



# UNFCCC Workshop under the Sharm el-Sheikh Dialogue

Avoiding greenwashing and maladaptation through transparency and tracking to ensure credibility in efforts towards achieving Article 2.1(c)

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# The Network for Greening the Financial System



## The NGFS's mission

Enhance the role of the financial system in:

- managing **climate and nature-related financial risks**, and
- mobilizing mainstream finance to **support the transition** toward a sustainable economy

## Transition plans

- The NGFS has been exploring to what extent transition plans are relevant to prudential supervisors.
- Our focus is ensuring the safety and soundness of financial firms
- To do that we have had to **explore the role of transition plans in enabling an orderly transition and adapting to the impacts of climate change**.

# Transition plans can enable transition and adaptation

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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.

## The role of transition plans

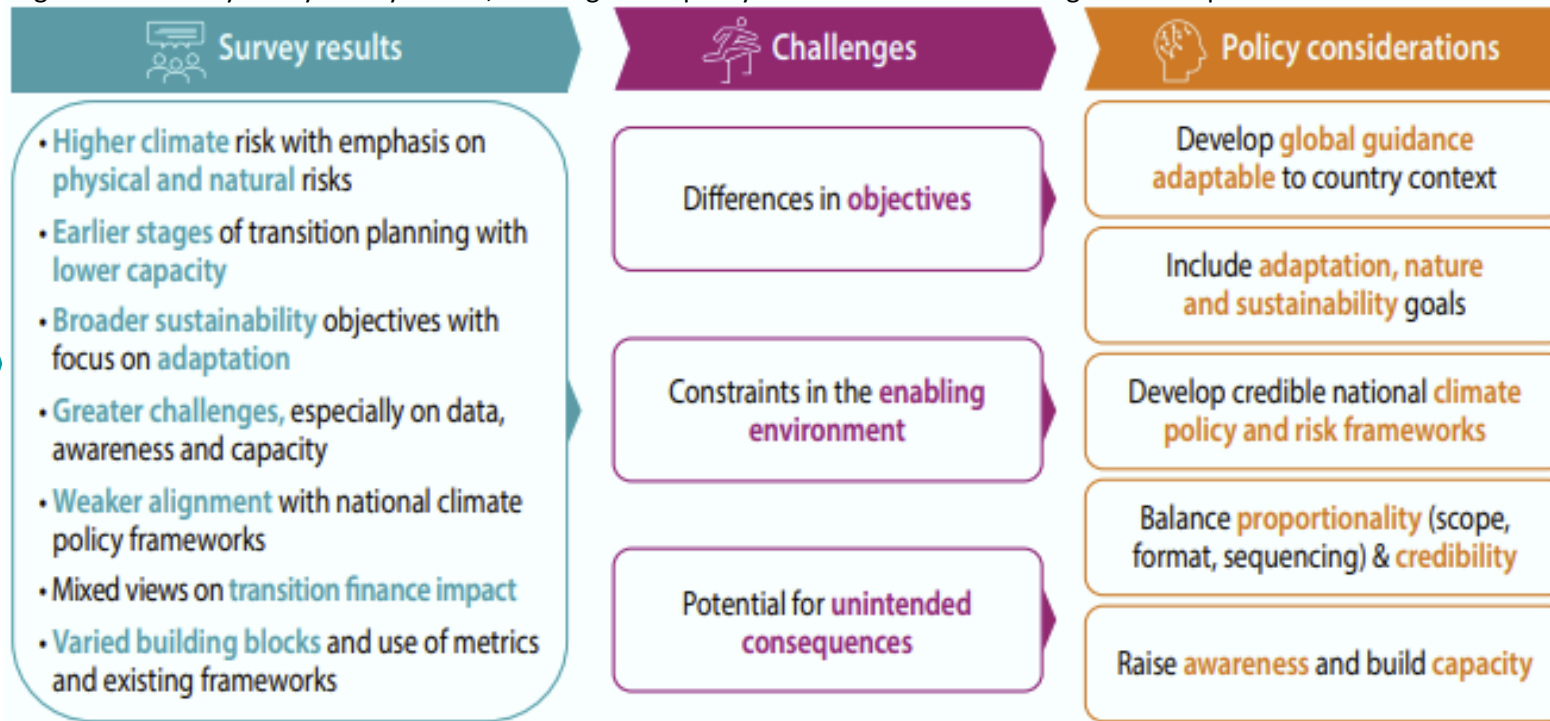
- Entities as preparers - **Transition Planning** (internal process) enables firms to plan their strategy and transform their business toward a climate resilient economy
- Entities as users - **Transition Plans** (output of planning) provide transparency to stakeholders on decision-relevant information to enable other actors to make choices, and support the financial sector to mobilise capital and manage risk

# Transitions strategies will vary by geography

An entity's transition strategy needs to reflect the circumstance in the countries an entity operates, including accommodating cross-border dynamics

For example, informed by a survey and roundtables, we identified the main challenges for transition plans in EMDEs arise from varying objectives, constraints in the enabling environment and potential unintended consequences

Figure 1. Summary of key survey results, challenges and policy considerations for tailoring transition plans to the EMDE context



# Credibility is key for realising the benefits

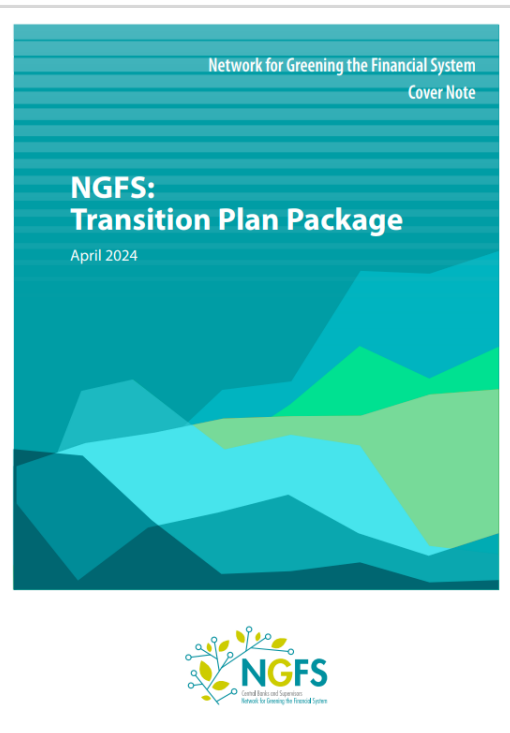
## Transition plans can enable the mobilisation of private finance and risk management

- Financial institutions indicated they are, and intend, to use information in transition plans **to adapt their business strategy, identify transition finance opportunities, and for risk management purposes**
- To do that they need decision relevant, high quality, consistent and comparable information

Transition plans need to be credible, defined as the **quality and completeness of the described actions to meeting its climate goal**, and mitigate and adapt to climate risks. Elements of this include:

	Process: Transition Planning	Output: Transition Plan
Governance	- Oversight from board and senior management for developing, implementing, monitoring and updating transition plans.	- Governance structure outlines the process for authorization, implementation, monitoring and updating transition plans.
Engagement	- Active engagement with clients and investees, assessing the credibility of the transition plans of those that could be exposed to heightened climate risks.	- Engagement strategy identifies the key clients and investees and outlines the process for collecting relevant information from them.
Risk Analysis	- Robust setting of risk appetite and risk assessment process to measure and profile all relevant climate risks.	- Risk assessment result: <ul style="list-style-type: none"><li>• of clients and investees and</li><li>• of the financial institution.</li></ul>
Viable Actions	- Maintaining credible actions, including for financing clients and investees, with clear documentation and alignment with the overall strategy.	- Action plans are developed by multi-disciplinary teams and are aligned with the risk management frameworks.
Monitoring and Reviewing	- Establish a monitoring and review process: <ul style="list-style-type: none"><li>• to measure the effectiveness of mitigation and adaptation actions.</li><li>• for periodic review of transition plans.</li></ul>	- Monitoring structure and metrics track the progress on a periodic basis.

# Common observations – a way forward



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.

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.

3

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

4

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

5

**Enabling conditions** can broaden the global adoption of transition plans.

