PRI RESPONSE

TRANSITION PLAN TASKFORCE: A SECTOR-NEUTRAL FRAMEWORK FOR PRIVATE SECTOR TRANSITION PLANS

Call for Evidence

July 2022

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

INTRODUCTION

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.

Globally, PRI has over 5,000 asset owner, asset manager and service providers signatories, which combined have over $121 trillion in assets under management. In the UK there are 840 signatories.

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 Transition Plan Taskforce's call for evidence on a Sector-Neutral Framework for private sector transition plans.

ABOUT THIS CALL FOR EVIDENCE

This Call for Evidence provides an early indication of the direction of travel of the Transition Plan Taskforce (TPT), supporting and guiding companies that are currently developing transition plans. It also seeks views on the draft principles used to guide a credible transition plan, and the elements that a Sector-Neutral Framework should include. The TPT's work aims to drive transition plans by setting clear expectations and creating a standard, ensuring that financial institutions and companies prepare rigorous transition plans and back up commitments with credible action.

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KEY RECOMMENDATIONS

The PRI welcomes the Call for Evidence from the UK Transition Plan Taskforce (TPT). Developing time-bound action plans are critical to operationalising company's net-zero target commitments. The Call for Evidence makes a value contribution both in the UK and internationally to the understanding of the concept of transition plans, particularly in terms of offering a definition and identifying the key elements within a transition plan.

The PRI, which has over 840 signatories in the UK and 5,000 signatories worldwide, offer feedback both from a preparer and a user's perspective. Our key recommendations are set out below.

- **A more focused definition of transition plans**: In the PRI's view, the key word here is *plan* and having climate / net-zero targets are a prerequisite to developing this plan. As such, PRI recommends reviewing the definition so that there is a distinction between activities which are related, yet foundational (such as setting targets) and placing greater emphasis on *near term* "actionable steps the organisation plans to take to hit those targets".
- **Integration of Transition Plans into UK climate reporting regulation**: the PRI suggests a two-step process, whereby:
    1. the FCA updates the climate target setting disclosure requirements for in scope companies, aligning requirements to match the target reporting template previously provided the by the London Stock Exchange Group (please see annex 1);
    2. the TPT clarifies, as per the Task Force for Climate-Related Financial Disclosures' (TCFD) updated 2021 guidance, that a transition plan is not a standalone report, but rather provides greater detail on the strategic plan of the company to transition its business activities. The PRI recommends making this connection to the UK disclosure guidance clear in the TPT document.
- **Prioritisation:** with 11 transition plan "elements" and over 50 "sub-elements", the PRI suggests that the TPT provide guidance on prioritisation. Tighter definition and integration into UK TCFD regulation should provide opportunities for greater efficiency. For example:
    - organisations could make governance and target setting disclosures in their relevant sections in a TCFD report and cross-reference as necessary in the "transition plan"; and
    - the PRI notes the transition plan proposals from GFANZ which instead of 11 "elements" has 5 pillars, which offers a more succinct conceptual framework and should be examined for its suitability for adoption in the UK.
- **Consideration of physical risk:** information on how companies should adapt to climate change is increasingly important to investors. The PRI does support enhancing physical risks disclosures, notably on asset location data, business interruption plans as well as anticipated financial impacts. However, this would be outside the scope of a "transition" plan, but could be used in an "adaptation" plan or alternatively addressing both climate transition and physical risk could be done in a "**Climate Action Plan"**.

DETAILED RESPONSE

The latest assessment report from the Intergovernmental Panel on Climate Change (IPCC) explicitly states that "near-term actions that limit global warming to close to 1.5°C degrees would substantially reduce projected losses and damages related to climate change in human systems and ecosystems, compared to higher warming levels."[1] To limit global warming to 1.5°C, we need a systemic, structural transformation for the transition to net zero. There is need for consistent, robust standards and policies to support how businesses frame their approach to the transition and develop their plans accordingly. The combination of proposed principles and prescriptive disclosure elements of the TPT Call for Evidence establishes a sound framework for industry to begin tackling this issue.

As climate science shows, some sectors (such as hard-to-abate sectors, or sectors critical for electrifying the economy) must decarbonise faster than others, requiring credible sector-level decarbonisation pathways.

The PRI considers that the transition plan templates proposed by the TPT should provide the guidance needed on targets and metrics for these priority sectors, to build on the overall sector-neutral framework. Climate transition plans are essential to enable UK companies to pivot towards a 1.5°C-aligned world and remain profitable in a net-zero economy. The Transition Plan Taskforce should take proactive and decisive climate action measures that deliver real economy outcomes aligned with the Paris Agreement and UN Sustainable Development Goals.

[1] IPCC, Climate Change 2022: Impacts, Adaption and Vulnerability, 2022, 15.

RATIONALE AND DEFINITION

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

The PRI broadly agrees with the proposed definition of a transition plan, which covers both targets and commitments, accountability mechanisms (interim reporting), and time-bound actions. Having targets is a prerequisite to developing a plan, and transitioning from commitment/targets to implementation remain key. A credible transition plan should be **actionable, measurable, focused on the near term, based on climate science**, and there should be accountability and appropriate transparency against this plan.[2]

Transition plans should be **used as both a "strategic planning tool" and a "practical action plan**".[3] This sets a strong precedent for accountability, as well as the necessary steps in the journey towards a net-zero economy. However, given that the transition to net-zero is global, the definition of a transition plan should not be static. Rather, transition plans should be proactively reviewed and updated in line with context changes. **As such, the PRI suggests a revision to the Call for Evidence's definition of Transition Plans.**

TPT proposed definition	**The PRI's recommendation**
A transition plan sets out how an organisation will adapt 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****."*	*A transition plan sets out how an organisation will adapt as the world transitions towards a net-zero 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)~~* ***near-term actionable steps the organisation plans to take to meet its climate targets.*** These targets should have long term and interim milestones to mitigate climate risk (e.g. a net-zero commitment with 2025 interim emission reduction target).

[2] GFANZ, *Recommendations and Guidance: Financial Institution Net-Zero Transition Plans*, 2022, v.
[3] GFANZ, *Recommendations and Guidance: Financial Institution Net-Zero Transition Plans*, 2022, 9.

INTERNATIONAL COLLABORATION

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

The PRI maintains that companies and financial institutions should ensure that by setting credible targets and action plans, they not only **work to expand climate solutions, but also deliver on near-term real-world impact with GHG emissions reductions** that are aligned with the rapid near-term emissions reductions needed within the decade.

For financial institutions, the PRI acknowledges that there may be tensions between entity-level and decarbonisation and economy-wide decarbonisation goals. For example, financial institutions selling high-emitting assets to reduce financed emissions in portfolio would not necessarily lead to a decrease in global GHG emissions, as new providers of capital may not have committed to net-zero goals or be net-zero aligned.

To address and avoid such unintended consequences, the PRI suggests that the TPT should clearly stipulate that credible transition plans should be devised through the lens of (1) financed emissions, (2) alignment of financing to net-zero goals, and (3) contribution of financing to global net-zero goals/financing emissions reductions.[4]

The PRI supports GFANZ's four recommended approaches in which the financial sector can support the real-economy net-zero transition, and calls on the TPT to align with these recommendations, including:[5]

(1) financing or enabling the development and scaling of **climate solutions;**
(2) financing or enabling companies that are already aligned to **a 1.5 degrees pathway;**
(3) financing or enabling the transition of real-economy firms according to **transparent and robust net-zero transition plans** in line with 1.5 degrees-aligned sectoral pathways; and
(4) financing or enabling the accelerated managed **phaseout or high-emitting physical assets.**

Question 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?

Overall, the PRI agrees with the general approach that the TPT's outputs will draw on, complement, and inform work on transition plans produced by other organisations and frameworks to avoid duplication and divergence of standards. Coordination is key.

However, the PRI maintains that the TPT should further clarify how a transition plan would be integrated into UK's reporting framework for the Task Force for Climate-Related Financial Disclosures (TCFD). Notably, as the transition plan translates an organisation's commitment and target into a coherent, actionable, and time-bound strategy, it should not be a standalone output. Instead, it should build upon existing reporting frameworks.

[4] SBTi, *Foundations for Science-Based Net-Zero Target Setting the Financial Sector*, April 2022
[5] GFANZ, *Recommendations and Guidance: Financial Institution Net-Zero Transition Plans*, 2022, 6.

Furthermore, the PRI acknowledges that achieving a net zero economy is not solely dependent on financial institutions, but rather action from the entire ecosystem. Investors' net zero commitments are contingent on a **clear and enabling policy framework** that guide and signal the financial sector to not only reduce their financed emissions, but also finance greater emission reductions in the transition. Net zero transition plans should **not be seen as a substitute for effective sectoral policies**, nor should the responsibility and accountability of creating such an enabling policy environment be entirely delegated to the private sector. **Concerted efforts are needed from both public and private sectors for an orderly and equitable transition.**

A SECTOR NEUTRAL FRAMEWORK

Question 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.

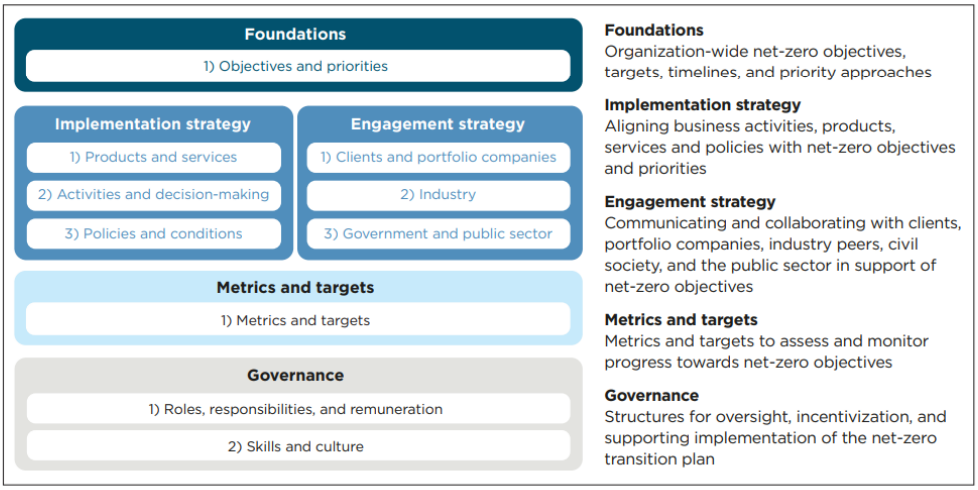
The PRI recommends that transition plan disclosures be integrated into existing annual financial disclosures. As clarified under Question 8, the updated TCFD Guidance on Metrics, Targets, and Transition Plans (October 2021) has highlighted that the transition plan itself should not be a standalone report, but rather one component of its overall strategy that lays out a set of targets and actions supporting its transition toward a low-carbon economy.

Question 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?

And Question 19: Do you agree with the proposed elements? Why or why not?

In striking a balance between a principles-based and prescriptive approach to the Framework, the PRI recognises that on the one hand, various segments of the investment chain would prioritise specific types of information over others (e.g., while metrics and targets will be more useful for a company but less so for investors) and that a principles-based approach can help provide flexibility on meeting distinct needs and on how companies and financial institutions deliver on their action plan. On the other hand, **more clarity and prescriptiveness on the target setting and disclosure template will ensure the usefulness of disclosed plans**. The following five recommendations would help strike such a balance.

First, while the PRI maintains that the emphasis of the transition plan should focus on communicating the actionable plan, PRI still finds it necessary that further clarity is provided around guidance on target setting and disclosure to ensure that information disclosed by companies elicit decision-useful information for investors to determine the credibility and accountability of transition plans. The PRI agrees with the proposed elements in general and support the need for a clear and consistent template for target reporting (as shown on page 16, table b for Target Setting). In this regard, PRI recommends that the TPT seeks for alignment with the new GFANZ recommendations and guidance on financial institutions, which offer a succinct conceptual framework for financial institutions.



GFANZ financial institution net-zero transition plan framework

Furthermore, per the PRI's response to Question 8, if the transition plan is integrated into the UK TCFD reporting framework, opportunities for further efficiencies in reporting would be welcome. For example, organisations can capture governance-related disclosures under the TCFD governance section, rather than issuing separate disclosures for transition plans, as is the case with metrics.

Second, the PRI recommends that the TPT requests for the disclosure of key dependencies to achieving the transition plan. Guidance on transition plans disclosure should include **interim milestones and quantitative KPIs used** (we note that "interim milestones" is mentioned in the TPT's definition of transition plans), as well as key dependencies on people, planet, the economy, and policy.

Third, the PRI recommends that the TPT provide guidance on baseline and leadership practice, as transition plan reporting is still in its infancy and further guidance will be needed, particularly on how companies and financial institutions can get started on reporting. For financial institutions specifically, the PRI recommends referencing the Investor Agenda's Investor Climate Action Plan (ICAPs) framework, which provides a four-tier ladder for investors issuing and implementing comprehensive climate action plans.[6] This tiered approach could be translated to issuing guidance for transition plan disclosures for financial institutions. Similarly, the Transition Pathway Initiative's Management Quality staircase, which also provides a ladder approach, could be replicated for this use.[7] Such a tiered approach could also be applied to companies, though the PRI maintains that further sectoral guidance is needed for companies' disclosure.

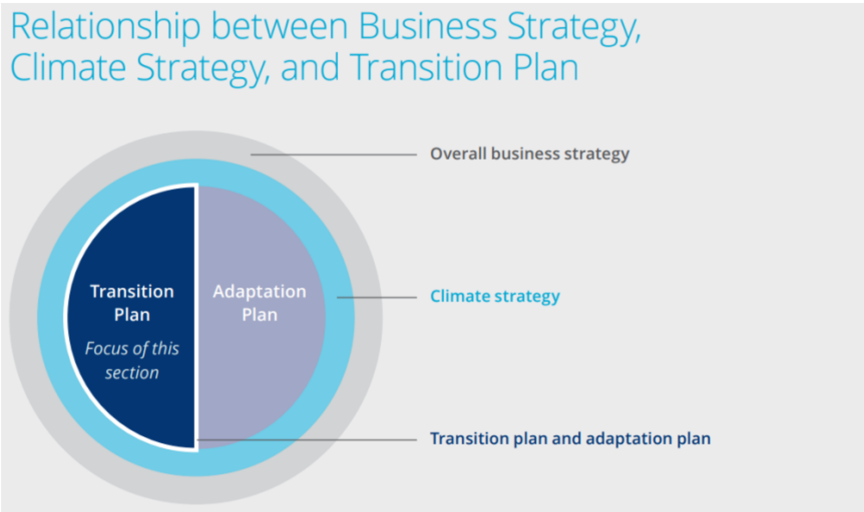
Fourth, the PRI supports the need for greater industry-specific guidance, drawing from the cross-industry metrics proposed in the International Sustainability Standards Board [Exposure Draft IFRS S2 Climate-related Disclosures] that are strongly aligned to those within the TCFD

[6] Please see here for the Investor Agenda Expectation Ladder https://theinvestoragenda.org/wp-content/uploads/2021/05/expectations-ladder.pdf and updated guidance https://theinvestoragenda.org/wp-content/uploads/2021/05/guidance.pdf
[7] Transition Pathway Initiative Management Quality staircase: https://www.transitionpathwayinitiative.org/publications/3.pdf?type=Publication

recommendations. Reporting entities operate in industry-specific contexts; therefore, we recommend that the TPT considers illustrative guidance on industry-metrics aligned with the emerging global standard, which will lead to increased comparability of reporting across entities and time periods.

Fifth, the PRI also recommends the inclusion of an overarching element on just transition in creating the framework for transition plan disclosures. The transition to net zero will affect many aspects of the economy and society, and the PRI supports the development and implementation of transition plans that are **consistent with the Paris Agreement, deliver impact on the real economy, and align with the UN Sustainable Development Goals**. The PRI acknowledges that what constitutes a just transition depends heavily on contextual considerations such as the location (e.g. remote or frontline communities), the role (e.g. affected communities, workers, or users of products/services being phased out), the type of climate solution, and the sector of occupation (e.g. fossil-fuel sector workers requiring substantial re-skilling or up-skilling). While this variability prevents the creation of a single, standard definition of a just transition, principles-based guidance on "do no significant harm" can serve as a starting point.

Importantly, as per the TCFD's updated guidance on metrics, targets and transition plans**, the PRI argues that a transition plan is not a tool for addressing physical risks**, and organisations can disclose plans to address, manage, and reduce the impact of physical risks within the organisation's disclosure on strategy, risk management, or target sections. They could also be part of an "adaptation plan" so as to retain the focus of a "transition plan". This is particularly the case given that that adaptation measures are inherently context dependent. Alternatively, addressing transition and physical risk could be combined in a **"Climate Action Plan**".



Source: TCFD Guidance on Metrics, Targets, and Transition Plans (October 2021) [8]

[8] Source: TCFD Guidance on Metrics, Targets, and Transition Plans (October 2021): https://www.transitionpathwayinitiative.org/publications/3.pdf?type=Publication

The PRI does, however, support enhanced physical risk disclosures. Notably:

- **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](#) (see page 464); and
  - assets in areas that are subject to wildfire risk, as the intensity and frequency of wildfires continue to increase;[9]
- **how physical climate risk is assessed** and considered in company's business interruption plans;
- current and predicted **financial losses** from extreme weather events; and
- anticipated **future financial impacts** based on the results of physical risk-focused scenario analyses.

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

Yes, the PRI broadly agrees with the proposed principles. They touch on the requirement for a time-bound action plan that outlines how the organisation will **pivot its existing assets, operations, and entire business model towards a trajectory that is aligned with a fixed, defined target**, such as the Paris Agreement. The PRI also welcomes that the proposed principles broadly align with the TCFD's guidance on information necessary for effective transition plans.

However, for investors, the value of companies' transition plan disclosures lies **not only in the high-level targets** the organisation is using to mitigate climate risk, including greenhouse gas targets (e.g., a net zero commitment), but more importantly in the **interim milestones and actionable steps** the organization plans to hit those targets, as referenced in Question 1. As such, PRI would particularly emphasise the necessity of principles 2 and 3, as they ensure transparency and accountability in delineating an organisation's progress in the transition at one point in time, and the direction towards which it is advancing in achieving its net zero target.

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 Transition Plans Taskforce further to develop a framework and benchmark that helps financial institutions and companies prepare rigorous transition plans in the UK.

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

More information on www.unpri.org

[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.

ANNEX 1
TARGET SETTING TEMPLATE

GHG target disclosure template		
Target ID		
Overall number of active GHG emissions targets:		Include interim targets in the count
Target number:		
Target type:		Indicate whether this is aboslute or relative
Date the target was set:		
Target Information		
Scope(s) covered		For scope 2 emissions, indicate if calculations are location- or market-based. For scope 3 emissions, indicate the GHG protocol categories that are covered.
Organisational boundary		Describe the accounting boundary (e.g. operational/equity) on which the target is set. This should be consistent with its historical emissions and production/sales disclosures. Note additional exclusions if any (e.g. regional basis).
Percentage of in-scope emissions covered by the target :		
Base year:	Base year emissions:	For intensity targets, provide activity measure (e.g. tCO2e/Mwh or tCO2e/tonne of cementitious product)
Target year:	Target year projected emissions:	
Targeted reduction from base year (%)		
Targeted reduction from current year (%)	Current emissions:	Please indicate the most current year for which emissions data is available.
Target Methodology		
Verified by a independent third party?		If yes, please indicate the name of the independent third party that verified the target
Name of the reference scenario used		
Source describing how the percentage of in-scope emissions covered by the target has been calculated		Please indicate the title(s) of publicly available documents and relevant page numbers where information can be found.
Source describing transition plan outlining how this target will be met.		Please indicate the title(s) of publicly available documents and relevant page numbers where information can be found.
For Scope 3 targets, source describing the methodology used to calculate the Scope 3 emissions covered by the target.		
Indicate the % of the target to be achieved through offsets and provide a source specifying their type and the offset provider.		
For intensity targets, source describing the methodology used to calculate the carbon intensity.		

Source : FTSE Russell *Towards investor-oriented carbon targets data*[10]

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[10] FTSE Russell *Towards investor-oriented carbon targets data*