
Consultation Response

Transition Plan Taskforce Disclosure Framework and Implementation Guidance

28 February 2023

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to respond to the Transition Plan Taskforce (TPT) Consultation on the TPT Disclosure Framework. AFME welcomes the work of the TPT to develop a sector-neutral framework for private sector transition plans. We strongly support the work to create a consistent framework for high-quality transition plans across economic sectors. Increasing the availability and comparability of transition plans for companies across the economy will provide valuable information for investors and banks as users of transition plans and help facilitate the provision of transition finance. Our response reflects AFME's members' perspectives as both preparers and users of transition plans. We set out below our feedback on the proposed Disclosure Framework and Implementation Guidance.

General comments and Guiding principles

AFME broadly supports the proposed strategic approach to transition planning and the proposed guiding principles of ambition, action and accountability as set out in the consultation. We agree that transition plans should outline ambitious objectives, focus on concrete actions to be taken and establish clear governance mechanisms and appropriate metrics and targets.

We appreciate that the TPT acknowledges that transitional activities (e.g. financing investment to support the transition of hard-to-abate sectors or a managed wind-down of high-carbon assets) are a crucial part of an orderly transition to net zero.

It is important to bear in mind that, while comparability is important from a user perspective, transition planning is still at an early stage of development, and the TPT sector-neutral recommendations will need to provide enough flexibility for entities to evolve their disclosure as transition planning evolves over time. TPT will need to strike the right balance between providing clear guidance and improving the availability of comparable information for users, for example in a machine-readable format and providing sufficient flexibility for the framework to be applied to all sectors and a wide range of company sizes and business models. It also needs to be future-proof and allow for expectations around transition planning to develop over time. Considering that the TPT framework is expected to be used as a basis for regulatory disclosure, and metrics may need to be addressed in sector-specific guidance, we believe that it is important for the TPT to make some adjustments to its proposed framework including, providing options for qualitative or voluntary disclosures in some areas. These changes, supplemented by appropriate sector-specific requirements, would allow entities to provide the disclosure that is most meaningful for their particular sector and business model.

The TPT's overarching framing around the purpose of a transition plan should be carefully targeted to how the company will achieve any net zero objectives that it has set. The proposed disclosure is currently framed around how a company will contribute to a "whole-of-economy" transition when many firms are more narrowly focused on their strategy for meeting their own climate commitments. This suggests a very broad, top-down, approach (starting with the whole economy) rather than the more targeted bottom-up approach needed for companies to assess their own carbon footprint, set net zero goals, and determine how to reduce

Association for Financial Markets in Europe

London Office: 39th Floor, 25 Canada Square, London E14 5LQ, United Kingdom T: +44 (0)20 3828 2700

Brussels Office: Rue de la Loi 82, 1040 Brussels, Belgium T: +32 (0)2 788 3971

Frankfurt Office: Bürohaus an der Alten Oper, Neue Mainzer Straße 75, 60311 Frankfurt am Main, Germany

T: +49 (0)69 153 258 963

www.afme.eu

their GHG emissions to meet that goal and interim targets. For financial institutions, it is also important to recognise that their progress depends upon the Net Zero targets and progress made by the companies they finance. While we support transition plans that accelerate economy-wide decarbonisation, we caution that an overly prescriptive “whole of economy” approach may give rise to challenges for companies operating in multiple jurisdictions which have different jurisdictional pathways and different political perspectives, for example on the energy transition.

Given the potentially influential nature of the TPT globally, it is also important for the TPT to take into account the challenges that international businesses, including global financial institutions, might face. As currently drafted, there is a risk that the guidance could create operational and legal barriers to disclosure by global financial institutions, which could ultimately prove counterproductive to broader efforts by governments and private sector actors to achieve net zero. The TPT recommendations would include disclosing information that carries potential reputational and legal risks for companies, including disclosing forward-looking projections that are speculative and lack certainty (i.e. business model implications, medium- and long-term roadmaps, future financial impacts, sensitivity analysis), as well as framing around industry engagement and collaboration. Finally, the TPT should avoid an approach that could result in international firms needing to produce individual transition plans under different frameworks for each of their subsidiaries, or each jurisdiction in which they operate.

We consider that the TPT Disclosure Framework should apply to both listed and private companies on a proportionate basis across the UK. As the ‘Mission Zero: Independent Review of Net Zero - final report’ notes, while the Financial Conduct Authority (FCA) has mandated asset managers/owners and listed companies to include comply or explain requirements to publish transition plans since 1 January 2022, there is currently no policy in place to mandate disclosure of transition plans for private companies (e.g., those that would be regulated under the Companies Act).¹ For transition plans to have the intended effect of providing information for investment purposes, and to avoid financing for high-emitting sectors to be channelled elsewhere within the financial sector, they need to become widespread among all companies, including private ones.

While there is increasing collaboration between key stakeholders towards attaining a comprehensive global baseline for sustainability disclosure standards and transition plans, the additional challenges in emerging markets where the sustainability data gap is larger than in developed markets should be recognised. This means that for UK entities with a large emerging markets client base, reporting accurate and reliable Scope 3 emissions data may not be feasible at present. As the TPT finalises the Implementation Guidance and FCA/HMG considers its adoption within the UK’s regulatory framework, the degree of maturity of sustainability data in emerging markets should be taken into account and additional flexibility should be considered on the timing for full compliance for emerging markets as well as for value chain information where it may not yet be available or reliable.

We also suggest that the TPT/HM government provide support for companies in upskilling their workforce in transition planning, for example through free education hubs and the provision of open data sources. We would also welcome the final framework being made available in a platform/interactive tool form.

Finally, we would also welcome the TPT establishing a working group including a broad range of financial sector stakeholders and regulators, including international representatives, to provide input into the sector-specific guidance for the financial sector.

¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1128689/mission-zero-independent-review.pdf

The importance of international alignment of transition plan frameworks

We welcome the work of the TPT in aligning disclosure requirements with international standards, building upon the relevant TCFD and ISSB standards, when they are final. An internationally consistent approach must be taken to transition plans, including for financial institutions. Many financial institutions, including major UK institutions, have significant international businesses and if there is insufficient consistency and coordination of approaches there is a risk that financial institutions are subject to multiple, potentially conflicting or overlapping requirements in different jurisdictions with the same objective.

In addition to the initiatives noted in the Consultation, the TPT should consider interoperability, where possible, with the proposed requirements under the draft ESRS under the EU Corporate Sustainability Reporting Directive and references in proposed EU legislation such as the Corporate Sustainability Due Diligence Directive and potential amendments to the Capital Requirements Directive. Many UK-based entities will be captured by the EU requirements and so it is essential to avoid conflicting requirements. This is also the case for international firms that will be captured by both EU and UK requirements. We therefore strongly encourage continued coordination with other standard-setters as this work continues – in particular when developing sector-specific standards for financial institutions.

AFME also recognises the importance of considering the sequencing and location of disclosures in the international context. Many financial institutions, including major UK institutions, are subject to transition plan requirements in multiple jurisdictions (SEC Climate Rule, CSRD etc). Therefore, AFME recommends that the framework and guidance clarify how reporting under the framework interacts with requirements in other jurisdictions.

As discussed further below, the TPT framework needs to address how it should be applied by global groups, both those headquartered in the UK with international operations and those headquartered outside the UK with an entity in the UK. Transition planning for many international groups is likely to be conducted at group level rather than entity level. We propose that the framework should include an exemption available for UK subsidiaries of international groups, provided that the group publishes a transition plan under a similar standard (such as TCFD). We would also propose that, where the group-level transition plan is developed under an insufficiently similar standard, they have the option to publish a supplementary country-level or entity-level document to provide the additional information as required.

Timing and frequency

AFME welcomes the proposal for the publication of standalone transition plans every 3 years alongside annual updates where material.

In order to maximise alignment with ISSB standards, the finalisation of the TPT framework should take account of the final ISSB standards and the UK's implementation of ISSB standards through the proposed Sustainability Disclosure Requirements, to ensure alignment and avoid conflicting requirements.

It is also important to recognise that financial institutions will require the necessary data from their corporate clients before they are able to accurately disclose their own data, for example on scope 3 emissions. Appropriate sequencing of the implementation of requirements between the financial and non-financial sectors is therefore important.

Entity-level reporting

We appreciate the TPT's recognition that global firms take a global approach to transition planning, and recommend that the TPT explicitly create optionality for entities to refer to their global commitments. When assessing the appropriate level of transition plan reporting within international groups, it is important to take account of the fact that for many organisations, climate targets and related transition planning will be conducted at group level with global companies taking a global approach to transition planning.

A global group-wide approach to transition planning is likely to support the proposed strategic and rounded approach, and help overcome the lack of alignment on the Net-Zero targets and milestones in commitments set by different jurisdictions. This is a further reason why it is vital to ensure international alignment of transition planning requirements, but it is also important to consider how this should be reflected in the proposed disclosure framework including entity-level reporting requirements. For example, in addition to the subsidiary exemption option discussed above, any entity-level disclosures should be able to make appropriate reference to group-level transition plans. Given the lack of international alignment, it is also important to clarify how local jurisdictional requirements (such as jurisdictional national commitments) and local governance requirements would apply in the context of international groups. Having UK subsidiary boards accountable for global planning in other jurisdictions is not appropriate, though ensuring that there is a structural consistency of such reporting with UK requirements could be applied. Furthermore, it would not be meaningful for users, and operationally highly challenging for preparers, if global firms were required to provide information for their UK entities only (e.g. financed emissions targets, green finance targets, business strategy, client engagement, etc.) since many often are interested in a group-level rather than a legal entity-level approach.

Location of reporting

We support the proposal for a standalone transition plan being separate from financial and sustainability reports. Given the forward-looking nature of the information and inherent assumptions related to transition plan disclosure, the inclusion of a transition plan in a company's existing annual reporting disclosures would expose the reporting company to significant liability and legal risks. As noted in the consultation, the transition plan elements seek to build upon TCFD and ISSB standards, yet companies may have to include this information in both annual sustainability reporting and the proposed standalone transition plans.

The additional disclosure requirements would expose entities to increased litigation and reputational risk in particular, due to (i) the fast-moving environment and changing nature of transition plans and (ii) the requirement to update disclosure when there are 'significant' changes to the plan. Climate information and the proposed content of a transition plan would be forward-looking in nature and this can give rise to liability concerns. Certain requirements may also lead to an obligation to report commercially sensitive information, for instance in relation to the transition plan's contribution to business operational plans, and could give rise to competition law, commercial and confidentiality concerns. To the extent that transition plans form part of financial reporting, a safe harbour should therefore be provided.

Considerations around legal liability can be even more complex for global firms that are referencing group-level climate commitments that that firm also discloses in other jurisdictional regulatory filings.

How disclaimer language may be included in climate reporting is a live issue. Current guidance from the Climate Financial Risk Forum (CFRF) is that "Any disclaimer should accurately reflect the area of concern and should be tested to ensure it is neither too narrow nor too wide. The location, font size and formatting of the

disclaimer should also be considered carefully, so it is not presented in the form of “legal boilerplate”^[4]. The CFRF references the recent Shell case^[5], in which the Dutch court interpreted some broad disclaimers and other statements in Shell’s climate strategy documents as undermining its commitment to the targets stated.

For UK companies with additional securities in the US, inclusion of their transition plan in a UK annual report could have liability implications in respect of the issuer’s US filings under US securities laws.

For issuers required to disclose under UK and US regimes, if required to disclose transition plans within UK annual reports, such issuers would need to assess whether such information is material in order to be disclosed in the US. This concept of materiality is particularly challenging for issuers when required to disclose climate-related information, which is frequently inherently uncertain due to the lack of data and reliance on estimates, as well as dependencies on government policy, national regulations, and all actors in the value chain. Furthermore, for enterprises and, in particular, financial institutions seeking to provide global group-wide transition plans, it would not be appropriate for such plans to become a part of a UK subsidiary report. At this stage, further guidance from global regulators is required on the approach to climate-related forward looking statements, liability, and disclaimers.

Another liability issue is that for a UK listed company, the inclusion of a transition plan within its annual report exposes the company to potential liability under the FSMA. Most importantly, the content of the annual report is regulated information under FSMA, the Companies Act and Listing Rules. In addition, any misleading statements or dishonest omissions may give rise to liability under those Acts

Under FSMA, an issuer can incur liability for misleading statements or dishonest omissions in certain published information relating to the securities^[6]. As an annual report is regulated information and published through a RIS in accordance with the FCA’s Disclosure and Transparency Rule requirements, it is in scope of the FSMA liability provisions for misleading statements or dishonest omissions.

Given the unique challenges of climate-related information being based on estimates, the UK should include exemptions from FSMA liability for such climate-related information forming part of regulated information published in annual reports.

Going forward, issuers should be permitted to publish their standalone transition plans outside of annual financial reporting. The information captured under transition plans contains forward-looking projections that are highly speculative and could present liability and legal risks if included in the annual report. Requiring transition plan disclosure in the annual report may also have an adverse effect on capital markets, including affecting capital formation and capital markets efficiency as issuers look to avoid the liability risks associated with transition-related finance that would now be required to be reported as part of annual reporting.

Requiring transition plan disclosure outside of annual reporting may potentially enable firms to disclose more detailed and prescriptive information related to transition plans than they otherwise would. Preparers would have the flexibility to be able to report information related to a transition in a manner that reflects their stakeholders and investors and would get to the core of what the TPT is trying to create, which is widespread, more detailed transition plan disclosure across the market.

Over time there should be consideration given to making transition plans machine-readable to aid with the automation of data gathering by users as this will become an activity that will be repeated at volume across

^[4] <https://www.fca.org.uk/publication/corporate/climate-financial-risk-forum-guide-2021-disclosures-legal-risk.pdf>

^[5] <https://uitspraken.rechtspraak.nl/inziendocument?id=ECLI:NL:RBDHA:2021:5339&showbutton=true>

^[6] FSMA Section 90A

many users. It will also aid in standardising of metrics so that users will all be comparing the same basic information.

Entities also need clarity on the requirements to update their standalone transition plans. Material annual updates should be published separately from annual reporting for the same reasons explained above.

Publishing a standalone report also would help avoid inconsistencies and duplication of information that is already covered by sustainability reporting (e.g. under TCFD/ISSB) and promote international interoperability. As noted in the consultation, the transition plan elements seek to build upon TCFD and ISSB standards, yet companies may have to include this information in both annual sustainability reporting and the proposed standalone transition plans.

The proposed requirement to update when there are 'significant' changes could inadvertently lead to an onerous rolling disclosure requirement. A requirement for an annual update (alongside annual reporting) would give entities certainty with regard to the reporting requirement and would mitigate against unnecessary and spurious claims against entities for the lack of understanding and guidance on what is significant (and how that would be substantiated). The TPT should also clarify that the update requirement applies only to changes that meet the materiality threshold applied in general financial reporting.

Materiality

We strongly support the TPT highlighting in its implementation guidance that an entity should approach materiality in the same way in its transition plan as it does within its general-purpose financial reporting. This approach is consistent with the existing UK TCFD disclosure requirements as well as ISSB's approach to its disclosure standards. Consistency in approach to materiality will be key for international firms that will need to comply with similar disclosure regimes in different jurisdictions globally.

A materiality lens is also important to focus disclosures on the information that will be most useful to users of general-purpose financial reporting. Overly broad disclosure recommendations will result in the disclosure of a large volume of information that is less important, making it more challenging for users of disclosure to identify which elements are actually integral to an entity's plan to reduce its GHG emissions in line with its net zero goals.

Assurance and verification

In the UK, there are currently no external assurance requirements or plans to mandate external assurance on sustainability information. As the TPT implementation guidance recognizes, the process of formal verification is an emerging practice in the context of sustainability- and climate-related information. Therefore, at this time, we support the TPT leaving companies the option to obtain external assurance on sustainability information or information that would be included in a transition plan.

From a preparer perspective, the TPT guidance suggests that firms should seek to have their targets verified. Nevertheless, many financial institutions already have in place commitments aligned with the trajectories and guidelines set by alliances such as the Net-Zero Banking, Asset Managers and Asset Owners Alliances (NZBA, NZAM, NZAOA) and should not be required to verify such targets.

The Science Based Targets initiative was specifically highlighted as an option to obtain verification. It is important to note that, for financial institutions (FIs), SBTi's approach currently has some gaps and challenges which means that it is challenging to obtain a Science Based Target. This is specifically the case for banks with certain business models. These challenges include:

- i. SBTi's methodology does not include all product types in the calculation of financed emissions. For instance, undrawn balances through revolving credit facilities and capital markets financing are not currently considered;
- ii. There is a lack of target-setting methodologies for critical sectors such as fossil fuels and chemicals;
- iii. The aforementioned issues are compounded by limited alternative methodologies proposed. For example, SBT Portfolio Coverage and Temperature Rating track targets as opposed to actual emission performance.

At this moment in time, SBTi is the only initiative offering validation of emission reduction targets. However, this framework has not been subject to a rigorous independent review process. The TPT could, therefore, play a convening role to bring together representatives from industry, regulators, policymakers, and civil society in order to increase the robustness of existing methodologies.

We would welcome a workable method to obtain verification of targets while SBTi evolves and, in the interim, we would suggest that the TPT's guidance is more balanced in its suggestion to obtain target verification until such a time the ecosystem around transition plans, targets, validation, and verification methods mature.

Comments on specific elements of the proposed disclosure framework

1. Foundation

As discussed above, most international firms set and implement their transition-related goals (i.e. green finance targets, business strategy etc) at group level as opposed to entity-level. We therefore recommend that the TPT explicitly creates optionality for entities to reference global commitments. Greater optionality would allow legal entities to reference relevant corporate transition-related goals and targets in describing how they are setting transition-related goals and objectives.

We note the proposal for companies to include material interdependencies for the natural environment, the entity's workforce, value chain, impacted communities and consumers. We expect this to be a challenging area for companies where further guidance will be needed, for example how the materiality assessment should apply to such interdependencies and greater clarity on public sector action on social, nature and adaptation factors. Disclosure of how changes in a company's business model will impact the environment (including nature and biodiversity) and stakeholders (e.g. employees) requires forward-looking assumptions of factors that financial institutions may not currently account for or may not be able to predict with reasonable certainty, particularly at an economy- or industry-wide level. While we note that work is underway, for example, through the Taskforce on Nature-Related Financial Disclosures, this remains under development and the identification of nature-related risks and dependencies is currently at an earlier stage. We thus recommend clarifying that disclosures on how changes in a company's business model will impact the environment and stakeholders should be made optional, encouraging voluntary disclosures while sector-specific guidance is being developed.

Further, disclosure of any "significant risks" to the environment, workforce, suppliers, consumers, etc., is ill-defined and potentially very broad. Adding a materiality qualifier would narrow this and align with ISSB. We also note that the TPT could similarly scale back the requirements to disclose information that could be competitively sensitive or violate antitrust laws (covered in greater detail below). As currently drafted, section 1.1 Foundation, includes disclosure recommendations that may require companies to report information that may violate antitrust and competition laws in various jurisdictions in which companies operate.

2. Implementation Strategy

2.1 Business planning and operations

The proposed disclosures related to business planning and operations may require recalibration to better reflect the realities of banks' decarbonisation plans. There may be significant legal or liability issues related to disclosing the information requested in section 2.1. Specifically, requirements to disclose detailed, forward-looking information about implementation where a transition plan is integrated into a business model, product offering, or how a company contracts with customers and on what terms run into competition laws in various jurisdictions. There are also requirements to disclose changes to business strategy and resource allocation, which is also likely highly proprietary.

Section 2.1 includes recommendations that may present challenges for firms operating in jurisdictions that have laws or rules against cutting off financing or services for fossil fuels. Recommendations to disclose "plans for GHG or carbon energy-intensive assets" or "plans and timelines to manage or phase-out GHG or carbon-energy intensive assets" should be offered as optional disclosure as they may present legal risk for firms operating in jurisdictions, like the United States, with laws restricting cutting off financing to fossil fuels.

It is also challenging for companies to project medium- and long-term actions with any certainty, as the medium and long-term strategy will need flexibility to react to changes in the real economy. Medium - and long-term roadmap disclosure will require significant estimations, projections, and assumptions, that may be misleading to users of transition plans. As such, we suggest removing these timeline considerations from the roadmap disclosure requirements.

We support the option to allow qualitative instead of quantitative disclosures across the proposed framework. Requirements to quantify and disclose contributions of each business and operational action over time to achieve the transition plan's objectives and priorities are unrealistic. Qualitative disclosure options may mitigate some of the challenges that this expectation would present and would provide flexibility to allow a company to disclose information on how it will deliver on its transition plan in a way that fits its business model and clients.

2.2 Products and services

The proposed approach for products and services needs greater flexibility to accommodate different sectoral considerations. The proposed approach is relatively high-level and qualitative, but needs more flexibility as the current recommendations may not result in meaningful disclosure in a banking context. For example, the proposed approach wrongly assumes that all entities have high- or low-carbon products and services, and that changes in products and services will be a meaningful element of all companies' transition plans. For banks, ESG products and services do not directly carry high- or low emissions themselves. There, disclosures on how an entity is embedding the objectives and priorities of a transition plan in its products or services will be a poor reflection of how that entity is embedding a transition plan in its business model. This disclosure requirement would therefore be better suited to being included in sector-specific frameworks and guidance.

We recommend adding flexibility as follows: "Disclose any planned changes to the entity's portfolio of products and services to deliver the strategic ambition in its transition plan, highlighting plans to reduce (increase) the portfolio of high-carbon (low-carbon) products and services that it provides, either directly or indirectly." Similarly: Disclose any relevant plans to change the entity's portfolio of products and services to support the objectives and priorities and interim milestones outlined under 1. Foundations. This may include plans to reduce (increase) the portfolio of high-carbon (low-carbon) products and services that it provides, either directly or indirectly."

2.3 Policies and conditions

In the final recommendations, the TPT should clarify in its recommendations that the disclosure may be satisfied with a description of the policy, as opposed to disclosure of the internal policy itself. Companies adopt policies and conditions for reasons other than achieving net zero, and the policies, disclosed by themselves, may not accurately reflect that company's goals related to a transition. In general, the Disclosure Framework should provide flexibility with respect to the disclosure of internal policies and conditions—such as climate-related restrictions on lending and investment activities—that may contain commercially sensitive information.

2.4 Financial planning

This section requires entities to project forward the financial impacts (e.g., changes to revenue and costs, expected CapEx needs) of transitioning their client emissions to Net Zero. Transitioning client emissions to Net Zero is dependent on a number of variables that are likely to change over time in ways that entities can't

fully control or predict with any certainty (e.g. government policy, shifting consumer demand, technological innovation).

The proposal also requires disclosure regarding the use of internal carbon prices, which may require disclosure of commercially sensitive information. While we understand the importance of managing climate risks and financial institutions are actively doing this as part of meeting regulatory requirements and through stress testing, we do not believe it should be required for public disclosure.

We therefore recommend removing the requirements to disclose information related to the future impact on financial positions, financial performance, information on planned research, internal carbon price use, and any other competitively or strategically sensitive data. Projecting financial impacts would require significant estimations which are likely to be misleading to users of disclosure, particularly if included within financial statements as suggested.

2.5 Sensitivity analysis

We propose narrowing the proposed sensitivity analysis section as a required disclosure. There are challenges with tying financial impacts to sensitivity analysis, including measuring financial impact. It would be challenging to determine appropriate metrics tied to sensitivity analysis. Metrics would largely vary according to the company's business model. This is also an untested concept, going further than the requirements to test the resilience of the entity's strategy as required by the TCFD. Similar to the TPT's financial planning recommendations, this would require making forward projections with such a high degree of uncertainty that they are likely to be misleading. Sensitivity analysis would provide rough ranges of deviation from a strategic decarbonization path but disclosure would be hard to compare company to company.

3. Engagement strategy

For financial institutions, which strongly rely on clients and third-parties to achieve their net-zero objectives, engagement is a key component of a comprehensive and effective decarbonisation strategy. Nevertheless, we do not see the proposed disclosures on engagement strategy as a necessary element of transition plans and, in turn, of the TPT framework. As highlighted in the implementation guidance, the proposed engagement strategy element goes beyond TCFD recommendations and guidance on transition plans. We also find that it may hinder firms' efforts to conduct engagement in a meaningful way, as engagement itself is highly tailored to the unique risk factors of each counterparty, including business model, location, environmental footprint, and governance track record. Topics for engagement with clients and investees are chosen based on the gaps, risks and opportunities highlighted by a materiality assessment. It would thus be challenging to ensure comparability among disclosures of companies' engagement strategies, nor would it be beneficial to encourage standardisation with the exercise of engagement. Disclosures on engagement strategy should therefore not be made mandatory. Where engagement forms a key part of a company's strategy, this could be covered through the "Implementation Strategy" element as opposed to a separate element of the disclosure framework.

We also suggest that international alignment would be furthered by not including this element in the final framework. The proposed disclosures may not be material for all entities and may contain confidential or commercially sensitive information, which could give rise to competition law, commercial and confidentiality concerns. If included, the proposed disclosure requirements must allow flexibility to provide a general description of approaches to engagement where this is material and not require lengthy onerous disclosures on engagements at a granular level. We highlight specific challenges with each section in the Engagement Strategy below.

3.1 Engagement with value chain

At a minimum, the TPT proposal should provide greater flexibility in how companies disclose their value chain engagement to better align with current disclosure practices, which focus on how firms are structuring their business to support their clients in transition. Companies' approaches to engagement with their upstream and downstream value chain are likely to vary depending upon their business, size and influence. Not all companies will seek to influence behavioural and business model change in their value chains and may, for example, instead focus on providing support for their clients in navigating the transition, in alignment with their climate commitments and strategy but not seeking to specifically influence client behaviour towards Net Zero.

We suggest making optional the suggested disclosures related to engagement activities with a company's value chain to "influence behavioural and business model changes." These disclosure recommendations involve significant estimation or projection and run into potential antitrust, reputational, and other legal challenges in the United States. Additionally, we suggest making optional the recommendation to "disclose the expected impact of engagement activities on the delivery of the objectives, priorities, and milestones outlined in the 1. Foundation." It is difficult, if not impossible, to disclose the expected impact of an engagement activity on the milestone outlined in the transition plans objective.

3.2 Engagement with industry

The TPT Framework recommends disclosures of industry engagements, as well as peer-to-peer. Disclosures of this nature can be onerous and would expose entities to increased competition and anti-trust law risk. The risk of liability would run counter to the aims of the framework, thus limiting its effectiveness. We therefore recommend removing the proposed recommendation.

The proposal implies that an entity cannot meet its transition objectives without industry engagement. While many firms are members of industry initiatives, membership is not a key dependency on a firm's ability to set or meet its transition goals. Additionally, the recommendation to disclose how membership in industry associations supports, and does not undermine, an entity's climate objective does not recognize that firms are members of these associations for a variety of reasons, that trade associations are frequently representing numerous different companies and no company is generally able to direct a trade association's position and that trade association positions do not always represent the views of individual members.

3.3 Engagement with government, public sector and civil society

It is important to ensure flexibility in how companies make any disclosures on engagement with government, public sector and civil society. We recommend making optional the TPT's recommendation that entities disclose engagement and collaborative activities with the government, public sector organizations, and civil society to support the strategic ambitions of the transition plan.

This element could suggest that an entity cannot meet its transition objectives without engaging on broader economic public policy. While broader enabling government policy will be needed to facilitate the transition, this disclosure recommendation could suggest that companies and financial institutions are responsible for achieving that government policy and that they cannot meet their transition goals without engagement on broader climate policy.

The proposed section also requires firms to prove a negative (i.e., disclosing how their engagement activities support, and do not undermine, their net zero objectives). For example, the section suggests disclosure of whether and how a firm's engagement positions are aligned with its climate objectives, targets and interim goals (e.g., in line with a 1.5 C trajectory).

4. Metrics and targets

It is beneficial for both users and preparers that the framework provides a consistent, comparable framework with targets backed by relevant metrics to enable progress to be assessed. We believe that at this point, the value of metrics and targets outside of GHG emissions is nascent/in development and that the TPT should focus its recommendations on GHG reporting emissions in the sector-neutral framework at this time. For example, some of the suggested disclosures for metrics and targets related to engagement activities are problematic. We would be opposed to any requirement or expectation to disclose metrics and targets related to engagement activities. It may be difficult, if not impossible, to measure the outcome of a climate-related engagement or how such an engagement led to a “material positive change in company operations.”

We support granting users the flexibility to disclose the metrics and targets relevant to their business models, clients, and industries. The sector-neutral framework could be supplemented by additional relevant metrics and targets through sectoral guidance. Disclosures for specific mandated metrics such as GHG emissions and carbon credits should also be aligned with ISSB disclosure standards to ensure consistency and comparability.

4.1 Governance, business and operational metrics and targets

As discussed in our general comments above, it is important to provide sufficient flexibility in the sector-neutral framework to accommodate different companies across the economy. There should be greater flexibility in how metrics should link to foundations, implementation strategy, and engagement strategy. Financial targets may not be relevant for all sectors or firms. To that end, we propose that the disclosure recommendations under section 4.1 be considered optional, subject to any additional recommendations established in relevant sectoral guidance. We also encourage the TPT to support qualitative disclosures wherever possible under section 4.1.

We propose that entities are permitted to “comply or explain” to meet the disclosure recommendations under 4.1, subject to any additional recommendations established in relevant sectoral guidance. We suggest avoiding any requirement or expectation to disclose metrics and targets related to engagement activities. It may be difficult if not impossible to measure the outcome of a climate-related engagement or how such an engagement led to a “material positive change in company operations.” Furthermore, due to the highly tailored nature of engagement efforts, disclosures would not improve comparability amongst different transition plans.

4.2 Financial metrics and targets

We echo the comments in section 4.1, as they pertain to the recommendations under 4.2. We prefer optionality and flexibility in how metrics should link to Foundations, Implementation Strategy, and Engagement Strategy and wish to highlight that financial targets are not relevant for all sectors or firms (e.g., less relevant for a bank). We also encourage the TPT to support qualitative disclosures wherever possible under section 4.2.

4.3 GHG emissions metrics and targets

As discussed above, we support entities leveraging firm-wide metrics and frameworks when meeting disclosure requirements under this section. Target setting at the legal-entity level is likely not a piece of disclosure that would be relevant or meaningful to users of transition plan disclosure. We also suggest that companies are able to identify material scope 3 emissions for the business and should not have to explain the irrelevance of every potential category that is not material.

Additionally, any financed emissions metric recommendations should clarify that they would only be recommended for sectors where a financial institution has set a target.

4.4 Carbon credits

Greater clarity is needed on the requirement to have a carbon credit approach consistent with the mitigation hierarchy outlined by SBTi in addition to the VCMi code of practice.

The proposed disclosure requirements are more extensive than the ISSB. For example, disclosure of the number and cost of credits is not a requirement under the ISSB standards. These disclosures could involve disclosing competitively sensitive information and could create significant reputational risk. We therefore propose aligning the framework with the ISSB disclosures in this area.

5. Governance

5.1 Board oversight and reporting

The recommendations under 5.1 may have the effect of dictating governance practice rather than disclosure and assumes a level of Board direct engagement with transition-related information that may not be appropriate for all companies. The Board's role is to provide oversight as a general matter, but it may not find it necessary to approve the plan or be as directly involved as the disclosure recommendations indicate.

For enterprises and in particular financial institutions seeking to provide global group-wide transition plans, consideration of the role of a UK subsidiary Board is required. Furthermore, as noted above, having UK subsidiary boards accountable for global planning in other jurisdictions is not appropriate, though ensuring that there is a structural consistency of such reporting with UK requirements could be applied.

The recommendations may inadvertently dictate market practice through disclosure. For example, the section includes very granular board disclosure, including frequency of board reporting on the transition plan; process for board review of the plan; and roles and responsibility of the Board and its subcommittees with regards to the transition plan. The section also suggests disclosure of how the Board considers transition plan elements in wider strategy, risk management, and decision-making on resource allocation. The Board may or may not incorporate the practices listed above, but in recommending its disclosure, the TPT may be inadvertently driving the Board to focus on transition planning at the expense of other governance topics that may be of equal or greater importance to the company and its stakeholders.

We recommend that the board oversight and reporting recommendations should be more principles-based in nature, removing disclosure suggestions related to the frequency to which the Board reviews or meets to discuss the transition plan and how often the Board considers transition plan elements in strategy, risk management, and decision making. A more principles-based disclosure would strike the right balance between providing enough detail on the Board's involvement with transition plans while allowing enough flexibility for companies to report their governance of transition plans in a manner that would be useful to users of transition plan disclosures. We also note that the FCA is considering its regulatory framework for governance, incentives and competence in regulated financial institutions to support sustainable change.

As discussed in our comments above, it is also important to provide a practical framework for governance with respect to groups with entities in multiple jurisdictions.

5.2 Roles, responsibilities, and accountability

We support removing the recommendation to disclose whether the transition plan disclosure meets shareholder approval. In line with our comments above, recommending the disclosure of whether a transition plan is subject to shareholder approval could be interpreted as trying to dictate practice, since this information is already publicly available elsewhere if a plan is approved by shareholders.

Additionally, recommendations to disclose how relevant corporate procedures, systems and decision-making process have been amended to support transition plan delivery is unnecessarily granular and may include disclosing proprietary information. We would recommend either removing or making this disclosure optional.

5.3 Culture

Consistent with our comments above, the recommendations under section 5.3 Culture seem to dictate practice rather than disclosure. We therefore suggest either removing or making optional the disclosure recommendations under section 5.3 culture. If included, the Disclosure Framework should clarify that disclosure of cultural alignment activities is required only if the information to be disclosed is material.

5.4 Incentives and remuneration

As per our comments above, the recommendations under section 5.4 Incentives and remuneration seem to dictate practice rather than disclosure. We would suggest that this disclosure is removed or considered optional.

5.5 Skills, competencies, and training

As per our comments above, the recommendations under section 5.5 skills, competencies, and training seem to dictate practice rather than disclosure. We would suggest that this disclosure is either removed or voluntary.

Contacts

Oliver Moullin, Managing Director, Sustainable Finance and General Counsel

Oliver.Moullin@afme.eu

Giorgio Botta, Manager, Sustainable Finance

Giorgio.Botta@afme.eu

Arshdip Singh, Graduate, Sustainable Finance

Arshdip.Singh@afme.eu

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