Climate Safe Lending Network

Climate Safe Lending Network Response to the UK's Transition Plan Taskforce Call for Evidence: A Sector-Neutral Framework for private sector transition plans

Deadline for submission 13 July 2022

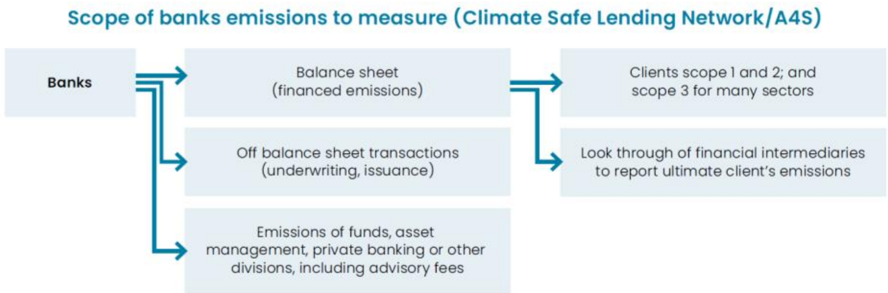
1) Definition

"A transition plan sets out how an organisation will adapt as the world transitions towards a low carbon economy.

The plan should show both how the organisation **reduces its contribution to global climate risks** as well as **how it adapts to the transition** to a low carbon economy**,** as this reinforces the concept of double materiality and, whilst the two concepts often overlap, they are not identical (e.g., there are some adaptations which may insulate the institution from risk whilst transferring that risk to others).

It should set out a) high-level targets the organisation is using to mitigate climate risk, including greenhouse gas reduction targets (e.g., a net zero commitment),

The high-level targets should include the **full scope of activity** of the organisation based on absolute emissions, including scope 3 emissions where material from a double materiality point of view. For banks, that would include looking at off-balance sheet activities, which can account for more than half of a bank's financed emissions.



The targets in the plan should also follow the mitigation hierarchy and **minimise reliance on negative emissions** with strict conditions and high transparency around the use of purchased carbon offsets and carbon capture.

There should be a principle to **avoid circumvention** of disclosure targets.

The targets should include **cumulative impacts (e.g., aggregate absolute GHG emissions** from the reference baseline year) and the targets beyond the net zero point. For example, corporates (for example [Microsoft]) have pledged to remove historical emissions beyond their net zero point (2030) by 2050. This should also be broken down for financial institutions in terms of directly financed/facilitated/underwritten/insured emissions.

Given that the trajectory of climate change based upon COP26 commitments take the world significantly beyond 1.5-degrees, it is highly (and increasingly) likely that institutions will require net removals beyond the net zero point in order to manage the 'overshoot'. This planning, whilst long-range, will influence investment decisions in infrastructure in the next couple of decades, and should influence strategies in the nearer term.

b) interim milestones,

This links to the above point on **cumulative impacts** since it is the 'area under the curve' of emissions which is most relevant to climate change outcomes.

Interim milestones should be designed to **enable a meaningful assessment of progress** of the company's implementation of the plan and, where necessary, regulatory enforcement.

and c) actionable steps the organisation plans to take to hit those targets."

This is the core part of the transition plan. The word 'actionable' requires some clarification:

- It implies that they are measures which are feasible for the organisation to take. It would be useful if those were presented **making clear what key assumptions or contingencies those steps are based upon**, such as transition pathways used or expected changes in supply chains.
- It might imply that the outcomes of those plans can be determined a priori and are fixed over time. It would be useful to pre-emptively include an element of dynamic judgment into the planning process by adding **d) a framework for continuous improvement to strategies recognising the uncertainty in outcomes that may evolve over time.**

2) The key users of transition plans include banks, investors, company boards/staff, governments, NGOs, research institutions, accountants, and clients/suppliers. Within the organisation itself, key users include all staff levels from senior executives to the frontline and operational staff involved in delivering the plan. They each have their own uses and priorities for information that can be derived from a plan. To make information meaningful to a broad range of stakeholders, the information should ideally be presented in such a way that enables various actors the ability to **drill down into the detail most relevant for each stakeholder avoiding that the documents become cumbersome and undermine the goal of greater transparency by becoming too unwieldy to consume.**

3) Use Cases (non-exhaustive list of questions which could be addressed by various actors):

- How does the trajectory of the organisation compare to peers in the sector and to what is required by allocating the science-based global targets to its sector?
- What level of evidence is presented to substantiate (a) the feasibility of the organisation carrying out its plan and (b) the

likelihood that the actionable steps will result in the desired outcomes?
- What are the levels of climate-related financial risk that the organisation both presents and is exposed to (applying a double materiality approach) and how are these mitigated within the transition plan?
- What is the level of climate-related risk potentially transferred to other stakeholders, including the environment and wider society, as a consequence of the organisation's current operations and transition plan?
- What are the broader implications for other environmental and societal factors (such as the impact on various communities within society, nature and biodiversity etc) as a consequence of the organisation's current operations and transition plan?
- What is the level of review and adaptation of strategic trajectory the organisation is demonstrating from the assessment of its performance against its transition plan (this may not be possible in the initial transition plans, but would be expected in subsequent revisions on an annual basis)
- What is the level of value at risk as a consequence of the organisation's plan to derive revenues from activities that are inconsistent with climate goals – and what level of adjustments may be required to present a true and fair view of the company accounts?
- Does the transition plan cover all of the business's activities?
- Does the transition plan reflect a fair share of emission reductions, consistent with a safe global transition?
- Does the transition plan focus on high GHG emission activities and provide a credible route to aligning with a safe transition pathway?
- Does the transition plan address the interests of stakeholders who will be disadvantaged by the discontinuation or winding down of high GHG emitting activities?
- Does the transition plan meet current and expected disclosure requirements in all relevant jurisdictions (e.g., CSRD and CSDDD in the EU)?

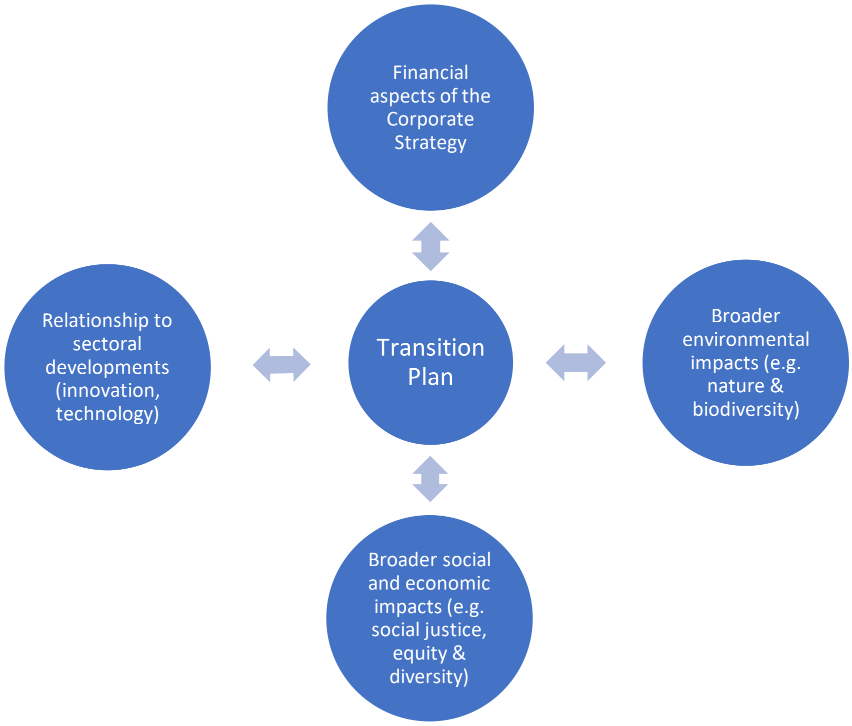
4) Sector selection should be based upon the potential impact for these sectors on the climate in a systemic context within economic value chains. It is important to prioritise high emitting sectors and those which can lead to systemic progress and to ensure there is consistency in the GHG protocol scope that is assessed (with a minimum of full scope3 assessments for high-emissions sectors). Sector-specific templates should therefore be considered for:

    a. Energy
    b. Power/Utilities
    c. Mining
    d. Real Estate
    e. Steel
    f. Cement
    g. Transport
    h. Land Use & Agriculture
    i. Manufacturing (incl automotive)
    j. Construction

    Whilst it is useful for sector-specific templates to ensure consistency in terms of scope of reporting and key performance indicators to report for comparability, these should not necessarily follow any one specific 'pathway' as long as the one chosen demonstrates evidence of its alignment to a 1.5-degrees net zero scenario. Organisations should be free to select, modify and evolve their own sector strategies and pathways based upon their relationships and judgment, being transparent about which assumptions (including externally published pathways) they are adopting, together with a framework for reviewing/assessing effectiveness, understanding externalities on other sustainability factors and mitigating risks.

5) It is not possible for a Transition Plan on climate to exist independently of an organisation's overall corporate strategy or to be considered in isolation from its interdependence on other aspects of environmental sustainability and social impact. A Transition Plan places the climate strategy of an organisation at the centre of examination by stakeholders; the relationships (including both the tensions and synergies) between a climate transition plan and other

aspects of strategy should be described. And for the most significant of these, there should be strategic decision about how best to optimise the co-benefits, mitigate the risks and resolve the tensions.



6) Rather than prescribing which factors should be taken into account *a priori*, organisations should consider each of the following categories where tensions/synergies may exist:

   a. Financial aspects of the Corporate Strategy
   b. Broader environmental impacts (e.g., nature & biodiversity)
   c. Broader social and economic impacts (e.g., social justice, equity & diversity)
   d. Relationship to sectoral developments (innovation, technology)

This could include tensions between transition activities and profitability goals that need to be addressed in corporate strategies as well as investor communications.

It could include synergies between transition activities and sustainability goals, as disclosed in TCFD or other disclosure documents.

Disclosures should prioritise the climate and environmental impact over presentational considerations, for example focussing on full scope and absolute emissions, rather than partial scope or intensity metrics.

There should be an inclusive stakeholder process conducted by the organisation (along similar lines to a materiality assessment – or integrated into the materiality assessment process directly) whereby both the organisation and the stakeholder group assess the most relevant aspects from the categories listed above to expand upon further.

This approach enables consistency without rigidity, enabling organisations to focus on the broader dimensions of the transition plan that matter most. It is important that there is a high level of transparency, diversity and independence of stakeholders.

7) There are several potential tensions between organisational decarbonisation and economy-wide decarbonisation goals. One tension exists when implementing an incremental improvement which locks in emissions for a longer time (creating 'path dependency'). An example might be implementing a piece of equipment that makes a small reduction to emissions but prolongs the production method which will lock-in emissions for many years compared with a deeper transformation that could 'design-out' emissions to the core process. This temporal asymmetry can be addressed by the TPT in part by including **cumulative emissions forecasts** which make decisions on the basis of the impact to the global carbon budget.

Example – a power company operating a coal-fired power station invests in a CCGT gas-fired power station to replace/retire its coal asset. On paper, the company might be able to claim a substantial reduction in its emissions (perhaps around 50% in this example). However, by replacing a coal with a new gas power station, the company locks-in the emissions for the lifetime of the new asset (perhaps up to 30 years). The coal plant may have only very limited time of useful life remaining, meaning there would *be a **net increase in cumulative forecast emissions**. In contrast, if the company were to scrap plans for its gas plant and instead develop a renewable power project (say, solar plus battery) in a few years' time to replace the coal plant, its **cumulative forecast emissions** would be considerably lower.*

8) Other international frameworks include SBTI's foundations for net zero and those under development by the ISSB, SEC and EFRAG.

   Of these, EFRAG's European Sustainability Reporting Standards embed the highest level of ambition and should be preferred as a gold standard because they call on companies to disclose scope 3 emissions that are material from a double materiality standpoint, and they take a cautious approach to counting negative emissions.

   Dynamic references should be made to scientific updates from the IPCC and the UK Committee on Climate Change (CCC).

   For the banking sector, we would draw attention to The Good Transition Plan, published by the Climate Safe Lending Network in November 2021.

9) The Transition Plans should be issued (and revised) in step with the report & accounts for the organisation. To make information meaningful to a broad range of stakeholders, the information should ideally be presented in such a way that enables various actors the ability to **drill down into the detail most relevant for each stakeholder avoiding that the documents become cumbersome and undermine the goal of greater transparency by becoming too unwieldy to consume.**

   The Transition Plan may therefore take the form (on an online basis) of a standalone document which can be navigated at varying levels of detail, with **cross-references** to key areas of the organisation's report& accounts, strategy documents, broader sustainability reporting where necessary. The reporting template for the UN Principles for Responsible Banking was designed to enable integration alongside broader corporate reporting by including summaries with links to references.

10) *(see response under 6 suggesting organisation-specific materiality analysis within prescribed parameters).*

It is important for the TPT to specify comparable indicators including:
- The relevant GHG protocol scope (scope 3 where material from a double materiality point of view)
- for financial institutions, the breakdown of directly financed/ facilitated/underwritten/insured emissions by industry sector (for example, consistent with the EBA's binding standards on Pillar 3 disclosures on ESG risks).
- The template setting out the key tensions/synergies with the organisation's corporate strategy, sector developments and broader social and environmental impacts.
- For policy decisions on critical areas which will determine future performance it is important to be clear on the scope and timing of intervention. For example, if a company is committing to phasing out fossil fuel, it should **state the date** by which it intends to do so. For longer-term strategies, it should state the key dates (milestones) in its plan.

11) See previous references to **metrics and cumulative emissions forecasts** in the answer to question 1.

12) SMEs would be expected to follow the same principles as other companies in determining the materiality of their impacts, thereby introducing a natural level of proportionality. For example, a SME whose primary function is to support the exploration of fossil fuels would therefore be more likely to address its core business purpose and function rather than focusing on its offices and transport. This need not be prescriptive or mandatory.

Barriers such as lack of resources and understanding could be addressed through a simplified transition plan template for SMEs, with adoption linked to fiscal or other incentives and a sufficient lead-in time, supported through resources such as the SME Climate Hub, and enforced within existing reporting frameworks such as an enhanced risk management section in the annual report.

13) N/A

14) There is an underlying assumption within the question that transition plans may add cost if too cumbersome. Given the current level of energy efficiency globally is around 11%, food loss and waste accounts for approximately 1/3 of all food produced (contributing up to 10% of global GHG emissions), there is a specific role that the TPT can play in reinforcing the narrative that effective transition planning can generate wider economic benefits. However there may be many elements of the transition which are not obvious win-wins. Here, the role of the TPT is to encourage and deepen the public understanding of systemic impacts and how they can flow back into the day-to-day economy:

   a. We are currently paying the price for late and ineffective action on climate change, future delays will lead to greater levels of cost and damage.
   b. The loss of nature and biodiversity, exacerbated by insufficient climate action (or the wrong transition strategies) is not counted as an externality, and its decline is already having a significant negative impact on society, albeit in ways which are less transparent and experienced day to day).

Organisations should seek to incorporate Just Transition concerns without using them as a reason for delaying the implementation of transition plans.

15) The principles set out:

Align with an economy-wide net zero transition.
Targets, expected emissions trajectories and plans should be compatible with meeting a particular global temperature target by a particular time, ideally a 1.5 °C low or no-overshoot scenario by 2050. The plan should cover the whole organisation and any

exclusions must not be material to the company and/or to the natural environment.

Given that there is a 50% chance of reaching 1.5-degrees by 2027 (UK Met Office, 2022) it is important to pivot the level of ambition on the basis of **remaining carbon budget** (globally and in relation to the UK's published carbon budgets) and **cumulative emissions forecasts** from organisations in the relevant periods up to (and beyond) 2050.

The remaining carbon budget is derived from a probability-based distribution. GFANZ are referencing the 50% probability of 1.5-degrees. This should be set as a baseline for all references to remaining carbon budgets with the potential for companies to include sensitised analysis for higher levels of probability of staying within 1.5% (for example the IPCC set out 67% confidence level which is referenced by many and the 83% level -although this may be used up by around 2027 at current rates)

Global Warming Between 1850–1900 and 2010–2019 (°C)		Historical Cumulative CO_2 Emissions from 1850 to 2019 ($GtCO_2$)					
1.07 (0.8–1.3; likely range)		2390 (± 240; likely range)					
Approximate global warming relative to 1850–1900 until temperature limit (°C)[a]	Additional global warming relative to 2010–2019 until temperature limit (°C)	Estimated remaining carbon budgets from the beginning of 2020 ($GtCO_2$) *Likelihood of limiting global warming to temperature limit*[b]					Variations in reductions in non-CO_2 emissions[c]
		17%	*33%*	*50%*	*67%*	*83%*	
1.5	0.43	900	650	500	400	300	Higher or lower reductions in accompanying non-CO_2 emissions can increase or decrease the values on the left by 220 $GtCO_2$ or more
1.7	0.63	1450	1050	850	700	550	
2.0	0.93	2300	1700	1350	1150	900	

Source: IPCC AR6, Summary for Policy Makers 2021

There should be distinction drawn between the various scopes of emissions (under the GHG protocol) but each should be covered, including Scope 3 for clients of financial institutions where material from a double materiality point of view, and Scope-3 Category 15 (investment) emissions for companies with material cash and investments.

Focus on concrete actions which emphasise the near-term and are backed up by clear governance mechanisms.
The plan should set out actions to be taken in the next three to five years and interim milestones that can be used to assess progress and explain how these actions are in line with the transition to a net zero economy. The plan should be integrated into, and coherent with, the overall business and investment strategy and backed up by clear governance processes.

The plan should include a full set of key assumptions and contingencies that govern

(a) The feasibility of the company being able to do what it states in its plan

(b) The likelihood that these measures will have the impact that is sought together with an analysis of the key risks and mitigation/contingency plans.

Feasibility should include the organisation's own impact on its supply chain. This can be improved by creating (and resourcing) plans to engage with clients, suppliers and investee companies, where engagement might include climate-related due diligence and explore opportunities to exert influence, for example through product design or procurement or financing conditions.

The achievement of transition plan targets should feature prominently in remuneration policy, especially for senior management.

Corporate lobbying and public affairs activities should align with 1.5C transition pathways, both direct and via trade associations, including a review to identify and terminate existing lobbying that undermines transition goals.

Enable periodic reporting and verification in a transparent manner.
Verification should be enabled in respect of annual reports on progress through adoption of quantifiable and timebound key

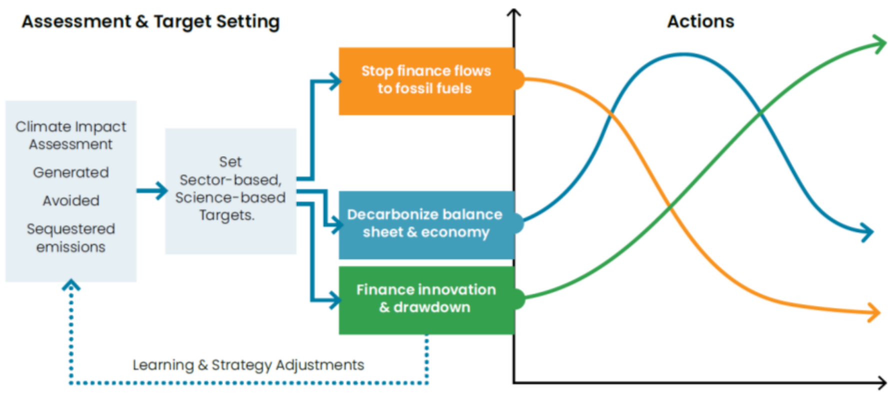
performance indicators, with a defined stakeholder feedback mechanism

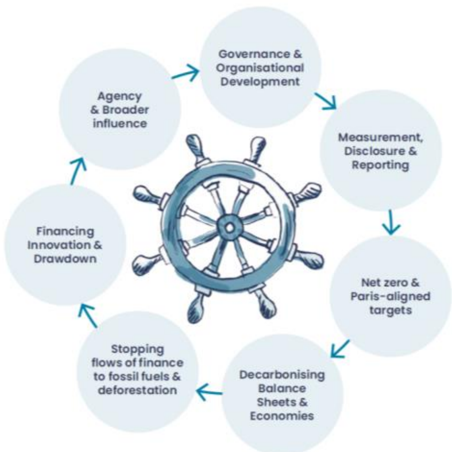
16) Additional Principles:
    a. Stakeholder materiality for tensions/synergies with the organisation's strategy and broader impacts
    b. Clarity on existing policies, deadline dates for implementation of forward-dated policy (e.g., end dates for activities) and trigger-conditions for contingent actions (e.g. the set of environmental/economic conditions that would trigger the company into introducing or retrenching from specified activities
    c. A clear distinction between those elements which relate to an organisation's adaptation, alignment and contribution to decarbonisation of the global economy, setting out the overlaps and tensions and **specifically highlighting areas where risk may be transferred from the organisation to other stakeholders**.

17) –
18) *See diagram associated with response to question 5*:
For international organisations the Transition Plan should include a thorough assessment of the material tensions and synergies with the broader corporate strategy and environmental/social impacts (including the elements outside the UK). This provides a logically consistent and efficient frame for reporting.
Where an organisation is active in jurisdictions whose approaches to transition show different levels of ambition, there should be a principle in favour of maximising the application of higher ambition approaches and not extending the lower ambition approaches.

19) We agree with most of the proposed elements and are pleased that they reflect many elements in the CSLN's The Good Transition Plan, which was written with banks in mind but many of whose elements are relevant to other organisations (see diagrams). In particular, we welcome the inclusion of element (g) on **public sector engagement** and the transparency in element (b) around the **reliance on carbon**

offsets. Robust disclosure will allow the market to differentiate between organisations that use offsets correctly in line with the mitigation hierarchy and those that use offsets to avoid reducing high GHG emitting activities.





20) We would add several elements around high GHG emitting activities, accountable governance, strategy, target setting and remuneration:

We would add an element that specifically addresses plans to **reduce high GHG emitting activities**.

We would add to element (a) on ambition that transition plans should be integrated with **corporate strategies** and that governance structures should include **accountability mechanisms** for the implementation and achievement of transition plan goals.

For (b) target setting and (i) metric and targets, **definitions of net zero** should reflect best emerging practice to ensure consistency and integrity. For a recent view on this topic, see [Finance Watch's report "The problem lies in the net", June 2022]

Also, in (b) target setting, the element "Alignment with sectoral benchmark" should refer only to **climate-safe benchmarks** that are capable of aligning absolute, aggregate GHG emissions with safe levels. Benchmarks that allow organisations to choose intensity metrics while increasing absolute emissions (such as some SBTi benchmarks) or that allow investors to use portfolio alignment methodologies with weak decarbonisation effects (such as binary target measurement) should not be considered within this element.

We would prefer the elements in (b) to include more **robust standards on carbon offsetting** in relation to quality and permanence i.e. to set conditions on use, not just transparency, such as the exclusion of avoided emissions for offsetting purposes.

We would add to element (b) that **reliance on carbon capture** should be transparent and limited to the use of proven, existing techniques.

We would add to element (j) Skills, incentives and accountability that in addition to information about "whether" **remuneration** is linked to decarbonisation targets, there should be information about "to what extent" it is linked, so that investors can gauge whether it is sufficiently weighted to overcome tensions between transition and profitability goals.