COP28 Executive Panel: Supporting Net-Zero Transition Planning

Panelists:

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Secretary General, International Organization of Securities Commissions

Irene Espinosa Cantellano
Deputy Governor, Banco de México

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Board Member, International Sustainability Standards Board

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Moderator:

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Transcript

Babak Abbaszadeh:

Welcome everyone to Toronto Centre's COP 28 Executive Panel on supporting net-zero transition. I always love to do these webinars; I don't get a chance, so it's a real treat for me, personally. Just to let you know, we have more than 400 people registered for this webinar, which is large, and we are covering the alphabet list of countries all the way from Algeria and Angola to Zambia and Zimbabwe, and just about every country between; about 80. And a lot of different organizations. A couple of our panelists are actually on the ground in Dubai: Martin Maloney, and our correspondent from the NGFS, and we are excited to get some sense of the event from them.

So, since establishment in 1998, Toronto Centre has trained 23,000 financial supervisors from 190 countries and territories to build more stable, resilient, and inclusive financial systems. We actually began working on climate risk for supervisors' capacity-building back in 2016, before it was really on anyone's radar at the time.

We did it because of the substantial implications to global financial stability, risk of crisis from climate change, and financial inclusion challenges. Since that time, standard-setting bodies and regulators have also sprung into action, pretty decisively, but there's much more work to be done. Today, as negotiations at COP 28 continue, we bring into focus the essential role of regulatory and supervisory authorities in ensuring financial institutions, which are imperative in developing credible transition plans. The stakes are high as, ultimately, our aim is to ensure the stability and resilience of the financial system, the protection of consumers, and the establishment of public and investor confidence in net-zero markets that have mitigated risks of greenwashing.

Toronto Centre is proud to collaborate with several global bodies in this space, including IOSCO, NGFS, and IIS as their implementation partner in supervisory capacity-building. Also, we very much value our collaboration with the ISSB.

To help make sense of the changing world. We have assembled a star panel. They include

- **Martin Moloney**, Secretary General, International Organization of Securities Commissions (IOSCO)
- **Irene Espinosa Cantellano**, Deputy Governor, Banco de México
- **Michael Jantzi**, Board Member, International Sustainability Standards Board (ISSB)
- **Thomas Beretti**, Senior Advisor to the NGFS Secretariat; Head of Division, Climate Change Centre, Banque de France.

You have seen their bios; I vouch for their excellence because they've all appeared in more than one of our webinars and training sessions. Toronto Centre's mission is sponsored by our key funders: Global Affairs Canada, Swedish SIDA, and the IMF.

We're going to have two rounds. I'm going to pose questions and each speaker will have four to five minutes to respond. We strongly encourage the audience to send questions. Please don't hesitate to do so, and we'll begin.

So, Martin, let's begin with you. You are on the ground in Dubai. IOSCO has been very active with sustainability initiatives such as disclosure and compliance carbon markets, just to name a few. Orderly transition plans are also a key tool for achieving net-zero; they are receiving increased attention from international standard-setters and voluntary market-led initiatives. Can you let us know how are transition plans currently used in capital markets?

Martin Moloney:

I am, and it's great to be speaking to you from COP28. It's been an extraordinary few days, there are thousands of people here, endlessly talking about these topics that are absolutely critical to us. We came here with two sets of messages: one about voluntary carbon markets, and the other about supervisory action against greenwashing. But it wouldn't surprise me if next year when we come here, that we came with messages about transition plans.

So I think your seminar is really well timed in that regard. I think your question is the right one to ask also, because we have to look back, I think, to look forward and really assess where we are at the moment. And if you take a step back, if you look at where we've been over the second decade of the 21st century, between 2010 and 2020 when transition plans really emerged as a phenomenon, there was a lot of concern initially around stranded assets, companies' values, what role companies wanted to take, and where they wanted to position themselves in relation to these issues.

That was particularly after the Paris Accord and they took stands, a lot of companies, they joined alliances, and they issued transition plans. I think we have to all be a little bit honest and say, at one point, it got into a little bit of a hype cycle, I think it's fair to say. Some of the transition-planning plans that were issued did fall more into the category of marketing documents than what we would've probably liked them to be. I think the problems -- and sorry if I focus on the problems, I don't want to take away from the achievement of that, that people actually started doing this, and it's a good thing that people and companies started to do this -- but focus for a moment on the challenges.

The challenges I think are challenges, on the one hand, of substance, and, on the other hand, of form. When you start getting companies announcing that they've joined such and such an alliance and they're going to net zero by 2050 or whatever the dates they picked are, you start to see some very significant problems.

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> **Martin Moloney**
> IOSCO

The first is time schedules: so, they were very often talking about times which were way beyond the time horizon of the investors and the analysts, and that meant you don't get that proper critical assessment very often by the market of some of the things that they were saying. In a lot of them, you get a lot of what I might call technology dependence (the second problem). We will be doing X, Y, and Z, and it will all depend on us developing a new technology, and we can't really tell you at this point in time when that will be developed or how likely or what the risks are associated with that.

I think the third major problem with substance was companies, particularly companies which are large companies always based in one jurisdiction or another, or substantively based there, what was the relationship between what they were saying in their transition plans and jurisdictional roadmaps? And that was always very (and it still is very) hard to pin down and it's unclear.

I think those are the three problems of substance. But then if you look at the problems of form, they need to explain how they're going to get where they're going. They need to explain when they're going to get there and they need to explain, particularly if asset managers are to use them, what that means for investors. If you look at those different things, frankly, a lot of transition plans, there are some great transition plans, but a lot of transition plans don't meet those criteria.

So, if you're looking at it again from the point of view of asset managers, how are they relying on transition plans? Are they relying on them in fund-level reporting to clients? And if so, how dependable are they in that regard? Are data providers relying on transition plans in order to do their ratings? And again, how reliable are they for that goal? And index providers, are they being relied on in index construction? If they are really at this point or have been over the last few years to a significant marketing document? Those key reliances within the industry and the sector on them are the kind of things that might worry regulators, that there are weaknesses in that reliance. There are weaknesses in the authoritativeness of these documents. So, there's a degree of concern among regulators I think at the present time, without wishing to take away from the fact that it's a good thing that people have started to publish transition plans.

Babak Abbaszadeh:

That's great. Martin, just a follow up question: what you're touching on is, really, that tension between the plan and planning. I mean, there are famous people who made famous quotations about how ultimately plans are useless, but planning is what matters, right?

So, do you think that with these fits and starts and hype cycles out of the way, we are learning how to plan better rather than having a shiny plan that we can sort of get the marketing benefit from? Are we at least learning from those planning exercises, in your view?

Martin Moloney:

Absolutely. I think the debate, if not, it's almost at this point, I think, a burning debate; lot of people have seen those transition plans being issued and almost on a sector-by-sector basis, you can start to analyze the quality of the different plans and the level of assurance you can get. So, the question of planning is on the agenda, and now we're in the space of saying, "Okay, we've now got to pin down how to improve the quality." It's a key moment, particularly now that we've got to a certain place in relation to disclosure standards at a global level when we need to move on and ask ourselves questions about transition plans. I think many jurisdictions are beginning to do that, and at a global level we're also starting to do that.

> We’ve moved on from a vague aspiration to have transition plans to the more precise question of how to make them good, sector by sector.
>
> **Martin Moloney**
> IOSCO

So, while I've listed out problems, it's actually a positive story because we've moved on from a vague aspiration to have transition plans to the more precise question of how to make them good, sector by sector, and particularly, when it comes to the financial sector and how banks might use them, how asset managers might use them, and so on.

Babak Abbaszadeh:

Great, thank you. And Irene, so good to have you again. Irene, sometimes it takes more courage to resist and to go forward. So, being first to gate on planning is not always the best, right? So, in the case of Mexico, when it comes to climate finance strategy and industry transition plans, how are financial authorities like yourself setting supervisory expectations for financial institutions? Can you give us some sense of that, please?

Irene Espinosa Cantellano:

Yes, thank you Babak, and I'm delighted to share this panel with my colleagues. Well, in Mexico, I would start by saying that we are at an early stage and we're not yet at the stage of transition plans, we are actually much more on the assessing of risks. In Mexico, the regulation and supervision are a shared responsibility among different authorities, so, for us, coordination is really crucial because we

all have to go in the same direction. Although some of our responsibilities are unique for each of the authorities, others are shared. So, we have a coordination structure that is mainly done within our sustainability committee, which is a general government committee where all the authorities are there. In 2020, there was the initiative to create a financial sustainability committee. So, in this committee we all participate and we give some input to the stability commission that is the broader entity.

So, there we are working on four different areas and, as I said, all of those are to set the basis for assessing risks, and we are not yet at the transition plans, but I think this is a very good basis for assessing the risks. We have worked and advanced in the issuing of a taxonomy that stands out because it considers also ESG criteria. It has already been issued and we are about to start a pilot with financial institutions to test the taxonomy.

> We are facing a lot of challenges. Among them … the climate data gap that we have, and I think this is a shared challenge in all jurisdictions.
>
> **Irene Espinosa Cantellano**
>
> Banco de México

There is also a second group of capital mobilization, where we are exploring what are the barriers to capital mobilization for sustainable finance. We also have a group for assessing financial risks and the elaboration of risk scenarios, which will be a crucial milestone in terms of assessing risks and in terms of transition plans. And we are also about to start a pilot program starting to use those risk and scenario models; we are using a GCAM model. And the fourth, which has a lot to do with the ISSB, is disclosure and what this means and how to implement S1 and S2 norms in Mexico.

So, we are working in this environment, we are facing a lot of challenges. Among them: I would say, first of all, the climate data gap that we have, and I think this is a shared challenge in all jurisdictions. Also, the capabilities that we have to build an infrastructure to bring financial institutions and also other non-financial institutions that will be subject to this regulation to start assessing the risks and also to start getting into preparing the scenario so that this is a basis for institutions to start carrying out the transition plans. I think that we are in a very early stage: we're setting very good fundamentals, and we will have to continue with this coordination once we have the results of these pilots and we start to issue some kind of regulation. Once we get there, we will have to deal with also a lot of capacity building for supervision.

Babak Abbaszadeh:

Well that's great. You said capacity building for supervision. That's like music to my ears. So, 1-800-Toronto Centre; don't forget us for that. But what you alluded to is very interesting because you're taking a very comprehensive approach. You're looking at what others are doing, but you're not just limiting yourself to risk analysis, you're also taking a chance with the pilot. So, best wishes on that. And also, something to really keep in mind: a lot of places, people, and governments are in a pickle -- take Canada and Mexico. You can have all the best rhetoric in the world, but at the same time, we're both very resource rich countries. We have people who are dependent on the old file, so we can't just wholesale transition. So, none of this is devoid of broader stakeholder political angle.

So, with that, let's go to Michael. Michael, 2023 was a seminal year for the ISSB. It's incredible what you guys have achieved in a short span of time: the release of IFRS-S1 and S2, already endorsed by IOSCO and many jurisdictions, are tremendous achievements, and ISSB is now working on additional principles for ESG disclosures. Michael, you're no stranger to SGIs, I remember from my work at CPPIB, you were one of the first people in ESG anywhere, really. What is the ISSB's current work and thinking for transition plans?

Michael Jantzi:

Well thank you, and I'm also just delighted to be here talking about transition plans, and on this esteemed panel.

And it's nice, it almost feels like ISSB'S two-year birthday party because we were launched two years ago at COP and thank you for highlighting the work that's been done, which is just I think a tribute to our chair, co-chairs, and the team at large.

As part of S2, companies need to provide information on the extent that sustainability or climate related risks and opportunities are affecting their strategy and business decision-making.

Michael Jantzi
ISSB

So maybe a little bit of context: when we were launched, our objective was to create high-quality, globally aligned, shareable sustainability disclosure standards that would provide decision-useful information for investors. That was the promise, and there was an expectation that we would not be adding another letter to the so-called alphabet soup of the disclosure frameworks that are already out there in the market. I say that because I think in that two-year timeframe, we have launched S1, which is our general disclosures, and S2, which is on climate related sustainability disclosures, and we worked hard at ensuring that we were consolidating some of these investor-focused sustainability disclosure frameworks and incorporating them into our work because we knew the market was really fed up with this alphabet soup.

I say that because one of the things that we did, we worked very closely with the TCFD and we incorporated the core architecture of the TCFD, those four pillars: governance, strategy, risk, and metrics and targets, and those are really foundational architectural components of both our S1 and S2. And I mentioned that because, when transition plans are mentioned within our climate-related disclosures, the S2, it's really within that strategy component. That's where you see specific reference to transition plans.

And so, the broader context of that is that, as part of S2, companies need to provide information on the extent that sustainability or climate related risks and opportunities are affecting their strategy and business decision-making.

So, that's the type of information that users want, and as part of that, they need to provide information or context in regard to how they're responding, or plan to respond, to those climate-related risks and opportunities. That's where transition plans are mentioned as a specific element of how a company might be responding to those climate risks and opportunities. Now, just to be clear, S2 does not say companies have to have transition plans in place, but what it does say, if a company has a transition plan in place to help them manage those risks or leverage those opportunities, then the plan has to be disclosed, and as part of that, that information has to include the assumptions that underpin that transition plan and also information about the dependencies upon which that plan relies.

Maybe I'll take that back to something Martin said. He referenced that sometimes these transition plans are dependent on technological advances, for example. So, that would be an example of, if a company has a transition plan in place, it would have to talk about that as either an assumption for achieving a particular outcome or a dependency. So those are the types of things that the S2 talks about in regard to transition plans.

There's also disclosure elements in there in regard to a company needing to disclose how it's resourcing that plan, or plans to resource, and also providing information over different reporting periods or periods of time. So, users of that information, which again, we’re focused on users as investors and other allocators of capital, again, provide that information that they need to evaluate the prospects of that entity over the short, medium, and long term.

So, that's really where transition plans are specifically mentioned within S2. Of course, one would expect that, if there is a transition plan in place, that in other parts of disclosure, say in the governance section, companies would be talking about, at the very highest levels of the company, how they're overseeing climate risk opportunities and responses to those, including transition plans. And we would also expect to see, then, information on metrics and targets, for clarity in regards to what the transition plan’s final outcome or objectives would be. But on that note, I'll just say we're sort of agnostic in regard to transition plans in regard to what their stated outcome would be. We're not saying an entity has to have a net-zero outcome or one-and-a-half-degree outcome. They need to disclose what that is and then how they plan to get there. But we're agnostic in regard to the how to, I guess in regard to transition plans, which I know we'll talk a little bit more about.

Babak Abbaszadeh:

Thank you, Michael. It's a big job. One of the advantages of the uniformity of the standards you're talking about is like sunshine: it's the best disinfectant, and you find out where are the gaps where people are falling into. Maybe it might even spur some kind of a competition on better reporting, so hopefully that will all lead into an impact. Now I think we lost Jean to the excitement of COP28, but we are very lucky to have Thomas with us. Thomas, thanks for stepping in, really happy to have you, and we're very happy about the collaboration we did with NGFS I think earlier last month, and we're still hearing positive input from various people who participated. Earlier this year, the NGFS published a comprehensive stock-take of current frameworks and literature on transition plans and practices as well as an overview of the current state of play in different jurisdictions. Would you please share with us what are your key findings? What I'm really interested is what is common to most transition plans that are relevant to supervisors for assessing safety and soundness.

Thomas Beretti:

Thank you Babak, and hi everybody. I would like to extend my thanks on behalf of Jean Boissinot, who is the head of the secretariat and who is on the ground at COP facing some technical difficulties. So, he was really happy about sharing this outcome of the stock-take. Indeed, the NGFS published the stock-take in May; we had around 50 jurisdictions responding to the stock- take. Our membership now is around 130 members and 20 observers. So this shows that the matter itself is still early. But what I'm hearing also, from the other panelists, is that it's moving and maturing very fast. And indeed, a lot of the takeaways from the stock-take are in line with what we just heard from Martin, Irene, and Michael.

So, from the NGFS's perspective, we looked at the transition plans and planning, both as a strategic tool for financial institutions to support an efficient allocation of capital across the sectors towards a low-emission economy, and also as a risk management tool to identify and mitigate climate risk in a forward-looking manner.

> Transition plans could be a useful source of information for micro-prudential authorities. It could become … a central source of information to develop the forward-looking view from supervisors resulting from a transition strategy, and to assess whether that transition strategy from a firm is actually commensurate with its risks-management framework….
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> **Thomas Beretti**
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> NGFS Secretariat; Banque de France

And so, in the stock-take that we published six months ago, we sought to assess how transition planning for financial institutions, first related to micro-prudential authorities' role and mandate, and then could also be considered and used most effectively within the supervisory toolkit. We found six takeaways, but maybe the overarching one that was unanimous is that, first, no one is alone, and you should not do this alone, and collectively we still need to build further capacity and knowledge in this area. We still have a lot to learn and to align, and this is also why having other global regional and sectoral forum looking at the issue is a very welcome development, and we are working very closely at the NGFS with other global forums to build up that common understanding and synchronize that understanding across supervisors and authorities, which will help because we are hearing about piling up regulation standards that should be interoperable.

This coordination should allow us to adjust the expectations and streamline the future framework. So, I will comment on the common features that we are seeing in transition plannings.

Maybe a quick overview of the six findings, basically multiple definitions of transition plans that reflect the different uses.

We actually discussed that and indeed, there is this risk that Martin referred to of marketing tools and greenwashing, so as long as we don't have one single definition or harmonized expectations, you would see this heterogeneity in what we call a transition plan.

Second, there is merit in distinguishing transition planning, we think, which is the strategic aspect and transition plan, which is more speaking to transparency to a specific audience.

Third, which is also something that has been said before, frameworks that exists today speak to a mix of objectives, mix of audiences, and they predominantly relate to climate related corporate disclosures. So, this is actually a first common element, or at least majority element, that we're seeing.

Fourth, transition plans could be a useful source of information for micro-prudential authorities. It could become actually a central source of information to develop the forward-looking view from supervisors resulting from a transition strategy, and to assess whether that transition strategy from a firm is actually commensurate with its risks-management framework, with the global management framework of the firm.

On the common elements, I will come back and maybe another takeaway was that micro-prudential authorities, the role they play needs to be always situated in the context of their mandate and their interactions with other regulators within their jurisdictions. Irene was actually speaking about that, that coordination is key with other regulators, other authorities within the jurisdiction.

Maybe on the common element themselves, this is very much in line with what Michael said about S2 from ISSB. For us, we found that governance strategy, risk management and metrics are the key elements which we find in transition plants in general. This is kind of the core on which we can build to elaborate a common framework. And so, this will be a driver of the next work.

And maybe one last thing, because we have not addressed that, one remark is that when assessing transition or when constructing, building, and assessing transition plans, both transition is important, but also physical risks and the way firms mitigate, adjust, or adapt.

Babak Abbaszadeh:

That was very good, thank you. And in fact, I want to take a segue from the last point you made: physical risk. We are correctly obsessed with transition plans, but there are companies that are failing due to climate.
I mean, there are cases of companies in California and elsewhere that have failed: bankrupted. So, we cannot take our eyes off the important risks. I mean we cannot think about this risk as a future risk. This is the risk that is unfolding right now. We're very much in that Al Gore's famous "Boiling Frog" analogy right now, whether we like it or not, Martin may have some observations of that down the line from the ground. Martin, that's a hint.

Okay, so let's go to round two now, and I'm already beginning to see some questions, so please write your questions down. We'll endeavor to get to as many of them as possible. Irene let's get back to you. How are financial authorities in Mexico looking at transition plans with respect to overall prudential framework, short-term, long-term priorities, and how are they coordinating amongst themselves?

Irene Espinosa Cantellano:

Yes, as I mentioned, our sustainable finance committee, through that, we are bringing into the discussion the issue of transition plans. And in our second report that was issued this year in May, we already highlighted that we were evaluating the possibility of including transition plans in our micro-prudential framework. So, with this, it was setting the basis for the pilot program with climate scenarios to be implemented. Our approach is a bottom-up approach, starting with some climate scenarios with especially banks, financial institutions, pension funds, and insurers. We are starting to do that and that will be the approach, sort of: having the pilot, and our aim is to see how we could label green and sustainable financing so that we can avoid greenwashing. And so, we are as authorities all embedded. It's the pension funds authority that is taking the project into its hands, but also insurers, also the bankers and securities commission, and also with the participation of the sectors, the representatives of the banking sectors, and of the insurance sectors.

This is our approach and it's a very inclusive and participatory approach. We have these private-sector entities also participating as observers in our sustainable finance committee. So, it's an ongoing task that is very much based on the dialogue with the different sectors. And so we are not rushing into what will be the regulation, but we are much more into going together and going hand in hand with the different types of institutions and how to bring them into this micro-prudential framework so that we are sure that everybody has this common understanding.

This is really a matter of capacity building and of knowing exactly what the climate risks mean, and how to read the transition plan. For us, coordination is really crucial….

Thomas Beretti

NGFS Secretariat; Banque de France

Babak Abbaszadeh:

Thank you very much, I appreciate that.

Let's go back to Thomas of the NGFS. As the NGFS deepens its work with its own network of members, and even stakeholders here, what is your latest thinking with respect to how transition plans are considered within the overall prudential framework? And, related to that, what is the potential use for the information collected within transition plans vis-a-vis financial regulators and supervisors, and various perspectives? I think Irene touched base. I mean right now, they're in a very consensus-driven mode, but you could probably imagine at some point somebody has to step in and make the hard decision.

And Irene, I'm sorry, you're in the central bank, so in some ways it kind of falls on you at the end of the day. But in the meantime, Thomas, what is the thinking, the latest thinking you have, as you're representing so many central banks around the world?

Thomas Beretti:

Thank you. There are some elements that we alluded to before, but basically indeed now that the stock-take has been made, we are with the NGFS now turning to a second phase of work and going a bit deeper into some specific aspects, one of which is the prudential authority's role in assessing the credibility of those transition plans.

Maybe one important point is that we really insist on a building block approach, which means that even though there might be different objectives and mandates from various authorities and that the objective of a transition plan might not be the same from one jurisdiction to the other, at least transition planning is always useful, and maybe that speaks to one of the first interventions that you had, Babak. So, whatever the category, basically, let's go with this building block approach where not respective of the objectives, we still have this effort that is made. One specific aspect for us was the consideration for EMDs in transition planning, where there is a specific challenge on physical data, where physical risk is actually a risk that can be prominent, and the question is really how to translate that into a financial risk matrix, and this is why there is work. Looking at the insurance coverage ratio, for instance, as one aspect relating maybe a bit more to adaptation.

Also, we are working on recommendations on the elements from the real economy. So, data coming from the real economy transition that could be relevant for use by the financial institutions, and therefore how do we contribute, how the financial system contributes to scale up. Also, the ability for corporations themselves to provide useful data to make those transition plans kind of comprehensive and credible. And then, the prudential authority's role in itself in assessing the credibility of transition

plans. This is really a matter of capacity building and of knowing exactly what the climate risks mean, and how to read the transition plan. So, this is something that will come also with experience because we are seeing now more and more transition plans being published.

We are talking more and more about transition planning and therefore I think that the expectations will also mature. As we move along, something we haven't discussed, but maybe opening to further discussion, aside from the net zero targets, which is the main point of this panel, there's also a question of nature and biodiversity targets that could be important at one point when looking at transition planning. I was mentioning before, other forums having some work; there is work ongoing at the FSB, for instance, on transition planning, and both from the financial and non-financial firms with implication to the financial stability and we're working very much together on that.

> A word we often use at the ISSB is interoperability … for the users of this information, they want to see consistency to the extent that is possible.
>
> **Michael Jantzi**
> ISSB

Babak Abbaszadeh:

That's great. I think when someone sits and listens to this from the abstract, they may think that we're all talking about planning, planning, planning, let's just do this planning, that person does planning, but there really is nothing wrong with throwing spaghetti at the wall. We really are trying to learn there is no blueprint, and one of the advantages of what you are doing at NGFS from our vantage point, and you have access to all these various plans; you're beginning to understand what works, what doesn't work. You are your own generative AI in a sense, right? You're going through it and trying to determine what's useful, and it's going to be very useful for those jurisdictions that are beginning now or those who are trying to assess what they're doing. So that's fantastic.
And let's go to Michael here. Michael, I have a question for you. I apologize, it's a bit of a long question, but it's an interesting context. Let me build it up again. When the ISSB launched its inaugural IFRS sustainability disclosure standards, it made reference to the publication of transition plans. Transition plan initiatives are also led by the Glasgow Financial Alliance for net zero, which has been led by Mark Carney and the transition plan task force. These and the ISSB frameworks have been set to be complimentary. So, can this bring about a more consistent international approach to development and publication of transition plans? So, that's part one, and is there a need for further guidance for transition planning that financial supervisors and regulators should pay attention to? Thank you.

Michael Jantzi:

Yeah, so there's a lot there, but maybe I'll pick up on the first theme, which is about alignment. A word we often use at the ISSB is interoperability. And again, it's this idea that, for the users of this information, they want to see consistency to the extent that is possible. And so, this whole conversation has been about collaboration in an attempt to bring that standardization or consistency to the extent possible and where it adds value. So, I'm going to provide you the ISSB perspective, and you mentioned GFANZ and TPT specifically.

From an ISSB perspective, I think this is a fantastic example of the collaborative efforts that we've seen in regard to our work, which has been on disclosure and the efforts of NGFS, GFANZ, TPT, and others that are working on the how-to. I talked to my colleagues on the technical staff and they feel very good about the collaboration, the liaison between the technical team at ISSB and the respective teams at GFANZ and TPT, and, in fact, from our perspective, and I hope our colleagues would say the same at those organizations, we feel that a great deal of our intent and the language of S2 has actually been incorporated into those frameworks.

> This capacity building is too significant, too important a job to be left to one organization.
>
> **Michael Jantzi**
> ISSB

And so, there's various ways to think about it. One way is that, if you think about a pyramid, we're sort of the base of the pyramid with the disclosure of information and what's expected, and then these organizations that we're talking about have additionality on top of that, talking about the how-to.
And I'll go back to the way Thomas referred to it, which is building blocks, which is very comfortable for us at ISSB because that's how we talk about it. If we think about our disclosures, our objective is for the ISSB standards to become the global baseline and I think, with the help of many around this figurative table and many others out there, we are on that pathway now to having S1 and S2 be that global baseline for sustainability disclosures.
But we're also very comfortable with the idea of building blocks. We recognize that jurisdictions, other stakeholders, may have particular needs for information that are not incorporated into S1 and S2 and they can build upon that global baseline. And Thomas, you use that example in a slightly different way, but that concept is very comfortable for us. I mean that's part of our DNA as an organization.

And so, I think that our relationship, again, with GFANZ and TPT, for many of my colleagues and myself, is sort of a good example of that building block: we're the foundational element of disclosure, and then these other organizations are leveraging what's in S2 to build the how-to components; what does a good plan look like? Bringing specificity to particular pathways depending on what sector you're in or what outcome you're looking for.

So to me, what we're talking about today between the groups that are represented or have been talked about is a living, breathing example of our desire for alignment and our collaborative engagement so far to try and achieve that.

Now you also – the second part of your question is about capacity building and so on, and absolutely, there's no doubt that transition planning, alongside many of the other things that we're seeing in our standards, require a future commitment to capacity building and education and so on.

And I dare say, and I'll say this from a personal standpoint, but I think all of my ISSB colleagues around the table feel the same way, that the commitment the ISSB has, and the IFRS foundation more broadly, to the capacity building around the sustainability disclosure standards that we're putting into the market is, I think, tremendous. It's very exciting for me personally and empowering for our work to know that you're putting standards into the market and that's not the end of it. We want these standards to be embraced and we want them to be embraced by the range of different stakeholders, jurisdictions, auditors, assurers, users, preparers, and regulators.

We know that there's a lot of work to be done, just as we're talking about here on transition planning. We know this capacity building is too significant, too important a job to be left to one organization – that's impossible. So, capacity building is, again a collaborative effort and I know that groups around the table here are committed to that, alongside the ISSB. And so, for me personally, that's an incredibly exciting part of our work and critical if we're to achieve our goal of becoming that global baseline and seeing what we're talking about here today, transition plans, getting to a place where they're useful for prudential regulators, other regulators, and the users, ultimately, of the information.

Babak Abbaszadeh:

Thank you very much, Michael. This interoperability you're talking about is critically important, and also thanks for your plug on capacity building. You're absolutely correct. It takes more than one or two organizations to do it.

Martin, I promise you it's not hype cycle, but Toronto Centre has launched a Certified Financial Supervisor designation, which has had a good uptake, and a couple of the modules there are actually about climate as well. So, I encourage various authorities to take a look at it, and it's kind like you have to pass an exam. This is really a very methodic approach to building skillset, but when it comes to climate, we are looking at some of these issues around planning and transition planning. Thomas, biodiversity loss is very important. We applaud NGFS and also, we have a toolkit on that topic that we have made available for supervisors.

Martin, let me turn to you for the last question on our structured part of the discussion before we go into the Q&A. And you've already made known your views about the transition plans versus transition planning. And as the secretary, you're kind of like Henry Kissinger, right? You have to deal with a lot of different regulators from different parts of the world who are part of your membership, different priorities. When you look at all of that, can this work on transition planning proceed in a way that supports global consistency and reduce risk fragmentation?

I mean, in a way, I'm kind of giving you this question at the end because you've heard a lot of different approaches that we are all talking about.

Martin Moloney:

Yes, and very interesting. One of the ways we increasingly, I think, deal with innovation and the challenge of innovation and change in markets is to build on and rely on the consensus that we have among our members around the 38 IOSCO principles. And that means, very often, what you're doing is asking your members to think of something new as analogous to something well-established and old. So,that's the way we've dealt, let's say, with crypto. And in this area I think it's always quite useful just to remind ourselves that transition plans are really part of corporate strategy publications by listed issuers and by large companies, and therefore they're linked to corporate performance reporting as an update on corporate strategy. They're slightly different because they're on a slightly different topic, but should be seen by analogy with that. And I think that analogy will help our members to maintain the kind of consensus and approach and find the optimal level, at a global level, for uniformity of approach and difference in jurisdictions.

But once you say that, the one thing that becomes immediately obvious, and I'm really glad Michael has spoken so clearly on this panel about what the ISSB has achieved, is that at the end of 2024,

there's a key moment coming for transition plans, published transition plans, because from the end of 2024, we will not only have the ISSB standards in place for disclosure on a global basis, we will also have the IAASB standards in place, and the IOSCO standards in relation to providing assurance on those disclosures. And therefore, from the start of 2025, you get into a space where the data, the facts, the underlying information that transition plans should be measured against, is information that should be disclosed or should have been disclosed in accordance with those global standards. And suddenly, and I'm not sure everybody in the marketplace really understands this pointrom 2025 onwards, transition plans that talk in terms of data points, information, targets, and goals that are not consistent with the disclosures that have been made using the ISSB standards and being independently assured, they will look like second rate transition plans.

> Transition plans … that are not consistent with the disclosures that have been made using the ISSB standards and being independently assured — they will look like second rate transition plans.
>
> **Martin Moloney**
> IOSCO

The top-notch transition plans, the best practice for publication transition plans, will be to produce plans that are consistent with the disclosures that are being made, and the consequence of that is you not only have to do the marketing a bit about how great we are for aspiring to this, and they deserve the applause, but you start to have to report the failures and the inadequacies and the limitations and the weaknesses, and that's critical for markets, and I see that as an absolutely fundamental point of transition at the beginning of 2025.

Of course, it will take some time and the ISSB and US and others are working on how to roll out the full implementation of those standards – that will all take some time. But to me that's an absolutely critical moment, and it's in recognition and preparation for that that we are now considering starting to do work ourselves on transition plans. And we're going, I think, to look separately at preparers and asset managers and there's a number of questions that we will need to ask. We'll do our own stock-take just as the NGFS has done theirs, and our stock-take will have a slightly different focus than theirs, absolutely understandably, I think because of the different starting point. We're going to look at what is common across the world, what markets are expecting, what's really working for markets, and what's the impact of investors on the better versus worse transition plan reporting? What are the vulnerabilities in those transition plans?

We may go on to do recommendations, but that really depends on the very point you're asking. What is it good to have common at a global level, and what should be left to jurisdictions or left to sectors for emerging practice, and so on? But the kind of key issues for preparers that I suspect we will look at, and I'm giving you a little bit of an anticipation here of what's coming down the tracks, is I think we need to look at what audiences are using the transition plans, and therefore it's a bit like the materiality question: is it adequate to the audiences that are relying on it who are active in markets? What are the essential elements we're seeing that are really working in terms of goals, milestones, action plans, and the detail and granularity around that?

And then also, this key point I think about corporate performance reporting, identifying the failures, the limitations, and the weaknesses and to what extent that is actually happening as a follow-on to the publication with the great fanfare of the transition plan. Then separately, I think we also need to look at asset managers, we need to look at the reliance that they're making on transition plans and the assumptions that they're using in that, and maybe this key question, and it's an old question for asset managers: exit or engage when you run into a problem. Some asset managers are developing an approach of: we see a company that is not quite doing what it said it was doing in its transition plans. We engage with that company; we try to figure out how they're correcting that. Other asset managers may be in the space of, do you know what, if they're not meeting their targets, we exit and we go into different investments.

Now, people need to know what individual asset managers approach to that question is. It's very closely linked to the question of the amount of resources an asset manager applies to dealing with transition plans, interrogating them, dialoguing with companies about their transition plans and what's happening. From the asset manager point of view, the cheap option is exit and the more expensive option is engagement with those companies. But do the investors know what their approach is? And if they know, then they can choose their asset manager depending on what kind of approach they want.

So, we are going to be looking, I suspect, for the optimum consistency at a global level, we're going to be looking for what's common already and to see where we can play a supportive role while at the same time leaving jurisdictions to do what they need to do themselves. And Irene talked about Mexico's sort of approach of not moving too fast, and I think that would be common to quite a lot of jurisdictions. There's a need for care and attention here before we start coming out with rules and regulations and recommendations at a global or at a jurisdictional level. So I applaud that prudence.

Babak Abbaszadeh:

Thank you very much, Martin, and also, it's very interesting – you talked about how asset managers will have a choice to make, right? Whether to shape the companies that do not have a robust transition plan, or exit. And when you put that vis-a-vis the fact that there's just not an infinite universe of investible-quality assets, that makes it very hard. Just imagine if you're a Norwegian pension fund or Canada's pension plan investment fund on the public market side, you have to make those decisions. Those are not easy decisions. So, thank you for laying that out.

So, let's go to the Q&A. I'm going to take them in a different order than they appear. Irene, I'm wondering if I can give you Florence's question. She's from Tanzania and is asking a very interesting question. Some countries, mostly African, seem to be struggling with, grappling around the entire idea of phasing out fossil fuel sources as our economies are heavily invested in resources. How do you address such economies in a bid to make transition plans into our economic realities? I guess this is what we live on. So, when that thinking came about, what were some of the issues that you as central banks started thinking about? Because this is very relevant to many jurisdictions, right?

Irene Espinosa Cantellano:

Yes, of course, and Mexico is a very fossil-oriented economy, but at the same time we are very committed with all of the climate-change agreements. So, what I think that is feasible, and actually it's already taking place in Mexico, is to have a transition plan for our oil company. It already has a sustainability committee that is in the management of the company. It's quite difficult, but now we are at a crossroads because also ratings agencies are pushing a lot in terms of having a transition plan for our oil company. One of these ratings agencies is now helping the company to prepare this transition plan, which will start with a baseline of what are the assets that it has and also have some indicators and targets. So, I think that there is, although it looks very challenging, there is the possibility to make a transition plan that is feasible and that is credible to go into net zero. Maybe the question will be what will be the time horizon that is needed for that? And that will depend, also, on what are the resources available to move toward that transition plan. But I think technically, there is a very good chance to have theses type of strategies, although it sounds very challenging.

Babak Abbaszadeh:

Thank you. Thank you. I was going to ask a question of Martin, but I noticed that he's not here – oh now he's coming back. No, thank you. That was actually a very robust response that you gave. Martin, thank you so much for coming back. We thought you managed to get away.

First, there's a question I want to pose to you, but before I do that, I can't resist. You're on the ground, and the question that Irene was responding to really, at the end of it, comes down to the new buzzword: it's not mitigation, it's adaptation. I'm told that there's a lot of various countries on the ground right now trying to make deals about this right now; you may or may not be exposed to that, but what's the general sense of being on the ground with 70,000 to 100,000 people in this? What is the atmosphere like?

Martin Moloney:

The atmosphere is extremely engaged, and a very positive atmosphere here, and it's fascinating to see that the key theme here, I would say, if you brought it down to just one word here, is trust – and where is the trust in the system? One thing it's made me think about is, well, what does net mean in net zero? And to what extent, if you don't have trust in the various instruments for netting off, do you end up moving from net zero to growth zero as the only way forward? And it seems to me we've got to maintain that trust and that capacity for trust, and if we take too many liberties, frankly, we lose that trust and we make our life harder in terms of getting to zero.

That has been a very live, I think, debate here, and one of the areas that we've been having a lot of discussions here about is the voluntary carbon credits and to what extent they can be part of the solution and what the ecosystem and infrastructure would need to be for them to be part of the solution here, and one that would be trusted around the world. I would say we're not at a point where we have definitive strategic answer to that question, but it is striking how burning an issue it is and very closely related to the question of the Global South and how we get the right flow of capital into the Global South to facilitate their efforts in this area.

Babak Abbaszadeh:

Thank you. That's very, very useful. I'm going to have a question that I want to pose to Martin, you and also Thomas, if you could also weigh in, because there's a global perspective on this.
Martin, before you became the head of IOSCO, you were also a very prominent head of supervision yourself. So, this question is probably pointed out to you: how can we enhance our supervisory framework to effectively assess and measure the climate risk exposure of financial institutions, considering both physical and transition risks, as they align with the goals of net zero transition planning? I guess this is the question that really puts it all together for the supervisor sitting at their desk. Right? Thanks. I think Martin froze, so I'm wondering if Thomas, would you mind taking this question and then if Martin comes back, we can ask him?

Thomas Beretti:

Thank you. I mean, I think that one aspect to make it very concrete is, and again, this is reacting on what Irene and Martin said before, it's really important that we make the right linkages from the transition plans to actual supervisory measures, supervisory mandates, and also maybe before that, we manage to link transition planning, scenario analysis, and target setting for supervisors so that the transition plans become part of a framework are not just isolated and standing there on their own.

> It's really important that we make the right linkages from the transition plans to actual supervisory measures, supervisory mandates….
>
> **Thomas Beretti**
> NGFS Secretariat; Banque de France

So, this is maybe one aspect to answer your question. These transition plans, the more they are integrated within scenario analysis, within the day-to-day supervision, and climate risk, both transition and physical, there will be actually a conversation that will take place between financial institutions and their supervisors, but also financial institutions and their investors, and more generally, the market actors. So, I think that the key point here is really to make this tool effective. And for that, as we were all mentioning, there's still a bit of a way to go. I think that indeed, ISSB's climate standards work as a global baseline. We need to take that and, as all the aspects on which we can manage to converge, we need to take them. We still have some road to go for this to be mature. But then, once we have a tool that is actually effective, this tool actually needs to be integrated within the broader prudential framework and supervisory practices, and this will be another challenge.

Again, going back to the coordination with other regulators and actors, we have not talked so much about governments and other public actors, but this is fundamental for transition plans to be credible as well. They need to take into account the engagements, the paths that are being taken by the various public authorities, and therefore it cannot be just a self-standing tool. The more it'll be integrated within our supervisory framework – but not only framework, within the supervisory dialogue between the institutions and their supervisors – and the more climate risk post-transition and physical risk will be understood, the more we'll have the weapons to actually mitigate that risk.

Babak Abbaszadeh:

Thank you, it's a very good comprehensive answer. I'll come to Martin in a second on that, but Michael, I wonder if I can ask you a question. Hopefully it's something that even if you're not working directly, you can bring some wisdom to it. It's a question about developing countries. How can we help developing countries in Africa attain transition plans to climatically sound policies, seeing that most need locally led climate programs? Interesting, right? In some of these cases, we have this dilemma of countries that are climate risk takers. They're not the climate risk generators. I'm sure you have thought a lot about this course of ISSB and your career. Do you have any views on this question, please?

Michael Jantzi:

I really liked Florence's question because it highlights the fact that our commitment at ISSB to create a global baseline means no jurisdiction, no stakeholder can be left behind. One of the things that we were really cognizant about was, again, to create standards that would provide decision-useful information to investors to make more informed decisions. We certainly didn't want – I mean, our goal was to put all jurisdictions, companies across jurisdictions, on that level playing field so that, from an information standpoint, global investors would have the same information when they were looking at an investment in Africa or Latin America as they would in a developed country.

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>
> **Michael Jantzi**
> ISSB

In fact, what's been really heartening and exciting for myself and I think most or all of my colleagues, is that we've seen developing countries or jurisdictions, many of which are in Africa, embrace the ISSB standards and talk about wanting to be first movers and early adopters of the standards, because they see the standards as putting them on a level playing field. So, it's not a question of, again, a risk of flight of capital; many of these jurisdictions are looking at this as a really genuine opportunity to attract capital. And so, I think that with respect to transition plans, again, if we're getting that baseline of disclosure, as I talked about within the ISSB, on transition plans, then we're starting to level the playing field and investors have the information, or will start to have the information, that they require to make decisions again, and no jurisdiction are going to be prejudiced in regards to a lack of information. So, that's exciting.

I'm going to give you a personal reflection here. So, this is not an ISSB reflection, and one of the reasons I really appreciate the question in regard to the particular sensitivities of the Global South, and we've already heard Mexico and even, where I sit, in Canada, this idea of a just transition is an important one and resource heavy.

It's a conversation that in my own situation with financial institutions is a really important one. So, I think there's been a lot of talk in transition plans currently around reducing financed emissions – this idea of financial institutions supporting fossil fuel industry. One of the things that I think we need to hear more of, it's not just about conversations and transition plans about reducing financed emissions, it's about financing emission reductions, which is maybe a subtle difference. But again, I think this pertains to that sort of idea of just transition in the Global South and in another jurisdiction.

So, it's about thinking about how we financial institutions can support that transition in emissions reductions, not just getting out of the financed emissions – maybe a subtle difference, but these are the types of conversations that I know are happening, they're picking up steam, and I think they incorporate some of the things that Florence was highlighting in her question as concerns. So I hope that touches on some of the things you wanted to talk about Babak. I know it's not directly related to our work at ISSB, per se.

Babak Abbaszadeh:

No, that's great. That's great. Thank you so much for that. Martin, you get a star for coming back a couple of times after getting kicked out by the internet. But I'm wondering if I can pose this question that I wanted to pose to you. You might have caught parts of it, but before you were the head of IOSCO, you were also a prominent superintendent of financial institutions. So how can we enhance our supervisory framework to effectively assess and measure the climate risks exposure of financial institutions, considering both physical and transition risks? You can imagine the person who's asking this is a supervisor sitting at a desk somewhere trying to deal with these big issues, while others are at COP28 and dealing with the global stuff. But what is your immediate guidance to someone who's asking that question?

Martin Moloney:

I think we have to be honest and say we can construct scenarios and do scenario analysis, and I agree with what Tom was saying about that. But there's also a limit to what regulators and supervisors day-to-day can do in terms of actually understanding these risks themselves. Very often our focus in a lot of areas is to oversee the process by which we encourage and require and cajole the regulated entities to understand the risks they face themselves. In this area I think that will bear fruit for us, and particularly if you think about what we're doing with the ISSB standards, what we're really trying to do is create a market discipline and create an ecosystem out there whereby you start to have a pool of experts, sector by sector, in the economy who understand and understand better and better the sort of climate risks that are faced and can circulate those analyses of the risk in that community, where it can get debated and different people can take different perspectives in terms of investment based on different analyses of the risks.

So if you think about it as – there's the climate risks that are common to all of us and we all face them and many of them are deeply uncertain and there are trigger points and so on in the way that climate is working. So we all face certain risks. But then there are very strongly analyzable, if there is such a word, risks that are sector by sector. You can create an increasing, and developing and ever richer, understanding of what those risks are, sector by sector – whether the car sector, the insurance sector, and so on. Then, if you really understand the positioning of an individual company, you can differentiate the analysis of that company from the analysis of the overall sector and then you start to get the ability to differentiate between who you should invest in and who you shouldn't invest in.

The only way to do that in the kind of globalized economy we have in the world is through a globalized financial sector, being able to compare securities that are issued across the world within a certain sector, whether it's one in Hong Kong and the other one in London, and so on, and you can really compare them and analyze the risks that are coming out of them. Where the regulators come in is in ensuring that the information you're using is good information. Secondly, that it's disclosed on a non-biased basis to the market so as to underpin market integrity. And thirdly, that, in the individual companies, that they have processes internally of evaluation and assurance.

Babak Abbaszadeh:

Okay, we lost Martin, but he was actually on a roll. I thought he was making a lot of sense there. That was excellent contribution. I think maybe I need to go to the last question and give it to you, Irene – from your continent here. Claudia from Chile is asking, are there any guidance to integrate NDC in transition plans? Do you have any views on that?

Irene Espinosa Cantellano:

No, I think we are not there yet, and we will have to work on that. I wouldn't rush into any type of guidance on that.

Babak Abbaszadeh:

Okay, that's great. So, let me at this point thank everyone. I want to bring this to a close. You have been an amazing group of speakers. Thomas, you get the special Oscar, just for stepping in last-minute and all of you – oh, I'm glad, Martin's coming back. Hi Martin.

Martin Moloney:

Apologies to our listeners, I'm beginning to annoy myself with leaving and coming back.

Babak Abbaszadeh:

No, I just gave the Oscar to Thomas for stepping in last-minute. I'm giving you another Oscar for just your persistence, perseverance, to get back in. I was saying how wonderful all of you were and I really mean that substantively and you gave us a really great snapshot of where we are: all the efforts people are putting in, trying to get this transition planning right, and it is a global effort. It's been said many times. Michael, I really appreciated your response to the last question. I think you kind of pulled it all together in that regard.

So, thanks everyone. This will not be the last time we'll have this conversation, and we'll have it at another time when we have a little bit more to talk about the next stage: transition planning 2.0. But thank you for your participation and your time and we will make this webinar available in our courses. It will be posted, and there are really good clips here that could be used. Also, to those whose questions we couldn't get to, my apologies, but no question would be lost. We'll deal with them in a different way for our various publications and other things. So, thanks again, have a great time, and God bless. Bye.