

18 July 2022

By email to: [secretariat@transitiontaskforce.net](mailto:secretariat@transitiontaskforce.net)

Dear TPT Secretariat

## Transition Plan Taskforce – Response to the Call for Evidence

Deloitte welcomes the opportunity to respond to proposals for a sector-neutral framework for private sector transition plans.

In the UK, Deloitte has over 20,000 professionals across our Audit & Assurance, Consulting, Financial Advisory, Risk Advisory and Tax & Legal practices. Our response to the Transition Plan Taskforce's (TPT) Call for Evidence draws on our breadth and depth of expertise and we would be keen to meet with members of the Taskforce to discuss our perspectives in more detail.

Transition plans are an important part of a company's overall response to climate change. They help companies to develop credible actions, milestones and metrics consistent with their overall ambitions in relation to the transition to the low-carbon economy. To achieve this, it is essential these plans are fully embedded in the company's overall strategy and not developed as a separate policy. This is especially important in view of the interconnections between reducing emissions and other sustainability considerations – such as nature and biodiversity – and social matters, including achieving a “just transition”.

We therefore think the TPT should primarily focus its efforts on developing guidance for companies on how to prepare high-quality transition plans that are embedded in the DNA of the company including governance, strategy, risk management, and metrics and targets. This could include definitions, principles and elements of transition plans. To achieve this, the TPT should build on existing work and good practice guidance, especially the work of the Task Force on Climate-related Financial Disclosures (TCFD) in this area.

Investors and other stakeholders increasingly wish to assess the credibility of companies' stated commitments to reduce their impacts on climate change, especially to achieve net zero emissions. Good disclosures on transition plans help to enhance trust, transparency and accountability.

For disclosures, we believe the proposals of the International Sustainability Standards Board (ISSB) should lead to appropriate transparency on transition plans appropriate to the needs of capital markets. Deloitte strongly supports the objective of achieving a global baseline of sustainability information (as already supported by the UK government, the G7 and others), which is essential to enable consistent and comparable reporting. We therefore believe the TPT should endorse in full the ISSB's proposals and only

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add further recommended disclosures to meet specific needs in the UK context (for example, in relation to the UK's legal commitments to net zero).

There are occasional references in the proposals to templates. We believe the use of templates may lead to “box-ticking” rather than authentic planning and reporting. Instead, we think the TPT should focus on principles and guidance, including good practice examples, that can be used by companies to enhance their own thinking and practice.

The appendix below sets out our detailed responses to the questions. In the meantime, please do not hesitate to get in touch with any queries.

Yours sincerely

A handwritten signature in black ink that reads "Veronica Poole". The signature is written in a cursive, flowing style.

**Veronica Poole**

Vice-Chair and UK National Head of Accounting and Corporate Reporting  
Deloitte LLP

## Appendix

### Section 1: Introduction to the TPT

#### Rationale and definition

#### 1. Do you agree with the proposed definition of a transition plan? If not, why, and what alternative definition would you suggest?

We broadly agree with the proposed definition, but believe the TPT should adopt the Task Force on Climate-related Financial Disclosure's (TCFD) working definition: "A transition plan is an aspect of an organisation's overall business strategy that lays out how an organisation aims to minimise climate-related risks and increase opportunities as the world transitions toward a low-carbon economy, including by reducing emissions of its own balance sheet and that of its value chain"<sup>1</sup>.

We also highlight a number of key considerations in relation to transition plans below.

Firstly, as many companies operate internationally, we think it is vital that reporting frameworks for transition plans are as consistent as possible across jurisdictions and fully aligned with other global sustainability reporting frameworks and standards, in particular those referenced in our responses to questions 4 and 8. More specifically, we encourage the TPT to ensure transition plans are consistent with the recommendations of the TCFD and the standards being developed by the International Sustainability Standards Board (ISSB).

We emphasise that transition plans should be fully embedded in the company's overall strategy and business model and not developed as a separate policy. In line with our answer to question 19, it is important the TPT focuses on a transition plan that leads businesses to embed the transition in their governance and risk management framework, and that they have a clear strategy for delivery, underpinned by relevant metrics and targets. Consideration should also be given to the inter-connections between climate change and other aspects of sustainability. For example, credible transition plans may also need to address matters relating to biodiversity, land and water use, or social concerns such as the concept of the "just transition". These can be important for companies to consider in their planning, including trade-offs between various factors. Such an approach is consistent with ISSB proposals and TCFD recommendations – indeed, the ISSB explicitly requires connected information regarding sustainability matters.

The TPT may also wish to consider further how the integrity of transition planning is reinforced in its definition and recommendations. There are wider essential considerations, such as encapsulating the full range of matters that need to be addressed in relation to a company's business activities. In our work, we often help companies to build out a net zero roadmap that covers a financial plan, cashflow modelling and/or a target operating model to enable them to deliver on the action plan and targets, and as part of this work we emphasise the need for an integrated approach.

Financing is another important aspect and the Glasgow Financial Alliance on Net Zero (GFANZ) highlights the difference that can be made if all aspects of the investment chain are considered within transition planning, in recognition of the role financial institutions can play in the transition to net zero. The TPT should aim to clarify how transition plans should address investment and financing strategies.

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<sup>1</sup> [TCFD. Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans, p9, June 2021](#)

## 2. From your perspective, who are the key users of transition plans?

If it is to be authentic in use, the principal purpose of the Framework must be to enable management to embed high-quality transition planning. Therefore, we consider the primary user of the transition plan will be a company's management.

Other principal users include investors and those stakeholders seeking to make decisions about the impacts a company has on the climate, including regulators and government. Other stakeholders including customers may also be interested in companies' transition plans, especially in relation to their own strategies around climate change.

## 3. From your perspective, what are the key use cases for transition plans?

Please see our response to question 2.

### Mandate and structure of the TPT

## 4. How should the TPT select which sectors to develop tailored transition plan templates for? Following that logic, which financial sub-sectors and real economy sectors should the TPT prioritise? In what order should these be addressed?

We caution against developing templates, which can be used to develop boilerplate plans and approaches, rather than an authentic outcome appropriate to the circumstances of the company. However, guidance and best practice for companies operating in a particular sector are useful and serve to provide additional relevant insight and perspectives.

As we set out in our response to the first question, we strongly encourage the TPT to develop guidance on transition planning that is consistent with and complements other international standards and frameworks, notably the ISSB and the TCFD recommendations. To this end, it would therefore be helpful for the TPT to use the same industries addressed by the TCFD, if developing any industry-specific guidance, namely:

- Banking
- Insurance
- Energy
- Transportation
- Materials and buildings
- Agriculture, food and forest products
- Technology and media
- Consumer goods

The TPT may also want to consider adding, for example, government departments, councils, devolved governments and industry associations to the list. Public bodies have a significant part to play and need to evidence how they are leading on the transition to net zero, while associations play an important role in enabling their respective sectors and industries to transition to net zero.

From our perspective, sectors whose activities lead to the greatest impacts on climate change and nature – and with most pressing associated social considerations (e.g., ensuring a “just transition”) – should be prioritised to ensure early progress is made where it is needed most. Consideration should also be given to those sectors which serve as key enablers for transition in other sectors, such as banking and energy industries.

## 5. Given the mandate set out in the TPT’s Terms of Reference, to what extent, and how, should the TPT consider issues beyond a firm’s contribution to an economy-wide decarbonisation? Why?

For many companies, Scope 3 emissions account for a significant majority of their carbon footprint. It is essential that the TPT’s guidance enables businesses to embed the ambitions, metrics and actions necessary in their transition plans to put their broader value chain on a science-based, 1.5°C-aligned pathway to net zero emissions. With reference to both our own organisation and our work with clients, we often find the most impactful, but also the most challenging, area for decarbonisation relates to Scope 3 emissions.

The TPT should take into consideration a company’s full carbon footprint – Scopes 1, 2 and 3 including value chain – when devising guidance on transition planning. Its thinking should draw on the Science Based Targets initiative’s (SBTi) new Corporate Net Zero Standard for achieving long-term science-based net zero and other complementary frameworks and guidelines.

The TPT might also have regard to the findings of the Intergovernmental Panel on Climate Change’s (IPCC) 6<sup>th</sup> Assessment Report, which highlighted the “brief and rapidly closing window of opportunity to secure a liveable and sustainable future for all”. This leads companies to consider their role in going beyond value chain decarbonisation efforts, instead aligning core business and embedding in their plans meaningful efforts to accelerate the global transition to a net zero, climate resilient, nature positive future. If done right, greater transparency in this area could support collaboration for systemic change, lead to more integrity in voluntary carbon markets, and help achieve wider objectives to accelerate the global transition.

Please also see our views on “must have” and “desirable” issues beyond a company’s contribution to an economy-wide decarbonisation in our response to question 6.

## 6. Which of these issues are ‘must-haves’ that need to be addressed in all transition plans, and which are desirable which add depth of breadth but are not central to a transition plan?

### Must haves

Reflecting on the points we set out in question 5 above, we consider the TPT terms of reference should explicitly highlight the aim of setting a robust framework for setting and monitoring performance against transition plans. Central to achieving this will be ensuring transition plans go beyond target-setting to include the tangible policies, measures and actions a company will take to realise its ambitions and targets. A fundamental focus area for most businesses would be energy and materials throughput; taking steps to monitor and manage demand and drive greater efficiency and circularity. Therefore, we recommend the TPT focuses its efforts on setting out the expected attributes and elements of a transition plan and providing the “how to” guidance for companies to put the plans in place, monitor performance and ensure appropriate accountability mechanism create the right transparency around progress made.

Multiple existing frameworks address the role of offsetting in a company's commitment to achieving carbon reduction and/or net zero. However, there is little consistency or clarity on the credibility of many carbon-offsetting schemes. Therefore, the primary focus of the transition plans should be on transparency where carbon offsetting is used and any relevant third-party verification.

Requiring ex ante information on the contribution of offsets to a company's decarbonisation over time will also reinforce the requirements of the SBTi's Corporate Net Zero Standard for companies to achieve a more than 90% absolute reduction in Scope 1, 2 and 3 emissions with permanent removal and storage only of the residual <10% emissions at the point at which the company reaches net zero.

## Desirable

As the latest IPCC reports set out, companies can play an important role in mitigating climate change alongside building adaptive capacity, strengthening resilience, and reducing vulnerability to the ongoing and increasing impacts of climate change. The TPT Framework could encourage companies to move beyond climate risk management towards (low carbon) climate resilient development by providing further guidance on how steps taken to achieve net zero emissions build the resilience of the company and its stakeholders to extreme weather (e.g., flash flooding) and slow onset (e.g., sea level rise) events.

Furthermore, the climate and biodiversity crises are inextricably linked but corporate action relating to nature is lagging; opportunities to leverage nature-based solutions, such as green infrastructure, are not being fully realised. Framework components could include a focus on how companies are taking steps to understand and address their impacts and dependencies on nature and maximising opportunities to incorporate nature-based solutions into their net zero plans, complementing the TCFD and Taskforce on Nature-related Financial Disclosures (TNFD) frameworks.

There are also important social considerations in relation to transition planning. Recent research from Deloitte and the Institute of Environmental Management and Assessment (IEMA)<sup>2</sup> on green skills found that 75% of senior sustainability professionals think that all jobs will require "green" or sustainability skills by 2050. Framework guidance might therefore encourage greater transparency on what companies are doing to build the sustainability competence of their workforce, support a "just transition" and encourage broader sustainable development.

## 7. Do you envisage any tensions between entity-level decarbonisation and economy-wide decarbonisation goals? If so, can you provide examples and any suggestions as to how the UK TPT may address these in its guidance.

A key potential tension between entity-level and economy-wide decarbonisation goals arises when companies seek to rely on offsetting and longer-term carbon removals to achieve their contribution to tackling climate change, whereas there is a more universal need for all companies to prioritise emissions avoidance, minimisation and reduction in pursuit of absolute, economy-wide decarbonisation. The TPT should aim in its guidance to align with the emphasis of the SBTi Net Zero Standard on near-term science-based targets to ease this tension.

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<sup>2</sup> [Transforming your organisation for the green economy](#), Deloitte UK

Another possible tension relates to the pressures on individual companies to make progress towards the transition against a broader imperative for the organisation – possibly facing resource constraints – to prioritise collaboration and innovation across sectors and peer groups to catalyse systemic change. For example, the move to hydrogen will require massive research and development (R&D) spend and part of a company’s action plan could include outreach with industry peers. The TPT could foster collaboration by including guidance on how transition plans could evidence how the company is working with others to drive systemic change, where this is appropriate.

Finally, it is essential the TPT should endorse in full the ISSB’s proposals for disclosure requirements and only add further recommended disclosures to meet specific needs in the UK context (for example, in relation to the UK’s legal commitments to net zero).

## International collaboration

### 8. What other financial or non-financial, mandatory or voluntary frameworks and processes are you aware of that the TPT should consider as it proceeds?

To maintain a competitive UK market, it would be advantageous if the UK could create a transition plan model framework that is consistent with other international frameworks. Unless there are particular regulatory and/or climate concerns specific to the UK, we believe this is the best way to ensure that financial and non-financial institutions can thrive, particularly if they carry out cross-border transactions and business.

Financial institutions can also help the real economy transition to net zero more broadly, by making climate change/emissions a key factor when financing projects and forming an investment strategy. We therefore encourage the TPT to consider the GFANZ’s recommendations and guidance published on 15 June 2022. GFANZ uses the experience of some members to provide companies with practical examples of how to use data and metrics to support their transition plans and to make projections about whether they are meeting their net zero targets.

## Section 2: The Sector-Neutral Framework

### Objectives

#### 9. Where would you prefer for companies to disclose information on their transition plans? Please explain your reasoning, including on how the suggested location relates to the intended audience

We recommend the annual report as a suitable location for material transition plan disclosures, given it is already seen as the primary, and trusted, vehicle for investor communications, and is also an important and trusted source of information for a wide variety of stakeholders. This approach would also align with the ISSB's proposal that sustainability-related reporting should be located in general purpose financial reporting, with the aim of enabling users of corporate reporting to understand the effects of climate-related risks and opportunities in the context of a company's governance, strategy, risk management, and metrics and targets.

As already indicated, we believe that the TPT should endorse in full the ISSB's proposals for disclosures on transition plans. We believe the proposed ISSB disclosures will create sufficient transparency on whether a transition plan is aligned with the UK government's net zero ambition, on the key elements of the plan and its integration into the business and its performance measurement.

#### 10. How prescriptive should the Sector-Neutral Framework be, recognising the need to balance flexibility in how firms disclose transition plans with more prescriptive templates that seek to facilitate comparability of firms' transition plans?

In our view, the Sector-Neutral Framework should adopt a principles-based approach, focusing on guidance that provides companies with the flexibility to develop plans that are appropriate to their specific circumstances, but which is sufficient to enable credible, rigorous and comparable approaches. Flexibility is also key if boilerplate approaches are to be avoided.

#### 11. Should the TPT seek to standardise the data and metrics used to communicate ambition and measure progress in transition plans? If so, what are the standards for data and metrics that you would recommend including in the Sector-Neutral Framework and in supplementary sectoral guidance?

We think it is essential for the TPT to endorse the metrics on climate-related disclosures as proposed by the ISSB. This will enable consistent and comparable reporting. Those proposals reference the GHG Protocol and would require companies to disclose, when material, their carbon footprint (Scope 1, Scope 2 and Scope 3 emissions).

#### 12. Question for small and medium-sized enterprises: what specific challenges do you foresee for SMEs seeking to prepare or use transition plans? How can the guidance and framework prepared by the TPT address these concerns?

SMEs may face significant time and resource constraints, including technical capacity, in relation to the preparation of transition plans. For example, in a smaller company, governance oversight might be by a director rather than a separate body or committee. It would therefore be helpful for the TPT to acknowledge these challenges and consider a proportionate/adjusted approach for SMEs. For example, more straightforward business models may not require complex planning considerations. Nevertheless, we think that all transition plans should address key elements, including how they are embedded in the company's governance, strategy, risk management, and metrics and targets.



However, we recommend the TPT keep front of mind that SMEs may have significant impacts on climate change and it is important that companies in all sectors and of all sizes play their role and take action.

**13. Question for preparers only: if your firm does not already disclose information of the type outlined in this Call for Evidence, what are the reasons for that? For example, are there concerns about legal or possible market risks arising from disclosure? How could the work planned by the TPT address these concerns?**

In our capacity as advisors to corporate reporting preparers, we note a key concern for corporates is the disclosure of forward-looking information, due to the difficulty of planning with exactitude in an area that continues to change rapidly.

In this regard, we strongly encourage the TPT to reflect on the requirements set out in the ISSB's Exposure Draft [IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#) which includes specific guidance on "sources of estimation and outcome uncertainty" and "fair presentation".

**14. Transition plans provide an opportunity to ensure the benefits of the climate transition are widely felt by UK households and consumers. How can the guidance developed by the TPT balance the need to minimise costs whilst encouraging companies to develop strategies to maximise benefits for all?**

While ensuring the transition to net zero remains on track, there needs to be a "just transition" which does not unfairly exclude sections of society from various products and/or services. This is highlighted by the current tension and complexity in relation to the concerns over energy and food security, and the affordability for consumers of essential resources

Addressing these issues requires a response from companies, government and public policy more broadly.

As required by section 172 of the Companies Act, we note companies should have regard to the needs of stakeholders. As we suggest in our response to question 1, the TPT framework should be developed in such a way as to promote the integration of transition planning into a company's purpose, strategy, governance and business model. And, as we discussed in our response to question 5, there are opportunities for companies to consider how it can make a positive impact on society and the natural environment within and beyond its value chain. Such an approach can be directly in the interest of the company to strengthen resilience and sustain enterprise value.

We welcome the approach of GFANZ in looking at the managed phase-out of high-emitting assets and see this as a pragmatic approach to progressing to net zero. Encouraging industry to find renewable solutions, rather than rapidly changing investment that could adversely affect the economy and vulnerable consumers, should help to maintain stability in financial markets.

## Principles

**15. Do you agree with the proposed principles? Why or why not?**

We broadly agree with the proposed principles, but would also emphasise that they:

a) need to have the flexibility to be adapted and for other criteria to be added over time, as scientific evidence on climate change might evolve

b) should be regularly reviewed by the TPT to ensure they are consistent with new frameworks as those are developed, such as those related to biodiversity.

We are also supportive of the proposal to ensure that the transition plan information is verifiable. Investors and other stakeholders are calling for more ESG transparency and reporting and we are seeing calls for independent assurance of ESG information to underpin and enhance the quality and reliability of reported information and in turn help drive confidence and trust in the capital markets. While independent assurance of ESG information is currently voluntary, mandatory assurance is now imminent in some jurisdictions.

Therefore, aligning the TPT framework with the TCFD and endorsing the ISSB standards to deliver transparency may also facilitate any move to mandatory assurance of sustainability information in the future. This is consistent with the position set out by the UK government in 2021 in its publication [Green finance: A Roadmap to Sustainability Investing](#), in which it is clear the UK intends to adopt and endorse ISSB standards for use in the UK.

## 16. Are there any principles that you would add to the list above? Why?

We think it would be beneficial to reflect within the principles that the Framework will be considered in a proportionate way to the nature of the impact of the business. As noted above, SMEs might take longer to adapt their operational and commercial practices than larger companies; graded expectations could support SMEs to adapt in a way that is realistically achievable.

## 17. Which of these principles would you regard as ‘must-haves’ or as ‘desirable’?

We have no further comments to our response to question 15.

## 18. Principle 1 notes that a transition plan should cover the whole organisation. There may be challenges for internationally active firms in meeting Principle 1, given that different jurisdictions will have different economy-wide transition pathways. How can the TPT design its standard and guidance in a way that accommodates credible transition plans consistent with the broader strategy of a firm, but reflects differences between approaches taken in different jurisdictions?

We have no further comments to our response to questions 1 and 7.

## Elements

### 19. Do you agree with the proposed elements? Why or why not?

The proposed elements set out in the consultation paper are broadly appropriate and reflective of the comprehensive exercise undertaken by the TPT to identify common elements in existing frameworks and plans.

In identifying which elements should be marked as “must haves” or “desirable”, we would recommend alignment with both ISSB and TCFD as an appropriate baseline, given the UK’s commitment to both.

We also consider that to drive accountability, it is important that plans include the appropriate considerations in relation to:

a) Governance, to show who is accountable and who is responsible to deliver at various levels of the organisation and how they are connected

- b) Strategy to deliver (i.e., are they pivoting the business or making operational changes?)
- c) Risk management
- d) Metrics and targets as covered in the consultation paper, although we would like to see more specific reference to Scope 1, 2 and 3 greenhouse gas emissions (again, as per the TCFD).

We think the emphasis of the TPT should firmly be on developing good practice guidance in designing and preparing a transition plan. The primary outcome should be high-quality, credible transition plans, integrated into a company's overall strategy and business model.

Consistent, comparable disclosures is needed to enhance transparency and accountability and therefore we strongly encourage the TPT to endorse the baseline disclosures as required by the ISSB, and only add further recommended disclosures to meet specific needs in the UK context (for example, in relation to the UK's legal commitments to net zero). Consistent with our answer to question 7, we believe this is the only effective way to enable companies to take a whole organisation approach to their transition plans and their disclosure when their operations and value chains cross jurisdictional borders.

## 20. Are there any elements that you would add to the list below? Why?

Please see our response to question 19.

## 21. Which of these elements would you regard as 'must-haves' or as 'desirable' for credible transition plans? In which instances should an entity assess materiality to determine whether an element is considered must-have and/or what level of disclosure detail is required?

Please see our response to question 19.

## 22. Are there elements where you see substantial barriers to implementation? If so, which ones and why? Are you able to suggest alternatives which are both credible and practical?

Please see our response to question 19.

## 23. Please share any other feedback or comments you may have on the work of the TPT and the Sector-Neutral Framework. (Character Limit: 4000)

We have no additional feedback or comments.