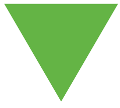
ACCELERATING THE TRANSITION: ASSESSING PROGRESS AND DRIVING ACTION

Final recommendations



FOREWORD

The future is in our hands. The actions we take today will determine the world we live in for centuries to come.

Awareness and commitment to action have never been higher, and real progress is being made. The UN's latest Emissions Gap report highlights that 80% of global greenhouse gas emissions are now covered by net zero pledges. Further, between 2015, when the Paris Agreement was signed, and today, the projected rise in greenhouse gas emissions has fallen from 16% to 3%.[1] Technologies to transform power, transport and heating are being deployed at scale, and significant work is underway to develop solutions for hard-to-abate industries such as aviation, steel and cement.

However, time is not on our side. Emissions are still rising instead of falling. There are only six years left to halve emissions by 2030 and keep below 1.5°C of warming compared to preindustrial levels, which scientists underline is vital. Currently, we are on a path towards a 2.7°C world. In a year when temperature records have been shattered and lives devastated by climate-related disasters, it is clear that we need to act to avoid the worst impacts of a heating planet. Nature also continues to be depleted and biodiversity – upon which businesses and society depend – is declining quickly.

As His Majesty The King said during his opening speech at COP28 last year, "Change will come by working together and making it easier to embrace decisions that will sustain our world, rather than carry on as though there are no limits, or as though our actions have no consequences … In our hands is an unmissable opportunity to keep our common hope alive." He added, "I can only urge you to meet it with ambition, imagination, and a true sense of the emergency we face."

Businesses, the finance community and governments must respond to that call. We all have a role to play, working together to increase rapidly the allocation of finance to sustainable outcomes and adopt solutions at scale. The recommendations set out in this report, informed by insights from global leaders in business, finance, regulation, academia and the public sector, detail how different parts of the ecosystem can help deploy the private capital needed with the urgency necessary to avert the crisis.

Our own response to the science and His Majesty's call to action is to bring the global finance and accounting community together to fast track the adoption of existing and new solutions which have the potential to deliver the transformation needed. Our FASTtrack to 2050 initiative is a one-year accelerator for harnessing the collective power and ingenuity of the finance and accounting community. We invite you to get in touch at fasttrack@a4s.org to find out more.

We need radical collaboration and bold leadership to accelerate the transition to a climate resilient, nature positive and just net zero world, following a trajectory that benefits people and communities. If we fail, we risk letting the possibility of a flourishing society living on a healthy planet slip through our fingers.

Jessica Fries
Executive Chair, A4S

1. United Nations Environment Programme (2023), **Emissions Gap Report 2023: Broken Record – Temperatures hit new highs, yet world fails to cut emissions (again)**

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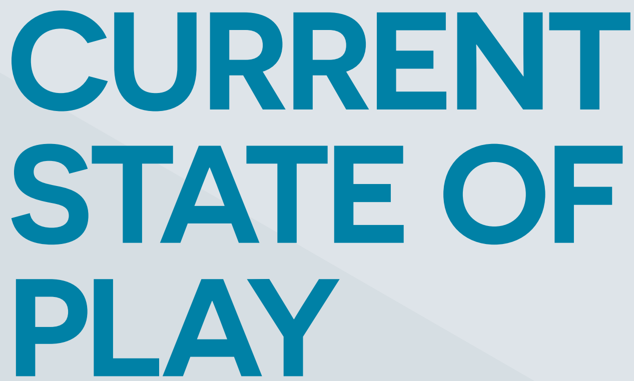


CURRENT STATE OF PLAY

The sustainability crises we face are intrinsically linked to the functioning of our global financial system, and understanding of this linkage has grown significantly in the past 20 years. Climate change as a financial risk is now baked into corporate and investor decision-making processes as well as regulation.

However, while progress has been made, action to achieve the UN Sustainable Development Goals (SDGs) is not advancing at the pace or scale required. This report focuses specifically on climate action, looking at progress globally and exploring five action areas. These action areas are key to scaling up investment to the levels needed to deliver the transition and increase climate resilience. Many of the proposed actions can be extended to tackle the broader set of environmental and social outcomes critical to achieving a sustainable future, guided by the internationally agreed SDGs, Paris Agreement and Kunming-Montreal Global Biodiversity Framework.[2]

A4S was established by His Majesty King Charles III when he was The Prince of Wales, in 2004, to transform finance to make sustainable business, business as usual. Working across the global finance and accounting community, we convene finance leaders, build capacity and scale up action to incorporate sustainability into strategy and decision making. We work with the financial sector, regulatory community and real economy to work through common barriers to action, identify practical steps for achieving sustainable businesses and accelerating financial flows towards sustainable outcomes.

Overarching trends

- **There is global progress, but we need to accelerate action** – the transition is already underway. Energy transition investment rose to US$1.8 trillion in 2023, up 17% from the previous year.[3] We are seeing exponential growth in adoption of electric vehicles, solar panels, heat pumps and other solutions critical to the transition[4], but this is concentrated in specific markets. For example, China has become a leading investor in solar panels.[5]

  There is, however, more we need to do to accelerate progress. An estimated US$8.6 trillion in global climate finance is required annually between 2023 and 2030 to meet climate goals.[6] For the wholesale shift of capital that is required to accelerate the transition, corporations, investors and governments need to pull all the levers available to them. Only by doing this will we have any chance of delivering the 43% reduction in greenhouse gas emissions by 2030 needed to limit warming to 1.5°C.[7] The 2023 PwC Net Zero Economy Index suggests that a year-on-year decarbonization rate of 17.2% to 2050 is necessary to limit warming to 1.5°C, far above the 2022 rate of 2.5%.[8]

- **Sustainability attitudes are shifting fast** – in the last five years, the climate crisis has become established on the board agendas of corporations and investors. As a result, more organizations are setting sustainability-related targets, creating dedicated organizational teams, and beginning to align their strategic and investment decisions with the Paris Agreement. Climate change has also been the subject of national conversations.

  A recent survey by Aviva shows that public attitudes towards climate action remain strong. In five of the eight countries covered, over 70% of people surveyed agreed that there was a "need for action on climate change in the next ten years".[9] However, misaligned incentives are inhibiting progress, with 68% of consumers saying they would not be willing to pay a premium for more sustainable goods and products – a trend made more challenging by the cost-of-living crisis.[10]

  Similarly, in board rooms, directors are having to make decisions that balance the pressure both to generate short-term shareholder value and to invest in long-term approaches to climate targets. The conflict between these two forces means that economic imperatives need to change before sustainable solutions will be adopted at the speed and scale needed and the benefits of the transition felt equitably across society.

- **Climate models used in scenario analysis do not reflect the 2.7°C world for which we are currently heading**[11] – many organizations have adopted scenario analysis in their strategic planning and business and investment activities as they seek to minimize their risks and pursue business opportunities under different warming scenarios. However, current long-term temperature pathway scenarios provide limited visibility into the nuanced impacts of climate change and how it interacts with macro and financial variables, both in the short and long term. This means that cascading and interconnected systemic risks (such as mass migration, health crises, food insecurity and geopolitical risks) are not well understood or considered in analysis.

  An emerging trend is to start with a narrative scenario approach, which focuses on a shorter time horizon. Key publications by the University of Exeter – in collaboration with USS[12] and the Institute and Faculty of Actuaries[13],[14] – and Carbon Tracker[15] have set the scene.

- **Disclosure is deepening, with a shift from voluntary to mandatory** – sustainability disclosures, including disclosures relating to climate, are becoming embedded in reporting regimes globally. Support for the Task Force on Climate-related Financial Disclosures (TCFD) has grown to over 4,800 organizations from more than 100 jurisdictions, with a combined market capitalization of US$29.5 trillion.[16] TCFD recommendations have been formalized into reporting standards through their incorporation into the International Sustainability Standards Board (ISSB) standard[17] while the recent formal collaboration between ISSB and Global Reporting Initiative (GRI) is an important step towards the establishment of common global standards.[18]

  An unprecedented shift has also taken place in sustainability reporting in the last few years, from voluntary towards mandatory adoption. At least nine members of the G20 now have climate disclosure requirements in place, and other countries are currently developing requirements.[19] In the EU, the Corporate Sustainability Reporting Directive (CSRD) introduces requirements for companies headquartered in Europe and operating in the region, and the Corporate Sustainability Due Diligence Directive (CSDDD) will require 1.5°C-aligned transition plans for those companies in scope.

  Alongside this, the formation of the ISSB consolidated investor-focused sustainability reporting standard-setters and incorporated sustainability reporting into

financial reporting oversight and standard-setting regimes. Since the release of the ISSB standards, jurisdictions around the world are undergoing endorsement and adoption processes. New climate disclosure rules have also been issued by the US Securities and Exchange Commission (SEC)[20] and the State of California.[21]

The shift to mandatory disclosure requirements is vital to ensure that businesses, investors and other stakeholders have the information they need to make robust decisions. However, reporting is an enabler, not the end goal, and it must be approached strategically, rather than as a compliance exercise. It is important that the shift to mandatory reporting does not reduce focus on the need to deliver sustainability commitments.

- **Transformational leadership and clear communication are needed from government and business leaders** – although governments and regulators are expressing commitment to aligning with the Paris Agreement and delivering on the SDGs, policy intervention is not happening at the scale and with the consistency that is needed. More needs to be done to communicate effectively that climate action is a driver of long-term, shared prosperity rather than a burden to be minimized. Fiscal measures, clarity on policy and development of sectoral pathways can empower the private sector to develop their own transition plans and direct capital investment flows towards the transition. National transition plans must also, in the words of UNFCCC Executive Secretary Simon Stiell, "be investment plans for sustainable and strong economies".[22]

- **A huge investment push is needed in emerging and developing economies** – the greatest growth in sustainable investment needs to take place in emerging economies through the mobilization of domestic resources and international investment. Emerging markets need to invest US$95 trillion to transition to net zero by 2060, on top of the capital already allocated by emerging market governments under their current climate policies.[23, 24] At the same time, 34 of the 59 developing economies most vulnerable to climate change are also at high risk of fiscal crises.[25]

  While multilateral development bank reform is working to improve the process of directing concessional finance to developing economies, concessional financing – currently at around US$2 trillion[26] – is only a small part of the solution compared to the total transition finance gap that needs to be filled.[27]

  Calls for private finance – much of which comes from high-income countries – to fill this gap are now loud and clear, with an estimation that US$83 trillion of the US$95 trillion of investments needed by emerging markets could come from private sector investment.[28]

  However, the financial system continues to disincentivize investment flowing into emerging and developing economies, due to greater real or perceived risk, stricter regulatory requirements, and higher costs of capital.[29] Emerging market investments are also often seen as, essentially, tools for development rather than as significant investment opportunities in their own right – for example, as new asset classes that support a net zero economy. This perception contributes to the lack of significant investment in these economies.

  We are starting to see a few examples of the private sector taking up financing models, such as debt-for-climate or debt-for-nature swaps, that aim to help refinance emerging and developing countries' sovereign debt in exchange for meeting specific environment-related key performance indicators. This is still a very new area for private finance, though, and these swaps are already being geopolitically tested.

- **Resilience and nature are areas that are growing in focus** – it is not viable to focus on climate action in isolation, and there has been a significant increase in awareness of the need to tackle the nature emergency alongside the climate emergency. Awareness still lags, however, and there remains a 'climate first' mindset among many. In addition, most climate action is still focused on climate mitigation, with climate adaptation projects – and related finance – much less embedded into relevant strategies.

  Two areas may help to drive a shift. First, the Taskforce on Nature-related Financial Disclosures (TNFD) is playing an important role in building awareness and action among boards and investors on the need to embed nature-related risks, opportunities, impacts and dependencies into decisions, and the need to do this alongside current climate-related strategies and frameworks. The location-specific focus of TNFD should also encourage more focus on the ways in which physical climate risks can exacerbate nature-related vulnerabilities and so drive greater adaptation. Second, an increasing focus on nature-based solutions is helping to tackle climate change and increase resilience, as well as deliver positive outcomes for nature.

2. Convention on Biological Diversity, **Kunming-Montreal Global Biodiversity Framework (informational webpage)**. Accessed 12 June 2024 https://www.cbd.int/gbf/
3. BloombergNEF (2024), **Energy Transition Investment Trends**
4. RMI (2023, 3 May), **The energy transition in five charts and not too many numbers**
5. The Diplomat (2023, 27 April), **How China became the world's clean tech giant**
6. Climate Policy Initiative (2023), **Global Landscape of Climate Finance 2023**
7. Intergovernmental Panel on Climate Change (2023), **Summary for Policymakers. In: Climate Change 2023: Synthesis Report**
8. PwC (2023), **Net Zero Economy Index 2023**
9. Aviva (2023), **Aviva Climate-ready Index Report: Results, Analysis and Methodology**
10. EY (2023, 9 November), **EY Future Consumer Index: when talk turns into action, be set for change**
11. Climate Action Tracker note that 2.7°C is the median of the combined low and high ends of current policy projections. Climate Action Tracker, **Temperatures**, Accessed 12 June 2024 climateactiontracker.org/global/temperatures
12. University of Exeter and USS (2023), **No Time To Lose: New Scenario Narratives for Action on Climate Change**
13. University of Exeter and the Institute and Faculty of Actuaries (2023), **The Emperor's New Climate Scenarios: Limitations and Assumptions of Commonly Used Climate-change Scenarios in Financial Services**
14. University of Exeter and the Institute and Faculty of Actuaries (2024), **Climate Scorpion – The Sting is in the Tail: Introducing Planetary Solvency**
15. Carbon Tracker (2023), **Loading the DICE Against Pensions**
16. Task Force on Climate-related Financial Disclosures (2023), **Task Force on Climate-related Financial Disclosures: 2023 Status Report**
17. Task Force on Climate-related Financial Disclosures (2022), **Task Force on Climate-related Financial Disclosures: Overview**
18. GRI, **GRI and IFRS Foundation collaboration to deliver full interoperability that enables seamless sustainability reporting**. Accessed 10/07/2024
19. Oxford Net Zero (2023, 14 September), **Net zero regulation stocktake**
20. US Securities and Exchange Commission (2024, 6 March), **SEC adopts rules to enhance and standardize climate-related disclosures for investors**
21. UNPRI (2023, 20 October), **California leads the way with new climate disclosure bills**
22. UNFCCC (2024, 10 April), **Two years to save the world: Simon Stiell at Chatham House**
23. The assumption is that emerging markets transition to net zero by 2060, while developed markets reach net zero by 2050 and are net negative from 2050 onwards.
24. Standard Chartered (2023), **Just in Time: Financing a Just Transition to Net Zero**
25. International Monetary Fund (2022, 14 December), **Swapping debt for climate or nature pledges can help fund resilience**
26. The Rockefeller Foundation (2021), **Reimagining the Role of Multilateral Development Banks**
27. European Commission High-Level Expert Group (2024), **Final Recommendations of the High-Level Expert Group on Scaling Up Sustainable Finance in Low-and Middle-income Countries**
28. Standard Chartered (2023), **Just in Time: Financing a Just Transition to Net Zero**
29. Vera Songwe and others (2024), **Unlocking Private Capital to Emerging Markets and Developing Countries in a Time of Crisis**

02

To achieve sustainable businesses and accelerate flows of sustainable finance, it is necessary to identify and understand the barriers to progress.

This section summarizes key barriers for the main actors in the financial system. By recognizing and addressing these obstacles, we can pave the way for more effective strategies and solutions to invest the capital needed to achieve a climate resilient, nature positive and just net zero transition.

BUSINESSES

- Shortage of skills and expertise for developing and delivering low-carbon products and services
- Lack of an enabling policy environment that provides long-term certainty to support capital investment decisions
- High barriers to entry, including cost of capital, for decarbonization projects
- Insufficient pipeline certainty to provide economies of scale to suppliers
- Supply chain challenges have cost implications and carry delivery risk
- In some jurisdictions, hesitancy around competition law that constrains system-wide collaboration
- Lack of confidence in boardrooms and at executive level in taking long-term decisions, under significant uncertainty, while also remaining flexible to new developments
- Lack of blended finance opportunities to de-risk long-term investments in climate solutions
- Inconsistent or unclear policy signals from governments on the pace and sector-level pathways of the nation's transition
- Inconsistency in the regulatory requirements and supervisory expectations for disclosures and transition plans
- Limited transition plans and data from suppliers to inform decision making
- Risk of greenwashing and litigation over mis-selling of products
- Difficulties getting buy-in to support the business case for action

BANKS, ASSET OWNERS AND ASSET MANAGERS

- Capital market processes – including investment, planning, performance and valuation horizons – still favour a short-term focus
- Poor understanding of how sustainability considerations align with fiduciary duty
- Insufficient opportunities with an appropriate risk/return profile
- Lack of interest or ambition by businesses on transitioning to a climate resilient, nature positive and just net zero economy
- Restrictive capital and liquidity requirements disincentivize investment in emerging and developing economy transitions
- Inconsistent or unclear policy signals from governments on the pace and direction of the nation's transition
- Market failures misrepresent climate and financial risk exposure
- Inconsistency in the regulatory requirements and supervisory expectations for disclosures and transition plans
- Lack of clarity in relation to transition finance and the activities needed to enable it
- Skewed focus, with more weight on financed emissions accounting than real-world outcomes
- Limited transition plans and data from businesses to inform the investment case
- Lack of clarification from regulators on competition law contributes to a conservative approach to collaboration on sustainable finance
- Lack of credible, granular sectoral and regional decarbonization pathways
- Risk of greenwashing and litigation over mis-selling of products

SUPPORTING INDUSTRIES FOR MARKET PARTICIPANTS

(Stock exchanges, data providers, credit rating agencies, investment managers)

- Limited amount of globally consistent data that can be aggregated and compared to assess opportunities and risk exposure
- Absence of harmonized global regulations that support data consistency and enable comparability
- Risk of greenwashing and litigation over mis-selling of products
- Lack of transparency in commercial sustainability ratings and their methodologies
- Lack of regulation and guidance on how to integrate corporate and national climate data into credit ratings
- Adoption of external assurance standards covering climate-related disclosures is only at an early stage

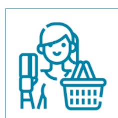
REGULATORS

(Central banks, prudential authorities, listing regulators, securities regulators)

- Evolving understanding of how climate-related risks will affect mandates and the firms they regulate, and therefore what interventions are required to fulfil supervisory responsibilities
- Ineffective accountability mechanisms and tools (such as fines)
- Absence of government sectoral decarbonization roadmaps to measure businesses' plans against Nationally Determined Contributions (NDCs) on climate change
- Use of outdated models that do not reflect the evolving risk landscape – for example, in regulating insurance premiums
- Insufficient response to the inflation-linked dimensions of climate change in terms of monetary policy responses

GOVERNMENTS AND LOCAL AUTHORITIES

- Inadequate linkage between climate policy and long-term shared prosperity
- Insufficient investment in skills and training to deliver the transition
- Lack of international guidance for countries on what is expected to substantiate the implementation pathways for NDCs
- Absence of detailed national bottom-up transition plans, sector by sector, to understand public sector dependencies
- Planning challenges affect the delivery of climate solutions
- Public mandates and priorities favour a short-term focus



CONSUMERS

- Inadequate range of affordable 'green' alternatives that support or encourage climate-conscious choices
- Misinformation in relation to the costs and benefits of climate action
- Limited access to government grants to improve affordability of consumer investments in low-carbon technologies such as solar panels and electric vehicles
- Limited sustainability-related investment options that have adequate supporting literature on the impact of investment and saving choices
- Poor levels of consumer financial and sustainability literacy

03

ACTION AREAS

Building on the current trends of progress and the key barriers recognized above, this section of the report focuses on five action areas.

To deliver on global sustainability goals, all parts of the economy need to work together to:

- Drive a significant increase in ambition and set robust interim 2030 targets
- Close the implementation gap through economy-wide, systematic use of transition plans, supported by sectoral policies and pathways, which can change the economic fundamentals to support the investment case for the transition
- Remove friction across the international financial system, through enabling regulatory and legal frameworks to incentivize and de-risk climate financial flows
- Back the 'big bets' with an industry-wide collaboration on systems-level sustainability solutions

These outcomes are focused on collaboration and how an organization uses its spheres of influence to accelerate action, working across its economic value chain to find solutions to deliver the transition.

Here are the five action areas that businesses, investors, governments and regulators need to embrace now to drive finance towards sustainable outcomes:

1

Accelerating the adoption of transition plans across the private sector and extending guidance for their adoption at national levels and by the public sector

2

Stepping up collaboration along the value chain and with peers to ensure engagement across the economy for delivering the transition

3

Securing social buy-in to keep the transition on track, ensuring engagement with workers and local communities is an essential part of the process

4

Transitioning the international financial architecture to ensure it is fit to deliver the transition

5

Using all levers to push the system by engaging government and the public sector on policies that will support the transition

There is no single, simple answer to how to achieve progress. Multiple actions need to be taken, by multiple actors across the economy.

The rest of this report sets out a set of actions that have been developed with input from an A4S Finance Leaders Advisory Group and tested at several high-level events in 2023 and 2024, including the A4S Summit, COP28 and the World Economic Forum Annual Meeting 2024. These actions are designed to support deeper discussions at board and executive levels on the steps that organizations should be taking to ensure they remain resilient to sustainability challenges and can embrace the significant opportunities offered by the transition.

While a wide range of actions need to be taken, we also wanted to highlight the top five recommended actions that emerged from dialogue with key stakeholders across the economy, each of which could have significant potential impact.

Action area	Economy-wide key action
Accelerating the adoption of transition plans	Set ambitious five to ten-year targets, as part of a strategic ambition towards a climate resilient, nature positive and just net zero world, with clear milestones to measure progress.
Stepping up collaboration	Map your points of influence across the economy and engage these stakeholders to drive change (eg suppliers, industry associations, sovereign finance ministries or central banks).
Securing social buy-in	Communicate clearly the positive outcomes that could be delivered through the transition, and the far greater cost of inaction.
Transitioning the international financial architecture	Adopt sustainability reporting standards such as the ISSB, and prepare, publish and report against transition plans.
Using all levers to push the system	Engage with national governments to support a well-informed policy process that implements a climate resilient, nature positive and just net zero transition.

1 ACCELERATING THE ADOPTION OF TRANSITION PLANS

Transition plans enable a shift from ambition to action. Developing a transition plan helps organizations assess where they are now, where they want to go and how they get there. As strategic planning tools, they can shape, embed and communicate an organization's planned actions for delivering a climate resilient, nature positive and just net zero world. If widely adopted –recognizing that this is an iterative process, and transition plans need to remain flexible and responsive to new information and external developments – they will help organizations across the economy identify barriers and opportunities, including where to collaborate to achieve progress.

Published guidance on developing, embedding and communicating transition plans is available. Led globally by the Glasgow Financial Alliance for Net Zero (GFANZ) and the Transition Plan Taskforce (TPT), specific disclosure recommendations for transition plans support firms to disclose in line with the ISSB standards.[30, 31]

To date, most focus has been on the private sector. While more work is needed on understanding sector-specific transition pathways, net zero roadmaps are needed economy-wide to achieve an orderly transition at the pace and scale necessary. Guidance must be expanded to enable and encourage adoption across the public sector, including national, regional and local governments and regulatory bodies. Transition plans for different parts of society will be highly interconnected, because developing and communicating a transition plan:

- Sends signals to the public sector on the policy, regulatory and fiscal incentives required to deliver organizational transition plans
- Indicates where investment is needed for an organization, within a sector and region, to decarbonize and/or shift their business model
- Highlights an organization's role in the wider economy, identifying opportunities for engagement and barriers to progress

Transition plans should be seen as:

- **Dynamic and responsive** – aligning with best practice frameworks and decarbonization guidance, transition plans should be regularly reviewed and updated.
- **A framework for action** – a comprehensive transition plan helps organizations to structure their activities across the organization.
- **A strategic realignment** – transition plans should align business strategy with net zero, not be simply a box-ticking disclosure exercise.
- **Part of a bigger shift** – the net zero transition requires collective action across society, including technological innovation and government intervention, to create an enabling environment. Organizations should consider the economy-wide transition, not focus solely on their own decarbonization.
- **An enabler to climate resilience, restoring nature and reducing inequalities** – a holistic approach is required for tackling these crises. A net zero transition plan should include adaptation strategies, address the need for a just transition and contribute to delivering the targets of the UN Kunming-Montreal Global Biodiversity Framework.

30. Glasgow Financial Alliance for Net Zero (2022), **Financial Institution Net-zero Transition Plans: Fundamentals, Recommendations, and Guidance**
31. Transition Plan Taskforce, **Build your transition plan**. Accessed 12 June 2024 https://transitiontaskforce.net/build-your-transition-plan/

KEY ACTIONS

Develop an ambitious, action-orientated transition plan, with supportive accountability mechanisms to monitor delivery.

Preparers (businesses, banks, asset owners and asset managers)

Strategy

- **Set ambitious five to ten-year targets** that support your delivery of a climate resilient, nature positive, just net zero world, with clear milestones to measure progress.
- **Set the scope beyond reducing carbon emissions** by considering the levers you have at your disposal to deliver the economy-wide transition, eg investing to address the skills gap, product and service innovation, and capital allocation plans.
- **Consider wider sustainability impacts and adaptation measures in your transition plan**, taking account of nature and how you will safeguard against adverse social impacts and unintended consequences.

Implementation

- **Create cross-functional groups to deliver your plan**, and ensure it is integrated into your strategic planning, oversight and budgeting processes.
- **Leverage skills from across your organization**, including the finance team's skills in financial planning, raising transition finance, and developing metrics and targets.[32]
- **Require minimum sustainability skills for new board members** as part of fit and proper persons tests or their equivalent, and require ongoing training for board members.
- **Review internal processes and practices** to ensure delivery of the transition plan across the value chain, including working with SMEs to support their own action.
- **Review incentive structures** to ensure delivery is integrated into short- and long-term remuneration.

Disclosure

- **Report annually on progress** against the plan, updating for new information and external developments.
- **Disclose dependencies**. Send signals to supply chain members, peers, regulators and governments on the external dependencies to deliver the plan.
- **Reflect your transition plan in financial reporting**, integrating it into the financial planning process and capturing any relevant and material aspects in the financial disclosures.

Additional actions specific to banks, asset owners and asset managers

- **Leverage your position to expect credible transition plans** from investee companies, clients, regulators and governments, improving your own understanding of risk exposure and supporting your own transition plan.
- **Structure financing solutions to support your clients' transition financing needs** over the short, medium and longer term.

Regulators

- **Develop and adopt an enabling environment to scale up transition finance**, eg using incentives and reducing regulatory barriers for transition-enabling technologies and infrastructure, while penalizing inaction using methods such as regulatory sanctions and tax disincentives.
- **Adopt interoperable global standards** to achieve consistency, ensuring businesses, investors and other stakeholders have the information they need, leveraging technology to facilitate this.
- **Work with international regulatory communities** to drive adoption of consistent taxonomies, digitization, and disclosure and labelling regimes, while recognizing local needs and variance in the pace of transition in different jurisdictions.
- **Review and assess mandates** in light of sustainability requirements, including management of risks relating to nature-related impacts.

CONTINUED

Governments

Strategy

- **Submit ambitious NDCs**, ensuring targets are near-term, stretching and reflect the urgent need to act, aligned with a fair share contribution to halving emissions by 2030.
- **Devise whole-of-government transition plans**. Set out how each department and sector will contribute to the country's NDCs. This should include fiscal policy incentives, sector-level policy measures, timelines to phase out high-emitting activities and mechanisms to scale up climate solutions.
- **Develop a holistic plan**, with mitigation and adaptation activities that support vulnerable communities, and develop mechanisms to ensure the transition does not further racial, economic and health inequalities.
- **Invest in adaptation measures** to safeguard against exposure to perils caused by the changing climate.

Implementation

- **Develop national investment plans and policies** that catalyse innovation and the scaling up and deployment of new technologies.
- **Consider the private sector**, building in mechanisms for whole-of-government transition plans to inform and be informed by private sector transition plans.
- **Engage with businesses and citizens to ensure private sector and social buy-in** so the benefits of the transition can be felt across the economy.
- **Ensure institutional accountability by developing and empowering independent institutions**, such as the UK's Climate Change Committee, and mechanisms with domestic regulators to ensure the country's progress against the transition can be monitored and reported on, on an annual basis.
- **Engage in the work of the International Public Sector Accounting Standards Board**[33] to develop a climate-related disclosures standard for the public sector, ensuring the standard adequately covers the need for public sector transition plans and the integration of climate risk into existing public sector financial reporting standards.
- **Provide technical assistance to emerging and developing economies**, engaging with organizations in multinational forums and supporting countries to create capital-raising plans within their national transition plans.
- **Increase finance and technical assistance to cities and other local authorities** to translate national targets into local action.

32. Accounting for Sustainability, **Transition planning**. Accessed 12 July 2024 https://www.accountingforsustainability.org/en/activities/net-zero-activities/transition-planning.html
33. **www.ipsasb.org**

2 STEPPING UP COLLABORATION

Transition will not be achievable without new forms of collaboration, focused on overcoming specific technical barriers to progress, which shift resources from theory to action.

Some of the key areas of collaboration that can play an important role in mobilizing finance for the transition include:

- **Opportunities to leverage the strong credit terms available to multinationals** to reduce the cost of capital for suppliers, facilitate knowledge transfer through supply chain financing and stimulate the demand for green energy through partnerships, particularly in a developing and emerging market context. For example, see proposals developed around increased water infrastructure, which can also be applied to energy supply.[34]

- **Engagement between governments, philanthropy and the finance community**. For example, the Just Energy Transition Partnerships (JET-P) programme focuses on retiring coal assets early, and the Forest and Climate Leaders' Partnership works on halting and reversing forest loss and land degradation by 2030.[35] Creating trusted transition finance vehicles to stimulate greater private sector financing for early retirement of coal is needed to scale up action. At the moment, a financing vehicle that contains coal assets, even if the vehicle is designed to support the phase-out of coal, would be excluded from many asset managers' portfolios.

- **Sustainable consumption targets** have an important part to play in providing investment certainty for suppliers – for example, targets relating to sustainable aviation fuel, renewable agriculture or green steel. Coalitions play a key role in stimulating demand. Examples include RE100, SteelZero, ConcreteZero and the First Movers Coalition, which is focused on hard-to-abate sectors.

- **Investor coalitions**. Currently these coalitions, such as Climate Action 100+, have mainly focused on high-emitting companies. A vital shift is starting to happen to engage on the demand side of the equation, with increased interest in focusing on businesses whose products have high emissions. Greater consideration of and collaboration around macro stewardship as a lever of change is also needed, both through engagement at a sovereign level and a systemic level (see **Action Area 4, Transitioning the international financial architecture**).

- **Pooling accessible data sources**. For example, the Net-Zero Data Public Utility (NZDPU) collaborating with CDP aims to make company-level climate data clear and freely available. These efforts are a step forward in addressing the lack of accessible, high-quality and comparable climate data, which is a key barrier to progress.

  Anticompetitive concerns act as a potential barrier to collaboration and the pooling of resources. Competition and financial regulators can help to overcome these barriers by releasing clarifying guidance. In the UK, for example, the Competition and Markets Authority released guidance in October 2023 on how competition rules would be applied to collaborations on environmental sustainability,[36] with support from the Financial Conduct Authority.[37]

34. World Water Council (2018), **Hybridity and Blended Finance**
35. **www.forestclimateleaders.org**
36. Competition and Markets Authority (2023), **Green Agreements Guidance: Guidance on the Application of the Chapter I Prohibition in the Competition Act 1998 to Environmental Sustainability Agreements**
37. Financial Conduct Authority (2023, 12 October), **FCA response to CMA's environmental sustainability guidance**

KEY ACTIONS

Collaborate with value chain members and peers to scale up transition finance and climate solutions.

Businesses

- **Map where you sit in your sector or region's transition pathway.** Consider the key levers to pull and create an engagement action plan to overcome barriers to delivering impact.
- **Set clear demand targets to stimulate investment by suppliers** – for example, in relation to sustainable aviation fuel, regenerative agriculture or renewable purchases.
- **Leverage supply chain financing** to support smaller businesses in your supply chain to transition, through providing both access to knowledge and lower-cost investment.
- **Consider opportunities to leverage access to better credit terms and local knowledge**, partnering with project developers, financiers and other businesses operating in the region to increase supply of green infrastructure. This can be effective where you are a key energy user, particularly in emerging and developing economies.
- **Consider industry association memberships**, which can be impactful in supporting positive momentum.

Banks, asset owners and asset managers

Corporate engagement

- **Map your points of influence** across the economy and engage these stakeholders to drive change.
- **Extend the scope of engagement** to focus on businesses with significant consumption of greenhouse gases and nature-related risks along their supply chain, not just major emitters.
- **Work with issuers, large corporate clients and other corporate clients** via your asset managers/advisers to map forward-looking strategic and operational implications, alongside financing opportunities.
- **Bring together clients to progress transition in a specific area**. For example, the decarbonization of buildings will include clients that are developing technologies for low-carbon new builds and making retrofit materials.
- **Extend existing investor collective engagement** to create programmes focused on macro stewardship, engaging at sector, national and international levels.
- **Track and communicate with investee companies**, or via your asset managers/advisers, a robust escalation plan if the expected progress is not delivered.

Multistakeholder collaboration

- **Support and extend collaboration around financing** to accelerate the transition away from the highest-emitting sources, through initiatives such as JET-P and the creation of more transition finance vehicles.
- **Use collective investor influence to drive change** – for example, through participating in investor engagement programmes such as Climate Action 100+ and Nature Action 100.
- **Engage sovereign finance ministries and central banks** and encourage the preparation of national transition plans.
- **Engage with peers, regulators and civil society** to scale up investment in credible transition finance vehicles, agreeing common definitions and setting clear expectations to avoid greenwashing while enabling finance to flow.

Governments and regulators

- **Issue clarification and guidance in relation to competition law** to ensure it does not impede the legitimate collaboration between businesses that is needed to tackle climate change.
- **Support an ecosystem to scale up transition finance**, working with investors to create clear, credible taxonomies, tools, regulations and data sets for transition finance, with appropriate oversight to mitigate against the risk of greenwashing. Support the work of the NZDPU and others.
- **Foster research and development for new net zero technologies in hard-to-abate sectors and nature-based solutions**, with a focus on the SDGs and developing economies.

3 SECURING SOCIAL BUY-IN

A just transition refers to "meeting global goals by ensuring the whole of society – all communities, all workers, all social groups – are brought along in the pivot to net zero".[38] Citizens are vital to any country's transition and therefore it is crucial for governments to secure social buy-in on a country's net zero trajectory.

As we transition, the demand and mix of resources and the different skills in the economy will change and affect all of society to a varying degree – how we heat homes, how we transport people, how we work and what work we do. Ultimately, it is the role of government to support its citizens throughout the transition and ensure it happens in a just manner, through appropriate policy that considers intergenerational and social issues. However, the private sector and civil society organizations will have a key role in working constructively with government to inform policy and then helping government deliver this through infrastructure financing and direct support to communities.

Securing social buy-in will require ongoing outreach and dialogue. To manage the transition to net zero and safeguard against volatility in its delivery, the just transition seeks to create benefits for society, such as:

- **Equipping individuals for the growth of jobs in green industries** by taking long-term approaches to skills and education – from school to further education, to government engagement with the private sector. Effective transition planning should help to align a pipeline of skills with the jobs that are needed for the transition.
- **Ensuring the implementation of climate solutions positively affects communities** and that the benefits are distributed equitably across society.
- **Ensuring financial flows from developed to emerging and developing economies**, recognizing local needs and varying risk exposures.

38. United Nations Development Programme (2022, 3 November), **What is just transition? And why is it important?**

KEY ACTIONS

At each stage of transition, prioritize and manage its impact on people and communities.

Businesses and investors

Strategy

- **Integrate just transition principles and actions into transition plans**, identifying the social risks and opportunities for key stakeholders and committing to manage these.
- **Ensure local communities benefit from the transition**, considering the potential for financial incentives and investments in the community.
- **Invest in a green jobs and training programme**, identifying transferable skill sets and retraining for new roles, as well as providing bespoke training for roles in key functions.
- **Include social factor analysis in investee company engagement**, both direct and across the value chain.
- **Identify and engage with core stakeholder groups**, including Indigenous peoples, to strengthen the development and deployment of solutions and ensure those with knowledge, and who are affected by decisions, help shape responses.
- **Communicate clearly the positive outcomes** that could be delivered through the transition, and the far greater cost of inaction.

Multistakeholder collaboration

- **Use a multistakeholder community engagement approach** with local authorities and planners to engage communities on the work you are doing and hear local concerns.
- **Identify and work with local partners in emerging and developing economies** to create investment opportunities and equitable practices to support global prosperity.
- **Collaborate with other companies, financial actors and government** to identify those communities which are at risk of losing out from the transition, and collaborate on an action plan to mitigate negative social implications of transition investments and financing activities.
- **Work with training providers** to embed sustainability into industry and sector-related qualifications.

Regulators

- **Review the regulatory roadmap**. Ensure capital adequacy measures in developed economies support investments in emerging and developing economies and do not inadvertently inhibit the transition.
- **Embed sustainability-related competency requirements**, eg into the fit and proper persons test.
- **Embed just transition considerations into reporting and transition planning** guidance and standards.

Governments

- **Work with businesses, investors and civil society to ensure that communities benefit** from the transition, considering the potential for financial incentives and investment in training, and ensuring that transition opportunities do not exacerbate inequality.
- **Invest in a clear communication campaign** on the positive outcomes that could be delivered through the transition, and the far greater cost of inaction.
- **Facilitate greater access to information on wider sustainability-related issues** as part of the national curriculum and through financing and skills programmes, apprenticeships, and other ways to equip the next generation to respond to sustainability-related challenges.
- **Leverage your role as a member of global coalitions** (such as the G7, BRICS, G21 or G77) and as a shareholder to multilateral and local development banks to drive the global transition.

4 TRANSITIONING THE INTERNATIONAL FINANCIAL ARCHITECTURE

Markets, and equity markets in particular, are not adequately pricing the risks associated with climate change, especially the impacts of physical risks.[39] The European Central Bank states that environmental-related risks are currently underpriced, and some may not be priced at all. It also notes that credit rating agencies have only just begun to incorporate climate risk into their models.[40]

Some of the key areas to consider in starting to address this issue are:

- **Consistent reporting** – widespread adoption of the ISSB standards will help drive consistent and more detailed disclosure of climate risk. In turn, this will reduce overhead costs to businesses and finance providers operating across multiple jurisdictions, who are highly exposed to fragmented jurisdictional requirements.
- **Greater use of taxonomies** – reporting against consistent taxonomies, including of green, transition and polluting assets, will help to scale up finance and increase liquidity as well as facilitate efficient assessment of risk exposures.
- **Shifting capital market norms** – change investment, planning, performance and valuation methodologies and processes, moving from favouring short-term performance to assessing how value is generated and preserved over longer time horizons.
- **Rigorous stress testing by central banks** – having assessed the risks from financial institutions and portfolios through stress testing, central banks must then develop measures for managing these risks.
- **Regulatory frameworks that incentivize transition finance in both the private and public sector** – reviewing and adapting regulatory regimes, both domestic and international, is crucial for removing some of the disincentives to invest in the infrastructure needed. This is particularly relevant to emerging and developing economies. Options include adapting capital charges to reflect all sources of financial risk in regimes like Basel III and Solvency II.
- **Shift the narrative on blended finance** – build on the experience of public money crowding in private capital in developed markets, especially for large infrastructure projects. Increasing the use of blended finance and guarantees will shift risk perception and cost of capital to encourage credit enhancement and crowd in private capital for transition projects in all markets.
- **Transition plans for nations and the regulatory community** – transition plans at this level should set out policy and regulatory direction, enabling private sector transition plans to respond accordingly.
- **Pricing in externalities** – currently 23% of global greenhouse gas emissions are covered by a direct carbon price, and more countries are exploring adoption, with Canada calling for 60% coverage by 2030. The EU's Carbon Border Adjustment Mechanism is expected to incentivize adoption of a carbon price where not already in place.[41]
- **Continued increase in the coverage and the cost of fiscal incentives** – including but not limited to carbon pricing – is essential, otherwise it will continue to be cheaper to pollute than decarbonize. Stronger alignment between financial and sustainability imperatives will be needed to shift flows of finance towards low-carbon investments. Initiatives under development include impact-weighted or normative accounting to establish a monetary value for nonfinancial sources of capital.

39. International Monetary Fund (2020), **Chapter 5: Climate Change: Physical Risk and Equity Prices in: Global Financial Stability Report: Markets in the Time of COVID-19**
40. Isabel Schnabel, Member of the Executive Board of the European Central Bank (2023, 5 September), **What is special about climate-related and environmental risks?**
41. Pryor, J and Putti, VR (2023, 16 October), **Carbon pricing: almost 25% of emissions now covered globally, but coverage and prices must rise further**. Energy Post
42. G20 Independent Expert Group (2023), **The Triple Agenda: Strengthening Multilateral Development Banks**

KEY ACTIONS

Create greater accountability for members of the international financial architecture on how they will support delivery of the transition.

Businesses

- **Adopt sustainability reporting standards** such as the ISSB.
- **Engage with governments and project preparers in emerging and developing economies** to clarify what you expect from successful project proposals.
- **Respond to consultation from domestic regulators** to push for global alignment/ interoperability across different regulations and across borders.

Multilateral development banks, banks, asset owners and asset managers

- **Provide technical assistance to emerging and developing economies** to help improve their investment environments and preparation of investable projects that accelerate the transition.
- **Implement the recommendations of the G20 Independent Expert Group on the 'triple agenda'** of enhancing mandates to act as public goods, tripling sustainable lending, and creating innovative and flexible funding mechanisms.[41]
- **Enhance systematic use of mechanisms to address risk**, such as guarantees, blended finance, political risk insurance and foreign exchange hedging.
- **Prepare, publish and report against transition plans** to align with development and sustainability mandates that see multilateral institutions acting as global public goods.
- **Build market confidence and reduce perception risk**, in particular targeted at growing investment in emerging and developing economies, by working with multilateral development banks to create product guarantees for first-time investment, alongside more effective communication in relation to returns and default rates achieved in practice.

Regulators and central banks

- **Prepare, publish and report against transition plans**, focusing on evolving the regulatory frameworks needed to drive transition finance.
- **Support the growth of markets in nature-based solutions**.
- **Review the regulation of and methodologies for credit rating agencies** to ensure climate risks and opportunities – including long-term and physical risks – are fully integrated, supporting better risk pricing.
- **Join and fully participate in best practice and knowledge-sharing coalitions** such as the Network for Greening the Financial System.

Governments

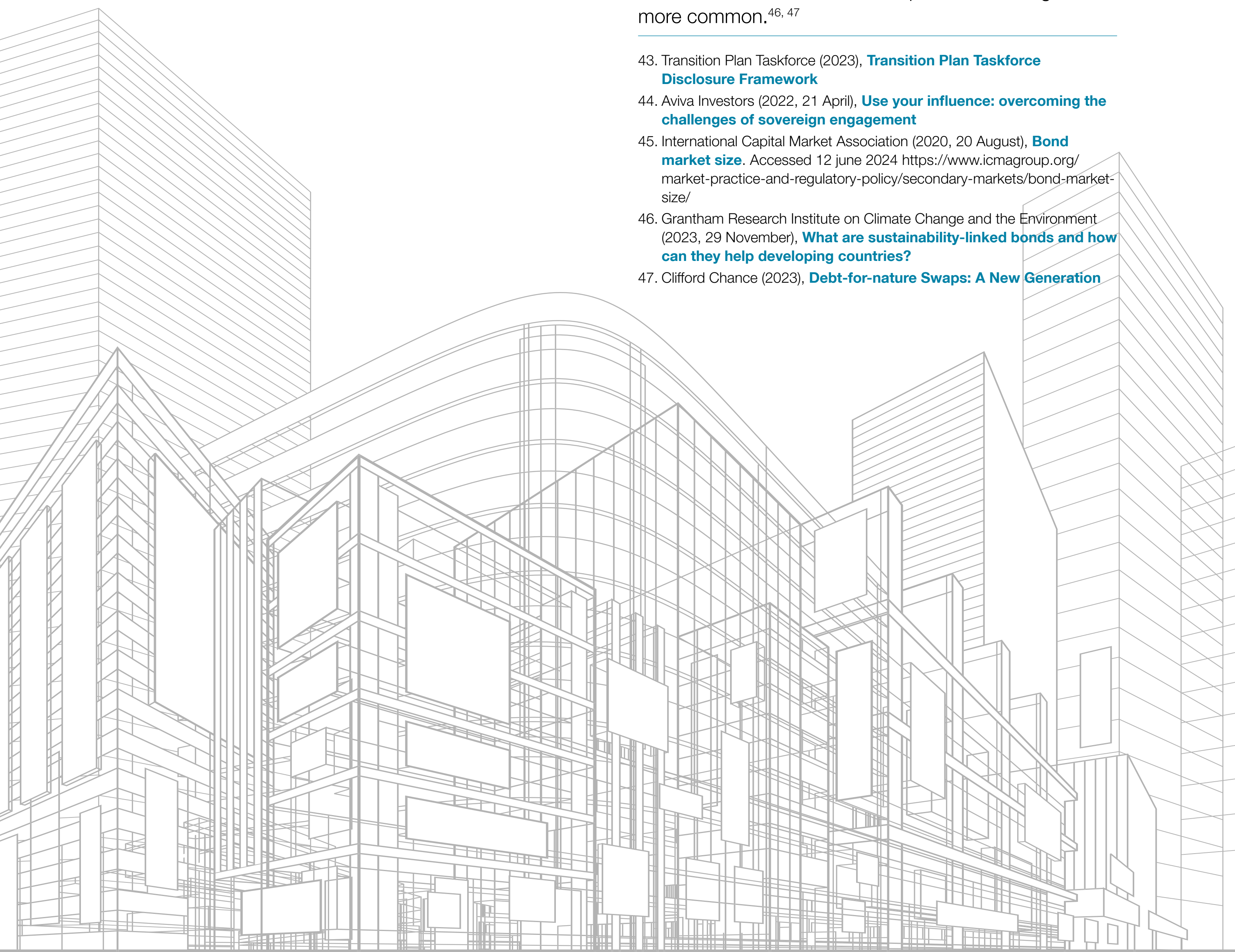
- **Implement measures to support alignment of pricing and climate risks**, including introducing fiscal incentives that price in externalities.
- **Prepare, publish and report against a national transition plan** to set out policy to deliver on global commitments at a domestic and sector-specific level.
- **Provide support for regulators** to implement reporting standards, taxonomies and stress testing.
- **Leverage influence to support enabling changes** to the international financial architecture.
- **Provide technical assistance and capacity building for emerging and developing economies** to support the mitigation of structural – and perceived investment – risks and barriers.
- **Join and participate in best practice groupings** such as the Coalition of Finance Ministers for Climate Action, including reporting against the Helsinki Principles.

5 USING ALL LEVERS TO PUSH THE SYSTEM

Transition plan frameworks developed for the private sector, such as those created by TPT and GFANZ, encourage organizations to "disclose information about any direct and indirect engagement activities with the government, regulators, [and] public sector organisations" to deliver their transition plans.[43] These frameworks are helping to shift norms about the private sector's role. They recognize that the private sector should encourage governments and the public sector to create the conditions under which businesses can deliver the technology, the finance and the jobs that drive a strong net zero economy. A starting point is for the private sector to ask those that govern them to publish their own transition plans and report on their delivery.

For investors who hold sovereign debt, greater engagement with government has the potential to be an important lever for change.[44] While sovereign debt accounts for approximately 68% of the global bond market, according to the International Capital Market Association,[45] engagement between investors and issuers is far less common than it is for credit and equity markets. Investors are keen to engage with governments, and investment-grade NDCs and whole-of-government national transition plans would inform investors of the nation's pathway and priorities, unlocking financing opportunities at a greater scale. We are starting to see a few examples of this, with Chile and Uruguay becoming the first nation states to issue sustainability-linked bonds, while debt-for-nature and debt-for-climate swaps are becoming more common.[46, 47]

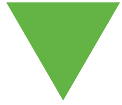
43. Transition Plan Taskforce (2023), **Transition Plan Taskforce Disclosure Framework**
44. Aviva Investors (2022, 21 April), **Use your influence: overcoming the challenges of sovereign engagement**
45. International Capital Market Association (2020, 20 August), **Bond market size**. Accessed 12 june 2024 https://www.icmagroup.org/market-practice-and-regulatory-policy/secondary-markets/bond-market-size/
46. Grantham Research Institute on Climate Change and the Environment (2023, 29 November), **What are sustainability-linked bonds and how can they help developing countries?**
47. Clifford Chance (2023), **Debt-for-nature Swaps: A New Generation**



KEY ACTIONS

All organizations need to 'push the system'. Through macro stewardship and policy engagement, organizations should advocate for policymakers, regulators and the wider system to create the right incentives for delivering the transition and removing friction.

- **Assess levers and channels to drive positive engagement**, and develop an engagement and implementation strategy that prioritizes where you can have the most impact.
- **Report on dependencies on government and regulators to deliver transition plans** and call for changes that can unlock positive action, helping to hold all actors to account for commitments made.
- **Assign responsibility for climate engagement** at board and senior management level.
- **Engage with national governments to support a well-informed policy process** that implements a climate resilient, nature positive and just net zero transition, which translates NDCs into clear plans at a sectoral level and enables organizations to respond.
- **Engage with multilateral regulatory bodies to provide a supportive operating environment**, including preparing a roadmap of interoperable reporting frameworks and regulatory requirements.
- **Address misalignments between your own climate advocacy and the positioning of relevant trade associations**, and use your voice in groups and associations to call on governments to take greater climate action.
- **Disclose climate advocacy activities with governments**, including industry letters, events, white papers and consultation responses.
- **Disclose your assessment of the impact** of climate stewardship and progress on transition plan delivery and ongoing dependencies.
- **Call on governments to price in the costs of carbon effectively** and use other fiscal incentives that enable and encourage everyone to play their part in delivering the transition.



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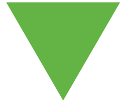

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A4S was established by HM King Charles III in 2004, when he was The Prince of Wales, to make sustainable business, business as usual. We are part of the King Charles III Charitable Fund Group of Charities.

We work with the global finance and accounting community to:

- Inspire finance leaders to adopt sustainable and resilient business models
- Transform financial decision making to respond to the opportunities and risks posed by the climate crisis and other environment and social issues
- Scale up action to transition to a sustainable economy

A4S leverages its global networks, including the CFO Leadership Network, Circles of Practice, Accounting Bodies Network and Asset Owners Network, to enable the finance and accounting community to take a leadership role on sustainability. Through our outreach activities and Academy training programme, we empower and equip finance and accounting teams to embed sustainability in their organizations.

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ACCELERATING THE TRANSITION

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