Transition Plan Taskforce: Disclosure Framework

UK Finance's Response

28 February 2023

Sent to: secretariat@transitiontaskforce.net

INTRODUCTION

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

We are pleased to respond to Transition Plan Taskforce's (TPT) disclosure framework, the accompanying Implementation Guidance, and the Technical Annex. These form a new step in the TPT's path to develop a gold standard for transition plans. In July 2022, we responded to the TPT's call for evidence on a sector neutral framework for private sector transition plans (see here).

The banking and finance sector plays a key role in supporting the global decarbonisation transition 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 Agathe Duchiron, Strategic Policy Manager, at agathe.duchiron@ukfinance.org.uk.

KEY RECOMMENDATIONS

- We welcome the work of the TPT in developing a gold standard for transition plans. We believe this is an opportunity for the UK to be truly world leading, and we **support the TPT in disseminating its work to stakeholders internationally**, in a bid to support international coherence of transition planning approaches.
- However, given that we expect the TPT's framework to form the basis for future regulatory disclosure requirements, **we call on the TPT to set out a "must have" disclosure framework in complement to its "gold standard" approach**, which would allow the guidelines to continue encouraging gradual improvement toward best-practice while being more appropriate for regulatory purposes. This is partly because transition planning is still in its infancy and firms remain at different levels of maturity in terms of transition planning.
- In doing so, the disclosure framework should clarify that **firms' transition plans should focus on achievement of their own decarbonisation goals**, while acknowledging that firms can and should be encouraged and supported to support the whole-of-economy transition.
- The framework should offer **flexibility for different maturities of firms**, including whether to use **qualitative or quantitative disclosure**; what is required of firms working in industries where **data is hard to access**; and disclosure of **Scope 3 engagement** strategies.

- The framework should offer **protections against liability risks**, including carefully calibrated safe harbour protections. Our response identifies examples of certain liability risks which may make full disclosure more difficult for some firms.
- The framework should offer **targeted reporting exemptions for certain firms operating internationally**, where they produce plans based on a comparable framework at group level.
- The framework should provide **further guidance on implementation**, including specifically on the level of prescriptiveness and granularity of the TPT's proposals.
- Although the TPT took a particularly integrated approach to other frameworks, for instance the TCFD, we highlight some areas where such **integration can be enhanced**.
- We expect decisions on integrating the TPT framework into mandatory reporting requirements to be subject to a **separate, full public consultation**.

We set out recommendations for the UK Government and regulators in a separate Annex.

A WELCOME STEP ON THE ROAD TO NET ZERO

The banking and finance industry welcomes this latest publication and broadly supports the disclosure framework, its elements and principles. The comprehensive work undertaken by the TPT to date reflects the industry's main concerns and ambitions for the transition to net zero.

We support the TPT's proposed high-level approach to transition planning, including focusing on three guiding principles (Ambition, Action, Accountability) to assist entities in applying the disclosure recommendations. We believe the focus should be on decarbonisation of the whole economy, and support proposals to mandate transition plans for a wide variety of economic actors. In this regard, we look forward to the release of sector-specific guidance. With regard to the disclosure framework, **we take a nuanced view on reporting requirements for activities to support whole-economy decarbonisation vs own portfolio decarbonisation**, which is set out later in this response.

We support the TPT's globally leading approach and the goal to develop a gold standard for transition plans, in line with our support for the government's ambition to establish the UK as a leading centre for green finance[1]. From our engagement with stakeholders outside of the UK, the approach adopted by the TPT, drawing on existing and international best practice, is likely to be influential in the global development of transition plans. **We support the TPT in disseminating its work to stakeholders internationally, in a bid to support international coherence of transition planning approaches.**

We also welcome the level of engagement from the TPT secretariat, including the launch of the framework at COP27 and continual efforts to inform and gather feedback from the banking and finance sector and other industries. The sandbox exercise, which some of our members will be taking part in, is also a good way to collect more technical and practical feedback from practitioners. It is crucial that relevant sectors are properly consulted, especially during this iterative development phase and ahead of the framework potentially being adopted into regulation, to identify key challenges and blockers as well as opportunities.

THE ROLE OF THE BANKING AND FINANCE SECTOR IN THE TRANSITION AND TRANSITION PLANNING

[1] See for instance our response to the UK Government's Call for Evidence on the Green Finance Strategy Update.

The banking and finance sector has a wide-ranging interest in responding to the framework and the TPT's vision for transition plans. Banks and other financial institutions can be **preparers of transition plans, and will also rely on the use of their clients' and investee companies' transition plans** to set and achieve their decarbonisation objectives — particularly due to the overwhelming proportion of Scope 3 emissions[2] (90-95%+) or financed emissions, which represent the biggest challenge to achievement of banks' net zero commitments. Many banks have committed to **decarbonisation targets** through initiatives like the Net Zero Banking Alliance (NZBA), and are hence committing to align their portfolio with pathways reaching net zero.

The alignment of the banking and finance sector with the UK's sustainability goals can only happen as part of a **whole-of-economy transition**, recognising that firms' balance sheets are a reflection of the wider economy, particularly for systemic banks. We therefore support proposals to apply transition plans to a wide variety of economic actors, particularly to non-financial corporates given the importance of corporate reporting for understanding banking and finance firms' Scope 3 emissions. A narrow focus on financial institution decarbonisation without broader support for real economy decarbonisation can lead to divestment and not contribute to wider decarbonisation.

This position also recognises that in order to support rapid, sustainable decarbonisation, emissions in some sectors may take time to sustainably decline or, in some cases like construction for low carbon infrastructure, may temporarily rise in a first instance. This will need to be taken into account by the banking and finance sector when setting their transition objectives and strategies, but also by other stakeholders including regulators in the future. In that regard, we also support the recommendation for the framework, if adopted into regulation, to apply to both publicly listed companies and private corporates, as reflected in the recent Mission Zero report from the recent Independent Review of Net Zero[3].

While the whole economy will need to transition, **it will not be effective to place the expectation to lead an "orderly transition" on private, individual companies**. Beyond the commitments taken by many banking and finance firms, the responsibility for the transition to net zero is collective, and requires coordination and bold action from all actors but particularly governments. We have previously highlighted to the UK government that the private sector, especially the banking and finance sector, will not achieve their own commitments without bold government action and coordination.

Recognising the principle that banking and finance firms are not in a position to lead the whole-of-economy transition, it is important to acknowledge the **difference in maturity of firms** when it comes to transition plans:

- Some organisations have started to disclose their contribution to an **economy-wide transition** and their contribution to impact. For a bank, this could for instance mean that rather than only setting goals to decarbonise/divest from/support the transition in high emitting sectors, it would also set goals to finance transition impact (e.g. renewables development). This should be encouraged where possible.
- However, many organisations are at this stage more narrowly focused on their **strategy for meeting their own climate commitments**. A more targeted bottom-up approach may be needed for those companies to assess their own carbon footprint, set net zero goals, and determine how to reduce their GHG emissions to meet that goal and interim targets.

To be most effective, the framing of the TPT disclosure framework and implementation guidance should clarify that **transition plan disclosure should be focused on an entity's own goals**. It will be important for the TPT to focus companies on disclosure of information that is core to that

---

[2] See for instance: https://www.cdp.net/en/articles/media/finance-sectors-funded-emissions-over-700-times-greater-than-its-own

[3] See paragraphs 147-150, Mission Zero: Independent Review of Net Zero

company's transition. This more focused approach would not preclude companies from disclosing how they are contributing toward broader, economy-wide impact.

The TPT in its interpretive guidance calls on firms to describe their actions to help embed and accelerate a whole-of-economy transition. This may require international firms to create a **narrative around their financing targets** that may be politically and legally problematic for them in their home jurisdiction (e.g. the US). Further guidance should be given as to the level of detail that needs to be given, bearing in mind the challenges for international firms.

DETAILED COMMENTS ON IMPLEMENTATION

The following sections set out a detailed assessment of elements of the framework, focusing on identifying implementation challenges that the banking and finance sector may face.

<u>Level of prescriptiveness of the framework</u>

The banking and finance sector strongly supports the TPT's ambition of setting a gold standard for transition plans and reporting. Many banking and finance firms have been at the forefront of industry-led transition plan initiatives and engagement. However, not all organisations have the same level of preparedness. Transition planning is still in its infancy and firms across the economy are currently at different levels of maturity in their implementation.

The TPT should consider ways to ensure that the framework addresses these differences and allow for a degree of flexibility. We believe this would both allow the most advanced firms to continue to develop and set best practice for the whole economy, whilst ensuring all firms and sectors are brought along and suitably guided to develop their transition plans and disclosures. Given that we anticipate the framework will be leveraged for future regulatory disclosure expectations, we request that the TPT recalibrate the framework to allow for more qualitative and principles-based disclosure, while addressing the legal and liability challenges associated with reporting a transition plan alongside annual financial reporting.

"Must haves" vs. "best in class": The framework should **identify which sub-elements are "must-haves" vs. "best in class" or "gold standard".** We recognise that some elements and sub-elements are necessary to ensure disclosures are meaningful, substantial and consistent – these would be the "must-haves". However, some sub-elements are at this stage not ready to be disclosed across the board in the short term or consist of information that may be of interest to some stakeholders but are not essential elements of transition plans (see for instance our points on "Engagement" below),. The framework should ideally be based on those "must-have" essential elements, while referencing optional "best in class" practices, providing flexibility for the framework to continue encouraging gradual improvement and aspiration toward those "gold standard" practice (which are also certain to evolve over time). This distinction will be particularly relevant ahead of regulatory implementation. Regulatory implementation should also be the occasion for an open debate on how to approach the different levels of preparedness across the whole economy, and public consultation.

Granularity: The framework should **clarify the level of granularity that is needed** within sub-elements when disclosing on transition plans, and provide enough flexibility for entities to **evolve their disclosure as their understanding of transition planning evolves over time**. Some recommendations could be for the longer-term, to allow firms to adapt and evolve as their approach becomes more sophisticated over time. The framework will need to strike the right balance across providing clear guidance, allowing enough flexibility for recommendations to be future-proof, and allowing for expectations around transition planning to change over time. In a similar manner, we would expect to see clearer acknowledgement that the framework is, at this stage, a set of recommendations and not explicit requirements.

Flexibility: Flexibility will be needed to successfully **implement a one-size-fits-all transition planning framework that will apply to all sectors and a wide range of company sizes and business models**. Not all metrics or disclosures will be equally meaningful for all companies. Providing options for qualitative disclosure, or safe harbour provisions, would allow firms to provide the disclosure that is most meaningful for their particular sector and business model. This could, for example, include allowing firms to fulfil their reporting requirements with **qualitative disclosure instead of quantitative disclosure where appropriate**. Requirements to quantify and disclose contributions of each business and operational action over time to achieve the transition plan's objectives and priorities are unrealistic for many at this stage. Requirements to disclose detailed, forward-looking information about how a transition plan is integrated in a business model, product offering, or how a company contracts with customers may also run into competition law restrictions in some jurisdictions. Qualitative disclosure options may mitigate some of the challenges that this expectation would present and would provide flexibility to allow a company to disclose information on how it will deliver on its transition plan in a way that fits their business models and clients. This would also help clarify which elements are considered "best in class", and which are "must-haves".

Managing liability risks: Since transition plans will necessarily rely on forward-looking estimates with a high degree of uncertainty, the framework needs to provide protections to **mitigate against potential liability risks** which will otherwise act as a disincentive to firms' disclosing detailed and full transition plans. While there is a balance to be struck between legal accountability to a firm's stated transition plan and the depth of disclosures, we recommend implementing protections such as carefully calibrated **safe harbour protections**, potentially on a time-limited basis, particularly while data availability improves. The unique challenges of climate-related information being based on estimates, as well as the fact that methodologies for measuring a firm's impact on climate change (e.g., financed emissions) are still evolving, means that there is a heightened risk of making misleading claims even when using the best available evidence in good faith. Two examples of how such risk translates into potential liability are set out in **Box 1**.

Reporting challenges for small firms: Expectations for financial institutions should be scalable and proportionate to those of the companies and/or clients to which they have exposure, adopting a proportional reporting approach. For example, TPT reporting expectations for a bank/financial institution with an exposure to SMEs should be proportionate to those of the SME customers to which they lend, and the financial institution guidance should be simple, easy to understand, and provide specific actions that SMEs could take that would be helpful. As many SMEs are early on in their sustainability journey (and are unlikely to have readily available data), the framework should seek to close this knowledge gap and ensure SMEs have the requisite knowledge to complete a transition plan. There may be scope for the TPT, policymakers and regulators to facilitate a public data utility that SMEs could leverage to enable their reporting. For instance, this utility could allow SMEs to use approximate / estimated data if other participants in the sector (e.g. agriculture) have already reported their emissions using similar technology. Given that the overall reporting burden may be quite substantial for SMEs, we would support a modular transition plan framework whereby in-scope companies (including SMEs) will have to disclose against basic (or simplified) standards, while larger companies should have proportionately more onerous and detailed requirements. We would note that the basic specifications should be compatible for both small and large enterprises.

Box 1: Examples of liability risks associated with transition plan disclosure

Interactions with US disclosure rules and associated liability

For companies with securities in the US, the inclusion of material information related to their transition plan in a UK annual report could have liability implications in respect of the issuer's US filings if that information also meets the relevant US disclosure test. Disclosure filed in the US may give rise to strict liability if the disclosure in such filings contains any untrue statement of a material fact or omits to state a material fact necessary in order to prevent the information from being misleading. If an investor proves there is a material misstatement or omission, the issuer will be liable without any defence available to it.

Liability risks associated with the UK Financial Services and Markets Act
For a UK listed company, the requirement to include material information relating to its transition plan within its annual report exposes the company to potential liability under the UK Financial Services and Markets Act 2000 (FSMA). The content of the annual report is regulated information and therefore in scope of potential FSMA liability for misleading statements or dishonest omissions. This would apply if a regulatory requirement was introduced to publish a standalone Transition Plan which meant that the transition plan itself also met the definition of 'regulated information'. Although there is not a strict liability test under the UK approach, transition plan disclosures will be prepared in a different context, and with less reliable underlying information, than standard financial reporting – which makes it hard for firms to apply their usual standard of diligence and verification to this data. For example, it is not clear how disclosures relating to resource allocation and operational and capital expenditure under sub-element 1.2 or changes to financial position over time as suggested in sub-element 2.4 would be viewed in either of these contexts.

<u>International interoperability and application for international firms</u>

UK Finance represents a variety of members, some of which have substantial operations outside the UK, or are incorporated in other jurisdictions than the UK. Given the likely influential nature of the TPT globally, it is important for the TPT to **take into account the challenges that global financial institutions might face.** As currently drafted, there is a risk that the guidance could create operational and legal barriers to disclosure by global financial institutions, which could ultimately prove counterproductive to broader efforts by governments and private sector actors to achieve net zero.

We appreciate the TPT's recognition that global firms may take a global approach to transition planning, and that entities should have the option to refer to their global commitments. This optionality is important so that global firms can reference their global commitments where needed to provide meaningful disclosure (e.g. financed emissions targets, green finance targets, business strategy, client engagement etc.) since many often take a firm-level rather than a legal entity-level approach. **The TPT should explicitly create optionality for firms to reference global commitments under the Objectives and Priorities sub-element.** Greater optionality would allow legal entities to reference relevant corporate transition-related goals and targets in describing how they are setting a transition-related goals and objectives.

Relatedly, the TPT should consider an explicit **reporting exemption for UK subsidiaries of international firms, only where the international firms produce transition plans based on a comparable framework** (e.g. TCFD or national equivalents). This would enable international firms which have made firm-wide, robust commitments to the Net Zero transition to operate in the UK without undue additional impediments, while ensuring that UK firms are not placed at a disadvantage – balancing the need for the UK to remain internationally competitive while offering a fair regulatory playing field.

The **use of the term "entity" throughout the framework** may cause problems for some firms, especially international firms. Financial services firms will often have multiple entities within a jurisdiction, and many are approaching net zero transition at a global / group level, which is necessitated by global client relationships, and is in line with the need for a global transition. It would be helpful to clarify how the proposals can be applied to group structures, especially for international firms.

On this basis, it may also prove challenging for transition plan reporting to have regard to all relevant jurisdictional climate targets, where the reports apply at group level. The TPT should **clarify requirements on how local targets and rules should be referenced in reporting at group level**.

While there is increasing collaboration between key stakeholders towards attaining a comprehensive global baseline for sustainability disclosure standards and transition plans, the **additional challenges in emerging markets** where the sustainability data gap is larger than in developed markets should be recognised. This means that for entities with large emerging markets client bases, reporting accurate and reliable Scope 3 emissions data may not be feasible at present. As the TPT finalises its guidance and UK regulators consider its adoption within the UK's regulatory framework, these constraints should be taken into account and additional flexibility on the date to full compliance for emerging markets should be considered.

We strongly support the TPT's globally leading approach, and believe there is a real opportunity for this work to help establish the UK as a leading centre for green finance globally. **Engagement with other jurisdictions (including the EU) will help avoid contradictory requirements and streamline reporting for firms with global operations**. UK Finance and the banking and finance sector are ready to support the TPT in this engagement internationally.

<u>Interplay between the TPT framework and the wider sustainability reporting landscape</u>

We welcome the TPT's efforts to incorporate its disclosure framework within the wider sustainability and general-purpose reporting landscape, including the consideration given to the **Taskforce on Climate-Related Financial Disclosure (TCFD) and International Sustainability Standards Board (ISSB) standards**. UK Finance supports the UK government's ambition to implement ISSB standards in the future, and we were supportive of the Exposure Drafts published by the ISSB in July 2022[4]. We also welcome the TPT's alignment with **Glasgow Financial Alliance for Net Zero (GFANZ)** recommendations.

While the Technical Annex goes into detail on alignment between the TPT framework and existing and emerging frameworks and guidance, there are still uncertainties in practice.

There are significant **overlaps between e.g. the framework and the TCFD standards**. The TPT will need to ensure this does not result in a duplication of work for firms, when reporting for multiple frameworks. We invite the TPT to set out a clearer distinction between TCFD requirements and what is in the TPT framework. Examples of duplication include reporting on climate risks and opportunities, which we would only expect to be covered in TCFD standards, as it is already a specified requirement for this framework. In making this distinction, the TPT should consider what is more appropriate to be disclosed in a transition plan every c.3 years, against annual TCFD reporting. Considering the nature of transition plans, firms should only be disclosing content that is more forward-looking and is unlikely to change on an annual basis – the latter could be better reflected in the TCFD.

The TPT should road-test and assess further, potentially through the sandboxing exercise, the **cadence of reporting and alignment with existing reporting cycles**. TCFD reporting is annual, with a 5-yearly target review (or sooner if the firm wishes). Having a 3-year requirement for transition plans under the TPT framework is therefore out of sync with current disclosure requirements. While there are advantages to having more frequent transition plan disclosure, the interlink with science-based targets means that it may make more sense for timings for a transition plan to align to the requirements for target setting (at 5 years, or sooner if the firm wishes). The TPT should consider providing organisations with case studies and/or practical examples of different reporting cycles and

---

[4] See our response to the ISSB's consultation here.

where the TPT framework would fit. Sector-specific guidance could be a good place to provide these, as the requirements might differ from sector to sector.

The framework should include further guidance on **how firms should consistently and transparently disclose changes to their transition plans through time**, which is not currently provided in the proposed framework. For both preparers and users of transition plans, it would be very useful to have consistent guidance on how companies should track and disclose progression and/or changes to their plans. Users of transition plans would benefit from having a clear audit trail of how ambitions, targets and commitments have changed from one version to the next.

We recommend **greater flexibility with how and when firms publish their transition plans to best align with their strategies and reporting cycles**. The TPT recommends elements of integrated reporting, as well as for transition plans to be published in a standalone document alongside annual financial reports. Many disclosure requirements that are linked to annual financial reporting, e.g. TCFD, are better suited due to their annual backward-looking nature – but given that transition plans are forward-looking, strategic and non-annual documents, this may not be appropriate.

We note that some jurisdictions are moving towards **integrated reporting**, especially for material reporting. The Integrated Reporting Framework is part of the IFRS foundation, and integrated reporting is typical in some jurisdictions, e.g. France. Should integrated reporting be encouraged in the future, we would expect the regulators to consult on it separately to the actual standards/recommendations.

Third Party Engagement and Scope 3 emissions

We support the consideration given to firms' engagement with third parties, including their value chain, industry, and the wider public sector. Many banking and finance firms undertake significant value chain, policy, industry and community engagement in support of decarbonisation outcomes. However, we believe some of these requirements will not be relevant to all transition plans – for example where a firm is legitimately relying on definancing rather than engagement to decarbonise its portfolio.

Optionality: The proposal should **provide greater optionality in how companies disclose their value chain engagement to better align with current disclosure practices**, which focus on how firms are structuring their business to support their clients in transitioning. The TPT suggests that firms disclose current and planned engagement activities with their clients and vendors to influence behavioural and business model change. Whilst firms often focus on providing support for their clients in navigating and driving the transition, in alignment with the firm's climate commitments and strategy, some firms will not be undertaking this engagement, in favour of other approaches to decarbonising their portfolios. Further, the expectations on value chain engagement reporting should consider the maturity, size and exposure of the sector and customers that the companies engage with.

Scope 3 reporting inclusion boundary: The framework states that where certain categories of Scope 3 emissions are excluded from reporting, this should be explained. However, since for banking and finance firms this theoretically includes emissions from a vast number (potentially millions) of sources up and down the value chain, it would be more appropriate for companies to instead **define which Scope 3 sources are significant and most closely associated with their business** – i.e. the inclusion boundary – rather than state what is excluded. Expectations could be further elaborated in sector-specific guidance.

Industry associations: We recommend that disclosure of engagement through industry associations is **voluntary, accounting for firms' resourcing, competition issues, and sector-specific access to industry initiatives**. Industry associations have wide areas of focus, with firms joining associations for a variety of reasons. Membership is not a key dependent for an entity's ability to meet its transition goals. Many associations do not exclusively focus on sustainability, but rather engage across the full breadth of a given industry's policies, and so will not have stated positions in relation to net zero or will be unable to take a position given their mandates. Further, trade associations ordinarily represent numerous different companies, often across jurisdictions, and no company is generally able to direct a trade association's position. This invariably means that trade associations' positions do not always represent the views of their individual members.

Public sector engagement: While we recognise value in disclosing public-sector engagement to encourage a whole-of-economy transition to Net Zero, entities should have the flexibility to disclose such information on a **voluntary basis**. Although we are supportive of disclosing public sector engagement, this **should not be equated with a responsibility on firms to improve the overall public policy environment**, which should reside with governments. Similar considerations on resourcing and sector-specific access also apply, and careful consideration should be given to political sensitivities for firms with operations in other jurisdictions (e.g. the US).

Science-based targets

References to science-based targets and commitments in the framework are limited. There is an opportunity to enhance and improve the "gold standard" by further promoting science-aligned targets and decarbonisation pathways for firms when setting their commitments. **The TPT could encourage firms to carefully base their targets and commitments on scientific evidence, highlighting the risk of e.g. reputational concerns and accusations of greenwashing, or litigation**, albeit while recognising earlier comments on the need to differentiate between "best in class" and "must-have" elements apply here. Clear guidance will need to be provided for both approaches.

The implementation guidance notes that: "an entity may refer to the guidance provided by the Science Based Targets initiative (SBTi)". Rather than pointing only to SBTi as a basis for science-aligned target-setting, **we recommend the TPT take an initiative-agnostic approach**, aligning with the NZBA which is not prescriptive as to which scenario must be used. This reflects the continually evolving state of best practice, while recognising (quoting NZBA) that "the scenarios used by banks shall come from credible and well-recognised sources and shall rely conservatively on negative emissions technologies" and that "banks should provide rationale for the scenario(s) chosen" [5]. As SBTi has itself noted, further work is needed to enable its frameworks to apply fully to some components of the financial services sector, such as firms with large capital markets businesses[6]. More work is required on issues such as financed emissions and target setting methodologies before SBTi's adoption can be sought more widely. The TPT should also consider that capacity constraints at the SBTi may also impact target validation.

The TPT has explicitly stated that it will not require transition plans to be aligned to a specific temperature limit, instead leaving the judgement of suitability to the market and regulators. Whilst the framework refers to 1.5˚C alignment throughout, **there should be an acknowledgement that methodologies and scenarios will improve over time to become better aligned to different temperature-based decarbonisation scenarios**. For example, the SBTi's Sectoral Decarbonisation Approach (SDA) methodology, including for the setting of real estate targets and other sectors, is not currently 1.5˚C-aligned.[7]

For international firms implementing global transition plans, targets may be driven by home-jurisdiction commitments or goals, which may differ from those of the UK. To support the

[5] See for instance: https://www.unepfi.org/wordpress/wp-content/uploads/2022/08/FAQ-General_public-facing-1.pdf

[6] https://sciencebasedtargets.org/resources/files/SBTiFinanceStrategy20220426.pdf

[77] https://sciencebasedtargets.org/resources/files/Sectoral-Decarbonization-Approach-Report.pdf

Government's goal of ensuring that the UK is internationally competitive, and open to international business, **we encourage the TPT to allow the recognition of non-UK national or international targets for international firms**.

NEXT STEPS: SECTOR-SPECIFIC GUIDANCE

We welcome the publication of this sector-agnostic framework, which provides a useful tool for transition plans across the board. As mentioned above, the financial sector is particularly dependent on the quality and availability of transition plans for other sectors. We therefore look forward to the publication of sector-specific guidance by the TPT.

At this stage, we would like to highlight the following points in relation to the development of the sector-specific guides:

- We recognise that the TPT is not able to disclose which sectors they are prioritising at this stage. The TPT **should reflect international initiatives in this prioritisation exercise**[8]. The banking and finance industry is ready to engage further on this as timeframes become clearer.

- 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 more carbon-intensive sectors with higher emissions reduction requirements (e.g. on the basis of Climate Change Committee/carbon budget analysis), and those that make up a large portion of the UK or global economy. Many banking and finance firms are actively engaging with clients with carbon-intensive business-models to finance their orderly transition. This is an important and challenging component of achieving an orderly and rapid net zero transition at economy-level. **We are therefore supportive of clear guidance on appropriate transition trajectories in those sectors where the transition burden is most urgent.** UNEP-FI's "Beyond the Horizon" report (2020) includes analysis on carbon-intensive sectors, which may prove useful in informing TPT's prioritisation.[9]

- It will be essential that any sector-specific guidance is **coordinated and sequenced with UK government policy** aimed at facilitating sector-specific transitions.

- 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 guidance of relevant international initiatives.

- We have previously raised[10] that **data access is a key barrier to disclosure of transition plans for banking and finance firms**. Sector-specific guidance should address this issue. However, while the deployment of mandatory transition planning among corporate firms will

---

[8] The Net Zero Banking Alliance (NZBA) for instance refers to the following sectors as carbon-intensive: agriculture; aluminium; cement; coal; commercial and residential real estate; iron and steel; oil and gas; power generation; and transport. See: https://www.unepfi.org/wordpress/wp-content/uploads/2021/04/UNEP-FI-Guidelines-for-Climate-Change-Target-Setting.pdf

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

[10] See our response to the TPT's call for evidence on a sector neutral framework for private sector transition plans, page 2.

help partially to address this barrier, it will not remove it entirely. An appreciation is needed that transition plans will improve iteratively over time. More clarity could be given on the use of assumptions and proxies where data is not available. This will help firms meet the requirements of the TPT framework where data and sectoral pathways remain under development. This could be further enhanced by outlining "must-haves" and "best in class" for data across each sector.

- It is critical to ensure that there is appropriate representation in the group working on the sector specific guidance, and we would encourage the TPT to **expand its current stakeholder group to include broader representation across financial services, including international firms**.

ANNEX: RECOMMENDATIONS TO GOVERNMENT AND REGULATORS

Our response acknowledges that the TPT's proposed framework will likely be implemented into regulation in the future.

According to the Greening Finance roadmap[11], the framework is likely to be adopted into regulation for financial services in the coming years. **We urge the regulators to start considering the points made in this response, including on the various degrees of prescriptiveness and granularity of specific elements, irrespective of the mandatory nature of reporting.** The banking and finance industry is ready to engage with regulators on how best to manage the transition into regulation.

We call for clarity on the **timetable for engagement, consultation, and eventually implementation of TPT-derived standards into regulation**. Government should consider the following:

- We expect decisions on integrating the TPT framework into mandatory reporting requirements to be subject to a **separate, full public consultation**. This is particularly important due to concerns around legal liability for the inherently forward-looking and less reliable underlying data used in transition plans.
- Clarity is needed, at the earliest stage possible, on which firms would be captured under these regulations. We support the recommendation for the framework, if adopted into regulation, to apply to both **publicly listed companies and private corporates**, as reflected in the recent Mission Zero report from the recent Independent Review of Net Zero.
- Regulatory implementation should be the occasion for an **open debate on how to approach the different levels of preparedness** across the whole economy, and public consultation.

Regulators and government should also keep in mind the **wider regulatory ecosystem**, and should urgently clarify timelines and expectations for the rest of the Greening Finance Roadmap commitments, including on the delivery of a UK Green Taxonomy.

We note that there is still a need for greater clarity and consistency in the **wider policy framework for banks (and others) to achieve the targets within their transition plans**. We continue to engage with government on these issues and we will continue to flag the various interdependencies for all sectors to reach net zero.

[11] https://www.gov.uk/government/publications/greening-finance-a-roadmap-to-sustainable-investing