



*November 1, 2022*

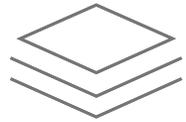
# **IIF Transition Finance Workshop**

## **Istanbul**

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*Hosted by The Banks Association of Türkiye*

# Regulatory requirements increase in a complicated landscape



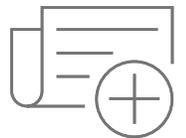
Number of regulatory developments in 2021

750+



Number of consultation processes held

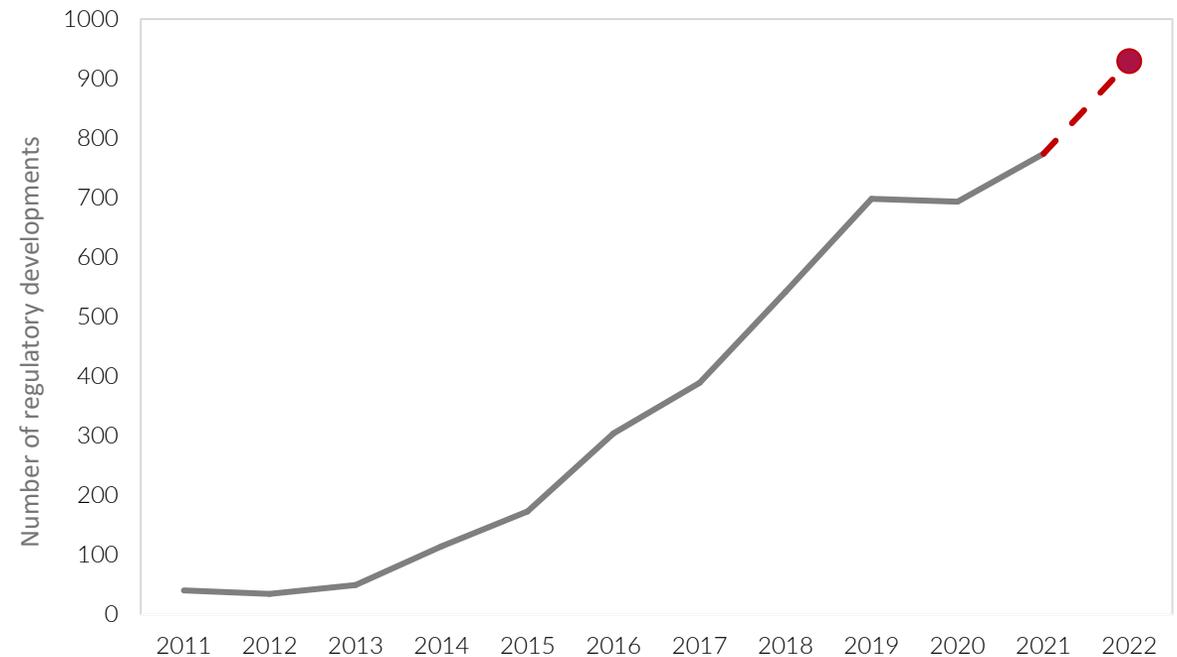
50+



Number of regulatory initiatives expected to be adopted in 2022

100+

## Topics to watch out in 2022/2023

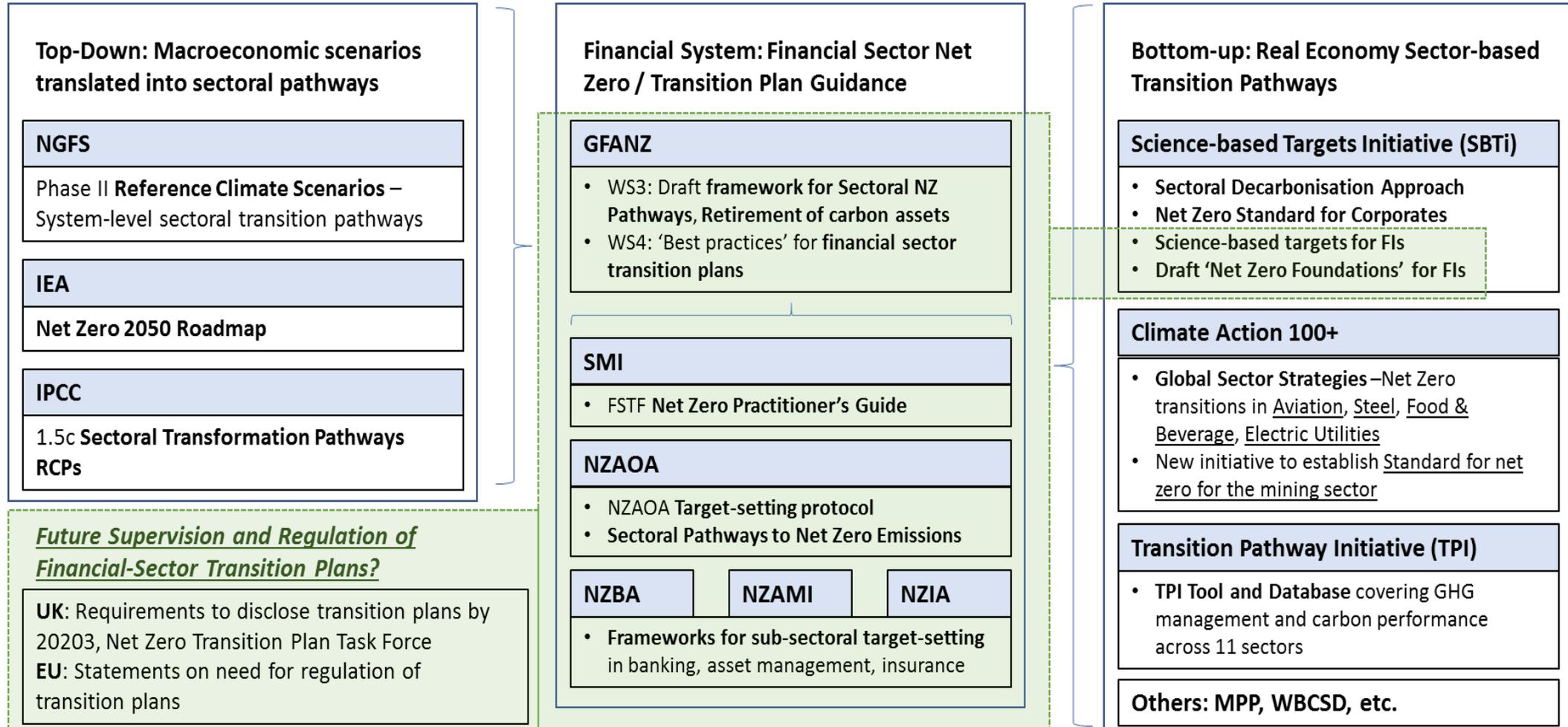


Source: based on data from ECOFACT Policy Outlook

# Writing the Rules of the Road for Transitioning toward Net Zero

*Who is in charge of setting the rules? How are plans verified? How is compliance monitored?*

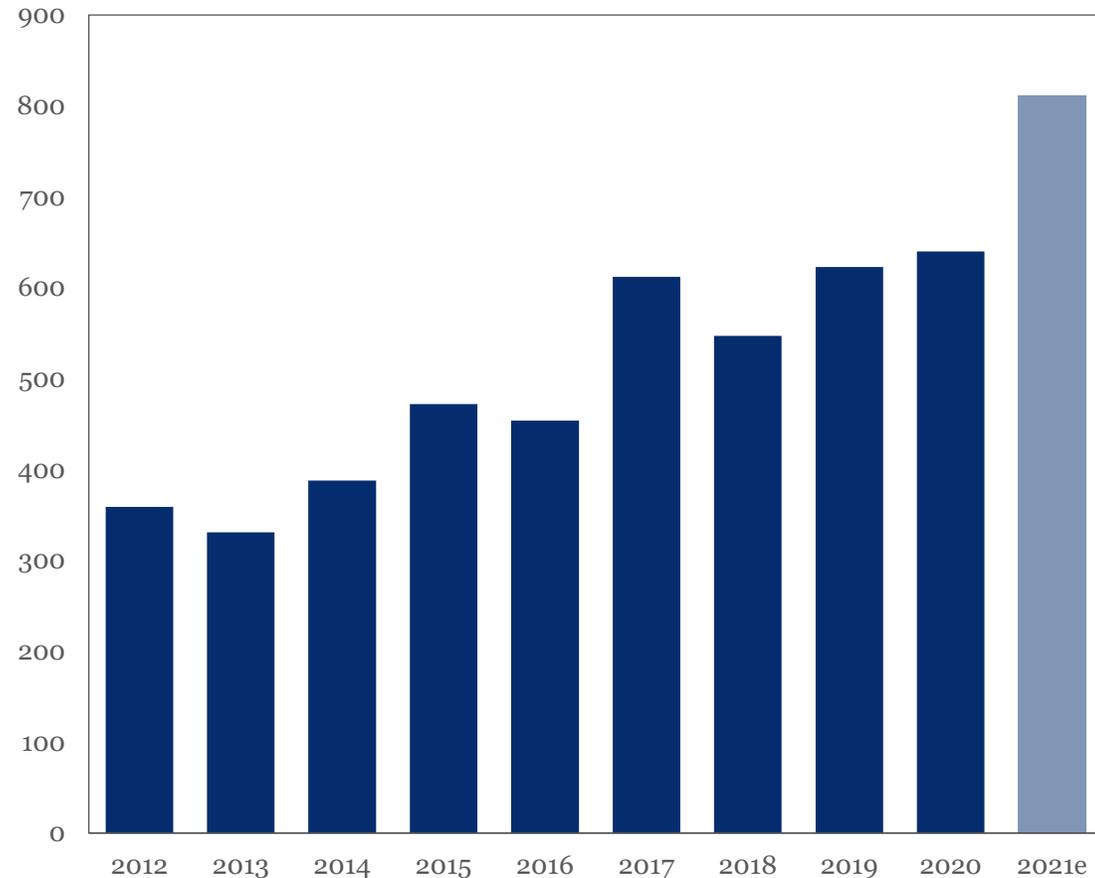
*Additional layer of oversight? New UN-SG High-Level Expert Group to “propose clear standards to measure and analyse net zero commitments from non-state actors”*



# Sustainable, Transition, and Climate Finance

## Climate Finance Flows

\$ billion, climate finance investment flows



Source: CPI, IIF estimates

- As broad market disruption continued, flows to ESG funds fell for a second consecutive quarter in Q2 2022. However, they remain in positive territory year to date—in sharp contrast to large outflows from conventional funds.
- Global sustainable/ESG debt issuance exceeded \$645 billion in H1 2022; while some 15% below year-ago levels, this was double the pace of H1 2020. Sustainability-linked bond and loan markets also saw robust issuance in H1 2022. Emerging and frontier markets issued over \$120 billion in sustainable/ ESG debt in H1 2022, up from over \$100 billion a year ago.
- The size of the voluntary carbon market has grown rapidly in recent years, but experienced a marked slowdown this year. Most of the issuance in H1 2022 came from India, China, Democratic Republic of the Congo and the U.S.
- Climate finance flows are rising, but remain well short of what will be needed to keep global warming to under 1.5C and/or to achieve net zero emissions. Private climate finance flows to emerging markets are expected to surpass \$14 billion in 2022, but still account for only 2% of total EM capital flows

# Transition Plan Development – Strategies, Policies, and Governance

- Organization of internal functions/oversight
- Translation of long-term NZ goals into a '3D' view – over time, business areas, markets
- Approaches to incorporating transition planning into internal steering mechanisms

## Discussion Questions

- What **framework guidance** is your firm relying upon most (or will be relying upon) in its efforts to develop its transition plan? (e.g., GFANZ, NZBA, etc.)?
- How is your firm considering the **frameworks** developed by other entities (e.g., SBTi) which may be relevant for clients/counterparties?
- What is your firm's approach to '**cascading**' transition actions/targets at group level down to different business areas, regions or entities?
- What are the challenges to delivering an **integrated assessment** of progress across these 'sub-plans' at different levels?

# Transition Finance – Products, Services, and Decision-making

- Frameworks for guiding approaches for transition finance and investments
- Lessons from the integration of transition priorities into existing products and services
- Development of new targeted financing solutions
- Development/adaptation/revision of policies and conditions

## Discussion Questions

- *How is your firm approaching the **integration of transition priorities** into existing product and service lines (e.g., modification of products, impacts on client relationships)?*
- *Does your firm have any plans to factor net zero transition readiness into **counterparty credit assessment, loan pricing**, etc.?*
- *How is your firm approaching the development and roll-out of **transition-specific** financial products/services?*
- *If your firm is engaged in providing transition finance to **emerging and developing economies**, sovereign and/or corporate, how are you approaching client engagement on transition priorities?*
- *What is your firm's approach to **financing 'phase-outs' or 'phase-downs'** in high-carbon sectors, in light of self-defined transition targets?*
- *How do you assess use of **carbon offsets**, both internally and by clients in own transition plans?*

# Engagement and Advisory for Transition Outcomes

- Integration of transition-relevant policies, conditions, and procedures into client engagement
- Lessons on building/scaling transition-focused client advisory services
- Lessons from shareholder engagement initiatives
- Identification of priority actions for different types of financial institutions

## Discussion Questions

- *What is your firm's approach to **integration of transition priorities into client advisory**?*
- *What, if any, are the lessons emerging from efforts to advise clients on transition options, including **clients/counterparties in high-carbon sectors**?*
- *How is your firm approaching assessment of '**second-order**' transition plan challenges – such as reliance on financial counterparties (e.g. low S1/2 emissions, high S3 emissions)?*
- *Do you feel that your engagement of investee firms is having a **meaningful impact** on their current and future decarbonization strategies?*
- *What are the **limits** of advisory/engagement actions for your firm? How successful have any efforts at outsourcing engagement been?*

# Reporting on Transition Progress

- Metrics, targets, and KPIs to quantify progress towards overarching Net Zero goals
- Lessons from internal efforts to develop transition plan disclosures
- Experience with data, tools, and methodologies for transition planning; involvement of other stakeholders (e.g. audit, shareholders, regulators)

## Discussion Questions

- *What is your expectation for **disclosure** of your firm's transition plan – as part of an integrated report, a stand-alone report, etc.?*
- *How is your firm working to align assumptions/approaches for to **scenario analysis, portfolio alignment, and transition planning**?*
- *What are the potential implications of the **choice of alignment metrics** applied by a firm for its transition implementation activities?*
- *Does the use of **financed emissions** as a transition metric create challenges or disincentives for certain types of transition finance (e.g., considering GFANZ categories)?*

# Policy Dimensions of Transition Planning & Practice

- Role for policymakers, supervisors, and regulators in transition planning by financial institutions
- Priorities for economy-wide policies that can enable transition plans to be achieved
- Perspectives on the scope for finance as a catalyst/facilitator of economic transition

## Discussion Questions

- *What are the **key policy gaps** that are likely to constrain your firm's capacity to deliver on your transition plan?*
- *In what ways could **existing financial sector policy and regulation** affect your capacity to deliver on your transition plan?*
- *Has your firm had, or do you expect to have, any **regulatory or supervisory interactions** on transition plans (e.g., supervisory colleges)?*
- *What messages/evidence are needed to appropriately frame **the role of the financial sector** in the transition – and **limitations** of this role?*