

CLIMATE TRANSITION PLAN: DISCUSSION PAPER



FOREWORD

A climate transition plan is a vital mechanism for corporates to demonstrate to investors and other stakeholders that:

- ▶ **They have developed an action-oriented and climate science-led strategy that will keep their business (and its value chain) on the pathway to 1.5°C**
- ▶ **Their business model will remain relevant in a net zero economy.**

There is growing interest from investors, customers, and employees on how companies plan on tackling the climate crisis, and they are looking to CDP for this information.

The need for increased corporate ambition alongside clear accountability mechanisms is evident and there is significant pressure for greater transparency around how companies plan to transition their business model to one that aligns with a net-zero economy.

COP26 led to some significant announcements and commitments. The Glasgow Climate Pact saw the first mention of phasing down coal, while this is not nearly enough, it is a clear sign that policymakers globally are ramping up ambitions to transition their energy systems. Alongside this, the UK Government became the first country to announce plans to mandate climate transition plans for listed companies and financial institutions by 2023. These announcements highlight the need for companies to create credible climate transition plans so they can avoid any sudden regulatory shock. In November, the European Investment Bank (EIB) announced its Paris alignment framework. From 2022, EIB corporate clients will need to develop and disclose decarbonization and resilience plans. EIB will no longer finance standard low-carbon projects of high-emitting corporates if the corporate continues to operate or invest in activities that are not aligned with the goals of the Paris Agreement¹.

Emerging campaigns such as the 'Say on Climate' campaign, which encourages disclosure of transition plans, along with accountability mechanisms such as an annual shareholder vote where appropriate, are also leading the way on ensuring corporate accountability.

As an initial step in gathering consensus behind transition plans, CDP has produced a discussion paper on climate transition plans. We want to offer a definition for climate transition plans, principles to factor in whilst establishing

a plan, and some of the key elements which constitute a credible climate transition plan².

Through CDP's platform, in 2021, over 4,000 companies disclosed that they have a low-carbon transition plan in place. Whilst this is a positive sign, an assessment will need to be made as to whether these climate transition plans meet stakeholder expectations. Are they science-based, are they effectively tracked in a manner that would allow stakeholders to assess progress and how do they compare to the progress of their peers thereby enabling a vital accountability mechanism. In 2021 nearly 900 companies reported that their low-carbon transition plan is a resolution item at their AGMs, while close to 700 companies intend to do so within the next two years. This means in two years we would hope to see over 1,500 companies with transition plans being presented to their stakeholders at their AGMs.

We recognize that transition plans are an emerging field in a rapidly evolving space, therefore the quality and completeness of these transition plans will need to be independently assessed. We expect that whilst first attempts are valuable, many of these plans will fall short of stakeholder expectations. The good news however is there is an emerging consensus about what some of the elements of a good transition would be and in the discussion paper we have sought to map the different elements against new and existing benchmarks, such as the CA100+ initiative and the Assessing the Low-Carbon Transition (ACT) frameworks.

CDP believes that transition plans are a fundamental part of what is needed from corporate governance to align with a net-zero world and are therefore a key part of the evolution of our reporting mechanism going forwards. This paper is another way which CDP aims to support corporates, in creating credible transition plans, which are underpinned by science-based targets and continue to define and develop guidance on transition plans and measure performance against them.



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Chief Impact Officer

¹ <https://www.eib.org/en/publications/the-eib-group-path-framework>

² As part of this discussion paper, it's important to note that CDP has drawn from the thinking of other groups who are contributing to this emerging field, including the Science-based Targets Initiative, Assessing the Low Carbon Transition (ACT) framework and CA100+.

WHAT IS A CLIMATE TRANSITION PLAN?

A climate transition plan is a **time-bound action plan** that clearly outlines how an organization will achieve its strategy to pivot its **existing assets, operations, and entire business model towards a trajectory that aligns with the latest and most ambitious climate science¹ recommendations, i.e., halving greenhouse gas (GHG) emissions by 2030 and reaching net-zero by 2050 at the latest, thereby limiting global warming to 1.5°C.**

Based on existing CDP data and current research into established frameworks, CDP considers a credible climate transition plan to:

- 1 Support a strategy for the transition that needs to occur for an organization to pivot towards a net-zero future, with five–ten-year near-term science-based targets² (SBTs), and then long-term SBTs for 2050 at the latest.
- 2 Contain verifiable and quantifiable key performance indicators (KPIs) which:
 - a. measure the success of an organization's climate transition; and
 - b. are tracked regularly.
- 3 Be succinctly integrated into an organization's existing mainstream filings (in annual financial reporting/sustainability reporting/overall business strategy)³; serving the purpose of being an accountability mechanism.
- 4 Be guided by the principles highlighted in Section 2.
- 5 Contain the key elements highlighted in Section 3.

These criteria demonstrate to investors, and other stakeholders, that an organization is aligning with ambitious long-term climate goals, and that its business model will transition, in order to be relevant (i.e., profitable) in a net-zero carbon economy. To avoid potential regulatory shocks, organizations should aim to align, as a minimum, with relevant policy goals for where the organization operates⁴. Given the number of countries that have committed to net-zero emissions, it is critical that investors and stakeholders are able to assess a company's plans to align with such a future⁵.

Section 2: Six guiding principles of a Climate Transition Plan

- 1 **Accountability:** The plan has clearly defined roles and responsibilities. This includes effective governance mechanisms, where the board and C-suite executives are accountable for delivery of the plan.
- 2 **Internally coherent:** The plan is integrated into the overall business strategy of the organization and linked to the profit and loss statement.
- 3 **Forward-looking:** The plan's orientation is focused on the near-and long-term future, trending towards 2050. An emphasis on the near-term (the next five-year timeframe) is critical to achieve long term climate ambitions, which should be supported by governance mechanisms (new or existing).
- 4 **Time-bound and quantitative:** The plan's KPIs are quantifiable and are outlined for defined timeframes.
- 5 **Flexible and responsive:** The plan is reviewed and updated regularly⁶, with a defined stakeholder (including shareholders) feedback mechanism (e.g., AGMs) in place.
- 6 **Complete:** The plan covers the whole organization i.e., any exclusions from the plan must not be material to the company and/or the environment (ensuring coverage of double materiality principle on exclusions).

¹ As communicated by scientifically reliable and reputable institutions such as the Intergovernmental Panel on Climate Change (IPCC) and the Science Based Targets Initiative (SBTi).

² 5–10-year emissions reduction targets in line with 1.5°C pathways.

³ The exact reporting system utilised may vary by organization. For better accountability, (1) ease of integration and (2) reporting frequency should be the key factors used to assess where to integrate the transition plan.

⁴ This includes a company's direct operations as well as those of its value chain.

⁵ <https://eciu.net/netzerotracker>

⁶ In alignment with the 2021 update to the TCFD's recommendations, with its integration of transition plans, transition plans should at a minimum be reviewed every five years for continuous relevancy and efficacy and updated if required. The TCFD also notes that progress against the plans should be reported annually, alongside any material, substantive changes to the plan be reported annually (if required).

Section 3: Elements of a credible Climate Transition Plan

CDP has identified the following key elements which constitute a credible climate transition plan. These elements have been synthesized following extensive mapping against existing frameworks⁷ on climate transition plans.

TCFD Pillar	Transition Plan Element	Description
Governance	GOVERNANCE	This demonstrates that an organization has board-level oversight on the climate transition plan and that there are defined governance mechanisms in place, to ensure delivery of the plan's targets.
Strategy	SCENARIO ANALYSIS	A climate transition plan should be underpinned by robust scenario analysis ⁸ – to identify potential substantive climate-related risks and opportunities.
	FINANCIAL PLANNING	As part of its strategy to achieve net zero, an organization should outline time-bound financial planning details. For example, CAPEX ⁹ , OPEX ¹⁰ , revenue, etc.
	VALUE CHAIN ENGAGEMENT & LOW CARBON INITIATIVES	A climate transition plan should include time-bound actions to decarbonize business processes (and those of its value chain), with time-bound KPIs. This includes four distinct elements ¹¹ – (1) supply chain engagement (2) increasing portfolio of low carbon products and services (3) customer engagement and (4) implementing emissions reduction initiatives for its direct operations.
	POLICY ENGAGEMENT	A climate transition plan should demonstrate that an organization's public policy engagement ¹² aligns with its climate ambitions and strategy.
Risk Management	RISKS & OPPORTUNITIES	A climate transition plan should outline an organization's process for minimising identified climate-related risks and maximising substantive climate related opportunities.
Metrics & Targets	TARGETS	A climate transition plan should contain time-bound, verified science-based targets which are in line with the latest climate science. Companies should set near-term SBTs to halve emissions by 2030 and can also set a Net Zero long-term target – by 2050 at the latest.
	SCOPE 1,2 & 3 ACCOUNTING WITH VERIFICATION ¹³	A climate transition plan should be accompanied by an annual Scope 1, 2 and 3 emissions inventory that is complete, accurate, transparent, consistent, relevant, and verified by a third-party.

In its most recent version, CDP's climate change questionnaire collects data on the majority of the climate transition plan elements laid out above.

Going forward, CDP will continue to expand the tracking and reporting of this data (breadth and granularity) to account for increased reporting accuracy and to account for sector-specific nuance.

⁷ [Assessing Low Carbon Transition \(ACT\)](#), [Climate Action 100+ \(CA100+\)](#), [Say on Climate initiative \(CIFI\)](#), [Oxford Martin Principles for Climate-Conscious Investment](#), [Alliance for Corporate Transparency](#), [Australasian Centre for Corporate Responsibility \(ACCR\)](#) and [The International Capital Market Association \(ICMA\)](#)

⁸ While the scenario analysis is not the plan, it helps to set the temperature target and the implications will inform the risks & opportunities which the strategy seeks to address.

⁹ Capital Expenditure

¹⁰ Operating Expenditure

¹¹ The focus should be on the most relevant parts of the value chain – not necessarily all 4 distinct elements will be relevant for every sector/organization

¹² Public policy engagement includes direct policy and lobby group engagement.

¹³ The inventory accounting includes emissions and energy sources accounting.

Elements of a credible Climate Transition Plan

The table below shows the level of alignment between CDP's climate transition elements, and existing frameworks.

Table 1: Mapping climate transition plan elements to existing frameworks

CDP Climate Transition Plan elements	ACT	TCFD ¹⁴	CA100+	GFANZ ¹⁵	IIGCC ¹⁶	ICAPs ¹⁷	TPI ¹⁸	ALCT	ACCR	CBI ¹⁹	ICMA	CSLN ²⁰
Governance	Full alignment	Partial alignment	Full alignment	Partial alignment	Partial alignment	Full alignment	Full alignment	Partial alignment	Full alignment	Full alignment	Partial alignment	Full alignment
Scenario Analysis	Full alignment	Full alignment	Full alignment	Partial alignment	Full alignment	Full alignment	Full alignment	Full alignment	No alignment	Partial alignment	Full alignment	Full alignment
Risks & Opportunities	Full alignment	Full alignment	Full alignment	Partial alignment	Partial alignment	Full alignment	Full alignment	Full alignment	No alignment	Full alignment	Partial alignment	Full alignment
Strategy to achieve Net Zero	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment	Partial alignment	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment
Financial Planning	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment	Partial alignment	Full alignment	Full alignment	Partial alignment
Targets	Full alignment	Full alignment	Full alignment	Partial alignment	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment
Scope 1,2,3 accounting with verification	Full alignment	Full alignment	Partial alignment	Partial alignment	Partial alignment	Full alignment	Partial alignment	Full alignment	Full alignment	Full alignment	Full alignment	Partial alignment
Policy	Full alignment	No alignment	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment	No alignment	Full alignment	No alignment	No alignment	Full alignment
Value chain engagement & Low carbon initiatives	Full alignment	Partial alignment	Partial alignment	Partial alignment	Full alignment	Full alignment	Partial alignment	Full alignment	Partial alignment	Partial alignment	No alignment	Full alignment

Full alignment
 Partial alignment
 No alignment



As an increasing number of firms disclose their assessment of climate risks, investors should have the opportunity to opine on the quality of these disclosures and so called 'transition plans'. As with 'say on pay' there are growing calls for investors to have a 'say on transition': a vote on the adequacy of a company's preparedness for the transition to a net-zero world. This mechanism would embed the critical link between responsibility and accountability.

Mark Carney

Former Governor of the Bank of England



¹⁴ [Task Force on Climate Related Financial Disclosures \(TCFD\)](#)

¹⁵ [Glasgow Financial Alliance for Net Zero \(GFANZ\)](#)

¹⁶ [The Institutional Investors Group on Climate Change \(IIGCC\)](#)

¹⁷ [Investor Climate Action Plans \(ICAPs\)](#)

¹⁸ [Transition Pathway Initiative \(TPI\)](#)

¹⁹ [Climate Bonds Initiative \(CBI\)](#)

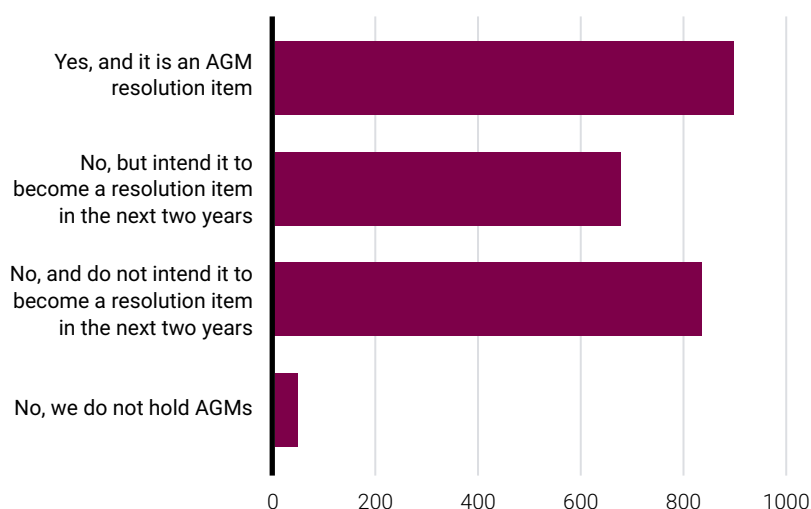
²⁰ [Climate Safe Lending Network \(CSLN\)](#)

Section 4:

Climate Transition plan statistics in 2021 CDP Climate questionnaire responses

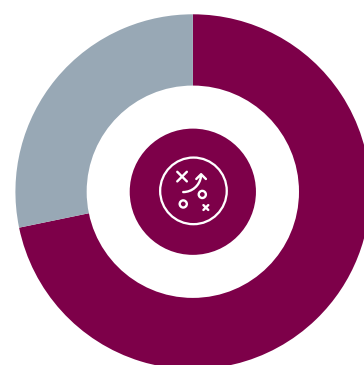
CDP is in the process of reviewing and updating its climate change questionnaire in preparation for the 2022 reporting cycle. To baseline where corporates are today and to indicate whether organisations have the key elements for a transition plan, CDP has explored 2021 corporate responses and provided a selection of high-level statistics:

Is a low-carbon transition plan a scheduled AGM resolution item?



When responding on whether a low-carbon transition plan was an item at their AGMs **893 companies** disclosed that yes, it is a resolution item. A further **684 companies** responded that no it isn't a resolution item, but they intend for it to become one within the next two years. This means in two years we would hope to see over **1,500 companies** with transition plans.

The proportion of companies with a net-zero target and a low-carbon transition plan



■ No low carbon transition plan
■ Low carbon transition plan

Out of the **877 companies** that disclosed they have a net-zero target **232 companies** did not identify that they have a low-carbon transition plan.

Over
3,700
companies

disclosed that climate-related issues have influenced their strategy, particularly in investment in R&D.



Finally, when exploring financial planning, companies identified a whole suite of different elements that have been influenced by climate-related issues.

The top 5 elements influenced include: direct costs, CAPEX, revenue, indirect costs, and capital allocation.

CDP and Climate transition plans

With transition plans being an emerging field in a rapidly evolving space, the quality and completeness of these transition plans will need to be independently assessed. It is expected that whilst a valuable first attempt, many of these plans will fall short of stakeholder expectations.

CDP will continue to conduct high level analysis to explore the disclosure of these key climate transition plan metrics and assess their disclosure quality. In line with the recently published 2021–2025 strategy, CDP will also explore opportunities to catalyse action towards climate transition planning through updates to scoring and producing insight pieces for relevant stakeholders.

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About CDP

Over the past 20 years, CDP has been a global leader in environmental disclosure and reporting and has used its disclosure platform to track and report on environmental performance – for investors, companies, cities, states, and regions. Based on 2021 corporate response data, over 9,600 companies who reported to CDP identified that climate-related issues influence the organization's strategy and/or financial planning – of which, 4,005 organizations reported that they have developed a low-carbon transition plan.

In line with its mission to focus investors, companies, cities, and governments on building a sustainable economy by measuring and acting on their environmental impact, CDP is working to ensure that companies are disclosing the relevant climate transition plan metrics and that the appropriate data is made available to stakeholders.