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INVESTMENT MANAGEMENT

Transition Plan Taskforce
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UK Transition Plan Taskforce - Sector-Neutral Framework for private sector transition plans

Norges Bank Investment Management (NBIM) appreciates the opportunity to respond to the UK Transition Plan Taskforce (TPT)'s call for evidence on a Sector-Neutral Framework for private sector transition plans.

NBIM is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global. We work to safeguard and build financial wealth for future generations. We are a globally diversified investor, with approximately £53 bn invested in listed equities and £13.6 bn in fixed income in the United Kingdom.¹

As a long-term financial investor, we expect companies to report on their exposure to climate-related risks and opportunities, how these are managed, and relevant performance metrics. If climate change presents material risks or opportunities for a company, it should disclose a strategy and implementation plan to address these, and report at least annually on progress towards such plans. A transition plan should ideally have science-based targets, as well as interim milestones and actionable steps the company is planning to take to reach its targets.

We support the TPT's ambition to develop a standard that will help companies prepare rigorous transition plans. We broadly agree with the principles and key elements proposed by the TPT in the consultation document. We also welcome the TPT's intention to collaborate with other standard setters, such as the International Sustainability Standards Board (ISSB) to ensure alignment of reporting standards. As a global investor, we have a clear interest in sustainability information being reported in a consistent and comparable manner across markets.

Please find in the annex our responses to the TPT's online survey.

Yours sincerely,

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Chief Governance and Compliance Officer

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¹ as of 31 December 2021.



Annex - Responses to the TPT's online survey

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

We welcome this definition, which focuses on *how* companies will adapt as the world transitions towards a low carbon economy, which is what we seek to understand as a financial investor. We agree that companies should set out a) high-level targets the organisation is using to mitigate climate risk, including greenhouse gas reduction targets (e.g. net zero commitment), b) interim milestones, and c) actionable steps the organisation plans to take to hit those targets.

The definition could also reflect that, ideally, targets set by the company should be science-based, making it clear how plans align with an economy-wide net zero transition. Furthermore, the definition could refer to climate-related opportunities, in addition to risks.

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

Investors like NBIM are key users of transition plans, but these might also be useful for other stakeholders of the company, such as regulators, civil society, employees, business partners, as well as industry peers.

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

Investors such as NBIM need high quality climate-related disclosures from investee companies, including transition plans, to inform their investment decisions, risk management processes and ownership activities. Transition plans help us understand how a company is positioning itself in the low-carbon transition, how it is planning to manage risks and opportunities, including its significant environmental and social impacts, and how it is delivering on the plan.

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

No response

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?

The TPT could consider wider sustainability issues which are closely interlinked with climate change. As with any business strategy, we believe a climate transition plan needs to take into consideration other environmental and social impacts associated with the company's operations and value chains, in line with international principles for responsible business conduct. As an investor, we seek to understand how companies consider, as part of their



climate transition plans, the potential impacts of their decisions on biodiversity and local communities for instance.

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

All three elements are must-haves. As a long-term investor, we need to understand where the company is going in the long-term, how it is getting there (interim targets), and levers available to reach these targets. We recognise that transition plans will perhaps need to be dynamic, subject to changes, as the global economy progresses in the transition and knowledge and tools available evolve.

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

No response

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?

In addition to the frameworks mentioned in the consultation document, the TPT could consider the work of the Taskforce on Nature-related Financial Disclosures (TNFD), when it comes to the role of nature-based solutions and the climate-nature nexus. The TPT could also consider the Science Based Target Initiative and the Transition Pathway Initiative.

The Sector-Neutral Framework

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.

Financial disclosures, such as annual reports, are central sources of information for investors, and companies could integrate their climate transition plans (if financially material), into these. We would like this information to be subject to the same internal governance and verification processes as financial information.

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?

We agree that companies need to have a certain degree of flexibility to implement climate plans that take into account their business context and play to their key strategic advantages. We also understand that there is still much we do not know about the energy transition.

At the same time, a reporting framework needs to be prescriptive enough on certain core elements to ensure comparability, which helps investors in their engagement and voting



decisions for instance, but also in their assessment of the transition risk across a large portfolio.

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?

The TPT should seek to align its recommendations with the most recognised and established international standards, such as the Greenhouse Gas Protocol for example.

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?

No response

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? A Sector-Neutral Framework for private sector transition plans: Call for Evidence.

No response

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?

No response

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

We agree with the proposed principles.

Some flexibility might be necessary for principle 1. If a transition plan does not cover the whole organisation, the company should explain why this is the case and what the timeline is for including the excluded segment. One of the reasons for excluding a segment might be that there is currently no way to measure or track decarbonisation for the given business segment. While we find the two first elements 'must-haves', we regard the information on alignment with a national strategy as useful but not essential for our analysis.

Concerning principle 2, we want company boards to approve and have oversight of the climate transition plan.

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

No



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

All three are must-haves.

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?

No response

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

Yes, we broadly agree with the proposed elements.

As we highlighted in our response to question 15, companies should be allowed to adopt an approach in stages if deemed necessary. However, if a transition plan does not cover the whole organisation, the company should explain why this is the case and what the timeline is for including the excluded segment.

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

The TPT could consider adding as sub-element: asking companies to report which of their emissions are economic to abate now (given current costs, regulations and technologies), which will become economic over time and which may require more drastic approaches to address. For this, the TPT could consider the “Abatement Capacity Assessment (ACA) Framework” currently being developed by CPPIB.

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?

Here are some comments on each main element:

a. Ambition:

- **On the scope**, the TPT could be clearer that a company’s targets should cover operational emissions (scopes 1 and 2) at a minimum, as well as any material value chain emissions (scope 3).
- **On the overall ambition**, we find the two first elements must-haves, but we regard to the information on alignment with a national strategy as useful but not essential for our analysis.
- **Interim targets**: must-haves
- **Implications for business model**: must-have. However, we suggest amending the sentence to reflect that some companies might decide to continue with their business model, if the current operating model is well positioned for the transition.

- **Just transition:** desirable
- b. Target-setting:**
 - **Baseline year and GHG emissions:** must-have. Here, the TPT could refer to the Greenhouse Gas Protocol.
 - **Target year and GHG emissions:** must-have.
 - **Scope of business activities covered:** the plan should clearly say whether it covers all business activities or if some segments are excluded.
 - **Third party verification of targets:** desirable. Companies can look to the Science-Based Targets initiatives framework or may consider other third-party verification to provide assurance that their target aligns with science-based climate trajectories, which we expect will be the norm over time.
 - **Alignment with sectoral benchmark:** desirable, to the extent that such sectoral pathway exists.
 - **Alignment with temperature trajectory/transition pathway:** must-have – but this seems already covered in section a – overall ambition.
 - **Reliance on offsets:** must-have. This information is relevant in assessments of plans’ risk profile and robustness. To assess a company’s climate plan, it is useful for investors to know to what extent the company is relying on offsets, as well as the company’s view on any risks related to the reliance of offsets or tools that are not yet commercially deployed at scale. Other things equal, reducing actual emissions before relying significantly on carbon offsets seems a prudent approach, however, we recognise that some offsets and carbon capture will be necessary to reach net 2050, for certain hard to abate activities.
 - **Third-party verification:** desirable
 - **Offset type:** desirable. It could be desirable to have companies report on a regional breakdown of purchased offsets, or if they are domestic or international, to make it easier to understand economy-wide emissions relative to Nationally Determined Contributions (NDCs) and the cross-border “flow of emissions”.
 - **Other factors on offset credibility:** desirable
- c. Management activities and plans:**
 - **Business plan:** must-have
 - **Financial plan:** must-have
 - **Operations and production:** we would apply a materiality lens. If operations have a material impact, then it is a must-have. This could be included under business plan.
 - **Sensitivity analysis:** desirable.
- d. Internal policies**
 - **Transition-related company policies:** must-have
- e. Products and services**
 - **Plans to increase portfolio of low-carbon products and services:** must-have
 - **Emissions impact of changes to products and services:** this reporting could be too burdensome for the company.
- f. Engagement: value chains/portfolio**
 - **Engagement with portfolio companies, customers and suppliers:** if the company’s emissions are principally in its value chain, then this is a must-

have. If this is not the case, then the information is less relevant for investors' decision-making.

- **Value chain/portfolio emissions reduction target:** must-have

g. Engagement: public sector

- **Direct engagement:** must have. We ask companies to have policies or guidelines for engaging with policy-makers and regulators on climate change and related topics, and be transparent about relevant associated spending and activities. Companies should promote the conditions for well-functioning markets and approach new market-based climate regulation constructively, within their financial objective.
- **Indirect engagement:** must have. We expect companies to review their memberships of industry associations and interest groups on a regular basis and assess whether the advocacy positions on climate policy held in these groups are aligned with their own positions.

h. Engagement: industry peers

- **Engagement with industry peers:** desirable. Sections g and h could be merged.

i. Metrics and monitoring progress

- **GHG KPIs:** must have
- **Financial KPIs:** must have
- **Business KPIs:** must have
- **Non-climate related impact KPIs:** desirable

j. Skills, incentives and accountability

- **Skills and training:** desirable
- **Incentives and remuneration:** desirable

k. Governance, roles and responsibilities

- **Board oversight:** must-have
- **Board approval:** must-have
- **Report and review mechanism:** must-have
- **Senior management accountability:** must-have
- **Transparency:** must-have

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?

No response