

February 28, 2023

*Submitted Via Online Survey*



*TPT Co-Chair, Amanda Blanc, Group CEO, Aviva*

*TPT Co-Chair, Baroness Penn, Treasury Lords Minister, HM Treasury*

*TPT Secretariat Co-Head, Dr. Ben Caldecott, Director and Principal Investigator, CGFI*

*TPT Secretariat Co-Head, Kate Levick, Associate Director – Sustainable Finance, E3G*

**Re: IIF Response to the UK Transition Plan Taskforce Consultation on its Disclosure Framework and Implementation Guidance**

Dear Ms. Blanc, Lady Penn, Mr. Caldecott, Ms. Levick,

The Institute of International Finance (IIF) and its members, which broadly represent the global financial services industry, appreciate the opportunity to provide comments on the UK Transition Plan Taskforce's (TPT) *"Disclosure Framework"* and *"Implementation Guidance"* (hereafter "the consultation"). The IIF is the global association of the financial industry, with around 400 members from more than 60 countries, including commercial and investment banks, asset managers, insurance companies, rating agencies, market infrastructure providers, and professional services firms. We are pleased to submit the following high-level comments on the consultation from the perspectives of the global financial industry.

***Context: The respective roles of financial sector stakeholders, public sector and the real economy in supporting the net zero transition***

**The global financial industry recognizes the importance of a smooth and just economy-wide transition to net zero emissions across jurisdictions, in order to address climate change, and resultant impacts on the economy, human society, and the physical environment.** In response, the number of financial institutions making voluntary commitments to support the net zero transition is growing, with many institutions developing plans and strategies to articulate climate goals and translate them into practical actions to support real economy decarbonization. The financial industry is actively seeking to support the net zero transition, including by decarbonizing operations, aligning financing and investment with the goals of the Paris Agreement, providing climate-related solutions to investors and clients, working with counterparties and clients to support achievement of their transition objectives, working to deploy capital and accelerate investment to scale clean energy solutions, and mobilizing capital for a sustainable energy transition.

**Governments and civil society are increasingly focused on the role of the financial system to act as a driver of the net zero transition. However, it is becoming evident that there are material limits to the degree to which the financial system (both private firms and regulators) can influence or control real economy decarbonization.** Most importantly, financial institutions' voluntary actions cannot correct for the absence or comparative lack of government policies to support the net zero transition in the real economy, where the majority of emissions are produced. We believe the focus of governments should be on creating appropriate incentives for a transition to a lower carbon and more sustainable economy,

without relying unduly on the financial sector to achieve broader policy goals. Government action to set high level commitments (such as economy-wide net zero goals) should be complemented by policies that provide the right incentives, clarity, and certainty on transition pathways for key sectors of the real economy, reflecting their socio-economic structures. Coherent and aligned incentives, grounded in economy-wide government policies, must serve as the foundation for economic transformation; recent efforts by governments in the European Union, United States, and other jurisdictions are illustrative of the scale and scope of policy action required.

**The ability of financial institutions to support the Net Zero transition will be contingent on an array of external factors, including government policies, financial institutions' clients' preferences and their counterparties' transition pathways.** Therefore, firms across sectors need clear policies and signals from the public sector about future policies in order to provide greater certainty for development of their own transition plans. For example, information about a country's or region's future energy mix, approach to carbon pricing, transportation systems, and housing infrastructure would provide key inputs to scenario analysis. In contrast, lack of clarity and certainty on the dynamics of the net zero transition would create significant challenges for companies, which are required to make assumptions about the transition pathway for their own strategic planning, risk management and commitments. This can prove to be especially challenging for financial institutions with a large emerging markets (EM) client base, where data gaps for key climate and sustainability-related information can be particularly large across both the private and public sectors. While there is increasing collaboration among stakeholders towards attaining a comprehensive global baseline for sustainability disclosure standards and transition plans, the challenge brought about by disclosure frameworks evolving at different speeds in different jurisdictions (particularly in EMs) should be recognised including within the TPT's framework.

#### ***Considerations reflecting the currently nascent stage of transition planning practices***

**The topic of transition planning is new and broad-ranging, with many important and complex aspects. The purpose of this letter is to convey industry perspectives on the implications of the TPT framework for disclosure practices given the nature of the TPT consultation; however, it is important to recognize that transition planning is fundamentally an internal strategic exercise and, as such, not all components of a firm's transition plan may be relevant or appropriate for public disclosure.**

**Climate transition planning is at an extremely nascent stage for real economy firms and financial institutions alike.** For example, CDP has recently estimated that only around 20-25% of 16,600 companies making CDP disclosures responded that they had a transition plan in 2022, and less than 1% of these were credible according to CDP criteria (source: CDP.net, February 16, 2023).<sup>1</sup>

**It is important to consider the dual roles of financial institutions as both users and producers of transition plans when considering the architecture of a disclosure framework for transition plans.** From a user perspective, the contents of transition plans – if appropriately formulated and containing the necessary data – can inform financial institutions' capital allocation, advisory, and relationship management approaches to their counterparties and clients. As discussed above, financial institutions' primary contribution to the transition from a decarbonization perspective will be through supporting and enabling the transitions of their clients, including through financing, investment, advisory services, and

---

<sup>1</sup> <https://www.cdp.net/en/articles/climate/new-cdp-data-shows-companies-are-recognizing-the-need-for-climate-transition-plans-but-are-not-moving-fast-enough-amidst-incoming-mandatory-disclosure>.

product development. Real economy firms' transition plans will need to provide meaningful and comparable data in order for many financial institutions to assess their clients' approaches to the net zero transition. Furthermore, such data will also be necessary as financial institutions develop and monitor performance against their own transition plans; as detailed below, the challenges associated with financial institutions' reliance on information from clients and counterparties when preparing their own transition plans should be appropriately reflected when considering how to sequence implementation expectations for financial institutions, both in terms of scope and timing of disclosures.

### ***Responding to the TPT consultation in the context of global developments***

**The IIF has welcomed the initiative of the International Sustainability Standards Board (ISSB) to develop a global baseline for climate-related disclosure standards.** The ISSB itself is taking an iterative approach to the development of its standards, recognizing that market practices are constantly evolving particularly in relatively new areas such transition planning. The ISSB's 2022 draft standards included proposals for the disclosure of transition plans, in the case that a firm has developed one, as part of strategy and decision-making disclosures, leveraging the Task Force on Climate-related Financial Disclosures (TCFD) framework's 2021 revisions and additions.

As the IIF [commented](#) to the ISSB in 2022, the IIF recognizes that transition planning dimensions (along with some other aspects) of the proposed Exposure Draft for Climate-related Disclosures were inspired by components of the 2021 TCFD recommendations, with which financial institutions have not yet gained as much experience as with the 2017 TCFD recommendations – for instance, in areas such as transition planning. For this reason, some IIF members recommended that these aspects of the ISSB disclosure standard should be considered voluntary, or 'recommended', until market participants have had the opportunity to gain experience with the recommendations introduced by the 2021 TCFD guidance, and until the ISSB has had the opportunity to assess to what extent the transition planning disclosures suggested by the TCFD standards are feasible for issuers to disclose.

**Across the world, many financial institutions are already making significant efforts to support the net zero transition through the development of transition plans and related strategies; however, as transition planning remains in its infancy, the TPT framework should provide enough flexibility for companies to evolve their disclosure as the understanding and development of transition planning evolves over time.** Even the most advanced financial institutions are still in the early stages of developing approaches to transition planning, reflecting the early stage in theory and testing of transition plans and the early state of implementation by real-economy firms. The TPT should, therefore, strike the right balance between providing clear guidance while allowing enough flexibility for the framework to be future-proof and allow for expectations around transition planning to change over time. This flexibility is also important given that the TPT framework is expected to be used as a basis for regulatory disclosure in the UK. For example, the effectiveness of the TCFD framework was due to the flexibility it provided for firms to adapt disclosures to their particular business models and national circumstances, and to make disclosures that are meaningful to investors.

**IIF members are broadly supportive of the objective of mainstreaming transition planning. However, given the nascent state of market practices and the evolving global standard setting process, many IIF members remain of the view that implementation of requirements for mandatory disclosure of transition plans may not be appropriate at the current time. Nonetheless, a minority of firms have indicated they would find greater standardization of frameworks for transition planning helpful, given**

**the additional information it could provide about their clients and counterparties.** Many also believe that disclosure frameworks need to be road-tested by market participants before adoption into regulation. Disclosure, especially regulatory disclosure requirements, can drive market behavior; market experience and feedback will be needed to ensure that any transition plan regulatory disclosure requirements most effectively focus companies on the fundamental elements needed and avoid any unintended market consequences.

**It is important that any disclosure framework related to transition plans provides space for practices to mature and develop as experience with transition planning deepens and spreads across the economy.**

Practically, this implies:

- a) Frameworks and any requirements for transition planning disclosure should be principles-based and high-level at this time. The future final ISSB standards should be the global baseline here.
- b) A high-level framework could be complemented by targeted disclosure guidance on specific pieces of information that might be disclosed in relation to transition plans based on feasibility and relevance to external stakeholders. Again, future final ISSB guidance, including sectoral guidance, could be the global baseline here.
- c) The ongoing development of market-led standards should be encouraged to ultimately feed into disclosure frameworks and requirements in an iterative way. It would be helpful for authorities to actively support the evolution of transition plans through, for example, safe harbor provisions of specific information deemed high priority for disclosure but difficult to accurately provide at this time, and/or sandbox approaches to help test road-test frameworks and guidance (further discussed below).

**Generally, in order to support global consistency of climate-related disclosures, it is important to await the issuance of the ISSB standards, which the [IFRS Foundation](#) has indicated is expected by end-Q2 2023, becoming effective from January 2024.** Notwithstanding the jurisdiction-specific context for transition planning requirements in the UK, whether and how information about transition planning is ultimately disclosed by firms is relevant from a global perspective because users of such disclosures will demand comparability across markets, and because disclosure by a firm in one jurisdiction can have legal, regulatory and reputational implications in other jurisdictions (further discussed below). Given that other jurisdictions are also considering questions around transition planning disclosure, it would be helpful for the final ISSB standards to be the global baseline to support consistency and interoperability across jurisdictions. To avoid fragmentation, promote greater consistency and comparability of disclosures, and reduce reporting costs, we encourage continued coordination with global standard setters and other jurisdictional authorities as this work continues, and continued transparency as to how approaches relate to each other. We also suggest that the TPT framework should be iterative, with clear provisions to reflect alignment with global standards as they emerge, in order to ensure this consistency and interoperability.

### ***Sequencing***

**A fundamental, and now well-recognized, issue relates to the challenge of data availability from financial institutions' clients and counterparties.** A lack of data on counterparties' climate-related characteristics such as current Scope 1, 2 and 3 emissions and transition plans is a significant inhibitor for many financial institutions in their own transition planning.

**Considering the data gaps, a degree of sequencing of expectations and requirements is essential to overcoming some informational challenges for financial institutions.** For financial institutions, the data that ISSB-based standardized disclosure will generate in the coming years will be essential inputs for calculating metrics which are important for transition planning, such as (for example) financed emissions and portfolio alignment measures. It will take time for these disclosures to become more widespread and for the data quality to improve. We understand from the TPT work program that the intention is to provide a first set of sector guidance later in 2023; in doing so, we would advocate for the differentiation of financial institutions from other, non-financial corporates:

- First, companies in the real economy –which are financial institutions’ counterparties– should be encouraged to develop their transition plans and make data available so that financial institutions can leverage that information in their own decision making and planning. (As discussed above, government policies which provide greater certainty on transition pathways for key sectors of the real economy are a fundamental prerequisite for real economy firms’ transition planning.)
- Appropriate differentiation should be made for the financial sector in any future sector-specific guidance, for example on the proposed scope and granularity of metrics and targets. For example, recognizing differences between the ability to produce Scope 1 or 2 versus Scope 3 emissions data.

### ***Content of disclosures***

**To be most effective, the TPT framework should be tightly focused on the information that is core to a company’s transition—i.e., the company’s transition objectives or goals and how the company plans to reach those objectives or goals.**

**Not all information in a firm’s transition plan will be appropriate for public disclosure;** greater detail would be expected for internal planning and potentially for confidential transmittal to selected stakeholders (such as to financial supervisors if required). **Commercially-sensitive or highly uncertain information should be exempted from public disclosure.** We note that the ISSB has acknowledged that certain information about sustainability-related opportunities could be commercially sensitive and has, therefore, tentatively introduced into the future ISSB standards an exemption for the disclosure of such information in limited circumstances.<sup>2</sup> More generally, forward-looking information disclosures are highly speculative and may expose the reporting company to significant liability, legal and reputational risks if included in public disclosure. For example, some types of information, such as the impacts of climate-related risks and opportunities on future financial performance as informed by climate scenario analysis, will be challenging for financial institutions to estimate considering that such analysis requires entities to project forward the financial impacts of their clients’ transition progress. Such estimates would be dependent on a number of variables that are likely to change over time in ways that entities cannot predict with any certainty (e.g. government policy, shifting consumer demand, technological innovation). Disclosing this degree of detail could provide a misleading sense of certainty and even give rise to future accusations of greenwashing. These examples exemplify that transition plans primarily should be understood as a strategic tool and only be disclosed as such (similar to a corporate strategy). It would be helpful for the TPT framework to include greater recognition of the inherent risks of disclosing certain information, and align with the future ISSB standards in this regard.

---

<sup>2</sup> <https://www.ifrs.org/news-and-events/updates/issb/2023/issb-update-january-2023/>.

Similarly, certain provisions in the TPT’s draft recommendations include **information that may be of interest to certain stakeholders, but that a firm may not consider to be fundamental elements of its transition plan**. While some firms may choose to include these elements in a transition plan, the TPT framework should direct focus towards the most fundamental elements—namely, what is a firm’s decarbonization objective, what targets has it set to achieve that objective, and what business decisions is it making to support achieving its objectives. We note that these disclosure elements are already covered in the ISSB standard.

#### ***Mechanisms to reduce liability and reputational risks***

**It would be helpful to find ways to reduce the likelihood of reputational and liability risks for disclosers through the design of transition planning disclosure frameworks given the nascent state of practices and the dynamic nature of transition planning, which is subject to change and may depend on estimates or assumptions which may or may not prove to be accurate over the longer term.** We note that, in its March 2022 proposed rule on “The Enhancement and Standardization of Climate-Related Disclosures for Investors,” the U.S. Securities and Exchange Commissions (SEC) proposed **safe harbor provisions** covering the disclosure of Scope 3 emissions, transition plans, and scenario analyses disclosures in recognition of the difficulty of calculating Scope 3 emissions and the need for reliance on forward-looking information for transition planning and scenario analyses. These proposed safe harbor provisions would give preparers the ability to disclose this important information to the best of their ability with protection from liability. Similarly, in certain jurisdictions, distinctions such as allowing transition plans to be “furnished” rather than “filed” can help reduce liability risks in the provision of information to investors.

**Likewise, the TPT could emphasize qualitative disclosure and/or “comply or explain” options, wherever possible, as part of its framework.** Qualitative disclosure options and “comply or explain” frameworks would provide users of the TPT framework the necessary flexibility to navigate disclosure recommendations that may be less relevant for their firm, or recommendations that may present liability or legal risk if disclosed in their jurisdictions. We would encourage the UK TPT also to consider provisions such as these in its framework, recognizing these globally relevant challenges.

#### ***Location of disclosures***

In terms of the location of any disclosed information, many IIF members think this should be informed by the final approach in the ISSB standards. For example, in the draft ISSB S2 standard, it was proposed that any parts of the transition plan that are considered financially material should be included in the financial report. Those parts of publicly disclosed information on transition plans which are not financially material, should be published outside of financial reporting.

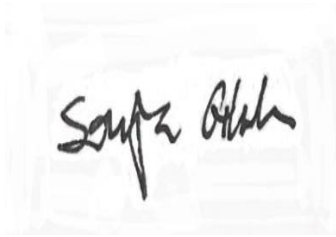
#### ***Closing remarks***

This year, the IIF is undertaking research with its global membership to contribute to the emerging policy debate regarding the role of net zero transition activities in the financial industry, including planning, finance and engagement. We will continue to engage with the TPT and will be happy to share the IIF’s publications on these topics in due course.

Thank you for your consideration of these comments. On behalf of the IIF membership, we hope that these global industry perspectives will contribute constructively to your efforts. We would be very happy

to discuss any of our comments further or to assist in any way. We invite you to contact Sonja Gibbs ([sgibbs@iif.com](mailto:sgibbs@iif.com)) or Andrés Portilla ([aportilla@iif.com](mailto:aportilla@iif.com)) should you have questions or comments.

Yours sincerely,

A handwritten signature in black ink that reads "Sonja Gibbs". The signature is written in a cursive style and is centered within a light gray rectangular border.

Sonja Gibbs  
Managing Director and  
Head of Sustainable Finance  
Institute of International Finance (IIF)

A handwritten signature in black ink that reads "Andrés Portilla". The signature is written in a cursive style and is centered within a light gray rectangular border.

Andrés Portilla  
Managing Director and  
Head of Regulatory Affairs  
Institute of International Finance (IIF)