



Need to know Transition Plan Taskforce (TPT) publishes final disclosure framework on climate transition plans

Contents

Background

What is a transition plan?

TPT Disclosure Framework

TPT Implementation Guidance

Next steps

Further information

This *Need to know* discusses the Transition Plan Taskforce's (TPT) Disclosure Framework and implementation guidance. It also summarises the expected forthcoming consultations and next steps to introduce UK disclosure requirements related to transition plans.

- The **Transition Plan Taskforce (TPT)** was established by the UK government in April 2022 with a two-year mandate to develop the 'gold standard' for private sector climate transition plans.
- On 9 October 2023, the TPT published its **final Disclosure Framework and Implementation Guidance**, setting out good practice for robust and credible transition plans as part of an entity's annual reporting.
- The TPT Disclosure Framework has been developed to 'be consistent with, and build on,' **IFRS S2 Climate-related Disclosures (IFRS S2)**, issued by the International Sustainability Standards Board (ISSB).
- The FCA has stated it will **consult** on the introduction of guidance for listed companies' transition plan disclosures with specific reference to the TPT Disclosure Framework. This consultation will take place at the same time as the FCA's consultation on proposals for mandatory sustainability disclosure requirements, based on anticipated UK-endorsed IFRS Sustainability Disclosure Standards. The intention is for new requirements in relation to transition plan disclosures to be effective for accounting periods on or after 1 January 2025 with reporting in 2026.
- The UK government has also set out its intention to **consult on transition plan disclosures** for the UK's largest public and private companies, drawing on the work of the TPT.

For more information please see the following websites:

www.ukaccountingplus.co.uk

www.deloitte.co.uk

Background

The Transition Plan Taskforce (TPT) was launched by the UK government in April 2022 with a two-year mandate to develop the 'gold standard for private sector climate transition plans.' The outputs from the Taskforce are designed to inform the implementation of the UK's Sustainability Disclosure Requirements, part of the **UK government's Green Finance Strategy**.

On 9 October 2023, following a public consultation, the TPT published:

- Its final Disclosure Framework which sets out recommendations and good practice for robust and credible transition plan disclosures.
- Implementation guidance including additional guidance on disclosures, sector guidance, comparisons to other recognised standards and frameworks, and legal considerations for transition plan preparers.

The TPT is also developing Sector Deep Dive Guidance which is expected to be published for consultation in November 2023. These sectors include Asset Managers, Asset Owners, Banks, Electric Utilities and Power Generators, Food and Beverage, Metal and Mining and Oil and Gas.

Although a UK initiative, one of TPT's Terms of Reference is to influence international standard setting as part of the UK's plan to be the first global net zero-aligned financial centre. The TPT Disclosure Framework itself has been designed to be 'consistent with, and build on', IFRS S2 *Climate-related Disclosures* (IFRS S2), issued by the International Sustainability Standards Board (ISSB).

Observation

The TPT Disclosure Framework is currently a voluntary framework. Companies required under the FCA's Listing Rules to make a statement as to whether they have made disclosures consistent with the Task Force on Climate-related Financial Disclosures' (TCFD) recommendations must 'describe their plans for transitioning to a low-carbon economy'. In its **Primary Market Bulletin** in December 2022, the FCA encouraged companies to go further and consider the proposed TPT outputs when making transition plan disclosures.

A number of consultations to introduce UK disclosure requirements on transition plans are also expected. These are summarised in section 'Next steps' below.

What is a climate transition plan?

The TPT Disclosure Framework builds on the ISSB's definition of a transition plan in IFRS S2 *Climate-related Disclosures* which defines a climate-related transition plan as '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 Disclosure Framework also recommends that the plan 'clearly articulates the entity's Strategic Ambition'. In doing so, it states that an entity should set out:

- its objectives and priorities for responding and contributing to the transition towards a low GHG-emissions, climate-resilient economy; and
- whether and how the entity is pursuing these objectives and priorities in a manner that captures opportunities, avoids adverse impacts for stakeholders and society, and safeguards the natural environment.

Observation

The TPT Disclosure Framework recommends that entities pursue 'objectives and priorities in a manner that captures opportunities, avoids adverse impacts for stakeholders and society, and safeguards the natural environment'.

Governments, standard-setters and regulators are increasingly focusing their attention on these broader impacts, recognising that addressing climate change cannot be successfully achieved without considering – and addressing – the impacts of climate change on people and nature.

Earlier this year, the ISSB consulted on its agenda priorities for its next two-year work plan. This consultation included a request for feedback on three proposed projects: biodiversity, ecosystems and ecosystem services; human capital; and human rights.

In September 2023, the **Taskforce on Nature-related Financial Disclosures (TNFD)** published its disclosure recommendations and guidance for organisations to report and act on evolving nature-related dependencies, impacts, risks and opportunities. The ISSB intends to use the outputs from the TNFD to inform its future standard setting. In its 2023 Green Finance Strategy, the UK government stated its intention to consider how to incorporate TNFD into UK policy and legislation.

The TPT Disclosure Framework

The TPT Disclosure Framework is structured around the following three principles:

- **Ambition:** Transition plans should reflect the urgency to act, arising from the observed changes in the climate and the latest scientific findings about climate change.
- **Action:** A transition plan should translate ambitious objectives and priorities into concrete steps to be taken in the short, medium and long term.
- **Accountability:** A transition plan is integral to an entity's wider corporate strategy. Delivery of a transition plan should therefore be fully integrated into the entity's organisational processes for business and financial planning, and for governance.

The TPT Disclosure Framework recommends that an entity adopts a 'strategic and rounded' approach in setting its strategic ambition. This includes considering three inter-related channels in designing its transition plan – decarbonising the entity, responding to the entity's climate-related risks and opportunities, and contributing to an economy-wide transition.

The TPT Disclosure Framework recommends that material information about the transition plan, including progress updates, is reported annually as part of broader climate-related disclosures in the reporting entity's general purpose financial reports (such as the reporting entity's annual report).

The TPT Disclosure Framework also includes a 'good practice' recommendation to publish a standalone transition plan periodically – at least every three years, and sooner where there are significant changes to the plan.

Observation

The TPT Disclosure Framework applies the same definition of, and approach to, materiality as the ISSB. The IFRS Sustainability Disclosure Standard on *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) defines materiality as information that if omitted, misstated or obscured could reasonably be expected to influence decisions of primary users of general-purpose financial reports. Therefore, when reporting in line with the TPT Disclosure Framework, entities should approach materiality in the same way as they do for general purpose financial reporting.

The recommendations in the TPT Disclosure Framework are structured around five elements aligned with **transition planning guidance** from the Glasgow Financial Alliance for Net Zero (GFANZ). The recommendations are also designed to be 'consistent with, and build on,' IFRS S2 *Climate-related Disclosures*.

The five elements are (1) Foundations; (2) Implementation strategy; (3) Engagement strategy; (4) Metrics & targets; and (5) Governance. The TPT Disclosure Framework summarises the five elements as follows:

- 1. Foundations:** An entity shall disclose the Strategic Ambition of its plan. This shall comprise the entity's objectives and priorities for responding and contributing to the transition towards a low GHG emissions, climate-resilient economy, and set out whether and how the entity is pursuing these objectives and priorities in a manner that captures opportunities, avoids adverse impacts for stakeholders and society, and safeguards the natural environment. Under this element, an entity should also disclose the high-level implications that this transition plan will have on its business model and value chain, as well as the key assumptions and external factors on which the plan depends.
- 2. Implementation Strategy:** An entity shall disclose the actions it is taking within its business operations, products and services, and policies and conditions to achieve its Strategic Ambition, as well as the resulting implications for its financial position, financial performance, and cash flows.
- 3. Engagement Strategy:** An entity shall disclose how it is engaging with its value chain, industry peers, government, public sector, communities, and civil society in order to achieve its Strategic Ambition.
- 4. Metrics & Targets:** An entity shall disclose the metrics and targets that it is using to drive and monitor progress towards its Strategic Ambition.
- 5. Governance:** An entity shall disclose how it is embedding its transition plan within its governance structures and organisational arrangements in order to achieve the Strategic Ambition of its transition plan.

Observation

Since the publication of the proposed Disclosure Framework in November 2022, the terminology used in the final Disclosure Framework recommendations has been further aligned with the requirements in IFRS S2 *Climate-related Disclosures* to ensure that the TPT Disclosure Framework is conceptually consistent with the IFRS Sustainability Disclosure Standards (IFRS S1 and S2).

This is important in a UK context, given the government's support for UK adoption of the IFRS Sustainability Disclosure Standards. The UK government has confirmed that the Secretary of State for Business and Trade will decide on the endorsement of the IFRS Sustainability Disclosure Standards to create UK Sustainability Disclosure Standards by July 2024. Entities in scope of UK endorsed IFRS Sustainability Disclosure Standards are yet to be confirmed.

The Financial Conduct Authority (FCA) has also set out its **approach** to implementing the first two IFRS Sustainability Disclosure Standards into its disclosure rules for listed companies.

The five elements of the TPT Disclosure Framework are sub-divided into 19 sub-elements as outlined below.

AMBITION		ACTION		ACCOUNTABILITY	
1. Foundation	2. Implementation Strategy	3. Engagement Strategy	4. Metrics and Targets	5. Governance	
<p>1.1 Strategic ambition An entity shall disclose the Strategic Ambition of its transition plan. This shall comprise the entity's objectives and priorities for responding and contributing to the transition towards a low-GHG emissions, climate-resilient economy, and set out whether and how the entity is pursuing these objectives and priorities in a manner that captures opportunities, avoids adverse impacts for stakeholders and society, and safeguards the natural environment.</p>	<p>2.1 Business operations An entity shall disclose information about the short-, medium-, and long-term actions it is taking or plans to take in its business operations in order to achieve the Strategic Ambition of its transition plan.</p>	<p>3.1 Engagement with value chain An entity shall disclose information about any engagement activities with other entities in its value chain that it is undertaking or plans to undertake in order to achieve the Strategic Ambition of its transition plan.</p>	<p>4.1 Governance, business and operational metrics and targets An entity shall disclose information about the governance, engagement, business and operational metrics and targets that it uses in order to drive and monitor progress towards the Strategic Ambition of its transition plan, and report against these metrics and targets on at least an annual basis.</p>	<p>5.1 Board oversight and reporting An entity shall disclose information about the governance body(s) (which can include a board, committee, or equivalent body charged with governance) or individual(s) responsible for oversight of the transition plan.</p>	
<p>1.2 Business model and value chain An entity shall disclose a description of the current and anticipated implications of the entity's Strategic Ambition on its business model and value chain.</p>	<p>2.2 Products and services An entity shall disclose information about short-, medium-, and long-term actions it is taking or plans to take to change its portfolio of products and services in order to achieve the Strategic Ambition of its transition plan.</p>	<p>3.2 Engagement with industry An entity shall disclose information about any engagement and collaborative activities with industry counterparts (and other relevant initiatives or entities) that it is undertaking or plans to undertake in order to achieve the Strategic Ambition of its transition plan.</p>	<p>4.2 Financial metrics and target An entity shall disclose information about any financial metrics and targets, relevant to its business, sector, and strategy, that it uses in order to drive and monitor progress towards the Strategic Ambition of its transition plan, and report against these metrics and targets on at least an annual basis.</p>	<p>5.2 Roles, responsibility and accountability An entity shall disclose information about management's role in the governance processes, controls, and procedures used to monitor, manage, and oversee the transition plan, as well as how it is embedded within the entity's wider control, review, and accountability mechanisms.</p>	

AMBITION	ACTION	ACTION	ACCOUNTABILITY	ACCOUNTABILITY
<p>1.3 Assumptions and external factors An entity shall disclose key assumptions that it has made and external factors on which it depends in order to achieve the Strategic Ambition of its transition plan.</p>	<p>2.3 Policies and conditions An entity shall disclose information about any policies and conditions that it uses or plans to use in order to achieve the Strategic Ambition of its transition plan.</p>	<p>3.3 Engagement with government, public sector and civil society An entity shall disclose information about any direct and indirect engagement activities with the government, regulators, public sector organisations, communities, and civil society that it is undertaking or plans to undertake in order to achieve the Strategic Ambition of its transition plan.</p>	<p>4.3 GHG metrics and targets An entity shall disclose information about the GHG emissions and removals metrics and targets that it uses in order to drive and monitor progress towards the Strategic Ambition of its transition plan, and report against these metrics and targets on at least an annual basis.</p>	<p>5.3 Culture An entity shall disclose information about how it aligns or plans to align its culture with the Strategic Ambition of its transition plan.</p>
	<p>2.4 Financial planning An entity shall, to the extent the financial effects of its transition plan are separately identifiable, disclose information about the effects of its transition plan on its financial position, financial performance and cash flows over the short-, medium-, and long-term, including information about how it is resourcing or plans to resource its activities in order to achieve the Strategic Ambition of its transition plan.</p>		<p>4.4 Carbon credits An entity shall disclose information about how it uses or plans to use carbon credits to achieve the Strategic Ambition of its transition plan, and report on the use of carbon credits on at least an annual basis.</p>	<p>5.4 Incentives and remuneration An entity shall disclose information about how it aligns or plans to align its incentive and remuneration structures with the Strategic Ambition of its transition plan.</p>
				<p>5.5 Skills, competencies and training An entity shall disclose information about actions it is taking or plans to take to assess, maintain, and build the appropriate skills, competencies, and knowledge across the organisation in order to achieve the Strategic Ambition of its transition plan.</p>

TPT Implementation Guidance

To accompany its Disclosure Framework, the TPT has also published Implementation Guidance, including:

- An overview of how to interpret the TPT disclosure recommendations, including why each sub-element is included, additional disclosure considerations, as well as examples.
- Transition planning guidance including practicalities of developing and implementing a transition plan, as well as references to useful resources and case studies.
- Legal considerations related to reporting in line with the TPT Disclosure Framework, covering directors' duties and competition law.
- A sector summary that outlines decarbonisation levers and metrics and targets for 40 sectors. This sector summary is open for comment until 24 November 2023.
- Technical mappings to IFRS S2 Climate-related Disclosures and to the TCFD recommendations, as well as a comparison to the European Sustainability Reporting Standards (ESRS). The purpose of these documents is to help companies think about the interconnections between the TPT Disclosure Framework and other reporting recommendations and requirements.

Next Steps

In November, the TPT will publish Sector Deep Dive guidance for consultation. The sectors will include Asset Managers, Asset Owners, Banks, Electric Utilities and Power Generators, Food and Beverage, Metals and Mining, and Oil and Gas.

The work of the TPT is expected to conclude in February 2024 with the delivery of its final Sector Deep Dive guidance and a publication that sets out a forward pathway on transition plans.

The FCA has stated that it will **consult** on the introduction of guidance for listed Companies' transition plan disclosures, with specific reference to the TPT publications, at the same time that it consults on proposals for mandatory sustainability disclosure requirements, based on anticipated UK-endorsed IFRS Sustainability Disclosure Standards. The intention is for these new requirements to be effective for accounting periods on or after 1 January 2025 and reporting in 2026.

The UK government has also set out its intention to **consult on transition plan disclosures** for the UK's largest public and private companies, drawing on the output of the TPT.

Further information

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