Grant Thornton

# Transition Plan

2024

# Contents

# Introduction

The Transition Plan Taskforce (TPT) was established by HM Treasury in March 2022 in response to the UK government's commitment to achieving net zero emissions by 2050 and making the UK the world's first net zero-aligned Financial Centre.

The UK government aims to ensure that financial flows shift towards supporting a net zero economy and encourage companies to publish climate transition plans. TPT brings together leaders from industry, academia, and regulators to develop good practice for transition plan disclosures for finance and the real economy. Additionally, the TPT engages with non-UK governments and regulatory networks to facilitate discussions on building common baselines and principles for transition planning.

A climate-related transition plan is an aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions

The TPT has published a set of materials, which includes the finalised disclosure framework and supporting guidance. These resources are intended to assist companies in the finance sector and real economy with the development, disclosure, and delivery of their climate transition plans.

# What does TPT mean for financial services?

Financial services firms that proactively engage with the TPT's framework can gain enhanced stakeholder trust, investor appeal, and market competitiveness. Organisations can leverage the TPT's approach to transition planning to drive transformation by integrating strategy, structure, people, processes, and technology across the organisation.

Transition planning can reveal gaps and growth opportunities within a company, presenting a strategic opportunity for progressive leaders rather than a regulatory compliance burden.

In April 2024, TPT published finalised guidance for the implementation of its framework, including high-level sector summary guidance for insurers and detailed guidance for asset managers, asset owners, and banks.

The TPT framework is designed with interoperability and additionality in mind, building upon the foundations established by the International Sustainability Standards Board (ISSB) and Glasgow Financial Alliance for Net Zero (GFANZ). Regulatory expectations on climate transition plans for UK-listed issuers are likely to increase and become more detailed, eventually making it mandatory.

The Financial Conduct Authority (FCA) plans to consult on proposals for mandatory sustainability disclosure requirements, focusing on climate transition plan disclosures based on anticipated UK-endorsed ISSB Sustainability Disclosure Standards. Any financial institution, particularly those listed or planning to list on stock exchanges, and those significantly impacted by climate-related factors, should be preparing to publish their transition plans in accordance with the ISSB's IFRS S1 and S2 standards. Regulatory requirements for transition plan disclosures are expected to **take effect on or after 1 January 2025**, with **reporting to begin in 2026**. The following table provides an overview of transition plans and IFRS S1 and S2 disclosures.

**Table 1: High level comparison between transition plans and IFRS S1 and S2 disclosures**

| | Transition plans | IFRS S1 and S2 Disclosures |
|---|---|---|
| **Definition** | 1.4 An organisation's targets and actions supporting its transition toward a low-carbon economy, including actions such as reducing its GHG emissions.<br><br>Plan to achieve a target. | Comprehensive global baseline of sustainability-related disclosures. |
| **Timing** | Every 3 years | Yearly |
| **Standalone** | Possible | Embedded in annual report |
| **Perios** | Forward looking focus to 2050 | Past period / year [with some forward looking elements] |
| **Skills required to develop them** | Investor focussed, climate knowledge, stakeholder engagement | Financial, advisory, accountancy |
| **User** | Investors, employees, consumers, public sector | Investors, employees |

# The TPT disclosure framework

## The TPT Disclosure Framework helps organisations set out a credible and robust climate transition plan as part of annual reporting on forward business strategy.

Transition plans should take a strategic and rounded approach which explains how an organisation will decarbonise and meet climate targets, manage climate-related risks and opportunities, and contribute to the economy-wide climate transition. Transition planning is an iterative process and companies should get started now.

To drive good practice, the TPT Framework applies three guiding principles of Ambition, Action and Accountability. The framework is structured around five elements as recommended by the GFANZ, upon which the TPT has further developed 19 recommended sub-elements to guide firms across all sectors in the creation of their transition plans. Table 2 below summarises the framework and highlights the sub-elements where additional sector-specific guidance is provided for financial services firms.

**Table 2: The TPT Disclosure framework for financial services sub-sectors**

*Legend:*
*Sub-elements where additional sector-specific guidance is provided*
Sub-elements without additional guidance

| Principles | Disclosure elements / sub-elements | Asset Managers | Asset Owners | Banks | Insurance |
|---|---|---|---|---|---|
| **Ambition** | **1. Foundations** | | | | |
| Aligning strategies with net zero targets | 1.1 Strategic ambition | | | | |
| | 1.2 Business model and value chain | | | | |
| | 1.3 Key assumptions and external factors | | | | |
| **Action** | **2. Implementation strategy** | | | | |
| Practical steps for organisations | 2.1 Business operations | | | | |
| | 2.2 Products and services | | | | |
| | 2.3 Policies and conditions | | | | |
| | 2.4 Financial planning | | | | |
| | **3. Engagement strategy** | | | | |
| | 3.1 Engagement with value chain | | | | |
| | 3.2 Engagement with industry | | | | |
| | 3.3 Governance, public sector, communities and civil society | | | | |
| **Accountability** | **4. Metrics and targets** | | | | |
| Governance, reporting, and verification | 4.1 Governance, engagement, business and ops metrics and targets | | | | |
| | 4.2 Financial metrics and targets | | | | |
| | 4.3 GHG metrics and targets | | | | |
| | 4.4 Carbon credits | | | | |
| | **5. Governance** | | | | |
| | 5.1 Board oversight and reporting | | | | |
| | 5.2 Management roles, responsibility and accountability | | | | |
| | 5.3 Culture | | | | |
| | 5.4 Incentives and remuneration | | | | |
| | 5.5 Skills, competencies and training | | | | |

The framework, implementation guidance and additional sector-specific guidance can be adapted by banks, insurers/re-insurers, asset owners, and asset managers to develop credible and robust climate transition plans. Adapting the framework involves aligning climate transition plans with the specific challenges and opportunities faced by each sector. Here are some key considerations for adapting each of the five elements of the framework:

Foundation: Financial services firms play a pivotal role in the financial ecosystem, and their transition plans should reflect this unique position. When setting objectives and priorities for transitioning towards a low-GHG emissions and climate-resilient economy, these firms should consider their specific impact within this ecosystem. It is important for them to articulate their strategic ambition in the transition plan, detailing how they plan to achieve their goals while also considering the effects on stakeholders, society, and the environment. The following table summarises financial services firms' roles and responsibilities, and activities that should be covered in their transition plans.

#### Table 3: Sub-sectors' roles and responsibilities and activities in scope of transition planning

| Sub-sectors | Roles and responsibilities | Activities in scope of planning |
|---|---|---|
| **Asset Managers** | Asset managers play a critical role in managing investment portfolios on behalf of clients. They can contribute to climate transition planning by integrating environmental, social, and governance (ESG) factors into investment decisions, engaging with companies on sustainability issues, and offering sustainable investment products. | Both investment and non-investment activities of standalone asset management firms, captive asset management divisions of larger financial services groups<br><br>*Note: Should incorporate all relevant asset classes within its transition plan, with distinctions made between asset classes where relevant.* |
| **Asset Owners** | Asset owners have significant influence over investment decisions. They can contribute to climate transition planning by aligning investment portfolios with sustainability goals, engaging with asset managers to promote responsible investing practices, and integrating climate considerations into investment strategies. | Both investment and non-investment activities of public- and private-sector pension funds, re-/insurance companies, sovereign wealth funds, endowments, foundations, and family offices<br><br>*Note: Should incorporate all relevant asset classes within its transition plan, with distinctions made between asset classes where relevant.* |
| **Banks** | Banks are exposed to climate-related risks and opportunities through their lending and other financial intermediary activities. They may assume exposure to material climate-related risks through their borrowers, customers, or counterparties. Banks can contribute to climate transition planning by assessing and managing climate-related risks, supporting sustainable investments, and disclosing relevant information. | Full range of operations and activities, covering on- and off-balance sheet activities, including (but not limited to) lending, sales and trading, capital markets, and advisory activities<br><br>*Note: For banks that have cross-sector operations such as in-house asset management functions, they should use the additional relevant sector guidance.* |
| **Insurance** | Insurers/re-insurers underwrite risks associated with climate change and have a unique perspective on the financial implications of climate-related events. They can contribute to climate transition planning by integrating climate risk assessments into underwriting processes, developing innovative insurance products that incentivise sustainability, and engaging with policyholders to promote resilience. | Both non-insurance and insurance activities, including providing traditional and non-traditional insurance related products. Traditional policy lines include property, life, casualty, and reinsurance. Non-traditional products include annuities, alternative risk transfers, and financial guarantees. |

**Implementation strategy**: Entities should disclose their roadmap for short, medium, and long-term actions to achieve its strategic ambition, including changes to its business strategy and resource allocation, plans for GHG or carbon energy-intensive assets, and its approach to managing material interdependencies. Entities should articulate these planned actions within their business operations, including product and service evolution and policy adaptation. For asset managers and owners, TPT provides additional guidance in embedding transition-aligned objectives in investment mandates, assessing climate-related risks in investee companies, and prioritising investments in climate and nature-based solutions. For banks, they have additional guidance to incorporate climate considerations into risk models, client and customer assessment processes, and decision-making tools. Banks also encouraged to enhance support for climate-positive initiatives through their lending and investment activities.

**Engagement strategy**: Engaging with stakeholders is crucial for effective climate transition planning. Financial services firms should involve internal and external stakeholders such as employees, customers, investors, regulators, and communities in developing their transition plan. The TPT framework emphasises the importance of transparency and accountability in stakeholder engagement.

Collaboration within and across sectors is vital for addressing the complex challenges of climate change. Financial services firms should explore opportunities for collaboration with other financial institutions, industry associations, policymakers, and civil society organisations.

**Metrics and targets**: Firms should disclose governance, business, and operational metrics and targets for their transition plan, including the objective, type of target, period, base period, milestones, and metric used to assess progress. They should also provide relevant units, methodologies, and definitions and indicate how much data is measured vs. estimated. Financial services firms should establish clear targets for reducing GHG emissions, increasing climate resilience, and promoting sustainable investments, reflecting their pivotal role in directing financial flows towards sustainable outcomes.

**Governance**: Robust governance structures are fundamental for effective implementation of climate transition planning in the financial services sector. This involves assigning clear roles and responsibilities for the delivery and oversight of the transition plan, aligning culture and incentive structures with the strategic ambition, and ensuring regular reporting and updating of the plan.

# Key challenges in transition planning for financial services

Developing a transition plan that meets the standard established by the TPT presents a significant challenge for the financial services sector. This process involves rigorous analysis and strategic foresight. Drawing on resources from TPT, pioneering transition plans, industry surveys, and regulatory authorities reports, we have identified the following key sector-specific and common challenges in transition planning:

**Figure 1: Financial services sector-specific and common challenges in transition planning**

**Key sub-sector specific challenges**

| Asset Managers and Asset Owners | Banks | Insurers and Re-Insurers |
|---|---|---|
| 1 **Data Quality and Methodology Limitations:** Struggle with incorporating all relevant asset classes in transition plans due to data and methodology limitations, necessitating detailed ESG information for diverse investments.<br>2 **Adapting Investment Strategies**: Align investment processes and products with strategic transition ambitions, requiring tailored strategies for climate risk mitigation and opportunity capitalisation.<br>3 **Stakeholder Collaboration**: Navigate complex stakeholder interests, which vary significantly based on business models and regulatory policies, to ensure comprehensive transition plans. | 1 **Risk Profile Integration**: Integrate climate risks into credit risk frameworks, re-evaluating lending practices and credit policies in light of climate risks, a complex challenge unique to banks' direct economic impact.<br>2 **Balancing stakeholder impacts and dependencies in lending decisions**: Balance the impacts and dependencies of their transition plans on a wide range of stakeholders, especially those affected by their lending and investment decisions.<br>3 **Industry and Value Chain Engagement**: Engage with industry and value chain more directly due to their role as financiers, influencing practices and standards. | 1 **Risk Mapping**: Develop comprehensive heatmaps for transition and physical risks, integrating climate science into risk models, a critical task due to the direct financial impact of climate risks on insurance portfolios.<br>2 **Underwriting Policy Development**: Implement policies for underwriting in high-impact sectors, potentially reshaping business models and adjusting premiums to reflect climate risks.<br>3 **Disclosing Recommended Financial and GHG Metrics**: Implement Net-Zero Insurance Alliance (NZIA) Target Setting Protocol to report financial metrics like client adherence to science-based targets and risk exposure to weather catastrophes, and also disclose GHG emissions across diverse portfolios. |

**Common Across All Sub-Sectors**

- Compliance with Evolving Standards: Stay informed and compliant with evolving standards and guidelines, a challenge that varies in complexity depending on each sector's regulatory environment.
- Financial Planning and Governance Integration: Integrate climate considerations into financial planning and governance, adapting to each sector's impact on financial stability and market shocks.
- Staff Training and Alignment: Ensure staff across functions are trained and aligned with net zero transition plans, with the depth of training varying by sector operations and impact.

Financial services firms face a pressing need to address these challenges head-on. Stakeholders expect credible transition plans, requiring firms to take proactive steps. To get ahead, firms should thoroughly understand their unique challenges, translating this knowledge into robust strategies. Firms should also stay agile and adapt to evolving standards and regulations. Moreover, firms should actively engage with various external stakeholders. By doing so, firms can not only meet the TPT standards but also establish themselves as leaders in the transition towards a sustainable and resilient financial services sector.

# Our approach to transition planning

Our team of experienced professionals have in depth experience of transition planning and diverse expertise to help you overcome sector-specific challenges. We are well versed in the TPT framework, have been involved in responding to the TPT as they have set their standards and have detailed knowledge of other regulatory changes that are happening in parallel. Our implementation methodology incorporates developing and disclosing Transition Plans against the TPT disclosure framework as set out below. We can work with your company in a collaborative, yet challenging manner, using our broad experience to stretch your thinking and to help you create a plan that balances ambition with pragmatism.

**1. Research and data analysis**

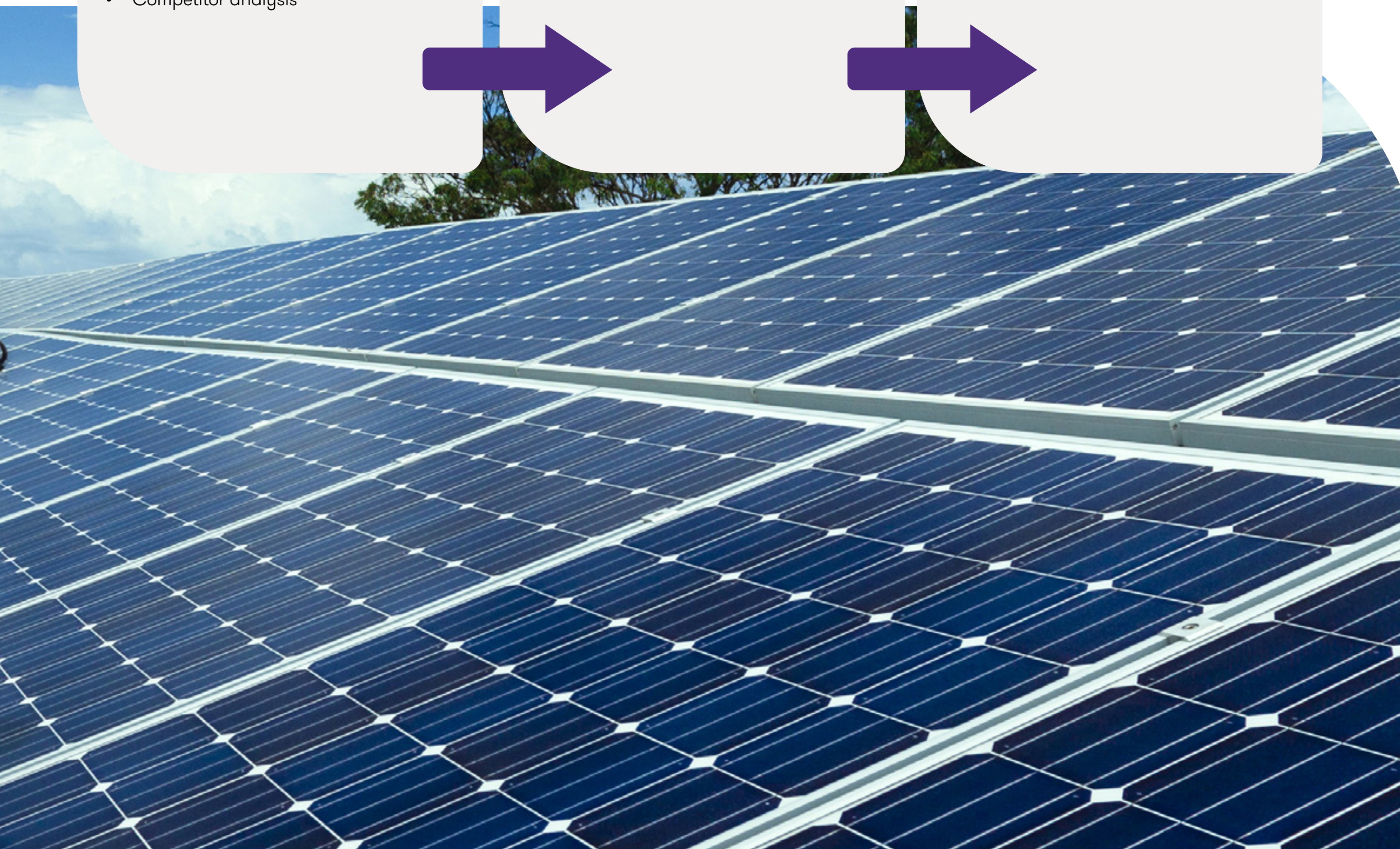
- Assess company data
- Review current climate-related publications and workings
- Stakeholder mapping. Engage senior stakeholders
- Complete gap analysis
- Competitor analysis

**2. Developing the Transition Plan**

- Stage 1: Re-assess position
- Stage 2: Setting strategic ambition
- Stage 3: Plan your actions
- Stage 4: Implementation Planning
- Assess interdependencies with nature and communities

**3. Disclosure against the TPT framework**

- Draft your business integrated transition plan against TPT framework
- Assess plan suitability with stakeholders and iterate
- Develop and deliver a communication & engagement plan



**1. Research and data analysis**

Before getting into the core TPT methodology, we will take time to engage stakeholders of your company and understand the progress the company have made to date. This allows us to plan the right level of support for the next phase.

**2. Developing the Transition Plan**

Our 4-stage methodology follows the TPT guidance. We have attributed each stage to the framework elements under principles of Ambition, Action & Accountability:

### Stage 1 – Re-assess position

Take stock of the levers and tools that your company should undertake this transition.

| | |
|---|---|
| **Focused TPT elements** | Foundation, Implementation Strategy, Metrics & Targets, Governance |
| **Activity overview** | **Assessment of climate related risks and opportunities**<br>• Task Force on Climate Related Financial Disclosures (TCFD) deep dive (including scenario analysis done)<br>• Climate risks and opportunities translated into principal business risk and opportunities<br>• Mark assumptions made in analysis<br>• Consider nature if material<br>**Emissions footprinting**<br>• Disclosing Scope 1 and 2 emissions and at the least identifying Scope 3<br>• Disclosing financed emissions by relevant levels (eg. portfolio level, sector level, asset class level)<br>**Transition levers assessment**<br>• Economic abatement capacity assessment for decarbonisation<br>• Response to companies' climate related risks and opportunities<br>• Influence stakeholders to transition (economy wide transition)<br>**Interdependencies analysis**<br>• Material interdependencies - climate action, natural environment and stakeholders<br>• Opportunities & challenges to address material impacts and financial implications (links into stage 2 and 3) |

### Stage 2 – Set strategic ambition

Set out an ambitious plan for the company to achieve a corporate level transition as well as contribute to an economy wide transition.

| | |
|---|---|
| **Focused TPT elements** | Foundation, Implementation Strategy, Engagement Strategy, Metrics & Targets |
| **Activity overview** | **Set objectives and priorities**<br>• Set objectives, priorities with timebound targets and milestones. Short; medium and longer-term horizon<br>• Bottom up or top-down considerations<br>• Engage stakeholders on objectives<br>• Identify and assess impacts and dependencies of the transition plan on stakeholders (incl. undertaken in Stage 1)<br>**Identify key assumptions and factors for plan**<br>• Policy and regulatory<br>• Decarbonisation factors in economy<br>• Macro and micro economic trends<br>• Technology<br>• Adaptation parameters<br>• Consumer responses<br>• Impact on supply chains<br>• Challenge assumptions and stress test scenarios<br>**Business model and value chain amendments**<br>• Drive solutions like new product and services or change in company values, eg. green bonds, sustainability-linked loans, climate risk insurance products, ESG investment advisory services etc.<br>• Link back into short, medium, long-term targets |

### Stage 3 – Plan your actions

Ensure the business transformation that will be driven by the transition plan is integrated into wider change and strategic objectives.

| | |
|---|---|
| **Focused TPT elements** | Foundations, Implementation Strategy, Engagement Strategy, Metrics & Targets, Governance |
| **Activity overview** | **Implementation steps for transition**<br>• Identify changes to meet ambitions and roadmap of actions across the short, medium and long-term<br>**Revisit policies and conditions**<br>• Engagement across corporate functions<br>• Engage all functions and assess resource and investment needed<br>**Assess resilience of plan**<br>• Assess against assumptions and interdependencies from previous stages<br>• Engage change management as needed<br>**People**<br>• Governance<br>• Skills gap analysis<br>• Culture changes<br>• Transition linked remuneration incentives<br>**Engagement programme for transition**<br>• Value chain<br>• Industry<br>• Policy makers / Government / Communities / Civil Society<br>**Integration into financial planning**<br>• CapEx, OpEx, write downs, demand for products and services and wider financial impacts<br>• Sensitivity analysis to specific assumption<br>**Metrics & targets**<br>• GHG targets<br>• Governance, engagement and operational targets<br>• Financial targets<br>• Interim targets |

### Stage 4 – Implementation planning

Engage with stakeholders to enact accountability for delivery of the transition plan, incorporating their views to ensure that implementation is smooth.

| | |
|---|---|
| **Focused TPT elements** | Engagement Strategy, Metrics & Targets, Governance |
| **Activity overview** | **Monitoring and reporting outcomes**<br>• Internal and external targets<br>• Define KPIs against ambition set and action plan undertaken<br>• Build upon TCFD for metrics<br>• Convert objectives from stage 2 into formal metrics<br>**Verification**<br>• Agree approach to internal or external verification<br>• Assess how assurance ready your MI, process, control, data and people are<br>**Improving monitoring**<br>• Set out regular review points and triggers for intervention<br>• Consider data gaps, challenges and their mitigations over time<br>• Data collection approaches<br>• Target revision<br>**Prepare for continuous monitoring**<br>• Standalone publication every 3 years or upon material change. Regular annual updates as part of normal reporting |

### 3. Disclosure against framework – Stakeholder approved transition plan

We will work closely with your company to deliver a TPT aligned transition plan inclusive of an action plan with defined metrics and milestones. We will provide the governance structures to reach a credible plan and will engage and communicate with stakeholders including the Board to ensure the correct level of buy-in and ownership required for strong delivery.

**Other support (TBC) - assurance programme & capacity building**

Our assurance programme provides independent, third-party validation of your climate transition plan and disclosure processes. This can help to build trust and confidence among stakeholders and demonstrate your commitment to effective climate transition planning.

We also offer training and capacity-building programs to help your organisation develop the skills and knowledge necessary for effective climate transition planning. Our team is committed to working closely with you to ensure that your transition plan is credible, robust, and aligned with your organisation's strategic objectives.

# Contact us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