



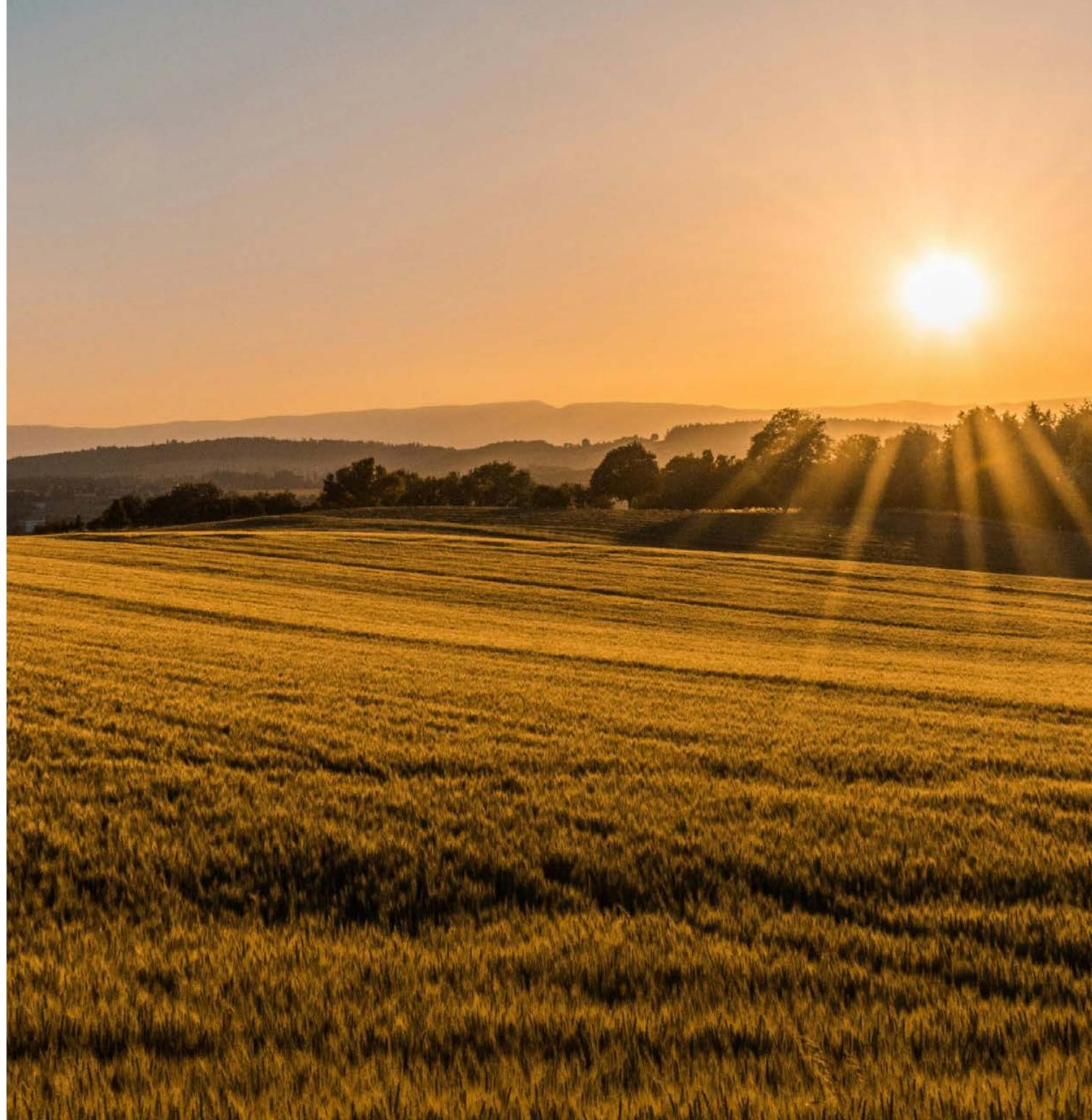
Transition Planning Cycle

APRIL 2024

Acknowledgements

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About the TPT

The United Kingdom (UK) has set itself ambitious and legally binding targets to cut greenhouse gas (GHG) emissions to net zero by 2050, with binding interim targets. The UK has also pledged at UN climate negotiations to cut emissions by at least 68% by 2030.¹

In October 2021, the UK government published the Greening Finance Roadmap, signalling that it intends to strengthen new and existing sustainability reporting requirements for companies, including publication of climate transition plans.

At COP26, the UK Chancellor further committed to work towards the UK becoming the world's first Net Zero-aligned Financial Centre and ensuring that financial flows shift towards supporting a net zero economy. The Chancellor also set out that the UK will move towards making publication of transition plans mandatory.

The Transition Plan Taskforce (TPT) was launched by HM Treasury in March 2022 with a mandate to bring together leaders from industry, academia, and regulators to develop good practice for transition plan disclosures for finance and the real economy. In addition, the TPT has been tasked to engage with non-UK governments and regulatory networks to

support conversations on how to build common baselines and principles for transition planning. This has included the Financial Stability Board, the International Organization of Securities Commissions (IOSCO) and the Network for Greening the Financial System (NGFS), as well as the G7, G20, UNFCCC and the Coalition of Finance Ministers for Climate Action. The TPT's Disclosure Framework complements, and builds on, the ISSB's final Standards IFRS S1² and S2³ and draws on GFANZ's framework and guidance for credible, comprehensive, and comparable net zero transition planning.

In the 2023 Green Finance Strategy, the UK government committed to consult on introducing requirements for the UK's largest companies to disclose their transition plans if they have them.⁴ In addition, the Financial Conduct Authority (FCA) has signalled its intention to consult on strengthening requirements for transition plan disclosures in line with the TPT Disclosure Framework, alongside its consultation on implementing UK-endorsed ISSB Standards.⁵

In January 2024 the TPT's mandate was extended to 31 July 2024, with the possibility of a further 3-month extension in order to contribute to the work of the new Transition Finance Market Review.

At COP26, the UK Chancellor further committed to work towards the UK becoming the world's first Net Zero-aligned Financial Centre and ensuring that financial flows shift towards supporting a net zero economy

1) See UK Climate Change Act 2008 and the UK's Nationally Determined Contribution, as updated September 2022

2) International Financial Reporting Standards (IFRS), [IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#), 2023

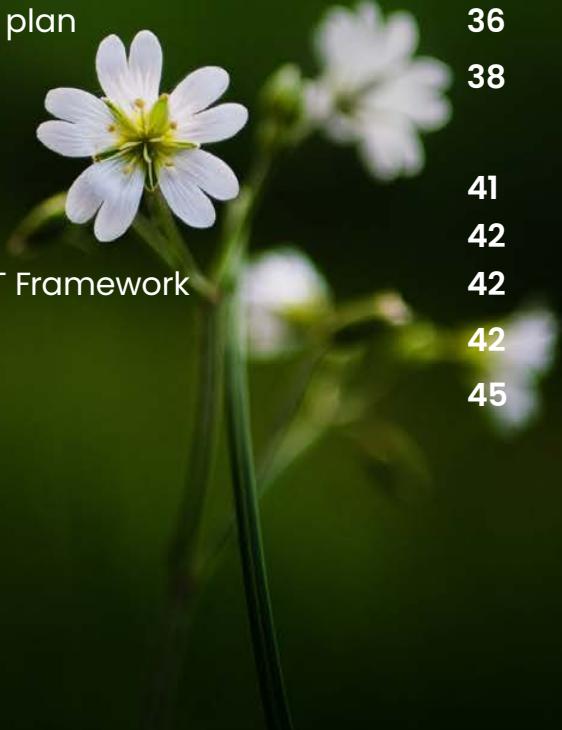
3) International Financial Reporting Standards (IFRS), [IFRS S2 Climate-related Disclosures](#), 2023

4) UK Government, [Mobilising green investment: 2023 green finance strategy](#), 2023

5) FCA, [Primary Market Bulletin 45](#), 2023

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Overview

The transition to a low-greenhouse gas (GHG) emissions, climate-resilient economy is urgent and will require fundamental transformations in business and finance. Transition planning, embedded in corporate strategy, is a critical tool to deliver this.

But transition planning is not a 'once and done' activity. The scale and complexity of the challenge are unprecedented. The uncertainties in the planning process are as inevitable as they are wide ranging – be they related to policy, technology, or the changing climate itself. Operating in an interdependent system, every entity will need to navigate its interactions, resources and relationships with stakeholders, society, the economy, and the natural environment as it transitions. Furthermore, making the transition to net zero while the climate is already changing is difficult: there is a risk that investments in the net zero transition will be undermined by climate impacts and transition plans may be derailed by a changing climate.

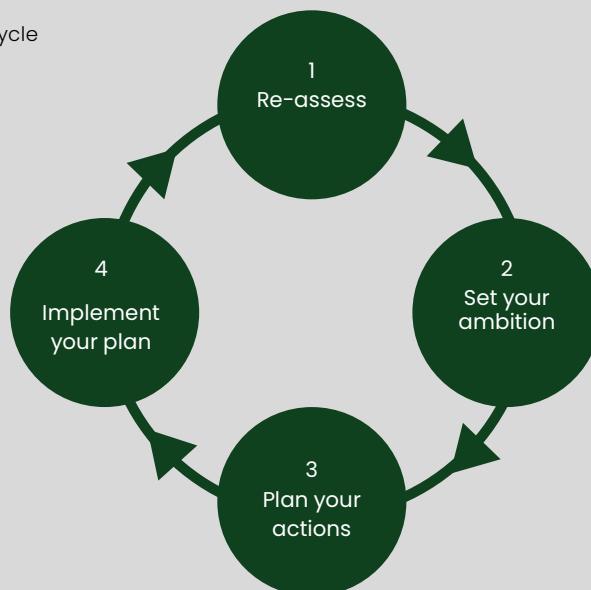
Transition planning must be flexible, iterative, dynamic, and responsive to new information and external developments. And transition plans will have to be regularly reviewed and updated.

This is an illustrative guide as you start or continue your transition planning journey. Sitting alongside and referencing the TPT Disclosure Framework, it offers helpful steers on matters for consideration at each of four, iterative and stylised, stages of the Transition Planning Cycle.

For each stage, we have suggested several process steps that you may consider as you develop and iterate your transition plan. Under each step, we have included links to relevant external resources, offered internal governance and engagement considerations. Examples and case studies drawn from existing practice on transition planning can be found on the TPT Website. Readers should note that transition planning is an emerging space in which current practice is rapidly evolving.

While these stages and process steps are presented sequentially, some entities may perform certain activities in a different order. This guidance document is necessarily stylised and is **not intended** to be **prescriptive, comprehensive, or universally applicable**.

Figure 1: The Transition Planning Cycle



Stage 1: (Re-) Assess:

The first stage of preparing a transition plan is to assess your current position, leveraging the analysis of climate-related risks and opportunities carried out to support your wider corporate strategy and disclosures in line with the ISSB Standards and/or the TCFD recommendations:

- **Before you start: Engage your board**
- **Before you start: Ensure cross-company ownership**
- **Map key stakeholders**
- **Assess your climate-related risks and opportunities**
- **Measure your emissions footprint**
- **Identify your transition levers**
- **Assess your impacts and dependencies**

Before you start: Engage your board

As you set out on your climate transition planning journey, it is important to establish robust governance arrangements to ensure appropriate awareness, ownership, and challenge. As part of this, you may consider taking steps to build Board-level buy-in, awareness, and skills.

Transition plans are an integral aspect of an entity's corporate strategy. Responding to climate change to protect and enhance long-term value is a Board-level issue in line with directors' duties. Regardless of where you are in your transition planning process, it will be important to ensure that your Board has a good baseline and shared understanding of:

- climate science and concepts;
- your entity's climate-related risks and opportunities (physical, transition and liability);
- the organisational capabilities and competencies to assess and respond to those; and
- their governance role relating to climate.

Board members are likely also to have views and opinions on how climate adaptation and transition considerations should best be integrated into corporate strategy and objectives.

Board engagement may be built through internally or externally provided training and regular briefings, and through Board effectiveness assessments.

As your strategy and transition plan develop, your Board will need to be regularly engaged on it and you may want to involve some members and Board committees in more detail. This will enable them to uphold their governance and oversight role, such that they:

- develop the right competencies, knowledge, and expertise to challenge whether the plan is robust and credible;
- can hold management to account for its delivery; and
- can ensure that the plan is being appropriately integrated into the corporate strategy and risk management processes.

Before you start: Ensure cross-company ownership

With Board-level buy-in, steps may be taken to ensure that the transition plan is owned at the executive level and embedded across functions, divisions and business lines within your organisation.

Developing and executing a transition plan will require inputs and a coordinated response across a wide range of functions, divisions, and business lines, with clearly defined roles and responsibilities. From the outset, leadership teams may therefore want to consider how they will ensure that ownership over the transition plan is embedded across the company.

Different organisations may use different governance structures to achieve this. Many will find it helpful to have a cross-functional working group (or equivalent governance body) which 'holds the pen' on the development of the transition plan.

Recognising that effective climate transition planning will entail whole-of-organisation transformation, it will need to be approached as an integral part of wider corporate strategy. Accordingly, you may need to leverage, and integrate the planning process into, existing structures for decision-making and strategy-setting.

Resources:

- **A4S**, Essential Guide to Engaging the Board and Executive Management, 2021
- **A4S**, Engaging the Board and Executive Management Tools, 2021
- **Chapter Zero**, Board Toolkit, 2022
- **World Economic Forum**, How to Set Up Effective Climate Governance on Corporate Boards, 2019

This sub-step may inform disclosure against:

- TPT Sub-Elements: **5.1. Board oversight and reporting, 5.2 Management roles, responsibility, and accountability.**



Map key stakeholders

As a starting point for your transition planning journey, you might find it valuable to conduct a stakeholder mapping exercise to identify the interactions, resources, and relationships that you use and depend on to deliver on your corporate strategy. This will include identifying key groups of internal and external stakeholders, their relative importance, assessing the current and desired level of engagement, and understanding your interactions with society, the economy, and the natural environment.

Key stakeholders may include:

- entities along the value chain (e.g. investors, suppliers, customers etc.);
- industry counterparts (e.g. peers, membership bodies, industry associations);
- governments, public sector organisations (e.g. regulators), local communities and civil society; and
- internal stakeholders (e.g. workers, contractors etc.).

Be prepared to engage key stakeholders throughout the transition planning process as resources, relationships and dependencies are relevant at every stage.

Resources

- **ICAEW**, A guide to stakeholder mapping and engagement, 2023

This sub-step may inform disclosure against:

- TPT Sub-Elements: All Sub-Elements

Assess your climate related risks and opportunities

A transition plan should be grounded in a broader understanding of your material climate-related risks and opportunities – comprising climate-related transition risks and climate-related physical risks today and in the future. You will be able to build on any existing assessment of climate-related risks and opportunities carried out to support your wider corporate strategy, and/or to support disclosures in line with the ISSB Standards, TCFD

Disclosure Recommendations and related reporting requirements that you may be subject to.

When undertaking a climate-related risk and opportunities assessment, you may assess physical (incl. acute and chronic physical risks) and transition risks (incl. policy and legal, technological, market and reputation risks), as well as climate-related opportunities (i.e. resource efficiency, energy sources, products/services, markets, and resilience).

Scenario analysis is an important tool to support the identification and assessment of risks and opportunities. Scenarios can be used to examine the implications of both transition and physical risks, as well as climate-related opportunities. Exploring different possible future scenarios will help you develop a better understanding of your exposure to possible future risks or opportunities and inform your assessment of the strategic options available to respond to these – e.g. by applying identified transition levers, financial planning and capital allocation, and engagement strategies.

While performing the risks and opportunities analysis, it will be instructive to document and challenge the assumptions and analytical choices that you have made. This will help inform future disclosures, while also building an awareness and understanding to help internal and external stakeholders interpret the outcomes.

Examples of assumptions and analytical choices include those related to macroeconomic trends, climate/related policies in relevant jurisdictions, national, and local weather variables etc.

To inform your analysis, you may also find it insightful to engage with others in your industry and across your value chain – both up- and downstream of your operations – to better understand their assessments of climate-related risks and opportunities.

When it comes to physical risk assessment, while the exact approach entities choose to use will vary based on their contexts, it is important to consider uncertainties associated with climate risk, from future emissions trajectories, climate models, scenarios impact models and adaptation responses. In the face of this uncertainty there are a range of common approaches to physical risk and opportunity assessment to help prioritise future actions. However, it is important that preparers consider all three elements of physical climate risk (hazard, exposure and vulnerability). Particularly the elements of vulnerability (and adaptative capacity), are often overlooked but extremely important in making appropriate judgements on levels of risk.

Finally, when assessing physical climate risks, it is also important to consider systemic risks, i.e. risks which interact together to create systemic impacts that are much larger than when considered in isolation.

Overall, this assessment of risks and opportunities will help you identify and prioritise vulnerabilities that need to be addressed, and opportunities that can be leveraged. This will be an important input into the development of your transition plan.

Assessing climate-related risks and opportunities will, at a later stage, help:

- define the **Strategic Ambition** of your transition plan;
- articulate the assumptions of your transition plan, as well as the external factors on which the success of your plan relies; and
- assess the resilience of your transition plan to climate-related risks and opportunities.

Leading practice

If your firm is further along in the transition planning journey or has very strong direct impacts or dependencies on the natural environment or on key stakeholders or society, you may find it valuable to integrate into this step a more comprehensive assessment of nature-related and/or social risks and opportunities. Where possible, consider quantitatively assessing these risk and opportunities. Doing so will support you in translating these risks and opportunities into principal business-related risks and opportunities, including potential financial effects.

In terms of nature-related risks and opportunities the Taskforce on Nature-related Financial Disclosures (TNFD) has developed a valuable set of tools to help entities undertake this assessment. To better understand social risks and opportunities, you may find useful to leverage existing systems for human capital management and human rights due diligence processes.

Internal governance and engagement considerations

- As you assess your climate-related risks and opportunities, consider taking steps to build awareness of these risks and opportunities, as well as the key assumptions underlying this analysis, among key stakeholders (including the Board). This will help build a common understanding of why a transition plan is required and underpin the case for action.
- It is very likely that you will encounter data gaps, inconsistencies, and uncertainties in this analysis. At the same time, there is an urgent need for action and there are likely “no-regret” actions that can be taken even in the absence of perfect information. To ensure progress is not delayed, it will be important to take steps to build comfort among key decision-makers that they will have to develop and implement plans in a context of uncertainty and imperfect data availability.
- It will also be important that the Board and other key stakeholders appreciate the scale of transformation that will be required to navigate the climate transition effectively. Taking time to understand system interdependencies will be crucial in identifying critical external factors, and assessing the feasibility of assumptions. Having a flexible mindset will be essential to support a dynamic transition planning process that is responsive to new information and external developments.

Resources

- **Adaptation Scotland**, Connecting climate risk and strategic priorities: Guide to strategic climate change risk assessments, 2019
- **A4S**, TCFD Climate Scenario Analysis – A guide for finance teams on FAQs, 2021
- **C40**, Climate Change Risk Assessment: Guidance and Screening Template, 2018
- **CDP**, Technical Note on Scenario Analysis – Conducting and disclosing scenario analysis, 2023
- **Climate Analytics**, Climate impact explorer
- **Climate Financial Risk Forum**, Online climate scenario analysis narrative tool
- **Institute and Faculty of Actuaries and University of Exeter** *The Emperor’s New Climate Scenarios: Limitations and assumptions of commonly used climate-change scenarios in financial services*, 2023
- **ISO**, ISO14091:2021 – Adaptation to climate change – Guidelines on vulnerability, impacts and risk assessment, 2021
- **MSCI**, Climate Value at Risk: Powering Better Investment Decisions for a Better World, 2020
- **TCFD**, The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities;
- **TCFD**, Guidance on Scenario Analysis for Non-Financial Companies, 2020
- **TNFD**, Recommendations of the Taskforce on Nature-related Financial Disclosures, 2023
- **TNFD**, Guidance on the identification and assessment of nature-related issues: the LEAP approach, 2023,
- **TPT Adaptation Working Group**, Building Climate-ready Transition Plans: Including adaptation and resilience for comprehensive transition planning approaches. A primer for preparers, 2024
- **UK Centre for Greening Finance and Investment**, Global Resilience Index Initiative, 2023
- **UN PRI**, Providers of Scenario Analysis and Climate Risk Metrics, 2021

This sub-step may inform disclosure against:

- TPT Sub-elements: All under **1. Foundations**

Measure your emissions footprint

A robust inventory of your Scopes 1, 2, and 3 GHG emissions is a crucial building block for your transition plan. These steps may help you identify and assess your transition levers and set the **Strategic Ambition** of your transition plan (see Stage 2).

In line with IFRS S2 Climate-related Disclosures, the TPT Disclosure Framework recommends that you follow the emissions accounting standards provided by the GHG Protocol unless otherwise required by a jurisdictional authority or exchange on which you are listed to use a different method.⁶

Accounting for Scope 1 and 2 emissions

In many cases, entities are already reporting Scope 1 and 2 emissions as recommended by the TCFD and required under IFRS S2.⁷

Accounting for Scope 3 emissions

To prepare an inventory of Scope 3 emissions, you may apply the steps and reporting boundaries of the GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard. The GHG Protocol breaks down Scope 3 emissions into 15 categories across its value chain (both upstream and downstream categories).

You may find it helpful to start by identifying the most relevant upstream and downstream Scope 3 emission categories. To do so, you may refer to the GHG Protocol's criteria for identifying relevant

Scope 3 activities, as well as the CDP Technical Note: Relevance of Scope 3 Categories by Sector.

Once relevant Scope 3 categories have been identified, you can start to quantify emissions for these categories and assess what steps are needed to overcome barriers to developing a full inventory of Scope 3 emissions.

An important input to this exercise will be engagement with key stakeholders identified across your value chain to understand their emissions profiles. This may also help assess the degree of control and influence you have over different parts of your Scope 3 emissions, and identify potential transition levers.

Accounting for Scope 3 emissions is an iterative process and many entities will currently face gaps in the availability and accuracy of data. You are likely to need to estimate Scope 3 emissions for some categories, with the ambition of improving the accuracy of your calculations over time. Any method used to estimate emissions may be documented and be applied consistently year-on-year to support comparative analysis. Any changes in methods will require an historical adjustment of that category.

In building your Scope 1, 2 and 3 inventory, you may find it helpful to use existing software tools developed to support companies in their carbon accounting journeys.

⁶) Since March 2023 the Greenhouse Gas Protocol has been processing feedback from a public consultation to update its standards across all scopes: The GHG Protocol expects to complete its work by 2025. The IASS S2 on climate disclosures references the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) as the basis for the disclosure, as long as it doesn't contradict the content in IFRS S2.

⁷) In the UK, the Streamlined Energy and Carbon Reporting (SECR) framework also requires certain UK entities to disclose Scope 1 and 2 emissions, and an emissions intensity ratio, across multiple reporting periods. It also encourages voluntary reporting on Scope 3 emissions.

Land Sector and GHG removals

Where your firm has land sector removals or CO₂ removals and storage within its value chain, you may also consider accounting for these in your GHG inventory. To do so, you can refer to:

- The GHG Protocol Land Sector and Removals Guidance, which provides guidance on how to account for GHG emissions and removals from land management, land use change, biogenic products, carbon dioxide removal technologies, and related activities in GHG inventories; as of October 2023, this guidance is available in draft form and is subject to finalisation.
- The SBTi Forest, Land and Agriculture Guidance, which provides guidance for how entities in land-intensive sectors can set science-based targets.

It is important that data on removals is collected and reported separately from data on GHG emissions. Again, you may need to engage with others along your value chain to ensure you have the necessary data to compile accurate emissions and removals inventories. For example, where a supplier both emits and removes GHGs, you may need to engage with these to ensure that their emissions and removals are accounted for separately, and that removals are certified against credible standards.

Internal governance and engagement considerations

- While you should aim for complete and accurate emissions inventories across all scopes, you are likely to face significant challenges in data collection, particularly in the short-term. As data availability improves over the coming years, expect your emissions inventories to change.
- At the same time, even incomplete emissions inventories can help senior leadership teams understand where key transition levers lie and define the priorities of the transition plan.
- The internal working group (or equivalent body) leading on this analysis can take steps to ensure that senior decision-makers:
 - are aware of data uncertainties and gaps;
 - understand that figures will evolve over time; and
 - are prepared to make strategic decisions in a context of uncertainty.

Resources

- **A4S**, Financed emissions - Top Tips for Finance Teams of Financial Institutions, 2023
- **GHG Protocol**, Corporate Accounting and Reporting Standard, 2015
- **GHG Protocol**, Corporate Value Chain Accounting and Reporting Standard, 2011
- **GHG Protocol**, Land Sector and Removals Guidance, 2022
- **GHG Protocol**, Scope 3 Calculation Guidance, 2013
- **SBTi**, Supplier Engagement Guide, 2023
- **SBTi**, Forest, Land and Agriculture Guidance, 2022
- **PCAF**, The Global GHG Accounting and Reporting Standard - Financed Emissions, 2022

This sub-step may inform disclosure against:

- TPT Sub-Elements: **1.1 Strategic Ambition** and **4.3 GHG Metrics & Targets**



Identify your transition levers

Building on the assessment of your climate-related risks and opportunities and emissions footprint, the next step is to identify the strategic levers at your disposal to respond and contribute to the transition towards a low GHG-emissions, climate-resilient economy. Transition levers are broadly defined as the range of approaches an organisation has available to them to facilitate the transition. These include a wide range of potential actions, such as capital investment, skills and training, as well as industry or Government engagement. You may consider levers across all three channels of a strategic and rounded approach to transition planning, exploring options available for:

- 1. decarbonising the entity;**
- 2. responding to the entity's climate-related risks and opportunities; and**
- 3. contributing to an economy-wide transition.**

This approach can help you consider the actions to take now to capture opportunities, minimise future risks and protect and enhance long-term value, both for your business and for the stakeholders, society, economy, and natural environment on which your business depends.

This assessment will, by nature, be highly dependent on the profile of your business. In some cases, there may be a considerable overlap of levers between these three channels. In other instances, there may be trade-offs.

In assessing your transition levers, you may find it helpful to:

- Conduct an economic abatement capacity assessment which identifies the proportion of emissions that are economic to abate using current proven technologies or that are projected to be economic to abate in the short- or medium-term.
- Revisit your scenario analysis, to help identify strategic options available to address climate-related risks and opportunities; this may include appraising options to strengthen resilience to the physical impacts of the changing climate, options to manage transition risks, or options available to increase opportunities.
- Assess your ability to engage with and influence key stakeholders identified internally and externally, to encourage actions that will contribute to the transition towards a low GHG-emissions, climate-resilient economy.
- Review, where available, relevant sectoral guidance that can help identify opportunities for the sector to contribute to economy-wide decarbonisation.

This assessment will, by nature, be highly dependent on the profile of your business



Financial Institutions

Financial institutions may consider assessing their opportunities to support the transition to net zero via the four financing strategies set out by GFANZ:

- Climate solutions: financing or enabling the development and scaling of climate solutions to replace high-emitting technologies or services;
- Aligned: financing or enabling entities already aligned to a 1.5°C pathway;
- Aligning: financing or enabling the transition of real-economy firms, according to robust net zero transition plans; and
- Managed phase-out: financing or enabling the accelerated managed phase-out of high-emitting assets.

Similarly, financial institutions also have a role to play in facilitating adaptation, by helping screen their own lending portfolios for physical climate risk and encouraging adaptation in those companies that are heavily exposed, and helping finance creation and scaling of new adaptation goods and services.

Resources

- **CPP Investments**, Abatement Capacity Assessment Guidance, 2022
- **IIGCC**, Net Zero Investment Framework – Implementation Guide, 2021
- **GFANZ**, Financial Institution Net-Zero Transition Plans, 2022
- **GFANZ**, Expectations for Real Economy Transition Plans, 2022
- **SBTi**, Financial Sector Science-Based Targets Guidance [Chapter 7], 2022
- **TCFD**, Guidance on Scenario Analysis for Non-Financial Companies, 2020
- **UN High-level champions for climate action**, How can net zero finance best drive positive impact in the real economy, 2022

This sub-step may inform disclosure against:

- TPT Sub-Elements: **1.1 Strategic Ambition**



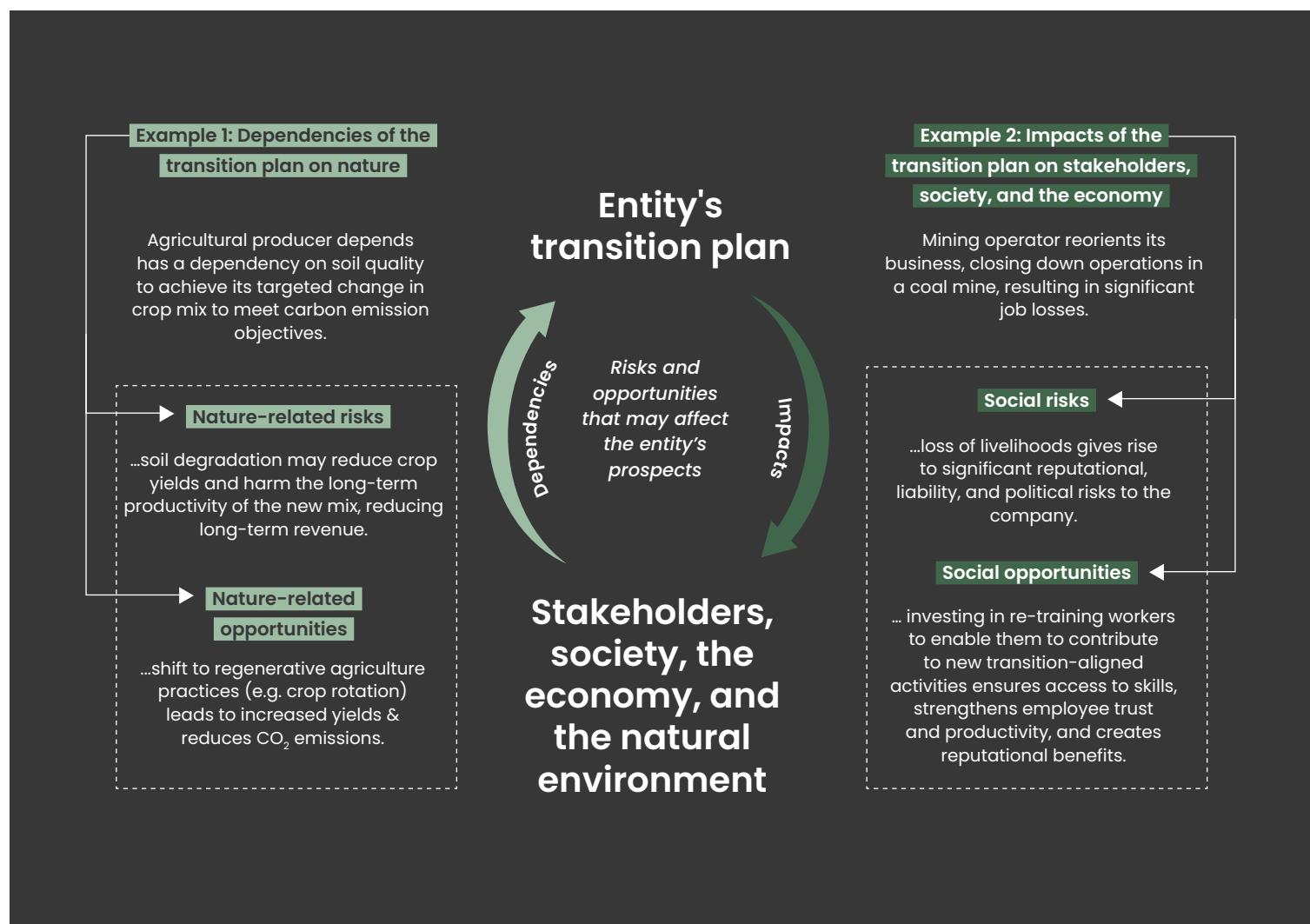
Assess your impacts and dependencies

The strategic and rounded approach recommended by the TPT Disclosure Framework encourages you to consider the actions that you can take now to capture opportunities, minimise future risks and protect and enhance long-term value, both for yourself and for the stakeholders, society, economy, and natural environment on which you depend. Once you have assessed the levers you can activate to support the transition, it is important to recognise that these may impact or be dependent on your stakeholders, society, the economy or the natural environment. These impacts and dependencies, in turn, may give rise to sustainability-related risks and opportunities that might affect your cash flows, access to finance or cost of capital over the short-, medium-, or long-term.

For example, where you have identified the closure of high-emitting production facilities as a transition lever, this may have an adverse impact on your workforce or communities in which you operate. Similarly, where a firm invests in irrigation to address water insecurity, this could create negative impacts for other communities or businesses further downstream.

You may therefore consider proactive steps to anticipate, assess and address these social consequences, which may otherwise have financial implications. Financial effects may arise from severance, litigation, reputational, or political costs, the latter perhaps being most acute where vulnerable and marginalised communities are perceived to bear the costs of the transition.

Figure 2: Illustrative example of impacts and dependencies



Be mindful that these impacts and dependencies may arise either within your own operations or in your value chain. An effective assessment will therefore require a robust engagement strategy with the key stakeholders identified through your **stakeholder mapping**.

This step will enable you to:

- Assess where and how your transition levers may give rise to other sustainability-related risks and opportunities;
- Identify where collaboration and engagement and co-financing with others is needed to manage physical risks;
- identify potential trade-offs and synergies between your transition plan and other sustainability-related aims; and
- develop action-oriented implementation steps (Stage 3) to achieve your **Strategic Ambition** (Stage 2) in a manner that captures opportunities, avoids adverse impacts for stakeholders and society, and safeguards the natural environment (where possible).

Despite the ability to work with and influence others, there may be limitations to the degree of your control over certain societal and economic factors. It is good practice to acknowledge and be as transparent as possible regarding such limitations.

Leading practice:

More advanced preparers may consider:

- Conducting a nature impact materiality assessment of key transition levers consistent with Task Force on Nature-related Financial Disclosures (TNFD) Guidance on the identification and assessment of nature-related issues: the LEAP approach.
- Referring to the International Labour Organisation Guidelines for a Just Transition, to understand the role employers play in supporting a just transition and for guidance on the principles that entities can apply when assessing the impacts and dependencies of their transition plans on stakeholders and society.

Internal governance and engagement considerations

- Meaningful dialogue with workers, unions, consumers, local communities and environmental groups can help you identify the social and nature-related risks which may arise through your transition as well as potential opportunities to deliver positive social impacts. You will likely benefit from engaging in such dialogue throughout the entire transition planning process.

Resources

- **Capital Coalition**, Natural Capital Protocol, 2016
- **Capital Coalition**, Social & Human Capital Protocol, 2019
- **Climate Action 100+**, Net Zero Company Benchmark v.12, 2022
- **International Labour Organisation**, Guidelines for a just transition towards environmentally sustainable economies and societies for all, 2015
- **Just Transition Centre and the B Team**, Just Transition: A Business Guide, 2018
- **LSE, Grantham Research Institute**, Making Transition Plans Just, 2022
- **TNFD**, Nature-Related Risk & Opportunity Management and Disclosure Framework beta v1.0, 2023

This sub-step may inform disclosure against:

- TPT Sub-Elements: all under **1. Foundations**, **2.1 Business operations** and **4.4. Carbon credits**.

Stage 2: Set your Strategic Ambitions

The second stage of preparing a transition plan is setting your **Strategic Ambition** for responding and contributing to the transition towards a low GHG-emissions, climate-resilient economy.

- **Define your objectives and priorities**
- **Identify key assumptions and external factors on which your plan depends**
- **Identify key changes to business model and value chain**

Define your objectives and priorities

Private sector entities are not just passive participants in the transition. All economic entities operate in an interdependent system in which an exclusive focus on entity-level decarbonisation and/or adaptation can lead to unintended consequences. Following the assessments undertaken in Stage 1, this step is about defining your strategic vision for the role you play in the transition to a low GHG emissions, climate-resilient economy, and defining objectives and priorities for managing that change.

Good practice transition plans should be **ambitious** and should reflect the urgency to act, arising from the observed changes in the climate and the latest scientific findings about climate change. Individual entities will define very different objectives and priorities, depending among other things on the levels of projected climate and societal change, sector, operating context, and transition levers available to them in their business models.

The TPT Disclosure Framework recommends that you take a strategic and rounded approach to transition planning, setting objectives and priorities for:

1. **decarbonising** the entity;
2. responding to the entity's **climate related risks and opportunities**; and
3. contributing to an **economy-wide transition**.

In defining your objectives and priorities, you may be informed by both '**bottom-up**' and '**top-down**' **considerations**.

Bottom-up considerations are drawn from the entity's own situation and operating context. These will include:

- the core business model and risk appetite;
- the transition levers identified under Stage 1;
- existing voluntary commitments, including stated public commitments and codes of practice that the entity subscribes to;
- relevant organisational and industry standards;
- applicable contractual relationships the entity has entered;
- the assessment of impacts and dependencies conducted under Stage 1;
- the state of available technologies;
- the policy framework in which the entity operates;
- availability of key resources (e.g. access to skills, raw materials, finance etc.).

Top-down considerations are based on the changes needed to limit the future risks of rising global temperatures, based on climate science. These can include:

- national or international commitments, such as:
 - nationally determined contributions and adaptation communications of countries in which the entity operates;
 - national decarbonisation and adaptation strategies or policies, and
 - implementation commitments by countries (e.g. the interim targets defined by the UK Climate Change Committee (CCC) in its Sixth Carbon Budget).
- any targets the entity is required to meet by law or regulation, such as:
 - laws to phase out some or all types of fossil-fuels in power production;
 - standards of protection for flood risk or heatwaves.
- science-based targets, transition pathways, roadmaps, or scenarios, such as:
 - the International Energy Agency's Net Zero by 2050 Scenario for the Global Energy Sector;
 - Sectoral Decarbonisation Pathways developed by the Science-Based Targets Initiative;
 - Sectoral Benchmark Emissions Paths developed by the Transition Pathway Initiative; and
 - Technology Roadmaps.

Engaging with relevant external stakeholders will help inform your objectives and priorities. This can include engagement with other entities in your value chain, as well as industry counterparts, government, public sector, communities, and civil society. This could help to identify opportunities to increase ambition (e.g. based on societal preference, availability of Government support or technological options) and any dependencies that need to be considered.

The TPT Disclosure Framework recommends that you disclose whether and how, in setting your **Strategic Ambition**, you have identified, assessed and taken into account the impacts and dependencies of

the transition plan on your stakeholders (e.g. its workforce, value chain counterparts, customers), society (e.g. local communities), the economy, and the natural environment, throughout your value chain, that may give rise to sustainability-related risks and opportunities. It is good practice to revisit the assessment of impacts and dependencies on stakeholders, society, the economy, and the natural environment undertaken in Stage 1 in light of your objectives and priorities. This may help you identify whether any new impacts and dependencies have arisen, or whether any existing identified impacts and dependencies have changed.

This can help you revise your objectives and priorities where you find that they may lead to negative, unmitigated impacts on nature, or adverse impacts for stakeholders and society. In addition, this step may help you identify potential positive synergies between climate, nature and a just transition.

Taken together, this can demonstrate how you have taken into account impacts and dependencies of your transition plan in determining your **Strategic Ambition** and associated objectives and priorities, that will inform the rest of the plan.

Internal governance & engagement considerations

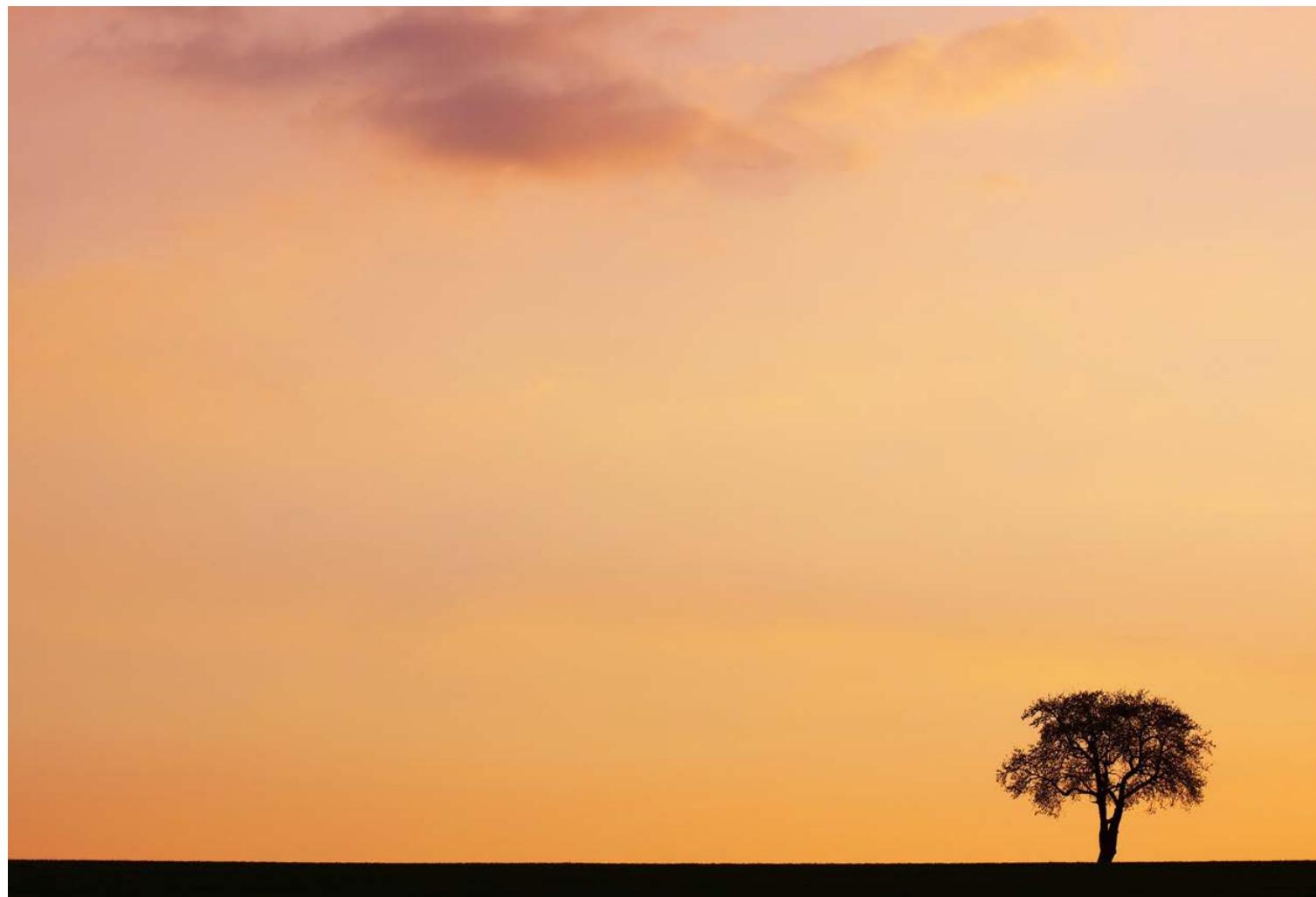
- This process step is about defining the **Strategic Ambition** of your transition plan as an integral aspect of corporate strategy. It can therefore be led 'from the top' and aligned with your wider business model and corporate purpose. It is important to engage early and often with the Board and senior management, through both new and established governance structures, to build awareness, understanding and ownership. This will include socialising the inputs to the planning process (i.e., findings from Stage 1) with the Board, and building consensus around a clear narrative and the case for change.
- At the same time, it is important that the working group (or equivalent delivery mechanism) responsible for the development of the plan involves those individuals across the entity who will ultimately be responsible for implementing key aspects of the transition plan. This can help to ensure that key individuals take ownership over aspects of the plan, and that the defined objectives and priorities are realistic.
- An executive sponsor of the working group (or equivalent governance body) responsible for the development of the plan may, at this stage, lead on socialising the findings of various assessments carried out under Stage 1 to other key stakeholders, including the Board, so that they can feed into the objective-setting process.
- The leadership sets the tone and culture of an entity for employees but also in consultation with external stakeholders. Articulating the ambition in a way that is coherent with the broader corporate strategy and in accordance with the duties of the entity's directors and senior managers, constitutional documents is critical.
- Governance structures can facilitate ongoing internal engagement and consensus building across units, divisions, and functions.

Resources

- **CFRF**, List of CFRF guides
- **GFANZ**, Defining transition Finance and Considerations for Decarbonisation Contribution Methodologies, 2023
- **GFANZ**, Financial Institution Net-Zero Transition Plans, 2022
- **GFANZ**, Expectations for Real Economy Transition Plans, 2022
- **GFANZ**, Workshops in a Box – Foundations
- **TCFD**, Guidance on Climate-related Metrics, Targets and Transition Plans, 2021, pp. 10-29; 54-65. Particularly its guidance on cross-industry climate-related disclosure recommendations.
- **SBTi**, Sectoral Decarbonisation Pathways
- **TPI**, Sectoral Benchmark Emissions Paths
- **Chapter Zero**, Board Toolkit, 2022

This sub-step may inform disclosure against:

- TPT Sub-Elements: **1. Foundations** and **4. Metrics & Targets**.



Identify the key assumptions and external factors on which your plan depends

As we have observed, developing and implementing a transition plan is necessarily a flexible, dynamic, iterative, and adaptive process. Individual entities are developing their transition plans under considerable uncertainty, reflecting (non-exhaustively):

- the inherently forward-looking nature of the exercise;
- future emissions pathways and associated levels of warming;
- future societal preferences and values;
- the interdependent nature of the transition, which relies on actions by governments and entities across the economy;
- limitations on the availability of data to support entities in analysing these interdependencies (e.g. limited emissions transparency in value chains); and
- evolving scientific knowledge and practice.

When considering these variables, you will need to make assumptions about current or future events. It also means that your ability to achieve stated objectives and priorities will depend on external factors over which you may have varying degrees of control or influence.

This may, for example, include assumptions and dependencies on:

- policy and regulatory action (e.g. existing or future subsidies for R&D activities, incentives for demand-side behaviours, government action on climate adaptation);
- decarbonisation (e.g. the speed of grid decarbonisation, the availability of key low-carbon inputs at scale);
- macroeconomic trends (e.g. labour availability, cost of borrowing, inflation, interest rates);
- microeconomic and financial factors (e.g. availability of finance, relative prices, cost of capital, margins on key activities, expected capital expenditure needs to acquire, maintain, and upgrade fixed assets);
- technological developments (e.g. speed of technological innovation, costs of key technologies);
- access to counterparty data and reliability of data (e.g. information about asset location, exposure to physical and transition risks, emissions data);
- shifts in client and consumer demand (e.g. projected demand for new and existing products and services);
- the levels of warming over the short-, medium-, and long-term;
- the physical impacts of the changing climate, potential tipping points, and the regional and spatial implications of these (e.g. expected changes in precipitation patterns, water availability, temperatures, and extreme weather events, expected impacts of these changes on assets and/or supply chains); and
- the effectiveness of adaptation efforts and possible limits to adaptation (e.g. resilience of assets and/or supply chains to changes in precipitation patterns, droughts, floods, heatwaves, and other extreme weather events).

As you define your **Strategic Ambition**, it is important to acknowledge, challenge, and raise internal awareness around the assumptions that you are making and the main external factors on which the success of the transition plan relies. An important discipline is to test the implications of key assumptions and external factors, to understand the key sensitivities of your transition plan.

This step can:

- allow you to better assess the feasibility of your plan;
- help you articulate clearly to users of the transition plan, where you rely on external factors;
- inform how you plan the implementation and engagement strategy under Stage 3 (e.g. where you identify a strong dependence on policy or regulatory change, this may help prioritise policy engagement activities); and
- empower you to be proactive in managing the implementation of the transition plan over time, as certain assumptions become more or less likely.

Internal governance & engagement considerations

- To gather as much information as possible, these steps need active internal engagement with different internal teams and functions to consider assumptions and external factors.
- Some entities might find it useful to collect information from their stakeholders and/or value chain to further complement that identification.

This sub-step may inform disclosure against:

- TPT Sub-Elements: all under **2. Implementation Strategy**.



Identify strategic changes to business model and value chain

Once your entity's ambition is identified, along with the assumptions and external factors on which it depends, it is important to identify the key implications on, and potential options for your business model and value chain. This may include consideration of how such changes can help your organisation meet its strategic ambition. When doing so, you may consider changes in the short-, medium-, and long-term.

Downstream changes:

- the entity's portfolio of products and services offered (e.g. moving from oil and gas production to renewable electricity generation and retail, shifting from a "fast" fashion product portfolio to a slow fashion product portfolio, launching new products to help mortgage customers improve the energy efficiency of their houses or increase insurance coverage for climate hazards);
- investing and supporting downstream supply chain resilience; and
- entering or exiting specific markets or locations.

Changes within the business model:

- reductions or removals in the entity's office space (e.g. a service business selling its offices and becoming fully 'remote');
- changes in the channels or methods of customer interaction (e.g. a retailer closing physical stores and becoming online-only);
- changes in 'own' site electricity and fuel usage (e.g. moving to renewable sources of electricity and powering machinery using low- or no- GHG emission fuels);
- changes in investment strategies (e.g. moving to an investment strategy with a greater focus on transitioning assets or climate solutions);
- changes in production or distribution technology (e.g. phasing out diesel-fuelled vehicles and replacing them with electric vehicles, introducing electric or hydrogen powered steel furnaces, moving to regenerative agricultural practices); and
- Creation, contraction, or changes in markets due to climate change (e.g. increasing demand for water efficiency measures or cooling measures new products and services, or changing shapes or markets).

Upstream changes

- entering new supply chains due to significant changes in product design, required inputs or procurement policies; and
- changes in the geographical reach of the entity's value chain.

Assessing the synergies and trade-offs between adaptation and mitigation actions

In developing your objectives and priorities, you will consider a range of mitigation and adaptation actions. Some may offer win-wins, while others generate new vulnerabilities or trade-offs. See the examples in Figure 3 below.

Figure 3: Illustrative synergies and conflicts between mitigation and adaptation. **Source:** TPT Adaptation Working Group, updated from Watkiss and Klein, Long-term Strategies in a Changing Climate, 2019.

Adaptation with consequences or trade-offs for mitigation	Win-win	Mitigation with consequences or trade-offs for adaptation
 Increasing air conditioning (resulting in increased electricity demand)	 Climate-Smart agriculture (low-carbon and resilient)	 Hydrogen production (potential water availability competition in periods of drought)
 Increased pumped irrigation (resulting in increased energy demand)	 Protection and rehabilitation of carbon sinks (as long as future climate is included in species choice and design)	 Biofuels and bioenergy (land availability and prices, impacts on food production and water use)
 Increased fertiliser use to increase agricultural production (resulting in increased energy demand)	 Ecosystem-based adaptation (e.g. wetlands, mangroves)	 Energy efficiency for buildings (potential overheating risk and/or lock in of development in flood risk areas)
 Desalination (resulting in increased energy demand)	 Investment in renewable energy (as long as climate proofed)	 Renewable-energy technologies that use water or affect water management (e.g. hydropower and concentrating solar power)
	 Passive ventilation for building cooling requirements	
		 Water efficiency in production and manufacturing processes

This does not necessarily mean that you should rule out all measures that may generate new vulnerabilities, but they do need to be assessed within an overall portfolio of actions. As entities develop

more robust adaptation and resilience actions within transition plans, these vulnerabilities will become more apparent, representing real challenges to being able to deliver on strategic ambition.

Resources

- **OECD** Strengthening adaptation-mitigation linkages for a low-carbon, climate-resilient future, 2021
- **TPT Adaptation Working Group**, Building Climate-ready Transition Plans: Including adaptation and resilience for comprehensive transition planning approaches. A primer for preparers, 2024

This sub-step may inform disclosure against:

- TPT Sub-Elements: all under **1.2. Business model and value chain**, **2. Implementation Strategy** and **3. Engagement Strategy**.

Stage 3: Plan your actions

A transition plan is a tool to translate ambitious objectives and priorities into pathways for action, including concrete steps to be taken in the short-, medium-, and long-term. This third stage of the transition planning process therefore involves the translation of your **Strategic Ambition** into an effective implementation and engagement strategy to deliver the transition plan.

- **Develop implementation steps for transitioning your business operations, products and services**
- **Revisit your policies and conditions**
- **Assess the resilience of your implementation strategy**
- **Review your governance structures, organisational arrangements and people strategy**
- **Develop your engagement strategy**
- **Integrate your transition plan into your financial plan**
- **Set your Metrics & Targets**

Develop implementation steps for transitioning your business operations, products and services

As a first step in planning your actions, you may find it helpful to analyse the key changes required in your business operations and products and services, to deliver on your **Strategic Ambition**, and associated objectives and priorities.

Once these changes have been identified, the actions and timelines needed to implement these can be mapped out into granular, action-oriented implementation steps for the short- and medium-term.

These implementation steps will also need to account for the key assumptions and external factors on which your plan depends identified in earlier process steps (see Stage 2). Adaptation

and resilience actions, in particular, will depend heavily on the timing and size of the physical risk, as well as the type and timing of decisions. (see Box 1 below)

This will have implications, not only for the design of your implementation strategy, but also the stakeholder engagement activities that you may need to carry out to influence the actions of others to help achieve your **Strategic Ambition**.

Depending on your strategic objectives and priorities, and the outcome of your transition levers assessment, defined implementation steps could include, for example:

Steps to introduce changes to your production processes, equipment, workforce, supply chain and procurement, such as:

- introducing energy efficiency measures (e.g. investing in state-of-the-art equipment, optimising manufacturing processes, or implementing advanced energy management systems);
- introducing processes to maintain productivity during high temperatures (e.g. changes to timing of shift patterns);
- switching to less GHG-intensive inputs (e.g. introducing low-GHG packaging); and
- improving supplier evaluations to identify suppliers with stronger alignment to your **Strategic Ambition** (e.g. by assessing suppliers current practices, climate-related objectives, and resilience to climate-related risks).

Steps to introduce changes relating to the entity's facilities and other physical assets, such as:

- moving into more energy-efficient or climate-resilient office spaces; ;
- relocating production facilities to areas with more secure supply of renewable energy or lower vulnerability to physical climate risks;
- introducing energy efficiency measures (e.g. installing insulation, or on-site renewable energy generation capacity); and
- introducing climate resilience measures (such as with passive ventilation, sustainable drainage systems and /or green roofs/walls, or flood resilient wiring).

Steps to increase the share of low-GHG emissions or climate- resilient products and services in its portfolio, such as:

- increasing the share of products providing climate solutions (e.g. introducing electric or hydrogen-powered vehicle models into your product range, including adaptation or resilience dimensions);
- increasing the share of plant-based products;
- creating new green or transition-related financial products, increasing the share of investment activities in low-GHG or climate-resilient assets (e.g. weather-linked financing for agricultural resilience); and
- innovating on customer-centric low-GHGemissions, climate-resilient service offerings (e.g. offering energy-efficient home retrofitting, providing low-GHG emissions transport solutions).

Steps to phase out high-GHG or climate-vulnerable products and services, such as:

- replacing blast furnaces with electric furnaces; and
- phasing out the sale of vehicles with traditional internal combustion engines.

Box 1: Prioritising adaptation actions for climate resilience.

Having identified climate-related physical risks, deep uncertainty can make it challenging to develop concrete actions. To identify early actions as you build your capability, thinking about the prioritising three types of action – no/low regrets actions, ‘climate-smart design’ and early actions for future decision-making.

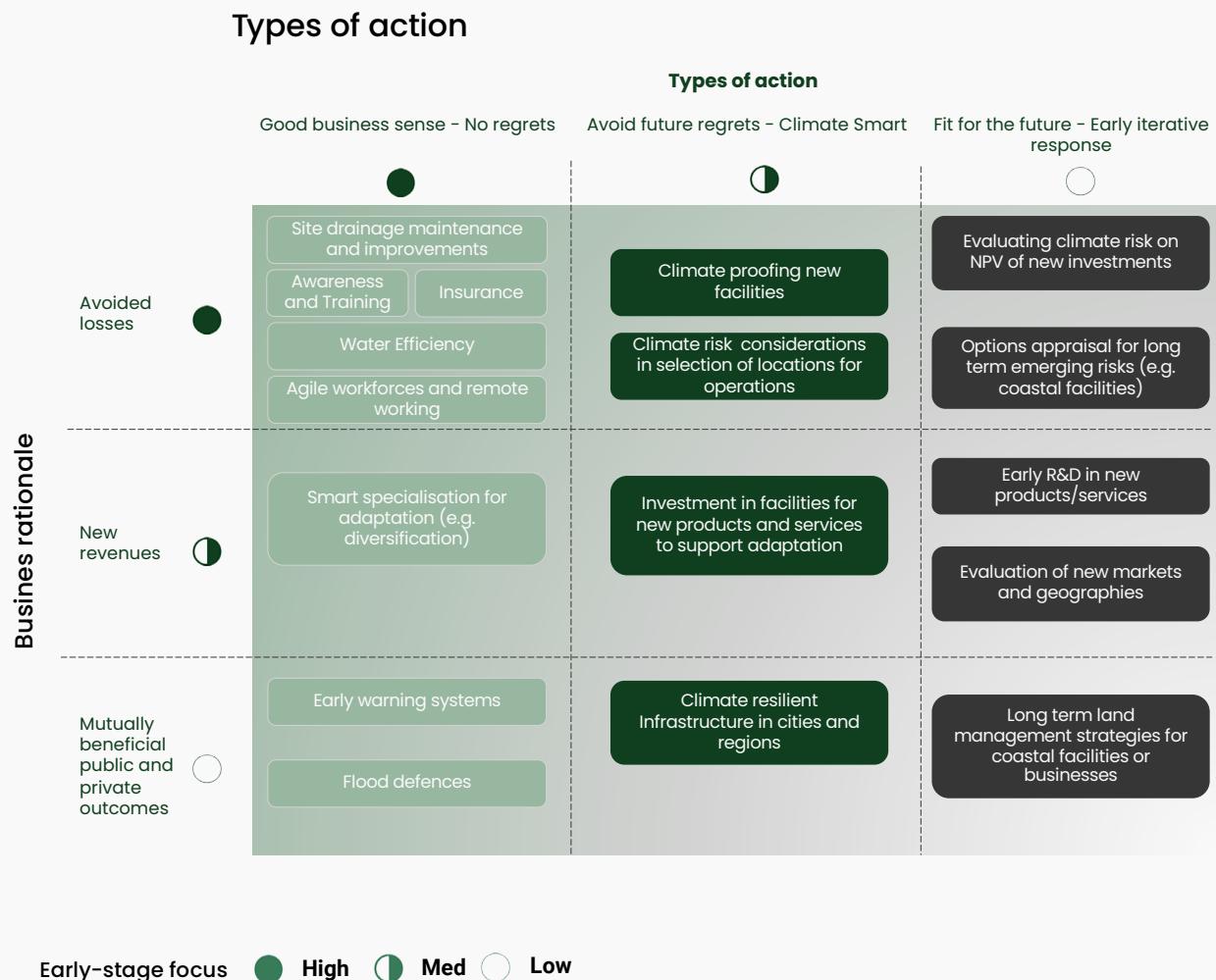
In early stages of adaptation planning, it can be challenging to develop detailed actions to include within a roadmap that make economic and financial sense without comprehensive economic and financial appraisal. This is because of the higher information requirements for adaptation actions than for mitigation.

To support early action, it is possible to identify types of adaptation actions which make broad economic and financial sense, based on the timing of risks, and the time horizon of the adaptation decision. These broadly fall into three categories:

- **No/low regret actions** – these are actions that you can take now to address current climate risks – these carry an immediate benefit.
- **‘Climate-smart design’** – these actions relate to near-term decisions which need to take into account future climate risks, provide a one-off opportunity to adapt now. For example, you could take steps to change the design of a major new infrastructure project (e.g. a production facility or logistics hub) to make them more resilient to future impacts, particularly where later major retrofits could be expensive or impossible.
- **Early adaptation activities to support future decisions and action** – these relate to decisions that you may need to take to address major future impacts of the changing climate. Some of these will take time to develop, and some will benefit from improved information and learning. In these cases, it makes sense to start planning now (especially if lead times are long or the potential for learning is large). This may include developing new market offerings aligned to projected future climate risks.

These categories can be used to create a portfolio of actions which form the basis of your plan. While each action will still need to be assessed individually, the framework provides guidance on the types of actions that may be beneficial for you now. Such actions can also be mapped against the typical business rationales to provide a matrix of activities that you can appraise in further detail:

Figure 4: Illustrative matrix of early adaptation priorities and business rationale.



Resources

- **BCG**, From risk to reward: The Business Imperative to Finance Climate Adaptation and Resilience, 2023
- **GFANZ**, Financial Institution Net-Zero Transition Plans, 2022
- **GFANZ**, Expectations for Real Economy Transition Plans, 2022
- **GFANZ**, Workshops in a Box – Implementation Strategy, 2023
- **GFANZ**, The Managed Phaseout of High-emitting Assets, 2022
- **TPT Adaptation Working Group**, Building Climate-ready Transition Plans: Including adaptation and resilience for comprehensive Transition Planning approaches. A primer for preparers, 2024
- **World Economic Forum**, Accelerating Business Action on Climate Change Adaptation, 2023

This sub-step may inform disclosure against:

- TPT Sub-Elements: all under **2. Implementation Strategy**

Revisit your policies and conditions

To ensure you can translate your **Strategic Ambition**, and associated objectives and priorities, into actionable steps for the short- and medium-term, you may consider what needs to change across policies and conditions , skills, learning and development programmes, financial and resourcing plans, data requirements, back-office investment and reporting systems, R&D and innovation strategy, or corporate transactions planning.

Depending on your strategic objectives and priorities and transition levers assessment, defined implementation actions could include:

- creating or updating policies or terms and conditions that consider climate resilience in existing processes (e.g. lending policies for evaluating borrowers or their projects, procurement, safeguards on human rights and the natural environment, hiring requirements, and staff evaluation); and
- evaluating if existing monitoring mechanisms work for tracking progress on policies and conditions that changed.

This sub-step may inform disclosure against:

- TPT Sub-Elements: all under **2.3 Policies and conditions**



Assess the overall resilience of your Implementation Strategy

As in any strategy development process, you may assess the overall resilience of your action-oriented implementation steps to external factors, as well as the physical impacts of climate change itself.

You may want to:

- test the resilience of your roadmap to changes in the key assumptions identified in Stage 2; and
- revisit the findings of your assessment of climate-related risks and opportunities under Stage 1, to assess the resilience of your plan to the changing climate.

Where key vulnerabilities are identified, plan steps to manage and mitigate these.

Having identified possible **impacts and dependencies** of your transition plan on stakeholders, society, the economy, and the natural environment (see Stage 1), it will be good practice to review planned implementation actions with reference to them. Where this step

identifies potential opportunities, you may consider refinements to the implementation steps to leverage these. Where you identify potential adverse impacts, you may consider how these can best be managed.

Consider, as an example, the planned phase-out of a high-emitting service or business line that has relied on a local workforce with skills and knowledge. Having identified the adverse impact on this local workforce arising from its implementation plan, the entity may consider opportunities for reskilling/retraining the impacted workforce. Similarly, having identified possible flood defence opportunities for manufacturing or distribution sites, this may transfer risks to other places, making obtaining planning permission challenging.

If the identified adverse impacts of your planned actions cannot be managed effectively, there may be a case to revisit the strategic objectives and priorities (see Stage 2).

Leading practice

More advanced firms may engage internal or external change management specialists to help prepare the business for fundamental, transformational change, and to coordinate and drive the necessary internal and external engagement, planning, communications and, ultimately, implementation (see Stage 4).

Internal governance & engagement considerations

- The three steps below will require deep engagement across the organisation, gathering input and coordinating (via new and established governance structures) to identify the changes needed across all functions/teams, understand the practical implications of these changes and, critically, to ensure they are coherent with the wider corporate strategy.
- To ensure buy-in and clarity of responsibility, you may consider making champions from relevant functions/teams/business areas responsible for contributing to the action-oriented implementation steps, also empowering them to lead on the strategy within their function/team and delegating appropriately for implementation and execution.

This sub-step may inform disclosure against:

- TPT Sub-Elements: **1.3 Key assumptions and external factors**

Review your governance structures, organisational arrangements, and people strategy

A key part of planning is making sure you have the right governance structures, organisational arrangements, and people strategy in place, to enable successful delivery of the transition plan.

This includes:

Skills, competencies and knowledge: Assessing whether you have the appropriate skills, competencies and knowledge across the organisation to effectively design, develop, deliver and govern the transition plan. This may involve:

- building a skills taxonomy to identify gaps between current and required skills, competencies, and knowledge;
- implementing internal development programmes or targeted training to upskill, reskill, and educate employees where new skills, competencies, and knowledge requirements have been identified; and
- aligning new skills, competencies, and knowledge needs with recruitment efforts.

Culture and employee engagement: Engaging employees on the transition plan such that they understand how it relates to their role and how they can influence it, and taking steps to embed your **Strategic Ambition** on climate within the culture of the organisation. This may involve:

- promoting awareness of climate issues among leaders and managers, using training to equip and empower them to become climate role models. This could be about the impact of decarbonisation or the impacts of climate change on the ability to deliver the business.
- building climate into your employer brand, values, and employee value proposition; and
- using and establishing regular and consistent listening and communications exercises to build engagement and knowledge.

Consider remuneration and incentives

Aligning remuneration programmes with the transition plan objectives, to ensure accountability and align the interests of executives and other relevant staff with the successful delivery of the plan. This may involve building climate-related performance metrics into incentive plans that are aligned to the **Strategic Ambition** of the transition plan, material to the individual participant, measurable, clear, transparent and appropriately 'stretching' for the relevant individual. This may be relevant for both executive remuneration and remuneration and incentive structures for employees across the organisation.

Internal governance & engagement considerations

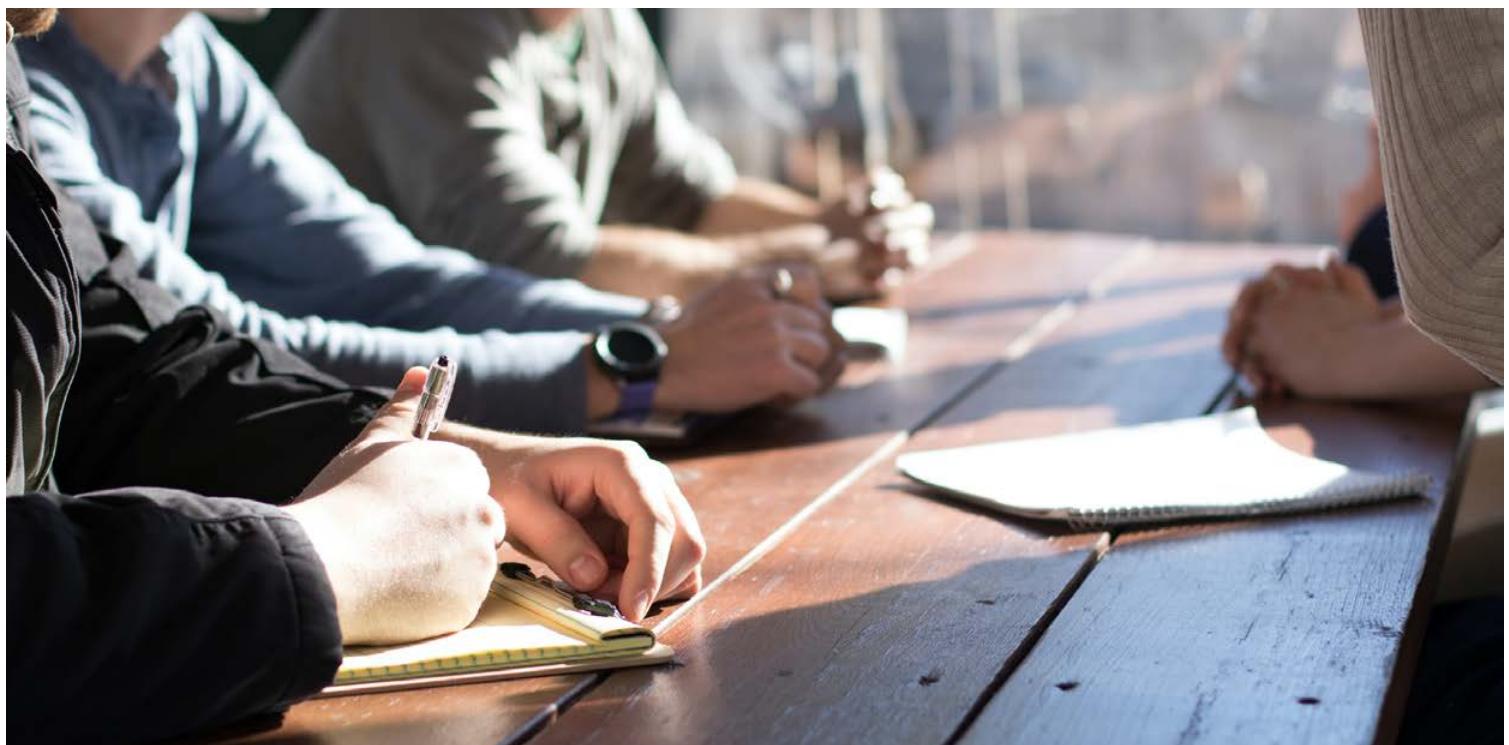
- This requires the engagement of HR leadership to align the people strategy, policies and procedures with the plan's strategic objectives.
- You may consider involving an HR champion/representative on the working group (or equivalent governance body) working with other functions to ensure they have the right roles, skills and incentives in place to embed the transition plan.
- Knowledge and skills at the Board level will also need continually to be developed as the climate risk and regulatory landscape evolves (see Stage 1)

Resources

- **WTW**, Executive Compensation Guidebook for the Climate Transition, 2023
- **ICAEW**, Finance for the future, 2023
- **GFANZ**, Financial Institution Net-Zero Transition Plans, 2022
- **GFANZ**, Expectations for Real Economy Transition Plans, 2022
- **GFANZ**, Workshops in a Box – Governance, 2023
- **SBTi**, SBTi Engaging Supply Chains on the Decarbonisation Journey, 2023

This sub-step may inform disclosure against:

- TPT Sub-Elements: all under **5. Governance**



Develop your engagement strategy

As the guidance has highlighted throughout, external engagement (as well as internal) is key to informing the development and implementation of the plan.

In addition, engaging with external stakeholders can be a key component of transition plan activities to contribute to the economy-wide transition, as part of a strategic and rounded approach. The engagement strategy, and prioritisation of activities within it, can be informed by the transition levers assessment as well as your assessment of the key external factors on which your transition plan depends.

In particular, achieving your objectives and priorities may require that you engage proactively with:

- **value chain and portfolio companies, for example to:**
 - tackle Scope 3 emissions and physical risks by encouraging others to develop robust transition plans, put in place SBTi approved decarbonisation targets to reduce value chain emissions, or co-invest along the value chain;
 - collect data to assess physical or transition risks across your supply chain;
 - support smaller suppliers in the design and delivery of their transition plan;
 - assess and address social and nature-related impacts along the value chain; and
 - support customers in making “greener” purchasing decisions.
- **industry peers and initiatives, for example to:**
 - exchange best practices (where appropriate);
 - identify solutions to common challenges, which support delivery of the transition plan;
 - ensure that actions taken by industry alliances or trade organisations support, and do not undermine, transition efforts; and
 - create an opportunity for meaningful dialogue with trade unions and other workforce representatives.
- **governments, the public sector, communities and civil society, for example to:**
 - advocate for policies that support transition efforts;
 - advocate for public investments in adaptation and resilience where individual private sector action doesn't make financial or economic sense; and
 - ensure opportunity for social dialogue and stakeholder participation.

A good practice engagement program will:

- prioritise counterparts for engagement strategically, for example by focusing on those with relevant control and influence over the key external factors on which your plan depends (see Stage 2);
- establish the most suitable process for engagement; (e.g. individual or collaborative engagements); and ensure this is sustained and maintained over time.
- include monitoring and measurement of engagement outcomes, including their contribution to achievement of the **Strategic Ambition** of the transition plan; and
- be underpinned by escalation procedures where engagement does not lead to the desired outcomes.

Resources

- **A4S**, Essential Guide to Incentivising Action Along the Value Chain, 2023
- **Blackrock & Ceres**, 21st century engagement, 2015
- **Climate Lobbying**, Global Standard on Responsible Corporate Climate Lobbying, 2023
- **FRC**, UK Stewardship Code, 2020
- **GFANZ**, Financial Institution Net-Zero Transition Plans, 2022
- **GFANZ**, Expectations for Real Economy Transition Plans, 2022
- **GFANZ**, Workshop in a Box – Engagement Strategy, 2023
- **Judge Business School**, Engagement for Supply Chain Sustainability: A Guide, 2021

This sub-step may inform disclosure against:

- TPT Sub-Elements: **2.3. Policies and Conditions**, and all under **3. Engagement Strategy**



Integrate the transition plan into your financial plan

You will need to assess the financial implications of your transition plan. This includes analysing:

- the financial resourcing needs to implement the transition plan; and
- more generally, the implications of the transition plan for your financial position, financial performance, and cash flows over the short-, medium-, and long-term.

For example, you may consider whether implementing the transition plan is associated with any significant:

- new or additional capital expenditures;
- changes in operating or maintenance costs;
- new investments in research;
- changes in the expected useful life of assets;
- changes in the expected fair valuation of assets; and
- changes in revenue forecasts, given changes in the portfolio of products and services offered.

It is important to highlight that failing to invest in the transition may result in costs to the entity from transition risks and impacts of chronic or acute physical risks. To support decision-making, you may find it helpful to compare expected costs to a baseline 'do-nothing' scenario to assess the extent to which the plan offers value for money over the short-, medium-, and long-term.

As acknowledged through this guidance, transition planning involves considerable uncertainties. There will be factors beyond your control that influence financial outcomes in unexpected ways (e.g. shifts in consumer demands, etc.). It is therefore inevitable that quantified financial effects will be less precise in the medium- and long-term. However, it will nevertheless be instructive for you to consider ranges and orders of magnitude of financial effects, even for more distant actions and developments.

Conducting this analysis will ensure that you have a balanced and realistic understanding of the potential impact of the transition plan on your financial position, performance and cash flows. It will also help you refine your assumptions about the development of future markets and the external factors on which you depend (see Stage 2).

Internal governance & engagement considerations

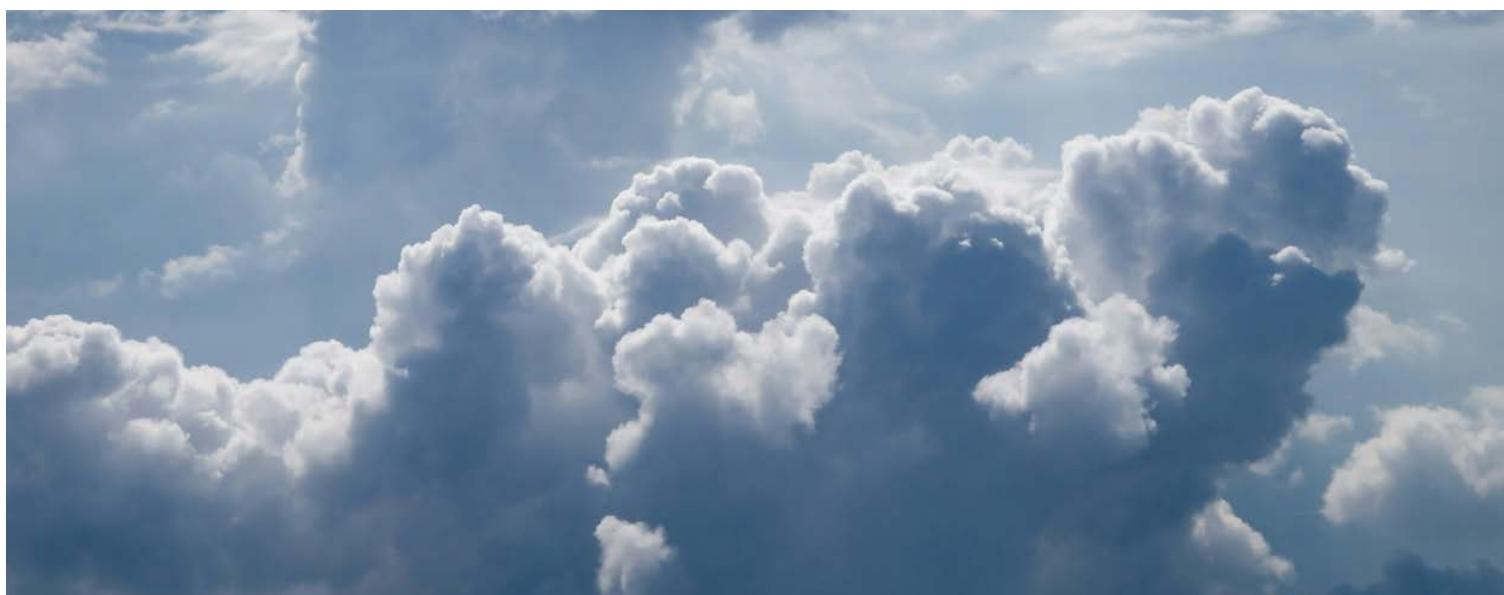
- To ensure that transition plans are underpinned by robust financial planning, it is critical that finance functions are brought into the conversation at an early stage. In most instances, finance teams will be leading on this planning process.
- Over time, you may find it helpful to bring transition planning into regular financial planning and budgeting processes, working through existing governance structures to support the implementation of your transition plan.
- Working groups holding the pen on the transition plan can expect that this will be a regular item that is reported on in Board meetings as scrutiny of the financial impacts of climate risks and opportunities, and of the transition plan specifically, increases over time.

Resources

- **A4S**, Developing and Implementing a Sustainable Finance Framework: Top Tips for Treasury Teams, 2023
- **A4S**, Essential Guide to Valuations and Climate Change, 2021
- **A4S**, TCFD Top Tips for Finance Teams, 2018
- **TCFD**, Guidance on Scenario Analysis for Non-Financial Companies, 2020
- **GFANZ**, Towards a Global Baseline for Net-zero Transition Planning, 2022
- **GFANZ**, Financial Institution Net-zero Transition Plans, 2022
- **GFANZ**, Expectations for Real-economy Transition Plans, 2022

This sub-step may inform disclosure against:

- TPT Sub-Elements: **1.1. Strategic Ambition** and **2.4. Financial planning**



Set your metrics and targets

To drive and monitor progress towards the **Strategic Ambition** of your transition plan, this process step involves setting clear, quantified metrics and targets.

In addition to GHG emissions and climate resilience targets, you may consider setting – and, in accordance with the TPT Disclosure Framework, disclosing – targets covering other business activities that are related to the **Strategic Ambition** of your transition plan. These may include governance, engagement, business and operational targets, as well as financial targets.

GHG reduction targets:

When setting GHG emissions reduction targets, you may consider the relevant scopes and categories of emissions and measurement basis (see Stage 1). You may consider setting specific targets for different scopes of emissions. The TPT Disclosure Framework recommends that, for each target, you also disclose any milestones or interim targets used to measure progress.

Good practice GHG emissions reduction targets will reflect the urgency to act, arising from the latest scientific findings, as well as relevant national and international commitments.

In the case of net zero targets, you may refer to the guidance provided by the Science Based Targets initiative (SBTi) and may choose to have targets independently verified by the SBTi.

Note: It is understood that some entities may not set targets against all scopes and categories of emissions immediately. You may prioritise the most material emission scopes and categories. In such cases, it is important to be transparent about which scopes and categories have been included. Where material scopes and categories have been excluded from targets, it will be important to be transparent about the reason for omitting them, and the steps you are taking to enable target-setting for these scopes and categories in the future (see Stage 1)

Governance, engagement, business, and operational targets:

In addition to GHG emissions targets, you may consider setting targets for governance, engagement, business, and operational targets to assess the progress of your transition plan.

These targets might relate to the following aspects:

Governance:

- remuneration (e.g. proportion of individuals with remuneration linked to progress against the **Strategic Ambition**) (see **5.4 Incentives and remuneration**); and
- skills, competencies and training (e.g. percentage of at-risk workers being offered retraining or redeployment).

Engagement:

- targets related to the nature as well as the outcome of engagement activities with the value chain, industry counterparts and/or government, public sector, communities, and civil society.

Business and operations:

- targets related to business and operations (e.g. energy efficiency (e.g. energy/ unit produced), the number of factories located in flood zones or litres of water abstracted in areas with high water stress); and
- targets related to products and services (e.g. proportion of total or number of products and/or services that are no- or low-GHG or support the transition towards a low-GHG economy, proportion of total or number of products and services vulnerable to transition and physical risks).

Financial targets:

In addition, you may set financial targets. These are likely to differ between real economy companies and financial institutions.

For real economy entities, this may include metrics and targets on no- or low-GHG or climate-resilient capital expenditures or metrics and targets on revenues from no- or low-GHG products and services. For entities in the financial sector, it may include targets related to directing capital to real-economy transition activities – for instance, in line with the four financing strategies identified by GFANZ.

Across all categories, you may consider the following:

- You may seek to incorporate and build upon the IFRS S2 § 27-29, 33-35 and TCFD's Guidance on Climate-related Metrics, Targets and Transition Plans, particularly its guidance on cross-industry climate-related disclosure recommendations (pp. 10-28; 54-65). More specifically, you may want to assess which of the metrics and targets that you already report on in your wider climate-related financial disclosures under TCFD-aligned disclosures could be meaningful for measuring progress against your transition plan.
- You may link individual targets to your action-oriented implementation steps and engagement plans, as well as the overarching objectives and priorities of the plan.
- You will want carefully to consider the metrics that will be used to define targets, noting that it may be difficult to obtain data to support your preferred metrics. Where possible, adopt common metrics that enable comparability with other entities, and that can be referenced against top-down external benchmarks (see Stage 2). Where relevant taxonomies are available, you may consider referencing them.
- You may choose to have targets validated by a third party to enhance robustness and demonstrate rigour to users of your transition plan disclosures. The choice of third-party validation provider will depend on the nature of the target. In some cases, targets may fall under other business management systems (including environmental management systems) so may already be subject to some level of external validation.

Internal governance & engagement pointers

- In order to measure progress against your targets, you may need to evolve your existing data infrastructure to collect, store, retrieve and analyse transition plan related data securely and effectively. The working group (or equivalent governance body) responsible for the design of the transition plan may find it valuable to engage the IT function as well as the internal audit and/or risk management functions during the target setting phase. This will help to ensure that data systems can support monitoring and reporting under Stage 4.
- Leadership teams may be mindful that there are many reasons why targets may need to be refined and iterated over time. For example, this could be due to improvements in data quality which impact baseline estimates or changes in external circumstances which either impede or accelerate progress. If targets are restated, it will be important to explain the rationale for changing targets to external users, to demonstrate that changes do not undermine the **Strategic Ambition** of the transition plan.

Resources

- **A4S**, Developing a Net Zero Transition Plan – Setting, Tracking and Reporting Targets. Practical example: SSE, 2023
- **CFRF**, Climate Disclosures Dashboard 2.0, 2023
- **CFRF**, Industry frameworks and metrics in relation to green/transition finance, 2022
- **FRC**, CRR Thematic Review of climate-related metrics and targets, 2023
- **GFANZ**, Financial Institution Net-Zero Transition Plans, 2022
- **GFANZ**, Expectations for Real Economy Transition Plans, 2022
- **GFANZ**, Workshops in a Box – Metrics and Targets, 2023
- **SBTi**, SBTi Corporate Net-Zero Standard, 2023
- **SBTi**, SBTi Engaging Supply Chains on the Decarbonisation Journey, 2023
- **SBTi**, SBTi Corporate Manual v2.0, 2021
- **SBTi**, SBTi How-to Guide
- **PCAF**, The Global GHG Accounting and Reporting Standard – Financed Emissions, 2022
- **TCFD**, Guidance on Climate-related Metrics, Targets and Transition Plans, 2021

This sub-step may inform disclosure against:

- TPT Sub-Elements: **1.1. Strategic Ambition, 2.2. Products and services**, all under **Element 4. Metrics & targets**



Stage 4: (Re-)implement your plan

Once you have developed your action plan, Stage 4 is to establish arrangements to:

- **Continue or start implementation**
- **Disclose your transition plan in line with the TPT Framework**
- **Monitor and report on progress**
- **Learn and reflect from the process**

Continue or start implementation

With the implementation and engagement strategies established, you will be ready to move to implementation of the plan. Use the metrics and targets defined under Stage 3 to monitor progress.

Internal governance & engagement pointers

- At this stage of the process, accountability for the delivery of individual actions may be clearly defined across individual functions/areas of the business.
- You may coordinate and monitor delivery across the company through both new and established governance structures.

Resources:

- **A4S**, Webinar: Sustainability in Action – Transition Planning, 2023



Disclose your transition plan in line with the TPT Framework

The TPT Disclosure Framework recommends that you publish material information about your transition plan as part of your general-purpose financial reports. In addition, the TPT regards it as good practice to publish your transition plan in a single standalone document that sits alongside the general-purpose financial reports and is updated periodically. For further information see the TPT Disclosure Framework.

Internal governance & engagement pointers

In preparing for disclosure, it is important to:

- Facilitate a conversation across sustainability, legal and finance functions to ensure a joint understanding of what information about your transition plan is determined to be material and will need to be included in your general-purpose financial reports.
- Directly engage with the board to ensure board members have a strong understanding of its purpose and content.

Monitor and report on progress

Monitor progress against the Strategic Ambition of the transition plan and the targets set in Stage 3. You will likely want to use both a combination of:

- internal targets (e.g. targets for particular business divisions or product lines) that are used to internally monitor and manage progress of the plan; and
- external targets, which are likely to be more high-level, but against which you undertake to report on at least an annual basis, to communicate progress on the plan to external audiences.

In addition to monitoring progress against targets, you may engage with external stakeholders to assess how the information was received and inform future iterations of the plan. In doing so, you may also evaluate the direction of travel and, if there have been important new developments or if new information has arisen, you may consider re-assessing and adjusting the plan (see Stage 1).

Internal governance & engagement pointers

- In establishing processes for monitoring and reporting, consider the internal controls of your transition plan disclosures.
- In doing this, you may find it helpful to engage internal audit, risk management or any equivalent function, for documenting, and recording metric methodologies, performing quality control on data inputs (including those from external sources), and assessing the adequacy of procedures for internal controls.

Resources

- **TCFD**, Guidance on Climate-related Metrics, Targets and Transition Plans, 2021, pp. 10–29; 54–65. Particularly its guidance on cross-industry climate-related disclosure recommendations.
- **Climate Financial Risk Forum**, Guide 2023: Climate Disclosures Dashboard 2.0, 2023
- **GFANZ**, Financial Institution Net-Zero Transition Plans, 2022
- **GFANZ**, Expectations for Real Economy Transition Plans, 2022

This sub-step may inform disclosure against:

- TPT Sub-Elements: all under **4. Metrics & Targets**

Leading practice

Review and improve your approach to data collection and monitoring of process against defined metrics and targets.

Transition plan disclosures and underlying plans will deepen and mature over time, as you deliver and iterate your transition plan. As part of this process, you may consider the following steps:

Identifying and mitigating data gaps: After having undergone Stages 1–3, you may find that there are critical data gaps and shortcomings in your approach to metrics and targets. These could include inconsistent definitions, limited availability of required inputs, variable quality of required inputs, and non-standardized analytical methodologies for deriving metrics. Data uncertainties are expected in emissions inventories, and the GHG Protocol explains how to document these in the chapter ‘Managing Inventory Quality’ of the Corporate Accounting Standard of the GHG Protocol.

Once you have identified your gaps, you may take steps to close these, including by engaging with third parties such as suppliers and value chain members.

Revising targets against delivery: As you implement your transition plan, you may find that progress against targets is ahead of or behind the planned trajectory, or that changes in data availability have made original targets less meaningful. This may prompt you to review your plan and targets (see Stage 3).

Consider defining internally, how regularly you will review your targets. For example, SBTi states that progress against emissions and targets can be done and disclosed every year. In doing so, key triggers for inflection points may be identified and tracked to be used as reasoning in future transition plan disclosures. Examples of possible outcomes when revising targets are: accelerating planned activities, increasing ambition, or escalating engagement activities.

Internal governance & engagement pointers

- When targets are restated, it is important to proactively engage key stakeholders (incl. board members, investors, civil society groups and workers) to explain the rationale behind the revision.

Resources

- **FRC**, CRR Thematic Review of climate-related metrics and targets, 2023
- **GHG Protocol's**, Corporate Accounting and Reporting Standard (Chapter 'Managing Inventory Quality'), 2004
- **SBTi**, Financial Sector and TCFD Reporting Guidance, 2023

This sub-step may inform disclosure against

- TPT Sub-Elements: all under **3. Engagement Strategy** and **4. Metrics & Targets**

Leading practice

Assessing approach to external assurance

It is important to note that the recommendations to include material information related to the transition plan in your general purpose financial report does not change the scope of the statutory audit. The scope does not go beyond the auditor's responsibility to identify whether there are any material inconsistencies between other information and the financial statements, and knowledge obtained during the audit (as per International Standards of Auditing (ISA) 720).

External assurance for climate related information is an ecosystem that is still very nascent. Dedicated sustainability-related assurance standards and ethics codes are currently under development. In August 2023, the International Auditing and Assurance Standards Board (IAASB) launched a consultation on a Proposed International Standard on Sustainability Assurance.

Even in the absence of new standards and ethics codes, and mandatory assurance obligations some entities are choosing voluntarily to obtain external assurance on sustainability – related information, including GHG emissions.

The most widely used assurance standards for these engagements include:

- ISAE 3000 (Revised) for Independent Assurance Reporting Engagements Other than Audits or Reviews of Historical Financial Information;
- ISAE 3410 for Independent Assurance Reporting engagements on Greenhouse Gas Statements;

- AA 1000 Assurance Standard v3; and
- ISO 14054 -3: 2019 Greenhouse gases – Part 3: specification with guidance for the verification and validation of greenhouse gas statements.

Similarly, the process of formal verification of plans or targets is an emerging practice.

Where you do opt to obtain assurance or verification over information in your transition plan, it would be good practice to disclose the following information on the engagement:

- the level of assurance or verification obtained;
- the scope of the engagement;
- the professional standard(s) against which the engagement was performed;
- who the assurance provider is; and
- the outcome of the engagement, for example, whether the assurance provider's conclusion is unqualified or modified.

As part of your assurance and verification activities, you may wish to seek an external perspective on the extent to which your transition plan is aligned with the overall strategic and rounded approach being recommended by the Transition Plan Taskforce, and the five key disclosure elements, as well as more specific and formal verification of achieving certain targets and metrics (e.g. with regard to GHG emissions).

Resources

- **IAASB**, Exposure draft for ISSA 5000 General Requirements for Sustainability Assurance Engagements, August 2023

This sub-step may inform disclosure against:

- TPT Sub-Elements: **5.2 Management roles, responsibility and accountability**.

Learn and reflect from the process

An effective transition planning process must be flexible, dynamic, iterative, and adaptive. It will be important to schedule regular review points to assess what you have learnt from previous implementation experience.

This may include:

- lessons drawn from ongoing assessment of climate-related risks and opportunities and insights from engagement with relevant stakeholders;
- insights from challenges (e.g. data, analytical, decision-making) faced during previous transition planning cycles, or during the practical implementation of a previous transition plan (e.g. execution, engagement, financial, organisational, human resources); and
- responses to new developments (e.g. observed weather events, advances in science, policy changes, technological developments, macroeconomic or market outcomes – that may warrant a reappraisal of assumptions, alter the likelihood of dependent external outcomes, or otherwise prompt a material change in the direction of your strategy).

Keeping a record of information with lessons learned can help you keep track of what worked and what didn't work, reappraise any assumptions, and adjust accordingly.



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