

IRSG Response to DESNZ Transition Plan Requirements Consultation

The International Regulatory Strategy Group (IRSG) is a joint venture between TheCityUK and the City of London Corporation. Its remit is to provide a cross-sectoral voice to shape the development of a globally coherent regulatory framework that will facilitate open and competitive cross-border financial services. It is comprised of practitioners from the UK-based financial and related professional services industry who provide policy expertise and thought leadership across a broad range of regulatory issues.

Key points

- **Alignment with ISSB:** We support the ISSB framework as the appropriate baseline for UK transition plan requirements. The UK must align its domestic approach to transition plans with global standards wherever possible, to reduce fragmentation, facilitate investor understanding and ease compliance burdens for multinational firms.
- **Sequencing:** The government must consider the appropriate sequencing of transition plan requirements alongside other elements of the UK's sustainable finance framework. Companies should begin reporting under UK SRS S1 and S2 first. Future transition plan requirements should be layered on top through a "building blocks" approach.
- **Design options:**
 - **The majority of members support option 1**, as this approach most closely aligns with UK SRS S2 and offers the necessary flexibility for companies.
 - **A minority of members support a phased implementation of option 2**, as they believe it would be the best way to seize the opportunities of the transition while mitigating climate-related risks. Requiring transition plans would enhance market integrity and provide information on dependencies, helping to inform government policy and regulation.
- **Implementation.** We do not support mandating transition plan implementation. While we support transparency around intended actions and governance arrangements, mandatory reporting should be limited to what is financially material.
- **Temperature alignment.** The government should not mandate transition plans aligned with a 1.5°C pathway. While net zero by 2050 is an important target, mandating alignment with a temperature poses significant challenges. Companies should have the flexibility to choose their own transition pathways and targets.
- **Clear guidance on adaptation and nature.** We recognise the value of integrating climate adaptation and nature-related considerations into transition plans. However, there is a divergence of views across IRSG members on the integration of these considerations at present and clearer guidance from the government is needed.
- **Avoiding legal risks.** We have concerns regarding the legal implications of requiring transition plan implementation. The government must clarify the legal framework around transition plan disclosures to mitigate potential liabilities for companies and directors.
- **Scope.** Implementation of future transition plan requirements must take a phased approach, starting with larger listed companies and then financial institutions.
- **Parent vs entity-level reporting.** UK companies should be able to rely upon transition plans set by a parent company or other equivalent mechanisms, to prevent firms from

being required to prepare multiple versions of their transition plans to meet local requirements.

Consultation questions

A. The benefits and use cases of transition plans

Question 1. To what extent do you agree with the assessment of the benefits and use cases of transition planning set out in Section A? Are there any additional benefits or use cases for transition plans? Do you have any further insights and evidence on the purpose, benefits and use cases of increased and improved transition planning – including economy wide impacts?

Benefits of transition plans

We generally agree with the government's assessment of the benefits of transition planning. Transition plans provide a helpful tool for companies to assess and communicate how they will progress towards net zero targets. Transition plans can provide decision-useful information to enable investors to make informed and confident assessments of a company's risks, opportunities and long-term strategy in the context of the transition. A transition plan also provides a baseline against which a company's progress can be measured over time. It can help investors to assess where a company is relative to portfolio trajectories and the approach being taken to manage financially material risks.

Alongside the benefits set out in Section A, transition plans can also help the government identify where companies are facing barriers to decarbonising their activities – such as technical or commercial limitations – and develop policy measures and interventions accordingly. Transition planning can help create a “feedback loop” across the transition planning ecosystem (government, finance and the real economy) to inform the levers that need to be pulled, and by whom, to accelerate the transition.

Use cases of transition plans

We agree with the government's assessment of the use cases of transition planning. Transition plans enable a company to outline the steps and strategies that it is taking to reduce its greenhouse gas emissions and contribute to a low-carbon economy. They also enable a company to identify its exposure to climate risks and act accordingly.

Transition plans also enable companies to credibly demonstrate that they are progressing on net zero goals, for customers, reputation, investors or otherwise.

However, the use case for enabling transition finance requires a clearer definition of what constitutes transition finance. In particular, for sectors where transition finance is for the improvement of an asset (e.g. residential mortgages and commercial real estate).

Furthermore, we do not consider that transition plans will, in and of themselves, drive transition finance. For example, a company having a transition plan in place will not ensure that the company will be able to deliver on that plan. Commercially viable opportunities to invest in the

net zero transition in the real economy are needed. It is therefore essential that any measures to require companies to disclose transition plans are accompanied by clear sector-specific strategies, with credible policies to deliver those targets.

It is also important that the UK does not lose sight of the challenges faced by multinational companies navigating a complex landscape of requirements globally. The government must be cognisant of this international landscape and ensure that any final position provides the flexibility and interoperability required by firms to ensure that the UK is not put at a competitive disadvantage.

Question 3. For users of transition plans: How do you use transition plans? E.g. if you are an investor, do you use transition plans to inform your investment strategy (both in terms of how you identify opportunities where to invest, and how you identify, manage and assess risks to investment portfolios)?

For investors:

- Transition plans allow for better risk and opportunity identification and serve as an engagement tool with investee companies
- A transition plan provides a transparent view of a company's transition plan/progress, which facilitates investment into companies that financially support the transition (including brown to green)
- Having a credible transition plan in place may be necessary for a company to qualify as eligible for certain types of finance.

For lenders:

- Transition plans prepared by clients and investee companies inform their strategies and help them to manage their portfolios
- Transition plans provide much-needed data about the decarbonisation strategies of companies in the value chain
- Lenders use other entities' transition plans to understand and manage climate-related risks and opportunities within their value chain.

Question 4. Do you have any reflections on the additional costs and challenges of using transition plans? Please provide evidence where available to support your answer.

Although transition plans will provide an important tool for businesses and investors, it will take time for the necessary skills and knowledge to be embedded in organisations, particularly for SMEs. Therefore, it will be important for the government to take a phased approach and consider alternative methods to support businesses to decarbonise.

Data and disclosure quality vary greatly, in part due to geographical and sectoral variations in maturity and data availability. This makes it challenging for end-users to decipher a transition plan. Transition plans are also a highly qualitative and narrative-driven document. This makes it difficult to uncover the true risks and opportunities with necessary investment-grade information.

While transition plans follow a relatively consistent theme, they are not easily comparable. This is partly a consequence of disclosure guidelines for transition plans. Guidance on comparability and disclosure effectiveness (without greatly increasing disclosure burden) would be welcome.

Question 5. Do you have any reflections on how best to align transition plan requirements with other relevant jurisdictions?

As the UK develops its domestic approach to transition plans, it will be important to work with like-minded partners, international organisations and standard setters – in particular, the IFRS Foundation, which has now assumed responsibility for disclosure-specific materials developed by the UK's Transition Plan Taskforce (TPT) – to advocate for greater standardisation and global alignment in transition plan expectations and frameworks.

We encourage continued work towards international coherence and harmonisation of standards aligned to the ISSB and other reporting requirements. In particular, it will be important for the government to engage with the EU as it reviews transition plan disclosure requirements under the Corporate Sustainability Due Diligence Directive (CSDDD) and Corporate Sustainability Reporting Directive (CSRD) through the Omnibus simplification package.

Harmonisation across jurisdictions will be important to support global alignment and the development of standardised frameworks and data formats to enable greater comparability and consistency, which should lead to reduced costs. It can also improve transparency and accountability, as standardised frameworks and data formats make it easier to track progress, enable data-driven decisions and support the flow of investment into green and transition projects.

Given the likely endorsement and future implementation of UK SRS S2 into reporting requirements for UK companies, the government must focus on aligning any additional transition plan disclosure requirements with the ISSB. The UK must also engage with the International Transition Plan Network (ITPN), which represents an important step to foster collaboration across jurisdictions and the development of a standardised framework.

To avoid a scenario where multinational firms are faced with a myriad of different disclosure obligations, it will be essential that due consideration is given to the interoperability of the UK framework with other international frameworks. UK companies should be able to rely upon transition plans set by a parent company or other equivalent mechanisms, to prevent firms from being required to prepare multiple versions of their transition plans to meet local requirements.

It will also be important for transition plan requirements to be aligned with the local context, as corporate strategies and transition pathways will need to account for country-specific net zero pathways and targets. Therefore, while global alignment and standardisation are important, firms will require flexibility to account for the local context.

B. Implementation options

Question 6. What role would you like to see for the TPT's disclosure framework in any future obligations that the government might take forward? If you are a reporting entity, please explain whether you are applying the framework in full or in part, and why.

We strongly endorse the ISSB framework as the appropriate baseline for UK transition plan requirements. We support the alignment of the UK's domestic approach to transition plans with global standards wherever possible, to reduce fragmentation, facilitate investor understanding and ease compliance burdens for multinational firms.

The IRSG strongly supports the work of the TPT and recognises the TPT's disclosure framework as a "gold standard" for transition plans. The TPT has provided a good starting point for voluntary disclosure, providing a practical and credible framework for companies developing transition plans. Its emphasis on decision-useful information has helped build early momentum and consistency in market practice. However, given the nascent and evolving nature of transition planning, the majority of members consider the TPT disclosure framework to be too detailed for mandatory use in the UK at this stage. Companies should also be provided with flexibility to determine what climate goals are appropriate for their business model and what information is useful for users of their transition plan. Additionally, certain aspects of the TPT – such as financial planning and commercial sensitivity – may prove challenging if included within regulatory rules.

A feasible option could be to reference the TPT guidance as an example of voluntary best practice. This would ensure that any transition plan disclosure requirements provide sufficient flexibility, recognising that each company will need to tailor its corporate strategy according to a number of factors. For example, the TPT guidance states that banks should capture a full range of activities, including financed and facilitated emissions associated with a bank's trading and advisory activities. Members have raised concerns over mandating a bank to capture such activities within a transition plan, given its limited ability to influence the outcomes of what are volatile, customer demand-driven businesses. A balance must be struck between providing credibility and avoiding prescribing a company's global corporate strategy. It is important that companies have the flexibility to disclose information that is pertinent to their transition strategy in line with the ISSB.

Furthermore, any move towards mandating a transition plan disclosure framework must follow the standard policymaking process, including regulator consultations, to ensure broad industry input. This will ensure that future obligations are proportionate, practicable, and informed by real-world implementation experience.

Question 7. [Climate mitigation] To what extent do the requirements in the draft UK SRS S2 provide useful information regarding the contents of a transition plan and how an entity is preparing for the transition to net zero? If you believe the draft UK SRS S2 does not provide sufficient information, please explain what further information you would like to see.

The draft UK SRS S2 is a strong baseline for climate-related disclosures, offering a good range of information that supports transparency and comparability. We support the ISSB standards and the UK's process for adopting them.

However, some members have highlighted that the draft UK SRS S2 is predominantly backward-looking, whereas transition planning is inherently forward-looking. These members have also reported that a transition plan provides a clearer narrative and structure to what can be complex, underlying non-financial information, helping users better understand a firm's strategic direction and progress.

UK SRS S1 and S2 must be introduced before any future transition plan requirements. This is necessary to ensure that companies get started with reporting under UK SRS and have time to consider what is financially material. We therefore support a "building blocks" approach, whereby future transition plan requirements are layered on top of UK SRS S2. This approach should distinguish between base-level mandatory disclosures and more aspirational, voluntary elements. It would support consistency and comparability, while preserving flexibility for sectoral and organisational differences.

Alongside the requirements in the draft UK SRS S2, members have recommended that companies should have appropriate short-, mid- and long-term horizons for each risk identified in UK SRS S2. This information is crucial to assessing financial materiality.

Some members have highlighted several areas which are not sufficiently addressed within the draft UK SRS S2. Information on these areas could materially enhance the usefulness and completeness of transition plan disclosures.

- i. Nature and biodiversity dependencies: Greater emphasis on how a firm's climate goals may rely on natural systems, and the potential adverse impacts of transition actions on nature.
- ii. Social risks and opportunities: Considerations of the social dimensions of transition planning, including workforce impacts, community engagement and broader societal impacts.
- iii. Governance and culture: More detail on governance mechanisms, including the roll-out of training for the workforce, management and board, and the role of organisational culture in supporting transition delivery.
- iv. Value chain engagement: Disclosures on how firms engage with their supply chain, downstream customers, and other partners to support transition progress and address barriers.
- v. Sector-specific nuances: Recognition that transition planning will vary by sector. For example, industrial firms may need to disclose capital expenditure plans for asset decarbonisation, whereas financial institutions may require different metrics to reflect the nature of their transition.

Any future decision on whether the government should require mandatory or voluntary disclosure of the above areas should be determined through further industry consultation. Given the nascent

nature of the areas outlined above, we do not think it would be appropriate to require mandatory disclosure at this stage.

Question 8. [Climate adaptation and resilience] To what extent do the requirements in the draft UK SRS S2 provide useful information regarding the contents of a transition plan and how an entity is adapting and preparing for the transition to climate resilience? If you believe the draft UK SRS S2 does not provide sufficient information, please explain what further information you would like to see.

While UK SRS S2 already contains several references and recommendations relating to adaptation and resilience, some members consider that further enhancements in this area would be best addressed through future revisions to the TPT framework via the ISSB's usual consultation process, following the appropriate consultation process.

Many of the elements identified in our response to question 7 – such as nature dependencies and value chain engagement – are equally relevant to adaptation planning. Some members consider these elements to be underrepresented in UK SRS S2 and could be more comprehensively addressed through a revised TPT framework that reflects the evolving nature of adaptation methodologies and best practice. This approach would allow for a more holistic integration of adaptation into transition planning, while maintaining flexibility and proportionality for preparers.

Section B1. Developing and disclosing a transition plan

Question 9. What are the most important, decision-useful elements of a transition plan that the government could require development and/or disclosure of? Please explain why and provide supporting evidence.

We identify the following areas to be decision-useful elements of a transition plan:

- A clearly articulated strategic ambition and governance
- Climate-related metrics and targets, including short, medium and long-term targets and associated milestones
- Implementation strategy and levers, specific to the industry/company type (the 'how' to the targets)
- Supporting factors to implementation levers – governance, culture, incentives, skills, and capacity building (although considered 'softer' factors, these indicate alignment to and achievability of the net zero plan)
- Resource allocations
- Anticipated changes/challenges to a company's business model
- Disclosure of transition plans from the real economy (this provides insights into new commercial opportunities).

Question 10. Please state whether or not you support option 1, which would require entities to explain why they have not disclosed a transition plan or transition plan-related information. Please explain the advantages and disadvantages of this option.

The majority of members favour option 1 over option 2.

Advantages of option 1:

- Most closely aligns with the UK SRS S2 approach on transition plans, which requires disclosure of material climate transition-related information and about a company's transition plan, if it has one.
- Strikes the balance between elevating the importance and expectations of transition planning by requiring companies to explain non-disclosure, while avoiding the challenges associated with mandating transition plans (see question 11 for more detail).
- Offers the necessary flexibility for companies at this stage. In particular, given the uncertainty surrounding future transition plan requirements in the EU.

Disadvantages of option 1:

- Could undermine disclosure and reduce comparability. Reliable, consistent data is needed to enable meaningful assessment of transition risks and strategies and support the deployment of transition finance.
- Risks diminishing the importance of transition plans that have been voluntarily produced and published to date.

To enable future transition planning requirements to achieve the government's stated objectives, the government must implement an approach to transition planning that appropriately supports the disclosure of reliable and consistent data.

Some IRSG members encourage the government to consider a more robust framing of option 1, whereby a company would be required to disclose the transition plan-related information that it has or, if it does not have a transition plan in place, explain why this is the case. This requirement to "explain" should be accompanied by clear guidance to ensure meaningful and decision-useful disclosures. These members consider that clear guidance on what constitutes a valid "explain" response would help ensure consistency and credibility across disclosures. It would also enable market participants and regulators to understand why certain companies are not yet disclosing transition plans and the actions that may be needed to support progress in this area. The government could refer to the Financial Reporting Council (FRC) UK Corporate Governance Code 2024, which – following industry feedback via the 2023 consultation – provides updated guidance on "comply or explain" reporting to support companies in applying this principle and build clarity and confidence in using the "explain" option.¹

These members consider that this more robust version of option 1 would address the concerns outlined above and support greater transparency and comparability. However, any additional disclosure requirements would need to be layered on top of UK SRS S2 (consistent with the "building blocks" approach outlined in question 7) and be drafted so as not to diminish interoperability with global standards.

¹ FRC, January 2024, [UK Corporate Governance Code 2024](#)

However, other IRSG members strongly support option 1 as set out in the government's consultation and recommend that any requirement to explain why a company has not disclosed a transition plan or transition-plan related information should remain simple and proportionate, to maintain the flexibility and benefits of option 1. These members do not support the government introducing additional requirements or guidelines in relation to the requirement to "explain" as they consider a more prescriptive requirement could create administrative costs and additional legal risks, without providing decision-useful information.

Question 11. Please state whether or not you support option 2, which would require entities to develop a transition plan and disclose this. Please further specify whether and how frequently you think a standalone transition plan could be disclosed, in addition to transition plan-related disclosure as part of annual reporting. When responding, please explain the advantages and disadvantages of this option.

The majority of IRSG members do not support option 2. These members do not consider mandating the development and disclosure of a standalone transition plan to be appropriate at this stage. While these members support the principle of transition plan disclosures, mandating transition plans and mandatory targets is challenging in the current environment. In particular, for smaller firms or UK branches or subsidiaries of large global institutions with limited local capacity and for global firms navigating multiple regulatory regimes. Given these challenges, mandatory reporting of transition plan-related information should be limited to what is financially material.

Disadvantages of option 2:

- Mandating standalone transition plans risks being duplicative of future requirements under UK SRS S2, which requires a company to disclose transition-related information. The government must ensure that any transition plan requirements are consistent with the forthcoming UK SRS S1 and S2 to deliver an efficient and proportionate sustainable finance framework. Many companies are already disclosing relevant content under ISSB S2 and voluntarily producing and publishing transition plans. Option 2 risks being duplicative and could drive significant inefficiencies.
- It could result in transition planning becoming a tick-box exercise, rather than a useful strategic process. Mandating companies to disclose a transition plan could increase the amount of mandatory sustainability-related disclosures without meaningfully increasing the decision-useful information, above and beyond that disclosed under option 1.
- It could add unnecessary complexity. For example:
 - A temperature target is non-static (i.e. what is required to meet 1.5°C will change each year to reflect the erosion of the global carbon budget). This complicates the implementation of a transition plan and the ability to demonstrate progress annually. Should the government proceed with option 2, a net zero commitment would be more appropriate. It would drive similar action but would be less complex, more transparent and more aligned with current industry practice and the UK's net zero goals.
 - A blanket approach to scope 1 – 3 emissions risks further complication, increases a company's potential liability regarding matters outside of its control and reduces confidence in the accuracy of a transition plan. Scope 3 emissions have inherent

complexities in their measurement and apply to activities outside a company's control. Scope 1 emissions, and to a lesser extent scope 2 emissions, are more within a company's control.

- A mandatory transition plan requirement for a UK-based multinational with activities overseas would risk extraterritorial scope creep. Large multinational companies typically set sustainability-related strategies, targets and metrics at the group-level. Standalone entity-level strategies and targets may lead to unintended complications in how a multinational company operates.

A minority of members have expressed support for a phased implementation of option 2, as they believe it is essential for building a holistic picture of how the UK economy will decarbonise and the actions that need to be taken in support of the net zero transition. They argue that option 2 would provide investors, lenders, insurers and policymakers with valuable feedback on real economy decarbonisation and highlight which companies are strategically prepared for the transition. These members consider the development and disclosure of transition plans to be the most effective method to seize the opportunities of the transition and mitigate climate-related risks.

These members identify the following advantages of option 2:

- The momentum is there – the broader transition planning ecosystem is getting off the ground (e.g. with the ongoing work of the Net Zero Council to develop sector roadmaps) – and option 2 would enable the UK (as a leading centre for sustainable finance) to lead by example.
- Create a level playing field and fair competition for companies that have voluntarily prepared transition plans.
- It would protect and inform consumers.
- Improve market integrity by ensuring financial institutions strategically consider climate- and sustainability-related risks in their business and investment planning and communicate this to the market, supporting a better-informed price formation and risk assessment.
- Provide information on dependencies to help shape the government's policy and regulatory approach to the net zero transition and creation of the enabling environment.

These members support a phased approach that transitions from option 1 to option 2, starting with the largest listed companies and regulated firms, and a clear roadmap for implementation (as produced by HMT and the FCA for TCFD). This would ease the burden on smaller firms and provide time for the market to mature and companies to build the necessary skills and capacity.

Should the government decide to adopt option 2 in the future, we recommend that companies be afforded flexibility in how they disclose their transition plan information, including the option to publish them as standalone documents or to integrate them within existing reporting cycles. This flexibility would allow organisations to tailor disclosures to their operational and strategic contexts, while still meeting transparency expectations.

Any future implementation of transition plans would also need to inform the development of – and therefore be supported by – relevant real economy policy measures to address the policy-related dependencies outlined in corporate transition plans. The government must implement policy measures that shift economic incentives to support the UK’s climate and nature restoration ambitions and 2050 net zero target. These incentives would encourage companies to align their corporate strategies with national climate targets by improving the economic case for investing in the transition.

Question 12. If entities are required to disclose transition plan-related information, what (if any) are the opportunities to simplify or rationalise existing climate-related reporting requirements, including emissions reporting, particularly where this may introduce duplication of reporting? These responses will support the government’s review of the non-financial reporting framework.

We encourage the government to confirm that scope 3 category 15 emissions will be exempt from transition plan requirements, given the current data and methodological limitations. We believe such an exemption is necessary and would align with the ISSB’s proposed amendment in the April 2025 exposure draft. We also encourage the government to clarify that transition plan disclosures can be made at the group level, and not at the entity level. This would streamline and rationalise disclosure and reporting requirements.

B2. Mandating transition plan implementation

Question 15. To what extent do you support the government mandating transition plan implementation and why? When responding, please provide any views on the advantages and disadvantages of this approach.

We do not support the government mandating transition plan implementation. This would constitute an undue extension of governmental influence into corporate strategy. While we support transparency around intended actions and governance arrangements, the responsibility for executing transition plans should remain with boards and shareholders and mandatory reporting should be limited to what is financially material.

Mandating transition plan implementation could create legal risks and unintended consequences. Members have raised concerns around the legal implications of requiring implementation, in particular the risk of regulatory overreach, conflicts with fiduciary duties, and challenges for multinational firms subject to multiple jurisdictions. It may also result in companies shifting to shorter planning horizons (for example, only on future actions that are within 12 months) and publishing more high-level plans due to the level of strategic uncertainty regarding implementation. The government’s role should be limited to setting disclosure expectations for transition plans, not enforcing operational decisions for individual companies.

We encourage the government to closely monitor EU developments. The current direction of travel indicates that the EU is likely to remove the requirement under CSDDD for companies to implement their transition plans as part of the Omnibus package. For example, the EU Council

proposal includes a shift from requiring companies to “implement” transition plans to “adopt” them, significantly altering the level of commitment expected from companies. We do not think imposing additional burdens on UK companies (compared to EU counterparts) would support the UK government’s growth and competitiveness agenda.

Question 16. In the absence of a legal requirement for companies to implement a plan, to what extent would market mechanisms be effective mechanisms to ensure that companies are delivering upon their plan?

It is the role of the board to set a company’s strategy, including its strategy to transition to a lower carbon economy and associated short, medium and long-term targets. It is the role of shareholders to hold directors to account if they do not agree with the strategy that has been set or how the directors are fulfilling their duties in setting or implementing the strategy. In particular, their duties to promote the success of the company for the benefit of members as a whole and to act with reasonable care, skill and diligence.

Transition plans are highly likely to be revised over time, given their forward-looking nature and that they are based on certain assumptions and dependencies. Targets and the actions planned to achieve them may need to be revised. Therefore, it is not clear what “implementing” a transition plan means or how enforcement action could be taken in this context.

B3. Aligning transition plans to net zero by 2050

Question 17. What do you see as the potential benefits, costs and challenges of government mandating requirements for transition plans that align with net zero by 2050, including the setting of interim targets aligned with 1.5°C pathways? Where challenges are identified, what steps could government take to help mitigate these?

We support the overarching goal of achieving net zero by 2050, recognising its importance in driving long-term climate resilience and economic stability. Transition plans aligned to this ambition can play a valuable role in improving transparency and enabling capital allocation, supporting the decarbonisation of the real economy.

However, we strongly encourage the government not to introduce a requirement for transition plans that align with a 1.5°C pathway. In particular, due to the assumptions and uncertainties involved in temperature-aligned methodologies, as well as legal and enforcement challenges. Temperature-based metrics require dynamic updates over time. A 1.5°C pathway is a non-static target (i.e. what is required to meet 1.5°C will change each year to reflect the erosion of the global carbon budget). This complexity makes rigid alignment with a 1.5°C target problematic. While 1.5°C is an important target and may remain a reference point, mandating alignment with it is not practical or realistic.

Companies should have the flexibility to determine their own transition pathway and targets. However, the government could require companies to disclose why a specific pathway has been chosen and how it is aligned with, or differs from, the UK’s net zero target (as set out in the Climate

Change Act). This approach would be similar to the first option proposed in the consultation – introducing a requirement for entities to disclose how aligned their transition plan is with net zero by 2050 – and would demonstrate awareness of how a company's targets link to government policy and national climate targets.

It would not be appropriate for the government to introduce a requirement stronger than this, given the challenges set out earlier. However, the government could encourage more ambition by implementing relevant policy measures to shift financial incentives towards ambitious pathways in line with the Climate Change Act.

Question 18. Which standards and methodologies are effective and reliable for developing and monitoring climate-aligned targets and transition plans, in particular those that are aligned with net zero or 1.5°C pathways? Where possible, the government would welcome evidence from entities that have used such methodologies, explaining how they have arrived at that conclusion.

Individual companies need to be able to articulate their chosen route and its compatibility with the goals of the Paris Agreement – for example, the ISSB framework already offers optionality in terms of targets and models. There is currently no single standard to demonstrate climate alignment that has achieved broad adoption.

We do not support the government prescribing a single pathway or methodology for developing and monitoring climate-aligned targets and transition plans. This could stifle innovation, penalise legitimate variations across sectors and create barriers for companies operating in emerging markets or diverse geographies. It would also create challenges for companies with diverse portfolios, such as those operating within emerging markets and/or focused on transition finance. The government should provide companies with flexibility in terms of climate-aligned targets and pathways.

Principle-based frameworks are recognised to be the most effective, offering flexibility while maintaining minimum requirements that enable comparability. Any future mandatory requirements should follow this principle-led approach. This would allow firms to tailor alignment methodologies to their business models, jurisdictions and operational contexts. While whole-market standardisation is desirable, this is unlikely to be possible in the near term. A principle-based framework would be more effective in enabling credible and flexible transition planning.

Alongside financed emissions, several other approaches are emerging to demonstrate climate alignment, such as transition alignment, temperature alignment and energy supply ratios. However, these remain nascent and not widely used at present.

Question 20. For entities operating in multiple jurisdictions, what are your views on target setting and transition planning in global operations and supply chains?

The majority of members support group-level reporting on transition plans, and that a company should be permitted to reference or rely on global group-level transition plans, with appropriate

deference to the regulations and policies of the group's home-state regulator by host-state regulators. However, a minority of members support optionality, enabling disclosures at the group or entity level, depending on the company's structure and regulatory needs.

As outlined in response to question 5, international harmonisation and greater standardisation of transition plan frameworks would increase comparability and reduce reporting burdens for companies and investors operating across multiple jurisdictions. However, target setting and transition planning must also account for different national pathways. Therefore, multinational companies must retain flexibility, as local alignment will also need to be considered.

Furthermore, as outlined in question 11, there is a need for clarity regarding the territorial application of any proposals to avoid extraterritorial scope creep. Failure to adequately exclude overseas activities from a mandatory transition plan would erode the UK's position as a financial services hub and may incentivise companies to locate activities outside the UK.

B4. Climate adaptation and resilience

Question 21. What is your view on the role of climate adaptation in transition plans? Is there a role for government to ensure that companies make sufficient progress to adapt, through the use of transition plan requirements?

We recognise the value of integrating adaptation and resilience considerations in transition plans over the long term. However, adaptation measures must be proportionate to the nature of the business and the risks identified. Clear guidance from the government is needed on what adaptation means, and the types of measures that would be considered adequate for climate adaptation, before any requirements for including adaptation within transition plans are introduced.

The government must carefully consider and distinguish between the two types of disclosure of climate adaptation:

- In ISSB (and the draft UK SRS), companies must disclose physical climate risks to their business where these are material. Specifically, they must report the gross percentage of assets exposed to physical risks. Companies must also say how these exposures will be managed. We consider this to be the appropriate place for these disclosures at present.
- Climate adaptation in transition planning relates to ensuring that any decarbonisation or transition levers within a transition plan have resilience built into them. For example, if a company decides to invest in renewables (e.g. solar), this power generation must be resilient. This type of disclosure on climate adaptation is appropriate for inclusion within transition plans, but only as it relates to building resilience in the decarbonisation levers. The management of physical climate risks to the company as a whole is – at this time – better suited to be captured under IFRS S2 (UK SRS S2), as outlined above.

We do not think climate adaptation should be a mandatory transition plan requirement at this time. There are already mechanisms in place for higher-risk sectors/companies to disclose adaptation plans within the UK. Should the government decide to introduce climate adaptation

requirements, it must take a phased approach. This will ensure that companies have sufficient time to build capacity and start considering and addressing climate adaptation factors in their transition planning journey.

Some members have raised concerns over including adaptation measures in transition plans. In particular, they are concerned about the primary objectives behind transition plans becoming conflated with other objectives, such as climate adaptation. For these members, transition plans should remain focused on supporting the transition to net zero.

Question 22. How can companies be supported to undertake enhanced risk planning in line with a 2°C and 4°C global warming scenario? Are these the right scenarios? To what extent are these scenarios already being applied within company risk analysis and how helpful are they in supporting companies in their transition to climate resilience?

Climate scenario analysis is an important tool for identifying and managing climate-related risks. The 2°C and 4°C scenarios serve as practical reference points, representing both global policy goals and plausible high-risk pathways. Scenario analysis should be tailored to its specific purpose. Introducing a requirement for a fixed number or frequency of exercises would not be consistent with current macroeconomic stress testing practices and could diminish effectiveness.

We believe that the PRA CP10/25 sufficiently addresses the ongoing development of climate risk capability for PRA-regulated firms. The government should reference the requirements of CP10/25 and the outcomes of risk management analysis in any future transition planning framework, rather than introducing additional elements. Many financial services firms have built significant internal capacity to assess and manage their climate-related risks, including supporting board level discussions to set risk appetite. We expect these practices to increase under the future PRA regime.

The government could also support companies by maintaining high-quality reference scenarios and improving access to relevant data. This would help ensure that scenario analysis remains decision-useful, proportionate and aligned with the evolving needs of firms across the sector.

B5. Nature alignment

Question 23. To what extent do you think that nature should be considered in the government's transition plan policy? What do you see as the potential advantages and disadvantages? Do you have any views on the potential steps outlined in this section to facilitate organisations transitioning to become nature positive?

We recognise the value of incorporating nature-related considerations into transition planning, provided that expectations are proportionate and reflect the nascent and evolving state of methodologies and data. Nature and biodiversity are increasingly material to long-term climate resilience, and we recognise the importance of integrating these interdependencies over time. However, as with climate adaptation, further guidance from the government on nature in the

context of the climate transition is needed before introducing any requirements to include nature in transition plans.

Any future requirement must be phased and iterative, given the complexity of measuring nature impacts – particularly at the organisational level – and the evolving nature of reporting frameworks (e.g. ongoing work by the ISSB on a biodiversity, ecosystems and ecosystem services standard) and emerging guidance (e.g. TNFD draft guidance on nature transition plans). We support the government encouraging firms to get started with nature-related reporting, while allowing time to build the relevant skills and capacity.

There is uncertainty around best practice for businesses in managing nature-related risks and opportunities. A clear policy signal from the government could help address this issue, particularly by supporting companies to understand the interdependencies between nature and climate transition planning.

A possible starting point for integrating nature into transition planning could be through the role of nature-based solutions (NbS) in climate mitigation and adaptation. NbS build climate resilience and help communities adapt to the impacts of climate change by using natural ecosystems to provide climate benefits, such as flood control, erosion protection and temperature regulation. Developing credible approaches for incorporating NbS into transition plans will be essential for building trust and driving investment into these solutions.

The government must also work with industry to build greater capacity to understand and address nature-related risks and opportunities. This can be achieved through targeted training programmes, knowledge-sharing initiatives, the development of sector-specific guidance and data infrastructure. These efforts would improve market understanding and support the effective integration of nature into transition planning.

However, some members have raised concerns that the government may be attempting to progress too many areas simultaneously, and the inclusion of nature in transition planning risks diluting focus and effectiveness. These members recommend that transition plans remain focused on climate mitigation and that nature-related considerations be revisited at a later date.

B6. Scope

Question 24. Do you have any views on the factors the government should consider when determining the scope of any future transition plan requirements?

The majority of IRSG members support a phased approach, starting with larger listed companies and then financial institutions, given their greater resources and maturity in sustainability reporting. The sequencing of future transition plan requirements must account for the dependency of the financial sector on corporate disclosure. Therefore, it will be important to ensure that large companies report first and then, a year later, financial institutions, given their reliance on information disclosed by clients.

Any proposed transition plan requirements should apply to both listed and private companies on a proportionate basis across the UK, and we would support proposals to extend the scope to “economically significant companies”, in line with the proposed scope of the UK SRS.

For transition plans to have the intended effect of providing information for investment purposes, and to avoid the prospect of financing for high-emitting sectors being channelled elsewhere within the financial sector, transition plan requirements also need to apply to private companies. This will avoid distortions to the capital allocation process and maintain a competitive level playing field across the UK.

At the same time, we support excluding SMEs from mandatory requirements. A modular approach – with simplified expectations for smaller firms and more detailed obligations for larger entities – would promote broad participation while avoiding undue burden on businesses with limited capacity.

The government must consider the appropriate sequencing for any transition plan requirements alongside other elements of the UK’s sustainable finance framework and communicate this sufficiently in advance of requirements coming into force. In particular, UK SRS will need to be in place before any requirements on transition plans are introduced. A phased approach would allow time for UK SRS to be embedded within firms and would best reflect the varying levels of readiness and capacity across different sectors and firm sizes.

Furthermore, in line with determining the approach to defining the scope of UK SRS requirements, the government should consider the ultimate users of information disclosed in a transition plan. Users of financial information are predominantly focused on group-level reporting conducted at the parent company level. Subsidiaries should be allowed to rely on transition plans prepared by the parent company. To avoid unnecessary complexity and reporting burdens at the subsidiary level. The government should clarify that a legal entity may choose not to have a transition plan where one is in place at the parent company level.

B7. Legal risk

Question 27. Do you have views on the legal implications for entities in relation to any of the implementation options and considerations as set out in sections B1-B4 in this consultation?

We are concerned about the legal implications of requiring transition plan implementation (for the reasons set out in response to question 15), particularly the risk of regulatory overreach, conflicts with fiduciary duty and challenges for international firms subject to multiple jurisdictions and potentially conflicting laws and regulations. We are also concerned about the risk of creating legal liabilities through overly rigid expectations around 1.5°C-alignment, as outlined previously.

The ClientEarth legal opinion on climate-related transition plan disclosures provides a helpful analysis of the potential liabilities of companies and directors under the law of England & Wales.² Considering the Client Earth legal opinion, we recommend that the government clarify that the existing s.463 safe harbour regime explicitly covers transition plan disclosures. This may go some way to mitigate concerns over potential liabilities of directors in relation to transition plan disclosures, however any safe harbour provisions would need to be supported by broader mitigants (including appropriate disclosures of dependencies and assumptions, use of disclaimers etc), and safe harbours should not be viewed as a single solution to introducing a more stringent regime.

Members have highlighted a number of further considerations that the government should consider in the context of the legal implications of transition plan requirements. These include:

- Companies need to be able to balance the need for disclosure with any competition or confidentiality concerns arising, in the same way as they do today under financial reporting.
- Multinational companies are subject to many legal regimes and need to balance their legal risks in the global context. Legal risks can arise directly but also indirectly.
- Companies could face increasing litigation risk, including responding to vexatious claims, if required to produce mandatory transition plans without a clear liability regime in place.
- In the absence of a clear legal framework, there is a risk that firms may reduce the level of ambition contained within a transition plan and instead seek to mitigate any legal or reputational risks arising, particularly as they balance these risks on a global basis.

Question 28. Do you have views on the legal implications for entities in relation to any of the implementation options and considerations as set out in sections B1-B4 in this consultation?

See response to question 27.

C. Related policy and frameworks

C2. Voluntary carbon and nature markets

Question 29. What role could high integrity carbon credits play in transition plans? Would further guidance from government on the appropriate use of credits and how to identify or purchase high quality credits be helpful, if so, what could that look like?

Environmental markets (including carbon credits) are economic tools that internalise the costs and benefits associated with environmental externalities by incorporating them into economic decision-making. Transition plan requirements must be aligned with the government's principles for voluntary carbon and nature market integrity.

² ClientEarth, June 2025, [Opinion on the potential liability for climate-related transition plan disclosures](#)

The government has an important role to play in providing a clear signal on how carbon credits can be used by a company in its climate strategy and transition pathway. This signalling could be complemented by sector-specific scenarios and worked examples to provide further clarity to the market and confidence to investors. This would support greater investment in climate and nature projects, greater participation from a wider range of organisations and faster growth of the market. This position is set out in further detail in TheCityUK's response to the DESNZ consultation on voluntary carbon and nature markets.³

C3. International landscape

Question 30. Are there specific elements of transition plan requirements or broader policy and regulatory approaches from other jurisdictions that the government should consider?

As outlined in response to question 15, we encourage the government to closely monitor developments in the EU on transition plans as part of the Omnibus package. The government must ensure the approach that the UK takes is proportionate and does not impose additional burdens on UK companies (compared to their EU peers). The need for interoperability and convergence with requirements under the EU is a priority for our industry. In this regard, mapping equivalences, aligning terminology and recognising disclosures under equivalent foreign regimes are essential.

Question 31. How can transition planning contribute to achieving the UK's domestic net zero targets while ensuring it supports sustainable investment in emerging markets and developing economies (EMDEs), where transition pathways may be more gradual or less clearly defined?

The government could consider more detailed guidance and considerations on the just and inclusive transition. For example, integrating climate finance and investment strategies that support decarbonisation in EMDEs to bridge the financing gap.

Transition planning could also contribute towards technological development, capacity building and engagement (corporate, industry, policy and regulatory) to support the transition within EMDEs. Transition planning frameworks could be adapted to provide greater flexibility for developing markets and better accommodate local context.

³ TheCityUK, July 2025, [TheCityUK response to consultation on voluntary carbon and nature markets](#)
