

ESG: GETTING READY SERIES

# TRANSITION PLAN TASKFORCE DISCLOSURE FRAMEWORK



**GOVERNANCE & SUSTAINABILITY**  
Part of the Horizon Scanning series

## WHAT

On 9 October 2023, the UK's Transition Plan Taskforce (TPT) published its final sector-neutral Disclosure Framework (the 'Framework') for corporate transition plans, along with supporting implementation guidance. The TPT has also published sector guidance containing a sector summary, providing an overview of transition plan guidance for 30 financial and real economy sector guidance, which covers: (i) a sector summary; and (ii) 7 sector-specific deep dives, relating to asset managers and owners, banks, electric utilities and power generators, the food and beverage sectors, metals and mining, and oil and gas.

The TPT's work is a leading initiative aimed at providing businesses with a self-described 'gold standard' for 'robust and credible transition plan disclosures'. It is compatible with broader international standards, such as those published by the International Sustainability Standards Board (ISSB), and has been developed in collaboration with countries, multilateral organisations, and financial regulators such as the Financial Stability Board, the Network for Greening the Financial System, and the International Organization of Securities Commissions.

## WHEN

Businesses can adopt the Framework on a voluntary basis right away. In future, however, the Framework is expected to form the basis of legal and regulatory requirements in relation to transition plans in the UK over the next 2 to 3 years, and potentially overseas as well if it becomes a commonly agreed baseline.

The UK's Financial Reporting Council (FRC) is already considering how to evolve its supervisory approach to reflect enhanced expectations on transition plan disclosures. Additionally, three consultations on implementation are expected to take place in 2024, covering: (i) the UK Government's plans to make large companies that have transition plans disclose them in line with the Framework; (ii) the Financial Conduct Authority's (FCA) intention to draw on the Framework in strengthening the FCA's disclosure expectations for listed companies, asset managers and FCA-regulated asset owners; and (iii) the FCA's plan to update their Taskforce on Climate-related Financial Disclosures (TCFD) disclosure rules so that these refer to the ISSB standards after they are endorsed in the UK in the summer of 2024. The ISSB standards include the IFRS S2 climate-related disclosures standard, which will require specific disclosures on transition plans.

If implemented, the FCA requirements are expected to apply to reports published in 2026, in relation to accounting periods beginning on or after 1 January 2025.

## WHO

Many businesses are already developing and disclosing transition plans ahead of regulatory pressures, which are set to increase. The ISSB standards, which are set to be widely adopted around the world, include requirements relating to transition plans. Countries looking to implement the ISSB standards may therefore look to the Framework, which benefits from bearing the stamp of national authority.

In parallel, central banks, supervisory authorities and standard-setting bodies are considering whether to require businesses to disclose their transition plans, and the means by which this can be achieved.

However, businesses looking to adopt a 'double materiality' approach to transition plan disclosures may have to look beyond the Framework, which adopts a single materiality approach. As such, it only considers disclosures that are financially material to the business, but not the impact the business has on the people, environment and climate around it.

## WHY

The Framework offers guardrails when navigating new and potentially contentious territory. Research by the non-profit organisation, CDP, shows that only 0.4% of companies achieved what the CDP considers to be best practice in relation to transition plans, with 13% 'on their way' to disclosing credible transition plans. For businesses looking to develop their plans, the Framework and sector guidance offer a welcome steer on what will need to be done to satisfy or exceed developing stakeholder expectations. The Framework and associated guidance should also help companies and financial institutions create more consistent and comparable reports on transition plans. Finally, the Framework offers guidance on key legal considerations for those preparing transition plans, including: (i) directors' duties under s172 Companies Act; and (ii) competition law, in the context of making transition plan disclosures.

## GETTING READY

- 1. Start early:** It may be a while before transition plan disclosures become mandatory for large organisations in the UK and elsewhere. If and when such mandatory measures are introduced, businesses will face a significant workload to ensure compliance with new requirements. To gain a competitive advantage, businesses should consider preparing now while the guidance is optional. In fact, regulators like the FRC are already encouraging companies to review the TPT's guidance. Suggested early actions for businesses include establishing robust processes relating to data collection, governance, internal verification and third-party assurance for the process of developing transition plans, and updating their plans as market and stakeholder expectations change. Starting now might mean a business is better placed to take advantage of the opportunities and manage the risks that the transition represents.
- 2. Ensure a 'just transition':** To facilitate a 'just transition', businesses should look to minimise adverse impacts for stakeholders, society and the natural environment by setting out clear strategic ambitions and priorities for transitioning towards a low-carbon and climate-resilient economy. The TPT recommends taking a 'strategic and rounded approach' across three inter-related channels: (i) decarbonisation; (ii) responding to climate risks and opportunities; and (iii) contributing to the economy-wide transition. As noted in the Framework, taking a strategic and rounded approach may help an entity "to protect and enhance [its] long term value". Boards will need to consider how best to align this approach with their duties under s.172 of the Companies Act 2006, in light of the interdependent complexities involved.
- 3. Draw on experience:** Businesses may already be familiar with the practice of reporting in line with the 'four pillars' approach used in the TCFD recommendations and recommended disclosures. This experience can help guide a business' approach to making transition plan disclosures. For example, material information about a business' transition plan in its general-purpose financial reports can be structured according to governance, strategy, risk management, and metrics and targets pillars. This structure is also used by the ISSB, which is expected to supersede TCFD as the global baseline for climate-related reporting, so this approach offers some future-proofing.
- 4. Be clear about the plan (and its limitations):** Transition plans and their expected impacts constitute forward-looking statements, which are by definition aspirational, so businesses should frame their statements accordingly. This may also help mitigate the risk of accusations of greenwashing and misstatement. The TPT also recommends that disclosures be drawn up into a standalone transition plan report. The report should be a living document which is updated when there are significant changes to the plan, and in any event at least every three years, in line with scientific developments and changing market expectations.
- 5. Collaboration is key:** Businesses should consider early engagement with the wider industry, those in their supply chains, the public sector and the third sector (whilst being mindful of competition law requirements). An effective transition needs to be a collective effort, and sharing concerns, expertise and experience to address common challenges can help support a business' strategic ambition, objectives, priorities and interim milestones.

\* [Click here](#) to read more about how Slaughter and May advised the Secretariat to the UK's Transition Plan Taskforce in relation to the TPT's Transition Plan Disclosure Framework and Sector Guidance.

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