

Network for Greening the Financial System

Cover Note

NGFS: Transition Plan Package

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Foreword



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Climate change is a complex issue that requires both global and local mitigation and adaptation efforts. This complexity underscores the mounting global focus on climate transition plans and the role they can play to respond to the financial risk that stems from climate change.

The Network for Greening the Financial System (NGFS) began exploring the relevance of financial institutions' transition plans to micro-prudential authorities' roles and mandate in 2022. This work culminated in the report, [Stocktake on Financial Institutions' Transition Plans and their Relevance to Micro-prudential Authorities](#). This report concluded that financial institution transition plans can serve the needs of different users, including micro-prudential authorities.

As a continuation of this work, the NGFS is pleased to present three thematic deep dive reports on the topic. These reports serve to enhance micro-prudential authorities' understanding of the broader context within which financial institution transition planning takes place. They also delve into various considerations that could enable, among others, micro-prudential authorities' use of transition plans.

The first report, [Tailoring Transition Plans: Considerations for EMDEs](#), examines the unique perspectives, priorities, and challenges in EMDEs financial institutions' transition plans and planning.

The second report, [Connecting Transition Plans: Financial and non-financial firms](#), delves into how financial institutions can use real economy transition plans to inform their own climate-related risk management, and facilitate transition finance.

The third report, [Credible Transition Plans: The micro-prudential perspective](#), explores key elements of credible transition plans and how micro-prudential authorities could assess credibility and related concerns.

Transition plans can be an effective roadmap for both financial and non-financial firms to bring clarity to their responses to climate change. Non-financial firms can present markets with action plans on the decarbonisation path of their activities in the real economy. Financial institutions, who are both users and preparers of transition plans, will rely on this information for their own respective transition pathway.

We trust that these reports can deepen our collective understanding on this important topic and serve as a catalyst for NGFS members and observers. It can also help relevant organizations as they continue to mature their approach to transition planning and strengthen the resilience of the financial system to climate change risks.

We value the steadfastness of all workstream members who have contributed to these reports, as well as the valuable engagement of industry participants and other stakeholders who have shared their expertise, insights, and practices. A special "thank you" to the co-leads on the three reports for their leadership and dedication, and to the NGFS Secretariat for all their support and assistance in driving forward our ongoing work on transition plans.

1. Introduction to the NGFS work on transition plans

Transition plans articulate an entity's strategic response to risks and opportunities that emerge due to a system-wide adaptation to the impacts of climate change and the transition to a low emission economy. As such, over the last three years, transition plans have become a key topic of interest for, amongst others, corporates, financial institutions¹, financial regulators, governments, and international organisations (such as the United Nations). Indeed, there are different international public sector groups currently assessing the relevance of transition plans to specific use cases, including (1) understanding corporate decarbonisation strategies, (2) mobilising transition finance from non-state actors, (3) addressing potential financial risks from the transition, and (4) driving non-state actor action in line with the Paris Agreement².

The NGFS began exploring the **role of transition plans in enabling the financial system to mobilize capital and manage climate-related financial risks ("climate-related risks") and their relevance to micro-prudential supervision in 2022**. This aligns with the NGFS's broader goal to enhance the role of the financial system to manage risks and to mobilize capital for green and low-carbon investments in the broader context of environmentally sustainable development. As a first step, the NGFS undertook a stocktake of current transition plan frameworks and practices in 2022-23. The [Stocktake on Financial Institutions' Transition Plans and their Relevance to Micro-prudential Authorities](#) ("Stocktake", published in May 2023), identified six key findings:

- 1. There are multiple definitions of transition plans, reflecting their use for different purposes.** The Stocktake noted the absence of a common definition or purpose, resulting in the debate on transition plans lacking clarity as actors used this term to reflect differing objectives and use cases.
- 2. There is a need to distinguish transition planning (transition strategy) from a transition plan (transparency to a specific audience).** This distinguishes

the internal process of an entity developing its strategy to manage risks from climate change and / or achieve certain climate goals/targets and the product of that process which guides internal implementation and provides transparency to an external audience.

- 3. Existing frameworks speak to a mix of objectives, audiences, and concerns for transition plans but predominantly relate to climate-related corporate disclosures.** While the central concept of strategy-focused plans may be well understood as an articulation of an institution's approach to achieve its transition strategy, the available frameworks and literature speak to a mix of objectives, audiences, and concerns.
- 4. Transition plans could be a useful source of information for micro-prudential authorities to develop a forward-looking view of whether risks resulting from an institution's transition strategy are commensurate with its risk management framework.** The Stocktake did not reveal any common perspective amongst authorities on how transition plans could be relevant for prudential objectives but suggests micro-prudential authorities may at a minimum be users, alongside other stakeholders, of transition plans for the purposes of addressing climate-related risks.
- 5. There are some common elements to all transition plans, which are relevant to assessing safety and soundness.** Information contained in common elements of transition plans, such as governance, strategy, risk management and metrics, can help regulators understand how firms meet relevant international standards (including those of the BCBS and the IAIS).
- 6. The role that micro-prudential authorities play needs to be situated in the context of the actions of other financial and non-financial regulators rather than in isolation.** Furthermore, recognizing the spectrum of regulatory objectives, any guidance to micro-prudential authorities should be flexible and consider a building block approach.

¹ Consistent with the mandate of the NGFS Workstream on supervision, 'Financial institutions' are used to describe banks and insurers subject to micro-prudential supervision.

² Public sector groups include, for examples, the United Nations Taskforce on Net Zero Policy, the G20 Sustainable Finance Working Group, the Organisation for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF), the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO), the Sustainable Insurance Forum (SIF), and the NGFS.

The NGFS defined “transition planning” and “transition plans” in the Stocktake, which are adopted in this phase of the work: “**Transition planning**” is the internal process undertaken by a firm to (i) develop a transition strategy to deliver climate targets that firms may voluntarily adopt or that are mandated by legislation or the appropriate authority, and/or (ii) prepare a long-term response to manage the risks associated with its internal strategic planning and risk management processes undertaken by a financial institution to prepare for risks and potential changes in business models associated with the transition to a low emission and climate-resilient economy. “**Transition plans**” are a key product of the transition planning process and are an external-facing output for external audiences, such as investors, shareholders and regulators.

For the purpose of the NGFS work, transition planning and transition plans capture climate mitigation and adaptation. From the NGFS perspective, for completeness transition plans should reflect an entity’s integrated approach to reducing its emissions (**climate mitigation**) and simultaneously adapting to the impacts of climate change that will arise even where the goals of the Paris agreement are met (**climate adaptation**).

Objectives and topics explored in Phase 2, and the basis for the work

Since the Stocktake was published and building on this initial work, various international fora (including international standard setters for the financial sector such as the FSB, the BCBS and the IAIS) are assessing the relevance of transition planning and/or transition plans in relation to their objectives. In close coordination with the international standard setters and with the aim of both complementing their work and continuing to provide thought leadership on the role of micro-prudential authorities with respect to financial institutions’ transition plans and the transition planning process, the NGFS prioritised specific topics to explore in its second step (“Phase 2”).

The NGFS set out to achieve two objectives in Phase 2 of the work:

- **Enhance its understanding of the broader context** within which transition planning takes place in a financial institution, including the connections between non-financial firms’ and financial institution’s transition plans (deep dive 1), the perspectives of emerging markets and developing economies (EMDEs) and adapting transition planning to their unique needs and challenges (deep dive 2).
- **Contribute to the understanding of the key features of the credibility** of the financial institution transition planning process and of transition plans from the micro-prudential perspective (deep dive 3).

Diving into these topics enables a common foundational understanding that is not only relevant to micro-prudential objectives, but also to other stakeholders who are interested in financial institutions’ transition planning and plans. That said, any future guidance or actions from the NGFS on this topic will focus on the supervisors’ core mandates and objectives.

In undertaking these three deep dives, the NGFS continued to review literature and research as well as transition planning-related frameworks from external bodies published since the Stocktake. Furthermore, on the topics of the interlinkages between non-financial and financial institution transition plans and the needs and challenges of financial institutions operating in EMDEs, the NGFS collaborated with the Institute of International Finance (IIF). This work entailed surveying and holding roundtables with a range of small, medium, and large banks and insurers across different jurisdictions to further develop an understanding of financial industry views³. Consistent with the mandate of the NGFS and its work on supervision, the scope of institutions covered by this note are financial institutions, describing banks and insurers subject to micro-prudential supervision.

This note summarises the key findings and recommendations from the three deep dives in Section 2. It draws together common observations based on the deep dive reports in Section 3 and presents considerations for micro-prudential authorities in Section 4. Finally, it outlines NGFS’s next steps on this topic in Section 5.

³ Insights were further enhanced through additional survey responses collected by the NGFS members on a voluntary basis to enhance the representativeness of EMDEs in the survey sample.

2. Key findings and recommendations from the Phase 2 deep dives

This section summarises the key findings and recommendations from the Phase 2 deep dives. For the full reports, please see [Connecting Transition Plans: Financial and non-financial firms](#), [Tailoring Transition Plans: Considerations for EMDEs](#), and [Credible Transition Plans: The micro-prudential perspective](#).

2.1 Connecting Transition Plans: Financial and non-financial firms (Deep dive 1)

Building on the Stocktake, the NGFS explored the connection between transition plans of non-financial firms and financial institutions, focusing on the extent to which information from non-financial firms' transition plans can: (i) inform financial institutions' own climate-related risk management, and (ii) facilitate transition finance.

Non-financial firms' transition plans, disclosed in a consistent and comparable way, can be a source of information for financial institutions. Financial institutions can use information available in non-financial firms' transition plans to act and engage, including informing their own decarbonisation actions, identifying financing opportunities that can enable non-financial firms to transition, and managing their financial risks from climate change and business transformation. Currently, financial institutions mainly use non-financial firm transition plans to support fulfilling their own decarbonization commitments. However, institutions also indicated that non-financial firm transition plans are used, or will be used, to adapt their business strategy, identify transition finance opportunities, and for risk management purposes. The heterogeneity of how, and for which purposes, non-financial firm transition plan data is being used, or is envisaged to be used, reflects the nascent nature of transition plans and the limited experience of financial institutions in dealing with this type of data. While, at this stage, transition plans are not primarily seen as a risk management tool, financial institutions perceive a transition plan prepared by client non-financial firms as a leading indicator of potential change in clients' business profile. Through transition plans, non-financial firms disclose their future ambition, articulate a forward-looking strategy, and identify business opportunities, which can provide useful insights into the resilience and viability of their business

model over different time horizons relevant to stakeholders such as shareholders and financial institutions.

However, financial institutions currently face challenges related to the availability of transition plan data; when data is available, it is not always comparable and reliable. Furthermore, financial institutions also vary in how they use transition plans to assess investment opportunities or engage non-financial firms on transition planning. Current engagement practices include a mix of indirect engagement (through the due diligence/risk assessment process) and a direct engagement model. That said, many financial institutions that have not started to use non-financial firm transition plans expressed an intention to do so in the future.

Financial institutions can improve their own transition planning by targeted engagements with non-financial firms. As illustrated in Figure 1, financial institutions can target particular areas for engagement to enhance the quality and decision-usefulness of non-financial firms' transition plans which can then be used for their own purposes. For example, to fulfil risk management objectives, financial institutions could engage client non-financial firms on the extent to which their business model, assets, and operations are resilient to transition and physical risks, as well as how they plan on managing such risks over time (e.g., business model transformation). While financial institutions are not responsible for their clients having a transition plan or for its contents, it can be in their own interests to help their clients develop their transition planning.

More broadly, financial institutions, policymakers and standard setters can consider different measures to promote the development (and improvement in the quality) of non-financial firm transition plans. As highlighted in Figure 1, financial institutions can utilise their influence to engage with their clients on improving their transition planning and plans to better meet financial institutions' needs – both for identifying financing opportunities and as well as for risk management purposes. Furthermore, policymakers can develop and publish national climate and adaptation strategies at the jurisdiction and sector-level to provide greater clarity around the goals and the different pathways for the

Figure 1 Recommendations to enhance connections between non-financial and financial institution transition plans

1. Financial institutions can improve their own transition planning by targeted engagements with non-financial firms in the following areas:

Risk management	Financing, investment and insurance opportunities	Collect input to measure progress on FI own decarbonization targets	Credibility by assessing the likelihood of non financial firm's follow through with transition plan
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2. Facilitation of the development of non-financial firms' transition plans and their availability to financial institutions

National climate and adaptation strategies; Real economy sector roadmaps	Active capacity building through the promotion of best practices	Use of international frameworks and consistent climate disclosure standards	National emissions database as an example of a common public goods/infrastructure
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3. Policy considerations for financial sector regulators

Coordination on standards, timelines and standards of credibility across the real economy, while remaining proportionate and flexible in individual FI application	Recognition of critical differences between non-financial firms and financial institution transition planning	Recognition that financial institutions' transition planning can encompass aspects that extend beyond a focused prudential remit
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real economy transition, giving non-financial firms the guardrails to plan their own transition. Lastly, policymakers and standard setters can enable usage of data in transition plans by converging towards international economy-wide standards and considering developing public goods, such as emissions databases.

2.2 Tailoring Transition Plans: Considerations for EMDEs (Deep dive 2)

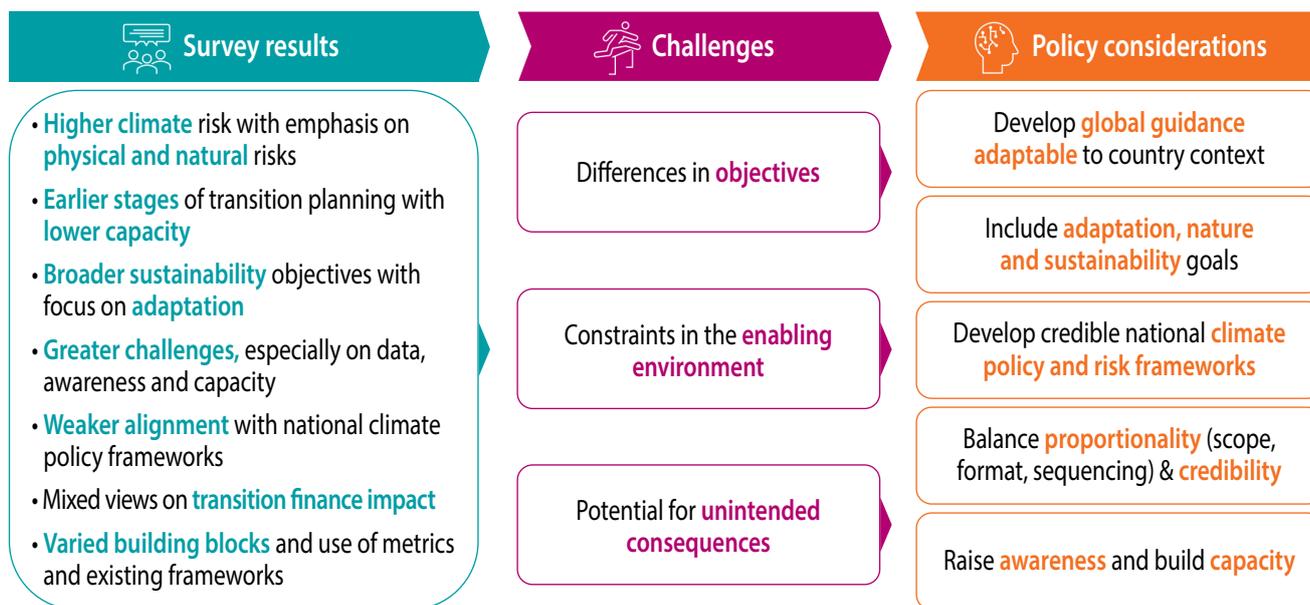
Further to the Stocktake, the NGFS explored unique needs and challenges in EMDEs affecting financial institutions' transition planning.

Informed by the survey results, the main challenges for transition plans in EMDEs arise from varying objectives, constraints in the enabling environment and potential unintended consequences. Findings suggest that EMDE financial institutions are in the early stages of transition planning, self-assessed as lacking capabilities compared to advanced economies (AEs), and that they face three main challenges.

First, financial institutions in EMDEs and AEs have very distinct transition planning objectives. While AEs predominantly centre their transition planning on mitigation, EMDEs perceive higher degrees of physical

climate and nature-related risks, leading to broadening the strategic focus on sustainability objectives and making adaptation an important dimension of the transition planning. Next, while national climate policy frameworks are overall available in both AEs and EMDEs, institutions in EMDEs face more constraints in the enabling environment related to the lack of clear targets and sectoral transition pathways. Additionally, while both AEs and EMDEs face challenges in transition planning, EMDEs encounter higher hurdles around the availability of relevant data and limited awareness and capacity to act on transition planning. Finally, while effective transition planning can contribute to enhanced risk management and easing access to climate finance, there is also a risk of unintended consequences, such as undermining access to finance and creating retrenchment effects in EMDEs' transition funding if not done effectively. In that respect, AEs financial institutions operating in EMDEs are urged to avoid a "one size fits all" approach across the various regions they operate in. They should carefully consider the regional circumstance and the country climate strategies when designing their transition plans. While the end goal of the transition is unique (achieving net zero soon enough to limit the climate change well below 2°C and if possible 1.5°C), differences in initial conditions with regard to the transition and the institutional setting should be taken into account.

Figure 2 Summary of key survey results, challenges and policy considerations for tailoring transition plans to the EMDE context



Building on this analysis, the NGFS proposes five considerations for policymakers when designing transition planning guidance and adopting transition plan frameworks in EMDEs to address their needs and challenges.

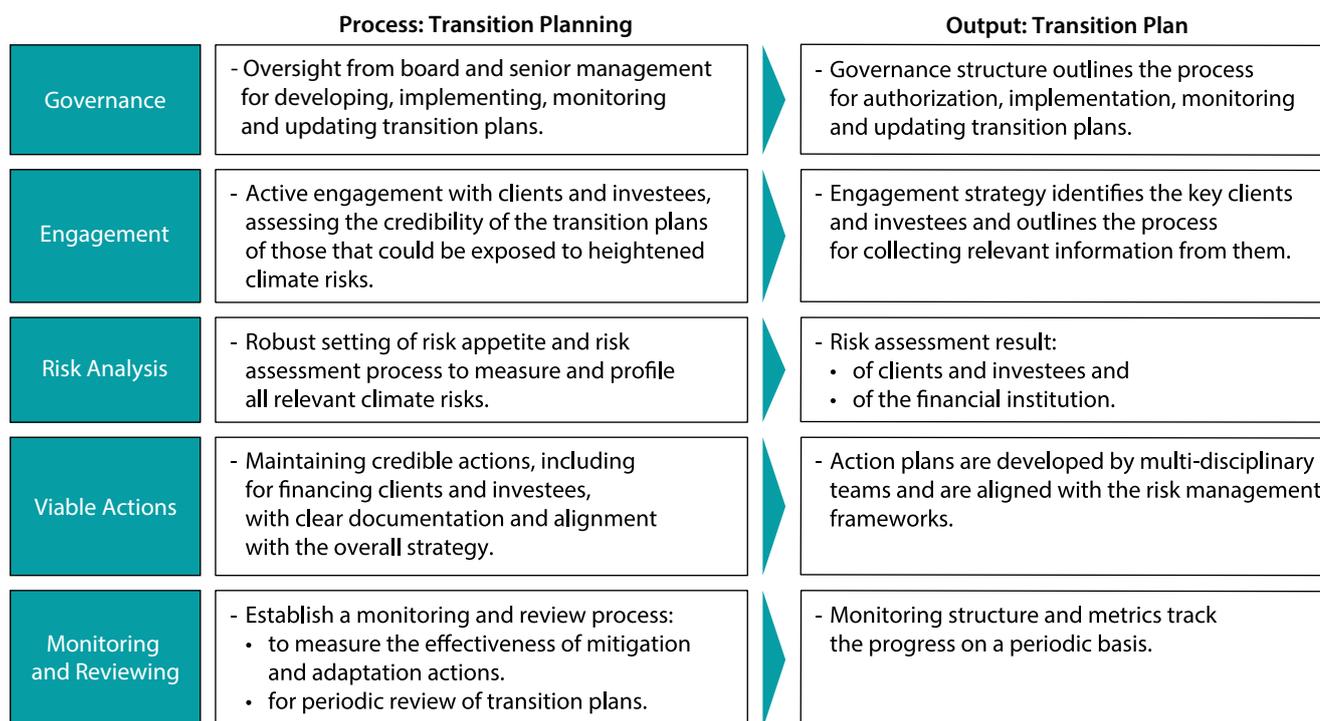
As illustrated in Figure 2, policymakers could consider (1) coordinated global guidance that can be adapted for country specific context to support the implementation of transition planning and plans, and comparability and consistency across jurisdictions; (2) including adaptation, nature and broader sustainability goals and targets into transition planning and plan guidance, which are relevant to both EMDEs and AE, reflecting the greater emphasis and impact of these factors for EMDEs; (3) creating the enabling conditions for transition planning by financial institutions, including national climate frameworks, pathways and disclosure mechanisms; (4) developing credible transition planning frameworks proportionate to the capacity of EMDEs without limiting access to finance; and (5) building capabilities and awareness among relevant stakeholders to support local implementation.

2.3 Credible Transition Plans: The micro-prudential perspective (Deep dive 3)

In the Stocktake, the NGFS noted the importance of exploring the concept of credibility from the micro-prudential perspective, given that transition plans could be a useful source of information for micro-prudential authorities. Furthermore, for micro-prudential authorities that may require financial institutions to undertake transition planning or produce transition plans (whether as part of their regulatory expectations or through applicable legislation in the respective jurisdiction), the NGFS also explored potential ways forward for those authorities to assess the credibility of the planning process and the plans.

Common elements of transition plans found in available transition plan-related guidance and literature can be useful to identify the elements that could meet micro-prudential objectives. The NGFS analysed approximately 30 guidance and literature and

Figure 3 Overview of the proposed elements of credible transition planning and plans that are relevant to micro-prudential authorities.



identified elements considered relevant to credibility for different purposes (e.g., providing transparency through disclosures vs. accomplishing climate goals). Using these relevant elements as a starting point, the NGFS identified elements that can contribute to transition planning and plan credibility from the micro-prudential perspective (see Figure 3).

Although micro-prudential authorities could leverage some of the common elements when engaging with financial institution transition planning and plans, maturation in transition planning/plan guidance will enhance authorities’ use of the information such as to understand how the business models will develop and therefore assess the adequacy of risk management frameworks. Current frameworks are intended mainly for disclosure purposes and for accelerating financial institution action towards the low-emission economy, which may not always be compatible with the information needs of

micro-prudential authorities. Furthermore, many of the frameworks do not explicitly consider other relevant climate-related objectives, such as addressing physical risks, which is important from the financial institutions’ safety and soundness perspective. Finally, there are practical challenges that could affect micro-prudential authorities’ use of transition plans, such as those related to the availability of the underlying data as well as financial institutions’ ability to collect and assess comparable and reliable data from non-financial firms.

For micro-prudential authorities that may go beyond being users of the information in transition plans to supervisors of transition planning and/or transition plans, there are different ways forward to assess credibility. These authorities could consider reviewing the planning process or plans themselves or rely on third parties to different degrees. These choices may depend on the resource availability and capabilities, as well as jurisdiction-specific requirements.

3. Observations based on Phase 2 deep dives

The three deep dives reinforced key findings from the 2023 Stocktake and raised awareness on specific areas that need to mature. While undertaken as three separate projects, these reports also point to common issues relevant to the development of transition planning practices and transition plan frameworks. These observations enable the NGFS to target future work and provide guidance to micro-prudential authorities. They also advance broader discussions around transition plans to support the work of stakeholders looking at use cases beyond that of micro-prudential authorities. This aim is consistent with the NGFS's Stocktake finding that the role that micro-prudential authorities play needs to be situated in the context of the actions of other financial and non-financial regulators, rather than in isolation.

3.1 There is a need to develop consistent international guidance for transition planning, and frameworks for the disclosure of transition plans, that can be adopted in a proportionate manner

The NGFS's work continues to point to a wide range of use cases for transition plans that notably go beyond just being an issue for the financial sector. While frameworks could be developed for specific transition plan use cases, that approach could also lead to fragmented requirements for firms to develop multiple different versions of a transition plan for different purposes.

The development of international guidance can foster a consistent and comparable approach for transition planning and for transition plans that support multiple use cases, and can be adapted proportionally. Common guidance for transition planning (deepened through sectoral guidance) and disclosure frameworks can enable financial and non-financial firms to undertake transition planning and improve the overall consistency and comparability of transition plan information. As an example, the Glasgow Financial Alliance for Net Zero has developed guidance to drive private sector capabilities and practices to enable the decarbonizing of the economy. Stakeholders, including regulators, can then reliably use the information to understand a firm's future strategy, business model and risk management. This type of approach would

need to reflect the needs of AEs and EMDEs, as well as non-financial firms and financial institutions as both users and preparers of transition plans, as set out in Section 2.

3.2 Economy-wide incentives to undertake transition planning and to disclose transition plans in a proportional way could help to broaden adoption and to close information gaps

Financial institution transition planning is closely tied to transition planning across the broader real economy. Financial Institutions need information from their clients or counterparties, who in turn need information from entities across their value chain. However, **the deep dives highlighted two key challenges for financial institutions in getting the information they need: (1) non-financial firms' capabilities to develop transition plans, particularly small and medium-sized enterprises (SMEs), and (2) the lack of incentives for non-financial firms (e.g., from policymakers, non-financial regulators, their investors or financial institutions) to provide relevant data and disclose transition plans.** Economy-wide incentives to build transition planning capacity and to disclose transition plans, accompanied by proportionate guidance and expectations, are needed to address these challenges.

3.3 While transition plans are primarily strategy focused, risk management is an integral part of transition planning

The deep dives support the Stocktake finding that existing frameworks and practices point to transition planning and plans addressing multiple use cases. They also reinforce the view that transition planning and transition plans are primarily a strategic exercise, focused on the development and implementation of decarbonisation strategies and business transformation. That said, **non-financial firm transition plans can inform financial institutions of planned changes in their clients' business and risk profile and therefore serve as an input into their own decision making and management of exposures.** These plans also inform financial institutions' own strategies to mitigate potential risks to which they would be exposed in the future. Consequently, transition planning incorporates

the extent to which financial institutions' risk management framework needs to evolve to reflect changes to their portfolios' risk profile as well as the risks associated with their own business transformation.

3.4 Transition planning and plans should integrate transition and physical risks and consider nature-related risks

Physical risks from climate change, as well as transition risks from the global response to climate change, will have implications on financial institutions' safety and soundness. **Different firms may emphasise one category of climate-related risks above the other in their transition planning based on their circumstances. However, if a financial institution narrowly focuses on one without consideration for the other, it could result in a gap around its preparedness to address the full suite of climate-related risks to which it could be exposed.** Furthermore, the NGFS work on EMDEs highlighted the need to explore consideration of broader nature-related risks in transition planning, which aligns with NGFS's earlier publication, [Nature-related Financial Risks: A Conceptual Framework to guide Action by Central Banks and Supervisors](#).

3.5 Enabling conditions can broaden the global adoption of transition plans

Beyond the observations noted above, the deep dives highlighted that several enabling conditions could inform the transition planning process and help make transition plans more decision useful. Among other things, these conditions include (1) clarity around policy direction, such as national climate-related policy frameworks or national transition plans, sectoral pathways, carbon prices and markets, etc., (2) additional guidance from global standard setters, such as the International Sustainability Standards board (ISSB) on transition plan disclosures, (3) consistency of methodologies, format and standards for information underlying transition plans, such as for calculating risk metrics and Greenhouse Gas reporting, and (4) building awareness and capabilities for firms to undertake transition planning. Fostering these can increase the adoption of transition plans more broadly and improve their reliability as a source of forward-looking, decision-useful information.

4. Considerations for micro-prudential authorities

As highlighted in Section 2, regardless of whether micro-prudential authorities are the potential users or regulators of transition plans (a factor that may differ between jurisdictions reflecting national approaches and regulatory mandates), **the plans need to be reliable, credible and consistent to become a relevant source of information or a tool for supervisory work.** As a result, micro-prudential authorities could consider how they define credibility and ways in which they can gain comfort that the information they are using is credible.

As micro-prudential authorities consider their approach to engage financial institutions in transition planning, they could **consider the circumstances under which financial institutions are developing their plans.** These considerations include factors like the specific needs and challenges of the jurisdictions in which financial institutions operate together with focussed strategies to engage their EMDE-based or SME clients and counterparties to collect relevant data. Micro-prudential authorities may tailor their guidance to financial institutions' transition planning

given the current context, while considering how they may evolve their approach and expectations as transition planning matures.

Some micro-prudential authorities may have legislative requirements or secondary mandates beyond prudential concerns for a financial institution's safety and soundness, such as enabling or promoting sustainable finance or development opportunities. For these authorities, they may also need to consider the impact of their regulatory actions on the broader economy and calibrate their efforts (e.g., the pace and extent) with that of policymakers. For example, these authorities may consider the extent to which they can coordinate transition plan standards and timelines across the real economy. Globally, there is a need to calibrate any guidance to industry on transition planning while being mindful of unintended consequences (e.g. hindering access to capital for non-financial firms that are in the process of transitioning or potential retrenchment effects on EMDEs).

5. Next steps

The NGFS deep dives have reinforced the Stocktake findings and helped to build a more comprehensive understanding of the current context within which financial institutions' transition planning takes place. The NGFS welcomes other relevant bodies to build on the NGFS deep dives and findings to increase the collective understanding of these important topics.

The NGFS will also continue with a broad engagement approach to ensure its work is well situated in the context of other use cases and actors as best practice and frameworks are developed.

The NGFS will reflect on the considerations and recommendations from this foundational work when deciding on its next steps to support its members on transition planning and transition plans. For example, this may include work to develop a guide for supervisory authorities on understanding and, where relevant, engaging with financial institutions' target setting from a micro-prudential perspective; and assessing the value of the interaction between scenario analysis and transition planning.



NGFS
Secretariat

