UK FINANCE

Transition Plan Taskforce: A Sector Neutral Framework for private sector transition plans

Call for Evidence

Deadline: 13 July 2022

Sent to: Submitted online and sent to secretariat@transitiontaskforce.net

INTRODUCTION

UK Finance is the collective voice for the banking and finance industry. Representing around 300 member firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation. We work for and on behalf of our members to promote a safe, transparent and innovative banking and finance industry.

We welcome the opportunity to respond to the Transition Plan Taskforce's first call for evidence. The banking and finance sector plays a key role in supporting the global transition to net zero and our wider sustainability commitments. Our members are committed to helping finance the transition across the economy, including through lending to crucial areas of the transition. The banking and finance sector is also committed to decarbonising its portfolios and financing the green economy, in line with the UK's sustainability goals.

If you have any questions relating to this response, please contact Ian Bhullar, Strategic & Sustainability Policy Principal, at ian.bhullar@ukfinance.org.uk.

KEY RECOMMENDATIONS

We highlight the following key recommendations, which are set out in greater detail in the body of our response.

- We welcome the formation of the TPT to develop coherent guidance on transition planning. We ask the UK Government to provide clarity as early as possible on the planned implementation timelines for transition plan requirements, including mandatory requirements, and the nature of those requirements. We welcome the TPT's work as a contribution to the formation of UK Government regulation.
- We welcome the TPT's commitment to drawing on existing and international best practice. It is of critical importance that transition plan guidance aligns with international practice as far as possible, to avoid proliferation of a wide variety of reporting frameworks.
- We support proposals to mandate transition plans for a wide variety of economic actors, particularly for non-financial corporates given the importance of corporate reporting for understanding banking and finance firms' Scope 3 emissions.
- We see a balance of advantages and disadvantages to more prescriptive approaches to transition plan design. On the one hand, a prescriptive approach to transition plan disclosure will enhance comparability and make comparisons more accurate and less burdensome for banking and finance firms with large lending portfolios. On the other hand, any move toward prescriptiveness will need to account for the fact that firms that disclose transition plans currently utilise a wide range of approaches.

- Data access is a key barrier to disclosure of transition plans for banking and finance firms. While the deployment of mandatory transition planning among corporate firms will help partially to address this barrier, it will not remove it entirely. An appreciation is needed that transition plans will improve iteratively over time.
- We broadly support the Sector Neutral Framework, its elements and principles, with some suggested amendments.

Introduction to the TPT

QUESTIONS ON RATIONALE

1. Do you agree with the proposed definition of a transition plan? If not, why, and what alternative definition would you suggest?

We broadly support the TPT's proposed definition of a transition plan.

We would propose adding: "(d) strategic priorities for evolving the business to take advantage of decarbonisation opportunities and manage risks", in view of the wider *strategic* (non-target driven) elements of a firm's activities, and the positive *opportunities* associated with the transition.

While not directly in response to this question, we state from the outset that we welcome the formation of the TPT to develop coherent guidance on transition planning, and its commitment to drawing on existing and international best practice. We ask the UK Government to provide clarity as early as possible on the planned implementation timelines for transition plan requirements, including mandatory requirements, and the nature of those requirements. We welcome the TPT's work as a contribution to the formation of UK Government regulation.

We support the application of transition plans beyond the private sector; and in particular would welcome ever clearer articulations from public organisations — e.g. government departments, regulators and development banks — detailing how they will contribute to the transition beyond regulation and enforcement. These in turn will inform market participants' transition plans.

2. From your perspective, who are the key users of transition plans?

The banking and finance sector engages with transition plans both from a user and a producer perspective. Within the banking and finance firm ecosystem, the key users of transition plans are:

- **Real economy firms**, which use and/or will use transition plans (inter alia) to inform their lenders.
- **Banking and finance firms**. Banking and finance firms **use and/or will use** other firms' transition plans to understand and test the long-term sustainability-related risk exposure and strategies of existing and potential clients and third-party providers; this will include scrutinising other banks' transition plans where firms lend inter-bank. Banking and finance firms also **produce and/or will produce** transition plans to inform their Boards and senior leadership, investors and other stakeholders.
- **Shareholders and investors, including asset managers and asset owners**. Banking and finance firms use transition plans to disclose their own long-term sustainability-related risk exposure and strategies to their investors and shareholders.

We anticipate that customers of the banking and finance sector could also become active users of transition plans as a means to scrutinise the activities of their lenders/financial services providers — which could influence decisions about which firms they are willing to do business with.

Beyond these key users linked to the banking and finance sector, we also see a range of other users, including but not limited to: regulators, employees, policymakers, data providers and ESG ratings agencies.

3. From your perspective, what are the key use cases for transition plans?

As **users** of transition plans, the key objective for banking and finance firms is to enhance transparency over client/potential client (e.g. real economy firms') climate transition operations and strategy. This information in turn can be used to inform net zero-aligned lending decisions, client engagement strategies, and the formation of the banking or finance firm's own transition plan. Transition plans can also enhance transparency over banking and finance firms' third-party providers and vendors, enabling a similar use-case to mitigate risks within the wider supply chain.

Transition plans can serve as a single authoritative, standardised document that lenders can use for streamlined comparison relative to other clients/potential clients and third-party providers/vendors. In order to best serve this core objective, transition plans should set out long-term targets, interim milestones and actionable steps toward net zero alignment — including any potential finance needed for these steps — as well as information on relevant accountability or governance mechanisms. We support proposals to mandate transition plans for a wide variety of non-financial corporates given the importance of corporate reporting for understanding banking and finance firms' Scope 3 emissions.

As **producers** of transition plans, some parts of the banking and finance sector are already deploying or are preparing to deploy their own transition plans, for example as part of their TCFD reporting or under FCA rules.[1] Given this ongoing use of transition plans by some firms in the banking and finance sector, we call for the TPT to take account of existing, implemented best practice in transition plans. We also call for the TPT to expedite the publication of its guidance in good time for reporters to resource and plan appropriately for implementation (without prejudice to the timing of regulatory requirements to start implementing transition plans). While we understand that the mandate for the TPT is two years given the challenging task, we would welcome the publication of any available outputs as and when these are in a suitable position to be shared.

QUESTIONS ON MANDATE AND STRUCTURE

4. How should the TPT select which sectors to develop tailored transition plan templates for? Following that logic, what financial sub-sectors and real economy sectors should the TPT prioritise? In what order should these be addressed?

Recognising that climate risk management and transition planning are a response to multiple climate-related inputs and impacts, we recommend adopting a multi-criteria approach to selecting priority sectors for tailored transition plan templates. This approach should take account of sectors with higher emissions reduction requirements (e.g. on the basis of Climate Change Committee/carbon budget analysis), those with high associated climate risk (both transition and physical), and those that make up a large portion of the UK or global economy. Many banking and finance firms are actively engaging with clients that are exposed to high degrees of climate risk (e.g. fossil fuel producers) to finance their orderly transition away from fossil fuel-intensive activities as a core business model. This is an important and challenging component of achieving an orderly and rapid net zero transition. We are therefore supportive of clear guidance on appropriate transition trajectories in those sectors where the transition burden is most urgent.

[1] https://www.handbook.fca.org.uk/instrument/2021/FCA_2021_61.pdf

UNEP-FI's "Beyond the Horizon" report (2020) includes analysis on sectors with high exposure to transition risks, which may prove useful in informing TPT's prioritisation.[2]

Given banking and finance firms' exposure to real economy industries globally and not just in the UK, we would support sectoral guidance that offers a global perspective as well as a UK-focused one. Where appropriate, the TPT should draw on the sector-specific guidance of Paris-aligned international initiatives (e.g. GFANZ).

The aggregation of sector-specific guidance should be consistent with the system change required to achieve net zero emissions by 2050, with an appropriately ambitious target for interim milestones, in line with science-based expectations (e.g. halving emissions by 2030).

5. Given the mandate set out in the TPT's Terms of Reference, to what extent, and how, should the TPT consider issues beyond a firm's contribution to economywide decarbonisation? Why?

We support the long-term ambition to broaden transition plan guidance to other sustainability goals beyond economy-wide decarbonisation, in line with the expectations for broadening the wider sustainability disclosure requirements regime set out in the UK Government's *Greening Finance: A Roadmap to Sustainable Investing*.[3] However, in the immediate term we would prefer for mandatory transition plan disclosure to focus solely on climate-related transition plans, for the following reasons:

- This approach recognises the unique, urgent nature of the climate emergency, where rapid and coordinated action is required in the current decade and beyond to avert widespread damage to the natural environment and feedback loops.
- This will allow firms to focus on getting the response to climate change right, maximising the impact of the industry's action.
- In many cases, other sustainability- and wider ESG-related transitions are better (or already) captured through alternative mechanisms, e.g. environmental regulation or improved supply chain oversight.
- Further work is needed to develop the analytical underpinnings for measuring and managing other types of sustainability risk, for example the continued development of nature-related risks via the Taskforce on Nature-Related Financial Disclosure.
- To disclose and develop an alignment strategy, firms need to understand government policy and sector-by-sector approaches to addressing sustainability challenges. Such policy frameworks are absent in many non-climate issues (as well as in many sectors for climate-related policy); without this it is extremely challenging to form coherent transition plans.
- Notwithstanding these factors, we believe that considerations around a just transition must be seen as integral to an organisation's transition plan (including the impact of the plans on customers, communities they interact with, employees and supply chains). There should be space for companies to explain the wider context of their transition plans, including how their contributions advance social and economic needs in the just transition and/or how social and

[2] https://www.unepfi.org/wordpress/wp-content/uploads/2020/10/Beyond-the-Horizon.pdf

[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1031805/CCS0821102722-006_Green_Finance_Paper_2021_v6_Web_Accessible.pdf

economic considerations present tensions, trade-offs, or constraints that shape a holistic response that works for both planet and people.

6. Which of these issues are 'must-haves' that need to be addressed in all transition plans, and which are 'desirable', which add depth or breadth but are not central to a transition plan?

As per the above, we recommend all transition plans should include only climate as a 'must-have' in the immediate term (recognising that this also includes just transition considerations, per our response to question 5). Within this, we welcome the principles and elements set out by the TPT in this call for evidence, as a means for fleshing out the requirements of transition plans toward a net zero economy.

7. Do you envisage any tensions between entity-level decarbonisation and economy-wide decarbonisation goals? If so, can you provide examples and any suggestions as to how the UK TPT may address these in its guidance?

The north star for the TPT guidance must be the reduction of actual emissions in the real economy. Many lenders' portfolios are reflections of the wider real economy – this is particularly true for systemically important banks. To enable economy-wide decarbonisation, some lenders may need to temporarily increase exposure to assets with a high climate-related risk. This may happen, for example, if a firm is seeking to support the wind-down or transition of that asset, or because a given asset is needed to create the infrastructure for a low-carbon economy (e.g. increased steel production for low-carbon energy generation). Such activities can be more impactful from an emissions-reduction perspective than removing exposure to assets with climate-related risk entirely (e.g. skewing new lending to new-build homes rather than mortgages supporting a greening of the existing inefficient stock) or pushing those assets into less regulated banking sectors.

TPT guidance should allow for evidence-based accounts of how these entity-level exposures are aligned with economy-wide decarbonisation, and take account of the potential for negative unintended consequences of requirements that incentivise individual firms to remove high-carbon assets from their portfolios, while simply transferring the assets and associated emissions to other firms (which may have lower climate ambition, disclosure or regulatory requirements). This has been characterised as the "transferred emissions" problem.[4] Effective consideration of real economy emissions may mean that reporters need to consider and disclose the expected net greenhouse effect of their decarbonisation activities, including on divestitures and acquisitions.

Separately, as part of its recommendations, the TPT should have regard to the gap or conflict between science-based decarbonisation needs in a given sector and the constraints placed by the wider industry and enabling environment. The ability to decarbonise a portfolio in some industries is contingent on decarbonisation in the power sector. Policy and regulatory factors are also critical. For example, the TPT could consider how to address common barriers to progress on transition plan implementation and reporting, such as the data gaps and methodology limitations that exist within Energy Performance Certificates as a source of carbon emissions data for UK housing. These are material barriers to progress on achieving UK net zero ambitions.

[4] https://business.edf.org/insights/transferred-emissions-risks-in-oil-gas-ma-could-hamper-the-energy-transition/

We would also encourage the TPT to consider and set out its expectations for multinational firms which may be on track to align with net zero at global level but where, for the kinds of reasons set out above, they are not aligned in their UK activities. Given the geography-neutral nature of greenhouse gas emissions, we would recommend that such an outcome is not penalised.

QUESTIONS ON INTERNATIONAL CONTEXT

8. What other financial or non-financial, mandatory or voluntary frameworks and processes are you aware of that the TPT should consider as it proceeds?

We strongly support the TPT in aiming for as much international alignment as possible when developing its framework for transition plans, and therefore agree with the approach to draw on the work of existing organisations.

Many financial services institutions are already producing transition plans voluntarily on the basis of widely adopted frameworks such as the above. The TPT, and any regulated requirements arising from its guidance, should consider either recognising at least some of these frameworks as credible and allowing transition plans to continue to follow them, or basing the guidance and regulations themselves on what exists already. This is particularly important in view of the significant resources dedicated to developing and operationalising the existing frameworks. However, we would also note that some of these initiatives are still underway and it may therefore be premature to consider adopting them wholesale without first considering whether the final results work for UK markets.

We are aware of the following:

- EU: Transition plan guidance within EU legislation, including the proposed Corporate Sustainability Reporting Directive and detailed guidance under development under the European Financial Reporting Advisory Group (EFRAG). The EU green bond standards may also be a useful resource, although they aim to set a high standard for “green” activities rather than defining transition-aligned activities.
- US Securities and Exchange Commission: Disclosure recommendations relating to Scope 3 emissions targets/goals, as well as transition plan disclosure requirements under section E(2) of the SEC’s proposed rules to enhance and standardise climate-related disclosures for investors. The former are more relevant to banks, which set transition plans primarily as a strategic business decision rather than risk management process.
- GFANZ: Workstreams on Sectoral Pathways, Real-Economy Transition Plans, Financial Institution Transition Plans, and Portfolio Alignment Measurement.
- IFRS ISSB: References to transition plans throughout the ISSB’s Exposure Drafts.
- SBTI/CDP: methodologies for accrediting net zero pathways.
- Climate Financial Risk Forum: guidance on net zero transition plans under development.
- TCFD: Guidance on Metrics, Targets, and Transition Plans (October 2021).
- SASB: Guidance on risk management reporting under the TCFD Implementation Guide (August 2019)
- Institutional Investors Group on Climate Change (IIGCC): Paris Aligned Investment Initiative (PAII)

- World Benchmarking Alliance benchmarks: including its Financial System Benchmark to rank financial institutions on their contribution to the achievement of the SDGs.
- Global Financial Markets Association (GFMA): Global Principles for Developing Climate Finance Taxonomies, supporting development of standard climate data & transition plan disclosure templates.

The Sector-Neutral Framework

QUESTIONS ON OBJECTIVES

9. Where would you prefer for companies to disclose information on their transition plans? Please explain your reasoning, including on how the suggested location relates to the intended audience?

The location of transition plan disclosures under the TPT's guidance should align with guidance set out for other similar disclosures, e.g. under TCFD or the UK's sustainability disclosure requirements. Many banking and finance firms are already disclosing their transition plans under FCA rules or the TCFD's October 2021 guidance. TPT guidance should align as far as possible with these existing rules.

Material considerations should, by default, be published as part of financial disclosures, as this will enable investors and lenders to account for sustainability-related risks, opportunities and strategies within the context of the firm's wider financial profile.

Where further detail is available or needs to be disclosed, this can be reported separately — e.g. in sustainability reports or standalone strategy documents.

We suggest that a sufficient time lag is secured between reporting by non-financial corporates and financial services firms, to enable the latter to take into account the transition plans of their clients.

10. How prescriptive should the Sector-Neutral Framework be, recognising the need to balance flexibility in how firms disclose transition plans with more prescriptive templates that seek to facilitate comparability of firms' transition plans?

We broadly support a uniform and prescriptive approach to transition plan disclosure overall, as this will enhance comparability and make comparisons more accurate and less burdensome for banking and finance firms with large lending portfolios to review. Prescriptive templates will ideally offer easy access for lenders to businesses' full risk and opportunity exposure, including via their supply chains – this is particularly important for banking and finance firms in managing their Scope 3 emissions. Such an approach will also minimise the burden on real-economy clients by maximising the likelihood that clients will only have to provide one set of standardised information to all of their banks.

We note, however, that those banking and finance firms currently disclosing transition plans use a wide variety of methodologies and targets in setting out those plans. Some banks are currently developing "credible transition plan" assessments for their clients (notably in the oil and gas sector), which could inform and incorporate recommendations from the TPT. See, for example, Natwest's

2021 Credible Transition Plan assessments.[5] One option for reconciling differing approaches while recognising the value of uniformity could be initially to take a more flexible principles-based approach as firms develop their capability, and gradually adopt more prescriptive guidance on data and metrics to be used over time — we would wish to be engaged further as such timelines are designed.

Assuming the sector-neutral framework will form the basis for all transition plans until sector-specific frameworks are rolled out, we support a sector-neutral framework that can function effectively in absence of sector-specific guidance.

11. Should the TPT seek to standardise the data and metrics used to communicate ambition and measure progress in transition plans? If so, what are the standards for data and metrics that you would recommend including in the Sector-Neutral Framework and in supplementary sectoral guidance?

We support the use of standardised data and metrics to communicate ambition and measure progress in transition plans, as this will enable easier analysis for the banking and finance sector. Where possible, we would advocate for the adoption of open-source APIs to make analysis of transition plan data as consistent and smooth as possible.

With regard to greenhouse gas accounting and reporting, we recommend aligning the TPT reporting expectations with the Greenhouse Gas Protocol's Corporate Accounting and Reporting Standard and any future update to this standard.

12. Question for small and medium-sized enterprises: what specific challenges do you foresee for SMEs seeking to prepare or use transition plans? How can the guidance and framework prepared by the TPT address these concerns?

Some of our members are small and medium-sized enterprises (SMEs), and many of our members serve SME clients both within and outside the UK. SMEs also make up a large part of the supply chains of firms to which members lend. Our answer to this question reflects feedback from SME members, as well as views of larger banking and finance firms who serve SMEs.

Given that SMEs make up a large proportion of the UK economy and supply chains, a full assessment of climate risks, opportunities and strategies within the lending portfolios of banking and finance firms relies on adequate SME disclosure.

Nevertheless, we also recognise the disproportionate burden that such reporting can have on SMEs' limited resourcing. Transition plan disclosure expectations on SMEs must therefore balance the need to maximise data availability against the need for proportionality. We recommend that:

- Expectations on SMEs should take into account specific features of businesses, such as business size and sector, recognising existing post-Brexit/post-Covid/cost of living challenges for SMEs and that creating friction may have unintended consequences.
- Efforts are made to standardise requirements and methodologies, including reporting templates and emissions calculators, so that SMEs are not required to disclose the same information multiple times for different lenders or customers.

[5] https://investors.natwestgroup.com/~/media/Files/R/RBS-IR-V2/results-center/18022022/2021-climate-related-disclosure-report.pdf

- Allowance is provided for SMEs to use third-party providers to support the development of transition plans.
- Transition plan guidance, methodologies and interfaces are integrated as far as possible with the wider UK sustainability disclosure requirements regime, so that SMEs' touch-points with their sustainability reporting requirements are streamlined as far as possible.
- Specific communications and training are offered by the Government to make SMEs aware of their transition plan reporting requirements and how to adhere to them.

The TPT should issue clear guidance on what the reporting expectation is both for SMEs and for firms with exposure to SME clients or third-party providers/companies who are not captured by mandatory transition plan disclosure requirements.

13. Question for preparers only: If your firm does not already disclose information of the type outlined in this Call for Evidence, what are the reasons for that? For example, are there concerns about legal or possible market risks arising from disclosure? How could the work proposed by the TPT address these concerns?

Many UK Finance members are well advanced in their disclosure of transition plan information. However, our members have cited the following reasons for not already disclosing information of the type outlined in this Call for Evidence, or where such disclosure could prove challenging:

- Transition plan disclosure requires integrated modelling capabilities that have not been fully rolled out in all our member firms. This is particularly true for SME firms.
- Access to reliable Scopes 1, 2 and 3 data to formulate a baseline from which to transition is likely to be a significant burden for SMEs.
- Some of the elements outlined in the Call for Evidence are uniquely challenging, e.g. "estimated emissions impact associated with each step/activity" of a business plan. It is likely to be difficult to measure this to a high degree of accuracy.
- In many sectors, credible transition plans are reliant on real economy net zero policy measures that have not yet been clarified. An example is the greening of the UK housing stock, where mortgage lenders' portfolios cannot be fully transitioned to net zero without further Government measures to lower costs of new technologies, inform homeowners of their obligations, and upskill the UK workforce. We have fed back further on this challenge in our response to the Government's call for evidence on the refreshed Green Finance Strategy.[6]
- The requirements within the proposed TPT guidance are likely to be more complete than any one organisation has completed so far in their transition plans. Therefore, any organisation that has already created a transition plan will likely need to revise their existing practice to include new requirements.

14. Transition plans provide an opportunity to ensure the benefits of the climate transition are widely felt by UK households and consumers. How can the guidance developed by

[6] https://www.ukfinance.org.uk/policy-and-guidance/consultation-responses/uk-finance-response-green-finance-strategy-update

the TPT balance the need to minimise costs whilst encouraging companies to develop strategies to maximise benefits for all?

The banking and finance sector plays an important role in helping households and consumers to manage the transition to a net zero economy; for example mortgage lenders have rolled out a raft of products to help households retrofit homes.

Guidance from the TPT could seek to embed the objective of a just transition, recognising that some transition activities may have unintended market consequences such as excluding harder-to-decarbonise areas from mainstream finance (this could include, for example, excluding some homeowners from mortgage products). A fully just transition can only be achieved with the support of clear, coordinated policy across central, devolved and local government. Governments must urgently issue clear net zero investment roadmaps across sectors, to ensure that the banking and finance sector, the real economy and policy levers are moving in the same direction. TPT guidance should take emerging government policy into account, and retain space for private sector action that delivers a socially equitable transition.

More broadly, for TPT guidance to be most effective in balancing the need to generate decision-useful information while minimising costs, the UK should ensure the maximum possible alignment with wider and existing guidance, including alignment with transition plan guidance in other jurisdictions internationally.

QUESTIONS ON PRINCIPLES

15. Do you agree with the proposed principles? Why or why not?

We agree with the three proposed principles — however, we would suggest enhancing the language in some of the principles to put more emphasis or draw out certain elements: (additions underlined)

1. **Align with an economy-wide net zero transition.** Targets, expected emissions trajectories and plans should be compatible with meeting a particular global temperature target by a particular time, ~~ideally~~ [REMOVE] using a 1.5°C low or no-overshoot science-based scenario by 2050. The plan should cover the whole organisation (for UK-based firms) or the UK-based subsidiary (for firms headquartered outside of the UK), and any exclusions must not be material to the company and/or to the natural environment. The plan should clearly identify and prioritise areas/targets where the organisation has the greatest impact on emissions. As a benchmark for 1.5°C alignment, the plan could have reference (where appropriate) to countries' nationally determined contributions (NDCs).

Rationale: In relation to the final drafting change, organisations should be expected to ensure their plans and actions will have impact on the emissions associated with their activities which have the greatest impact on climate change, over which they have influence. This will typically be the organisation's Scope 1 and 2 emissions, but in some sectors will extend to their Scope 3 emissions. In other words, an organisation should take responsibility where they have the potential for the most impact and influence. The reference to NDCs is a potential means to strengthen the alignment of transition plans with stated policy.

In relation to the penultimate drafting change, we suggest an explicit carve-out from "whole organisation" application of the reporting requirements where a firm operates in the UK as a subsidiary of a larger multinational organisation. While in practice international firms will establish transition plans at a global level, any UK-specific requirements should only apply to UK entities. This

is consistent with UK Finance's approach to querying extra-territorial application of regulations in other jurisdictions outside the UK, and will avoid duplication of reporting requirements for multinational firms.

We would welcome a clear definition for the term "natural environment" which builds on feedback in response to question 5.

2. **Focus on concrete actions which emphasise the near-term and are backed up by clear governance mechanisms.** The plan should set out actions to be taken in the next three to five years and interim milestones that can be used to assess progress and explain how these actions are in line with the transition to a net zero economy. The plan should be approved by the board and be integrated into, and be coherent with, the overall business and investment strategy of the organisation. The plan should be backed up by clear governance processes, which cover responsibilities for oversight, implementation, reporting and review.

While we agree with the emphasis on near-term action given the nature of the climate emergency, we note that in some sectors the most effective emissions-reduction action may not be possible in the near term (e.g. for technological reasons). Science-based sector-specific frameworks may ultimately reflect this context.

3. **Enable periodic reporting and verification in a transparent manner.** Verification must be enabled in respect of annual reports on progress through adoption of quantifiable and timebound key performance indicators, with a defined stakeholder feedback mechanism.

16. Are there any principles that you would add to the list above? Why?

Potential additional principles:

4. **Plans should be designed to produce decision-useful information for their audience.** Organisations should produce information that is useful to those assessing their progress in transitioning the business. This will include information that can be easily translated into or the actual reporting of impact on emissions from actions taken.

5. **Plans should take into account scientific consensus and views from industry initiatives – as well as having regard to stakeholder input and the wider economic and company specific conditions.** Organisations should be expected to periodically update plans to reflect changing understanding of the science behind climate change – and indeed the world's progress in transitioning in-line with goals to maintain global temperature to 1.5 °C and changing stakeholder consensus and economic circumstances. Organisations should also periodically update their plans, particularly as conditions change and as they get close to expiry of targets and existing plans.

17. Which of these principles would you regard as 'must-haves' or as 'desirable'?

All three principles, as well as our suggested two additions (question 16) should be "must-haves".

18. Principle 1 notes that a transition plan should cover the whole organisation. There may be challenges for internationally active firms in meeting Principle 1, given that different jurisdictions will have different economy-wide transition pathways.

How can the TPT design its standard and guidance in a way that accommodates credible transition plans consistent with the broader strategy of a firm, but reflects differences between approaches taken in different jurisdictions?

We note from the outset that whole-organisation disclosure requirements should not apply to the non-UK operations of multinational firms headquartered outside the UK, as per our response to question 15. The following response refers primarily to disclosure requirements applying to UK-headquartered firms operating in other jurisdictions.

Organisations that have material activity in jurisdictions with differing transition pathways for the same economic activity may **set separate targets for their business in specific jurisdictions** given the differing pace of change. In such cases this would mean that the actions taken to deliver on targets may vary by jurisdiction and could be very specific to a particular geography / jurisdiction. Other global organisations may still choose to set targets for their business at a global level.

Taking this into consideration, the guidance could therefore allow these organisations to **develop and disclose their plan according to jurisdictional boundaries**. **Metrics** used to disclose actions and progress ought to be consistent across jurisdictions so that there is an ability to aggregate up to demonstrate the degree of alignment and progress at group level against a 1.5°C pathway.

Note that where different 1.5°C pathways are selected to set targets in different jurisdictions or for different economic activity, it is important to **ensure the pathways are coherent in terms of the overall economy-wide emissions that are assumed**, so that there is not an overall overshoot of emissions at an aggregate level.

Where appropriate **regional pathways** exist, firms should prioritise their use to most closely reflect their operational footprint (e.g. OECD). However where operations span multiple regions or are global in nature a global pathway may be appropriate.

Additionally, the TPT guidance might also consider how transition plans affect both consumption-related emissions and those within a specific territory, recognising the need to measure whether and how UK firms and consumers are offshoring their own emissions.

QUESTIONS ON ELEMENTS

19. Do you agree with the proposed elements? Why or why not?

In general, **we agree with most of the proposed elements**, as they meet the goals of being Comprehensive, Specific, Flexible, and Concise. Although we have set out some comments on the individual **Engagement elements** (f. g. and h.) in our comments below, to aid conciseness, we recommend combining these elements and merging their respective sub-elements. In addition, we would suggest that **each of the sub-elements is numbered** to make the plan more user friendly and facilitate cross referencing.

We would also suggest that at the end of the drafting process, close attention is paid to the **overall balance and calibration** of the final list in Table 2, given a possible tendency in the drafting process to give elements equal coverage/text. For example, our comments in relation to the Engagement elements and the carbon offset sub-elements are intended to ensure balance is maintained in the overall context of a decision useful transition plan.

a. (Ambition)

We agree, due to a near universal agreement across frameworks for all these sub-elements.

b. (Target Setting)

We generally agree; however, we note that there is a **strong overlap with the requirements under element a (Ambition)**.

- For **scope of business activities covered**, firms should have flexibility to decide what business activities are included for the purposes of target-setting. Some banking and finance firms undertake activities that are not directly related to financing, lending and investing (e.g. custodian banks), and transition plan reporting guidance should be sufficiently flexible to allow for this differentiation of activity.
- While we recognise that the sub-elements currently do not require the **third-party verification** of targets, we think this position should be maintained and it should not be a requirement to have a complete transition plan at this time. However, where targets have been verified it makes sense to include this information in the disclosure(s). In the future, if standardisation emerges through regulatory requirements, then verification or assurance that target standards have been met may be desirable. We would recommend that an additional point is added to the 'Notes' column which explains that the focus on target verification is on **quality of targets** as opposed to assurance.
- How a company views "**alignment**" with a benchmark is helpful to know but this can be challenging to make decision-useful where multiple available benchmarks exist or where a company's activities don't align well with the boundary of relevant benchmark scenarios (e.g. conglomerates etc.).
    - While SBTi and TPI are both helping to define "alignment" we would note that this is still an emerging space with no clear "best" standard.
    - Another source worth potentially highlighting is the report "Measuring Portfolio Alignment" by David Blood on behalf of the Portfolio Alignment Team, which highlights potential methodologies and challenges for aligning both portfolio & company emissions.
- For Offsets, at present the number of sub-elements under Target Setting (4 out of 10) dedicated to offsets might imply an **oversized role for offsets in alignment**. Instead, these sub-elements might do well to be amalgamated and additional guidance added to clarify that the main aim of portfolio alignment and target setting is to reduce emission-intensive activity and encourage decarbonisation — within which offsets should be seen as a something that is encouraged (given the need for negative emissions) but secondary to decarbonisation efforts in transition plans. Reference to well recognised principles (e.g. Oxford Principles for Net Zero Aligned Carbon Offsetting, SBTi's Foundations for Science-Based Net-Zero Target Setting, the emerging outputs of the Voluntary Carbon Markets Integrity Initiative or others) could help to indicate best practice. In general, the more transparency in disclosures around offsets used by an organisation and inclusion in targets, the better.

c. (Management Activities and Plans)

We generally agree, although some of the sub-elements (such as Business Plan & Operations and Production) could be **consolidated**. More specifically, we would suggest tying together some of

these statements with an **overall statement** saying that plans ought to be broken down into coherent linked inputs/actions and outcomes. The statement that each step/activity ought to be linked to expected emissions impact is correct — but Business Plan actions can surely be linked to Financial Plans and then to emissions impact. For example, with respect to corporates, information on opex and capex plans is much more useful if the planned investments can be tied in with actions and then directly linked to specific emissions reduction amounts.

The **sensitivity analysis** referred to should also be broken down into changes in business plan actions, then financial plans, and how they will then impact the amount of emissions reductions targeted.

d. (Internal Policies)

We agree that this element is helpful. Ideally organisations can **describe how these policies fit into or overlap with delivering on their stated management activities and plans**. Without that link, it would help to show the intent of the organisation and tools it may be using, but it is not essential or useful to determining how they will meet their emissions targets.

It would also be desirable if policies indicated how organisations planned to **phase out certain activities or retire certain assets**, in line with what is implied by chosen pathways.

e. (Products and services):

Both sub-elements are desirable. However, while this information may be helpful to have as a bank, **getting companies to produce these forecasts in a reliable and comparable way may be challenging** given many assumptions required which would be difficult to verify/validate. (e.g. forecast the growth of the emerging "green steel" market). Over time we would expect these sub-elements to become mandatory and expect organisations to work towards getting to a point where they are able to disclose this in a more reliable and comparable fashion.

We note that there is a sub element regarding plans to increase the portfolio of low carbon products and services. However, there is no equivalent sub element in this section to note plans to **decrease the portfolio of low carbon products and services**. If the 'balance' in this narrative section is lacking on Products and Services, we consider that there is a risk that this section may be too 'positive' and give rise to greenwashing potential (even if this information could be extrapolated from information elsewhere, e.g. in the targets section).

f. (Engagement: Value Chains/portfolio)

This element is **not essential and should only be optional**. It is only needed/informative where companies' Scope 3 emissions reduction plans/targets largely rely on decarbonising the value chain rather than their own operations.

g. (Engagement: Public Sector)

This element should be **optional**, recognising that it is not an essential component of a transition but that it supports the credibility of the company's overall ambition as well as their ability to meet specific interim targets.

We would suggest that the second note regarding **financial sector actors is removed**, in keeping with the stated Sector-Neutral Framework approach.

h. (Engagement: Industry Peers)

We consider that this should be **optional** as some companies may (i) view their decarbonisation efforts as **proprietary** and a competitive advantage in the market and there may be legal implications of engaging with peers on such topics under competition law; (ii) not have access to the **right channels** (e.g. trade bodies/forums may not be as well developed in some sectors); or (iii) not have the **resources** to engage meaningfully with sector bodies/forums.

i. (Metrics & Monitoring progress)

Yes, overall we **agree** with the sub-elements. However, in relation to **Non-climate related impact KPIs**, more clarity is needed on what this refers to. If it refers to KPIs relating to the just transition, these would be very relevant to consider as part of a transition plan. Non-climate related impact KPIs that might refer to wider environmental (including biodiversity) and social impacts could also be useful to stakeholders assessing a climate transition plan, but optional and potentially very dependent on the sector involved. Any other Non-climate related impact KPIs would be of limited use for evaluating climate transition plans and would therefore be neither concise nor decision-useful.

j. (Skills, incentives and accountability)

We agree **Skills & Training information** is useful. We are interested to know about **Incentives & Remuneration** — however requirements around executive remuneration could be covered in section k. (Governance, roles & responsibility).

k. (Governance, roles & responsibility)

We agree, but as per our comment above, we consider that this section should also include **executive remuneration** in senior management accountability as optional.

20. Are there any elements that you would add to the list below? Why?

We suggest that the following elements and sub elements are added to the list in Table 2:

- The Bank of England's CBES exercise stated that a transition plan could not be considered credible unless the plan is "currently being implemented".[7] We think this approach is also applicable to the Sector-Neutral Framework. Most of the criteria needed to evaluate whether a plan is being implemented are already covered within the elements and sub-elements, with the exception of technologies currently being employed.

[7] https://www.bankofengland.co.uk/-/media/boe/files/stress-testing/2021/the-2021-biennial-exploratory-scenario-on-the-financial-risks-from-climate-change.pdf

    - Detail should be included as an element or sub-element regarding a **company's current internal use of the existing, scalable technologies** that will enable the achievement of their commitments. (*MUST HAVE*)

- An element focused on company **Adaptation & Physical Risk mitigation plans/exposure** seems appropriate to include in a transition plan. (*DESIRABLE*)
    - Sub elements could include geospatial information about the physical risks a company is exposed to (e.g. details on assets, customers and/or suppliers which are exposed to various physical risks), how material these physical risks are to future business plans, what adaptation plans the company is pursuing to mitigate those risks, and what indicative costs the company foresees to implement such measures.
- Under Element (e) (Products and services), we recommend including a sub-element to disclose any **removal from a portfolio of products or services as part of a transition plan**: this will increase transparency around any actions that may support entity decarbonisation but not result in real-world impacts. *(MUST HAVE)*
- Under Element (g) (Public sector), we recommend including a sub-element for firms to disclose the potential impact that **government policies** would have on an entity's ability to achieve their targets. *(DESIRABLE)*
- Additional sub-elements under Element (i) (Metrics & Monitoring Progress) should include (if available):
    - **Historical Emissions** (both historical metrics, preferably adjusted for any structural company changes, and performance outcomes against any past targets — i.e. did they achieve their past targets?) (*DESIRABLE — noting that some companies may not have captured historical data previously*)
    - **Forward-looking data or projected pathway for achieving interim targets** (e.g. incremental or linear/YoY changes vs Step Changes). (*DESIRABLE – noting the liability challenges with forward looking data which need to be resolved by global regulators; following more clarity this could move to MUST HAVE*)
    - In their forward-looking data/projections, organisations should be expected to indicate if their emissions (or activities that are high emitting) may rise initially (due to unavoidable or avoidable activity) before falling again in future, as this can speak to the organisations' **true alignment with pathways**, (*DESIRABLE - noting the liability challenges with forward looking data which need to be resolved by global regulators, following more clarity on which this could move to MUST HAVE*)
    - **Timing & scale of expected investments required to achieve that projected pathway or targets**. (*DESIRABLE*)
    - **Enhanced granularity of GHG metrics, if available**: by business line, geography, etc. (*DESIRABLE*)

21. Which of these elements would you regard as 'must-haves' or as 'desirable' for credible transition plans? In which instances should an entity assess materiality to determine whether an element is considered must-have and/or what level of disclosure detail is required?

Must Haves: Elements A, B (apart from verification sub-element), C, G, I, J, K, and the additional sub-elements for element I (metrics & monitoring) as noted in our answer to Question 20 above

Desirable: Elements D, E, F, and new Physical Risk Element, additional sub-elements for element I (metrics & monitoring) as noted in our answer to Question 20 above

Optional: Element H (Engagement: industry Peers), B (sub-element verification).

22. Are there elements where you see substantial barriers to implementation? If so, which ones and why? Are you able to suggest alternatives which are both credible and practical?

As a general observation, we note that feasibility of transition plan implementation is reliant on the wider enabling environment, including the broader industrial context and policy levers. TPT guidance should recognise that ability to achieve a transition plan is reliant on such contextual factors as well as firm ambition.

The TPT should protect against requiring a level of disclosure which could be considered commercially sensitive or touch on firms' intellectual property.

Substantial barriers to implementation:

F & H (Engagement): While "**engagement with portfolio companies, customers and suppliers/peers**" (sub-elements of F & H) may be desirable, we believe that in the near term requiring this sub-element(s) should take place on a targeted basis; a company may opt to select a new, much lower-carbon supplier, for example, rather than engage with a high-emitting supplier while they transition or they may view their own decarbonisation as a competitive advantage in the marketplace rather than choosing to cooperate with industry peers.

B (Target Setting): Third party verification of targets is not currently available for all sectors and even for sectors where it is available the queue for having a plan scored can have a substantial backlog (e.g. SBTi). In addition, there is still yet to emerge a universal standard or best practice for target setting and alignment and until there is consensus on this, third party verification ought to remain aspirational (and disclosable where it has taken place) but not required. We distinguish between assurance of historical data (which we are comfortable with), and verification of targets / plans as an assessment of the future impacts of planned actions.

Minor Barriers to implementation:

A (Ambition): We fully support aligning with **just transition principles**; however, we recognize that these principles are still in development and for some companies this may directly conflict with their ability to achieve interim targets which are fully aligned with a relevant net zero pathway.

B (Target Setting): Alignment can be defined many ways (absolute, rate of change, convergence, etc.) and especially when companies use different benchmark scenarios it can be very challenging to interpret how they claim to "align" to a specific scenario. Additionally, some scenarios by virtue of their underlying assumptions are more ambitious than technology or the marketplace is likely to

achieve, particularly over the short term, which makes setting targets that are ‘ambitious’ but also unachievable of limited value for decision making.

C (Management Activity & Plans): The requirement to disclose **business actions/financial plans** in emission impact is quite important and would make a huge difference to providing confidence in organisations’ approaches to delivering on their targets. Nevertheless, while the translation of actions into emissions impact may well be challenging for organisations currently, it should be something that organisations aim to perfect over time.

ALL: The overall reporting burden may be quite substantial and should probably be scaled in relation to entities’ overall size to minimise over-taxing smaller firms.