



Transition Plans: Banking

Sector-specific steps for transition planning



Banks are expected to play a vital role in the transition to Net Zero, not only in reducing their own emissions but in facilitating the transition of their clients, customers, green projects and sectors overall.

Many firms have voluntarily joined initiatives and alliances such as NZBA & GFANZ committed to setting credible transition plans. There is also increased scrutiny from the FCA and PRA, who have recently mandated enhanced sustainability disclosures for the sector through SDR and SS3/19. With this backdrop, credible and robust transition planning will become a must-have for leading banking organisations worldwide.

Key challenges to consider

- 01** Gathering robust and verifiable data on the financed emissions of your portfolio will require close collaboration with your investments and significant work on improving data quality and availability given the likely variety of sources.
- 02** In developing a transition plan, banking organisations will need to stay on top of compliance with a complex and rapidly evolving regulatory landscape, understanding not only its own but how your investments are captured.
- 03** Successful transition planning will need process and operating model changes across the organisation to meet your ambitions, needing collaboration across typically siloed business units within your banking organisational structure and divisions – particularly where investment classes are separated into different units.

Further considerations for your transition planning steps



Step 1 Diagnose

- When looking into completing a transition plan readiness assessment for your organisation, consider guidance not only from the TPT, but from other leading finance organisation including GFANZ and local finance initiatives and associations which may exist in your jurisdictions.
- When baselining, your GHG emissions, engage closely with your portfolio companies upfront and on an ongoing basis to improve data quality and coverage, given banks' transitions are a reflection of their customers' transition.
- Similarly to your emissions sources and GHG hotspots, engaging closely with your portfolio companies can drive a better understanding of your broader ESG impacts, risks, and opportunities which you will need to inform your wider transition and reporting under frameworks such as CSRD and ISSB.

Step 2 Strategise

- Decarbonisation levers across your portfolio can be classified using the four key Net Zero financing strategies defined by GFANZ:
 - **Climate Solutions**, financing or enabling entities that develop and scale climate solutions
 - **Aligned**, financing entities which are already aligned to science-based climate target pathways
 - **Aligning**, financing entities committed to transforming in future but are not yet aligned
 - **Managed Phaseout**, enabling an accelerated but controlled phase-out of high-emitting assets for entities
- Consider decarbonisation levers within the organisation's control (endogenous) as well as those outside of the organisations controls such as regulation, technology, customer and industry engagement (exogenous), and use influence over your portfolio to engage and support activities which can in turn reduce your emissions.
- Working with investments to understand their key barriers to decarbonisation can help you define new financing structures or instruments which can not only support those customers but also open up new markets which may be lacking scale due to capital constraints.

Step 3 Transform

- Upskilling sector leads and relationship managers to adequately service the changing needs of your customers can help to actively engage and influence the behaviours of your counterparties and remain a trusted partner.
- Consider how you can embed climate-linked targets into existing products and services, including procurement, and whether decarbonisation support and advisory can form part of your service offering to customers.
- Defining carbon budget allocation frameworks across industry sectors, business units and/ or regions, calibrating decarbonisation levers on a real time basis, and integrating into pricing and risk appetite (e.g. credit risk) can be a valuable lever alongside typical capital allocation activities.

Step 4 Report

- Establish robust governance and controls for obtaining timely and accurate data across the organisation and from third parties, as datasets may be complex due to size of commercial and personal portfolios.
- Financial metrics and targets are critical to show the influence and progress of banks, including participation in green finance or bond markets or investment into new sectors – relying on emerging guidance on taxonomies such as the UK Green Taxonomy.
- Develop integrated reporting with other disclosures, such as Pillar 3 reports for UK-based financial institutions or responses to regulatory stress testing, to minimise inconsistencies across the board.

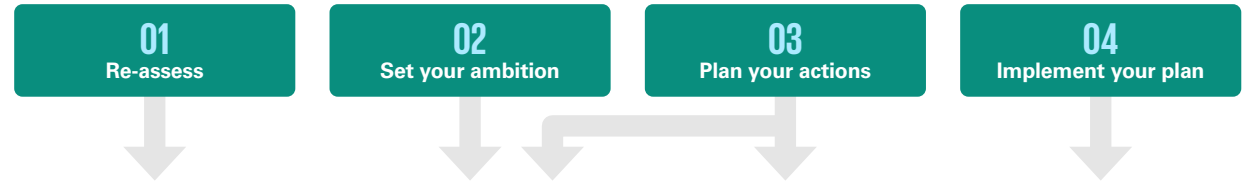
Integration with the Transition Plan Taskforce

KPMG’s four-step approach to transition planning, outlined in full in our talkbook *Transition Plans: Moving Beyond Disclosure*, is based off leading guidance from the Transition Plan Taskforce (TPT) and is designed to feed directly into developing a TPT-compliant strategy. This includes the Final Disclosure Framework which was released by the TPT in October 2023.

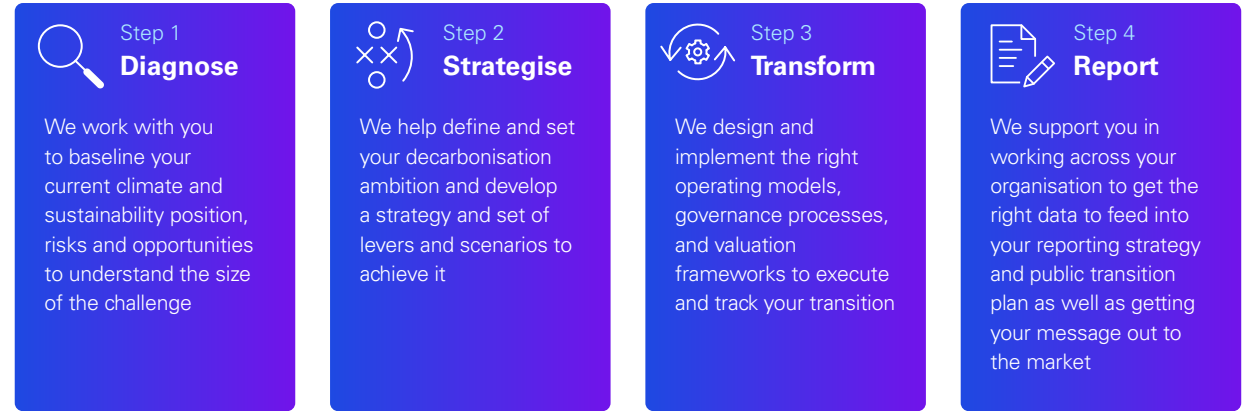
Our approach is designed to provide key insights and lay out actions which companies can take when preparing to disclose in line with the TPT framework, as well as line up with the TPT Transition Planning Cycle. Our sector-specific insights and challenges are also intended to fit alongside the TPT’s Sector Guidance launched in November 2023, providing companies in those sectors with KPMG’s views on particular focus areas as you prepare your transition plan in line with the new guidance.

For more information, get in contact with the team at KPMG and learn more about how we can help you develop a transition plan and prepare your business for success in a changing climate.

TPT transition planning cycle



KPMG's approach



TPT disclosure framework



Some or all of the services described herein may not be permissible for KPMG audited entities and their affiliates or related entities.