solutions	**A. Real-economy emission reduction**	i. Includes both direct and/or indirect real -economy emissions reductions ii. Not leading to lifetime emissions expansion of phaseout assets
	B. Expectations of net-zero alignment	Includes considerations of near- and medium-term timelines and pathways
ALIGNED & ALIGNING	**A. Established net-zero commitment/ambition**	Commitment/ambition to reach net zero
	B. Established net-zero targets (set to a plan)	Appropriate KPIs to monitor progress (Emissions, Transition -based)
	C. Net-zero transition plan (or phaseout plan)	Aligned only: established and being implemented Aligning only: developing Managed Phaseout only: phaseout plan
MANAGED PHASEOUT	**D. Additional KPIs *(where applicable)***	Any other KPIs relevant for decarbonization/transition progress
	E. Performance	Aligned only: actual performance against targets – two years continuous Aligning only: increasingly meaningful progress towards targets Managed Phaseout only: actual performance regarding asset phaseout

The GFANZ four key transition financing strategies are **not mutually exclusive.** A financial institution may wish to scale Transition Finance toward one or more, but not all, of the four key transition financing strategies, depending on the focus of the institution's NZTP. The application of the four strategies should be fit-for-purpose of the NZTP.

For example, Attributes that identify an entity as a Climate Solution focus on the emissions reductions from the use of the end product, not on the operational emissions of the manufacturing of the product. If that entity is decarbonizing its business operations, it may also be identified as Aligning.

Climate Solutions are often the activities and projects that will in turn allow for the eventual progression of entities and sectors toward Aligned and Aligning, adding a further level of interconnectedness between the strategies.

Why it matters: Use cases of Transition Finance

Use cases for the four key transition financing strategies

As detailed in the GFANZ NZTP framework, the four key transition financing strategies can provide a lens for understanding how assets, activities, or clients may be aligned with the transition. Financial institutions should articulate within their net-zero transition plans how they will support clients and portfolio companies across the four key transition financing strategies.

The strategies serve two primary use cases:

As a basis to scale Transition Finance	Prioritizing and supporting the four key financing strategies can help a financial institution progress in achieving its NZTP. For example, through the Implementation and Engagement Strategies, a financial institution can use the four strategies to understand client and portfolio exposures as well as help to meet capital allocation targets, or support decision-making on capital mobilization more generally.
	Example: a financial institution, within its NZTP, may have established financing targets focused on Aligning entities. Identifying new opportunities that fall under Aligning may be a key input to building a pipeline of opportunities to meet capital allocation targets.
As a foundation for calculating metrics and targets (including EER)	Metrics and targets calculated by the financial institution may be further segmented or organized by the four key financing strategies. For example, the proposed decarbonization contribution methodologies discussed in the Technical Review Note differ for each of the strategies.
	Example: a financial institution can use the attributes to identify and quantify exposure to Climate Solutions projects. The financial institution may choose to also calculate EER associated with this Climate Solutions exposure to complement existing financed emissions metrics.

Financial institutions are encouraged to utilize the Attributes and tailor their application in a manner that best suits their net-zero transition plans, specific asset classes, and portfolio exposures.

Application Dimensions & Degree of Association

Application dimensions

The Attributes may be applied across different dimensions. Examples may include targeted application to capture:

- **Individual exposures** – To analyze a specific new opportunity or existing position in a client and/or portfolio company
- **Total portfolio** – To apply and group total portfolio exposures and/or mandates by one of the four key transition financing strategies
- **Total position at a specific date** – For a point in time stock take against a target (e.g., "stock" of exposure or balance sheet approach)
- **Activity over a period of time** – To gauge quarterly progress in new financing products or services that target a set of clients or strategy, e.g., the "flow" of capital
- **The portion of the business subject to financed emission targets** – As a complement to explain the trajectory of the portfolio footprint
- **Specific priority sectors and asset classes** – Useful especially with high emissions, where rapid decarbonization in the short term is of particular importance

The Attributes for the strategies under analysis can be applied to the selected set of opportunities, portfolio holdings, exposures, or clients. The Attributes have been developed so that financial institutions can be flexible in their application.

Degree of Association

GFANZ's four key transition financing strategies are pan-sector, allowing for **applicability across different asset classes, financing structures, and under various types of relationships between financial institutions and their clients and portfolio companies.**

Different financing structures and asset classes may allow for higher or lower degrees of association between the financing and/or engagement efforts. Similarly, financing structure can impact the underlying decarbonization impact that the asset or entity experiences under higher or lower degrees of association.

	HIGHER DEGREE OF ASSOCIATION	LOWER DEGREE OF ASSOCIATION
Financing structure		General purpose
	Use of proceeds	
Market exposure	Primary market	
		Secondary market
Ownership stake	Control interest	
		Passive interest

For enhanced transparency, **financial institutions should consider further differentiating exposures within one of the four key transition financing strategies by degree of association** to the underlying decarbonization activity and impact.

The Four Key Transition Financing Strategies

Climate Solutions

Climate Solutions consists of three sub-types:

Solutions

Assets and entities that directly remove or reduce real-economy GHG emissions

Examples may include a pure play renewable energy solutions provider or the expansion of Carbon Capture, Utilization, and Storage (CCUS) technology by an energy company.

Enablers

Assets and entities that indirectly contribute to, but are necessary for, emission reductions by facilitating the deployment and scaling of Solutions or supporting the decarbonization of other actors' operations.

Examples may include a battery maker that is a supplier to an electric vehicle manufacturer or the development of new or smart grid infrastructure.

Nature-based Solutions

Actions to protect, sustainably manage, and restore natural and modified ecosystems in ways that address societal challenges effectively and adaptively, to provide both human well-being and biodiversity benefits.

In the context of net-zero transition, nature-based solutions are those that use natural systems to reduce GHG emissions & store carbon

Examples may include local communities restoring forests or an international hotel operator restoring mangrove forests on one of its properties

Climate Solutions: Attributes

Application: Assets, entities

A. Real-economy emissions reduction

Contribution to emissions reduction by:

I. Demonstrating direct or indirect net contribution to real-economy emissions reductions in a significant[1] manner; **AND**	**II.** Not leading to the extension (beyond net-zero pathways) of the lifetime emissions of assets identified for phaseout

Under Attribute A, the definition of "significant" may vary, depending on factors such as sector, region, pathways, and specific portfolio considerations. Additional key considerations could include:

- GHG emissions reduction – actual and/or expected impact
- Criticality/uniqueness

B. Expectations of net-zero alignment

Where the Climate Solutions itself is associated with emissions, reasonable efforts are planned or being made to address emissions reductions in the near and medium-term, and can be expected to align to a science-based pathway over time in a net-zero economy

When assessing for Attribute B, financial institutions are strongly encouraged to consider the Attributes under Section Aligned and Aligning.

For more information on attribute B please see slide 25, for more information on applying Aligning / Aligned attributes see slides 28 - 33

[1] "Significant" should be considered within the appropriate context, such as the asset class or sector

Deep Dive: Solution or Enabler?

Attribute A. Real-economy emissions reduction

The core of a Climate Solution is its potential to create real-economy emissions reductions. A Solution or Enabler should demonstrate a net positive impact on the overall decarbonization of the whole economy either directly or indirectly. Consistent with this concept, the production or use of the Solution or Enabler should not extend the lifetime emissions of assets identified for phaseout.

Factors to be considered in this regard, could include:

- *If the use or deployment of the product or service directly results in negative or no/low real economy GHG emissions* **(Solutions)**
- *If the product or service is a necessary and a critical / unique component of the value chain of other actors that enable whole-economy GHG emissions reduction* **(Enablers)**
- *If the asset or entity provides products and services that support other actors in the real economy to decarbonize their own operations* **(Solutions or Enablers)**

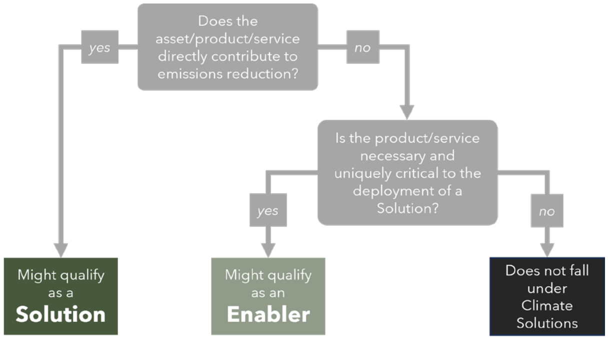
Key Considerations

GHG emissions reduction – actual and/or expected impact:

- Is the asset or entity's product and/or operation directly eliminating, removing, or reducing real economy GHG emissions at the whole economy level? What high-emitting activity is the asset or entity's product and/or operations replacing as an alternative?
- Is the opportunity/transaction/financing mechanism accounting for the asset or entity as a potential Decarbonization lever to another company's operations?

Criticality / uniqueness:

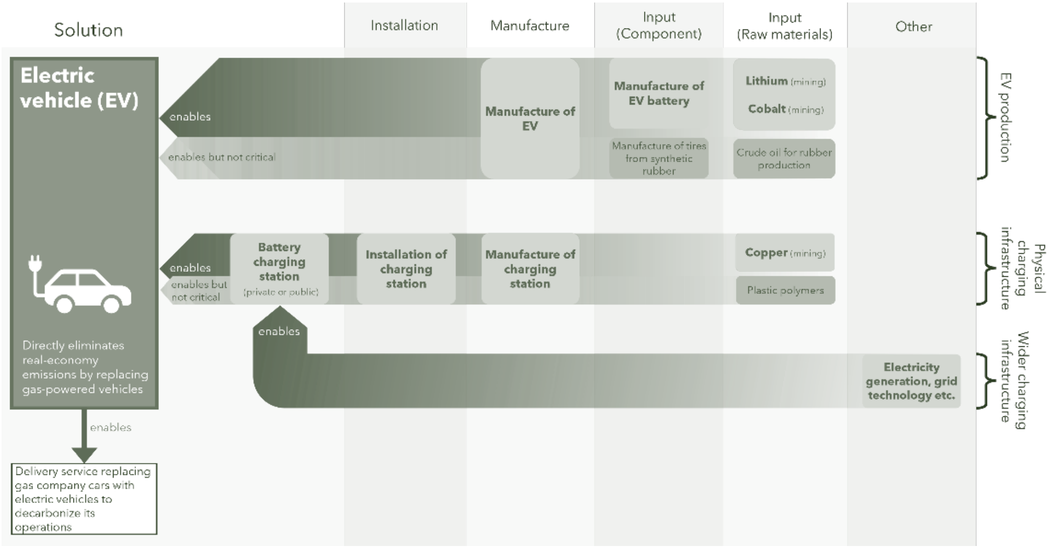
- Does the asset or entity provide a meaningful or unique component to a Solution? Is the Solution operational without it?
- Does the asset or entity provide critical raw materials to manufacture components to the Solution/Enabler? Are there alternatives that are accessible/available as substitutes?



Deep Dive: Solution or Enabler?

Demonstrating the link between the enabling product or service and the Solution may require additional analysis.

In the diagram below, multiple layers of the EV value chain can be screened for Enablers, in this case the diagram considers EV production, the physical charging infrastructure, and wider charging infrastructure.



<u>GHG Emissions Reduction</u>: Electric vehicles (EVs) can be considered a Solution due to their potential to replace internal-combustion engine vehicles, thus directly affecting emissions reductions.

Both the manufacture of the EV itself, particularly its battery, and the installation of the supportive structures of charging stations could be considered as **Enablers** as they support EV usage.

<u>Criticality / Uniqueness</u>: As certain materials, e.g., lithium, cobalt, and copper, are critical and necessary for batteries and charging infrastructure, mining companies for these raw materials may be considered **Enablers**, but financial institutions may wish to consider engaging with these companies to support reduction of environmental harm, e.g., via their energy sources.

A further consideration highlighted in the example is the electricity generation and grid technology required to feed into the charging infrastructure. As an example, in the downstream value chain of electric vehicles, project support for a delivery service replacing its gas fleet with electric vehicles can also be considered under **Enablers** since this financing activity actively enables the decarbonization of the company.

Deep Dive: Solution or Enabler?

Attribute B. Expectations of net-zero alignment

Solutions, and the connected Enablers, will need to scale to support the net-zero transition as outlined by science-based net-zero pathways. The scaling will likely result in increased emissions from activities such as manufacturing, transportation and distribution, and installation.

Over the long term, as efficiencies are realized and technologies advance, it is reasonable to expect emissions to decrease and ensure the entity's operations are sustainable in a net-zero economy. If the entity producing, scaling, installing, or operating the Solution or Enabler does not have a net-zero commitment yet, the entity should demonstrate intent to align its operational emissions to net-zero in the long term.

Instances where commitments might not be in place include:

1) Where the entity producing the Solution or Enabler has not yet committed to aligning its operational emissions to net zero.

An entity deriving the majority of its revenue from mining for copper and lithium, both of which are critical for scaling clean energy systems but are currently associated with significant emissions

2) Where an entity offers Climate Solutions already, but its internal operations may not yet be net-zero aligned even if business is not scaling.

An electric vehicle manufacturer supports the transition away from gas-powered cars, but its manufacturing process and operations are not net-zero aligned.

3) Standalone projects, for example, to pilot or install Climate Solutions, may not have made a zero-emission commitment.

While these projects are time bound, there may be emissions related to construction and other activities that could be mitigated, or the project steps may have low- or no-emission alternatives

Under Attribute B, when assessing if the Climate Solution is making or planning to make reasonable efforts to address emissions reductions in the near and medium-term, some considerations may include, but are not limited to:

- Does the Climate Solution have a net-zero commitment or ambition in place?
- Has the management team been engaged regarding the development of a net-zero transition plan?
- Is there a timeline and/or roadmap in place to articulate the entity's plan to establish targets and transition plans?
- Are there existing decarbonization initiatives in place that have been implemented?

Financial institutions may consider using the Attributes for Aligned and Aligning in the assessment of corporate entities over time. (See slides 28 - 33 for more on this). Additionally, financial institutions can complement this evaluation with actions in their own NZTP, such as Implementation and Engagement Strategies to support these entities in developing an NZTP and aligning their operations to net zero.

Climate Solutions: Examples

JinkoSolar

Type: Solar **Sector(s):** Energy

JinkoSolar, one of the biggest solar technology companies in the world, operates across the heart of the photo-voltaic industry chain and is a key player in driving the growth of this critical climate solution. They serve over 180 countries and regions worldwide, catering to more than 3,000 customers, with cumulative module shipments exceeding 190 GW. [1]

Solution: Solar power generation can be considered a Solution due to its direct decarbonization impact as an alternative to high-emitting energy sources.

Li-Cycle

Type: Rare earth metal recycling **Sector(s):** Materials

Li-Cycle is North America's largest pure-play lithium-ion battery recycler with a rapidly growing business in Europe. [2] Li-Cycle builds a closed-loop battery supply chain around this essential component of EV's by recycling all formats of lithium-ion batteries with up to 95% efficiency and no creation of landfill waste in the process.[3]

Enabler: Lithium is a critical component of EV batteries, and EV batteries are a critical component to EVs, which directly lower emissions through the replacement of internal combustion engines. Lithium is also essential for the storage of renewable energy. Accordingly, the demand for batteries is set to grow exponentially over the next decade.[4] The impending increase in demand will make scaling the recycling of lithium-ion batteries even more important, not only to reduce environmental harm from traditional mining practices but also to help further cut the cost of battery and EV production.[5]

BELTERRA

Type: Agroforestry

Belterra is a B Corp certified company that partners with small and medium-sized farmers to promote agroforestry practices in degraded areas.[7] It helps producers transition to sustainable practices through the provision of credit, technical assistance, product commercialization, and connections to supply chain and off takers.[8]

Solution - NbS: Agroforestry, at scale, has the potential to sequester billions of tonnes of carbon each year; lower deforestation pressures; support biodiversity; increase agricultural productivity; reduce erosion; enhance food security; improve soil quality; and provide better livelihoods for farmers and farming communities.[9] Additionally, agroforestry practices reduce the need for fertilizers, pesticides, and other agrochemicals that harm surrounding flora and fauna.[10]

Just Energy Transition Partnerships

Type: Grid **Sector(s):** Energy

In Indonesia, currently ~80% of electricity generation comes from fossil fuels and investing in transmission grids without any expected change to this fossil fuel generation ratio will not be compatible with Transition Finance.[6] However, under the Just Energy Transition Partnership, Indonesia plans to increase the share of renewable generation in the grid to 44% by 2030 up from 20% in 2025. This is an example where looking ahead to the anticipated decarbonization benefits and the development of a credible transition plan support identification of financing to grids as an Enabler.

Enabler: Grids are an essential Enabler of integrating renewable energy, where renewable resources are located far from demand. Additionally, variable renewable energy like solar PV and wind benefit from large, connected grids to take advantage of resource diversity and diversification of demand patterns – and by extension – contribute indirectly to real economy emissions reductions in a significant way

[1]JinkoSolar. About Page, November 2023. [2,3] Li-Cycle. About Page, November 2023. [4] Scientific American. Recycled Lithium-Ion Batteries Can Perform Better Than New Ones, February 2022. [5] Chemical & Engineering News. It's time to get serious about recycling lithium-ion batteries, July 2019. [6] JETP Indonesia. JETP Comprehensive Investment and Policy Plan, November 2023. [7]Capital for Climate. Belterra, November 2023. [8] Capital for Climate. Belterra, November 2023. [9,10] Capital for Climate. Agroforestry, November 2023.

Questions for discussion and reflection

- What portion of your current exposure may be considered as Climate Solutions?
- Does your institution currently finance or have exposure to Solutions? Enablers?
- Do Enablers have a role in your Net-zero Transition Plan and/or net-zero targets?
- How do you see your institution applying the Attributes of Climate Solutions across various dimensions?
  - Individual exposures?
  - Across the total portfolio?

Aligned & Aligning

Aligned

Aligning

The **Aligned** strategy includes those entities that are well on track or have successfully transformed or repositioned their operations to be net-zero aligned.

At the core of the **Aligning** strategy are entities that currently fall short of full alignment with net-zero objectives yet demonstrate progress and are converging toward net-zero.

Both Aligned and Aligning entities should have a net-zero transition plan but may be at different stages of development and implementation. (The following slides dive deeper on each attribute, with an emphasis on the importance of NZTPs)

NZTPs provide a basis for assessing performance over time and support the assumptions used in the EER calculation.

Aligned & Aligning: Attributes

Application: Entities

	Aligned	Aligning
A. Established Net-Zero Commitment / Ambition	Commitment/ambition to reach net zero, specifying science-based pathways/benchmarks.	
B. Established net-zero targets (set to pathway)	Emissions-based KPIs: Scope 1 and 2; Scope 3 if material; at a minimum, short- to medium-term interim targets established between time of commitment and net zero.	
C. Net-zero transition plans	Established and being implemented Consider including current and planned low-carbon capex and opex (where available)	Developing Consider including planned low-carbon capex and opex (where available)
D. Additional KPIs (Where applicable)	Where applicable, consider tracking low-carbon revenues, planned low-carbon capex and opex, other financial metrics as proxy for alignment (where available); benchmarking/accreditation scores by third-party platforms; just transition considerations and KPIs, etc. The EER metrics introduced in Part II offers a complementary KPI to monitor in the context of alignment.	
E. Performance	Actual performance against established targets/KPIs and alignment to pathways – at least two continuous years	Demonstrating increasingly meaningful progress toward established targets/KPIs and convergence toward pathways (e.g., expected convergence to interim targets)

[1] Based on science-based net zero pathways, including those that may be region or sector-specific. For sectoral pathways, see GFANZ Guidance on Use of Sectoral Pathways for Financial Institutions for further guidance.
[2] The GFANZ Secretariat recognizes that many entities may be in the early stages of implementing their net-zero commitment, and that there is an interim phase where entities may be committed and taking significant steps in establishing targets. Financial institutions are encouraged to capture these exposures separately under "In development" and incorporate actions to support such entities' progression on the alignment scale as part of the financial institution's net-zero transition plan. Please refer to In development for details. [3] For example, investments in human capital development in skills/training; financial considerations regarding affordability of products and services, etc.

Deep Dive: Net-zero Transition Plans

Both Aligned and Aligning entities should have a net-zero transition plan but may be at different stages of development and implementation.

Aligned

- The entity's net-zero transition plan should be both established and implemented
- Where sufficient data is available, current and planned low-carbon capex and opex could be used to add credibility to the transition planning effort

Aligning

- Could be expected to be in the process of developing a comprehensive net-zero transition plan
- If not, Aligning entities should establish a net-zero transition plan within a reasonable time frame
- Consider incorporating specific timelines for establishing a net-zero transition plan within the Engagement Strategy for added clarity

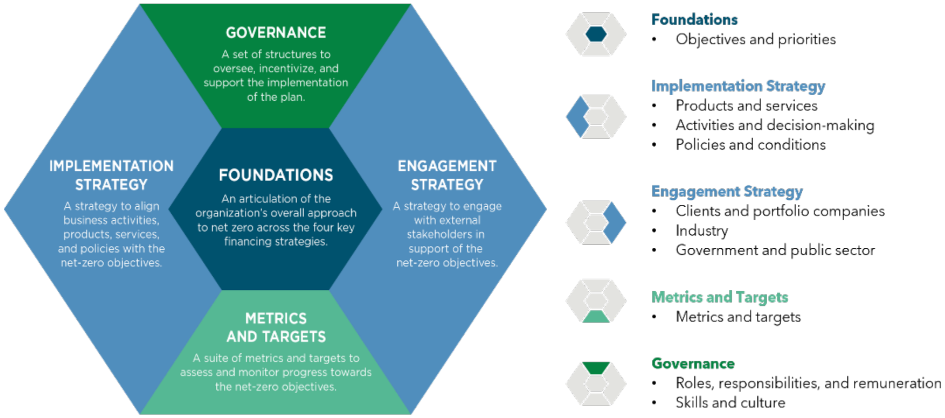
Developing and maintaining a comprehensive transition plan requires both time and resources.

As outlined in the GFANZ Net-zero Transition Plan framework, **a credible transition plan comprises five themes: Foundations, Implementation Strategy, Engagement Strategy, Metrics and Targets, and Governance** – and ten components, as represented in the figure to the right.

Transition plans become especially relevant when organizations deviate from expected pathways, allowing financial institutions to assess whether the entity will be able to course-correct and re-converge with the original pathway, or if it is likely entirely off track and consequently falling out of alignment.

To address these concerns, **net-zero transition plans should be updated regularly to incorporate and adapt to changes in the companies' business models and/or market dynamics**.

To support the development of net-zero transition plans by SMEs, GFANZ has outlined the most critical components of a transition plan in section 5.1 – Prioritization of Components for SMEs in the [Expectations for Real-economy Transition Plans] report [(See the Real Economy: Basics Workshop for more info here).]



For more information on the GFANZ Net-zero Transition Plan Framework see the Workshop, [Basics: Where to start with the GFANZ NZTP?]

Deep Dive: Performance

Performance against the targets should be demonstrated over time

Aligned

An Aligned entity must demonstrate actual performance against established targets / KPIs and alignment to pathways – at least two continuous years

- An Aligned entity can demonstrate active alignment to relevant pathways and is meeting its benchmarks robustly with a two-year track record of aligning performance.
- Financial institutions are strongly encouraged to perform assessments or reviews of the Aligned performance on an annual basis

Aligning

An Aligning entity may be at a lower maturity level but may still demonstrate increasingly meaningful progress toward its stated targets and convergence toward its pathways.

- For example, the entity is on track and/or expected to meet its short to medium interim targets
- Over what timescales this progress is demonstrated, and what level of performance can be considered significant progress should generally be consistent with science-based pathways and the established objectives & targets within the net-zero transition plan
- Financial institutions will be limited to a point-in-time view of entities' performance and should use best practice approaches to gather performance data to make their assessment.

Performance should also consider factors such as the length of the financial relationship, historical and projected cumulative emissions, and contribution to the remaining global carbon budget.

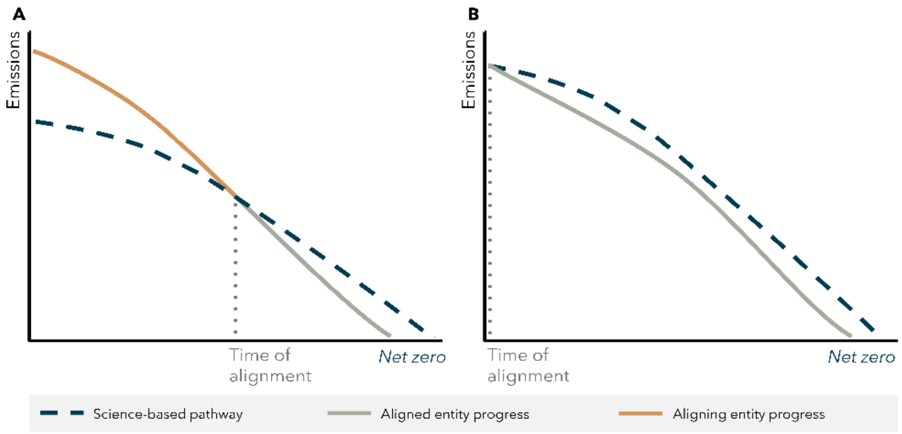
In the figure to the right, illustrative **Example A shows a hypothetical Aligning entity's progress. Example B illustrates a hypothetical Aligned entity that tracks on a net-zero pathway**.

Example A satisfies the Performance attribute at least in part by converging towards the net-zero pathway.

- In the case where it does not fully align until 2050, the financial institution engaging with this entity may wish to consider what an appropriate time horizon is for alignment.
- Considerations will depend on the sector and region the entity operates within and should be adequately represented by interim targets.
- Where an entity consistently fails to meet interim alignment targets, engagement efforts and categorization as Aligning may need to be reassessed.

Example B is tracking below a science based pathway and thus could be identified as Aligned at the start of engagement if it meets the other Attributes as well. Of note, the entity remains Aligned for the entire time horizon represented here.

Though Aligning and Aligned represent consecutive stages on a continuum, in many cases the progression from Aligning to Aligned will not be linear or consistent over time.



Deep Dive: Transitional Activities

"Transitional" activities refer to high-emitting activities that may serve as intermediary decarbonization options for an Aligning entity

These are activities that may replace a relatively higher-emitting activity, but that are themselves not considered viable or sustainable under a net-zero economy, that is, they should be transitory activities in the context of science-based net-zero pathways.

Because of economic, technological, and/or infrastructural dependencies, "transitional" activities are subject to "lock-in" risks. The assessment of "transitional" activities can become further complicated as different regions or jurisdictions may deem such activities as viable in the medium term or candidates for immediate phaseout based on specific regional considerations.

Financial institutions could consider a "transitional" activity as part of Transition Finance – Aligning strategy where the following conditions are satisfied:

I. No other no/low carbon alternatives exist;

II. The "transitional" activity demonstrates significant contribution to lifecycle GHG emissions reductions;

III. The "transitional" activity demonstrates the ability to enable the Aligning entity to align to a 1.5 degrees C pathway and/or meet its 2030 to 2035 interim targets; AND

IV. There is a retirement date specified within the Aligning entity's established net-zero transition plan that details how the "transitional" activity supports the entity's alignment to 1.5 degrees C pathways and when and how the "transitional" activity will be phased out.

For added rigor and credibility, financial institutions should consider:

- Establishing concrete timelines for recurring reassessment of "transitional" activity against the Attributes above
- Including planned capex specified for the deployment of succeeding no/low-carbon alternatives

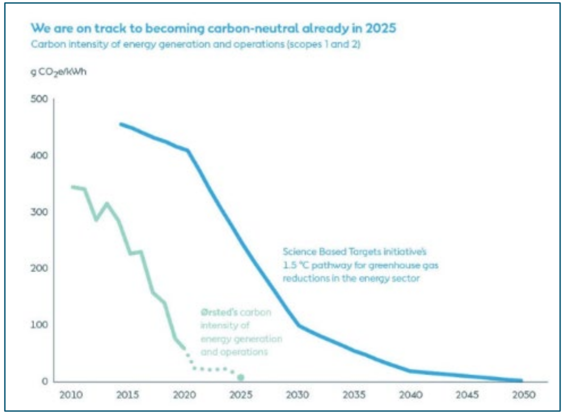
Financial institutions should identify and consider disclosing exposures to "transitional" activities separate from other exposures under the four key transition financing strategies and provide transparency regarding their assumptions and rationale in support of their assessment.

Aligned & Aligning: Examples

Ørsted

Type: Energy company **Sector(s):** Energy

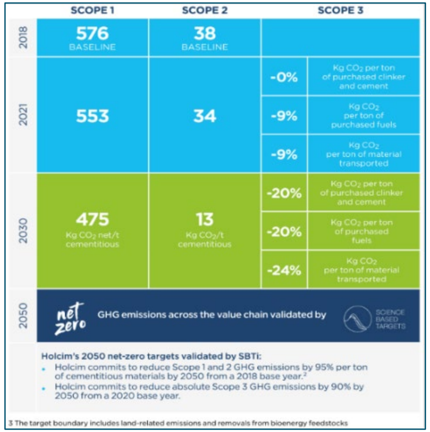
Ørsted, the largest energy company in Denmark, has established an ambitious net-zero commitment. On pace to already achieve carbon neutrality in its Scope 1 and 2 emissions by 2025, Ørsted aims to have net-zero emissions across its entire value chain by 2040.[1] Having a robust and detailed transition plan has allowed Ørsted to become the first organization accredited by Climate Transition Pathway (CTP).[2] For the first time, in 2022 Ørsted reported on its taxonomy-aligned activities to provide its stakeholders with a standard way to determine the sustainability of its activities.[3] Transparency around its degree of alignment across KPIs such as revenue, capex, opex, and EBITDA has given financial institutions the ability to track and monitor progress of Ørsted's transition plan.[4]



HOLCIM

Type: Cement **Sector(s):** Materials

Holcim, a global leader in sustainable construction, has committed to net-zero emissions across its value chain by 2050.[5] In its annual climate report (2022), where the company's net-zero strategy is explained, Holcim shared not only its long term but also its interim targets for Scopes 1-3 in both absolute and intensity metrics.[6] Holcim also included the breakdown of its Scope 3 emissions and its short-term (2025) targets for Scope 1 emissions, providing valuable additional information for consideration. Disclosing information in such detail will allow financial institutions to more easily assess Holcim's goals and progress toward them.[7]



1 Ørsted. About Page, November 2023. 2 GFANZ. Expectations of Real Economy Transition Plans, September 2022. 3 Ørsted. Sustainability Report, 2022. 4 GFANZ. Expectations of Real Economy Transition Plans, September 2022. 5 SBTi. Dashboard, November 2023. 6 Holcim. Climate Report, 2022. 7 GFANZ. Expectations of Real Economy Transition Plans, September 2022

Questions for discussion and reflection

- What portion of your current exposure is Aligned or Aligning entities?
- How does your institution currently support or finance Aligned or Aligning entities that are critical to the net-zero transition?
- Are Aligned or Aligning entities prioritized in your net-zero transition plan and/or net-zero targets?
- How do you see your institution applying Aligned and Aligning Attributes across its various dimensions?
  - Individual exposures?
  - Across the total portfolio?
- Does your institution have engagement strategies in place for supporting Aligned or Aligning entities?

Managed Phaseout

What is Managed Phaseout?

Financing or enabling the accelerated Managed Phaseout (e.g., via early retirement) of high-emitting physical assets

This strategy facilitates significant emissions reduction by the identification and planned early retirement of assets while managing critical issues of service continuity and community interests. GFANZ believes this activity is essential to reducing global emissions and supporting a smooth and just economic transition.

Explanation

The focus of this financing strategy is the planned and accelerated retirement of high-emitting assets

These are assets that are inconsistent with a net-zero future, and that face policy, contractual, economic, and financial barriers to their early retirement. A Managed Phaseout plan for high-emitting assets can address these barriers and can be supported by financial institutions that can provide financing – likely alongside public/Multilateral Development Banks (MDB) partners – to support transactions that provide for an accelerated phaseout.

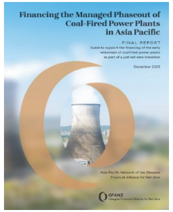
With the focus on the high-emitting asset, the Managed Phaseout strategy does not necessarily encompass the alternative asset that may be constructed or deployed to replace the service provided by the high-emitting asset. From an identification and/or segmentation perspective, the alternative, no/low carbon alternative asset may be considered a Climate Solution and can be identified with the associated Attributes in Attributes for Climate Solutions. Similarly, an Aligning corporate entity may include retrofitting or repurposing an asset in its transition plan and so Attributes for Aligned and Aligning may apply.

Connectivity to APAC report

Financing the Managed Phaseout of Coal-Fired Power Plants in Asia Pacific (December 2023)

The Managed Phaseout Attributes anchor on the APAC Coal Managed Phaseout paper – the ten recommendations of the APAC paper have been mapped to each Attribute to ensure connectivity between the two bodies of work.

This workshop includes general considerations under the Attributes but makes clear that these do not supersede the APAC guidance, and that users should refer to APAC paper for details and case studies.



Managed Phaseout: Attributes

Application: Assets / Projects		
Attribute[1]		Relevant APAC Managed Phaseout Recommendations*
A. Established net-zero commitment/ambition	Commitment to retire the asset early (i.e., before the expected or intended economic life). The commitment may be based on (not exhaustive): the planned remaining operating life; emissions avoided by shortening the operating life; relevant sector pathway, etc.	1 2 4 5
B. Established net-zero targets (set to pathway)	Emissions- or Transition-based[2]: Targets set against the pathway or benchmark established as part of the phaseout commitment to track phaseout progress (e.g., early retirement year; interim targets along the phaseout GHG emissions profile; etc.)	6
C. Net-zero transition plan (or phaseout plan)	Phaseout plan specific to the asset and/or captured as part of financial institution or owner/operator's phaseout strategy.[3] The phaseout plan may include estimates of capex and opex requirements. Planned capex and opex may also be used as an indicator/KPI that tracks capital allocation as part of progress toward phaseout; consider specific capex needs such as carbon efficiency, decommissioning, general capex to support early retirement, etc.	3 7 8 9
D. Additional KPIs (Where applicable)	May include operational KPIs; decommissioning provisions; retraining of staff; plans in place for alternative (e.g., clean energy) supply; third-party validation/audit; phaseout financing structure; just transition considerations and KPIs, etc. The EER metrics introduced in Part II offer a complementary KPI to monitor in the context of alignment.	3 6 7 8 9
E. Performance	Actual performance against established targets/KPIs for phaseout asset along the specific pathway or benchmark.[4]	10

[1] To support a range of approaches, the Attributes include potential entity-level application (e.g., a holding company of multiple assets for phaseout), but the identification and segmentation exercise in such instances may still necessitate assessment against the indicators on an asset-by-asset basis. [2] Emissions-based metrics and targets focus on how the activity changes real-economy GHG emissions over time; transition-based metrics and targets categorize the focus of the financial activity according to the relationship to net zero (e.g., Paris-aligned, production volume, etc.). For further discussion of these types of metrics targets, refer to the GFANZ Financial Institution Net-zero Transition Plans – Supplemental Information. [3] Please refer to the GFANZ resources listed in the Technical Review Note for further guidance on considerations for credible Managed Phaseout transactions and aspects to be included in a phaseout plan/NZTP. [4] Note that this may be challenging if the asset is operated largely as normal until planned retirement.

* See following slide for more details on the APAC Recommendations and their relationship to the GFANZ managed phaseout attributes.

APAC Coal Managed Phaseout Paper Recommendations

Three-Step Process for Consideration of Phaseout Plans

Step A: Ensuring credibility of relevant energy transition and coal phaseout plans **(Recommendations 1 - 5)**

Step B: Optimizing meaningful outcomes **(Recommendations 6 - 9)**

Step C: Achieving transparency and accountability **(Recommendation 10)**

1. **Government climate commitments:** Financial institutions should assess the nature, strength and stability of the energy sector transition commitment of the government of the country in which the CFPP is located.

2. **Government energy transition planning**: Financial institutions should assess the extent to which there is an existing or emerging plan (including but not limited to commitment through country platforms or alignment with science-based pathways) for the energy / power system that addresses how coal phaseout will be delivered alongside necessary investment in grid infrastructure and renewables, in the country in which the CFPP is located.

3. **Entity coal transition plan**: Financial institutions should assess the relevant entity's overall transition plan (both seller and buyer where applicable) – including but not limited to the specific CFPP – to gain confidence that a coal phaseout plan will be implemented and effectively mitigate emissions (e.g., an entity-level commitment to 'no new coal', or credible third-party-verified transition plan).

4. **Addressing moral hazard**: Financial institutions should assess conditions and commitments made in relation to a CFPP subject to an Managed Phaseout plan (such as whether a plant was commissioned prior to thresholds put forth by taxonomies, or international or national commitments to phase out coal; i.e., 2021 Glasgow Climate Pact) to gain confidence that the risk of moral hazard is significantly contained.

5. **Accelerating phaseout**: Financial institutions should assess whether the need for financing is genuine to accelerate early CFPP closure (e.g., if a CFPP has positive fair value).

6. **Climate impact**: Financial institutions should prioritize financing Managed Phaseout plans that support alignment with a science-based pathway, with proposed emissions reductions as ambitious as possible, with public-sector endorsement or independent verification, and in line with timeframes set out by internationally recognized bodies.

7. **Accessible, affordable clean energy**: Financial institutions should assess what measures are in place to support access to secure, reliable and affordable clean energy replacements, such as having feasibility and cost assessments of clean energy replacements, with actions underway to deliver them.

8. **Mitigating adverse socio-economic impacts**: Financial institutions should assess what measures are in place to mitigate adverse socio-economic impacts, such as having (i) environmental and social risk and impact assessments; (ii) social dialogue and stakeholder engagement; (iii) worker and community transition plans; (iv) environmental restoration and land repurposing plans; and (v) adverse impact fund (or similar support measures).

9. **Holistic financial viability analysis**: Financial institutions should perform holistic financial viability analysis of a coal phaseout plan to ensure it is likely to be viable, including capturing the financial impact of socio-economic support measures and associated costs.

10. **Transparency and accountability**: Financial institutions should set expectations that the entity's CFPP phaseout plan covers the key components of the GFANZ Real Economy NZTP framework and consider additional reporting on governance measures.

Managed Phaseout: Example

The case for early coal retirement in Pakistan and Vietnam[1]

A study conducted jointly by the Green Finance & Development Center at FISF Fudan University in Shanghai and Climate Smart Ventures in Singapore analyzed six CFPPs with Chinese investments in Pakistan and Vietnam and found that CFPP owners could benefit from early CFPP retirement with straightforward structures such as refinancing and RE bundled investments.

The study selected CFPPs of less efficient technologies and smaller than 1 GW of installed capacity to maximize the avoided carbon emissions and simulate a realistic transition scenario (in which national power generation would not be compromised). Financial models were built for the selected CFPPs to reflect plant specific data and estimate potential valuations of each of the CFPPs under different financing assumptions and scenarios.

Assuming a CFPP completes its contractual offtake agreement of 25 years without refinancing as the base case, RE bundling, which assumes refinancing and reinvestment of net proceeds into RE, produces the highest valuation for all plants in any scenario due to improved risk-adjusted blended returns. Meanwhile, refinancing leverages cheaper cost of capital and an optimal capital structure in exchange for early CFPP retirement, resulting in higher valuations over the base case. Despite fully operating for 25 years, the base case assumes higher risk from operating under increasingly uncertain market and regulatory conditions.

Three scenarios were developed to assess a CFPP's valuation under potential future energy trends that contain financial implications for the CFPP:

Scenario	Business as Usual	Choose your Allies	Ministry of the Future
Key energy development	Countries prioritize energy security	Regional blocs prioritize economic and political interest	The global economy prioritizes renewable energy and climate action
Financial implications	Status quo	• Higher tariffs and O&M costs for coal • Lower coal financing and insurance costs • Higher coal energy utilization • Lower % of fees collected	• Lower coal and RE tariffs • O&M costs higher for coal, lower for RE • Financing and insurance costs higher for coal, lower for RE • Lower coal energy utilization

Applying the scenarios to the CFPPs revealed that Pakistan's circular debt issues[2] would exacerbate under a higher reliance on fossil fuel energy (e.g., Choose your Allies) due to increasing accounts receivables that worsen the CFPP's liquidity.

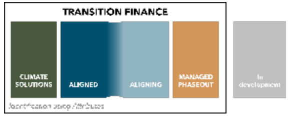
These results show that transition finance, provided by new or existing lenders, may incentivize CFPPs in Pakistan and Vietnam to commit to early coal retirement. This creates a win-win situation for all: local communities will benefit from investments in renewable energy and related infrastructure, the investor will benefit from higher blended returns while limiting their risk exposure in their CFPPs, and the world will benefit from the avoided emissions of the shortened CFPP lifespan.

[1] The Third Pole. Opinion: Retiring coal plants early can benefit investors, communities and climate, 2023; Green Finance & Development Center and Climate Smart Ventures. Scenarios for financial modeling of coal retirement in Asia, 2023; Green Finance & Development Center and Climate Smart Ventures. Accelerated Retirement of China's Overseas Coal-Fired Power Plants Can Unlock Massive Energy Transition Potentials for South & Southeast Asia, 2022. [2] ADB. Circular Debt Impact on Power Sector Investment, 2021.

Questions for discussion and reflection

- Discuss how the Managed Phaseout of high-emitting assets is critical to the net zero transition and real-economy emissions reductions.
- Does your institution currently finance Managed Phaseout transactions?
- Does your institution prioritize Managed Phaseout of high-emitting assets within your net-zero transition plan?
- Discuss any barriers and unique challenges associated with financing Managed Phaseout transactions – by region? Sector?

In Development



Exposures that do not yet meet the Attributes of the four key transition financing strategies could be categorized as "In development"

A financial institution may find it valuable to aggregate exposures that, at present, may not be in scope and/or may lack viable options to progress or be considered as Transition Finance

Some potential sub-groups and example considerations (not exhaustive) are:

Alignment maturity scale	Committed to Aligning	Entities that have made a net-zero commitment and are in the process of establishing corresponding targets, benchmarks, and/or an NZTP to support this ambition
	Not Aligned	Entities that have not made a commitment/ambition to net zero
Process and data limitations	Exposures Pending Assessment	This may represent a pipeline of assets and entities that, due to timing or other procedural factors, have not yet undergone the assessment
	Exposures with limited data and resources	Assets and entities for which conducting assessment proves challenging, given limited data availability and resources (e.g., SMEs, private market exposures, etc.)
Other	"Transitional" activities without retirement date	Activities that are under consideration as "transitional" activities, yet do not have a specified retirement date
	"Transitional" activities that support an Aligning entity without a NZTP	Activities that are under consideration as "transitional" activities where a specified retirement date exists, but the Aligning entity does not have a NZTP to support the retirement timeline

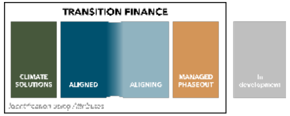
These sub-groups may serve as the basis for constructing strategies and roadmaps that outline and inform the steps needed to eventually progress and integrate these exposures into the four key transition financing strategies, where appropriate.

Questions for discussion and reflection

- How do you currently support Transition Finance within your organization?
- How can the four key transition financing strategies support the scaling of transition finance by your institution?
- Discuss how you may integrate or have already prioritized the financing the four key transition financing strategies within your organization's net-zero transition plan.
  - Which existing clients / portfolio companies may fall under each strategy?
  - Which internal departments or teams would need to be involved in developing capital allocation or engagement strategies across the four key transition financing strategies?

End thoughts

Areas For Further Work



Key areas of further work

Relationship to other frameworks and methodologies	Encourage stakeholders to support further development of the concepts and approaches identified in this Note
Data availability, consistency, and quality	Encourage further research and analysis by sector and industry experts to develop more consistent approaches for the real economy and financial sector
Methodology issues and concepts	Expect ongoing refinement and development of concepts presented in this Note

The GFANZ Secretariat recognizes that many topics and concepts covered in this workshop require further development

- The treatment of Nature-based solutions is rapidly developing but is still new and evolving.
- With regards to Enablers, demonstrating the link/degree of association between the enabling product or service and the Solution may require additional analysis.
- Due to the nascency of these concepts in the market, the proposed two-year performance timeframe under the Aligned strategy will necessitate testing with actual data to determine its feasibility and effectiveness in capturing entities that are aligned with pathways.
  - The threshold may also differ depending on the sector and/or region being considered. In addition, the degree and period of divergence from a pathway and how these forward-looking factors should be accounted for in determining whether an entity is Aligning or not requires further testing and development.
  - In this context, best practice approaches may be required to monitor the progress of Aligning entities over time and to establish how long an Aligning entity may be classified as such without progressing to the Aligned stage.
- Data availability and restrictive sample sizes may pose challenges to empirical testing of these concepts.

Other modules and FAQ

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

A helpful FAQ about the GFANZ NZTP can be found here.

In this workshop, you have learned ...

What are the four key transition financing strategies and why are they important in the context of net zero?
&
How can you use the four key transition financing strategies?

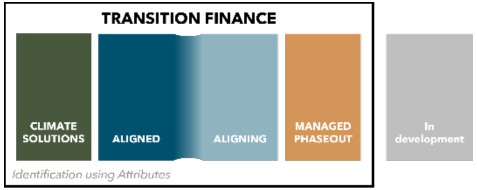
- The four key transition financing strategies provide a lens through which every financing can be viewed rather than a prescriptive taxonomy
- Transition finance is investment, financing, insurance, and related products and services that are necessary to support an orderly, real-economy transition to net zero
- The strategies are not mutually exclusive and serve two primary purposes:
    1. Make clear that transition finance is about driving decarbonization in the real economy
    2. Serve as a foundation for calculating metrics and targets (including EER)
- The attributes for these strategies have been developed so that institutions can be flexible in their application
- Institutions should consider differentiating exposures within one of the four key transition financing strategies by degree of association to the underlying decarbonization activity and impact

What are the attributes of the four key transition financing strategies?

CLIMATE SOLUTIONS (• Solutions • Enablers • Nature-based solutions)	A. Real-economy emission reduction	i. Includes both direct and/or indirect real-economy emissions reductions ii. Not leading to lifetime emissions expansion of phaseout assets
	B. Expectations of net-zero alignment	Includes considerations of near- and medium-term timelines and pathways
ALIGNED & ALIGNING / MANAGED PHASEOUT	A. Established net-zero commitment/ambition	Commitment/ambition to reach net zero
	B. Established net-zero targets (set to a plan)	Appropriate KPIs to monitor progress (Emissions, Transition-based)
	C. Net-zero transition plan (or phaseout plan)	Aligned only: established and being implemented Aligning only: developing Managed Phaseout only: phaseout plan
	D. Additional KPIs *(where applicable)*	Any other KPIs relevant for decarbonization/transition progress
	E. Performance	Aligned only: actual performance against targets – two years continuous Aligning only: increasingly meaningful progress towards targets Managed Phaseout only : actual performance regarding asset phaseout

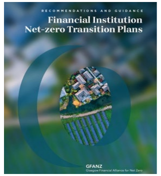
How do you evaluate exposures that do not yet meet the Attributes for the four key transition financing strategies?

- Exposures that do not meet the Attributes of the four key transition financing strategies could be categorized as "In Development"
- These sub-groups may serve as the basis for constructing strategies for the steps needed to eventually progress and integrate these exposures into the four key transition financing strategies



GFANZ publications

Three publications detail the GFANZ NZTP framework and transition finance 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 summary
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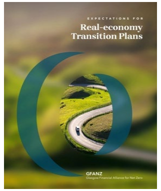
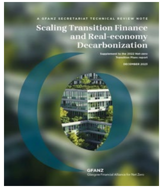
Download the supplemental material



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



Scaling Transition Finance and Real-economy Decarbonization

This GFANZ Secretariat Technical Review Note further develops the Transition Finance strategies by providing a supplement to the 2022 GFANZ NZTP guidance and discusses potential decarbonization contribution methodologies as a complement to today's metrics.

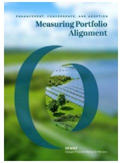
Download the report

Four additional reports give a more detailed insight into focus areas:

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

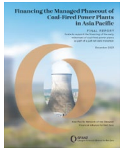
This publication provides a practitioner perspective for measuring the alignment of investment, lending, and underwriting activities with the goals of the Paris Agreement and critical 2050 global net-zero objectives.

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 on assets where managed phaseout could be appropriate.

Download the report



Financing the Managed Phaseout of Coal-Fired Power Plants in Asia Pacific (December 2023)

This report, which addresses financing the managed phaseout of coal-fired power plants in the Asia-Pacific region, aims to provide practical, voluntary guidance for net zero-committed financial institutions considering the financing of coal phaseout transactions.

Download the report

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