

# Net Zero Transition Plans

HKMA Webinar on Climate Transition Plans

27 November 2023

**GFANZ**

Glasgow Financial Alliance for Net Zero

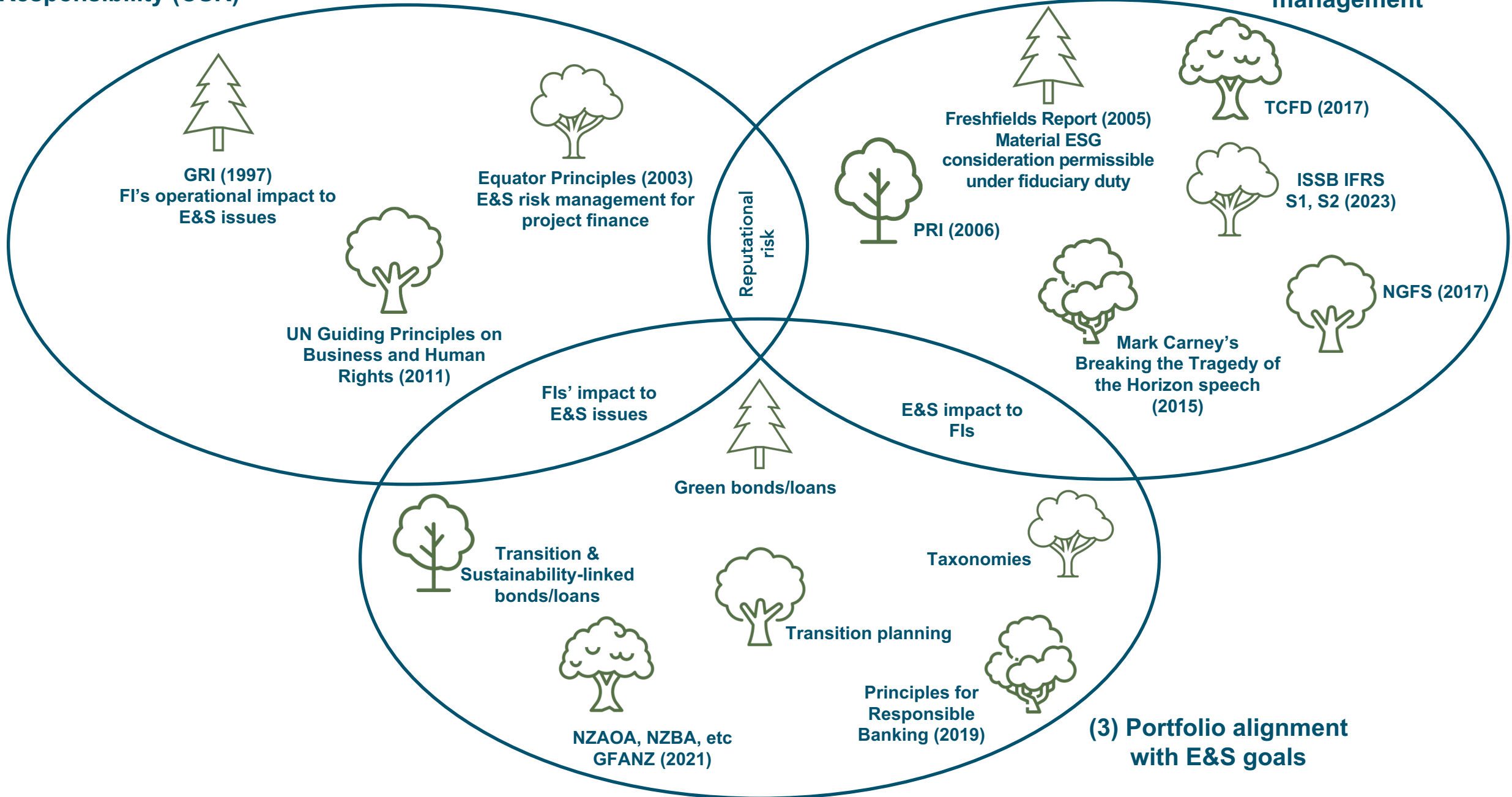
**Please join us on Slido!**

**To participate, scan the QR code:**



# (1) Corporate Social Responsibility (CSR)

# (2) Portfolio ESG risk management



**GRI (1997)**  
FI's operational impact to E&S issues



**Equator Principles (2003)**  
E&S risk management for project finance



**UN Guiding Principles on Business and Human Rights (2011)**

**FI's impact to E&S issues**



**Green bonds/loans**



**Transition & Sustainability-linked bonds/loans**



**NZAOA, NZBA, etc GFANZ (2021)**



**Transition planning**

**Principles for Responsible Banking (2019)**



**Freshfields Report (2005)**  
Material ESG consideration permissible under fiduciary duty



**PRI (2006)**



**Mark Carney's Breaking the Tragedy of the Horizon speech (2015)**



**TCFD (2017)**



**ISSB IFRS S1, S2 (2023)**



**NGFS (2017)**

**Reputational risk**

**E&S impact to FIs**

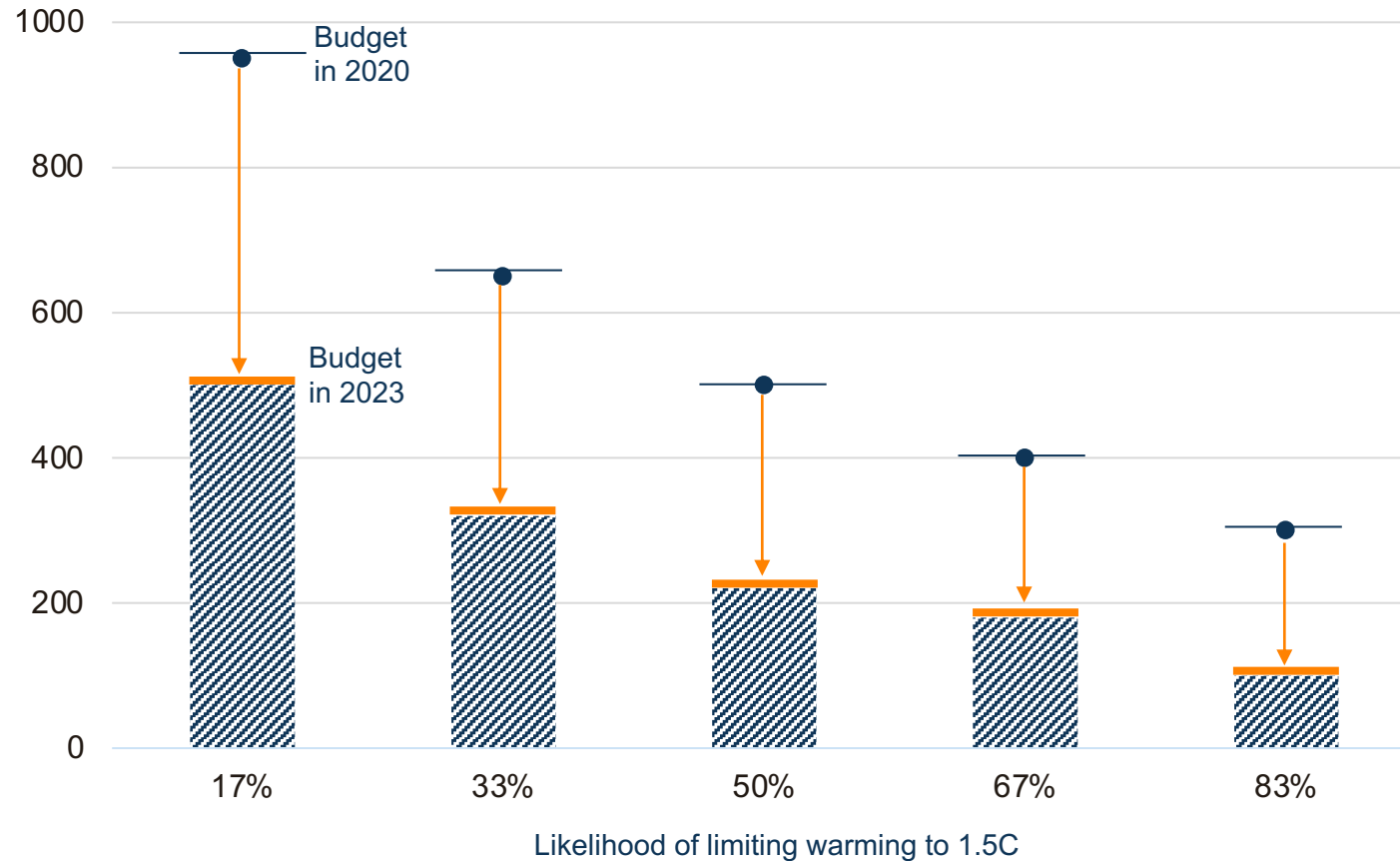


**Taxonomies**

# (3) Portfolio alignment with E&S goals

# Carbon Budget Being Rapidly Exhausted

## Estimated Remaining Carbon Budget (GtCO<sub>2</sub>)

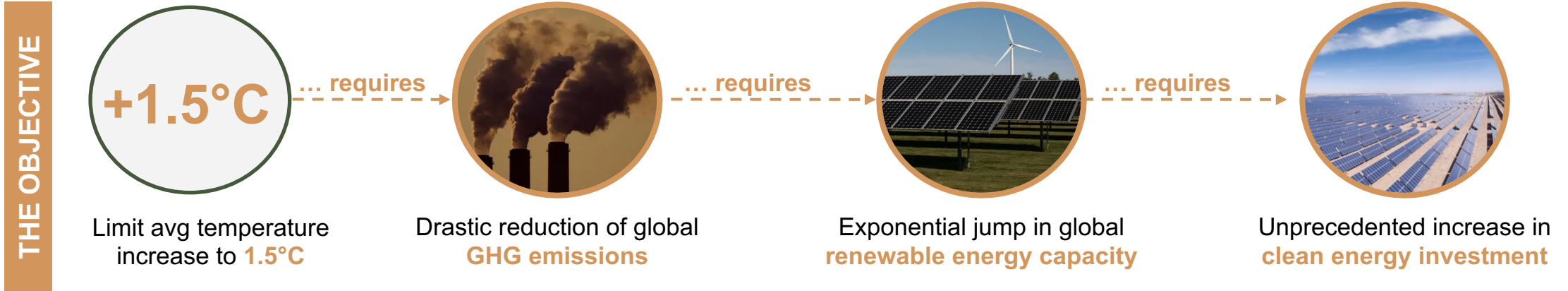


**1.4Gt**  
Annual Emissions Reductions Needed  
for Net-Zero by 2050

**10**  
Years of Lost Economic Growth

**2/3**  
Likelihood that temperatures  
breach 1.5°C by 2027

# Global transition finance needs to urgently scale to achieve net zero by 2050

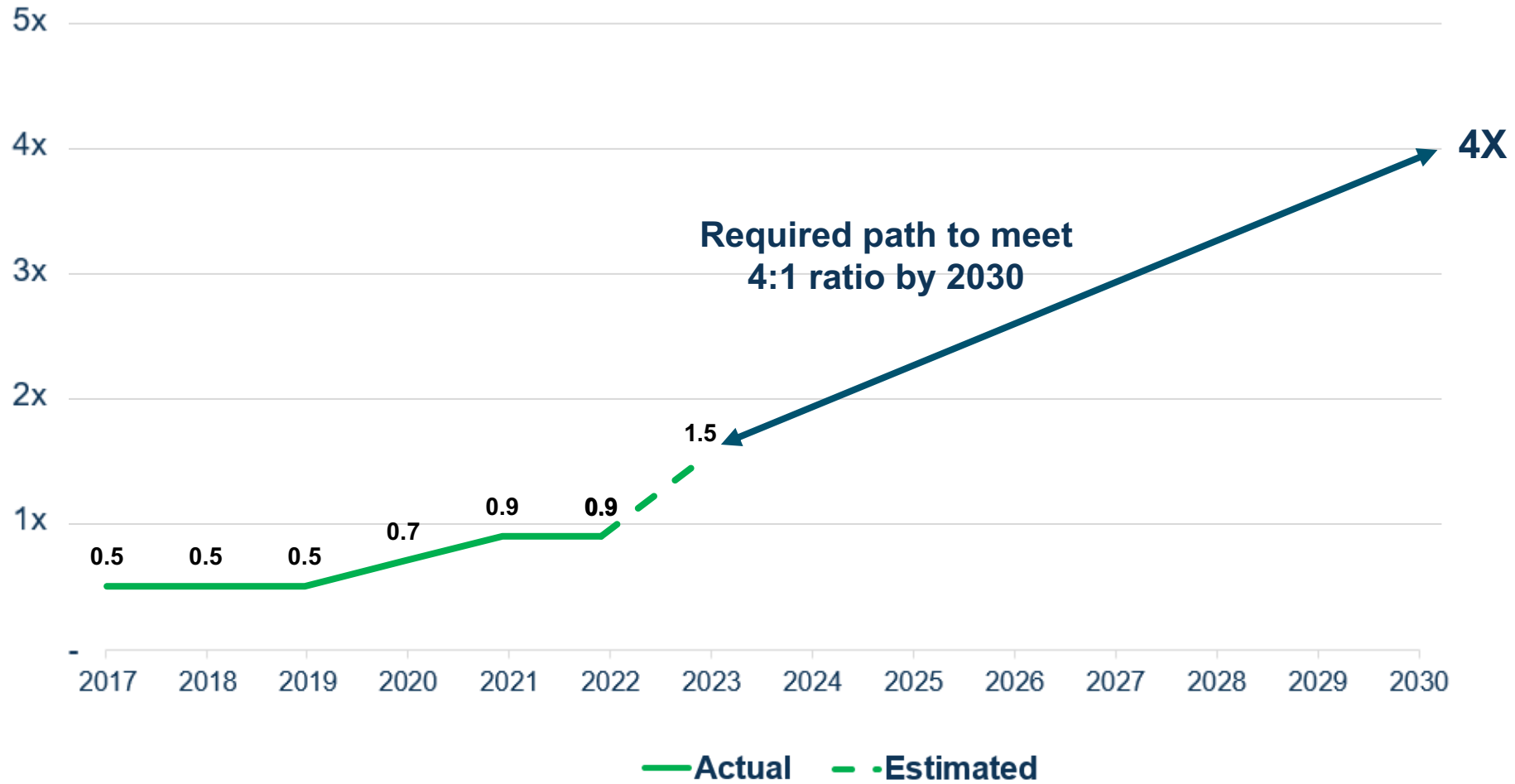


**BY THE NUMBERS**

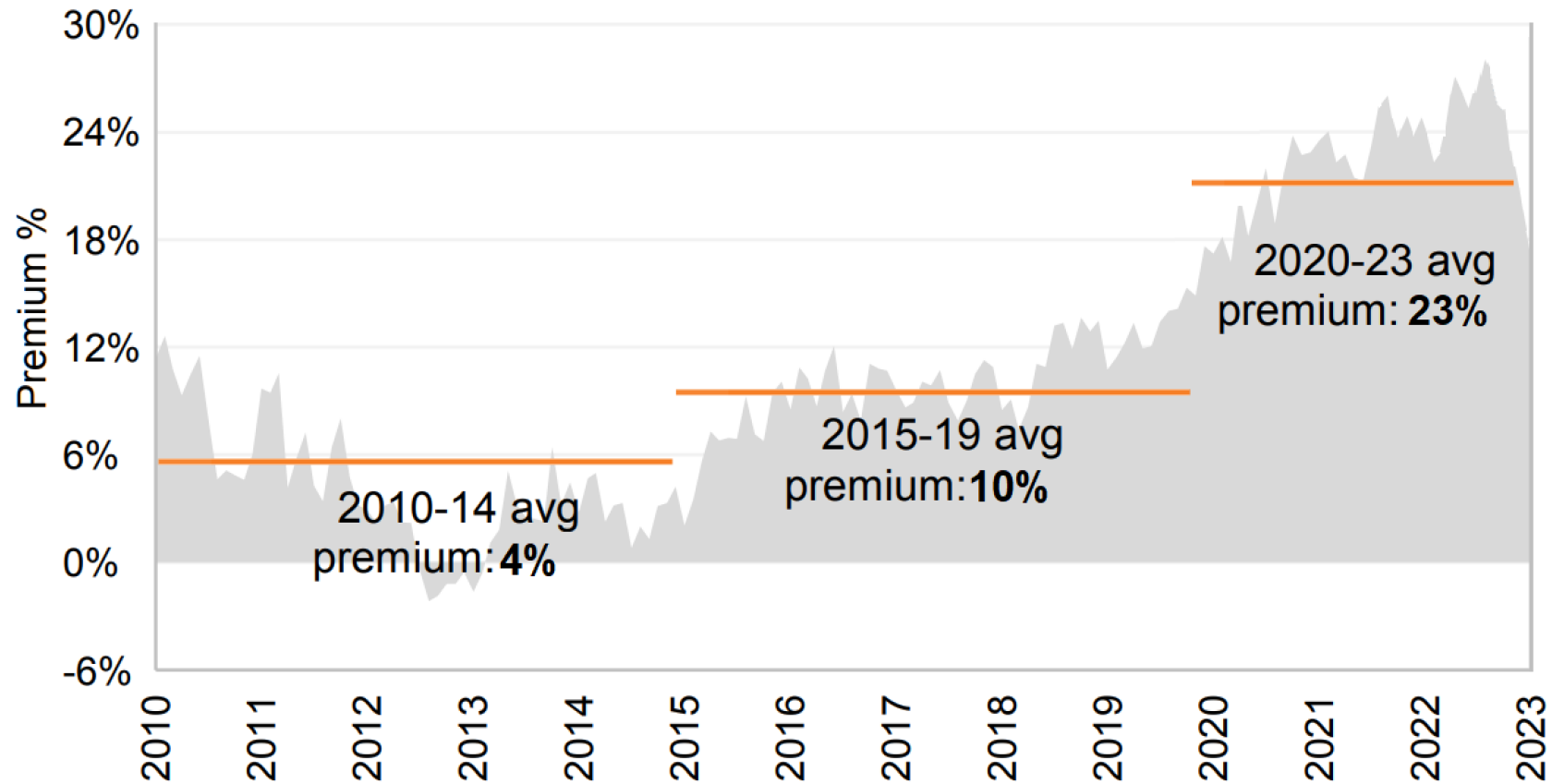
		GigaTonnes	GigaWatts	US\$ Billion
Current state	2022	<b>4.7 Gt</b> Total US CO2 emissions	<b>352 GW</b> US renewable energy capacity	<b>\$224 Bn</b> EMDEs clean energy investments
		<b>36.8 Gt</b> Total global CO2 emissions	<b>3,372 GW</b> Global renewable energy capacity	<b>\$1,439 Bn</b> Global clean energy investments
What needs to be achieved by 2050	2023 and on	<b>380 Gt</b> Remaining carbon budget from the start of 2023	<b>2,400 GW</b> Projected global renewable capacity additions (2022-2027) <b>3,800 GW</b> Global renewable capacity additions needed for net zero (2022-2027)	<b>\$1,000 Bn</b> EMDEs clean energy investments needed for net zero (2023-2030) p/a <b>\$4,500 Bn</b> Global clean energy investments needed for net zero (2023-2030) p/a

Sources: IEA, IRENA, Bloomberg NEF.  
 Note: Emissions numbers include only CO2 emissions. Remaining carbon budget based on GCP's estimates and refers to the amount of CO2 that can still be emitted for a 50% chance of staying below 1.5C of warming. Renewable energy capacity based on IRENA's annual report for 2022. Annual capacity additions of all renewables based on IEA NZE Scenario.

# Clean-to-Conventional Energy Investment Ratio must Rise Sharply

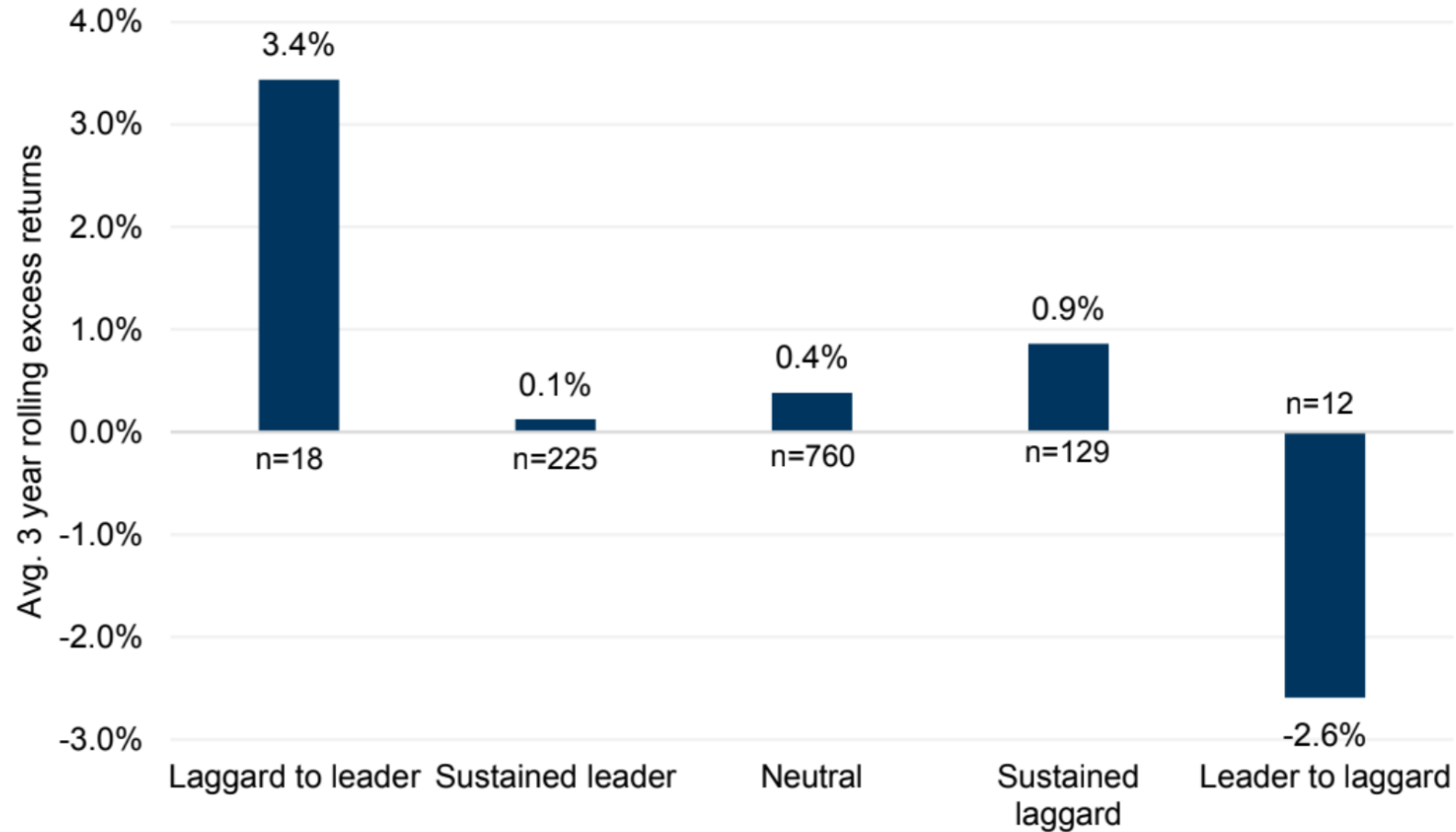


# Low Emitting Companies Trading at Rising Premiums Across Sectors

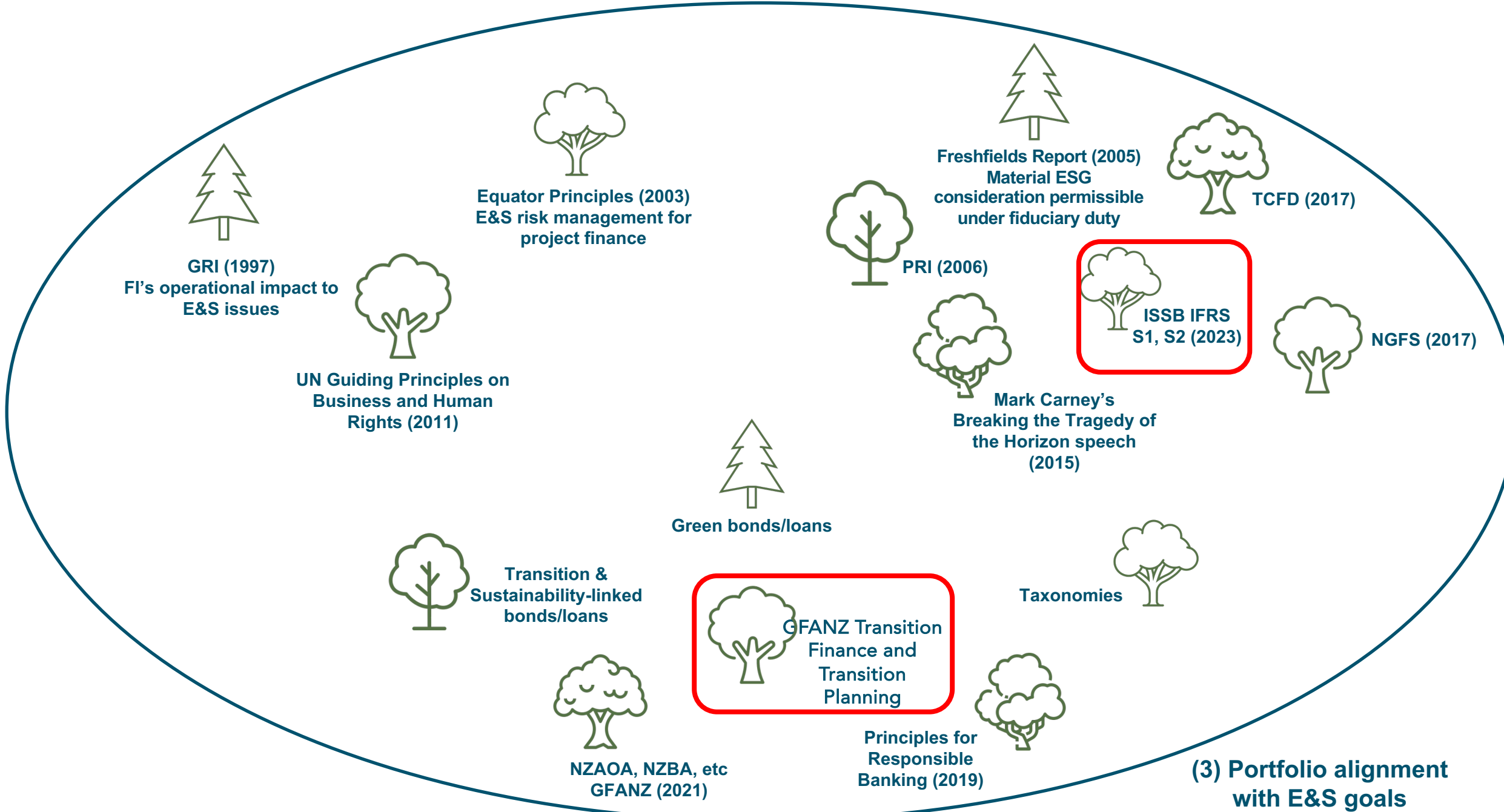


# Excess Returns for Companies Becoming Decarbonisation Leaders

Environmental and Social Laggards-to-Leaders Show the Most Significant Outperformance
















**(3) Portfolio alignment with E&S goals**

# Governments globally have started promoting transition finance and transition plans

G20 Sustainable Finance Working Group published a **Transition Finance Framework** in 2022 that provides five categories of high-level principles to guide transitional activities and investments: **(1) Identification, (2) Reporting and Disclosure, (3) Financial Instruments, (4) Policy Measures, (5) Assessing and Mitigating Negative Social and Economic Impacts**; of which a number encourage transition planning.

Region / Market	Authority	Regulatory source	Overview & transition plan alignment	Status, Date of Issuance
Japan 	Ministry of Economy, Trade and Industry	Basic Guidelines on Climate Transition Finance	Financing through transition finance should aim to implement the <b>achievement of transition strategies</b>	Voluntary guidelines released in 2021
ASEAN 	ASEAN Taxonomy Board	ASEAN Taxonomy for Sustainable Finance	<b>Transition finance listed as a use case</b> for the taxonomy	V2 updated in June 2023
Hong Kong 	Hong Kong Monetary Authority	Circular: Planning for Net Zero Transition	Provides <b>six high level principles</b> to guide FIs on transition planning, referencing international frameworks / recommendations including <b>GFANZ NZTP Framework</b>	August 2023
Malaysia 	Bank Negara Malaysia	Developing guidance on transition planning (WIP)	Developing guidance on transition planning to <b>promote alignment between FIs' business and risk strategic, public commitments and national plans, while safeguarding against greenwashing risk.</b> FIs should also consider <b>specific needs of their clients</b> in their TPs.	Announced Oct 2023
Singapore 	Monetary Authority of Singapore	Guidelines for Financial Institutions on Transition Planning	Sets out supervisory expectations for <b>banks, insurers and asset managers respectively</b> on transition planning including: <b>engagement over divestment, taking a multi-year approach, holistic approach to risk management and improved disclosure.</b>	Consultation period: Oct – Dec 2023
EU 	European Commission	Corporate Sustainability Reporting Directive (CSRD)	Companies are <b>required</b> to disclose a <b>transition plan for climate mitigation</b> if they have one. <b>Mandatory transition plans for large companies</b> are being discussed under the proposed Corporate Sustainability Due Diligence Directive (CSDDD).	July 2023
UK 	Financial Conduct Authority	Listing Rules – current: TCFD: Guidance on Metrics, Targets and Transition Plans. Future: TPT	Provides recommendations on <b>transition plan disclosures</b> spanning <b>governance, strategy, risk management, metrics &amp; targets.</b> The UK Government will consult on TPs for <b>large private &amp; public companies this year.</b> Next year the FCA will consult on <b>updated transition plan requirements based on the TPT,</b> to come into force on 1 January 2025.	October 2021, 'comply or explain' for listed issuers. Updated rules from 2025.
US 	US Treasury	Principles for Net-Zero Financing and Investment	Recommends that <b>FIs with net zero targets should publish net-zero transition plans. Refers to GFANZ and TPT Frameworks and Guidance as best practice.</b>	Voluntary, September 2023
Canada 	Sustainable Finance Action Council	Canadian Green and Transition Finance Taxonomy	Issuers under the taxonomy should commit to <b>net zero by 2050</b> and publish a <b>net-zero transition plan</b>	Voluntary taxonomy under development

# What is GFANZ?

Founded in 2021, to support the UN non-state actor initiative, GFANZ is a global coalition of leading financial institutions committed to supporting decarbonization of the global economy

## Glasgow Financial Alliance for Net Zero (GFANZ)

Net-Zero Banking Alliance (NZBA)

Paris Aligned Asset Owners (PAAO)

Net Zero Asset Managers Alliance (NZAM)

Net Zero Investment Consultant Alliance (NZICI)

Net-Zero Asset Owner Alliance (NZAOA)

Net Zero Financial Service Providers Alliance (NZFSPA)

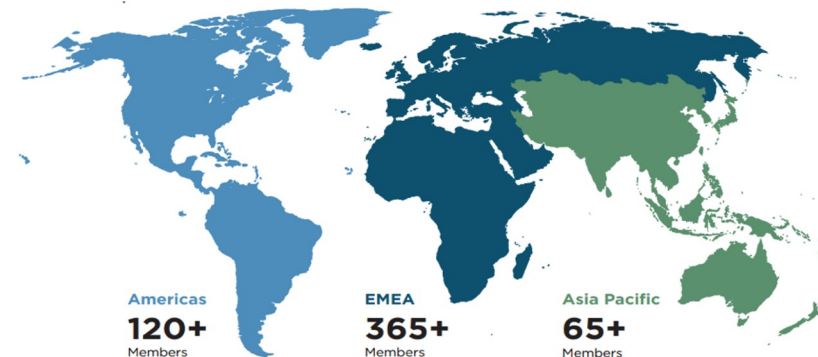
Net-Zero Insurance Alliance (NZIA)

Venture Climate Alliance

Sector-specific alliances

- Through the net zero-alliances, GFANZ unites **over 650 institutions** across the financial sector, including **banks, insurers, asset owners, asset managers, financial service providers and investment consultants**, spanning 50 countries and representing 40% of global private finance.
- Each financial institution has committed to **transitioning financed emissions to net zero by 2050**, in line with science-based pathways to 1.5C
- GFANZ **works with a wide network of stakeholders** in government, private sector, multilateral and development finance institutions, NGOs, and civil society, and reports to the UN and G20 Financial Stability Board

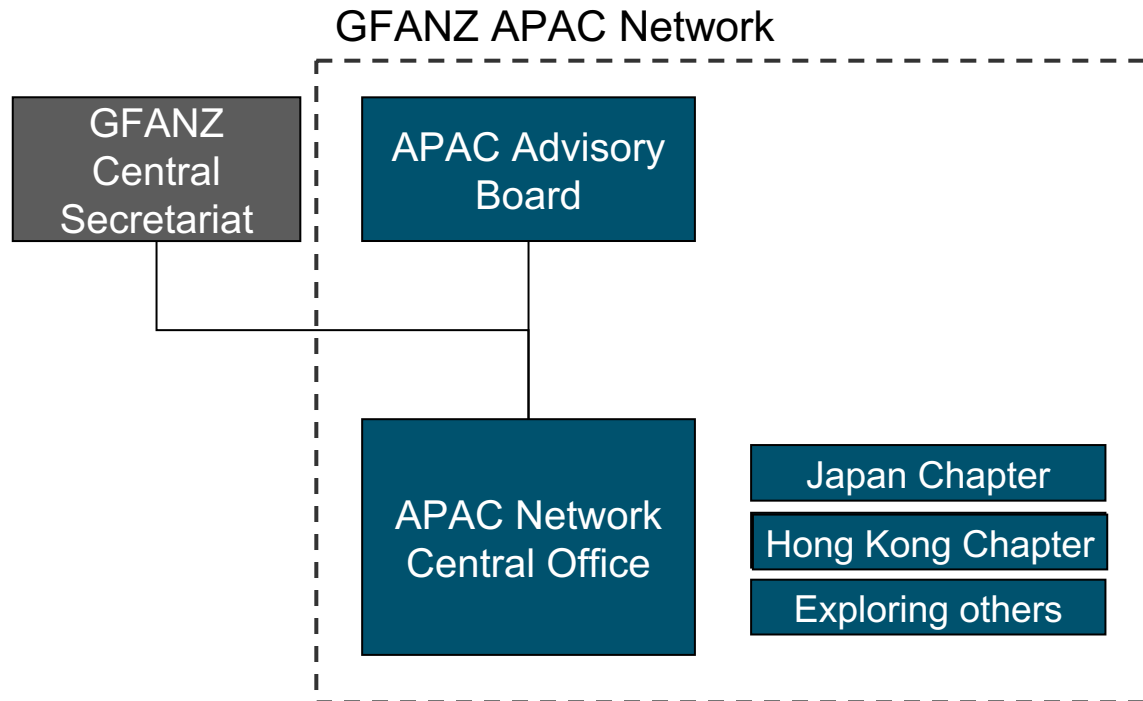
## GFANZ Alliance membership



<sup>1</sup> As of June 2023

# GFANZ Asia-Pacific Network Overview

The Asia-Pacific (APAC) Network was launched in June 2022 to bring together the financial sector across developed and emerging APAC to accelerate an inclusive and just transition to a net-zero economy



4 Guidelines for the setting-up of Country Chapter: Country size/significance/impact; Strength of local partner; Alignment to APAC Network; & Simplified information flow

This information is confidential and should not be shared by any recipient without the prior written consent of the GFANZ Secretariat

## APAC Advisory Board Members



**Ravi Menon**, Managing Director, Monetary Authority of Singapore  
(Advisory Board Chair)



**Woochong Um**, Managing Director General, Asia Development Bank



**Jin Liqun**, President & Chair of Board of Directors, Asian Infrastructure Investment Bank



**Anna Skarbek**, Chief Executive Officer, Climateworks Centre



**Eddie Yue**, Chief Executive, Hong Kong Monetary Authority



**Febrio Nathan Kacaribu**, Chairman, Fiscal Policy Agency, Indonesia Ministry of Finance



**Jong Kyoo Yoon**, Chairman & Chief Executive Officer, KB Financial Group



**Loh Boon Chye**, Chief Executive Officer, SGX Group



**Masamichi Kono**, Senior Advisor to GFANZ Japan Chapter; Trustee, IFRS; Senior Advisor, MUFG



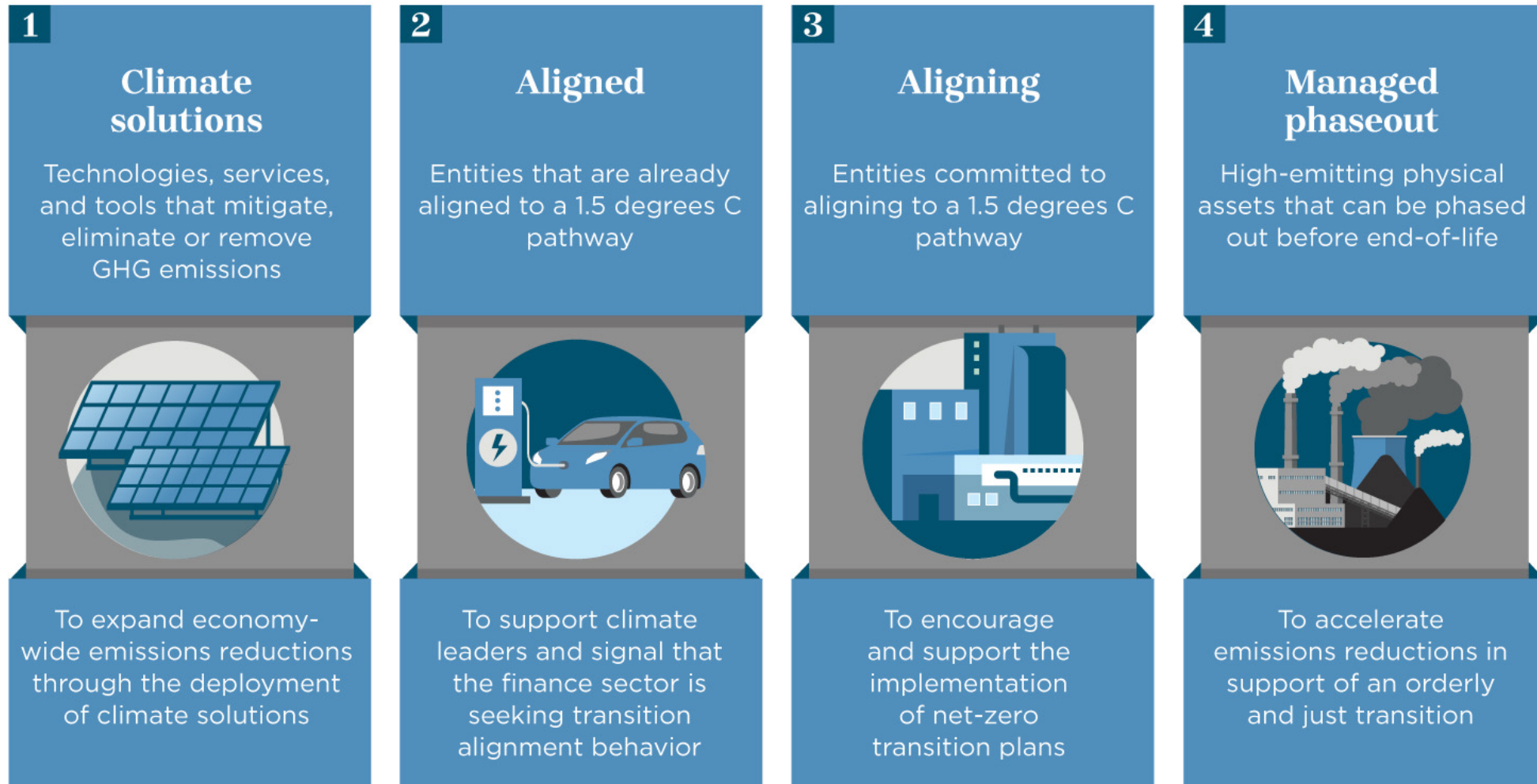
**Hiro Mizuno**, Founder & CEO, Good Steward Partners LLC; Former UN Special Envoy on Innovative Finance and Sustainable Investments 12

**Translating these long-term commitments into action requires clear, detailed plans to help ensure the steps taken by the financial sector result in real-economy emissions reductions.**

## **NET-ZERO TRANSITION PLAN**

- A set of goals, actions, and accountability mechanisms
- To align an organization's business activities with a pathway to net-zero GHG emissions
- Delivering real-economy emissions reductions in line with achieving global net zero.

# Transition finance should support real-economy emissions reductions as part of an orderly transition to net zero

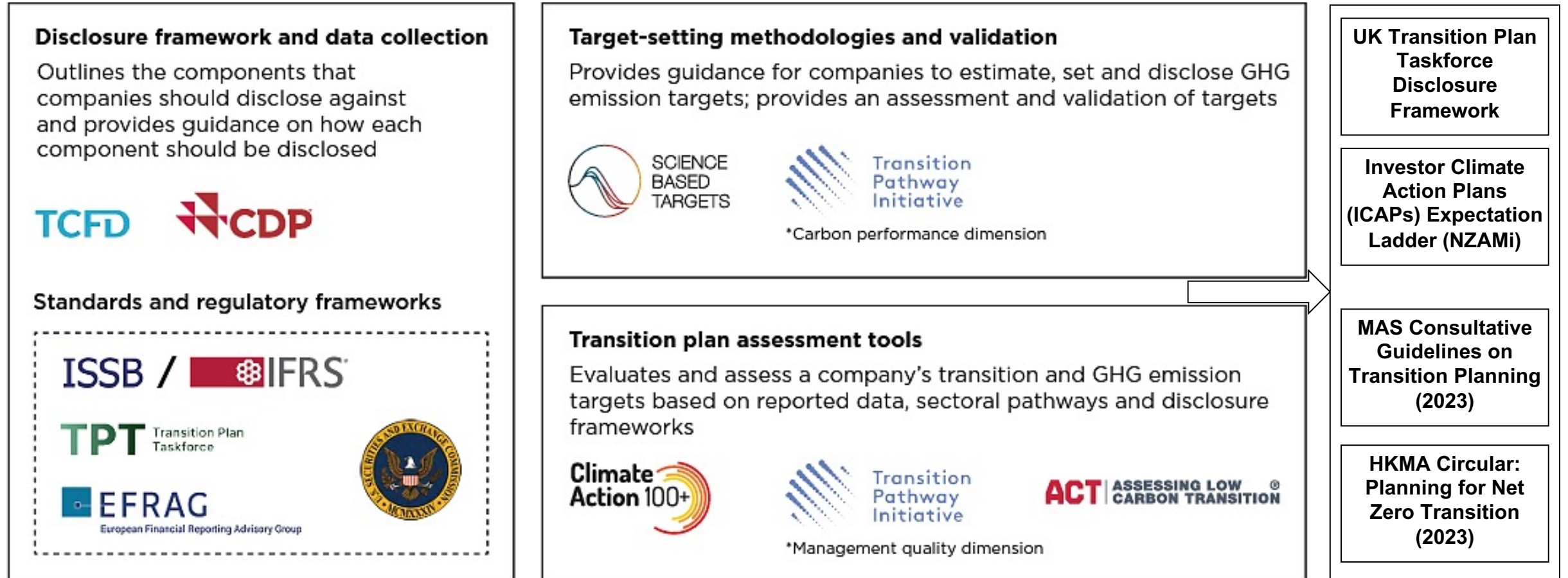


Note: GFANZ uses the term "orderly transition" to refer to a net-zero transition in which both private sector action and public policy changes are early and ambitious, thereby limiting economic disruption related to the transition (e.g., mismatch between renewable energy supply and energy demand). For reference, the Network for Greening the Financial System (NGFS), which develops climate scenarios used by regulators and others, defines "orderly scenarios" as those with "early, ambitious action to a net-zero GHG emissions economy," as opposed to disorderly scenarios (with "action that is late, disruptive, sudden and / or unanticipated"). In an orderly transition, both physical climate risks and transition risks are minimized relative to disorderly transitions or scenarios where planned emissions reductions are not achieved

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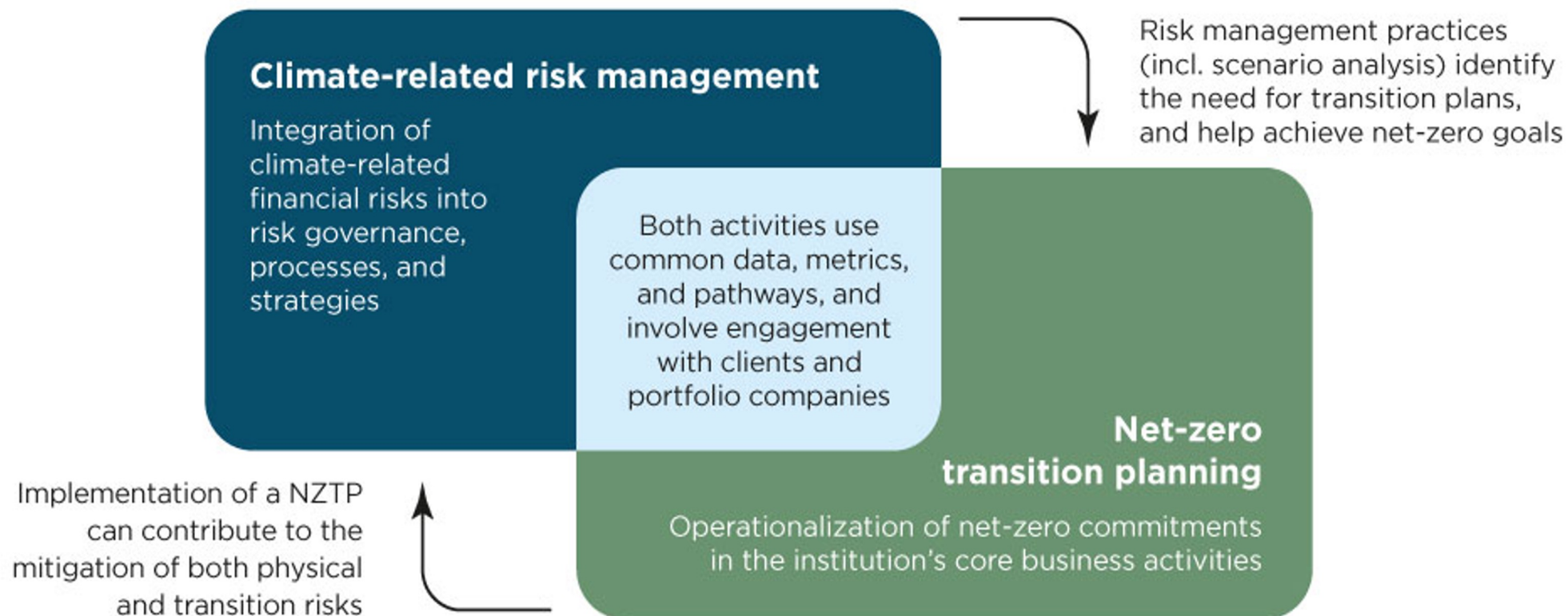
# GFANZ Transition Plan builds on existing initiatives

Figure 3: Global climate and transition initiatives classification



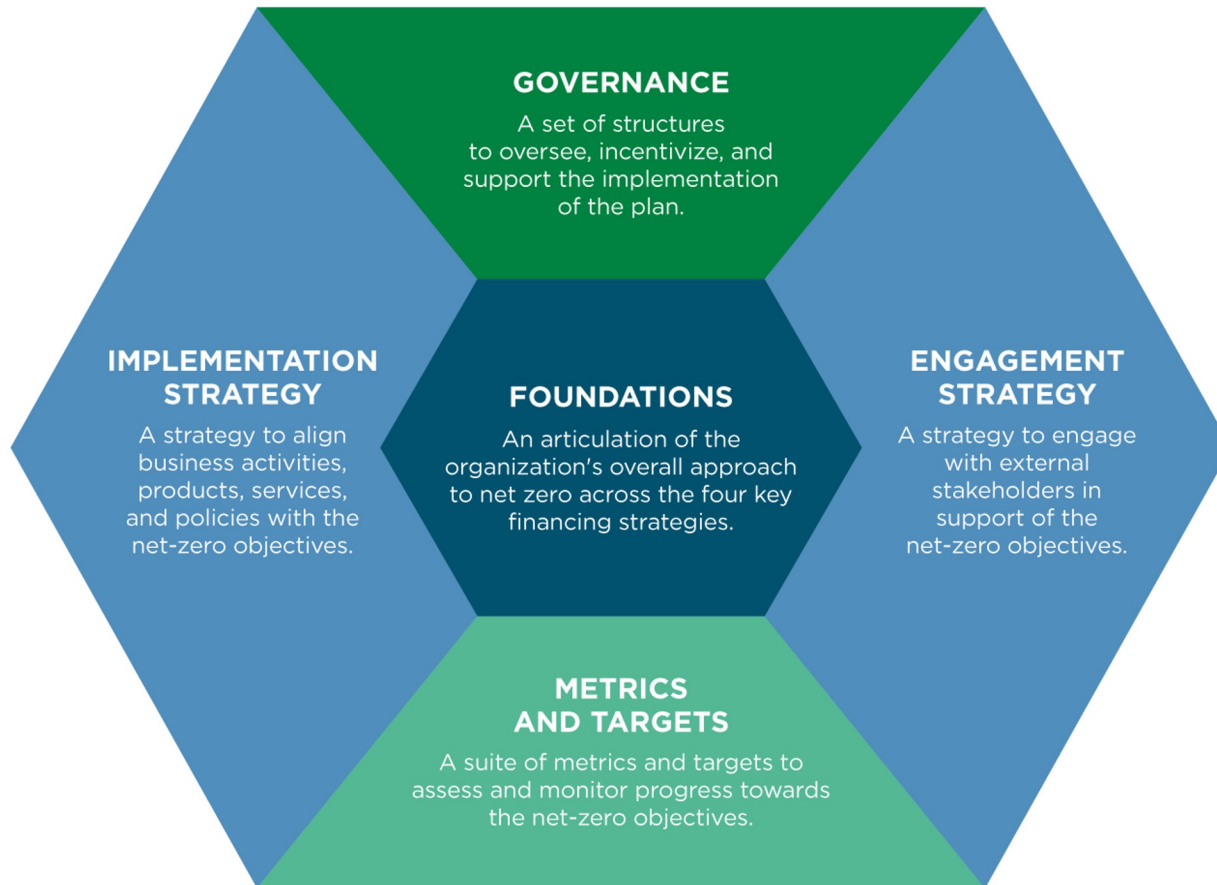
Source: GFANZ

# Climate-related risk vs Net-zero transition planning





# The GFANZ Net Zero Transition Plan Framework



## Foundations:

- Objectives and priorities



## Implementation Strategy:

- Products and services
- Activities and decision-making
- Policies and conditions



## Engagement Strategy:

- Clients and portfolio companies
- Industry
- Government and public sector



## Metrics and Targets:

- Metrics and targets



## Governance:

- Roles, responsibilities, and remuneration
- Skills and culture

# NZTP recommendations by theme and components

## Foundations

**1 Objectives and priorities**  
Define the organization's objectives to reach net zero by 2050 or sooner, in line with science-based pathways to limit warming to 1.5 degrees C, stating clearly defined and measurable interim and long-term targets and strategic timelines, and identify the priority financing strategies of net-zero transition action to enable real-economy emissions reduction.

## Implementation Strategy

**1 Products and services**  
Use existing and new products and services to support and increase clients' and portfolio companies' efforts to transition in line with 1.5 degree C net-zero pathways. Include accelerating and scaling the net-zero transition in the real-economy, providing transition-related education and advice, and supporting portfolio decarbonization in accordance with the institution's net-zero transition strategy.

**2 Activities and decision-making**  
Embed the financial institution's net-zero objectives and priorities in its core evaluation and decision-making tools and processes to support its net-zero commitment. This applies to both top-down/oversight structures and bottom-up tools and actions.

**3 Policies and conditions**  
Establish and apply policies and conditions on priority sectors and activities, such as thermal coal, oil and gas, and deforestation. Include other sectors and activities that are high-emitting, or otherwise harmful to the climate, to define business boundaries in line with the institution's net-zero objectives and priorities.

## Engagement Strategy

**1 Engagement with clients and portfolio companies**  
Proactively and constructively provide feedback and support to clients and portfolio companies to encourage net zero-aligned transition strategies, plans, and progress with an escalation framework with consequences when engagement is ineffective.

**2 Industry**  
Proactively engage with peers in the industry to:  
1) as appropriate, exchange transition expertise and collectively work on common challenges; and  
2) represent the financial sector's views cohesively to external stakeholders, such as clients and governments.

**3 Government and public sector**  
Direct and indirect lobbying and public-sector engagement should, in a consistent manner, support an orderly transition to net zero, and as appropriate, encourage consistency of clients' and portfolio companies' lobbying and advocacy efforts with the institution's own net-zero objectives.

## Metrics and Targets

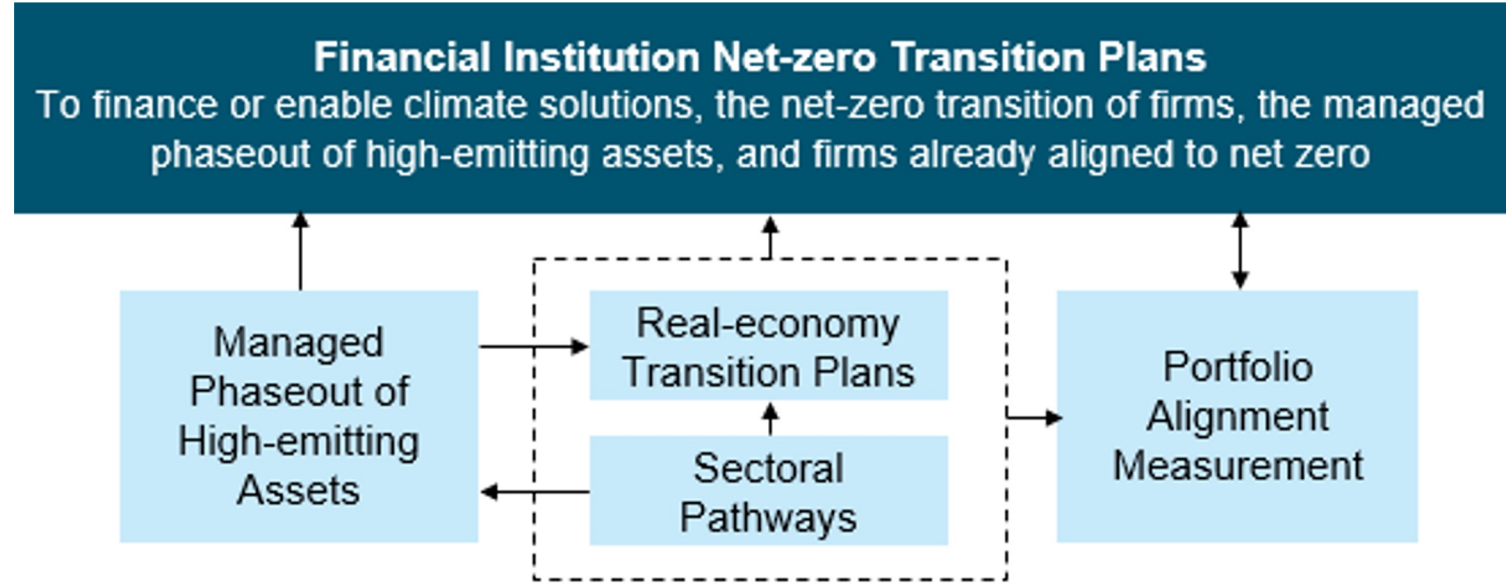
**1 Metrics and targets**  
Establish a suite of metrics and targets to drive execution of the net-zero transition plan and monitor progress of results in the near, medium, and long-term. Include metrics and targets focused on driving financial activity to support real-economy net-zero transition; on executing the transition plan; and on measuring changes in client and portfolio GHG emissions.

## Governance

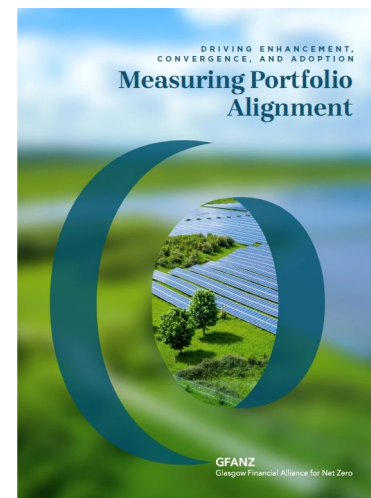
**1 Roles, responsibilities, and remuneration**  
Define roles for the Board or strategy oversight body and senior management ensuring they have ownership, oversight, and responsibility for the net-zero targets. Assign appropriate individuals and teams to all aspects of both design and delivery of the transition plan. Use remuneration incentives for all roles, where possible. Review the transition plan regularly to ensure material updates/developments are incorporated; challenges are reviewed as an opportunity to correct course; and implementation risks are properly managed.

**2 Skills and culture**  
Provide training and development support to the teams and individuals designing, implementing, and overseeing the plan so that they have sufficient skills and knowledge to perform their roles (including at the Board and senior management level). Implement a change management program and foster open communications to embed the net-zero transition plan into the organization's culture and practices.

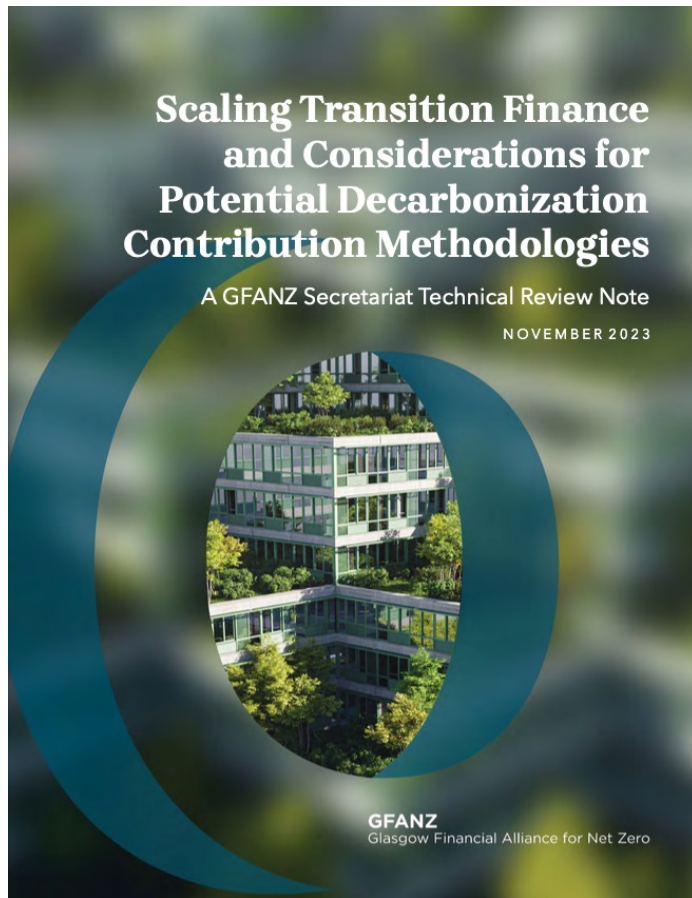
# Comprehensive technical guidance to turn commitments into action



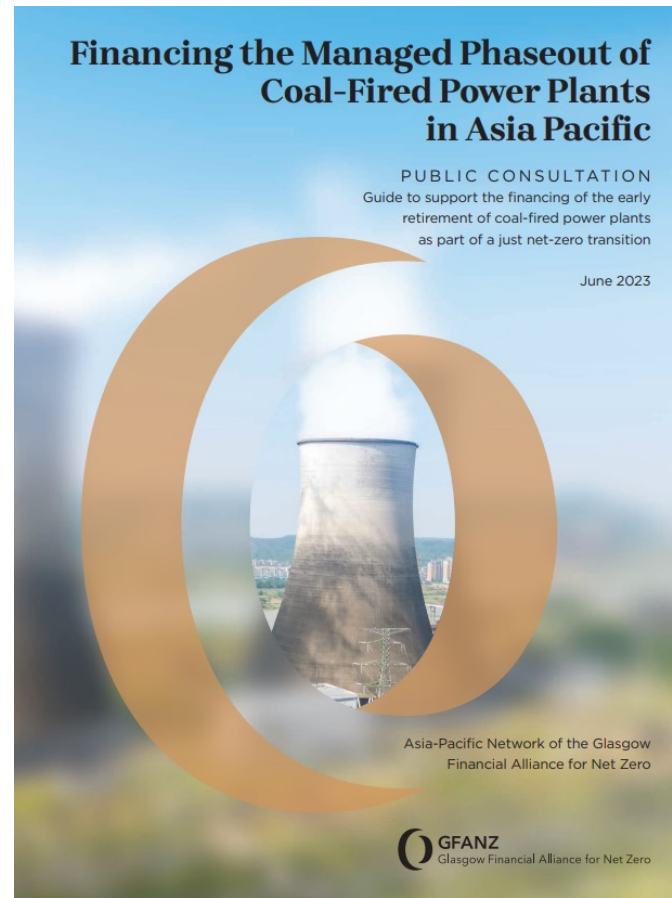
## 2022 publications



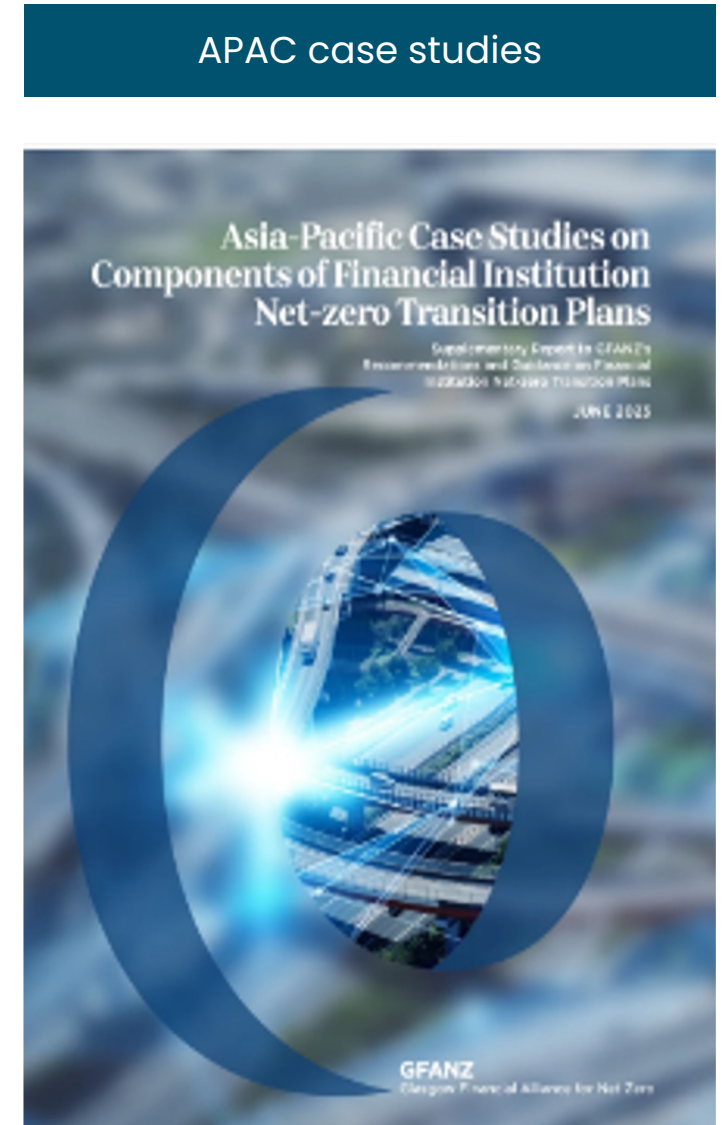
# Comprehensive technical guidance to turn commitments into action



December 2023



December 2023



June 2023

# GFANZ Net-Zero Transition Plan “workshops in a box”



## Basics

An introduction to net zero, GFANZ, and the NZTP

Where to start with the GFANZ NZTP?

The four key financing strategies

Foundations

Implementation Strategy

Engagement Strategy

Metrics and Targets

Governance

## GFANZ NZTP themes

## Real-economy transition plans

Basics for real-economy transition plans

Themes of real-economy transition plans – Part 1

Themes of real-economy transition plans – Part 2

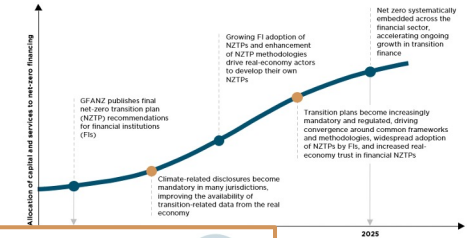
### Setting expectations of net-zero transition planning

An illustrative timeline of the global adoption of NZTP development

Very few organizations will have a complete net-zero plan at the beginning of the journey, and at the time of writing, there are areas of planning that are still being developed.

Organizations will undergo a process to implement all elements of a NZTP over time. The adoption of NZTPs is expected to increase progressively as data and methodologies for net-zero transition plans mature.

“Start Early and Learn by Doing”



### In this workshop, you have learned ...

- What is the Engagement Strategy theme and what is its importance?**
  - The transition cannot be achieved by one sector alone. The substantial influence the financial industry has in society should be leveraged in support of the transition via effective engagement with key stakeholders.
  - The Engagement Strategy theme outlines how financial institutions can work to ensure collective progress toward net zero by engaging with clients and portfolio companies, industry peers, and policymakers.
- What are characteristics of engagement with clients and portfolio companies to consider?**
  - An effective engagement strategy with clients and portfolio companies ideally includes the following:
    - Clear objectives: What are the desired outcomes expected from clients and portfolio companies?
    - Timing of engagement: What will be the timeline for the engagement activities? Will there be deadlines?
    - Coverage: What percentage of client and company portfolios will be covered by the activities?
    - Method of engagement: How will the engagement be carried out?
- What objectives could be pursued by engaging with industry peers?**
  - Engagement with industry peers could pursue each of the following three objectives:
    - Learning from peers
    - Representing a pan-financial sector view on critical issues
    - Signing on to public climate-transition-specific commitments
- What topics might be of relevance when engaging with government and the public sector?**
  - When engaging with the public sector on the net-zero transition, topics could include the following:
    - National net-zero targets and strategies
    - Aligning regulation with net-zero delivery
    - Pricing the externalities of carbon emissions
    - Accelerating the real-economy transition through incentives and policies
    - Mobilizing capital flows to emerging markets and developing economies
- What are the standards for real-economy transition plans as outlined by GFANZ?**
  - In its report *Expectations for Real-economy Transition Plans*, GFANZ makes available a practical guide for financial institutions engaging with real-economy companies and for these companies when building transition plans and disclosing progress against them.
  - The NZTP framework for real-economy firms is based on the same themes and components as for FIs with the exception of “value chain” to focus on supply chain as well as clients.

# 1. Component: Clients and portfolio companies



## Voluntary Guidance

- ▶ Financial institutions should develop an engagement strategy that **supports their overall net-zero commitment**.
- ▶ The strategy should be tailored to the institution's **business model, the needs and context of specific clients or portfolio companies**, and the **relationship** between the financial institution and the company.
- ▶ Goals of the engagement activity should be based on a **baseline** understanding of the company's business and climate impacts; **sectoral pathways** may be helpful to set benchmarks.
- ▶ A **clear escalation process** should outline consequences that may be taken **if the clients or portfolio companies are not responsive**. The nature of the escalation process will differ depending on the parties and their relationship.
- ▶ Where appropriate, financial institutions should consider **collaboration** (e.g., by joining industry groups) to promote a **clear and consistent engagement objective** and streamline the information request to the real-economy companies.
- ▶ **Feedback, insights, and outcomes** from engagement events should be reflected in the financial institution's transition plan.

## Characteristics of engagement strategies to consider

Characteristic	Description
<b>Clear objectives</b>	The desired behaviors, requests, or results from clients or portfolio companies (including implementing a net-zero transition plan)
<b>Timing of engagement</b>	Length of engagement, deadlines, and milestones to indicate progress
<b>Coverage</b>	Extent of engagement over client and company portfolios (e.g., as a percentage of the portfolio) and how to prioritize if 100% engagement has not been reached (e.g., by greatest potential influence or highest emissions)
<b>Method of engagement</b>	Including meetings, letters, conferences, educational material, and other forms of engagement selected based on engagement target and relationship (e.g., equity ownership, debt holder, client) and other considerations including levers available to the financial institution (e.g., side letters, insurance contracts) or length of time of the relationship or influence

# 1. Component: Clients and portfolio companies



## Example: Mizuho Bank's client engagement strategy to drive net-zero transition planning and climate-related risk management

### Highlights of Mizuho's NZTP<sup>18</sup>

1. **Net-zero GHG emissions reduction targets:** Become carbon neutral for Scope 1 and 2 (emissions from Mizuho's own business activities) by FY2030; begin setting mid-term (2030) targets for Scope 3 (emissions from financing and investment); achieve net zero by 2050 for Scope 3.
2. **Strengthening low-carbon business:** Strengthen support for the transition by engaging with clients and providing financial and non-financial solutions.
3. **Improving climate-related risk management:** Continually enhance risk management frameworks and policies that aim to create a business base resilient to climate change impacts.
4. **Strengthening capabilities through industry and stakeholder engagements:** Strengthen employee capabilities to achieve net zero through training and information sessions, participating in international initiatives, and cooperating with diverse stakeholders.

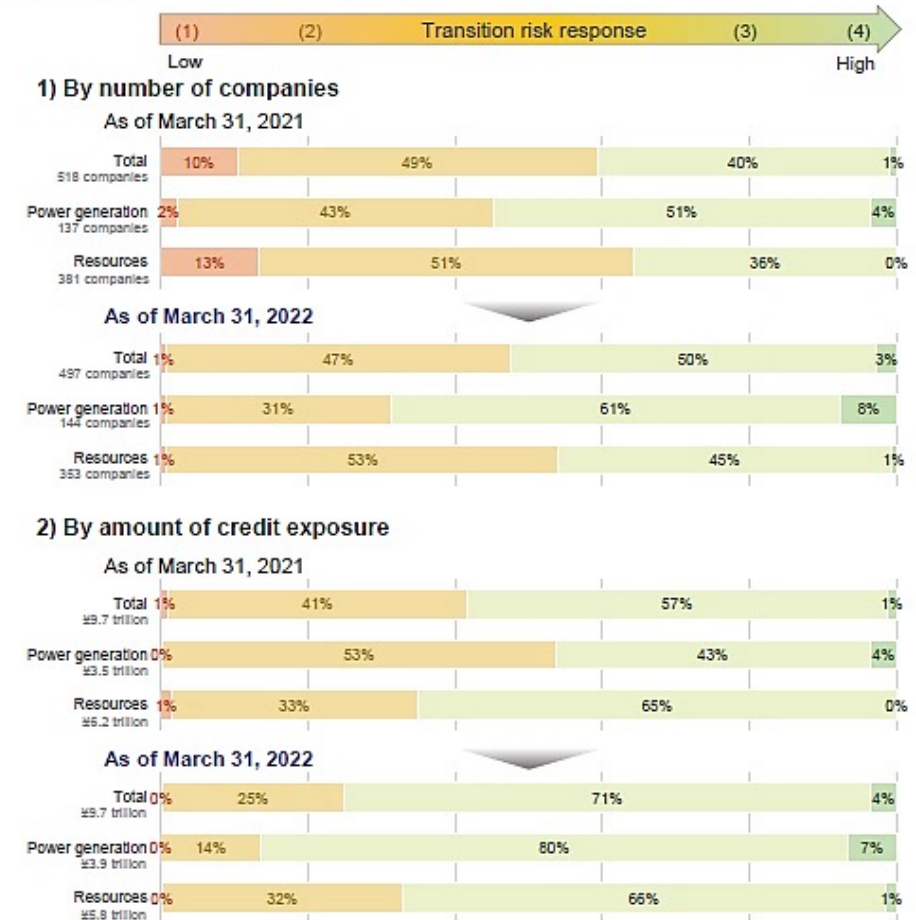
Mizuho's client engagement strengthens the bank's own climate risk management and journey to net zero, because it can better understand clients' response to transition risk. In particular, it monitors the progress of clients in the energy, power and resource sectors. Based on information obtained from client disclosures, interviews, and other sources, Mizuho assesses clients' responses to transition risk from Low to High, using the four classifications below.

- (1) Has no policy to address transition risk and has set no targets
- (2) Has a strategy to address transition risk and has set targets
- (3) Has set targets aligned to the Paris Agreement and is implementing specific initiatives
- (4) Has met the requirements in (3) and also obtained third-party certification

N.B The original example from the 'Workshops In a Box' resource is of Swedish Bank SEB – but for the purpose of engagement in Asia, the example has been changed to Mizuho who was featured in **APAC Case Studies on Components of Financial Institution Net-zero Transition Plans**.

Source: Mizuho TCFD Report 2022

Figure 5. Mizuho's client progress on addressing transition risk



Source: Mizuho Financial Group, Mizuho TCFD Report 2022



# Transition plans in practice – Asia



**Net Zero Asset Managers (NZAM) signatories (> 315, with USD \$64 trillion in assets) have committed to publish an annual transition plan, in line with Investor Agenda requirements.**

Date published	Institution	Overview / Highlights	Aligned with GFANZ NZTP Framework?	Source
2022, revised in 2023	Mizuho	<ul style="list-style-type: none"> <li>• <b>Highlights strategy and priorities across all components</b> (Foundations, Governance, Strategy, M&amp;T etc.), with further explanation on progress and next steps.</li> <li>• Comprehensive <b>client engagement</b> disclosure</li> </ul>	Y	<a href="#">TCFD Report 2023</a>
April 2023	MUFG	<ul style="list-style-type: none"> <li>• Sets out <b>milestones, plans and progress</b> on MUFG's climate journey from 2019-2040. Full transition plan to be published by end of FY 2023, prior to COP 28 – <b>"MUFG Transition Whitepaper 2.0"</b>.</li> </ul>	TBC – likely	<a href="#">Progress Report 2023</a>
Aug 2022	SMBC	<ul style="list-style-type: none"> <li>• Sets out roadmap to 2050 – identifying <b>key actions and focal areas</b>.</li> <li>• Comprehensive disclosure surrounding <b>promotion of decarbonization solutions</b> (implementation plan); and <b>engagement strategy</b> (process, topics, stakeholder groups).</li> </ul>	Y	<a href="#">TCFD Report 2023</a>
Sep 2023	Dai-ichi Life Insurance	<ul style="list-style-type: none"> <li>• Details clear <b>yearly progress against targets</b> on <b>Scope 3 financed emissions, climate solution investments, avoided GHG emissions, client engagement</b>.</li> </ul>	Y	<a href="#">Net Zero Transition Plan 2023</a>
2023	Prudential	<ul style="list-style-type: none"> <li>• <b>Phased approach</b> to achieving net zero by 2050, with specific priorities across focal areas such as <b>data quality and coverage, climate-related opportunities, decarbonization targets and pathways etc.</b></li> </ul>	Y	<a href="#">Climate Transition Plan 2023</a>
	HSBC	<i>In development (Q3 2023)</i>		
-	UOB	<i>In development</i>		
-	Nippon Life Insurance	<i>In development</i>		



