

The Principals,
Glasgow Financial Alliance for Net Zero (GFANZ)

Email via inquiries@gfanzero.com

Date: 27 July 2022

Dear Co-Chairs,

Re: Railpen's response to the Glasgow Financial Alliance for Net Zero (GFANZ) Recommendations and Guidance on Net-Zero Transition Plans for the Financial Sector

Summary Response

Railpen broadly supports GFANZ's proposed recommendations and guidance on transition plans for the financial sector. We see the four transition principles, including financing climate solutions, aligned companies and transition enablers, and financing the orderly phase-out of high emission assets, as a starting point, while (i) highlighting the systemic impacts of financial institutions and (ii) recommending a forward-looking approach to transition planning for the financial system. We respond to the individual questions below, and take the opportunity here to draw GFANZ's attention to certain key points.

- **We emphasise the role of the financial system as a 'universal lender' and the need for alignment with universal ownership principles adopted by asset owners including Railpen** (i.e. that large, diversified, long-term investors are exposed to systemic risks that play out over decades). Even if these systemic risks are not priced in in the short term, we highlight the vested interest that universal owners and lenders have in mitigating systemic risks, including (i) price stability for green assets and related commodities and (ii) avoiding unwarranted economic, social and distributional consequences in line with Bank of England (BoE) considerations. **We recommend the use of an approach (sometimes referred to as 'double materiality') that requires financial institutions to consider and report based on both (i) issues that are financially material to their business but also (ii) issues that affect systemic risks within the environment, market, and society. These overarching systemic considerations should be incorporated into the transition principles for financial institutions.**
- **We recommend a credible and forward-looking approach to transition planning** that includes:
 - **Supporting the explicit use of science-based targets** for financial institutions
 - **A holistic approach including considerations of Just Transition and biodiversity**, along with actionable steps and granular criteria in all four approaches recommended (rather than as one indicator and/or a topic for future research). In particular, we would advocate a focus on decarbonisation strategies, capital allocation as well as biodiversity risks and their inclusion in the transition plan.

- **Alignment with principles and elements of the Sector Neutral Framework and Sectoral template for financial institutions, as being developed by TPT.** As part of our work at Railpen and in collaboration with IIGCC, TPT and other industry initiatives, we are assisting in the development of a practitioner-led, forward-looking and flexible approach to a Sector-Neutral Framework. This includes standard emissions data and consistent metrics, balanced with prescriptive sector-level templates to capture sector considerations, while maintaining higher levels of consistency and comparability. The current GFANZ framework and four principles align well with TPT's third principle in the definition of a transition plan, which is, "actionable steps the organisation plans to take to hit those targets". Therefore we strongly recommend aligning GFANZ' four principles framework and guidance for corporate transition plans with the development of the TPT framework, while also integrating certain 'double-materiality' factors such as Just Transition, biodiversity and other systemic considerations.
- **To incorporate engagement and stewardship feedback in the transition plan.** We view the evaluation and the considered incorporation of climate stewardship, engagement and voting discussions to be essential for users and preparers in transition planning. We recommend disclosure from financial institutions on their climate-related engagements both with their investors, companies and policy makers including climate transition, Net Zero progress and challenges.
- **Use of existing frameworks and Scope 3 emissions.** On existing resources for alignment assessment, we highlight Railpen's proprietary CRIANZA framework, the current work being done on with various industry collaborations on climate transition planning disclosure Railpen is meaningfully involved in these initiatives and would welcome the opportunity to discuss with GFANZ the ways in which existing resources can be used for GFANZ' purposes. We advocate explicitly including material Scope 3 emissions disclosure and targets to enhance the impact and credibility of the GFANZ framework.
- **Prioritising the standardisation of the framework for forward-looking alignment assessment (both on a sector-neutral basis and the sectoral template) for financial institutions before recommending ITR metrics and such.** Forward-looking portfolio emissions metrics like ITR carry little meaning without a standard agreed upon framework for sector-neutral alignment assessment combined with sectoral alignment. The important thing about a forward-looking metric is not so much the metric alone but its ability to identify areas of misalignment and feed this back to the engagement process (i.e. the engagement between companies and investors). The simpler binary and benchmark divergence metrics are able to do that much better than ITR, which fails on this front along (among several other issues). Forward-looking metrics like binary and benchmark divergence are very important as are their ability add value to the engagement process.
- **To incorporate user perspectives and provide context and comparability.** The four principles proposed for disclosure of a financial institution's activities will provide key insights into the financial institution's current activities relating to the transition. However, we believe the addition of the following three elements would support users' objectives (i.e. to assess a preparer's alignment status) and would provide comparability: (i) the financial institution's current

emissions profile, (ii) specific transition risks faced by the financial institution and (iii) the financial institution's long-term vision.

- **A learn-and-evolve approach for global financial institutions.** For global financial institutions we acknowledge the challenges today of the fragmented nature of regional decarbonisation targets. There are also a variety of decarbonisation pathways and modelling approximations. We recommend that the GFANZ use financial sector transition plans, especially from global banks and insurers, to obtain more regional intelligence through the sectoral templates. This would assist both users and preparers in their analysis, modelling, and also provide lead-ins for broader collective policy engagement.
- **Standardised format and location of transition plan disclosures.** Along with the context and mapping to existing disclosure standards (TPT, TCFD, ISSB), we recommend disclosures are located in mainstream corporate disclosures such as the Annual report and/ or 10K filings. We recommend using formats that promote consistent language in documents and sectionalisation to enable machine reading, natural language processing (NLP) and ease of dataset creation for automated review and analysis.

About Railpen

Railpen is the trading name of Railway Pension Investments Limited, which is authorised and regulated by the Financial Conduct Authority (FCA). Railpen acts as the investment manager for the railways pension schemes and is responsible for the management of around c. £37 billion of assets on behalf of over 350,000 members. We also operate as an authorised master trust in respect of our Industry-Wide Defined Contribution arrangement that operates for the benefit of members with c. £1.7bn of DC funds included in our total assets under management.

'Sustainable Ownership' is Railpen's approach to incorporating sustainability considerations into the investments it manages on behalf of members. Railpen's work is enabled by the Trustee's related investment belief: "Incorporating and acting upon climate risk and other environmental, social and governance factors are significant drivers of investment outcomes and part of our fiduciary duty".

As one of the largest UK pension funds, and one of the few remaining occupational pension schemes with open, immature, Defined Benefit (DB) sections, we recognise the impact of climate change on our long-term investments and contribute positively to the kind of world into which our members retire. As well as encouraging our portfolio companies to report against the TCFD framework, we recently supported the Railways Pension Scheme (RPS) with the production of its first full 2021 TCFD report. You can find out more about our work, including our Net Zero Plan, 2021 Stewardship Report and 2020 Sustainable Ownership Review on our [website](#).

Railpen's purpose is to secure our members' futures. We recognise that companies are required to produce significant levels of disclosure on their climate transition activities and therefore welcome the GFANZ framework for transition planning for financial institutions in a way that seeks to standardise and aid investor and member understanding of complex topics.

Our response

The consultation is in the form of a multiple-choice survey and Railpen has provided its answers to the questions along with the rationale for the same in line with the views outlined in the summary response above. We remain very willing to continue to contribute our internal expertise, including further detail on Railpen's CRIANZA framework, which we think could significantly benefit the shaping of financial sector transition plans.

We hope that this response has been of interest. Meanwhile, we will be happy to discuss further any of the issues raised and suggestions provided above.

Yours faithfully,

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