



TRANSITION PLAN REQUIREMENTS

ISEP response to DESNZ consultation



ISEP
Climate Change
Mitigation & Adaptation



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1. About The Institute of Sustainability and Environmental Professionals (ISEP)

We are the professional voice on sustainability and the environment.

The Institute of Sustainability and Environmental Professionals (ISEP) is the global membership body for anyone wanting sustainable change that delivers across government, business and society.

ISEP harnesses the collective expertise and experience of over 20,000 sustainability and environmental professionals globally to provide the evidence, insights, and innovative solutions that Government needs to deliver growth in a sustainable way.

We cover every sector and every level of sustainability, environmental management and impact assessment – with our networks reaching around the world. We unite talented people and draw on diverse perspectives to influence global change across government, business and society.

ISEP can help develop, deliver and implement laws, regulations and standards that drive sustainability and economic growth.

ISEP is transforming the world today for a sustainable future by:

- setting the standard across every business sector for sustainability and environmental professionals, drawing on their expertise to support the development and implementation of policies that drive green growth,
- advancing careers and nurturing talent by offering world-class training, practical guidance, cutting-edge evidence and insights, alongside awarding professional recognition,
- and creating collaborations and building partnerships to influence government policy and legislation, deliver best-practice across business, and inspire change in society.

Sustainability matters. Environmentally, economically and socially.



2. Executive summary with key recommendations

Transition plans are a vital tool for managing climate and nature-related risks. They enable businesses to make informed strategic decisions and provide the financial sector with credible assessments of risk and forward-looking strategies.

However, developing transition plans is resource-intensive. It requires both specialist green skills, to design and prepare the plans, and generalist green skills across wider teams to supply data and implement the strategies. Government should recognise and plan for this significant demand on workforce capacity.

Key Recommendations

1. **Adopt Option 1:** Require entities to explain why they have not disclosed a transition plan or transition plan-related information. Large organisations are likely to produce and disclose such plans voluntarily.
2. **Issue disclosure guidance:** Provide clarity on what information should be disclosed, with safeguards to respect commercial sensitivities.
3. **Provide scenario planning guidance:** Support entities in undertaking robust and consistent scenario analysis.
4. **Invest in workforce capacity:** Continue to work with organisations such as ISEP to build the skills base required to create, implement, and maintain high-quality transition plans.



3. Questions and responses

Question 1 To what extent do you agree with the assessment of the benefits and use cases of transition planning set out in Section A? Are there any additional benefits or use cases for transition plans? Do you have any further insights and evidence on the purpose, benefits and use cases of increased and improved transition planning – including economy-wide impacts?

ISEP members agree that it is important for financial sectors to understand the risks associated with their investments and fiduciary duties to investors. Therefore it is reasonable for financial institutions to expect businesses to demonstrate that they've assessed their risks and long-term viability to secure investment, insurance, and so on.

A corporate level, some businesses are already addressing some of their risks in order to stay viable (especially those advised by ISEP members). However many businesses do not have a good handle on potentially financially material risks from climate through their global supply chains, and have instead focussed on their own assets and only local or tier 1 or 2 suppliers to date. Nature-related risks are even further behind.

There is some scepticism about whether reported transition plans will support broader economic growth in green and transition sectors by themselves. The consultation puts forward the proposition that transition plans will reduce investor uncertainty surrounding long-term decarbonisation in hard-to-abate sectors [and] can also help reduce barriers to accessing transition finance. Ultimately however, it is only having certainty on future government policy and regulation on hard-to-abate sectors that will reduce investor uncertainty. When businesses and financial institutions continue to invest in high emission operations over low emission operations, this is generally because they have assessed the risks of policy change and stranded assets as being acceptably low in relation to the anticipated returns. It is generally not because they do not understand the impacts on the environment. Therefore a published transition plan will not, in an of itself, support 'green growth' where 'green growth' is not already profitable and supported in the wider regulatory context.

Question 2 For preparers of transition plans: does your organisation already produce, or intend to produce, a transition plan and disclose it publicly?

A) [If yes] What specific drivers have motivated your entity to engage in transition planning?

Yes – workshop participants discussed their transition plans and their motivations included:

- Compliance with EU regulations, where a parent company is based in the EU
- Dealing with the realities of climate change, such as the need to adapt supply chains and select suitable premises for long-term leases

B) [If yes] Based on your experience, do you have any reflections on the purpose, benefits and costs (e.g. additional FTE, setup costs, etc) of developing your own transition plan?

A first point to note is that most organisations with a sustainability strategy have some form of transition plan in place.

Workshop participants discussed the range of transition plans in place, and the considerable gap between light touch transition planning, such as the PPN 006, which is a short piece and has a template, and full transition plans such as those envisaged by the Transition Plan Taskforce which are immensely complex projects (if they adequately cover the a plan for transition).

Those participants whose organisations have full transition plans noted that preparation of these plans can require huge teams and considerable resources (especially the case for large organisations with complex multinational operations). Smaller, or less complex organisations, or those in lower emitting sectors, still need to put in place a



significant cross-business collaboration programme. Whether or not the transition plan is easy to put together, the production of the plan is almost the easy part of the process, compared to the work involved with consulting on the plans, then socialising and implementing the plans around their organisations. Without success at this stage, the plans are worthless.

C) [if yes] What specific challenges or obstacles (e.g., regulatory, organisational, market-related, guidance), if any, did or do you face in preparing your transition plan?

- Resources - staffing / financial
- Expertise / skills

D) [if yes] Did you make use of the TPT's materials (now managed by the ISSB), and if so, how? Were there any challenges in doing so? Are there any further pieces of guidance or support that you feel would be helpful?

No response.

E) [If no] If no, what are the main barriers preventing your organisation from developing a transition plan? Please provide any evidence where available to support your answer.

Workshop participants noted that those from the largest companies had been relatively better placed to prepare a transition plan, while smaller companies will likely struggle.

While smaller companies are excluded from the intent of these proposals, in practice they will be drawn into the process. As with emissions reporting, there will be a trickle down effect where SMEs have to gather their own data to pass on to their larger supply chain partners. As an ancillary point, it was noted that the UK's industrial strategy and government policy is focused on encouraging and building the base of SMEs, in which case the proportion of businesses officially in scope may reduce while the proportion of businesses unofficially in scope will increase.

Question 9 What are the most important, decision-useful elements of a transition plan that the government could require development and/or disclosure of? Please explain why and provide supporting evidence.

Concerns were raised around the volume of commercially sensitive information that a decent transition plan will include and questioned the benefit - to the organisation and to government - of putting this information in the public domain. The most important elements are the emissions reductions targets and progress, scenario analysis and adaptation plans, with some level of understanding of impacts through the supply chain.

Question 10 Please state whether or not you support Option 1, which would require entities to explain why they have not disclosed a transition plan or transition plan-related information. Please explain the advantages and disadvantages of this option.

Question 11 Please state whether or not you support Option 2, which would require entities to develop a transition plan and disclose this. Please further specify whether and how frequently you think a standalone transition plan could be disclosed, in addition to transition plan-related disclosure as part of annual reporting. When responding, please explain the advantages and disadvantages of this option.

Taking questions 10 and 11 together, workshop respondents felt that flexibility is key. Option 1 is preferable.

As a general principle, ISEP supports transition planning and workshop participants noted that many organisations already take climate-related risks and opportunities into account when planning their future strategies and policies.

One question that surfaced in several ways during conversation was the question of who is the audience for these disclosures. Where the audience is investors or the organisation itself (to track progress) then this is data has a clear value. If the audience is government seeking to understand the risks to the UK economy as a whole, this is more



doubtful. Attention was drawn to the differences between emissions data and planned reductions – which may be useful for government in evaluating organisational plans and trends that will support national plans such as NDCs and Carbon Budgets – and adaptive capacity – which might, but more tenuously/only qualitatively, enable government to evaluate future resilience of economic actors. A recurring point that was made is that organisations shouldn't have to share their future business plans and unique selling points to the wider public.

An analogy was drawn between Transition plans and LCAs/EPDs. A Life Cycle Assessment (LCA) which has a lot of commercially sensitive information, and an Environmental Product Declaration (EPD) is a publishable summary. Transition plan preparation should take place but function for the organisation like the LCA, whereas disclosure should be more of a summary.

In terms of frequency of disclosure, it was noted that the more frequent the disclosure, the more work that would be involved in preparation, and therefore the greater the costs. Any reporting should be proportionate to the value of capturing the data.

Question 12 If entities are required to disclose transition plan-related information, what (if any) are the opportunities to simplify or rationalise existing climate-related reporting requirements, including emissions reporting, particularly where this may introduce duplication of reporting? These responses will support the government's review of the non-financial reporting framework.

Organisations already report a lot of data on energy use and emissions under various reporting frameworks, including SECR and ESOS. ISEP has consistently called for these climate-related reporting requirements to be streamlined and consolidated where possible, and at the outset (learning from international experience for instance the EU's experience with ESRS. There is a sense that government departments ask for duplicative data but do not share it. Any opportunity to utilise new technology to submit / tag / share reported data would be welcomed.

Question 15 To what extent do you support the government mandating transition plan implementation and why? When responding, please provide any views on the advantages and disadvantages of this approach.

Generally speaking, organisations implement their transition plans where they mitigate risk and ensure the ongoing economic viability of the organisation. In terms of mandating transition plan implementation, the question arose on what would happen to an organisation if they didn't implement a transition plan. How would non-compliance be established (such as how would implementation be measured and much of a transition plan must be implemented or not for an organisation to 'fail'), what would any sanction be, and what would any appeals process look like. Workshop participants noted that other mandatory climate-related reporting schemes are not routinely enforced in practice.

If transition plans are mandatory there is a risk that companies will do the minimum required rather than voluntarily go further. There is also a risk of carbon leakage in the form of companies moving their headquarters to other countries to avoid the UK's requirements.

Question 16 In the absence of a legal requirement for companies to implement a plan, to what extent would market mechanisms be effective mechanisms to ensure that companies are delivering upon their plan?

It is important to distinguish between climate change mitigation (such as emissions reduction) and climate change adaptation (from the business perspective this means mitigating risk and capturing opportunities).

From an adaptive capacity perspective, many organisations are taking climate risk and opportunity into account simply to remain economically viable as entities. The reality of climate change is already creating a market mechanism, and organisations are already adapting their supply chains and premises accordingly.



From a mitigation/carbon reduction perspective, market mechanisms include cost savings, and access to finance and clients who make it a policy to work with organisations with emissions reductions plans in place.

Question 17 What do you see as the potential benefits, costs and challenges of government mandating requirements for transition plans that align with Net Zero by 2050, including the setting of interim targets aligned with 1.5°C pathways? Where challenges are identified, what steps could government take to help mitigate these?

Targets should be aligned with 1.5 °C pathways as a bare minimum.

Question 21 What is your view on the role of climate adaptation in transition plans? Is there a role for government to ensure that companies make sufficient progress to adapt, through the use of transition plan requirements?

Private companies are already considering their adaptive capacity in the light of the reality of climate change, and there is not necessarily a role for government in ensuring this, since those business that get it right will survive and those that don't will not. It is not the role of government to direct this.

This noted, there is a role for government in taking adaptive capacity into account to some extent:

- Within health and safety regulations to protect the wellbeing of people, and
- Where lack of adaptive capacity could result in a large number of companies in one sector or one location being wiped out simultaneously or in a cascading sequence.

ISEP has previously responded to consultations on the Adaptation Reporting Power which applies to critical infrastructure and settings such as health and social care. Previous consultation responses have expressed the view that the Adaptation Reporting Power should be strengthened by making it compulsory to report and to make progress on the adaptation plans. This would protect against the sectoral and/or regional risks noted in the second bullet point above.

Question 22 How can companies be supported to undertake enhanced risk planning in line with a 2°C and 4°C global warming scenario? Are these the right scenarios? To what extent are these scenarios already being applied within company risk analysis and how helpful are they in supporting companies in their transition to climate resilience?

These scenarios are broadly right, in the context of planning for 2 °C warming, but stress testing for 4 °C. Scenario analysis is resource intensive and correspondingly expensive to carry out for individual organisations..

Companies can be supported to develop their adaptive capacity in the following ways:

- By being given guidance on 'by when' for the different scenarios. Time-slices of 2030s, 2040s and 2050s for different scenarios are necessary for long-term planning and investing.
- Clearer sector-specific guidance – companies need support with understanding what is required from them in practice.

This support could be based on existing standards on adaptation (where these are designed to support the desired outcomes), which are not currently used, or are not used consistently.

Question 23 To what extent do you think that nature should be considered in the government's transition plan policy? What do you see as the potential advantages and disadvantages? Do you have any views on the potential steps outlined in this section to facilitate organisations transitioning to become nature positive?

Nature disclosure is generally more complicated and resource intensive and less mature than climate, with far fewer agreed frameworks and mature datasets. In the absence of an ISSB/IFRS standard on nature, final transition plan guidance from TNFD, and robust, well-tested scenarios over the long term, it makes practical sense to provide relief



in terms of disclosure timings that matches those set out in UKSRS:S1, i.e., in Amendment 2 to IFRS:S1 ***“in year 3 – climate-related risks and opportunities, Scope 3 emissions, and wider sustainability-related risks and opportunities”*** for the development of nature-related requirements. This provides a timeline for action and ensures that nature isn’t left behind. It should be noted that given the requirements of the EUSRS many larger companies will have been collecting data for more than four years on this topic and cascading requirements through their supply chains. Having more clarity on this issue will help support companies that are tasked with providing nature-related targets and data and ensure they are less exposed to multiple differing requests from their customers.

However, as the nature crisis is as pressing as the climate crisis, we would caution against leaving it too late, and would highlight that acting on nature through a climate lens alone will not be sufficient. We support the development of a framework for transition planning that recognises the significant benefits of integrating climate and nature, especially considering any potential trade-offs and co-benefits. The benefits from this integrated approach include ensuring that climate actions do not come at the expense of nature and ensuring that silos and repetition in reporting are avoided. They also ensure that the government can meet its commitments under the Kunming-Montreal Global Biodiversity Framework, specifically target 15 *to enable Businesses to Assess, Disclose and Reduce Biodiversity-Related Risks and Negative Impacts by taking legal, administrative or policy measures to encourage and enable business, and in particular to ensure that large and transnational companies and financial institutions: [a] Regularly monitor, assess, and transparently disclose their risks, dependencies and impacts on biodiversity, including with requirements for all large as well as transnational companies and financial institutions along their operations, supply and value chains and portfolios; [b] Provide information needed to consumers to promote sustainable consumption patterns; [c] Report on compliance with access and benefit-sharing regulations and measures, as applicable”*.¹

As a minimum, the proposed climate transition plan guidance should require entities to disclose nature-related risks and opportunities where they are material to their business alongside climate action or impact, and to confirm and/or evidence that their climate transition actions do no significant harm to nature, similar to EU Taxonomy requirements.

We agree with the three steps that the government is considering to support organisations to transition to nature positivity.

Question 25 We are interested in views about the impact on supply chains of large entities that may be in scope of transition plan requirements. Do you have views on how the government could ensure any future requirements have a proportionate impact on these smaller companies within the supply chain?

As noted in the consultation paper, any future requirements that require large organisations to report, will have an impact on smaller entities in their supply chains. To support smaller entities, sector-specific guidance could be created, along with a template for a response (similar in simplicity to PPN 006). There needs to be a proportionate approach taking into account effort and benefit.


Question 29 What role could high integrity carbon credits play in transition plans? Would further guidance from government on the appropriate use of credits and how to identify or purchase high quality credits be helpful, if so, what could that look like?

ISEP has previously responded to the consultation on voluntary carbon and nature markets. The use of carbon credits should be disclosed. Our headline response on carbon credits was as follows:

Enable credible interim carbon neutrality claims

- Allow interim carbon neutrality claims using voluntary credits while transitioning to net zero.

¹<https://www.cbd.int/gbf/targets/15>

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- Ensure claims are time-bound, publicly explained, independently verified, and backed by robust emissions reduction plans.

Ensure that Claims standards:

- Align with VCM and the Oxford Principles.
- Follow the GHG hierarchy - prioritising reductions before credits.
- Differentiate between reductions and removals.
- Reduce the burden of multiple assurances.

Provide Additional Guidance for Transition Plans

- Offer clear guidance on the role of voluntary credits in transition plans, especially for growing organisations.
- Support consistent and transparent disclosure practices (e.g. aligning with CDP).

Question 33 What guidance, support or capacity building would be most useful to support effective transition planning and why? For respondents that have developed and/or published a transition plan, what guidance, support or capacity building did you make use of through the process? Please explain what additional guidance would be helpful and why?

Companies can be supported to develop their transition planning towards net zero goals, and adaptive capacity in the following ways:

- By being given guidance on 'by when' for the different scenarios. Time-slices of 2030s, 2040s and 2050s for different scenarios are necessary for long-term planning and investing.
- Clearer sector-specific guidance – companies need support with understanding what is required from them in practice.