GAM EXPLAINS:
CLIMATE TRANSITION PLANS

MARKETING MATERIAL FOR PROFESSIONAL INVESTORS ONLY

CLIMATE TRANSITION PLANS – THE UK'S TRANSITION PLAN TASKFORCE TO SET GOLD STANDARD

WHAT IS IT?

Pivotal climate Conference of the Parties (COP) meetings in recent years have led to much of the global economy making pledges to achieve net zero by 2050. Those companies that contribute to these commitments can lay out how they will transform or adapt their products, operations and business models to align with a net zero economy, in what is called a climate transition plan.

Such plans can help investors and regulators understand the adequacy of companies' strategies to navigate the risks and opportunities associated with the transition to a net zero economy.

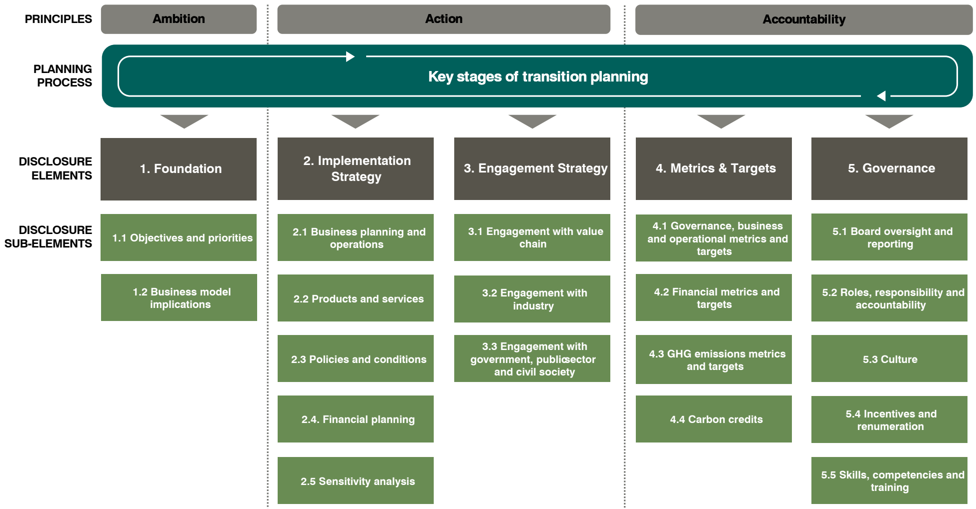
What is the Transition Plan Taskforce?

At COP26, the UK government announced its intention to become the world's first "Net Zero-aligned Financial Centre". The following year, in March 2022, the Transition Plan Taskforce (TPT) was launched by HM Treasury with a mandate to bring together leaders from industry, academia and regulators to develop a 'gold standard' Disclosure Framework for transition plans.

Launched in October 2023, the TPT Disclosure Framework seeks to do exactly that. This explainer looks at the main features of the TPT guidance, and the role we expect the guidance and transition plans to play for investors.

The IFRS S2 Standard for climate disclosures 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 builds on this definition and applies three guiding principles – ambition, action and accountability – to five key elements and 19 sub-elements, each of which is supported by a series of Disclosure Recommendations.

The TPT Disclosure Framework



Source: TPT-Disclosure-Framework.pdf (transitiontaskforce.net). As of 30 November 2022.

The TPT states that plans should reflect the urgency of the entity's action, and that as well as detailing the company's commitments, transition plans should include national targets and the latest global frameworks on climate change.

The intention is that a transition plan becomes part of a wider corporate strategy and therefore integrated into an organisation's plans and governance.

WHY IT MATTERS TO INVESTORS

Over 150 nations have announced or are considering net zero targets, covering **close to 90%** of global emissions and 92% of GDP. 75 of these nations, including the US, EU, Switzerland, Japan and Australia, have a net zero commitment enshrined in law.

Companies operating in these markets therefore face regulation and policy measures. Costs associated with the physical impacts of climate change are also rising. Almost **80% of the world's largest companies** will be exposed to moderate-to-high physical risks from climate change by 2050.

The need for businesses around the world to transition practices in line with these national climate targets is increasingly critical. Climate transition plans can help investors understand how sufficient a strategy is in tackling climate risks and whether companies are acting to reflect the changing physical, market and regulatory environments, therefore allowing for better informed investment decisions.

The TPT also streamlines plans to overcome the risk of climate strategies being too varied or lacking in detail, meaning investors can assess and compare the credibility of plans.

What is GAM doing?

Through the Net Zero Asset Managers (**NZAM**) initiative, we have joined asset managers with a total of USD 64 trillion in AUM committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. We align our reporting with the disclosure recommendations of the Task Force on Climate-Related Financial Disclosure (**TCFD**) and encourage those companies in which we invest to do likewise.

We are also members of the Steering Committee of **Climate Action 100+**, which urges the world's largest corporate greenhouse gas emitters to take necessary action on climate change, and engage on the risks and opportunities associated with the transition to net zero.

THREE TOP TAKEAWAYS

1- First step for international alignment

The TPT framework aims to provide a 'gold standard' for corporate and financial transition planning and environmental disclosures. Building on the work of the International Sustainability Standards Board (ISSB) and the guidance developed by the Glasgow Finance Alliance for Net Zero (GFANZ), it aims to bring financial institutions into alignment with global standards. The framework will set out best practices on what makes a transition plan robust and credible.

It is hoped that this framework will enable a convergence of global transition plan standards, making them more effective and comparable, bringing the baseline level of transition plans up to a higher bar.

2- Shifting from voluntary to mandatory

There has also been strong signalling from regulators such as the UK's Financial Conduct Authority (FCA) that it will seek to consult on making some or all of the **TPT framework mandatory**, especially for larger corporations and financial institutions. This effort will happen in concert with the FCA's consultation on implementing UK-endorsed ISSB standards.

This would result in a major shift for much of the UK economy, where as of yet only **5% of FTSE 100** firms have published net zero plans that would be deemed 'credible' under the government's transition plan guidance. The aim of this policy will be to make robust climate reporting a widely expected practice.

3- Highlighting the (inter)dependencies

Within the disclosure guidance in TPT's framework is that entities should highlight key assumptions and external factors relating to the strategic ambition of transition plans (as included in section **1.3 of the framework**).

For example, a company that relies heavily on a technology such as industrial scale carbon capture and Storage (CCS) to be available at a much lower cost than today to meet its emissions reductions goals, would have to explicitly disclose this assumption in its strategic ambition.

This should improve the overall transparency of key metrics and goals employed in sustainability plans, which sometimes rely on a variety of assumptions and potential factors, such as regulatory change or technological developments, to be successful. We believe understanding these key assumptions will allow regulators and stakeholders to assess whether these goals and metrics are viable and realistic, as well as providing a key measure against greenwashing.

WHAT TO LOOK OUT FOR

Signals from the FCA and government consultation on transition plan requirements for large public and private companies suggest there is a possibility, even a likelihood, that the TPT's framework will become the backbone of future UK disclosure regulations. Both corporations and financial institutions will need to assess how this framework affects their business and prepare to scale up or change their existing transition plans and disclosure practices to ensure compliance ahead of time. Reference to transition plans in the EU's Corporate Sustainability Reporting Directive (CSRD) and other climate disclosure regulation, may mean the TPT guidance becomes the backbone of existing or enhanced disclosure regulations in jurisdictions beyond the UK.

It is anticipated that the TPT will provide guidance on finance subsectors, such as banks, asset managers and asset owners, in November 2023. In addition, the publication of the Task Force on Nature-related Financial Disclosure (TNFD) recommendations means disclosures will increasingly rely on an understanding of climate as interdependent on nature. Investors should also be on the lookout for greater government scrutiny in external assurance and verification. New transition plans will likely be affected by upcoming IAASB standards on a global baseline for sustainability assurance.

If passed into law in their entirety, these transition plan frameworks could represent a major shift in not just reporting but capital allocation towards a net zero economy.

For more insights from GAM, go to 'Our Thinking' here.
To read our other explainers, go to 'GAM Explains' here.

GAM's purpose is to protect and enhance our clients' financial future. By attracting and empowering the brightest minds to think beyond the obvious, we strive to provide investment leadership, innovation and a positive impact on society and the environment.

STEPHANIE MAIER
Chief Sustainability Officer

Stephanie Maier is Chief Sustainability Officer, responsible for leading GAM's sustainable and ESG (environmental, social and governance) strategy.

Stephanie joined GAM Investments in January 2021 from HSBC Global Asset Management, where she was Director for Responsible Investment. Prior to that, she spent seven years at Aviva Investors, latterly as Head of Responsible Investment Strategy and Research, and was formerly Head of Research for EIRIS, an ESG research and consultancy firm.

Stephanie holds an MSc in Environmental Technology from Imperial College London, a BA in Biological Sciences from Oxford University and the Investment Management Certificate (IMC). She is based in London.

For more information, please visit GAM.com

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