

## Transition Pathways Taskforce Research

### Overview

- Launched by HM Treasury in April 2022
  - o UK Gov and FCA actively involved
- Mission: develop a gold standard for private sector climate transition plans
  - o Informing and building on international disclosure standards
- Steering Group:
  - o Oversight of the TPT with high-level representatives from companies, financial institutions, regulators, policymakers, and civil society
  - o two co-chairs: a private sector CEO and a UK Government Minister
    - Co-Chair: Amanda Blanc (Group CEO, Aviva)
    - Co-Chair: Baroness Penn (Treasury Lords Minister)
  - o Other notable members:
    - Alison Rose, Natwest CEO
    - Mary Schapiro, GFANZ Vice Chair
    - David Schwimmer, LSEG CEO
    - Sacha Sadan, FCA ESG Director
    - Michelle Scrimgeour, LGIM CEO
- Timeline of TPT Initiative
  - o Announced at COP26 (November 2021)
  - o Begins operations April 2022
  - o May-July 2022 – call for evidence on sector-neutral framework
  - o November 2022 – February 2023 Consultation period
  - o Summer/Autumn 2023: Final Disclosure Framework and Implementation Guidance published
    - Not completed yet
  - o Expected: 2023-2024 – regulatory updates
    - FCA consults on changes to Listing Rules to reference ISSB and considers TPT outputs as a basis to strengthen transition plan disclosure expectations of listed companies, AMs, and AOs
- TPT outputs:
  - o TPT Disclosure Framework
    - Open from Nov 2022 to Feb 2023
  - o TPT Implementation Guidance
    - Open until Feb 2023
    - Final version will include further guidance such as case studies and examples of good practice
  - o Sandbox:
    - TPT will work with preparers and users to road test the TPT's outputs and gather practical feedback from the market
    - Findings from this will inform the final iteration of the TPT Disclosure Framework, Implementation Guidance, and sector guidance
  - o Sector guidance

- TPT will publish range of sector guidance, starting with overview of sector-specific metrics from existing guidance which can supplement the recommendations of the TPT Disclosure Framework
- More detailed guidance to be published in late 2023, building on best practice guidance and new research

## [TPT Disclosure Framework Consultation](#) (Nov 2022)

### Intro

- Aim of TPT Disclosure Framework is to assist entities to disclose credible, useful, and consistent transition plans
  - Builds on existing recommendations to disclose transition plans under TCFD Recommendations and accompanying guidance as well as transition plan disclosure recommendations in the ISSB's proposed standards.
  - Framework builds on existing recommendations by providing specificity on what UK transition plans should include.
- Good practice transition plan should cover 4 things:
  - 1. 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
    - Includes GHG reduction targets
  - 2. 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
  - 3. governance and accountability mechanisms that support delivery of the plan and robust periodic reporting
  - 4. 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

### 3 guiding principles

- 1. Ambition: contribute to and prepare for a rapid and orderly economy-wide net zero transition
  - TPs (transition plans) 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
  - Implies that any emissions reduction target should consider all 3 emission scopes and should prioritise decarbonisation through direct abatement over purchasing carbon credits
  - TPs should include a transition-relevant actions which are material to the entity's long term enterprise value
    - Entity should therefore examine all material interdependencies (incl those that relate to the natural environment, workers, suppliers, communities, and consumers)
  - 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
  - TPs are integral to an entity's overall strategy

- Should be connected to the entity's business and operations planning and the financial accounts and underpinned by clearly articulated resourcing plans
    - Entity should develop its plan on the basis of defined assumptions and an analysis of dependencies and uncertainties
    - Should assess 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 TPs should be supported by robust governance mechanisms (incl. Board and executive oversight), with relevant and appropriate incentivisation, reporting and accountability structures

#### A Strategic and Rounded Approach to Transition Planning

- 3 inter-related channels through which an entity can take a strategic and rounded approach
  - 1. Decarbonisation
    - Actions entity is taking to reduce GHG emissions, reduce its impact on the climate and align with net zero
  - 2. Responding to climate-related risks and opportunities
    - Actions 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 economy
  - 3. Contributing to economy-wide transition
    - 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 embed and accelerate the transition, and, in doing so, to minimise future risks and protect and enhance long-term value

#### Summary Recommendations: Disclosing a transition plan

- How transition plans fit into existing and emerging guidance
  - Under current UK reporting rules, many large companies, AOs and AMs already required to make TCFD-aligned disclosures
  - FCA has set out initial expectations on disclosure of transition plans by asset managers, FCA-regulated asset-owners and listed companies in accordance with TCFD guidance on TPs
  - 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
  - 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
- 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

- 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
- 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

## TPT Disclosure Framework

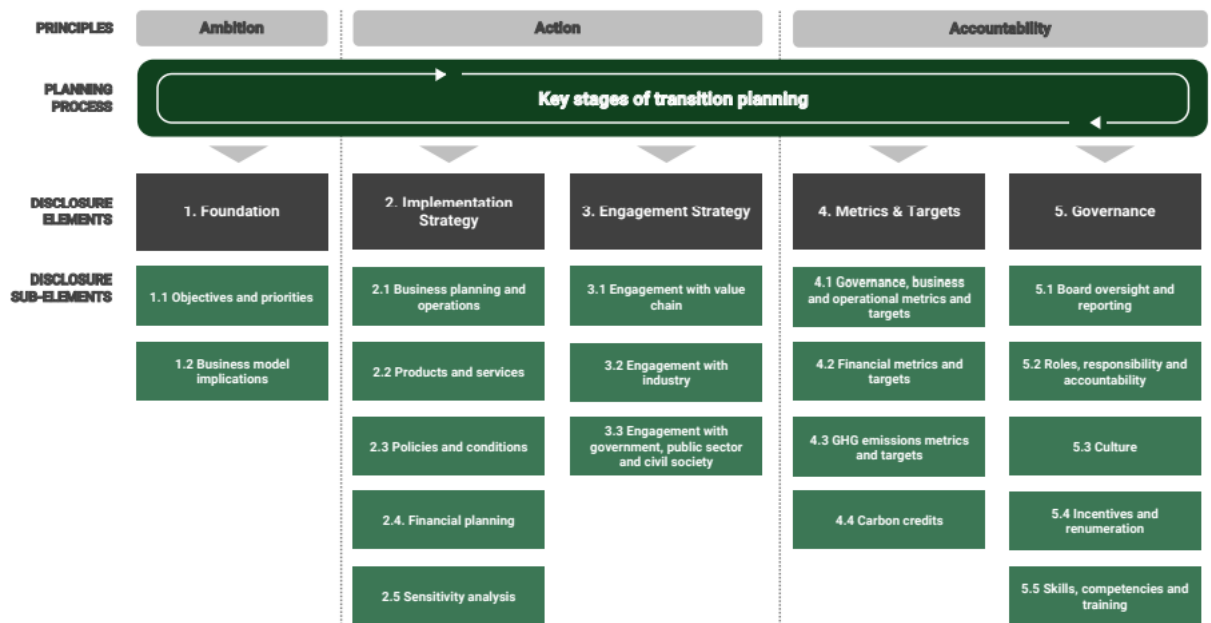


Figure 4: The TPT Disclosure Framework

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- 1. Foundation
  - 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
  - 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
- 2. Implementation Strategy
  - 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.

- 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
- 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
- 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 possible
- 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.
- 3. Engagement Strategy
  - 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.
  - 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
  - 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
- 4. Metrics & Targets
  - 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
  - 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.
    - 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
    - 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
  - 5. Governance
    - 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
    - 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.
    - 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
    - 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
    - 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

#### [TPT Implementation Guidance \(Nov 2022\)](#)

- This document mainly summarises / reiterates the TPT Disclosure Framework but offers more in-depth information on implementation strategies
  - Can go through this for any detailed needs

Key stages to preparing a transition plan



### Key users and use cases

USE CASE	USER GROUPS & ENTITY TYPES	SUMMARY OF KEY FOCUS AREAS & INFORMATION NEEDS
Managing the transition internally	All preparing entities. Predominantly management teams and Board of Directors	<ul style="list-style-type: none"> <li>• Supporting the integration of climate-related objectives and an entity's broader strategy.</li> <li>• Communicating transition objectives and priorities and resulting changes to an entity's business model to employees.</li> <li>• Supporting the implementation and operationalisation of the plan across the reporting entity.</li> </ul>
Investing and stewardship	Including asset owners, asset managers, private equity, banks, insurers	<ul style="list-style-type: none"> <li>• Assessing investee entities' transition paths to inform engagement and investment decisions, and to align with their own climate objectives and transition plans.</li> <li>• Supporting investors' efforts to reduce the carbon intensity of portfolios over time and exposure to assets with high climate transition and/or physical risk.</li> <li>• Supporting/engaging in investment in transition-resilient entities and providers of climate solutions.</li> </ul>
Lending	Including retail and investment banks, multilateral development	<ul style="list-style-type: none"> <li>• Assessing counterparty entities' transition paths to inform engagement and</li> </ul>

	banks, export credit agencies, development finance institutions	<p>lending decisions and to align with own climate objectives and transition plans.</p> <ul style="list-style-type: none"> <li>• Assessing counterparties' credit risk, compliance with covenants with regards to green finance terms.</li> <li>• Supporting lender's efforts to reduce the carbon intensity of portfolios over time and exposure to assets with high climate transition risk over time.</li> <li>• Support lending in transition-resilient entities and providers of climate solutions.</li> </ul>
Insurance and reinsurance	Insurers, reinsurers	<ul style="list-style-type: none"> <li>• Assessing insured entities' transition paths to inform underwriting decisions and to align with own climate objectives and transition plans.</li> <li>• Support the economy-wide transition by providing risk-adjusted insurance cover to climate solutions</li> </ul>
Assessing value chain	Real economy entities and governments	<ul style="list-style-type: none"> <li>• Assessing value chain entities' transition plans, with a view to managing carbon emissions in the value chain consistent with (science-based) targets.</li> <li>• Understanding the remaining corporate carbon budget that is implied by value chain entities' net zero targets.</li> <li>• Tracking value chain entities' annual progress against carbon reduction trajectories to inform their Scope 3 emissions profile.</li> <li>• Supporting/engaging with value chain entities on their transition plans.</li> </ul>
Assessing value chain	Data providers, benchmarking organisations	<p>As above, while also emphasising standardised sectoral metrics/KPIs, such as:</p> <ul style="list-style-type: none"> <li>• % of revenue impacted by transitional risks;</li> <li>• location of assets impacted by physical climate risks; and</li> <li>• potential asset impairment due to climate-related risks.</li> </ul>



Regulating and policymaking	Central banks, governments, prudential regulators, industry and environmental regulators	Assessment of the quantity and quality of disclosures and impact on macroprudential supervision compliance.
Accountability and wider society	Non-governmental organisations and consumers	Alignment of evidence of entities' progress towards achieving stated climate ambition.