



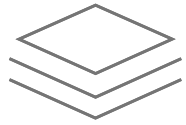
November 1, 2022

IIF Transition Finance Workshop

Istanbul

Hosted by The Banks Association of Türkiye

Regulatory requirements increase in a complicated landscape



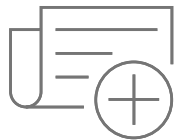
Number of
regulatory
developments
in 2021

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



Biodiversity



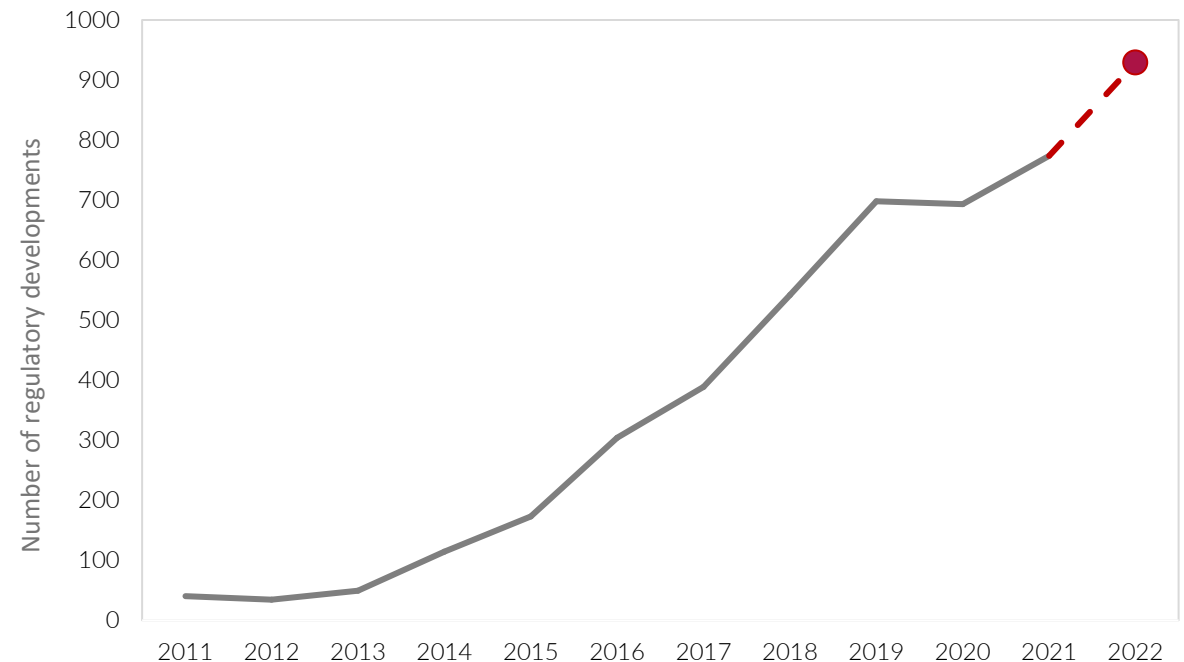
Due diligence



Sustainability claims



Scenario analysis

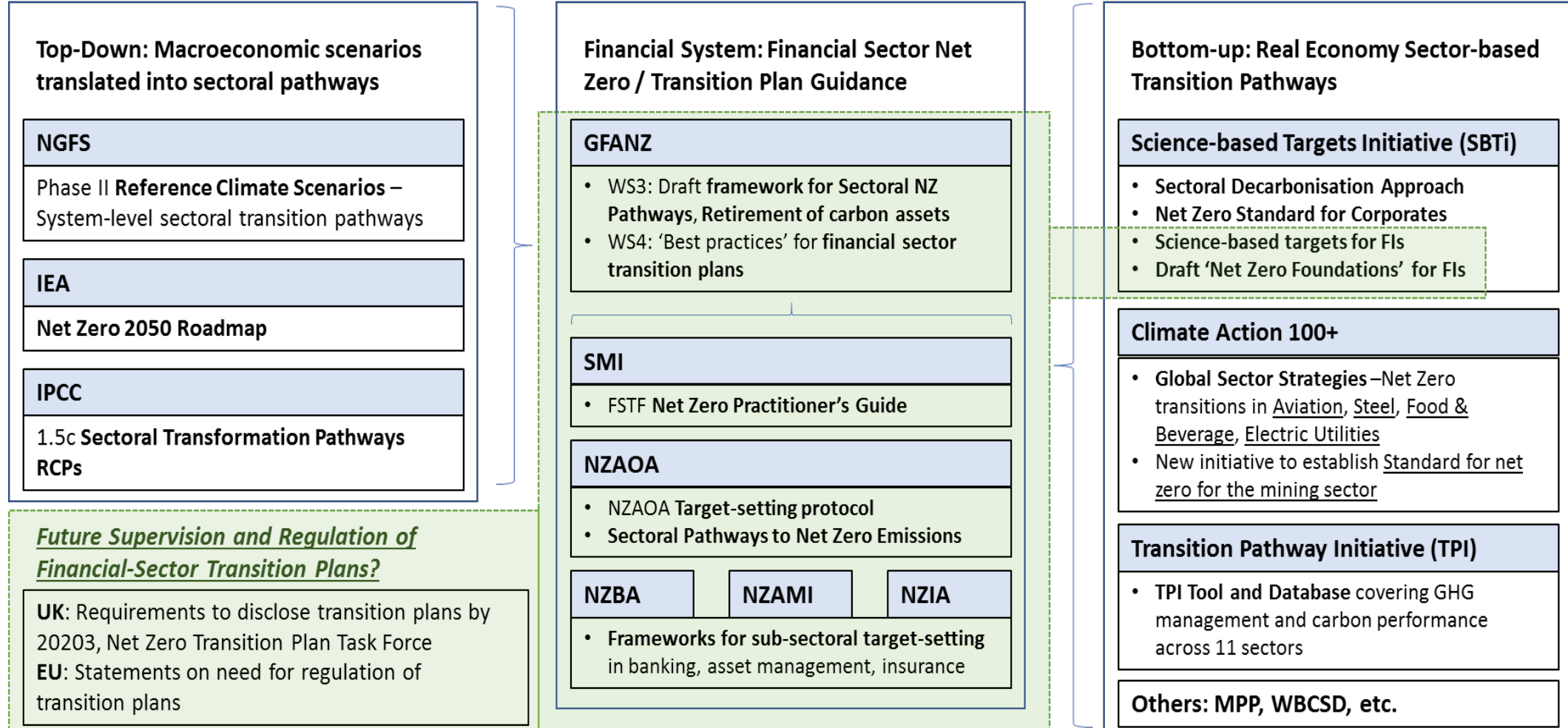


Source: based on data from ECOFACT Policy Outlook

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?

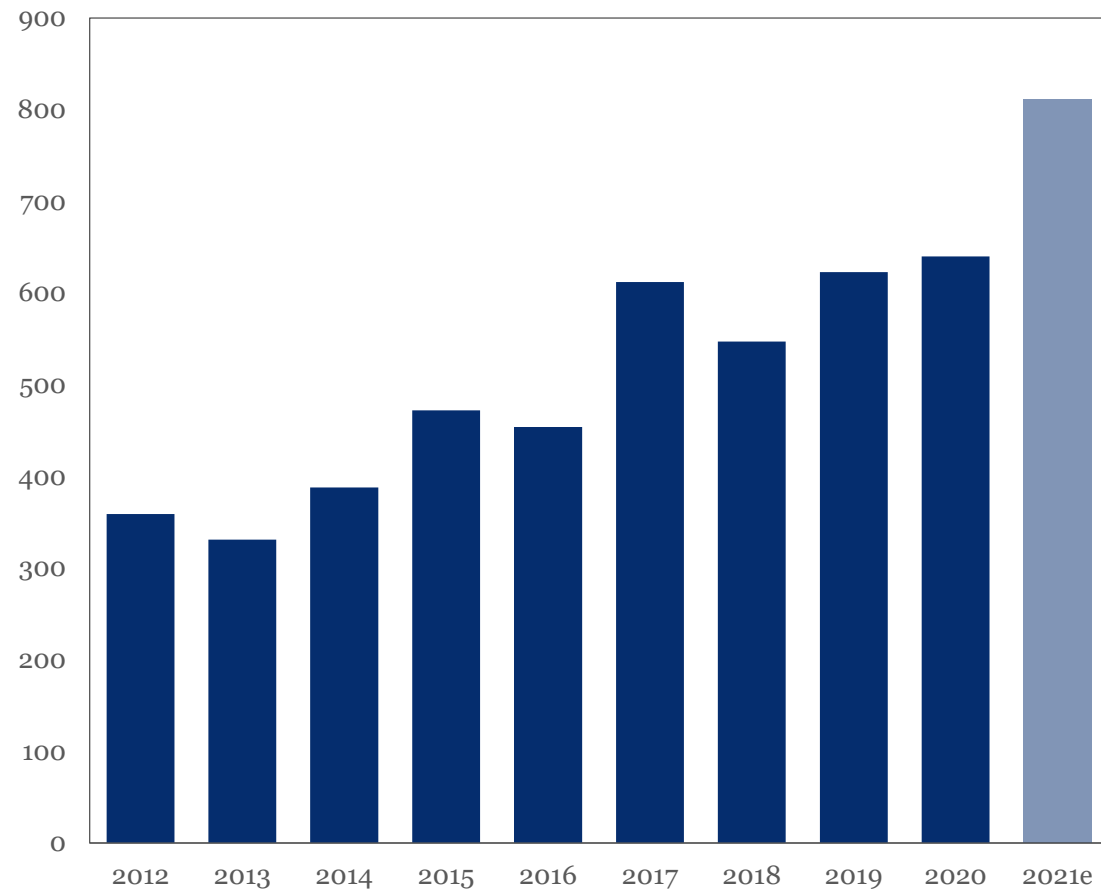
Additional layer of oversight? New UN-SG High-Level Expert Group to “propose clear standards to measure and analyse net zero commitments from non-state actors”



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?*