THE INVESTMENT ASSOCIATION

IA Response to consultation

Transition Plan Taskforce - Call for Evidence - A Sector-Neutral Framework for private sector transition plans

About the Investment Association

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 270 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £9.4 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 44% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally.

Executive summary

The IA welcomes the ambition shown by the UK's goals of becoming net zero by 2050 and note that it is among the more ambitious in the world. We are also supportive of the UK Government continuing to display global leadership and its attempts to galvanise other countries to do the same. However, the scale of the challenge must be recognised. The levels of capital allocation that will be required to support this ambition is unprecedented and will require a coordinated effort from both the private and public sectors.

The IA is proud to support members in signing up to the Net Zero Asset Managers initiative (NZAM) and was named as the first official supporting partner organisation to NZAM in July 2021. To date, investment managers with £7trn of assets under management in the UK have made this net zero commitment. Supporting net zero efforts and playing a role in accelerating the transition toward Net Zero requires that asset managers ensure that climate-related issues are fully incorporated into the entirety of their investment processes.

So that they can fulfil this role and support the transition, investors rely on quality disclosures from investee companies, of which transition plans are a key component. Public disclosure of credible transition plans will:

- Support investors to assess the progress of investee companies on the path to net zero and to compare peers, facilitating greater incorporation of climate change risk, into the investment process. This will inform more sustainable capital allocation practices.
- Guide investors in their engagement activities, enabling them to provide appropriate support and challenge to the companies who most need to transition to more sustainable business models and manage their emissions reductions. In addition, some companies have already submitted an early form of transition plan for shareholder approval, however, these plans are often not comprehensive or substantiated enough to allow for a fully informed voting decision. Further guidance on how to produce credible and robust plans should address this, and allow investors to exercise their voting rights in a way that effectively facilitates the transition.

- Support investors in their own efforts to track their own progress to net zero at the portfolio level.
- Stimulate greater public accountability of a company's alignment with the Paris Agreement.

We, therefore welcome the opportunity to respond to the Transition Plan Taskforce's Call for Evidence. We are also supportive of the efforts of the UK to become the world's first net-zero aligned financial centre, and to become net-zero by 2050, and that the transition plans will play an important role in achieving these ambitions. However, the TPT should not lose sight of the fact that for transition plans to inform investment decisions consistent with these ambitions, they must be designed and disclosed at the entity level and be consistent with the company's strategy for adapting its business model.

We are somewhat concerned that some of the questions within the call for evidence suggest that the TPT is overly focused on seeking to use transition plans as a vehicle to further the ambition of decarbonising the UK economy. Whilst recognising that this is the ultimate motive, the best way of achieving this is not to encourage companies to produce that plans that outline how they are aligned with the UK economy's objective but rather by producing a framework that facilitates investment decision-useful entity-level disclosures. We would also note that such a focus is not consistent with the realities of the majority of the UK's largest companies (and by extension emitters), which are international in nature, and will need to meet net zero across all jurisdictions in which they operate, not only their UK operations.

If the guidance encourages companies to produce disclosures that outline how a company's strategy will drive the UK economy's decarbonisation it risks producing disclosures that are too nebulous, and insufficiently detailed about the company's organisational transformation for it to facilitate the capital allocation required. We would encourage the TPT to ensure a focus on producing guidance that aims to encourage comprehensive disclosures about how a company will achieve its entity level decarbonisation targets and adapt its business model accordingly.

Rationale and Definition

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

We do not believe that the proposed definition captures the functions that a transition plan must serve, nor is it reflective of the informational needs of investors.

Both the sector neutral and sector specific templates produced by the TPT need to be built around a definition that captures the central purpose of transition plans. IA members believe this to be the provision, to market participants, of information about the strategic changes that an entity needs to make to its business model and the organisational transformation that a company will undergo as it decarbonises its business model and responds to the impacts of climate changes to remain a going concern/ commercially viable proposition.

We, therefore, have some concerns with this definition:

1. It is overly focused on the transition to a net-zero carbon economy and overlooks the facts that businesses will be operating in a range of different economies with

different economy wide decarbonisation targets and that companies will have to make changes focused on physical adaption and resilience.

2. It suggests that companies are passive in the transition and underplays the role they themselves play in driving the transition towards a low carbon economy, either through reducing emissions within the company, or developing technologies and services that enable others to reduce their emissions.

3. It makes no reference to the opportunities for organisations that arise from efforts to mitigate and adapt to climate change. A singular focus on the risks of the climate-transition will not appropriately recognise the impact of the climate transition on a business nor will it capture the breadth of the role that the private sector plays through realising the climate transition-related opportunities by supporting other actors to decarbonise.

4. It makes no explicit link to the organisational transformation that companies will have to undergo nor to the wider corporate strategy and therefore does not provide insight into the potential consequences of the plan on wider environmental and social issues.

We further believe that the TPT would benefit from drawing upon the definition for transition plans which GFANZ[1] has put forward. This places further emphasis on the role of a transition plan in holding issuers to account on their business activities as they transition towards net-zero GHG emissions. We would therefore encourage the TPT to consider some minor amendments to reflect these points. For example:

"A transition plan, as a set of goals, actions and accountability mechanisms, sets out how an organisation will adapt its strategy, business model and operations to mitigate the risks, and take advantage of the benefits from the opportunities presented as the world transitions towards a low carbon economy. It should set out:

a. high-level targets the organisation is using to mitigate climate risk, including greenhouse gas reduction targets (e.g. a net zero commitment);
b. interim milestones; and
c. actionable steps the organisation plans to take to hit those targets (with a focus on near term action), and to pursue opportunities related to the transition to a low carbon economy.

In addition, there needs to be a clear statement accompanying the definition of a transition plan as to its purpose and who the primary audience should be, to further aid companies in preparing meaningful disclosures that will allow investors to incorporate the information within transition plans into their investment processes. Please see the response to question 2 below.

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

As with all forms of corporate reporting, the primary users of transition plan disclosures will be investors. We encourage the TPT to make a clear statement in its guidance to accompany

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[1] GFANZ defines a net-zero transition plan as a set of goals, actions, and accountability mechanisms to align an organization's business activities with a pathway to net-zero GHG emissions that delivers real-economy emissions reductions in line with achieving global net zero.

the above definition with an explicit recognition that existing and potential investors will be the primary users of transition plans and that issuers should prepare their disclosures with investors as the primary audience.

Without such an explicit focus on investors, we do not consider that transition plans will be able to support the re-allocation of capital within the UK economy towards more sustainable business models required to ensure that the UK becomes a net-zero aligned financial centre.

The asset management industry will have a key role to play in channelling investment into companies and technologies that enable that economy-wide transition. However, ensuring that the UK's financial flows align with a low carbon economy relies on the provision of disclosures that are investor focused. Ensuring that transition plan disclosures are investor focused will also enable investment managers to provide the necessary support and challenge through their stewardship role to their investee company's transition to more sustainable business models.

We also note that a focus on investors and their information needs is consistent with the FCA's ESG strategy which explicitly references the importance of investor stewardship in supporting an effective transition to a net zero economy, and the FCA's consideration of the information investors need on companies' net zero plans to exercise effective stewardship.

Doing so does not preclude transition plans from providing valuable insights to other important stakeholders such as Government, regulators, 3rd party climate data and ratings providers, employees and wider civil society stakeholders. However, without an investor focus, we do not consider that transition plans will be able to support a re-allocation of capital towards more sustainable business model.

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

Consistent with the responses to questions 1 and 2, the use cases for transition plans stem from their primary users and how transition plan disclosures can help investors to play their dual role in supporting a transition. The key uses of transition plans are therefore to be integrated into the investment process and to provide a basis for investor stewardship.

Mandate and structure of the TPT

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

In the first instance, the TPT should develop sector-specific transition plan templates for sectors that are particularly carbon intensive and require the most significant changes in business model to align with the UKs Net Zero by 2050 ambition. These sectors are those where decarbonising is likely to have the greatest impact on the company's value or where the greatest extent of organisational transformation is required. In addition, we have already seen examples of coal mines, coal and gas powerplants and other hydrocarbon reserves that have become stranded by the low carbon transition. This presents significant risks to investors, and we would urge the TPT to focus on developing tailored transition plan templates for these sectors.

There are already a number of established industry-led frameworks that set out a list of carbon-intensive, high-emitting, and high-risk sectors. We do not believe that the TPT should duplicate this work, and attempt to create new and separate criteria for selecting sectors to develop transition plans, but should instead build on or directly reference frameworks such as:

- Net Zero Investment Framework's High Impact Sectors;
- Sectors Represented on Climate Action 100+ list;
- Transition Pathway Initiative's High Emitting Sectors for assessing corporate decarbonisation progress;
- TCFD's Non-Financial Sectors with the highest likelihood of climate-related financial impact.

These frameworks are already being utilised by investors and incorporating their level of detail into the TPT sector specific templates will enable investors to assess the target-setting of companies, and hold them to account when their real world emissions are reported.

With regards to the order in which the development of sector-specific guidance should be prioritised, and whether financial sub-sectors should be prioritised, IA members stress the need for the financial sectors template to be closely aligned with the GFANZ workstream on Financial Institution Net-zero Transition Plans. As with all portfolio aggregation disclosure, financial institutions will be reliant on the corporate disclosures from the industries in which they invest and will not be able to produce accurate and meaningful disclosure without greater information from underlying portfolio companies. This must be reflected in any financial sector framework.

5. Given the mandate set out in the TPT's Terms of Reference, to what extent, and how, should the TPT consider issues beyond a firm's contribution to an economy-wide decarbonisation? Why?
6. Which of these issues are 'must-haves' that need to be addressed in all transition plans, and which are 'desirable', which add depth or breadth but are not central to a transition plan?

(We have responded to questions 5 and 6 together below)

The primary focus of the TPTs work should be the development of recommendations that enable transition plans that focus on the company's strategy and the specific actions it will take to decarbonise its business model and for the adaption and mitigation of climate risk.

The TPT should be clear that this should be its first consideration. If the TPT overly focuses on producing guidance for disclosures that outline a firm's contribution to the UK economy-wide decarbonisation, it will severely undermine its efforts to produce disclosures that can facilitate capital allocation that is aligned with this decarbonisation. It is fundamental that the TPT focuses on the entire entity, does not limit its scope to the company's UK operations or impacts on the UK economy, and ensures that the disclosures that company's produce are meaningful and inform an investors assessment of the credibility of the company's transition plan and the actions it will take to achieve the targets it has set.

Notwithstanding that in the first instance a transition plan should be focused on the entity, they will as a consequence of making disclosures about a company's activities include references to the firm's contribution to the wider de-carbonisation of the UK economy.

With regards to consideration beyond a firm's contribution to an economy-wide decarbonisation, we suggest the TPT should also consider the issue of the impact of the economy-wide decarbonisation on the firm itself. Achieving a net-zero economy (both in the UK and internationally) will require significant structural changes to the economy and consumer behaviours. Investors require disclosures on the extent to which the entity will be able to withstand these changes and remain viable throughout and after the transition, whilst much of these disclosures may be included in the TCFD-aligned disclosures themselves, transition plans should complement these disclosures with more explicit forward-looking information about how a company with adapt to such changes.

We also believe the TPT should give consideration not only the UK economy but the various other jurisdictions across which UK firms operate. Many UK-based companies are international in nature with significant global footprints and operations in other economies. The requirement under principle 1 for transition plans to cover the whole organisation will mean that the TPT should recognise that companies, when planning their entity-level transition plan will give regard to global net zero transitions and the transition risk in various jurisdictions.

Considering issues beyond a firm's contribution to economy-wide decarbonisation, we are supportive of the TPT considering the extent to which a company's transition plans is aligned with the principles and objectives of a just transition. Managing the transition and decarbonising business activities in a sustainable way requires that companies do so with strong regard to wider stakeholders including employees, suppliers, customers, consumers, and the communities they operate in, and the inter-dependencies between these parties. We therefore welcome the disclosure sub-element "Alignment with just transition principles" in table 2 of the Call for Evidence.

The TPT should also encourage companies to disclose how they have considered the impacts of their transition plan on its workforce and society, and how it has considered minimising 'unintended consequences' through minimising negative externalities. There are also potential positive co-benefits of the transition, such as job creation, reduced air pollution, and health benefits. The best transition plans would at least consider the potential negative and positive impacts of their implementation.

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

Yes. There is an obvious tension between entity-level and economywide decarbonisation goals in that the object of entities is not to achieve economy-wide goals. Entity level decarbonisation strategies will outline how a company intends on achieving the decarbonisation goals it has set for itself. In many instances, these targets will be aligned with those of the economies in which the company operates, however this is not necessarily so. Several UK companies have set Net-Zero targets by 2040, ahead of the UK target of 2050, whilst others are yet to set a Net-Zero by 2050 target. In other cases, (and consistent with principle 1 "plans should cover the whole organisation" the company's Net Zero plan will cover the whole entity and its activities in a number of jurisdictions, entity level decarbonisation strategies may therefore be misaligned with the goals of one jurisdiction. Companies that operate in multiple jurisdictions may have to balance tensions between adopting a multi-jurisdictional approach to its entity level decarbonisation and tailoring this approach with the individual jurisdictions in which they operate.

Whilst IA members have a preference for company transition plans to be aligned with a Net-Zero by 2050 target, and for a company's emission reductions to be considered through the lens of whether it achieves an actual real-world reduction as opposed to simply a greening of the balance sheet, this should not be prohibitively so. Directors owe a duty to promote the success of the company for the benefit of its members as a whole, while having regard to wider stakeholder groups[2]. The company's transition plan as a key part of the company's wider strategy must also be consistent with this duty.

In some cases, it may be that directors consider that the action most likely to promote the success of the company, while having regard to other stakeholders' groups is not aligned with UK economy-wide decarbonisation goals. Such a situation may materialise when a company wishes to dispose of a particular asset, thereby legitimately taking action that de-carbonises their business but does not lead to economy-wide decarbonisation which will not be aligned with economywide decarbonisation goals. Shareholders will regularly challenge a company's approach to disposing high-emitting assets, and are generally more supportive of company's taking an approach to decarbonising that is consistent with real-world decarbonisation, but there are occasions where responsible disposal of high-emitting assets is aligned with the investors' fiduciary duty to its clients. It is important that the TPT considers the duties of directors and does not encroach on the duty to promote the success of the company.

International collaboration

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

We are encouraged by the fact that the TPT is actively seeking to avoid duplication and divergence of standards between its work and that of other organisations, namely the TCFD, ISSB, and GFANZ. It is important that the TPT's framework is interoperable with the existing TCFD requirements that exist within the UK (notably the FCA's TCFD-aligned Listing Rules).

We also note that the ISSB exposure draft for S2 (paragraph 13) includes disclosure requirements for company transition plans towards a lower-carbon economy. As referenced in the Call for Evidence, the UK has committed to implementing the ISSB standards as part of the UK's Sustainable Disclosure Regime. Similarly, we are hopeful (and anticipate) that the ISSB Standard will be adopted and implemented in various other jurisdictions, meaning that the ISSB's standards are therefore likely to become the dominant framework internationally for sustainability-related reporting.

It is, therefore, imperative for the long-term success of the TPT's output that both the sector neutral and sectoral transition plan frameworks are interoperable with the requirements of the ISSB's final S2 standard. We are, therefore, supportive of the TPT statements within the Call for Evidence that the TPT will coordinate with the ISSB.

Similarly, we also note the importance that the TPTs standards and frameworks operate alongside and leverage a company's existing TCFD disclosures. We note that a number of the disclosure sub-elements are reflective of the TCFD's 11 recommendations, it is important

[2] S172, Company's Act 2006

that the TPTs framework builds on these disclosures and is not duplicative – if appropriate the transition plan should clearly reference the TCFD disclosures.

Finally, we are encouraged by the statement that the TPT is collaborating closely with GFANZ to ensure that each organisation's respective recommendations are consistent and complementary to the greatest extent possible. We welcome the alignment between the disclosure elements identified in table 2 and the recommendations and guidance within GFANZ' Recommendations and Guidance on Financial Institution Net-zero Transition Plans.

Other frameworks we believe that the TPT should be acutely aware of as it proceeds include:

- The EU's CRSD, which will require in-scope entities (including several UK firms) to disclose "the plans of the undertaking, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement and the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 (European Climate Law), and where relevant, the exposure of the undertaking to coal, oil and gas-related activities"
- SEC climate-related reporting proposals that would, if enacted, require the disclosure of transition plans if the entity has adopted one as part of its climate-related risk management strategy.

The Sector-Neutral Framework

Objectives

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

Ideally, investors would like to see the disclosures integrated into the Annual Report. Locating the disclosures in the annual reports and accounts means the disclosures must be approved by the Board and be signed on behalf of the Board by a director of the company[3]. This ensures that those responsible for setting the company's wider corporate strategy and those who hold management accountable give due consideration to the transition plan and have oversight of managements implementation against the plan. Locating the transition plan within the annual report will also be beneficial in that it will require limited assurance through an auditor's assessment of whether there is any inconsistency between the sustainability-related information and the company's accounts. There is real merit in asking the auditing community to provide an opinion on the climate transition plan.

However, we recognise that there are concerns amongst several stakeholders that company annual reports are becoming excessively long and are not accessible to a wider range of stakeholders. Where a company considers that the inclusion of its transition plan would make the annual report excessively long it may be appropriate for the company to instead include a summarised version with the main aspects in annual report with clear links

[3] UK Companies Act 2006 section 414

referring readers to the external full Transition Plan (option d in paragraph 2.5 of the Call for Evidence).

An appropriate location for the complete disclosures, if they are not included within the annual report itself, would be within the Company's Sustainability or Climate Report (or other similar documents).

We believe, therefore, that the TPT's sector-neutral framework should provide issuers with some flexibility on where they locate the transition plan disclosures, and to choose between options a. and d. as outlined in paragraph 3.5. There should be additional clarity on the content that should be required within the summarised version to be found in the annual report. In particular, this should include the company's overall long-term ambition, targets and interim milestones.

Where the transition plan is predominantly located in a standalone document this should be accompanied by a statement that the plan has been approved by the Board Directors and transparency over the level of assurance it has been subjected to.

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

The IA considers that a principle-based approach for a sector-neutral framework is the best approach.

There is a large degree of heterogeneity in the ways that company's across and even within sectors will respond to climate change and the need to decarbonise and adapt their business model accordingly. This variance needs to be accommodated within the sector neutral framework, taking an overly prescriptive approach denies companies the necessary flexibility.

We recognise that providing a framework with more granular or prescriptive guidance would likely aid the consistency and disclosures of transition plan disclosures, however, we do not believe that a sector-neutral framework is the correct medium for more granular guidance. For the information disclosed by entities to be genuinely informative, they should be tailored and specific to the business activities conducted by that entity. We therefore consider the Sectoral Transition Plan Templates to be a more suitable location for more granular disclosures that provide greater consistency and comparability.

For example, standardised methodologies for the measurements of the elements of up and down-stream Scope 3 components within each sector would greatly increase the comparability of disclosures in sectors where value chain emissions are responsible for a high proportion of overall emissions. – See response to question 11 for further commentary on sector specific metrics.

However, we do believe that there should be a greater degree of prescriptiveness over the methodologies used to calculate the various data and metrics used as part of the transition plan to ensure greater transparency and comparability between company quantitative disclosures.

11. Should the TPT seek to standardise the data and metrics used to communicate

ambition and measure progress in transition plans? If so, what are the standards for data and metrics that you would recommend including in the Sector-Neutral Framework and in supplementary sectoral guidance?

For investors, comparability of metrics is one of the key issues with the current state of climate disclosures, and the lack of consistency and transparency on methodologies used greatly undermines the extent to which disclosures can be incorporated into the investment process.

At the sector-neutral level, investors are particularly supportive of the cross-industry GHG Protocol as it builds industry consensus on standardised measurements of the most fundamental climate-related metric: the company's emissions. This should cover companies' Scope 1,2, 3 targets in absolute emissions. Members would also value transparency over the methodologies used in the calculation of the financial metrics produced under financial plan sub element of element C.

As mentioned above, we do not believe that the TPT should seek to be overly prescriptive at the sector-neutral framework level, however there should be a clear obligation for transparency on the calculations that may support this without being overly prescriptive in a sector-neutral framework.

Beyond the sector-neutral framework, the TPT should seek to be more prescriptive at the sector-specific level in sectoral guidance. In certain sectors (such as real estate), for example, metrics such as emissions expressed per tonne of output or per kWh, or production of certain materials as a percentage of total production will be helpful in understanding the company's progress on its sectoral pathway.

12. Question for small and medium-sized enterprises: what specific challenges do you foresee for SMEs seeking to prepare or use transition plans? How can the guidance and framework prepared by the TPT address these concerns?
13. Question for preparers only: if your firm does not already disclose information of the type outlined in this Call for Evidence, what are the reasons for that? For example, are there concerns about legal or possible market risks arising from disclosure? How could the work planned by the TPT address these concerns?

N/A.

14. Transition plans provide an opportunity to ensure the benefits of the climate transition are widely felt by UK households and consumers. How can the guidance developed by the TPT balance the need to minimise costs whilst encouraging companies to develop strategies to maximise benefits for all?

Whilst we agree that transition plans can provide an opportunity for companies to disclose how the company's transition will result in benefits for the communities in which they operate, it should also be acknowledged that the transition could prove costly to households. The transition in the UK could be stifled if households believe that the financial cost they are being asked to bear is too great. We do not, however, believe that the development of the TPT's guidance should be driven by a goal to encourage companies to develop strategies to maximise benefits for all.

Entities should, as part of their wider transition plan, make disclosures about how and whether a company has considered the principles and objectives of a just transition when designing and implementing its transition plan, and in doing so outline the potential impacts on households and consumers. Doing so will provide transparency and accountability on how a company's transition plan will impact on households and consumers.

Principles

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

On the whole, we believe that the proposed principles are appropriate and reflective of investor demand at a sector-neutral level. We do, however, encourage the TPT to refine the existing principles further to ensure that preparers disclose relevant information in a plan, as well as provide a reference point for users seeking to understand the credibility of plan.

Principle 1 –
The credibility and appropriateness of the company's targets and emissions trajectories will need to be aligned not only with an economy wide transition but with science-based industry-based pathways and/or targets. We therefore suggest that principle 1 is amended accordingly, for example:

"Align with economy-wide net zero transition and sector specific pathways"

Principle 3 – Again we are supportive of the principle, and the need for verification. The IA and our members note that as transition plan disclosures will increasingly inform investment decision making, it is essential that investment managers have confidence in the quality and accuracy of this information. As mentioned in response to question 9, we have a preference for the disclosures to be explicitly approved by the Directors and to disclose the level of third-party verification that is applied to a company's progress against its transition plan.

We are concerned by the Principle's reference to a "a defined stakeholder feedback mechanism", as there is a risk that this could be interpreted by companies as a requirement to submit the plan to periodic shareholder approval. We do not believe that this is appropriate at the moment given the nascency of transition plan reports, and the number of other accountability mechanisms that already exist.

We recognise that a "defined stakeholder feedback mechanism" could be interpreted differently based on the stakeholder reviewing the transition plan. On this basis, the reference to a "defined stakeholder feedback mechanism" could be replaced by more general references to a company being open to dialogue with its stakeholders on progress against delivering on its transition plan. This could draw upon mechanisms that already exist in order to effectively hold companies accountable on their corporate reporting and stakeholder engagement.

While not defined, investors, through their roles as stewards have access to a range of tools including: individual and collaborative engagements, publicly setting expectations of companies, public advocacy and using their right to vote or requisition a resolution at the AGM. Similarly, directors should, as part of their directors' duties under UK Company Law[4],

[4] In addition, the UK Corporate Governance Code 2018 and the Wates Corporate Governance Principles for Large Private Companies both include similar provisions, which seek to ensure meaningful engagement with the company's wider stakeholders.

be engaging with the company's wider stakeholders and providing them with a forum to comment and raise any concerns on the company's response to strategic issues such as climate change. Additionally, companies should also be providing summaries of these engagements as part of their S172 reporting within the strategic report including: (i) the boards role in the engagement; and (ii) the feedback received and outcomes of engagement—including the actions the company took in response and how it impacted decisions.

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

We believe that the TPT should add a principle that conveys the importance that a transition plan is not solely an isolated 'de-carbonisation plan' but rather an integral part of the wider corporate strategy.

For a company to manage the transition effectively it must take a more holistic approach and consider how its entire business will have to adapt to be successful in a low-carbon economy and become more resilient in a world with a more unstable climate (and the associated impacts). The company's corporate strategy should therefore be consistent with its transition plan and there should be clear links between the transition plan and the company's strategy for amending its business model.

We therefore encourage the TPT to add a fourth principle consistent with the above.

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

We regard all as 'must-have' principles for preparers to consider if they are to produce meaningful and informative transition plans that are capable of capital allocation decisions in a way that is consistent with achieving the UKs ambition to become a net-zero economy by 2050.

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

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

Again, as mentioned in the executive summary and in response to question 5, transition plans need to be designed and disclosed at the entity-level and the guidance should not be designed with the objective of producing disclosures that outline the entities degree of alignment with various jurisdictional goals, they should outline how the entity will meet the organisation's net zero commitment, be that by 2050, 2040 or sooner.

The risks associated with the different regulatory or policy approaches taken by the different jurisdictions that a company operates in should already be disclosed in the TCFD-aligned disclosures along with any other jurisdictional specific risks and opportunities. A company Transition Plan will evidently need to consider those transition risks and opportunities, and align its transition plan with these risks and opportunities. In addition, when planning their entity-level transition plan, companies should give regard to global net zero transitions and the overall target of the company.

Elements

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

We agree that the proposed elements outlined in table 2 will serve as an appropriate starting point for the TPT to further consider how to develop a sector neutral framework.

We also supportive that the vast majority of the elements proposed are supported by the recommendations within GFANZ' preliminary components of a real-economy transition plan and its recommendations for financial institution net-zero transition plans.

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

On the whole, we believe the elements to be reflective of the informational needs of investors, and will provide investors with the required disclosures to support the wider transition to Net-Zero.

We would, however, encourage the TPT to consider including product and asset-level disclosures, at either the sector-neutral or sector specific framework. In some cases these will be fundamental information for investors, for example the transition profile of a specific mine, specific assets plans for improving resilience to climate risk or the climate exposures of financial products.

In addition, many industries managing the climate transition will require a significant 'pivot' and structural change to their business, whereby the transition to a low-carbon economy could result in them operating materially different business lines. Managing such a transition will not only require significant funding and capital expenditure, but will also require the company to overcome many challenges in achieving these changes. A comprehensive transition plan should therefore include narrative disclosures about how the company intends on managing these challenges. For example, due to technological advancements companies may need to reduce the size of their workforce which may require industrial dispute resolution in unionised workforces, or a change in the skillset of the workforce from low to highly-skilled. Assessing the credibility of these plans requires that metrics on funding and capital expenditure are supported by detailed narrative disclosures.

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

As mentioned, the IA and our members believe that the primary purpose of a transition plan should be to inform capital market participants as to the strategic changes it will make to its business model and the organisational transformation that a company will undergo as it decarbonises its business activities and responds to the impacts of climate change to remain a going concern/ commercially viable proposition.

Consistent with this, we consider the 'must-have' elements to be A (ambition), B (target setting), C (Management activities and plans). These and the sub-elements that constitute them are they key disclosures that inform investors about the appropriateness and credibility of the transition plan. This is especially true of section C which is the key foundational aspect of a transition plan.

We also note that it is necessary for the above disclosures to be linked to financial information about achieving these targets and changes to the business plan. In particular, we would note the importance that the disclosures under “implications for business model” of element A and under “business plan” of element C are supported with and interlinked with the disclosures under “financial plan” of element C. For investors to be able to assess the credibility of an entities targets and its commitment to achieving these targets, they will need comprehensive disclosure about a company’s strategy to amend its business model to decarbonise its business activities and direct operations, and how it will fund this strategy and the transition of its strategy. Disclosures about the key financial impacts of the plan on capital and operational expenditure, and revenue forecasts etc are therefore crucial to allowing investors to assess how the company will remain financially viable and a going concern throughout the transition.

In addition, we believe disclosure around the remuneration structure of executives should be a required disclosure. Executives and Senior Management have day to day responsibility for running the company and delivering on the transition plan, investors require transparency on how their incentives and compensation arrangements are aligned with the transition plan (whether that be through the use of underpins, transition linked performance metrics, or transition-linked malus and clawback ‘trigger’ mechanisms).

Whilst these disclosures may not be sufficient in all cases for investors to make a comprehensive assessment of the credibility of a company’s transition plan, they are necessary for such an assessment. We therefore consider them to be ‘must-haves’ elements of a credible transition plan.

We would also like to see a prioritisation of element E, and particularly the “Plans to increase portfolio of low-carbon products and services” sub-element, together with some of the disclosures under element C, these disclosures are the ones that most inform an assessment of the ‘real-economy’ impact of the transition plan.

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

We do not see any substantial barriers to implementation at this stage.