

TPT Transition Plan
Taskforce

CONSULTATION

The Transition Plan Taskforce Disclosure Framework

NOVEMBER 2022





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The materials produced by the TPT reflect a synthesis of best practice at the time of publication. They do not constitute financial, legal, or other professional advice and should not be relied upon as such. Neither the TPT Disclosure Framework nor any guidance prepared by the TPT is statutory or regulatory guidance, though they may form an input for the development of such guidance at a later date. TPT materials are not intended to alter or otherwise affect rights or obligations under statute or regulation. These outputs may nevertheless be informative for entities which are preparing transition plans in accordance with the Financial Conduct Authority's (FCA) initial expectations on disclosure of transition plans by asset managers and FCA-regulated asset owners (ESG 2 in the FCA Handbook), and listed companies (LR 9.8.6 (8) in the FCA Handbook) in accordance with the guidance from the Task Force on Climate-related Financial Disclosures (TCFD).

Foreword

Andrew Griffith MP, Economic Secretary to the Treasury, HM Treasury, Co-chair, Transition Plan Taskforce.

The UK is already the leading global centre for sustainable finance. But we are not complacent, and there are opportunities to go further. At COP26, the UK committed to become the world's first Net Zero-Aligned Financial Centre. This is a market-led vision centred around financial institutions and businesses developing their own practical plans to transition over time to net zero, and then crucially setting these out transparently to allow the market to make its own informed judgements.

The Transition Plan Taskforce (TPT) is central to this. It has brought together a wealth of industry expertise and existing work to rapidly develop a 'gold standard' for private sector transition plans. This will help to connect the impressive momentum on net zero commitments from private sector firms with the need for good-quality, accurate and decision-useful information for investors.

That's why I am delighted to co-chair the TPT. The launch of the TPT Disclosure Framework and Implementation Guidance is a huge step. The documents set out clear recommendations for the preparation and disclosure of high-quality plans for consultation. The UK Government and regulators have committed to take the TPT's work into account when developing future reporting requirements, and I hope other jurisdictions will do the same.

I encourage all stakeholders to provide feedback on the documents, either through the consultation or the TPT's Online Sandbox, where firms preparing transition plans can road-test the TPT's outputs.



Amanda Blanc, CEO Aviva Plc, Co-chair, Transition Plan Taskforce

In recent years, we have seen a wave of private companies announcing their ambitions to contribute to net zero. The avalanche of stated commitments is excellent progress. We now need financial firms and companies to come forward with high quality plans to show how they will meet their targets. At Aviva, we announced our own intention to be a net zero company by 2040 in 2021 and published our first plan earlier this year.

Transition plans are a key building block for delivering a net zero future. High quality plans will support leadership teams through a complex transformation and open a dialogue with governments about the policy action that is required to support the private sector in delivering on climate objectives. Strong plans allow investors, governments and NGOs to hold company leadership to account, and support investors to best allocate capital to support the transition.

This is why the work of the TPT is so important. Building on the excellent work done by both GFANZ and the ISSB, the TPT Disclosure Framework will help ensure that everyone has a shared and consistent understanding of what is needed. I am thrilled to co-chair the Taskforce and encourage anyone who is serious about contributing to a low carbon future, to engage with our outputs and understand how they can help your progress.

I urge all those that are preparing 2023 transition plans to sign up for the TPT Online Sandbox and give feedback directly. Transparency and collaboration are fundamental to the successful transition to net zero and climate resilience. Together, we might just crack this.



TPT FRAMEWORK

The drafting of this Framework was led by the Disclosure Framework Workstream of the Transition Plan Taskforce, with input from the TPT's Delivery Group and Steering Group and support from the TPT Secretariat. The TPT would like to thank the co-chairs of the Workstream, Chris Stark (Chief Executive, Climate Change Committee) and Matt Scott (Senior Director, Willis Towers Watson), as well as all members of the workstream, which included representatives from:

Aldersgate Group

Aviva Plc

Bank of England (Observer)

UK Department for Business Energy and Industrial Strategy (Observer)

British Standards Institution

Canada Pension Plan Investment Board

CCLA

CDP

Chapter Zero

Church of England Pensions Board

Climate Change Committee

Climate Safe Lending Board

Financial Conduct Authority

Glasgow Financial Alliance for Net Zero

Green Finance Institute

HM Treasury

Institute of Chartered Accountants of England and Wales

The Institutional Investors Group on Climate Change

Impact Investing Institute

Impax Asset Management

Investment Association

International Sustainability Standards Board (Observer)

Just Climate

Legal & General Investment Management

Linklaters

London School of Economics

London Stock Exchange Group

NatWest

National Employment Savings Trust

Organisation for Economic Cooperation and Development (Observer)

Ørsted UK

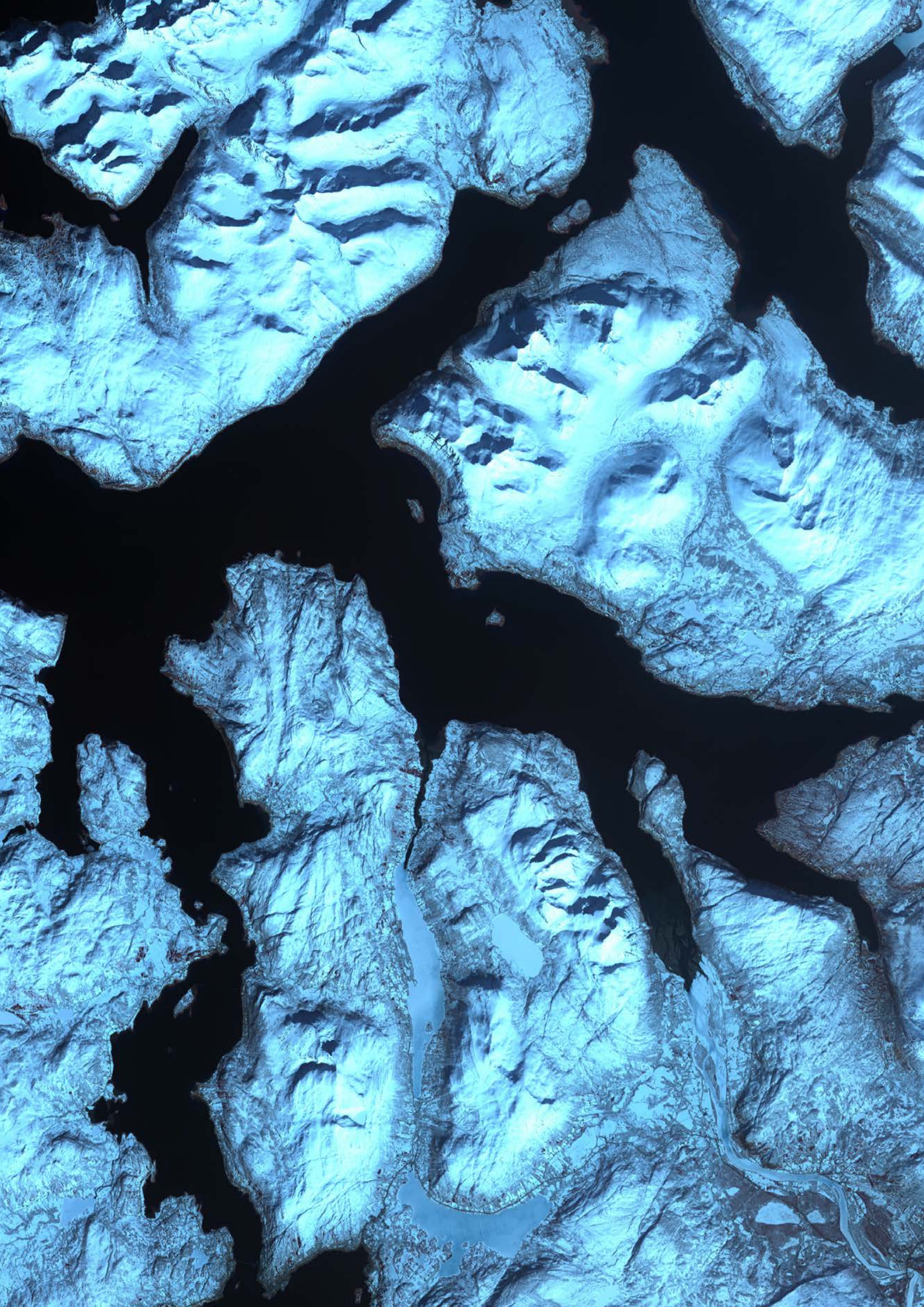
Phoenix Group

ShareAction

Unilever

World Business Council on Sustainable Development

The TPT would like to thank all those that have contributed to the development of this Framework. This document does not necessarily represent the views of individual taskforce members or their organisations.



Preface: About the TPT


BACKGROUND & RATIONALE

The UK has set itself ambitious and legally binding targets to cut greenhouse gas (GHG) emissions to net zero by 2050, with binding interim targets. The UK has also pledged at UN climate negotiations to cut emissions by at least 68% by 2030, in the context that nearly every country has also announced targets to reach net zero emissions around the middle of the century under the Paris Agreement¹.

In October 2021, the UK government published the Greening Finance Roadmap, signalling that it intends to strengthen new and existing sustainability reporting requirements for companies, including publication of climate transition plans². At COP26, the UK Chancellor further committed to work towards the UK becoming the world's first net zero aligned financial centre and ensuring that financial flows shift towards supporting a net zero economy³. The Chancellor also set out that the UK will move towards making publication of transition plans mandatory.

These developments create a new operating context for the private sector. A growing number of entities have already announced net zero targets and other climate pledges. As of June 2022, around 702 companies from the Forbes 2000 list have announced a net zero target⁴. But early plans have varied in quality and often lack detail on the short-term actions that are being taken to achieve these targets. This makes it difficult to assess the credibility of individual plans, or to compare approaches to transition planning across multiple entities. The Transition Plan Taskforce (TPT) will make recommendations to inform the UK's regulatory requirements on transition plan disclosures. These outputs aim to enable entities to develop robust and credible plans. They will

support multiple benefits, including creating transparency and accountability around net zero targets, allowing entities to communicate the policy changes that they require to deliver on their climate ambition, and enabling investors to make smarter capital allocation decisions.



At COP26, the UK Chancellor further committed to work towards the UK becoming the world's first net zero aligned financial centre and ensuring that financial flows shift towards supporting a net zero economy.

¹) See UK Climate Change Act 2008 and the UK's *Nationally Determined Contribution*, as updated September 2022

²) See *Greening Finance: A Roadmap to Sustainable Investing*, October 2021

³) See *Fact Sheet: Net Zero-aligned Financial Centre*

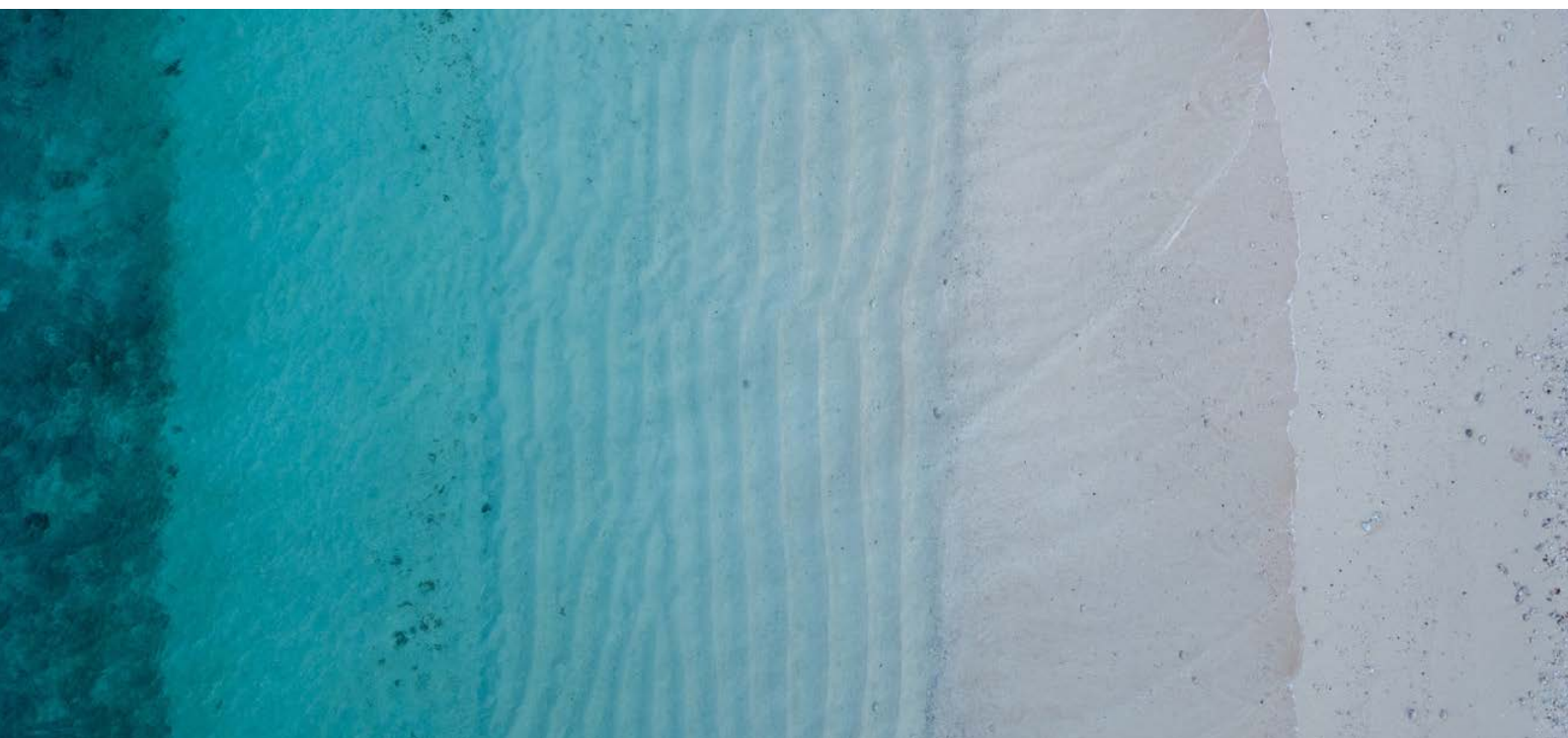
⁴) See *Net Zero Stocktake 2022*, June 2022

THE TRANSITION PLAN TASKFORCE

The Transition Plan Taskforce (TPT) was launched on 25 April 2022. It will develop a gold standard for transition plans, encouraging entities to back up their targets with rigorous and credible short-term actions. The TPT has a two-year mandate, bringing together leaders from industry, academia, and regulators, and coordinating with international efforts, such as the International Sustainability Standards Board (ISSB) and the Glasgow Financial Alliance for Net Zero (GFANZ). The TPT Terms of Reference and information on the membership of the TPT's Steering Group and Delivery Group and their responsibilities can be found on **the TPT website**.

TPT outputs:

- **The TPT Disclosure Framework:** This draft of the Framework will be open to consultation until 28 February 2023. The TPT will then reflect on feedback received with a view to finalising the framework in 2023.
- **TPT Implementation Guidance:** The TPT has also launched Implementation Guidance to support preparers of transition plans to implement the TPT Disclosure Framework. This is also open to consultation until 28 February 2023. The final version will include further guidance such as case studies and examples of good practice.
- **Sandbox:** The TPT has launched a sandbox in which it will work with preparers and users to road test the TPT's outputs and gather practical feedback from the market. The findings from this exercise will inform the final iteration of the TPT Disclosure Framework, Implementation Guidance and sector guidance.
- **Sector guidance:** In 2023 the TPT will publish a range of sector guidance, starting with an overview of sector-specific metrics from existing guidance which can supplement the recommendations of the TPT Disclosure Framework. More detailed sector guidance will be published later in 2023, building on best practice guidance and new research.



TPT Implementation Guidance

1. INTRODUCTION

The aim of the TPT Disclosure Framework is to assist entities to disclose credible, useful, and consistent transition plans. The Framework builds on the existing recommendations to disclose transition plans under the TCFD Recommendations and accompanying guidance⁶ as well as transition plan disclosure recommendations in the ISSB's proposed standards.⁷ The Framework builds on these existing recommendations by providing specificity and granularity on what UK transition plans should include.

Definition of a transition plan

A transition plan is integral to an entity's overall strategy, setting out its plan to contribute to and prepare for a rapid global transition towards a low GHG-emissions economy.^{9,10}

A good practice transition plan should cover:

- a. an entity's high-level ambitions to mitigate, manage and respond to the changing climate and to leverage opportunities of the transition to a low GHG and climate resilient economy. This includes GHG reduction targets (e.g., a net zero commitment);
- b. short-, medium- and long-term actions the entity plans to take to achieve its strategic ambition, alongside details on how those steps will be financed;
- c. governance and accountability mechanisms that support delivery of the plan and robust periodic reporting; and
- d. measures to address material risks to, and leverage opportunities for, the natural environment and stakeholders such as the workforce, supply chains, communities, or customers which arise as part of these actions.

This document lays out:

- **Three guiding principles: Ambition, Action and Accountability**
- **A strategic and rounded approach to transition planning**
- **The TPT Disclosure Framework**

5) TCFD, *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures*, October 2021

6) TCFD, *Guidance on Metrics, targets and Transition Plans*, October 2021

7) ISSB, *Exposure Draft IFRS S1 and Exposure Draft IFRS S2*, March 2022

8) This should also include relevant commitments made by jurisdictions in which the entity operates (e.g. Nationally Determined Contributions submitted under the Paris Agreement). For entities headquartered in the UK, this means that a transition plan should explain how the entity has taken into account the UK's legal commitment to reducing GHG by at least 100% of 1990 levels (net zero) by 2050 and the interim targets defined in the Sixth Carbon Budget.

9) In a manner that is consistent with its constitutional documents and the duties of its directors and senior managers.

10) Transition plans should reflect the urgency to act. An entity's transition plan should therefore be informed by both national commitments and the latest international agreement on climate change. This should also include relevant commitments made by jurisdictions in which the entity operates (i.e. Nationally Determined Contributions submitted under the Paris Agreement). For entities headquartered in the UK, this means that a transition plan should explain how the entity has taken into account the UK's legal commitment to reducing GHG by at least 100% of 1990 levels (net zero) by 2050 and the interim targets defined in the Sixth Carbon Budget.

2. GUIDING PRINCIPLES: AMBITION, ACTION AND ACCOUNTABILITY

The TPT Disclosure Framework is grounded in three guiding principles “Ambition”, “Action” and “Accountability”. The Framework encourages an ambitious approach, which emphasises concrete short-term action. It also supports greater accountability to stakeholders for delivery of the plan, especially through effective reporting on progress.

These three principles were drawn from the emerging literature on transition planning and from stakeholder feedback received in response to the TPT’s Call for Evidence in May 2022. They aim to provide a useful structure to preparers as they design, develop and deliver their transition plans. They are also intended to support users by providing a lens through which to assess disclosed transition plans.

The three principles to guide a credible transition plan are explored in further detail below.

1. “Ambition” – Contribute to and prepare for a rapid and orderly economy-wide net zero transition.

A transition plan should outline ambitious objectives and priorities for contributing to and preparing for a rapid and orderly economy-wide net zero transition. The plan should cover the whole entity, consider the full range of levers that the entity has available, and emphasise actions that can be expected to make significant contributions to an economy-wide transition. This implies that any emissions reduction target should consider Scope 1, 2, and 3 emissions and should prioritise decarbonisation through direct abatement over purchasing carbon credits. A plan should include any transition-relevant actions which are material to the entity’s long term enterprise value. An entity should therefore examine all material interdependencies, including those that relate to the natural environment, workers, suppliers, communities, and consumers. Transition plans should reflect the urgency to act. An entity’s transition plan should therefore be informed by both national commitments and the latest international agreement on climate change.

2. “Action” – Focus on concrete actions which emphasise the short-term and strive for resilience.

A transition plan should translate ambitious strategic objectives into concrete steps to be taken in the short- and medium-term. A transition plan is integral to an entity’s overall strategy. As such, it should be connected to the entity’s business and operations planning and the financial accounts and underpinned by clearly articulated resourcing plans. An entity should develop its plan on the basis of defined assumptions and an analysis of dependencies and uncertainties. It should assess the sensitivity of the plan to changes in these assumptions and seek to mitigate delivery risks where possible.

3. “Accountability” – Enable delivery of the plan through clear governance mechanisms along with consistent, comparable and decision-useful reporting and verification.

Delivery of a transition plan should be supported by robust governance mechanisms, including Board and executive oversight, with relevant and appropriate incentivisation, reporting and accountability structures. The actionable steps set out in the transition plan should be underpinned by quantified and timebound metrics and targets that are reported against on an annual basis, within general purpose financial reporting. Entities should be transparent about the degree to which transition plans are subject to external verification or assurance and should seek and take account of feedback from key stakeholders on an ongoing basis.

A transition plan should translate ambitious strategic objectives into concrete steps to be taken in the short and medium-term

3. A STRATEGIC AND ROUNDED APPROACH TO TRANSITION PLANNING

Achieving an orderly economy-wide transition to net zero will require all economic actors to develop a strategic and rounded approach to transition planning. Climate change presents foreseeable risks, together with opportunities, in every sector of the economy including but not limited to high-emitting firms. Actions taken today by the private sector will determine the size and scale of future risks, and the pace of the economic transition to net zero.

The TPT recommends that entities consider a strategic and rounded approach to the design, development and disclosure of transition plans. There are three inter-related channels through which an entity can take a strategic and rounded approach:

- 1 Decarbonisation:** the actions the entity is taking to reduce its GHG gas emissions, reduce its impact on the climate and align with net zero. For example, reducing Scope 1, 2 and 3 emissions.
- 2 Responding to climate-related risks and opportunities:** the actions the entity is taking to respond to the physical and transition risks, and the opportunities that arise from a changing climate and the transition to a net zero economy¹¹.
- 3 Contributing to economy-wide transition:** the actions the entity is taking, consistent with its constitutional documents and the duties of its directors and senior managers, to use levers it has available to help embed and accelerate the transition, and, in so doing, to minimise future risks and protect and enhance long-term value.

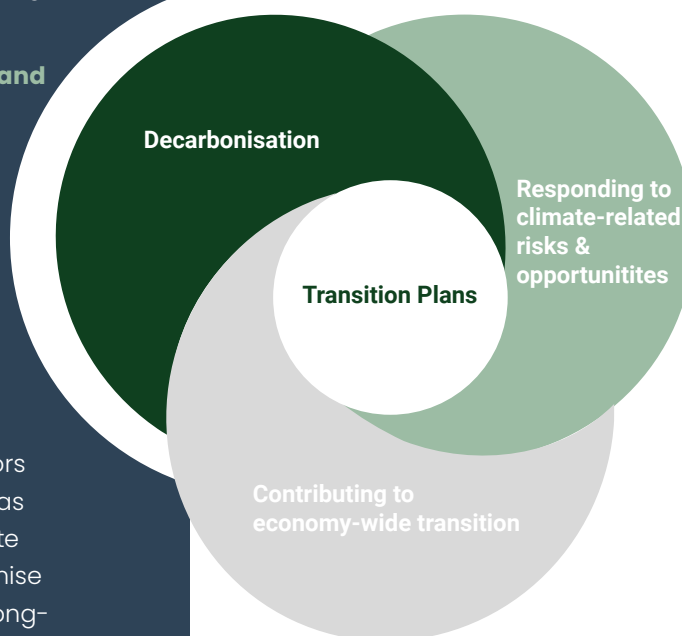


Figure 1: The three channels of a strategic and rounded approach

¹¹) As discussed by the UK's *Climate Financial Risk Forum*, the financial climate-related risks and opportunities that arise to an entity are not necessarily correlated with its carbon-intensity or other carbon-related non-financial metrics (see e.g., the 2021 *CFRF Report on Climate Data and Metrics*). This implies that an organisation may take other actions, beyond decarbonising their own operations, to manage their risk exposure and contribute to a whole of economy transition.


A strategic and rounded approach will address potential unintended consequences of an exclusive focus on net zero targets, such as the “paper decarbonisation” of investment portfolios with limited real-world impact. It can also help to drive a whole-of-economy response which is inclusive of entities that often report relatively low emissions but enable and accelerate the transition, such as the services sector.

In some cases, there may be considerable overlap or interdependency between these three channels. For example, by improving the carbon efficiency of its operations and transforming its business model to align with a pathway to net zero by 2050, a high-emitting entity may reduce its GHG emissions, manage the risks and opportunities from climate change and contribute to an accelerated transition.

In other instances, there may be trade-offs. For example, a financial institution could reduce its

Scope 3 emissions by rebalancing portfolios to favour lower-emitting companies, divesting from high-carbon assets. These actions may achieve “paper decarbonisation” for that institution, but they will not always contribute to actual reductions in global GHG emissions. Equally, entities that are pursuing strategies linked to innovation in climate solutions in hard-to-abate sectors, or that are supporting a managed phase-out of high-carbon assets, may fail to deliver a material reduction in their attributed Scope 1, 2 or 3 GHG emissions in the short-term or relative to industry peers. Nevertheless, they may be contributing materially to the economy-wide transition.

The accompanying [Implementation Guidance](#) provides detailed guidance to help preparers develop and disclose credible, impactful and consistent transition plans in line with such a strategic and rounded approach.



A strategic and rounded approach will address potential unintended consequences of an exclusive focus on net zero targets, such as the ‘paper decarbonisation’ of investment portfolios with limited real-world impact.

Summary recommendations: Disclosing a transition plan

The accompanying [Implementation Guidance](#) provides granular guidance on how and where entities should report on their transition plans. Below is a summary of the core recommendations.

How transition plans fit into existing and emerging guidance

- Under the current UK reporting rules, many large companies, asset owners and asset managers are already required by UK regulators and the government to make disclosures aligned with the TCFD.
- In addition, the FCA has set out initial expectations on disclosure of transition plans by asset managers, FCA-regulated asset owners and listed companies in accordance with the TCFD's guidance on transition plans.

- Going forward, it is anticipated that existing TCFD-aligned disclosure rules in the UK will be replaced by a requirement for certain companies to disclose in accordance with ISSB standards as adopted and endorsed for use in the UK.
- The TPT's recommendations directly build on the existing and emerging guidance on climate-related risk disclosures, as provided by the TCFD and the International Sustainability Standards Board (ISSB), both of which include recommendations to disclose some information about an entity's transition plan.

The TPT has designed its Framework to be consistent with these building blocks, while providing further granularity and specificity to meet the needs of the UK market.

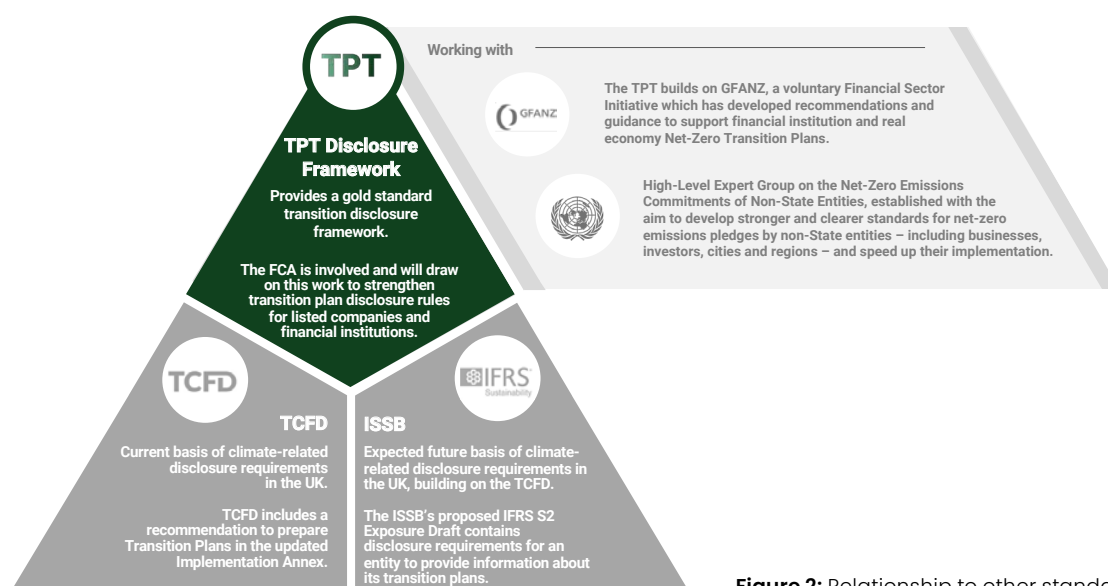


Figure 2: Relationship to other standards.

Location of reporting

- Disclosure against the TPT's Framework should integrate with, and build from, broader climate-related disclosures in the reporting entity's general purpose financial reports (such as a UK listed company's annual report).
- We also recommend that, as well as **including material information related to the transition plan in general purpose financial reporting**, entities publish their transition plan in a **single standalone document** that sits alongside the Annual Financial Report.
- We recommend that entities update the standalone transition plan periodically, either when there are significant changes to the plan or, **at the latest, every three years.**
- In the interim years (Years 1 and 2 in Figure 2 below), progress against the plan and **all other content in the plan that is deemed to be material to investors** should be **reported on an annual basis as part of TCFD- or ISSB-aligned disclosures in general purpose financial reporting** (i.e., the Annual Financial Report).

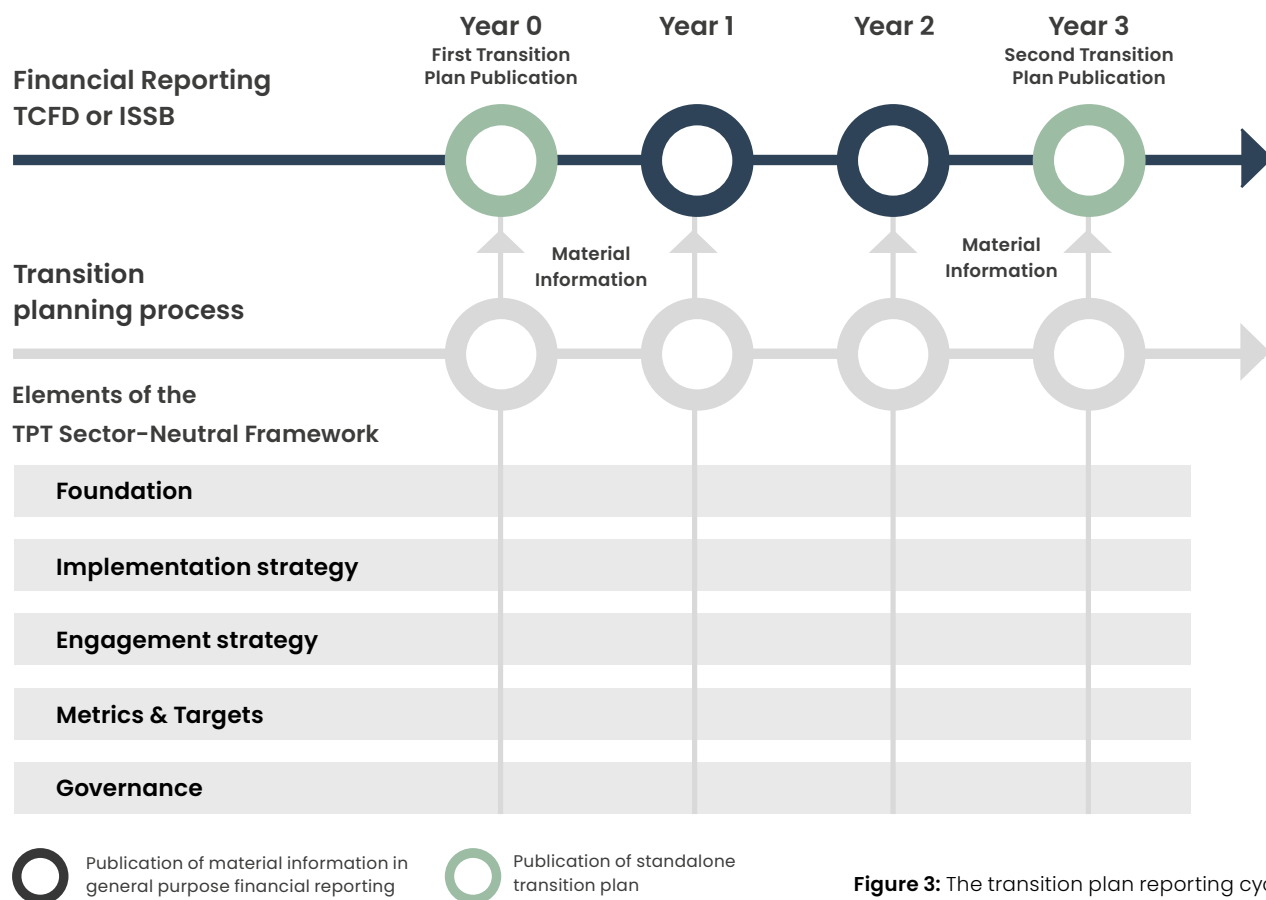


Figure 3: The transition plan reporting cycle

Assurance and verification

If an entity obtains assurance or verification of sustainability information, transition plan disclosure or wider sustainability reporting, the TPT would expect to see the following information disclosed:

- the level of assurance or verification obtained;
- the scope of the engagement;
- the professional standard(s) against which the engagement was performed;
- who the assurance provider is; and
- the outcome of the engagement, for example, whether the assurance provider's conclusion is unqualified or modified.

Alignment with wider corporate reporting norms

- To maximise alignment, entities should apply the same corporate reporting norms to their transition plan disclosures as they would to their general purpose financial reporting (e.g., Annual Financial Report).
- For example, entities should approach materiality in the same way as they do in their general purpose financial reporting. This means that they should disclose any information that, if omitted, misstated, or obscured, could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity.

4. THE TPT DISCLOSURE FRAMEWORK

The TPT's recommendations are structured around five Elements, which mirror the key components of a transition plan recommended by the GFANZ. Building on this structure, the TPT recommends disclosures in relation to 19 Sub-Elements which are summarised in Figure 4 below.

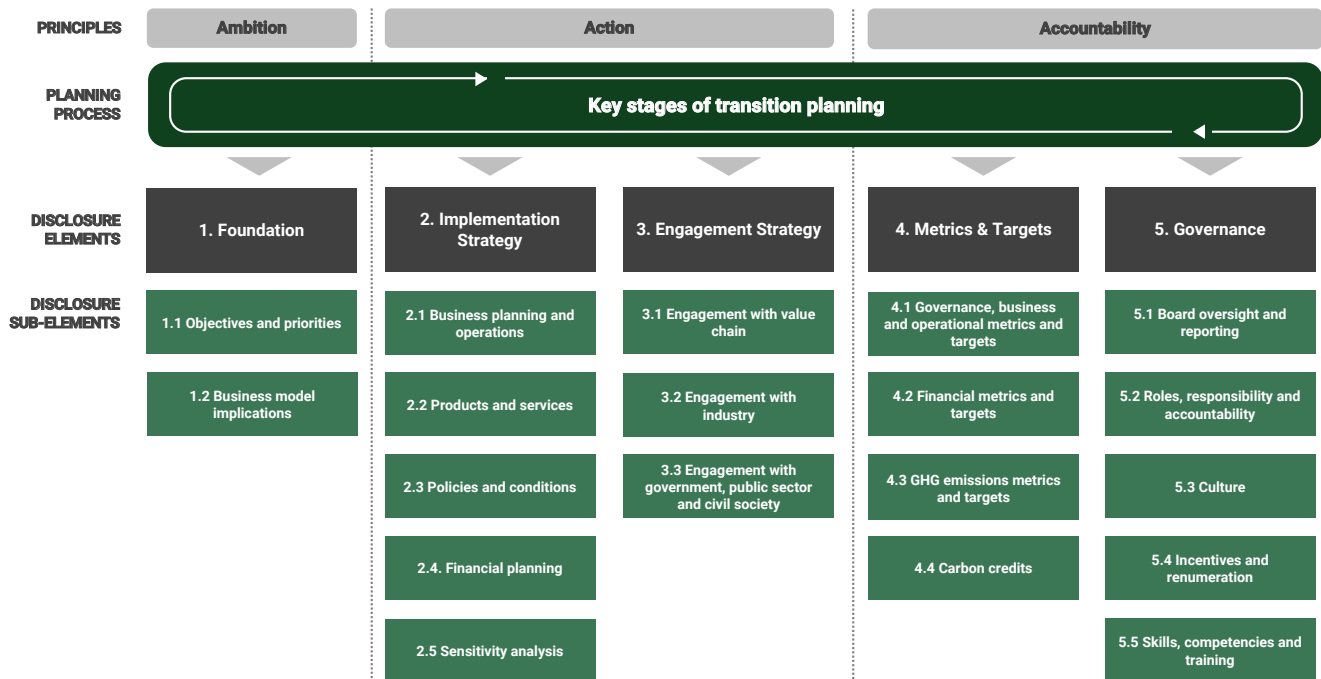


Figure 4: The TPT Disclosure Framework

1. Foundation

Sub-Element

1.1 Objectives and priorities

Describe the strategic ambition of the entity's transition plan by disclosing its objectives, priorities, interim targets and milestones for responding and contributing to an early and orderly whole-of-economy transition. The entity should have regard to reducing its own GHG emissions, responding to its climate-related risks and opportunities, and the actions it may take within its business model to embed and accelerate the transition.

Disclosure recommendation

Describe the strategic ambition of the entity's transition plan by disclosing its objectives and priorities for responding and contributing to an early and orderly whole-of-economy transition, and interim targets and associated milestones. This should include:

- The entity's objectives and priorities for reducing its GHG emissions. This should include interim and long-term targets to reduce GHG emissions over time across emissions Scopes 1, 2, and 3. Interim GHG reduction targets are defined as 5–10 years from when the target is set. If the entity excludes any relevant scopes or categories of emissions from its GHG reduction targets, it should state the reason for omitting these scopes or categories and outline any steps it is taking to enable target-setting for relevant scopes or categories.
- The entity's objectives and priorities for responding to the physical and transition risks as well as the opportunities associated with the transition to a net zero economy and the changing climate.
- The objectives and priorities the entity has set, consistent with its constitutional documents and the duties of its directors and senior managers, to use other levers it has available to help embed and accelerate the transition. These may include objectives and priorities related to investing in low-carbon technologies, engagement activities, lending, or investment objectives.

In describing the entity's objectives and priorities, disclose any interim targets and milestones used to measure progress.

The entity should also describe any potential trade-offs between these objectives and priorities that the entity has identified.

Sub-Element

1.2 Business model implications

Summarise how the entity will embed the strategic ambition of its transition plan in its business model, highlighting key implications for products and services, resourcing and operational and capital expenditure, as well as material interdependencies for the natural environment, the entity's workforce, value chain, impacted communities and consumers.

Disclosure recommendation

Summarise how the objectives, priorities, interim targets and milestones outlined under **1.1 Objectives and priorities** will be embedded in the entity's business strategy. This should include:

- An overview of the key implications of the transition plan for the entity's business model, including implications for products and services, acquisitions or divestments, any high-level implications for resource allocation and operational and capital expenditure, and the timeframe over which key actions will be taken.
- A summary assessment of the entity's material interdependencies, including the significant risks to, and opportunities for, the natural environment and stakeholders such as the entity's workforce, suppliers, impacted communities and customers arising from the objectives and priorities outlined under **1.1 Objectives and priorities**.

A summary description of steps that the entity is taking, or planning to take, to mitigate these significant risks or leverage opportunities for the natural environment and stakeholders such as the workforce, supply chains, communities or customers.

2. Implementation Strategy

Sub-Element

2.1 Business planning and operations

Disclose the roadmap of short-, medium- and long-term actions the entity will take to deliver on the strategic ambition in its transition plan and achieve its stated objectives and priorities, including details of key planned changes to its business strategy and resource allocation, plans for GHG or carbon energy-intensive assets, and its approach to managing material interdependencies.

Disclosure recommendation

Disclose the roadmap of short-, medium- and long-term actions (supported by a change management plan) the entity is taking or plans to take to implement its transition strategy and achieve the priorities and objectives outlined under **1. Foundations**. This includes information on the changes the entity is making in its business strategy and resource allocation.

This may further include:

- plans and timelines to manage or phase-out GHG or carbon-energy intensive assets; and
- information about any actions planned to mitigate any significant risks to, and leverage opportunities for, the natural environment, the entity's workforce, suppliers, impacted communities and consumers.

Where possible, quantify the contribution of each business and operational action towards achieving the objectives and priorities outlined under **1. Foundations**. Where quantification is not possible, explain why this is the case and provide a qualitative description instead.

The entity should disclose what they consider to be the relevant short-, medium-, and long-term time horizons. The TPT recommends that the short-term is defined as within the next three years. This would align with the recommended publication cycle of standalone transition plans. If the entity defines short-term as exceeding three years, it should provide an explanation for why this is the case.

Sub-Element

2.2 Products and services

Disclose planned changes to the entity's portfolio of products and services to deliver the strategic ambition in its transition plan, highlighting plans to reduce (increase) the portfolio of high-carbon (low-carbon) products and services that it provides, either directly or indirectly.

Disclosure recommendation

Disclose plans to change the entity's portfolio of products and services to support the objectives and priorities and interim milestones outlined under **1. Foundations**. This may include plans to reduce (increase) the portfolio of high-carbon (low-carbon) products and services that it provides, either directly or indirectly.

Where possible, quantify the impact of these planned changes in the portfolio of products and services towards achieving the company's objectives outlined under **1. Foundations**. Where quantification is not possible, explain why this is the case and provide a qualitative description instead.

Sub-Element

2.3 Policies and conditions

Disclose key internal policies and conditions that the entity has developed to align its activities with the strategic ambition of its transition plan, and its stated objectives and priorities, including those that relate to energy and water usage, the management of its impact on the natural environment, lending and investment activity and the profile of companies in its supply chain.

Disclosure recommendation

Disclose internal policies and conditions that are used to guide business, financial, and operational planning, and actions. This may include policies related to:

- energy usage;
- deforestation;
- climate-related requirements for suppliers;
- climate-related requirements or restrictions on lending and investment activities;
- engagement policies; and
- safeguards that are in place to address any risk of significant harm to wide range of entities, including the natural environment, workforce, supply chain, communities or consumers.

Describe how these policies are supporting the objectives, priorities and interim milestones disclosed in **1.**

Foundations and/or support actions and plans disclosed in **2. Implementation Strategy** and **3. Engagement Strategy**.

Sub-Element

2.4 Financial planning

Describe the financial implications of the planned changes to the entity's business strategy, resource allocation and products and services arising from its transition plan, including relevant financial plans, investment, where possible¹².

Disclosure recommendation

Disclose how the actions outlined in **2. Implementation Strategy** and **3. Engagement Strategy** will be resourced, as well as the projected impact of these actions on the entity's financial position, performance and cash flows, where possible. This includes:

- Information on how it expects its financial position to change over time, given the actions it is planning to take to support the entity's objectives and priorities outlined under **1. Foundations**. This should reflect current and committed investment plans (including expected capital expenditure needs) and their anticipated effects on the entity's financial position, as well as its planned sources of funding to implement its strategy.
- Information on how it expects financial performance to change over time, given its strategy to achieve the objectives and priorities outlined under **1. Foundations** (e.g., changes in revenues, operational expenditures).
- Information regarding planned research and development activities for climate solutions.
- Information regarding the use of internal carbon prices, including the levels of prices applied.

The entity should disclose quantitative information unless it is unable to do so. If the entity is unable to provide quantitative information, it should provide qualitative information.

¹²) This Sub-Element should be regarded as distinct from the disclosure recommendations under Sub-Element **4.2 Financial metrics and targets**. Under **2.4 Financial planning**, the focus should lie on demonstrating that the entity has credible resourcing plans to support the implementation of its transition plan. Under Sub-Element **4.2 Financial metrics and targets**, on the other hand, the entity should disclose the financial metrics and targets that it is using to assess progress and delivery of the plan over time.

Sub-Element

2.5 Sensitivity analysis

Disclose key assumptions and dependencies underlying the entity's business, operational and financial plans and the implications for achievement of the strategic ambition in its transition plan if its central assumptions are not met.

Disclosure recommendation

Disclose the key assumptions underlying the plans outlined under **2.1 Business planning and operations, 2.2 Products and services** and **2.4 Financial planning**, the timeframes over which these are expected to occur and how these assumptions are reflected in the company's financial statements.

This may include key assumptions relating to:

- policy and regulatory change;
- technological developments;
- shifts in client and consumer demand; and
- the physical impacts of the changing climate.

Disclose the impact on the ability of the entity to achieve the objectives, priorities and interim milestones outlined under **1. Foundations** if these assumptions prove incorrect.



3. Engagement Strategy

Sub-Element

3.1 Engagement with value chain

Disclose current and planned engagement activities with companies and customers in the entity's value chain or portfolio to provide support and feedback, and to influence behavioural and business model changes aligned with the entity's strategic ambition and stated objectives and priorities.

Disclosure recommendation

Disclose current and planned engagement and activities conducted with both downstream and upstream entities in the entity's value chain (e.g. suppliers, distributors, final customers and portfolio companies) to drive reductions of GHG emissions and/or deliver the objectives, priorities and milestones outlined in **1. Foundations**.

Disclose the expected impact of these engagement activities on the delivery of the objectives, priorities and milestones outlined in **1. Foundations**.

Sub-Element

3.2 Engagement with industry

Disclose current and planned engagement and collaborative activities with peers in the entity's industry (and beyond, as relevant) to share expertise and experience and address common challenges in support of the entity's strategic ambition and stated objectives, priorities and interim milestones.

Disclosure recommendation

Disclose current and planned engagement and collaborative activities with peers in the entity's industry (and beyond, as relevant). This should include:

- Disclose membership of trade organisations, as well as current and planned engagement with trade organisation(s) to influence the trade organisation(s) adoption of transition policies that support the objectives outlined in **1. Foundations**.
- Disclose whether and how the entity ensures that the commitments and actions of the entity's trade organisation(s) support and do not undermine the objectives, priorities and interim milestones outlined in **1. Foundations**.
- Disclose current and planned engagement with other entities (including both peers and other relevant entities), and how these engagements support – and do not undermine – the objectives, priorities and interim milestones outlined in **1. Foundations**.

Disclose current and planned engagement with industry initiatives; include requirements the company has chosen to comply with because of these initiatives, and how these engagement activities support – and do not undermine – the objectives and priorities outlined in **1. Foundations**.

Sub-Element

3.3 Engagement with government, public sector and civil society

Disclose current and planned engagement activities with the government, public sector organisations and civil society to support the entity's strategic ambition and objectives, priorities and interim milestones.

Disclosure recommendation

Disclose the entity's current and planned engagement activities with government, regulators, public sector organisations and civil society. This disclosure should cover information on both direct climate-related policy engagements and indirect climate-related policy engagements (e.g., via industry associations).

Disclose how these engagement activities support – and do not undermine – the objectives, priorities and interim milestones outlined in **1. Foundations**.



4. Metrics & Targets

Sub-Element

4.1 Governance, business and operational metrics and targets

Disclose the governance, business and operational metrics and targets used by the entity to assess progress towards its strategic ambition and its stated objectives and priorities. Report against metrics used to assess progress towards targets on at least an annual basis.

Disclosure recommendation

Disclose the governance, business and operational metrics and targets that the entity is using to set their ambition and monitor progress of their transition plan, outlining how these reflect the objectives and priorities outlined under **1. Foundations** and relate to the actions outlined under **2. Implementation Strategy** and **3. Engagement Strategy**.

To the extent possible, for each target defined, the entity should disclose:

- the objective of the target;
- whether this target is an absolute or an intensity target;
- the period over which the target applies;
- the base period and measurement from which progress is measured;
- for medium- to long-term targets, any milestones or interim targets (interim targets are defined as 5–10 years from when the target is set);
- the metric used to assess progress towards reaching the target;
- the relevant units, methodologies and definitions on which this metric relies; and
- the extent to which these metrics rely on measured vs. estimated data.

Sub-Element

4.2 Financial metrics and targets

Disclose the financial metrics and targets that are used by the entity to assess progress towards its strategic ambition and its stated objectives and priorities. Report against metrics used to assess progress towards targets on at least an annual basis.

Disclosure recommendation

Disclose the financial metrics and targets that the entity is using to set their ambition and monitor progress of their transition plan. The entity should further outline how these reflect the objectives and priorities outlined under **1. Foundations** and relate to the actions outlined under **2. Implementation Strategy** and **3. Engagement Strategy**.

For each target, the entity should disclose:

- the objective of the target;
- whether this target is an absolute or an intensity target;
- the period over which the target applies;
- the base period and measurement from which progress is measured;
- for medium- to long-term targets, any milestones or interim targets (interim targets are defined as 5–10 years from when the target is set);
- the metric used to assess progress towards reaching the target;
- the relevant units, methodologies and definitions on which this metric relies; and
- the extent to which these metrics rely on measured vs. estimated data.

4.3 GHG emissions metrics and targets

Disclose the GHG metrics and targets that are used by the entity to assess progress towards its strategic ambition and its stated objectives and priorities. Report against metrics used to assess progress towards targets on at least an annual basis.

Disclose the GHG emissions metrics and targets that the entity is using to set their ambition and monitor progress of their transition plan. The entity should further outline how these reflect the objectives and priorities outlined under **1. Foundations** and relate to the actions outlined under **2. Implementation Strategy** and **3. Engagement Strategy**.

Metrics

Disclosures on GHG emissions metrics should include:

- Absolute gross GHG emissions generated during the reporting period, measured in accordance with the Greenhouse Gas Protocol Corporate Standard, and Corporate Value Chain Standard expressed as metric tonnes of CO₂ equivalent, classified as Scope 1, 2 and 3 emissions.
- GHG emissions intensity for each scope, expressed as metric tonnes of CO₂ equivalent per unit of physical or economic output, classified as Scope 1, 2 and 3 emissions.
- The extent to which these metrics rely on measured vs. estimated data.

Targets

Disclosures on GHG emissions targets should include:

- absolute gross GHG emissions reduction targets for Scopes 1 and 2;
- absolute gross GHG emissions reduction targets for Scope 3;
- GHG emissions intensity targets expressed as metric tonnes of CO₂ equivalent per unit of physical or economic output for Scopes 1 and 2;
- GHG emissions intensity targets expressed as metric tonnes of CO₂ equivalent per unit of physical or economic output for Scope 3; and
- any additional GHG emissions targets that the entity has set (e.g., methane reduction targets).

For each of the targets above, the entity should disclose:

- the objective of the target;
- whether this target is an absolute or an intensity target;
- the period over which the target applies;
- the base period and measurement from which progress is measured;
- for medium- to long-term targets, any milestones or interim targets (interim targets are defined as 5–10 years from when the target is set);
- the metric used to assess progress towards reaching the target;
- the relevant units, methodologies and definitions on which this metric relies; and
- the extent to which these metrics rely on measured vs. estimated data.

For Scope 3 emissions, which are disclosed in accordance with **4.3 GHG emissions metrics and targets**:

- The entity should include upstream and downstream emissions in its measure of Scope 3 emissions.
- The entity should disclose the categories included within its measure of Scope 3 emissions.
- When the entity's measure of Scope 3 emissions includes information provided by entities in its value chain, it should explain the basis for that measurement.
- If the entity excludes categories of Scope 3 emissions from its metrics and targets, it should state the reason for omitting them, and any steps it is taking to improve monitoring and reporting systems and enable target setting for relevant Scope 3 emission categories.

4.4 Carbon credits

Disclose the intended use of carbon credits which are used by the entity to achieve progress towards the entity's strategic objectives and priorities, and annually report on the use of carbon credits.

Carbon credit targets

Disclose the entity's intended use of carbon credits in achieving the objectives and priorities outlined under **1. Foundations**. In explaining the intended use of carbon credits, the entity shall disclose information including:

- Why the entity is employing carbon credits and how the use of carbon credits supports achieving the objectives and priorities outlined under **1. Foundations**.
- What third-party verification or certification scheme or schemes the credits are subject to.
- The type of carbon credit, (e.g., whether the credits are generated from carbon removal vs. emissions avoidance projects, or whether they are based on natural carbon removals vs. technological carbon removals).

Carbon credit metrics

Entities should annually report on the use of carbon credits to assess performance against the objectives and priorities outlined under **1. Foundations**. This should include:

- The number and cost of credits purchased and retired.
- What third-party verification or certification scheme or schemes the credit was subject to.
- The type of carbon credit (e.g., whether the credits are generated from carbon removal vs. emissions avoidance projects, or whether they are based on natural carbon removals vs. technological carbon removals).
- Any other significant factors necessary for users to understand the credibility and integrity of carbon credits intended to be used by the entity.



5. Governance

Sub-Element

5.1 Board oversight and reporting

Describe the entity's arrangements for Board-level governance of the transition plan, including its processes for Board-level review and approval of the transition plan, and for the oversight of monitoring and reporting of progress against the entity's stated objectives and priorities.

Disclosure recommendation

Describe the entity's arrangements for Board-level review and approval of the transition plan, and for the oversight of monitoring and reporting of progress against it. This should include:

- A description of the entity's arrangements and processes for the Board's approval of the transition plan.
- Whether and how the arrangements are reflected in the entity's terms of reference, Board mandates and other related policies.
- Whether and how the targets are reviewed by the Board and/or a Board sub-committee.
- Whether and how frequently the transition plan is reviewed by the Board and/or a Board sub-committee.
- Whether and how frequently the Board will monitor and receive reports on progress against the plan's objectives and priorities.
- A description of how the Board considers transition plan Elements in wider strategy, risk management and decision making on resource allocation.

Sub-Element

5.2 Roles, responsibility and accountability

Describe senior management roles and responsibilities for the execution of the transition plan, as well as the entity's wider control, review and accountability mechanisms.

Disclosure recommendation

Describe senior management's roles and responsibilities for the execution of the transition plan, as well as the entity's wider control, review and accountability mechanisms. This should include:

- The identity of the body or individuals within a body responsible for oversight and delivery of the transition plan, including the setting and review of targets and monitoring of progress towards them.
- Whether the transition plan is subject to shareholder approval.
- How relevant corporate procedures, systems and decision-making processes have been amended to support delivery of the plan.
- An overview of which aspects of the transition plan are subject to external assurance, including the nature of the assurance.

Sub-Element

5.3 Culture

Describe the steps that the entity has put in place to build a culture aligned with the strategic ambition in its transition plan, including through leadership and training programmes, HR policies and procedures and wider workforce engagement.

Disclosure recommendation

Describe any steps that the entity is taking to build a culture that supports the successful implementation of the transition plan. This may include:

- Information on actions to review systems, processes, communications, HR policies and procedures (including compensation and benefits), company values, leadership and manager training programmes and workforce engagement strategies to ensure the culture supports the behaviours and ways of working needed for the transition.

Sub-Element

5.4 Incentives and remuneration

Describe whether and how the entity has put in place arrangements to align remuneration and incentive structures with the stated objectives and priorities in its transition plan.

Disclosure recommendation

Describe whether and how remuneration and incentives for employees are aligned to the objectives and priorities outlined under **1. Foundations**. This should include:

- A description of how transition plan-related considerations are factored into executive remuneration, including:
 - o the percentage of executive management remuneration that is linked to transition plan related considerations; and
 - o key transition plan-related performance indicators used.

Sub-Element

5.5 Skills, competencies and training

Describe how the entity ensures that it has the appropriate skills, competencies and knowledge across the organisation to effectively design, develop and deliver the transition plan.

Disclosure recommendation

Describe how the entity will ensure that it has the appropriate skills, competencies and knowledge across the organisation to successfully deliver its transition plan. This should include how the entity ensures that relevant Board members are involved, and that the Board and executive management have or have access to appropriate skills, competencies and knowledge required to provide for effective oversight of the transition plan.

Glossary

Term	Definition
Business model	An entity's system of transforming inputs through its business activities into outputs and outcomes that aims to fulfil the entity's strategic purposes and create value over the short, medium and long-term ¹³ .
Carbon credit	A transferable or tradable instrument, representing an emissions reduction or removal of emissions of one metric tonne of CO ₂ or an equivalent amount of other greenhouse gases, verified according to a recognised quality standard. Carbon credits are uniquely serialised, issued, tracked and cancelled by means of an electronic registry.
Climate-related scenario analysis	A process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. In the case of climate change, climate-related scenario analysis allows an entity to explore and develop an understanding of how the physical risks and transition risks of climate change may affect its businesses, strategies and financial performance over time ¹⁴ .
Entity	An organisation that that voluntarily chooses, or is required by law, to prepare general purpose financial reporting statements
General purpose financial report	<p>The provision of financial information about a reporting entity that is useful to primary users in making decisions relating to providing resources to the entity. Those decisions involve decisions about:</p> <ol style="list-style-type: none"> 1. buying, selling or holding equity and debt instruments; 2. providing or selling loans and other forms of credit; or 3. exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources. <p>General purpose financial reporting encompasses – but is not restricted to – an entity's general purpose financial statements and sustainability-related financial disclosures. disclosures¹⁵.</p>
Greenhouse gases	The seven greenhouse gases (GHGs) listed in the Kyoto Protocol—carbon dioxide (CO ₂); methane (CH ₄); nitrous oxide (N ₂ O); hydrofluorocarbons (HFCs); nitrogen trifluoride (NF ₃); perfluorocarbons (PFCs); and sulphur hexafluoride (SF ₆).
Latest international agreement on climate change	The latest international agreement on climate change is an agreement by states, as members of the United Nations Framework Convention on Climate Change, to combat climate change. The agreements set norms and targets for a reduction in greenhouse gases. ¹⁶
Material interdependencies	The interlinkages between the actions an entity is taking in order to achieve the objectives and priorities outlined in its transition plan, and other sustainability-related matters, including the natural environment and stakeholders such as the workforce, supply chains, communities or customers. In line with the ISSB IFRS S1 Exposure Draft, information about those interdependencies are regarded as material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting ¹⁷ .

¹³) ISSB, *Exposure Draft IFRS S2 Climate-related Disclosures*, March 2022

¹⁴) ISSB, *Exposure Draft IFRS S2 Climate-related Disclosures*, March 2022

¹⁵) ISSB, *Exposure Draft IFRS S2 Climate-related Disclosures*, March 2022

¹⁶) ISSB, *Exposure Draft IFRS S2 Climate-related Disclosures*, March 2022

¹⁷) UK Environment Act 2021, Provision 44.

Term	Definition
Natural environment	The Natural Environment means: (a) plants, wild animals and other living organisms; (b) their habitats; and (c) land (except buildings or other structures), air and water, and the natural systems, cycles and processes through which they interact ¹⁸ .
Scope 1 emissions	Direct greenhouse gas emissions that occur from sources that are owned or controlled by an entity, for example, emissions from combustion in owned or controlled boilers, furnaces, vehicles or emissions from chemical production in owned or controlled process equipment ¹⁹ .
Scope 2 emissions	Indirect greenhouse gas emissions that occur from the generation of purchased electricity, heat or steam consumed by an entity. Purchased electricity is defined as electricity that is purchased or otherwise brought into an entity's boundary. Scope 2 emissions physically occur at the facility where electricity is generated ²⁰ .
Scope 3 emissions	Indirect emissions outside of Scope 2 emissions that occur in the value chain of the reporting entity, including both upstream and downstream emissions. For the purposes of this framework, Scope 3 emissions include the categories outlined within the GHG Protocol ²¹ .
Stewardship	The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society ²² .
Sensitivity analysis	An analytical tool used to assess how different values of a set of independent variables affect a specific dependent variable. In the context of transition plans, sensitivity analysis allows an entity to explore how a potential range of outcomes of future events (including, for example, policy outcomes, physical and transition risks that arise from the changing climate and demand shifts) may affect its ability to implement and deliver its transition plan.
Transition plan	A transition plan is integral to an entity's overall strategy, setting out its plan to contribute to and prepare for a rapid global transition towards a low GHG-emissions economy. ^{23,24}

18) ISSB, *Exposure Draft IFRS S2 Climate-related Disclosures*, March 2022

19) ISSB, *Exposure Draft IFRS S2 Climate-related Disclosures*, March 2022

20) ISSB, *Exposure Draft IFRS S2 Climate-related Disclosures*, March 2022

21) Financial Reporting Council, *The UK Stewardship Code*, 2020

22) In a manner that is consistent with its constitutional documents and the duties of its directors and senior managers.

23) Transition plans should reflect the urgency to act. An entity's transition plan should therefore be informed by both national commitments and the latest international agreement on climate change. This should also include relevant commitments made by jurisdictions in which the entity operates (i.e. Nationally Determined Contributions submitted under the Paris Agreement). For entities headquartered in the UK, this means that a transition plan should explain how the entity has taken into account the UK's legal commitment to reducing GHG by at least 100% of 1990 levels (net zero) by 2050 and the interim targets defined in the Sixth Carbon Budget



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