Climate transition plans for banks

Workshop at Erste Group ESG CEE Conference

Vienna, May 7th 2024

European Bank
for Reconstruction and Development

1 Background

What is a climate transition plan?

IFRS S2 Climate-related Disclosures Standard
International Sustainability Standards Board (ISSB)

"An aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions."

European Sustainability Reporting Standards (ESRS E1 Climate change)
European Union's CSRD: Corporate Sustainability Reporting Directive

"An understanding of the undertaking's past, current, and future mitigation efforts to ensure that its strategy and business model 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 with the objective of achieving climate neutrality by 2050 and, where relevant, the undertaking's exposure to coal, oil and gas-related activities."

Methodology to Assess Paris Agreement Alignment of EBRD Investments
European Bank for Reconstruction and Development (EBRD)

"A transition plan sets out the steps through which an organisation will improve its business practices in relation to climate change, leading to Paris-aligned financial flows. These steps will be set out as clear, time-bound milestones."

Transition plans in a nutshell:

- An element of an organisation's strategy.
- Include time-bound actions and targets.
- Demonstrate how the organisation will transition towards a low carbon economy.

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Has your organisation started planning for the transition?

There are many reasons to prepare a climate transition plan

1	Resilience to climate risks	Transition plans can support resilience to climate risks. Physical risks (e.g. droughts, floods) and transition risks (e.g. changes in regulation to support the transition) directly affect banks' financial performance.
2	Realisation of climate opportunities	The transition towards low carbon and climate resilient economies will create opportunities for financial institutions. This includes financing green solutions.
3	Contribution to national and global action on climate	Urgent global action is needed to meet the goals of the Paris Agreement and limit the most catastrophic consequences of climate change.
4	Communication of climate ambition	Transition plans provide a uniform framework for the disclosure of ambition, targets and progress.
5	Regulatory and stakeholder expectations	Regulators and investors across the world are taking an interest in sustainability, both from the perspective of financial and impact materiality.

Transition plans have emerged as a key tool to drive alignment of the financial sector with the goals of the Paris Agreement

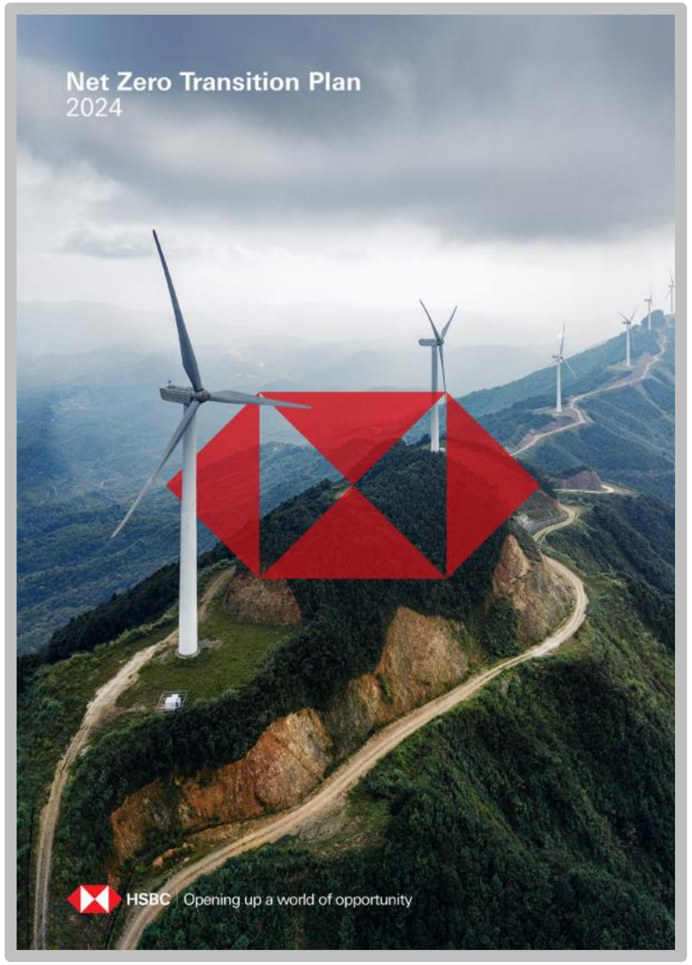
United Nations' High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities

Regulatory guidance	Regulatory and voluntary disclosure standards	Voluntary alliances	Other guidance
Transition planning has attracted the attention of regulators in the European Union and beyond.	Regulatory and voluntary standards are becoming more stringent when it comes to the disclosure of GHG targets and transition plans.	Voluntary alliances of banks and other organisations encourage common standards and ambition on transition planning and climate target setting.	Various organisations and initiatives also provide guidance on specific topics around target setting and transition planning

Best practices

Examples: Global banks have started disclosing their transition plans

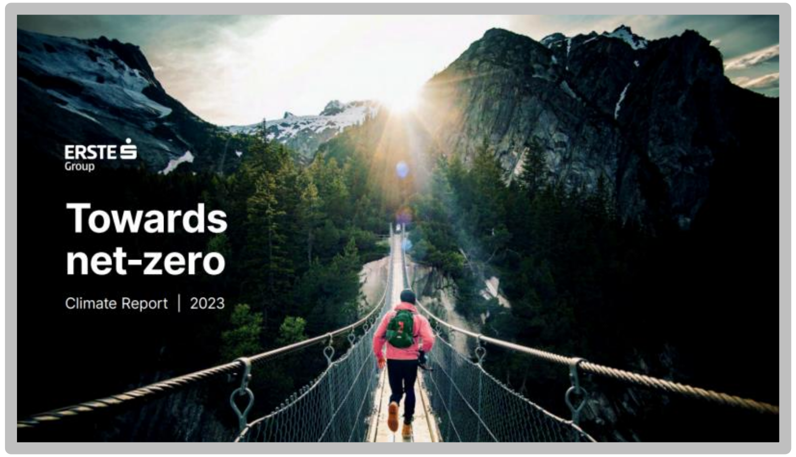
Standalone transition plan



Example: HSBC's *Net Zero Transition Plan 2024*

Standalone climate ambition reports

Example: Rabobank's *Our Road To Paris*



Example: Erste Group's *Towards Net-zero Climate Report 2023*

Transition plan within a TCFD report

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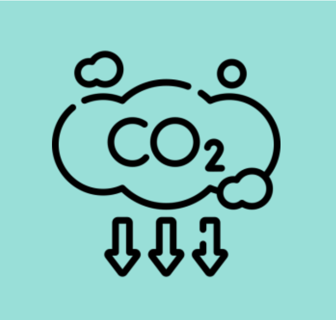
Example: Intesa Sanpaolo's *TCFD report 2022*

Common elements of banks’ transition plans



Emissions targets

- 25 out of 30 global systemically important banks have committed to net zero by 2050.
- Banks have also been setting near-term financed emissions targets for high-emitting sectors, in line with scenarios on how to meet Paris Agreement temperature goals.
- Targets will also increasingly cover facilitated emissions.

Green finance

- Banks are aligning their sustainable finance frameworks with the EU Taxonomy.
- They are setting targets for the volume or share of finance earmarked for climate, green and sustainable proceeds.
- They are also adopting increasingly nuanced targets. A bank with a GHG emissions target for the automotive sector, may have a target for financing of electric vehicles.

Fossil fuel policies

- Banks are introducing exclusions and conditions on new financing for fossil fuel assets and companies.
- They are also setting phaseout timelines for different fossil fuels, with timelines sometimes differing between exposures in OECD and non-OECD countries.

Client engagement

- Banks are starting to engage with their clients on topics relating to climate change.
- Increasingly, they are expecting their high-emitting clients to have their own transition plans.
- Some banks disclose the criteria for how they will be evaluating the ambition of such plans.

Operational changes

- Banks are introducing new processes and systems to realise their climate commitments, including new due diligence and data systems.
- Many banks are training staff and hiring new staff to fulfil roles and responsibilities on climate.

What do you consider to be the most important elements of a transition plan?

What challenges do you foresee in following best practices on transition planning?

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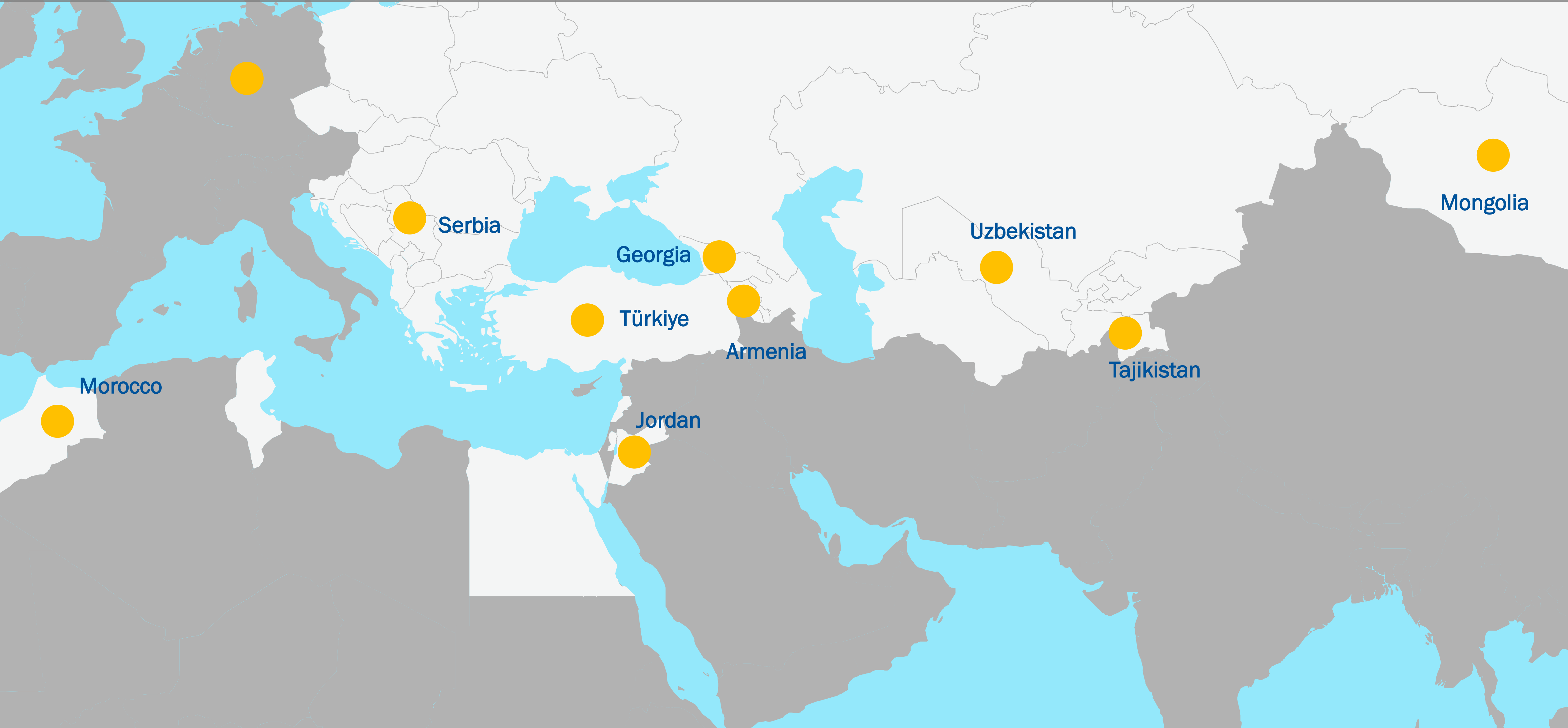
Where to start

In late 2022, the EBRD started to engage with partner financial institutions on transition planning.

Yellow dots indicate countries in which the EBRD has started engaging with partner financial institutions. More in the pipeline.



The EBRD's approach to supporting improvements in clients' climate practices

Step 1

Benchmark the current level of climate practices within the bank

- Assessment of the baseline could be done with respect to specific regulation, disclosure standard or best practices on the market.
- The EBRD uses the Paris Alignment Matrix for Financial Institutions. The matrix describes "Early stage", "Developing", and "Advanced" climate practices of banks, along five dimensions, following leading international standards. The matrix is publicly available.

Step 2

Make a plan to improve climate practices, looking at the short, medium and long-term

- The plan's timelines should be aligned with any local or international regulation.
- Following the Transition Plan Taskforce, transition planning is not a "once and done" activity. This means that a bank's first transition plan can be improved as more data and information becomes available, and as a bank's climate ambition matures.

EBRD Paris Alignment Matrix

TCFD thematic area	The EBRD's minimum requirements at signing	PFI Paris alignment transition stage		
		Early stage practice	Level of ambition to be addressed in a transition plan	
			Developing practice	Advanced practice
Governance Board and management roles and responsibilities for climate change	The PFI has the corporate governance practices needed to support the climate ambition or commits to undertake the necessary steps to adopt such practices within an agreed timeframe	The PFI's board receives some climate-related information. Responsibilities for climate change are defined for the PFI's senior management.	Board members have formally assigned responsibilities on climate change and receive relevant climate-related information at least once per quarter Roles and responsibilities for climate change matters are well-defined among management, and cascade through the PFI's organisational structure. Roles and responsibilities for climate change matters are supported by training.	The Board oversees climate change activities, approves strategic decisions and the climate strategy, and monitors progress against climate targets. Executive remuneration and incentives are aligned with the PFI's climate ambition Roles and responsibilities for climate change matters are supported by a regular and structured training programme.
Strategy – **Business strategy** A strategy to meet climate change goals, supported by plans, policies and financial products	The PFI makes a commitment to the EBRD to work towards aligning its financial flows with the goals of the Paris Agreement. The PFI complies in its financial flows from the EBRD with (i) the EBRD's Environmental and Social Policy (including exclusions list) and (ii) the EBRD's approach to fossil fuels set out in its Energy Sector Strategy.	The PFI offers at least one climate change-related financial product.	The PFI has a stated climate ambition to support aligning financial flows with the Paris Agreement, with defined actions to meet this ambition as part of its corporate strategy. The PFI is developing a plan for a managed phase-out of investments in high-emitting assets. The PFI has practices and processes in place to support positive climate change outcomes. The PFI offers a selection of climate change-related financial products.	The PFI has a stated climate ambition and a well-formulated strategy or plan (covering both mitigation and adaptation and existing and new products and services), grounded in aligning its flows with the goals of the Paris Agreement and reflecting the context of its financing activities (for example, country circumstances). The strategy or plan outlines the concrete steps needed to meet the stated ambition, including financing climate solutions, enabling clients to align to a 1.5°C pathway and supporting clients that are already aligned. The PFI has a plan for a managed phase-out of all high-emitting assets in a time frame that is consistent with Paris Agreement goals. The strategy or plan, underpinned by a scenario analysis, explains how climate considerations are reflected in decision-making tools and processes, how the PFI manages climate-related risks and creates opportunities to transition its client base to be more resilient to these risks, and how it incorporates just transition considerations. Climate ambitions are supported by a range of relevant policies (for example, on financing fossil fuels or other high-impact activities). Climate ambitions are reflected in the PFI's climate-related financial product offering.
Strategy – **External engagement** A strategy to meet climate change goals through engagement with clients and other groups	The PFI is aware of its portfolio exposure to clients in different sectors and provides this information to the EBRD.	The PFI is piloting engagement with clients on climate change.	The PFI has engaged with some clients on climate change. The PFI is part of national/international climate-related initiatives, industry groups and advocacy efforts (with governments and civil society) which support Paris Agreement goals.	The PFI engages with clients on climate change and has a track record of successfully supporting counterparties. The PFI is actively involved in (or leads) national/international climate-related initiatives, industry groups or advocacy efforts (with governments and civil society), which actively support Paris Agreement goals.
Risk management Identification, assessment and management of climate-related financial risk	Physical and transition climate-related financial risks in the PFI's portfolio are assessed by the EBRD based on information provided by the PFI.	The PFI is developing capacity to assess and manage its exposures to high-emitting assets. Climate transition risks in the PFI's portfolio are identified and described qualitatively. Climate-related physical risks are considered when some investments are assessed.	Climate risks in the PFI's portfolio are identified and supported by quantitative analyses. Material climate risks (physical and transition) are considered and addressed when investments are structured.	Climate risks are identified, described and assessed for materiality in a quantitative and qualitative way. Climate risks (physical and transition) are integrated into the risk management framework and business and financial planning, with decisions underpinned by scenario analysis to manage uncertainty.
Metrics and targets – **Metrics** Climate-related data and variables which are used to set targets and measure impact	The PFI tracks climate-related metrics as part of EBRD-intermediated climate finance transactions.	The PFI collects data on internal climate change metrics (for example, as energy or CO_2 savings generated by a given project).	The PFI collects data on Scope 1 and 2 emissions (and some Scope 3 emissions). The PFI reports on some climate change metrics, including any related climate financing.	The PFI has a GHG emissions inventory, which includes the full impacts of its financed emissions, compiled in line with market best practice. The PFI uses data on emissions or emissions intensity as inputs in measuring its portfolio alignment. The PFI also collects data on any relevant adaptation metrics (for example, share of finance for adaptation).
Metrics and targets – **Targets** Expression of the climate ambition of the PFI over the short and long term	The PFI commits to achieving "early-stage" practices across all pillars, typically within two years of signing, if not already achieved.	The PFI has targets relating to some internal climate change metrics.	The PFI has announced a climate change target encapsulating climate finance and/or GHG emissions.	The PFI set a credible climate mitigation objective (underpinned by short, medium and long-term targets), in line with industry best practice to meet the goals of the Paris Agreement. The PFI also sets an adaptation objective aligned with industry best practice. Objectives reflect relevant industry best practice and include a short-term target related to its strategy on fossil-fuel financing.
Disclosure Information about the PFI's climate change-related matters available to the EBRD and publicly	On an annual basis, as part of the monitoring of intermediated climate finance transactions, the PFI reports to the EBRD (i) its Environmental and Social Report for Financial Institutions; and (ii) progress on transition planning (when relevant). Information about the PFI's transaction with the EBRD is available on the EBRD website and (when applicable) the PFI's communication channels.	The PFI discloses information on main climate-related developments.	The PFI discloses some climate-related information in line with leading industry disclosure standards (for example, TCFD). This disclosure includes some information on the PFI's climate ambition and on core elements of its transition plan.	Climate-related information, including all above listed aspects related to governance, strategy, risk management, and metrics and targets, is reviewed and disclosed externally on a regular basis, in line with leading industry disclosure standards, with transparency on goals and performance. Climate reporting is reviewed at a set frequency, and verified or assured by a third party. Published data are accompanied by notes on underlying methodology, assumptions and uncertainties.

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What are your organisation's priorities when it comes to climate action?

Thank you

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How are large international banks preparing for the transition?

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What first steps can banks take to start transition planning?

EBRD Paris Alignment Matrix: Example of Governance

Early stage practice

The bank's board **receives some climate-related information.**

Responsibilities for climate change are defined for the bank's senior management.

Developing practice

Board members have formally assigned responsibilities on climate change and receive relevant climate-related information at least once per quarter

Roles and responsibilities for climate change matters are well-defined among management, and **cascade through the bank's organisational structure.**

Roles and responsibilities for climate change matters are supported by **training.**

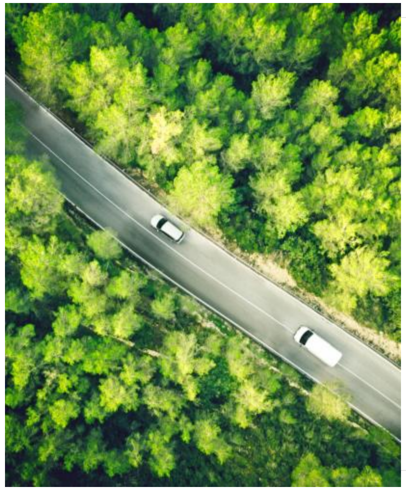
Advanced practice

The Board oversees climate change activities, **approves strategic decisions and the climate strategy, and monitors progress against climate targets.**

Executive remuneration and incentives are aligned with the PFI's climate ambition

Roles and responsibilities for climate change matters are supported by a **regular and structured training programme.**

Considerations relating to transition planning in emerging countries



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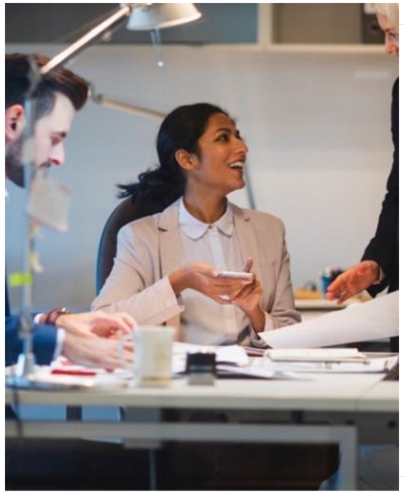
Policy framework

Countries with an existing climate policy framework have more entities actively involved in transition planning. Such frameworks may be lacking in emerging countries, making it more difficult for the private sector to take action.



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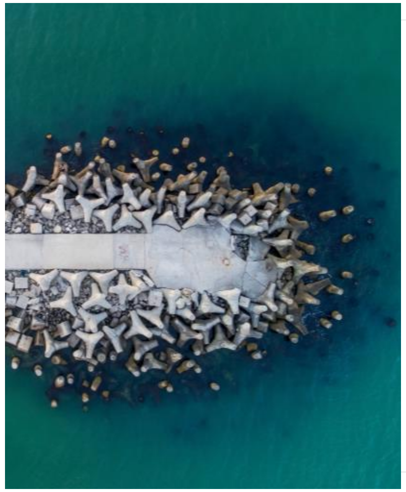
Data

Climate scenarios and data on GHG emissions from the real economy may not be widely available in emerging and developing countries. Larger share of SMEs in emerging economies also poses a data challenge.

3

Limited availability of step-by-step and context-specific guidance

Much of existing guidance on climate risk and transition planning has been prepared based on examples and realities of large international banks. Step-by-step approaches are emerging.



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Priorities beyond mitigation

Transition planning in advanced countries has mostly been focused on mitigation. In emerging and developing countries, mitigation may not be an isolated goal, but one linked to sustainable development, social equity or adaptation considerations.