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WWF's criteria for **credible climate and nature transition plans** for financial institutions

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Summary for policy makers

Transition plans are a vital tool that allows financial institutions and companies to set out clear and actionable steps to achieving science-based climate and nature targets, enabling the transition towards sustainability across the whole economy.

The existence of credible transition plans for financial institutions will help alleviate concerns of greenwashing and provide forward looking information to a range of stakeholders including governments, clients and portfolio companies, regulators and civil society.

This position paper presents WWF's key criteria and expectations that make up a *credible climate and nature transition plan* for financial institutions, including guiding principles and recommendations.

WWF's key criteria and expectations for credible financial institution transition plans are as follows:

Ambition and Prioritization: commit to net zero in line with 1.5°C warming; set science-based (interim) targets; identify high-impact decarbonization levers or actions.

Nature and Just Transition: commit to nature-protection and restoration goals; manage risks and opportunities of nature; capitalize on nature as a carbon sink and resilience measure; enable a "just" transition.

Action and Implementation: adopt policies that commit to fossil fuel phase-out; scale up financing for climate and nature-based solutions; implement credible engagement strategies and escalations processes.

Accountability and Verification: establish clear governance structures; seek third party verification; transparently report on progress and results.

Feedback and Flexibility: embed flexibility into implementation; ensure material updates inform future iterations of plans; enact clear adjustments if there are deviations from targets.

Policy makers, regulators and supervisors should consider the following **WWF recommendations:**

1. By 2023, adopt legally binding science-based net zero and nature positive targets, translated into publicly available sector-specific transition pathways.
2. By 2024, require financial institutions and large or listed companies to develop and disclose science-based targets and credible climate and nature transition plans on a mandatory basis.
3. Introduce targeted and coherent policy measures to help facilitate near term phase-out of high carbon activities, such as the development of market models to support low-carbon technologies and the key inputs for those technologies.
4. Central banks, financial regulators and supervisors should utilize published transition plans to assess the transition risk profile of surveyed financial institutions and companies; for example, instigating necessary adjustments to capital or liquidity requirements.
5. Establish independent transition plan verification bodies or processes to monitor and assess transition plans.

Introduction

Financial institutions have a crucial role to play in enabling the transition to a more sustainable future.

Many financial institutions[1] around the world have committed to achieving net zero emissions in line with the goals of the Paris Agreement and are increasingly addressing nature-related considerations such as biodiversity loss[i]. While momentum across the finance sector has grown substantially[ii], the focus quickly needs to shift to urgent action and detailed implementation. The world is edging closer to irreversible changes to climate and natural systems that would lead to catastrophic consequences to our environment, economies and societies.

The concept of private sector transition plans has emerged as a crucial lever to accelerate action. At a fundamental level, transition plans enable financial institutions and companies to set out clear and actionable steps towards achieving science-based climate and nature targets. The development of *credible transition plans* for financial institutions will, in turn, help to facilitate the transition across the real-economy and combat greenwashing. Governments, supervisory authorities, international organizations, academia and civil society also benefit from this forward-looking information, together enabling a global shift towards net zero and nature-positive outcomes.[iii]

Objective

This position paper presents WWF's key criteria and expectations that make up a *credible climate and nature transition* plan for financial institutions[iv].

It aims to provide a largely non-technical overview of important concepts and impactful actions financial institutions should consider when developing a transition plan. By acknowledging and building upon existing frameworks[v] [vi] [vii] this paper seeks to drive ambition and consistency in transition plan development for financial institutions, promote convergence on best practices, and support the adoption of robust international standards.[viii]

Guiding principles

The below guiding principles outline WWF's view on transition plans in terms of their purpose and application. These principles present transition plans as a dynamic and enabling tool to facilitate transformational business change and deliver on climate and nature objectives.

A whole-of-organization approach to transition planning

A transition plan should be seen as a tool for implementing science-based targets by specifying practical actions across the *whole of an organization*; ensuring that changes are fully embedded within overall business model and strategy[2], approved by the board and overseen by senior management. It should aim to cultivate cultural shifts across the workforce and help reform everyday business activities, including products, services and external relationships. A credible transition plan will catalyze a whole-of-organization shift towards the achievement of climate and nature targets in line with latest science.

Focused on outcomes and impact

Actions underpinning a transition plan should move beyond asset or entity level risk management and towards an impact focused approach[ix], leading to real world changes that are quantifiable and measurable and guided by latest scientific evidence (e.g. alignment with a 1.5°C warming trajectory). A credible transition plan will also strive to be holistic and incorporate a broader range of sustainability issues beyond climate, notably the protection and enhancement of nature and addressing social factors as part of a just transition[x].

Accountability and agency of financial institutions

Financial institutions transition plans will recognize the critical role they play in influencing key stakeholders across the value chain (financial and non-financial) in pursuit of climate and nature outcomes. They must act as active agents for change, for example, by engaging governments on climate and nature related policy and setting clear expectations for client and portfolio company transition pathways. A credible transition plan will leverage the full scale of a financial institution's activities and influence to drive and facilitate an economy wide transition.

1 Covering investment managers, asset owners, banks, insurance companies and financial service providers.

2 This involves making clear the linkages including tensions and synergies to existing corporate and sustainability strategies.

Key criteria and expectations for credible climate and nature transition plans for financial institutions

In order for climate and nature transition plans to be credible, WWF believes financial institutions should adhere to the following key criteria and expectations. These elements are complementary and can be adapted for all sub-sectors of the finance sector as part of the development and disclosure of transition plans. They can be seen as minimum expectations and will evolve over time, in line with emerging best practices.

Ambition and Prioritization

A credible transition plan will:

- Commit to the strategic ambition of reaching net-zero emissions by 2050 or sooner, aligned with multiple science-based 1.5°C (no/low overshoot) scenarios[xi] that limit reliance on carbon dioxide removals[xii] and are guided by the concept of mitigation hierarchy[xiii].
- Set quantitative targets[xiv] that encompass all business and financing activity (e.g. financed and facilitated emissions[3]), including:
    - Commitment to Scope 1, 2 and 3 greenhouse gas emissions reduction across all business activities and across all group entities;
    - Consistently disclose absolute emission reduction measurements (always) and economic intensity approaches (where relevant)[4];
    - Time-bound interim (near-term) targets with 5 year intervals, derived from 1.5°C aligned scenario analysis.
- Identify decarbonization levers[5] or actions by sector which have the greatest potential for rapid real-economy impact and/or facilitate systemic change[6], while clearly disclosing assumptions (including the underlying climate scenario) and uncertainties associated and decision making.

Nature and Just Transition

A credible transition plan will:

- Commit to setting nature-protection and restoration goals that are compatible with national environmental targets and international goals, such as the Post-2020 Global Biodiversity Framework[xv].
- Manage risks, opportunities and dependencies related to nature-loss[xvi] and ensure that robust safeguards are in place so that financial activities associated with climate mitigation do not cause severe harm to the natural environment[xvii].
- Capitalize on nature's capacity to act as a carbon sink [xviii] and build climate resilience by, for example, investing and lending to nature-based solutions [xix], including specific goals to restore and regenerate the environment (e.g. halting deforestation and biodiversity loss).
- Seek an equitable and socially "just" transition[xx] that supports adaptation to the effects of climate change and nature-loss, considers the risks of mitigation activities on stakeholders and encourages efforts to capture co-benefits.[xxi]

Action and Implementation

A credible transition plan will:

- Clearly specify immediate actions that lead to decisive adjustments to core business functions[7] (e.g. financial products and services) in line with interim targets and goals, including changes to business planning and operations (e.g. capital and operational expenditures, resources allocation).

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3 Covering investment and lending, capital market activities, asset management, insurance underwriting, derivatives and advisory services.

4 In accordance with SBTi guidance and ensuring that metrics used are at least as ambitious as the minimum of the range of emissions scenarios consistent with the 1.5°C goal.

5 Including prioritization by asset class and financing activity (e.g. loans, equity, insurance underwriting) to determine the approach and influencing avenue by which a financial institution should take action.

6 For example, scaling up capital to low-carbon solutions or technologies, financing or enabling the transition of carbon-intensive sectors towards net zero or actively directing finance away from carbon-intensive projects and assets.

7 On a sector-by-sector basis, taking into account differences between sectors, geographies and counterparty types and sizes.

- Adopt robust policies for all on and off balance sheet assets and activities that align with sectoral science-based pathways to cover the most material sectors[8], including the explicit commitment to phase-out emissions from coal, oil and gas production and use in accordance with a 1.5°C warming threshold.[xxii] [xxiii]
- Commit to a significant scale up of financing to projects, solutions or technologies contributing to the mitigation and adaptation of climate and nature-positive impacts (e.g. clean alternatives to high-emitting activities).
- Develop credible and publicly disclosed engagement strategies[9] as one of the predominant avenues to achieving (sub)portfolio targets, across all affected stakeholder groups, including clients and portfolio companies, policy makers, industry peers and service providers.
- Develop an escalation process[10] which clarifies the action a financial institution will take if a given client or portfolio company is not responsive to engagement. Milestones should be set after 6, 12 and 24 months, culminating with the end of the business relationship (e.g. divestment for investors) with a given client or company in case of lack of substantial progress.

Accountability and Verification

A credible transition plan will:

- Establish clear governance structures for holding organizations to account for progress towards net zero and nature-positive targets, including clearly defined roles for board and senior management and dedicated staff responsible for overseeing delivery.[11]
- Seek third-party verification of counterparty reporting against key criteria (e.g. greenhouse gas emissions) to ensure accuracy in assumptions and progress towards targets.
- Transparently report on annual progress and achieved results, based on a defined set of metrics and KPIs[12].

Feedback and Flexibility

A credible transition plan will:

- Embed flexibility and responsiveness to external changes (e.g. regulatory or technological changes) throughout development and implementation, via an annual review process which evaluates progress made against targets and latest scientific evidence.
- Ensure material updates and developments are fed back into future iterations of the plan with a view to maintaining ambition and incorporating key learnings (e.g. challenges faced, risks identified, company/sector level shifts) and practical considerations (e.g. additional resources, changes in internal processes).
- Contain a clear process to assess progress towards (interim) targets, which allows for adjustments to be made and disclosed if there are observed deviations (e.g. +/- 5 -10%) that put the achievement of the target at risk. The process of ratcheting interim targets should be assessed on a regular basis (e.g. 2 to 3 years).

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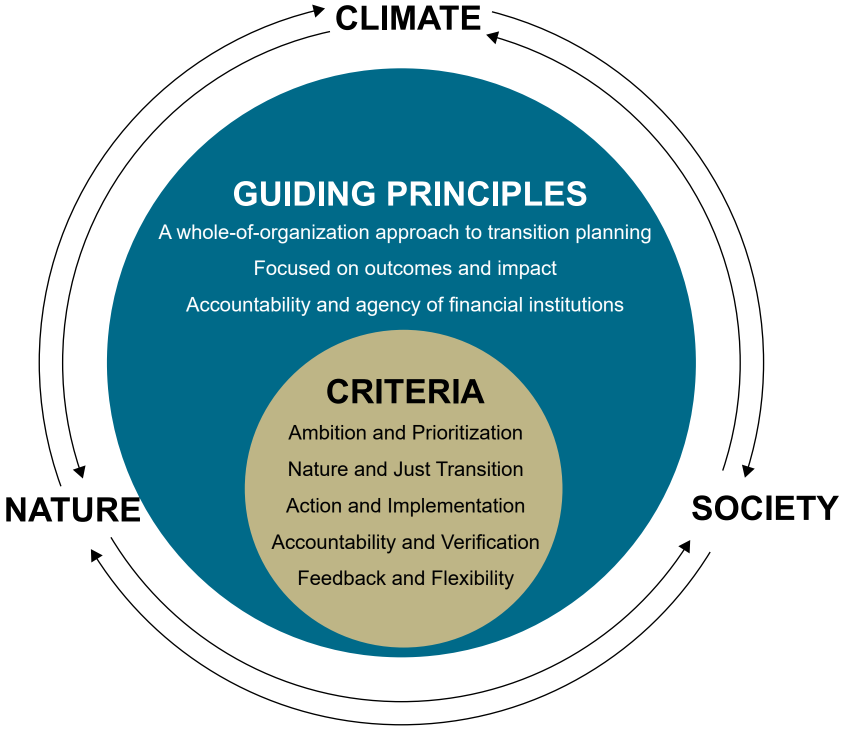
8 Notably covering fossil fuels, deforestation and conversion-related sectors (e.g. agriculture and forestry), high-carbon transport (e.g. automotives, trucks, aviation and shipping), high-carbon industry (e.g. cement, steel, glass and chemicals).

9 An engagement strategy should promote active engagement/stewardship of key stakeholders and may include aspects such as: engagement targets; a description of how clients/companies/representatives for engagement were identified; the climate/nature related requests towards clients/companies; the number and sectoral breakdown of engagement conducted with regard to climate change over the last 12 months; disclosure and rationale of voting on climate/nature shareholder resolutions, votes against management for climate/ nature reason.

10 Escalation process (as a component of engagement strategy) may include public messaging, filing/supporting shareholder resolutions, end participating in capital raising efforts through bond issuances/loans, vote against management, and ultimately divestment if the company remains unresponsive to demands within a predefined time period.

11 Including being integrated into a board approved risk appetite statement and supported by an adequate monitoring plan.

12 Including (but not restricted to) GHG emissions, investment targets, green financing activities, assessments determining relative alignment of products and services with net zero and nature goals.



Recommendations

WWF provides the following recommendations to financial institutions, policy makers, regulators and supervisors, to guide ambitious next steps on transition plan development and standardization internationally.

Recommendations for financial institutions

1. By 2023 develop and disclose a detailed, verifiable, and actionable climate and nature transition plan that responds to the key criteria and expectations outlined above.
2. Engage clients and portfolio companies to set clear expectations[xxiv] to disclose credible, science-based transition plans and act on escalation processes in the event of no or insufficient action.
3. Develop products and services that respond to the needs of the real economy to broaden the suite of financing services (e.g. investment, lending, underwriting, advisory) specifically targeted at enabling the net zero, nature-positive and just transition.

Recommendations for policymakers, regulators and supervisors

1. By 2023, adopt legally binding science-based net zero and nature positive targets, translated into publicly available sector-specific transition pathways[13] that can be used by financial institutions and companies when developing their transition plans.[14]
2. By 2024, require financial institutions and large or listed companies to develop and disclose science-based targets and credible climate and nature transition plans on a mandatory basis.
3. Introduce targeted and coherent policy measures to help facilitate near term phase-out of high carbon activities, such as the development of market models to support low-carbon technologies and the key inputs for those technologies (e.g. materials, skills, expertise).
4. Central banks, financial regulators and supervisors should utilize published transition plans to assess the transition risk profile of surveyed financial institutions and companies[xxv]; for example, instigating necessary adjustments to capital or liquidity requirements[xxvi].
5. Establish independent transition plan verification bodies or processes[15] to monitor and assess various components of the transition plan, the consistency of the transition plan with the target, and the level of the organization’s preparedness and commitment.

[13] Supplemented by sector and region-specific scenarios that allow for greater granularity of assessment.

[14] Governments should also seek to monitor how financial institutions and corporate transition plans (in aggregate) contribute to national-level targets, both in terms of addressing financing gaps and in identifying policy interventions needed to accelerate private sector transition.

[15] As part of or supplementary to existing independent institutions within a given jurisdiction and in accordance with existing non-government and industry initiatives (e.g. Science Based Targets initiative, Transition Pathway Initiative, ACT initiative, Climate Action 100+).

Endnotes

i WWF's Living Planet Report (2022) shows that nature is being lost at an alarming rate, with global wildlife populations having declined on average by 69% since 1970. https://www.wwf.org.uk/our-reports/living-planet-report-2022

ii Over 550 major financial institutions have so far joined the Glasgow Financial Alliance for Net Zero (GFANZ). https://www.gfanzero.com/

iii Nature-positive outcomes are broadly defined as halting and reversing nature loss by 2030, measured from a 2020 baseline. https://www.wbcsd.org/download/file/11960

iv Building from WWF criteria for credible net-zero commitments by financial institution paper (2021) https://wwfint.awsassets.panda.org/downloads/wwf_criteria_for_credible_net_zero_commitments_by_financial_institutions___elisa_vacherand.pdf

v For an overview of existing initiatives and guidance on transition plans, see OECD guidance on transition finance (Section 2) https://www.oecd-ilibrary.org/sites/7c68a1ee-en/1/3/2/index.html?itemId=/content/publication/7c68a1ee-en&_csp_=de7026e6bbb9a2098a2b3b13291bc473&itemIGO=oecd&itemContentType=book#section-d1e3019

vi The UK Transition Plan Taskforce (TPT) was launched by the UK government aimed at developing a 'gold standard' for transition plans for UK financial institutions and corporations. Sector-neutral and sector specific frameworks are under development. https://transitiontaskforce.net/

vii The Good Transition Plan, Climate Safe Lending Network (2021) https://static1.squarespace.com/static/5e0a586857ea746075c561a3/t/61fa7a928bf1444954619fa5/1643805346245/CSLN+Good+Transition+Report+01.22.pdf

viii Financial Institution Net-zero Transition Plans, GFANZ (2022). https://assets.bbhub.io/company/sites/63/2022/09/Recommendations-and-Guidance-on-Financial-Institution-Net-zero-Transition-Plans-November-2022.pdf

ix Considering how a company is not only affected by a changing climate but also contributing to climate change, better known as double materiality. See: https://www.lse.ac.uk/granthaminstitute/news/double-materiality-what-is-it-and-why-does-it-matter/

x Acknowledging that the shift to a net zero and climate-resilient economy should simultaneously deliver a just transition (e.g. decent work, social inclusion and the eradication of poverty) and nature-related goals. See: https://www.lse.ac.uk/granthaminstitute/publication/just-nature-finance-just-transition-climate-and-biodiversity-2022/

xi Based on an available carbon budget calculation for IPCC 1.5°C scenarios. The IPCC P1 pathway forecasts a 54% reduction by 2030, and the P2 pathway a 47% reduction. https://www.ipcc.ch/site/assets/uploads/sites/2/2022/06/SPM_version_report_LR.pdf

xii See WWF position paper on Carbon Dioxide Removal and Sequestration. https://wwfeu.awsassets.panda.org/downloads/wwf_1_5c_position_paper___carbon_dioxide_removal_including_carbon_sequestration_in_natur.pdf

xiii Beyond Value Chain Mitigation, FAQ (SBTi, 2021) https://sciencebasedtargets.org/resources/files/Beyond-Value-Chain-Mitigation-FAQ.pdf

xiv The Science-based targets initiative (SBTi) has released guidance for financial sector targets. https://sciencebasedtargets.org/resources/files/Financial-Sector-Science-Based-Targets-Guidance.pdf

xv The Convention on Biological Diversity's (CBD) Post-2020 Global Biodiversity Framework is set to define targets and pathways for the conservation and sustainable use of biodiversity for the next decade and beyond. https://www.cbd.int/conferences/post2020

xvi In accordance with the recommendations of the Task Force on Nature-related Financial Disclosures (TNFD) https://tnfd.global/about/

xvii Safeguards on mitigation solutions may include relevant due diligence processes, existence of certification standards, oversight processes and contractual obligations. Jurisdictional taxonomies also provide guidance on how to apply safeguarding. For example, adherence to a do no significant harm (DNSH) principle as part of the EU Taxonomy. https://ec.europa.eu/info/sites/default/files/c2021_1054_en.pdf

xviii Agriculture, forestry and other land use change, (primarily from deforestation and land conversion) for example, account for 23% of global GHG emissions. https://www.ipcc.ch/srccl/

xix High-quality nature-based solutions for climate mitigation can also address biodiversity loss and inequitable development. A Blue-Print for High-Quality Carbon Emissions that work for People, Nature and the Planet (WWF, 2021). https://wwfint.awsassets.panda.org/downloads/wwf___beyond_carbon_credits_blueprint.pdf

xx Making Transition Plans Just, The Grantham Research Institute on Climate Change and the Environment, London School of Economics. https://www.lse.ac.uk/granthaminstitute/publication/making-transition-plans-just-how-to-embed-the-just-transition-into-financial-sector-net-zero-plans/

xxi Co-benefits are defined by the IPCC as "positive effects that a policy or measure aimed at one objective might have on other objectives, thereby increasing the total benefits for society or the environment". https://www.ipcc.ch/sr15/chapter/glossary/

xxii The Transition Away from Oil and Gas (WWF policy position piece, 2021). https://wwfint.awsassets.panda.org/downloads/wwf_policy_position___the_transition_away_from_oil___gas.pdf

xxiii IEA Net Zero by 2050. A Roadmap for the Global Energy Sector, 2021, concludes that transitioning to a net zero energy system requires no investment in new fossil fuel supply projects, and no further final investment decisions for new unabated coal plants. https://www.iea.org/reports/net-zero-by-2050

xxiv Tailored to local market context and taking into account national considerations that may present constraints to action. https://www.mckinsey.com/capabilities/sustainability/our-insights/how-the-net-zero-transition-would-play-out-in-countries-and-regions

xxv For example, by integrating assessments into the Supervisory Review and Evaluation Process (SREP). https://www.bis.org/publ/bcbs128c.pdf

xxvi WWF Call to Action to Ensure Transition to a Net Zero and Nature Positive Economy (2022). https://wwfint.awsassets.panda.org/downloads/call_to_action_2022_lowres.pdf