Dear FSB colleagues,

I write in my capacity as Vice Chair of the Glasgow Financial Alliance for Net Zero (GFANZ) in response to the FSB's request for feedback on its Interim Report "Supervisory and Regulatory Approaches to Climate-related Risks" published on 29 April 2022. In so doing, I wanted to support your work by highlighting developments in the private sector that may be increasingly relevant to supervisors' and regulators' efforts to assess and mitigate climate-related financial risks.

The financial sector is increasingly committed to net zero
As you know, GFANZ was launched in April 2021 at President Biden's climate summit, to unite sectoral net-zero financial alliances and to deepen and raise net zero ambitions across the financial system in support of decarbonisation of the global economy. Our members now number more than 500 financial institutions globally from over 45 countries, and all have committed – under the UN's Race to Zero – to transitioning their financed (i.e., scope 3) emissions to net zero by 2050 at the latest and to meeting interim 2030-or-earlier targets. GFANZ is working to ensure that our members have the tools needed to undertake the necessary whole-of-business transformations that delivering on their commitments imply, with a focus on driving real world emissions reductions.

Pursuing a best practice framework for net zero transition
As such, we issued for consultation on 15th June 2022, a global framework for net zero transition planning by financial institutions which was developed – like the FSB's TCFD – by drawing and building on existing initiatives and practices, and by working with our members and advisors. Following public consultation, during which we are seeking to engage with a wide set of public and private sector stakeholders, we would expect to reflect on feedback received and finalise our framework ahead of the COP27 summit in Sharm El-Sheikh in early November.

In progressing this work to deliver a common framework, we have in mind that there is considerable merit in a consistent global approach to transition planning and leaning against undue fragmentation. Many of our members have cross-border, global operations and work across sectors within the financial system. There are also likely wider benefits of a common framework, including for governments, supervisors and regulators and wider society, given it can better support consistency in how firms operationalize and report on their net-zero commitments (e.g. emissions accounting, target-setting, reporting of progress and so on). As such, we could not agree more with your statement that "a more consistent global approach to addressing climate-related risks will help to better assess and mitigate financial vulnerabilities and to reduce the risk of harmful market fragmentation."

We note that the framework we have developed is not in itself a disclosure framework, but is rather for use by financial institutions to turn their net zero commitments into action. We recognise that there would be considerable merit in there being a sufficiently common approach to disclosures on transition planning and we do highlight in our consultative report some aspects that could merit disclosure. There are references to transition planning in emerging global and national disclosure standards, drawing on the underlying recommendations of the TCFD. We hope that our work to articulate what makes for a credible financial institution transition plan could help to inform the work of these standard setters as they proceed.

Net zero transition plans as a regulatory imperative
As set out in our proposed framework, transition planning to deliver on the net zero commitments our members have made implies that they take a whole-of-business approach to setting their specific objectives and targets for the net-zero transition, and implement

those in their day-to-day activities and engagement. We expect that this may result, in the near-term and over time, in relatively significant changes to strategies, business models, sectoral exposures, and risk profiles, including in relation to climate-related risk, for some firms. As such we would expect that transition planning would be of considerable interest to supervisors and regulators, not simply as a source of information to size risk, as indicated in the report, but as a proactive supervisory policy tool to help mitigate it.

Microprudential regulators wanting to understand how an individual firm intends to manage transition risk, may have a strong interest in whether the firm has a credible transition plan and what that implies for its future business model, financials and risk profile. Macroprudential regulators might draw on transition planning to consider how far across their system individual firm plans fit together and support a reallocation of capital across real economy sectors and companies as well as collective risk mitigation. Both micro- and macro-prudential regulators may choose to require such planning, however, to help ensure firms are acting to mitigate risks identified. Securities regulators may have a strong interest in the information financial institutions and indeed real economy corporates provide publicly on the progress they are making against their net zero transition commitments and as such set rules and expectations on transition planning disclosures.

Delivering open climate data

Beyond this, and as you are aware, we are working with public and private sector partners to help ensure that sufficient data to support financial institution transition planning, including data on governmental and real economy corporate transition, is widely available through our recently announced work to deliver a publicly available Open Climate Data Platform. We welcome the FSB's planned participation in that work alongside other public and private sector partners.

Launch of the GFANZ Asia Pacific Network

Finally, we note that while the UN Race to Zero's published criteria, and particularly the focus on net zero transition by 2050, while objective and non-discriminatory in nature, may mean that financial institutions from some FSB member jurisdictions may not feel able to join GFANZ. Nevertheless, we hope our tools can be used more broadly and welcome input on them from non-members. In that vein, we are working to establish regional networks, and announced in early June the opening of an Asia Pacific office and the creation of a regional Advisory Board to support net-zero transition in Asia.

GFANZ remains committed to keeping the FSB updated on our work and to supporting your efforts. The annex to this letter summarises our recently issued materials.

Yours sincerely,

Mary Schapiro

Mary Schapiro, Vice Chair of GFANZ and Head of the TCFD Secretariat

APPENDIX: Background on resources published by the Glasgow Financial Alliance for Net Zero (GFANZ)

On June 15th 2022 GFANZ published a suggested framework for Financial Institutions' net-zero transition plans released for consultation (*Recommendations and Guidance on Financial Institution Net-Zero Transition Plans*) alongside several connected resources, to encourage a best practice approach to credible transition planning. Collectively, the documents published comprise a set of related tools, frameworks, and other resources to support transition planning across the financial sector, with the goal of enabling and financing the real-economy transition to net zero:

- *Recommendations and Guidance on Financial Institution Net-zero Transition Plans.* A document that provides a suggested net-zero transition plan framework for Financial Institutions to follow. It is intended to be globally applicable and relevant to all types of Financial Institutions. GFANZ is currently consulting on these voluntary recommendations and guidance.
- *Guidance on Use of Sectoral Pathways for Financial Institutions.* A document that provides guidance for Financial Institutions such that they can better use sectoral pathways as part of their transition planning and implementation efforts.
- *Concept note on Portfolio Alignment Measurement.* A document that seeks to refine best practice guidance and drive enhancement, convergence on emerging methodological best practices, and adoption of portfolio alignment metrics.
- *Introductory note on Expectations for Real-economy Transition Plans.* A document that provides initial insights into a suggested transition plan framework, which is designed to align with the framework for Financial Institutions' own net-zero transition plans. GFANZ is developing a report to clarify what types of information the financial sector finds relevant from real-economy firms' transition plans and progress reporting.
- *Report on the Managed Phaseout of High-emitting Assets.* A document that sets out Managed Phaseout as a net-zero aligned strategy for an asset, or as part of a company's strategy, in support of an orderly[1] and just transition.

GFANZ also published *Towards a Global Baseline for Net-zero Transition Planning***,** an overview of the background, purpose, and contents of the above publications

[1] GFANZ uses the term "orderly transition" to refer to a net-zero transition in which both private sector action and public policy changes are early and ambitious, thereby limiting economic disruption related to the transition (e.g., mismatch between renewable energy supply and energy demand). For reference, the Network for Greening the Financial System (NGFS), which develops climate scenarios used by regulators and others, defines "orderly scenarios" as those with "early, ambitious action to a net zero CO2 emissions economy," as opposed to disorderly scenarios (with "action that is late, disruptive, sudden and / or unanticipated"). In an orderly transition, both physical climate risks and transition risks are minimized relative to disorderly transitions or scenarios where planned emissions reductions are not achieved.