
Response to The Transition Plan Taskforce Call for Evidence on a Sector-Neutral Framework for private sector transition plans

13 July 2022

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to respond to the UK Transition Plan Taskforce Call for Evidence on a Sector-Neutral Framework for private sector transition plans (the “Call for Evidence”).

AFME welcomes the work of the Transition Plan Taskforce (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.

It is important that a cross-sectoral framework is developed and applied to a broad coverage of the economy to enhance the quality, consistency and comparability of transition plans. This will support companies in developing effective transition plans and investors in assessing plans, helping address the risk of greenwashing.

A robust transition planning framework for corporates is also important to enable banks to support companies in their transition, to facilitate transition finance, to enable them to deliver on their own net zero commitments, for the purposes of banks’ own disclosures and to aid the assessment and management of climate risk. Greater standardisation of the transition planning framework should also help companies provide the information required by financial institutions.

We therefore welcome the work of the TPT and strongly support the development of a sector-neutral framework, supplemented by sectoral templates. As the Call for Evidence highlights, there are numerous other initiatives developing requirements and guidance for transition plans. We welcome TPT’s commitment to coordination with a view to avoiding duplication and divergence of standards. As the TPT continues its work, it is essential that it continues to focus on coordination with other transition planning initiatives and requirements including those frameworks noted in table 2 of the Call for Evidence.

In particular we note that GFANZ is aiming to create a global baseline for net-zero transition planning and has recently published a note on expectations for real-economy transition plans and proposed recommendations and guidance on transition plans for financial institutions. There are also initiatives under way with several references in EU regulation and draft EFRAG standards under the EU Corporate Sustainability Reporting Directive in addition to the ISSB standards and those initiatives identified in Table 2 of the Call for Evidence.

It is important that an internationally consistent approach is taken to transition plans 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 requirements in different jurisdictions with the same objective, particularly if requirements are introduced at entity rather than group level. This risks undermining the objectives of a clear, comparable framework. We therefore strongly encourage continued coordination with other standard-setters as this work continues – in particular when developing sector-specific standards for financial institutions.

In light of the direction set by the UK government that it expects that the ISSB standards will form a core component of the UK Sustainability Disclosure Requirements framework, and the backbone of its corporate

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reporting element, the TPT should take this into account when developing its proposed framework, for example when considering matters addressed by the ISSB standards such as the location of transition plan disclosures.

As the framework is developed and finalised, we request that guidance is made available by the TPT in good time, with an appropriate implementation timeframe for financial institutions to resource and plan appropriately for implementation.

Questions for feedback:

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

We agree with the proposed definition of a transition plan. As noted in the Call for Evidence, there is not a commonly agreed definition of transition plans and as with other areas, consistency in defining transition plans across initiatives is important to aid understanding and comparability of plans. We note, however, that the TPT should broaden its focus to consider strategy as well as targets. Targets are relevant for signalling a change in carbon intensity/absolute emissions to evidence alignment and to an extent minimize climate transition risk. Physical climate risk is separate and targets may not be relevant.

The TPT may want to consider broadening the focus from mitigating ‘climate risk’ to mitigating ‘climate change’. This change would prevent the definition from being too narrow as company plans should encourage businesses to develop strategies that capitalise on climate opportunities.

We would also encourage the definition to be amended to include a reference to the need for a “just transition”.

2. From your perspective, who are the key users of transition plans?

We expect that transition plans will provide useful information for a broad range of stakeholders. From AFME’s perspective, key users of transition plans include investors and banks. Real economy firms, banking and finance firms will use and/or produce transition plans. Additionally, we see investors/shareholders as being users, as would data providers who collect/aggregate information presented through transition plans. Transition plans will also be important for suppliers which will need to understand the transition plans of their large customers as they develop their own decarbonisation plans.

3. From your perspective, what are the key use cases for transition plans?

Investors and other stakeholders need to understand an organisation’s strategy and plans for the transition and progress made against them.

Banks are important users of transition plan information for a number of purposes including facilitating the provision of transition finance, to enable banks to deliver on their own commitments, for the purposes of their own disclosures and to inform their assessment and management of climate transition risk. Transition plans therefore perform an important role in providing banks with information that will support their financing of companies as they transition to a low carbon economy, as well as to enable banks to monitor progress in their

own transition plans as a large proportion of banks' carbon emissions is generally through scope 3 financed emissions.

Preparers should see transition plans as a framework to build a strategic pathway to deliver their net-zero ambition. Organisations should consider this to be more than just a 'reporting activity' and instead leverage the opportunity to create a vision and implementable plan that will guide the company towards a net-zero economy.

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?

We support broad sectoral coverage for transition plans. It is important that a cross-sectoral framework is developed and applied to a broad coverage of the economy to enhance the quality, consistency and comparability of transition plans. This will support companies in developing effective transition plans and investors in assessing plans, helping address the risk of greenwashing.

A robust transition planning framework for corporates is also important to enable banks to support companies in their transition, to facilitate transition finance, to enable them to deliver on their own net zero commitments, for the purposes of banks' own disclosures and to aid the assessment and management of climate risk. Greater standardisation of the transition planning framework should also help companies provide the information required by financial institutions.

In terms of prioritisation, consideration could be given to the sectors which have the most significant transition requirements as the economy transitions to Net Zero.

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? Why?

The TPT should focus primarily on climate. At the same time, there should be space for companies to explain the overall sustainability of their transition plans, including how their contributions advance social and economic needs in the just transition and/or how social and economic considerations present tensions, trade-offs, or constraints that must be considered and addressed in a holistic response that works for both planet and people.

6. Which of these issues are 'must-haves' 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?

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

The TPT should take account of the potential for negative unintended consequences of rigid requirements that incentivize individual firms to divest high carbon assets in order to demonstrate entity-level decarbonization on paper, while simply transferring assets and their associated emissions to other firms (which may have lower climate ambition, disclosure, and/or regulatory requirements). GFANZ and certain environmental groups have acknowledged this as the "transferred emissions" problem.

TPT guidance should recognize that the goal must be reducing actual emissions in the real economy, rather than merely showing individual level emission reductions. TPT guidance should encourage reporters to consider and disclose the expected net greenhouse effect of their decarbonization activities, including on divestitures and acquisitions. TPT should create space for the possibility that acquiring high carbon assets could be a valid strategy for supporting economy-wide decarbonization if there is a credible plan for retrofit, repurposing, or early retirement, and conversely that divesting high carbon assets should be done with consideration to their future owners/operators' climate ambition and plans.

8. What other financial or non-financial, mandatory or voluntary frameworks and processes are you aware of that the TPT should consider as it proceeds?

We strongly support the TPT aiming for as much international alignment as possible when developing its framework for transition plans and we agree with its approach to draw on the work of existing organisations (e.g. GFANZ, TCFD, ISSB). However, it is important to maintain that international alignment along a principles-based framework focusing on key objectives on emissions trajectories and alignment with appropriate economy/ sector benchmarks remains the goal.

The ISO management systems, e.g. 14001, could be useful to support the development of transition plans and provide a verification framework.

With respect to sectoral framework for the financial sector, we encourage the TPT to provide consistency with the work undertaken by GFANZ in particular.

In addition to the initiatives noted in Table 2 of the Call for Evidence, the TPT should consider proposals under the EFRAG exposure drafts and references in proposed EU legislation such as the Corporate Sustainability Due Diligence Directive.

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.

In light of the direction set by the UK government that it expects that the ISSB standards will form a core component of the UK Sustainability Disclosure Requirements framework, and the backbone of its corporate reporting element, we propose that the location of disclosures on transition plans is aligned with the ISSB standards.

As a baseline, however, transition plan information disclosure should be reported outside of financial reporting. For example, this will allow for the sufficient time lag that is needed between reporting by non-financial corporates and financial services firms, to enable the latter to take into account the transition plans of their clients. In addition, any part of the transition plan framework that recommends disclosure of transition plan-related information in financials must be subject to financial materiality.

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?

While we recognize that taking a prescriptive approach to developing the sector-neutral framework will facilitate comparability between transition plans, a prescriptive approach will not necessarily work well for

all sectors. For example, there is significance variance in how banks are setting their methodologies and targets, which are based on varied underlying scenarios related to their specific portfolios and clients. Transition plan flexibility for banks and financial institutions will be an important principle for the TPT to consider.

We highlight that TPT should have regard to the various different activities of financial institutions which encompass more than just lending, financing and investing. The TPT should be clear about the specific activity/assets which it considers ought to be captured in a transition plan.

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?

Standardised data and metrics would help support comparability of transition plans. As discussed above, we encourage alignment with other existing initiatives to avoid fragmentation and facilitate international comparability.

Where possible, all metrics should be based on the GHG Protocol and disclosure on emissions targets and supporting KPIs should be consistent. Absolute emissions should be disclosed in all transition plans, as well as the net-zero ambition date. The TPT may also consider including the disclosure of the carbon intensity of products, where material and to ensure companies are not penalised for growth.

Other potential metrics that should be considered include: emissions targets, green revenues targets, green CAPEX requirements, green financing, green invested capital (i.e. the net working capital + property, plant and equipment on the balance sheet that goes to producing green technology or mitigating carbon emissions).

The TPT should also define timelines (short-, medium- and long-term) to ensure consistency across transition plans.

However, some flexibility should be allowed. For examples, companies that cannot provide a precise number should have to explain the reasoning for that (e.g. technology maturity/scalability/costs, financing availability, supply chain barriers, etc.). 'Comply or explain' requirements should include sector specific guidance that suggests where it is not appropriate for organisations to opt for non-compliance.

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?

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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?

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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?

The TPT could help explain to preparers that upfront investment has the potential to generate longer-term benefit, especially if the company is subject to a well-functioning carbon market. The impacts of climate change and transition risks will have significant costs in the future, and significant investment in the short-term could result in a smaller societal cost down the line.

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

We support the proposed principles, but make the following suggestions for consideration:

Principle 1 (align with an economy-wide net-zero transition) should consider the fact that certain businesses will ‘avoid’ emissions while not decarbonising their own operations, e.g. battery manufacturers. There should be nuance that allows for these companies to show their products and services are not net-zero aligned in the long-term but are not able to achieve immediate decarbonisation in the short-term.

Principle 2 (focus on concrete actions which emphasize the near-term and are backed up by clear governance mechanisms) should consider that a near-term focus on concrete actions is not practicable for some of the harder to abate sectors and certainly for end use emission from oil and gas. On the other hand, operational emissions in oil and gas should be part of transition plans and there is ample near term opportunity there.

Principle 3 should consider external verification, potentially phased in over a few reporting periods.

16. Are there any principles that you would add to the list above? Why?

Plans should be designed to produce decision-useful information for their audience. This will include information that can be easily translated into the actual reporting of impact on emissions from actions taken.

17. Which of these principles would you regard as ‘must-haves’ or as ‘desirable’?

We view each of the proposed three principles as important elements of the cross-sectoral framework. It is important that transition plans align with an economy-wide net zero transition, set out clear actions and interim targets with regular reporting on measurable progress.

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 reflects differences between approaches taken in different jurisdictions?

It is very important to consider the application of the framework to internationally active firms with businesses that may be subject to different jurisdictional requirements and different economic transition ambitions and pathways in different jurisdictions. This is an area where we particularly encourage the TPT to consider in conjunction with other bodies establishing standards and guidance on transition plans. It will be

important for internationally active firms to be able to align their transition plan with the relevant transition pathways in the jurisdictions in which it operates.

In addition to considering different economy-wide transition pathways, we consider that international groups should have flexibility to prepare transition plans at group level, taking account of different pathways and plans for different parts of the group's business. Introducing entity-level requirements for transition plans under different transition plan frameworks would be likely to reduce comparability between entity level and group plans.

19. Do you agree with the proposed elements? Why or why not?

We welcome the work of the TPT to synthesise elements of transition plans from existing guidance frameworks. We also welcome the work of the GFANZ workstream on real-economy transition plans which is seeking to assess the key components of transition plans which are needed to provide relevant information to the financial sector¹ and encourage the TPT to take this into account when defining the elements and sub-elements of its framework.

The proposed elements and sub-elements are useful and provide a helpful framework for developing a transition plan. While there are numerous elements and sub-elements that may be picked up in other frameworks, we recommend that the TPT framework take a holistic approach to avoid a complicated system of referencing. In order to minimise the administrative burden on organisations, these elements and sub-elements could be designated as advisory only where material. Investment plans or financial budgeting should also be considered here.

20. Are there any elements that you would add to the list below? Why?

An additional element that considers the third-party verification of transition plans should be introduced to ensure a robustness of approach. In addition, expanding the Management Activities and Plans element to include *Financial* Activities would ensure a holistic management approach is taken in developing the transition plan and provide useful information for investors.

21. Which of these elements 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?

A holistic plan should include all of the elements proposed, but materiality should determine the level of disclosure required under each element.

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?

Sector specific guidance may help address potential barriers to implementation for businesses with less material climate impact. Financial services organizations would benefit from specialist, tailored guidance on how to assess investee company transition plans. It would be useful to have an internationally accepted transition plan template to reduce the reporting burden on companies operating globally.

¹ GFANZ [Introductory Note on Expectations for Real Economy Transition Plans](#), June 2022

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About AFME

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.²

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