

FINAL REPORT

Financial Institution Net-zero Transition Plans

Executive Summary

NOVEMBER 2022



GFANZ

Glasgow Financial Alliance for Net Zero

This **Executive Summary** document presents the key concepts, recommendations, and guidance for net-zero transition planning in financial institutions. It is one of three documents that comprise the report Financial Institution Net-zero Transition Plans. Readers are referred to the second document, **Fundamentals, Recommendations, and Guidance** for details on the core concepts that underlie this work and the full set of voluntary, pan-sector, globally-applicable recommendations of the elements of a net-zero transition plan with accompanying guidance, examples, and case studies. Readers are further directed to the third document, **Supplemental Information**, for additional examples for components Policies and conditions and Metrics and targets, discussion on closely related topics where further work and refinement would be beneficial, and appendices with reference material.

Acknowledgments

This report was developed by the GFANZ workstream on Financial Institution Net-zero Transition Plans, and consensus-endorsed by the GFANZ Principals Group and Steering Group, with input from the Advisory Panel, as outlined in the GFANZ Terms of Reference. This does not imply that every finding included herein is endorsed by every GFANZ sector-specific alliance member firm, including the firms represented on the Principals Group. The workstream was supported by the GFANZ Secretariat. Oliver Wyman provided knowledge and advisory support.

Members of the workstream include representatives from:

Aviva (Workstream co-chair)

Bloomberg

Banco Bradesco S.A.

CDP (Advisor)

Ceres (Advisor)

Commercial International Bank Egypt

Dai-ichi Life International Limited

HSBC (Workstream co-chair)

ICEA Lion

**Institutional Investors Group
on Climate Change (IIGCC) (Advisor)**

Impax Asset Management

Intesa Sanpaolo

Legal & General Investment Management

Macquarie

Mitsubishi UFJ Financial Group, Inc.

Moody's

MSCI

Nationwide Building Society

Robeco

UBS

**United Nations Environment
Programme Finance Initiative (Advisor)**

Wells Fargo

WTW

GFANZ would like to thank all those who have contributed to our work and development of this report in support of a net-zero climate transition.

Important notice

This report was produced by a workstream of the Glasgow Financial Alliance for Net Zero (“GFANZ”). This report aims to provide voluntary guidance regarding the development of net-zero transition plans by financial institutions. For the avoidance of doubt, nothing expressed or implied in the report is intended to prescribe a specific course of action. This report does not create legal relations or legally enforceable obligations of any kind. Each GFANZ sector-specific alliance member unilaterally determines whether, and the extent to which, it will adopt any of the potential courses of action described in this report.

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Members of the seven financial sector-specific net-zero alliances comprising GFANZ have signed up to the ambitious commitments of their respective alliances and are not automatically expected to adopt the principles and frameworks communicated within this report, although we expect all members to increase their ambition over time, so long as it is consistent with members’ fiduciary and contractual duties and applicable laws and regulations, including securities, banking and antitrust laws.

How to Read This Report

This document is a report produced by the Glasgow Financial Alliance for Net Zero (“GFANZ”), which aims to provide financial institutions with background on potential avenues for meeting net-zero commitments intended to address the financial and economic risks and opportunities posed by climate change and the transitions that would be necessary to mitigate those risks. In particular, this report sets out a framework for transition finance, identifying four financing strategies that could facilitate real-economy transitions. The report includes components, arranged under themes, of potential net-zero transition plans. Each component includes recommendations, case studies, and examples. The report does not prescribe a specific course of action but offers information and options to help those financial institutions preparing net-zero transition plans.

Sector-specific alliance member firms include many different types of financial institution, including banks, insurers, asset owners, asset managers, financial service providers, and investment consultants. The report recognizes that financial institutions operate in different contractual and regulatory environments that may impact their approaches to the net-zero transition recommendations and voluntary/non-binding, guidance outlined in this report. GFANZ acknowledges that net-zero transition plans will vary by institution and jurisdiction and will depend on the individual characteristics of financial institutions, including size, business model, sector coverage, fiduciary duty toward their clients, and other factors. The purpose of this report is to provide information that may inform financial institutions’ independent investment decision-making process in accordance with their contractual duties and the regulatory environment in which they operate.

For the purposes of this report, the term “GFANZ” refers to the [GFANZ Principals Group](#).

Voluntary guidance: This report presents a voluntary framework for financial institutions to apply when developing and implementing net-zero transition plans. Financial institutions are encouraged to use all five themes in the recommendations, but may choose to focus on a subset of the themes that they determine appropriate for their organization. Financial institutions are encouraged to use these recommendations wherever possible, but not superseding jurisdictional requirements on transition planning or climate-related financial disclosure where such requirements exist, 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 guidance should be considered.

Pan-sector approach: These recommendations and guidance present a pan-sector approach to transition planning. The principle behind each recommendation or piece of guidance aims to be applicable to institutions across the financial sector and to act as a reference for regulators and policymakers. Specific methodological approaches or considerations for individual components may differ by type of financial institution, and the relevance may vary for different types of institutions. The report 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 use these recommendations and guidance alongside the guidance produced by sector-specific net-zero alliances and other organizations.

Unique roles for different financial institutions:

Because this guidance is pan-sector, it does not reflect the different roles financial institution types play within the industry. Thus, as they develop their transition plans, financial institutions are encouraged to consider these types of relationships, focusing where they can on the areas where they are likely to be able to support client and portfolio company net-zero strategies and manage climate-related financial risk while considering all elements in this framework. Each financial institution is encouraged to implement the guidance based on considerations such as its business model and the contractual and regulatory environment within which it operates. The recommendations and guidance herein should be considered by financial institutions as resources and considerations that may be consulted as part of their transition planning efforts, not as a specific course of action.

Focus on development and implementation:

This framework aims to provide an approach for developing and implementing transition plans, rather than specific guidance on disclosing transition plans. While GFANZ encourages transparent disclosure of transition plans, this report does not intend to provide detailed guidance on disclosure. Each financial institution should determine specific content, location, and frequency for disclosing the components of its

transition plan, consistent with the requirements of their respective sector-specific alliances, business confidentiality, and jurisdictional requirements, if any. When preparing disclosures, institutions should consider the TCFD's Principles for Effective Disclosures.¹

Institution-wide approach to transition planning:

This guidance focuses on addressing transition planning from the perspective of the whole of a financial institution. In other words, the focus is on aligning the financial institution's overall business strategy with the net-zero transition using the ten components. The guidance details how this strategy can be implemented throughout an organization but does not go into significant depth for individual business areas, product lines, or asset classes. Financial institutions should look to their net-zero alliance and other guidance providers for greater detail on how net-zero strategies can be developed and implemented at the level of specific products, services, and transactions.

Living guidance: GFANZ acknowledges that supporting pathways, tools, and methodologies may not yet be available for all situations and policy, regulation, technology, and science are evolving, often at a rapid pace. As financial institutions develop and execute net-zero transition plans more widely, we expect the necessary tools, methodologies, and datasets to further develop.

1 TCFD. [Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures](#), October 2021.

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Foreword from the co-chairs and vice-chair of GFANZ



Mike Bloomberg

Co-Chair, GFANZ and UN
Special Envoy on Climate
Ambition and Solutions

A handwritten signature in black ink that reads "Michael R. Bloomberg".



Mark Carney

Co-Chair, GFANZ and UN
Special Envoy for Climate
Action and Finance

A handwritten signature in black ink that reads "Mark Carney".



Mary Schapiro

Vice Chair, GFANZ and
Head, GFANZ Secretariat

A handwritten signature in black ink that reads "Mary Schapiro".

Since it was launched in April 2021, the Glasgow Financial Alliance for Net Zero (GFANZ) has been developing tools and methodologies to support financial institutions' efforts to turn net-zero commitments into real action. With this report, we are pleased to provide a framework that offers resources and considerations for financial institution net-zero transition plans, in support of the financial sector's efforts turning net-zero commitment into financial decision-making and support the orderly transition of the global economy to net zero.

By now, the financial and economic risks posed by climate change and the measures necessary to mitigate it are readily apparent. The science is clear: To have a 50% chance of keeping global warming to 1.5 degrees C and avoiding the worst impacts of climate change, we must achieve about a 50% reduction in emissions by 2030. Current

challenges in the global energy market, significantly exacerbated by the Russian invasion of Ukraine, have highlighted the complexity and imperative of securing an orderly transition, including the need to rapidly scale climate solutions to provide cleaner, more affordable, and more reliable replacements for unabated fossil fuels.

This transition to net zero requires companies across the whole economy to change behaviors through application of innovative technologies and new ways of doing business. At the same time, the transition should be a just one, accounting for impacts on cost of living, communities and workers. It should also protect nature and biodiversity given their close connection to climate. All corners of the financial sector will play a pivotal role in enabling such a whole-economy transition — from firms that oversee global capital allocation, financing, and risk management to those that supply them with services, advice, and systems.

The 550+ members of the sector-specific alliances that comprise GFANZ have all committed to addressing the financial and economic risks and opportunities involved in achieving net zero. Translating these long-term commitments into action requires clear, detailed plans to help ensure the steps taken by the financial sector result in real-economy emissions reductions. The voluntary recommendations, to be implemented by each financial institution according to its role and business model, and guidance in this framework provide a set of resources and considerations for financial institutions for the financing and enablement of climate solutions, firms that are transitioning, and the managed phaseout of high-emitting physical assets.

By establishing a pan-financial sector approach to transition planning, to the extent possible, taking into consideration each financial institution's specific function in the financial sector, GFANZ aims to help financial institutions tackle joint challenges in a consistent way. This also enables comparability across the sector as stakeholders work to hold financial institutions accountable

to their commitments. GFANZ believes this pan-financial sector framework will provide policymakers and regulators with the necessary insights to better understand efforts to mitigate climate-related risk, and to assess progress toward realizing national climate commitments. The framework also provides governments and standard-setters with a common global approach to inform disclosure guidance to further improve transparency and accountability.

We would like to acknowledge and express our gratitude to the numerous organizations which produced the resources highlighted throughout this report and especially thank the many individuals and institutions who have volunteered their time in developing this framework. In particular, we are grateful to Aviva and HSBC, which co-led the workstream that developed this report.

We trust that financial institutions will find this report helpful in developing their transition plans, and encourage policymakers and regulators to reference this report as they consider policy regarding transition plans for the financial sector.

Figure E-1. A global, pan-sector approach to net-zero transition plans

Recommendations and Guidance on Financial Institution Net-zero Transition Plans



Net-zero Transition Plans (NZTPs)

NZ Commitment > **Develop and implement a NZTP**

A net-zero transition plan (NZTP) 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.

Aligning the financial sector with the net-zero transition

Increase transition finance > **Achieve NZ by 2050 and support global NZ transition**

Four key financing strategies to reduce real-economy emissions

- 1**

Climate solutions
- 2**

Aligned
- 3**

Aligning
- 4**

Managed phaseout

GFANZ recommendations and guidance

The framework provides globally applicable voluntary recommendations and guidance across the financial sector.

It can be used by any financial institution working to turn their climate commitments into action alongside guidance from net-zero alliances and civil society.

Banks

Asset owners

Asset managers

Insurers

Financial service providers

Investment consultants

Regulators

Further refinements and ongoing considerations

- 1**

Core element refinements
- 2**

Overarching issues
- 3**

Supporting data and disclosures

Look ahead

- Widespread adoption of NZTPs
- Increased capital allocation and services to four key financing strategies
- Cooperation between finance, real-economy and policymakers

Executive summary

This report introduces the recommendations and guidance for ambitious and credible net-zero transition plans for financial institutions set forth by the Glasgow Financial Alliance for Net Zero (GFANZ).² It sets out a common framework that can be used as a resource globally across all types of financial institutions, to support greater comparability and to provide a shared understanding of the elements of a net-zero transition plan.

This report presents a voluntary framework for financial institutions to apply when developing and implementing net-zero transition plans. Financial institutions are encouraged to use these recommendations wherever possible, but not superseding climate-related financial jurisdictional requirements where such requirements exist.

THE FINANCIAL SECTOR AND TRANSITION TO NET ZERO

Nearly 200 countries signed the Glasgow Climate Pact 2021, through which they resolved to “pursue efforts to limit the temperature increase to [1.5 degrees C].”³ These efforts are driven by the growing understanding of climate impacts. Alongside government and real-economy efforts, the financial sector has a vital role in supporting the real economy by facilitating the allocation of capital and providing related services. The financial sector

can help enable a global net-zero transition that helps avoid the worst impacts of climate change, minimizes firm-specific transition risks and stranded assets as well as broader risks to financial stability, and is just and orderly across countries and communities. GFANZ urges financial institutions to aim high when developing their net-zero strategies, as the next few years are crucial for the state of climate change. Without deep emissions reduction by 2030 across all sectors, the IPCC warns that it will be impossible to limit global warming to 1.5 degrees C.⁴ Under these conditions, the IPCC highlights that negative impacts to human health, cities, infrastructure, ecosystems, food production, and water availability will be multiple times higher than currently observed. In its April 2022 report, the IPCC indicated that limiting global warming to around 1.5 degrees C with “no or limited overshoot” requires greenhouse gas emissions to peak before 2025 at the latest and be reduced by 43% by 2030, reaching net zero by 2050.⁵

GFANZ is a global coalition of seven sector-specific alliances with each alliance setting commitment criteria for its members.⁶ This coalition now includes over 550 financial institutions committed to the goal of net-zero greenhouse gas (GHG) emissions by 2050 in support of the global transition to a net-zero economy and limiting warming to 1.5 degrees C. Commitment criteria are understood differently by each sectoral alliance comprising GFANZ, as each sector has different functions and roles in the

² For the purposes of this report, the term “GFANZ” refers to the [GFANZ Principals Group](#). These recommendations and views herein reflect those of GFANZ developed by the GFANZ secretariat-managed workstreams and in collaboration with net-zero financial sector-specific alliances.

³ UNFCCC. [Glasgow Climate Pact 2021](#), 2021, p. 3.

⁴ IPCC. [The evidence is clear: the time for action is now. We can halve emissions by 2030](#), April 4, 2022.

⁵ IPCC. [Climate Change 2022: Mitigation of Climate Change: Working Group III Contribution to the IPCC Sixth Assessment Report](#), April 4, 2022, p. 21. Note that the report also states that global CO₂ emissions would fall to 48% below 2019 levels by 2030 for the same outcomes.

⁶ The seven sector-specific alliances establish commitment criteria that is relevant to their membership base.

financial system. In particular, for institutions acting as fiduciaries to their beneficiaries, the scope of financing services and products may be reliant on financial risks associated with transition to net zero.

THE NET-ZERO TRANSITION PLAN FRAMEWORK

The financial institution net-zero transition plan (FI NZTP) framework provides principles-based, globally applicable, pan-sector guidance that supports financial institutions in developing net-zero transition plans. The framework is underpinned by the view that delivering on net-zero commitments is only possible if transition planning aligns finance and related services with the reduction of GHG emissions in the real economy. The report is designed to provide guidance to financial institutions to support their efforts to implement practical solutions, and to the public sector to inform policies on transition planning.

This report is intended to be complementary to, rather than supersede, industry-specific resources already in use today. All guidance is aligned with sector-specific alliance commitments but is intended to be useful for any financial institution regardless of their specific net-zero commitment. Guidance is voluntary and GFANZ does not set standards, criteria, or requirements as part of this report.

This FI NZTP framework was developed by practitioners and experts from the GFANZ membership, builds on the work of the Task Force on Climate-related Financial Disclosures (TCFD),⁷

and draws on resources produced by financial sector net-zero alliances and a wide range of civil society and technical bodies. Throughout this process, GFANZ solicited input and feedback from numerous industry professionals, subject matter experts, and other stakeholders through interviews, exchange of knowledge, open consultation, and other touchpoints. This final report is a reflection of the body of work and thought leadership in the financial sector at the time of writing as well as other public feedback received.

Achieving an economy-wide, net-zero transition will require ambitious action from governments, substantial efforts to decarbonize real-economy companies, as well as support from the financial sector. This framework provides policymakers, regulators, and standard setters with consistent information, a foundation for developing policy regarding net-zero transition planning, the ability to identify interdependencies between strategies across sectors, and a basis for monitoring progress.

DEFINING TRANSITION FINANCE

GFANZ defines transition finance as investment, financing, insurance, and related products and services that are necessary to support an orderly, real-economy transition to net zero as described by the four key financing strategies, which finance or enable 1) entities and activities that develop and scale climate solutions; 2) entities that are already aligned to a 1.5 degrees C pathway; 3) entities committed to transitioning in line with 1.5 degrees C-aligned pathways; or 4) the accelerated managed phaseout of high-emitting physical assets.

⁷ The TCFD was established by the Financial Stability Board to provide recommendations for more effective disclosure of climate-related financial information. The TCFD recommendations have seen widespread adoption by private-sector companies, and more than 4,000 organizations from over 100 jurisdictions publicly support the TCFD. Supporters include over 1,500 financial institutions responsible for \$220 trillion in assets. In addition, several jurisdictions have finalized or proposed climate-related financial disclosure requirements in line with the TCFD recommendations. TCFD. 2022 TCFD Status Report, 2022.

Financial institutions should consider that the greatest emissions reduction may be achieved by directing financing and related services to — rather than divesting from — firms and assets that need to transition. The report identifies four key financing strategies that GFANZ believes are essential to the transition:

1. **Climate solutions:** Financing or enabling entities and activities that develop and scale climate solutions. This strategy encourages the expansion of low-emitting technologies and services, including nature-based solutions, to replace high-emitting technologies or services, remove greenhouse gases from the atmosphere, or otherwise accelerate the net-zero transition in a just manner. An example may be a company that produces green hydrogen or a project on regenerative agriculture.
2. **Aligned:** Financing or enabling entities that are already aligned to a 1.5 degrees C pathway. This strategy supports climate leaders and signals that the financial sector is seeking transition alignment behavior from the real-economy companies with which it does business.⁸ An example may be a company with an SBTi-validated target and whose progress reports demonstrate achievement against the target, or a company whose climate transition plan and performance is assessed by the World Benchmarking Alliance.
3. **Aligning:** Financing or enabling entities committed to transitioning in line with 1.5 degrees C-aligned pathways. This strategy supports both high-emitting and low-emitting firms that have robust net-zero transition plans,⁹ set targets aligned to sectoral pathways,¹⁰ and implement changes in their business to deliver

on their net-zero targets. An example may be a manufacturer who is implementing energy efficiency and clean energy projects to reduce its Scope 1 and 2 emissions or a retailer engaging with its supply chain to invest in Scope 3 emissions reduction projects.

4. **Managed phaseout:** Financing or enabling the accelerated managed phaseout (e.g., via early retirement) of high-emitting physical assets.¹¹ 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. An example may be an identified fossil fuel power plant with a plan in place for early decommissioning on a timeframe consistent with the broader net-zero trajectory.

These financing strategies should inform corporate strategy and support decision-making across the organization.¹² They can provide a lens for understanding how assets, activities, or clients may be aligned with the transition and thus help form the basis of a transition strategy that can be embedded throughout the organization.¹³ As the global community progresses toward net zero, GFANZ expects opportunities for transition finance to grow and the allocation to transition finance in portfolios to increase correspondingly.

The transition plan framework that GFANZ is proposing — consisting of ten components grouped into five themes — provides resources and considerations for financial institutions on financing,

8 Financial institutions could use emissions disclosures, portfolio alignment metrics, and transition plans for assessing alignment, as well as third-party verification programs where available. Financial institutions should be transparent about the methodologies and data they are using to determine alignment while industry standards are still maturing. Note that while the pool of already-aligned companies is currently small, it is expected to grow as the transition progresses.

9 GFANZ. [Expectations for Real-economy Transition Plans](#), 2022.

10 GFANZ. [Guidance on Use of Sectoral Pathways for Financial Institutions](#), 2022.

11 Please see [The Managed Phaseout of High-emitting Assets](#), 2022, by GFANZ for a discussion on the need for an identification framework for eligible assets.

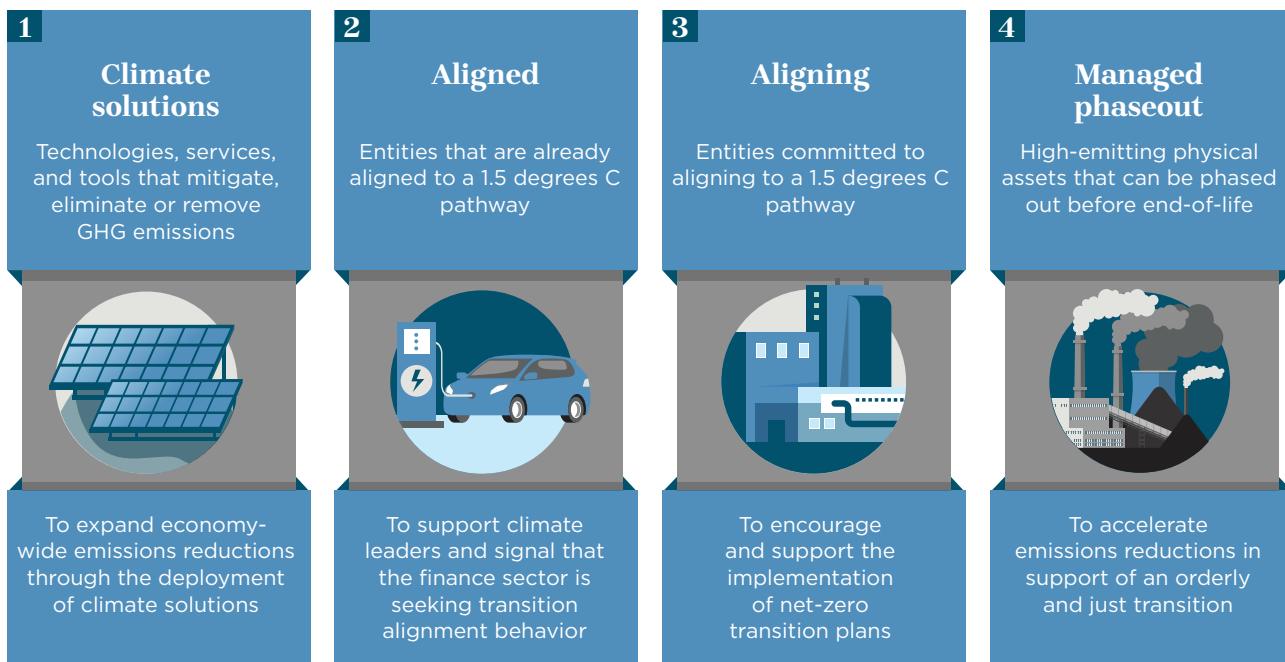
12 Please see component: [Objectives and priorities](#) for discussion on what this means for the financial institution's approach to net-zero transition.

13 The four key financing strategies provide a lens through which every financing opportunity can be viewed, rather than a prescriptive taxonomy to be applied to a full portfolio.

investment, and financial services; measuring progress; and governance of ambitious and credible transition plans. The framework structure

of the five themes supports the provision of finance and related services to real-economy activities that advance the net-zero transition.

Figure E-2. Four key net-zero financing strategies



PURPOSE AND DEFINITION OF A NET-ZERO TRANSITION PLAN

GFANZ defines a net-zero transition plan as a set of goals, actions, and accountability mechanisms to align an organization’s business activities with a pathway to net-zero GHG emissions that delivers real-economy emissions reduction in line with achieving global net zero. For GFANZ members, a transition plan should be consistent with achieving net zero by 2050, at the latest, in line with commitments and global efforts to limit warming to 1.5 degrees C, above pre-industrial levels, with low or no overshoot.^{14, 15, 16}

A financial institution’s net-zero transition plan should translate its net-zero commitment into a coherent strategy with specific objectives and actions aimed at reducing real-economy GHG emissions against which progress can be assessed, including near-term interim targets to drive decisive action. A financial institution’s net-zero transition plan should represent the strategic alignment of its core business and should consider both its own risk profile and efforts to support the net-zero transition in the real economy.

While we encourage financial institutions to also reduce their operational emissions, the focus of this report is on the emissions that

14 Pathways giving at least 50% probability based on current knowledge of limiting global warming to below 1.5 degrees C are classified as “no overshoot,” while those limiting warming to below 1.6 degrees C and returning to 1.5 degrees C by 2100 are classified as “1.5 degrees C limited overshoot.”

15 These requirements reflect sector-specific alliance member commitments.

16 Through their net-zero alliances, members have all committed to setting an interim target for 2030 or sooner.

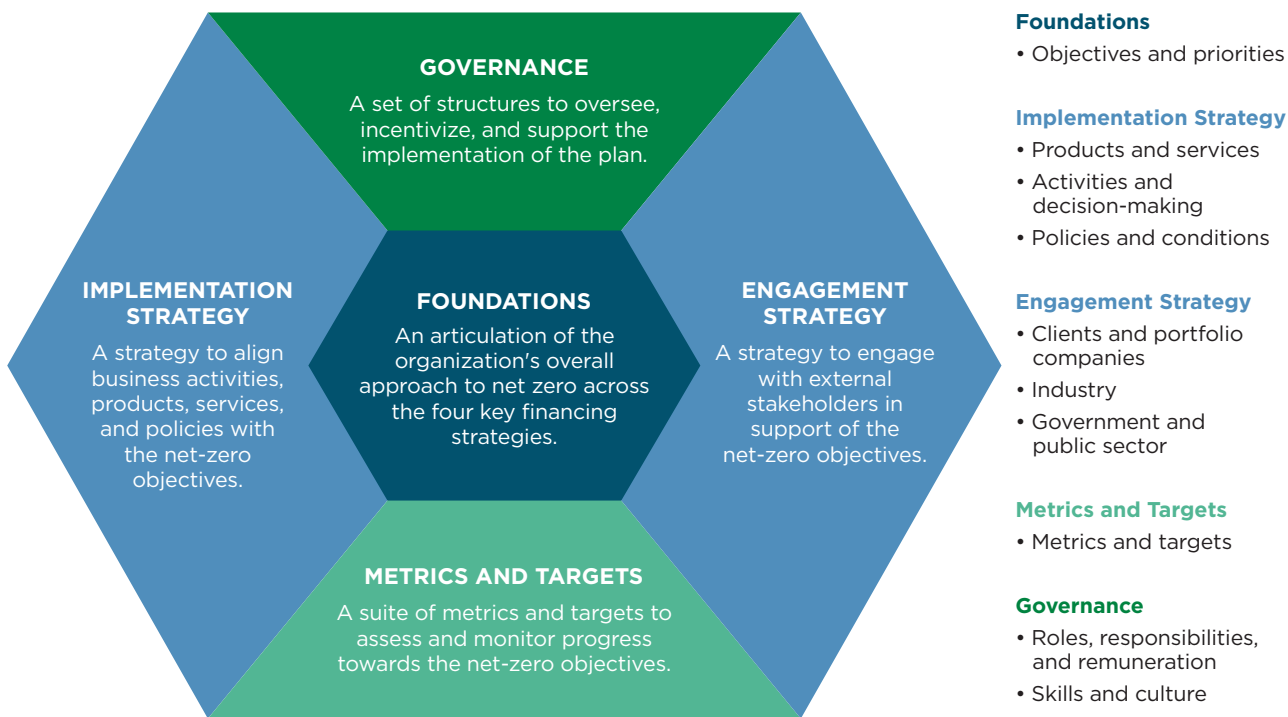
financial institutions finance and support — Scope 3 or financed emissions — which comprise the majority of emissions in the financial sector.¹⁷

Net-zero transition plans are foundational to operationalizing commitments and demonstrating the credibility of a financial institution’s net-zero pledge. Net-zero transition plans are both a strategic planning tool and a practical action plan. Because transitioning to a net-zero economy will be an ongoing and iterative process, a financial institution’s transition plan should be reviewed and updated periodically.

ELEMENTS OF A CREDIBLE PLAN

GFANZ has developed the net-zero transition plan framework (NZTP framework) comprising ten core components, grouped into five themes (see [Figure E-3](#)). Taken together, these components constitute the full set of activities a financial institution should consider in developing and executing a credible transition plan, depending on its role and contractual duties and applicable laws and regulations.

Figure E-3. GFANZ financial institution net-zero transition plan framework



17 For the purposes of this report, “financed emissions” or “portfolio emissions” include those associated with a financial institution’s investment, lending, and underwriting portfolios, or from clients of investment consultants or financial service providers. Scope 3 methodologies are still evolving and at the time of writing, work was contemplated or underway regarding insured and facilitated emissions. This report covers financial institutions’ Scope 3 emissions consistent with the sector-specific net-zero alliance commitments.

This report provides recommendations, guidance, and illustrative examples for each component. The recommendations and guidance use a principles-based approach. GFANZ encourages financial institutions to address all components in a manner consistent with commitments they have set. GFANZ acknowledges that the act of developing net-zero transition plans will vary by jurisdiction and will depend on the individual characteristics of each financial institution, including size, business model, sector coverage, and other factors.

This guidance is not focused on disclosure but includes suggestions on possible disclosure content. GFANZ believes financial institutions should be transparent about key elements of their transition plan in a clear, consistent, and comparable way. The suggestions, which are not exhaustive, aim to complement — and be in line with — regulatory disclosure requirements or chosen disclosure platforms.

REPORT RECOMMENDATIONS AND GUIDANCE

The themes and component recommendations are shown in Figure E-4 and summarized here.

The Foundations theme covers the principles, assumptions, and context that a financial institution should articulate once it has committed to achieving net-zero GHG emissions by 2050 or sooner. The statement should be from — or endorsed by — the institution's most senior executive or someone in an oversight role. It comprises one component with recommendations and guidance: Objectives and priorities. Overarching considerations such as just transition, integration of nature, and use of carbon credits are discussed here.

The Implementation Strategy theme covers how the financial institution can integrate transition strategies into its core business activities and decision-making processes as part of its strategy to align with the net-zero transition. There are

three components to this theme: Products and services, which looks at how business interactions can be adapted to support the net-zero transition; Activities and decision-making, which looks at how internal functions can be adapted to integrate net-zero transition information; and Policies and conditions, which outlines considerations for managing highly significant climate challenges including oil and gas, coal, and deforestation. This theme outlines a set of considerations for how financial institutions can approach their net-zero alignment strategy. In all components, a financial institution should review their existing core business activities and set out changes that are required to align them with the institution's net-zero objectives and priorities.

The Engagement Strategy theme recognizes that a net-zero transition will require action from across the financial sector, real-economy companies, and government, and that financial institutions play a significant role in supporting and advising clients and engaging with portfolio companies. The three components cover the different stakeholders: those in a business relationship with the financial institution — Clients and portfolio companies; peers in Industry; and those in Government and public sector. These components provide resources for financial institutions as they support and advise clients and engage with others to encourage development of net-zero transition plans and to build a supporting environment for the transition.

The Metrics and Targets theme and component discusses how financial institutions can monitor progress toward net zero-aligned targets. GFANZ recognizes that emphasizing portfolio emissions reduction targets over others could have unintended consequences of reducing financing support to real-economy emissions reduction efforts as described in the four key financing strategies. Therefore, this component provides resources for financial institutions on various metrics and targets that cover real-economy emissions reduction, net-zero transition plan execution, and financed emissions.

Finally, the Governance theme covers the internal corporate governance mechanisms. The Roles, responsibilities, and remuneration component includes guidance on internal structures to ensure appropriate strategic and operational oversight with proportional compensation. The Skills and culture component recognizes that execution of a significant strategy to realize a net-zero transition commitment will require specialized skills and expertise as well as an organization-wide culture change.

FURTHER EXAMPLES

To further elaborate on how policies could be used to tackle significant climate challenges, GFANZ has included a review of how some financial institutions are developing policies. The review includes select high-priority sectors and activities (thermal coal, oil and gas, and deforestation).¹⁸ These sectors and activities have been highlighted because of their importance in achieving GHG emissions reduction and reaching net zero globally by 2050.

The report also provides examples and case studies of metrics and targets across the three categories discussed in the guidance: real-economy emissions reduction, net-zero transition plan execution, and portfolio emissions. GFANZ hopes these illustrations function as a resource for users of this framework and other interested parties.

FURTHER REFINEMENT AND ONGOING CONSIDERATIONS

The report identifies and discusses areas where GFANZ recognizes the need for further consideration to enhance a global, pan-sector approach to net-zero transition planning. Some core elements that

will require refinement are carbon credits and expansion of metrics and targets. Overarching issues that intersect with net-zero transition planning include adaptation and resilience, just transition, and nature. This section also provides discussion on supporting data and disclosure. All these topics are significant building blocks to advancing a global, net-zero transition and are rapidly developing. Financial institutions are encouraged to leverage the resources in this section to inform their own action within their net-zero transition planning efforts, as well as contribute to industry-wide efforts in these areas.

THE WAY FORWARD

The understanding and practice of net-zero transition planning will mature as commitments and plans are adopted more widely in the financial sector and throughout the real economy. GFANZ encourages financial institutions to use the guidance in this report alongside material from their sector-specific net-zero alliance as they develop and implement NZTPs and evaluate their business against the four key financing strategies to support real-economy emissions reduction.

This guidance can act as a reference that policymakers may use to both encourage greater transparency of net-zero transition plans and catalyze action at the scale needed to realize the ambition of the Paris Agreement, supported by government-level action and transition planning. GFANZ encourages financial institutions to work toward aligning to a 1.5 degrees C pathway with low or no overshoot. Realization of a net-zero pathway will require the widespread adoption of net-zero transition plans by financial institutions and cooperation between all key stakeholders.

¹⁸ These sectors have been highlighted given their importance in achieving GHG emissions reduction and reaching net zero globally by 2050. Bodies such as the IEA and IPCC agree that the shift away from fossil fuels over time is critical to the achievement of net zero. Halting deforestation that drives forest loss is a priority because forests absorb vast amounts of carbon dioxide. Agreements related to phasing out coal, reducing methane emissions, and halting deforestation were spotlighted at COP26.

Figure E-4. Themes, components, and recommendations for a net-zero transition plan for financial institutions

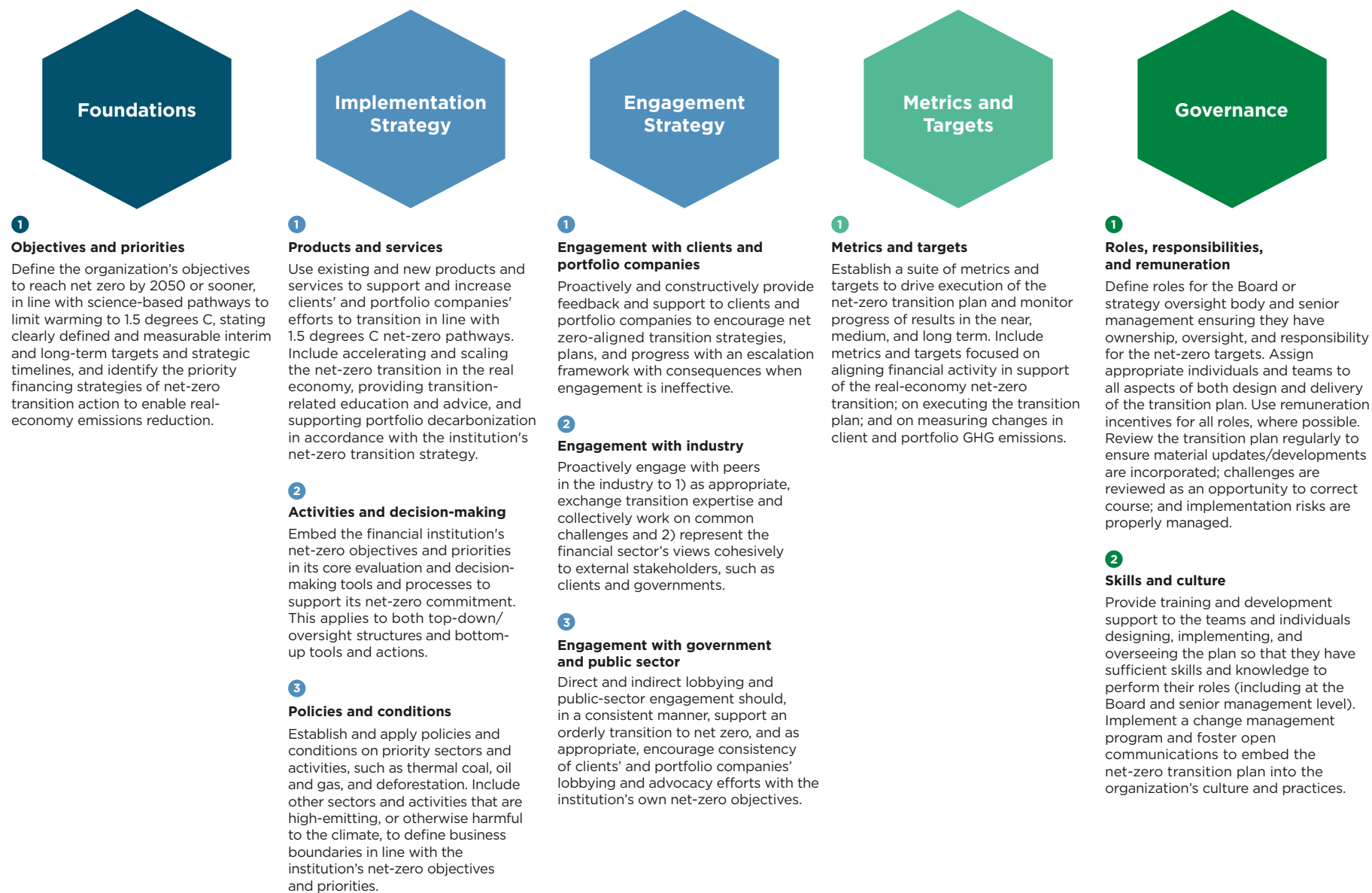


Table E-1. Key definitions

KEY TERM	DEFINITION
1.5 degrees C-aligned	A pathway of greenhouse gas emissions and other climate forces that provides an approximately one-in-two to two-in-three chance, given current knowledge of the climate response, of global warming either remaining below 1.5 degrees C or returning to 1.5 degrees C by around 2100, following an overshoot. Pathways giving at least 50% probability based on current knowledge of limiting global warming to below 1.5 degrees C are classified as “no overshoot” while those limiting warming to below 1.6 degrees C and returning to 1.5 degrees C by 2100 are classified as 1.5 degrees C “low overshoot.”
Climate solutions	Technologies, services, tools, or social and behavioral changes that directly contribute to the elimination, removal, or reduction of real-economy GHG emissions or that directly support the expansion of these solutions. These solutions include scaling up zero-carbon alternatives to high-emitting activities — a prerequisite to phasing out high-emitting assets — as well as nature-based solutions and carbon removal technologies. In this report, “climate solutions” is used to refer to solutions that support mitigation of climate change and emissions reduction. GFANZ acknowledges that a broader use of the term may include solutions that are aimed at developing adaptation.
Net zero	A state when anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals. Organizations are considered to have reached a state of net zero when they reduce their GHG emissions following science-based pathways, with any remaining GHG emissions attributable to that organization being fully neutralized, either within the value chain or through purchase of valid offset credits.
Managed phaseout projects	Targeted efforts to reduce GHG emissions through accelerated retirement of high-emitting physical assets (shortening their operating life). Financial institutions can finance or enable strategies for managed phaseout of these assets within a defined science-aligned time horizon, thereby limiting the likelihood that these assets will be stranded in a low-carbon future. ¹⁹ These projects require appropriate scrutiny and governance to ensure that emissions reduction occurs as planned. Further information can be found in the Managed Phaseout of High-emitting Assets report, which outlines the challenges and opportunities for financial institutions in these transactions, as well as details on how financial institutions can develop strategies for managed phaseout projects.
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 that finance or enable 1) entities and activities that develop and scale climate solutions; 2) entities that are already aligned to a 1.5 degrees C pathway; 3) entities committed to transitioning in line with 1.5 degrees C-aligned pathways; or 4) the accelerated managed phaseout of high-emitting physical assets.

19 IPCC’s [AR6](#) cites the “combined global discounted value of the unburned fossil fuels and stranded fossil fuel infrastructure has been projected to be around 1-4 trillion dollars from 2015 to 2050 to limit global warming to approximately 2 degree C, and it will be higher if global warming is limited to approximately 1.5 degrees C.” p. 36-37.

Please see

Section 2: [Fundamentals, Recommendations, and Guidance](#)

Section 3: [Supplemental Information](#)

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