

# Call for Evidence - Feedback Form

The Transition Plan Taskforce (TPT) has launched a Call for Evidence on a Sector-Neutral Framework for private sector transition plans. The consultation period closes on 13th July 2022. This provides an introduction to the TPT, a summary of the draft principles and elements of a Sector-Neutral Framework, and a range of questions regarding the content of gold standard transition plans.

Please provide your feedback below. The Call for Evidence can be downloaded here: <https://transitiontaskforce.net/call-for-evidence/>

Stakeholder inputs may be shared on the TPT website, so please note in the form whether you prefer to keep your response private and/or anonymous. In case of technical difficulties, you can also directly submit your response to: [secretariat@transitiontaskforce.net](mailto:secretariat@transitiontaskforce.net).

## Questions on Section 1: Introduction to the TPT

1. Do you agree with the proposed definition of a transition plan? If not, why, and what alternative definition would you suggest? (Character Limit: 4000)

Yes, we agree with the definition. We wonder whether the definition should stipulate the periodicity of the milestones. 2030 and 2050 are in wide usage already. NZAOA requires 2025 targets for listed equity and bonds, and for direct real estate, and these should be included. 2040 or 5-year plans starting with 2025 could be useful interim milestones. This would enable the aggregation and facilitate comparability of data collected.

2. From your perspective, who are the key users of transition plans? (Character Limit: 4000)

CFA UK members are in the investment profession. From our perspective the key users of plans prepared by companies (initially) and, in due course, other reporting entities (e.g. cities, public-sector companies, project companies) will be investors and banks, whereas the key users of plans prepared by financial institutions will be regulators and central banks in the context of financial market stability monitoring and management. Additionally, NGOs such as the UN, will be key users of the transition plans so that they will be able to take a broad view on the earth's (as well as individual companies) progress to net zero.

3. From your perspective, what are the key use cases for transition plans? (Character Limit: 4000)

We are not clear what you define as "key use cases".

If you are asking which cases will be the most important to the overall transition of the economy, we believe this will be:

a) all companies reporting under TCFD and/or regulations based on TCFD (e.g. UK SDR, IFRS S1 and IFRS S2, SEC Disclosure Rule) and/or equivalent (e.g. EU CSRD using ESRS E1 Climate), with a phase in for smaller and private companies; and

b) all companies, but with an initial focus on priority sectors and/or material sectors as defined under NZAOA v.1 (2021) and v.2 (2022), respectively, and any subsequent NZAOA releases, and, if different, sectors prioritised by the NZIA target-setting standard when available, as well as any equivalent sector-tracking and target setting regulations adopted for banks.

4. How should the TPT select which sectors to develop tailored transition plan templates for? Following that logic, what financial sub-sectors and real economy sectors should the TPT prioritise? In what order should these be addressed? (Character Limit: 4000)

We would propose that the TPT focus on the high emission and high energy production and energy usage sectors, initially, but expand to include other sectors over time, in line with the NZAOA target-setting protocol, and, if different, sectors prioritised by the NZIA target-setting standard when available, as well as any equivalent sector-tracking and target setting regulations adopted for banks. We would also include the various financial sub-sectors which fund the high emission and high energy sectors (see our response also to question 6).

Initially, required target-setting could cover only Scope 1 and Scope 2 GHG emissions, but Scope 3 GHG emissions should be tracked on a best efforts basis and included in target setting no later than the year when this is expected for NZAOA/NZIA target setting and reporting, or equivalent for banks.

5. Given the mandate set out in the TPT's Terms of Reference, to what extent, and how, should the TPT consider issues beyond a firm's contribution to an economy-wide decarbonisation? (Character Limit: 4000)

The TPT could allow companies to include in their reports the effect of long-term / permanent off-setting investments, such as carbon sequestration through afforestation or underground storage, provided the off-setting claim and quantities can be independently verified.

The TPT might also wish to consider approaches which consider the social and broader environmental impact of transition, i.e. how the plan contributes to a just transition and societal objectives such as net positive nature outcomes or reducing our impact on planetary boundaries, including actions to address the six that have been breached and ocean acidification. This approach would be similar to the EU Taxonomy Regulation's do-no-significant harm provisions and minimum social safeguards, as embodied in the proposed European Sustainability Reporting Standards (ESRS). An alignment of approaches would streamline reporting requirements and the ability of financial institutions to aggregate across portfolios, products and overall.

In the narrative, it would be helpful for companies to include information on their engagement with collaborative initiatives that seek to address economy-wide (and global) decarbonisation and in lobbying against economy-wide (and global) decarbonisation.

6. Which of these issues are a 'must-have' that need to be addressed in all transition plans, and which are 'desirable', which add depth or breadth but are not central to a transition plan? (Character Limit: 4000)

As stated above in our response to question 4, we would urge the TPT to focus on the sectors which produce or finance high carbon emissions, both directly or indirectly.

We note also that while the financial sector does not produce high emissions, it can influence the viability and success of other sectors by extending or withdrawing funding. This is of course being achieved through a number of separate FCA, DWP, UKEB etc UK regulatory initiatives but we would like to see them reporting on it. NZAOA expects members to produce targets across four categories (engagement, portfolio, sectors, financing transition) and many asset owners and asset managers are also setting SBTi targets. In both cases target setting, particularly for sectors, is linked to developing a decarbonisation plan. In addition, consultation drafts for new regulation (IFRS S1 & IFRS S2, SEC climate disclosure rule) specifically propose requirements for transition and business resilience plan disclosure, with detailed assumptions, inputs and outputs. Requiring financial firms to have transition plans means they will also apply pressure on non-financial companies to report well.

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. (Character Limit: 4000)

There is an obvious tension if off-set investments are permitted and they are located outside of the UK. We believe they must be included as they are carbon emission reducing schemes nonetheless regardless of their location. The UK government could net these numbers of the UK's own carbon emissions figure in its own aggregate reporting.

Equally, there is an inherent conflict for UK-based global companies with significant operations overseas that do not contribute to the UK's production carbon footprint (but do contribute to the global footprint) and for UK subsidiaries of overseas-based multi-nationals that contribute to the UK's production footprint. We would suggest that in all instances reporting of the UK and non-UK emissions data should be reported on separately and companies should address both production and consumption GHG emissions reductions in their transition plans. Ultimately all companies are part of a value chain so addressing climate change should be in line with local, national and global goals in mind.

Inclusion of a company's scope-3 emissions and the consideration of a company's whole supply chain is one of the more challenging aspects of transition reporting but it is fundamental to this exercise being a success in the long-term.

8. What other frameworks and processes are you aware of that the TPT should consider as it proceeds? (Character Limit: 4000)

In addition to the frameworks and standards already mentioned in the Call for evidence, i.e.:

- International Sustainability Standards Board's sustainability standards IFRS S1 and IFRS S2 – in consultation until August 2022
- UK's Sustainability Disclosure Requirements (SDR), which is expected to incorporate the ISSB sustainability standards
- Network for Greening the Financial System ("NGFS") scenarios – voluntary
- GFANZ collaboration on transition plans – financial/voluntary
- G20 Financial Stability Board

We are aware that UK financial institutions make use of the following frameworks in their transition plans:

- Partnership for Carbon Accounting Financials ("PCAF") – financial/voluntary
- Global GHG Accounting & Reporting Standard (PCAF for financial institutions) – financial/voluntary
- Net Zero Asset Owner Alliance (NZAOA) Target Setting Protocol and in due course Net Zero Insurance Alliance (NZIA) target setting protocol – financial/voluntary
- Paris-aligned Investment Initiative (PAII) Net Zero Investment Framework – financial/voluntary
- Science-based Targets Initiative (SBTi) financial sector target-setting criteria, and in due course SBTi's financial sector net zero target setting criteria – financial/voluntary
- European Sustainability Reporting Standards (ESRS) – in consultation until August 2022 – and the EU Corporate Sustainability Reporting Directive (CSRD) and EU Sustainable Finance Disclosure Regulations (SFDR), and specifically Principal Adverse Impact indicators
- US Securities Exchange Commission (SEC) climate disclosure rule – in consultation until July 2022
- Bank of England's Climate Biennial Exploratory Scenario ("CBES") and any climate stress test scenario guidance in the future – financial/mandatory
- International Corporate Governance Network ("ICGN") – non-financial/voluntary
- World benchmarking Alliance ("WBA") – voluntary
- Standards for validating carbon offsets from voluntary carbon market initiatives and/or providers of validation – voluntary
- Taskforce on Nature-related Financial Disclosures (TNFD) – open consultation until release of disclosure recommendations and assessment guidance in Sep 2023

## Questions on Section 2: The Sector-Neutral Framework

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. (Character Limit: 4000)

Many of our members are users of financial statements and company reports and accounts. It is vital that the relevant and material disclosures in companies' transition reports are also included or referenced in their financial statements. On the other hand, it is equally important that companies' financial statements do not become cluttered and over-burdened with excessive detail from companies' transition reports.

We would generally be against the incorporation of the full transition report in a company's annual report for this reason and would prefer a full and complete transition report to be a separate document referenced and highlighted within the annual report.

The transition report should be produced at the same time as the annual accounts and data should be collected for the same reporting period.

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? (Character Limit: 4000)



It is important that some disclosures are comparable, especially for companies within the same sector. Specifically, we believe the TPT should be prescriptive about GHG emissions targets and decarbonisation pathways, with GHG emissions being reported in line with the GHG Protocol (PCAF for financial institutions) and sector pathways referencing science-based, peer reviewed pathways such as SBTi Sector Decarbonisation Approach (SDA) or TPI (based on SDA), but not limited to these given the evolving space. Where a company has several segments it would help if GHG emissions decarbonisation pathways were shown for each major segment to enable fair comparison across a sector.

In line with TCFD guidance on metrics, targets and transition plans, TPT could be prescriptive in requiring that all seven TCFD disclosure categories (GHG emissions, transition risks, physical risks, climate related opportunities, capital deployment, internal carbon prices and remuneration) are addressed in transition plans. The integration of internal carbon prices (or other carbon price assumptions) into scenario analysis should probably also be prescriptive. However, the framework for other categories can be less rigid.

We prefer SBTi, which requires that companies set targets based on emission reductions through direct action within their own boundaries or their value chains. Indirect offsets can only be considered an option for companies wanting to finance additional emission reductions beyond their science-based target (SBT) or net-zero target. We acknowledge that some industries e.g. steel and cement, are hard to abate and may need to rely on some offsets to get to net zero.

We believe that the general requirements should follow TCFD guidance, i.e. transition plans should be anchored in quantitative elements, including climate metrics and targets; subject to effective governance processes; actionable, specific initiatives; credible – a transition plan should contain sufficient information to enable users to assess its credibility; periodically reviewed and updated; reported annually to stakeholders. See <https://www.fsb-tcf.org/> and specifically, [https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics\\_Targets\\_Guidance-1.pdf](https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf) .

11. Should the TPT seek to standardise the data and metrics used to communicate ambition and measure progress in transition plans? If so, what are the standards for data and metrics that you would recommend including in the Sector-Neutral Framework and in supplementary sectoral guidance? (Character Limit: 4000)

All companies have been required to report their absolute Scope 1 and Scope 2 GHG emissions since 2014. These figures could be divided by a company's number of employees or revenue to provide a relative measure of the carbon intensity. At present this probably suffices for standardising the data and metrics across companies. However, more information needs to be provided for real assets (real estate, infrastructure) and by companies in terms of production figures, to allow more asset- and/or sector-specific assessment.

For financial institutions, in addition to attributed (financed) absolute emissions, carbon intensity appropriate to the asset type (listed equity, listed bonds, private debt, private equity, direct real estate and real estate debt/mortgages, direct infrastructure and infrastructure debt / project finance, sovereigns and sub-sovereigns) would be helpful to allow for asset-type and/or sector comparisons.

The infrastructure and data for reporting of Scope-3 emissions should come on-line within the next few years and should certainly be included within the ambition of required transition reporting.

Beyond GHG emissions, there is no convergence on metrics for transition risk, physical risk, opportunities, etc. but transition plans should still require that these categories be considered and quantified in scenario analysis (aka resilience plans) with assumptions clearly specified (as recommended by TCFD and incorporated in the exposure drafts of IFRS S1 and IFRS S2). As noted in the previous response, perhaps the requirements should be less prescriptive to allow for appropriate disclosure and the evolution of target setting and climate accounting methodologies to cover aspects beyond GHG emissions.

12. Question for small and medium-sized enterprises: what specific challenges do you foresee for SMEs seeking to prepare or use transition plans? How can the guidance and framework prepared by the TPT address these concerns? (Character Limit: 4000)

SMEs will generally not be the priority for transition reporting, but will come into scope as TCFD reporting becomes required of all companies operating in the UK. The challenges they face are various and too numerous to list, but generally link to available resources to undertake additional analysis and reporting. The obvious solution is to wait for the transition reporting of the largest companies to become established by which time the infrastructure and reporting templates for each sector will have been developed and be capable of extension at lower cost to SMEs with the help of trade bodies and consultants.

13. Question for preparers only: if your firm does not already disclose information of the type outlined in this Call for Evidence, what are the reasons for that? For example, are there concerns about legal or possible market risks arising from disclosure? How could the work planned by the TPT address these concerns? (Character Limit: 4000)

CFA UK is a relatively small not-for-profit organisation with revenues comfortably in the single-digit millions of pounds and c.50 full- and part-time employees. We are in the process of preparing TCFD/Sustainability disclosures.

14. Transition plans provide an opportunity to ensure the benefits of the climate transition are widely felt by UK households and consumers. How can the guidance developed by the TPT balance the need to minimise costs whilst encouraging companies to develop strategies to maximise benefits for all? (Character Limit: 4000)

The reporting needs to focus on the right areas and needs to request data that will be useful to primary users. Field-testing of primary users should help ensure that a minimum amount of useless information is requested.

15. Do you agree with the principles proposed in the Call for Evidence? Why or why not? (Character Limit: 4000)

We agree with the proposed principles. All companies (listed, private, public sector, financial institutions) are parts of supply and consumer value chains and these value chains are ultimately global – as is climate change – so the principle should be to act with local and global outcomes in mind. The Paris Agreement goal of keeping global warming under 2C and preferably 1.5C is a global goal and requires global transition to a low carbon economy.

16. Are there any principles that you would add to the list outlined in the Call for Evidence? Why? (Character Limit: 4000)

Principle 1 should cover global transition.

17. Which of the principles outlined in the Call for Evidence would you regard as 'must-haves' or as 'desirable'? (Character Limit: 4000)

We regard the proposed principles as a complete set which inter-relate and need each other to be effective, i.e. all three principles are 'must-haves'.

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

How can the TPT design its standard and guidance in a way that accommodates credible transition plans consistent with the broader strategy of a firm, but reflect differences between approaches taken in different jurisdictions? (Character Limit: 4000)

As stated in our response to question 7 above, we suggest all reporting of UK entities and overseas entities is produced separately. Each entity should state what proportion of its activities / business lines / jurisdictions it was unable to include in the transition plan, why and what actions it is taking to improve its scope of coverage or justify why it is unable to include them, i.e. on a "apply or explain basis". This will provide regulators and users with the tools to identify the areas of most significant concern and encourage a focus on them in the following year(s).

19. Do you agree with the elements proposed in the Call for Evidence? Why or why not? (Character Limit: 4000)

Yes.

20. Are there any elements that you would add to the list proposed in the Call for Evidence? Why? (Character Limit: 4000)

B – Target setting is focused solely on GHG emissions. Emissions reductions need to be supplemented with a rise in sequestration capacity and sequestration to first stabilise and then hopefully reduce atmospheric carbon concentrations and climate change. So, while GHG emissions reductions are important, we would encourage broader target setting, validation and reporting in line with TCFD guidance on metrics and targets, including for transition risk metrics, physical risk metrics, opportunity metrics, deployed capital metrics, internal carbon price and remuneration. In addition, targets should cover own operations, value chain and stakeholders.

This would align B with the other elements.

Similarly, I – Metrics and Monitoring lists only GHG KPIs. We believe KPIs should be broader – covering more climate metrics – and aligned to TCFD guidance on metrics and targets.

21. Which of the elements outlined in the Call for Evidence would you regard as 'must-haves' or as 'desirable' for credible transition plans? In which instances should an entity assess materiality to determine whether an element is considered must-have and/or what level of disclosure detail is required? (Character Limit: 4000)

We regard all these components as essential components of credible transition plans. Depending on the company's sector and business model, some of these components will assume a greater or lesser importance.

'Skills' is the component on the list in which CFA UK is most actively involved and from our perspective there is certainly a need for the investment sector to acquire new skills to play their part in the transition plan. Providing education resources to professionals in the investment sector is probably the most important element of CFA UK's purpose. Through the Certificate in ESG Investing, launched by us and now provided by CFA Institute, and our recently launched Certificate in Climate Investing we provide exam courses to help investment professionals acquire some of the skills and knowledge necessary to both interpret and compile transition plans - so hopefully improving the quality of communication between companies and investors in this critical area over the longer term.

22. Are there elements where you see substantial barriers to implementation? If so, which ones and why? Are you able to suggest alternatives which are both credible and practical? (Character Limit: 4000)

In our opinion, within UK businesses, all the above should all be achievable.

## Further Feedback

23. Please share any other feedback or comments you may have on the work of the TPT and the Sector-Neutral Framework. (Character Limit: 4000)

Enter your answer

## Information on the respondent

24. Are you responding on behalf of an organisation or as an individual? \*

- Individual response
- On behalf of an organization. If so, please specify
- I'd like this response to remain anonymous

25. On behalf of what organisation are you submitting your response? (Character Limit: 4000) \*

CFA Society of the United Kingdom

26. Which of the options below best describes your organisation? \*

- Private Sector - Financial Institution
- Private Sector - Real Economy Firm
- Non-Governmental Organisation (NGO)
- Local Government
- National Government
- Supranational Government
- Central Bank or Financial Regulator
- Public Bank or Multilateral Development Bank
- Think Tank
- Academic Institution
- Professional Body

27. May we contact you in case of follow-up questions to your response? \*

- Yes
- No



28. If yes, could you kindly provide an e-mail address under which we can contact you? (Character Limit: 4000)

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