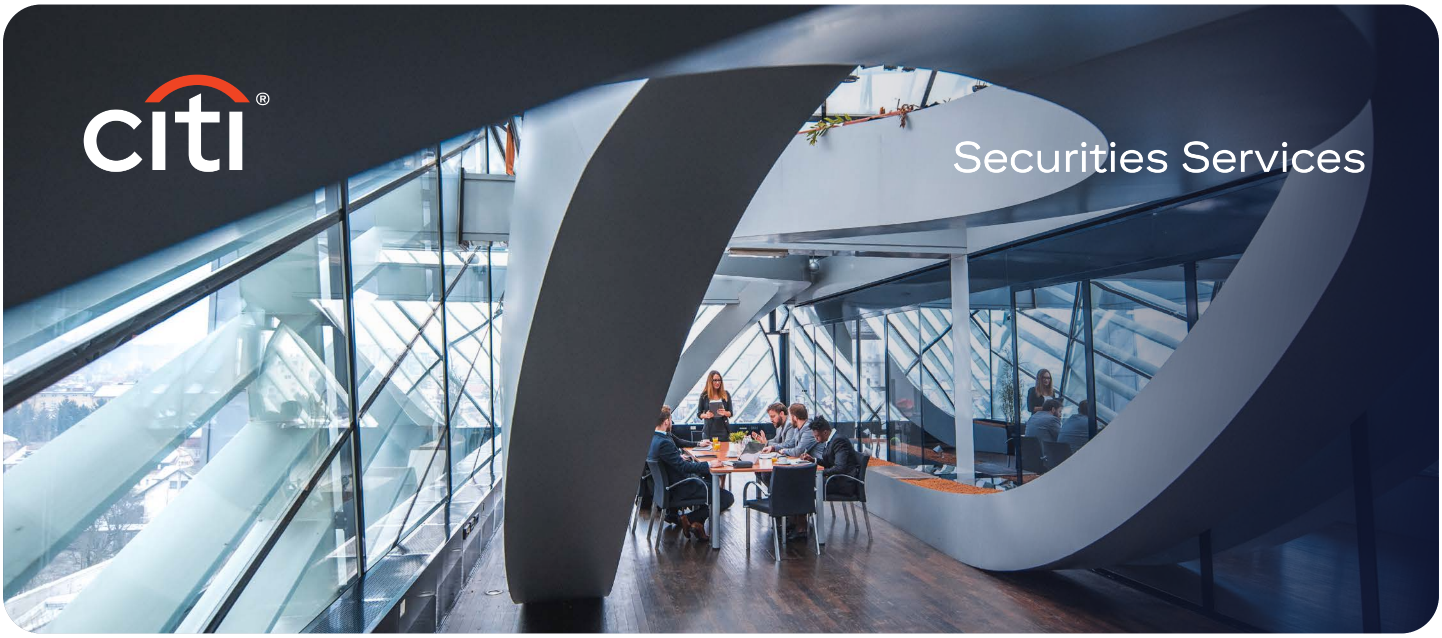


Transition Planning for Asset Managers

In October 2021 the UK Government announced, at COP26, its intention "to become the world's first net-zero aligned financial centre and announced that it would launch the Transition Plan Taskforce (TPT), with the mission of producing a gold standard Disclosure Framework for transition plans."[1]

The TPT states in the foreword of the Transition Plan Taskforce Disclosure Framework (TPT Disclosure Framework), that its publication represented the delivery of this mission.

At COP26, the UK Chancellor also set out that the UK will move towards making publication of transition plans mandatory.

However, before the creation of the TPT Disclosure Framework, the TPT was launched by HM Treasury in March 2022 "with a mandate to bring together leaders from industry, academia, and regulators to develop good practice for transition plan disclosures for finance and the real economy."[2]

In addition, the TPT was "tasked with engaging with non-UK governments and regulatory networks to support conversations on how to build common baselines and principles for transition planning."[3]

The TPT states that to "meet this challenge a fundamental transformation in business and finance is required." And that "transition planning and the disclosure of transition plans are core to this transformation."[4]

Further, in its 2023 Green Finance Strategy, the UK Government committed to consult on introducing requirements for the UK's largest companies to disclose their transition plans if they have them.

The Financial Conduct Authority (FCA) also signaled its intention to consult on strengthening requirements for transition plan disclosures in line with the TPT Disclosure Framework, alongside its consultation on implementing UK-endorsed International Sustainability Standards Board (ISSB) Standards.

And, as outlined in the introduction to the TPT Disclosure Framework, "the world urgently needs to make an orderly transition to a low-greenhouse gas (GHG) and climate-resilient economy. One that captures opportunities, while safeguarding the natural environment. And one that is as fair and inclusive as possible to everyone, creating decent work opportunities and leaving no-one behind."

The FCA comments

In its press release[5], welcoming the launch, the FCA stated that "the TPT Disclosure Framework provides a set of good practice recommendations to help companies across the economy make high quality, consistent and comparable transition plan disclosure."

More specifically, the FCA explains that "the TPT Framework recommends disclosure of a company's strategic climate ambition, and how this is reflected in its implementation and engagement approaches, its governance and accountability arrangements, and its financial plans. With better forward-looking information, investors will be better equipped to assess companies' future prospects."

The FCA also adds that "the TPT Framework has been designed to align with the transition planning guidance developed by the Glasgow Financial Alliance for Net Zero (GFANZ), and to be consistent with, and build on, the reporting standards developed by the ISSB."

Transition Plan Taskforce Disclosure Framework

The UK's TPT Disclosure Framework was published (alongside a range of other documents) on the 9 October 2023. The TPT Disclosure Framework outlines what it says are five key elements of a good practice transition plan.

Five key elements of a good practice transition plan

The TPT has drawn on the transition plan components proposed by GFANZ[6] in its guidance, to set out the five key 'elements' of a good practice transition plan.

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."

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."

Engagement Strategy: Where the "entity shall disclose how it is engaging with its value chain, industry peers, government, public sector, communities, and civil society to achieve its Strategic Ambition."

Metrics & Targets: The "entity shall disclose the metrics and targets that it is using to drive and monitor progress towards its Strategic Ambition."

Governance: The "entity shall disclose how it is embedding its transition plan within its governance structures, and organisational arrangements, to achieve the Strategic Ambition of its transition plan."

Sub-elements of the TPT Disclosure Framework

The TPT's Disclosure Framework further breaks these 'elements' down into 19 sub-elements, each of which is supported by a series of Disclosure Recommendations.

Where Recommendations are introduced using "shall", this indicates that the TPT views these as relevant disclosures for all good practice transition plans, subject to a materiality assessment (applying the same approach to materiality as set out in ISSB's IFRS S1).

Some sub-elements also contain examples of additional disclosures that an entity may consider, but which may not be relevant to all entities. These are introduced using "may" or "e.g.," and are not intended to be comprehensive. This means an entity may consider disclosing other information under these sub-elements.

The TPT regards it as good practice to also publish the transition plan in a single standalone document (published periodically) which sits alongside general purpose financial reports. The TPT also describes general limitations (e.g. overriding requirements or requiring the disclosure of commercially sensitive information).

For full details of the disclosure requirements, you can refer to the full TPT Disclosure Framework document at pages 22 – 37.

TPT publishes its final set of transition plan resources

On 9 April 2024, the TPT launched its final set of transition plan resources. The resources include:

- Sector-specific transition plan guidance for asset owners, asset managers, banks, electric utilities & power generators, food & beverage, metals & mining, and oil & gas.
- Sector summary guidance, with high level guidance for 30 sectors of the global economy.
- Guidance on how to undertake a transition planning cycle.
- A paper on the Opportunities and challenges relating to the use of private sector transition plans in emerging markets and developing economies.
- And independent advisory pieces from TPT Working Groups on Adaptation, Just Transition and SMEs, exploring how transition planning can extend beyond realising net-zero.

Considering the TPT Sector Guidance in more detail

The following section in this article looks at the TPT Asset Managers Sector Guidance in particular.

The TPT Asset Managers Sector Guidance (AM Guidance) adds further detail for preparers of transition plans that are operating in the asset management sector.

Part 1 of the AM Guidance introduces the sector context and how the AM Guidance should be used alongside the TPT Disclosure Framework and wider TPT Guidance that we covered earlier in this article.

Part 2 of the AM Guidance provides suggestions of disclosures and further guidance and resources for entities to consider.

What the AM Guidance states

The AM Guidance states a "primary responsibility for asset managers is to deliver risk-adjusted returns to their investment clients in line with the instructions they receive from the owners of the assets they manage, and duties imposed by financial regulators."

In exercising these duties, the AM Guidance goes on to say that asset managers need to "identify, assess, and manage a range of climate-related risks which present a significant and complex threat to their firms and the companies and assets in which they invest." The AM Guidance describes climate-related risks such as:

- Physical Risks arising from the changing climate;
- Transition Risks; and
- Systemic Risks.

The AM Guidance explains that the "transition will also present opportunities for asset managers and the companies and assets in which they invest (for example, asset managers may be able to strengthen the performance of their portfolio's by proactively investing in firms well positioned to benefit from the transition, including those which provide mitigation or adaptation solutions").

The AM Guidance also describes that asset managers should develop transition plans, setting out how they intend to manage climate-risk factors, whilst preserving and creating value for their clients.

The AM Guidance explains that asset manager transition plans "will include reducing financed emissions[7], working with asset owner clients on their climate objectives, facilitating increased investment in climate solutions or adaptation measures, engaging with investee companies, as well as engaging with policy makers to encourage more ambitious and effective climate policies."

Scope

The AM Guidance applies to asset managers, also described in the AM Guidance as Investment Managers. This includes both standalone asset management entities and asset management divisions of larger financial services groups.

The AM Guidance says that asset managers "should address their full range of operations and activities in their transition plans, including their investment and non-investment activities."

The AM Guidance only provides information on discrete areas in which the asset management sector is unique, such as the asset manager's investment activities, and not guidance on non-investment activities (i.e., operational activities) such as electricity, heating, and business travel.

What the AM Guidance specifies about asset classes

All relevant asset classes must be included in the Transition Plan, with distinctions made between asset classes where relevant. Whilst this is the case, the AM Guidance acknowledges data and / or methodology limitations and provides guidance in this scenario.

Applying the relevant TPT Sector Guidance to cross-sector activities

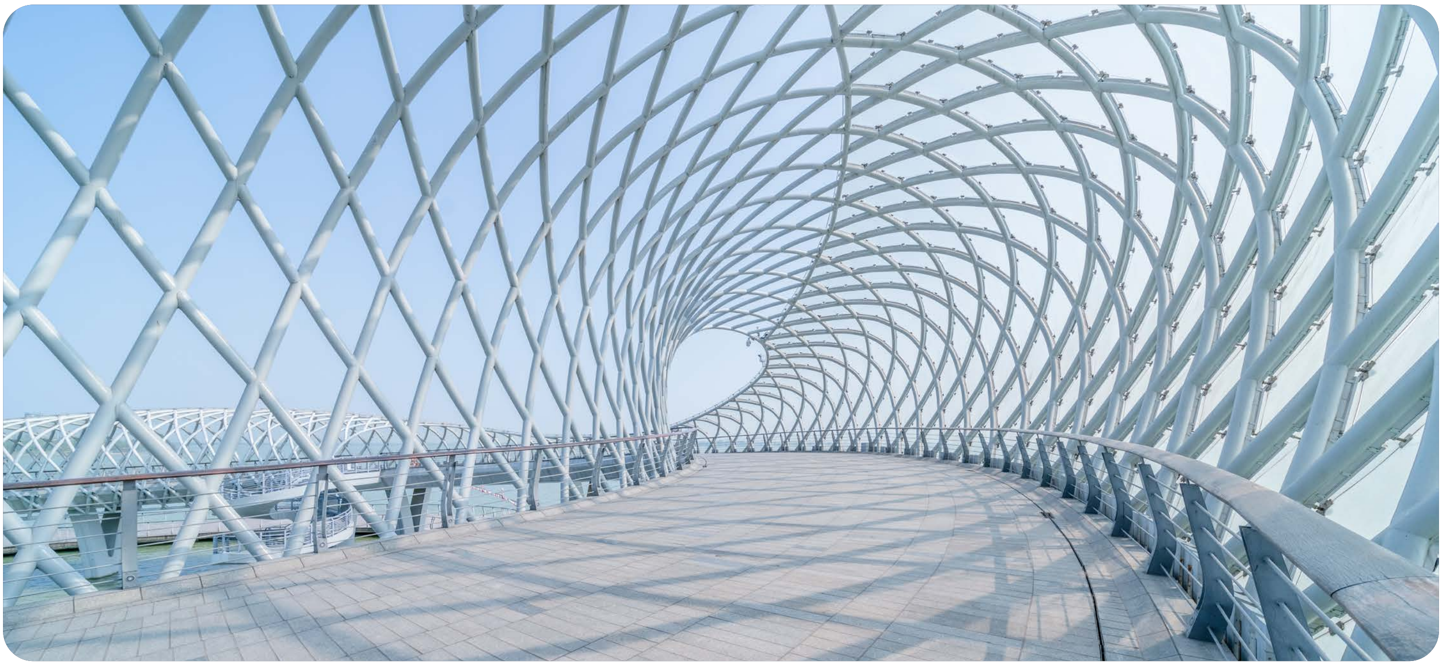
In instances where an entity has multiple operations, the AM Guidance explains that this may result in an entity using more

than one piece of sector guidance (e.g., the TPT recognises that Asset Owners may have in-house asset management functions so, in such cases both the AM Guidance and the Asset Owner Guidance should be referred to).

The AM Guidance references significant dependencies along the asset owner's and asset manager's value chain which are important to acknowledge and factor into transition plans.

It also clarifies that asset managers can embed and accelerate the transition to a low-GHG and climate-resilient economy, by the following actions:

- Engaging with asset owners about their investment philosophy and climate-related objectives;
- Developing suitable investment products;
- Incorporating climate-related considerations into the contractual governance and accountability mechanisms between asset owners and asset managers (e.g., via legal investment mandate agreements); and
- As part of a longer-term relationship, asset owners and asset managers also have an opportunity to collaborate on a range of topics to help embed and accelerate the transition. The AM Guidance outlines this could include, but is not limited to topics, such as:
  - Fiduciary duty (vis-à-vis the end client or beneficiary).
  - Investment mandates.
  - Investment strategies.
  - Stewardship and voting.
  - Fund products.
  - Index providers.
  - Data and methodologies.
  - Their providers, reporting, policy and regulation.



The AM Guidance goes on to recommend that a strategic and rounded approach to asset manager's transition plans considers three inter-related channels being:

1. Decarbonising the entity;
2. Responding to the entity's climate-related risks and opportunities; and
3. Contributing to an economy-wide transition.

The TPT Disclosure Framework recommends that an entity "shall disclose whether and how it has identified, assessed, and taken into account the impacts and dependencies of the transition plan on its stakeholders (e.g., its workforce, value chain, counterparts, customers), society (e.g., local communities), the economy and the natural environment, throughout its value chain, that may give rise to sustainability-related risks and opportunities."

The AM Guidance follows on by providing a lot more detail on the impacts and dependencies in the natural environment, for stakeholders, society, and the economy.

Section 2 of the AM Guidance provides interpretation of the TPT Disclosure Framework for the Asset Management Sector.

The following high-level headings are the specific AM Guidance headings, being a sub-set of the more general TPT headings:

- Strategic ambition.
- Business operations.
- Products and services.
- Policies and conditions.
- Engagement with value chain.
- Engagement with industry.
- Engagement with government, public sector, communities, and civil society.
- Governance, business and operational metrics and targets.
- Financial metrics and targets.
- GHG metrics and targets.
- Roles, responsibilities, and accountability.
- Incentives and remuneration.

Whilst these details are covered at pages 21-40 of the AM Guidance, what the AM Guidance makes clear is that the additional sector-specific guidance is not intended to be comprehensive, because an entity should disclose other information and consider other resources, where deemed appropriate.

1. See https://transitiontaskforce.net/disclosure-framework/
2. See https://transitiontaskforce.net/wp-content/uploads/2023/10/TPT_Disclosure-framework-2023.pdf
3. ibid
4. ibid
5. See https://www.fca.org.uk/news/news-stories/fca-welcomes-launch-transition-plan-taskforce-disclosure-framework.
6. See Page 21) https://transitiontaskforce.net/wp-content/uploads/2023/10/TPT_Disclosure-framework-2023.pdf
7. CDP, The Time to Green Finance, 2020: https://cdn.cdp.net/cdp-production/cms/reports/documents/000/005/741/original/CDP-Financial-Services-Disclosure-Report-2020.pdf?1619537981

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