



GFANZ and the building blocks of a net zero financial system

March 2024

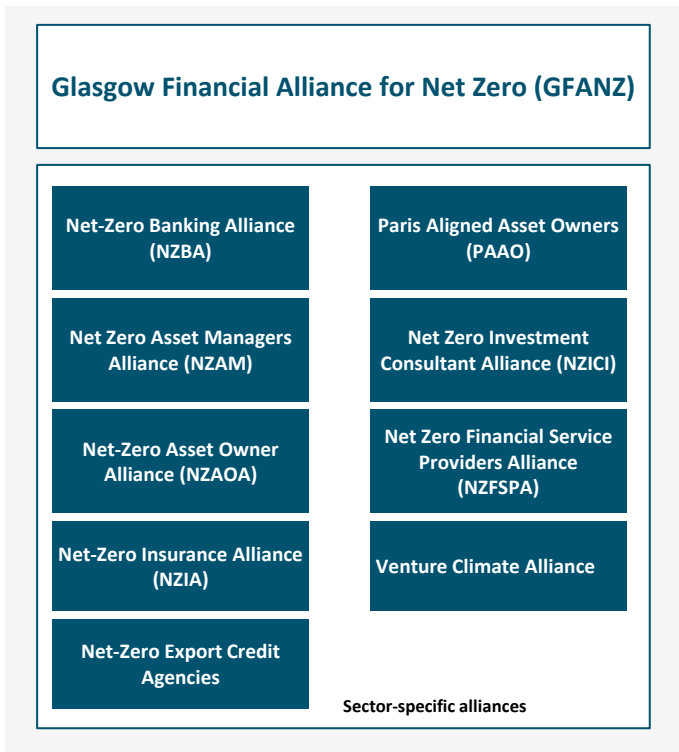
GFANZ

Glasgow Financial Alliance for Net Zero

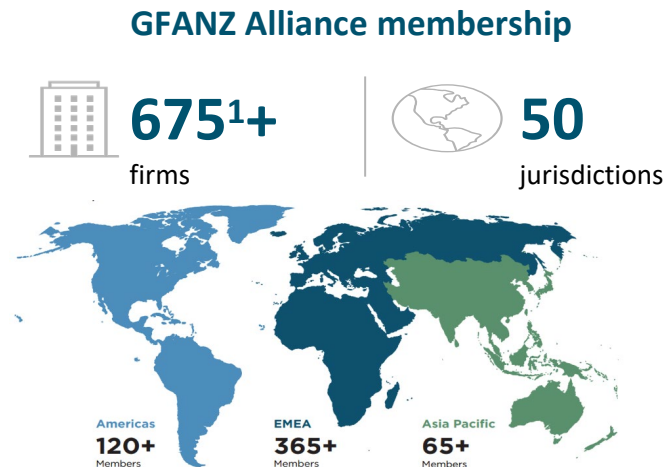


What is GFANZ?

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



- 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



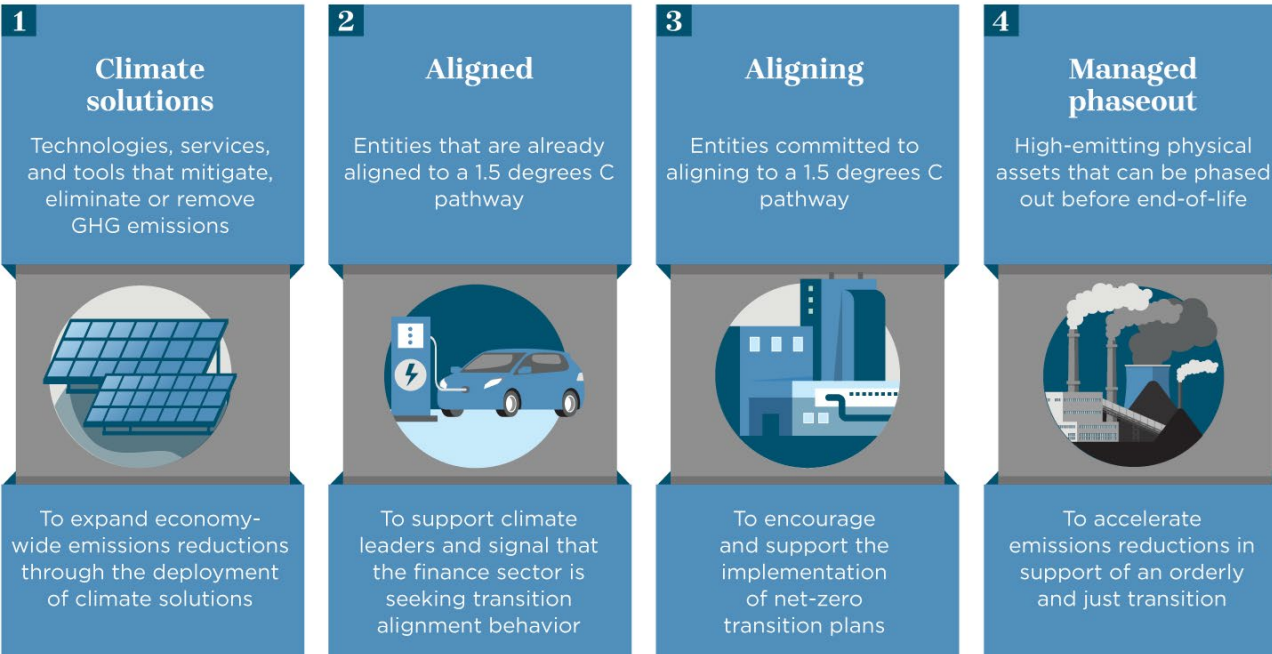
What is Transition Finance?

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



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

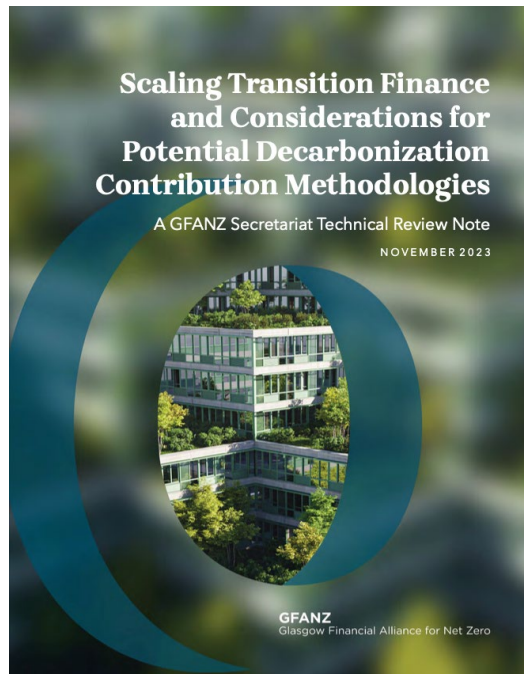
Financing Credible Transition White Paper
(2020)

OECD

Guidance on Transition Finance (2022)

GFANZ

Comprehensive technical guidance to turn commitments into action



December 2023



December 2023

APAC case studies

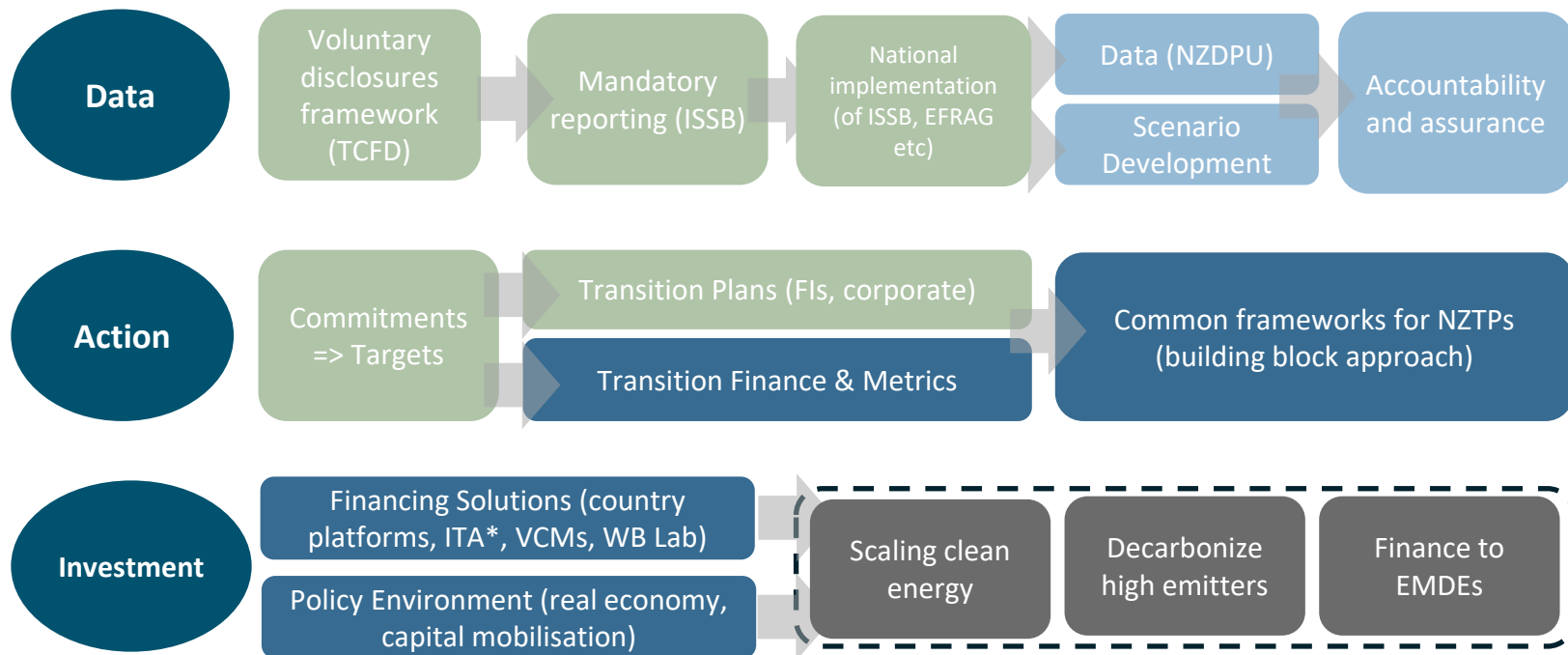


June 2023

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)

■ Implementation advancing ■ GFANZ supports ■ GFANZ 2024 priority



*Industrial Transition Accelerator

The GFANZ Net Zero Transition Plan Framework



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.