DISCLOSE TO DECARBONISE:

POLICY CONSIDERATIONS WHEN MANDATING TRANSITION PLANS

DECEMBER 2024

WWF

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EXECUTIVE SUMMARY

As transition planning gains momentum internationally, the mandatory development and disclosure of corporate transition plans must now be a key priority. Significant progress on disclosure frameworks has been made with the International Sustainability Standards Board assuming responsibility for the disclosure frameworks created by the UK's Transition Plan Taskforce, and frameworks developed by the Glasgow Financial Alliance for Net Zero and the European Financial Reporting Advisory Group. Building on these frameworks, it is now time to move to the adoption of mandatory transition planning. When doing so, government and regulators must design an impactful disclosure regime which delivers usable, reliable and comparable plans, and ultimately works to redirect financial flows away from environmentally damaging activities and towards restorative ones.

The TPT's disclosure framework is necessary but not sufficient for transition plan disclosure to effectively drive decarbonisation. Through interviews and surveys with more than 20 financial firms, and the analysis of six regulatory precedents, WWF has identified several important potential barriers to usable, reliable and comparable disclosures, and their use in private and public sector decision-making. The UK government and the Financial Conduct Authority (FCA) should address five issues highlighted below to maximise the effectiveness of transition plan disclosures in achieving decarbonisation. This should happen as part of upcoming consultations on transition plan disclosure and the government's own planning on how to engage with private sector transition plans.

Establishing an effective transition plan disclosure regime will deliver multiple wins for the government and regulators. If transition plans are used effectively in private sector decision-making, they will support the flow of transition finance needed to achieve net zero, reducing the pressure on public financing. A well-functioning disclosure regime, trusted and useful to markets, delivers on the FCA's remit of making markets function well. In implementing an impactful disclosure regime, the UK can continue to lead the international momentum on transition planning. Critically, evidence shows that disclosure regimes can be a powerful tool to support decarbonisation. With only 25 years remaining to achieve net zero by 2050, it is essential that mandatory transition plan disclosure is the most effective tool it possibly can be.

POLICY ISSUE	KEY RECOMMENDATIONS
Legal liability An appropriate balance on legal liability for transition plan disclosures is necessary to disincentivise greenwashing, while avoiding greenhushing. The liability standard should be clearly understood by firms to avoid the distortion of disclosures.	The government and FCA should: ■ Apply existing legal rules (the "recklessness standard") to periodic transition plan reporting. ■ Clarify the implications of the liability standard attached to transition plan disclosures, and specifically forward-looking information, under existing legal rules. This should give businesses the confidence to make detailed, high quality transition plan disclosures which include ambitious decarbonisation targets. ■ In doing so, clarify key interactions with the Companies Act, FSMA, Competition Law, related UK policy developments like the development of national transition plans, and international legal standards.
Assurance and assessment Third-party assessments of transition plans should cover both how the transition plan was produced, and environmental credibility and plausibility, to usefully inform decision-making.	The government and FCA should: ■ Develop transition plan assurance requirements which ratchet over time: initially, requiring disclosures to explain whether assurance has been sought and to what level, then requiring "limited" assurance, eventually requiring "reasonable" assurance. ■ Nurture an ecosystem of private and third sector providers who assess the environmental credibility and plausibility of transition plans for alignment with 1.5 degrees. ■ Consider the regulatory architecture needed to enforce the environmental integrity of plans, including, authorising suitable assessment organisations.
Presentation of transition planning information A digital transition plan disclosure platform could make transition plans more comparable and usable by multiple stakeholders – from financial institutions to government.	The government and FCA should: ■ Consult on the design of a single platform for disclosure, and the range of possible options to deliver it, including considering how this might allow integration with other reporting requirements and what role digital tagging should play.
Public sector usage To create strong feedback loops between private and public sector action, insights from corporate transition plans should be used in government policymaking and public procurement and investment.	The government should: ■ Systematically collect insights from corporate transition plans about barriers to the transition and use them to inform policymaking, including spending decisions across departments. ■ Consider how tools such as AI, or a single platform, can relieve the resource burden of synthesising and using insights from transition plans.
Monitoring and oversight The impact of transition plans on business behaviour and financial decisions should be monitored to ensure that transition plan disclosure supports real world decarbonisation.	The government and FCA should: ■ Use insights from regulators and adjacent bodies about how plans are driving decision-making, as a proxy for monitoring the impact of the regime on decarbonisation goals. This will allow quick remedial action if improvements in the disclosure regime are needed. ■ Consider conducting a post-implementation review of the transition plan disclosure policy earlier than the standard five years.

INTRODUCTION

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There has been increasing international momentum around transition planning. The UK established the Transition Plan Taskforce (TPT) to recommend a gold standard for private sector transition plan disclosures and will be consulting on the implementation of transition plans soon; the G20 recently reiterated the need to "advance credible, robust, and just transition plans";[1] the International Sustainability Standards Board (ISSB) plans to harmonise disclosures around transition plans;[2] the Network for Greening the Financial System (NGFS) is engaging with other financial regulators and standard on the use of transition plans;[3] and both the Glasgow Financial Alliance for Net Zero (GFANZ)[4] and the Taskforce on Nature-related Financial Disclosures (TNFD)[5] have elaborated on transition plan disclosure guidance with regard to nature.

This momentum is promising given the key role of transition planning in accelerating transition finance and decarbonisation. The G20[6] has acknowledged that transition plans are critical to increasing transition finance, and the UK's Transition Finance Market Review has called out the importance of mandatory transition planning in making the UK a globally leading green financial centre. Furthermore, as discussed in this briefing, the available evidence around the impact of other greenhouse gas disclosure regimes suggests that mandatory transition plans can be a key tool to decarbonise the economy.

For corporate transition plans to drive transition finance and decarbonisation, their development and disclosure must be made mandatory, and they must be used by key public and private stakeholders. The TPT has set out how corporate transition plans could facilitate economy-wide decarbonisation according to how they are used by key decision-makers. For example, the use of transition plans by:

- **Investors and lenders** would increase transition finance by shifting capital towards businesses which are transitioning effectively and credibly
- **Policymakers** would result in sectoral and economy-wide policies that help to align the wider economy with the UK's net-zero goals, removing policy barriers to corporate decarbonisation and adaptation
- **Financial regulators** would improve the supervision and regulation of environment-related financial risks
- **Other companies** within supply chains would encourage the channelling of resources towards a low-carbon future.

If these actors and others outside the disclosing company do not use them, transition plans risk becoming a box-ticking exercise, rather than driving changes in behaviour and decisions.

To ensure the disclosure and usage of reliable corporate transition plans, some key policy issues need to be addressed in a) the design of transition plan disclosure regimes and b) how government and regulators use these plans. Interviews and surveys with more than 20 UK financial firms, thought leaders in civil society and academia, and the analysis of six regulatory precedents,[7] revealed serious possible barriers to reliable transition plan disclosure and usage which aren't addressed through existing work on disclosure frameworks. Furthermore, thinking on government usage of transition plans and oversight of transition planning and its effectiveness is still nascent, though this is critical to get the most impact from mandatory transition plans in future.

This briefing identifies five key issues that should be included in government and regulatory policy work while planning for and implementing a mandatory transition planning regime:

1. Legal liability: disincentivising greenwashing while avoiding greenhushing
2. Assurance and assessment: assessing the integrity and environmental credibility of transition plans
3. Presentation of transition planning information: facilitating large-scale usage and analysis
4. Public sector usage: government as an intelligent user of transition plans
5. Monitoring and oversight: getting the most out of the transition plan policy.

The first three topics will be particularly important in the preparation of the expected UK government and Financial Conduct Authority (FCA) consultations on transition planning. The latter topics will be important for the government's own resource planning and collaboration with key public bodies.

These issues require detailed consideration from government and regulators to ensure transition plans provide maximum support to public policy objectives at limited expense to the public purse, while supporting the functioning of financial markets in respect of ESG disclosures, in line with FCA priorities. The highlighted issues are not intended to be exhaustive. Some topics complement the recent conclusions of the UK's Transition Finance Market Review – including its recommendations around proactive engagement from regulators and a suitable ecosystem to support the assessment and verification of plans.

CASE STUDIES: MANDATORY DISCLOSURES SUPPORT DECARBONISATION

Case studies of different mandatory disclosure regimes suggest that disclosures have measurably contributed to decarbonisation, while controlling for other factors. Though it is difficult to attribute carbon reductions only to the impact of a disclosure regime, all these studies have used methodologies which attempt to do exactly that – such as by comparing control and treated groups.

STUDY AREA	KEY FINDINGS
Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.[8]	UK Streamlined Energy and Carbon Reporting mandated publicly listed UK-incorporated firms to report their greenhouse gas emissions in their annual financial reports, and led to emissions reductions of **between 8% and 16%** by relevant firms, across a 10-year time window.
US Greenhouse Gas Reporting Program for electric power plants.[9]	The programme reduced carbon dioxide emission rates by the plants subject to the requirement **by 7%**, across a 14-year time window.
French annual reporting for institutional investors on their climate-related exposure and climate change mitigation policies.[10]	Reporting curtailed the financing of fossil energy companies **by around 40%**, compared to investors in a control group.

"The effect of the mandatory climate-related disclosure on investments... is strongly significant, both statistically and economically. Our results points to a relative reduction in holdings by 39% on average in the portfolios of treated investors."

—Banque de France Working Paper Series no. 800: 'Showing off cleaner hands: mandatory climate-related disclosure by financial institutions and the financing of fossil energy'.

A number of other studies also show that disclosure has been a useful tool to change private firm behaviour and achieve policy objectives outside of decarbonisation.[11] For example, there is "evidence that the Dodd-Frank Act provision requiring firms engaged in natural resource extraction to report on mine accidents and citations on mines in their annual reports did lead to improved worker safety in the mines of the regulated firms."[12] Mandatory corporate social responsibility (CSR) reporting has also been shown to decrease local pollution levels (wastewater and sulphur dioxide emissions) in Chinese cities.[13]

Looking specifically at the impact of voluntary transition planning, CDP and Bain found that individual "organisations with climate transition plans demonstrated faster decarbonisation." They found that these companies "achieved 8.3% decarbonisation p.a. compared to 3.9% p.a. for companies without climate transition plans" and that "companies that identify financial opportunities reduce Scope 1 and 2 emissions faster by 2 to 3 percentage points p.a."[14] When certain enablers were factored in (like 'engaging with customers'), this effect was even larger. This further demonstrates the potential for mandatory disclosure to support private sector decarbonisation.

The above precedents and evidence suggest that disclosure regimes will likely be an impactful tool for decarbonisation. However, clearly, this cannot be treated as a silver bullet policy. Mark Carney diagnosed, in his 2015 'Tragedy of the Horizons' speech, that advocating for improved disclosure would need to be complemented by policy responses from governments and technological developments from business. This has also been borne out in the wide-ranging and numerous calls on government to produce an economy-wide plan for how it will use all public policy levers (policy, regulation, spending) to incentivise companies and financial institutions to help achieve the UK's net-zero transition.[15] This briefing focuses on making the transition plan disclosure regime as effective as possible for decarbonisation while acknowledging the need for aligned public policy and a clear national strategy for the transition.

KEY AREAS TO CONSIDER WHEN DEVELOPING AN EFFECTIVE TRANSITION PLAN DISCLOSURE REGIME

METHODOLOGY:

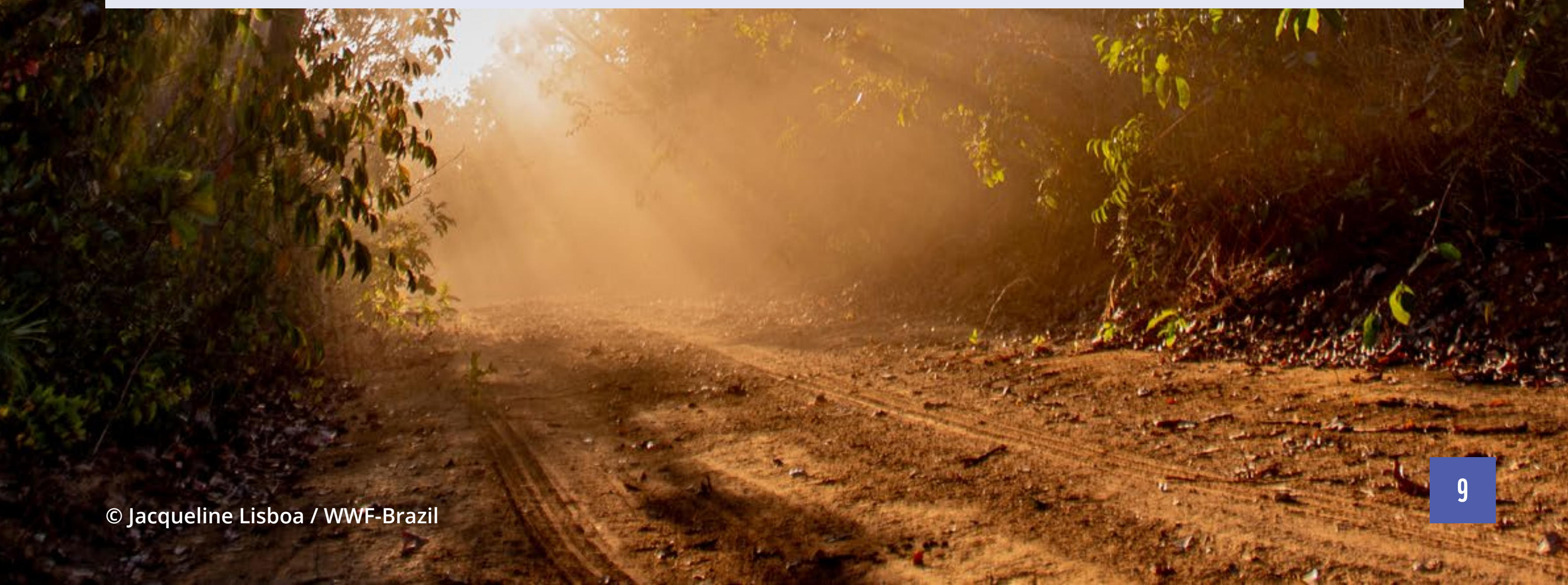
To identify key areas and policy options that the government and regulators should consider as part of a transition plan disclosure regime, we considered relevant regulatory precedents, before speaking to 20+ financial firms and civil society thought leaders and stakeholders. The criteria used in choosing the regulatory precedents were that:

1. Disclosure is a key element of the policy regime
2. The policy has been in place for at least three years
3. There has been a post-implementation review.

The precedents selected were:

- Packaged retail and insurance-based investment products (PRIIPs)
- Prospectus Regulation
- Streamlined Energy and Carbon Reporting (SECR)
- Gender pay gap reporting
- Reporting on Payment Practices and Performance Regulation (RPPPR)
- Modern Slavery Act.

A fuller description of each precedent is provided in Annex A.



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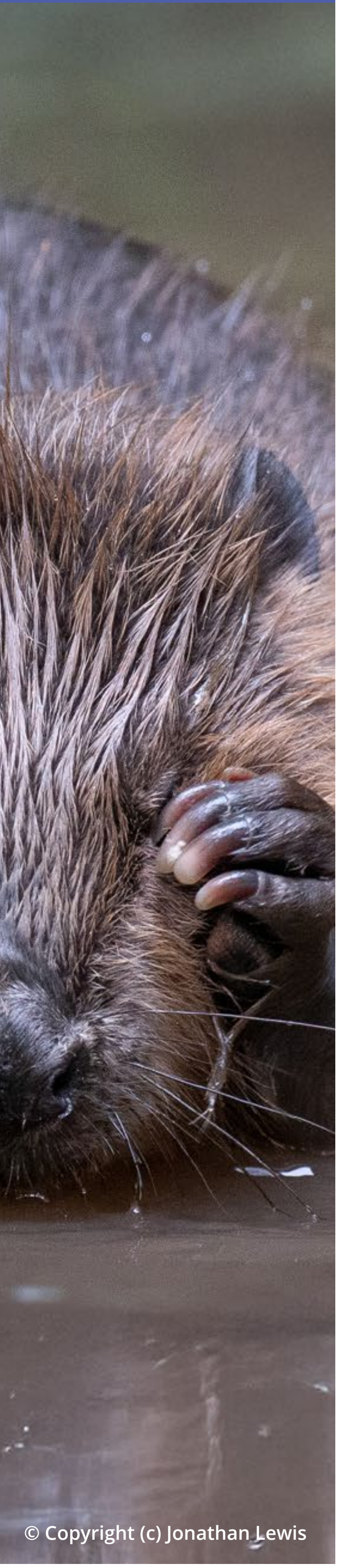
The analysis revealed five policy issues which require further policy work by government and regulators as part of implementing corporate transition plans. These are not intended to be exhaustive. However, not addressing these issues risks compromising the impact of a mandatory transition planning regime. They are:

1. How can legal liability for transition plans act as an incentive against greenwashing, while avoiding greenhushing?
2. How can transition plans be assured and assessed to give users confidence about their reliability?
3. How can transition planning information be presented to facilitate large-scale usage and analysis?
4. How can governments and regulators use transition plans in policymaking and public spending?
5. What oversight structures can ensure that the mandatory corporate disclosure regime is supporting decarbonisation to the greatest extent possible?

Given their complexity and relevance to the government's work on how to take forward Labour's commitment regarding mandatory 1.5 degree aligned transition plans, considerations of these topics should begin immediately. Topics 1-3 above should be considered in detail as part of the expected government and FCA consultations on transition plans. Topics 4 and 5 will require government to start planning for resourcing and structural changes as appropriate. All of them will require close working with experts across the range of actors that have a role to play in transition planning.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POLICY ISSUE 1

HOW CAN LEGAL LIABILITY FOR TRANSITION PLANS ACT AS AN INCENTIVE AGAINST GREENWASHING, WHILE AVOIDING GREENHUSHING?

Concerns were raised by some firms during the interviews and surveys about what level of legal liability should attach to transition planning documents, particularly given a rise in climate change litigation in the last few years.[16] These concerns all centre around being liable to various stakeholders for inadvertently making untrue and misleading statements about what the company would achieve in the future. For example:

- Companies being liable to clients, investors or consumers for mis-selling or misrepresentation (including for not hitting targets or ambitions set out in their transition plans due to factors outside of their control such as public policy)
- Companies facing enforcement action by regulators including fines due to non-compliance or inaccurate information
- Accountants and auditors being liable for making statements which do not accurately reflect the company's climate- and nature-related financial risks while auditing and preparing financial documents for companies.

Striking the appropriate balance on legal liability, and the liability standard being clearly understood by firms, is one of the most important issues for the government and FCA to address because it is a key barrier to the quality of transition plan disclosure. As Lloyds Bank recently stated, "corporates should feel confident and supported to set high targets, even if this means accepting that they may not all be reached."[17] Concerns about liability could result in planned ambitious activity being omitted from plans (greenhushing). On the other hand, weak liability and enforcement provides no incentive for accuracy and reliability in disclosures (greenwashing).[18] The "1.5 degree alignment" of transition plans, per Labour's commitment, adds an additional dimension to liability in the current absence of an agreed and accepted benchmark for what constitutes a 1.5 degree aligned transition plan.[19]

We recommend that the FCA and government clarify the existing standards of legal liability that will attach to transition planning and its implications, especially with regard to forward-looking information. The FCA is currently consulting on the level of liability that should attach to transition planning information contained in prospectuses (insofar as it contains forward-looking information), but industry needs clarity on the implications of this, given the level of expressed concern around the issue. Such guidance will help to prevent nervousness in firms leading to distorted published information.

Existing levels of liability – often referred to as a 'recklessness standard' – can provide protection for genuine (and ambitious) periodic transition plan reporting, while ensuring that firms are held liable for knowingly concealing information or recklessly publishing false information. Under section 463 of the Companies Act 2006, a director is liable to compensate the company for any loss suffered as a result of untrue or misleading statements or omissions in strategic reports, directors' reports, directors' remuneration reports and any separate corporate governance statements, where the director "knew the statement to be untrue or misleading or was reckless as to whether it was, or knew that the omission was a dishonest concealment of a material fact". A similar standard applies under section 90A of the Financial Services and Markets Act 2000. This standard places a burden of proof on the claimant to demonstrate that the director either had knowledge or was 'reckless' about the truth of statements. It is a standard common among disclosure regimes and has been applied to Streamlined Energy and Carbon Reporting and the Reporting on Payment Practices and Performance Regulations. This standard will also be applied to certain "protected forward-looking statements" in prospectus documents in the UK (a more onerous 'negligence' standard is generally applied to prospectus disclosures).

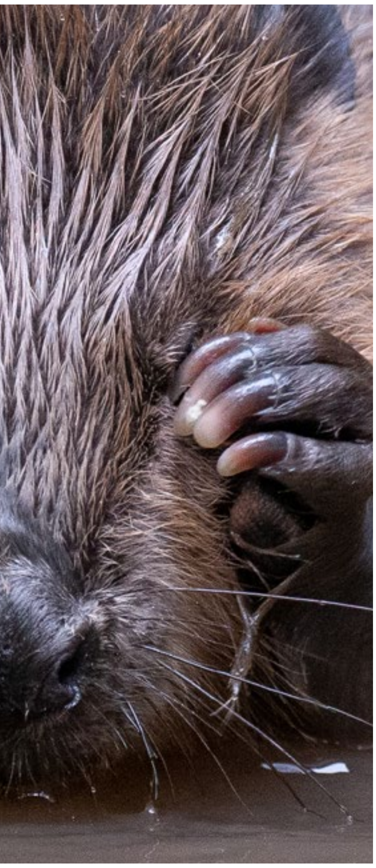
These existing frameworks set a carefully calibrated liability standard for misleading statements in corporate reporting, which naturally will apply to transition plan disclosure. Where companies set and disclose an ambitious transition plan in good faith based on a reasonable level of diligence and, for reasons beyond their control, specific ambitions prove harder than expected to meet in practice, we consider that liability is less likely to arise.[20] In contrast, liability risk will rightly be heightened

where commitments are made for reputational benefit recklessly, without any real intention to deliver them, or which seek to 'game' the actions necessary for genuine transition (e.g. by excluding material emission scopes or over-relying on offsetting in place of emissions reduction).

Equally, we consider that developing and disclosing a rigorous transition plan according to the TPT's guidance could mitigate against the risk of legal liability for misleading statements about transition. Existing guidance suggests how firms can substantiate their broad climate commitments and long-term targets with detailed action plans, and explain any limitations, dependencies and uncertainties in their plan clearly to stakeholders (reducing the risk that stakeholders are misled by high-level statements). These benefits of disclosing more (in line with guidance), rather than less, were supported by financial firms that we spoke to.

The standards applied to transition planning information should be carefully monitored for impact (e.g. whether they incentivise or disincentivise the disclosure of reliable information), and the quality of transition plan disclosure should be assessed regularly. Given the potential implications for investor protection, any safe harbours from the existing standards for transition planning information would need to be rigorously and specifically justified and should be approached with caution.

When clarifying the existing standard of legal liability as mentioned above, it will be important for the FCA and government to consider interactions with several other factors. Such considerations include **interactions with other legislation like the Companies Act 2006,** the Financial Services and Markets Act 2000 (particularly on liability to shareholders) and **competition law** (this has started to be addressed by the TPT's legal guidance note), **related UK policy developments** (such as the development and implementation of national transition plans, which could provide reassurance) and international standards (a level of liability that can apply internationally, given that global companies will be looking to produce reports that are as internationally applicable as possible).[21] In the EU, for example, firms will be required to not just formulate but also execute their climate transition plans.



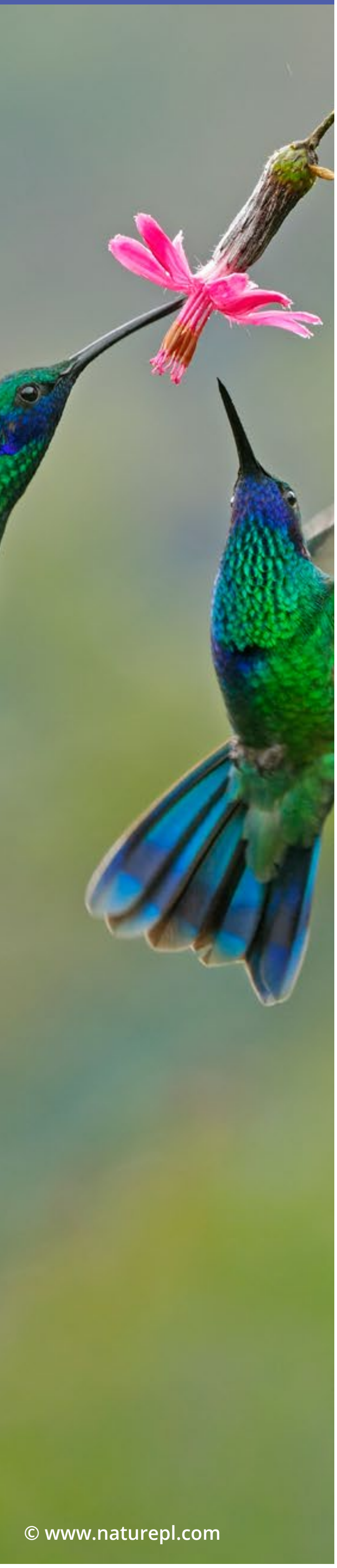
RECAP

The government and FCA should:

- Apply existing legal rules (the “recklessness standard”) to periodic transition plan reporting.
- Clarify the implications of the liability standard attached to transition planning disclosures, and specifically forward-looking information, under existing legal rules. This should improve firm confidence to publish detailed, high quality transition plan disclosures which include ambitious decarbonisation targets.
- In doing so, clarify key interactions with the Companies Act, FSMA, Competition Law, related UK policy developments like the development of national transition plans, and international legal standards.

POLICY ISSUE 2

HOW CAN TRANSITION PLANS BE ASSURED AND ASSESSED TO GIVE USERS CONFIDENCE ABOUT THEIR RELIABILITY?

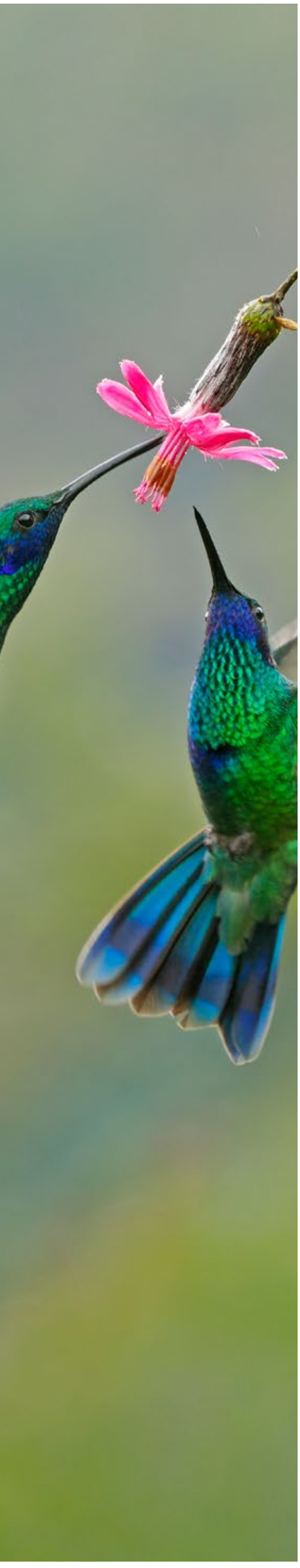


Determining an appropriate level of assurance for transition planning documents, and nurturing a supporting ecosystem of providers and tools, would support the usage of transition plans. Evidence suggests that investors integrate assured data into investment decisions more than unassured data, and there is increasing demand from these transition plan users for assured data.[22]

Precedents suggest that relying on self-certification of disclosures undermines the impact of the disclosure policy. Where the lack of assurance requirements has meant users of information are relying on firms' self-certification of disclosures – for example in gender pay gap reporting, the RPPPR and the Modern Slavery Act[23] – it has undermined the objectives of those regulations. This has also been highlighted as a key point of dissatisfaction with the RPPPR regime by stakeholders responding to a statutory review of the policy.[24]

There are two main levels of assurance that audit firms can provide, both of which are process-oriented. "Reasonable assurance", provided for financial statements through an audit, expresses an opinion that the financial statements, as a whole, are true and fair and prepared in accordance with the appropriate rules. Some interviewees felt that this level of assurance would be helpful for transition plan metrics and targets.[25] However, this is not currently the norm for assuring sustainability-related disclosures.

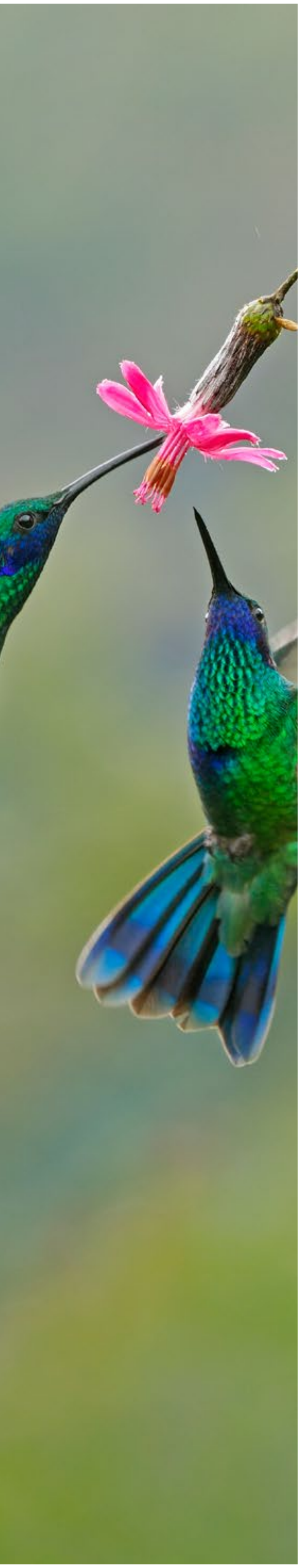
Most sustainability-related disclosures globally are currently assured to a weaker degree – "limited assurance" or "agreed upon procedures". This provides a much more limited assessment that a particular set of data has been calculated in a certain manner or sourced in a certain way. It is less comprehensive (and less costly) and is defined as requiring sufficient evidence to support an overall conclusion, where nothing came to the attention of the practitioner to indicate that a disclosure is materially misstated.



The more critical assurance challenge, however – and one which audit firms currently do not tackle – is assessing the environmental credibility of the plans. To ensure credible transition plans, assurance can't be limited to simply ensuring that the disclosure was made with proper processes and control mechanisms within entities. Assessment practices should also evolve to assess the relevance and environmental credibility of the published information – i.e. the quality of the plan. A lack of this type of assessment could significantly hinder the effectiveness of transition plans.

The challenge around judging credibility of plans is particularly relevant where there is a disclosure requirement for 1.5 degree aligned plans. Assessing credibility requires assessors to have the capacity to critically evaluate the claims companies put forward about their alignment to a 1.5 degree pathway, and evaluate whether current and planned actions will plausibly enable them to attain their sustainability objectives.[26] It should include an assessment of multiple factors including the relevance and credibility of claims themselves, format and form of presentation, internal coherence of reporting, and interactions with external trends.

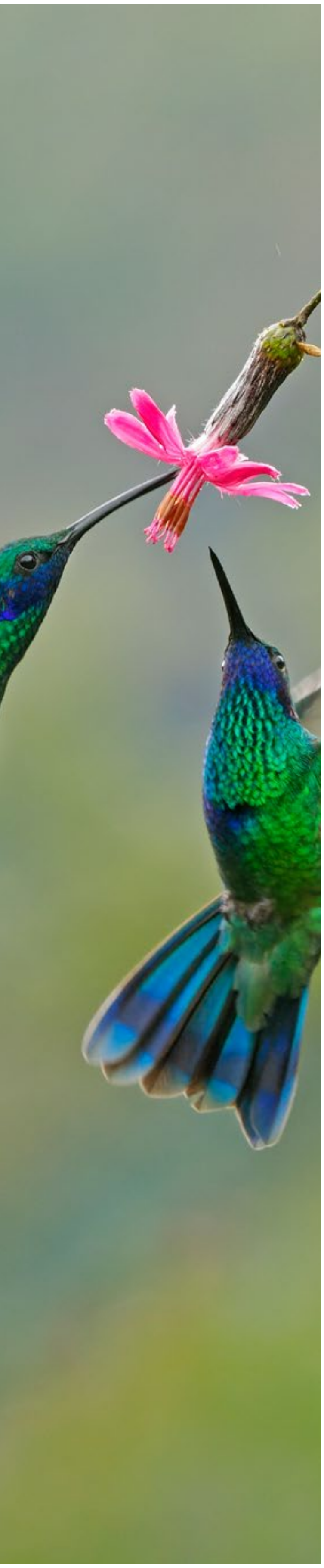
The systems through which transition plans are assured and assessed for credibility will need rapid market evolution and support from the government and regulator. While the Science-Based Targets initiative provides a form of validation for targets, the private sector ecosystem of data and assurance providers, civil society, ratings agencies, ESG ratings providers[27] and others will need to play a new role in assessing whether the past performance and intended trajectory are aligned to particular pathways and are environmentally credible.[28] There would also necessarily be a role for the regulator in overseeing the quality of transition plan disclosures. More work is needed around how exactly the FCA takes on this role, and/or whether separate regulatory architecture is needed to enforce environmental integrity. This could include, for example, authorisation of particular organisations who are deemed to have the appropriate skills and capability to provide sufficiently nuanced and comprehensive assurance to firms around their sustainability disclosures.



Regulatory precedents exist for the regulator ensuring that disclosures are robust. For example, regulators under the EU's Prospectus Regulation are required to review and approve prospectus documents. Nevertheless, we have been unable to find any data to indicate the level of enforcement against firms or individuals as a result of the Prospectus Regulation. Even if they aren't themselves doing all the assessing, it is critical that relevant authorities are appropriately resourced and understand their role in overseeing and enforcing transition planning.

Before third-party assurance is made mandatory, any disclosures should, at a minimum, explain whether the disclosure has been assured. This should specify what level of assurance has been sought, if any, to avoid any misunderstanding for the transition plan user. Given the multiple factors involved in assessing the credibility of a transition plan (data and process integrity, consistency with other reporting, plausibility and credibility of claims, form and format of presentation), and the limits to assurance (no one can guarantee what a firm will do in the future), disclosure of assurance level should clearly articulate which aspects have been assured, to what degree. Currently (and especially beyond the FTSE 100) there is little data on the level of assurance obtained by firms, who is providing it, and on what basis. In 2021 the FRC carried out a review of SECR disclosures and only 70% of those firms who voluntarily sought independent assurance adequately explained the level of assurance beyond simply stating the disclosure has been "audited" or "verified".[29] This point was also noted in the FRC's Climate Thematic (review of firms' TCFD disclosures).[30]

WWF recommends that the government and FCA consult on a graduated approach for third-party assurance. The government and FCA could in the first instance require that firms disclose whether key metrics and particular elements of transition plans are subject to assurance (and if so, to what degree). After the initial regulatory rules are made, within 1-2 years they could require mandatory third-party assurance at the "limited" level and eventually move towards "reasonable" assurance, given that investors typically see this as the long-term target. The challenges with providing reasonable assurance in this area will likely reduce as new and improved methodologies and frameworks are



developed. Beyond this, the government and FCA must consider how to support the assessment of firms' plans with respect to their alignment with a science-based 1.5 degree pathway and whether firms' current and planned actions make it plausible to achieve their sustainability objectives. The same approach does not have to be taken for both forward- and backward-looking information. Given the unique challenges for forward-looking information, reasonable assurance could be put in place much sooner for backward-looking information.

Such a graduated approach would be similar to the approach taken under the EU's Corporate Sustainability Reporting Directive, where the EU Commission must adopt legislation to provide for limited assurance standards from 1 October 2026 and for reasonable assurance standards from 1 October 2028. The assurance certification must come from an accredited independent auditor or certifier, ensuring that the sustainability information complies with the certification standards that have been adopted by the EU.

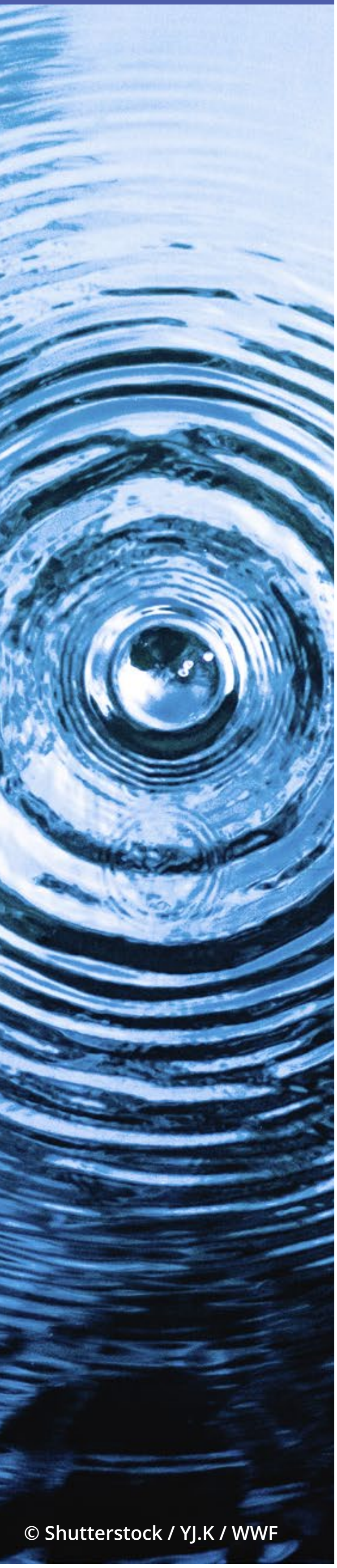
RECAP

The government and FCA should:

- Develop transition plan assurance requirements which ratchet over time: initially, requiring disclosures to explain whether assurance has been sought and to what level, then requiring "limited" assurance, eventually requiring "reasonable" assurance.
- Nurture an ecosystem of private and third sector providers who assess the environmental credibility and plausibility of transition plans for alignment with 1.5 degrees.
- Consider the regulatory architecture needed to enforce the environmental integrity of plans, including authorising suitable assessment organisations.

POLICY ISSUE 3

HOW CAN TRANSITION PLANNING INFORMATION BE PRESENTED TO FACILITATE LARGE-SCALE USAGE AND ANALYSIS?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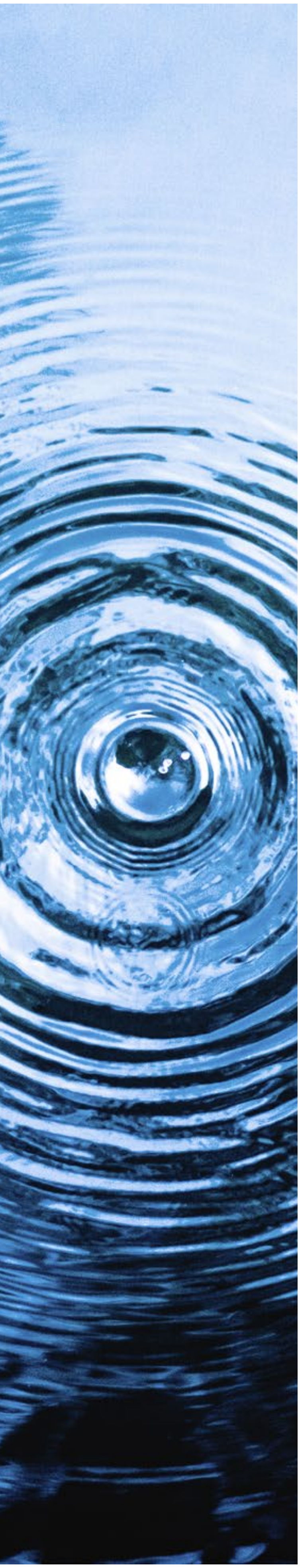
Financial institutions have highlighted challenges in analysing multiple transition plans, especially with a view to comparing analogous companies. In this light, many interviewees thought that a transition planning portal – providing a central hub for key transition planning information which would be accessible for all – could help deliver usable, reliable, comparable transition plans. This would not only support usage of transition plans by industry; it could also support usage by government and regulators to build insights from corporate transition plans into policymaking and regulation in future.

A single information portal has been a helpful part of other disclosure regimes:

- Gender pay gap reporting uses an online portal, which has enhanced the accessibility, transparency and comparability of data. Gender pay gap reporting requires quantitative disclosures, but also facilitates the possibility of publishing a supporting narrative to offer qualitative analysis and contextualisation of disclosures.
- The Reporting on Payment Practices and Performance Regulation also has an online portal, again aiming to increase accessibility, transparency and comparability.
- The European Single Access Point demonstrates the EU's "belief in the need for centralisation of this type of information" and is a precedent the UK could draw on in this area.[31]

There are a number of options and considerations with regard to a single portal for the publication of transition plans:

- Transition planning information could be made available on Companies House, similarly to financial data.
- Government could procure the services of existing platforms to host mandatory transition plan disclosure. These include CDP,



which operates a global disclosure system; the Net-Zero Data Public Utility (NZDPU), which currently provides a freely accessible repository for company-level greenhouse gas emissions information;[32] and Icebreaker One, whose Project Perseus has focused on ingesting sustainability information from SMEs.

- Digital tagging of plans, whereby information is linked automatically to information provided in annual reporting by companies, could allow users to extract appropriate information.
- Any portal should consider the integration of reporting requirements, in alignment with the TPT's best practice advice to include financially material information in general purpose financial reporting, in addition to periodic standalone reports.

An online portal can facilitate the application of other tools to analyse transition plans. Transition plan assessment tools, such as Transition Arc, provide valuable analysis and would be supercharged when interoperable with the single platform, reducing resourcing burdens on transition plan users. This is also true of large language models, a type of AI system, which can provide enormous scope to support in the monitoring and synthesis of transition planning information, making it usable for market participants, regulators and policymakers.[33]

Given the significant potential benefits of a single location for transition plan data, we recommend that the government and FCA consult on the design and delivery of a single portal as part of their consultations on transition plans. This would need to consider both quantitative and qualitative criteria.

RECAP

The government and FCA should:

- Consult on the design of a single platform for disclosure, and the range of possible options to deliver it, including considering how this might allow integration with other reporting requirements and what role digital tagging should play.

POLICY ISSUE 4

HOW CAN GOVERNMENTS AND REGULATORS USE TRANSITION PLANS IN POLICYMAKING AND PUBLIC SPENDING?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Private sector companies have repeatedly flagged that they cannot fulfil the ambition in their transition plans without aligned public policy. The Transition Finance Market Review recently concluded that the first key barrier to accessing and deploying transition finance in the UK is a lack of long-term regulatory and policy certainty with regard to the real economy transition.[34] Accordingly, there have been calls on government to produce national-level plans, backed up by sectoral roadmaps, which set out the policy, regulation and strategic fiscal spend which would crowd in private finance aligned with the UK's transition, and shift business practices.[35]

An orderly economy-wide transition depends on strong feedback loops and consistency between the private and public sectors on their transition plans. This is key to deliver on the government's ambition for a genuine partnership between government and the private sector, where the government sets clear and consistent policy to deliver decarbonisation. High-quality corporate transition plans should contain detailed insights around the policy barriers to the net-zero transition, and policy officials across government should use these insights when developing sectoral policy to help the sector transition and unlock the requisite private capital. Furthermore, government should be using transition planning to make financing decisions, as is expected of the private sector. Government is making large spending decisions across procurement, subsidies and investment (such as the National Wealth Fund). It should make credible corporate transition plans a condition of companies receiving public money, especially where it is being spent with net-zero goals in mind.

However, usage of corporate transition plans within government will not happen unless there is concerted effort and structure for it. Analysing multiple transition plans and synthesising the insights will require resources and a clear expectation within government that transition plans are important inputs to policymaking and appropriate areas of spending. Initially, it might be realistic for policy officials to look at the transition plans of any relevant companies voluntarily disclosing in their policy area. However, as the number of disclosures

increases following a mandatory disclosure requirement, government will need increasingly efficient ways of gleaning these insights. These structures will be especially important given the size of not just the task at hand, but complex existing structures – e.g. with some parts of government currently looking at sectoral change, and others looking at which policies should be in place to make disclosure happen.
The government should consider suitable structures alongside the Transition Finance Market Review's recommendations to re-establish a Net Zero Council and establish a Transition Finance Lab.

Government should start planning how it will enable insights from transition plans to be used in policymaking and spending decisions. The process for taking policy insights from transition plans should be public knowledge to encourage high-quality disclosure in this area. Non-mutually exclusive options may include:

- Asking the Climate Change Committee (CCC) to consider the insights from corporate transition plans when setting out policy recommendations to government about how it can achieve its net-zero target.
- Using assessment providers and the FCA's insights on the quality of plans and progress towards them when judging company eligibility for receiving public money.
- Resourcing a central government team – potentially in the Department for Energy Security and Net Zero– that can lead on the integration of policy insights from transition planning across relevant teams in government (e.g. a "Net Zero Business Liaison Lead").
- Engaging with the private/academic sector on AI assisted tools to analyse large numbers of transition plans and identify policy insights, with a view to eventually using that capability in government to overcome some of the resourcing implications of this task. The single platform for disclosure will also help to solve this issue.

Government isn't the only public sector body that needs to consider how to integrate corporate transition planning into its core work; globally, financial regulators have started to consider how they will be key users of transition plans. The NGFS has highlighted that "transition planning information of financial institutions can provide important insights to micro-prudential authorities on the institution's strategic approach to addressing climate change and business transformation".[36] The Basel Committee

is exploring how transition plan disclosures by banks, among other disclosures, can address climate-related financial risks to the global financial system.[37] The Financial Stability Board is examining the relevance of transition plans for financial stability. Ultimately, central banks, financial regulators and supervisors should assess published transition plans to consider the transition risk profile of surveyed financial institutions and entities, using that information to, for example, instigate necessary adjustments to capital or liquidity requirements.[38] They will, like government, need to consider how to integrate corporate transition planning into their core activities.

RECAP

The government should:

- Systematically collect insights from corporate transition plans about barriers to the transition and use them to inform policymaking including spending decisions across departments.
- Consider how tools such as AI, or a single platform, can relieve the resource burden of synthesising and using insights from transition plans.

POLICY ISSUE 5

WHAT OVERSIGHT STRUCTURES CAN ENSURE THAT THE MANDATORY CORPORATE DISCLOSURE REGIME IS SUPPORTING DECARBONISATION TO THE GREATEST EXTENT POSSIBLE?


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A structure for monitoring the impact of mandatory disclosure will be important to ensuring that transition plan disclosure is delivering on its primary objective: decarbonisation. Several regulatory precedents show that a number of barriers could potentially hinder the quality and usage of transition plans. Oversight and monitoring of the policy can identify and address such issues as they materialise, especially in the early days of the policy's implementation. While possible, it would be challenging to isolate the impact of the mandatory disclosure policy from all other policy and developments to assess its impacts on decarbonisation. However, a proxy to monitor the effectiveness of the policy would be the extent to which transition plans are genuinely used by a range of users (financial institutions, governments and supervisors).

Government and regulators should prepare to monitor the usage of transition plans on an ongoing basis, using existing activity as a basis to get started, and develop an overarching monitoring framework for transition plans:

1. The FCA can already be getting a sense of whether corporate transition plans are proving useful to decision-making in financial institutions through its regulatory oversight activities.
2. The CCC will likely be building a picture of whether government policymaking is sufficiently addressing the barriers highlighted in private sector transition plans, as part of its work in producing recommendations for government.
3. The Treasury could understand the extent to which financial regulators are using transition plans as part of its frequent engagement with them. It would also be able to see the impact on the market of using corporate transition planning in making public spending decisions.

4. The Department for Business and Trade will increasingly be aware of the barriers that corporates might be facing in producing high-quality plans through its business engagement.
5. Assessors of transition plans will be able to judge if companies are in fact meeting the aspired pathways over time – and could supply that information to government and regulators.

An ongoing monitoring and oversight framework would allow government and regulators to quickly take remedial action against hindrances limiting the impact of mandatory disclosure.

Such remedial action could include:

- Updating guidance, templates and examples to support preparers on the disclosures themselves.
- Supporting the consolidation of disclosures and reporting, such as including key information in annual reports and accounts, especially in light of further additions to transition plans like holistic nature and climate plans.
- Addressing evolving issues such as liability, verification, enforcement or tools to compare and analyse transition plans, ratcheting up aspects of the disclosure regime as necessary.

Ongoing monitoring and oversight would also feed into and allow for more effective post-implementation reviews of the policy around mandatory disclosure. Given the enormous amount of public and private sector energy that has gone towards transition planning we recommend that government and the FCA plan to carry out post-implementation reviews within the earliest sensible timeframe (e.g. earlier than the five years when post-implementation reviews are typically carried out). This will support learning from the early lessons and ensure maximum decarbonisation impact from the disclosure policy, especially in the context of potential further evolution of corporate environmental disclosures.

RECAP

The government and FCA should:

- Use insights from regulators and adjacent bodies about how plans are driving decision-making, as a proxy for monitoring the impact of the regime on decarbonisation goals. This will allow quick remedial action if improvements in the disclosure regime are needed.
- Consider conducting a post-implementation review of the transition plan disclosure policy earlier than the standard five years.

CONCLUSION AND SUMMARY

This briefing has highlighted five key areas that government and regulators should tackle to ensure that mandatory transition plan disclosure is as effective as possible in supporting the UK's decarbonisation. Looking at regulatory precedents and consulting a range of stakeholders has revealed that, even with a requirement to develop and disclose while following a high-quality disclosure framework, there are potential barriers to usable, reliable and comparable disclosures, and their usage in private and public sector decision-making. The government and the FCA can overcome such barriers by addressing these five areas as part of the expected upcoming consultations on corporate transition plans, and the government's own planning about how to engage with private sector transition plans.

It is in the interests of these institutions to take these actions. For a fiscally constrained government, a well-functioning disclosure regime is essential to increasing the flow of private transition finance, reducing pressure on the public financing required for the transition. Ensuring high-quality transparency also delivers on the FCA's primary objective to make markets function well. Finally, through the effective implementation of mandatory transition plan disclosure the UK can continue to drive the global momentum on transition planning, further to the work of the TPT, and continue to develop the UK as a globally leading green financial centre. The economic opportunity from the net-zero transition is there for the taking: now is the time for impactful policy that will facilitate the private sector and financial sector's part in it.

POLICY ISSUE	KEY RECOMMENDATIONS
Legal liability An appropriate balance on legal liability for transition plan disclosures is necessary to disincentivise greenwashing, while avoiding greenhushing. The liability standard should be clearly understood by firms to avoid the distortion of disclosures.	The government and FCA should: ■ Apply existing legal rules (the "recklessness standard") to periodic transition plan reporting. ■ Clarify the implications of the liability standard attached to transition plan disclosures, and specifically forward-looking information, under existing legal rules. This should give businesses the confidence to make detailed, high quality transition plan disclosures which include ambitious decarbonisation targets. ■ In doing so, clarify key interactions with the Companies Act, FSMA, Competition Law, related UK policy developments like the development of national transition plans, and international legal standards.
Assurance and assessment Third-party assessments of transition plans should cover both how the transition plan was produced, and environmental credibility and plausibility, to usefully inform decision-making.	The government and FCA should: ■ Develop transition plan assurance requirements which ratchet over time: initially, requiring disclosures to explain whether assurance has been sought and to what level, then requiring "limited" assurance, eventually requiring "reasonable" assurance. ■ Nurture an ecosystem of private and third sector providers who assess the environmental credibility and plausibility of transition plans for alignment with 1.5 degrees. ■ Consider the regulatory architecture needed to enforce the environmental integrity of plans, including, authorising suitable assessment organisations.
Presentation of transition planning information A digital transition plan disclosure platform could make transition plans more comparable and usable by multiple stakeholders – from financial institutions to government.	The government and FCA should: ■ Consult on the design of a single platform for disclosure, and the range of possible options to deliver it, including considering how this might allow integration with other reporting requirements and what role digital tagging should play.
Public sector usage To create strong feedback loops between private and public sector action, insights from corporate transition plans should be used in government policymaking and public procurement and investment.	The government should: ■ Systematically collect insights from corporate transition plans about barriers to the transition and use them to inform policymaking, including spending decisions across departments. ■ Consider how tools such as AI, or a single platform, can relieve the resource burden of synthesising and using insights from transition plans.
Monitoring and oversight The impact of transition plans on business behaviour and financial decisions should be monitored to ensure that transition plan disclosure supports real world decarbonisation.	The government and FCA should: ■ Use insights from regulators and adjacent bodies about how plans are driving decision-making, as a proxy for monitoring the impact of the regime on decarbonisation goals. This will allow quick remedial action if improvements in the disclosure regime are needed. ■ Consider conducting a post-implementation review of the transition plan disclosure policy earlier than the standard five years.

ANNEX A – REGULATORY PRECEDENTS CONSIDERED FOR THIS ANALYSIS

1. **Packaged retail and insurance-based investment products (PRIIPs):** PRIIPS are packaged retail and insurance-based investment products, ones that banks typically offer to consumers – for example, when they want to save for a specific objective such as a house purchase or for a child's education. The PRIIPS regime was introduced across the EU in 2018 with the aim of protecting retail investors by providing them with accessible, transparent and comparable information in relation to investment products, allowing them to understand and compare the key features, risk, rewards and costs of different PRIIPs.
2. **Prospectus Regulation:** A prospectus is the document in which a company seeking admission to a stock market or raising fresh capital through the issuance of new securities sets out, for the benefit of investors, the information they need to make informed investment decisions.
3. **Streamlined Energy and Carbon Reporting (SECR):** Streamlined Energy and Carbon Reporting is the UK's sustainability reporting framework that covers greenhouse gas emissions and energy usage, and since 2013 has required all quoted companies, large unquoted companies incorporated in the UK and large limited liability partnerships to report greenhouse gas emissions.
4. **Gender pay gap reporting:** The gender pay gap is a measure of labour market or workplace disadvantage, expressed in terms of a comparison between men's and women's average (median) hourly rates of pay. Gender pay gap reporting was introduced in the UK in 2017, requiring public, private and voluntary sector organisations with over 250 employees to report annually on their gender pay gap using a specified 'snapshot date' relevant to their sector.
5. **Reporting on Payment Practices and Performance (RPPPR):** Reporting on Payment Practices and Performance was introduced in 2017, imposing a requirement on large companies to publish certain information twice per financial year about their practices, policies and performance in relation to paying suppliers.
6. **Modern Slavery Act:** The Modern Slavery Act came into effect in 2015 and was designed to combat modern slavery in the UK, consolidating previous offences relating to trafficking and slavery. The regime uses a self-certification approach.

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26 ICAEW has developed thinking around what type of assurance could apply to climate commitments, including real-time assurance focused on goals and outcomes, stress testing a range of scenarios, assumptions and judgements, and end-to-end process assurance to underpin commitments. See ICAEW (n.d.) Considering your organisation's assurance needs.

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- Among other information, the following will be accessible via ESAP:
- Annual financial statements and audit reports (as per EU Accounting Directive)
- Sustainability statements and assurance reports (as per EU Accounting Directive) (this includes CSRD and ESRS)
- Public register of auditors and audit firms (as per EU Audit Directive)
- Administrative sanctions and measures imposed on auditors (as per EU Audit Directive)
- Transparency reports of audit firms (as per EU Audit Regulation)

32 It should be noted that the NZDPU will centralise data on emissions, so will not necessarily cover the entire scope of a transition plan.

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