Transition Plan Taskforce banking sector guidance

UK Finance consultation response

December 2023

INTRODUCTION

UK Finance is the collective voice for the financial services industry. Representing around 300 firms, we act to enhance competitiveness, support customers, and facilitate innovation. We are pleased to respond to the Transition Plan Taskforce's (TPT's) consultation on its banking sector guidance.

KEY MESSAGES

We welcome this latest set of publications by the Transition Plan Taskforce (TPT), particularly the Banks Sector Guidance which will be a core reference document for UK Finance members.

As set out in our response to the TPT's draft Disclosure Framework in February 2023, we **support transition plan reporting expectations for a wide variety of corporates and financial services firms.** This is in line with our wider support for reporting aligned with the International Sustainability Standards Board (ISSB) standards, which includes elements on transition plan reporting. Reporting by corporates will help financial services firms access much-needed data about value-chain companies' decarbonisation strategies. The guidance is an opportunity for the UK to be at the forefront in enabling good transition planning globally, and the UK and TPT should continue to work with partners in other jurisdictions to support international coherence of transition plan disclosure.

Based on our understanding that the guidance documents offer supplementary information to the TPT Disclosure Framework, we welcome the flexibility of the additional guidance, notably the use of "may" and "should consider" for all supplementary recommendations, which offers banks with varying business models leeway in implementation, and strengthens the TPT's proportional approach.

Recommendations for the TPT

This response sets out several areas where improvements would be useful. Our key recommendations are as follows:

- **Transition plans must not double as a prudential supervision tool, or duplicate existing climate risk assessment tools including prudential risk assessment mechanisms.** While some banks and corporates may use other entities' climate transition plans to understand and manage their climate-related risks and opportunities within their value chain, transition plans are primarily a strategic tool for preparers to set out their Net Zero objectives, interim emissions reduction targets, and strategies for reaching those targets. There are key differences between investors' and prudential supervisors' objectives, and the TPT (as well as the UK government and regulators) should make a clear distinction between investor-facing disclosures and regulatory supervision mechanisms. The TPT should support this effort by removing specific references to climate risk management from the disclosure recommendations, such as the suggestion to directly link transition planning with companies' internal capital adequacy assessment processes (ICAAP) – we detail these specific references on p.6.

- **Definitions across the TPT framework and guidance should align with International Financial Reporting Standards (IFRS) accounting standards and ISSB reporting principles.** To facilitate implementation, definitions should be consistent with ISSB standards and the guidance should provide precise references to relevant accounting standards for all concepts. We support the TPT framework's explicit focus on reporting that is financially material, and therefore decision-useful to investors and consistent with global reporting standards. There are elements of the Banks Sector Guidance which ask for impacts and dependency disclosures that are not aligned with the ISSB's financial materiality lens, and would pose challenges under the ISSB standards. We recommend that the TPT ensure that references to impact disclosure (beyond those already contained in the ISSB standards) are made optional, to support broad alignment with the ISSB standards. The TPT should also consider adding accounting references or examples (e.g. to IFRS, Markets in Financial Instruments Directive (MIFID) II etc.) to help clarify broad terms and definitions present in the guidance – further detail on pp. 7-8.

- **Bank-specific guidance should only be provided when specifically applicable to banking entities and substantive in its nature.** Where this principle does not apply, we recommend removal of the item from the guidance or transferring to sector-neutral guidance. Examples include guidance in section 4.1 and 4.2 regarding policy advocacy (see pp. 12-13 of this response), as this is incremental to the TPT framework but not bank-specific; and nature-related interdependencies, which are often equally applicable to other sectors.

- **We would welcome clear statements that, for UK subsidiaries of non-UK groups, disclosures made at parent or group level under a comparable framework may be used to satisfy the TPT disclosures.** Many international banks operate in the UK and any disclosure at UK level would present a partial and potentially misleading picture of the bank's transition plan.

- **The TPT should explicitly note that facilitated emissions, such as those from advisory and trading activities, are carved out from the guidance, until the applicability to such activities can be clearly articulated.** This will ensure that companies reporting transition plans with advisory or trading activities are not held subject to guidance that was not designed for them.

- **Transition plan quantification is forward-looking and uses external scenarios.** It should be recognised that impacts may change as financial forecasts or external factors change. Safe harbour clauses should be included to encourage organisations to disclose the best possible information at a given reporting date.

Recommendations for regulators

Based on the UK Government's Green Finance Strategy, we expect attention will soon turn to translating the TPT "gold standard" into legislative requirements or regulatory expectations. UK Finance will submit further recommendations to policymakers in advance of or as Government and regulators consult on this. The section of this document entitled "The path to regulation" signals some of our emerging views.

THE ROLE OF THE BANKING SECTOR IN TRANSITION PLANNING

The banking sector has a wide-ranging interest in the TPT's framework and guidance documents. Many banks are or will be **preparers of transition plans, and will also rely on their clients' and investee companies' transition plans** to set and achieve their decarbonisation objectives – particularly due to the overwhelming proportion of Scope 3 emissions (90-95%+) and particularly financed emissions, which represent the biggest challenge to the achievement of banks' Net Zero commitments. Many banks have committed to **decarbonisation targets** through initiatives like the Net Zero Banking Alliance (NZBA).

The alignment of the banking and finance sector with UK and global sustainability goals can only happen as part of a **whole-of-economy transition**, recognising that firms' balance sheets reflect the wider economy. A narrow focus on financial institution decarbonisation without broader support for real economy decarbonisation can lead to "paper decarbonisation" and not contribute to real-world reduction in emissions.

We therefore support proposals to apply transition plan reporting to a wide variety of economic actors, particularly to non-financial corporates given the importance of corporate reporting for understanding banking firms' Scope 3 emissions. We also support recommendations for the TPT's framework, if adopted into regulation, to apply to both publicly listed companies and private corporates.

Good policy for a wide range of real-economy sectors is critical to facilitating the transition. Banks' transition plans will reflect their role to support and enable the transition, rather than independently drive it. Beyond the commitments taken by many banking firms, the responsibility for the Net Zero transition is collective, and requires coordination and bold action from all actors but particularly governments. This includes the UK government providing incentives, policy measures and long-term certainty to address the supply- and demand-sides of emissions reduction, to drive the real economy decarbonisation, and to catalyse market conditions for effective private sector action. We have previously highlighted to the UK Government that the private sector, especially the financial services sector, will not achieve its own commitments without bold government action and coordination. That is why we are calling for stronger Net Zero policies across the economy.[1]

Firms have differing levels of maturity and capability when it comes to transition plans and their contribution to decarbonisation, which has implications for how governments and regulators interpret the TPT's "strategic and rounded approach" for mandatory disclosure requirements:

- Some organisations have started to disclose their contribution to an **economy-wide transition** and their impacts. For a bank, this could for instance mean that rather than only setting goals to decarbonise its portfolio, it also sets goals to finance transition impact (e.g. low-carbon infrastructure development).
- Other 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. This will be true, for example for many smaller financial services firms.

[1] See, for example, our recent policy note, *Mobilising Capital for the Net Zero Transition*, October 2023

To be most effective, the framing of transition plan disclosure frameworks and all sectoral guidance must clarify that **transition plan disclosure should primarily focus on substantiating an entity's own goals**. It is important for the TPT to focus companies on disclosure of information that is core to their transition and aligned with their strategy. Disclosure requirements should align with the ISSB's focus on material information relevant to their own business, while not precluding companies from disclosing how they are contributing toward broader, economy-wide impact where applicable.

In disclosing transition plans, banks will be navigating several tensions. Disclosing the actions a bank is taking to embed and accelerate their transition may require international firms to create a **narrative around their financing targets** that may be politically and legally problematic in their home jurisdiction (e.g. certain US states). TPT guidance and any future regulatory requirements will need to account for this challenge, and should acknowledge that there may be other legal impediments to disclosure such as client confidentiality obligations and anti-competitiveness.

Expectations for transition plan reporting must also recognise that in order to support rapid, sustainable decarbonisation, emissions in some sectors may take longer than others to 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 financial services sector when setting transition objectives and strategies, but also by other stakeholders including regulators in the future.

THE PATH TO REGULATION

Based on the UK Government's Green Finance Strategy, we expect attention will now turn to translating the TPT "gold standard" into regulatory expectations. UK Finance will submit further recommendations to policymakers in advance of or as part of government or regulatory consultations. We set out some initial considerations below:

- **Any regulatory disclosure requirements based on the TPT framework should apply the ISSB's financial materiality approach and accounting principles consistently.** The UK Government and regulators should consider how they will align any UK transition plan disclosure requirements with the ISSB standards, given the likely endorsement and future adoption of the ISSB standards into mandatory reporting requirements for UK companies**.** Several of the TPT's underlying principles may be misaligned with the ISSB's broader reporting principles, creating conflicting expectations for companies on what to report in relation to their transition plans. Specifically, there are references to impact and dependency disclosure, which more commonly apply under a double materiality framework, that may conflict with the ISSB's financial/investor materiality focus. Where such considerations are included, it would not align with wider ISSB implementation to roll those requirements out. Such expectations must be subject to a full consultation.

- **Protections are needed to enable full and ambitious reporting.** For most banks, disclosing transition plans remains a novel process, and they are building institutional capability and best practice in real time. Disclosing transition plans, in particular within an annual report as per the TPT's expectations, carries associated legal risks, which could disincentivise ambition. These risks are particularly acute where companies are expected to disclose forward-looking information or make disclosures around expected capital expenditure or investments, which could disincentivise ambition. We therefore call for clarifications and protections to ensure that firms can disclose to the fullest extent possible. These could include safe harbours against liability risks, clarity on application for multinational firms, and assurances on precisely how transition plans may be used by regulators or supervisors. We support reliefs offered by the ISSB, including phase-in periods as firms build capability and data access, as well as exemptions for the smallest firms (e.g. in line with the scope of application of UK Streamlined Energy and Carbon Reporting (SECR)).

- **TPT disclosure regulation should be principles-based, focusing on how a company aims to achieve its business strategy around the net zero transition.** Closely related to the above, regulators need to be clear on what transition plans do and do not seek to achieve. At present, uncertainty on the role of transition plans (for example with regard to prudential supervision – see next bullet) has impact on the confidence with which preparers approach their transition plans, particularly in light of legal liability for banks and Directors'/senior manager's personal liabilities and responsibilities. Greater clarity will enhance confidence that companies can be ambitious without being penalised as transitions are refined and updated to reflect new insights, data, technological advances or policy changes. There is an important balance, which regulators will need to strike, between reasonable expectations that banks should be accountable for their claims and seeking to incentivise ambition in environments of incomplete information (given the noted challenges regarding data/reliance on assumptions and estimates). UK Finance members tend to view transition plans as a transparency and strategic ambition-signalling tool rather than being viewed as a supervisory tool. We welcome the recognition that transition planning is a dynamic, adaptive and iterative process.

- **Government and regulators should clearly distinguish transition planning as a business strategy tool from climate-related financial risk management and prudential supervision.** The Banks Sector Guidance references transition plans in the context of credit risk and ICAAP, risking conflating climate-related financial risk management and Net Zero business strategy. While some banks and corporates may use climate transition plans as a mechanism to manage their climate-related risks, transition plans are primarily a strategic document for companies to identify their net zero objective, set interim emissions reduction targets, and determine their strategy for reaching those targets. As a dynamic business exercise to operationalise a firm's strategic targets and commitments to achieve long-term goals and interim targets, transition planning has different objectives, time horizons, metrics, and scenarios than climate-related financial risk management. ICAAPs are private documents that are shared only with the Prudential Regulation Authority (PRA), who set the expectations for what firms should include and use these plans to set capital requirements. As such, only the PRA (or equivalent authority in other jurisdictions) has the remit to opine on what firms should include in the ICAAPs, and, even if climate risk was included as a standalone risk type, disclosures would not be shared with the firm's investors and other stakeholders, who are the target audience of transition plans. Government and regulators should avoid linking transition planning with credit risk and ICAAP, as this risks creating confusion in a carefully-calibrated existing regulatory landscape. We are developing our thinking in this area and will share further views with regulators in the coming months.

- **Likewise, transition plan expectations need to be sensitive to the distinction between actions to reduce financed emissions and actions to address climate-related risk within the portfolio.** A process to deal with the latter, led by supervisors and implemented through exercises like the Bank of England's Biennial Climate Exploratory Scenario (CBES), already exists. Amid extensive analytical work including in collaboration with industry on the links between risk management and climate change, the Bank of England has not to-date amended supervisory expectations – instead recommending that firms focus on the implementation of expectations already set out by the PRA. Actions to reduce transition and physical climate risks within a portfolio and actions to reduce financed emissions are complementary in the medium-long term, but they are not necessarily directly correlated in diverse lending portfolios. For example, financing newer technologies could increase credit risk, but does not necessarily reduce physical risk.

- **Good government policy, and reporting of transition plan policy dependencies, remain crucial.** Financial institutions have a dependency on national government policies to support transition and as such will likely need to assess and disclose the impact of these dependencies on their transition plans. As a result, there may be benefit in pointing to a standardised mechanism or data source (for example the annual UK Climate Change Committee progress reports) to support consistent assessment of the impact of national policies on firms' transitions.

- **Clarification is needed on scope of application of future reporting requirements.** Understanding the scope of application of transition plan reporting requirements will be important – including clarity on the size of firm subject to transition plan reporting requirements, whether group-level or subsidiary, and how disclosures adhering to another jurisdiction's reporting requirements may be recognised by UK regulators. We recommend that UK regulators allow companies to reference global commitments in meeting transition plan disclosure requirements. This is particularly important when considering alignment with ISSB. As ISSB is adopted on a country-by-country basis, this could create a fragmented reporting landscape where multinational companies need to report transition plans for multiple subsidiaries in different countries, rather than focusing on the most impactful actions at parent level. We encourage the TPT, regulators and governments to continue to work towards international coherence and commonality of standards aligned to the ISSB and other reporting requirements.

- **Procedure:** We expect decisions on integrating the TPT framework into mandatory reporting requirements or supervisory expectations to be subject to **separate, full public consultations, as well as cost-benefit analysis**. This is particularly important given the tight timeline for responding to the TPT sector guidance, which is insufficient for any future regulatory framework.

DETAILED RESPONSES TO QUESTIONS

In the remainder of this paper, we have focused responses on those questions where the collective voice of the sector is most valuable – we have therefore not responded to all questions. Given UK Finance's role representing a large number of firms with potentially differing views, we have not responded to the TPT's multiple-choice "agree/disagree" questions.

Application of TPT Disclosure Framework concepts

3.1. Do you think that the TPT Banks Guidance is useful in supporting effective disclosure in line with the TPT Disclosure Framework?
3.2. You said that the TPT Banks Guidance was not useful in supporting effective disclosure in line with the TPT Disclosure Framework. Please explain why you gave that answer.

Overall, UK Finance welcomes this additional guidance for interpreting the TPT's Disclosure Framework for banks, which sets out a range of additional considerations and reading for companies to consider in their transition plan disclosures. We welcome the following:

- In February 2023 we responded to the TPT Disclosure Framework and noted the need for improved guidance regarding a range of issues, including the level of prescriptiveness of the guidance. The Banks Sector Guidance offers some further clarity in this regard.

- We welcome the flexibility of the additional guidance, notably the use of "may" and "should consider" for all supplementary recommendations, which offer banks with varying business models leeway in implementation.
- Beyond the Banks Sector Guidance, we also welcome other sector-specific guidance documents, particularly those focused on real economy sectors which can inform banks' engagement with clients.

However, the following paragraphs set out suggested changes to the guidance which could enhance its value and usability.

References to accounting standards: To facilitate its implementation, the guidance should always provide precise references to relevant accounting standards for concepts used to set out disclosure recommendations. The TPT should consider adding accounting references or examples (utilising e.g. IFRS, Markets in Financial Instruments Directive (MIFID) II etc.) to help clarify broad terms and definitions present throughout the guidance. For example, financial institutions may find existing accounting terminology helpful to clarify references to "sales and trading" and "advisory activities," which, by themselves, could be interpreted as encompassing a wide variety of business practices. Likewise, we would welcome similar treatment for the term "on- and off-balance sheet" in relation to Scope 3 emissions reporting. Additional context across these and other similarly worded terms would support companies making comparable disclosure under the Banks Sector Guidance and aid in integrating the guidance with the ISSB standards.

Improving specificity: While the document does provide additional guidance and reference material, the sheer volume of new content, with some provided in a less accessible format, adds to an already complex set of disclosure requirements. Where a large number of initiatives and global industry working groups are referenced as additional guidance to consider, the TPT could adopt a more sensitive approach, e.g. referencing specific sections within the documents to consider, reducing the number of documents so that preparers have a clearer understanding of what the TPT and regulators consider genuine best practice; and/or reducing the number of items to be considered for disclosure. A "less is more" approach could offer greater value and help banks to prioritise their actions.

Definitions: We would welcome definitions of certain terms used in the document:

- **Materiality:** In both the overarching framework and the sector-specific guidance documents, the TPT applies the same definition of materiality as the ISSB. This could usefully be reiterated more frequently throughout the documents (noting there is only one reference in the Banks Sector Guidance). Without the materiality lens, preparers and users risk facing an over-proliferation of disclosures. The TPT should ensure that the ISSB definition of financial materiality applies consistently across all disclosure requirements.
- **Bank-specific terms:** Specific terms used in describing the scope of the guidelines, such as "advisory activities" and "banking products", and lines drawn between the products covered by banking, asset management and asset owners guidance, require clarification.

Facilitated emissions: There is a lack of clarity regarding how this guidance applies to transition plans for reducing facilitated emissions. The guidance notes that "the focus of the Working Group was on commercial and retail banking". We propose that the TPT note explicitly that facilitated emissions, including those arising from advisory and trading activities, are not the focus of the guidance, until the applicability to such activities can be clearly articulated – this will ensure that relevant companies reporting transition plans with advisory or trading activities are not subject to guidance that was not designed for them. Expectations to disclose facilitated emissions reduction strategies could, for example, move to the "may additionally consider" component of relevant sub-elements, until there is a clearer industry understanding of facilitated emissions measurement and management. There are currently no established methodologies for facilitated GHG emissions accounting, and engagement and influencing opportunities are limited where banks are not committing capital and may not have a contractual relationship with clients for these activities beyond the scope of the transaction.

Accessibility: The TPT notes in the Banks Sector Guidance that the sector-agnostic Disclosure Framework, the Implementation Guidance and the sector-specific guidance documents are intended to be read in conjunction. To facilitate this, the TPT should make the Implementation Guidance available in PDF format, in line with the other documents and for accessibility – this currently appears to be available only in HTML format.[2]

Consistency: It is important that the style and language of the guidance documents is consistent. For example, we note the use of a two-tiered approach in the draft Banks Sector Guidance, but not in the Sector Agnostic guidance.

Clearly defined role for transition plans as business strategy: As noted in the section above, "The path to regulation", further consideration on the role of transition plan reporting will be needed if the TPT Guidance is used in setting regulatory expectations.

3.3. The section *A Strategic and Rounded Approach to Banks' Transition Plans* (page 14) explains this Disclosure Framework concept for the Banking sector. Please state whether you agree if this adequately explains the concept for the sector.
3.4. You said that the TPT Banks Guidance was not useful in explaining the *Strategic and Rounded Approach* concept for the sector. Please explain why you gave that answer.

UK Finance continues to strongly support the TPT's holistic approach and recognition of the need to avoid "paper decarbonisation", providing space for financial services firms to engage fully with clients and to offer much-needed finance for higher-emitting industries to decarbonise.

However, the TPT guidance should be clearer about the strong desirability of banks supporting real economy decarbonisation, while recognising that the degree to which financial institutions are able to support the net zero transition will depend upon the underlying state of the real economy and on their individual capabilities. **Some companies — particularly smaller lenders, or banks whose primary business is not lending — may have a more limited role in supporting economy-wide decarbonisation**. Lenders that choose to focus only on portfolio decarbonisation should not be penalised for this decision, where they have determined that it is a more appropriate course of action for their business models and capabilities.

We would welcome clear definitions, including clearer references to the ISSB standards, for:
- **Resilience**, noting our response to question 3.10.
- **Short-, medium- and long-term**, setting out clear expectations for how to delineate these timescales and level of detail required in good transition planning.

Please also note our response to question 3.6, 3.8 and 3.10 which we believe are relevant to the "strategic and rounded approach", with regard to e.g. the role of a bank in considering dependencies on the natural environment, resilience and just transition.

3.5. The section *Impacts and dependencies on the natural environment* (page 15) explains this TPT Disclosure Framework concept for the Banking sector. Please state whether you agree if this is adequately explains the concept for the sector.

[2] https://transitiontaskforce.net/build-your-transition-plan/

3.6. You said that the TPT Banks Guidance was not useful in explaining the *Impacts and dependencies: the natural environment concept* for the sector. Please explain why you gave that answer.

Identifying and navigating the interdependencies between decarbonisation transition plans and nature is complex, and many firms are in the early stages of undertaking this work. Methods, data and frameworks for assessing nature-related risk and the interaction with climate change are still nascent, and companies will therefore need to iteratively improve as best-practice emerges. The guidance offered by the TPT includes a summary of some of the key considerations and additional useful reading. In this regard, it offers some value.

We welcome that this section of the guidance offers flexibility regarding approaches to accounting for nature, noting use of language like “recommends” and “may find it helpful to” and “whether and how”. We would not support any changes that give more prominence to these approaches, which will need to be implemented depending on the business’s strategic approach.

It is important that the guidance makes the distinction between developing a transition plan for decarbonisation, which accounts for interdependencies with nature, and developing a transition plan for reducing impacts on the natural environment. We would not support any changes to this guidance which places additional requirements to develop nature-focused transition plans; this should be the subject of separate guidance.

We recommend that the TPT consider where **elements of the Banks Sector Guidance should be applied more broadly to all transition plans, not just among banks** – in many cases, the guidance appears to refer to interdependencies with nature that are not bank-specific. Where this is the case, this should be highlighted in the sector-neutral Disclosure Framework or Implementation Guidance.

We would recommend the following changes to this section:

- The guidance appears to use three terms interchangeably: nature-related, natural environment and environment. These **terms should be streamlined and/or an explanation offered** if differences in terminology are intentional.
- Section 2.2 of the sector guidance advises that banks “should consider disclosing” climate- or sustainability-linked **financial products** (including nature-linked products). It is not clear how disclosing on nature products is directly linked to climate and we therefore suggest the link to climate be made more explicit and/or moved to the “may additionally consider” section.
- The TPT should be explicit where suggested actions under the guidance **go beyond ISSB requirements**, or where they overlap with other disclosure frameworks. For example, reporting on non-material nature-related impacts and dependencies should not be required under the TPT guidance, but should remain optional, since the requirement to report on such impacts and dependencies could reduce interoperability with ISSB reporting. The need for banks to manage wider environmental and social impacts, including impacts on nature, goes well beyond their transition plans and applies to a broader scope of activities. These are better reported in their own right and are well covered by emerging regulation/standards such as ISSB S1 and the EU CSRD and voluntary guidance such as TNFD.
- The guidance could signpost the **tools commonly used to help banks manage wider environmental and social impacts** such as OECD Responsible Business Conduct guidance for Lending and Securities Underwriting, and the Equator Principles for project-related finance.

3.7. The section *Impacts and dependencies: stakeholders, society, and the economy* (page 17) explains this TPT Disclosure Framework concept for the Banking sector. Please state whether you agree if this is adequately explains the concept for the sector.
3.8. You said that the TPT Banks Guidance was not useful in explaining the Impacts and dependencies: stakeholders, society, and the economy concept for the sector. Please explain why you gave that answer.

Identifying and navigating the interdependencies between decarbonisation transition plans and social/economic factors is complex, and many firms are in the early stages of undertaking this work. Methods, data and frameworks for assessing social/economic factors and the interaction with climate change are still nascent, and companies will therefore need to iteratively improve as best-practice emerges.

The guidance offered by the TPT includes a summary of some of the key considerations and additional useful reading. In this regard, it offers some value. However, it also can be seen as **going further than the sector-neutral Disclosure Framework and Implementation Guidance when providing more detailed wording and examples**, setting out the expectation that disclosures should capture banks' contribution to an economy-wide transition. Please see our responses to questions 3.2 and 3.4 for our recommended approach.

We welcome that this section of the guidance offers flexibility in accounting for social/economic factors, noting use of language like "recommends" and "may find it helpful to". We would not support any changes that give more prominence to these approaches, which will need to be implemented depending on the business's strategic approach.

We support the inclusion of just transition considerations into transition plans for banks, given that many potential actions that can be undertaken by banks to address climate change could have consequences for customers.

However, **requirements to disclose certain societal impacts risk going beyond ISSB financial materiality expectations** – for example, the suggestion in section 2.2 that companies "should consider" disclosing "information about any potential impacts and dependencies that changing its products and services may have on its stakeholders and society". We recommend this is framed as a factor that banks "may additionally consider" disclosing.

3.9. The TPT Disclosure Framework requires an entity to disclose how it is responding and contributing to the transition towards a low-GHG emissions, climate resilient economy. Do you think that climate resilience is sufficiently and appropriately addressed within the banking sector guidance?
3.10. You said that the TPT Banks Guidance does not sufficiently and appropriately address climate resilience. Please explain why you gave that answer.

The Banks Sector Guidance **adds to uncertainty about how a company should separate reporting on its climate change mitigation-related activities versus its contribution to a climate-resilient economy**. The TPT, government and regulators need to clarify whether reporting on activities to support climate resilience would be considered a necessary part of a transition plan. The TPT, government and regulators must also delineate between the role of transition planning and climate risk reporting, where companies may already be reporting activities to build climate resilience (e.g. following existing practice under the Taskforce for Climate-Related Financial Disclosure (TCFD)).

We would welcome a **clearer definition of "resilience"** as it relates to climate transition plans — this should use the TCFD concepts of transition and physical risk as the template.

Overarching sector-specific questions

4.1. Do you think investment banking activities are sufficiently and appropriately addressed within the TPT Banks guidance? Please explain why you gave that answer.

The guidance sufficiently captures investment banking activities, and **we would not support new additional detailed guidance from the TPT to cover investment banking activities**. However, there are areas where the TPT should consider offering additional clarity, such as in the definitions of "sales and trading" and "advisory services", as this may aid financial institutions in generating comparable disclosure or understanding the TPT's scope of application.

We welcome the wider sectoral guidance from the TPT, which will support investment banks in assessing the readiness of their value-chain counterparties operating in those sectors.

4.2. Do you think housing and mortgages is sufficiently and appropriately addressed within the TPT Banks guidance? Please explain why you gave that answer.

Housing and mortgages are sufficiently addressed within the Banks Sector Guidance; we do not seek further guidance here.

Some elements of the TPT Disclosure Framework and Banks Sector Guidance will be particularly relevant to disclosing transition plans for mortgage lenders – in particular:

- **Policy sensitivities:** Given banks' inability to control homeowner energy consumption decisions and therefore limited control over Scope 3 financed emissions within mortgage portfolios, there is heavy reliance on external influencing and policy for achievement of Net Zero goals. Much as for reporting in other sectors, it is important to retain policy sensitivity considerations for mortgage lenders.
- **Climate resilience:** The value of banks' mortgage portfolios could become sensitive to climate change over time as physical risks increase. We would welcome further sharing of best practice in accounting for the interactions between transition plans and climate resilience.

4.3. Incentives and remuneration play an important role in driving business performance. Banks are facing complexity between transition plan metrics and commercial metrics. Do you think the Incentives and remuneration is sufficiently and appropriately addressed within the TPT Banks guidance? Please explain why you gave that answer.

We do not suggest adding any further guidance for banks on incentives and remuneration.

The TPT appropriately avoids adding additional guidance or recommendations on remuneration and incentives for banks in the Banks Sector Guidance. For its final sector-neutral Disclosure Framework, the TPT made positive adjustments to section 5.4 on incentives and remuneration based on stakeholder feedback, maintaining flexibility for firms to disclose whether their incentives policies are aligned with the "strategic ambition" of the transition plan. It is unnecessary to add additional bank-specific considerations for this sub-element.

In UK Finance's response to the Financial Conduct Authority's Discussion Paper 23/1 on "Finance for Positive Sustainable Change", we noted complex challenges including the disconnect in timescales between remuneration cycles and sustainability impact. Companies will need to continually develop good practice and share lessons-learned in this regard.

4.4. Do you think a Bank's role in lobbying, policy advocacy, and trade association positions is sufficiently and appropriately addressed within the TPT Banks guidance? Please explain why you gave that answer.

Value chain engagement: The sector-neutral framework requires that entities disclose their escalation processes or criteria in place to manage cases where engagement activities do not yield desired changes (sub-element 3.1). The Banks Sector Guidance goes further, suggesting that banks disclose any exit conditions defined as part of their escalation processes to manage cases where engagement activities do not yield desired changes. The TPT should remove these references to escalation processes and exit conditions under sub-element 3.1 as such disclosure opens banks up to potential breaches of client confidentiality and legal risk. The TPT should also seek to ensure that reporting requirements focus only on engagement that could be material, recognising that for many banks its engagement activities with its value chain may be immaterial and therefore not reported under the ISSB standards.

Industry bodies: The sector-neutral framework further suggests that firms should disclose how they monitor the activities of industry bodies (sub-element 3.2) to which they belong and minimise any conflicts between these and their transition plans. While recognising the need to identify how firms are using industry bodies to support achievement of their climate commitments, we remain concerned that these reporting requirements are overly onerous (particularly accounting for the large number of industry bodies that many companies participate in) and there is a risk that detailed reporting expectations could reduce industry engagement in these forums. We recommend narrowing or streamlining the recommendations under Disclosure Framework sub-element 3.2, to ensure that they do not disincentivise action.

Lobbying and policy: We welcome the list of example activities to "consider" when disclosing a bank's role in lobbying and policy advocacy (sub-element 3.3). However, many of these activities appear to be applicable to all companies, not just banks – for example, engagement on "subsidies, incentives and policies". Where this is true, the content should be included in the sector-neutral Disclosure Framework or Implementation Guidance.

Interpretation: We invite users of transition plans to take a nuanced interpretation of reported lobbying activities by firms. Some policy areas may not be universally agreed as important to the achievement of climate or sustainability goals. One example could be deployment of a green taxonomy: while some would view taxonomies as a tool for driving action toward sustainable outcomes, others may take an opposing view. Guidance should make allowance for firms to take different policy approaches, or contribute to open and balanced policy debate, without being seen to undermine the overarching policy environment.

4.5. Prudential supervisors are now actively considering the role of transition plans in prudential supervision, with some having set expectations with regards to both transition plans and transition planning. Do you think that the TPT Banks guidance sufficiently and appropriately helps firms in this sector to make disclosures which are aligned with what is expected of them, or is likely to be expected of them in the future, by prudential supervisors? Please explain why you gave that answer.

No, it is only through clear expectations from prudential supervisors that banks will know definitively what to disclose to meet the needs of those supervisors. As set out above, we recommend establishing a clearer delineation in the guidance between transition planning as a transparency/strategic tool and potential supervisory expectations, which should be the sole purview of the relevant regulators and subject to established, inclusive consultation processes with industry. This short consultation on the TPT guidance is insufficient for decisions which may be translated into regulation or supervisory expectations, and the translation to regulation will require further consultation. Please see section above – “the path to regulation”.

Sub-element feedback

We will not respond to questions 5.1-5.3. For question 5.4, seeking feedback on the sub-elements, please see the table at the end of this document.

General comments

We will not respond to questions 6.1-6.2.

If you have any questions on this response, please reach out to:

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Sub-element	Feedback from UK Finance members on the sub-elements
1.1 Strategic Ambition	This sub-element provides that when determining their Strategic Ambition, entities may consider various guidance documents including GFANZ’s Financial Institution Net-Zero Transition Plans Guidance and SBTi’s Financial Institutions Net Zero Standard. The framework refers to latest versions of these guidance documents published as of November 2023. For the avoidance of doubt, we suggest that the framework include a disclaimer that this list represents an endorsement only for the versions of the standards that are expressly listed. The TPT should consider clarifying “relevant guidance including, *but not limited to*” in order to emphasise that this list is not exhaustive and reference to these frameworks is not required. We would further suggest that the TPT strike the reference to the Monetary Authority of Singapore’s Guidelines on Transition Planning given the guidelines are currently in draft form and may not align with industry best practice in transition planning as currently drafted. The TPT should explicitly note that facilitated emissions, such as those from advisory and trading activities, are carved out from the guidance, until the applicability to such activities can be clearly articulated. This will ensure that companies reporting transition plans with advisory or trading activities are not held subject to guidance that was not designed for them. Expectations to disclose facilitated emissions reduction strategies could, for example, move to the “may additionally consider” component of relevant sub-elements, until there is a clearer industry understanding of facilitated emissions measurement and management.
2.1 Business operations	To aid consistency and comparability of transition plans between firms, we would recommend setting out indicative time ranges in respect of “short-”, “medium-” and “long-term”. There is some duplication with other sections (e.g. financial planning, and climate-related opportunities). The TPT should consider removing references to integrating climate-related considerations into a firm’s risk management framework and processes, per our feedback throughout this document.
2.2 Products and services	To aid consistency and comparability of transition plans between firms, we would recommend setting out indicative time ranges in respect of “short-”, “medium-” and “long-term”. This section is focused primarily on retail bank activity, and does not acknowledge complexities associated with institutional banking – for example, sovereign lending.

	The section references sustainability-linked loans (SLLs) as an example of transition finance. Not all banks would include SLLs as transition finance as they are commonly used as a tool to incentivise incremental improvements in a client's core business, rather than a tool for transformational change. The section references UK and EU taxonomies, but many other jurisdictions have their own taxonomies.
2.3 Policies and conditions	For many banks, policies and conditions cover a wide range of environmental and social risks and will usually be disclosed in a separate document that may be updated independently from the annual reporting cycle. Banks should be able refer to this in their transition plans without duplicating the full content of their policy statements. This section could differentiate between asset-specific financing (e.g. mortgages, project finance) and corporate lending and other financial services in line with other industry guidance.
2.4 Financial Planning	To aid consistency and comparability of transition plans between firms, we would recommend setting out indicative time ranges in respect of "short-", "medium-" and "long-term". Sub-element 2.4 requires significant disclosures on financial planning which will require highly speculative forward-looking estimates and projections. This could be misleading to investors, present legal risks and do little to fulfil the TPT's goals. Such disclosures should be optional. Additionally, as noted in our feedback to sub-element 2.1, the TPT should remove specific references to climate risk management, including those to forward-looking assessment of possible credit losses and integration into the ICAAP process. Providing this information in banks' transition plans is overreach and does not fall under the purview of sustainability reporting standard-setting.
3.1 Engagement with value chain	We ask the TPT to narrow disclosure on broader value chain engagement and to remove references to escalation processes and exit conditions as such disclosure opens banks up to legal risk and potential breaches of client confidentiality, per comments elsewhere in this document.
3.3 Engagemesnt with government, public sector and civil society	We welcome the list of example activities to "consider" when disclosing a bank's role in lobbying and policy advocacy. However, many of these activities appear to be applicable to all companies, not just banks – for example, engagement on "subsidies, incentives and policies". Where this is true, the content should be included in the sector-neutral Disclosure Framework or Implementation Guidance.

4.1 Governance, engagement, business and operational metrics and targets	We suggest defining or explaining the term “climate value-at-risk outputs" to ensure consistency across firms. We would welcome suggestions for nature-related metrics, as few are used widely within industry. Such work should be undertaken in close collaboration with relevant international initiatives, e.g. the ISSB and Taskforce on Nature-Related Financial Disclosure. The reference to the split between portfolio alignment metrics and financed emissions metrics is not clear. Financed emissions targets are one metric that can indicate progress towards a 1.5˚C scenario.
4.2 Financial metrics and targets	Guidance for 4.2a does not add substantive new guidance; we suggest removal. Guidance on 4.2b only appears to introduce “economy-wide transition” terminology. This should not just be a specific expectation of banks, and should be applied to other entities, too; therefore we suggest inclusion in the TPT Disclosure Framework or Implementation Guidance. Additional guidance on 4.2.c.x is not bank-specific and if required should be included in the TPT Disclosure Framework or Implementation Guidance. Limitations of methodologies, taxonomies and definitions are not just a banking industry issue.
4.3 GHG metrics and targets	We suggest removing the reference to “client level”. It is very unlikely that banks will disclose specific client entities and their emissions metrics. The build on 4.3.I iii does not appear to add substantive new guidance; we suggest removal.