THE
INVESTMENT
ASSOCIATION

Response to consultation

Transition Plan Taskforce – Disclosure Framework and implementation guidance – 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 £10 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 46% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally.

Executive summary

As a member of the Transition Plan Taskforce (TPT) Delivery Group, the IA and its members have supported the UK's efforts to accelerate the transition towards net zero by creating a sector-neutral framework for transition plans. This will help companies to publish high-quality and robust plans which not only create transparency and accountability for companies in meeting their own net-zero targets but will also enable investors to make more informed capital allocation decisions.

Asset managers are typically both users of climate and sustainability-related data (which inform investment and stewardship decisions but are used for disclosures made to their clients), and are also responsible for making disclosures to their own shareholders and wider stakeholders. As a result of this, the asset management industry will need to understand how companies plan to adapt and transition to a low-carbon economy, including through assessing transition risks and opportunities of investee companies that may impact long-term shareholder value. This largely relies on the provision of high quality, comparable and timely disclosures that are investor focused.

Transition plans will be important for asset managers, currently they draw upon existing disclosure frameworks (such as TCFD). Investors have built proprietary systems which allow for greater comparability and consistency of company performance as investors take capital allocation and stewardship decisions, in order to protect and enhance long-term shareholder value. Such disclosures will allow investment managers to provide the necessary rigour and challenge to investee companies, through their stewardship role, as companies transition to more sustainable business models.

While our members are generally supportive of the TPT's efforts to accommodate the views put forward as part of the Call for Evidence, we believe that the Framework could be further refined in the following areas:

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Focus on Financial Materiality:

We recognise that the TPT is aiming to be "Gold Standard" for transition plans that can serve the needs of and be referenced as part of international, regional and national corporate sustainability reporting standards (including the ISSB). As such, further consideration should be given to how proportionate implementation of the disclosure requirements will be made for smaller companies and sectors where climate transition is a less material risk. Given that several the requirements put forward in the Framework go beyond TCFD, issuers should focus their disclosures on those requirements which are most material to their business model, and the impact that transition related risks and opportunities will likely have on the company. As a result, we support the sandboxing exercise in providing corporates with early exposure to these new requirements. Importantly, this will also provide corporates with an opportunity to refine the Framework.

Location of the Transition Plan:

Some of our members are not supportive of publishing the transition plan in a standalone format. While we recognise the forward-looking nature of the transition plan, the new disclosures will complement existing disclosures and should build upon rather than be separate from these. IA members believe that these existing reporting requirements should be enhanced so that sustainability-related reporting is better integrated rather than siloed in different component reports. It is important that we do not lose the strategic narrative that companies are trying to provide and investors need.

Disclosure of Intensity and Absolute Emissions to enable Economy Wide and Entity-level Decarbonisation:

Investors recognise that the journey to net zero is not linear and as a result disclosure of both absolute and relative intensity measures of emissions are required to allow for the assessment of like for like reduction of carbon emissions across the existing asset base. For example, a company that provides goods or services at a lower emissions intensity can reduce absolute, economy-wide emissions by winning market share from higher emissions-intensity competitors even as the emissions of the entity in question may increase in order to expand production. In addition, due to the nature of production processes, some companies involved in the production of products required for the transition (eg renewables or critical materials) will themselves have relatively high emissions that are likely to grow as the transition progresses.

Both of these examples will be important contributors to achieving the wider economy target but also recognise the structural changes that companies will have to make to their business model and strategy to enable entity level decarbonisation. We welcome the progress that the Framework has made in mitigating the tension between both. Instead of being given a choice, investors would value corporate disclosures on both intensity and absolute measures as this will help to understand the projected profile of company emissions over time (over the short, medium and long-term), and how the entity's strategy and business model support that trajectory and promote resilience in a range of plausible scenarios.

Responses to questions

1a. In both the TPT Framework and the Implementation Guidance, we recommend that entities:

a) Publish a standalone transition plan,

Please explain your selection for a, including by providing relevant information on the drawbacks and benefits of using a standalone plan.

IA members believe it is important that the TPT should provide issuers with some flexibility on where they locate their transition plan disclosures. While we note that the TPT suggests that the transition plan should be published on a standalone basis, investors note that there are currently a number of stand-alone reports (e.g. the company's sustainability, climate reports or TCFD report) which could be better integrated. As such, issuers should be encouraged to integrate overlapping disclosures into a single report. Not only would this ease the reporting burden for corporates, but a number of different standalone reports also become difficult for investors to navigate which can cause users to lose the strategic narrative that the company may be trying to articulate. This in turn makes it difficult for investors to make fully informed capital allocation and stewardship decisions.

Most businesses have integrated financially material elements of their TCFD reporting into their annual reports in summary form, as these form part of the strategic narrative this document should carry. Our members recognise that many companies globally will undertake TCFD reporting, and that for the purposes of better integration of existing reporting requirements, it would make sense to build on existing TCFD disclosures so that they incorporate forward and backwards looking elements as well as the transitional elements.

The TPT recognises that any material information relating to the transition plan should already feature as part of a company's TCFD reporting, however this is unlikely to capture the forward-looking nature of the transition plan. As such, a summary of the transition plan could also be provided within the annual report with companies setting out information that would be materially most useful to users. We would recommend that such a summary includes:

(i) how companies set out their short, medium and long-term metrics and targets,

(ii) how these targets are being met and

(iii) the impact of the transition plan on the company's business model and strategy.

Members have noted the danger of existing sustainability reporting being undertaken by disparate teams and functions within organisations, leading to reporting which is siloed and does not effectively communicate a coherent strategic narrative. To prevent this, our preference would be for a fuller version of the transition plan to be better integrated into existing standalone reporting on sustainability. This should be accompanied by a statement that the plan has been approved by the Board of Directors and confirmation of the level and rationale for the assurance the plan has been subject to. We recognise however, that given the forward-looking nature of transition plans, there are still questions around what can effectively be assured on sustainability issues.

While members have expressed support for a summary of the transition plan within the annual report, we recognise that it may not be practicable to integrate the full transition plan into the Annual Report. There are practical difficulties with data collection and reporting on transition plans which does not neatly align with financial reporting cycles at present. As a solution, giving companies adequate time, (eg 120 days) after their fiscal year end to collect and analyse data would still enable companies to produce high quality disclosures that can be utilised by investors ahead of the Annual General Meeting (for example to inform proxy voting decisions).

1b. Update the standalone transition plan at least every three years.

Please explain your selection, including by providing relevant information on the drawbacks and benefits of using a standalone plan that is periodically updated.

As noted in response to the previous question, publication of a standalone transition plan is not our members initial preference. However, a transition plan updated at least every three years, with annual progress reports strikes a good balance. It is important that it is updated to reflect material changes to the plan when needed as this will be critical information for investors when making capital allocation decisions in response to climate risk and impacts, potential and actual, on long-term enterprise value.

We note the benefits of electronic tagging as set out in the interpretive guidance. Cross-referencing to relevant information found elsewhere in the annual report would also be useful to investors in accessing information in an efficient manner. This could be facilitated by electronic tagging, like XBRL, which will enable machine readable, easily comparable disclosures. To the extent that disclosures mirror those of the ISSB and TCFD, electronic tagging and other processes can be made interoperable, broadening their utility for transition plan users.

1c. Report progress against the plan and all other material content, consistent with corporate reporting norms, as part of annual TCFD- or ISSB-aligned disclosures.

Please explain your selection for c, including by providing relevant information on the drawbacks and benefits of accessing transition plan related information in general purpose financial reporting.

We agree with housing disclosures on progress against the transition plan as part of TCFD or ISSB-aligned disclosures. Alignment with TCFD/ISSB will promote consistency and comparability, and importantly enable standardisation in corporate disclosures, which for investors is critically important when considering capital allocation. The TCFD framework in particular has garnered widespread attention and adoption because of its relative simplicity and consistency, and we welcome the mapping exercise as part of the TPT framework which seeks to closely align with TCFD. We further support the centrality of enterprise value and financial materiality to these frameworks as these are critical elements of investor analysis and decision making.

Footnote 18 in the Implementation Guidance refers to the ISSB's review of the definition of materiality and removal of 'enterprise value'. We strongly support the continued focus on financial materiality. We acknowledge the ISSB's concern about the accessibility of the term enterprise value, with a number of the respondents to the ISSB's consultation querying whether the term is sufficiently well understood to be consistently applied in the context of sustainability-related disclosures. To the extent the TPT Framework explicitly mirrors the ISSB's frameworks, we would expect a continued focus on financial materiality and in turn for issues impacting this within the transition plan to be disclosed as part of the broader general purpose financial reporting. Given the legal underpinning of achieving net zero by 2050 in the UK and the fact that UK listed businesses will be operating in jurisdictions that have set their own net-zero targets, the transition will be increasingly financially material for entities.

As global investment firms, a number of our members support that the TPT will be a standard that is likely to be referenced internationally and will align with other general purpose financial reporting frameworks that are in the process of being adopted internationally (eg TCFD/ISSB). However, as part of its next phase of work, we believe that the TPT should consider the following if the standard is to be successfully adopted internationally:

- Roadmap for Disclosure: The TPT should seek to influence the UK Government to set out a clear roadmap for TPT implementation by Listed and Private companies in a similar fashion to TCFD disclosures so that there is sufficient lead time for implementation. In particular, this will be necessary where firms are seeking to secure senior strategic commitments, resources and budgets to facilitate the transition.
- Greater Reference to Nature: A well-rounded approach to transition planning should also extend to nature-related risks and opportunities. The IA's 2023 Shareholder Priorities note that this is an emerging risk which investors are increasingly seeking to manage, recognising that both climate and biodiversity are strongly interlined and that tackling both will be essential to achieving net-zero emissions. While we recognise that the TPT's initial focus has been on climate, as part of its next phase of work the TPT should also consider transition-related biodiversity loss.
- Liability Risks: There are some jurisdictions where liability attached to the disclosure of forward-looking information is likely to discourage disclosures on transition-related risks and opportunities. The TPT should seek to influence those jurisdictions to ensure that liability regimes are reflective of the evolving nature of the climate transition.
- External Assurance and Verification: For some sectors (eg financial services) there is still a lack of consensus of reporting on indirect and financed emissions, which is likely to make assurance more difficult to obtain in the short-term. The TPT may want to consider phasing in assurance requirements for different sectors.

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?

Please note that there will be a chance to provide feedback on the disclosure recommendations for individual sub-elements.

Yes, I agree with the overall framework.

In the TPT Disclosure Framework we provide disclosure recommendations aimed to assist entities to disclose credible, useful, and consistent transition plans.

Please assess and explain the extent to which you expect disclosures in line with our recommendations to be useful for informing your decisions:
1. Foundations
1.1 Objectives and Priorities

We broadly agree with the need for a company to describe the strategic ambition of its transition plan, preparing for the global transition towards a low GHG-emissions economy, protecting and enhancing long-term shareholder value.

As part of this we support that the entity should include interim and long-term targets to reduce GHG emissions over time, across Scopes 1, 2 and for any material Scope 3 categories. We note that the Framework places an emphasis on disclosing whether entities have excluded any relevant scopes or categories of emissions from its GHG reduction targets, and the steps they intend to take to enable target setting for the relevant scopes or targets.

The ISSB recently announced they are working towards mandatory Scope 3 emission disclosures and the standards they are developing will help entities close the gap. In practice, however, we recognise that there are still difficulties in disclosing Scope 3 emissions fully including the degree of control and influence a company has over such emissions (such as the lack of direct control by companies over the data), the use of estimates and calculation methodologies, and the difficulties in establishing accurate and reliable Scope 3 data. Some members note that the purpose of Scope 3 disclosures should not be to push companies into the role of enforcing emissions targets that are outside of their direct control. To this end, we welcome that there is flexibility for companies to state their reasons for omitting disclosure against some scopes.

Ideally, members note that companies should be considering how to disclosure Scope 3 emissions, focusing initially on their largest sources of emissions, as this will help to attribute the real word impact of emissions reduction within portfolio companies to clients. Where companies are disclosing Scope 3 categories, these should be aligned with the disclosure emissions estimates for any of the fifteen Scope 3 categories as set out under the GHG Protocol. If none of these categories are material to a company, or if they are not yet capable of estimating their Scope 3 emissions, as per the TPT's suggests they should be able to set out why they have omitted disclosure.

As a company seeks to deliver on its transition plan, it is important that it has regard to the three channels set out in the interpretive guidance: i) contributing to an economy-wide transition, ii) responding to material climate risks and opportunities and iii) decarbonising the entity are formulated in a way that best promotes boards and management to identify and pursue synergies between the success and growth of the company and economy-wide decarbonisation. We believe that these channels strike the right balance and companies should recognise and disclose both the interdependencies and trade-offs between them and the varying delivery timeframes. From an investor perspective, the most credible transition plans will be those which not only articulate the company's high-level ambitions, but also align with their short, medium and long-term actions including capital allocation decisions, governance and accountability mechanisms.

Please explain your selection to 1.2 Business Model Implications:

IA members strongly support this element and its inclusion in the first chapter, following objectives and priorities. We believe this reflects the core purpose of transition plans, which is 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. This must include how the company will remain a viable business through the transition and whether its business strategy is aligned with a 1.5% scenario.

This will allow investors to incorporate the information within transition plans into their investment processes, enabling investment managers to make capital allocation decisions aligned with the climate transition and provide the necessary support and challenge through exercising effective stewardship over investee companies' transition to more sustainable business models.

We agree that the most relevant disclosures should relate to implications for products and services, high level implications for resource allocation, operational and capital expenditure and the time frame over which key decisions will be taken. We further agree that an entity should disclose an assessment of its material interdependencies including risks to and opportunities for the natural environment and stakeholders (including the workforce, customers and suppliers). Investors are increasingly interested in how a company treats its wider stakeholders and will expect that this remains a key focus for corporates to facilitate a just transition.

2. Implementation Strategy

Please explain your selection to 2.1 Business planning and operations:

Entities will be required to disclose the short-term, medium and long-term actions that the entity will take to deliver on its strategic ambition in its transition plan. Short term actions are defined as those that will take place within the next three years. This is right as it aligns with the publication cycle for transition plans. Definitions or further clarity on 'medium' and 'long' term could bring greater consistency and comparability for preparers and users of transition plans. It may also stimulate thinking about vulnerabilities, including how governance and assurance operates over the medium term, which we have highlighted as a risk in our answer to 4.1. Governance below.

Investors will be keen for companies to align their reporting against the transition plan on its short, medium and long-term actions with the forthcoming BEIS corporate reporting requirements on the Resilience statement which will require entities to set out how the company is managing material risks over the short, medium and long term. It is important to note that projecting actions over the medium and long-term are more challenging than over the short-term and will require greater estimations, assumptions and revisions over time.

Please explain your selection to 2.2 Products and Services:

We welcome that the Framework asks for disclosure on changes to the entity's portfolio of products and services to support its objectives, priorities and interim milestones. However, we believe it should go further to encompass the real-world impact of lower-GHG products and services. It is important that the Framework considers the wider role an entity's products and services can play in support of economy-wide transition to net zero beyond simply lowering absolute GHG emissions at the entity level. Viewed primarily as an exercise in decarbonising the entity, organisations may prioritise efforts to reduce their absolute emissions over expanding production of products and services which, if they are less energy-intensive to produce or use than competitors' products and services, or are required to enable decarbonisation more broadly, may reduce emissions in the wider economy.

There are familiar challenges in accurately quantifying the effectiveness of an entity's transition plan towards achieving its stated objectives and priorities, no less when viewed through an emissions lens. We recognise that there may be trade-offs involved as entities change their portfolio of products and services (e.g. investing in the production of low carbon products that may increase emissions in the short-term but lead to greater availability of low-carbon alternatives in the long-term and therefore greater mitigation efforts). Our members believe that this is not adequately reflected in the current Framework and that there needs to be a greater focus on accommodating disclosure related to relativity and growth over both the short and medium term.

This would help companies and their stakeholders to identify areas where growing the business, such as plans to increase the portfolio of low-carbon products, and reducing emissions at the sector/economy level are aligned. Sector-specific guidance can help entities understand the contribution their growth can make to lower emissions at the sector level.

Given the global nature of firms, some members argue that there could be better alignment with other sustainability reporting requirements such as EFRAG's draft European Sustainability Reporting Standards. For example, the TPT could consider "further qualitative assessment of the potential locked-in GHG emissions from an undertaking's key assets and products. This should include an explanation of it and how these emissions may jeopardise achievement of the undertaking's GHG emissions reduction targets and drive towards transition risk".

Please explain your selection to 2.3 Policies and Conditions:

The Framework notes that across all sectors, entities may establish internal policies that drive decisions and actions to align with their strategic ambitions and stated objectives and priorities. The varied examples given of transition policies and policy areas in 2.3 are broadly appropriate; on energy usage, deforestation, climate-related requirements for suppliers etc; and help to demonstrate the range of topics that may be considered relevant to the effective delivery of the transition plan. However, a better starting place may be to disclose the policy framework and architecture that sits above policy areas that are individually varied and distinct. This should include an articulation of the broader internal policy strategy as it relates to the entity's strategic ambition, and how policies in different areas of the organisation will compliment and reinforce one another and any trade-offs where appropriate. We further agree that it should set out any interdependencies (e.g. the significant risks to or opportunities for broader stakeholders).

Bringing policies together under a single framework also helps by providing a structure to enable broad engagement, innovation and internal accountability directed towards the company's climate goals and ensures that the relevant checks and balances are in place as management use the policies to guide business, financial and operational planning.

Please explain your selection to 2.4 Financial Planning:

We agree that firms should be required to 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 (where these are not commercially sensitive). IA members support alignment with TCFD and ISSB S1 in terms of ensuring that these impacts have been integrated into general purpose financial reporting. This will avoid duplication and aid investor comparisons both between firms and within firms in ensuring consistency between financial disclosures relating to the transition plan and the company accounts as a whole, including the viability of the business through changing conditions. Developing this further, we support the TPT's recommendation that where companies disaggregate financial statements into operating segments, the company should try to mirror this structure for the transition plan as this will further aid investor comparisons.

We agree that disclosure of assumptions should be included within financial reporting, provided they are supported by quantification (such as whether estimates have a significant risk of material adjustment to the carrying amounts of assets and liabilities in the next financial year). In addition, investors recognise that sources of estimation may vary from year to year and would encourage companies to set out whether disclosures made in previous years need to be revised to provide the most decision useful information to users of accounts.

In terms of the expected impacts of the transition plan on financial performance, investors would expect that companies disclose financially material assets of interest within this structure, in particular any individual assets that are high-emitting, hard to mitigate and/or at risk of becoming stranded assets in the transition. Asset valuations and the potential lifespan of assets may change as a consequence of delivering on the transition plan, which could have an impact on future operating profits. This information is pertinent to investors' analysis of the future prospects of individual firms.

Please explain your selection to 2.5 Sensitivity Analysis:

Sensitivity analysis refers to the key assumptions and dependencies underlying the entity's business, operational and financial plans and whether meeting these can help achieve the strategic ambition in the transition plan. We agree that users of the transition plan should be able to clearly identify the

assumptions, make a judgment on whether they are realistic and understand the impact that not achieving the assumptions may have on the plan. This is important in assessing the resilience, particularly financial resilience, to various contingencies. Investors will not, in the main, require disclosure of the sensitivity analysis as a whole, but are keen to understand how the outputs of the analysis have informed future financial planning and how this will impact on the company's business model and strategy.

Investors want to understand the assumptions underpinning the company's financial plans (for example, they want to know whether entities have set out an internal carbon price or the life cycle of their assets) as this can help to map across and inform scenario analysis. However, members stress that this information needs to be better accounted for within the financial accounts.

We broadly agree that while key assumptions may vary across different sectors, some common themes may include:

(i) policy and regulatory change;

(ii) technological developments;

(iii) the physical impacts of changing climate; and

(iv)shifts in client and consumer demand.

To the extent that sensitivity analysis also involves forecasts and estimates, it may be the case that directors require safe harbour provisions to shield them from liability (in the same way as suggested for scenario analysis under ISSB S2). To allow for more informative disclosures, the TPT may consider whether some form of safe harbour is appropriate.

3. Engagement Strategy

Please explain your selection to 3.1 Engagement with value chain:

We agree that companies should disclose their current and planned engagement activities with companies and customers in the entity's value chain or portfolio to influence changes aligned with the entity's strategic ambition and stated objectives. Value chain engagement can in principle make it easier for companies to develop new technology, collaborate with peers and stakeholders, share costs and execute projects that improve efficiency.

In practice, engagement by companies with their value chains is an area in which companies can use their leverage to encourage suppliers to take particular actions that it is hoped will ultimately lower suppliers' emissions and in so doing directly lower the Scope 3 emissions of the entity. If this engagement does not meet the success thresholds set by the entity in question, companies may choose to sever their relationship with suppliers or switch to alternative suppliers. Where companies have taken action to alter their procurement processes this should be clearly disclosed.

Furthermore, as we noted in the CfE, directors have a duty under Company law to report on their engagement with their material stakeholders. Companies should be providing summaries of their engagement as part of 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. As part of their disclosures companies should make clear that there is a level of interaction between general governance disclosures and those that also cover delivery of the transition plan.

Please explain your selection to 3.2 Engagement with Industry:

Companies in all sectors are members of professional associations for a wide range of reasons – from business networking, the development of professional standards, information-sharing and staying abreast of policy and industry developments, or even regulatory requirements. In many jurisdictions there is an expectation that firms join the relevant professional body in that country.

IA members agree with the expected disclosures on current and planned engagement within the entity's industry including engagements with peers and trade organisations in support of the transition. While we would expect that companies are able to articulate their role within relevant trade bodies (for example, contributing to or influencing policy or regulatory developments) a more targeted definition of the types of engagement activities might be helpful to elicit the most useful disclosures. This drafting should focus on the risk that some industries and actors within them may engage in ways that can hinder rather than help progress the transition, for instance by lobbying against climate laws and regulations and stricter emissions pricing regimes.

Where companies have chosen to engage with voluntary industry initiatives, they should clearly set out the disclosures they must provide as a condition of signing up to a particular initiative. These initiatives can serve a dual purpose, for example, the Climate Action 100+ can help investors in their engagements with companies by: (i) helping monitor company progress against their net-zero targets; (ii) helping to inform the approach that investors take on their voting decisions; and (iii) helping investors to assess alignment between companies' stated decarbonisation ambitions and their planned or actual decarbonisation investment and activities.

Please explain your selection to 3.3 Engagement with government, public sector and civil society:

We agree with this disclosure requirement, covering both direct and indirect climate-related policy engagements. This disclosure requirement is closely linked to 3.2, and as companies set out their roles within relevant trade associations, an extension of this would also be to disclose on any climate-related advocacy position delivered through trade associations or directly. Transparency on policy positions is important for companies' credibility and reputation. However, a wide variety of activities could potentially be included under this section. A more targeted definition of the activities to be reported would therefore help ensure that disclosures are useful, without removing normal and constructive engagement with public authorities.

The IA also notes the link to the Global Standard on Responsible Corporate Climate Lobbying, which incorporates advice for the asset management industry on how to support investee companies with climate lobbying. In addition to asking preparers for an explanation of how engagements are aligned with the transition plan's objectives and priorities, an explicit mention of the outcomes of these engagements. This mirrors for corporates the stance adopted by investor signatories to the Stewardship Code (principle 4), to identify and respond to market-wide and systemic risks, including climate change. In the context of this disclosure, this means disclosing the extent of the entity's contribution to adopted legislation or regulation, for example, the purpose of which is to advance the climate transition.

4. Metrics and Targets

Please explain your selection to 4.1 Governance, business and operational metrics and targets:

The Framework notes that entities should disclose the governance, business and operational metrics and targets that the entity is using to set its ambition and monitor progress against the transition plan. This will help investors to understand 'how' decarbonisation happens as well as avoid unintentional consequences by focussing on real economy decarbonisation. While it is right that the framework should not be seeking

to prescribe a set of metrics or targets, as a starting point investors would expect companies to use those which are most material to their business model and strategy. Scenario analysis and mapping, for example, is an exercise that most companies will need to undertake in order to understand resilience to transition risks. Some members would welcome off-the-shelf solutions for climate scenarios and in particular guidance on how companies can seek to integrate these into their targets and metrics.

We broadly agree with the list of considerations that a company should consider with setting out its targets. As we have noted above, investors' preference is for companies to set out disclosure of both absolute and relative intensity measures of to allow for the assessment of like for like reduction of carbon emissions across the existing asset base. For example, a company that provides goods or services at a lower emissions intensity can reduce absolute, economy-wide emissions by winning market share from higher emissions-intensity competitors even as the emissions of the entity in question may increase in order to expand production. Given these will be at a lower carbon intensity, it will be a benefit to the wider economy target. Investors are therefore keen to understand the projected profile of emissions over time (both the short-and long-term) and how the entity's strategy and business model support that trajectory and promote resilience in a range of plausible scenarios.

The main issue we consider with target setting is with the disclosure of interim targets (which the Framework defines are 5-10 years from when the target is set). IA members have observed that boards and auditors are familiar with how to assess the near-term finances (12-18 months ahead) and longer-term company strategies, but many will lack the skills and knowledge to hold management to account in respect of the 5-10 year timeframe over which many substantial organisational and environmental changes will materialise. The Framework should therefore stress the importance of developing board and auditor competence accordingly to continue to provide appropriate oversight and assurance over companies' transition plans.

While accounting standard setters may evolve their standards to take account of forward-looking assessments, in the interim assurance over forward-looking data (particularly the time-scales over which climate-related risks will manifest) is still nascent and to this end the role of internal auditors will be pivotal in providing a first line of defence. Investors will also require auditors to ensure consistency between what has been reported in the accounts (on transition risk) and whether this is adequately reflected in the front end of the annual report.

Please explain your selection to 4.2. Financial metrics and targets:

We think it's right that the TPT Framework builds on TCFD to make the link between financial metrics and targets and their necessary bearing on the transition plan and wider set of associated transition related targets and metrics.

The Framework asks entities to disclose whether they are using an absolute or an intensity target. Some members have noted that the Framework over emphasises net zero goals and absolute emissions targets, and instead needs to take account of targets that reflect both absolute and intensity elements in order for investors to be able to assess like for like reductions of carbon emissions across their existing asset base. As such, members believe that there needs to be a greater focus within the Framework on encouraging entities to disclose on both types of metrics.

As such, the 'decarbonisation' channel as expressed in the guidance could perhaps make clear that where companies are choosing to focus on absolute or intensity targets, this is reflected in their approach to interim or long-term targets across different scopes, and that companies provide an explanation as to why they have chosen to focus on one type of target over the other and are consistent in their approach to disclosure. This is particularly important as investors note that companies will not always pick the most appropriate metrics to their situation, and that there are instances where companies subsequently change their metrics which, as well as requiring a restatement, makes it more difficult for investors to build up a

picture of how companies are delivering against the metrics over time. We agree overall that this 'channel' will help facilitate assessments by boards, auditors, investors and other stakeholders of progress against the company's transition plan and whether the company's financial position is attuned to the continuing and future needs of the transition plan.

For investors the lack of comparability and consistency in metrics is one of the key issues with the current state of climate disclosures, and the lack of consistency and transparency of methodologies used greatly undermines the extent to which disclosures can be incorporated into the investment process. To this end, we think it is right that entities annually report their GHG emissions across all 3 scopes in accordance with the GHG Protocol's Corporate Accounting and Reporting Standard and the GHG Corporate Value Chain (Scope 3) standard, as indicated in the implementation guidance. As noted above, where none of the fifteen categories are material, of if the company is not yet able to estimate their Scope 3 emissions, they should be able to explain why they have omitted disclosure. Investors are supportive of this as it builds on ISSB standards, helping to progress towards industry consensus on standardised measurements of the most fundamental climate metric: the company's emissions, and it also helps companies to disclose their Scope 1,2 and 3 targets in absolute emissions.

We note the inherent challenges with estimated data that pose a general risk to business planning and investor assessments and decisions, given the uncertainty and risks posed by forecasts. This is likely to decrease over the medium to long term. However, some members have noted that even where corporate disclosures exist, they will still use estimated data in the event that disclosures have not been externally verified. This allows for completeness and enhances comparability.

Please explain your selection to 4.3 GHG Emissions Metrics and Targets;

This disclosure recommendation states that entities disclose the GHG metrics and targets that are used by the entity to assess progress towards its strategic ambition or stated objectives and priorities. As set out in our response to the CfE, we do not think that the TPT should be overly prescriptive in a sector-neutral framework on the metrics used, but companies should clearly be setting out their rationale as to why they have chosen a certain metric and importantly providing transparency over the methodologies used in the calculation of the financial metrics.

The TPT Framework suggests some metrics that companies may choose to use. Generally, our members do not believe in prescribing specific metrics at this stage of the Framework, instead companies should set out which metrics they have used and how these will be helpful to investors. Our members have noted a few specific issues with existing GHG metrics and targets that companies are currently using and disclosing on:

Scope 3: As noted above, we recognise the difficulties disclosing Scope 3 emissions fully including the entity's degree of control over them, the use of estimates and calculation methodologies and the difficulties in establishing accurate and reliable Scope 3 data. Pending the ISSB standards, members note that companies should ideally be considering how to disclose on the largest sources of emissions first (typically material Scope 3 emissions which are aligned with the GHG Protocol) as this helps to attribute the real-world impact of emissions reductions within portfolio companies to clients. Therefore, it is imperative that companies are setting out their plans on how they intend to enable future target setting.

Weighted Average Carbon Intensity: we note that the TPT has suggested that entities disclose on metrics like the Weighted Average Carbon Intensity to enable users of accounts to better judge and assess the emissions profile of the entity and judge the accuracy and reliability of the reported emissions data. We note that WACI was initially endorsed by the TCFD in 2017. However, while WACI measures can be used in hybrid portfolios (i.e public and private market instruments) making public and private companies more easily comparable, this is not the case for enterprise value linked instruments.

Financed Emissions by asset class: We recognise that financial companies and their shareholders may face risks associated with financed emissions. Where financial companies finance or invest in companies that generate emissions, this could lead to a risk to returns on those investments, e.g. from a tighter regulatory and fiscal environment for company emissions. We recognise that reporting on financed emissions is still relatively uncommon which in part is a result of difficulties at the portfolio company level where companies may not have enough usable emissions information for reporting, or information may be incomplete or estimated. Some of our members disclose the Weighted Average Carbon Intensity (WACI) of their portfolios which helps to determine an issuers potential exposure to transition risks. Meanwhile, others use Enterprise Value Including Cash (EVIC) as recommended under PCAF, which provides a harmonised way of attributing emissions across a broader range of financial actors, but some members note that EVIC has reduced their capacity to access information and aggregate, particularly for fixed income portfolios. Nonetheless, we believe that disclosure of the methodology used to calculate financed emissions could provide better comparability across entities—particularly where methodological approaches differ.

As we said in our response to the ISSB S2, we recognise that the PCAF standard has helped to advance disclosures on financed emissions but there are still issues within its methodology that require refinement—including the fact that the standard is not yet complete in terms of asset class coverage (for example, there are still methodological challenges with regards to "Embodied Emissions" within Real Estate investment). This limits the capacity for disclosure as there is less pressure to disclose information within some markets (such as private markets), and aggregation (private and public market instruments). As a result, we think it is right that disclosures on financed emissions are not mandated at this stage under the Framework.

Please explain your selection to 4.4 Carbon Credits:

We agree that entities should disclose information about the use of carbon offsets. For those companies that have set net zero targets, the use of carbon credits can help in supporting an entity's decarbonisation strategy and meeting its emissions targets. We have heard concerns relating to how offsets are generated and the integrity of the scheme from which the entity obtains its offsets, which can have implications for the entity's enterprise value over the short, medium and long-term. Specifically, we are concerned that if entities rely on carbon offsetting as a tool to reach net zero, they will not have made significant changes to their decarbonisation strategy, which will impact the value of the company in the long-term. To this end, we support the work taking place to scale up the voluntary carbon markets which will have a number of benefits including:

(i) direct private financing to climate-action projects;

(ii) providing the innovation required to lower the cost of emerging climate technologies; and

(iii) facilitating the mobilisation of capital towards emerging and developing economies (where there is the most potential for economical nature-based emissions-reductions projects).

We stress, however, that investors expect that carbon offsets should only be considered once other emissions reductions options have been exhausted. Some of our members note that the use of carbon offsets is not necessarily a strategy to address risk, even where they can support meeting targets where 'in-value chain' options have been exhausted. They can, conversely, be a financial risk in and of themselves if the potential change to the price of offsets is not considered. As such we support the SBTI's consideration of offsets including: "the use of carbon credits should not be counted as emissions reduction towards the progress of companies' near-term science-based targets… carbon credits may only be considered to be an option for neutralising residual emissions or to finance additional climate mitigation beyond their science-based emissions reduction targets".

Broadly, our members are content with the approach taken by the TPT in encouraging additional information on the use of carbon credits and importantly how to determine the integrity of the credits. We note that the ISSB goes further in suggesting that corporates disclose "additional significant factors necessary for users to understand the credibility and integrity of offsets intended to be used by the entity (for example, assumptions regarding the permanence of the offset)". This is something which the TPT may also want to consider.

Some members are keen for companies to further disclose how they test the reliability, additionality, and permanence of these offsets through robust due diligence. The Framework could further be strengthened by the TPT making clear what counts as a residual emission and recommending the proportion of gross GHG emission offsets that should be used as part of an issuer's decarbonisation strategy.

5. Governance

Please explain your selection to 5.1. Board oversight and reporting:

We agree that entities should disclose their arrangement for Board-level governance and oversight of the transition plan (including monitoring and reporting progress against the plan). Naming an individual or body (i.e. Board sub-committee) with responsibility and oversight of the transition plan and/or sustainability related risks provides essential accountability, leadership and transparency to shareholders on these issues. We also want to ensure that the Board reviews the plan periodically, particularly where there have been material changes, and the annual updates to the plan stipulated here would be a natural focus for this assurance. The Board's views can then be communicated to shareholders/wider stakeholders. We also consider it important that where a committee of the board is responsible for the transition plan, it is feeding back to the wider board to ensure that the transition plan can appropriately shape the business strategy. Members note that while these elements of board oversight are crucial to making the framework operable, they also need to extend to other firms and markets (such as private companies). While there are a number of efforts to encourage corporate reporting on governance issues in these markets (such as the Wates Principles for large private companies), these initiatives are still only voluntary.

Our members would generally prefer for transition plans to be accompanied by a statement which sets out that they have been approved by the board and disclosing what assurance the plan has been subject to and why. With the TPT's Framework opting for entities to publish a standalone plan, we are concerned that this layer of assurance may be lost (particularly where aspects of the transition plan are not housed within the Annual Report at all) and may not benefit from the auditors general duty to assess for inconsistencies between the company accounts and the wider statements in the annual report, including the transition plan if the annual report contains this. As we stated in our response to the CfE there is real merit in asking the assurance community to provide an opinion on the transition plan.

Please explain your selection to 5.2 Roles, responsibility, and accountability:

IA members agree with the formulation of 5.2, which correctly reflects that transition plan roles, responsibilities and accountability for the plan will span multiple individuals in different teams and at different levels of the organisation, with the emphasis on those most senior. As we noted in the CfE, our members were concerned with transition plans being subject to a mandatory shareholder vote, given their nascency and the number of other accountability mechanisms that already exist in order to effectively hold companies accountable for their corporate reporting and shareholder engagement. For example, shareholders through their role as stewards have access to a range of tools including: individual and collaborative engagements, publicly setting expectations of company, public advocacy and using their right to vote (e.g. against director re-election) or requisition a resolution at the AGM. The Framework should

better reflect the role that existing shareholder engagement mechanisms play in holding companies to account.

We agree with the need for internal controls (such as the internal audit function) to scrutinise the transition plan in the first instance, particularly given that assurance over sustainability-related information is still nascent. Though where companies are seeking external assurance, we would expect that they set out the issues they are seeking assurance over and the level of assurance that will be required.

Please explain your selection to 5.3 Culture:

The UK Corporate Governance Code states that a company's culture should promote integrity and openness, value diversity and be responsive to the views of shareholders and wider stakeholders. The Code's principles include the role played by Boards in shaping company culture and as per the FRC's latest review of reporting against the Code, investors are generally pleased that more companies are linking culture to the organisations purpose, values and behaviours.

Incorporating the responsibility of the organisation and its members to the external environment within a company's organisational values is a good starting point. So is identifying and defining the responsibilities of the individuals and teams who can lead, communicate internally and externally and be a focal point for the transition plan or its sub-elements. Good leadership is a necessary condition of an effective transition plan but it may not be sufficient, given the broad scope of changes needed throughout the organisation. It is right therefore that the Framework promotes engagement across the entity's entire workforce to maximise engagement and the generation of ideas. Best practice might involve asking culture-based questions in routine staff surveys and questions aligned to the organisation's stance and ambitions for the transition serves as both a measure of engagement and a prompt for staff to contribute ideas. Companies should also set up routinely monitoring and assessing culture and its alignment with purpose, values and strategy.

Please explain your selection to 5.4 Incentives and Remuneration:

We are pleased to see that the TPT has taken on board the IA's comments in requiring disclosure on the remuneration structure of executives. Executives and senior management have day to day responsibility for running the company and delivering on the transition plans. Investors will therefore require transparency on whether their incentive and compensation arrangements are aligned with the delivery of the transition plan.

The IA and its members note that there has been a growth in companies incorporating ESG metrics (including transition linked metrics) into their variable remuneration and some investors now expect material ESG risks and opportunities to be incorporated into executive remuneration structures. However, others argue that this should only be the case where the ESG metrics are material, linked to the business strategy and can be simply measured and disclosed. The IA as part of its latest Principles on Remuneration note that where companies are incorporating ESG metrics into their pay, they should clearly explain the journey they are on and how they will develop this approach in the future, including the alignment with the company's strategy, ensuring metrics are quantifiable, stretching and avoid unnecessary complexity.

The TPT expects companies to consider setting out: (i) metrics used to calibrate pay; (ii) the incentive vehicle in which the ESG metrics exist; and (iii) the typical weighting of transition metrics in the plan. While the IA has not prescribed the type of metrics companies should be using, we note that climate metrics are often the most robust of ESG metrics as they are typically quantifiable. However, some members have noted that pay-outs under climate-related elements of remuneration are generally at near the maximum opportunity. Investors agree, however, that remuneration targets should be aligned towards a company's

own net zero targets and compatible with other financial KPIs- and this aligns with the need for remuneration to be aligned with a company's strategy.

Some investors have noted that meeting net zero targets is not just the responsibility of 'C-suite' executives. The TPT Framework notes that further consideration may need to be paid to other employees within the organisation (e.g. Heads of Sustainability). While it is positive that the TPT is asking for greater disclosure on employees below the C-suite, investors could also incorporate this element as part of their engagement with investee companies to the extent these are disclosed, but investors do not have direct oversight or shareholder rights on any employees except executive directors. Though, whether or not a company decides to engage below the C suite is linked to whether there is alignment with the company strategy.

Please explain your selection to 5.5 Skills, Competencies and Training:

As we noted in response to 4.1 Governance, business and operational metrics and targets, boards and auditors are familiar with how to assess the near-term finances (12-18 months ahead) and longer-term company strategies, but many will lack the skills and knowledge to hold management to account in respect of the 5-10 year timeframe over which many substantial organisational and environmental changes will happen. In this regard the relevant guidance, the Chapter Zero Board Toolkit 2022, should be an essential starting point for non-executive directors.

Boards may further want to undertake an evaluation to assess the gaps in competence and knowledge that need to be filled to respond to the risks and opportunities presented by climate change. This will also involve ensuring that Boards are effectively embedding climate into existing Board and committee structures to enable adequate oversight of the issue (as set out at 5.1 Board oversight and reporting).

The Framework rightly focuses on disclosing entities' plans for identifying and closing gaps in skills and knowledge. Engaging people with the transition plan early through all-staff training or an information campaign could help companies discover internal strengths at the same time as identifying the gaps to fill.