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Institute of International Finance

A spotlight on emerging approaches to bank transition planning

May 2024

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1. Introduction

The past year has witnessed an evolution in the voluntary disclosure of transition plans by companies and financial institutions, following the release of voluntary standards as well as increasing regulatory and supervisory attention on transition plans.

These disclosures come amidst a complex market, policy, and geopolitical environment for the net-zero transition*. The nearly six months since COP28 have shown that some countries are increasing their ambitions for the net-zero transition . At the same time, it is evident that other countries are grappling with the practical realities of delivering the net-zero transition, and the complex array of competitive and socio-economic imperatives that must be balanced to translate high-level climate goals into effective and broadly accepted policy measures on the ground. Some countries have delayed or deferred updates to their Nationally Determined Contributions (NDCs) and other crucial climate policies[2]. While analysis conducted by the net-zero Tracker indicates that "more than 80% of global GDP [...] (is) now covered by a national net-zero target", "that number shrinks to 10% of global GDP [...], if only strong commitments and clear plans are included."[3]

The financial transition opportunity for banks builds on the progress made towards sectoral and regional climate trajectories. The extent, rate, and dynamics of how the transition takes place will shape the opportunities, business implications and potential strategic risks (including reputational risks) facing financial institutions as they develop new solutions and seek to hone competitive advantage. An uneven and disruptive transition may be expected as the 'base case', with potentially significant implications for the financing needs of the real economy and therefore for financial institutions' strategy and engagement.

As regulatory bodies and supervisors in some jurisdictions are beginning to require disclosure or development of transition plans, they are intensifying the scrutiny placed upon such documents in addition to the attention from policymakers, investors, and civil society. The hunt is also on for ways to enhance international coordination around transition planning guidance, and to align views on potential official-sector uses of transition plan information, as reflected in the work of the G20 Sustainable Finance Working Group and the Financial Stability Board's Transition Plan Working Group.

To gain greater insights on transition plan development across the global banking sector[1], Deloitte and the Institute of International Finance (IIF) have worked together to map out the current 'state of play' in this new and evolving area. Continuing the conversation from our previous joint report, The road to net-zero: How financial firms are moving to a low-carbon future and the IIF's 2023 report The role of the financial sector in the net-zero transition, and Deloitte's 2023 report "The net-zero nudge: Financial institutions' pivotal role in climate transition planning", this new thought piece examines the evolving landscape for transition planning, spotlighting the following topical questions:

- How are banks approaching transition planning, amidst an expanding array of diverse expectations from market, official sector, and civil society stakeholders?
- What have been the core priorities for the first round of banks' transition plan disclosures? How are banks leveraging different frameworks and guidance?
- How are banks using the transition plans of their clients and counterparties, and how are they evaluating the robustness and credibility of these plans?
- How are banks working to put transition plans into action, while addressing strategic, market, and reputational considerations – including the credibility of their own plans?

To develop this preliminary snapshot view of emerging practices, we reviewed a sample of published transition plans and conducted in-depth interviews with subject matter specialists from eight banks globally about the practical realities and challenges of transition planning within banking institutions. Chief among banks' considerations in developing their transition plan for publication purposes is a consideration of whether the approach and disclosed information will align with their stakeholders' expectations and be regarded as 'credible' – while also appropriately reflecting on the array of factors that may affect its achievement, and key uncertainties.

Transition planning practices are evolving rapidly – but it is already becoming evident that developing and articulating transition plans across business areas can add value to a variety of important strategic objectives for banks. By placing climate change at the center of strategy and operations, financial firms can build a vision of the future that embraces future value creation, risk analysis, and impact.

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The views, opinions and conclusions expressed in this report are those of Deloitte and the IIF authors based on desk research and select interviews. They do not purport to reflect the opinions or views of any particular firm interviewed or any IIF member.
* In the context of this paper, the analysis refers to banks only, after the introduction.

The report contains insights on the following key considerations in bank transition planning

- Scientific basis and strategic positioning
- Consideration of climate vs. other financial performance drivers
- Data and metrics
- Targets, scope and coverage
- Implementation activities
- Organizational integration and governance
- Disclosure

2. Bank transition planning 2024 state of play

Transition planning, as viewed by banks, involves strategizing to align organizational activities on net-zero targets, considering the opportunities and risks associated with the real economy's low carbon transition. Thus, transition planning is an internal process within a bank, focusing on strategic planning and concrete actions to anticipate and prepare for the transitions in the economy and across the bank's clients and counterparties. Transition plans are external documents tailored for the bank's stakeholders – including investors, shareholders, and regulators – emerging as outcomes of transition planning.[4]

2.1 The value of transition planning

For many banks transition planning is not a reactive exercise to a distant threat; it is a near-term strategic imperative for banks in a rapidly changing world. Transition planning can serve a dual purpose:

1. **Navigating value creation in the net-zero transition:** Banks can leverage the transition planning process to chart their course towards achieving voluntary targets and commitments, via allocating capital in support of the net-zero transition across the economy. Taking a proactive approach can enable banks to capitalize on new opportunities arising as the transition accelerates, while also improving their strategic positioning, strengthening their brand, and enhancing investor and stakeholder engagement and communications – all of which can help create and unlock new sources of value.

2. **Optimizing for climate-related disruption:** Even under 'best case' scenarios for the net-zero transition, there are myriad potential disruptions on the horizon – including increasingly frequent and severe physical climate impacts, geopolitical tensions and conflict, and social unrest – which may affect the potential for corporates and financial institutions to deliver on the goals of their transition plans. By taking a strategic approach to the transition that examines and array of potential scenarios, banks are rapidly enhancing their ability to understand and prepare for physical as well as transition risks, the latter arising from technological advancements, market changes, and policy action, as well as reputational (and litigation) risks that may arise.

For many banks transition planning is not a reactive exercise to a distant threat; it is a near-term strategic imperative for banks in a rapidly changing world.

Transition planning is also aimed at positioning a bank's business model within an evolving market, policy, and stakeholder landscape relating to the net-zero transition, and other climate-related dynamics which may affect the trajectories of transition in key sectors and market segments. Looking across the business through the transition planning process can enable banks to develop firm-wide approaches to:

- Providing transition finance to essential sectors or activities which may be carbon-intensive today, and communicating how these types of exposures and investments should be understood in the context of broader decarbonization goals.
- Identifying and capitalizing on emerging opportunities in the green economy.
- Future-proofing their business by proactively anticipating changes in market dynamics, regulatory shifts, technological advancements, and changes in market dynamics and consumer preferences.

Ultimately, transition planning is an integral component of a bank's overall business strategy. Transition planning can elevate net-zero or low carbon ambitions to a strategic priority and may help to position banks for long-term success in a changing world.[5] An integrated organizing framework can enable banks to establish a unified perspective on their desired approach to the transition and use this to effectively steer the transition planning and implementation process. Integrated governance and monitoring approaches can help improve banks' capacity to assess and navigate trade-offs, especially with respect to steering portfolio and capital allocation across the spectrum of investments needed for a successful transition.

After deciding on an overarching transition strategy, collecting, and analyzing information about the transition planning of non-financial clients and counterparties can help in reviewing and validating a banks' own plan. Our dialogue with industry participants confirms recent findings by the Network for Greening the Financial System (NGFS), see box 1, that non-financial firms' transition plans are increasingly being used or sought after by banks and other financial institutions to gain valuable insights and support the fulfilment of their own strategic commitments. Some use cases for client and counterparty transition plans are further discussed in the NGFS report and include:[6]

- **Strategy:** Non-financial firms' transition plans provide information about future financing potential, tipping points, and can challenge the projected future emissions intensity of the firm's, and, if data allows, sector, serving as an indicator for the capacity of banks to evaluate their own commitments to growth and decarbonization.
- **Portfolio allocation:** The strategic portfolio allocation following from transition planning by banks can be validated leveraging clients' transition plans, once they are available in sufficient quality and quantity. This can provide further guidance on financial product pricing decisions and help financial institutions validate their assessments of transition-relevant projects and transactions.
- **Client engagement:** Transition plans resulting from own engagement or submitted independent of own engagement act as an indicator of potential changes in the business profile of companies to which the financial institution provides services and as a means through which the institution can engage with its clients, potentially leading to additional financing opportunities and risk assessment adjustments.
- **Risk assessment:** Beyond the above use cases, clients' transition plans may serve as an input into the institution's individual risk management process, for example in assessing the expected future profitability of the client.

Client and counterparty transition plans can provide information about a company's future ambition, articulate its forward-looking strategy, and the actions being taken to deliver on strategic goals. Nevertheless, there are a number of important limitations that affect the degree to which banks can currently use client/counterparty transition plans, for example related to availability, nascency, quality and comprehensiveness, and comparability, which can affect the decision-usefulness of the information (see IIF (2023) and box 1 NGFS 2024 reports on transition planning).

2.2 Relevance for supervisors and other stakeholders

Many stakeholder groups – including official sector authorities and market actors – are expressing significant interest in banks' transition plans, and setting out an array of expectations for what plans should contain. The following table provides an overview of the different stakeholders and their expectations.[7]

Table 1: Stakeholder expectations for banks' transition plans

Stakeholder	Stakeholder expectations and proposed use cases for transition planning
Micro-prudential regulators and banking supervisors	Assessing bank safety and soundness today and expected future resilience under future net-zero scenarios. Depending on their mandates, some supervisors are pursuing other use cases in relation to supporting jurisdictional net-zero targets.
Macroprudential authorities	Assessing the potential financial stability implications of the net-zero transition across institutions, including the interplay with macroeconomic trends and financial system vulnerabilities, risk transmission channels and potential first and second-order effects which could create disruptions (e.g. market bubbles, contagion effects, etc.)
Securities market regulators	Understanding the relevance of published transition plans from an investor protection and market integrity perspective, ensuring that provided information is investor-relevant and credible.
Governments/policymakers	Assessing how financial sector activities may support achievement of national climate goals.
Investors	Validating the future viability and profitability of the business model considering a potential climate transition, and validating the perspective, ability, and willingness of the organization to transform in that manner.
Future clients	Understanding who is ahead of the change curve and might be willing and ready to submit financing to new technologies, infrastructure build-out, etc.
Business associations	Mobilizing and understanding the financiers' needs for financing sectoral pathways, especially in areas of ecosystem insecurities.
General public	Demand for transparency on climate commitments and actions, sometimes with the intention of driving certain outcomes.

Many stakeholder groups – including official sector authorities and market actors – are expressing significant interest in banks' transition plans, and setting out an array of expectations for what plans should contain.

Box 1: NGFS 2024 reports on transition planning

On April 17, 2024, the NGFS released its Transition Plan Package, which includes an overarching summary report and three thematic deep-dive reports exploring different aspects of the topic. Building upon the NGFS's 2023 Stocktake on Financial Institutions' Transition Plans and their Relevance to Micro-prudential Authorities, the recent reports are intended to enhance understanding of the broader context within which financial institution transition planning is taking place, and contribute to understanding key features of credibility of transition planning from a micro-prudential supervisors' perspective.

01. **Tailoring Transition Plans: Considerations for EMDEs** explores the needs and challenges of emerging market and developing economies (EMDEs) related to transition plans.

02. **Connecting Transition Plans: Financial and non-financial firms** assesses the interlinkages between the transition plans of the real economy and those of financial institutions.

03. **Credible Transition Plans: The micro-prudential perspective** examines the credibility of financial institutions' transition plans and processes from a micro-prudential perspective.

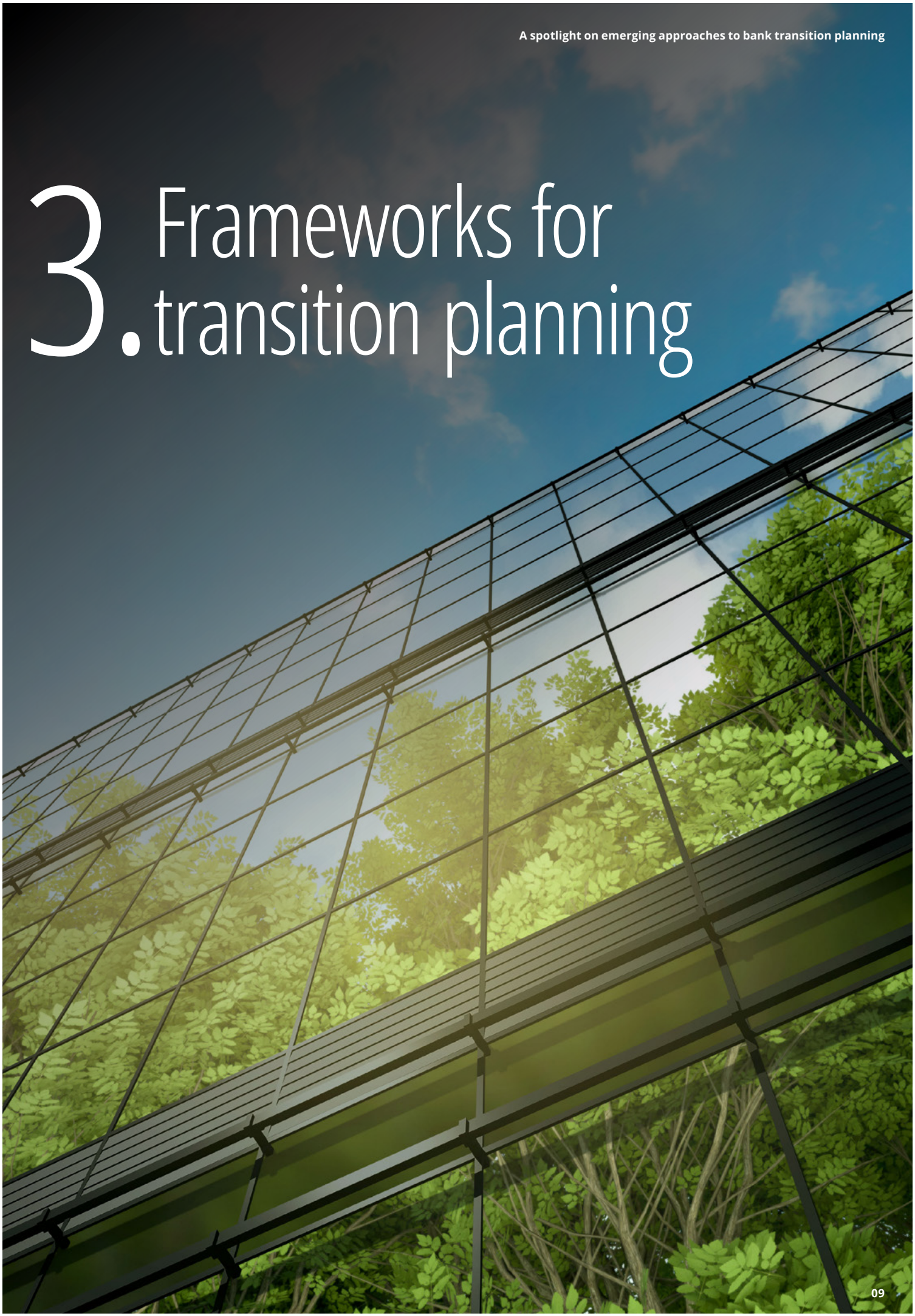
Several of the NGFS's findings and observations reiterate the learnings in this paper from emerging industry practices and approaches.[8] To highlight some of the NGFS's findings that are relevant to this paper:

- **There is a wide range of stakeholders interested in financial institutions, and other non-financial corporates', transition planning and published plans**. The NGFS naturally focuses on the potential relevance to prudential supervisors. The NGFS calls for international guidance to support more consistent and comparable approaches to transition planning that would support multiple use cases for information contained in a financial institution's transition plan. Importantly, they also recognize that "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."[9]

- **Client and counterparty transition plans could be a useful source of information for financial institutions, but current challenges inhibit their access to and use of such information.** Examples of current challenges are a lack of incentives for some non-financial corporates to undertake such planning, or capacity limitations. Financial institutions can – and many already do – engage with clients on clients' own transition planning. Information in a client's transition plan may be used as an indicator of the client's strategic direction, but "financial institutions are not responsible for their clients having a transition plan or for its contents."[2]

- **Several different approaches have been proposed to define the elements or characteristics of transition plans that would be required for them to be 'credible'.** However, these have been developed by different stakeholders with differing objectives and expectations for transition planning, and thus there is not a common understanding of the term credibility. In their reports, the NGFS has identified some common elements across some of these frameworks and seeks to propose elements of credibility from the perspective of micro-prudential supervisors as users of financial institution transition plans (specifically related to: governance, engagement, risk analysis, viable actions, monitoring and review).[10]

3. Frameworks for transition planning



Various market-based initiatives and groups have developed frameworks to help banks and other financial institutions with their transition plan development.

3.1 Market-based standards and guidance for transition planning

Various market-based initiatives and groups have developed frameworks to help banks and other financial institutions with their transition plan development. Examples include:

Glasgow Financial Alliance for Net-zero (GFANZ) and Net-zero Banking Alliance (NZBA): Building on TCFD recommendations, the framework from GFANZ offers ways that financial institutions can enable the transition to net-zero in the real economy while minimizing transition risks to themselves. The GFANZ framework lays out five themes: foundations, implementation strategy, engagement strategy, metrics and targets, and governance. Each theme includes a set of strategies and recommendations, with suggestions for optional disclosure.[11] As part of the GFANZ, the NZBA offers committed member banks guidelines to outline and fulfill credible science-based net-zero targets by 2050.[12] The latest version of the NZBA Guidelines for Climate Target Setting for Banks launched in April 2024.[13]

Science Based Targets Initiative (SBTi): SBTi helps organizations determine a pathway for reducing emissions to mitigate the effects of climate change. In its recommendations for the financial sector, SBTi offers guidance for developing a strategy to engage portfolio companies in aligning their business models with net-zero goals. It also provides suggestions for escalation in case initial engagement is unsuccessful.[14]

Carbon Disclosure Project (CDP): CDP maintains a platform that lets participating organizations benchmark their environmental performance against data collected from other organizations. CDP provides participants with guidance on building a credible climate transition plan and disclosing its details.[15]

Figure 1 is an illustrative deep dive into these market standards. GFANZ, SBTi, and CDP share commonalities in their focus on climate action, data disclosure, science-based targets, stakeholder engagement, and a commitment to continuous improvement. Emerging differences among these standard setters include variations in scope and coverage, sector specificity, geographical reach, maturity and adoption levels, and integration with financial reporting frameworks.

Figure 1. Building blocks and key elements of transition plans across three market standards

		GFANZ (incl. NZBA)	SBTi	CDP
1. Scientific basis and strategic positioning	Climate scenario analysis under different climate scenarios over different time horizons	●	●	●
2. Consideration of climate vs. other financial performance drivers	Alignment of climate targets and business targets	◐	●	●
	Climate-related impacts: Identification and assessment, response strategy	●	●	●
	Climate-related physical risks, transition risks and climate-related opportunities: Identification and assessment	●	●	●
	Climate-related physical risks, transition risks and climate-related opportunities: Financial effects/business impacts	●	●	●
	Climate-related physical risks, transition risks and climate-related opportunities: Response strategy to identified risks	●	●	●
3. Data and metrics	Scope 1, 2, 3 GHG emissions	●	●	●
	Energy consumption and production	●	◐	●
	Further climate-related metrics	◐	●	●
	GHG removals and storage, carbon credits	◐	●	●
4. Targets, scope, and coverage	Near-term and long-term climate targets (absolute and intensity)	●	●	●
	Net-zero targets	●	●	●
	Further climate-related targets (e.g. energy-related, annual targets)	◐	●	●
5. Implementation activities	Mitigation/decarbonization actions: value chain engagement (supply chain, own operations, downstream)	◐	●	●
	Adaptation actions: value chain engagement (supply chain, own operations, downstream)	●	●	●
	Internal carbon pricing	◐	●	●
6. Organizational integration and governance	Climate change mitigation strategy and plan including financial impact (CapEx, OpEx and Rev) (+ locked-in em.)	◐	◐	●
	Climate change adaptation strategy and plan including financial impact (CapEx, OpEx and Rev)	◐	●	●
	Carbon offsetting strategy and plan includingfinancial impact (COGS)	◐	●	●
	Business alignment to 1.5°C pathway	●	◐	●
	Climate oversight and management	●	●	●
	Incentives and remuneration	●	●	●
	Policies	●	●	●
7. Disclosure	External assurance (limited assurance)	◐	◐	◐

● **Full coverage** ◐ **Partial coverage*** ● **No coverage/no information**

Source: Deloitte analysis.
*Partial implies an optional requirement.

3.2 Official sector frameworks, expectations and requirements

Depending on the supervisory or regulatory regional context and the use case, regulators or supervisors incorporate different elements of the existing standards into their guidance and requirements. To open the conversation on the range of asks presented to banks, we have chosen to look at five prominent examples.

European Union: Many policies developed under the European Green Deal touch on transition planning. Most prominently, the Corporate Sustainability Reporting Directive (CSRD), which requires banks to disclose the transition plans they have developed.[16] The CSRD is supplemented by the European Sustainability Reporting Standards (ESRS), which include requirements for developing a transition plan.[17] Also relevant is the Corporate Sustainability Due Diligence Directive (CSDDD), which requires organizations to adopt and implement a transition plan.[18] The CSDDD Article 15 stipulates companies to "adopt and put into effect a transition plan for climate change mitigation which aims to ensure, through best efforts, that the business model and strategy of the company 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".[19] The revised Capital Requirements Directive (CRD) will also mandate banks to disclose plans to address financial transition risks from adjusting towards climate neutrality in 2050.[20]

United States: In the US, the Securities and Exchange Commission (SEC) adopted final rules for publicly held companies to disclose certain climate-related information, including transition plans if they use them.[21] Separately, the Treasury Department has issued a set of voluntary principles for banks to follow in mitigating their exposure to climate risk.[22]

Singapore: In Singapore, the "Consultation Paper on Guidelines on Transition Planning" by the Monetary Authority of Singapore (MAS) expects banks to engage their clients and investee companies to assess risk and work together to implement effective decarbonization measures, increase resilience and avoid indiscriminate withdrawal of credit or investments. In terms of disclosure, banks are expected to disclose relevant information to stakeholders – short, medium, and long-term responses to material climate-related risks and the governance and processes for addressing such risks. It should be noted that this is only the consultation paper as of October 2023, not the final approach.[23]

International Sustainability Standards Board (ISSB): The ISSB is a standard-setting body under the International Financial Reporting Standards (IFRS) Foundation. The ISSB's topic-based climate disclosure standard, IFRS S2, requires disclosure of responses and plans for climate-related risks and opportunities in strategy and decision-making, climate-related targets, and risk response information.[24]

United Kingdom: The UK Transition Plan Taskforce (TPT) has published final guidance on building a transition plan for insurers, banks, asset managers, and asset owners, with more specific guidance for the latter three sectors. The UK TPT is aiming to establish a 'Gold Standard' for transition plans. This standard was commissioned by the UK government as the basis for coming regulatory requirements in the UK. The TPT adopted the five core components of a Net-zero transition plan, outlined the framework established by GFANZ and builds on the work of the ISSB. This framework provides a structure for banks to develop and communicate their strategies for achieving net-zero emissions, fostering transparency and accountability throughout the financial system. According to the TPT framework, a good transition plan "comprises its objectives and priorities for responding and contributing to the transition towards a low greenhouse gas-emissions, climate-resilient economy. It also sets out whether and how the entity is pursuing these objectives and priorities in a manner that captures opportunities, avoids adverse impacts for stakeholders and society, and safeguards the natural environment." Entities shall disclose the metrics used to set targets, the objectives of the targets, the applied period, as well as activities to reach the targets.[25]

Figure 2 shows how the elements of transition planning compare across the regulatory standards developed by these five authorities. Commonalities among these standards include a focus on enhancing transparency, accountability, and comparability of sustainability information disclosed by organizations.

Other countries: Other countries have introduced, or are considering introducing, requirements for disclosure of transition plans include Australia,[26] The Philippines,[27] and New Zealand.[28]

Figure 2 . Building blocks and key elements of transition plans across five regulatory jurisdictions

		EU – ESRS (incl. NZBA)	USA	Singapore	ISSB	TPT
1. Scientific basis and strategic positioning	Climate scenario analysis under different climate scenarios over different time horizons	E1.SBM-3, E1.IRO-1	●	●	●	●
2. Consideration of climate vs. other financial performance drivers	Alignment of climate targets and business targets	E1-1 §16(h)	◐	●	○	●
	Climate-related impacts: Identification and assessment, response strategy	ESRS 2, SBM-3, E1.IRO-1	◐	○	◐	●
	Climate-related physical risks, transition risks and climate-related opportunities: Identification and assessment	E1.SBM-3 + E1.IRO-1	◐	◐	◐	●
	Climate-related physical risks, transition risks and climate-related opportunities: financial effects/business impacts	E1-9	●	○	●	●
	Climate-related physical risks, transition risks and climate-related opportunities: response strategy to identified risks	E1-3	◐	○	●	●
3. Data and metrics	Scope 1, 2, 3 GHG emissions	E1-6	◐	○	●	●
	Energy consumption and production	E1-5	○	○	○	●
	Further climate-related metrics	E1-6	●	◐	●	●
	GHG removals and storage, carbon credits	E1-7	○	○	○	●
4. Targets, scope, and coverage	Near-term and long-term climate targets (absolute and intensity)	E1-4	◐	●	◐	●
	Net-zero targets	E17-§60	○	○	○	◐
	Further climate-related targets (e.g. energy-related, annual targets)	E1-4	◐	○	○	●
5. Implementation activities	Mitigation/decarbonization actions: value chain engagement (supply chain, own operations, downstream)	E1-3	○	◐	◐	○
	Adaptation actions: value chain engagement (supply chain, own operations, downstream)	E1-3	○	◐	◐	○
	Internal carbon pricing	E1-8	●	◐	○	●
6. Organizational integration and governance	Climate change mitigation strategy and plan including financial impact (CapEx, OpEx and Rev) (+ locked-in em.)	E1-3	◐	●	◐	●
	Climate change adaptation strategy and plan including financial impact (CapEx, OpEx and Rev)	E1-3	◐	●	◐	●
	Carbon offsetting strategy and plan including financial impact (COGS)	E1-7	◐	○	○	●
	Business alignment to 1.5°C pathway	E1-1	○	◐	○	◐
	Climate oversight and management	ESRS 2 GOV-1, GOV-2	●	●	●	●
	Incentives and remuneration	E1.GOV-3, E1-8	○	●	●	●
	Policies	E1-2	○	●	○	●
7. Disclosure	External assurance (limited assurance)	CSRD Art. 1 §13	◐	◐	○	◐

○ **Mandatory CSRD CTP requirement** ● **Full coverage** ◐ **Partial coverage*** ○ **No coverage/no information**

Source: Deloitte analysis, category mapping is based on CSRD disclosure requirements.
*Partial implies an optional requirement.

4. Insights from inside the transition planning and implementation process

This chapter examines what the latest transition plan disclosed by banks reveal about they are tackling the net-zero transition, based on a qualitative analysis of disclosures from small group of global institutions. Following this high-level assessment, we explore how banks are contending with key issues associated with the transition planning process, including ensuring credibility, dealing with uncertainty, and managing diverse stakeholder expectations, drawing on insights from interviews with representatives of major banks.

4.1 High-level review of bank transition plan disclosures

The past year has seen a rapid uptick in voluntary disclosures of transition plans, with a host of insights emerging on how banks are considering the net-zero transition across different strategic priorities, how they are positioning from a business perspective, and how they are engaging with clients through the process. Examining a small sample of transition plans of leading banks globally, a number of insights arise regarding current practices, challenges, and key priorities for development.

It is evident that banks are focusing on emissions-based approaches, sectoral targets, the client engagement processes, market-based targets (such as portfolio allocation or intermediation goals) and governance mechanisms.

Differences between banks' approaches arise, for example, when comparing the scope of sectors, business activities or portfolios considered within plans, indicators and metrics used to progress towards transition goals. Core business strategies, active markets, and exposure to different supervisory and stakeholder interests can all affect a firm's transition planning approach, and the structure of its disclosed transition plan.

1. Scientific basis and strategic positioning

Banks that have set climate targets typically align their climate ambition with international frameworks which prescribe adherence to a 1.5°C ambition following low or no overshoot net-zero climate scenarios (including those referenced by GFANZ or SBTi), or directly derive science-based targets from scenario providers like the International Energy Agency (IEA), the Intergovernmental Panel on Climate Change (IPCC), or NGFS. Banks are emphasizing the need for strong and certain economy-wide policies to steer the transition at an economy-wide level, including through sectoral policies that can help clarify the core facets of transition in key sectors, such as energy, transport, and agriculture.

One strategic concern which is emerging for banks is how to most effectively calibrate a bank's own transition trajectory against the rate and dynamics of transition in the real economy – to both maximize the potential for supporting net decarbonization, and to hone competitive advantage. Considering that banks' transition goals can only be achieved through successful transitions of their clients, banks may also act as enablers to transform the ecosystem in which their clients operate, supporting their transitions and advocating for systemic change to maximize the potential for real economy impact.

"In addition to adopting TPT and GFANZ guidance on transition planning, we included chapters on sector transitions to outline pathways to net zero, key technologies and the estimated financing required as well as examples of the actions we are taking to help support the transition."

HSBC Holdings plc executive

2. Consideration of climate vs. other financial performance drivers

While climate considerations are increasingly pivotal in business decision-making, they represent just one facet among various drivers shaping financial performance. Banks must navigate a landscape that includes traditional factors such as revenue growth, profit margins, and market share, alongside emerging priorities like climate action and sustainable practices. Achieving net-zero emissions entails evaluating trade-offs and synergies with other megatrends, sustainability considerations, integrating climate considerations into overall business strategies, and responding to stakeholder expectations and regulatory dynamics. While net-zero goals represent a crucial imperative for addressing climate change, their attainment must be harmonized with the broader spectrum of factors influencing financial performance of banks.

"As a bank operating in developing countries, we support a just transition that seeks to achieve the imperative for environmental sustainability in a manner that creates decent work opportunities and social inclusion and addresses Africa's energy needs."

Standard Bank Group Ltd executive

"First, we cannot only focus on climate (we have 17 UN SDGs). Second, within climate, we face a 1.5C conundrum. What I mean by this is that science has been telling us for a while now that 1.5C is anywhere between impossible and highly unlikely. And the Paris Agreement said "well below 2C" (with efforts to be made to try to get to 1.5C). But major bodies like SBTI, GFANZ, Taxonomies (including the Singapore-Asia Taxonomy) still refer to 1.5C. How do we square this? Crudely sticking to 1.5C, especially in the context of Asia/EM, does not seem appropriate. Both of these factors can result in inefficient capital allocation."

DBS Bank executive

3. Data and metrics

Banks' transition plan disclosures currently center on the publication of emissions baselines, often as sector-specific physical footprints as the starting point to sectoral pathways. The disclosures vary in scope, in terms of business areas as well as portfolios considered. While market-based approaches for financed emissions metric calculation (such as those developed by the Partnership for Carbon Accounting Financials [PCAF]) have been adopted by a number of institutions, most banks currently face challenges in publishing financed emissions metrics for all portfolios and business areas due to data availability and quality issues. Many banks are focusing on developing metrics for lending and investment in key climate-relevant sectors, particularly exposures in hard-to-abate sectors. Other bank business areas, such asset management, have received comparatively less focus. The need and intention to strengthen the data landscape, both in terms of coverage and granularity, continues to be emphasized universally by banks.

In general, banks must rely on a significant amount of proxy data for developing metrics relevant to transition planning and finance, including financed emissions calculations. While the use of proxy data has enabled banks to move forward with certain types of transition-related activities, firms are recognizing the limitations of such data as an integral component of plan implementation, particularly in the context of portfolio steering. Where reported data is used, it can often only be incorporated with a time delay of one or two years.

"It is critical for us to understand what our clients transition planning looks like – we are engaging with them, not simply cutting them off."

Executive of a large bank headquartered in Europe

4. Targets, scope and coverage

Some banks have taken a sectoral view in their transition plans, employing sector-specific approaches to understand transition dynamics within their portfolios, and develop transition finance solutions. This can include detailed analysis of higher-carbon and other climate-related industries within portfolios, coupled with customized approaches to evaluating the transition plans and strategies of these clients (individually and in refence to competitors). This can in turn enable banks to prioritize key sectors and markets where the potential for net decarbonization impact may be highest, and where targeted assessment of transition impact for the purposes of target monitoring may be feasible. Sectoral targets are generally set either as physical intensity targets or as absolute emission reduction targets (prevalent for fossil fuels). Decisions on scope and coverage are often reflected in internal policies which can affect client engagement, portfolio allocation, or other parts of the client engagement cycle (including reviews of client information for due diligence and other purposes). Some banks have included information on sectoral policies or phase-out plans for high-carbon technologies within their transition plans. In addition to sectoral decarbonization targets, some banks have set out high-level transition financing goals, including in the context of sustainable finance targets.

"We aim to engage the whole ecosystem when it comes to hard-to-abate sectors and work alongside our clients to provide the required investments, in support of their transition. High CAPEX investments, for example in the steel sector, are considered more when profitability and incentives are seen."

Executive of a large bank headquartered in Europe

5. Implementation activities

Banks' impacts on real economy decarbonization are contingent upon the strategies, investments and activities of their clients and counterparties with respect to the net-zero transition. In addition to assessing past GHG emissions performance, banks are allocating significant resources to develop capacity to review clients' transition plans, including in the context of other forward-looking indicators or metrics. Some banks have begun to build their own databases drawing on client data, and are developing their own sets of criteria for assessing the credibility of clients' transition plans, often based on available guidance of different market standards. Through proactive dialogue and collaboration, banks provide tailored guidance and financial solutions to support the transition to low-carbon alternatives, prioritizing high-carbon industries and clients. Recently disclosed transition plans indicate that banks are refining transition-related sectoral policies, and are developing frameworks for engagement with certain clients which may face barriers or constraints on their transition journey. Many banks have indicated that they are working closely with clients in key high-carbon sectors to advise them on transition strategies and opportunities; some banks are discussing with such clients the possibility of withdrawing from client relationships if insufficient progress is made to decarbonize their business over time. Building on market-based frameworks, banks can change their balance sheets leveraging different types of financing, which link to either new climate solutions, financing to aligned or aligning entities, or the effect of a managed phase out.[29] These can thus count as measures for implementing a transition plan, operationalizing client engagement.

"We assess how our clients are reducing their emissions compared to the sector specific science based decarbonization curve and what their transition plan is. We use this information in our decision-making process. We can increase our exposure to clients that are sufficiently transitioning, but for clients that are not sufficiently transitioning, if, after several unsuccessful attempts of engagement, such clients do not show willingness to transition we could decide to reduce our exposure."

ING Group N.V. executive

The past year has seen a rapid uptick in voluntary disclosures of transition plans, with a host of insights emerging on how banks are considering the net-zero transition across different strategic priorities, how they are positioning from a business perspective, and how they are engaging with clients through the process.

6. Organizational integration and governance

Banks' approaches to organizational integration in the transition planning vary widely, both in terms of plan development and implementation oversight. Some institutions are still in the early stages of incorporating transition-related considerations and criteria into different components of strategy, business planning, and portfolio allocation decision-making processes, while others have taken steps towards firm-wide integration across business units and functions. Some banks are working internally to explore integration of transition plan actions or priorities into quantitative dimensions of portfolio allocation or portfolio steering, however, disclosures on technical aspects of implementation are preliminary at present.

"New business models and technologies may require banks to adapt their risk appetite, though change in the real economy ultimately relies on commercially viable solutions and a stable and supportive policy and regulatory environment to help de-risk and scale private sector investment."

HSBC Holdings plc executive

7. Disclosure

The structure and format of banks' transition plans vary, including in terms of inclusion in other sustainability reporting, or issuance as a standalone document. The length and detail of reports vary greatly, depending on the scope of business areas and portfolios considered, level of detail included on approaches and methodologies, as well as overall size and market presence, and exposure to regulatory requirements. The inclusion of detailed sector-specific analyses and the assessment of broader sustainability priorities (such as the relationship of biodiversity and natural capital to transition outcomes) indicate both a deepening and broadening of the level of detail of transition plans, reflecting diverse stakeholder expectations and the potential for introduction of supervisory and regulatory requirements.

"Transition planning is not a one-time exercise and with the publication of our initial transition plan we wanted to show our progress transparently. As standards, data availability as well as client behavior evolve, we included forward-looking information and gave an outlook on how we will further broaden the scope of our transition plan, such as financed emissions."."

Deutsche Bank AG executive

4.2 Banks' approaches to key transition planning challenges: Credibility, uncertainty, and diverse expectations

As the banking industry develops and discloses transition plans, banks need to orient themselves in the climate landscape, as well as in the newly emerging regulatory and voluntary domain. To develop this initial snapshot view of emerging practices, we conducted in-depth interviews with subject matter specialists from eight leading banks globally about the practical realities of transition planning and plan disclosure within banking institutions.

Chief among their considerations in developing their transition plan, particularly for publication purposes, is a consideration of whether the approach and disclosed information will align with their stakeholders' expectations and be regarded as 'credible' – while also appropriately reflecting the array of factors that may affect achievement.

While time is needed to further develop market-based standards for transition plan disclosure, the interviews indicated a number of common approaches among banks, aimed at bolstering credibility laid out with case study examples and accompanying interview quotes below (table 2). Notably, in areas concerning data and metrics and target setting, banks perceive robust and established safeguards to credibility to be in place (e.g. adherence to industry and market standards and science-based target setting). Banks demonstrate a clear commitment to accuracy and accountability in their data collection and reporting, as well as in the establishment of climate targets. Implementing these safeguards allows banks to demonstrate their commitment to climate action and sustainability while enhancing the credibility of their transition plans.

Governance and the strength of organizational, cross-functional alignment seems to be driving the level of practical organizational integration. Here, the level of risk integration tends to be differing most. Organizational responses in key strategic areas – including orienting a banks' plan in the context of trends affecting real economy transition expectations – vary widely. This is also reflected in disclosure practices and approaches to ecosystem engagement.

Key considerations affecting banks' transition planning approaches are discussed below along the analytic categories laid out in the above chapter:

- Can banks credibly commit to 1.5°C, even if the world is not heading towards 1.5°C?
- How can net-zero targets be set independently of other financial performance considerations?
- Which data and metrics are available and credible?
- How can banks set credible targets?
- Which implementation activities can be considered credible to achieve banks' transition plan targets?
- How are banks approaching internal implementation – and integration of transition plans across strategy development, business units, risk functions, and within governance?
- How are banks considering credibility dimensions of their transition plan disclosures?

Table 2: Banks' approaches to key transition planning challenges

Key questions	Driving factors	Approaches taken/tools used by banks	Examples from bank interviews
1. Can banks credibly commit to 1.5°C, even if the world is not heading towards 1.5°C?	Most frameworks currently require a commitment to a 1.5°C ambition, whereas the speed of global decarbonization currently does not match the assumptions of accepted 1.5°C scenarios.[30] Taking a more granular look, some sectors and regions are highly dependent on sufficient policy prerequisites to enable their transition and render it economically feasible (e.g. sufficiently high carbon prices, subsidies for market ramp-up, guarantees, hydrogen infrastructure etc.), whilst others are already on track for 1.5°C.	Business decision to commit to higher ambition than prevailing policy, technology, and market conditions in alignment with leading market standards like TCFD, NZBA, GFANZ, TPT for UK, CDP, SBTi etc. Integration of sectoral targets and time-bound targets. Active communication of target achievement dependency.	In addition to adopting TPT and GFANZ guidance on transition planning, we included chapters on sector transitions to outline pathways to net zero, key technologies and the estimated financing required as well as examples of the actions we are taking to help support the transition. (HSBC Holdings plc executive) We aim to engage the whole ecosystem when it comes to hard-to-abate sectors and work alongside our clients to provide the required investments, in support of their transition. High CAPEX investments, for example in the steel sector, are considered more when profitability and incentives are seen. (Executive of a large bank headquartered in Europe) The real estate portfolio can present a challenge because the energy intensity of those exposures will be largely determined by exogenous factors such as government policy and retail customers' decisions. (UBS AG executive)
2. How can net-zero targets be set independently of other financial performance considerations?	The "4D" megatrends (decarbonization, demographical change, digitalization and de-globalization) as well as related sustainability topics (such as social, circularity, biodiversity, energy security) have relevant climate impacts and interdependencies that banks need to consider for strategic planning.	Embed net-zero into the overarching business rationale in an integrated way with broader strategic planning. Active communication of target achievement dependencies and challenges, particularly given local business context, regions and communities in which the bank is operating.	First, we cannot only focus on climate (we have 17 UN SDGs). Second, within climate, we face a 1.5C conundrum. What I mean by this is that science has been telling us for a while now that 1.5C is anywhere between impossible and highly unlikely. And the Paris Agreement said "well below 2C" (with efforts to be made to try to get to 1.5C). But major bodies like SBTI, GFANZ, Taxonomies (including the Singapore-Asia Taxonomy) still refer to 1.5C. How do we square this? Crudely sticking to 1.5C, especially in the context of Asia/EM, does not seem appropriate. Both of these factors can result in inefficient capital allocation. (DBS Bank executive) As a bank operating in developing countries, we support a just transition that seeks to achieve the imperative for environmental sustainability in a manner that creates decent work opportunities and social inclusion and addresses Africa's energy needs. (Standard Bank Group Ltd.)

Key questions	Driving factors	Approaches taken/tools used by banks	Examples from bank interviews
3. Which data and metrics are available and credible?	Methodologies and metrics are not yet existent for all asset classes. Banks face the challenging trade-off between performing in-depth assessments of clients' transition plans vs. defining clear criteria for credibility that can be consistently applied to a large number of transition plans. Whilst data providers are beginning to include data points reflecting counterparties' status with respect to transition-planning, banks emphasize the need for transparency over the inclusion of different data points and their weighting in the evaluation which is at the heart of their critical business decisions.	Compare different frameworks for credibility and derive their own set of criteria. Begin building data bases with these data points for priority clients with high emissions and exposure.	It is critical for us to understand what our clients transition planning looks like – we are engaging with them, not simply cutting them off. As part of our Climate Risk Assessment (CRA) process, a Credible Transition Plan (CTP) score is assigned for each client in high-emitting sectors. In 2023 we completed CRAs for c.4,100 clients which is c.85-90 per cent of our corporate client limits and is a significant improvement from c.2,200 clients assessed in the year before. (Executive of a large bank headquartered in Europe) When assessing clients' transition plans and climate data, we initially assessed publicly disclosed information because we deem such information to be more credible, since companies are held accountable to such information by their stakeholders. (ING Group N.V) At the bank, we have made good progress towards integrating climate data into our IT systems to enable us to identify opportunities. However, availability of high-quality data continues to be a challenge. (DBS executive)
4. How can banks set credible targets?	Consensus of market standard setters is that climate targets should be science-based for credibility and in line with limiting global warming to 1.5°C. Most target setting initiatives and market standards currently do not require full portfolio coverage. Some standards set minimum thresholds whilst disclosure and justification of the coverage is sufficient for others.	Choice of scenario: Use science-based decarbonization scenarios and pathways e.g.: SBTi, IEA, NGFS, TPI, Paris Agreement Capital Transition Assessment (PACTA). Third-party verification either from market-based standard setters (e.g. SBTi) or independent auditors, for additional credibility. Integration of sectoral targets and time-bound targets.	Our bank hasn't set an overall green finance target. We are interested in being involved with companies and clients engaging in the transition. How we do that differs sector by sector. (UBS AG executive) We have consciously chosen a science-based approach to our net zero programme, based on guidelines provided by GFANZ, TPT and others. If you look at these, it all comes down to three points – Action, Ambition, Accountability. We take these as principles, and break them down into different elements to deliver the outcomes we are looking for. (Executive of a large bank headquartered in Europe)

Key questions	Driving factors	Approaches taken/tools used by banks	Examples from bank interviews
5. Which implementation activities can be considered credible to achieve banks' transition plan targets?	Banks may pursue an array of channels (for example client engagement and sustainable finance targets) to implement their transition plans across different business areas, within key sectoral verticals and also through group-level functions (see item 6 below.) To the extent that clients achieve their own transition goals, this can support the bank in meeting its own climate targets.	Some banks are considering the trade-off between performing in-depth assessment of a select set of clients' transition plans vs. defining criteria that can be applied to a larger number of clients' transition plans. Multiple approaches to engagement with clients at different stages on their transition journey can be observed, reflecting client sectoral and jurisdictional contexts. When setting sustainable finance targets banks emphasize, they need to be clear on the definition of sustainable finance.	Mainly through our engagement we are evaluating and supporting clients' transition progress. Especially for those clients in high-risk areas who are lacking policy to address transition risks with no targets set so far, we are providing in-depth transition support. If clients are not making any progress or increase their efforts after 1 year from our initial engagement, we make careful evaluation of whether to continue our business. (Mizuho Financial Group executive) We assess how our clients are reducing their emissions compared to the sector specific science based decarbonization curve and what their transition plan is. We use this information in our decision-making process. We can increase our exposure to clients that are sufficiently transitioning, but for clients that are not sufficiently transitioning, if, after several unsuccessful attempts of engagement, such clients do not show willingness to transition we could decide to reduce our exposure. (ING Group N.V. executive)
6. How are banks approaching internal implementation – and integration of transition plans across strategy development, business units, risk functions, and within governance?	Strategy: Currently, banks cover different shares of their portfolios and businesses in their own transition planning, and may or may not chose to report on sustainable finance targets, along different definitions. This affects the immediate comparability of transition plans, including with respect to approaches to strategic integration. Risk analysis: Banks are considering how transition plan implementation is relevant to: (i) the board's review of strategic and reputational risks; (ii) risk governance processes across the first and second lines of defense. Approaches to integration from a risk perspective may be hard to convey to external stakeholders. Governance: Banks are taking different approaches to developing governance and oversight structures for transition plan development and implementation, for example central coordination with engagement across business units.	Strategy: Articulating how the goals of the transition plan reflect the bank's overall business strategy. Risk analysis: Banks are alluding to a regular board level exchange on their transition planning. Some banks are considering how to use client transition plans as part of client onboarding, client review and credit risk decision making. Governance: Establishing clear governance structures for establishing and overseeing transition plans. Some banks are connecting transition performance with board remuneration.	To take ownership of the committed targets, targets at board level have been introduced from 2022 that count into remuneration. (ING Group N.V. executive) New business models and technologies may require banks to adapt their risk appetite, though change in the real economy ultimately relies on commercially viable solutions and a stable and supportive policy and regulatory environment to help de-risk and scale private sector investment. (HSBC Holdings plc executive)

Key questions	Driving factors	Approaches taken/tools used by banks	Examples from bank interviews
7. How are banks considering credibility dimensions of their transition plan disclosures?	A range of regulatory and supervisory, as well as voluntary and market initiatives exist, requiring different types and depths of disclosures.	In the absence of one universally recognized standard, criteria are derived based on the in-depth comparison and merged requirements of relevant standards for credible transition plans (e.g., GFANZ, CSRD, TPT, ISSB, TCFD, NZBA, ESRS for EU, TPT for UK, CDP, SBTi etc.) Integration of sectoral targets and time-bound targets. Regularly report on the progress of the transition plan objectives.	We will report on our progress in line with regulatory requirements. We will do that annually. In the case of any material changes to our plan and in compliance with our NZBA commitment, we will update our initial transition plan. (Deutsche Bank AG executive) We carried out our own research on what a good transition plan looks like. We evaluated the relevant standards and regulations (such as CSRD, ISSB, SEC, TPI etc.) to identify the common denominators to understand what key elements should be included in a transition plan, in order to make it credible. (ING Group N.V. executive) Transition planning is not a one-time exercise and with the publication of our initial transition plan we wanted to show our progress transparently. As standards, data availability as well as client behavior evolve, we included forward-looking information and gave an outlook on how we will further broaden the scope of our transition plan, such as financed emissions. (Deutsche Bank AG executive) We acknowledge the urgency of the transition and support efforts to achieve it, but we are also balancing the demands of a range of stakeholders eager for us to demonstrate progress. At the same time, we are addressing the challenge of limited information on the nature and extent of transition planning for our clients. Such information is critical to support credible measurement and reporting for our own transition plan. We continue to engage our clients to better understand how to support their transitions and to source the information we need to drive our own strategy. (Standard Bank Group Ltd. executive)

Governance and the strength of organizational, cross-functional alignment seems to be driving the level of practical organizational integration.

5. Key topics for discussion and further work

Transition planning practices are evolving rapidly within leading banks, with many firms already realizing benefits. Initial experiences indicate the core strategic focus of plan development and implementation can be a driver of value creation through an array of internal and externally-facing activities, including business model (re-)orientation, cross-functional integration, efficient information management, client engagement and relationship development, and reputation management, which can all contribute towards honing competitive positioning.

Assessing the credibility of transition plans – and formulating approaches to ensure that different dimensions of credibility can be fairly evaluated – is increasing as a priority for banks, supervisors, and different stakeholder groups. Credibility considerations are relevant for banks as both users and producers of transition plans; significant efforts are being taken to develop in-house frameworks and analytical approaches for evaluating transition information from clients and counterparties, while on the disclosure side, banks are working to develop plans which are both ambitious, yet achievable – requiring a balance between different objectives and working to minimize potential reputational risks.

Supervisors' interests in transition plans are diverse, reflecting different institutional mandates. Some authorities have indicated interest in assessing potential risks to financial institutions associated with the transition and impacts on their strategic positioning, implications for investor protection considerations, or examination of potential financial stability considerations arising as the transition advances. Recent reports from the NGFS call for international guidance to support more consistent and comparable approaches to transition planning that would support multiple use cases. Importantly, they also recognize that "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."[31]

This initial research has reflected some of the key issues currently perceived in the market and surfaced a number of topics to guide debate on industry and regulatory/ supervisory priorities. These include: i) how to monitor progress and evaluate targets and transition plans in a dynamic way over time, ii) what are the most robust and suitable approaches for consideration of external factors – including macroeconomic trends, or other sustainability issues, and iii) what key factors will affect the likelihood for transition goals to be achieved in a given sector and jurisdiction, as a way to inform assessment of the optimal strategy for a bank to support real economy decarbonization. It will be important to monitor how the banking industry's transition planning practices continue to evolve in order to build knowledge and understanding and, ultimately, support the emergence of a consensus view among the various interested stakeholders on the objectives, use cases, and contents (including metrics) of published transition plans.

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