# GFANZ and the building blocks of a net zero financial system

March 2024

**GFANZ** 

Glasgow Financial Alliance for Net Zero



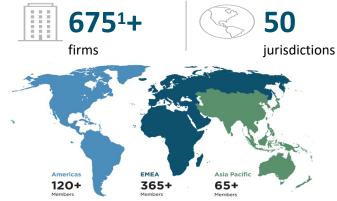
#### What is GFANZ?

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

- GFANZ brings together nine sector-specific alliances whose members number around 700 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

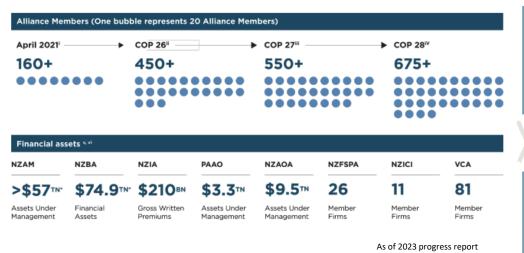
#### **GFANZ Alliance membership**





#### Implementation of Financial-Sector Commitments to Net Zero

Since the launch of GFANZ in April 2021, Alliance membership across the nine sector-specific Alliances that comprise the coalition has quadrupled, with more financial institutions from across the industry making net-zero commitments, setting science-based targets, and developing transition plans to demonstrate how they will achieve their climate goals



NB - Out of the 18,600 firms that reported via CDP in 2022, 4,000 disclosed a NZTP, with just 1% hitting all of CDP's metrics.

#### SIGNATORIES OF SECTOR-SPECIFIC ALLIANCES WHO HAVE ISSUED INTERIM TARGETS

NZAM:	NZAOA:	NZBA:	NZIA:	PAAO:
244	69	96	3	52
signatory's interim targets have been approved	members have set and reported on their intermediate targets	signatories have set interim targets	signatories have set interim targets	signatories have set interim targets

**TOTAL: 460+** 

signatories have set interim targets

SIGNATORIES OF SECTOR-SPECIFIC ALLIANCES WITH COMMITMENTS TO DISCLOSE TRANSITION PLANS WITHIN THE NEXT YEAR

TOTAL: 250+

Financial institutions have made great strides in developing preliminary transition plans and by the end of the 2023 reporting cycle a number of transition plans are expected to be submitted to the respective net zero Alliance secretariats. Approximately 250+ transition plans are expected to be published within the next year. These financial institutions are also engaging with the companies they lend to, invest in, service, or underwrite on their transition plans, with an emphasis on real-world emissions reductions.

#### 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:

#### Four key financing strategies to enable the net-zero transition

## Climate solutions

Technologies, services, and tools that mitigate, eliminate or remove GHG emissions



To expand economywide emissions reductions through the deployment of climate solutions

## 2 Aligned

Entities that are already aligned to a 1.5 degrees C pathway



To support climate leaders and signal that the finance sector is seeking transition alignment behavior

## Aligning

3

Entities committed to aligning to a 1.5 degrees C pathway



To encourage and support the implementation of net-zero transition plans

#### Managed phaseout

High-emitting physical assets that can be phased out before end-of-life



To accelerate emissions reductions ir support of an orderly and just transition

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

## Defining financing to aligning entities and managed phaseout

#### **Taxonomies**

Classifying economic activities

## Traffic light system with ambers (transitional) and Coal MPO

- ASEAN Taxonomy for Sustainable Finance (ASEAN Taxonomy) Version 2 (2023)
- Singapore Asia Taxonomy (2023)

## Hong Kong Transition Finance Framework (in development)

#### **Others**

- EU
- Canada (2019)

#### Principled based approaches

#### Japan (JFSA, METI, MoE)

Basic Guidelines on Transition Finance (2022)

#### **Climate Bonds Initiative**

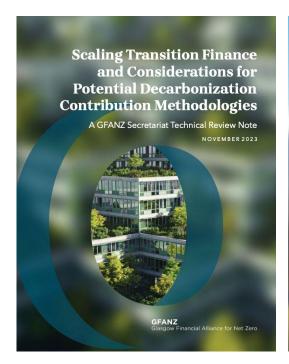
Financing Credible Transition White Paper (2020)

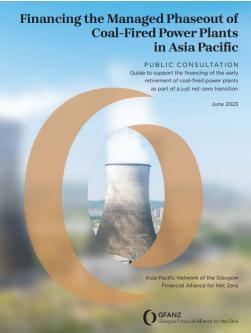
#### **OECD**

Guidance on Transition Finance (2022)

#### **GFANZ**

## Comprehensive technical guidance to turn commitments into action





December 2023

December 2023

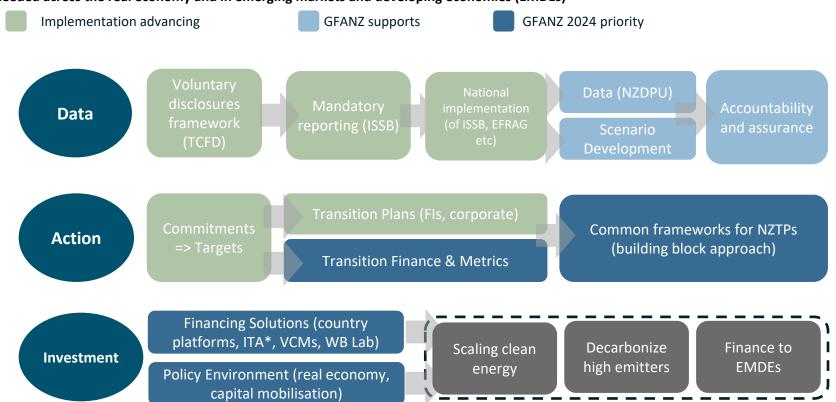
#### **APAC** case studies



June 2023

#### **GFANZ** priorities for 2024

Significant progress is being made in addressing data, with scope to significantly advance action in 2024 and to unlock the investment needed across the real economy and in emerging markets and developing economies (EMDEs)



#### The GFANZ Net Zero Transition Plan Framework

#### **GOVERNANCE** A set of structures to oversee, incentivize, and support the implementation of the plan. **IMPLEMENTATION ENGAGEMENT STRATEGY STRATEGY FOUNDATIONS** A strategy to engage A strategy to align An articulation of the organization's overall approach to net zero across the four key financing strategies. **METRICS AND TARGETS**



#### 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.



#### 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

#### 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.



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.

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

## 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 a prpropriate, 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

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.



## 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.

#### 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.

