



TC NOTES

PRACTICAL **LEADERSHIP**
AND **GUIDANCE** FROM
TORONTO CENTRE

THE SUPERVISION OF FINANCIAL INSTITUTIONS' CLIMATE-RELATED TRANSITION PLANNING

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THE SUPERVISION OF FINANCIAL INSTITUTIONS' CLIMATE-RELATED TRANSITION PLANNING

Introduction and context¹

Climate change and biodiversity loss are major global challenges which need to be addressed as a matter of urgency. Financial institutions are closely bound up with this. Their own risk profiles are profoundly affected by climate change and biodiversity loss, while their financing of wider economic activity directly and indirectly contributes to these.²

Up to now the focus of international standard setters and national supervisory authorities has been mostly on strengthening financial institutions' management of the heightened risks posed by climate-related changes (focusing on them as climate change "takers") and on improving disclosures by financial and non-financial institutions of information about the drivers of such changes - in particular, emissions of greenhouse gasses (GHGs).

There is an increasing focus on the role of financial institutions in contributing to climate-related change (as climate change "makers") as a result of their financing of the activities of customers and counterparties. A key element in financial institutions' efforts to limit their contributions to climate-related change is the development of "transition plans" but there is often a lack of clarity about what should be included in these plans and the role of supervisors in overseeing and assessing them.

This Toronto Centre Note aims to assist supervisors in their decision making in this difficult area.³ It focuses on two (complementary) types of transition plans: those focused primarily on strengthening financial institutions' own internal risk management in the face of climate-related change, and those aimed at reducing institutions' own contributions to such change.

The Note recognizes that whether to require financial institutions to develop climate-related transition plans, the form these should take, their objectives, and how adherence to these plans is supervised are strategic decisions for national supervisory authorities. It also needs to be recognized that adjustments required to limit financial institutions' contributions to climate-

¹ This Toronto Centre Note was prepared by Paul Wright. Please address any questions about this Note to publications@torontocentre.org

² The Convention on Biological Diversity (CBD) defines biodiversity as: "the variability among living organisms from all sources including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems." (See NGFS 2022). Loss of biodiversity, which may be a result of climate change, may threaten food supplies, air quality, water supplies or soil quality. This Note refers to climate change and biodiversity loss under the single heading of climate-related changes and risks.

³ This Note is one of a series of Toronto Centre publications on climate and biodiversity related risks. See the references at the end of this Note and in particular Toronto Centre (2023a).

related change will themselves entail risks which need to be identified and managed and that even if climate-related change is contained they will still face significant transition risks.

Financial institutions and climate-related change

Financial institutions are inextricably involved with environmental issues involving both climate change and/or biodiversity loss.

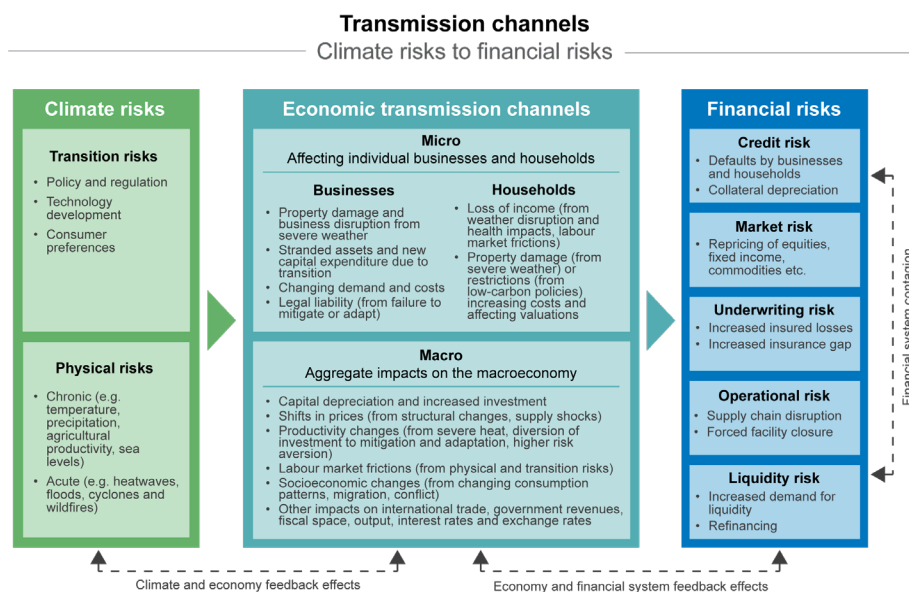
1. Financial institutions are **impacted by** climate-related risks.

Earlier Toronto Centre Notes have described two broad types of climate-related risks – ‘physical’ and ‘transition’ risks.⁴

- Physical risks result from acute and/or chronic trends or concrete events such as rising sea levels, forest fires or weather catastrophes.
- Transition risks reflect the changes resulting from the transition to a low-carbon economy resulting from policy changes, innovation, technical change or consumer/market sentiment.

The risks will vary according to financial institutions’ business models and the jurisdictions in which they operate. General insurers with high exposures to sectors vulnerable to climate or biodiversity loss such as cooperative agricultural concerns will be directly vulnerable to physical risks. Some life insurers may have less exposure to physical risks but have extensive equity or bond investments in energy-related sectors whose values are susceptible to transition risks.

Financial institutions in emerging markets and developing economies (EMDEs) may face proportionately more physical risks, including those relating to biodiversity loss, than transition risks but this will by no means be true in all cases.



⁴ See Toronto Centre (2023a) and NGFS (2022).

The above chart produced by the Network for the Greening of the Financial System (NGFS 2023b) illustrates the impacts of climate-related risks on businesses, households, and the wider economy and how these feed through into the inherent risks faced by financial institutions, such as credit, underwriting, market, and operational risks.

Not all climate-related risks relate to financial institutions' financial soundness. Consumers and investors may be put at risk if, for example, sellers of savings or investment products falsely claim to meet investors' preferences for more sustainable assets. This is "greenwashing" - a form of conduct risk.

In addition to risks, climate-related changes also present opportunities where, for example, financial institutions identify profitable opportunities to target emerging environmentally friendly entities or sectors.

Most of the above discussion focuses on the impacts of financial change on individual financial institutions and the risks they face. Climate-related risks will also have an impact on the **stability of the financial system as a whole**.⁵

Examples of risks to system-wide financial stability:

1. Financial institutions collectively finance activities resulting in emissions which are incompatible with meeting climate targets. This increases physical risks for the financial sector as a whole and, if governments are slow to react, it will eventually create transition risks also. Either (or both) of these can pose risks to financial stability as they become increasingly severe.
2. Banks operating in a jurisdiction which is heavily reliant on fossil fuel production may face extensive transition risks as the jurisdiction itself – or its trading partners – switch to less carbon intensive forms of energy production resulting in an elevated level of credit risk for the banking sector as a whole.
3. Insurers operating in a jurisdiction where the authorities are slow to identify or react to climate related risks may initially face elevated levels of physical risk (for example in general insurance) followed by greatly increased transition risks if the government belatedly and suddenly introduces carbon or other taxes at a penal level.

2. Financial institutions also **contribute to** climate-related risks.

From the point of view of individual financial institutions, the risks highlighted above appear to be largely external. Climate-related changes are challenges to which they need to react and supervisors need to be reassured that their responses are effective in mitigating the risks. In this sense supervised institutions can be seen as **climate-related risk "takers"**.

⁵ For more discussion of this see Toronto Centre (2022a, 2023a and 2023b). The links between climate-related risks and financial stability are also discussed in FSB (2025).

However, financial institutions may also contribute to such risks and to this extent they can also be seen as **climate-related change “makers”**. There are two ways in which financial institutions contribute to such changes:

- Through their own activities and the extent to which these consume or rely on unsustainable forms of energy.
- (Much more importantly) by financing or supporting the activities of customers and counterparties through lending, insuring, asset holding and the issuance of financial instruments.⁶

The extent to which financial institutions are contributors (directly or indirectly) to climate or biodiversity change will depend on their business models and the sectors and jurisdictions in which they operate. It is often suggested that financial institutions in EMDEs tend to be more “takers” than “makers” although this distinction is by no means always clear cut.

Much of the focus of supervision up to now has been on the necessary adjustments to financial institutions’ risk management to take account of heightened climate risks (that is, on their role as “takers”).⁷ But there is increasing focus on ways in which financial institutions should be required to limit their contributions to climate-related change and on their role as sources of sustainable finance and the opportunities created by this.⁸

Whether the boards and managements of financial institutions see themselves principally as climate-related change takers or recognize their role in contributing to such changes (makers), financial institutions need to formulate a response. To the extent that this involves significant changes in their business activities or models this should involve the development of a **transition plan**.

⁶ The Greenhouse Gas Protocol (GHGprotocol.org) has identified three levels or ‘scopes’ by which greenhouse gas emissions (GHGs) may be created by any company:

- Scope 1: direct emissions. Emissions that are owned or controlled by a company (for example the use of vehicles burning fossil fuels).
- Scope 2: indirect emissions. Emissions that are the result of energy that is purchased and used (for example the use of electricity used in the company’s buildings).
- Scope 3: indirect emissions. Emissions created from the activities that make up the company’s value chain (such as the purchase, use and disposal of products from other companies).

Financial institutions will have emissions in all three scopes. But most of their ‘risk making’ activities will result from financing (through lending, insurance or issuance) detrimental activities of their customers or counterparties - categorized as Scope 3 activities.

⁷ For example, Basel Committee (2022 and 2024) and International Association of Insurance Supervisors (IAIS) (2021 and 2024).

⁸ For more on this see Toronto Centre (2021). The Intergovernmental Panel on Climate Change (IPCC) has estimated that a 3-to-6-fold increase in financing of sustainable activities is needed by 2030 if global warming is to be limited to 1.5 degrees Celsius. Reported in GFANZ (2024).

What are transition plans?

There is no universally accepted definition of what constitutes a transition plan or any international standard for these.⁹ For the purposes of this Note a distinction is made between two types of transition plans:

Type a:

Plans which involve systematic changes to business activities or models **in response to the heightened inherent risks** resulting from climate-related changes. These plans, which are closely aligned with traditional risk management and focus on financial institutions' roles as climate-related change takers, are sometimes described as **adaptive plans**. They are likely to involve reductions in business with customers/counterparties associated with elevated levels of climate-related physical or transitional risks (for example reduced levels of general insurance or lending in climate-affected regions) together with associated changes in limits and other internal mechanisms.

Type b:

Plans which aim **actively to reduce the carbon or GHG emissions to which financial institutions are seen as contributing**, reflecting their roles as climate change makers. They consist of targets, mechanisms, and road maps for achieving significant reductions in GHG emissions by a given date. Two widely used definitions of such change-limiting plans are:

“An aspect of an organization’s overall business strategy that lays out a set of targets and actions supporting its transition towards a low-carbon economy, including actions such as reducing its greenhouse gas (GHG) emissions.” **(Task Force on Climate Related Financial Disclosures (TCFD))**

“A set of goals, actions and accountability mechanisms to align an organization’s business activities with a pathway to net zero GHG emissions that delivers real-economy emissions reductions in line with achieving global net zero.” **(Glasgow Financial Alliance for Net Zero (GFANZ))**. The GFANZ specifies that transition plans should be consistent with achieving net zero by 2050 at the latest. In practice transition plans may encompass other GHG goals but the rest of this box uses net zero as an illustrative target for Type b) transition plans.

⁹ NGFS (2023a) discusses a variety of types of transition plan as does FSB (2025) which also sets out the links between transition planning, financial stability and macroprudential policy.

Type b) transition plans should contain the following key elements:

Targets, goals and priorities

- A definition of the institution's long-term objectives, strategy and priorities for reaching net zero, including interim and long-term targets and strategic priorities.
- A clear analytical basis for understanding the relationship between the activities of the institution, its financing of customers/counterparties, and the trajectory for emissions and consistency with a path to net zero.¹⁰

Implementation

Concrete actions across the business, specifically:

- Products and services to support its own and its counterparties' moves to net zero.
- Activities and decision making which embed net zero priorities into decision making tools and processes in the business.
- Policies to establish institution-wide policies on priority sectors and activities.

Engagement

With key stakeholder groups:

- Customers/counterparties and portfolio companies on their own transition plans and strategies and the provision of comprehensive and reliable data to support this.
- The rest of the financial sector – to address common challenges and develop a cohesive approach.
- Government and the public sector – to support and encourage an orderly transition to net zero widely and in engagements with other supervisory/regulatory bodies.

Metrics and targets

- Reflect and support the execution of the transition plan and progress over time in the context of moves to emissions reductions in the wider economy.

Governance

- Clear roles, responsibilities and accountability of senior management and boards to ensure that transition is embedded in senior levels of governance in the organization supported by appropriate incentives.

Engagement of senior management and boards in capacity building; the promotion of necessary cultural change; and the alignment of incentives in the wider institution.

¹⁰ That is, in terms of the Greenhouse Gas Protocol mentioned earlier, all Scope 1 to 3 emissions.

Implications of climate-related risks for supervision

The impact of climate-related risks (physical and transitional) on financial institutions as **takers** should already be an area of focus for all supervisory authorities with a prudential soundness objective (and, to some extent those that also have consumer protection and financial inclusion objectives). The appropriate supervisory response is discussed in several earlier Toronto Centre Notes.¹¹ *The main question for supervisors is: “How are inherent risks (such as credit, insurance and conduct) heightened as a result of climate-related developments and how effectively are supervised institutions identifying and controlling these increased risks?”*

Many supervisory authorities also have the objective of maintaining financial stability. This brings into focus the system-wide implications of these heightened risks. *The question for supervisors and others with such responsibilities is: “What is the scope for the (heightened) risks resulting from climate-related developments to affect financial (and even systemic) stability? What micro- and macroprudential tools should be deployed to address these?”*

The issues for supervisors arising out of financial institutions’ role as climate change **makers** are less clear cut and supervisory stances in this area are still evolving.

- Many **national governments** have made commitments to climate change targets, for example by setting targets for greenhouse gas (GHG) emissions. Financial institutions in these jurisdictions may be expected to contribute to the achievement of these goals even if specific targets are not set for them.
- Some **supervisory authorities** have made it clear that they see the control of climate related emissions as part of their supervisory focus regardless of any wider government initiatives.
- Even in the absence of government or supervisory requirements, many **financial institutions** have decided that they wish to limit such emissions (or at least be perceived to be doing so) in response to shareholder pressure or to seek reputational advantage.¹²

In all of the above cases supervisory authorities need to decide how to incorporate financial institutions’ altered targets, business activities and controls into their supervision.

Supervisory remits

Supervisory authorities are unlikely to have formal mandates for limiting financial institutions’ contributions to climate change and many are unsure about how this fits within their existing responsibilities. Most supervisory authorities have formal objectives which are set out in statute and typically focus on:

- The maintenance of financial institutions’ prudential soundness.
- The maintenance of financial stability.

¹¹ Summarized in Toronto Centre (2023a).

¹² For example, GFANZ, several of whose publications are cited in this Note, is an industry led and driven body.

- The avoidance of harm to users of financial services through misconduct by financial institutions.
- The reduction or prevention of financial crime and money laundering.

Other common objectives include financial inclusion, market integrity, aspects of financial development, and the promotion of the jurisdiction as a financial centre. In the context of risk-based supervision (RBS) 'risk' is defined as anything that may significantly jeopardize the achievement of these statutory objectives.¹³

Very few (if any) supervisors currently have formal, legally based remits to limit financial institutions' contributions to climate change. There is a growing feeling that supervisors should challenge financial institutions to demonstrate that they have mechanisms in place to limit such contributions, but these do not generally have the status of formal obligations, and this may remain the case for some time, posing a number of problems for supervisors.

In the absence of a formal mandate to reduce financial institutions' contributions to climate-related change this may become subordinated to other formal objectives *unless* a convincing and defensible case can be made that this impacts on existing statutory objectives.

Supervisors therefore need to think carefully about how climate-related risks fit with their existing statutory objectives. This may not be completely straightforward - the following scenario illustrates the potential difficulties involved.

Example:

- The government in jurisdiction X has said that it expects the supervisory authority to assess the effectiveness of steps being taken by financial institutions to limit the GHG emissions for which they are (directly and indirectly) responsible. This is in addition to the authority's 'conventional' risk assessment activities.
- The supervisory authority makes the judgement (on the basis of dialogue and scrutiny of its transition plan) that one major supervised financial institution is falling short. It has no convincing mechanisms for monitoring or reducing its own GHG emissions or those of its customers and counterparties. The supervisory authority communicates this finding to the board and asks it to develop an improved plan.
- In the absence of a formal remit a confrontational financial institution may challenge such a finding and requirement on the grounds that the supervisor authority's remit (based on its statutory objectives) does not provide it with the authority to make such a finding and require improvements. The improvements being sought would be costly and would have an impact on the institution's earnings and ability to build up capital and therefore (they would argue) be detrimental to its financial soundness.

¹³ See Toronto Centre (2019).

Supervisory authorities therefore need to be clear about their rationale and locus in making these kinds of assessments and interventions.

- Climate-related changes contribute to heightened ‘conventional’ risks (such as credit and insurance risks) on which supervisors traditionally focus. However, this refers to risks arising from financial institutions being climate change takers and does not address the supervision of institutions’ efforts to limit their contributions to climate change.
- To the extent that supervised institutions change their business activities and models to limit their contribution to climate related change, this can be viewed as similar to any other significant change to the business. Supervisors therefore have a legitimate interest in how well the change project is overseen, managed and monitored (this is explored further in Case C below).
- The strongest basis for supervisory involvement is that, in contributing to climate change, **supervised financial institutions are contributing to financial instability which does come within many supervisors’ remits**. While it is not possible to attribute current or future financial instability to the activities of any individual financial institution, the link with financial stability creates a locus for supervisors to require all supervised institutions to put in place plans to limit their contributions to climate-related change.

It is imperative that supervisory authorities have a persuasive and legally sound rationale for including the risk of driving climate-related change within existing supervisory mandates. **This is most likely to centre on the scope for such change to create financial instability.**

Four cases

There is currently no uniformity in financial institutions’ approaches to limiting their contributions to climate-related change or in supervisory responses to these.

- Financial institutions are at very different stages in developing their stances towards climate-related change.
- Supervisors have different expectations of financial institutions in this regard and many are unclear about what their mandates require or allow.
- Financial institutions wishing to limit their contribution to climate-related risks should (and do) formulate transition plans directed to this end. But they often do not have sufficient information from customers/counterparties for these plans to be fully effective.

This section of the Note examines four illustrative ‘cases’ and sets out what each implies for financial institutions, their transition plans, and for supervision. These are summarized below.

Case	Implications for:		
	Financial institutions (FI)	Transition plans	Supervision
A	Financial institutions react to heightened climate-related risks (“takers”); no fundamental changes to their business activities or models; no focus on their contributions to climate-related risks (“makers”).		
	<ul style="list-style-type: none"> • Reactive management of heightened climate-related risks only • No significant change in activities • No change in activities to limit contribution to climate related change (“maker”) 	<ul style="list-style-type: none"> • FI will have some documented response to heightened risks – e.g. altered limits • But no comprehensive transition plan 	<ul style="list-style-type: none"> • Assess whether this reactive approach is adequate to address the risks • Monitor effective management of heightened risks
B	Financial institutions make changes to their business activities/models in response to climate-related risks (“takers”); but still no focus on their contributions to climate-related risks (“makers”).		
	<ul style="list-style-type: none"> • Change in business activities in response to heightened climate-related risks • No change in activities to limit contribution to climate related change (“maker”) 	<ul style="list-style-type: none"> • Documented changes in FI’s business activities • Transition plan limited to ‘taker’ aspects – does not extend to FI’s role as “maker” 	<ul style="list-style-type: none"> • Assess impact of changes in activities and associated management and controls for net risk • Assess net risk and financial resources

C	<p>In addition to business changes to manage heightened climate-related risks (takers), financial institutions change their business activities/models to limit their contributions to such change (makers). There is no supervisory requirement to do this.</p>		
	<ul style="list-style-type: none"> • Change in business activities in response to heightened climate-related risks • Plus change in business activities to limit contribution to climate change • Initiative driven by the FI (e.g. in response to shareholder, customer, or government pressure) – not supervisor driven 	<ul style="list-style-type: none"> • Detailed transition plan, including objectives (e.g. for carbon/GHG emissions); trajectory for these; means of achieving them; ownership; and monitoring the delivery of the plan 	<ul style="list-style-type: none"> • Identify potential implications for “conventional” risks (e.g. conflicts with other objectives) • Assess potential strategic risk
D	<p>In addition to managing heightened climate-related risks (takers), financial institutions change their business activities/models to limit their contributions to such change (makers). There is a <u>formal supervisory requirement</u> to do this.</p>		
	<ul style="list-style-type: none"> • Change in business activities in response to heightened climate-related risks • Plus change in business activities to limit contribution to climate change • Initiative is in response to a formal supervisory requirement 	<ul style="list-style-type: none"> • Detailed transition plan required by the supervisor, including objectives (e.g. for carbon/GHG emissions); trajectory for these; means of achieving them; and monitoring the delivery of the plan • The transition plan has the same 	<ul style="list-style-type: none"> • Assess FI’s compliance with supervisory requirement to limit contribution to climate change (existence and effectiveness of transition planning) • Identify potential implications for “conventional” risks (e.g. conflicts with other objectives)

		characteristics as in Case C, but it is now a supervisory requirement	<ul style="list-style-type: none"> Assess potential strategic risk
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The cases can be illustrated in diagrammatic form as follows:

		A	B	C	D
Financial Institution	Purely reactive taker	Yes	No	Probably no	Probably no
	Changed activities as taker	No	Yes	Probably yes	Probably yes
	Strategy to limit maker contribution	No	No	Yes	Yes
	Transition plan	Probably no	Yes but limited	Yes	Yes
Supervisors	Supervisory mandate and formal oversight of Type b) transition plan	No	No	No	Yes

Case A

In this case financial institutions recognize that they are affected by climate-related risks but do not take into account any potential contribution they make to these - and supervisors do not require them to do so. Financial institutions may take largely ad hoc and reactive measures to mitigate the heightened inherent risks – for example by reducing business with a small number of riskier customers or counterparties – but they do not make any systematic business changes.

In pursuing their conventional risk-based mandates supervisors need to be assured:

- That supervised financial institutions identify and monitor the extent to which their conventional inherent risks are being increased by climate-related risks; and
- That these ‘augmented’ risks are being managed and controlled effectively. One question for supervisors will be whether the largely reactive approach being taken is adequate, or whether a more comprehensive approach (similar to that outlined in Case B below) is required.
- But there is no supervisory requirement for institutions to limit their contributions to climate-related changes.

Implications for transition planning

Financial institutions would be expected to document:

1. The perceived impacts of climate-related change both currently and in the future.
2. Their (mostly reactive) changes – to exposure levels for example – that are being introduced in response to these.

In this case there are no fundamental changes to the institution's activities or business model. Neither is there any attempt to identify or limit the institution's contribution to climate-related change. **For these reasons this case does not involve the creation of a transition plan of the types described in the box on pages 7-8 above.**

Supervisory implications

The following box lists a number of questions that supervisors might pose to supervised financial institutions in Case A where the focus is solely on the impact of (climate augmented) inherent risks. The list is by no means exhaustive and concerns only this sub-set of (climate augmented) risks.

Supervisory questions:

- How are climate-related changes affecting your business? What metrics do you have for your conventional inherent risks and how these have been augmented by climate-related changes?
- What are your projections for how climate-related changes will affect your business over the short, medium and long term?
- How have you arrived at your projections for the effects of climate-related changes? Have you undertaken stress testing and/or scenario analysis?
- How have you satisfied yourself that your (essentially reactive) response identifies and effectively controls climate-related risks?
- What have been the roles of senior management and the board/board committees in understanding the impacts of climate-related change and developing the response?
- What are the arrangements for the ongoing monitoring of climate-related risks and how effectively are these risks being mitigated?

Supervisory intervention

Based on their assessments supervisors may require conventional remedial measures to address what are judged to be excessive levels of net risk.¹⁴ This may include the implementation of more extensive or comprehensive measures to mitigate augmented climate-

¹⁴ A detailed framework for Risk Based Supervision is set out in Toronto Centre (2019).

related risks but **will not, in this case, include measures designed to mitigate the financial institution's contribution to such risks.**

Even where the focus is solely on financial institutions as climate change takers, supervisors will need to be assured that there is a reasonably systematic, forward-looking approach to mitigating climate-related risks. Within RBS there is a general expectation that institutions of any degree of complexity should adopt a comprehensive and forward-looking approach to the identification and management of risk. Supervisors may therefore judge that for some institutions, a narrow, largely reactive approach as set out in Case A is not acceptable and that a response closer to that of Case B may be required.

Case B

In this case a financial institution also recognizes that inherent risks are being heightened by climate related change. The response goes beyond that of Case A in that the senior management and board introduce more systematic changes to business activities (and potentially the business model) to address and mitigate such risks. Decisions may be made, for example, to scale down or withdraw from lending or insurance activities in certain sectors or to rebalance portfolios to reduce holdings of assets susceptible to transition risks. It will then be necessary to re-evaluate and adjust controls to ensure that these are adequate in the face of the new, adjusted profile of inherent risks.

As in Case A these changes are intended to limit the institution's vulnerability to risk as a climate change taker. No attempt is made to limit its contribution to climate-related changes. Supervisors need to be assured that the 'taken' climate-related risks are being adequately addressed but they place no requirement on financial institutions to limit their roles as makers.

While most supervised financial institutions are experiencing the effects of climate change and/or biodiversity loss, such a systematic assessment of the continuing impact of such changes is challenging. The chain of causality which starts with unsustainable emissions of carbon and GHGs in the wider global economy and ends with ongoing impacts on the quality and value of individual financial institutions' assets is a highly uncertain one.¹⁵ For this reason, conventional economic and financial modelling are of limited value and other techniques such as scenario analysis and stress testing assume a particular importance in the kind of adjustment envisaged here. Such approaches have been described in detail in earlier Toronto Centre Notes.¹⁶

¹⁵ See Toronto Centre (2023a and 2023b).

¹⁶ For more on scenario and stress testing see in particular Toronto Centre (2023b). In brief:

Scenario analysis explores a range of high-level pathways for climate change and their implications for global warming, macroeconomic variables, and microeconomic impacts. These can feed into financial institutions' scenario planning.

Stress testing is the process by which financial institutions can evaluate the effects of severe but plausible shocks on their balance sheets and financial strength.

Implications for transition planning

The financial institution should document the changes in activities or business model setting out details of:

- The exact business changes proposed with forward trajectories for types and levels of engagement (for example: “we will reduce our lending to sector X (or all sectors with similar risk characteristics) by 50% over the next three years”).¹⁷
- Expected outcomes from the changes on the business (for example: based on the changes climate-related insurance claims are expected to fall by 30% over the next three years compared to a zero-adjustment baseline).
- Implications of the changes for management and controls – such as adjustments to limits in response to the altered pattern of business.
- Implications for the financial institution’s risk appetite and how compliance with this and any embedded targets are reported internally.

This documentation may need to be quite extensive – particularly if the changes to business activities are of a scale where they can be viewed as an alteration to the business model or even a change in strategy. This may be seen as representing an ‘**adaptive**’ transition plan (Type a) in the box on pages 7-8. **As in case A, however, it does not represent a full transition plan in the sense that it does not include measures to limit the institution’s contribution to climate change.**

Supervisory implications

Supervisors will need to understand fully the changes in the business activities/model in order to assess whether the significant activities undertaken by the entity have altered; the inherent risks embedded in these; the effectiveness with which they are being controlled and managed; and the adequacy of financial resources to support these (net) risks.

The question may arise as to whether the adjustments being undertaken are on a scale that could represent a change of strategy and hence pose strategic risk. Previous Toronto Centre Notes have characterized strategic risk as any change to the business model or strategy whose success or failure will be critical to the well-being of the financial institution.¹⁸ Relatively modest, defensive changes to business practices will not come into this category but major, highly publicized changes to the business model could do so. Strategic risk is discussed in more detail in connection with Case C below.

Supervisors will also need to identify and understand any interdependencies among the new pattern of risks in the business and any potential conflicts among supervisory objectives. For example, decisions to disengage from particular sectors or industries could conflict with financial

¹⁷ Note that in this instance sector X may not itself be responsible for high emissions. The focus here is on financial institutions as climate change takers so sector X is likely to be characterized by its vulnerability to climate related change (for example housing in newly flood-prone areas where buildings insurance is no longer viable).

¹⁸ Strategic Risk is discussed in more detail in Toronto Centre (2022b).

inclusion objectives. Examples of possible interdependencies/conflicts and potential unintended consequences are as follows:

Possible interdependencies/conflicts:

- A switch from business activities judged to be potentially vulnerable to climate-related change to those seen as being less vulnerable may involve lower returns in the short to medium term, with detrimental implications for earnings and profitability.
- A switch from potential 'stranded' assets (that are susceptible to transition risk) to greener/more sustainable ones may involve losses, lower returns and higher volatility in the short to medium term.
- Future returns or profitability resulting from a switch in business may be uncertain if government commitments to global warming initiatives prove unreliable (for example if future decisions may be taken to move more slowly towards climate targets).
- A decision to undertake less business with vulnerable customers/counterparties may result in some individuals or groups suffering economic hardship or financial exclusion (possibly contrary to a financial inclusion objective).

The following box lists a number of questions that supervisors might put to supervised financial institutions in Case B. The list is not exhaustive and concerns only climate-related risks.

Supervisory questions:

All of the questions posed in connection with Case A remain relevant to Case B. Supervisors need to be assured that the financial institution has identified climate-related risks and the effect these are having in augmenting 'conventional' inherent risks. In Case B there is likely to be an increased focus on scenario analysis and stress testing.

- How have you arrived at your assessment of current and future climate-related risks? What metrics have you used? What use have you made of scenario analysis and stress testing?
 - What scenarios and stresses did you apply?
 - How was the process managed? Who conducted the tests and who discussed and made decisions based on the results?
 - What were the results?
 - How did you translate these results into balance sheet implications?
- What role did senior management (including Risk Management) and the board have in: a) approving the scenarios and stresses; and b) acting on the results?
- What has been the outcome in terms of:
 - Strengthened oversight and controls?
 - Changes in business activities or the business model?

- How have internal controls been altered or strengthened in response to the changes?
- How extensive are the business changes? Are they relatively marginal or could they be considered a significant change to your business model or strategy?
- What was the process for deciding on the changes? What role did Risk Management and the Board play?
- Has the institution's risk appetite changed? (Or are the changes designed to remain within the existing risk appetite?)
- What are your projections/targets for the impact of the changes on the financial position of your business (for example, loan quality, volume of insurance claims)?
- What arrangements are in place for
 - Monitoring the changes to your business activities/model; how these are being implemented; and the consequences for the business?
 - Reporting on these to senior management and the board?

Supervisory Intervention

As in Case A supervisors need to be assured that the institution fully identifies the inherent risks embedded in its business and how climate-related changes are having an impact on these. The changes in business activities (designed to lower conventional inherent risks) and the management and controls applied to these need to add up to an acceptable level of net risk. If net risk is considered to be unacceptably high the most likely supervisory response in this case is likely to be a requirement to strengthen controls and/or strengthen financial resources. **As in Case A, supervisory requirements will not include measures designed to mitigate the institution's contribution to such risks.**

Even where the supervisory focus remains solely on the risks to financial institutions as climate-related change takers, this kind of systematic, analytical and forward-looking approach will be viewed by many supervisors as a minimum standard for many institutions consistent with the general expectation within an RBS framework.

Case C

In this case financial institutions recognize and adjust to the augmented inherent risks resulting from being climate change takers (as in cases A and B), but they **also take active steps to reduce their contribution to climate-related risks (that is, as makers)**. It is assumed in this case however that **this is not a formal supervisory requirement**. The initiative to reduce their role as climate change makers has come from the financial institutions themselves in response to pressures from their management, board or shareholders (which in turn may reflect market pressures), or in response to a general government exhortation.

Implications for transition planning

The goal of reducing their role as climate-change makers means that financial institutions will need to develop explicit plans for achieving this through a reduction in their contributions to

drivers of climate-related risk such as the financing of carbon/GHG emissions. **This will require the development and implementation of a full Type b) transition plan as described above (see box on pages 7-8).**

Supervisory implications

In their supervision of any financial institution, supervisors need to be satisfied (as in Cases A and B) that it has put in place mechanisms to identify and control inherent risks as augmented by climate-related changes (that is, as climate change takers). They will also need assurance that any potential conflicts in objectives or unexpected outcomes are managed. These are likely to remain the principal focus of supervision in this case.

In this case supervised institutions are choosing to alter their business models or make strategic changes when there is no formal supervisory imperative for them to do so. **The supervisory response to this will be similar to that in the face of any other strategic change** with supervisors focusing on the nature of the change; its extent and implications for the institution's risk profile; and how effectively it is being managed.¹⁹

Supervisory questions:

All of the questions posed in connection with Cases A and B remain relevant to Case C. Supervisors need to be assured that the financial institution has identified climate-related risks and the effect these are having in augmenting 'conventional' inherent risks.

In addition, supervisors will need to probe the following areas in Case C:

- What exactly is the nature of the strategic change you are making?
- What will this mean for the business model in future?
- How fundamental is this to the future direction of the institution? (For example, 'we will make best efforts to move in this direction' or 'this is a key plank of our business going forward on which shareholders and others will judge us and whose success will impact our financial soundness')
- What commitments have been made to external stakeholders in connection with the changes?
- What is your transition plan?
- What targets have you adopted:
 - For your institution's own 'direct' contribution to climate-related change?
 - For its 'indirect' contribution – in particular through the activities of customers and counterparties that it finances (scope 2 and 3 emissions)?
- How have you modelled/estimated the link between things you can measure directly (amount of lending/other financing to sector X) and those you cannot (the GHG emissions associated with this)?
- Do you receive sufficient high-quality data to make reliable estimates of this?

¹⁹ See Toronto Centre (2019) and Toronto Centre (2024b).

- If not, what workarounds/approximations are you using?
- What interactions are you having with customers/counterparties about improving the quality and quantity of data?
- What assessment have you made of the impact of the business model changes on your 'conventional' inherent risks
 - Credit, market, operational etc.
 - Conduct (risk of greenwashing) and other objectives such as financial inclusion?
- What changes have been made to limits and other controls to ensure that the risks associated with the changed business model are being managed effectively?
- What role did the board have in signing off on these changes and what will be its role in overseeing progress?
- How has your risk appetite changed? How has this been reflected in the risk appetite statement?
- How are you monitoring the success of the changed business model/strategy?
- What mechanisms are in place to review the implementation and effectiveness of the strategy?

Supervisory intervention

As in the previous cases supervisors will intervene if they are not satisfied that the (climate augmented) inherent risks in the business are being effectively managed or controlled. This is likely to take the form of a requirement to strengthen controls and/or increase holdings of financial resources.

Regarding the Type b) transition plan there are two potential risks to which supervisors may feel the need to respond:

1. The transition plan may not deliver the reduction in carbon/GHG emissions expected of it. It will therefore not be effective in reducing the financial institution's contribution to climate-related change.
2. The plan is not formulated or being implemented with sufficient clarity or robustness to drive/support a strategic/business model change of the magnitude envisaged.

Supervisors may not have the technical capacity to make firm judgments about (i). This is discussed further under Case D below.

They may therefore be on firmer ground in making judgements about (ii) where the issues are more generic. *The supervisory question is: "Can the supervised institution demonstrate that the change in strategy appears to have solid analytical foundations; involves meaningful and measurable targets; has proper ownership and accountability; and is accompanied by the necessary structural and cultural change?"* These are relevant questions in the case of any significant strategic change whether climate-related or not. If the institution cannot demonstrate these, the transition plan may fail to deliver on its climate-related targets, but the supervisory focus would be on the fact that a significant project is being poorly managed.

Case D

This case is similar to Case C in that, in addition to responding to climate-related risks, financial institutions seek to limit their contributions to such risks through the development and implementation of a transition plan. **The key difference in this case is that this is now a formal supervisory requirement.** Supervisory authorities have either had their mandates and objectives explicitly changed to encompass such a requirement or they are confident that they can interpret their existing mandates (in particular for financial stability) to allow them to encompass climate transition plans explicitly and exercise formal powers if these are found to be deficient.

Implications for transition planning

Having a formal requirement to reduce their role as climate-change makers means that financial institutions need to develop explicit plans for achieving this through a reduction in their contributions to drivers of climate-related risk such as carbon/GHG emissions. **This will require the development and implementation of a full Type b) transition plan** which will now also be the subject of formal supervisory scrutiny.

Supervisory implications

Supervisors now have the additional task of evaluating the effectiveness of the transition plan not (as in case C) as a generic example of strategic change but specifically in terms of its stated goal of reducing carbon/GHG emissions. This is a **key and fundamental addition to the range of supervisory responsibilities.**

- Supervisors still need to address all of the questions about physical and transition risks resulting from being a climate-risk taker set out in the cases above.
- A supervisory authority will need **explicitly to assess the risks financial institutions pose to financial stability as climate change makers.** Supervisors will then need to **set targets for each financial institution** and form a judgement about the adequacy and effectiveness of the institution's transition plan in delivering against its target so that collectively the risk to financial stability is reduced.
- For an individual institution this may be an 'indirect' risk in that financial instability may not be an immediate, direct or unique consequence of the activities of any individual institution, but this is the most obvious approach for supervisors in this case. It is also recognized that the contributions to climate-related change for many smaller or simpler institutions will be small and measures to reduce it may correspondingly be more limited.

Supervisory questions:

All of the questions posed in connection with Cases A, B and C remain relevant to Case D. Supervisors need to be assured that the financial institution has identified climate-related risks and the effect these are having in augmenting 'conventional' inherent risks.

Supervisors will also need to probe the following:

- What does the transition plan consist of and how will it limit your institution's contribution to climate-related risks?
- Does the transition plan contain:
 - Targets and milestones – final and intermediate - for carbon/GHG emissions and the drivers of these?
 - Targets/trajectories for the allocation of capital which are aligned with your climate-related goals?
- What analysis is there to show the link between the measures covered in your plan; the trajectory for carbon/GHG emissions; and the achievement of your ultimate climate goal (such as “net zero” by a specified date)?
- To what extent is this based on comprehensive and reliable data from customers/counterparties?
- What approximations/work arounds are you using where data are insufficient?
- How are you interacting with customers/counterparties to improve the quality and quantity of data?
- How do you verify information and plans received from counterparties – for example to prevent greenwashing?
- What will the plan mean for your business model in future?
- How is the plan being implemented?
 - What detailed changes are being made to your business model, product mix, target sectors and industries, sales processes and limits?
 - How are your internal decision-making processes and controls being adjusted in the light of these?
- How are you engaging with counterparties and other stakeholders to help drive implementation of the plan?
- What are the main risks/uncertainties in the delivery of the transition plan and how are these being addressed?
- What metrics, KPIs and target do you have to monitor progress?
- How are these reported internally – including to the board?
- What role did the board play in approving the plan? To what extent are they actively monitoring its progress – and how is this being done?
- What role is the board playing in overseeing capacity building (in climate-related expertise) and promoting necessary cultural change?
- How has your risk appetite changed in the light of the transition plan? How has this been reflected in the risk appetite statement?
- What review mechanisms do you have in place to monitor the progress of the plan and any adjustments that might be necessary?

This extended approach to the supervision of financial institutions' role as climate change makers presents a number of issues for supervisors.

1. Who should set financial institutions' climate-related targets?

To be meaningful in addressing the financial stability risks arising from climate-related change, financial institutions' transition plans need to incorporate a target for one or more key drivers of this such as GHG emissions. In this case, where it is a supervisory requirement that institutions have plausible and effective transition plans, it is logical that **the supervisory authority should set the target.**

- Where national governments have set targets (the preferred situation) these should form the basis of the target/objective set by the supervisor. For example, "All supervised financial institutions should have plans aimed at achieving net zero GHG emissions by date X – consistent with the plans set out by central government." The setting of clear targets by national governments combined with effective government measures for the achievement of these greatly increases the impact of target setting by supervisors who otherwise may lack the necessary leverage in this.
- Where national governments have not set such goals, the supervisory authority needs to take the lead in setting targets itself. For example, "Supervised financial institutions should have plans aimed at achieving net zero GHG emissions by date Y". Two points need to be borne in mind in this case:
 - Supervisory authorities would not set the climate goals in a vacuum. Given the wider economic impacts, target setting needs to be done in close consultation with the national government and the financial sector itself. It needs to be recognized that the transition to lower emissions will inevitably involve financial institutions in costs and difficult strategic decisions and that if supervision is disproportionate or heavy handed this may also encourage a self-defeating switch to financing from unregulated institutions.
 - Supervisory authorities may also judge that there is a case for creating a common standard or goal but permit *some* variation around this recognizing that for some institutions the transition will be costlier and more protracted than for others. In this case any variation from the common target would be agreed on an institution-specific basis and the institutions concerned assessed in terms of their compliance with this. It should be emphasized that allowing such latitude on pragmatic grounds would not represent any weakening of commitment on the part of the supervisory authority or supervised institutions.

2. Supervisory remits and powers

The maintenance of financial stability is an objective for most supervisors. Climate related changes pose a clear risk to financial stability and supervisory authorities should establish clearly (within their organizations and with stakeholders) that this provides the basis for limiting financial institutions' contribution to climate change. The detail of how they do this is a matter for each jurisdiction.

3. Data and information

Extensive modelling and research has been undertaken aimed at understanding the link between the drivers of climate change (such as emissions of GHGs) and the ultimate

consequences of this for global warming.²⁰ It is neither necessary nor, in general, possible for supervisors to engage directly in such exercises. The main requirement for the ‘extended’ supervision of climate-related risks is that reasonably reliable information is available about the current and prospective GHG emissions of supervised institutions themselves and the counterparties they finance to allow an assessment of the extent to which current and future financing are consistent with climate change targets set elsewhere.²¹ Extensive work is under way (for example in the creation of the ISSB standards) to deliver this, although there is still some way to go in this (see the Annex).²² Notwithstanding the current data and information shortcomings the following need to be emphasized:

- **Neither financial institutions nor supervisors should delay taking action** until information is judged to be complete, comparable and reliable. Procrastination is not an option and will result in both physical and transition risks becoming even more acute. Financial institutions and supervisors need to consider how best use can be made of the information, albeit imperfect, that is available.
- **In the short term this is likely to involve the use of (second-best) workarounds.** These might involve measures such as reviewing business done with generic categories of counterparty associated with different levels of emissions rather than reviewing individual counterparties. Supervisors need to form a judgement about whether such workarounds are useful and convincing and the extent to which institutions are prepared and able to make use of better information as it becomes available.
- **Financial institutions should be pressed to maintain a dialogue with customers and counterparties** about ways in which information flows can be improved. Financial institutions should not be passive in this. They are in a position to exercise considerable leverage in requiring information and should make maximum use of this.²³
- There is also a need for **dialogue among financial institutions; between institutions and supervisors; and among supervisors** on these difficult issues. While supervised institutions cannot be expected to share commercially sensitive information there is scope for sharing emerging sound practice in securing and interpreting information from customers/counterparties and the potential benefits from doing so. Such a dialogue would enable supervisors to incorporate emerging sound practices into their supervisory expectations and thereby to reflect it back to the financial sector. Discussions among supervisors in college and standard setting meetings would help to promulgate these expectations more widely.²⁴

²⁰ See for example NGFS (2023b) which sets out a number of scenarios linking emissions, temperature change and variables such as global GDP and other indicators of economic activity.

²¹ These comments apply equally to biodiversity loss. The term ‘climate change’ is used for reasons of brevity.

²² See also NGFS (2024c) for a discussion of the current state of play and FSB (2025) for a discussion of ‘enabling conditions’ necessary to make information of full value for transition planning.

²³ Examples of such leverage being applied are given in GFANZ (2022).

²⁴ The relationship between financial institutions and supervisors is often characterized as being confrontational, overlooking the fact that responsible, well-run institutions will often look to supervisors and their industry-wide perspective in developing sound practice.

4. Capacity building

Most supervisors do not currently have the technical knowledge to enable them to assess the detail of transition plans. They should nevertheless be able to conduct a dialogue with supervised institutions on generic aspects of strategic change (such as that set out in Case C) – including whether the proposed change is based on rigorous analysis, involves clear targets, and is being soundly project managed and governed.

Most supervisors will not be able to assess the reliability of counterparty information and ultimately whether the changes outlined in the transition plan will deliver the reduction in carbon/GHG emissions being aimed for. However, specialist knowledge can be obtained through the following:

- Development of some level of **expertise by ‘generalist’ supervisors**. While mainstream supervisors should not be expected to become experts in the detail of climate related issues, training and experience should be available to raise general knowledge in this area.
- The recruitment or development of **teams with specialist knowledge**. These would bring detailed knowledge of climate related risks and transition plans in much the same way as others currently do in areas such as traded risk, IT and corporate governance. They might operate ‘horizontally’ in supervisory authorities, being available to provide expertise to teams on an ‘as needed’ basis.
- The use of **third-party expertise**. Supervised institutions might be expected to use the services of outside specialist firms with detailed knowledge of climate related issues and, provided these prove to be credible (for example in having or developing proven track records), supervisors will be able to place some reliance on them.

Supervisory intervention

The supervisory dialogue around transition plans will involve the same kinds of questions as those listed for Case C above. Supervisors can use these types of questions to assess the risks posed by the supervised financial institution to its supervisory objectives **which now include limiting its contribution to climate-related change**.

This part of the assessment will start with the question “*How much is this financial institution contributing (directly and indirectly) to climate-related change through its own emissions and those of its customers/counterparties?*” It will end with an assessment of the credibility of the institution’s transition plan and how effective it is likely to be in achieving the targets set by the supervisory authority. Depending on this assessment supervisors may intervene to require the institution to strengthen its transition plan. Some possible elements of supervisory intervention are set out in the box below.

Possible elements of supervisory intervention (illustrative only):

This would need to include appropriate timelines for the actions required.

Revision of the transition plan with input from third party specialists to include:

- A rigorous and quantified assessment of the financial institution's current and recent contribution to GHG emissions based on analysis of:
 - Its own operations
 - The operations of its customers/counterparties
- Quantified targets and a timetable for a reduced contribution to climate-related change (such as achievement of net zero or an intermediate stage in this)
- A strengthened engagement strategy and clear objectives for obtaining meaningful, verified, high quality data from customers/counterparties
- Clearer targets and trajectory for future GHG emissions consistent with the overall target:
 - A pathway for the institution's own operations
 - A pathway for emissions resulting from the future pattern of its lending and other financing
- A clear statement of the strategy for achieving this including a quantified risk appetite statement which embodies it
- Evidence of clear ownership of, and commitment to, the transition plan on the part of senior management and the board who are able to demonstrate:
 - Regular oversight and monitoring of progress based on clear KPIs
 - Mechanisms for the plan to be adjusted in the light of new/emerging information and projections
 - Commitment to capacity building, training and the promotion of cultural change in line with the plan
 - A revision of remuneration and incentive structures to make them compatible with the plan

Transition planning within Risk Based Supervision

Supervisory bodies need to decide how best to incorporate this new dimension into their risk-based supervision. It would, in principle, be possible to regard supervised institutions' contributions to climate-related risks as a new category of risk and to include this in an expanded RBS matrix. However, this may not be the best approach because the focus needs to be on the contribution of the whole enterprise (rather than individual significant activities) to climate-related change, while the supervisory task is primarily the very specific one of assessing whether the transition plan is adequate to meet the targets set by the supervisory authority.

The preferred approach is therefore to deal with the transition plan in the same way as supervisors currently deal with ICAAP and ORSA documents, and with recovery plans. The high-level questions posed by supervisors, at an enterprise-wide level, would therefore be:

- Has the financial institution convincingly identified the contribution that it makes (directly and indirectly) to climate-related change?
- Does it have a transition plan which sets out clear targets for reducing this?
- Does the transition plan set out a plausible and effective path for achieving this reduction through changes in the business model and controls?

- Is the transition plan a ‘document of substance’ that is demonstrably owned by senior management and the board and underpins the institution’s business model and strategy?

The more detailed questions set out under Cases C and D above would then be used by supervisors in forming their assessment of the plan’s adequacy. In the event that the transition plan is found to be deficient supervisors may intervene to require improvements to it.

Conclusions

Climate-related change needs to be addressed as a matter of urgency. Extensive work has been undertaken by international standard setters and national supervisory authorities on strengthening supervised institutions’ risk management in the face of heightened, climate-related risks. Many financial institutions, however, contribute to such changes through their financing of customers’ and counterparties’ activities, which poses a threat to financial stability.

Considerable thought is being given to how these contributions to climate-related change can be limited. Many supervisory authorities are considering their role in this and how it fits within their mandates and responsibilities. The issues are complex and many supervisory authorities are unsure about how to approach this.

The most promising way forward would be for international bodies to develop agreed standards and targets for GHG emissions together with guidance on the content and supervision of transition plans.

In the absence of such internationally agreed standards a useful starting point would be for national supervisory authorities to consider as a strategic matter where they wish – or are able - to position themselves on the spectrum implied by cases A to D set out in this Note and to adjust their supervisory approaches and practices in the ways suggested.

Annex: Current work on disclosure standards

Bodies such as the Task Force on Climate Related Disclosures (TCFD) and the International Sustainability Standards Board (ISSB) have created disclosure standards for all (financial and non-financial) firms.²⁵ These are directed principally at issuers of financial instruments such as debt or equities and are intended to provide purchasers of such assets with information on the contributions that issuers are making to climate-related risks, thereby strengthening market information and discipline.

Toronto Centre (2024a) described how the adoption of such disclosure standards would be of value throughout the financial system. Reliable information about counterparties’ contributions to climate-related change is a key input to financial institutions’ assessment and management of risk (as takers). It also improves the information base for financial institutions’ transition plans aimed at limiting their own financing of climate-related risks (as makers). Improved information

²⁵ The ISSB has set out two standards: Standard 1 which sets out a general framework for sustainability reporting and Standards 2 which sets out a specific approach for climate-related disclosures. See ISSB (2023a and 2023b).

is also of value to supervisors in assessing the effectiveness of financial institutions' responses to climate-related risks. To be of maximum value disclosures (whether made generally available or provided specifically to financial institutions) would include independent validation of current and projected future emissions and compliance with targets.

Currently, disclosures by non-financial firms fall short of what is required to enable financial institutions to make systematic use of these in framing their transition plans. A survey by the Network for the Greening of the Financial Sector (NGFS)²⁶ found that:

- There is no uniform approach by financial institutions to the collection and use of non-financial firms' transition plans or emissions data. Many do not collect emissions-related data from counterparties at all (as they would be required to do if transition plans were a supervisory requirement).
- Many non-financial institutions do not produce usable data on their contribution to climate-related risks. Small and mid-sized enterprises often provide only limited data which are not publicly disclosed.
- There is often limited information on non-financial firms' scenario planning (where this exists) and how this is used in decisions about strategy.
- Issues with comparability and consistency make it difficult to use and aggregate such information as is available.
- Only around half the financial institutions surveyed engage in dialogue with counterparties about how to make data more 'decision useful'.

These shortcomings may be addressed in future through internationally coordinated standards, standardized templates for transition plans, and national emissions databases. Disclosure standards, including those of the TFCF and ISSB, are being implemented by a growing number of countries but there are no global standards for transition plans by financial or non-financial enterprises.²⁷ It is up to individual jurisdictions to choose whether, and in what form, to apply them.

²⁶ These deficiencies are discussed in NGFS (2024 a, b and c).

²⁷ However, there are plans in some countries for mandatory disclosures of transition plans.

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