Roundtable “Transition Finance and Transition Planning for Financial Institutions and Corporates: Implementation experiences in the Asian context”

International Policy Forum on Climate Finance
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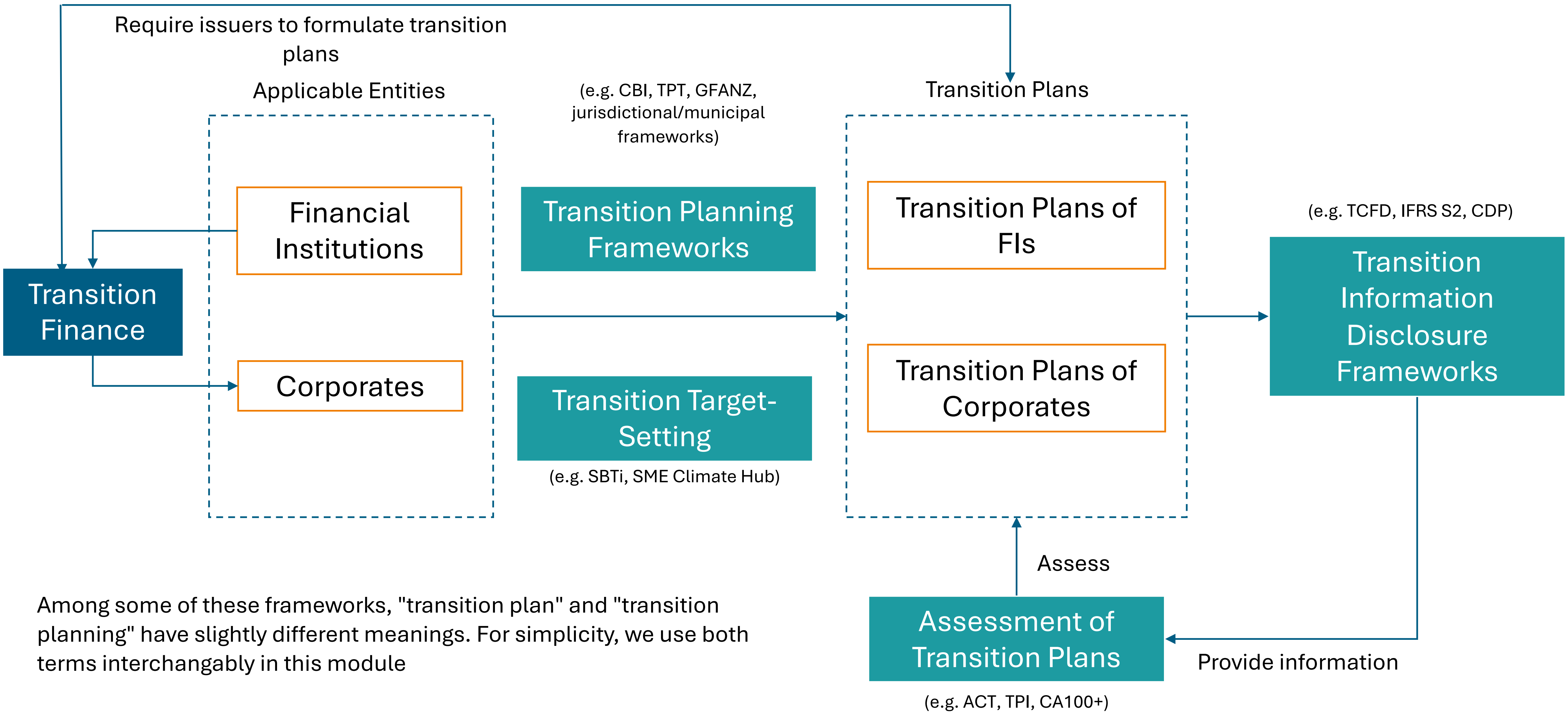
Outline

1. **Development of Transition Plans and Alignment with Best Practices and International Standards**
2. Geographical Disparities
3. Regulatory Use of Transition Plans to Assess Transition Risk & Mitigation Actions
4. Challenges for Regulators and Financial Institutions

Transition Planning, Target-Setting, Disclosure and Assessment



Among some of these frameworks, "transition plan" and "transition planning" have slightly different meanings. For simplicity, we use both terms interchangably in this module

Source: CASI

Purpose and Coverage of Key Frameworks

Framework	Use Case				
	Target-Setting & Validation	Assessment & Benchmarking	Disclosure	FIs & Investment (Transition Guide)	Financial Instruments
SBTi	√				
TPI	√	√			
TPT*			√		
GFANZ				√	
IFRS S2**			√		
CDP		√	√		
CA100+		√		√	
ACT	√	√		√	
ICMA			√	√	√
CBI				√	√

*The UK government has been considering mandating the disclosure of the transition plan for the whole economy

** IFRS S2 requires a corporate to disclose any transition plan (if available) including key assumptions and dependencies

Source: CASI

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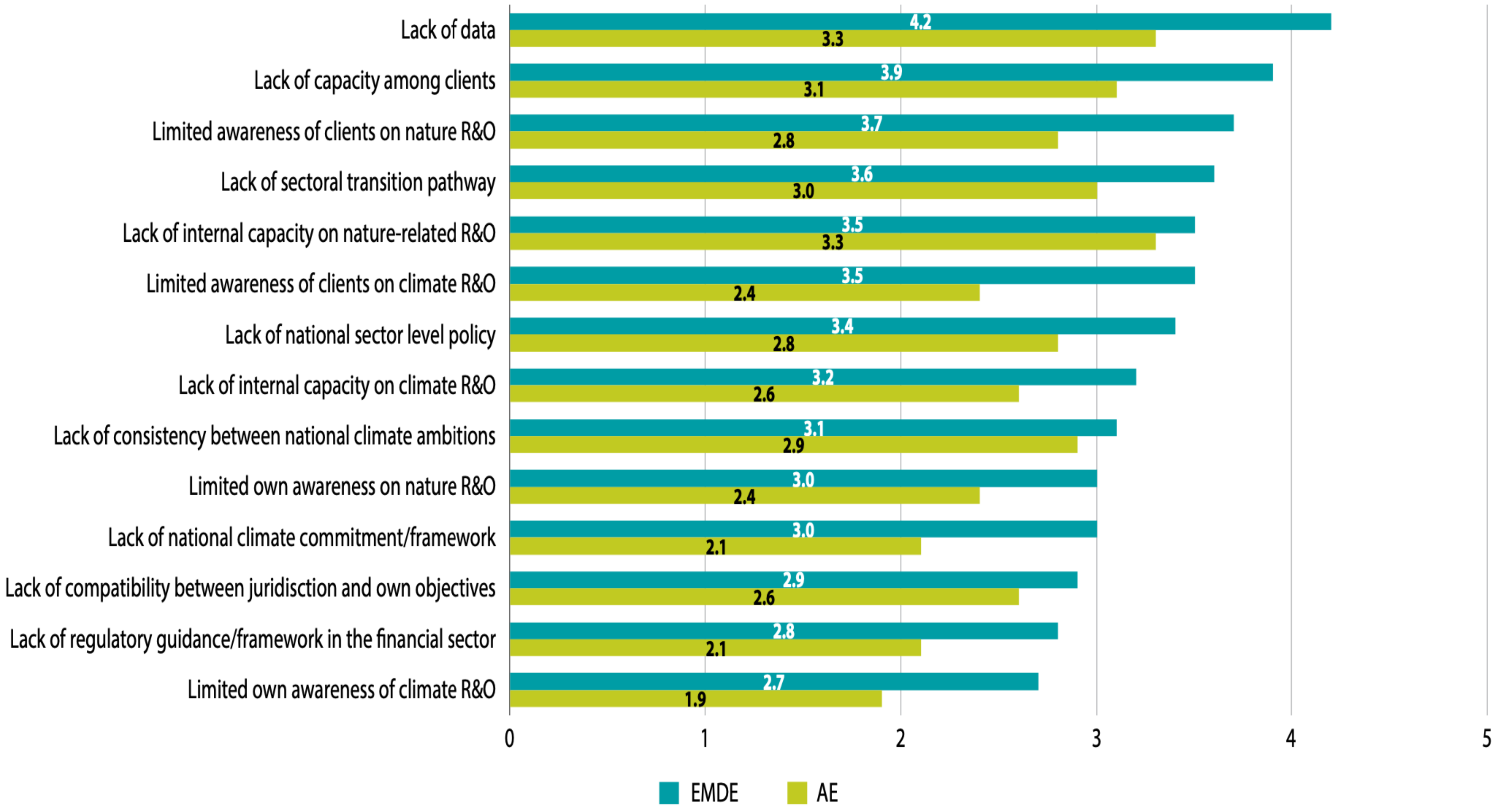
Differences in EMDEs & AEs

	EMDEs	AEs
Climate risk focus	Higher perceived exposure to physical/nature risks (avg. 3.8/3.6)	Greater focus on transition risks (avg. 3.3)
Transition planning stage	Early stages: 36% have transition plans vs. 58% in AEs	More advanced: 58% implemented plans, 33% publicly disclosed
Capacity & expertise	52% lack public decarbonization commitments; self-rate as "average"	Most have public commitments (100%) and higher self-assessed capacity
Objectives	Broader sustainability goals (adaptation, nature, social inclusion)	Primarily climate mitigation-focused (50% address both adaptation & mitigation)
Data & metrics	Limited GHG emissions data; lack standardized adaptation metrics	Better data availability; use established mitigation frameworks
National Policy Frameworks	Weaker alignment with national climate targets/pathways	Stronger policy frameworks with clear sectoral pathways
Unintended consequences	Risk of reduced access to transition finance if plans are poorly designed	Less concern about retrenchment effects

Source: NGFS

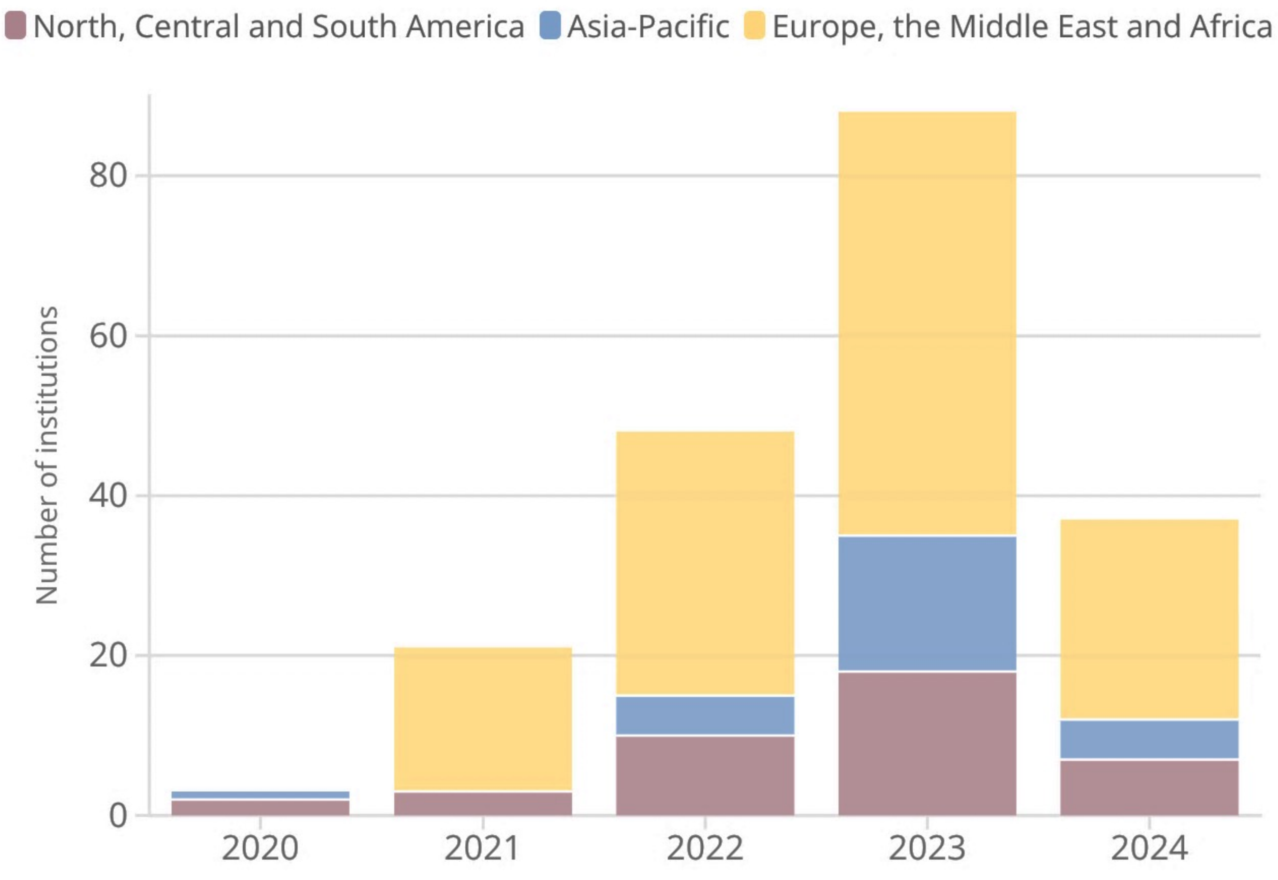
Challenges in Developing Transition Plan Between EMDEs & AEs



- For both groups, **the most significant challenge is the lack of relevant data**.
- In **EMDEs**, it is closely followed by **lack of capacity and expertise among clients (3.9)**

Source: NGFS

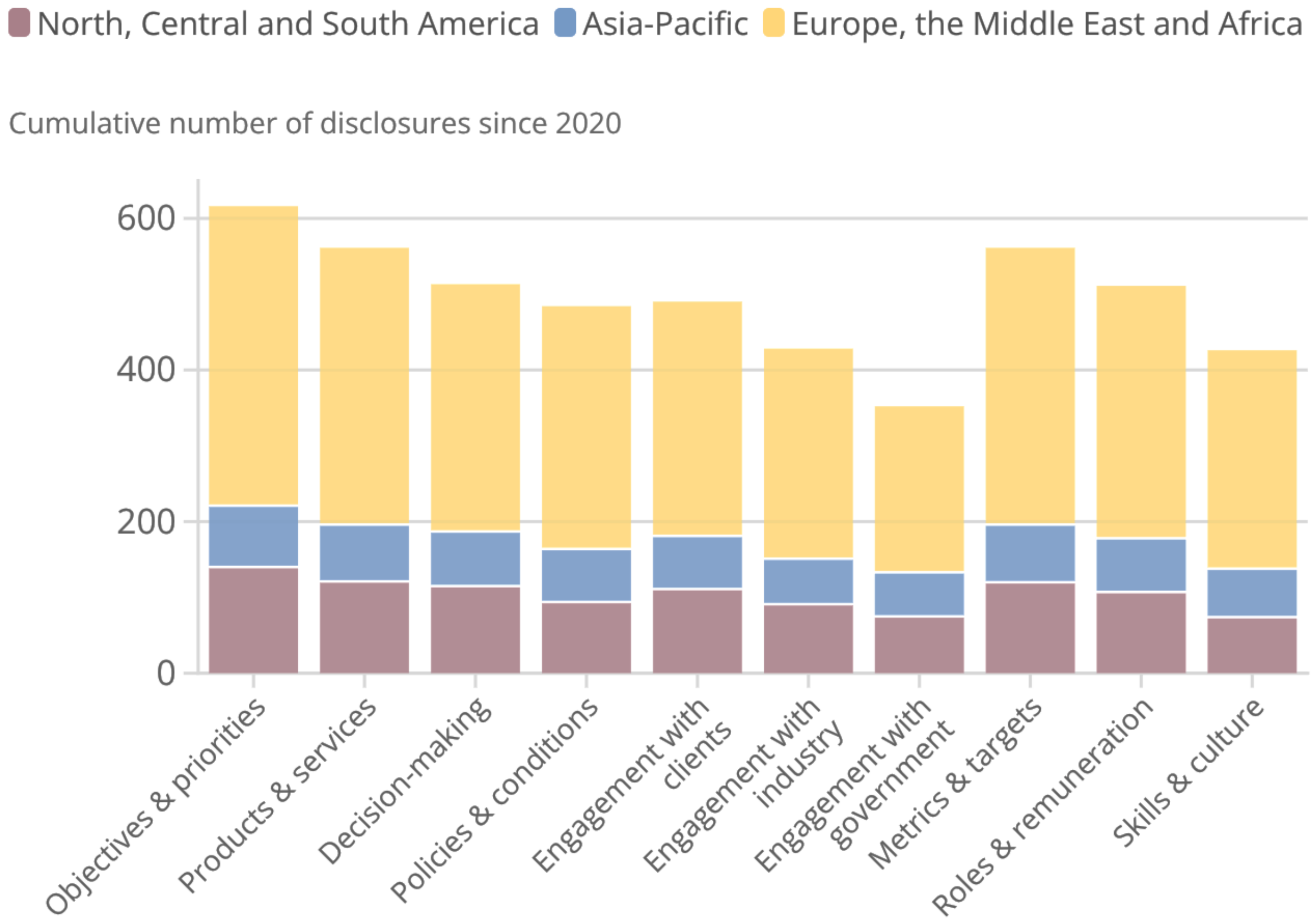
Regional Breakdown of Transition Plans Published by Financial Institutions



Source: Company publications, CDP, Bloomberg, BloombergNEF • 2024 Includes data up to August.
The data cover a universe of over 600 GFANZ sector alliance members participating in the Net Zero Asset Managers Initiative, Net Zero Banking Alliance, Net Zero Asset Owner Alliance and the Paris Aligned Asset Owners.

Source: FSB

Disclosure of Transition Plan Components by Financial Institutions

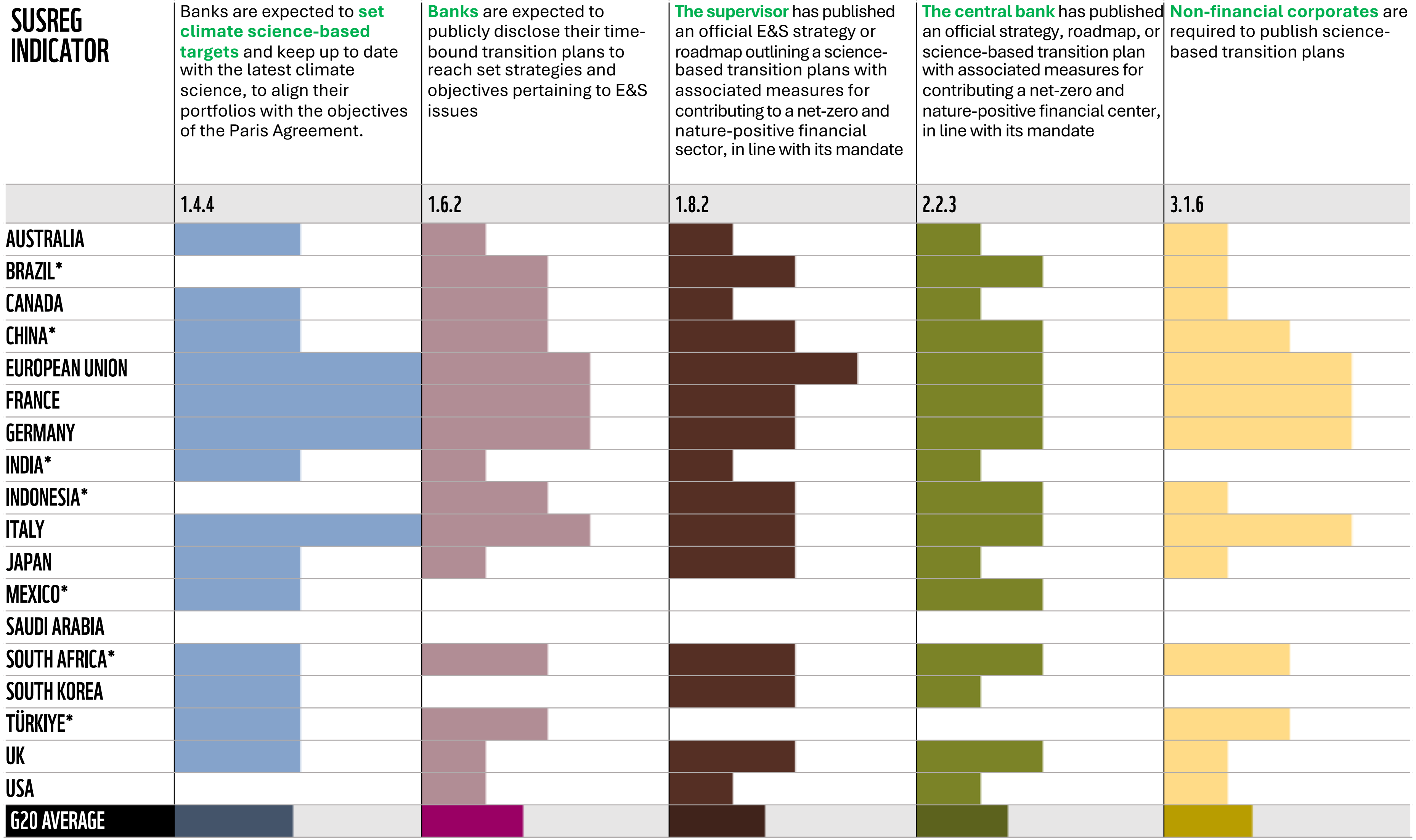


Source: Company publications, CDP, Bloomberg, BloombergNEF • The data cover a universe of over 600 GFANZ sector alliance members participating in the Net Zero Asset Managers Initiative, Net Zero Banking Alliance, Net Zero Asset Owner Alliance and the Paris Aligned Asset Owners.

Source: FSB

- **Top 3:** Objectives & priorities, products & services, and metrics & targets
- **Bottom 3:** Engagement with government, industry, skills and culture

G20 Recognizes Transition Plans as the Path to Global Sustainability



Source: WWF SUSREG

Note: Argentina and Russia are not shown in the table as we do not cover these countries in our assessment.
Compared to the T20 paper, which used SUSREG 2023 data, this analysis incorporates updated data as of July 2024. Unlike the T20 paper, the aggregation method here excludes social criteria.

** Developing countries with GNI per capita under US$14,005*

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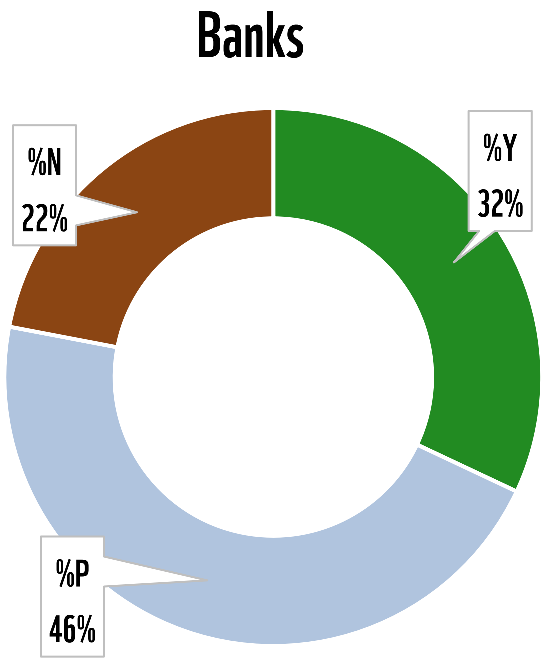
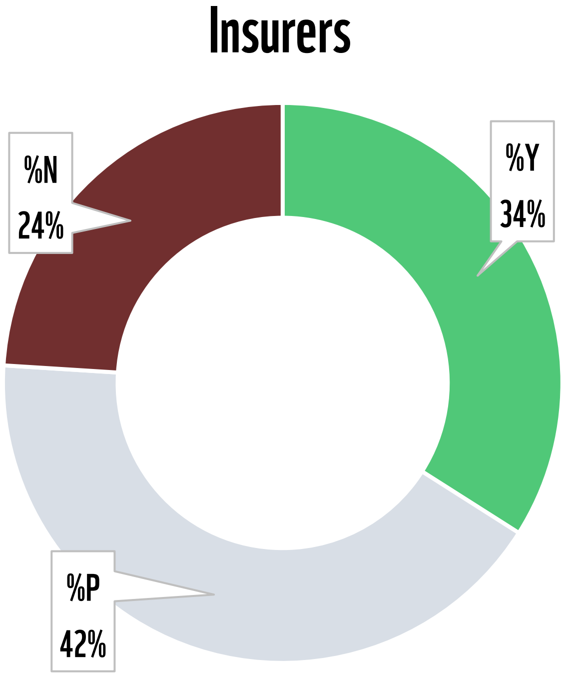
Banks' & Insurers' Disclosure of Transition Plan





Example:

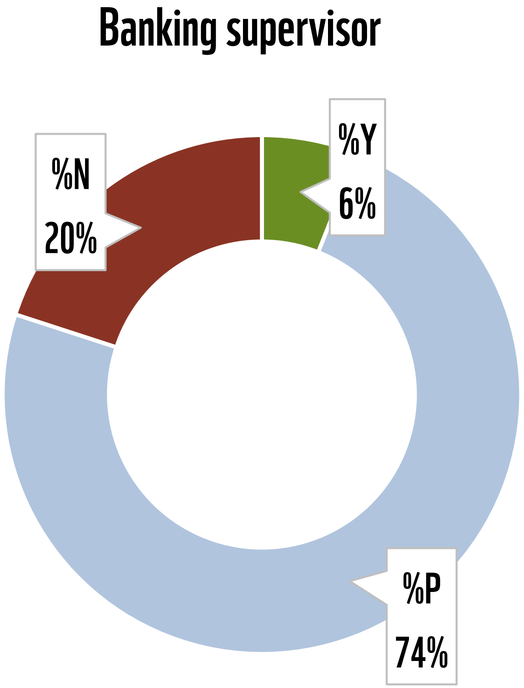
- **The OSFI of Canada** expect the Federally Regulated Financial Institution (FRFI) to develop and implement a Climate Transition Plan. In developing the Plan, the FRFI should assess the achievability of its Plan under different climate-related scenarios and how it would measure and assess its progress against the Plan (e.g., internal metrics and targets such as GHG emissions).

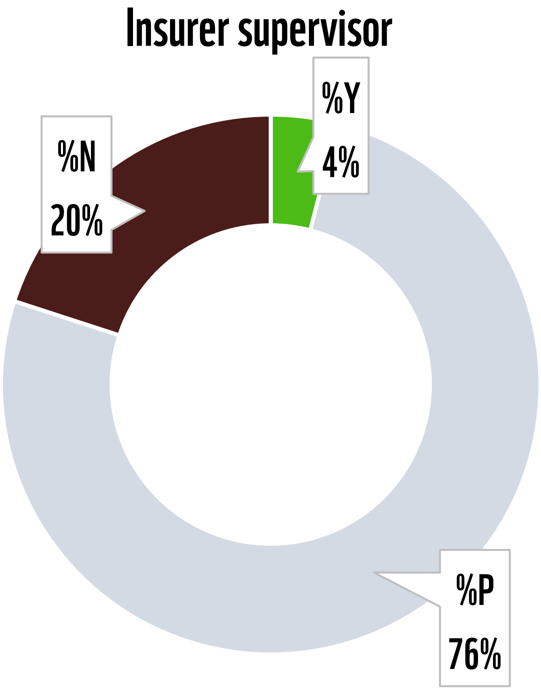
- **The Monetary Authority of Singapore (MAS)** issued a set of consultation papers that outline guidelines for transition planning by banks, insurers, and asset managers in October 2023.

Note: The numbers displayed in the graph represent the percentage of countries in the SUSREG scope that do not meet (N), partially meet (P), and fully meet (Y) the SUSREG criteria on the respective indicators. Only for climate assessment, excluding environment and social assessment.

Source: WWF SUSREG

Financial Supervisors' Disclosure of Transition Plan





- Most financial supervisors have achieved a P (partial) score, indicating **they have published strategies or roadmaps addressing climate-related operations.**
- However, these strategies **have yet to fully align with credible, science-based transition plan.**

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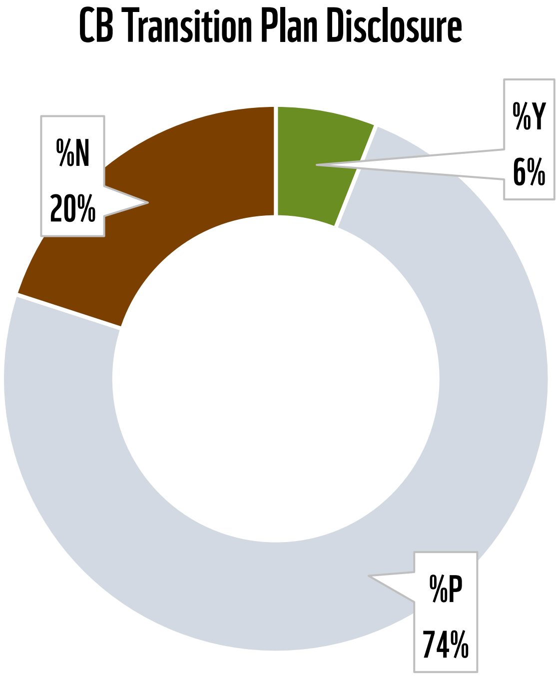
Source: WWF SUSREG

Central Banks’ Disclosure of Transition Plan



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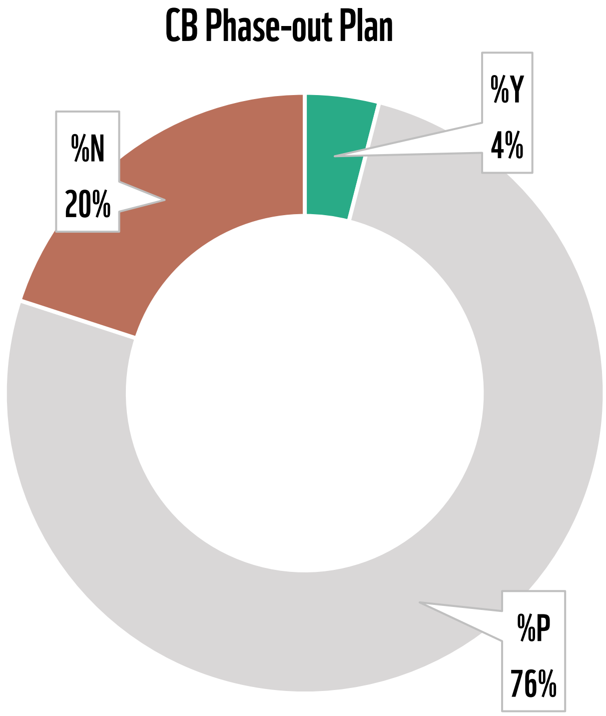
Source: WWF SUSREG

Example:

- **Bank of England** published their **Climate Transition Plan** (CTP) in July 2023 to sets out their approach to delivering the Bank’s net zero target for physical operations.
- The climate transition plan lays out ambitions for the Bank to reduce greenhouse gas emissions from its physical operations by 90% by 2040, with interim milestones to reduce emissions every five years.
- For development of the carbon emissions trajectories the Bank has used the **Science Based Targets** methodology.
- In drawing together the plan, supporting processes, and documentation, the Bank has followed the recently released **ISO Net Zero guidelines**.
- The CTP Format and content have also been aligned to the draft disclosure standards set out in the **UK Transition Plan Taskforce guidance**.

Central Banks' Phase-Out Plan



Example:

The Monetary Authority of Singapore (MAS) excluded investments in companies that derive 10% or more of their revenue from thermal coal mining and oil sands activities.

Through this, MAS aims to reduce the weighted average carbon intensity of its equities portfolio by up to 50% by FY2030 compared to FY2018.

In 2022, MAS began excluding such companies, and by 2023, it had fully divested from these holdings.

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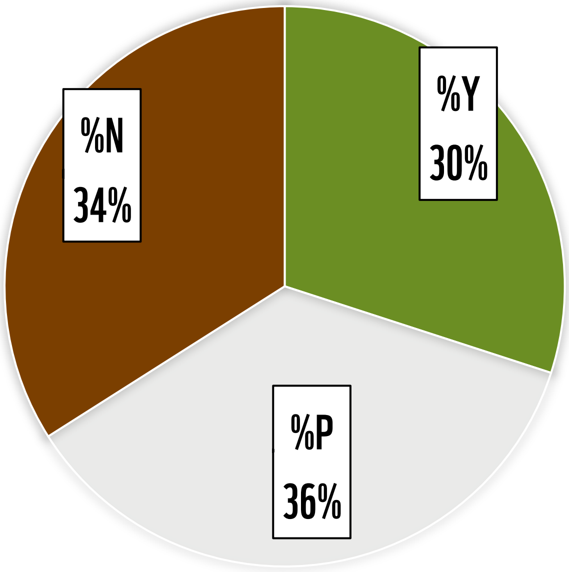
Source: WWF SUSREG

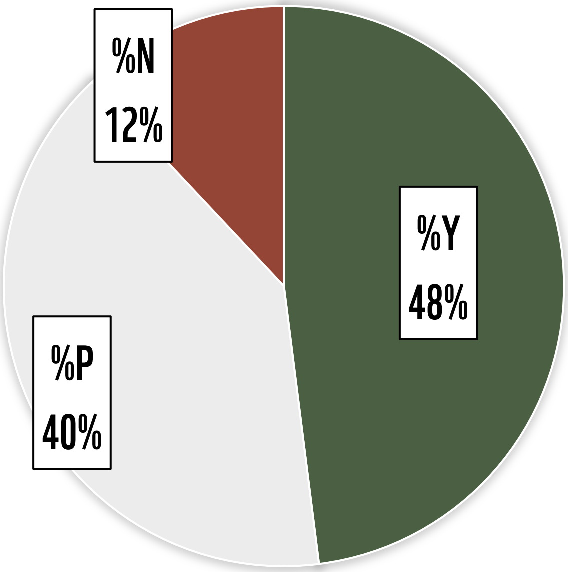
Climate Target Setting, Climate-related Implementation Strategy and Active Client Engagement

Climate Target Setting



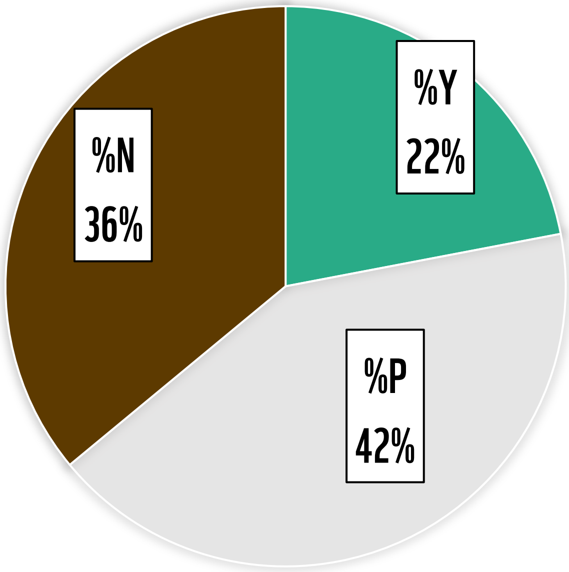
The expectation for banks **to set climate science-based targets aligned with the Paris Agreement** is mandated in several countries.

Climate-related Implementation Strategy



Almost half of observed countries already mandating banks to include **information on their climate strategy and its implementation in annual report**, including non-achieved targets and taken measures.

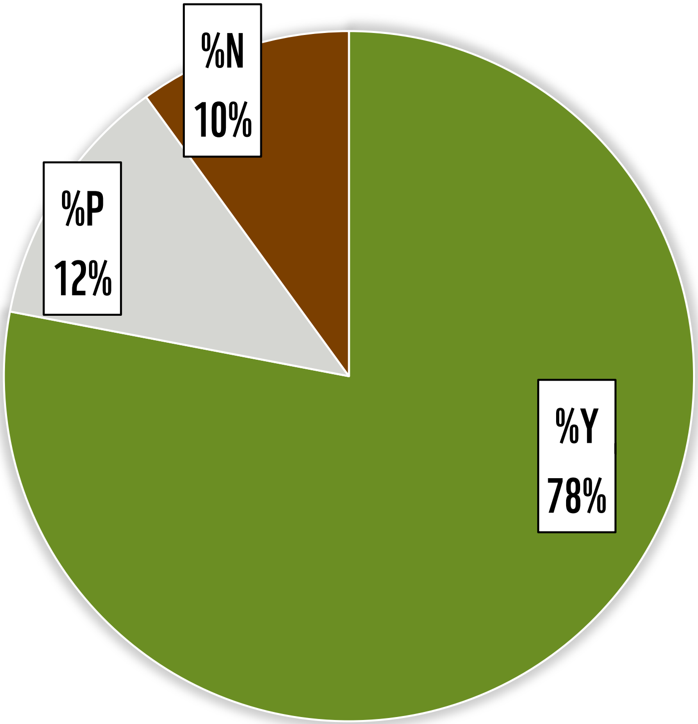
Active Client Engagement



In order to adequately identify, assess and mitigate the climate risks and impacts that they are exposed to through their business relationships, banks should be expected to develop **policies outlining expectations towards their clients.**

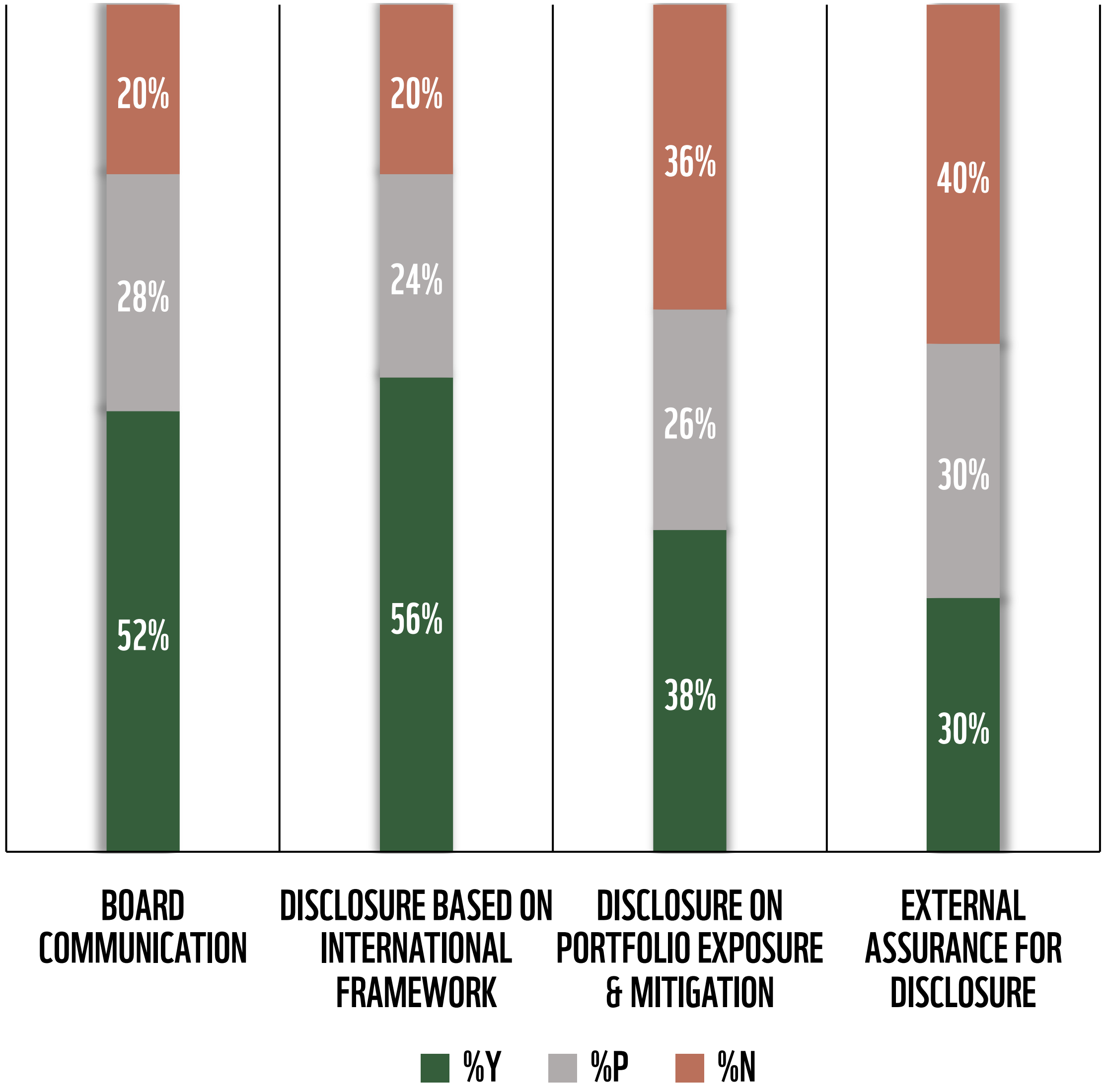
Source: WWF SUSREG

Integration of Climate Risk into Core Business

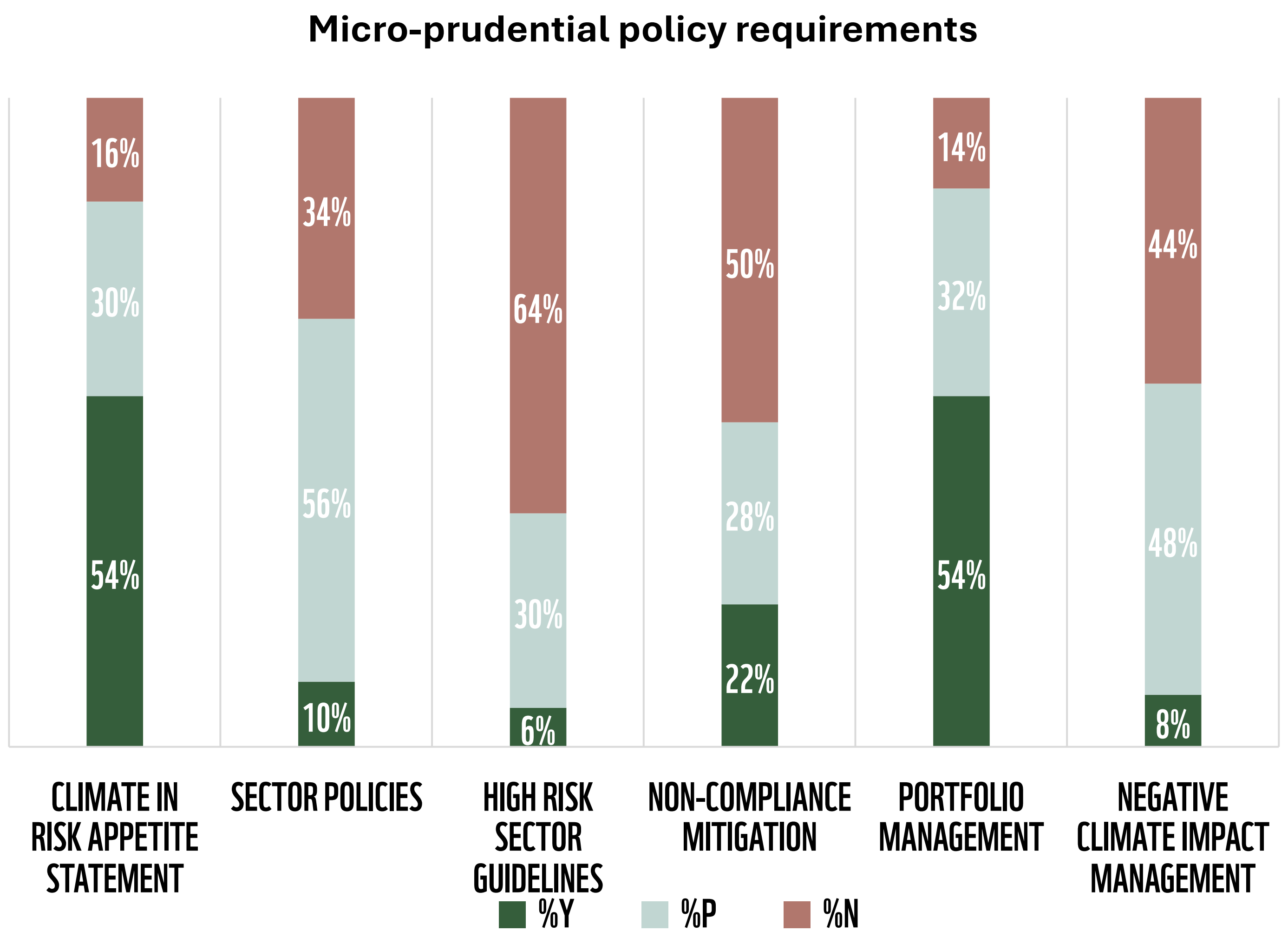


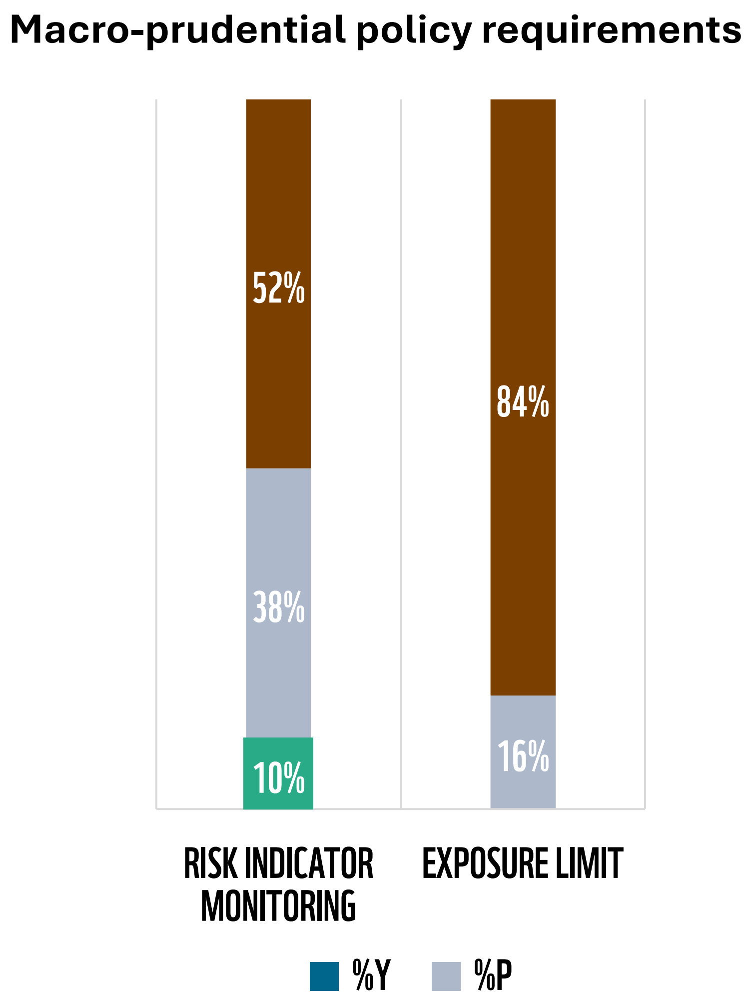
Banks are increasingly expected to **integrate climate considerations in their business strategy** (e.g. how the management of the climate risks, opportunities and impacts associated with its business relationships are integrated in its overall strategy).

Source: WWF SUSREG



Prudential Policy to Address Transition Risk





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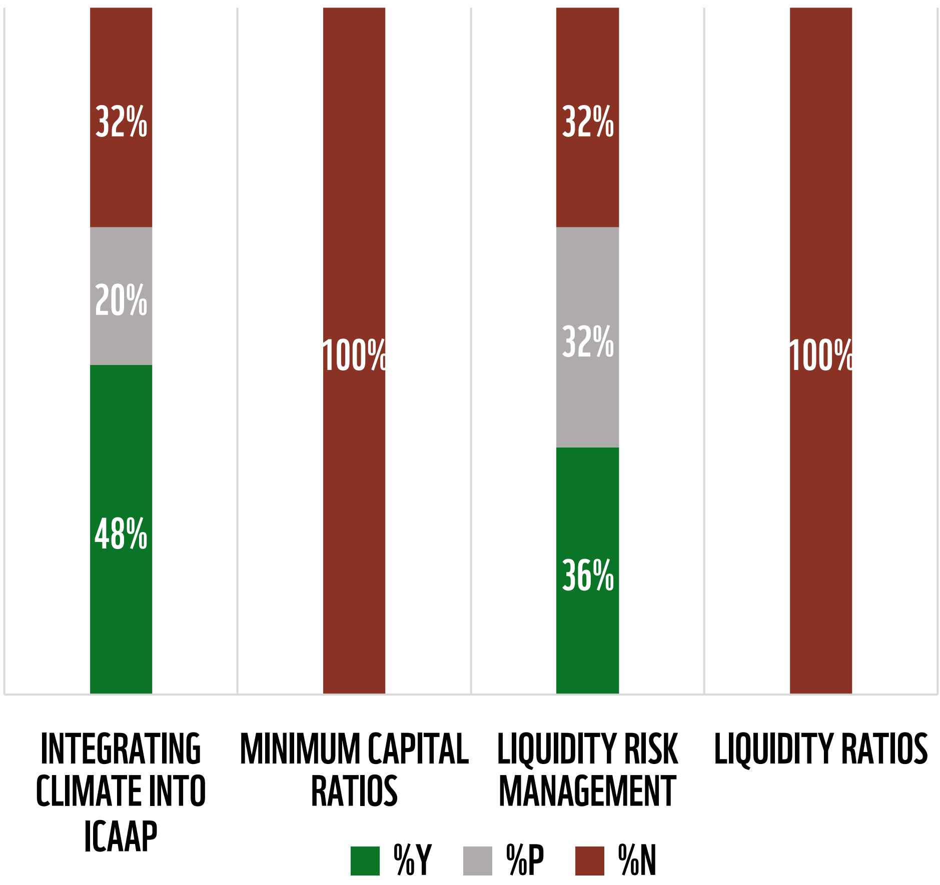
Source: WWF SUSREG

Capital and Liquidity Requirements



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Source: WWF SUSREG

- Banks are expected or required to integrate E&S considerations in their Internal Capital Adequacy Assessment Process (ICAAP), particularly focusing on most environmentally harmful sectors and activities. In this assessment, **most of countries assessed under SUSREG (48%) already including climate risk** in the requirement of bank's ICAAP
- **36% of observed financial supervisor** also **expect banks to integrate climate considerations in their liquidity risk management** process.
- The **integration of climate and environmental risks into capital and liquidity ratios remains largely unaddressed** across all countries.
- On capital ratios, there are **some progress outside of Pillar 1** e.g. ECB, CRD VI framework.
- Globally these risks have not yet been formally integrated into the risk-based capital ratios that banks use to determine the amount of capital they must hold. In practice, there is **no established method for quantifying how environmental risks should be reflected in the regulatory capital requirements**.

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Pathways, Motivation and Data

Lack of Unified Transition Pathways and Standards

- Absence of official decarbonisation roadmaps and transition finance standards at industry and regional levels.
- Immature regulatory and policy frameworks, risks of future policy changes.

Limited Awareness and Motivation of Low-carbon Transition

- Limited own awareness.
- Limited client awareness.
- **Economic uncertainties**, funding shortages, and long cost recovery cycles.

Insufficient Carbon Accounting Data

- Incomplete environmental disclosure requirements.
- Inadequate data sharing between industry regulators and financial institutions.
- Lack access to operational or asset data and updated carbon emission factor libraries.

Source: CASI, NGFS, FSB

Speed and Client Engagements

The right speed matters

- Moving too fast with respect to the economy-wide pathway to transition can create risks.
- Complex technical and scientific knowledge required, including new technologies, global policies, market dynamics, and innovative business models.

Challenges in Clients and Counterparties Engagement

- Financial institutions depend on information from their clients' own transition plans to assess exposures and align portfolios.
- Due diligence may not be performed on a single loan, but considering the overall nature and customer relationship duration.

Source: CASI, NGFS, FSB

Technical Barriers and SMEs

Technical Barriers to Transition Planning

- Transition planning of financial institutions is closely tied to real economy transition planning, which is currently deficient in EMDEs.
- **Developing countries** face difficulties adapting best practices and conducting cross-industry comparisons due to resource and expertise constraints.

Challenges Especially for SMEs

- Lack of financial, technical, and human resources.
- Short average lifespan (~3 years) vs. credibility of long-term transition plans.
- Limited access to market trends and technological advancements.

Source: CASI, NGFS, FSB