



Financing the Transition: Improving the effectiveness of the Net-Zero Alliances

Recommendations to address recent challenges facing the net zero financial alliances and increase their effectiveness in coordinating banks and investors to support net zero

About 2° Investing Initiative

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Authors of this report:

Gözde Mavili

Hélène Lanier (Contributor)

David Cooke (Contributor)

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Glossary

CDP	Carbon Disclosure Project
CSRD	Corporate Sustainability Reporting Directive
EFRAG	European Financial Reporting Advisory Group
ESRS	European Sustainability Reporting Standards
GFANZ	Glasgow Financial Alliance for Net Zero
GHG	Greenhouse Gas
IEA	International Energy Agency
IPCC	Intergovernmental Panel on Climate Change
ISSB	International Sustainability Standards Board
NGFS	Network for Greening the Financial System
NZAMI	The Net Zero Asset Managers Initiative
NZAOA	Net Zero Asset Owner Alliance
NZBA	Net Zero Banking Alliance
NZDPU	Net Zero Data Public Utility
NZFSPA	Net Zero Financial Service Providers Alliance
NZIA	Net-Zero Insurance Alliance
NZICI	Net Zero Investment Consultants Initiative
PAAO	Paris Aligned Asset Owners
SBTI	Science Based Targets Initiative
TCFD	Task Force on Climate-related Financial Disclosures
TPT	Transition Plan Taskforce
UNFCCC	United Nations Framework Convention on Climate Change
UNHLEG	United Nations High Level Expert Group

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Introduction

Financial institutions have a significant role in advancing a global and orderly¹ net zero transition by 2050. Transition finance refers to the strategic mobilisation and reallocation of capital to support this net zero transition by enabling industries to undertake the necessary changes to achieve net zero greenhouse gas emissions. Critical aspects of the net zero transition (such as implementing energy efficient technologies, adopting renewable energy sources, increasing operational efficiency, facilitating innovative product development etc.) will require mobilisation of both public and private capital.

The Glasgow Financial Alliance for Net Zero² (**GFANZ**) is the world's largest coalition of financial institutions committed to supporting the net zero transition of the global economy. GFANZ was established with a dual mission to: (1) increase the number of net zero committed financial institutions; and (2) establish a forum for addressing and advancing the sector wide challenges associated with the net zero transition. GFANZ is the umbrella coalition for eight independent net zero financial alliances, each representing different segments of the financial sector (see *Information Box: GFANZ and the net zero financial alliances*).

For a successful net zero transition, it is estimated that USD275 trillion in annual capital expenditure is required by 2050, which is over USD9 trillion more than the current expense dedicated to the net zero transition.³ Given this immense financial need, there has been a significant surge in the activities and commitments of the GFANZ and the net zero financial alliances towards achieving their stated objectives. GFANZ and the net zero financial alliances have published a large body of different guidance materials to support transition finance. However, the net zero financial alliances have also been criticised by financial institutions, regulators and others who have questioned their legitimacy to establish rules or guidance for the financial sector.

Banks and investors play a critical role as providers of transition finance. This paper provides commentary on recent challenges faced by the Net Zero Banking Alliance (NZBA) and Net Zero Asset Managers Initiative (NZAMI) as perhaps the most prominent of the net zero financial alliances, in supporting the global net zero transition. This paper provides recommendations to address these challenges and increase the effectiveness of the NZBA and NZAMI in coordinating and advancing the efforts from banks and investors to support net zero.

The commentary is structured around the five principles of the future of net zero as proposed in the United Nation's High-level Expert Group (**UNHLEG**) report on the net-zero emissions commitments of non-state entities.⁴ These principles (as articulated in Section 1) serve as guiding stars for setting and attaining net-zero pledges, ensuring that the process is robust and maintaining the integrity and effectiveness of net zero targets which are credible and aligned with scientific requirements. Section 2 focuses on recent challenges associated with the *coordination role* of NZBA and NZAMI in promoting transition finance guidance at global level (rather than the technical content of the transition finance guidance materials or the specific challenges faced by individual banks and investors). Section 3 articulates recommendations to address the identified challenges and enhance the effectiveness of the NZBA and NZAMI in coordinating and advancing banks and investors to support net zero.

¹ An orderly transition within the climate change context refers to a transformative shift in an organised and peaceful manner with collaborative efforts of governments, the private sector and other stakeholders to mitigate both physical and transitional risks effectively.

² Launched in April 2021 by UN Special Envoy on Climate Action and Finance Mark Carney and the COP26 presidency, in partnership with the UNFCCC Race to Zero campaign.

³ Krishnan, M., 2022, *The Anatomy of the Net-Zero Transition*.

⁴ UNHLEG, 2022, *Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions*.

Information Box: GFANZ and the net zero financial alliances

GFANZ is the world's largest coalition of financial institutions committed to transitioning the global economy to net zero greenhouse gas emissions. It was launched in April 2021 by UN Special Envoy on Climate Action and Finance Mark Carney and the COP26 presidency, in partnership with the UNFCCC Race to Zero campaign⁵ to coordinate efforts across all sectors of the financial system.

GFANZ is a global coalition of eight independent net-zero financial alliances whose members have committed to support the transition to net zero by 2050 and help achieve the objectives of the Paris Agreement. The eight-sector specific financial alliances⁶ are:

Net-Zero Asset Owner Alliance (NZAOA)	Net-Zero Insurance Alliance (NZIA)
Net-Zero Asset Managers initiative (NZAM)	Net Zero Financial Service Providers Alliance (NZFSPA)
Paris Aligned Asset Owners (PAAO)	Net Zero Investment Consultants Initiative (NZICI)
Net-Zero Banking Alliance (NZBA)	The Venture Climate Alliance (VCA)

This paper focuses on the NZBA and NZAMI, both founded with the explicit goal of advancing the roles of banks and asset managers in accelerating the transition of the real economy to net zero. All NZBA member banks have signed the *Commitment Statement*, pledging to adhere to the target setting and reporting processes outlined in the *Guidelines for Climate Target Setting*. Similarly, members of the NZAMI have signed *The Net Zero Asset Managers Commitment*, with many of them following the procedures to implement *The Net Zero Investment Framework*.⁷

The NZBA seeks to reinforce, accelerate and support implementation of decarbonisation strategies and provides a coherent framework to enable impactful climate action by banks. The NZBA governance and work programme is designed to promote peer learning, thought leadership and support for banks to implement better practice.⁸ Indeed, in April 2021 when the NZBA was launched, no bank had set a science based sectoral 2030 target for its financed emissions using 1.5°C scenarios – whereas today over half of NZBA banks have set such targets. As at the date of this paper, the NZBA includes 145 banks in 44 countries which together represent USD74 trillion and 41% of global banking assets.⁹

The NZAMI aims to leverage the substantial influence of asset managers to drive systemic change in the financial sector. It advocates for the asset management industry to commit to net zero emissions to reduce financial risks and enhance long term value of assets. As of the date of this paper, there are 325 signatories with NZAMI with USD58 trillion assets under management.¹⁰

In view of the size of the NZBA and the NZAMI and their central positions in the global ecosystem of alliances, initiatives and policy making, it is imperative that both succeed in their missions to support banks and asset managers accelerate the net zero transition. This provides the rationale for the commentary and recommendations in this paper to increase their effectiveness and reaffirm their role in coordinating the financial sector's support for the net zero transition.

⁵ Race to Zero is a global campaign which brings together non-state actors to halve global emissions by 2030 and achieve net zero by 2050.

⁶ In addition, there is the Net Zero Data Public Utility (**NZDBU**) which is not a formal alliance but linked to this ecosystem of different net zero financial alliances.

⁷ IGCC, 2021, Net Zero Investment Framework Implementation Guide.

⁸ NZBA, 2022, 2022 Progress Report.

⁹ UNEP FI, 2024, Our Members.

¹⁰ NZAMI, 2024, Home.

Section 1

Principles to guide net zero

This section summarises the five UNHLEG principles articulated as “the bright stars that should guide the setting and attaining of net zero targets”¹¹ and which provide the framework for the commentary in this paper.

The 2022 UNHLEG report¹² (the **UNHLEG Report**) recognises the challenge for non-state actors (financial institutions, industry, cities and regions) to transform net-zero pledges into credible action and establishes a roadmap to prevent net zero being undermined by false claims, ambiguity and greenwashing. The UNHLEG Report provides a universal definition of net zero¹³ and establishes five principles and ten recommendations to guide the future of net zero.

The five principles for net zero are as follows:

- **Ambition** which delivers significant near - and medium - term emissions reductions on a path to global net zero by 2050. This deals with defining climate policies and ensuring completeness and robustness of target-setting in line with global (or potentially national) climate objectives.
- **Demonstrated integrity** by aligning commitments with actions and investments. This is linked to ensuring that ambitious climate policy commitments, net-zero pledges etc. are supported by credible action and communication to ensure they are achieved and there is consistency between communication and actions.
- **Radical transparency** in sharing relevant, non-competitive, comparable data on plans and progress. This is linked to ensuring comprehensive disclosure of sustainability information and where possible sharing information on best practice and challenges associated with net zero.
- **Established credibility** through plans based in science and third-party accountability. This relates to ensuring scientific integrity of climate policies (particularly transition plans) and seeking to facilitate third party assurance to help ensure accuracy of information.
- **Demonstrable commitment to both equity and justice** in all actions. This last principle highlights the central importance of just transition thinking in all climate policies and actions.

These five principles (together with the main recommendations associated with each principle) provide a useful thematic framework for commentary on the NZBA and NZAMI governance and work programmes. The following sections analyse certain current challenges facing NZBA and NZAMI in the achievement of their objectives in seeking to coordinate finance sector support for the net zero transition according to these five thematic areas (hereinafter referred to as *ambition, integrity, radical transparency, credibility and just transition*).

¹¹ UNHLEG, 2022, Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions.

¹² UNHLEG, 2022, Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions.

¹³ Net zero refers to a state by which GHG emissions released into the atmosphere are minimised to nearly zero, and any remaining emissions are offset by permanent removals from the atmosphere by 2050.

Section 2

Key challenges to effectively support net zero

This section summarises recent challenges facing the NZBA and NZAMI according to the five thematic areas corresponding to the UNHLEG's five principles to guide the future of net zero. For each thematic area we provide a discussion of the main issues and then articulate key challenges which must be addressed to ensure the NZBA and NZAMI meet their objectives.

2.1 Ambition

This sub section discusses how much of the NZBA and NZAMI technical content provides guidance to grow bank and asset manager transition finance, but there is less detail on how banks and asset managers should develop their own transition plans. General market practice in relation to developing ambitious transition plans needs to be improved and this is similarly true for the financial sector. If transition plans developed by NZBA and NZAMI members are not ambitious, this could undermine the reputation and legitimacy of the NZBA and NZAMI.

A science-based approach to net-zero requires rapid and extensive decarbonisation aiming for approximately 95% reduction in GHG emissions before 2050.¹⁴ For any organisation, decarbonisation must cover direct emissions from operations (Scope 1), indirect emissions including from purchased energy (Scope 2) as well as broader emissions from the value chain (Scope 3).¹⁵ The UNHLEG Report underscores the urgency for all non-state actors to expedite their GHG emission reduction efforts as fast as possible and align with national targets, roadmaps and timescales.

But articulating an ambitious and credible transition plan is complex because of several underlying problems including:

- *Regulatory fragmentation:* Different jurisdictions have variable regulatory frameworks and requirements which creates challenges for cross-border businesses in ensuring compliance and consistency. While regulations and initiatives like the EU Corporate Sustainability Reporting Directive (**CSRD**) and the UK's Transition Plan Taskforce (**TPT**) - which was built on ISSB reporting standards - are emerging, they are not yet fully implemented, and the regulatory landscape is still evolving.
- *Lack of clear fossil fuel phase-out policies in line with IEA recommendations:* Deficiency of explicit policies for phasing out fossil fuels in alignment with the IEA hinders systematic reduction of fossil fuel use and causes uncertainty for transition planning.
- *Lack of harmonisation in use of scenarios:* GFANZ guidelines¹⁶ recommend use of credible, science-based scenarios¹⁷ but do not stipulate the specific scenario to be employed. Divergence in selection of, and varying reliance on different climate scenarios for forecasting and strategizing, hinders setting ambitious climate pledges to align with a 1.5°C scenario.
- *Overreliance on long-term GHG emissions reductions:* Reliance on long-term GHG emissions reduction targets instead of establishing short-term commitments is a significant issue. Insufficient focus on short term commitments not only delays essential early action but also enables very variable approaches to transition planning.

¹⁴ SBTi, 2021, SBTi Launches World-First Net Zero Corporate Standard.

¹⁵ Along with specific treatment of carbon removals and carbon credits. Carbon removals relate to the process of extracting CO₂ from the atmosphere and securely storing it in geological formations, oceans, forests or other carbon sinks through natural processes (such as reforestation and soil carbon sequestration) or technological solutions. Carbon credits represent a reduction, removal or avoidance of GHG emissions to offset an organisation's own emissions.

¹⁶ GFANZ, Undated, Financial Institution Net Zero Transition Plans.

¹⁷ Such as pathways P1 and P2 of the IPCC, IEA, and NZ2050 frameworks.

One of the main objectives of the NZBA is to support bank efforts to accelerate the transition of the real economy to net zero. To further this objective, the NZBA had published the *NZBA Transition Finance Guide*¹⁸ to grow bank financing aimed at transition. This is predicated on an understanding that the core purpose of transition finance is to facilitate client's decarbonisation strategies to assist the real economy to meet global climate objectives. Therefore, a lot of the guide is devoted to helping banks assess the transition plans of their clients and ensuring that transition finance meaningfully advances a client's net zero journey.

Similarly, NZAMI is focused on guiding the asset management industry in committing to net zero, with dual goals of mitigating financial risks and enhancing the long-term value of assets under management.¹⁹ In collaboration with the IIGCC, NZAMI has developed a guidance *Net Zero Investment Framework*²⁰ and a *Supplementary Guidance*.²¹ These resources offer a comprehensive approach to implementing transition finance strategies. The key components that investors should consider are: (1) transitioning investment portfolios with the climate goals and focusing on real economy decarbonisation, (2) increasing investment in the range of climate solutions to enable the transition.

But organisational capacity and expertise to develop ambitious transition plans is still lacking. This observation applies to all economic sectors, and it is similarly true for the finance sector. The previous paragraphs observe that a lot of NZBA and NZAMI guidance is focussed on growing bank and asset manager transition finance, but there is less specific detail on how banks and asset managers should develop their own transition plans (which fully address the challenges of developing ambitious transition plans for the financial institutions themselves and also synergise these financial institution transition plans with the provision of transition finance to clients and investee companies).

Transition plans which include vague commitments or timescales that are not aligned with the scientific consensus risk delaying necessary climate action and a disorderly transition. And just as in sustainable finance more broadly, greenwashing in a transition finance context can significantly undermine the integrity of transition finance as a supporting mechanism for achieving net zero.²² Therefore, a key challenge for the NZBA and NZAMI is to ensure that transition plans developed and published by their members are ambitious and can effectively drive the transition towards net zero.²³

Challenge 1: Ensuring sufficient ambition in transition plans of NZBA and NZAMI members and preventing greenwashing

¹⁸ UNEP FI, 2022, NZBA Transition Finance Guide.

¹⁹ NZAMI, 2024, Home.

²⁰ IIGCC, 2021, Net Zero Investment Framework Implementation Guide.

²¹ IIGCC, 2023, Net Zero Investment Framework: IIGCC's Supplementary Guidance on Target Setting Guidance.

²² ClientEarth, 2024, Guardrails to address greenwashing in climate transition finance.

²³ The limited engagement of financial institutions from Russia, India, and China, as top emitters, poses a similar challenge for NZBA. Signatories from these critical emitting nations are notably scarce in the NZBA membership base. This underscores the need for broader and more inclusive engagement from the financial sectors of these countries to ensure a unified global effort in combating climate change.

2.2 Integrity

This sub section articulates the difficulties for the NZBA and NZAMI between guarding the integrity of their work programmes and positions in terms of ambition and alignment with science while maintaining the level of NZBA and NZAMI membership. This is particularly relevant considering the instances of financial institutions exiting NZBA and NZAMI (or other net zero financial alliances under the GFANZ umbrella) citing concerns in relation to compliance with competition/antitrust laws.

The level of ambition apparent in the Race to Zero campaign on investing in carbon intensive sectors and new coal projects has changed several times. From the beginning of the GFANZ and the net zero financial alliances, some members of the umbrella alliance have criticised Race to Zero's unrealistic goals, strict rules and criteria in relation to withdrawing investment in carbon-intensive sectors.²⁴ Subsequently, Race to Zero published refined criteria²⁵ that discouraged financing new fossil fuel assets and participating in new coal projects. But this caused turmoil within the net zero financial alliances which led to Race to Zero revising its criteria and Interpretation Guide²⁶ to: (1) retreat from requiring members to cease working on new coal projects; and (2) stop mandating partnership with Race to Zero.²⁷ These varying levels of ambition in position clearly have implications for NZBA and NZAMI (along with other net zero financial alliances) in relation to guarding the integrity of their work programmes and positions in terms of ambition and alignment with science.

Concurrently with these developments, several leading financial institutions (including founding members) opted to leave their net zero financial alliance, citing concerns in relation to compliance with competition/antitrust laws.²⁸ Key exits from the NZBA include prominent financial institutions such as Standard Chartered, HSBC, OakNorth and Blue Ridge Bank²⁹, while notable departures from the NZAMI include JPMorgan³⁰, Vanguard and Green Century Capital Management.³¹ Although competition and antitrust concerns appear to be particularly problematic for US members of the net zero financial alliances (see *Annex 1*) the problem is also apparent in other jurisdictions. Key European withdrawals include Allianz, GLS Bank, Hannover RE and Munich RE from Germany, AXA and SCOR SE from France, Lloyds Bank from the UK and Zurich Insurance Group from Switzerland.³² The withdrawal of these financial institutions appears to be primarily motivated by concerns over US antitrust laws.³³

The legitimacy of these concerns regarding compliance with competition and antitrust laws is not entirely clear. The legal framework varies by jurisdiction and there are several recent developments which seek to provide clarity on membership of a net zero financial alliance in terms of compliance with competition/antitrust laws. In the US, although ESG is highly politicised in many states, the Department of Treasury³⁴ has issued national guidelines on principles for net zero financing and investment.³⁵ In the EU, the Commission³⁶ has already stated that agreements concerning sustainability are not forbidden but has also recently released more

²⁴ Capital Monitor, 2022, Exclusive: Race to Zero to respond to GFANZ banks' protests.

²⁵ Climate Champions, 2022, 'Race to Zero' campaign updates criteria to raise the bar on net zero delivery.

²⁶ UNFCCC, 2022, Interpretation Guide.

²⁷ Binnie, I., and Kerber, R., 2022, Mark Carney-led grouping drops U.N. climate initiative requirement.

²⁸ When organisations coordinate strategies or activities in ways that could limit competition then concerns in relation to compliance with competition/antitrust laws may arise.

²⁹ UNEP FI, 2024, Our Members.

³⁰ Reuters, 2024, JPMorgan, State Street quit climate group, BlackRock steps back.

³¹ Reuters, 2023, Fossil-free fund manager Green Century quits Net Zero initiative.

³² Responsible Investor, 2023, Zurich Pulls Out of Net Zero Insurance Alliance.

³³ Allianz asserts its departure from NZIA was to shield its partners from potential legal risks in the US and similar reasoning was also provided by Munich Re and the Church of England Pensions Board. Kokoszka, P., 2023, Church of England exits Net-Zero Asset Owner Alliance.

³⁴ US Department of Treasury, 2023, Principles for Net-Zero Financing & Investment.

³⁵ These include nine principles for financial institutions to support a transition to a low-carbon economy. They recommend institution commitments align with efforts limiting the increase in global average temperature to 1.5°C, establish credible metrics and targets, develop engagement policies with clients, portfolio companies and other stakeholders, implement robust governance processes and maintain transparency.

³⁶ European Commission, Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements (2023/C 259/01)

relevant guidance. In the UK, the Competition and Markets Authority³⁷ has released a Green Agreement Guidance on how competition law affects environmental sustainability agreements between firms operating at the equivalent level of the supply chain. And in the Netherlands, the Authority for Consumers and Markets³⁸ has issued a policy rule that it does not want competition rules to prevent agreements that contribute towards a more sustainable society.

It is also worth noting that some withdrawals from the net zero financial alliances were because the level of ambition was not high enough. For example GLS Bank (a founding member of the NZBA and operating only in impact investing) announced its exit from NZBA while emphasising that some US members continue to support oil, gas and coal and new fossil-fuel infrastructure projects in emerging markets (particularly in Africa).³⁹ ⁴⁰ Indeed one study⁴¹ claims that members such as BlackRock Inc., Vanguard Group, Citigroup Inc. and Bank of America Corp. have significantly financed expansion of fossil fuel companies even after joining the NZBA and NZAMI contributing over USD53 billion to the growth of such fossil-fuel firms.⁴²

The above commentary summarises recent developments with banks and asset managers withdrawing from the NZBA and NZAMI. While these withdrawals may be for different reasons, concerns as to compliance with competition/antitrust laws is often cited. There have also been examples of members from different jurisdictions failing to align with the objectives of the alliances in their own advocacy positions with governments and regulators.⁴³ The GFANZ and Race to Zero initiative (as the broader umbrella for NZBA and NZAMI) have also felt compelled to revise their positions to reflect differing levels of ambition. Whether or not these are directly related, there is a significant risk in relation to external perception. This clearly illustrates a key challenge for NZBA and NZAMI (and GFANZ more broadly) in relation to guarding the integrity of their work programmes and positions in terms of ambition and alignment with science while maintaining the level of membership of NZBA and NZAMI.

Challenge 2: Regulatory uncertainty regarding alliance membership and compliance with competition/anti-trust law and encouraging members to support alliance positions in their lobbying and advocacy

³⁷ Competition and Markets Authority, 2023, Green Agreements Guidance: how competition law applies to environmental sustainability agreements.

³⁸ Authority for Consumers and Markets, 2023, Businesses Can Collaborate to Achieve Sustainability Goals.

³⁹ Murdoch, A., 2023, GFANZ: Why GLS Bank's exit is a serious setback.

⁴⁰ Seneca, 2023, GLS Bank Quits Net-Zero Banking Alliance as Members Keep Funding Fossil Fuels.

⁴¹ Reclaim Finance, 2023, Throwing Fuel On The Fire: GFANZ financing of fossil fuel expansion.

⁴² Citigroup alone is responsible for USD31 billion of this financing, while BlackRock has been partnering with energy companies and opposes divestment. Reclaim Finance, 2023, Throwing Fuel On The Fire: GFANZ financing of fossil fuel expansion.

⁴³ Reclaim Finance, 2023, Throwing Fuel On The Fire: GFANZ financing of fossil fuel expansion.

2.3 Radical transparency

This sub section discusses how regulatory requirements in different jurisdictions are starting to focus on disclosure of transition plans. But as discussed previously, market practice in relation to developing transition plans is continually evolving and there remains an expertise gap. Disclosure requirements vary across jurisdictions and do not really assist with peer learning to elevate market practice. The NZBA and NZAMI could assist with developing mechanisms to share information (beyond disclosure requirements) between members to help elevate market practice.

The UNHLEG Report emphasises a principle of sharing relevant, non-competitive data on plans and progress. This is linked to ensuring comprehensive disclosure of sustainability information and where possible, sharing information on best practice and challenges associated with net zero.

Various jurisdictions have established requirements in relation to disclosure of climate transition plans. In the EU, the Corporate Sustainability Reporting Directive⁴⁴ (CSRD) requires relevant companies⁴⁵ to include in the management report 'the plans of the undertaking, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1,5 °C in line with the Paris Agreement [...] and the objective of achieving climate neutrality by 2050 [...] and, where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities.'⁴⁶ Relevant companies are also required to include 'a description of the time-bound targets related to sustainability matters set by the undertaking, including, where appropriate, absolute greenhouse gas emission reduction targets at least for 2030 and 2050, a description of the progress the undertaking has made towards achieving those targets.'^{47 48}

At the same time several voluntary frameworks exist which seek to articulate how to develop a climate transition plan. One notable framework is from the Transition Plan Taskforce which has issued sector specific transition plan disclosure guidance for asset managers⁴⁹ and banks⁵⁰ to advocate a universal benchmark and common principles for transition planning. TPT's Disclosure Frameworks are built upon and complement the ISSB Standards IFRS S1 and IFRS S2 and integrate GFANZ's framework⁵¹ and guidance for credible, comprehensive, and comparable net zero transition planning.

Banks

Transition Plan Taskforce, Banks Sector Guidance: To develop a transition plan aligned with the *TPT Banks Sector Guidance*, banks must start by applying the TPT Disclosure Framework and tailoring it with sector-specific guidance that focuses on key banking activities like lending, trading and advisory services. A strategic and rounded approach should be centred on three pillars: (1) decarbonising operations by reducing Scope 1, 2, and 3 emissions (including financed emissions), (2) managing climate-related risks to enhance resilience and capitalise on opportunities, and (3) driving the economy-wide transition to a low-carbon future. Engaging with stakeholders is necessary to ensure alignment with climate goals while addressing social and environmental impacts. Banks should also tackle sector-specific challenges, such as mitigating risks in high-emission industries, and progress must be tracked with clear metrics.

⁴⁴ Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

⁴⁵ Large undertakings, and small and medium-sized undertakings, except micro undertakings, which are public-interest entities as defined in point (a) of point (1) of Article 2.

⁴⁶ Art 1 (4) CSRD amending Art 19(a) Directive 2013/34/EU

⁴⁷ Art 1 (4) CSRD amending Art 19(a) Directive 2013/34/EU

⁴⁸ Further assistance for how to comply with this reporting requirement is included in the European Sustainability Reporting Standards (Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards) (ESRS).

⁴⁹ TPT, 2024, Asset Managers Sector Guidance.

⁵⁰ TPT, 2023, Banks Sector Guidance.

⁵¹ GFANZ, 2022, Financial Institution Net-Zero Transition Plans, Fundamentals Recommendations and Guidance.

Asset managers

Transition Plan Taskforce, Asset Managers Sector Guidance: Asset managers should define their strategic ambition and set clear objectives for reducing financed emissions, managing climate risks and capturing climate-related opportunities. The implementation strategy should detail short-, medium-, and long-term actions, covering both investment and non-investment activities, while adjusting the portfolio of products and services to meet climate objectives. Asset managers must also engage with stakeholders across the value chain, industry and governments. Robust governance structures are essential to ensure accountability and credibility, with clear oversight and management responsibilities, while progress is tracked through well-defined metrics and targets.

Other prominent guidance includes: (1) the *NGFS Credible Transition Plans: The Micro-Prudential Perspective*⁵² which explores the issue of credibility of transition plans of financial institutions from the micro-prudential perspective, and the potential role of micro-prudential authorities to provide regulatory oversight; and (2) *TCFD Guidance on Metrics, Targets and Transition Plans*⁵³ which supports preparers in disclosing decision-useful metrics, targets and transition plan information and linking those disclosures with estimates of financial impacts.

But despite these guidance and frameworks, there is still an *expertise gap* in relation to developing credible transition plans (in addition to the concerns articulated about the level of ambition for transition plans in *Section 2.1 Ambition*). A CDP review⁵⁴ of transition plans from 18,606 businesses (across 13 industries and 135 countries) assessed transition plans based on CDP's 2022 Climate Change Questionnaire. This reveals that only 81 transition plans (0.44%) possess strategies that CDP evaluates as credible disclosure. To disclose a fully credible transition plan, a company should disclose adequate information to all 21 key climate transition-focused indicators⁵⁵ to enable further evaluation of the credibility of its climate transition plan. These 81 transition plans are mainly from companies in the power generation and infrastructure sectors.⁵⁶ CDP's latest review⁵⁷ shows a 17% increase in the number of organisations disclosing transition plans but the number of organisations judged to be reporting credible transition plans is still less than 1%.

Therefore, it is fair to say that current disclosure of transition plans is nascent, fragmented and incomplete. It is difficult to get a comprehensive view of transition strategies of most companies (including financial institutions) and this difficulty is compounded when trying to assess the credibility of these transition plans. At the same time, the information which is disclosed in accordance with relevant reporting requirements may not help with sharing information that can assist with peer learning to elevate market practice and ensure disclosure of more ambitious and credible transition plans in the future.

Challenge 3: Developing mechanisms to share information between alliance members to help elevate market practice to disclose credible transition plans

⁵² NGFS, 2024, Credible Transition Plans: The micro-prudential perspective.

⁵³ TCFD, 2021, Guidance on Metrics, Targets and Transition Plans.

⁵⁴ CDP, 2023, Are Companies Developing Credible Climate Transition Plans?

⁵⁵ CDP, 2023, Are Companies Developing Credible Climate Transition Plans?

⁵⁶ CDP, 2023, Are Companies Developing Credible Climate Transition Plans?

⁵⁷ CDP, 2024, The State of Play - 2023 Climate Transition Plan Disclosure.

2.4 Credibility

This sub section articulates that a potential mismatch is emerging which raises concerns about ensuring transition finance is effectively oriented towards transitioning activities. The NZBA and NZAMI could assist with developing methods of continual monitoring of client and investee company transition plans to ensure transition finance is effective.

Supporting the transition of real economy corporates requires linking financial support to credible transition plans. A well-structured transition plan should outline how a company will align its strategy and operations with the 1.5°C trajectory of the Paris Agreement by taking credible, immediate steps. For banks and asset managers, these plans are critical for decision-making in transition finance.

Information Box: Initiatives designed to help assess the credibility of a company's transition plan

ATP Col

The Assessing Transition Plans Collective (ATP-Col)⁵⁸ has released a conceptual framework which provides harmonised guidance to assess the credibility of company transition plans. ATP-Col is made up of about 90 individual experts from 40 organisations and aims to pave the way for ambitious future standards, practices and regulations that assess the robustness of company transition plans.

ACT Assessment Categorization

The ACT Assessment Categorization⁵⁹ aims to help ensure financial flows are directed consistently to activities and companies transitioning towards low greenhouse gas emissions and climate-resilient development.⁶⁰ It provides a three part categorization framework: (1) companies transitioning in a credible and robust way; (2) companies partially satisfactory on one or two of the following aspects: (a) companies 'committed' that are ambitious enough but have not yet demonstrated the performance and (b) companies 'performing' that have demonstrated good GHG trajectory but have not provide aligned ambitions; and (3) companies that are not transitioning sufficiently in a credible and robust manner. This categorization aims to assist financial institutions, public authorities and other stakeholders implement any transition policy such as financing objectives or eco-conditional policies for a more streamlined and effective low-carbon transition. In addition, the framework acknowledges the need for flexibility and future adjustments to keep pace with emerging standards.

As discussed previously, the level of ambition and credibility in transition plans is a critical issue. But monitoring client and investee company progress against the targets and commitments in their transition plans is also essential. This allows financial institutions to assess client or investee company commitments and update evaluations based on the latest data, technologies and peer comparisons to ensure that transition finance continues to be effective. Engagement with clients and investee companies is crucial for this monitoring client and investee company progress against their transition plan and ensuring the continuing effectiveness of transition finance activities.

But ensuring the continuing effectiveness of transition finance may prove difficult. By way of example, CDP research⁶¹ reports that 36 out of the biggest 50 banks (managing assets over EUR32 trillion) have pledged to NZBA to cut their financed emissions. A majority of these European NZBA members have established targets in the power sector which typically aim to reduce financed emissions by around 45% to 70% per kW by 2030. Meeting these targets is directly contingent on the NZBA members' assessment of client transition plans and some banks have already committed to stop lending to companies without credible client transition plans in key sectors. As a result companies without credible transition plans or failing to progress against the targets

⁵⁸ Co-chaired by The World Benchmarking Alliance (WBA) and Columbia Center on Sustainable Investment (CCSI)

⁵⁹ ADEME and World Benchmarking Alliance, ACT Assessment Categorization, Version 0.1 – April 2024

⁶⁰ Art. 2.1.c of Paris Agreement

⁶¹ CDP, 2023, Stepping up Strengthening Europe's corporate climate transition

and commitments in their transition plans could be at risk. Indeed CDP estimates that currently 20-40% of corporate debt (up to EUR1.8 trillion) is potentially at risk over time.⁶²

This commentary points to the critical importance of not just ensuring clients and investee companies disclose ambitious and credible transition plans, but also engaging with clients and investee companies over time to monitor progress against the targets and commitments in their transition plans to ensure the continuing effectiveness of transition finance activities.

Challenge 4: Developing engagement methodologies for monitoring transition progress of clients and investee companies

2.5 Just transition

This sub-section explains how just transition principles are not currently integrated into transition finance frameworks and transition plan guidance to an adequate level (in contrast to other areas of sustainable finance). This must be addressed to ensure continuing relevance of the NZBA and NZAMI work programmes as leading finance sector practice.

The Paris Agreement acknowledges the disproportionate impacts of climate change on different regions, communities and industries and advocates for tailored financial solutions to facilitate the net zero transition.⁶³ In doing so, it lays the groundwork for a net zero transition that is social, fair and inclusive. This concept of a *just transition* (as it has come to be known and as outlined in the *ILO Guidelines for a just transition*⁶⁴) emphasises the necessity of aligning the shift to a low-carbon economy with equitable practices that leave no one behind. Just transition considerations require action tailored to the specific contexts of each region, sector and stakeholder constituency. Ensuring a just transition is crucial to obtain societal support for climate and environmental policy and manage any adverse societal impacts.

The UNHLEG Report emphasises the importance of establishing a just transition plan balancing economic objectives with environmental stewardship, social equity and justice. Just transition plans must aim to tackle wider social outcomes and implications of mitigation efforts, particularly concerning race, gender and intergenerational equity. These plans transparently disclose how they align with the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) and specifically the principle of free, prior and informed consent.

While the objective of ensuring a just transition is now widely shared (e.g. many multilateral institutions seek to promote a just transition and national policymaking will often explicitly refer to just transition considerations), operational implementation of just transition principles in transition finance is still lagging. Recent years have seen the emergence of financial products tailored to support transitioning activities (e.g. bonds labelled as *transition bonds* or the more recent growth in *sustainability linked bonds*) which focus on environmental aspects but have limited recognition of social aspects. Several reviews of transition finance frameworks have found that most do not cover social considerations or social safeguards. This may be attributable to challenges stemming from the complexity and interconnectivity of social matters, or the perceived lack of definitions, standardisation and measurement methodologies for social metrics and reflects the more nascent approach to social considerations as compared to climate considerations.

The *NZBA Transition Finance Guide* is subject to the above broad observation in that while it might promote the idea of a just transition it does not contain any detailed guidance on how to operationalise just transition

⁶² Paraphrased from CDP, 2023, Stepping up Strengthening Europe's corporate climate transition

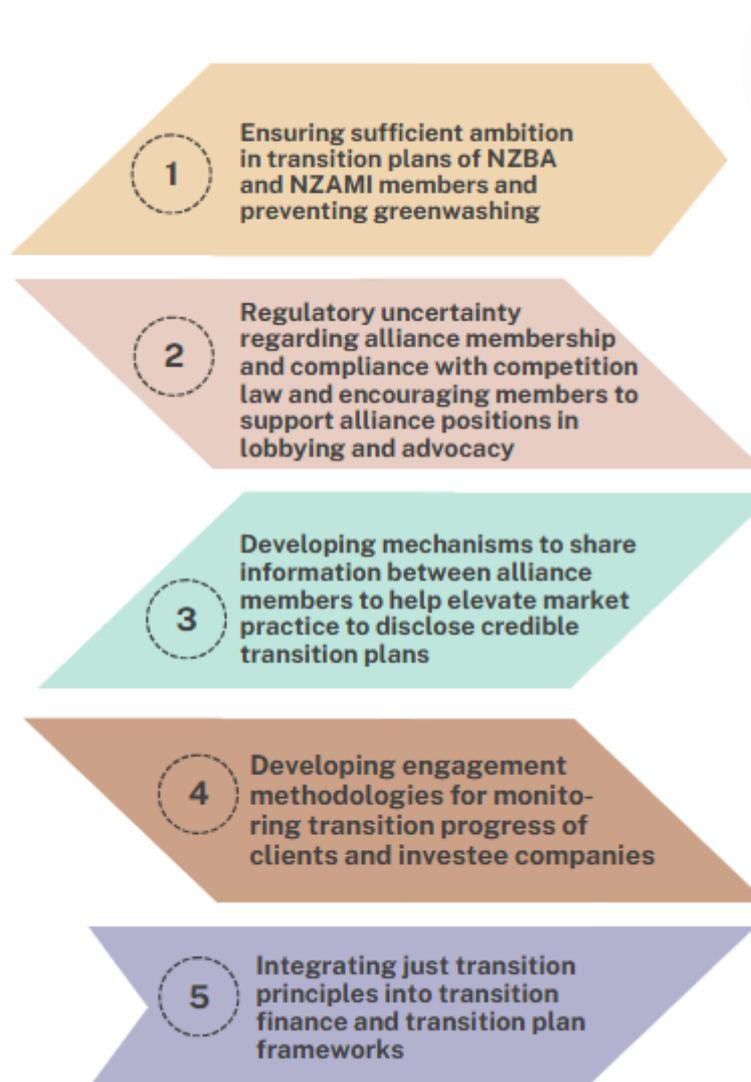
⁶³ UNFCCC, 2015, Paris Agreement, Article 2.

⁶⁴ International Labour Organisation, 2015, Guidelines for a just transition towards environmentally sustainable economies and societies for all.

considerations. Although the *Net Zero Asset Managers Commitment* obliges asset managers to ensure a just transition principle, which is also underscored in the *Net Zero Investment Framework*, it lacks a comprehensive approach for practical implementation into transition plans for asset managers. In view of these market developments, it is essential that NZBA and NZAMI integrate just transition principles in their work programme to ensure continuing relevance as leading finance sector practice.

Challenge 5: Integrating just transition principles into transition finance and transition plan frameworks

Figure 1: Challenges confronting NZBA and NZAMI



Section 3

Recommendations

This section articulates recommendations to address the challenges discussed in the previous section and increase the effectiveness of the NZBA and NZAMI in coordinating and advancing the efforts from banks and investors to support net zero. These recommendations should be seen as supporting measures to consolidate the influential position of NZBA and NZAMI and additional to their work on developing technical content and guidance.

Recommendation 1: Advocate for greater clarity regarding competition/anti-trust law to reaffirm legitimacy and strengthen guidance role towards members

Conduct a thorough legal analysis and engage with regulatory authorities to ensure NZBA and NZAMI governance and work programme comply with competition/anti-trust law. The previous commentary underscores that while the primary goal of the net zero financial alliances is to foster a sustainable future, this may be misconstrued as anti-competitive. The nature of the governance and work programme varies across different alliances, therefore a comprehensive legal analysis is necessary to clarify the possible scope and limitations of such efforts. Advocating for legal safe harbour⁶⁵ provisions and further regulatory guidance specifically tailored for sustainability initiatives would assist with protection from enforcement. Increasing regulatory dialogue with competition authorities and policymakers can emphasise the objectives of the net zero financial alliances and demonstrate their alignment with the public interest.

Push for regulatory clarification which reconciles NZBA and NZAMI membership and compliance with competition/anti-trust law. Although the legal framework varies by jurisdiction there are several recent developments which seek to provide clarity on membership of a net zero financial alliance in terms of compliance with competition/antitrust law. However, in many cases these may not provide a definitive answer (as evidenced by the fact that withdrawals from NZAMI and NZBA membership continue). This may be due to financial institutions being subject to more than one jurisdiction (and the fact that the legal position is variable) and guidance differing in terms of specific relevance to the question of whether NZBA or NZAMI membership complies with competition/antitrust law. NZBA and NZAMI should push for regulatory clarification on this topic which covers all relevant jurisdictions.

Encourage NZBA and NZAMI members to publicly support alliance objectives in their lobbying and advocacy. To uphold the credibility, integrity and impact of NZBA and NZAMI, members must align their individual policy engagement and external communications with the alliances' position. By ensuring lobbying activities, whether conducted individually or in collaboration with industry groups, promote the adoption of alliances' position, members will consistently reflect the commitments and principles of the NZBA and NZAMI.

⁶⁵ OECD, 2017, Safe harbors and legal presumptions in competition law.

Recommendation 2: Develop further guidance for banks and asset managers to address key weaknesses in market practice

Address expertise gap to ensure sufficient ambition and credibility in member transition plans. The level of ambition for member transition plans must be consistent with the scientific consensus on what is required of the financial sector in relation to the net zero transition. While both the NZBA and NZAMI have published a substantial body of guidance focussed on growing bank and asset manager financing aimed at transition, the guidance on developing banks' and asset managers' own transition plans (and how this should integrate their transition finance activities) is less comprehensive. There is an expertise gap in ensuring that these transition plans are ambitious and credible (as is observable for transition plans in all sectors of the economy). Both alliances should urgently address this and seek to coordinate with other market initiatives that are seeking to develop transition plan guidance and frameworks to improve ambition and credibility of transition plans.

Implement measures to avoid greenwashing among members. Greenwashing in the context of transition finance is an underexamined area and a significant risk. Alongside ensuring sufficient ambition and credibility in member transition plans, a significant challenge for the net zero financial alliances will be to ensure that members comply with the targets outlined in their transition plans. NZBA and NZAMI should consider publishing specific guidance on how to prevent greenwashing in the context of member transition plans and establish mechanisms to ensure the avoidance of greenwashing is a condition for continued alliance membership.

Develop engagement methodologies for members to monitor transition progress of clients and investee companies. Banks and asset managers should not only evaluate client and investee company transition plans at initial financing but also regularly monitor their progress to ensure alignment with transition plan targets (see *Information Box: Initiatives designed to help assess the credibility of a company's transition plan*). This involves engagement with clients and investee companies and potentially utilising existing market initiatives like CDP for transition-related data when direct information is lacking. Further guidance on how to ensure engagement is effective would be beneficial. In addition, NZBA and NZAMI could use their central position in the sustainable finance ecosystem to actively promote engagement actions in all national, regional and international standards.

Promote comprehensive integration of just transition principles in transition finance frameworks. Just transition principles are still absent or underrepresented in most transition finance frameworks. The NZBA and NZAMI should prioritise a detailed focus on just transition principles within its governance and work program to ensure that member transition plans incorporate this critical aspect. Given both alliances' influential role in the sustainable finance ecosystem, a stronger emphasis on just transition can drive its adoption in market practice and regulatory policies in different jurisdictions across the globe.

Recommendation 3: Develop mechanisms to share information beyond compliance with disclosure requirements to elevate market practice

Develop mechanisms to share information between alliance members to help elevate market practice for ambitious and credible transition plans. Compliance with disclosure requirements (either regulatory or voluntary and which are variable across different jurisdictions) may not help with sharing relevant information to promote peer learning, thought leadership and support for banks and asset managers to implement better practice. The NZBA and NZAMI should establish mechanisms to share relevant information between their members and in view of their central position in the global ecosystem of alliances, initiatives and policy making could greatly assist with pushing for greater harmonisation and interoperability between different standards and frameworks.

Use transition plan data to monitor overall progress and check consistency between targets and achievements. Data collected in a harmonised form within alliances can play a pivotal role to inform policy decision-makers about progress of member transition finance activities. Engaging with members to encourage reporting to the Net-Zero Data Public Utility (NZDPU) database would enable a unified repository of information and support the movement towards harmonised data from all members. In addition, the NZBA and NZAMI should strive to analyse (on an anonymised basis if necessary), the progress of members in supporting net zero. This ex-post assessment of whether pledges are consistent with actions should inform decision-makers about any necessary correction or adoption of regulatory provisions to reorient capital flows.

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Annex 1

Information Box: Competition and antitrust developments associated with US members of the net zero financial alliances

23 Attorney Generals (**AGs**) of the United States sent a letter to NZIA and UNEP FI⁶⁶ on 15 May 2023, raising their concerns regarding insurance companies collaborating with others in the industry to promote an activist climate agenda. NZIA are alleged to have failed to maximize investor return, supplanting corporate governance, increased insurance costs, higher gas prices, and a rise in prices for other goods and services which resulted in inflation and financial challenges for residents in their states. NZIA released a protocol that, while claiming to be non-binding, provides directives that members should follow on a “comply-or-explain” type approach in terms of adopting specific climate targets and requiring clients in high-emission industries to decarbonize their operations. The AGs claim that, while these protocols suggest that members retain decision-making autonomy, they enforce specific obligatory actions that may run counter to federal and state regulations. The letter underscores that certain agreements between competitors can be illegal if they unfairly or unreasonably harm competition, and particularly, some of the targets set by the NZIA seem to impose conditions on insurance contracts. If these stipulations lead to price hikes for consumers, they might be deemed illegal. Moreover, the AGs assert that such conditions might equate to an unlawful boycott, especially if they culminate in the denial of insurance to specific sectors, driving up insurance costs for high-demand products.

In an attempt to clarify the situation, in a congressional hearing, the US Department of Justice (**DOJ**) and the Federal Trade Commission (**FTC**) stated that the “antitrust exemption” would not be applied to any financial actors that shift their financial sources towards ESG investments.⁶⁷ On top of that, the Committee on the Judiciary⁶⁸, a Standing Committee within Congress, has been investigating potential US antitrust law violations among the members of the NZAMI, NZBA and other alliances under the GFANZ umbrella. The Standing Committee claimed that such coordination could restrict freedom and destabilize economic welfare in the USA by severely limiting use of coal, oil, and gas, thus affecting businesses and consumer choices.⁶⁹ Furthermore, the Standing Committee asserts that collusive agreements and lobbying among the alliance members could violate the Sherman Act as they may harm competitive business practices and consumer rights. To investigate further, the Standing Committee formally requested⁷⁰ spanning documents from both entities related to their creation, mission, goals, decarbonization, net zero emissions targets, agreements among members, and effects on consumer choices and pricing dynamics. NZIA responded and clarified the perceived misinterpretation of the activities of NZIA and insisted that their coalition complies with the antitrust laws. In addition, NZIA members underlined that, by adhering to their individual commitments, NZIA members actively engage in business rationale-driven decarbonization strategies and balance the need for competitive viability with the imperative to address the costs and challenges posed by climate change.⁷¹

⁶⁶ Office of the Attorney General – State of Utah, Department of Justice – State of Louisiana, 2023, Letter

⁶⁷ Hearing, 2022, Oversight of Federal Enforcement of the Antitrust Laws.

⁶⁸ FTC, Undated, Spotlight on Trade Associations.

⁶⁹ In the US antitrust regime, there is no ESG exemption or immunity from antitrust enforcement. Despite ESG becoming a politically sensitive topic, there has been bipartisan agreement on this point.

⁷⁰ Congress of the United States, House of Representatives – Committee on Judiciary, 2023, Letter.

⁷¹ Webb, D., 2023, NZIA Says US Attorneys General Concerns Based on Mistaken Interpretation of Its activities.

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