November 2, 2023

Glasgow Financial Alliance for Net Zero (GFANZ)

Response to GFANZ consultation on Defining Transition Finance and Considerations for Decarbonization Contribution Methodologies

Dear GFANZ team,

The World Benchmarking Alliance (WBA) welcomes the opportunity to respond to this consultation.

WBA is an international non-profit organisation that publishes free and publicly available benchmarks tracking the sustainability impacts of the world's most influential companies and financial institutions, in line with the UN Sustainable Development Goals (SDGs). We envision a society that values the success of business by what it contributes to the world. Our benchmarks help stakeholders, including companies, governments, financial institutions (FIs), civil society organisations and individuals, move towards this goal.

For the world to transition to a net zero and more sustainable future, companies must be able to access the required capital. For FIs to provide this capital, known as 'transition finance', they must have the necessary tools and frameworks to structure their activities. To enable them to be supported by government, clients and wider stakeholders, they must also operate within mutually agreed transition finance standards. It is for this reason we welcome GFANZ's efforts in this respect.

WBA's Financial System Benchmark assesses the transition finance commitments made by FIs. In constructing and maintaining the benchmark we encountered challenges with comparability of data, due to varying global standards and frameworks. We also sense an increasing reluctance by FIs to disclose this data due to uncertainty, accusations of greenwashing and litigation risk. We strongly support standardisation of climate finance definitions to encourage transparency and increased legitimacy of financial flows.

We therefore support the work being done by GFANZ and others to develop the necessary transition finance tools, frameworks and standards. However, we stress that this must include, and respond to, input from a wide set of stakeholders, including civil society, to ensure any outputs are respected as credible.

In the following sections we provide detailed feedback, which has been coordinated by WBA's Financial System and Climate teams. It includes input from ADEME, the French Agency for Ecological Transition, with whom WBA partners in supporting capacity-building for the ACT methodologies. Our key points are as follows.

1. **Overall, we agree with the concepts and frameworks in Part 1.** We have provided technical detail in a number of places, and also propose the inclusion of another category, 'Not Aligned', for companies that must transition but are not currently doing so.

2. **We have a range of concerns over the material in Part 2.** While we understand many of the concepts presented, we have deep reservations about some of the proposed new methodologies

such as 'Expected Emissions Reductions'. Some of our concerns relate to individual aspects of the framework, such as ensuring flexibility is given to assets located in emerging markets, to support a just transition (we consider this essential). Others are broader, such as the difficulties in attributing 'avoided emissions' to a single financing entity in a legitimate way. If these concerns are not addressed, the concepts and frameworks set out in this section could lead to a breakdown of trust in the market for transition finance. To avoid this outcome, GFANZ should set out a clear timeframe and commitment to develop these ideas, after the initial framework if need be, and in doing so work more closely with a wider group of stakeholders, including civil society groups.

3. **Any new standards developed by GFANZ should be based on existing frameworks**. An international market for transition finance must be supported by a single set of harmonised standards. To avoid a proliferation of new standards, GFANZ should build upon, and draw in as many as possible, existing standards. For example, we are encouraged by the references to the ACT methodologies, and have provided additional detail from ACT to be included.

We would be happy to further discuss any of the material in this response.

Yours sincerely,

Andrea Webster

Financial System Transformation Benchmark Lead

Part 1: Transition Finance

Climate Solutions

Q1: Are the proposed attributes sufficient and flexible enough to help you identify assets to this segment?

We consider the attributes sufficient, and support FIs disclosing their breakdown of Solutions vs Enablers.

Additionally, to ensure flexibility and support to assets located in emerging markets – and given that the types of technologies and solutions that need to be financed vary by region – FIs should incorporate geographic location into their identification of Solutions and Enablers. Regional taxonomies will be useful in helping make these assessments. See a relevant IIGCC report here: https://139838633.fs1.hubspotusercontent-eu1.net/hubfs/139838633/Past%20resource%20uploads/IIGCC_Climate-Transition-Report_FINAL.pdf

Under 'Climate Solutions: Proposed Attributes' (page 16), Attribute B ('Majority of revenue or other financial KPI (profit, capex, etc.) are not generated from high-emitting source or operations)') is not a sufficiently robust exclusion criterion. This would allow a company with 49% of revenue generated from high-emitting sources or operations, to be identified as a Solution. The current approach could lead to a pure-play renewable energy provider, with almost all revenue derived from green sources, being classified in the same way as a conventional energy company transitioning to renewables, with a slight majority of its revenue derived from renewables. Such companies are clearly distinct and should be treated as such.

Q2: What would be an appropriate revenue threshold for the purposes of identification?

In establishing the threshold GFANZ should build on established frameworks such as the EU Taxonomy and the IIGCC report referred to in the previous answer.

Regardless of the threshold level, activities that are highly damaging to the climate should not be labelled as Solutions.

Q3: Would the feasibility of alignment to a science-based pathway over time be a key consideration when identifying Solutions and Enablers?

It depends on the timeframe. In the short-term, and as mentioned in the consultation, some Enablers may produce higher emissions while they are building and scaling their operations. This would lead to a short-term divergence between their emissions trajectory and the necessary sectoral pathway. However, in the longer-term, as emissions fall, we would expect a return to alignment with the sectoral pathway.

Q4: Are separate and/or additional attributes required for Enablers?

We support avoided emissions being calculated for Enablers with reference to their activities. A comparison to a Paris Aligned Benchmark may also be useful:

Table 10 - Green capex intensity (green capex/total capex) in a Paris-aligned trajectory for electricity and fuel supply

SECTOR	GICS	REGION	2020	2025	2030	2035	2040	2045	2050
Electricity generation	551010, 551030,* 551050	North America	66%	88%	88%	89%	89%	87%	87%
		Central & South America	70%	88%	89%	89%	88%	88%	87%
		Europe	66%	80%	82%	84%	83%	82%	81%
		Africa	48%	84%	86%	88%	86%	85%	84%
		Middle East	17%	85%	87%	89%	87%	86%	85%
		Eurasia	16%	57%	60%	62%	58%	55%	52%
		Asia Pacific	60%	83%	83%	84%	83%	82%	81%
Fuel supply	101020, 10102050**	North America	1%	24%	30%	37%	41%	46%	54%
		Central & South America	2%	47%	54%	63%	66%	72%	79%
		Europe	8%	48%	56%	64%	67%	70%	75%
		Africa	0%	10%	18%	30%	33%	37%	43%
		Middle East	0%	3%	6%	10%	12%	14%	17%
		Eurasia	0%	3%	5%	9%	10%	12%	14%
		Asia Pacific	2%	32%	46%	58%	60%	62%	64%

Q5: Are there any other considerations for Climate Solutions attributes, especially relating to hurdles to implementation (e.g., additional KPIs to consider, data limitations, suggestions for specific attributes for Enablers)?

GFANZ should also include information on the Technology Readiness Level (TRL) of Solutions.

Aligned and Aligning

Q6: Are the proposed attributes sufficient to help you identify entities to this segment?

The first attribute for this segment is described as an 'Established net-zero commitment/ambition'. GFANZ should clearly specify which metrics are appropriate, and inappropriate, for setting these commitments.

Q7: Is the proposed target timeframe for alignment, set at 2030 and articulated through net-zero interim targets, appropriate for the purposes of identification?

Yes. GFANZ should also increase their focus on socio-economic pathways. Decarbonisation pathways necessarily vary according to region, since carbon budget allocation allows more time for decarbonisation in emerging markets (while the decarbonisation rate required for companies operating in these regions tends to be more demanding).

Q8: Is the proposed progress and two-year continuous performance threshold for Aligned and Aligning appropriate for the purposes of identification?

In general, GFANZ should make the distinction between Aligned and Aligning assets clearer. This would be useful to both companies and FIs. For example, under the current framework it may be difficult to classify a company that has a) set objectives and b) has a plan for achieving these objectives.

As well as greater granularity of requirements, renaming the Aligning segment as 'Committing' may also be useful in drawing a line between Aligned and Aligning/Committing assets.

More specifically, we believe that the two-year performance period may be too short in practice, and that any monitoring of performance over time should take into account economic cycles, as macroeconomic fluctuation such as crises or bull markets can impact emissions.

In addition to the Aligned and Aligning/Committing categories, GFANZ should also create a category for assets that need to transition, but have not committed or taken any action to do so. This category should be called 'Not Aligned'. We expand further on this concept in our response to Q12.

Q9: Are there other considerations for Aligned/Aligning attributes, especially relating to hurdles for implementation (e.g., data limitations, lack of disclosure regarding capex, other KPIs for degree of alignment)?

The key considerations when categorising assets and making relevant disclosures are the assumptions and frameworks used, benchmarking and the expected year of alignment.

FIs currently lack the tools and knowledge required to assess the credibility of Net Zero Transition Plans (NZTPs) produced by companies. This is a key part of the categorisation process. While FIs improve their capabilities, GFANZ should recommend an initial focus on the portfolio companies responsible for the greatest share (perhaps two thirds) of overall emissions. These companies should be the priority.

We are pleased to see the ACT methodologies represented within the overall framework. In addition, we have recently launched a methodology for assessing the transition plan of a financial institution (ACT Finance[1]). A key module of the methodology is the climate portfolio assessment, where we assess and capture transition-related and low-carbon investments made by the FI.

In creating this module, the team also found it difficult to robustly define companies that are transitioning. Ultimately we concluded that there are many different ways of doing so. As such, in the ACT Finance methodology we chose to include the requirement for a 'meta' assessment on the climate portfolio performance module.

Detail (taken from ACT):

Assessments relating to the NZTP produced by a company should take into account the following criteria:

Targets:

Ambition/Targets' alignment: decarbonisation targets aligned with a 1.5°C trajectory (based on a 1.5°C scenario with no/low overshoot and a limited reliance on negative emissions). These targets must cover

1 Please see sections 1 and 4 on investors and banks: https://actinitiative.org/act-methodologies/ (please scroll down to access ACT Finance methodologies).

all significant scopes of emissions and disclose the expected contribution of negative emission technologies. They cannot rely on carbon offsets.

Time horizon of targets: The ideal set of targets is forward-looking enough to include a long-term horizon that includes the majority of a company's asset lifetimes, but also includes short- and medium-term targets that incentivize action in the present and planning of the near future.

<u>Decarbonation strategy:</u>

Perimeter of the transition plan: the transition plan should address all the relevant areas regarding climate issues, particularly the decommissioning of highly emissive processes and operations.

Decarbonation levers identified with key actions planned shall be provided, as well as the financial resources associated. Explanations provided regarding decarbonisation levers shall be clear and credible, notably with due caution regarding future technologies including carbon capture and storage. Expected contribution of negative emission technologies shall be disclosed, while transition plan cannot rely on carbon offsets. There should be an understandable linkage between financing needs and levers.

Locked-in GHG emissions: An analysis of the current company locked-in trajectory (i.e., emissions implied by its current productive assets and near-term business projections) that ensures its consistency with the proposed decarbonation pathway. Together with this analysis, the company should provide an explanation of how it will manage its highly emissive processes and operations in accordance with its targets. For activities that must be significantly scaled down or phased out, it should also provide a schedule for the closing of relevant facilities.

<u>Management:</u>

Clear oversight of climate change issues (net zero transition planning) and implication (approval of transition plan) at Board Level.

Risk framework identifying the key sensitivities and risks to the transition plan that have the potential to decisively impact its delivery.

<u>Value chain engagement:</u>

Defining strategy and associated actions to onboard all the value chain (clients and suppliers) in the net zero journey.

<u>Policy Engagement:</u>

Aligning lobbying activities with the Paris Agreement.

<u>Monitoring, reporting and Verification process:</u>

Control/Validation: any element demonstrating the lack of robustness/credibility of the transition plan should be taken into account, such as for instance controversies, certification issues of the reporting related to climate topics, misalignment between lobbying activities or remuneration incentives with the goal to limit global warming to 1.5°C.

Effective implementation of the transition plan should be monitored, any overshoot needing due explanations and adaptation of the transition plan.

Assessments of FIs should reflect the following frameworks:

Question	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
Associated score	***0%***	***25%***	***50%***	***75%***	***100%***	
Does the FI use an effective transition assessment framework regarding its investees?	Not using any standard or framework making it possible to categorize the portfolio into "Aligned" and "Transitioning" entities OR The FI has a transition assessment framework that has significant loopholes regarding notably the abovementioned standards (e.g. leading to conclude that a company that has a very bad scoring considering one of the abovementioned standard is transitioning).	A climate framework exists for assessing counterparty's transition plan. The disclosure regarding the framework used by the FI is not clear. The framework relies on metrics/principles whose compliance with abovementioned qualitative principles is not ensured (e.g. broad ESG scores or climate scores based on assessing only disclosure/tick the box approach).	A climate framework exists for assessing counterparty's transition plan. The disclosure regarding the framework used by the FI is clear. The framework for defining a "transitioning entity" meets at least criteria 1.1, 2.1T and 3.1	A climate framework exists for assessing counterparty's transition plan. The disclosure regarding the framework used by the FI is clear. The framework for defining a "transitioning entity" meets at least criteria 1, 2, 3 and 4.	A climate framework exists for assessing counterparty's transition plan. The disclosure regarding the framework used by the FI is clear. The framework for defining a "transitioning entity" meets all criteria.	*100%*

The same rationale is applied at activity/asset level, leveraging taxonomy frameworks:

Question	Basic	Standard	Advanced	Next practice	Low-carbon aligned	Weighting
Associated score	***0%***	***25%***	***50%***	***75%***	***100%***	
Does the FI use and disclose an established definition of low carbon companies/activities (e.g. the EU Taxonomy)?	No definition / "black box" metric OR The definition set leads to significant inconsistency issues regarding FI's activities (e.g. covering an activity explicitly excluded from a standard).	The FI uses an internal definition without reference to taxonomies published by a national, regional or global governing body. The disclosure regarding the framework used by the FI is not clear. Information collected is not challenged/verified	The FI uses science-based climate taxonomies for categorizing sustainable activities. Taxonomies should be published by a national, regional or global governing body. Information is not publicly accessible. Information collected is not challenged/verified.	The FI uses science-based climate taxonomies for categorizing sustainable activities. Taxonomies should be published by a national, regional or global governing body. Information is publicly accessible. Information collected is not challenged/verified.	The FI uses science-based climate taxonomies for categorizing sustainable activities . Taxonomies should be published by a national, regional or global governing body. Information is publicly accessible. Information collected is challenged/verified (with an associated assurance level).	***100%***

After road-testing the methodology with 10 banks and 15 investors, the team noticed that most large Fis found it difficult to perform assessments on whether a company is transitioning or not. This overall framework helps the FI position itself and identify areas for improvement.

In general, GFANZ should encourage FIs to provide more information to companies and wider stakeholders on how they categorize companies.

Managed Phaseout

Q10: Are the proposed attributes sufficient to help you identify assets to this segment?

Regarding 'Additional KPIs' – we are concerned that companies and/or FIs may avoid categorising assets as Managed Phaseout by leveraging social indicators under 'Additional KPIs'.

For example, several oil and gas expansion projects in Uganda and Papua New Guinea have used purported positive socio-economic benefits of the projects as a way of avoiding criticism of the damage these projects will – and are – causing to the climate. Use of social indicators should not become a loophole allowing companies and/or FIs to avoid categorising assets as Managed Phaseout.

Recommendations on absolute and relative thresholds should be clearly displayed for financing exclusion (GW (production) or % of revenue coming from emissive sectors.

The category 'early retirement' is not very prescriptive; we would support the specific recommendation of 2030 for OECD countries and 2040 for rest of world.

GFANZ should take the opportunity to reiterate the IEA's view that no new fossil fuel expansion projects are aligned with the transition and incorporate this into the guidance for this segment.

Q11: Are there any other considerations for Managed Phaseout attributes, especially relating to hurdles for implementation (e.g., data limitations, lack of disclosure regarding capex, other KPIs for tracking phaseout progress)?

Any additional considerations should be taken from established sources, such as WBA's climate-related benchmarks. We would be happy to discuss further.

Segmentation method

Q12: Considering the proposed approaches, do you foresee any potential unintended consequences that may disincentivise financing in the four key financing strategies or motivate behaviour that may not be supportive of the net-zero transition?

The main issue that may lead to adverse consequences is the robustness of the framework.

In developing the framework further, GFANZ must ensure that the operationalised definition of the various categories are sufficiently robust to prevent misclassification and/or greenwashing. This risk is particularly prevalent for the Aligned and Aligning/Committed categories and the current ambiguity over whether companies are transitioning enough to fit into the Aligning/Committed categories.

Additional safeguards will provide increased robustness. For example, GFANZ should design the finished framework in such a way that a FI can be audited on their decision-making process when categorising assets. GFANZ should also introduce more specific requirements making clearer the distinctions between the different categories, and particularly the Aligned and Aligning/Committed categories.

'Not Aligned' category

GFANZ should also introduce another category: Not Aligned.

The current framework captures the different types of assets that need to transition, and are open to receiving transition finance to do so, as well as companies that do not need to transition.

However, the framework does not capture those companies that need to transition but are neither committed to doing so, nor have taken any action to do so. These assets should be included in a Not Aligned category. Including this category will allow FIs to label the entirety of their portfolios, including these assets. It will be useful for FI internal analysis, and for setting targets to ramp up the provision of transition finance.

The strategy for FIs providing general financing or investment to Not Aligned companies, should be for the FI to engage with the objective of the company setting transition targets and a plan for meeting these. Should these not materialise, the FI should escalate before ultimately exiting the relationship.

This category should be reflected in any further work carried out by GFANZ, for example the concepts set out in Part 2.

Q13: If you were to implement the proposed approaches today, what could be some challenges you might encounter?

Data collection.

Other for Part 1

Q14: What sub-segments would you consider under the 'All Other' segment? Please identify and provide rationale and examples.

In our view this segment should capture only those companies for which climate considerations are immaterial, for example a small services company.

This segment is different from the Not Aligned category set out under Q12, which would capture all assets that need to transition, but are not currently doing so.

Q15: Any additional feedback regarding Part 1 of this consultation?

See our proposal for a Not Aligned category.

Part 2: Decarbonization Contribution Methodologies

Q16: What is your organization's preferred approach for measuring the impact of transition finance activities, for example for capital allocation, monitoring, and disclosure purposes? What are the benefits and drawbacks of these approaches?

As a not-for-profit organisation WBA does not provide transition financing to companies or measure the impact of these activities.

As a more general point, we support the work underway by GFANZ and others to develop tools, frameworks and standards for the effective and appropriate provision of transition finance, and measuring the impact of this financing.

The outputs of GFANZ's work should be useful to FIs but also credible and legitimate to wider stakeholders, to preserve trust and integrity in the market. Other mechanisms that have been used by FIs to demonstrate their positive sustainability-related impacts, or the reduction of negative impacts – such as carbon offsetting and the associated markets for voluntary carbon credits – lacked credible and legitimate standards. As result, they suffered a loss of trust and market integrity.

GFANZ should seek to avoid a similar outcome in the transition finance market. To do so it should engage with a wider group of stakeholders, including civil society voices, to ensure credibility and legitimacy is preserved. In our answers to the following questions we highlight a range of concerns over some of the concepts and methodologies presented in Part 2 of this consultation. We support GFANZ proceeding at pace with this important work, due to the urgent need to facilitate capital flows for the transition. However, we strongly recommend GFANZ take time to address these issues, before bringing a revised approach – perhaps as part of a more advanced, secondary consultation – to a wider group of stakeholders.

Q17: Would best practice approaches for calculating EER add value to your current investment/financing/underwriting practices?

No comment.

Q18: What are key considerations for the development of a decarbonization contribution methodology? What challenges do you anticipate?

As set out under Q16, FIs need the tools, frameworks and standards for the effective and appropriate provision of transition finance, and the communication of outcomes to clients and wider stakeholders.

We support many of the concepts and methodologies set out in Part 1, and believe these should form part of the overall package. However, we have strong reservations about the role of new methodologies, including the proposed Expected Emissions Reduction (EER), as part of this.

We set out our main concerns below. Due to the short consultation period, we have not been able to delve into the detail of these concepts to the level they merit. As such, we would very much welcome further opportunities to engage with GFANZ at a more granular level.

Our first concern relates to the attribution of avoided (or reduced) emissions to an individual FI. As set out in the Impact Management System developed by ADEME and the 2 Degrees Investing Initiative, attribution is extremely difficult to demonstrate. Even before considering any practical challenges (several of which are highlighted in our answers to the following questions), there are several important theoretical challenges to overcome. These relate to the forward-looking nature of the proposals.

For example:

- What if the reduction would have occurred anyway without recourse to transition finance?
- What if the company's poor performance causes it to emit less emissions anyway?
- What is the actual impact of an investor buying a security on a secondary market and not providing any direct financing flows to the issuing company?

We also have reservations around how FIs might communicate outcomes to clients and wider stakeholders. Guidance over what is appropriate, and what is not, is needed to prevent FIs from overstating their contributions. For example, FIs should be steered away from claiming that their financing or investment activities have led to actual and tangible emissions reductions. It needs to be clear that any 'avoided' or reduced emissions would be a potential future benefit, which may or may not occur.

Should the concept of EER be fully realised, any reporting by FIs in line with this should also include information about their current, BAU financing of companies categorized as Not Aligned, including financing linked to highly polluting sectors. This will ensure balanced reporting.

In creating guidance for FIs, GFANZ should also consider the domestic and global regulatory landscape. Regulators in the UK, EU and other jurisdictions are closely scrutinising how FIs communicate with clients about sustainability. For example, both the UK and EU are preparing to introduce rules designed to introduce more scrutiny over sustainability-related communications made by FIs (and other types of businesses) to clients and wider stakeholders.

GFANZ should also consider producing guidance for firm on appropriate practical and governance-related arrangements around the provision of transition finance. This should cover issues such as the segmentation of portfolios, the structuring of transition finance transactions and products, the attribution of expected emissions to financing entities (should this become possible), and the use of transition finance by transitioning companies. Without appropriate governance structures in place, there is a risk of poor practice and greenwashing at each of these stages.

While each of the above issues merit individual attention, we are confident that general principles – such as transparency – will be helpful to each. For example, increased transparency over the inherent limitations of attributing emissions, may help address concerns over how FIs communicate outcomes.

More broadly, we would welcome the opportunity to engage more deeply with GFANZ on these issues, as it moves forward with its work. We would also encourage GFANZ to engage with a wider range of stakeholders, including civil society voices, to ensure the development of tools, frameworks and standards that are both credible and legitimate.

Q19: What important references and research papers should we take into account with regard to further work on decarbonization contribution?

ACT, SBT, PAT, IIGCC, the EU taxonomy, the Smith School's '[Sustainable Finance and Transmission Mechanisms to the Real Economy](#)'.

Q20: Any additional feedback regarding the Overview and Current State section?

In further developing the concept and methodology, GFANZ should take into account other financing arrangements and the implications for EER, for example IPOs, bond issuances, capital raising etc.

Q21: What are considerations for choosing a BAU pathway for Aligned/Aligning transition finance strategies and what is the minimum required level of granularity (ie, sectoral, regional)?

The BAU pathways for transition finance pathways must reflect the need for a just transition.

To achieve net zero, companies across the globe must transition. This includes companies located in emerging markets, who may also have 'further' to transition. Should these companies – and countries – be excluded from transition finance on the basis of the methodologies and frameworks currently being developed, the global transition would be compromised. To avoid this, GFANZ must build in the necessary flexibility for these companies, giving special consideration to the fact that short-term increases in emissions may be necessary to achieve longer-term greening.

Sectoral pathways are therefore essential, to ensure that companies in emerging markets can emit more than in developed countries.

More generally, a BAU pathway should be built by projecting the lifetime of the current company's assets and future investments/decommissioning assets in order to understand the real trajectory of its current emissions and BAU pathway over the next decade. GFANZ should provide as much guidance as possible for FIs to avoid FIs developing these on an ad hoc basic, which would lead to fragmentation. This would also remove the potential for FIs to 'game' the system by using a favourable benchmark to overstate potential emissions reductions.

The ACT methodologies utilise a concept known as 'locked in emissions' (modules 2 and 4 of the ACT methodologies). This measures the area/difference between the projected emissions of the company tied to its current emissive assets and lifetime with regards to its 1.5°C decarbonization pathway.

Q22: Concerning the timing of EER claims (see Figure 9), do you concur with the general principles and considerations proposed?

It is not immediately clear – nor intuitive – over what time period a firm could reasonably claim to be influencing transition activities by providing finance to a company. It is reasonable to assume that the larger the amount of finance provided, then this can be expected to help transition activities over a longer period. However, there will be additional complexities, for example if a relatively smaller amount of financing is used for a transition activity with a much longer-term impact on the emissions profile of the company. There are also certain obvious red lines – unless an FI has provided all the transition finance that a company is likely to require for all of its transition activities until 2050, then the FI should not be able to claim the entire amount of expected emissions reductions itself.

Further work in this area is needed. When doing so, GFANZ should ensure that timeframes are tied to the current assets of the company and projected new investments or decommissioning/revamping.

Q23: Are you supportive of Avoided Emissions reporting standards for corporates?

In the context of Aligned and Aligning/Committed companies, we have significant concerns over the potential for greenwashing and confusion over actual GHG reductions and 'avoided' GHG emissions that are claimed from a theoretical BAU trajectory.

Company disclosure should always focus primarily on actual GHG reduction, while only disclosing Avoided Emissions related to a specific climate solution it has designed. To the extent the "avoided emissions" concept is used for Aligned and Aligning/Committed companies, we are supportive of standards in order to avoid misconceptions and guarantee minimum safeguards. Please refer to the ADEME documentation on the topic (in French – however we welcome discussing further post consultation if helpful).

Q24: Any additional considerations/feedback for approaches for Aligned and Aligning transition finance strategies (e.g., regarding EER/ERP allocation to the portfolio; cumulative emissions vs intensity-based methods etc)?

We have set out our concerns around the use of contribution methodologies such as EER.

To ensure balanced reporting, any reporting on transition finance provided to Aligned and Aligning/Committed companies should be complemented by reporting on financing to Not Aligned companies.

We do not recommend the use of monetary intensity for building BAU pathways as it has many limitations (inflation, favouring companies with high value products (Ferrari, Porsche vs Stellantis for instance). It utilised, appropriate context is required to give meaning to the monetary value.

Q25: Do you agree that avoided emissions approaches are well-suited to measuring the impact of Climate Solutions and Managed Phaseout?

Yes, in the context of Climate solutions. The approach will help assess the emissions reduction it generates in other value chains (for instance bikes in the transport vs. auto sector), as otherwise what would only be seen is their own GHG increase due to increase of their production for gaining market shares over BAU companies.

Q26: Rather than using LCA for determining emissions factors for the BAU and the low-carbon alternative, do you agree with the simpler approach of using end-use emissions for calculating avoided emissions?

No comment.

Q27: This consultation proposes that the full EER associated with Climate Solutions could be applied to related Enablers but disclosed separately from Solutions and Nature-Based solutions. Do you support this approach?

No comment.

Q28: Any additional considerations/feedback regarding impact methods for Climate Solutions, Enablers and Managed Phaseout? (e.g. alternative approaches to avoided emissions; apportioning EER to Enablers, for example using a pro-rata approach)

No comment.

Q29: Do you agree with leveraging the PCAF accounting method for EER allocation?

Mathematically this makes sense. We consider it sensible to leverage the PCAF accounting method as the EER allocation can be derived from the PCAF concept of financed emissions attribution. However, as noted above we have broader concerns over the EER concept in general.

Q30: Any additional considerations/feedback regarding impact attribution methods (e.g., alternatives to the PCAF accounting method; specific considerations for employing the proposed attribution method for EER; considerations about disclosure of EER; anticipated challenges when aggregating the EER at portfolio level)?

The issue of which types of financing should be able to be 'allocated' expected emissions will require careful thought.

Should it become possible to credibly attribute 'avoided' or reduced emissions to a single financing entities, some FIs would seem more likely to be in scope than others, such as a lender providing a sustainability-linked loan tied to a specific transition-related purpose.

On the other hand, it is difficult to argue that investors trading listed securities in secondary markets would be able to qualify for attribution. These investors are not providing any direct financing to the companies themselves that the company can use for transition-related activities. As such, they should not be allowed to report to clients or wider stakeholders that they are involved in transition finance related to such companies.

A multitude of different activities and structures exist between these two extremes. For example, would the concept be relevant to investment banking operations like facilitating and structuring bonds on capital markets?

The scope of the financial activities and assets covered by the EER is not currently clear. Further guidance is needed on that and notably on the type of allocation envisaged (as mentioned previously, is it really possible to allocate the same way whether you hold shares or bonds? Whether you operate within primary vs secondary markets?).

Q31: Any additional feedback regarding Part II of this consultation?

We have provided feedback in the previous answers on the concepts and frameworks set out in Part 2.

Overall, we have a range of concerns over the concepts set out, which will need to be addressed. We fully understand the need for urgency in facilitating capital flows for the transition, and support GFANZ proceeding at pace. We propose that GFANZ seek to address the issues we highlight in this response through dedicated workstreams, in parallel to furthering the rest of the work programme. Following this process, GFANZ should bring the revised approach to a wider group of stakeholder to seek further views.

We are not currently convinced that FIs will (or should) be able to effectively apportion avoided emissions to themselves in a credible way. However, we are ready to work constructively with GFANZ on this and the other matters set out in this consultation.

Finally, once the necessary tools, frameworks and standards to facilitate transition finance activities have been developed, it is important that these are reflected in domestic and global regulatory requirements. This will increase the credibility and robustness of the standards and ensure wider adoption, facilitating harmonisation and preventing market fragmentation.

To this end, we would encourage GFANZ to work towards this outcome and to proactively reach out to relevant stakeholders.

ANNEX: WBA data on financing of climate solutions

WBA's Financial System Benchmark (FSB) assesses and ranks the 400 most influential FIs on their contribution to global sustainability goals. The methodology and underlying dataset are both publicly available.

FIs are assessed against 32 indicators.

Indicator 9 captures 'Climate solutions' disclosures made by FIs. FIs are scored against a range of different outcomes, with FIs fulfilling all of the requirements scoring most highly:

a) The financial institution discloses the aggregate amount (in monetary terms) and share (%) of its financing activities devoted to climate solutions, while specifying what those are.
b) The financial institution defines climate solutions according to internationally adopted frameworks (e.g. EU Taxonomy, Climate Bonds Initiative).
c) The financial institution discloses time-bound targets for its climate solutions.
d) The financial institution discloses progress against its targets.

In the 2022 benchmark, **187 (47%)** of the FIs disclosed an aggregate amount and share of their financing devoted to climate solutions. However, only **52 (13%)** defined this financing in line with internationally adopted frameworks.

Geographical breakdown:

- Africa – 4%
- Asia – 21%
- Australia – 4%
- Europe – 42%
- North America – 21%
- South America – 8%

Sectoral breakdown*:

- Asset manager – 6%
- Bank – 48%
- Development finance institute – 17%
- Insurance – 15%
  Pension fund – 13%

**does not total 100% due to rounding effects.*

We will be benchmarking again in 2024 and potentially in 2025, and subject to the conclusion of GFANZ consultation, propose including GFANZ's definitions as an internationally adopted framework. Going forwards, we will be able to track progress and adoption of the GFANZ methodology.