

GFANZ Secretariat Non-Paper: Key considerations for G20 Principles for Transition Planning

The G20 Sustainable Finance Working Group (SFWG) is developing a set of principles for transition planning that accommodates different use-cases and acknowledges different jurisdictional frameworks.

The Glasgow Financial Alliance for Net Zero (GFANZ) was launched in April 2021 to support the global financial system as it seeks to provide transition finance to the global economy. Some 700+ financial institutions in 50+ countries have made individual commitments to achieve net zero by 2050, as part of the UN non-state actor initiative, which implies supporting the transition of their clients and portfolio companies in line with science-based pathways to 1.5°C.¹ Implementing these commitments broadly implies individual firms setting targets, developing and implementing a group-level strategy by means of transition planning, and regularly communicating on progress.

Through work led and undertaken by global financial institutions, with extensive public consultation, GFANZ delivered a voluntary net zero transition planning framework to COP27 in 2022 to support the growing number of financial institutions seeking to develop and implement net zero transition plans. In increasing numbers, financial institutions are now choosing to draw on this framework and around 80 global firms have been identified as having published such plans in our tracking to date. We expect over 250 financial institutions to publish a transition plan in 2024. Real economy firms are also increasingly undertaking transition planning.²

The GFANZ net zero transition planning framework aims to support both financial institutions and the real economy companies they finance to independently develop group-level strategic transition plans, in a way which both makes use of the available opportunities and mitigates the associated risks. Major firms seem to have found this framework useful, and many are referencing it in disclosing their transition plans.

2024 could be an opportune moment for the G20 SFWG to recognise the progress already made, and the practices already being widely adopted by global companies and financial institutions, and accelerate future progress in a manner that supports common best practices and disclosure expectations, and leans against regulatory fragmentation. To support this work, we have made some suggestions below on principles we hope will help inform the G20 SFWG considerations as you work towards a globally consistent approach to transition planning and transition finance.

Proposed principles for company and financial institution transition planning and transition plans

1. Overarching and foundational principles

Principle 1: Transition planning can support companies and financial institutions in addressing the risks and making use of the opportunities associated with the transition to a net zero economy. Transition planning should take a strategic approach and include steps to: i) decarbonize the entity; ii) respond to the entity's climate-related risks and opportunities;

¹ In so doing, they join one of eight sub-sectoral alliances.

² GFANZ issued a short note in late 2023 highlighting some case studies, and other bodies have sought to track progress by companies more broadly (see eg CDP).

and iii) contribute to an economy-wide transition. It should result in a transition plan, which is a strategic action plan consisting of a set of goals, actions, and accountability mechanisms to align an organisation's business activities with a transition pathway that delivers real-economy emissions reduction in line with Paris Agreement commitments to limit the increase in the global average temperature to 1.5°C. A single transition plan can serve multiple purposes and ensure coherence within the firm's approach.

Principle 2: The targets and strategic objectives set by any company or financial institution in its transition plan should be informed by a range of key considerations. These include: the climate science and credible pathways to net zero in line with Paris Agreement commitments, the national emissions reductions commitments made by the countries in which they operate, the pathways for those countries and relevant sectors, any specific regulations that apply, and any voluntary commitments the firm has made.

Principle 3: Transition planning is needed by entities across the economy and there are likely to be strong interconnections between their approaches. In the private sector, transition planning should be undertaken by both real economy companies and financial institutions. The financial sector has a strong dependency for its own net zero transition plans on transition planning by the companies they finance. Government level transition planning - for the economy as a whole and for energy and other important economic sectors - can play a critical foundational role in informing transition planning by the private sector.

Principle 4: Transition planning is an integral part of the framework for delivering transition finance.³ Given the majority of financial sector emissions are Scope 3 and associated with the activities they finance, the main way that their emissions reductions can be delivered is by directing finance to companies that themselves are seeking to transition, and have or are developing a transition plan. Transition finance is needed economy wide, across climate solutions, companies already aligned to net zero pathways, companies seeking to align with net zero pathways, and for the managed phaseout of certain high emission activities.

2. Factors relevant to undertaking transition planning

Principle 5: Transition planning should be undertaken at group-level by companies and financial institutions, overseen by the Board and delivered by the CEO and senior management team. Such a group-level plan should increasingly address the specificities of the major markets in which the company or financial institution operates, including to ensure key stakeholders understand and are able to implement the local implications of the overarching plan.

Principle 6: Transition planning is a learning-by-doing exercise. There are uncertainties about the net zero transition itself - and the combinations of policy, technology and finance that will secure 1.5 degrees - and it is a complex undertaking for individual companies and financial institutions. First movers should be encouraged and a process of continuous improvement should be supported.

Principle 7: Transition planning is not a one-off exercise. As the global net zero transition progresses, policy, technological, and market changes will require companies and financial institutions to reassess and refine their strategies. Transition plans should be regularly reviewed and updated with appropriate frequency. The main factors that inform material changes in a company's transition plan should be explained in any updated plan.

³ <https://g20sfwg.org/wp-content/uploads/2022/10/2022-G20-Sustainable-Finance-Report-2.pdf>

Principle 8: Transition planning can have wider implications. While ensuring a focus on the core purpose of emissions reduction, a firm should consider the wider implications of their transition plan, including how to ensure that they are contributing to a just transition which takes into account environmental justice and environmental impacts, where applicable. The transition plans of individual companies and financial institutions will also depend on the degree to which national level transition planning addresses just transition priorities.

3. Key elements of a plan

Principle 9: Objectives and Priorities. A firm should articulate its transition objectives and targets, stating clearly defined and measurable interim and long-term targets and strategic timelines, and the priority strategies and steps to be taken to deliver real economy emissions reductions. These objectives should be in line with Paris Agreement commitments to limit the increase in the global average temperature to 1.5°C.

Principle 10: Governance. A firm should establish robust governance processes to provide oversight of the implementation of their transition plan. This should include Board oversight, clearly defined roles and responsibilities across the firm, and appropriate incentives and approaches to remuneration. Governance processes should address the need to review the transition plan regularly to ensure material updates/developments are incorporated; challenges are reviewed and addressed; and implementation risks are properly managed.

Principle 11: Engagement strategy. A firm should engage across its value chain (including clients and portfolio companies), with industry peers, government, and other stakeholders to achieve its commitments. This should include encouraging clients and portfolio companies to develop net zero strategies and plans, and to make progress against those, and including an escalation framework with consequences when engagement is ineffective. The challenges of net zero transition are such that it is important to engage with peers in the industry to, as appropriate, 1) exchange transition expertise and work on common challenges and 2) represent a sector's views cohesively to external stakeholders, such as clients and governments.

Principle 12: Implementation strategy. A transition plan should set out the implementing actions a firm will take in relation to its business operations, across existing and new products and services, the setting of cross-cutting policies and conditions to deliver on its objectives, as well as the resulting implications for its financial position, financial performance, and cash flows. A firm should consider and identify the key assumptions and external factors on which the plan depends, and the implications that delivering on the plan will have on its business model and finances. In developing their plans, financial sector firms should consider all elements of transition finance including how they finance climate solutions, aligned and aligning firms and managed phaseout.

Principle 13: Targets and metrics. A firm should establish a suite of credible targets and metrics and monitor progress against short, medium and long-term goals. Such metrics and targets should include both point in time assessments of current emissions, but also forward-looking metrics that seek to capture, prudently, the expected changes associated with implementing a transition plan, or of providing finance in support of a transition plan. This is important because transition necessarily takes a number of years, along differing pathways, and relying solely on point in time metrics may have unintended consequences.

4. Policy considerations

Principle 14: Global comparability. Regulatory expectations and requirements for transition planning will be set at the national level, but some global consistency in the requirements set around transition planning will be important to ensure group-level transition plans that are credible, comprehensive and comparable and that a broad set of policy objectives are met.

Principle 15: Disclosure. As increasingly recognised by disclosure frameworks, firms should disclose key qualitative and quantitative information from their transition planning - in the form of a transition plan or by including and signposting the information in other relevant releases - including on the key elements identified above namely governance, overall objective and strategy, implementation plan, engagement approach, and key metrics and targets.

Principle 16: Ensuring regulatory coherence. When engaging with transition plans and transition planning, policymakers should recognise that one plan may have multiple functions. In doing so, policymakers should consider the implications of their transition-related policy actions for the objectives of other relevant authorities.

These principles would in the GFANZ Secretariat's view set out a clear set of expectations around the role and nature of transition planning. In addition, we would propose that the G20 encourages the ISSB to develop more detailed guidance, in line with these principles, to accompany the IFRS-S2 requirement to disclose any climate-related transition plan the entity has.