

TRANSITION PLANS WILL UNDERPIN PROGRESS TOWARDS NET ZERO

Ahead of and during COP26 in Glasgow companies and financial firms around the world made hundreds of different net zero commitments. This included financial firms with assets of over \$130 trillion who all committed to the aims of the Paris Agreement and to align their portfolios with net zero by 2050.

Some firms are now beginning to publish their plans to get to net zero. Yet there is huge variability in the quality and robustness of these plans, even if plans are published at all. Without much more robust standards and significantly greater transparency and accountability, many of these important and well-intentioned new commitments are unlikely to be achieved. There are just too many opportunities for greenwashing and for yet more talk to be followed by too little action.

Credible and appropriately detailed transition plans, integrated with other disclosures and incorporating short-term milestones and targets, will be essential for changing this. Not only will such plans drive organisational change, they will also send signals that will re-wire supply chains and create demand for the finance and financial services required to realise net zero. Critically, they will also support investors and civil society hold company boards and management to account.

It is therefore a very significant development that the UK Government will make mandatory the publication of firm-level transition plans across the UK economy.

The Chancellor announced new Sustainability Disclosure Requirements (SDR) at his Mansion House speech in July 2021. In October 2021, the UK published its Green Finance Roadmap for delivering this. SDR will introduce requirements for decision-useful disclosures on sustainability across the economy. It will, for the first time, bring together existing sustainability-related disclosure requirements under one framework.

SDR will require disclosures on transition plans. At COP26 the UK committed to making this a requirement for certain financial sector firms and listed companies by 2023. As standards for transition plans mature, the government and regulators will make it mandatory for firms to publish their transition plans. This will encourage consistency and comparability in published plans and support more widespread adoption.

While there is not yet a commonly agreed standard or 'template' for what a good quality transition plan looks like, this will change rapidly. This week HM Treasury has formally launched a new Transition Plan Taskforce, to develop the gold standard for UK firms' climate transition plans.

The Taskforce is led by a Steering Group of private and public sector leaders, co-chaired by the CEO of Aviva Amanda Blanc and Economic Secretary to the Treasury John Glen. It is supported by a Delivery Group of senior experts from across industry, academia and civil society. The Secretariat for the TPT is provided by the [UK Centre for Greening Finance and Investment](#) (CGFI) and climate change think tank [E3G](#).

Transition plans will support a range of use cases, including the development of sustainability-linked instruments and investor stewardship, as well as financial regulation and corporate strategy.

The Taskforce will work to develop appropriately detailed sectoral transition plan templates, alongside associated guidance on metrics and targets (and also consider the wider ecosystem e.g. third-party verification). It will provide guidance for real economy sectors and financial services sub-sectors. The Taskforce will also create a sandbox for users and preparers to pilot and evaluate transition plan templates and metrics.

While the Taskforce's work will focus on providing recommendations to UK regulatory processes, it will also aim to provide a leading example for the development of other jurisdictions' national standards and for the development of international standards and norms, including the new International Sustainability Standards Board. The UK's expectations for transition plans will have an impact on companies around the world, given the UK's standing as a listing location for international companies and a hub for financial services firms managing investments from around the world.

The destination, net zero by 2050, is already law in the UK. The challenge is getting all parts of society to contribute to and think constructively about how we get there. Getting companies and financial firms to do this systematically through transition plans can spur action and help shift capital allocation.

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