Scaling up transition finance

Empowering Mongolia's Green Future
21-22 August 2024

GFANZ
Glasgow Financial Alliance for Net Zero

What is GFANZ?

Founded in 2021, to support the UN non-state actor initiative, GFANZ is a global coalition of leading financial institutions committed to supporting decarbonization of the global economy

Glasgow Financial Alliance for Net Zero (GFANZ)

- Net-Zero Banking Alliance (NZBA)
- Paris Aligned Asset Owners (PAAO)
- Net Zero Asset Managers Alliance (NZAM)
- Net Zero Investment Consultant Alliance (NZICI)
- Net-Zero Asset Owner Alliance (NZAOA)
- Net Zero Financial Service Providers Alliance (NZFSPA)
- Net-Zero Export Credit Agencies
- Venture Climate Alliance

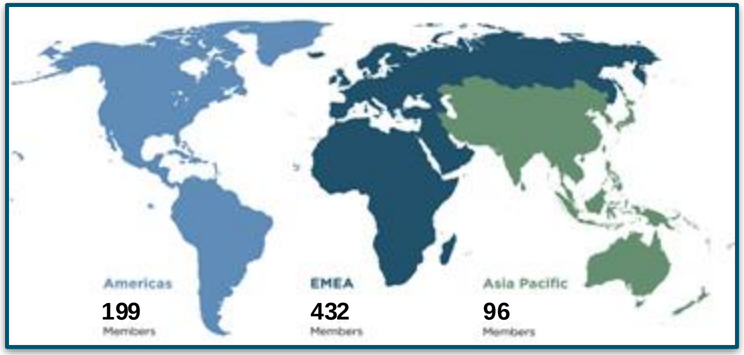
Sector-specific alliances

- GFANZ brings together **eight sector-specific alliances** whose members number around **675 firms in 50 jurisdictions, with regional networks and country chapters**
- Each financial institution has committed **to transitioning financed emissions to net zero by 2050**, in line with science-based pathways to 1.5C
- GFANZ **works with a wide network of stakeholders** in government, private sector, multilateral and development finance institutions, NGOs, and civil society, and reports to the UN and G20 Financial Stability Board

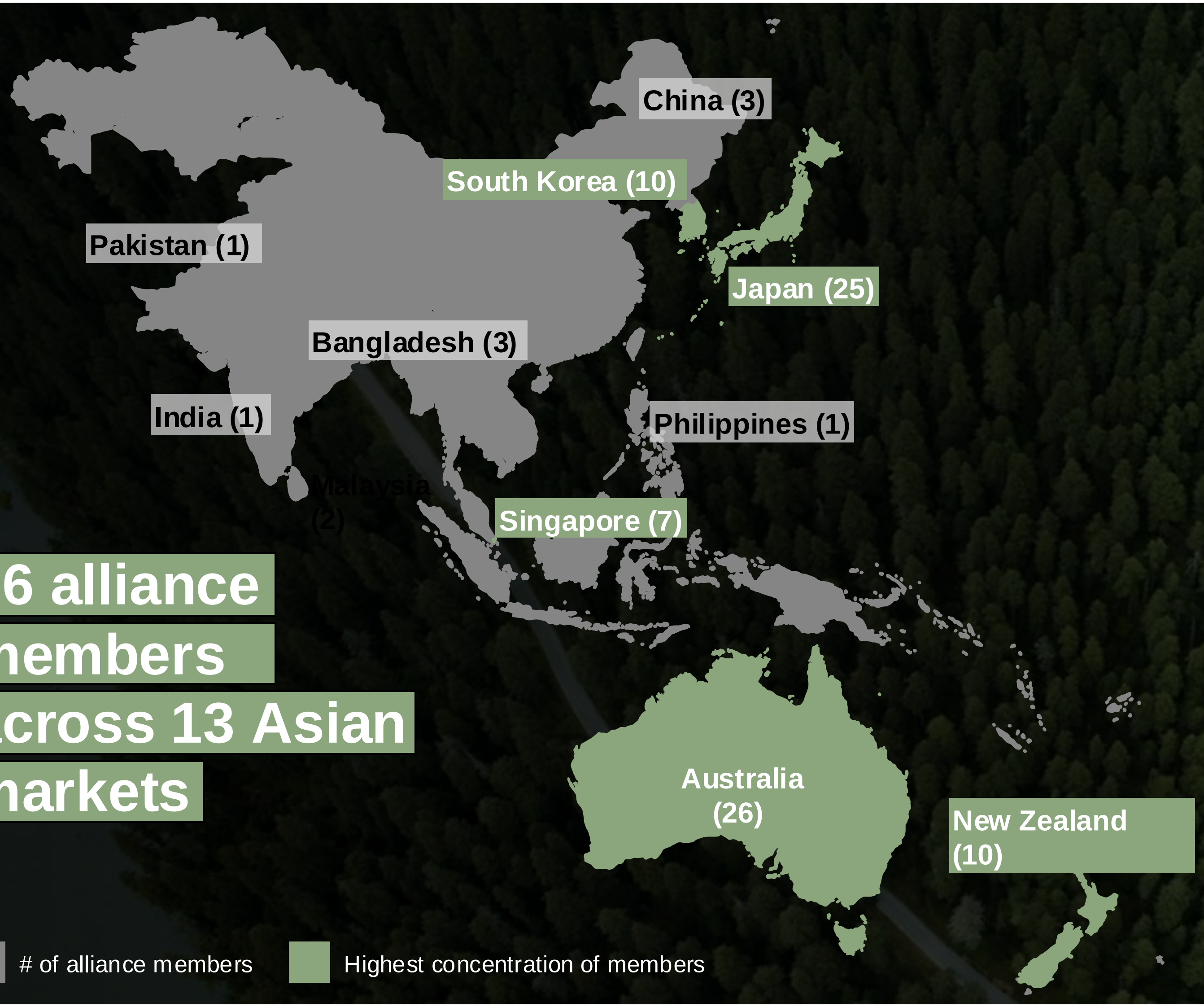
GFANZ Alliance membership

675[1]+ firms

50 jurisdictions



GFANZ alliance membership expands across Asia



96 alliance members across 13 Asian markets

# of alliance members

Highest concentration of members

Alliance membership count as of Mar 2024

96 members across 8 sector specific alliances, in **13 Asian markets**

- **Highest concentration** of members in the **Net Zero Banking Alliance (29)** and **Net Zero Asset Managers (40) initiative**

Geographically, **Australia and Japan** have the highest concentration of members, followed by **New Zealand, South Korea, Singapore and Hong Kong.**

New joiners in 2024 include:

PSE The Philippine Stock Exchange, Inc.

JPX

HBL HABIB BANK

BEA東亞銀行

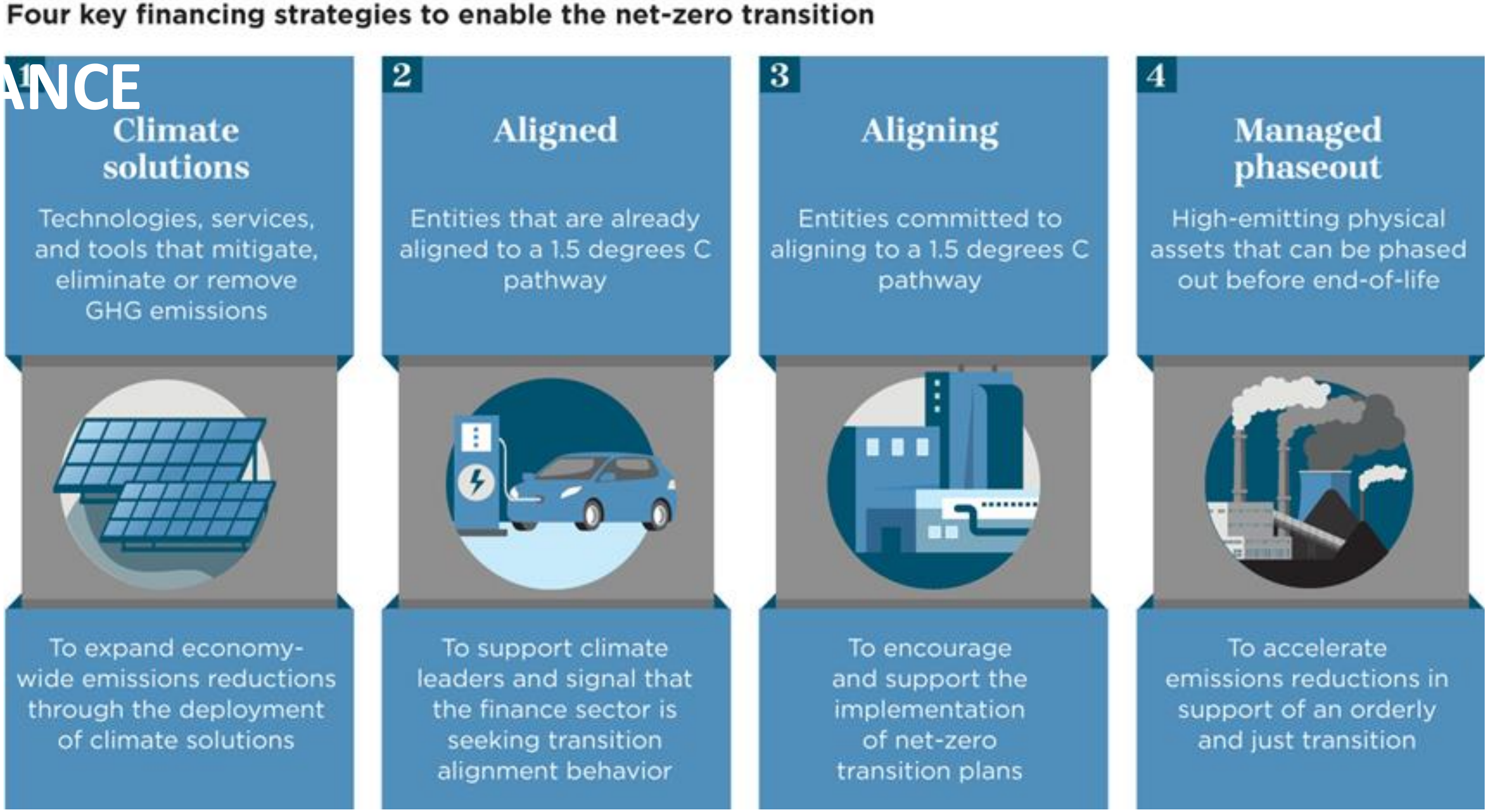
And many more …

What is Transition Finance?

Transition finance should support real-economy emissions reductions as part of an orderly* transition to net zero

TRANSITION FINANCE

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



Note: 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

Standardised transition plan disclosure requirements across jurisdictions and standard setters would facilitate tracking of progress and extraction of information.

ISSB formally uptakes Net Zero Transition Plan work, building on GFANZ framework

- **June 2024:** ISSB formally announced plans to harmonise disclosure around Transition Plans. The ISSB said they will consider developing their own guidance for how to implement the transition plan disclosure element of IFRS S2, drawing on materials such as GFANZ and TPT. Full IFRS process would be run, in line with their mandate and expertise.

Oct 2021

TCFD: Recommended transition planning and noted guidance on transition plans needed to be developed

Oct 2022

G20 Indonesia 2022: SFWG set out high level principles that highlight the importance of transition plan disclosures

Nov 2022

GFANZ: Delivered global principles- based Net Zero Transition Planning Framework for voluntary use by companies and FIs

2023
“ Year of the Transition Plan”

G7 Hiroshima Summit 2023: G7 Finance Ministers and Environment Ministers highlighted the need for credible corporate transition plans and disclosures

IFRS: Finalised IFRS S1/2 standards, which includes expectation that firms that have an NZTP disclose it

U.S. Department of the Treasury: US Treasury released Principles for Net-Zero Financing, stressing importance of transition plans and aspects they should address

TPT Transition Plan Taskforce: UK TPT released Disclosure Framework, building on the GFANZ NZTP framework and ISSB, for UK implementation

EU: EU Council and Parliament formally adopted European Sustainability Reporting Standards (ESRS), requiring disclosure of corporate transition plans

MAS Monetary Authority of Singapore: Monetary Authority of Singapore issued proposed guidelines on transition planning by FIs

Growing number of FIs voluntarily developing and disclosing NZTPs, including to date…

Allianz, citi, UBS, Swedbank, AVIVA, DAI-ICHI LIFE, Itaú, MSCI, BARCLAYS, MIZUHO, BBVA, LSEG, Phoenix, NatWest, HSBC, SMBC, generation, Prudential, Deutsche Bank, Ninety One, INTESA SANPAOLO, bradesco

Planned for 2024

250+ FIs expected to disclose transition plans in 2024 as part of sector specific alliances

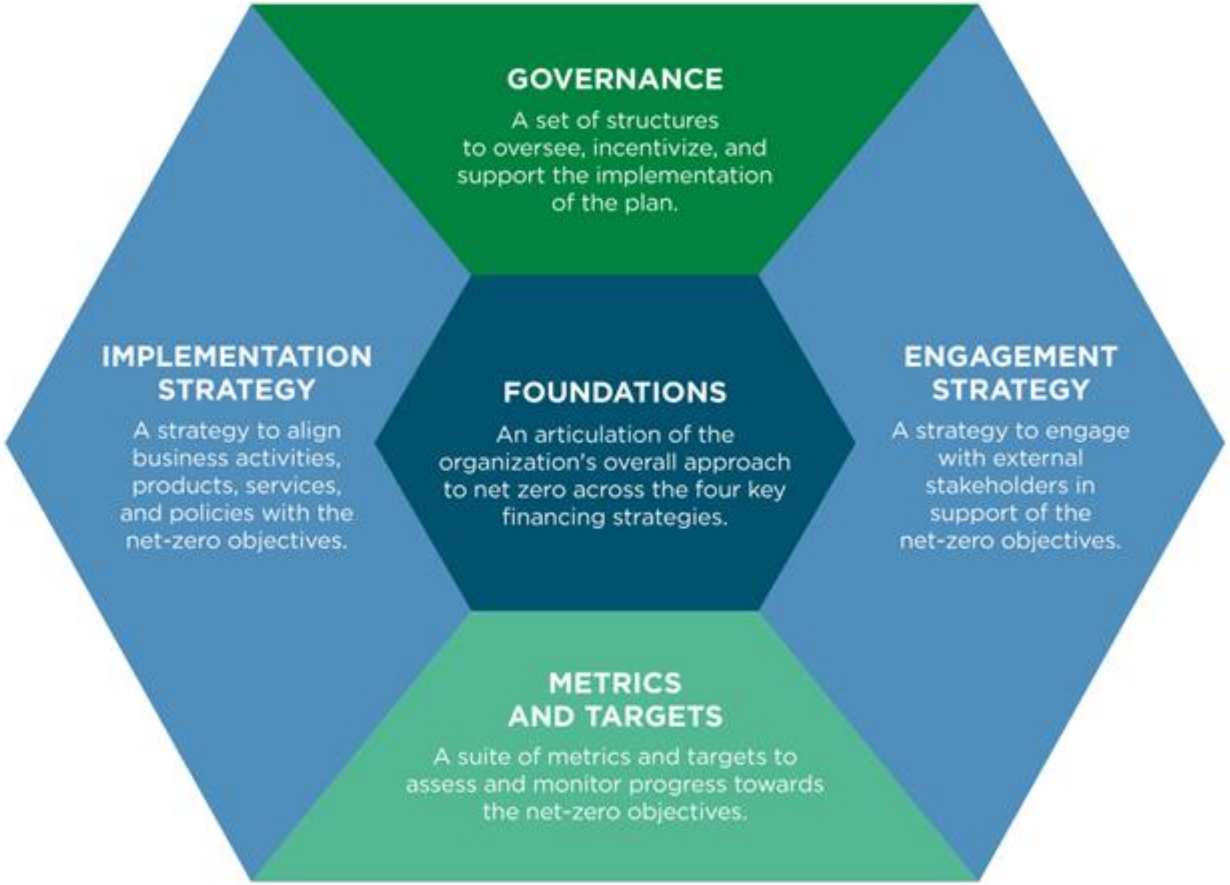
FSB

ISSB formally uptakes Net Zero Transition Plan work, building on GFANZ framework (Announced June 2024)

SSBs - including FSB, IOSCO, BCBS, IAIS - considering the relevance of transition planning for their work and members’ policy mandates.

BCBS, NGFS, IOSCO, IAIS

The GFANZ NZTP themes



Foundations:

- Objectives and priorities

Implementation Strategy:

- Products and services
- Activities and decision-making
- Policies and conditions

Engagement Strategy:

- Clients and portfolio companies
- Industry
- Government and public sector

Metrics and Targets:

- Metrics and targets

Governance:

- Roles, responsibilities, and remuneration
- Skills and culture

GFANZ Net-zero Transition Plan Framework

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 reductions in line with achieving global net zero.

Foundations

1 Objectives and priorities

Define the organization's objectives to reach net zero by 2050 or sooner, in line with science-based pathways to limit warming to 1.5 degrees C, stating clearly defined and measurable interim and long-term targets and strategic timelines, and identify the priority financing strategies of net-zero transition action to enable real-economy emission reduction.

Implementation Strategy

1 Products and services

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

2 Activities and decision-making

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

3 Policies and conditions

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

Engagement Strategy

1 Engagement with clients and portfolio companies / value chain*

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

2 Engagement with industry

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

3 Engagement with government and public sector

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

**Financial institutions* / *real-economy*

Metrics and Targets

1 Metrics and targets

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

Governance

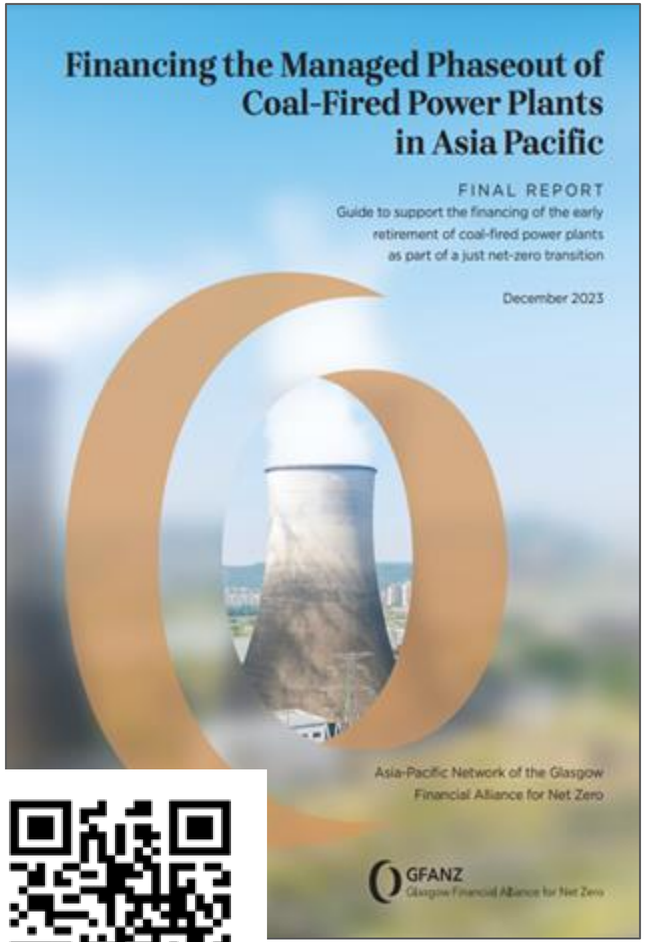
1 Roles, responsibilities, and remuneration

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

2 Skills and culture

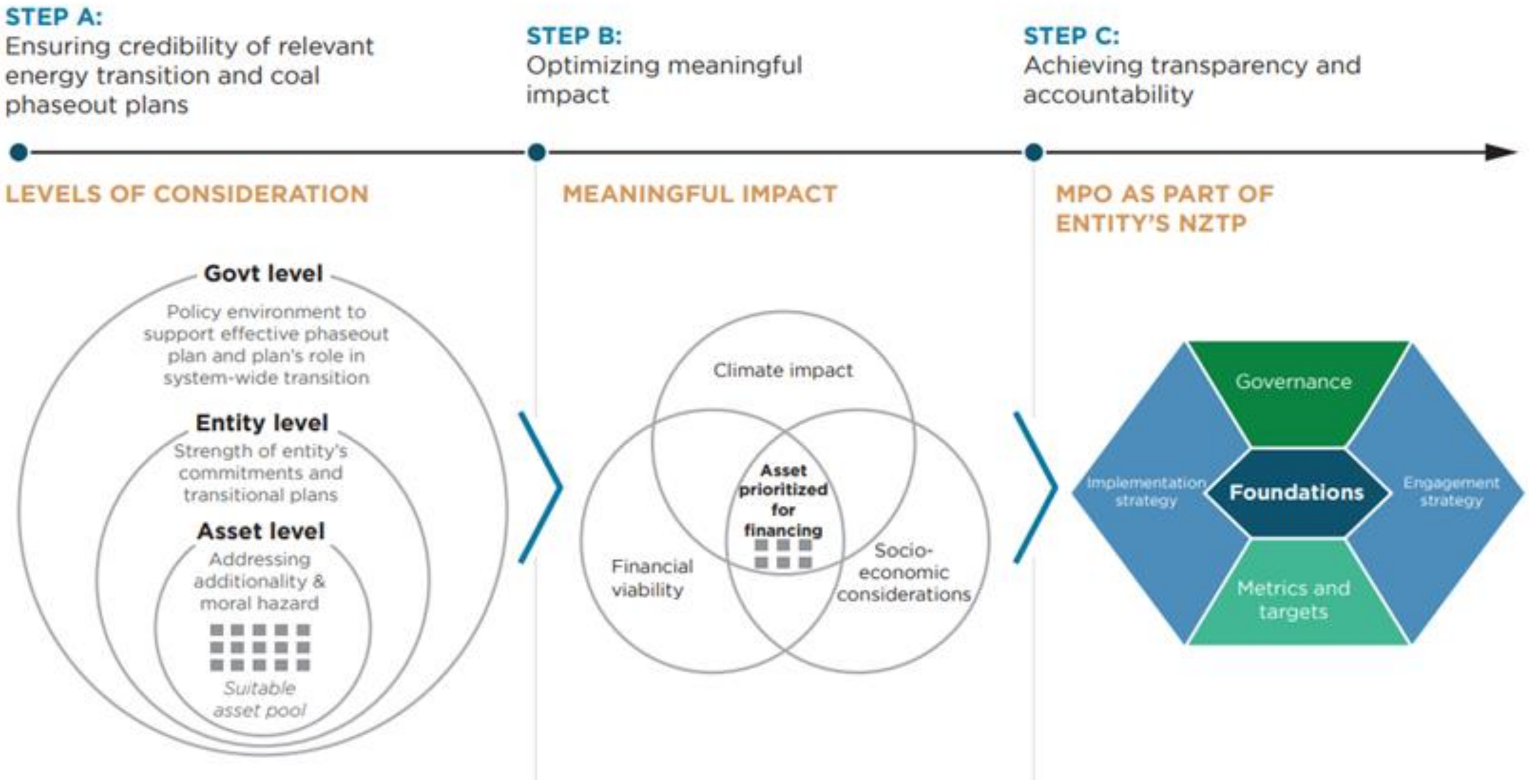
Provide training and development support to the teams and individuals designing, implementing, and overseeing the plan so that they have sufficient skills and knowledge to perform their roles (including at the Board and senior management level). Implement a change management program and foster open communications to embed the net-zero transition plan into the organization's culture and practices.

To support efforts by net zero-committed FIs in APAC to finance coal phaseout transactions, GFANZ has developed guidance detailing what "good" phaseout could look like in APAC.



Publication Dec 2023

Proposed three-step process for consideration of coal phaseout plans



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Financing mechanisms can play a catalytic role in enabling the benefits of, and overcoming barriers to, coal phaseout

Financial Levers

Broadly, three types of financial levers can enable coal phaseouts by ensuring economics of a transaction work for stakeholders involved

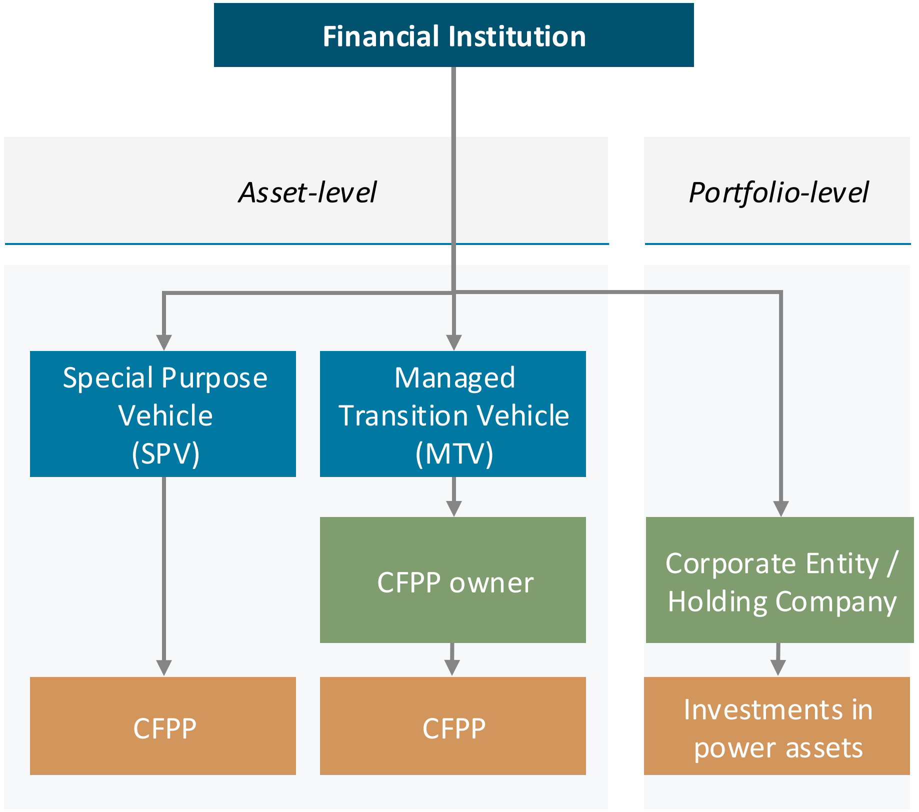
1. **Reducing Cost of Capital** through blended finance (e.g., refinancing drawing on public / MDB / DFI sources) and credit enhancements
2. **Alternative Cash Flows** for CFPP owners to diversify earnings and reduce dependency on coal (e.g., through carbon credits, bundling with renewable energy projects, solar-for-coal swaps)
3. **Asset Revaluation and Pricing** where increased stranded asset risk of coal assets can affect risk / return considerations and drive down the CFPP's fair market value

While no one-size-fits-all mechanism exists, these may be most relevant to APAC:

- Blended capital
- Financial engineering
- Renewable energy bundling
- Carbon credits
- Outcome-based / KPI linked financing

Participation Models

FIs may participate in MPO transactions in different ways at the portfolio or asset level



Enabling FI participation in MPOs requires adapting **internal policies** and developing **forward-looking metrics**

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Internal transition policies have a key role to play in enabling MPO financing

- Even where a CFPP has a credible, financially viable, and inclusive MPO today, **internal barriers could prevent net-zero committed FIs from participating.**
- Examples of challenges include:
  - **Internal policies precluding financing of coal** may unintentionally inhibit the financing of coal phaseout
  - **Financed emissions decarbonization targets** may disincentivize FIs from financing MPOs as the exposure to coal assets will lead to a near-term increase
- It is **critical for such policies to specifically capture how coal MPO can be financed**

RMI working paper (commissioned by GFANZ) lays out approach to calculate MPO emissions as a separate subset of power-sector portfolio

Step 1: Calculate financed emissions associated with MPO only where FI support is explicitly provided to accelerate retirement

Step 2: Set separate targets for financed emissions (absolute or intensity) once a separate MPO portfolio is identified

Step 3: Explain the changes in portfolio emission and disclose (incl. addition of new assets or if portfolio has been decarbonized

This could help:

- **Demonstrate their progress against tailored phaseout-related targets** without skewing the progress made against their energy or power-related financed emissions reduction targets
- **Set more granular targets** for assets planned for phaseout, including absolute or emission intensity related targets
- **Mitigate potential disincentives** to taking on exposure to high-carbon assets where there are robust plans to decarbonize, such as via MPO

4

Japanese FIs contributed to the GFANZ Secretariat Technical Review Note

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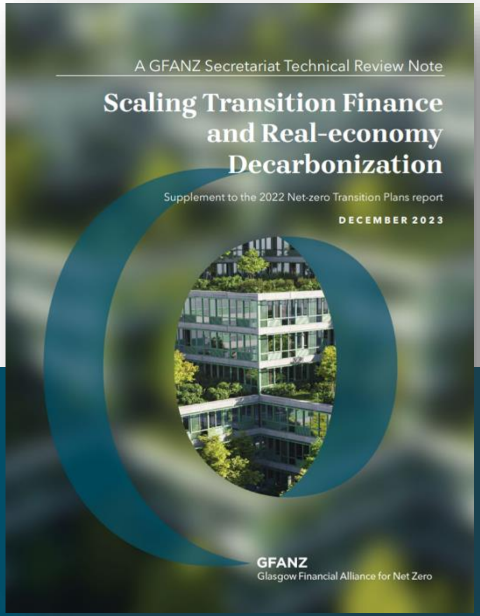
Asia Pacific Network

The GFANZ Japan Chapter put forward an approach to assess “transitional” activities within the context of Net Zero Transition Plans of Aligning entities transitioning towards science-based net zero pathways



Proposed attributes of “transitional” activities include:

I. No other no/low carbon alternatives exist

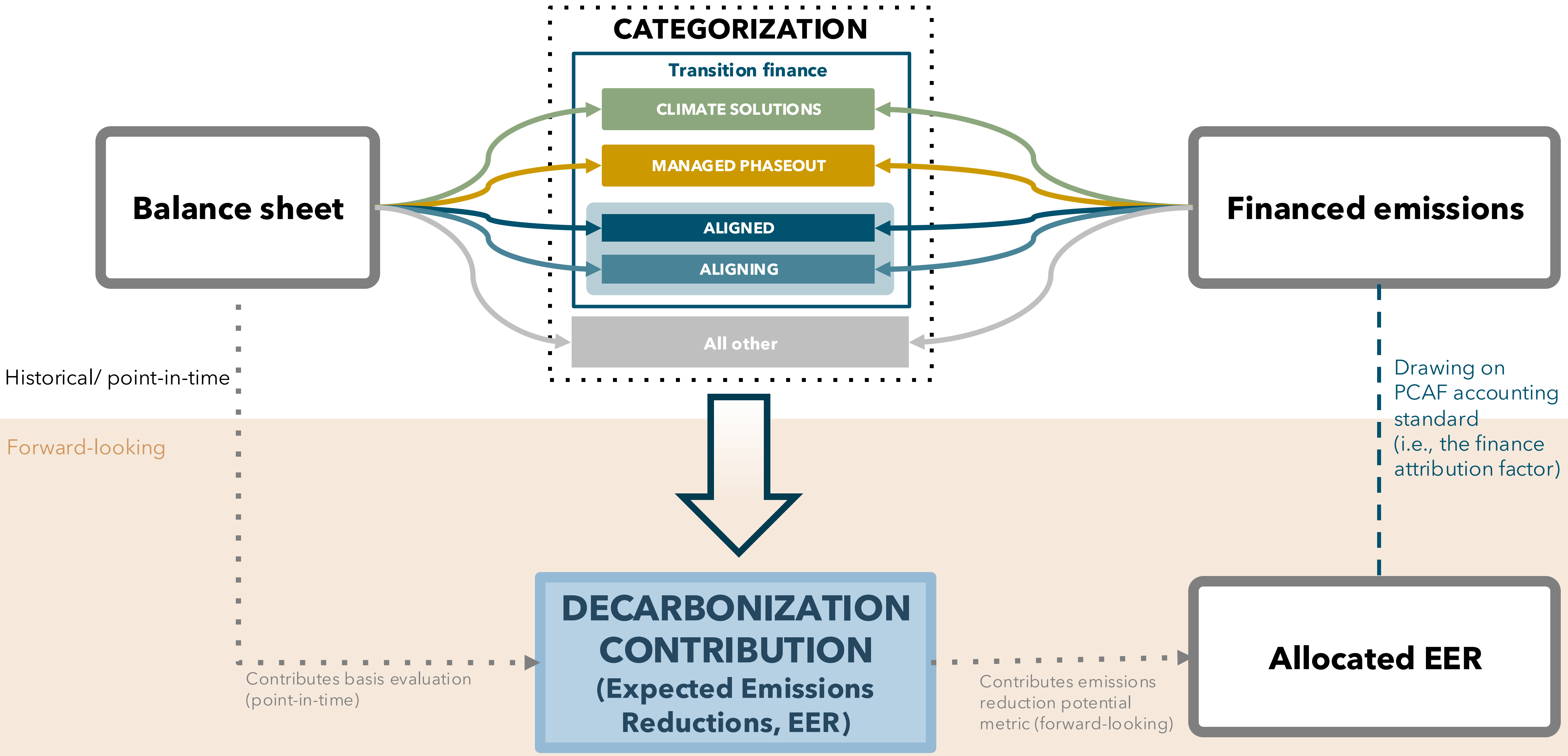
II. The “transitional activity” demonstrates significant contribution to lifecycle GHG emissions reductions

III. The “transitional activity” demonstrates the ability to enable the Aligning entity to align to a 1.5℃ pathway and/or meet its 2030 to 2035 interim targets

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℃ pathways and **when and how** the “transitional” activity will be phased out

Source: A GFANZ Technical Review Note on “Scaling Transition Finance and Real-economy Decarbonization”

Concept – The overall approach



Scan the QR codes to download the reports:

Asia-Pacific Case Studies on Components of Financial Institution Net-zero Transition Plans (June 2023)

Japanese translation:

Chinese translation:

Korean translation:

Catalyzing Climate Action: Emergent Asia-Pacific Case Studies of Financial Institution Net zero Transition Plans (July 2024)

GFANZ publications – all publicly available

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.

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.

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.

All resources are available at: gfanzero.com

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.

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.

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.

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.

Capacity building resources

Workshops in a Box

Scan to view the

Workshops in a Box Resources

Modules:

Basics
An introduction to net zero, GFANZ, and the NZTP

Basics
Where to start with the GFANZ NZTP

Basics
The four key financing strategies

NZTP Themes
Engagement Strategy

NZTP Themes
Metrics and Targets

NZTP Themes
Governance

NZTP Themes
Foundations

NZTP Themes
Implementation Strategy

Real economy
Basics for Real-Economy Transition plans

Real economy
Themes of Real-Economy Transition plans (Part 1)

Real economy
Themes of Real-Economy Transition plans (Part 2)

Transition Finance
Transition Finance: Basics

Transition Finance
Four Key Transition Financing Strategies

Transition Finance
Decarbonization Contribution Methodologies