

EXPECTATIONS FOR

Real-economy Transition Plans



GFANZ

Glasgow Financial Alliance for Net Zero

Acknowledgments

This report was developed by the GFANZ workstream on Real-economy Transition Plans, with input from the GFANZ Principals Group, Steering Group, and Advisory Panel, as outlined in the GFANZ Terms of Reference. The workstream was supported by the GFANZ Secretariat. Oliver Wyman provided knowledge and advisory support. Members of the workstream include representatives from:

AXA (Workstream co-chair)

BancoEstado

BBVA

Brunel Pension Partnership

Industry Tracker (Advisor)

CDP (Advisor)

Deutsche Bank

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

La Banque Postale

**London Stock Exchange Group
(Workstream co-chair)**

Montanaro Asset Management

Moody's

Morgan Stanley

NatWest (Workstream co-chair)

Nippon Life

PricewaterhouseCoopers

Principles for Responsible Investment (Advisor)

Rocky Mountain Institute (Advisor)

Shinhan Bank

Standard Chartered

UBS

Wellington Management

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 document is a report of a workstream of the Glasgow Financial Alliance for Net Zero (“GFANZ”), which aims to provide voluntary guidance for real-economy companies to refer to when developing transition plans and disclosing progress against them (the “Report”). For the avoidance of doubt, nothing express or implied in the Report is intended to create legal relations, and the Report does not create legally enforceable obligations.

The information in this Report, which does not purport to be comprehensive, nor render any form of legal, tax, investment, accounting, financial, or other advice, has been provided by GFANZ and has not been independently verified by any person. Nothing in this Report constitutes an offer or a solicitation of an offer to buy or sell any securities or financial instruments or investment advice or recommendation of any securities or financial instruments.

The Report has been provided for information purposes only, and the information contained herein was prepared at the date of publication.

No representation, warranty, assurance, or undertaking (express or implied) is or will be made, and no responsibility or liability is or will be accepted by any member of GFANZ or by any of their respective affiliates or any of their respective officers, employees, agents, or advisors in relation to the adequacy, accuracy, completeness, or reasonableness of this Report, or of any other information (whether written or oral), notice, or document supplied or otherwise made available to any interested party or its advisors in connection with this Report.

GFANZ members have signed up to the ambitious commitments of their respective sector-specific 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.

Executive summary

For the global economy to reach net zero, annual greenhouse gas (GHG) emissions from activities of real-economy companies need to rapidly reduce, while financial institutions allocate capital and use their influence as shareholders and/or broader financial partners in a way that supports and helps catalyze such action.^{1,2} It is vital that financial institutions work closely with their clients and portfolio companies to support and enable the transition in the real economy. Thus, it is critical to have dialogue and associated appropriate flows of data between companies and financial institutions. Disclosure of transition plans, including the detailed assumptions and data that underpins these, enables the effective engagement and capital allocation across the financial ecosystem. High levels of transparency and the exchange of information is essential. However, according to a number of sources, few companies are reporting credible, decision-useful climate data and transition plans.^{3,4}

This report serves as a practical guide for companies in the real economy when building transition plans and disclosing progress against them.

This report outlines the components of transition plans that financial institutions will be looking for from companies in the real economy to inform their

allocation of capital and services, and how they engage. It aims to help real-economy companies understand and navigate the growing expectations from financial institutions that are aligning their investment and finance strategies with net zero.

The transition plan components draw from, and make reference to, existing transition plan guidance, rather than creating a new framework.⁵

This better enables companies to navigate the existing frameworks that many companies are already using to disclose climate-related risks, data, and strategies.⁶

Financial institutions, including more than 500 members of GFANZ, have committed to net zero and supporting the transition of the global economy.

The Glasgow Financial Alliance for Net Zero (GFANZ) has established the Real-economy Transition Plans workstream to focus on supporting businesses, of all sizes, to accelerate the development and implementation of credible real-economy transition plans.⁷ Through the seven financial sector-specific net-zero alliances under the UN Race to Zero, all types of financial institutions, including asset managers, asset owners, auditors, banks, data providers, exchanges, insurers, and rating agencies,

1 [IPCC AR6 report](#), Working group III, 2022.

2 “Real economy” refers to economic activity outside of the financial sector.

3 FTSE Russell. [Mind the gaps: Clarifying corporate carbon](#), May 2022.

4 Only ~40% of companies disclosing under the Task Force on Climate-related Financial Disclosures (TCFD) reported impact on business strategy and financial planning (TCFD. [2021 Status Report](#), October 14, 2021). Only ~30% of companies disclosing to CDP are developing a low-carbon transition plan (CDP, March 2, 2022).

5 Initiatives include TCFD, International Sustainability Standards Board (ISSB), CDP, Assessing Low Carbon Transition (ACT), Climate Action 100+ (CA100+), Transition Pathway Initiative (TPI), and the Science Based Targets initiative (SBTi).

6 E.g., in 2021, more than 13,000 companies disclosed data through CDP’s environmental platform.

7 A credible net-zero transition plan is one that is actionable and focused on near-term action.

have committed to setting net-zero targets.⁸ Successfully realizing these net-zero commitments requires financial institutions to support the real economy with products and services or, in some cases, closely collaborate with the real economy and provide financial products and services to ensure real-world GHG emissions reductions.

To implement net-zero commitments, financial institutions are developing net-zero transition plans that include adjusting their decision-making processes, leading to significant implications for companies.

To enable emissions reductions in the real economy and achieve their own net-zero commitments, financial institutions are increasingly reassessing and changing their strategies and operations, including the allocation of capital and access to related services that may have significant implications for the real economy. Companies' access to financial products and services may be increasingly dependent on their climate targets and strategies, and on their progress against these targets. Companies of all sizes, across all industries globally, will be affected by the alignment of capital to net-zero commitments.^{9,10}

Real-economy transition plans are the most effective way for companies to provide financial institutions with information regarding their net-zero transition strategy and their level of ambition to accelerate the transition.

A transition plan articulates a company's overall approach to the net-zero transition, including

information regarding its climate objectives, targets, actions, progress, and accountability mechanisms, and helps define that company's overall role and level of ambition in the transition. Financial institutions can assess the credibility of a company's climate objectives and compare the company relative to sectoral and regional expectations of the net-zero transition and against peers. Additionally, transition plans provide transparency to stakeholders as a reporting mechanism.

Key implication for companies: Companies with credible transition plans may increasingly be able to access products and services tailored to low-carbon business models. In contrast, companies that do not have credible transition plans may face higher costs and/or restricted access to financial products and services (e.g., higher costs of capital) depending on the decision-making process of their financial institution(s).¹¹

GFANZ has identified five transition plan themes comprising ten components — disclosure of these components provide relevant information for financial institutions when evaluating a company's transition plan for credibility and alignment to net-zero goals, as well as tracking progress in implementation.

8 The alliances are the [Net Zero Asset Managers Initiative \(NZAM\)](#), the [Net-Zero Asset Owner Alliance \(NZAOA\)](#), the [Net-Zero Banking Alliance \(NZBA\)](#), the [Net Zero Financial Service Providers Alliance \(NZFSPA\)](#), the [Net-Zero Insurance Alliance \(NZIA\)](#), the [Net Zero Investment Consultants Initiative \(NZICI\)](#), and the [Paris Aligned Asset Owners \(PAAO\)](#).

9 Roughly 44% of financial institutions are now assessing if their clients/portfolio companies are aligned to the ambition set on the Paris Agreement (CDP. [Now for Nature: The Decade of Delivery](#), March 2022, p. 14).

10 Financial institutions understand that SMEs may not be able to disclose the same level of detail, at least initially. See section 5.1 Prioritization of components for SMEs for more detail on this.

11 Example: Companies failing to meet investor expectations on transition plans and net-zero commitments may find themselves subject to more enhanced investor engagement activities, such as shareholder resolutions and voting against management proposals, board directors, financial statements, and/or auditors ([CA100+](#)).

Figure 1: Components of real-economy transition plans relevant for financial institutions¹²



Source: GFANZ

Financial institutions' expectations for real-economy transition plan disclosures help companies better understand and provide the information that is most relevant to financial institutions. The core components were identified from existing transition plan guidance (Table 1).

International standards and regulatory frameworks were also considered to ensure that financial institution expectations are in line with the latest developments regarding mandatory transition plans. Moreover, GFANZ aims for this report to support and inform the development of regulatory frameworks around the world to ensure they are developed in an appropriately consistent manner.

Call to action: Companies should adjust and disclose their strategies to be aligned with net zero via transition plans, and should work with financial institutions, policymakers, clients/

portfolio companies, and suppliers to deliver on net-zero objectives.

Immediate GHG emissions reduction is necessary to stave of the worst impacts of climate change.¹³ Well-planned action from financial institutions and real-economy companies is vital to ensure a successful net-zero transition. Financial institutions should work with clients and portfolio companies to support and encourage the development of robust transition plans. In turn, companies must think critically about how to revise their strategy to be aligned with net zero and then disclose it through actionable transition plans. Companies should also collaborate with financial institutions, policymakers, value chain partners, and other stakeholders to implement their net-zero objectives; companies should not wait for these counterparties to act first, but rather, should drive change and be clear on their own needs for a successful transition.

¹² The components and themes are aligned with GFANZ recommendations for financial institutions. (GFANZ. [Recommendations and Guidance on Financial Institution Net-zero Transition Plans](#), June 2022 — updated in November 2022).

¹³ [IPCC AR6 report](#), Working group III, 2022.

GFANZ urges both real-economy companies and financial institutions to be ambitious when developing transition plans.¹⁴ The next few years are crucial for the state of climate change; without immediate and deep emissions reductions across all sectors, The IPCC states that “near-term actions that limit global warming to close to 1.5 degrees C

would substantially reduce projected losses and damages related to climate change in human systems and ecosystems, compared to higher warming levels.”¹⁵ Together, financial institutions and the real economy, with the support of public policy action, can deliver the transition to a net-zero global economy.

Table 1: Mapping of components of real-economy transition plans against existing initiatives

Note 1: The application of these components is expected to vary based on the size and complexity of the company and the complexity of its transition plan (further guidance is provided in the report to help companies prioritize).

Note 2: GFANZ does not endorse any specific initiative; it aims to promote the use and uptake of existing initiatives and to facilitate the process for companies to retrieve detailed guidance from different initiatives along the key components.

THEME	COMPONENT	SUB-COMPONENT	DISCLOSURE AND DATA COLLECTION			TARGET-SETTING & VALIDATION		ASSESSMENT TOOLS		
			TCFD	ISSB	CDP	SBTI	TPI-CP	ACT	CA 100+	TPI-MQ
Foundations	Objectives and priorities	• Objectives and over-arching strategy								
		• Governing principles ^{16,17}								
Implementation Strategy	Activities and decision-making	• Business planning and operations								
		• Financial planning								
		• Sensitivity analysis								
	Policies and conditions	• Transition-related policies								
		• Nature-based impact								
	Products and services	• Products and services								
Engagement Strategy	Value chain	• Clients/portfolio companies and suppliers								
	Industry	• Industry peers								
	Government and public sector	• Government and public sector								
Metrics and Targets	Metrics and targets	• GHG emissions metrics								
		• Sectoral pathways								
		• Carbon credits ¹⁸								
		• Business and operational metrics								
		• Financial metrics								
		• Nature-based metrics								
		• Governance metrics								
Governance	Roles, responsibilities, and remuneration	• Board oversight and reporting								
		• Roles and responsibilities								
		• Incentives and remuneration								
	Skills and culture	• Skills and trainings								
		• Change management and culture								

14 Specific guidance for financial institutions on developing transition plans can be found in GFANZ’s [Recommendations and Guidance on Financial Institution Net-zero Transition Plans](#), June 2022.

15 IPCC. [Climate Change 2022: Impacts, Adaptation, and Vulnerability: Summary for Policymakers](#), March 2022, p. 15.

16 Just transition and nature-positive economy.

17 See Appendix B for additional initiatives that cover the just transition.

18 Also known as carbon offsets or verified emissions reductions (VERs).

Contents

EXECUTIVE SUMMARY	i
1. INTRODUCTION	1
1.1. Background and rationale	2
1.2. Purpose of this report	3
1.3. Background on GFANZ work program	5
2. RELEVANCE OF FINANCIAL INSTITUTIONS' TRANSITION FOR THE REAL ECONOMY	7
2.1. Role of financial institutions in supporting the real-economy transition	8
2.2. Financial institution net-zero commitments' impact on the real economy	9
2.3. Using transition plans to communicate company strategy	10
3. DEVELOPMENT OF TRANSITION PLANS	11
3.1. Existing transition plan frameworks, methodologies, and guidance	12
3.2. Relevant components of transition plans	14
4. TRANSITION PLAN DISCLOSURES	17
4.1. Foundations	19
4.2. Implementation Strategy	27
4.3. Engagement Strategy	34
4.4. Metrics and Targets	38
4.5. Governance	49
5. REPORTING TRANSITION PLANS	53
5.1. Prioritization of components for SMEs	54
5.2. Disclosure principles	56
6. APPENDICES	57
Appendix A: Mapping of detailed disclosures against existing initiatives	58
Appendix B: Deep dive on just transition	64
Appendix C: Mapping of regulatory frameworks	66
Appendix D: Suggested disclosures for the managed phaseout of high-emitting assets	67

LIST OF TABLES

Table 1: Mapping of components of real-economy transition plans against existing initiatives	iv
Table 2: Summary view: disclosures relevant for financial institutions	15
Table 3: Most critical components for SMEs and companies starting to develop transition plans	55
Table 4: Mapping of disclosures relevant for financial institutions	58
Table 5: Just transition disclosures relevant for financial institutions	65
Table 6: Regulatory frameworks coverage of components of real-economy transition plans	66
Table 7: Suggested disclosures for managed phaseout	68

LIST OF FIGURES

Figure 1: Components of real-economy transition plans relevant for financial institutions	iii
Figure 2: GFANZ 2022 work program	5
Figure 3: Global climate and transition initiatives classification	12
Figure 4: Components of real-economy transition plans relevant for financial institutions	14
Figure 5: The relationship between risk and transition planning	16
Figure 6: Use of sectoral pathways and real-economy transition plans along financial institutions' transition process	18
Figure 7: Example of detailed actions and quantification of impact	32
Figure 8: Daikin's global R&D	33
Figure 9: Holcim GHG emissions targets across scopes and years	44
Figure 10: Examples of Ørsted's financial metrics	45
Figure 11: Qantas's interim business and operational metrics	46
Figure 12: Hon Hai sustainability management structure	52
Figure 13: Mapping of the TCFD framework components to transition plan themes and components	56

LIST OF EXAMPLES

Example 1 (Enel): Futur-e initiative to ensure just transition	20
Example 2 (AXA IM): “Three strikes, you’re out” escalation approach for portfolio companies	21
Example 3 (NatWest): Assessment of transition plan credibility,	22
Example 4 (La Banque Postale): Voting in annual general meeting,	24
Example 5 (Brunel Pension Partnership): Use of TPI management quality scores during portfolio construction	25
Example 6 (Montanaro Asset Management): Scoring of transition plans	26
Example 7 (Länsförsäkringar AB): “Second chance rule” for exclusion policies	31
Example 8 (Nestlé): Outlines key actions in detail	31
Example 9 (Daikin): Outlines actions to reach net zero	33
Example 10 (Kellogg’s): Driving action through engagement with suppliers	36
Example 11 (ING): Offers sustainability-linked loans linked to value chain engagement and protection of biodiversity	37
Example 12 (Holcim): Discloses detailed GHG emissions targets	44
Example 13 (Ørsted): Provides financial metrics with definitions	45
Example 14 (Qantas): Discloses business and operational metrics with interim targets	46
Example 15 (Wellington Management): Disclosure of Scope 3 emissions for decision-making	47
Example 16 (BancoEstado): Green financing platform with cost of capital based on climate-related metric performance	48
Example 17 (Schneider Electric): Compensation tied to climate-related metrics	51
Example 18 (Hon Hai): Describes management structure for its transition	52

1. Introduction



1.1. BACKGROUND AND RATIONALE

Governments and private-sector companies around the world have committed to achieving net zero with the goal of limiting global warming to 1.5 degrees C. Nearly 200 countries signed the 2021 Glasgow Climate Pact, through which they resolved to “pursue efforts to limit the temperature increase to [1.5 degrees C].”¹⁹ At the time of writing, 136 countries, representing 91% of global GDP, have made a net-zero commitment,²⁰ and over 10,000 companies, organizations, and subnational governments have joined the UN Race to Zero, committing to achieve net-zero carbon emissions by 2050 at the latest.²¹

These efforts are driven by the growing understanding of climate impacts. The latest assessment report from the IPCC highlights that, to date, climate change “has caused widespread adverse impacts and related losses and damages to nature and people,” and that projected “mid- and long-term impacts are up to multiple times higher than currently observed.”²² This includes substantial risks to human health, cities, infrastructure, ecosystems, food production, and water availability, and is projected to cause significant increases in displacement and premature deaths, in addition to significant economic damages. The IPCC report states that “near-term actions that limit global warming to close to 1.5 degrees C would substantially reduce projected losses and damages related to climate change in human systems and ecosystems, compared to higher warming levels.”²³

In its April 2022 report, the IPCC indicated that limiting global warming to around 1.5 degrees C requires greenhouse gas emissions to peak before 2025 at the latest and be reduced by 43% by 2030, reaching net zero by 2050.²⁴

Net zero: This term refers to 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 by like-for-like removals exclusively claimed by that organization, either within the value chain or through purchase of valid offset credits.²⁵

1.5 degrees C-aligned: A pathway of emissions of greenhouse gases and other climate forcers 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.²⁶ 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.”

19 UNFCCC. “[Race to Zero Lexicon](#),” 2021, p.3.

20 [Net Zero Tracker](#).

21 [Race to Zero: Who’s in?](#)

22 IPCC. [Climate Change 2022: Impacts, Adaptation, and Vulnerability: Summary for Policymakers](#), March 2022, pp. 16–17.

23 *Ibid.*, p. 15.

24 IPCC, [Climate Change 2022: Mitigation of Climate Change-Working Group III Contribution to the IPCC Sixth Assessment Report](#), April 4, 2022, p.21.

25 United Nations. “[Race to Zero Lexicon](#)”, June 2022.

26 IPCC. “[Annex 1: Glossary](#),” 2018.

In order to achieve this commitment and drastically reduce GHG emissions, real-economy companies, supported by clear policy signals from government and finance, and related services from the financial sector, would have to decarbonize their business activities and scale climate solutions to replace GHG-emitting assets, products, and services.²⁷ According to a recent analysis by BloombergNEF (BNEF), this will require an unprecedented increase in financing, with global investment in energy infrastructure alone requiring an additional US\$3 trillion annually over the next decade, including a tripling of current annual clean energy investment.²⁸ GFANZ was founded because investment of this scale requires the mobilization of the entire financial system.²⁹

The private financial sector has the scale to mobilize the necessary capital and financing with more than 500 GFANZ members committed to achieving net zero by 2050. With deliberate and ambitious action, alongside government and real-economy efforts, the financial sector can enable a global transition to net zero 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.^{30,31}

In addition, governments and regulators in the world's largest economies are requiring financial institutions and real-economy companies to disclose climate-related risks and opportunities, including forward-looking disclosures on climate strategy.³² This includes specific reference to transition plans that articulate how companies expect to achieve transition objectives, whether stemming from national policy or their own commitments.³³

1.2. PURPOSE OF THIS REPORT

This report outlines the components of transition plans that financial institutions will be looking for from companies in the real economy to inform their allocation of capital and services, and how they engage. It aims to help real-economy companies understand and navigate the growing expectations from financial institutions that are aligning their investment and finance strategies with net zero.

27 In this report, terms such as “financing”, “capital”, “finance”, “related services”, and variations thereof are meant to encompass the financial activities and decision-making of all financial institution types including equity, debt, insurance, and services to secure the above.

28 BNEF. [New Energy Outlook 2021](#), July 2021.

29 GFANZ. [The Glasgow Financial Alliances for Net Zero – Our progress and plans towards a net-zero global economy](#), November 2021.

30 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 document.

31 The [Paris Agreement](#) Article 4.1 highlighted that achievement should be “on the basis of equity, and in the context of sustainable development and efforts to eradicate poverty,” and the agreement acknowledged that “human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity” are equally important.

32 TCFD. [2021 Status Report](#), October 2021, pp. 5-6.

33 For example, the UK government has formed a Transition Planning Taskforce to develop a “gold standard” for disclosure of transition plans, and the EU’s European Financial Reporting Advisory Group (EFRAG) has issued draft European Sustainability Reporting Standards for consultation that include aspects of transition planning for disclosure.

The transition plan components draw from, make reference to, existing public transition plan and climate guidance, rather than creating a new framework.³⁴ This better enables companies to navigate the existing frameworks that many companies are already using to disclose climate-related risks, data, and strategies.³⁵

Initiatives incorporated include:

- The Task Force on Climate-related Financial Disclosures (TCFD³⁶) and CDP which are often used as a framework for disclosure and as a data source, respectively.
- The Assessing Low Carbon Transition (ACT), Climate Action 100+ (CA100+), and the Transition Pathway Initiative Management Quality (TPI-MQ) which are typically used as assessment tools to evaluate the credibility of transition plans and for investors to collaboratively engage companies.
- The Science Based Targets initiative (SBTi) and the Transition Pathway Initiative Carbon Performance (TPI-CP) which are often leveraged to set and validate GHG emissions targets.

This report introduces how financial institution net-zero commitments will increasingly impact how the financial sector engages and supports the real economy. It explains the importance of real-economy company transition plans and the need to accelerate their development and ambition (Section 2). Furthermore, it reflects the expectations of the net zero-committed financial sector for real-economy transition plans using components from existing transition plan frameworks, methodologies, and guidance

(Section 3). Expectations on disclosures for each component and use cases on how these are used by financial institutions and/or how these are disclosed in existing transition plans is outlined in Section 4. Finally, Section 5 provides guidance on how companies within the real economy can disclose transition plans (including prioritization guidance for small to medium enterprises [SMEs]).

Companies in the real economy can use this report when building their transition plans to identify the disclosures that financial institutions expect from real-economy companies to enable access to capital and other financial products/services. Financial institutions can use this report to guide their engagement with clients and portfolio companies to improve the alignment of requests going to companies for transition-specific information. Additionally, financial institutions could use the list of disclosures to tailor their products, services, and decision-making processes such that they support financial activities in the real economy. Further, organizations and individuals involved in existing initiatives and frameworks can gain insights into the elements of transition plans that are consistent between initiatives, as well as insights into where they differ. And finally, this report can be used by regulators to inform the development of new regulatory frameworks.

Additionally, GFANZ will supplement this report with sector reports for three key high-emitting/hard-to-abate sectors: steel, aviation, and oil and gas.³⁷ These sector reports will reflect expectations of sector-specific components in transition plans and the transition pathway information for these sectors.

34 Initiatives include TCFD, International Sustainability Standards Board (ISSB), CDP, Assessing Low Carbon Transition (ACT), Climate Action 100+ (CA100+), Transition Pathway Initiative (TPI), and the Science Based Targets initiative (SBTi).

35 More than 13,000 companies reported through [CDP](#) in 2021.

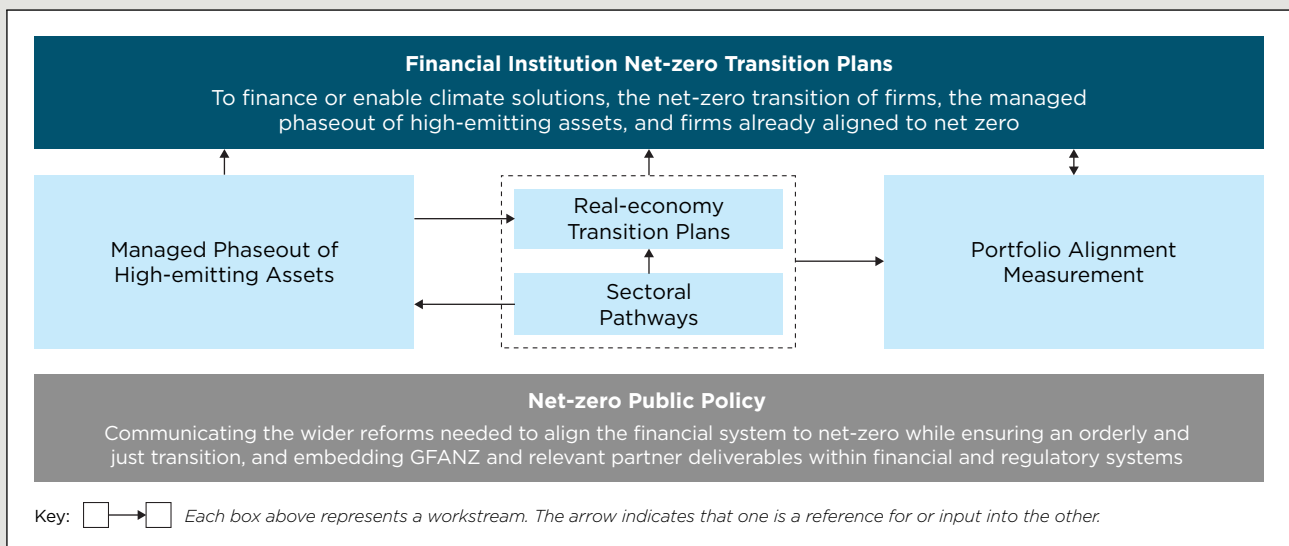
36 The TCFD was established by the Financial Stability Board to provide recommendations for more effective disclosure of climate related financial information. The TCFD recommendations have seen widespread adoption by private sector companies, and more than 3,400 organizations from over 95 countries publicly support the TCFD. Supporters include over 1,450 financial institutions responsible for \$216tn in assets. In addition, several jurisdictions have finalized or proposed climate-related financial disclosure requirements in line with the TCFD recommendations.

37 These sectors were selected given that they are considered hard-to-abate and/or high-emitting sectors, and the development of guidance and sectoral pathways was ongoing at the moment of selection.

1.3. BACKGROUND ON GFANZ WORK PROGRAM

GFANZ is a global coalition of leading financial institutions in the UN Race to Zero that is committed to accelerating and mainstreaming the decarbonization of the world economy and reaching net-zero emissions by 2050. GFANZ brings together seven financial sector net-zero alliances, representing more than 500 members, into a global strategic alliance to address common challenges and elevate best practices across the sector.³⁸ GFANZ’s core areas of work are practitioner-led and advised by leading technical civil society organizations.

Figure 2: GFANZ 2022 Transition Planning Work Program³⁹



Climate Transition-related Data — Climate Data Steering Committee

GFANZ is supporting efforts to enhance transparency to monitor climate actions and commitments, and arm financial institutions with the information they need to develop and execute on their transition plans

³⁸ The alliances are the [Net Zero Asset Managers initiative \(NZAM\)](#), the [Net-Zero Asset Owner Alliance \(NZAOA\)](#), the [Net-Zero Banking Alliance \(NZBA\)](#), the [Net Zero Financial Service Providers Alliance \(NZFSPA\)](#), the [Net-Zero Insurance Alliance \(NZIA\)](#), the [Net Zero Investment Consultants Initiative \(NZICI\)](#), and the [Paris Aligned Asset Owners \(PAAO\)](#).

³⁹ GFANZ has an additional workstream focused on Mobilizing Capital to Emerging Markets & Developing Economies, not featured on this graph.

As part of the 2022 work program, GFANZ developed a series of related tools, frameworks, and other resources to support transition planning across the financial sector, with the goal of financing and enabling the real-economy transition to net-zero. Collectively, this work provides a framework to ensure that financial institutions' net-zero transition plans are grounded in science and provide appropriate accountability.

GFANZ's work on real-economy transition plans will support this by delineating the financial sector's expectations for real-economy firms' transition plans to ensure that they include specific, consistent information that financial institutions can use in decision-making. In addition to this report on real-economy transition plans, this work includes:

[Guidance on Use of Sectoral Pathways for Financial Institutions](#), which provides a framework for comparing and assessing sectoral pathways, to help financial institutions and other pathway users understand how pathways differ and evaluate their suitability for their transition planning processes.

Net-zero Pathways Analysis and Expectations for Transition Plans on Steel, Aviation, and Oil & Gas, to supplement the sectoral pathway and real-economy transition plan guidance. Each report takes a deeper dive into the scenarios, modeling, assumptions, and decarbonization levers of pathways for these sectors; key implications for financial institutions; and transition plan components and guidance specific to these high-emitting sectors.

[Managed Phaseout of High-emitting Assets](#), which sets out Managed Phaseout as a net-zero aligned strategy for an asset, or as part of a company's strategy, in support of an orderly and just transition. The report provides a high-level approach to support the identification of assets where Managed Phaseout could be appropriate, offers an overview of potential financial mechanisms that could support Managed Phaseout, and includes initial guidance on the features of a credible asset-level phaseout plan.

[Measuring Portfolio Alignment: Enhancement, Convergence, and Adoption](#) report shared for public consultation, builds on the work of the Portfolio Alignment Team to provide a practitioner perspective for measuring the alignment of financial institution business activities with the goals of the Paris Agreement and net-zero objectives. The report outlines enhanced guidance for designing, selecting, and implementing forward-looking portfolio alignment metrics, in addition to illustrative quantitative and practitioner use cases.

2. Relevance of financial institutions' transition for the real economy



Through the seven financial sector-specific net-zero alliances under the UN Race to Zero, all types of financial institutions, including asset managers, asset owners, auditors, banks, data providers, exchanges, insurers, and rating agencies have committed to setting net-zero targets.⁴⁰ Successfully realizing these net-zero commitments requires financial institutions to support the real economy with products and services or, in some cases, closely collaborate with the real economy to ensure real-world GHG emissions reductions. Doing so also supports the implementation of ambitious nationally determined contributions (NDCs).

To effectively implement their net-zero commitments, financial institutions need additional information from current and potential clients and portfolio companies about their approach to the transition and their level of ambition. This information should be outlined in a company's transition plan. Section 4 of this report provides details on the expectations on disclosures for each component of the transition plan.

A transition plan articulates a company's overall approach to the net-zero transition, including information regarding their climate objectives, targets, actions, progress, and accountability mechanisms. Financial institutions can assess the credibility of a company's climate objectives and compare the company relative to sectoral and regional expectations of the net-zero transition and against peers. Additionally, transition plans provide transparency to stakeholders as a reporting mechanism.

2.1. ROLE OF FINANCIAL INSTITUTIONS IN SUPPORTING THE REAL-ECONOMY TRANSITION

GFANZ has identified four key financing strategies that define transition finance. These strategies are inclusive of financing, investment, insurance, and related products and services, that are critical to delivering real-economy emissions reduction in support of an orderly, net-zero transition of the global economy:

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.
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.⁴¹
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 as they develop robust net-zero transition plans,⁴² set targets aligned to sectoral pathways,⁴³ and implement changes in their business to deliver on their net-zero targets.

40 The alliances are the [Net Zero Asset Managers Initiative \(NZAM\)](#), the [Net-Zero Asset Owner Alliance \(NZAOA\)](#), the [Net-Zero Banking Alliance \(NZBA\)](#), the [Net Zero Financial Service Providers Alliance \(NZFSPA\)](#), the [Net-Zero Insurance Alliance \(NZIA\)](#), the [Net Zero Investment Consultants Initiative \(NZICI\)](#), and the [Paris Aligned Asset Owners \(PAAO\)](#).

41 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.

42 GFANZ. [Introductory Note on Expectations for Real-economy Transition Plans](#), 2022.

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

4. Managed phaseout: Financing or enabling the accelerated managed phaseout (e.g., via early retirement) of high-emitting physical assets.⁴⁴ 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.

Actions taken by financial institutions to decarbonize their portfolios and businesses may have unintended consequences: for example, reducing financed emissions by selling the high-emitting assets in a portfolio or ending business with high-emitting companies does not necessarily decrease global GHG emissions, as buyers or new providers of capital may not be committed to net-zero goals. Accordingly, financial institutions should focus not only on reducing their financed emissions, but also on financing emissions reductions. High-emitting/hard-to-abate sectors and companies need financial products and services to successfully transition to a low-carbon future. Moreover, sequencing of finance to prevent economic volatility and shocks is crucial in the transition — displacement of high-emitting assets by zero carbon assets and infrastructure needs to be orderly to support continuity and affordability of services and to support local communities (e.g., power facility phaseout decisions should consider the implications of phaseout for the broader continuity of power provision).

2.2. FINANCIAL INSTITUTION NET-ZERO COMMITMENTS' IMPACT ON THE REAL ECONOMY

Net-zero commitments are influencing asset allocation by financial institutions with significant implications for the real economy. Companies' access to finance and financial services is increasingly impacted by their climate targets and strategies.⁴⁵

Net-zero commitments are influencing how financial institutions allocate capital with significant implications for the real economy. These commitments are occurring across all segments of the financial system. To enable the net-zero transition in the real economy, financial institutions are actively changing their strategies and operations. As part of developing and implementing their own net-zero transition plans, financial institutions are:⁴⁶

- collecting and analyzing client and portfolio company transition plan information and climate-related metrics;
- engaging with clients and portfolio companies in developing and implementing credible transition plans;⁴⁷
- modifying the criteria and terms of existing financial products and services to consider performance against climate-related metrics;
- developing new financial products and services tailored to the transition (e.g., transition bonds, sustainability-linked loans, green mortgages);
- reweighting portfolios and implementing conditions and restrictions where necessary to ensure they stay on track with their transition plans; and

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

45 Roughly 44% of financial institutions are now assessing if their clients/portfolio companies are aligned to the ambition set on the Paris Agreement (CDP. [Now for Nature: The Decade of Delivery](#), March 2022, p. 14).

46 Under the Race to Zero, more than 500 financial institutions that are GFANZ members through one or multiple sector alliances have committed to set GHG targets and produce their own net-zero transition plans.

47 For example, companies failing to meet investor expectations on transition plans and net-zero commitments may find themselves subject to more enhanced investor engagement activities such as shareholder resolutions and voting against management proposals, board directors, financial statements, and/or auditors ([CA100+](#)).

- tracking the alignment of their finance with net-zero outcomes (e.g., absolute carbon emissions reduction, carbon intensity reductions, carbon budgets).

Companies' access to finance and financial services is increasingly impacted by their climate targets and strategies.⁴⁸ These changes provide an opportunity for companies that can articulate credible transition plans to better access financial products and services.⁴⁹

2.3. USING TRANSITION PLANS TO COMMUNICATE COMPANY STRATEGY

Since GFANZ members have committed to net zero (through their underlying net-zero alliances), they will be using information from clients and portfolio companies to set, implement, and measure progress against their own net-zero transition plans.

GFANZ defines a net-zero transition plan as follows:

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.

For GFANZ members, a net-zero transition plan must be consistent with achieving net zero by 2050, at the latest, in line with global efforts to limit warming to 1.5 degrees C, above pre-industrial levels, with low or no overshoot.^{50,51} Real-economy

companies should work with their financial partners/counterparties to reach the stated level of ambition. However, GFANZ acknowledges that different constraints exist to achieve rapid near-term decarbonization to keep net zero by 2050 possible exist at the sector and/or regional level (this is especially true for some emerging economies like India which pledged net zero by 2070).⁵² When building transition plans, companies can provide transparency on the decision logic behind specific choices for disclosures (e.g., Why were specific metrics selected? How has the transition plan been reviewed? Which stakeholders/business areas were consulted for specific decisions?). This transparency would provide context for financial institutions when assessing transition plans and tracking progress of actions against past disclosures. There is also a need for companies and the financial community to work with governments and policymakers to create a conducive operating environment that removes financial and economic barriers to transition.

Transition planning is not a one-time exercise. As the global net-zero transition progresses, technological, policy, and market changes will require companies and financial institutions to reassess their strategies. Hence, transition plans should be regularly reviewed and updated as necessary; for example, TCFD guidance specifies that plans should be reported annually, reviewed at least every five years, and updated if necessary. In addition to TCFD, other guidance providers like CDP or ACT request users to disclose progress and track records against GHG emissions targets on an annual basis.

48 Roughly 44% of financial institutions are now assessing if their clients/portfolio companies are aligned to the ambition set on the Paris Agreement (CDP. [Now for Nature: The Decade of Delivery](#), March 2022, p. 14).

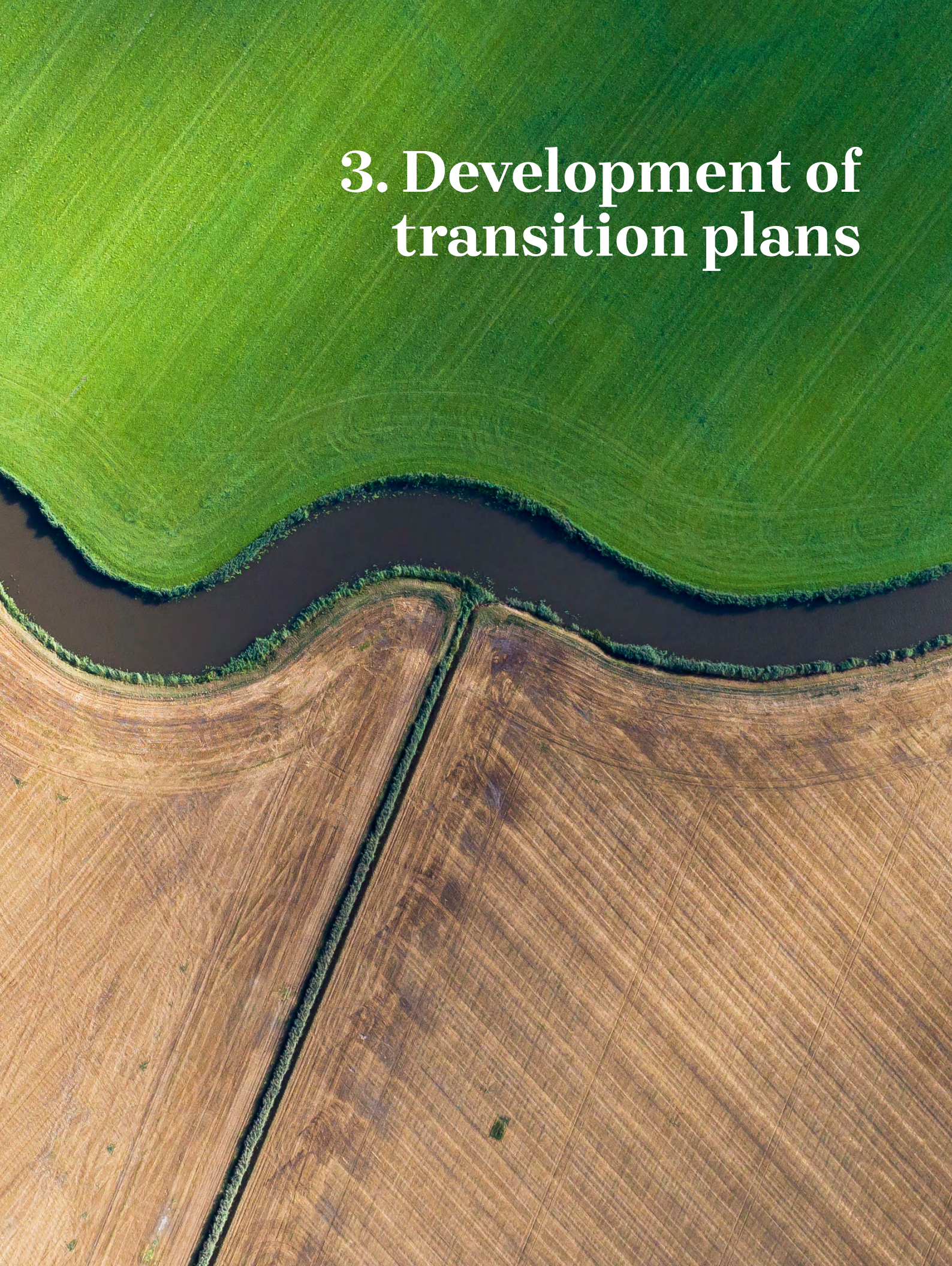
49 Example of the changes that financial institutions are making can be found in the use cases presented in Section 4 of this report.

50 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."

51 These requirements reflect sector-specific alliance member commitments, with minimum criteria established by the Race to Zero campaign. [The Race to Zero updated criteria](#) following the consultation process has recommended including no or limited overshoot in the Race to Zero commitment.

52 BBC News. [COP26: India PM Narendra Modi pledges net zero by 2070](#), November 2, 2021.

3. Development of transition plans



This section supports the development of real-economy transition plans in two ways: First, by helping companies understand how to navigate the existing transition plan guidance landscape; and second, by highlighting the components of transition plans relevant for disclosure suggested in leading global standards, methodologies, and associated guidance.

3.1. EXISTING TRANSITION PLAN FRAMEWORKS, METHODOLOGIES, AND GUIDANCE

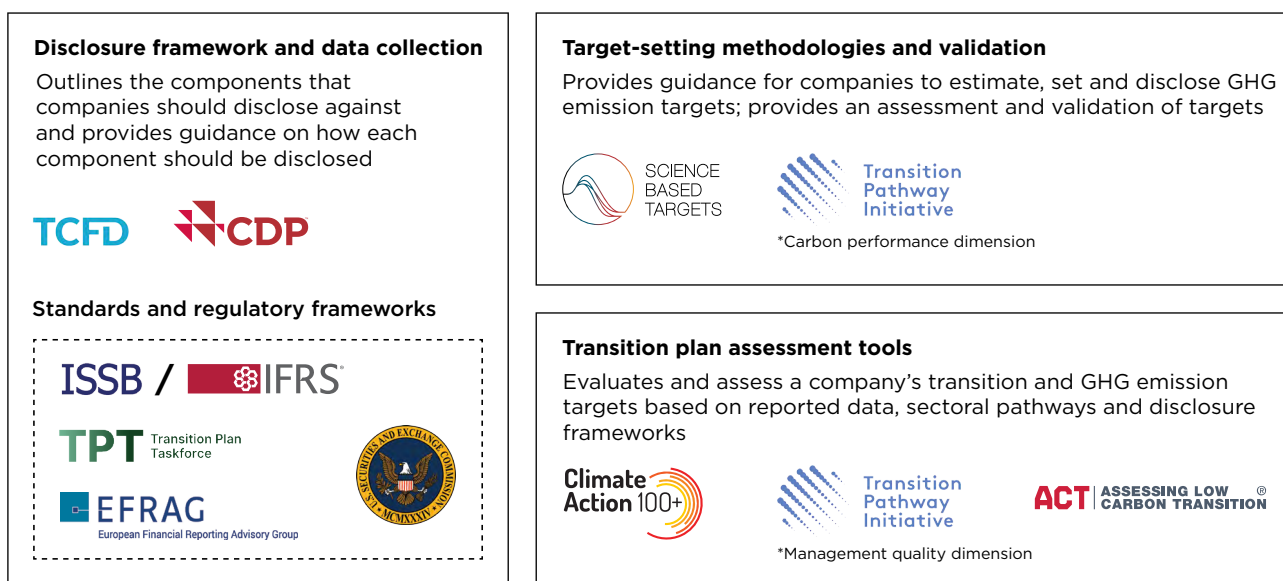
Several initiatives have developed guidance to support the effective disclosure of real-economy transition plans. While much commonality exists in the published guidance, there are also some important differences. To help companies navigate existing guidance, this section showcases how companies can leverage each existing set of guidance and describes how financial institutions use the information that each set of guidance provides.

Initiatives were selected based on their relevance to transition plans and implementation disclosures, including coverage of the key components of transition plans, global reach, and the level of current engagement/use by real-economy companies. International standards and regulatory frameworks were also considered to ensure that financial institution expectations are in line with the latest developments regarding mandatory transition plans. Moreover, GFANZ aims for this report to support and inform the development of new regulatory frameworks.

Existing global initiatives' classification

Leading global climate and transition initiatives are classified into three groups, based on their main objectives (Figure 3). This classification helps both users and preparers of transition plan information better understand how these fit together and how they can be used to build a credible transition plan.

Figure 3: Global climate and transition initiatives classification



Source: GFANZ

Disclosure frameworks and data collection

initiatives outline the information that companies should disclose:

- **Use for real economy:** Companies can use this guidance as a checklist of components and data that should be disclosed, as well as to inform the range of actions that the company needs to take when building and implementing a credible transition plan.
- **Use for financial institutions:** Financial institutions often use these standards as a framework for transition plans (e.g., TCFD) and as a data basis/data source for client and portfolio company comparison (e.g., CDP).

Target-setting methodologies and validation

initiatives provide methodologies to measure and quantify GHG emissions and set targets:

- **Use for real economy:** Companies can use these methodologies to set targets and ensure they are in line with the latest standards.
- **Use for financial institutions:** Financial institutions can use these to determine whether a company has set targets in line with these initiatives, which could factor into its assessment of the company's transition plan (e.g., SBTi and TPI-CP can be leveraged to set and compare GHG emissions targets).

Transition plan assessment tools use scoring methodologies to evaluate the quality of climate governance and transition plans:

- **Use for real economy:** Companies can use these tools to self-assess the credibility and/or comprehensiveness of their own transition plans and/or use them to develop and update their plans and to assess their performance.
- **Use for financial institutions:** Financial institutions often consider the score that a company receives to assess the credibility and/or

comprehensiveness of its plan (e.g., ACT, CA100+, and TPI-MQ are referenced as assessment tools that evaluate the credibility of transition plans).⁵³

Initiative interconnections

While each set of guidance has its own approach and objectives, guidance frequently references or shares frameworks, data, and methodologies. Knowing how these different initiatives interact and complement each other can be useful for companies. The following are examples of key interconnections between guidance:

1. **TCFD framework as a starting point for disclosure.** CDP, TPI-MQ, ACT, and CA100+ use TCFD as the key reference initiative when providing their own guidance.
2. **CDP data as an input to other initiatives.** Where companies do not disclose information publicly but do report information to CDP through their survey, then other initiatives (e.g., TPI band CA100+) use the CDP data to complement public data.
3. **SBTi as the standard target-setting methodology.** CDP references SBTi to evaluate if a company's targets are science-based, while ACT uses the sectoral decarbonization approach (SDA) developed by SBTi as the base for its assessment of targets.

Regulatory development of transition plans

In addition to market-led initiatives, governments and regulatory bodies are starting to formulate mandatory disclosure requirements for transition plans.⁵⁴ GFANZ is actively tracking development of transition plan requirements and engaging with regulatory bodies and standard setters to ensure that financial institutions' expectations are in line with the latest developments regarding mandatory transition plans. Appendix C provides a comparison of the key components of a real-

⁵³ GFANZ 2022 report on Measuring Portfolio Alignment has synthesized input from the various scoring methodologies to develop a credibility framework for estimating forward-looking emissions.

⁵⁴ Examples include ISSB — part of IFRS, EFRAG, SEC, and TPT.

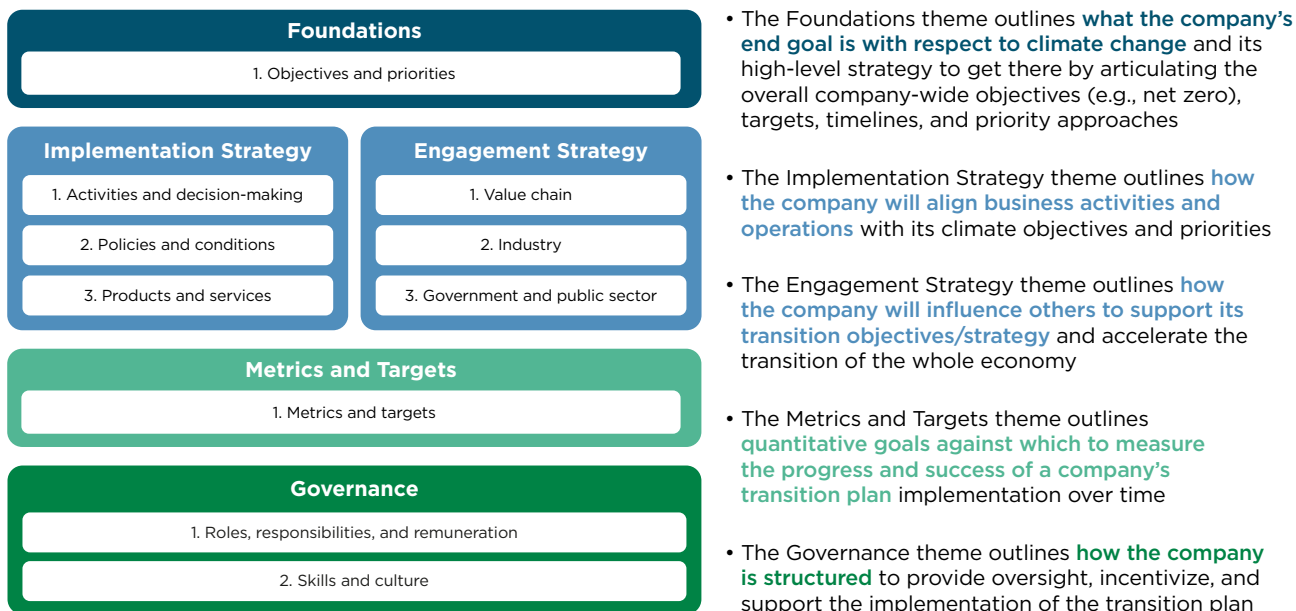
economy transition plan against the guidance developed by the International Sustainability Standards Board (ISSB) – part of International Financial Reporting Standards (IFRS), the European Financial Reporting Advisory Group (EFRAG), and the proposed rules of the U.S. Securities and Exchange Commission (SEC).

Note: At time of writing, the regulatory guidance developed by these bodies is still largely in initial draft stages and is primarily focused on disclosure of climate-related risks and opportunities (except for the UK Transition Plan Taskforce [TPT], which was set up to inform a regulatory requirement for corporate transition plans).

3.2. RELEVANT COMPONENTS OF TRANSITION PLANS

GFANZ has identified five transition plan themes broken out by ten components for disclosure that financial institutions find relevant when evaluating a company’s transition plan (Figure 4). These components are based on existing transition plan guidance from the selected initiatives already mentioned. Providing companies with financial institution expectations for real-economy transition plan disclosures helps companies better understand and provide the information that is most relevant to financial institutions.

Figure 4: Components of real-economy transition plans relevant for financial institutions⁵⁵



Source: GFANZ

55 The components and themes are aligned with GFANZ recommendations for financial institutions. (GFANZ. [Recommendations and Guidance on Financial Institution Net-zero Transition Plans](#), 2022).

GFANZ has summarized the disclosures relevant for financial institutions for each component (Table 2). The disclosures are then mapped to the relevant underlying initiatives to outline where companies can find further guidance when building their transition plans. Section 4 provides detail on each component outlining its relevance, detailed guidance on required disclosures, as well as examples and use cases on how financial institutions use the components and/

or how companies disclose the components in their transition plans.

GFANZ does not endorse any specific initiative; it aims to promote the use and uptake of existing initiatives and to facilitate the process for companies to retrieve detailed guidance from different initiatives along the key components.

Table 2: Summary view: disclosures relevant for financial institutions

THEME	COMPONENT	SUB-COMPONENT	DISCLOSURE AND DATA COLLECTION			TARGET-SETTING & VALIDATION		ASSESSMENT TOOLS		
			TCFD	ISSB	CDP	SBTI	TPI-CP	ACT	CA 100+	TPI-MQ
Foundations	Objectives and priorities	• Objectives and overarching strategy								
		• Governing principles ^{56,57}								
Implementation Strategy	Activities and decision-making	• Business planning and operations								
		• Financial planning								
		• Sensitivity analysis								
	Policies and conditions	• Transition-related policies								
• Nature-based impact										
	Products and services	• Products and services								
Engagement Strategy	Value chain	• Clients/portfolio companies and suppliers								
	Industry	• Industry peers								
	Government and public sector	• Government and public sector								
Metrics and Targets	Metrics and targets	• GHG emissions metrics								
		• Sectoral pathways								
		• Carbon credits ⁵⁸								
		• Business and operational metrics								
		• Financial metrics								
		• Nature-based metrics								
		• Governance metrics								
Governance	Roles, responsibilities, and remuneration	• Board oversight and reporting								
		• Roles and responsibilities								
		• Incentives and remuneration								
	Skills and culture	• Skills and trainings								
		• Change management and culture								

56 Just transition and nature-positive economy.

57 See Appendix B for additional initiatives that cover the just transition.

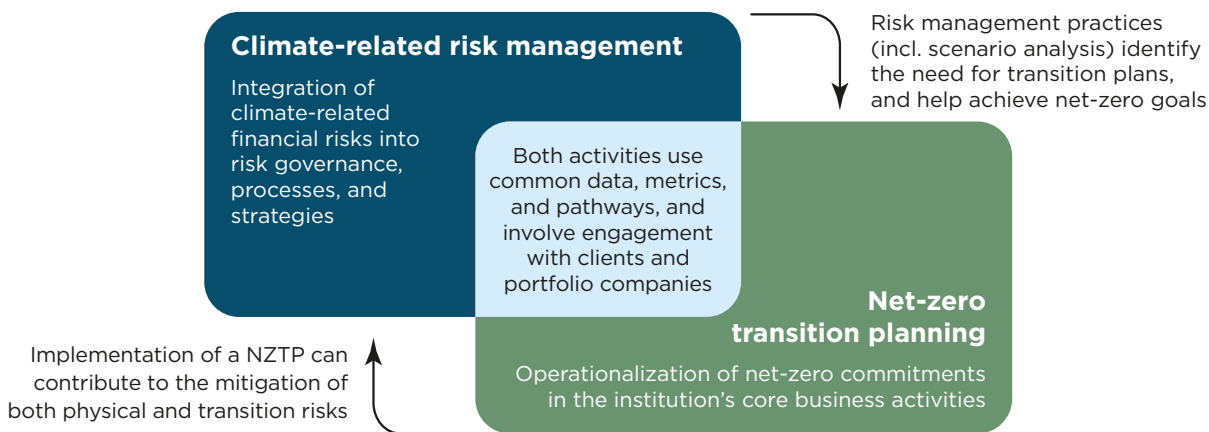
58 Also known as carbon offsets or verified emissions reductions (VERs).

Building on TCFD: Climate-related Disclosure, and Net-zero Plans

The TCFD provides important, widely accepted recommendations for disclosure of climate-related financial risks and opportunities. The TCFD recommends describing how resilient a company’s strategy is to climate-related risks and opportunities — **including those related to physical climate impacts and impacts of the transition to a lower-carbon economy** — by leveraging a set of climate-related scenarios. Scenario analysis helps identify how business strategies might change in response to these risks and opportunities. Net-zero transition planning goes a step further by describing how climate strategies will align to achieve 1.5 degrees C pathways, accelerating the transition to a net-zero global economy and thereby minimizing the likelihood of increasing climate impacts.

Climate risk management and net-zero efforts are related, but different. The former focuses on the integration of climate-related financial risks into risk governance, processes, and strategies. The latter should represent the strategic alignment of a firm’s core business and build upon, but look beyond, an institution’s own risk profile to support the net-zero transition in the real economy. These efforts rely on common metrics and targets (such as GHG emissions) and are mutually supportive: effective pricing and understanding of climate-related risks can support transition planning efforts and can drive changes in the behavior of both financial institutions and real-economy firms; at the same time, transition planning addresses an institution’s transition risk, and when efforts are aggregated across the financial sector, aims to help mitigate physical climate risk.

Figure 5: The relationship between risk and transition planning



In line with GFANZ member commitments, the GFANZ workstream on Real-Economy Transition Plans is focused on net-zero transition and considers risk management a component of a company’s overall climate risk strategy (complementary to transition plans and covered within TCFD annual disclosures). TCFD has become the commonly accepted framework for climate related reporting and is increasingly gaining acceptance with regulators that use it as a base for mandatory reporting (e.g., ISSB and other regional jurisdictions have said they will anchor their guidance in TCFD).⁵⁹ If choosing to include climate risk management in their transition plans, companies should refer to the TCFD for guidance on this component.

59 [G7 nations agree on mandatory climate-related disclosure.](#)

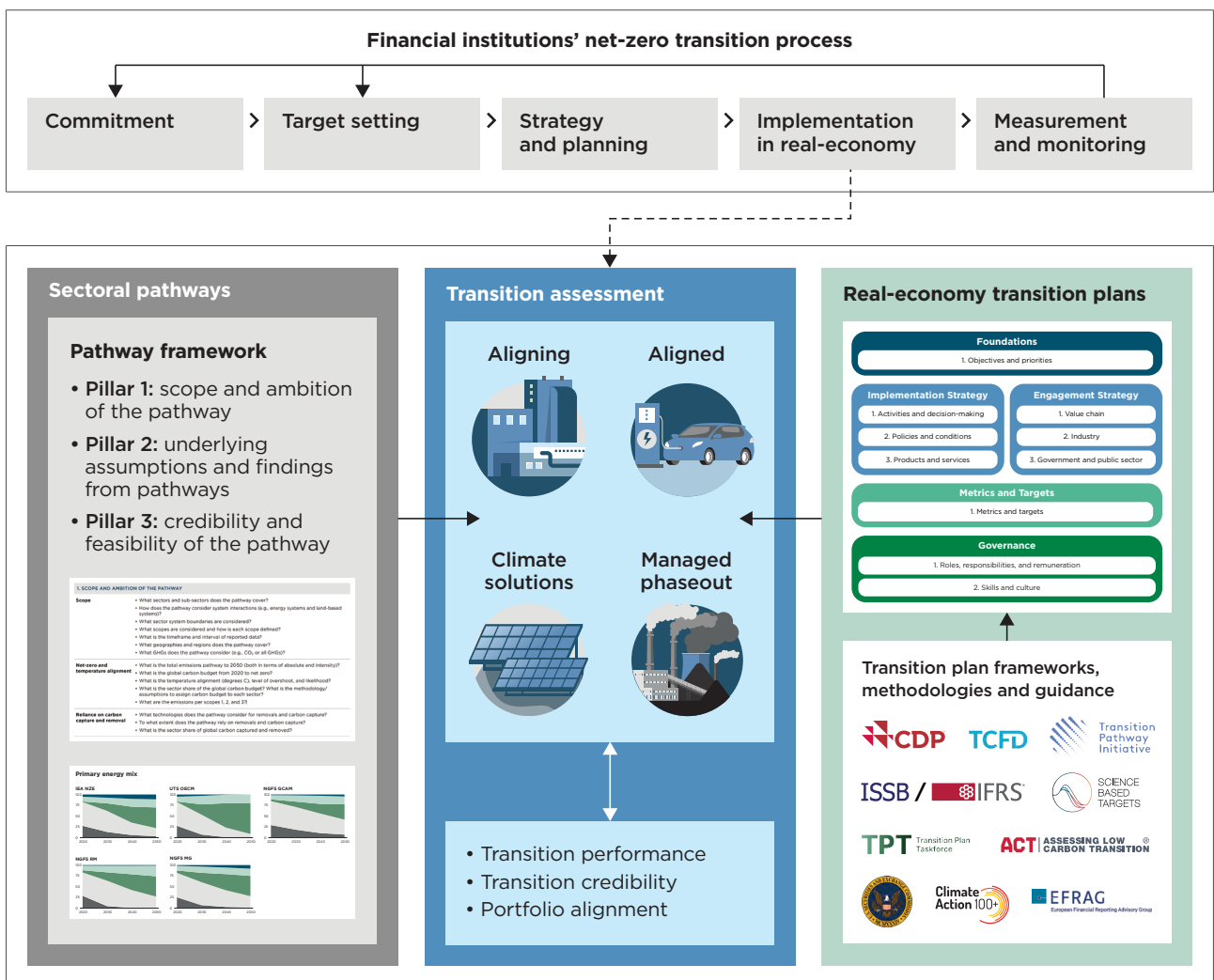
4. Transition plan disclosures



Information from real-economy transition plans and measurement of implementation progress are key for financial institutions to incorporate into their transition processes (Figure 6). Financial institutions need information from companies to enable target setting at the portfolio level; to inform actions to build robust/actionable transition plans; to enable decision-making regarding providing capital and other related

products and services to their clients and portfolio companies; and, finally, to measure alignment of their portfolio to net zero. This information, along with benchmarks from sectoral pathways, should allow financial institutions to build strategies and take action to support and enable the transition in the real economy.

Figure 6: Use of sectoral pathways and real-economy transition plans along financial institutions' transition process

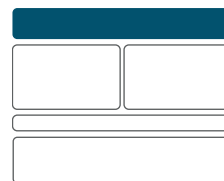


Disclosures on real-economy transition plans, along with understanding of sectoral pathways, should help financial institutions identify whether a client or portfolio company is aligning or already aligned to a net-zero by 2050, 1.5 degrees C pathway. Disclosures should also help financial institutions identify the needs of its clients or portfolio companies regarding climate solutions and managed phaseout of high-emitting assets.

In this section, we explain why each of the real-economy transition plan themes (Section 3.2) and components are relevant to financial institutions' net-zero transition processes. Appendix A maps each of the disclosures to existing initiatives to help users navigate the current landscape and retrieve additional details/guidance as required.

THEME

4.1. Foundations



The Foundations theme outlines **what the company's end goal is** with respect to climate change and its high-level strategy to get there by articulating the overall company-wide objectives (e.g., net zero), targets, timelines, and the principles governing its actions (e.g., just transition and nature-positive economy).

Once a company has committed to achieving a specific climate goal, it should articulate its objectives, priorities, and principals governing its actions, along with specifics such as targets (including long-term strategic targets as well as interim operational targets), the timeline for achieving them, and how they will be achieved. Financial institutions need to be able to identify and compare the overall level of ambition of the company, including the alignment of the company transition plan to, or the extent of deviation from, 1.5 degrees C, net-zero pathways, and its commitment to additional sustainability goals beyond climate change.^{60,61} A transition to net zero is inextricably linked to environmental, social, and economic development.⁶² Adopting a holistic approach by incorporating just transition and a nature-positive economy as principle strengthens the robustness and credibility of a transition plan.

COMPONENT: OBJECTIVES AND PRIORITIES

A real-economy company's disclosure of objectives and priorities in a transition plan provides visibility for financial institutions to evaluate overall alignment with their own commitments and allows them to compare against other companies. Additionally, this component allows financial institutions to assess, at a high-level, the credibility of the company' plan based on the context of how — and to what extent — transition planning is incorporated into the company's overall strategy and what level of priority the company has assigned it.

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

61 GFANZ. [The Managed Phaseout of High-emitting Assets](#), June 2022.

62 [Sustainable Development Goals](#). Example of relevance: WWF estimates that 27% of anthropogenic carbon emissions may be absorbed by nature, and that this sequestration is highly cost-effective.

SUB-COMPONENT: OBJECTIVES AND OVERARCHING STRATEGY**Expected disclosures**

- Disclose the company's climate objectives, including interim goals, that form the basis for the transition plan (i.e., short-, medium-, and long-term ambition, commitments, and strategy to achieve the objectives). This includes how the company will decarbonize over time, changes to business models and activities, and what role the company will play, if any, in supporting the economy-wide transition.
- Disclose the rationale for the selected level of ambition (e.g., net-zero 2050 and 1.5 degrees C warming).
- Articulate how the transition strategy will be embedded within the company's overall business strategy.

Relevant initiatives

TCFD, ISSB, CDP, SBTi, TPI-CP, ACT, CA100+, TPI-MQ

SUB-COMPONENT: GOVERNING PRINCIPLES**Expected disclosures**

- Disclose the company's objective to ensure a just transition and a nature-positive economy and how these principles are embedded throughout each component of the transition plan, if applicable.

Relevant initiatives

CDP, CA100+ (See Appendix B for additional initiatives focused on just transition).

Foundations use case examples⁶³

The following use cases provide examples of how companies disclose some of the key components outlined within the Foundations theme, as well as how financial institutions use the information of real-economy transition plans to drive decision-making. These examples should be used as reference for companies to reflect the importance of disclosing the components within their transition plans.

EXAMPLE 1 (ENEL): FUTUR-E INITIATIVE TO ENSURE JUST TRANSITION⁶⁴

Type: Real-economy disclosures

Sector: Energy sector

Relevant component: Objectives and priorities (just transition)

Commitment: Objective of reaching the decarbonization of its energy mix by 2040. Reaching-net zero emissions along the value chain by 2040. Objective of reducing its direct emissions of Scope 1 greenhouse gases per kWh 80% by 2030 versus base year 2017.

Enel has outlined its commitment to the just transition in its transition plan, aiming to guarantee that the transition will be fair, decent, and inclusive. Enel has committed to:

⁶³ The mention of specific financial institutions or companies in use cases does not imply that they are endorsed by GFANZ or its members. The examples are not intended to represent "best practice" nor represent the entirety of guidance for a component. Instead, the examples are included because they may help companies interpret individual elements of the guidance for their own practices.

⁶⁴ Example built from public information: ENEL. [Open Power for a Brighter Future](#), 2020.

- **promoting social dialogue with workers and union representatives**, in compliance with the workers' rights established by the International Labor Organization (ILO), and
- **collaborating with suppliers who respect these standards**, while trying to contribute toward the social-economic development of communities most exposed to the transition.

To achieve this commitment, Enel has developed the **Futur-e** initiative to manage the closing of infrastructure in communities and ensure a just transition. Enel started the **Futur-e** initiative in 2015 in Italy with the aim of giving new life to closing power plants by repurposing them. Thanks to its success, the initiative was extended globally, and it will ultimately affect more than 40 sites to be reconverted. The program focuses on places where thermal power plants, including coal, are closing (e.g., Italy, South America). The **Futur-e** initiative has various strategies, including:

- **integrating site personnel through a process of reassignment** to avoid any knowledge loss; Enel typically involves trade unions to ensure workers' voices are heard;
- **collaborating with local communities**; for example, via, stakeholder interviews during preliminary phases;
- **guaranteeing the protection of the environment**, particularly regarding soil remediation; and
- **ensuring reuse of divested assets**, such as roads, connection to a high voltage network, buildings, etc.

In addition, Enel's transition plan provides that, in the 2022-2024 period, 50% of people leaving coal-fired plants will be redeployed, through the involvement in upskilling and reskilling programs, while the remaining 50% will be offered early retirement plans.

By disclosing its approach to the just transition, Enel allows financial institutions to make informed decisions regarding their own commitments to a just transition.

EXAMPLE 2 (AXA IM): "THREE STRIKES, YOU'RE OUT" ESCALATION APPROACH FOR PORTFOLIO COMPANIES⁶⁵

Type: Financial institutions' use of real-economy transition plans

Sub-sector: Asset management

Relevant component: Objectives and priorities (objectives and overarching strategy)

As active asset managers, AXA Investment Managers (AXA IM) takes seriously its power to influence portfolio companies' behavior. It believes engagement and open dialogue with companies and clients is crucial to understanding and influencing the net-zero trajectories. And, if AXA IM does not see progress and strong commitments from companies, it will be brave and bold in its investment decisions and will be ready to divest.⁶⁶

⁶⁵ Example shared by AXA (workstream co-lead).

⁶⁶ AXA Investment Managers Corporate News: [AXA IM further strengthens its climate actions to accelerate its contribution to a low-carbon world](#), 2021.

From 2022, AXA IM, the asset management arm of the French multinational insurance company, began applying a stronger climate lens in making its investment decisions.⁶⁷ With respect to a selection of companies that AXA IM considers to be climate laggards, AXA IM will apply a “Three strikes and you’re out” approach.⁶⁸ This means that if AXA IM does not feel the company’s progress on their net zero path is substantial within three years (2025) it will divest from the laggard so that it can re-allocate the capital to climate and transition leaders.

AXA IM uses quantitative and qualitative information provided by portfolio companies, including in their transition plans to assess their overall objectives and strategies and classify companies according to AXA IM Carbon Transition Framework. For a selection of companies identified as climate laggards, AXA may then use their transition plan to closely monitor progress against the targets to inform their decisions within their “three strikes and you’re out” approach.

EXAMPLE 3 (NATWEST): ASSESSMENT OF TRANSITION PLAN CREDIBILITY^{69,70}

Type: Financial institutions’ use of real-economy transition plans

Sub-sector: Banking

Relevant component: All

NatWest has an ambition to halve its climate impact by 2030 and be net zero by 2050 in relation to financed emissions, assets under management (AUM), and its operational value chain. As part of its commitment, NatWest has sent sector emissions reductions targets to the Science Based Targets initiative for validation.

To support customers to transition to net zero and to help end the most harmful activity, in February 2020, NatWest stated that it planned to stop lending and underwriting to companies with more than 15% of activities related to thermal and lignite coal, and major oil and gas producers, unless they had a credible transition plan in line with the 2015 Paris Agreement in place by end of 2021. The approach recognizes that some, but not all, energy customers are rapidly focusing their skills and resources on low carbon technologies. NatWest plans to work with those business that genuinely want to be part of the transition and are prepared to reduce their exposure to fossil fuels.

67 AXA Investment Managers Corporate News: [AXA IM further strengthens its climate actions to accelerate its contribution to a low-carbon world](#), 2021.

68 AXA Investment Managers: [2021 Active Ownership and Stewardship Report](#), May 2022 at p. 10.

69 Example shared by NatWest (workstream co-lead).

70 NatWest. [Climate-related Disclosures Report](#), 2021, p. 30.

Credible transition plan assessments

Based on their stated commitments, NatWest has identified large corporate customers that require a credible transition plan (CTP) assessment. In conducting its CTP assessments, NatWest relied on disclosures found in the components of a company’s transition plan. For example, NatWest relied on information regarding both investments to date and future financial plans. In assessing whether a customer’s transition is credible and in line with the 2015 Paris Agreement, NatWest applied the following criteria:

CTP ASSESSMENT CRITERIA

<p>A. A quantitative assessment using an independent third-party proprietary model to assess alignment with the 2015 Paris Agreement</p>	<p>This model calculates a temperature alignment score by using:</p> <ul style="list-style-type: none"> • a climate scenario temperature alignment model to assess whether a customer’s transition plan and resulting projections for Scope 1, 2, and 3 emissions are consistent with temperature scenarios aligned to the goals of the 2015 Paris Agreement and • climate outcome scenarios to model future energy productions. Emission projections were compared against sector- and geography-specific pathways under those scenarios. By interpolating/extrapolating against the climate scenario outcomes, an assessment is made of the temperature alignment score for the company.
<p>B. A credibility assessment</p>	<p>A credibility assessment of customer transition plans considered both public and client information. This assessment used a standardized scorecard that analyzes factors such as:</p> <ul style="list-style-type: none"> • executive and management incentives; • investments to date; • future investment plans in decarbonization and transition technologies; • climate scenarios used in strategy development; and • information on how financial performance will evolve.
<p>C. Management review and assessment</p>	<p>Approval of outcomes of the quantitative and credibility assessments by the NatWest Group Reputation Risk Committee, as well as the customer’s forward-looking strategy and alignment to NatWest Group’s environmental, social, and ethical (ESE) policies, and the impact of current and expected legislative requirements and policy developments on the customer’s strategies.</p>

CTP assessment outcome

If, as a result of its assessment, NatWest determines a customer does not have a CTP aligned with the 2015 Paris Agreement, NatWest will stop lending and underwriting to the customer, including stopping renewal, extension, or refinancing of any existing commitments as soon as is practical. NatWest will continue to monitor customers’ progress against their published transition plan or strategy annually, as part of its ESE risk assessment process.

As a responsible business and in recognition of NatWest Group’s role in financing the transition, NatWest may provide lending and underwriting to customers that it assessed to have a CTP aligned with the 2015 Paris Agreement, but it will limit its lending and underwriting to activities that are aligned to NatWest’s Climate and Sustainable Finance Inclusion (CSFI) criteria. Assessment of whether a transaction meets the CSFI criteria is carried out as part of the credit approval process.

EXAMPLE 4 (LA BANQUE POSTALE): VOTING IN ANNUAL GENERAL MEETING^{71,72}

Type: Financial institutions' use of real-economy transition plans

Sub-sector: Asset management

Relevant component: All

La Banque Postale Asset Management (LBP AM), the 100% socially responsible investment (SRI) asset management company of the French banking and insurance group, supports the development of robust net-zero transition plans at investee companies through active ownership. Notably, it systematically votes at portfolio companies' annual general meetings (AGMs) according to its voting policy, which evaluates the companies across different components of their transition plan.

To assess companies' real-economy transition plans, notably for the purpose of voting on Say on Climate resolutions or external climate resolutions, LBP AM has developed a framework, built based on its own climate policies, the CA100+ benchmark, and the ACT framework.

Example of assessments across components of real-economy transition plans:

1. Foundations

- Does the company disclose its climate strategy along the lines of an established climate disclosure/assessment framework, such as TCFD?
- Does the company formally state the ambition, or target, to contribute to the net-zero global GHG emissions targets by 2050, or its own carbon neutrality?
- What is the quality of current GHG reporting (scope, activity coverage, methodological consistency)?

2. Implementation Strategy

- How consistent are the companies' climate targets with respect to its global strategic planning, CapEx, and M&A perspectives?

3. Metrics and Targets

- Has the company defined GHG emissions reduction targets in the short, medium, and long term that encompass both its Scope 1, 2 and, most significant, Scope 3 emissions?
- Are those targets aligned on a 1.5 degrees C pathway?
- Does the company significantly rely on carbon offsetting to achieve its GHG targets?
- Are the climate data audited by a third party?
- Are the GHG emissions reduction targets approved under a scientific standard (e.g., SBTi)?

⁷¹ Example shared by La Banque Postale (workstream member).

⁷² LBP AM. [Group voting policy](#), 2022.

4. Governance

- Does the executive remuneration policy include criteria linked to achieving these GHG emissions reduction targets?
- Has the company committed to submit the transition plan to a frequent shareholder vote at the AGM through a Say on Climate resolution?

LBP AM's assessment may be complemented by sector-specific considerations. The assessment is performed by internal teams (responsible investment team and portfolio managers) and informed by companies' AGM material and sustainability reports, proxy analysis, and third-party sources (e.g., CDP data). Results are shared with companies as part of the ongoing governance and/or climate dialogue.

Based on this assessment, LBP AM will vote either for or against a company's transition plan, or potentially other resolutions, at AGMs (or abstain from voting). For instance, in Q1 and Q2 2022, LBP AM voted on 26 Say on Climate resolutions, supporting 14 of them and voting against 12 that did not meet its criteria, suggesting to the latter companies to further develop and resubmit their plan to a vote.

Lack of information on specific components of transition plans can be a motivation for not supporting the transition plan at the AGM. Therefore, LBP AM contributes to the work of the French Sustainable Investment Forum, calling for more frequent and standardized Say on Climate disclosures, to ensure that investors can cast informed votes on transition plans.

EXAMPLE 5 (BRUNEL PENSION PARTNERSHIP): USE OF TPI MANAGEMENT QUALITY SCORES DURING PORTFOLIO CONSTRUCTION⁷³

Type: Financial institutions' use of real-economy transition plans

Sub-sector: Asset owner

Relevant component: All

Brunel Pension Partnership's portfolio construction is influenced by reviewing the TPI management quality scores of companies. TPI management quality scoring is based on questions that are spread across the relevant components of credible transition plans. Brunel has set a target to have all material holding companies reach TPI level 4 for management quality by 2022. Brunel's AGM voting is also aligned with this target; Brunel votes against the reelection of company chairs ranked below TPI level 2. Examples of Brunel using TPI management quality scores include:

⁷³ Example built from public information: TPI. [Case studies from global investors on how TPI data is being used to enhance their investment decision-making](#), 2022, p. 7.

- Brunel identified that the carbon intensity of one prospective manager for its Global High Alpha strategy seemed high. However, Brunel found that 70% of the carbon intensity was attributable to a single company. This company scored a TPI level 4 and was thus aware of climate and was poised with a strategy to reduce its emissions. Brunel reported that the TPI management quality data was helpful to it in making manager selection decisions.
- Brunel recognized that two companies in its global equity portfolios were exposed to extractive revenues. However, the companies were different in their strategic approach to climate change. One company was TPI level 4 and reported Scope 1, 2, and 3 emissions with targets for reductions. The other company, meanwhile, was TPI level 2 and had failed to report its Scope 2 GHG emissions. After Brunel engaged the investment manager about these companies, the manager decided to remove the company at a level 2 from the portfolio.

EXAMPLE 6 (MONTANARO ASSET MANAGEMENT): SCORING OF TRANSITION PLANS⁷⁴

Type: Financial institutions' use of real-economy transition plans

Sub-sector: Asset management

Relevant component: All

Montanaro Asset Management (MAM) is a signatory to the NZAM as of 2021. MAM has set emissions reduction targets in line with the PAII Net Zero Investment Framework, which sets out a 7% annual emissions reduction target across all funds and a 50% reduction in emissions by 2030. MAM also aims to have 50% of AUM implement science-based targets by 2030 and 100% of AUM implement science-based targets by 2040. MAM does not invest directly in fossil fuel companies across any of its investment portfolios.

In addition to the analysis of environmental data, MAM uses two scoring mechanisms from MSCI to assist its assessment of companies' transition plans and emissions reductions targets. These scoring mechanisms rely on components of a company's transition plan, including disclosures related to a company's GHG emissions, products/services, management culture, etc.⁷⁵

- **Low-carbon transition management:** This indicator measures how well a company manages risk and opportunities related to the low-carbon transition. It combines management assessments for the following key issues: carbon emissions for all companies; product carbon footprint; financing environmental impact; opportunities in clean tech; and opportunities in renewable energy where available. Higher scores (on a scale of 0-10) indicate a greater capacity to manage risk.

⁷⁴ Example shared by Montanaro Asset Management (workstream member).

⁷⁵ MAM. "[Climate Change Policy: The Race to Net Zero Carbon](#)," April 2022, p. 3.

- Low-carbon transition score: This is a company-level score that measures a company’s level of alignment to the low-carbon transition. Companies with higher low-carbon transition scores (on a scale of 0–10) are more aligned with the low-carbon transition compared to the companies with lower scores.

MAM also assesses environmental management culture (in accordance with UN Global Compact Principles 7–9); supply chain management; and the extent to which a company’s products/services are a positive influence on the environment. MAM also records whether a company’s operations are certified by a national or global standard (e.g., ISO 14001). Finally, MAM considers the quality of a company’s environmental reporting and if they have a net-zero carbon target or other environmental targets in place.

As a part of assessing companies, MAM is conducting a long-term “Net Zero Engagement Project,” in which it contacts companies from across its approved list to encourage better disclosure and ambitious target setting regarding climate change. For example, it recently hosted a “Net Zero CEO-to-CEO” webinar to share best practice (with the participation of GFANZ). MAM advocates for investee companies to commit to science-based targets and report against recognized frameworks such as CDP and TCFD.

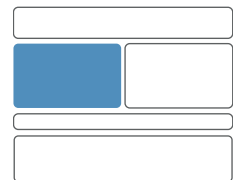
THEME

4.2. Implementation Strategy

The Implementation Strategy theme outlines **how the company will align business activities and operations** with its climate objectives and priorities.

Companies should integrate climate transition plans into their core business activities, decision-making processes, and operations to translate the transition objectives and priorities into concrete goals and desired outcomes for business teams. Disclosure of information about transition plans provides financial institutions with confidence that the company’s objectives and overarching strategy are translated into real-world actions that are commercially and financially viable. Financial institutions can also use the disclosures to identify appropriate financial products/services and infrastructure that may be required to support and enable the transition, and also helps financial institutions identify and avoid potential risks of greenwashing and stranded investments.

A real-economy company’s transition plan implementation strategy translates the objectives and overarching strategy into plans and actions. The implementation strategy also provides insight into how the company proposes to finance its transition, how it will use policies to guide implementation, and how it will be profitable as it transitions through changes to its products and services.



COMPONENT: ACTIVITIES AND DECISION-MAKING

Disclosure of activities and business planning give financial institutions assurance of the company's financial commitment to its transition plan, including, for example, how the actions contribute to achieving GHG emissions reductions, such as deployment of climate solutions and managed phaseout of high-emitting assets. It also outlines the level of sensitivity of the plan to key assumptions (including the potential impact to the plan if the assumptions are not realized).

SUB-COMPONENT: BUSINESS PLANNING AND OPERATIONS**Expected disclosures**

- Disclose how the company is integrating emissions reduction actions in business planning and operations.
 - The road map of actions the company intends to take, or is taking, to implement its transition plan strategy and to achieve its GHG reduction targets (including actions affecting products/services, suppliers, and/or internal operations and production).
 - The impact of each business and operational action toward achieving the company's GHG emissions targets (including impact to guiding principles of just transition and nature-positive economy).
- Disclose plans in place and timelines to phase out GHG- or energy-intensive assets; justify if the company has any GHG- or energy-intensive assets not subject to a managed phaseout plan. Companies can refer to the GFANZ Workstream on Managed Phaseout of High-emitting Assets for additional guidance as well as Appendix D for suggested disclosures across transition plans.⁷⁶

Relevant initiatives

TCFD, ISSB, CDP, ACT, CA100+, TPI-MQ

SUB-COMPONENT: FINANCIAL PLANNING**Expected disclosures**

- Disclose how the company is integrating emissions reduction actions in financial planning.
 - The company's financial plans, budgets, and related financial targets that support the company's transition plan objectives and the actions identified in business planning and operations component (e.g., plan for low-carbon R&D, plan for low-carbon CapEx, plan for energy spent, plan for decommissioning of high-carbon assets).
 - The financial impact of the transition plan and planned business actions and how they are able to be resourced.
- Disclose details regarding the use of internal carbon price(s) (e.g., activities or CapEx covered by the carbon price, levels of pricing).

Relevant initiatives

TCFD, ISSB, CDP, ACT, CA100+, TPI-MQ

⁷⁶ GFANZ. [The Managed Phaseout of High-emitting Assets](#), 2022.

SUB-COMPONENT: SENSITIVITY ANALYSIS

Sensitivity analysis is distinct from scenario analysis. Sensitivity analysis is aimed at understanding the key assumptions underlying a company's transition plan and the impact that fulfilling the assumptions may have on the plan (including downside and upside impact). Transparency about these assumptions and their impact allows financial institutions to better assess the feasibility of the plan (e.g., impact on commercial performance and ability to reach the targets if an assumption is not met).

Examples of underlying assumptions that a company may disclose as part of its sensitivity analysis (non-exhaustive list) include the dependency of the plan on:

- activities or technologies that the company is not currently performing at scale (e.g., CCS and DAC);
- actions of the company's supply chain;⁷⁷
- development and implementation of policies and regulations;
- significant shifts in demand (e.g., demand for new green products or services); and
- other external actions (e.g., level of grid decarbonization, action/subsidies for governments).

Scenario analysis is aimed at identifying climate risks and opportunities under different climate scenarios (e.g., 1.5 degrees C warming versus 2.5 degrees C warming).

Expected disclosures

- Describe the key assumptions underlying the company's transition-related business, financial, and operational plans (e.g., reliance on technologies the company is currently not deploying at scale; reliance on actions of its value chain; reliance on specific regulatory policies).
- Disclose how these assumptions are reflected in the company's financial statements and audit reports.
- Articulate the impact on the transition plan if certain assumptions prove incorrect (e.g. low, medium, high impact to achieving net zero), including how much can be achieved now.⁷⁸

Relevant initiatives

TCFD, ISSB, CDP, ACT, CA100+

COMPONENT: POLICIES AND CONDITIONS

Policies and conditions set out a clear management process for priority issues and communicate the organization's intentions both internally and externally. They can be used to help guide plans and operations with relation to high-emitting assets, climate solution deployment, and decarbonization internally and within the value chain. Since natural eco-systems provide important climate-moderating services (e.g., forests), how companies use policies to mitigate impact on these ecosystems (from their business activity and/or their decarbonization strategy), as well as in the use of nature-based solutions in the decarbonization strategy, are important elements of the actions to be disclosed. By integrating nature impacts and opportunities, companies demonstrate a more rigorous and holistic decarbonization strategy, and in doing so enhance the robustness and credibility of their plan.

77 This includes disclosing any large dependency of transition plans on actions of the supply chain (e.g. their ability to scale up capacity, availability of transition materials). The reliance on such materials is highlighted by, for instance, IEA. [Mineral requirements for clean energy transitions](#), 2022, EU Commission. [Critical Raw Materials for Strategic Technologies and Sectors in the EU](#), 2020, and [Metal Demand for Renewable Electricity Generation in the Netherlands](#), 2018.

78 For example, as done by [CPPI](#).

SUB-COMPONENT: TRANSITION-RELATED POLICIES**Expected disclosures**

- Disclose policies (or describe the policies in place) that are used to guide business, financial, and operational planning, and actions (e.g., climate-related requirements for suppliers; restrictions or requirements on location or technology for fossil fuel production).

Relevant initiatives

CDP, ACT

SUB-COMPONENT: NATURE-BASED IMPACT**Expected disclosures**

- Disclose any relevant policies that the company has in place or plans to implement to mitigate any negative impact — or promote any positive impact — on ecological systems (e.g., land conversion, deforestation, biodiversity loss, pollution); disclose the impact on GHG reduction targets and transition plan objectives.
- Disclose any relevant policies that the company has in place or plans to implement to create nature-based solutions (e.g., reforestation); disclose the impact on GHG reduction targets and transition plan objectives.
- Disclose any relevant policies that the company has in place or plans to implement to mitigate any negative impact on ecological systems that its decarbonization strategy may have.

Relevant initiatives

CDP

COMPONENT: PRODUCTS AND SERVICES

The disclosures related to products and services help financial institutions understand and evaluate how a company is positioning itself commercially to meet its transition plan ambitions and GHG targets. The disclosure related to products and services demonstrates the extent to which the transition plan is embedded in a company's core business strategy, and the strategy for products and services that positions the company to be commercially viable (e.g., what is the demand for products in the transition).

SUB-COMPONENT: PRODUCTS AND SERVICES**Expected disclosures**

- Describe the company's plan to provide low-carbon products/services and/or to reduce high-carbon products/services.
- Quantify the impact of each low-carbon product or service on achieving the company's short-, medium-, and long-term GHG emissions targets.
- Disclose the commercial viability of low-carbon products and services.
- Provide a definition of what is considered low carbon/green for each product/service (referencing an appropriate taxonomy where available).

Relevant initiatives

TCFD, ISSB, CDP, ACT, CA100+, TPI-MQ

Implementation Strategy use case examples⁷⁹

The following use cases provide examples of how companies disclose some of the key components outlined within the Implementation Strategy theme, as well as how financial institutions use the information of real-economy transition plans to drive decision-making. These should be used as reference for companies to reflect the importance of disclosing the components within their transition plans.

EXAMPLE 7 (LÄNSFÖRSÄKRINGAR AB): “SECOND CHANCE RULE” FOR EXCLUSION POLICIES⁸⁰

Type: Financial institutions’ use of real-economy transition plans

Sub-sector: Asset owner

Relevant component: Activities and decision-making

Länsförsäkringar AB’s “second chance rule” allows companies to be exempt from certain climate-related exclusion policies if they are aligned with validated 1.5 degrees C pathways. Länsförsäkringar AB screens out selected mining and fossil fuel energy companies that derive more than 5% of revenue from thermal coal or from oil sands. For coal, the bar was initially set at 50% of revenue in 2016 but has since been lowered to 20% in 2017 and 5% in 2019. Companies with significant oil reserves and production, and conventional oil and gas companies, are also subject to certain exclusions.

However, Länsförsäkringar AB considers retaining companies with 5%–20% of revenue from thermal coal power generation when they are aligned with a validated 1.5 degrees C pathway. This exclusion principle only applies to power generation companies, not to mining companies that have businesses rooted in the extraction of fossil fuels. The theory behind this “second chance rule” is to encourage energy producers and utility companies that have started to move away from fossil fuels and made a commitment to transitioning.

EXAMPLE 8 (NESTLÉ): OUTLINES KEY ACTIONS IN DETAIL⁸¹

Type: Real-economy disclosures

Sector: Food manufacturer

Relevant component: Activities and decision-making/products and services

Commitment: “Halve greenhouse gas (GHG) emissions by 2030 and to achieve net zero by 2050”

⁷⁹ The mention of specific financial institutions or companies in use cases does not imply that they are endorsed by GFANZ or its members. The examples are not intended to represent “best practice” nor represent the entirety of guidance for a component. Instead, the examples are included because they may help companies interpret individual elements of the guidance for their own practices.

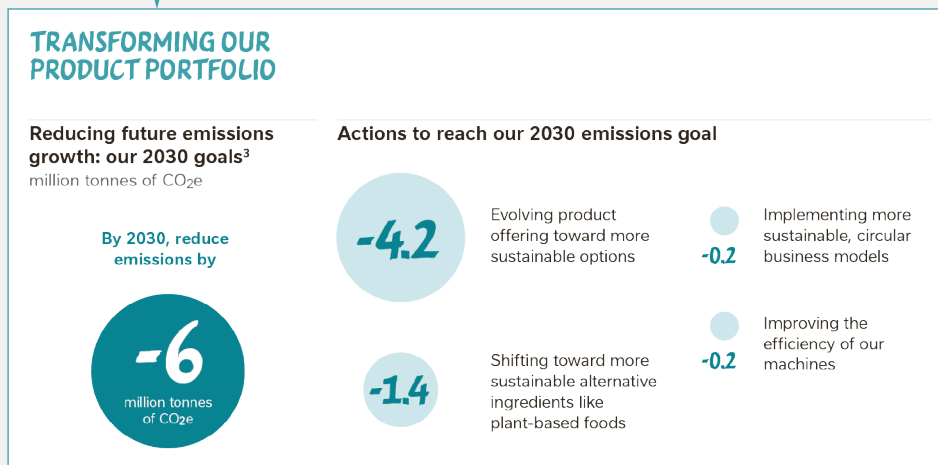
⁸⁰ Example built from public information: TPI. [Case studies from global investors on how TPI data is being used to enhance their investment decision-making](#), 2022.

⁸¹ Example built from public information: [Nestlé. Accelerate, Transform, and Regenerate: Nestlé’s Net Zero Roadmap](#), February 2022.

In its transition plan, Nestlé outlines the set of actions the company plans to take to reduce GHG emissions and quantifies the emissions reduction of each action in relation to being able to meet its targets. Nestlé provides an overview of the key actions up front in their transition plan, including actions regarding products, suppliers, and internal operations/production (see Figure 7 below).

Each of these key actions is then described in the transition plan, with details regarding the specific steps that comprise each key action. For example, Nestlé describes how it will transform the company’s product portfolio: The transition plan articulates switching to plant-based ingredients, specifically for frozen meals, pizzas, and dairy categories. Moreover, Nestlé explains how such actions will be commercially viable, citing changing consumer preferences. Finally, Nestlé quantifies the impact of each action on its GHG emissions reductions. Doing so demonstrates the significance of each action on reaching its targets.

Figure 7: Example of detailed actions and quantification of impact



EXAMPLE 9 (DAIKIN): OUTLINES ACTIONS TO REACH NET ZERO⁸²

Type: Real-economy disclosures
Sector: Air-conditioning manufacturer
Relevant component: Activities and decision-making

COMMITMENT: Environmental Vision 2050 established in 2018 with the target of reducing greenhouse gas emissions to net zero by 2050. Reduce net CO₂ emissions by 30% or more in 2025 and 50% or more in 2030.

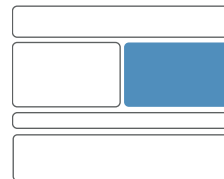
Daikin outlines the set of actions it plans to take to reduce its GHG emissions, including important details regarding assumed technology improvements and R&D (in line with sensitivity analysis). This level of detail allows financial institutions to judge the reasonableness of Daikin’s plan by having access to its assumptions, action plan, and financial planning. Daikin provides information that facilitates financial institution assessment, including:

- regional granularity of R&D activities (see Figure 8 below);
- partnerships with public universities (e.g., next-generation smart buildings with Osaka University);
- reliance on improvements in existing technologies (e.g., increased inverter ratios for residential AC);
- potential role of future technologies (e.g., alternative technologies for vapor compression); and
- underlying financial planning (\$17 million USD dedicated to R&D FY 2021-23).

Figure 8: Daikin’s global R&D



82 Example built from public information: Daikin. [Fusion25](#), June 7, 2021.



THEME

4.3. Engagement Strategy

The Engagement Strategy theme outlines **how the company will influence others to support its transition’s objectives/strategy** and accelerate the transition of the whole economy.

No single company will determine the success of the global transition of the economy. Financial institutions need to be able to make assessments of whether companies are pulling all levers to ensure the success of their transitions and to help accelerate the transition of the economy as a whole. This includes actions across the value chain of clients/portfolio companies and suppliers, collaboration with industry, and effective lobbying of policymakers that supports the transition. In particular, GFANZ members will need to identify engagement activities that are aligned to achieving an ambition of 1.5 degrees C and net zero by 2050 or sooner.

COMPONENT: VALUE CHAIN

Disclosure by a real-economy company of its engagement with its value chain will include encouraging suppliers to match or exceed the company’s own decarbonization targets and drive increased demand for low-carbon products and services. Disclosure of value chain engagement leads to higher level of transparency for real-economy companies, which promotes accountability (e.g., companies may monitor closely their value chain to ensure that they are upholding the commitments made).

SUB-COMPONENT: CLIENTS/PORTFOLIO COMPANIES AND SUPPLIERS

Expected disclosures

- Disclose current and planned engagement and activities conducted with the company’s value chain (both downstream and upstream suppliers and/or customers) to drive reductions of GHG emissions.

Relevant initiatives

ISSB, CDP, SBTi, ACT

COMPONENT: INDUSTRY

Financial institutions look for engagement and leadership in industry initiatives, trade organizations, and/or direct engagement with peers for assurance that a company is appropriately collaborating with the industry to identify solutions that 1) help the company deliver its transition plan, and 2) more broadly, help drive solutions that will have impact across its peers and value chain (i.e., how the company is helping to enable economy-wide transition).

To the extent permitted, industry collaboration also encourages companies to share lessons learned, support peers that are starting the transition journey, and stay up to date on best practices with transition strategies, decarbonization techniques, and disclosure requirements, thus increasing a transition plan's likelihood of success.

SUB-COMPONENT: INDUSTRY PEERS**Expected disclosures**

- Disclose membership in trade organizations, as well as current and planned engagement with trade organization(s) to influence the trade organization(s)' adoption of climate policies that support the company's transition plan.
- Disclose how the company's transition plan strategy and objectives compares to the commitments and actions of the company's trade organization(s).
- Disclose current and planned engagement with other companies (including peers and other relevant companies).
- Disclose current and planned engagement with industry climate initiatives (e.g., Responsible Steel, Oil and Gas Climate Initiative); include requirements the company has chosen to comply with because of these initiatives.

Relevant initiatives

CDP, ACT, CA100+, TPI-MQ

COMPONENT: GOVERNMENT AND PUBLIC SECTOR

Disclosure of supported climate-related policies provides visibility to assess if a company's efforts are in line with achieving its goals. Such disclosure also allows financial institutions to assess how the company considers the impact of public policy on its transition plan and how the company sees public policy as enabling or hindering execution of its transition plan. Direct and indirect lobbying and public-sector engagement should advocate for policies that support or enable an accelerated and orderly transition to net zero, and do not contravene any net-zero commitments of the institution.

SUB-COMPONENT: GOVERNMENT AND PUBLIC SECTOR**Expected disclosures**

- Disclose current and planned engagement with the public sector to drive climate-related policies that support the company's transition plan; disclose both direct and indirect engagement (e.g., via industry trade organizations).
- Disclose how the company's transition plan strategy and objectives are aligned with all policy activities (e.g., no conflicting policy activities).

Relevant initiatives

CDP, ACT, CA100+

Engagement Strategy use case examples⁸³

The following use cases provide examples of how companies disclose some of the key components outlined within the Engagement Strategy theme, as well as how financial institutions use the information of real-economy transition plans to drive decision-making. These should be used as reference for companies to reflect the importance of disclosing the components within their transition plans.

EXAMPLE 10 (KELLOGG'S): DRIVING ACTION THROUGH ENGAGEMENT WITH SUPPLIERS⁸⁴

Type: Real-economy disclosures

Sector: Food manufacturer

Relevant component: Value chain

Commitment: Kellogg's has committed to reduce supplier emissions by 50% by 2050 and to reduce its emissions in its facilities by 65% by 2050.

Kellogg's has engaged with 75% of its suppliers (400+) to implement smart agricultural practices focused on emissions reductions. This engagement is a critical piece of Kellogg's plan to transition. Kellogg's has implemented several specific initiatives to support its engagement with suppliers:

- **Asked suppliers to respond to the CDP supply chain questionnaire** to have accurate information on GHG emissions and potential avenues for emissions reductions.
- **Developed materials for suppliers** to help them understand the challenges associated with reducing emissions and the various solutions they can employ.
- **Designed 35 programs globally** to support farmers to help them decrease their GHG emissions.
- **Collated research and aggregated learning** from best practices learned from suppliers and then shared it with individual farmers so they can benefit from collective information.

Underlying this engagement with its suppliers, Kellogg's has committed to support the livelihoods of half a million farmers through partnerships, research, and training. These farmers are the ones who suppliers source their ingredients from and are a key piece of Kellogg's value chain.

⁸³ The mention of specific financial institutions or companies in use cases does not imply that they are endorsed by GFANZ or its members. The examples are not intended to represent "best practice" nor represent the entirety of guidance for a component. Instead, the examples are included because they may help companies interpret individual elements of the guidance for their own practices.

⁸⁴ Example built from public information: Kellogg's. [Creating Better Days: 2018/2019 Corporate Responsibility Report](#), 2019.

**EXAMPLE 11 (ING): OFFERS SUSTAINABILITY-LINKED LOANS LINKED TO VALUE CHAIN
ENGAGEMENT AND PROTECTION OF BIODIVERSITY⁸⁵**

Type: Financial institutions' use of real-economy transition plans

Sub-sector: Asset management

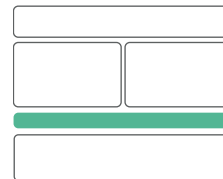
Relevant component: Value chain engagement

ING offers sustainability-linked loans to companies based on the companies' ability to improve the traceability of raw materials in the value chain and to protect biodiversity. Through the natural ecosystems it supports, biodiversity can have a large effect on climate-change mitigation and adaptation; ING does not finance projects on UNESCO heritage sites, Ramsar wetland sites, or critical natural habitats registered by the International Union for the Conservation of Nature Category I and II (strict nature reserves, wilderness areas, and national parks).

Example:

- ING gave the Royal Friesland Campina (RFC), on the world's largest dairy cooperatives, a €300 million sustainability-linked loan in March 2021 based on several climate-related criteria. While the loan included provisions for GHG reductions, it also featured, additional metrics related to value chain engagement and nature-based solutions. ING acted as the sole lender and sustainability advisor to RFC.
- Specifically, RFC committed to trace raw materials such as palm oil, soy, and cocoa throughout its value chain. Within the value chain of these products there are potential risks of deforestation and land conversion that can negatively impact biodiversity. Traceability is one of the first steps in combating these potentially negative consequences.
- RFC's disclosures align with both the value chain engagement and policies and conditions' components showcasing how transition plans are most robust when comprehensive and cross-cutting. Having such transition plans allows financial institutions such as ING to create sustainability-linked products that are tailored to providing preferred terms for companies with credible transition plans and climate strategies.

85 Example built from public information: ING. [2021 Climate Report](#), 2021.



THEME

4.4. Metrics and Targets

The Metrics and Targets theme outlines **quantitative goals against which one can measure the progress and success of the implementation of a company’s transition plan** over time.

Companies set targets to provide quantitative, measurable goals articulating their climate ambition. Specific, transition-related metrics are selected to measure progress toward the targets. Both targets and metrics provide credibility and clarity of real-world action when companies communicate their transition strategy to internal and external stakeholders. Well-formulated targets allow for the assessment of an organization’s long-term decarbonization strategy, as well as its interim activities and results.

COMPONENT: METRICS AND TARGETS

Disclosure of metrics and targets should be done across different components to help financial institutions assess if the plan is actionable, assess its level of credibility (e.g., by comparing against peers and pathways), and track progress from year-on-year disclosures. Broadly speaking, these are the metrics and targets financial institutions look for:

- **GHG emissions metrics** quantify a company’s level of ambition and are a core element of transition plans. Financial institutions look to a company’s GHG reduction targets as a means of assessing if a company’s level of ambition aligns with its commitments, as well as to compare companies within their portfolio. Moreover, interim GHG emissions targets help demonstrate to financial institutions that a transition plan will be achievable.
- **Sectoral pathways’** selection clarifies a company’s level of ambition by highlighting if, and how, a company’s GHG emissions targets are aligned with recognized pathways.
- **Carbon credit** disclosures are needed for financial institutions to understand the details of the use of carbon credits by companies in their portfolios and allow financial institutions to determine whether they are adhering to their own commitments and requirements regarding measuring target GHG emissions.⁸⁶
- **Business, operational, and financial metrics** allow financial institutions to translate climate targets (e.g., GHG emissions) into tangible key performance indicators (KPIs) for decision-making (e.g., % of CapEx). Moreover, using KPIs alongside tracking of GHG emissions metrics provides financial institutions with confidence regarding whether a company’s transition plan will be delivered (i.e., is the company moving fast enough to hit their targets?).

⁸⁶ Real-economy companies can reference the latest “Race to Zero Criteria” to understand the criteria that GFANZ members are following regarding carbon credits.

SUB-COMPONENT: GHG EMISSIONS METRICS**Expected disclosures**

- **Base year:** Disclose a GHG emissions base year (avoid anomalous years [e.g., 2020 due to COVID-19]).
- **Target dates:** Disclose target GHG emissions for the short, medium, and long term; at a minimum, disclose interim targets (2030 and earlier) and 2050 targets.
- **Scope 1 and 2:** Disclose GHG emissions targets for Scope 1 and 2 emissions.
- **Scope 3:** Disclose GHG emissions targets for Scope 3 emissions if Scope 3 emissions are material; Justify the exclusion of Scope 3 GHG emissions if omitted, and provide your definition of materiality (i.e., estimated % of total emissions).⁸⁷
- **Absolute:** Disclose targets for absolute GHG emissions for Scope 1, 2, 3.
- **Intensity:** Disclose intensity GHG emissions targets for Scope 1, 2, 3 in revenue intensity and/or physical intensity (e.g., GHG/kWh) specific to the company's industry and in line with how financial institutions compare companies against sectoral pathways such as SDA.
 - Justify selection of revenue and/or physical intensity metrics.
 - Provide forecasts of expected physical output to complement GHG targets.
- **Relevant breakdowns** (if applicable): Disclose relevant breakdowns of GHG emissions. For example:
 - by Scope 3 upstream/downstream and/or by Scope 3 category (e.g., based on the GHG Protocol);
 - by business and operational actions;
 - by products and services; and
 - by emissions that rely on assumptions described in the activities and decision-making component (e.g., based on a technology not yet deployed at scale, based on the actions of the company's supply chain, contingent on a specific policy).
- **Coverage:** Specify coverage/system boundary of GHG targets (i.e., specify any excluded regions, business activities) expressed in percentage by GHG Scope and/or Scope 3 category.
- **Methodology:** Disclose details on methodology used to develop GHG targets (e.g., the GHG Protocol).
- **Verification:** Disclose any third-party verification of targets (e.g., by SBTi).
- **Other targets:** Disclose any additional GHG targets (e.g., methane reduction targets).
- **Track record:** Disclose progress and track record against GHG emissions targets on an annual basis

Relevant initiatives

TCFD, ISSB, CDP, SBTi, TPI-CP, ACT, CA100+, TPI-MQ

⁸⁷ Reference for real economy: for financial institutions, Scope 3 emissions of their clients and portfolio companies should be included at minimum for high-emitting sectors, such as the priority sectors identified in the Net Zero Asset Owners Alliance target-setting protocol, which include: Oil and gas; Utilities (including coal); Transport (civil aviation, shipping, and road transport); Materials (steel, cement, and aluminum); Agriculture, forestry, and fisheries; Chemicals; Construction and buildings; Water utilities; and Textiles and leather.

SUB-COMPONENT: SECTORAL PATHWAYS**Expected disclosures**

- Disclose the sectoral pathway that the company has selected and how the targets and historical progress is aligned to the pathway; disclose if the sectoral pathway is updated with the most up-to-date science even after a target is set.
- Disclose the rationale for pathway choice, especially when the selected pathway does not align with limiting to 1.5 degrees C warming.
- Specify details of the selected pathway, including:
 - temperature alignment;
 - likelihood; and
 - degree of potential overshoot.

Relevant initiatives

TCFD, ISSB, CDP, SBTi, TPI-CP, ACT, CA100+

SUB-COMPONENT: CARBON CREDITS⁸⁸

GFANZ members have committed to adhere to the Race to Zero criteria for carbon credits, which states among other things:⁸⁹

- *“In addition to your emissions reductions targets, compensate for any unabated emissions year on year through investment in high quality carbon credits, disclose neutralisation milestones that demonstrate the integrity of commitments to neutralise unabated emissions and state how you plan to ultimately neutralise any residual emissions by 2050 through high-quality, permanent removals.”*
- *“In addition to following a science-aligned net zero pathway to reduce your own emissions and neutralise any residual emissions that remain, contribute toward global (net) zero through beyond value chain/territorial mitigation efforts, such as the purchase and retirement of high-quality carbon credits (emission reductions, avoidance or removals) that do not substitute for nor delay emissions reductions necessary to meet the Pledge.”*

Expected disclosures

- Disclose carbon credits, offsets, and avoided emissions (i.e., also known as Scope 4 emissions) separately from GHG reduction targets and metrics; carbon credits should not be incorporated into reaching transition plan’s target GHG emissions.
- Disclose details of any carbon credits (e.g., credit type; company GHG emissions covered; projects financed; process or policies for evaluating offset projects, including quality indicators such as additionality and permanence; practical concerns such as scalability and cost-effectiveness; third-party verification).

Relevant initiatives

TCFD, ISSB, CDP, SBTi, CA100+

⁸⁸ Also known as carbon offsets VERs.

⁸⁹ Race to Zero. [“Race to Zero Criteria,”](#) July 15, 2022.

SUB-COMPONENT: BUSINESS AND OPERATIONAL METRICS**Expected disclosures**

- Disclose targets for business and operational metrics (e.g., % in high-carbon assets, % low-carbon products and services; % procurement from low-carbon suppliers); if available, disclose interim targets (e.g., targets for interim years between now and your mid-long term strategic or operational targets).
- Explain the selection of business and operational metrics.
- Provide a definition of what is considered low carbon/green for each business and operational metric (referencing an appropriate taxonomy where available).
- Disclose progress and track record against business/operational targets at least on an annual basis.

Relevant initiatives

TCFD, ISSB, CDP, ACT, CA100+

Reference list of metrics from relevant initiatives

Business and operational metrics vary across industries. Companies can use the following list as a reference point to identify the types of metrics they might disclose. Where applicable, companies should disclose metrics both as absolute values and as a percentage of the total.

- Suppliers
 - energy consumption from low-carbon sources (e.g., % energy from renewables)
 - suppliers and/or supply that is low carbon (e.g., % recycled material used)
 - Operations and processes
 - energy efficiency (e.g., EJ of energy/unit produced)
 - patenting of low-carbon solutions (e.g., number of patents)
 - technology mix that is low carbon (e.g., % share of steelmaking by technology type)
 - Products and services
 - products and/or services that are low carbon (e.g., % of vehicles sold that are EVs)
 - energy production that is low carbon (e.g., % of renewable energy produced)
-

SUB-COMPONENT: FINANCIAL METRICS**Expected disclosures**

- Disclose targets for financial metrics (e.g., low-carbon CapEx, low-carbon R&D); if available, disclose interim targets (e.g., targets for interim years between now and your mid-long term strategic or operational targets).
- Explain the selection of financial metrics and how achieving financial targets under those metrics will enable delivery of the transition plan.
- Provide a definition of what is considered low carbon/green for each financial metric (referencing an appropriate taxonomy where available).
- Disclose progress and track record against financial targets on an annual basis.

Relevant initiatives

TCFD, ISSB, CDP, ACT, CA100+, TPI-MQ

Reference list of metrics from relevant initiatives

Financial metrics may vary across companies depending on their sector and line of business. The following are examples of the types of financial metrics that might be disclosed. Where applicable, companies should disclose metrics both as absolute values and as a percentage of the total.⁹⁰

- revenue from low-carbon products and services⁹¹
- CapEx that is low carbon⁹²
- OpEx that is low carbon⁹³
- R&D spending on low-carbon solutions⁹⁴
- proportion of assets that are low or no carbon
- impairment and/or provision for the phaseout of high-carbon assets (if possible, providing detail at asset level)
- spending on procurement from low-carbon suppliers

SUB-COMPONENT: NATURE-BASED METRICS**Expected disclosures**

- Disclose any nature-based targets and progress against those targets (e.g., acres of reforestation) and their impact on the reduction or mitigation of the company's GHG emissions.⁹⁵

Relevant initiatives

CDP, TCFD

90 GFANZ has articulated four financing strategies for the transition including the funding or enabling of climate solutions: this is where we would expect information on climate solutions as they are a category of low carbon products and services.

91 Disclosing this type of metrics allows reporting against taxonomies such as the EU taxonomy.

92 Disclosing this type of metrics allows reporting against taxonomies such as the EU taxonomy.

93 Disclosing this type of metrics allows reporting against taxonomies such as the EU taxonomy.

94 Disclosing this type of metrics allows reporting against taxonomies such as the EU taxonomy.

95 Example of nature-based metrics being developed by [Taskforce on Nature-related Financial Disclosures \(TNFD\)](#).

SUB-COMPONENT: GOVERNANCE METRICS**Expected disclosures**

- Disclose any internal governance targets and progress against those targets (e.g., proportion or number of individuals with remuneration linked to progress against GHG emissions targets; frequency of stakeholder feedback).

Relevant initiatives

TCFD, ISSB, CDP

Reference list of metrics from relevant initiatives

Governance metrics are common across industries but may vary depending on the size of the company and the complexity of its transition plan. The following are examples of the types of governance metrics that might be disclosed. Where applicable, companies should disclose metrics both as absolute values and as a percentage of the total.

- number of training sessions completed by employees with specific responsibilities in the net-zero transition plan
 - coverage of climate issues in Board of Directors' discussions (e.g., number of climate-related topics discussed)
 - number or proportion of individuals with remuneration linked to progress against, and achievement of targets
 - proportion of senior management remuneration covered by net-zero targets
 - frequency, depth, and reach in the organization of transition-related reporting
 - number of policies reviewed for relevance to a net-zero transition commitment
-

Metrics and Targets use case examples⁹⁶

The following use cases provide examples of how companies disclose some of the key components outlined within the Metrics and Targets theme, as well as how financial institutions use the information of real-economy transition plans to drive decision-making. These should be used as reference for companies to reflect the importance of disclosing the components within their transition plans.

⁹⁶ The mention of specific financial institutions or companies in use cases does not imply that they are endorsed by GFANZ or its members. The examples are not intended to represent "best practice" nor represent the entirety of guidance for a component. Instead, the examples are included because they may help companies interpret individual elements of the guidance for their own practices.

EXAMPLE 12 (HOLCIM): DISCLOSES DETAILED GHG EMISSIONS TARGETS⁹⁷

Type: Real-economy disclosures

Sector: Cement

Relevant component: Metrics and targets

Commitment: 2050 net-zero targets validated by SBTi: Reduce Scope 1 and 2 GHG emissions intensity by 95% per ton of cementitious. Reduce absolute Scope 3 GHG emissions by 90%.



Holcim provides detailed GHG metrics that allow for a robust understanding of its current state, its targets, and its progress toward those targets. Holcim discloses GHG emissions targets for Scope 1, 2, and 3 emissions for 2030 and 2050 in both absolute and intensity metrics (see Figure 9 below).

These GHG emissions targets include additional, helpful detail and considerations:

- **disclosure of its choice of a recent base year** for its GHG emissions reduction targets (2018) that is not affected by external factors
- **breakdown of Scope 3 emissions** with relevant segmentation (e.g., per ton of purchased clinker and cement, per ton of purchased fuels, per ton of material transported)
- **disclosure of short-term targets (2025)** for its Scope 1 emissions

By disclosing this information, Holcim allows financial institutions to easily assess its goals and progress toward those goals.

Figure 9: Holcim GHG emissions targets across scopes and years

	SCOPE 1	SCOPE 2	SCOPE 3	
2018	576 BASELINE	38 BASELINE		
2021	553	34	-0%	Kg CO ₂ per ton of purchased clinker and cement
			-9%	Kg CO ₂ per ton of purchased fuels
			-9%	Kg CO ₂ per ton of material transported
2030	475 Kg CO ₂ net/t cementitious	13 Kg CO ₂ /t cementitious	-20%	Kg CO ₂ per ton of purchased clinker and cement
			-20%	Kg CO ₂ per ton of purchased fuels
			-24%	Kg CO ₂ per ton of material transported
2050	 GHG emissions across the value chain validated by  SCIENCE BASED TARGETS			

97 Example built from public information: Holcim. [Holcim's Net-Zero Journey: Climate Report 2022](#), 2022.

EXAMPLE 13 (ØRSTED): PROVIDES FINANCIAL METRICS WITH DEFINITIONS⁹⁸

Type: Real-economy disclosures

Sector: Energy

Relevant component: Metrics and targets

Commitment: “By 2040, we aim to have net-zero emissions across our entire value chain.”

Ørsted uses the EU taxonomy to disclose low-carbon financial metrics and provides specific definitions of these metrics for readers (Figure below). These financial metrics give financial institutions the ability to track and monitor progress of Ørsted’s transition plan. By providing a range of metrics, Ørsted ensures that financial institutions will have the information necessary for decision-making. Examples of EU taxonomy eligible financial metrics disclosed include:

- **Revenue**, mainly from its offshore wind, onshore wind, solar farms, and from sustainable biomass-based activities.
- **OpEx**, mainly related to the maintenance of its offshore wind, onshore wind, and solar farms.
- **CapEx**, mainly related to the construction of its offshore wind, onshore wind, and solar farms.

Figure 10: Examples of Ørsted’s financial metrics



Having a robust and detailed transition plan has allowed Ørsted to become the first organization accredited by Climate Transition Pathway (CTP).^{99,100} CTP provides an accreditation to companies with Paris-aligned transition plans (based on assessments using the ACT framework), and, thus, allows

98 Example built from public information: Ørsted. [Green Energy for the Planet and Its People: Ørsted Sustainability Report 2021](#), Ørsted, 2022.

99 [Climate Transition Pathways principles](#).

100 Publicly supported by Liberty Specialty Markets, SCOR, Arch and Fidelis.

insurance companies and financial institutions to identify businesses with robust low-carbon transition plans aligned to the Paris Agreement. The accreditation is awarded by a committee comprised of independent third-party advisors, including the Climate Bonds Initiative, Volans and the Rocky Mountain Institute. Insurance companies are currently working to provide a number of benefits to companies with accredited transition plans (e.g., Liberty Specialty Markets is exploring how to meet the challenge of the transition with longer-term and more expansive solutions), in addition to continued access to insurance capacity.

EXAMPLE 14 (QANTAS): DISCLOSES BUSINESS AND OPERATIONAL METRICS WITH INTERIM TARGETS¹⁰¹

Type: Real-economy disclosures

Sector: Aviation

Relevant component: Metrics and targets

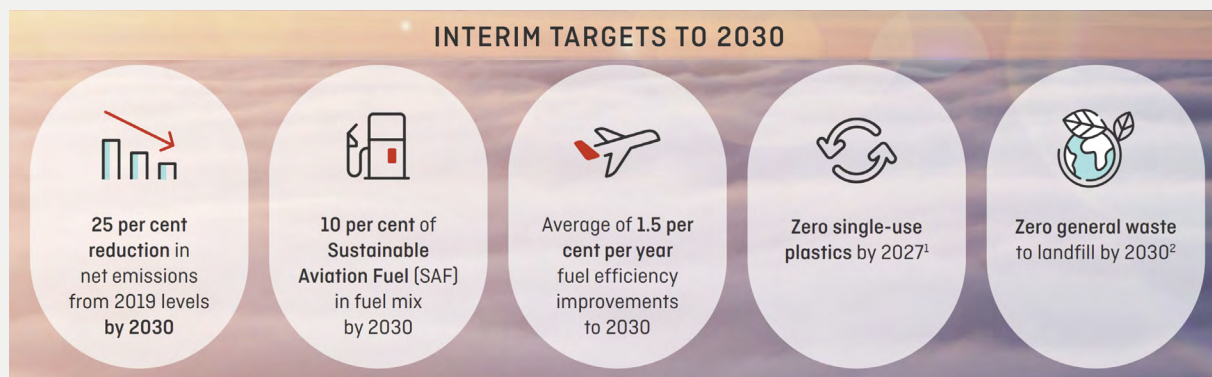
Commitment: Goals of achieving net-zero emissions by 2050 and capping net emissions at 2019 levels; reducing net emissions by 25% from 2019 levels by 2030.

Qantas provides detailed business and operational metrics to support its overarching GHG emissions targets. These business and operational metrics apply across a broad range of the company’s activities and include interim targets as well (see Figure below). Qantas describes these activities qualitatively as well (in line with the activities and decision-making component) and then links these actions to quantitative metrics (in line with business and operational metrics):

- 10% blending of sustainable aviation fuel by 2030 and 60% blending by 2050
- 1.5% fuel efficiency improvement, on average, per year through to 2030

Business and operational metrics allow financial institutions to quantitatively track the progress of Qantas’s transition plan — these metrics provide credibility behind the qualitative actions outlined in the activities and decision-making component.

Figure 11: Qantas’s interim business and operational metrics



101 Example built from public information: Qantas. [Qantas Climate Action Group Plan](#), 2021.

EXAMPLE 15 (WELLINGTON MANAGEMENT): DISCLOSURE OF SCOPE 3 EMISSIONS FOR DECISION-MAKING^{102,103}

Type: Financial institutions' use of real-economy transition plans

Sub-sector: Asset management

Relevant component: Metrics and targets

Wellington Management believes accurate and comparable information about climate risk, including Scope 1, 2, and 3 GHG emissions, is critical to its ability to make more informed investment decisions on behalf of its clients.

- Scope 1 and 2 emissions alone do not provide a complete picture to assess an issuer's transition risks. Disclosure of Scope 3 emissions, including upstream versus downstream emissions, is necessary for Wellington's investors to develop a full picture of transition risk exposure and to evaluate investment risks and opportunities.
- As reported by CDP, in 2020, reported upstream Scope 3 emissions were, on average, 11.4 times greater than GHG emissions from direct operations (Scope 1 and 2). If the costs of inputs to a production process increase, either due to market dynamics or a policy that levies an effective carbon price on the carbon-intensive input, companies that are relatively inefficient or that utilize a value chain that is less efficient relative to peers could experience lower profit margins.
- Accurate Scope 3 emissions disclosure can also help Wellington assess which issuers have internalized processes with GHG emissions and which have outsourced to other companies, both upstream and downstream. Without Scope 3 emissions information, issuers who outsource carbon-intensive activities appear to have less exposure to transition risk than issuers who internalize these same activities. For the internalizing issuer, those emissions would be considered Scope 1 or Scope 2, but for the outsourcing issuer, the Scope 3 emissions information could be withheld if they have not yet reported their Scope 3 emissions.

For example, electric utilities deliver power to customers through a combination of their own generation (Scope 1) and purchased electricity (Scope 3). An electric utility company that Wellington evaluated is particularly reliant on coal for its own generation, giving it a much higher emissions intensity compared to the industry average (38% higher) based on Scope 1 and 2 emissions reporting only. However, the electric utility purchases significant amounts of natural gas, renewables, and nuclear power, which count as Scope 3 emissions. Including these emissions meaningfully lowers the company's overall emissions intensity. As a result of disclosure of Scope 3 emissions, Wellington was able to evaluate the company more holistically and determined a more appropriate discount rate for the company's securities.

102 Example shared by Wellington Management (workstream member).

103 Wellington Management. [2021 Climate Report](#), 2021, and "[Wellington Management's response to the US SEC's request for comment on the Enhancement and Standardization of Climate-Related Disclosures for Investors](#)," June 17, 2022; CDP. [Transparency to Transformation: A Chain Reaction](#), 2020.

EXAMPLE 16 (BANCOESTADO): GREEN FINANCING PLATFORM WITH COST OF CAPITAL BASED ON CLIMATE-RELATED METRIC PERFORMANCE^{104,105}

Type: Financial institutions' use of real-economy transition plans

Sub-sector: Banking

Relevant component: Metrics and targets

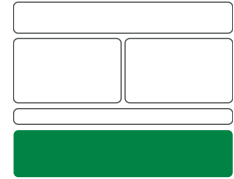
As part of BancoEstado's commitment to be net zero in direct emissions by 2030 and net zero in its financed emissions by 2050 (in line with Race to Zero), it has started to embed climate change within its core strategy through three pillars that include measuring GHG emissions of its clients and portfolio companies; building internal capabilities in sustainable finance; and incorporating climate change management in its business process.

To enable the transition of the real economy, BancoEstado started to develop a green financing platform that includes targeted products that use climate-related metrics and certifications to provide access to preferential rates. Here are some examples of how BancoEstado has tied access to lower cost of capital to climate-related information:

- **Energy ratings for properties:** It has a mortgage program offering preferential rates for new homes that meet an energy-efficiency rating better than that required under Chilean law (Ecovivienda). This program allows real estate companies to speed up the sale of their homes by providing their clients direct access to lower financing rates.
- **Certification of green energy:** It offers financing to individuals and companies for renewable energy or energy efficiency projects that have a certification from the Energy Sustainability Agency (Agencia de Sostenibilidad Energética).
- **Certification of green production:** Its Financing for Circular Economy initiative offers preferential rates to companies that have a Clean Production Agreement (Acuerdo de Producción Limpia), which is granted by the Sustainability and Climate Change Agency (Agencia de Sustentabilidad y Cambio Climático).

104 Example shared by BancoEstado (workstream member).

105 BancoEstado. [BancoEstado Sustainability Financing Framework](#), December 17, 2021.



THEME

4.5. Governance

The Governance theme outlines **how a company is structured to provide oversight, incentivize, and support the implementation of the transition plan.**

Governance structures are key mechanisms for enabling the implementation of the plan and holding companies accountable for progress toward their climate objectives and targets. The outcome of a transition plan flows from the governance and leadership tone. Identifying senior personnel for specific oversight and implementation roles and responsibilities, and linking remuneration to achieving progress, sets the right tone and can help ensure appropriate resources are deployed.

COMPONENT: ROLES, RESPONSIBILITIES, AND REMUNERATION

Disclosures provide confidence to financial institutions regarding the level of commitment that a company has to deliver the transition plan within the company's overall strategy (e.g., dedication of senior stakeholders and specific roles for the transition). Disclosure also shows whether appropriate accountability mechanisms are in place (e.g., incentives tied to climate KPIs) and whether the company has an structure that can enable the execution of the transition plan.

SUB-COMPONENT: BOARD OVERSIGHT AND REPORTING

Expected disclosures

- Disclose how the company's board or equivalent strategy/decision-makers oversees the company's transition plan and whether the transition plan is subject to board approval.

Relevant initiatives

TCFD, ISSB, CDP, ACT, CA100+, TPI-MQ

SUB-COMPONENT: ROLES AND RESPONSIBILITIES

Expected disclosures

- Disclose the management structure in place for handling transition plan execution.

Relevant initiatives

TCFD, ISSB, CDP, ACT

SUB-COMPONENT: INCENTIVES AND REMUNERATION

Expected disclosures

- Disclose, to an appropriate extent, how compensation and other incentives for senior management with responsibility for climate-related issues are aligned to the objectives of the company's transition plan.

Relevant initiatives

TCFD, ISSB, CDP, ACT, CA100+

COMPONENT: SKILLS AND CULTURE

Disclosures provide confidence to financial institutions that the transition is a priority for the company and that the company is embedding the importance of climate change within its core values, setting the right structure to action the transition plan, and investing to develop its teams' knowledge and skills related to climate change.

SUB-COMPONENT: SKILLS AND TRAININGS**Expected disclosures**

- Disclose how the company ensures adequate climate expertise (e.g., management expertise, provided resources, trainings, skill acquisition).

Relevant initiatives

ISSB, CDP, ACT, CA100+

SUB-COMPONENT: CHANGE MANAGEMENT AND CULTURE**Expected disclosures**

- Disclose change management process for regular review of transition plan to ensure material updates are incorporated and challenges are addressed.
- Disclose stakeholder feedback/communication mechanisms and how mitigation of implementation risks is managed.
- Disclose how the company encourages a culture that supports its transition.

Relevant initiatives

TCFD, ISSB, CDP, ACT

Governance use case examples¹⁰⁶

The following use cases provide examples of how companies disclose some of the key components outlined within the Governance theme, as well as how financial institutions use the information of real-economy transition plans to drive decision-making. These should be used as reference for companies to reflect the importance of disclosing the components within their transition plans.

¹⁰⁶ The mention of specific financial institutions or companies in use cases does not imply that they are endorsed by GFANZ or its members. The examples are not intended to represent "best practice" nor represent the entirety of guidance for a component. Instead, the examples are included because they may help companies interpret individual elements of the guidance for their own practices.

EXAMPLE 17 (SCHNEIDER ELECTRIC): COMPENSATION TIED TO CLIMATE-RELATED METRICS¹⁰⁷

Type: Real-economy disclosures

Sector: Digital solutions

Relevant component: Roles, responsibilities, and remuneration

Commitment: Carbon-neutral operation in 2025 with offsets, 2030 without; carbon-neutral end-to-end footprint in 2040. Net-zero CO₂ supplier chain in 2050.

Schneider Electric adjusted its compensation policies in 2019 to include compensation tied to climate-related metrics. As part of this process, Schneider Electric tracks progress against transition plan targets for 2021–2025 using two complementary tools: the Schneider Sustainability Impact (SSI) which is its continuous improvement process to deliver outstanding sustainability performance, and the Schneider Sustainability Essentials (SSE) which was created to maintain a high level of commitment and transparency in the actions taken. These tools have a series of metrics that Schneider uses to measure progress on a host of environmental, social, and governance goals, including specific climate metrics (e.g., reducing emissions from suppliers, use of green material in packaging). Using these tools, Schneider has the following compensation policies:

- **Short-Term Incentive Plans:** To instill a culture of sustainability, the SSI performance score is embedded in the short-term incentive plans for executives and about 64,000 eligible employees.
- **Long-Term Incentive Plans:** The SSI score accounts for 20% of shares subject to performance conditions.
- **Profit-Sharing Incentive Plans:** The SSI score accounts in the profit-sharing plan of 32 French entities of Schneider Electric (over 17,000 people). Since 2012, the weight of the SSI score has increased from 6% to 20%, highlighting the increasing focus on climate strategy.¹⁰⁸

By disclosing its compensation policies, Schneider Electric highlights that it is committed to achieving its climate commitments. Schneider also includes its remuneration policy in AGM materials for use by financial institutions when voting on resolutions.

¹⁰⁷ Example built from public information: Schneider Electricity. [Enabling a Sustainable Future: 2021 Sustainable Development Report](#), 2021.

¹⁰⁸ Ibid., p. 127.

EXAMPLE 18 (HON HAI): DESCRIBES MANAGEMENT STRUCTURE FOR ITS TRANSITION¹⁰⁹

Type: Real-economy disclosures

Sector: Electronics manufacturer

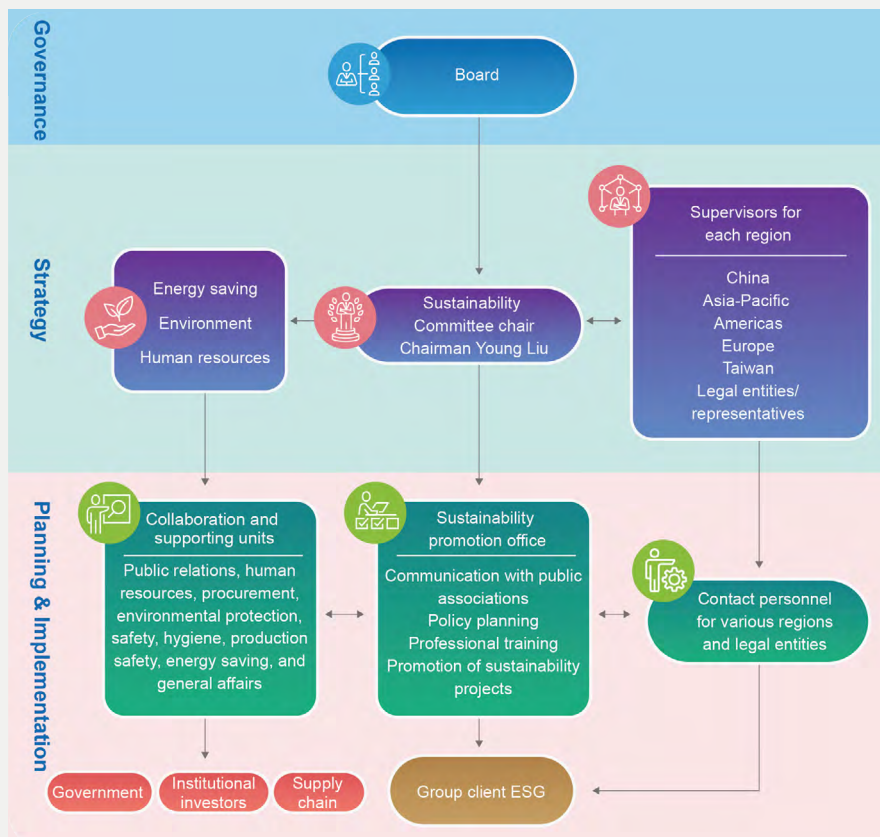
Relevant component: Roles, responsibilities, and remuneration/skills and culture

Commitment: Achieve net-zero emissions by 2050. Use at least 50% green power by 2030.

Hon Hai outlines the management structure in place for overseeing its climate-related activities and transition to net zero. Hon Hai discloses the information under roles, responsibilities, and remuneration and skills and culture, including, for example:

- **board oversight** of the sustainability committee, which is responsible for the climate transition plan;
- **senior management structure** in place, with specific roles and people outlined, including responsibility regionally and collaboration with the teams responsible for implementation; and
- **sustainability promotion office** that provides internal professional training and the promotion of sustainability and climate projects.

Figure 12: Hon Hai sustainability management structure



109 Example built from public information: Hon Hai. [2021 Hon Hai Sustainability Report](#), 2021, and “[Hon Hai Sustainable Operations](#),” 2021.

5. Reporting transition plans



5.1. PRIORITIZATION OF COMPONENTS FOR SMES

While all components of a transition plan outlined above are important, financial institutions understand that SMEs, or those in jurisdictions without a solid grounding in climate-related data collection and disclosure, may not be able to disclose the same level of detail, at least initially. Expectations related to the sophistication and detail of transition plans may vary. For large, well-resourced companies in the most impacted sectors, financial institutions may expect detailed plans.

Moreover, while there are many challenges impeding the transparency and accessibility of climate data (e.g., limited disclosure guidance in nascent transition-related areas, lack of disclosure, inconsistent data disclosure and collection methodologies), this should not be seen as a barrier to build transition plans. Development of transition plans in spite of data challenges help address the

challenge, as they provide a better understanding of the data required, identify gaps from existing data, and help companies plan ahead to develop more robust data infrastructure.

To support SMEs and companies that are starting to develop transition plans, GFANZ has outlined the components that are considered most critical; these are highlighted in green in Table 3. Companies should work to build up their plans over time to improve the quality and transparency of transition plans.¹¹⁰

These components have been prioritized based on:

1. Perspectives from financial institutions.
2. The type of information the component discloses — in other words, if the component outlines the company’s goal; if it describes the actions needed to reach the goal; or if it is an enabler that supports climate-related actions.
3. The number of global standards and initiatives that include the relevant component.

¹¹⁰ TPI Management Quality guidance provides an example on how transition plans can be assessed through different levels of quality/completeness based on the stage of transition of each company.

Table 3: Most critical components for SMEs and companies starting to develop transition plans

THEME	COMPONENT	1. PERSPECTIVES FROM FINANCIAL INSTITUTIONS	2. USE OF COMPONENT	3. NO. OF INITIATIVES ¹¹¹
Foundations	Objectives and priorities	Helpful for understanding a company’s driving goals	Goal	8
Implementation Strategy	Activities and decision-making	Outlines a company’s actions and how it plans to implement its transition plan	Action	6
	Policies and conditions	Provides evidence that the transition plan is supported by clear policies	Enabler	1
	Products and services	Outlines how the company’s commercial activity supports the transition plan	Action	6
Engagement Strategy	Value chain	Provides evidence that transition plan accounts for dependencies within the value chain	Enabler	4
	Industry	Provides evidence that a company is committed to industry-wide action	Enabler	4
	Government and public sector	Provides evidence that the transition plan accounts for policy dependencies	Enabler	3
Metrics and Targets	Metrics and targets	Outlines a company’s targets and enables tracking of progress and cross-comparison	Goal	8
Governance	Roles, responsibilities, and remuneration	Outlines the mechanisms in place to enable accountability and execution	Action	6
	Skills and culture	Provides evidence of the strategic priority of the transition plan within company	Enabler	4

■ Most critical components

The components outlined in this document are provided so that companies understand the expectations of financial institutions across various types of financial institutions and jurisdictions with respect to transparency and clarity related to real-economy company transition plans. Where national

or local requirements exist, companies should develop, implement, and disclose transition plans accordingly. Nonetheless, even in those jurisdictions, companies can still refer to these components as a complementary source of information.

¹¹¹ Number of initiatives out of the prioritized initiatives mapped in this document (TCFD, CDP, ISSB, SBTi, TPI-CP, TPI-QM, ACT, CA100+).

GFANZ urges companies to work alongside financial institutions to build credible transition plans and to be ambitious when developing their net-zero strategies, as the next few years are crucial for the state of climate change

5.2. DISCLOSURE PRINCIPLES

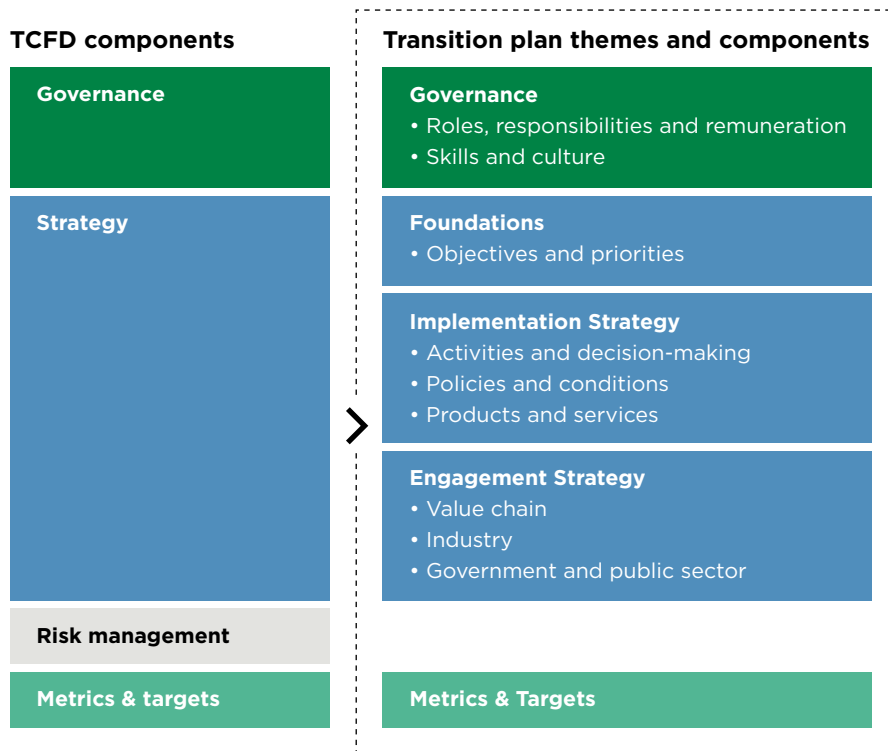
Companies can determine the specific content, manner of disclosure, and frequency regarding disclosure of their transition plans. When preparing transition plan disclosures, companies can be guided by the [TCFD's Principles of Effective Disclosures](#), which states that disclosure should:¹¹²

1. Represent relevant information.
2. Be specific and complete.
3. Be clear, balanced, and understandable.
4. Be consistent over time.

5. Be comparable among companies within a sector, industry, or portfolio.
6. Be reliable, verifiable, and objective.
7. Be provided on a timely basis.

Companies may wish to integrate their transition plans with TCFD climate reporting. If disclosing a transition plan along with TCFD disclosures, the components within the Foundations, Implementation Strategy, and Engagement Strategy themes discussed earlier may be included within the TCFD Strategy disclosure pillar, because these components describe the net-zero activities needed to deliver on the company's commitment. The components within the Metrics and Targets and Governance themes can be disclosed in the respective TCFD disclosure pillars that have the same names. Figure 13 shows how the TCFD framework maps to transition plan themes and components.

Figure 13: Mapping of the TCFD framework components to transition plan themes and components



¹¹² TCFD selected as reference as it has become the commonly accepted framework for climate-related reporting and is increasingly gaining acceptance with regulators that use it as a base for mandatory reporting (e.g., [G7 nations agree on mandatory climate related disclosure](#)).

6. Appendices



APPENDIX A

Mapping of detailed disclosures against existing initiatives

Table 4 provides detailed disclosures for each transition plan component financial institutions find relevant and maps the disclosures to existing transition plan guidance.

While the relevant components and disclosures are based on existing transition plan guidance, this table sets forth the “expected disclosures”

described in Section 4, which are relevant for financial institutions’ decision-making. These additional details are focused on common technical clarifications relevant to financial institutions (e.g., definition of low-carbon assets, rationale for selection of metric). As such, these disclosures are meant to facilitate real-economy and financial institution engagement.

Table 4: Mapping of disclosures relevant for financial institutions

THEME	COMPONENT	SUB-COMPONENT	RELEVANT DISCLOSURES FOR FINANCIAL INSTITUTIONS	TCFD	ISSB	CDP	SBTI	TPI-CP	ACT	CA100+	TPI-MQ
Foundations	Objectives and priorities	Objectives and overarching strategy	Disclose the company’s climate objectives, including interim goals, that form the basis for the transition plan (i.e., short-, medium-, and long-term ambition, commitments, and strategy to achieve the objectives). This includes how the company will decarbonize over time, changes to business models and activities, and what role the company will play, if any, in supporting the economy-wide transition.								
			Disclose the rationale for the selected level of ambition (e.g., net-zero 2050 and 1.5 degrees C warming).								
			Articulate how the transition strategy will be embedded within the company’s overall business strategy.								
	Governing principles ^{113,114}	Disclose the company’s objective to ensure a just transition and a nature-positive economy and how these principles are embedded throughout each component of the transition plan, if applicable.									

113 Just transition and a nature-positive economy.

114 See Appendix B for additional initiatives that cover the just transition.

THEME	COMPONENT	SUB-COMPONENT	RELEVANT DISCLOSURES FOR FINANCIAL INSTITUTIONS	TCFD	ISSB	CDP	SBTI	TPI-CP	ACT	CA100+	TPI-MG
Implementation Strategy	Activities and decision-making	Business planning and operations	<p>Disclose how the company is integrating emissions reduction actions in business planning and operations.</p> <ul style="list-style-type: none"> The roadmap of actions the company intends to take, or is taking, to implement its transition plan strategy and to achieve its GHG reduction targets (including actions affecting products/services, suppliers, and/or internal operations and production); describe short-, medium-, and long-term actions. The impact of each business and operational action toward achieving the company's GHG emissions targets (including impact to guiding principles of just transition and nature-positive economy). 								
			<p>Quantify the impact of each business and operational action toward achieving the company's GHG emissions targets (including impact to guiding principles of just transition and nature-based solutions).</p>								
			<p>Disclose plans in place and timelines to phase out GHG- or energy-intensive assets; justify if the company has any GHG- or energy-intensive assets not subject to a managed phaseout plan. Companies can refer to the GFANZ Workstream on Managed Phaseout of High-emitting Assets for additional guidance as well as Appendix D for suggested disclosures across transition plans.¹¹⁵</p>								
		Financial planning	<p>Disclose how the company is integrating emissions reduction actions in financial planning.</p> <ul style="list-style-type: none"> The company's financial plans, budgets, and related financial targets that support the company's transition plan objectives and the actions identified in the business planning and operations component (e.g., plan for low-carbon R&D, plan for low-carbon CapEx, plan for energy spent, plan for decommissioning of high-carbon assets). The financial impact of the transition plan and planned business actions and how they are able to be resourced. 								
			<p>Disclose how the company's financial plans that support the transition are reflected in the company's financial statements and audit reports.</p>								
			<p>Disclose details regarding the use of internal carbon price(s) (e.g., activities or CapEx covered by the carbon price, levels of pricing).</p>								

115 GFANZ. [The Managed Phaseout of High-emitting Assets](#), June 2022.

THEME	COMPONENT	SUB-COMPONENT	RELEVANT DISCLOSURES FOR FINANCIAL INSTITUTIONS	TCFD	ISSB	CDP	SBTI	TPI-CP	ACT	CA100+	TPI-MG	
Implementation Strategy	Activities and decision-making	Sensitivity analysis	Describe the key assumptions underlying the company's transition-related business, financial, and operational plans (e.g., reliance on technologies the company is currently not deploying at scale; reliance on actions of its value chain; reliance on specific regulatory policies).									
			Disclose how these assumptions are reflected in the company's financial statements and audit reports.									
			Articulate the impact on the transition plan if certain assumptions prove incorrect (e.g., low, medium, high impact to achieving net zero).									
	Policies and conditions	Transition-related policies	Nature-based impact	Disclose policies (or describe the policies in place) that are used to guide business, financial, and operational planning, and actions (e.g., climate-related requirements for suppliers; restrictions or requirements on location or technology for fossil fuel production).								
				Disclose any relevant policies that the company has in place or plans to implement to mitigate any negative impact — or promote any positive impact — on ecological systems (e.g., land conversion, deforestation, biodiversity loss, pollution); disclose the impact on GHG reduction targets and transition plan objectives.								
				Disclose any relevant policies that the company has in place or plans to implement to create nature-based solutions (e.g., reforestation); disclose the impact on GHG reduction targets and transition plan objectives.								
	Products and services	Products and services		Describe the company's plan to provide low-carbon products/services and/or to reduce high-carbon products/services.								
				Quantify the impact of each low-carbon product or service on achieving the company's short-, medium-, and long-term GHG emissions targets.								
				Disclose the commercial viability of low-carbon products and services.								
Provide a definition of what is considered low carbon/green for each product/service (referencing an appropriate taxonomy where available).												

THEME	COMPONENT	SUB-COMPONENT	RELEVANT DISCLOSURES FOR FINANCIAL INSTITUTIONS	TCFD	ISSB	CDP	SBTI	TPI-CP	ACT	CA100+	TPI-MG
Engagement Strategy	Value chain	Clients/ portfolio companies and suppliers	Disclose current and planned engagement and activities conducted with the company's value chain (both downstream and upstream suppliers and/or customers) to drive reductions of GHG emissions.								
			Industry	Industry peers	Disclose membership in trade organizations, as well as current and planned engagement with trade organization(s) to influence the trade organization(s)' adoption of climate policies that support the company's transition plan.						
			Disclose how the company's transition plan strategy and objectives compare to the commitments and actions of the company's trade organization(s).								
			Disclose current and planned engagement with other companies (including peers and other relevant companies).								
			Disclose current and planned engagement with industry climate initiatives (e.g., Responsible Steel, Oil and Gas Climate Initiative); include requirements the company has chosen to comply with because of these initiatives.								
	Government and public sector	Government and public sector	Government and public sector	Disclose current and planned engagement with the public sector to drive climate policies that support the company's transition plan; disclose both direct and indirect engagement (e.g., via industry trade organizations).							
Disclose how the company's transition plan strategy and objectives are aligned with all policy activities (e.g., no conflicting policy activities).											
Metrics and Targets	Metrics and Targets	GHG emissions metrics	Base year: Disclose a GHG emissions base year (avoid anomalous years, e.g., 2020 due to COVID-19).								
			Target dates: Disclose target GHG emissions for the short, medium, and long term; at a minimum, disclose interim targets (2030 and earlier) and 2050 targets.								
			Scope 1 and 2: Disclose GHG emissions targets for Scope 1 and 2 emissions.								
			Scope 3: Disclose GHG emissions targets for Scope 3 emissions if Scope 3 emissions are material; justify the exclusion of Scope 3 GHG emissions if omitted, and provide your definition of materiality (i.e., estimated % of total emissions).								
			Absolute: Disclose targets for absolute GHG emissions for Scope 1, 2, & 3.								
		Intensity: Disclose intensity GHG emissions targets for Scope 1, 2, & 3 in revenue intensity and/or physical intensity (e.g., GHG/kWh) specific to the company's industry and in line with how financial institutions compare companies against sectoral pathways such as sector decarbonization approach (SDA)									
		<ul style="list-style-type: none"> Justify selection of revenue and/or physical intensity metrics. Provide forecasts of expected physical output to complement GHG targets. 									

THEME	COMPONENT	SUB-COMPONENT	RELEVANT DISCLOSURES FOR FINANCIAL INSTITUTIONS	TCFD	ISSB	CDP	SBTI	TPI-CP	ACT	CA100+	TPI-MG
Metrics and Targets	Metrics and Targets	GHG emissions metrics	<p>Relevant breakdowns (if applicable): Disclose relevant breakdowns of GHG emissions. For example:</p> <ul style="list-style-type: none"> • by Scope 3 upstream/downstream and/or by Scope 3 category (e.g., based on the GHG Protocol); • by business and operational actions; • by products and services; and • by emissions that rely on assumptions described in the activities and decision-making component (e.g., based on a technology not yet deployed at scale, based on the actions of the company’s supply chain, contingent on a specific policy). 								
			<p>Coverage: Specify coverage/system boundary of GHG targets (i.e., specify any excluded regions, business activities) expressed in percentage by GHG Scope and/or Scope 3 category.</p>								
			<p>Methodology: Disclose details on methodology used to develop GHG targets (e.g., the GHG Protocol).</p>								
			<p>Verification: Disclose any third-party verification of targets (e.g., by SBTi).</p>								
			<p>Other targets: Disclose any additional GHG targets (e.g., methane reduction targets).</p>								
			<p>Track record: Disclose progress and track record against GHG emissions targets on an annual basis.</p>								
Sectoral pathways	Sectoral pathways	Sectoral pathways	<p>Disclose the sectoral pathway that the company has selected and how the targets are aligned to the pathway; disclose if the sectoral pathway is updated with the most up-to-date science even after a target is set.</p>								
			<p>Disclose the rationale for pathway choice, especially when the selected pathway does not align with limiting to 1.5 degrees C warming.</p>								
			<p>Specify details of the selected pathway, including:</p> <ul style="list-style-type: none"> • temperature alignment; • likelihood; and • degree of potential overshoot. 								
Carbon credits ¹¹⁶	Carbon credits ¹¹⁶	Carbon credits ¹¹⁶	<p>Disclose carbon credits, offsets, and avoided emissions (i.e., also known as Scope 4 emissions) separately from GHG reduction targets and metrics; carbon credits should not be incorporated into reaching a transition plan’s target GHG emissions.</p>								

116 Also known as carbon offsets or VERs.

THEME	COMPONENT	SUB-COMPONENT	RELEVANT DISCLOSURES FOR FINANCIAL INSTITUTIONS	TCFD	ISSB	CDP	SBTI	TPI-CP	ACT	CA100+	TPI-MG
Metrics and Targets	Metrics and Targets	Carbon credits ¹¹⁷	Disclose details of any carbon credits (e.g., credit type; company GHG emissions covered; projects financed; process or policies for evaluating offset projects, including quality indicators such as additionality and permanence; practical concerns such as scalability and cost-effectiveness; third-party verification).								
		Business and operational metrics	Disclose targets for business and operational metrics (e.g., % in high-carbon assets, % low-carbon products and services; % procurement from low-carbon suppliers); if available, disclose interim targets (e.g., targets for interim years between now and your mid-long term strategic or operational targets).								
			Explain the selection of business and operational metrics.								
			Provide a definition of what is considered low carbon/green for each business and operational metric (referencing an appropriate taxonomy where available).								
			Disclose progress and track record against business/operational targets at least on an annual basis.								
		Financial metrics	Disclose targets for financial metrics (e.g., low-carbon CapEx, low-carbon R&D); if available disclose interim targets (e.g., targets for interim years between now and your mid-long term strategic or operational targets).								
			Explain the selection of financial metrics and how achieving financial targets under those metrics will enable delivery of the transition plan.								
			Provide a definition of what is considered low carbon/green for each financial metric (referencing an appropriate taxonomy where available).								
			Disclose progress and track record against financial targets on an annual basis.								
		Nature-based metrics	Disclose any nature-based targets and progress against those targets (e.g., acres of reforestation) and their impact on the reduction or mitigation of the company's GHG emissions. ¹¹⁸								
		Governance metrics	Disclose any internal governance targets and progress against those targets (e.g., proportion or number of individuals with remuneration linked to progress against GHG emissions targets; frequency of stakeholder feedback).								

117 Also known as carbon offsets or VERs.

118 Example of nature-based metrics being developed by [TNFD](#).

THEME	COMPONENT	SUB-COMPONENT	RELEVANT DISCLOSURES FOR FINANCIAL INSTITUTIONS	TCFD	ISSB	CDP	SBTI	TPI-CP	ACT	CA100+	TPI-MG
Governance	Roles, responsibilities, and remuneration	Board oversight and reporting	Disclose how the company’s board oversees the company’s transition plan and whether the transition plan is subject to board approval.								
		Roles and responsibilities	Disclose the management structure in place for handling transition plan execution.								
		Incentives and remuneration	Disclose, to an appropriate extent, how compensation and other incentives for employees with responsibility for climate-related issues are aligned to the objectives of the company’s transition plan.								
	Skills and culture	Skills and trainings	Disclose how the company ensures adequate climate expertise (e.g., management expertise, provided resources, trainings, skill acquisition).								
		Change management and culture	Disclose change management process for regular review of transition plan to ensure material updates are incorporated and challenges are addressed.								
			Disclose stakeholder’s feedback/ communication mechanisms and how mitigation of implementation risks is managed.								
			Disclose how the company encourages a culture that supports its transition.								

APPENDIX B

Deep dive on just transition

Inclusion of just transition elements within a company’s overall strategy should be complementary to the company’s level of climate ambition and should not be used by companies to lower the level of climate ambition. Companies need to work to maintain a high-ambition climate strategy while considering (and mitigating) the impact that the actions to reduce GHG emissions may have on individuals, workers, and communities (e.g., mitigate the economic implications that phasing out a high-emitting asset may have on the community that each company operates in). Table 5 outlines just transition disclosures from existing guidance that should be considered across the components of a real-economy transition plan.

Just transition is a key component for financial institutions to ensure that the decarbonization of the real economy considers and mitigates the impact that the transition may have on society. We evaluated various initiatives that have focused on just transition to identify how they recommend companies include just transition in the different components of their transition plans (Table 5).

The initiatives evaluated are:

- Business for Inclusive Growth (BIG);
- Council for Inclusive Capitalism (CIC);
- Grantham Research Institute for Climate Change and the Environment (GRICCE);
- Investor Group on Climate Change (IGCC); and
- World Benchmarking Alliance (WBA).

Table 5: Just transition disclosures relevant for financial institutions¹¹⁹

COMPONENT	DISCLOSE THE COMPANY'S	BIG	CA100+	CIC	GRICCE	IGCC	WBA
Objectives and priorities	<ul style="list-style-type: none"> Overall strategy to ensure a just transition 						
Activities and decision-making	<ul style="list-style-type: none"> How the company is managing the phaseout of high-carbon assets with respect to affected communities and workforces 						
	<ul style="list-style-type: none"> How the company is incorporating the just transition into capital allocation decisions 						
	<ul style="list-style-type: none"> The sensitivity of the just transition to different assumptions 						
Products and services	<ul style="list-style-type: none"> The accessibility of new products and services offered by the transition to customers, especially vulnerable customers 						
Value chain	<ul style="list-style-type: none"> How the company is supporting its suppliers' just transition 						
	<ul style="list-style-type: none"> How the company is supporting customers that are affected by the transition plan, especially vulnerable customers 						
Industry	<ul style="list-style-type: none"> Current and planned engagement with industry associations on the topic of the just transition 						
Government and public sector	<ul style="list-style-type: none"> Current and planned engagement with the public sector to drive just transition policies 						
	<ul style="list-style-type: none"> Current and planned engagement with communities, including decision-making influenced by consultation 						
Metrics and targets	<ul style="list-style-type: none"> Targets for impact metrics and the rationale for selecting such metrics Percentage of workers or workers' representatives participating in dialogue regarding the just transition Percentage of at-risk workers being offered retraining or redeployment Number of dialogue sessions being held with communities within the year Number of job losses within the company due to transition plan actions, such as closure of a facility Number of sustainable jobs created at the company as a result of transition plan actions 						
Roles, responsibilities, and remuneration	<ul style="list-style-type: none"> The role the board and other stakeholders (e.g., workers) have in overseeing the just transition 						
Skills and culture	<ul style="list-style-type: none"> Commitments or programs for workers affected by the transition plan (e.g., retraining or redeployment) 						
	<ul style="list-style-type: none"> Commitments to providing equal access to opportunities for all workers (e.g., promote diversity and inclusion) 						

¹¹⁹ Initiatives referred to in the table are abbreviated as follows: Business for Inclusive Growth (BIG), Climate Action 100+ (CA100+), Council for Inclusive Capitalism (CIC), Grantham Research Institute on Climate Change and the Environment (GRICCE), Investor Group on Climate Change (IGCC), World Benchmarking Alliance (WBA).

APPENDIX C

Mapping of regulatory frameworks

Appendix C provides a comparison of the key components of a real-economy transition plan against the guidance developed by the International Sustainability Standards Board (ISSB) — part of

International Financial Reporting Standards (IFRS), the European Financial Reporting Advisory Group (EFRAG), and the U.S. Securities and Exchange Commission (SEC).

Table 6: Regulatory frameworks coverage of components of real-economy transition plans

THEME	COMPONENT	SUB-COMPONENT	ISSB	EFRAG	SEC
Foundations	Objectives and priorities	Objectives and overarching strategy			
Implementation Strategy	Activities and decision-making	Governing principles ^{120,121}			
		Business planning and operations			
		Financial planning			
		Sensitivity analysis			
	Policies and conditions	Transition-related policies			
		Nature-based impact			
	Products and services	Products and services			
Engagement Strategy	Value chain	Engagement with clients/portfolio companies and suppliers			
	Industry	Engagement with industry peers			
	Government and public sector	Engagement with government and public sector			
Metrics and Targets	Metrics and targets	GHG emissions metrics			
		Sectoral pathways			
		Carbon credits ¹²²			
		Business and operational metrics			
		Financial metrics			
		Nature-based metrics			
		Governance metrics			
Governance	Roles, responsibilities, and remuneration	Board oversight and reporting			
		Roles and responsibilities			
		Incentives and remuneration			
	Skills and culture	Skills and trainings			
		Change management and culture			

120 Just transition and a nature-positive economy.

121 See Appendix B for additional initiatives that cover the just transition.

122 Also known as carbon offsets or VERs.

APPENDIX D

Suggested disclosures for the managed phaseout of high-emitting assets

One of the four approaches for financial institutions to support and enable the net-zero transition is through an accelerated managed phaseout (e.g., via early retirement) of high-emitting assets. It is key for companies to have clear commitments within their transition plans around the retirement of high-emitting assets on a science-based timeframe.

GFANZ is developing guidance and tools to support this approach as part of net-zero transition planning. In June 2022, GFANZ published *The Managed Phaseout of High-emitting Assets*.¹²³ The report sets out a preliminary approach to support the identification of assets where managed phaseout could be appropriate, an initial overview of potential financial mechanisms that could support managed phaseout, and initial guidance on the features of a credible managed phaseout plan.

The managed phaseout approach allows financial institutions to provide clarity to asset owner-operators that the finance (lending, investment, insurance) for high-emitting assets can be provided conditionally on plans to cease operation of those assets on a timeframe that is consistent with the net-zero transition. Furthermore, the asset owner-

operator can make use of such asset-level plans as part of their broader net-zero transition planning.

It is predicated on the view that some high-emitting assets can continue to be operated (indeed many need to be while no/low-carbon alternatives are developed) within a 1.5 degrees C-aligned retirement date as an alternative but equivalent approach to a GHG emissions reduction pathway. Relevant assets are those that may be viable today but are either at financial risk as the global economy decarbonizes or are inconsistent with a 1.5 degrees C-aligned transition in their current operations; and where assets cannot be redeveloped or retrofitted and so need to be retired over a suitable timescale.

Managed phaseout could be addressed across the company's transition plan, setting out the timeframe for retirement, any factors that may alter that timeframe, and any GHG emissions reduction targets. Importantly, such plans will need to address the potential that agreements made to retire assets in the future are honored at that later date. Table 7 shows how managed phaseout can be disclosed across the five themes of transition plans.

123 GFANZ. [Managed Phaseout of High emitting Assets](#). 2022.

Table 7: Suggested disclosures for managed phaseout

THEME	SUGGESTED INFORMATION TO DISCLOSE
Foundations	<ul style="list-style-type: none"> • Explain why a phaseout plan is appropriate for the asset(s), and how it is aligned with the transition strategy. • Explain how the phaseout plan fits within the firm’s climate-related strategies, as well as the broader firm’s strategy. • Specify how just transition and continuity of service considerations have been considered in the plan.
Implementation Strategy	<ul style="list-style-type: none"> • Articulate the key milestones and actions of the plan, such as phaseout timings, and any key assumptions or uncertainties with the plan. • Set out how the phaseout plan captures risks, benefits, and impacts of its implementation. • Explain how the phaseout plan is being financed and how this incentivizes retirement within the phaseout timeframe.
Engagement Strategy	<ul style="list-style-type: none"> • Summarize any relevant engagement or collaboration with your value chain and peers in relation to the phaseout plan. • Set out any relevant engagement or lobbying activities with government/public sector in relation to the phaseout plan.
Metrics and Targets	<ul style="list-style-type: none"> • Set out baseline emissions for the phaseout assets. • Set out the expected GHG emissions reduction from the phaseout and their timing. • Set out the basis for these reductions (e.g., scope included, assumptions made). • Set out how the phaseout plan aligns with a relevant sectoral pathway for the asset. • Detail any carbon credits expected to be generated by the plan. • Set out progress against emissions reduction targets. • Set out other metrics that will be measured and monitored to track progress.
Governance	<ul style="list-style-type: none"> • Specify the escalation process if metrics of the phaseout plan are not met. • Articulate specific reporting in relation to financing the phaseout plan. • Set out level of sign-off for the phaseout plan. • Explain how metrics of the phaseout plan are linked to management incentives/remuneration. • Consider describing any retraining program and other actions as part of just transition considerations associated with the phaseout plan.

For more information, please visit gfanzero.com