PRI RESPONSE

UK TRANSITION PLAN TASKFORCE (TPT) – CONSULTATION SURVEY

28 February 2023

To inform this briefing, the following investor group has been consulted: PRI Regional Policy Reference Group for (United Kingdom). This consultation is not an endorsement or acknowledgement of the views expressed in this briefing.

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ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the UK Transition Plan Taskforce consultation on the TPT Disclosure Framework and the TPT Implementation Guidance

ABOUT THIS CONSULTATION

One year since it was announced at COP26, the UK Transition Plan Taskforce (TPT) has published its TPT Disclosure Framework and Implementation Guidance, which is now open to gather comments and feedback from market participants and other stakeholders on the proposed framework. The Framework will inform future regulation in the UK, whereby the Financial Conduct Authority plans to draw on the TPT's final outputs to strengthen their transition plan disclosure expectations of listed companies, asset managers and regulated asset owners.

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KEY RECOMMENDATIONS

The PRI welcomes the work of the Transition Plan Taskforce (TPT) to drive robust, credible, and interoperable transition plans and disclosure frameworks from finance and real economy actors. The PRI agrees with the TPT's approach in building and aligning to the International Sustainability Standards Board (ISSB) Climate Exposure Draft, the Task Force on Climate-Related Financial Disclosures (TCFD) framework, and recommendations from the High-Level Expert Group (UN HLEG) on the Net Zero Commitments. The PRI, which has over 840 signatories in the UK and over 5,000 signatories worldwide, offers feedback both from a preparer and a user's perspective. Our key recommendations are set out below.

Overarching feedback:

- **The transition to a net-zero, sustainable economy requires a whole of government approach.** As PRI's Legal Framework for Impact work has found,[1] policy reforms are essential to facilitate investing for sustainability impact and to overcome barriers to action. The TPT's work should be done in conjunction, and consistent with sustainable finance policy reforms including the adoption of a robust, science-based sustainable taxonomy.
- **A greater focus on short- and medium-term actions** in both the framework and the implementation guidance on *near term* actional steps that are foundational to the organisation meeting their stated targets.
- **Greater alignment to UK's net-zero by 2050 target and successive UK carbon budgets:** The PRI recommends that transition plans should not only be informed by/take into account, but also report on **how** the entity's contributing towards the UK's target of net zero emissions by 2050 and the successive carbon budgets.
- **Clarify discrepancies between TPT and other disclosure regulations**, including the internal gap within UK regulations between the Financial Conduct Authority, the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022, and relevant guidance from the Department of Work and Pensions. This also pertains to the gap between UK regulations and the ISSB proposed rule, specifically the potential reporting requirement of seven cross-industry metric categories that all entities would be required to disclose, as mentioned in the IFRS S2 Climate-related disclosures Exposure Draft.[2]

[1] PRI, *UK: Integrating sustainability goals across the investment industry* (October 2022): https://www.unpri.org/a-legal-framework-for-impact/uk-integrating-sustainability-goals-across-the-investment-industry/10582.article

[2] Exposure Draft IFRS S2 Climate-related Disclosures, page 22: https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf

On metrics and targets disclosure:

- **Require disclosure of industry metrics and corresponding targets for the 12 most energy-intensive sectors** (listed in Annex 1), and **revise language on scope 3 emissions** to "relevant categories of scope 3 emissions where they are significant to a company's overall emissions profile". Sector targets are highly relevant for financial institutions to achieve real-world emissions reductions and incentivise capital support for best carbon-performing companies within their sector.

Areas of further development and consideration:

- **Consider physical risks through an "adaptation plan" or a comprehensive "Climate Action Plan"**, particularly as information on how companies should adapt to climate change is increasingly important to investors. Enhancing physical risks disclosures can contribute to risk reduction and contribute to building resilience in the real economy. In line with the UK Climate Change Committee's recommendation, the TPT could utilise the TPT framework as a reference point to develop framework and guidance for "adaptation plans". A comprehensive "Climate Action Plan" could address both transition and physical risks disclosures.
- **Explore and provide further guidance on social implication, nature, and biodiversity,** given there are still fundamental methodological questions requiring clarification and guidance. Entities should consider these issues when drafting transition plans.
- **Encourage entities to provide quantitative disclosures where possible** to improve the usability and comparability of risks and opportunities. A flexible approach can be taken to the extent where undertakings are unable to assign quantitative values, qualitative disclosures can be provided.

DETAILED RESPONSE

DEFINITION

Question: The TPT Framework includes a definition of a transition plan. How would you describe this definition?

The proposed definition provides a sound basis for transition planning. **Transition plans should not only be informed by/take into account, but also report on how the entity is contributing towards the UK's target of net-zero emissions by 2050 and successive UK carbon budgets.** Doing so allows for entities to develop company-specific KPIs that align as early as possible with such a pathway.

We support that the definition covers **effective governance and accountability** that is underpinned by robust periodic reporting, under "(c) governance and accountability mechanisms that support delivery of the plan and robust periodic reporting". We also agree with the importance of considerations and measures for the natural environment, and for local communities and stakeholders, as proposed under pillar "(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". Geographical granularity and detail within plans will demonstrate the best-in-class approaches to net zero transition plans, as socio-economic impacts will be felt most strongly at subnational level.

The **TPT should put emphasis on "(b) short- and medium-term** actions that an entity plans to take to achieve its strategic ambition, alongside details on how these steps will be financed".

WHERE & HOW TO DISCLOSE

Question: If your entity is a user/preparer of transition plans, how helpful do you find these recommendations?

The TPT's approach to transition plans should be integrated with, and built from, broader climate-related disclosures in the reporting entity's general purpose financial reports, as well as publishing a standalone document that sits alongside the Annual Financial Report every three years. While the three-year standalone reporting cycles would carry additional reporting responsibilities for entities, they would allow for cyclical reviews, aggregation, and comparison across entities that are needed for accountability and evaluating the progress of the real economy transition.

As was stated in our Call for Evidence response in July 2022, the PRI recommends that the TPT supports issuers in **prioritising and integrating transition plans** into UK climate reporting regulations such as within the TCFD-aligned disclosures where possible. This includes making governance and target-setting disclosures in their relevant sections in a TCFD report, and cross-referencing in the "transition plan" section where necessary. More clarity around how to best streamline specific reporting elements will be welcome.

WHERE & HOW TO DISCLOSE: REPORTING NORMS

Reporting boundaries

The guidance is useful in supporting effective disclosure and is sufficiently detailed. We agree with the approach to mirror guidance provided in the ISSB Exposure Draft to the reporting boundary, particularly as it is anticipated that existing TCFD-aligned disclosure regulation in the UK will be replaced for companies to disclose in line ISSB standards.

Links between climate-related disclosures and financial statements

This guidance is useful in supporting effective disclosure, as the connectivity ensures coherent disclosures and provides a strong underpinning for disclosure in the general-purpose financial reporting to capture all financially material information. Institutional investors, which are required to secure long-term financial returns, have a legal responsibility to consider whether system-level risks (such as those linked to climate change) will affect to their ability to deliver financial returns for beneficiaries and, if so, how to mitigate such risks.[3] [4] Investors should also consider pursuing social and environmental impact goals where this could reasonably be expected to help achieve their investment purpose and objectives.

To do this, investors need information to assess and interpret a company's sustainability performance and their alignment to long-term sustainability goals and thresholds (i.e. sustainability outcomes).[5]

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[3] PRI, A Legal Framework for Impact, see the full project here: https://www.unpri.org/policy/a-legal-framework-for-impact and the UK policy recommendations here: https://www.unpri.org/a-legal-framework-for-impact/uk-integrating-sustainability-goals-across-the-investment-industry/10582.article

[4] Freshfield Bruckhaus Deringer, PRI, United Nations Environment Programme Finance Initiative, Generation Foundation (2021), *A Legal Framework for Impact*: Sustainability impact in investor decision-making (p.154-p.192)

[5] Sustainability outcome refers to how an investee's sustainability performance contributes to sustainability goals.

Sustainability-related financial information captures most information that impacts an entity's enterprise value in the short, medium, and long term. This should include the direct financial impacts of an entity's actions, impacts, and dependencies on people, the planet, and the environment, but also the indirect implications due to effects of systemic risks – such as exceeding planetary boundaries – on the wider economy, market, or sector the entity operates in.

We support the rounded approach as proposed by the TPT on page 10, where "contributing to economy-wide transition" constitutes an important pillar. Transition plan disclosure requirements are **part of a larger, holistic set of policies, including, financial, fiscal, and industrial policies in the transition** towards a low-carbon and sustainable economy.

Providing more detail around this in the framework enables the disclosure of information that captures elements of an entity's sustainability performance and its positive and negative contributions to sustainability outcomes.

Materiality

This guidance is useful in supporting effective disclosure but lacking sufficient detail. The definition of materiality is clear and well recognised as it is aligned with the ISSB S1 Exposure Draft which follows the International Accounting Standards Board's (IASB's) Conceptual Framework for Financial Reporting**. However, the application of materiality, as set out in the ISSB S1 Exposure Draft, is currently not clear and poses challenges of comparability and verifiability.** As the PRI has recommended for the ISSB S1 General Requirements for Disclosure of Sustainability-related Financial Information, there is a need to refine the standard's approach by assessing materiality (including identifying sustainability-related risks and opportunities) by:

1. expanding disclosure requirements on the reporting entity's process for this assessment, including disclosure on what has and has not been deemed material; and
2. providing reporting entities with a clearer process to assess materiality that is linked to other relevant disclosure requirements under governance, strategy and risk management.

Incorporation of interdependent issues such as social impacts, nature and adaptation

This guidance is useful in supporting effective disclosure but lacking sufficient detail. As mentioned above, entities should not only incorporate direct financial impacts on people (such as workforce, communities), the planet, and the environment, but also the indirect impacts due to effects of indirect and systemic risks – such as exceeding planetary boundaries – on the wider economy, market, or sector the entity operates in.

In terms of social impacts, when designing and delivering on their transition plans, entities should also actively:

1. anticipate, assess, and address social risks of the transition, such as fair allocation of costs and benefits from the transition; and

2. identify and enable the social opportunities of the transition, whereby entities can seize positive social impacts such as creating green jobs with decent work, eradicate energy and fuel poverty, and reduce longstanding inequalities.[6]

Furthermore, **the TPT should incorporate guidance on just transition explicitly as an interdependent issue.** Investors are increasingly assessing the social impacts and sensitivities of their transition plans through both sectoral and geographical specifics. Such assessment includes material dependencies and impacts on workers, suppliers, communities, and consumers. As stated in LSE Grantham Institute's recent report *Making transition plans just*, within the implementation of transition plans, "the overall ambition to support the just transition must influence the ways that financial institutions allocate capital to assets and businesses, clients and customers, in the real economy."

In terms of adaptation, information on how companies should adapt to climate change is increasingly important to investors. We support enhancing physical risks disclosures, notably on asset location data, business interruption plans as well as anticipated financial impacts (see further comments under the implementation guidance section, "metrics and targets" pillar). However, this would be beyond the scope of a "transition" plan but could be used in an "**adaptation plan**". Alternatively, addressing both climate transition and physical risks could be done through a "**Climate Action Plan**".

Overall, it is important to recognise the importance of issues such as social impacts and just transition, biodiversity, nature, and nature-based solutions, as well as adaptation and resilience. The TPT should integrate these considerations into a robust transition plan framework.

Treatment of uncertainty

This guidance useful in supporting effective disclosure but lacking sufficient detail. Uncertainties are unavoidable given the forward-looking nature of transition plans. However, regarding the TPT's guidance that "… an entity should use estimates where metrics cannot be measured directly, but clearly describe and explain the estimates it has used", PRI signatories have previously expressed that it would be inappropriate to report a single amount in such an instance as it would reflect a false sense of certainty, and this should therefore be accompanied by a narrative explanation. The TPT should further clarify that when there is uncertainty, **entities should disclose a range, or confidence intervals** to indicate caveats, and that such a range or interval is **accompanied by additional contextual narrative** (i.e. on likelihood, or direction of uncertainty). We support the flexible approach to the extent that where undertakings are unable to assign quantitative values, qualitative disclosures can be provided. However, companies should be required to provide quantitative value where possible, to improve the usability and comparability of risks and opportunities.

[6] LSE Grantham Research Institute on Climate Change and Environment, *Making transition plans just: how to embed the just transition into financial sector net zero plans* (27 October, 2022): https://www.lse.ac.uk/granthaminstitute/publication/making-transition-plans-just-how-to-embed-the-just-transition-into-financial-sector-net-zero-plans/

THE FRAMEWORK: OVERALL

Question: In the TPT Disclosure Framework we set out recommendations for entities to report against five elements and 19 sub-elements of a transition plan. Do you agree with the overall framework?

Yes, we broadly agree with the overall framework, but have comments and suggestions for improvement, as provided below on sub-elements.

THE FRAMEWORK: FEEDBACK ON SUB-ELEMENTS

Question: In the TPT Disclosure Framework we provide disclosure recommendations aimed to assist entities to disclose credible, useful, and consistent transition plans. If your entity has prepared a transition plan, or is planning to prepare a transition plan, please assess the expected level of difficulty in implementing each sub-element.

Foundations

1.1 Objectives and priorities: The recommendations related to this sub-element are **very useful.** Given the UK's climate commitments and the ambition to become the world's first net zero financial centre, the TPT should expressly create a framework for reporting an entity's strategy to pivot existing assets, operations, and entire business model towards a **trajectory that is aligned with net-zero by 2050**, and in the interim, the UK's successive Carbon Budgets. This should include the disclosure of **clear time-bound targets** the organisation is using to mitigate and adapt to climate risks and opportunities, as well as social risks and opportunities by sector and geography arising from the transition. An entity should also report on **how** it is contributing towards the UK's target of net zero emissions by 2050 and the successive carbon budgets.

1.2 Business model implications: The recommendations related to this sub-element are **useful**. The PRI welcomes the TPT's recommendations to disclose a summary assessment of the entity's material interdependencies, which includes (1) the direct implications of an entity's actions, impacts, and interdependencies on people/communities, the planet, and the environment, but also (2) the impacts and interdependencies on systemic changes – such as exceeding planetary boundaries – on the wider economy, market or sector the entity operates in.

Implementation Strategy

2.1 Business planning and operations: The recommendations related to this sub-element are **very useful.** The PRI agrees with the approach to quantify disclosures where possible and provide qualitative descriptions instead when quantification is not possible. We also support those definitions of short-, medium-, and long-term time horizons be issuer-determined.

2.2 Products and services: The recommendations related to this sub-element are **useful.**

2.3 Policies and conditions: The recommendations related to this sub-element are **useful.**

2.4 Financial planning: The recommendations related to this sub-element are **useful.**

2.5 Sensitivity analysis: The recommendations related to this sub-element are **useful.** However, the PRI notes that sensitivities related to social impact are increasingly important for investors (i.e. human rights, decent work, just transition). Therefore, the overall ambition of the issuer to support a just transition can influence the ways that financial institutions allocate capital to assets and businesses, clients and customers, in the real economy. The PRI suggests that the TPT also incorporates the assessment of social impacts and sensitivities of entity's net zero transition plans (with sectoral and geographical specificities) under this sub-element. This is particularly important considering dependencies and impacts of an entity's transition on workers, suppliers, communities, and consumers.

Engagement Strategy

3.1 Engagement with value chain: The recommendations related to this sub-element are **useful.**

3.2 Engagement with industry: The recommendations related to this sub-element are **useful.**

3.3 Engagement with government, public sector and civil society: The recommendations related to this sub-element are **useful.**

Shifting financial flows to address key societal concerns such as climate change, loss of biodiversity, and inequality, requires foundational changes in public policy as a whole.

In most jurisdictions, public policy is not always designed to support a whole-of-economy transition to a more sustainable financial and economic system. Reorienting financial and business models will require governments to go beyond stand-alone issue specific policies (e.g. climate and energy regulation) and sustainable finance policies.

Investors have a clear interest in ensuring that these measures are effective, efficient, support sustainable financial returns and deliver clear social and environmental benefits.

The PRI therefore supports companies' engagement with policymakers[7] to align a broader set of policy areas (including financial, corporate disclosure, fiscal, industrial policy) with the required low-carbon transition, thus allowing companies to "contribute to economy wide transition".

Furthermore, PRI's report on the investor case for political engagement[8] highlights that enhanced disclosure on companies' political engagement activities can enable investors to assess company positions on key sustainability issues, corporate channels used to influence policymaking and raise their collective voice when corporate actions are not in line with their stakeholders' long-term interests and sustainability ambitions. PRI signatories have provided feedback on the need for increased transparency on how entities ensure alignment between these activities and sustainability-related strategic decisions and policies.

Overall, in linking with **5. Governance,** the PRI further recommends that the TPT should incorporate disclosures on:

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[7] PRI, *A sustainable finance policy engagement handbook* (2022): https://www.unpri.org/policy/policy-engagement-handbook

[8] PRI, *The investor case for responsible political engagement* (2022): https://www.unpri.org/download?ac=15716

- board oversight of political engagement activities, such as lobbying and political contributions (under **3.3**);
- the governance processes in place to monitor and identify inconsistencies between companies' policies and practices, the political engagement activity of trade associations the undertaking is a member of (under **3.2**);
- whether misalignments were identified and how these are addressed; and
- leadership positions (e.g. positions on the board or key committees) held by staff members in industry associations and other third-party groups involved in policy-related advocacy (under **3.2**).

Metrics & Targets

4.1 Governance, Business and Operational Metrics and Targets: The recommendations related to this sub-element are **useful.**

4.2 Financial Metrics and Targets: The recommendations related to this sub-element are **useful.** Comparability is important for regulations and for users of transition plans. Aligning with a credible, science-based, and net zero-aligned taxonomy will help provide a clear metric for comparison of the firm's current activities and capex that are sustainable, and allow for comparison between firms.

4.3 GHG emissions metrics and targets: The TPT should **revise the language on scope 3 emissions** to reporting of "relevant categories of scope 3 emissions where they are significant to a company's overall emissions profile (i.e. greater than 40% of the total)". There are 15 different categories of scope 3 emissions and their relevance to the transition plan will vary according to the industry.

From a climate target-setting perspective, sector targets are the most relevant means for financial institutions of achieving real-world emissions reductions, incentivising and providing capital support to companies which are the best carbon performers within their sector, and financing the global economy's transition to net zero. Therefore, the PRI recommends that the TPT **requires the disclosure of industry metrics and corresponding targets for the 12 most energy-intensive sectors** listed in Annex 1. These should include Scope 1, Scope 2 and relevant Scope 3 emissions where significant, capturing current data as well as data on a forward-looking basis (at 5-year and 10-year intervals).

4.4 Carbon Credits: We recommend the TPT explicitly provides requirements around the **prioritisation of carbon credit usage within the entity's target-setting and transition planning**, namely that carbon credits should be **used only after mitigation options have been maximised** within own operation and that of the value chain.

Governance

5.1 Board Oversight and Reporting: The recommendations related to this sub-element are very **useful.**

5.2 Roles, Responsibility and Accountability: The recommendations related to this sub-element are very **useful.** The PRI recommends that the **TPT includes guidance on disclosure on the results of governance processes** in particular where it references controversies or other relevant events related to climate the entity was exposed to in the last reporting period. Several PRI signatories have highlighted that information on the entity's track-record is important in their assessment of an entity's governance and internal controls.

5.3 Culture: The recommendations related to this sub-element are **useful.**

5.4 Incentives and Remuneration: The recommendations related to this sub-element are **very useful.**

5.5 Skills, Competencies and Training: The recommendations related to this sub-element are **very useful.**

THE GUIDANCE: INTERPRETING THE SUB-ELEMENTS

Question: The interpretative guidance sits beneath an overview of "TCFD additionality" for each sub-element. Do you agree with the content of the interpretative guidance for each sub-element? Please consider the granularity of the information requested when you consider the overall content

Yes, we agree with the content of the interpretative guidance of most of the sub-elements, particularly in how they align to and are additional to the TCFD framework. In most instances, the interpretative guidance provides sufficient granularity of information that should be disclosed under each sub-element to effectively enable interoperability and aggregate analysis for users. Below, we provide feedback on the sub-elements.

Foundations

1.1 Objectives and Priorities: Yes, we agree with the content of the interpretative guidance. To further ensure that just transition is an active part of entity's efforts in transition planning, the PRI recommends that the TPT **revises the disclosure recommendation for this sub-element** to "…disclosing [an entity's] objectives and priorities for responding and contributing to an ***early, orderly, and fair whole-of-economy transition***, and interim targets and associated milestones." This is particularly important for hard-to-abate sectors, in order to understand whether the entity has considered or designed place-based plans for affected workers and communities.

1.2 Business model implications: Yes, the PRI agrees with the content of the interpretive guidance.

Implementation Strategy

2.1 Business planning and operations: Yes, we agree with the content of the interpretative guidance.

2.2 Products and services: Yes, we agree with the content of the interpretative guidance.

2.3 Policies and conditions: Yes, we agree with the content of the interpretative guidance.

2.4 Financial planning: Yes, we agree with the content of the interpretative guidance.

2.5 Sensitivity analysis: We broadly agree with the content of the interpretative guidance but would like to provide comments. Specifically, as mentioned above, the PRI recommends that the TPT **provides guidance around how entities can and should assess social impacts and sensitives of their transition plans** through both sectoral and geographical specifics. Such assessment should be made part of institutional sensitivity analysis when considering material dependencies and impacts on workers, suppliers, communities and consumers.

Engagement Strategy

3.1 Engagement with value chain: We broadly agree with the content of the interpretative guidance but would like to provide comments. Investors generally recognise the value chain as an important source of risk and/or opportunity to the business' operations. Thus, disclosing the current and anticipated effects of the associated risks and opportunities on its value chain, and engagement with upstream and downstream entities in the value chain to drive sustainability outcomes, remain key. However, there are no requirement for the entity to define its value chain, which poses risks to the verifiability of this reporting. To address this, the PRI recommends that **entities should be required to define value chain**, which should include at least how far along their value chain the reporting entity's engagement has taken place, and what has not been considered.

3.2 Engagement with Industry: Yes, we agree with the content of the interpretative guidance.

3.3 Engagement with government, public sector and civil society: Yes, we agree with the content of the interpretative guidance.

Metrics & Targets

4.1 Governance, business and operational metrics and targets: Yes, we agree with the content of the interpretative guidance. In particular, the PRI supports the implementation guidance on physical risks disclosure. The TPT could consider **recommending the following metrics** as part of an application guidance on implementing cross-industry metrics, covering the "proportion of business activities and operations vulnerable to physical risks."

- asset location data of entities' main facilities, operations and leading suppliers located in an area at risk of extreme weather events, such as:
    - percentage located in flood hazard areas and/or regions of high or extremely high water stress – as is proposed in the US Securities and Exchange Commission's Proposed Rule on climate-related disclosures [page 464]; and
    - assets in areas that are subject to wildfire risk, as the intensity and frequency of wildfires continue to increase, including asset type (anonymised) to help provide general vulnerability insight. [9]

This would help to address the lack of readily accessible and comparable location data that has made it difficult for investors to determine the level of physical risks from climate change on entities.

- How physical climate risk is assessed and considered in company's business interruption plans.
- Current and predicted financial losses from extreme weather events
- Anticipated future financial impacts based on the results of physical risk-focused scenario analyses.

Overall, in connection with the 3. Engagement Strategy, we recommend that the TPT further considers how to encourage more informative tracking of the outcomes of engagements, rather than the inputs or quantity. Effective engagement does not involve maximising the number

[9] Metrics for physical climate risk were adapted in accordance with research by IIGCC available at https://www.iigcc.org/resource/understanding-physical-climate-risks-and-opportunities-a-guide-for-investors/ and the UK Climate Financial Risk Forum's report on data and metrics available at https://www.fca.org.uk/transparency/climate-financial-risk-forum

and type of engagement conducted. Metrics, focusing on the number of engagements can incentivise quantity of quality in engagement activities, that can be less likely to contribute to meaningful change in engaged entities. We would thus recommend the TPT explores other metrics that better capture effectiveness, effort, and efficiency of engagement activities. To focus on the outcomes of engagement, the TPT could consider requiring a narrative description of arrangements with engaged stakeholders on items proposed by the entity via engagement.

4.2 Financial metrics and targets: We broadly agree with the content of the interpretative guidance but would like to provide comments. Specifically, on products and services, the PRI welcomes the disclosure of capital expenditure plans aligned with these targets, and recommends that the TPT **provides further guidance around disclosures on capex for financing the transition**, such as in R&D, new product development, or nature-based solutions. Doing so will support the integration of both risks and opportunities into the wider transition process.

4.3 GHG emissions metrics and targets: In accordance with our recommendations on the framework of GHG emissions metrics and targets disclosure, the PRI suggests that the TPT **revise requirements around scope 3 emissions disclosure** to “where significant” and require disclosures of industry metrics and corresponding targets for the 12 most energy-intensive sectors (as listed in Annex 1). These should include Scope 1, Scope 2 and relevant Scope 3 emissions where significant, capturing current data as well as data on a forward-looking basis (at 5-year and 10-year intervals).

4.4 Carbon credits: Yes, we agree with the content of the interpretive guidance and welcome the proposed transparency in disclosures on the use of credits – we note that the use of carbon offsets should not be encouraged. The PRI supports that disclosure requirement should limit or exclude the use of carbon offsets for the purpose of net-zero target setting to using carbon removals to **only balance residual targets** where there are limited technologically or financially viable alternatives to eliminate emissions, whilst requiring that they are **additional and certified.**

On metrics and targets overall, the TPT should support greater integration of transition planning and a science based sustainable taxonomy. This would support the comparability of the transition plans among companies. The adoption, by the TPT of the TCFD’s seven cross industry categories of metrics, (greenhouse gas (GHG) emissions on an absolute and intensity basis, transition risks, physical risks, climate-related opportunities, capital deployment towards risks and opportunities, internal carbon prices, and remuneration)[10] would enable tighter integration between the TPT proposed framework and a sustainable taxonomy in the UK.

Governance

5.1 Board oversight and reporting: Yes, we agree with the content of the interpretative guidance.

[10] Task Force on Climate-Related Financial Disclosures *Guidance on Metrics, Targets, and Transition Plans* (October 2021), page 16: https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf

5.2 Roles, responsibility and accountability: Yes, we agree with the content of the interpretative guidance.

5.3 Culture: Yes, we agree with the content of the interpretative guidance.

5.4 Incentives and remuneration: Yes, we agree with the content of the interpretative guidance.

5.5: Skills, competencies and training: Yes, we agree with the content of the interpretative guidance.

Overall, the PRI welcomes the inclusion of robust disclosures on governance. PRI signatories recognise that governance is a core part of an investor's decision to invest and/or continue to invest, whether in public or private markets. Signatories have consistently highlighted that information on governance is ultimately about understanding the internal controls that are in place for management to monitor, manage and thereby react to sustainability-related risks and opportunities.

THE GUIDANCE: THE FOUR STAGES (CONTENT AND GRANULARITY)

Question: At each stage, the guidance outlines process steps for the entity to disclose against the TPT Framework. Do you agree with the content of the Implementation Guidance for each stage?

Stage 1: Baseline current positioning Yes, we agree with the content of the guidance in conducting a baseline analysis of the entity's exposure to climate-related risks and opportunities. The PRI welcomes the list of additional relevant guidance provided by the TPT to support issuers in conducting various assessments. As mentioned above, given the interconnected impacts between climate and social risks and opportunities, the PRI suggests that the TPT **also provides further guidance on how social assessments can be conducted** as part of this process, given users' increased interest in and sensitivity to social implications of the transition, particularly as existing practices remain relatively nascent.

Stage 2: Setting ambition Yes, we agree with the content of the interpretative guidance. Specifically, the PRI supports a building block approach in decarbonisation prioritisation based on materiality and emission scopes. Furthermore, **prioritisation should be considered** alongside the place-based impacts of emission reduction activities and placed-based emerging physical risks within specific sectors and geographies, given the acute social and economic impacts of the transition on certain communities, workers, and regions in the real economy.

Stage 3: Developing an action plan Yes, we agree with the content of the interpretative guidance. The PRI agrees with the various components the TPT has recommended to form a holistic action plan, including

(1) the design of a change-management program to enable a whole-of-organisation agreement on responsibilities to deliver on the transition plan;
(2) the consideration of material interdependencies, including financial, social, and environmental/nature sensitivities; and
(3) engagement.

Stage 4: Ensuring accountability for delivery Yes, we agree with the content of the interpretative guidance. PRI signatories identify governance as a core part of an investor's decision to (continue to) invest in markets and entities. The proposed guidelines also enable cyclical reviews so as to strengthen the ambition and delivery of the transition plan after each reporting cycle.

ANNEX 1 – SECTOR METRICS AND TARGETS TABLE

The PRI is grateful to the MRV Track of the UN Net-Zero Asset Owner Alliance for providing this table

Sector[11]	**Required data** **Reported as of current date and forward looking at 5 and 10 years*
Oil and gas[12]	• gCO2(e)/ MJ[13] • Also reporting on methane separately with; gCH4/MJ
Utilities	• tCO2e/MWH [14] [15]
Transportation - aviation	• gCO2e/RTK (separated by long and short haul flights)
Transportation – shipping	• gCO2e/TKM[16]
Transportation – heavy duty	• gCO2e/TKM
Transportation – light duty	• gCO2e/KM (of newly sold fleet of vehicles)
Cement	• tCO2e/tonne of cementitious produced
Steel	• tCO2e/tonne of crude steel[17]
Aluminium	• tCO2e/tonne of aluminium[18]
Agriculture	• tCO2/tonne of agricultural product • CH4/tonne of agricultural product • NO2/tonne of agricultural product
Chemicals	• tCO2e/tonne of chemical product[19]
Construction & building	• CO2e/m2 annum • kWh/m2 annum[20]

[11] Please see Alliance Target Setting Protocol Annex for NACE/GICS/BICS mapping of sector classifications.
[12] It is noted that 2020 was an exceptional year for the O&G and other industries and this particular year should be carefully considered and accounted for if used as a base year for target setting.
[13] Scope 1, 2 and 3 (use of sold product) greenhouse gas emissions from energy products sold externally in units of grams of CO2 equivalent (gCO2e) per mega joule (MJ). "Energy products sold externally" is defined by TPI as the total net calorific energy supply from all fuels including hydrocarbons, biomass and waste, plus energy supplied as electricity generated from fossil fuels, nuclear ore renewables. https://www.transitionpathwayinitiative.org/publications/96.pdf?type=Publication
[14] A "t" indicated metric tonne, not US ton. "CO2e" is used here and is requested by some, while TPI requests "Co2".
[15] Scope 1 of owned gross electricity generation, excluding purchased electricity
[16] Note, Current TPI methodology considers emissions related to marine shipping in international waters only; we note that it would be useful if companies provide an intensity for all shipping activities and then separate ones for shipping activities in international vs coastal vs inland waters.
[17] Where possible reporting separately for primary and secondary.
[18] This should include emissions from alumina and aluminium production, both normalised to a tonne of aluminium.
[19] We note the heterogeneity in the chemical sector and that this may vary by the type of products produced by the company in the sector. We none the less believe this is the necessary starting place.

[20] This should cover 100% of buildings' floor area and include additionally embodied emissions for new buildings / refurbishments (CO2/m2).

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of UK Transition Plans Taskforce further to inform future UK regulations for listed companies and financial firms on disclosing standardised, high-quality transition plans in the UK, setting a “gold standard” for other markets.

Please send any questions or comments to policy@unpri.org.

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