



## **DESNZ Consultation on Climate-related transition plan requirements**

City of London Law Society  
**17 September 2025**

## **City of London Law Society Company Law Committee**

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#### **A. Introduction**

The views set out in this paper have been prepared by a Joint Working Party of the Company Law and the Planning and Environmental Law Committees of the City of London Law Society (**CLLS**)

The CLLS represents approximately 17,000 City lawyers through individual and corporate membership, including some of the largest international law firms in the world. These law firms advise a variety of clients from multinational companies and financial institutions to Government departments, often in relation to complex, multijurisdictional legal issues. The CLLS responds to a variety of consultations on issues of importance to its members through its 19 specialist committees.

The Joint Working Party is made up of senior and specialist lawyers from the CLLS who have a particular focus on issues relating to corporate law and environmental and planning law.

The Joint Working Party thought it would be helpful to set out its overarching comments, before then providing responses in relation to your specific questions. These are set out below.

#### **B. Overarching comments**

CLLS supports the government's ambition to develop transition plan requirements so that investors and banks in particular can access decision-useful information on companies' plans regarding their transition to net zero.

Although there are a number of practical challenges associated with developing transition plans including concerns about the cost of producing them, these should be considered in the context of the opportunity cost where companies do not develop transition plans. The costs of adaptation where there have been few or inadequate plans to mitigate corporate GHG emissions are likely to significantly exceed the costs likely to be involved in developing and updating a transition plan.

With that as the context, the practical challenges that introducing transition plan requirements may involve are flagged in this response in order to improve the efficacy of the requirements that the Government decides to introduce.

A broad area for concern, and one that is often overlooked, is the quality of existing data on GHG emissions, which some consider remains inadequate to support capital allocation decisions owing to the use of estimates. If requirements to produce transition plans are to result in information that is useful to investors and banks, a focus is needed on improving data quality.

Another key issue that CLLS wishes to highlight is the need to build cross-party consensus for transition plan requirements. Transition plans are by their nature strategic plans that will stretch across the timeframe of multiple Governments. In investing the time and budget necessary for their development, businesses would benefit greatly from an understanding that the requirements would not change with every election between their introduction and 2050.

#### **C. Responses to questions in the CP**

##### **Section A: The benefits and use cases of transition plans**

- 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?**

The CLLS agrees with the analysis set out in Section A of the Consultation Paper that transition planning will deliver multiple benefits including:

- Supporting preparers' to make greenhouse gas (GHG) emissions reductions, manage climate-related risks and identify and capitalise on climate-related opportunities.
- Supporting preparers' engagement with stakeholders including investors, shareholders, regulators and the wider community including NGOs.
- If introduced in a proportionate manner and with appropriate regard to materiality assessments and interoperability with parallel transition plan regimes, increasing the competitiveness of UK companies by ensuring they are leaders in a smooth and successful global transition to net zero.
- Improving credit and investment decisions by financial entities such as pension funds by helping them integrate financially material risks and opportunities into their decision-making processes.
- Reduce barriers to accessing transition finance and reducing investor uncertainty about long-term decarbonisation trends in hard-to-abate sectors.
- Supporting economic growth by attracting investment into green and transition sectors thereby accelerating the transition and supporting development of green jobs.
- Supporting the UK's development as a global centre for sustainable finance.
- Helping prudential regulators understand systemic risks associated with climate change.
- Safeguarding capital assets by promoting consideration of climate adaptation and resilience by preparers as well as ensuring business continuity and economic resilience.
- Informing policy-making by providing insights into how national targets under the Climate Change Act 2008 and commitments under the Paris Agreement and the UK NDC can be met by company-level GHG reductions.

In addition to these benefits, we add that the increasing deployment of transition plans will help companies better assess the climate impacts of their supply chains allowing them to improve the management of those emissions. Publication of transition plans by suppliers will both improve the mitigation of GHG emissions in supplier companies but also provide their customers with the information they need to manage their Scope 3 emissions. The CLLS also agrees with the use cases set out in the Consultation (i.e. decarbonising the preparing entity, management of climate-related risks and opportunities, contributing to an economy-wide transition, supporting the deployment of transition finance and improving corporate transparency as regards efforts to tackle the climate and nature crises).

In addition to these use cases and in line with the bullet above regarding understanding systemic risk which is acknowledged at page 40 of the Consultation, we note that the Network for Greening the Financial System (NGFS) 2024 Transition Plan Package and 2023 Stocktake<sup>1</sup> both discuss the support that transition plans can provide to micro-

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<sup>1</sup> [Stocktake on Financial Institutions' Transition Plans and their Relevance to Micro-prudential Authorities | Network for Greening the Financial System](#)

prudential regulators. In particular, the Stocktake suggests the possibility of aggregating the analysis from individual financial institution (FI) transition plans to:

- provide regulators and governments with a systemic view of the assumptions being made by FIs across the financial system; and
- track FIs progress in facilitating transition finance.

**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.**

For transition plan preparers the challenges include:

- The complexity of producing another type of sustainability report and ensuring that their transition plan complements rather than duplicates existing sustainability reporting. This complexity may be compounded by the format and content of existing sustainability reports particularly where preparers face varying requirements across the jurisdictions in which they operate.
- The need to bring together a large cross-functional team from across the entire organisation to develop the transition plan. Convincing a variety of teams across an organisation of the need to consider climate risks and then to report on how the organisation will transition requires a significant cultural shift across the organisation and takes time to socialise. We anticipate that for organisations who have not been reporting climate-related financial disclosures under a TCFD or related regime, it could take up to a couple of years to put together all the elements of a transition plan as recommended in the TPT Disclosure Framework.
- The need for capacity building. Many preparers will not have the range of skills necessary to complete the components of a transition plan (e.g. GHG inventory, stakeholder engagement, climate-scenario analysis, compiling marginal abatement cost curves etc). To acquire the relevant skills may take time and may need training budgets allocated. In the alternative, external consultancy support may be required.
- A transition plan represents a significant investment in terms of staff time and budget. While costs will vary depending on the size and complexity of the preparer, we are aware of external consultancy costs to support the development of the transition plan (i.e. relevant workstreams including baseline setting, benchmarking, target setting and road mapping) that start at £200,000 per workstream.
- Obtaining consensus on the risks involved in the publication of forward-looking as opposed to historical information. This may require advice on the legal effect of forward-looking statements and how to avail of the safe harbours that exist for these types of statements to protect directors and companies against liability.
- Obtaining accurate data on GHG emissions, climate-related physical and transition risks and climate-related metrics and their supporting KPIs remains a significant and systemic problem. Many organisations are still getting to grips with evaluating their GHG inventory and conducting climate scenario analysis so publishing this information together with the other elements of a TP represents a cultural shift that requires time to socialise.

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

Recognition of transition plans complying with the requirements in equivalent jurisdictions

A key issue to consider as regards interoperability, and that would minimise the obligations faced by preparers, is the ability to produce a single transition plan that will be compliant across multiple jurisdictions. The Government could develop a concept of a transition plan that is acceptable for reporting in the UK because it was developed using a jurisdiction's standards that have been assessed as "equivalent" to those of the UK. This could be allowed, for example, for a UK subsidiary of a company headquartered in another jurisdiction and that is in the scope for preparing a transition plan. This would be akin to the concept of "equivalence" that is used for accounting standards, where accounts produced using standards of other jurisdictions that meet certain criteria are considered to meet the objectives of the standards required in the UK and are therefore deemed acceptable.

For example, companies that are in-scope of any transition plan obligation under the Corporate Sustainability Due Diligence Directive (CSDDD) and the UK transition plan regime will want to be able to produce a single transition plan that will satisfy both EU and UK requirements. We note that the IFRS and EFRAG have produced guidance<sup>2</sup> on the interoperability of the original ESRS and S1 and S2 disclosures. However, recognition under the UK regime of the equivalence of transition plans that comply with the ESRS, or at least guidance on any additional disclosures that may be needed to ensure that an ESRS-compliant transition plan also covers the UK's requirements, would be more helpful.

#### Adopting similar requirements for transition plans to those of the EU

It is not clear precisely what changes will be made to the existing requirements under the CSDDD to adopt and put into effect a climate transition plan with the aim of ensuring that the company's business model and strategy are compatible with the transition to a sustainable economy, the Paris Agreement 1.5°C goal and the EU's climate neutrality goal including intermediate and 2050 targets.

EFRAG's July 2025 exposure draft of ESRS E1<sup>3</sup> on climate change, which sets out the information required in relation to transition plans in E1-1, still requires a statement on whether the GHG emission reduction targets are science-based and compatible with limiting global warming to 1.5°C. However, it now seems likely that the revised CSDDD will exclude the majority of companies from scope, and (even if the transition plan requirements remain in the final text) the CSDDD will not impose transition plan requirements widely across the corporate sector so that only very large companies will be caught.

Similarly, the EU does not currently impose transition plan requirements on regulated asset owners or asset managers, and there are questions that should be considered regarding the competitiveness of the UK financial sector if the UK required UK-regulated firms to do so.

The CLLS notes that there is potentially a fragmented picture developing across Europe with Spain having taken steps this year in Royal Decree 214/2025<sup>4</sup> and its recently published Climate Emergency Plan to require large companies and public sector entities to publish a plan concerning greenhouse gas emissions reductions.

In this context, the Government will need to give careful thought to whether the UK should adopt different requirements, balancing the need for climate ambition with the benefits of keeping step with other jurisdictions to reduce reporting burdens.

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<sup>2</sup> [esrs-issb-standards-interoperability-guidance.pdf](#).

<sup>3</sup> [Amended ESRS Exposure Draft July 2025 ESRS E1 | EFRAG](#).

<sup>4</sup> [BOE-A-2025-7439 Royal Decree 214/2025, of 18 March, which creates the register of carbon footprint, compensation and carbon dioxide absorption projects and which establishes the obligation to calculate the carbon footprint and to prepare and publish plans to reduce greenhouse gas emissions.](#)

We would therefore caution against finalising any requirements for UK companies and financial institutions until the review of the CSDDD is complete and to calibrate obligations for regulated financial institutions carefully, in light of the EU and other jurisdictions' requirements.

#### Use of IFRS guidance

In setting UK requirements to develop and publish transition plans, the Government should consider the extent to which it can adopt the IFRS June 2025 Guidance on Transition Plans<sup>5</sup> as this builds on the TPT's materials and was designed to address "*the fragmentation of disclosures about transition plans—which is costly for both preparers of information and investors*"<sup>6</sup>.

The Government could also assess the draft guidance<sup>7</sup> on Transition Planning that the Australian Government is currently consulting on. This is structured to align with the TPT Disclosure Framework and build on the S2 climate-related disclosures and would help the Government gauge the degree of variation from the TPT and ISSB standards that other jurisdictions have adopted.

### **Section B: Implementation options**

**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.**

The TPT disclosure framework was developed with a view to establishing the 'gold standard' for transition plan disclosure requirements. It acknowledges that while certain elements of the framework may present initial compliance challenges for companies', disclosures are expected to evolve and improve over time.

For listed companies, the TPT disclosure framework could perhaps be incorporated into the listing rules in a similar manner to how the TCFD recommendations and recommended disclosures have been incorporated into the listing rules (see UKLR 6.6.6R(8)). This approach would require companies to include a compliance statement within their annual financial reports, indicating whether they have provided transition plan disclosures aligned with the TPT disclosure framework, and if not, explaining the reasons for any departure. Additionally, the FCA could offer guidance on which TPT disclosures it 'normally expects' companies to provide, beginning with a limited scope at first and broadening over time (see UKLR 6.6.11G).

Alternatively, voluntary adoption of the framework could be encouraged for an initial 'transitional' period, to be accompanied by a timeline for mandatory compliance – which could follow after UK SRS reporting/on a similar timeline to the EU's CSDDD transition plan requirements. For non-listed companies (in particular those without TCFD or CFD reporting experience), it might be more appropriate for the TPT disclosure framework to remain voluntary, as an example of good practice.

**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.**

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<sup>5</sup> [IFRS - IFRS Foundation publishes guidance on disclosures about transition plans.](#)

<sup>6</sup> Sue Lloyd, International Sustainability Standards Board (ISSB) Vice-Chair.

<sup>7</sup> [Climate-related transition planning guidance - Consult hub.](#)

Draft UK SRS S2, which builds upon the TCFD disclosure requirements, provides a strong foundation for climate-related financial disclosures. Provided the information meets the materiality threshold, UK SRS S2 requires companies to report on their transition plans, if they have one, including details on current and anticipated direct and indirect mitigation and adaptation activities, as well as strategies for achieving climate-related targets (see paragraph 14(a)).

The IFRS Foundation has recently released further guidance regarding the information entities should disclose in connection with their transition plans. The guidance "*aims to help preparers determine what information is relevant to disclose regarding their strategy and goals related to their climate-related transition*" and "*builds on the TPT material, tailoring aspects to ensure global applicability.*" The IFRS Foundation "*encourages jurisdictions adopting or otherwise using ISSB Standards to utilise this guidance document to support the provision of high-quality, comparable information about transition plans and other aspects of entities' climate-related transition.*"

One option would be for the FCA to integrate this guidance into the listing rules. This is not without precedent, as it has done so previously with the incorporation of TCFD guidance on metrics, targets, and transition plans into the listing rules (see UKLR 6.6.10G). However, a single consolidated set of guidance may be preferable, as it remains unclear how the IFRS guidance and the TPT disclosure framework fit together. Operating under a consolidated guidance document could additionally promote consistency across jurisdictions.

- 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 IFRS S2 does not provide sufficient information, please explain what further information you would like to see.**

As noted in response to Q7, UK SRS S2 requires companies to disclose certain material information relating to their current and anticipated direct and indirect mitigation and adaptation efforts (paragraph 14(a)) as well as certain material information about their climate resilience, by employing climate-related scenario analysis to assess its climate resilience (paragraph 22). In our view, this would provide users with sufficient information at this time, and that analysis of reporting against UK SRS S2 should be undertaken to identify any areas where additional information is required.

### **Section B1: Developing and disclosing a transition plan**

**Given the links between the above options and any requirements under UK SRS, we will account for your answers to questions 7 and 8 in considering your responses to the following questions.**

- 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.**

Broadly, we believe the TPT disclosure framework (which builds on the TCFD and GFANZ frameworks for transition plans) effectively highlights some of the fundamental and decision-useful elements of a transition plan. However, as noted by the TPT and referenced in our response to Q6, some disclosures may be particularly difficult for companies and require additional preparation time. Applying a 'comply or explain' approach to the TPT framework would provide companies with the necessary flexibility to begin with disclosures they are currently able to make, while progressively improving the quality and comprehensiveness of their reporting over time.

**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.**

UK SRS S2 requires companies to disclose material transition plan-related information (e.g. any GHG emissions reduction targets that the company has set) and information about its climate transition plan, if it has one. Option 1 would introduce an additional requirement for companies to explain why they have not disclosed a transition plan or transition plan-related information. This would include setting out the reasons why: (i) it does not have a transition plan/has not set any targets; and/or (ii) it has a transition plan/has set targets but has decided that information about them is not material and therefore does not need to be disclosed). It is currently unclear whether Option 1 is intended to prompt disclosures of the type set out in (i) or (ii) or both, and so this should be clarified.

Companies that have voluntarily published a transition plan (and are already reporting relevant information under CSRD/ESRS E1 and are likely to be required to have a plan under CSDDD) may favour Option 2. They may view Option 1's 'comply or explain' approach as a temporary measure before transitioning to the mandatory regime in Option 2. However, companies who have not voluntarily published a transition plan and are not likely to be in scope of EU requirements, are more likely to favour Option 1. Option 1 would provide such companies with greater flexibility to decide on an approach that is tailored to their circumstances/level of preparedness and more time to prepare should mandatory requirements be introduced in future.

Some members of the working group are of the view that Option 1 is preferable as a permanent position (at least for some entities) because it requires companies and financial institutions for whom climate is not a material issue – or who have actively decided not to address it through a transition plan – to explain that clearly to their investors and other stakeholders. That (in combination with other SRS disclosures) will enable those investors and stakeholders to see very transparently what the entity is doing, and what it is not doing, in relation to climate and to take action accordingly. That action could be, for example, active engagement with the company to encourage it to change its approach, or even divestment. On the other hand, forcing reluctant entities – including financial institutions who are directly competing with those in the US, EU and elsewhere, and seeking clients from those regions – to publish a plan, especially if it has to be one that is Paris / 1.5°-aligned (see below), could adversely affect UK competitiveness, and probably lead to plans that are not credible and/or likely to result in real, long term change. There is a view, therefore, that it is preferable to ask companies to explain why they are not preparing for the transition or playing their part in decarbonisation of the global economy, rather than requiring them to prepare a plan that they are not genuinely committed to. That would be more transparent and, arguably, more helpful for investors and other stakeholders. If suitable guidance accompanies the "explain" obligation, that would also help policymakers to understand the barriers to greater adoption of transition plans and real-world action on decarbonisation.

Even if the government decides to adopt Option 2 for some companies after a few years – for example, large listed companies – it might consider Option 1 as the best outcome for other in-scope entities, including asset managers– indefinitely (see further below).

**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 should 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.**

We note that there are an increasing number of UK companies that have produced, or are in the process of producing, a transition plan. Similarly, UK companies that have a significant presence in the EU may have developed a transition plan in anticipation of the



requirements to do so under the CSDDD (which may change as a result of the first EU Omnibus Package). Some clients with a US presence have expressed the view that it is helpful to be subject to a mandatory requirement to produce a transition plan as this makes it easier to justify the production of such a plan in the context of anti-ESG requirements they may be subject to in certain US states.

The CLLS considers that Options 1 (comply or explain) and 2 (mandatory TP development and disclosure) are not necessarily mutually exclusive. As mentioned above, it would be possible to combine both approaches where, for example, Option 2 applied to larger companies or those in specific sectors (perhaps after a few years of disclosing on a comply or explain basis) and Option 1 could apply (at least for a phase-in period) to smaller companies or sectors where developing a transition plan might be particularly difficult or burdensome (for example where there was limited or no sector guidance on transition planning or sector transition pathways, or the dependencies and barriers were too great).

This differentiated approach has the benefit of flexibility. However, the CLLS notes that applying an approach which differentiates based on sectors, rather than listing or company size, could be challenging for Government to identify which sectors should be included in the mandatory requirements, and for companies to then determine with certainty which sector they fall into (there will inevitably be some areas of overlap, or grey areas). This sector approach may also negatively impact competitiveness of UK companies if the UK approach does not align with other jurisdictions (for example the EU, where the approach has not been sector-specific).

The recommendation in the TPT Disclosure Framework for revising a transition plan at least every 3 years or when significant changes are made to the plan strikes a reasonable balance between providing current information on the transition plans of the preparer (which will change as technology, costs and risk and opportunities evolve) and not overburdening preparers with producing a revised transition plan every year.

**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.**

UK companies are subject to a variety of climate-related reporting requirements including energy usage and GHG emissions under the Streamlined Energy and Carbon Reporting (SECR) regime and climate-related financial disclosures under either the UK Listing Rules (UKLR) or the climate-related financial disclosures (CFD) regime or both. Certain sectors are also required to report emissions through the UK ETS, or under environmental permits.

The forthcoming adoption of IFRS S1 and S2 as UK sustainability reporting standards (UK SRS) will introduce significant duplication if the disclosure requirements that mandate their use are in addition to rather than replacing the existing requirements.

The CLLS suggests that SECR and the CFD regime are consolidated into one set of climate disclosures under the new UK SRS. Note it may also be sensible to consolidate the disclosures relating to environmental matters, employees, social matters, human rights, anti-corruption and anti-bribery that are required to be disclosed by certain companies in the non-financial and sustainability information statement (NFSI statement) and/or the overlapping disclosure requirements for quoted companies in the strategic report as this information is likely to duplicate some of the information that will be required to be disclosed under IFRS S1.

**Section B2: Mandating transition plan implementation**

**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 government-mandated transition plan implementation. We believe this would inappropriately extend state control into corporate strategy. While we are in support of transparency and appropriate disclosures (per UK SRS S2), boards and shareholders should retain ultimate responsibility for the execution of transition plans. We also believe that the existing legal/regulatory framework relating to corporate disclosures (consisting primarily of claims for breach of directors' duties and civil liability for false or misleading statements or omissions) strikes the right balance in relation to the implementation of forward-looking transition plans which companies have disclosed. Broadly, the existing regime provides protection from liability for companies/boards who act honestly in setting targets and disclosing the actions they plan to take to try to achieve them (e.g. by use of the 'dishonesty' liability standard in s.90A FSMA and s.463 CA 2006 and the requirement for directors to be 'knowingly concerned' in a breach of the listing rules (e.g. UKLR 1.3.3R) in order to be liable). Accordingly, the existing liability regime encourages more meaningful disclosure that is useful to users of the information. Introducing a new/different liability standard and the risk of enforcement action for failure to implement a transition plan may discourage the setting of ambitious targets and related actions, with the resulting negative knock-on consequences hindering the UK's progress towards net zero.

Additionally, we question the practicality of this approach, because of the difficulty in defining what a 'breach' of an implementation obligation might look like. Transition plans are inherently uncertain, relying on a series of assumptions and external factors beyond a company's or board's control or influence, so a failure to achieve targets may not in itself constitute a breach. The TPT disclosure framework addresses this by requiring disclosure of key assumptions and external factors. If these assumptions or external factors change, then the targets (and the actions the company was planning to take to try to achieve those targets) will have to be revised accordingly and companies should not be at risk of enforcement action in such circumstances. Unforeseen circumstances, such as geopolitical events or changes in shareholder priorities, may also require companies to adjust their targets or planned actions and in such cases enforcement action does not seem appropriate.

Finally, it seems unlikely that the EU will mandate transition plan implementation/require companies to put their transition plans into effect (as originally required by Article 22 of CSDDD). We encourage the Government to take this into account, as stated in the consultation paper: *"The government acknowledges the need to keep UK public markets internationally competitive and is aware of recent developments internationally on transition planning, notably within the European Union. The recent EU Omnibus package proposes simplifying sustainability reporting requirements for large companies and financial institutions and includes proposals that aim to streamline the EU's transition plan implementation and disclosure requirements. The government will consider how this could impact the competitiveness of the UK's sustainable finance regime when considering any future transition planning requirements."* (page 40)

**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?**

As outlined above, we believe that the existing legal/regulatory framework, in particular directors' statutory duties and liability for false and misleading statements is sufficient in this regard. See also the ClientEarth legal opinion<sup>8</sup> on liability for transition plan disclosures, which examines the basis for such liability in greater detail.

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<sup>8</sup> [Opinion on the potential liability for climate-related transition plan disclosures | ClientEarth.](#)

It is likely that NGOs and civil society will scrutinise published transition plans, which may provide an additional aspect of accountability.

### **Section B3: Aligning transition plans to net zero by 2050**

#### **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?**

In summary, we see significant benefits in requiring entities to disclose how aligned their transition plans are with Net Zero by 2050 and to set interim targets aligned with 1.5°C pathways (corresponding to Option 1 in the CLLS consultation paper). A substantial number of members of the CLLS would also support requirements to develop and disclose plans, aligned with Net Zero by 2050 and with interim targets aligned with 1.5°C pathways (corresponding to Option 2). This would need to be accompanied by appropriate safeguards, which we have explored in more detail below. We do not support a requirement to implement a transition plan aligned with these pathways (corresponding to Option 3).

Policy levers which encourage progress towards Net Zero by 2050 will be essential for meeting the UK's legally binding targets under s1 of the Climate Change Act 2008. In respect of the similar target of aligning with 1.5°C pathways, the recent International Court of Justice Advisory Opinion<sup>9</sup> on the obligations of states in respect of climate change confirmed that limiting global warming to 1.5°C has *"become the scientifically based consensus target under the Paris Agreement."* Indeed, as further set out in the judgment, Nationally Determined Contributions must be informed by the outcome of global stocktakes, the first of which clarified that *"limiting global warming to 1.5°C [...] requires [...] reaching net zero carbon dioxide emissions by 2050."*

Alignment with 1.5°C and Net Zero by 2050 has been reflected in the guidance and standards set by authoritative international bodies and standard setters such as the TPT, CDP, GFANZ, SBTi, EFRAG, ICMA, and others. However, there is a concern that some entities may be constrained by investors, clients, stakeholders or (UK and non-UK) government policy and may find it difficult to produce a credible plan that aligns with those goals.

Additional challenges may arise depending on the option for the mandate adopted by the Government. We support Option 1 identified in the Government's consultation in relation to Question 17, which mandates disclosure of how aligned a transition plan is with net zero by 2050 and how aligned interim targets are with 1.5°C pathways. This could be done on a 'comply or explain' basis and be phased-in. This approach would avoid introducing substantive legal risks for companies that may not be in a position to align their activities with net zero by 2050 and 1.5°C pathways at this stage and would be more aligned with the direction of travel in the EU as shown by its recent Omnibus proposals. In such cases, it would be most helpful for stakeholders and policymakers for a company that is not currently able to achieve a 1.5° aligned plan to be required to disclose the barriers and dependencies which make such a plan unrealistic or uneconomic. Flushing out that disclosure will assist policymakers, in particular, to identify and address the barriers to the achievement of the UK's policy goals. That could be done by using Option 1 and seeking extensive disclosure but might be more effective if companies had the option to publish a plan, but could explain that the plan was not 1.5° aligned and explain why not.

A substantial number of CLLS members would also support the introduction of Option 2, or a hybrid of Options 1 and 2. Mandating development and disclosure, particularly if on a

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<sup>9</sup> [Obligations of States in respect of Climate Change](#).

phased-in basis and starting with a comply-or-explain requirement similar to the introduction of TCFD reporting requirements, would strike an effective balance between requiring businesses to disclose against ambitious and credible transition pathways (Net Zero by 2050/1.5°C pathway) and mitigating some of the additional challenges (see further detail below) associated with transition plan disclosures. This would, if implemented with appropriate safeguards, (a) help create more robust and credible disclosures, aligned with the scientific and policy consensus, (b) provide stakeholders with more clarity on long term value creation, (c) assist financial institutions and stakeholders in making financing decisions, particularly in light of the UK's aims to become a green financing hub as articulated in the Transition Finance Market Review, (d) mitigate some of the greenwashing risks that may arise where disclosures are not aligned with scientific consensus pathways and (e) create a policy framework that further advances the UK's own legally binding net zero targets.

This approach would need to recognise the additional risk and cost associated with making disclosures and setting targets that may be aspirational for some companies. However, this risk could be mitigated through an initial grace period on enforcement, extensions of the safe harbour, comprehensive and up to date guidance from Government on sectoral transition pathways and targeted guidance for companies that are less advanced in their transition journey. There would need to be a recognition that the aim of this requirement is to encourage companies to 'get going' on developing transition plans and substantively engaging with their longer-term risks, not to penalise those that are in hard-to-abate sectors or introduce a competitive disadvantage for UK companies.

As the first major economy to create a legally binding target to bring greenhouse gas emissions to Net Zero by 2050, and with a successful history of implementing TCFD reporting, UK businesses are likely to be better placed than those in comparable jurisdictions to develop the capabilities to disclose transition plans aligned with Net Zero by 2050 and 1.5°C pathways. However, that may not be true for all businesses and financial institutions, especially those that operate internationally.

We consider that Option 3, or any mandatory requirements for implementing a transition plan aligned with the Net Zero by 2050 and 1.5°C pathway trajectories, would be challenging for businesses to comply with, even if the implementation requirement was limited to "best efforts" or "reasonable efforts." This is because we consider the challenges around certainty, enforcement, and practicability may outweigh the potential benefits of a more stringent regime (see further detail below). On the other hand, companies which are required to publicly develop and disclose transition plans will, in practice, already face soft pressure from their stakeholders to ensure they implement their commitments.

The specific challenges in relation to Net Zero by 2050 alignment/1.5°C pathways would depend on the option the Government chooses to implement. That said, there are common challenges for any kind of mandate, which may be mitigated through the choice of option and additional support from the Government:

1. As identified in the consultation, a key challenge will be defining the standard against which an individual company's alignment with Net Zero by 2050 and a 1.5°C pathway can be assessed. There is no international consensus on the specific actions individual companies need to take to meet a 1.5°C pathway, and on a sector-level, even standard-setting bodies such as the SBTi and PCAF have yet to provide sector-specific guidance for all sectors, leaving significant uncertainty in translating what Net Zero by 2050 and a 1.5°C pathway requires for individual sectors, much less companies. The Government could help to bridge this gap and create an enabling environment by encouraging the development of authoritative and science-based guidance for all sectors to assist in evaluating their transition plans against Net Zero by 2050/1.5°C pathways. Such guidance should build on existing frameworks in order to capitalise on the work already done by businesses with regard to e.g., TCFD disclosures or SBTi target setting. As was done with TCFD reporting, the

Government could provide sector-specific guidance, identify which other institutions/standard setters preparers can use for support, and conduct thematic reviews of early reporting to assist preparers in identifying and applying good practice. This issue would be compounded under Option 3, which would introduce a risk of companies being considered non-compliant in implementing action when there is still considerable uncertainty around sectoral transition pathways.

2. A material challenge to any alignment mandate is addressing the slowing pace of the global transition. If, as is expected, the global pace of the transition continues to fall behind what is necessary for a 1.5°C target pathway, businesses which are dependent on the global transition to meet their own targets would need to regularly update and reframe their targets and actions to account for the globally diminishing carbon budget – this is an issue which many of our corporate clients with ambitious net zero targets are already having to contend with. The Government should issue clear guidance to businesses as to how they can account for this delayed transition, which could be coupled with a safe harbour relating to missing targets owing to dependencies outside of a company's control. This could be done by outlining the factors that are likely to be within a company's control and those that are likely to be outside a company's control in every sector. Without such guidance, businesses would face challenges where they are expected to take actions based on models and standards that do not reflect the global state of the transition.
3. Related to point 2, most standards and methodologies are reliant on technological and policy progress. These assumptions and dependencies are crucial for breaking down what actions a business can be expected to take now, given the long-term and forward-looking nature of their transition. As these assumptions and dependencies come under strain, further uncertainty would arise as to whether the mandated expectations on businesses will be updated to reflect relevant developments, or whether businesses would be expected to bridge the relevant gap. This would create further uncertainty and potentially lead to inconsistent outcomes between different sectors and businesses. This emphasises the need for comprehensive, sectoral guidance on alignment. The challenges in points 2 and 3 are also more readily mitigated by Options 1 and 2, as a disclosure-based approach is an incremental development from current climate reporting requirements, and companies are already accustomed to identifying the assumptions and dependencies in their climate reporting.
4. A mandate in relation to Net Zero by 2050 and 1.5°C pathway alignment may come into conflict with competing legal considerations and obligations. These would include existing contractual obligations (e.g., to customers and suppliers), regulatory obligations (e.g., in relation to the environment, health and safety, product compliance), directors' duties, fiduciary duties, company constitutions, existing or potential third-party litigation, competition obligations, employment law considerations, and property rights. Government guidance on alignment would need to address this issue for companies. We would not consider this to be a material concern for a disclosure-based approach, as per Options 1 and 2, but would see significant challenges in the adoption of Option 3. Mandated implementation of Net Zero by 2050 alignment would take away some of the flexibility that companies may require in order to effectively manage competing legal requirements and obligations.
5. We would also expect significant challenges to arise in relation to enforcement. This would especially be the case where the Government opts to pursue an option, such as Option 3, that goes beyond reporting in relation to the transition plan and mandates implementation of a 1.5°C aligned pathway. Given the lack of international or national standards, there would be considerable uncertainty around how implementation, or a breach of a requirement to implement, may be assessed. In addition, as outlined above, alignment with a 1.5°C pathway requires businesses to rely on uncertain scenario analysis, third parties, and external factors. This is

especially the case for financial institutions, which may not have full discretion to control or influence their financed emissions, for example. It is unclear how these external factors would be accounted for in any enforcement action.

The complexities described in points (1) to (5) above would be likely to increase the burden for preparers, and potentially increase the costs of preparing such disclosures.

Although we agree that there are strong policy reasons for the UK to introduce mandatory disclosure of transition plans aligned with Net Zero by 2050 and the setting of interim targets aligned with 1.5°C pathways, this could also create significant challenges for many of the entities that are envisaged to be in scope. We support Option 1, and a number of members support Option 2, as an appropriate mechanism to do this, with a phased approach which places higher expectations placed on entities which have already had to publish disclosures under TCFD for a number of years, and a clear path to transparency for others. All entities, especially any that are required to publish plans under Option 2, should be permitted to explain why their plan is not aligned with a 1.5° pathway and to outline the barriers that prevent their plan from meeting that target. In any case, for the reasons set out above, we think there are significant challenges in mandating the implementation of transition plans, and would not recommend the government chooses this option.

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

We have focused our response on the reporting requirements for target setting and transition planning for entities operating in multiple jurisdictions.

The way in which a multinational business chooses to report will depend on their individual group structure, the financial reporting frameworks to which they are subject and the way in which they gather and consolidate data within their group. Given the number of variables, there should be flexibility in how groups set targets and prepare transition plans on a global basis. However, given the tendency for multinational businesses to report at a group-level, companies should be allowed to reference or rely on global, group-level transition plans, with necessary flexibility to accommodate home-state regulatory requirements. This is particularly given the fact that transition plans are likely to only be formulated and applied as a group-level strategy, which means that any entity- or jurisdiction-level transition plan requirements may result in irrelevant or unnecessary disclosure burdens. We also encourage the Government to respect consolidation boundaries and not to require, for example, companies that are exempt from preparing consolidated accounts to prepare a transition plan that covers the full (unconsolidated) group.

To facilitate this flexibility, the most important aspect will be harmonisation with other international frameworks, to reduce the data and reporting burdens on companies and allow for interoperability between jurisdictions. Both the ISSB and CSDDD require certain disclosures of transition planning. Therefore, when setting similar disclosure requirements in the UK, the government should look to align with these existing frameworks. We strongly advise against deviation from these regimes as it will create a barrier to compliance and add significant burden to companies. Harmonisation will allow for quicker uptake as companies are already familiar with these frameworks and have taken steps to begin reporting under them. Additionally, it will increase the credibility of a UK regime, demonstrating that it is intended to fit into the global reporting environment and foster international businesses in the UK.

**Section B4: Climate adaptation and resilience alignment**

**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?**

In light of the increasingly severe weather events and increasing average global temperatures the world is experiencing, the CLLS considers that there is a need for adaptation planning by companies and that it is sensible for both elements of the climate transition (ie. mitigation and adaptation) to be covered in transition plans. Where material, information about the resiliency of a company, its strategy and business model as well as its plans to adapt to the changes that are already being experienced will be decision-useful information for investors, insurers, business partners, customers and regulators as well as useful for development of government policy.

However, as the Consultation acknowledges, the guidance and policy on adaptation and resilience is less developed than that relating to mitigation so it may be appropriate to phase-in any adaptation requirements the Government is minded to introduce for companies or sectors that have less experience in assessing resilience and planning for adaptation.

We note that entities reporting under the UK Listing Rules or the CFD regime, may already have a few years' experience of undertaking climate scenario analysis (CSA) and considering the resilience of their strategy and business model in light of the CSA so requiring similar disclosures in a Transition Plan for these groups should not be an additional burden.

Transitional relief or a longer phase-in could be used to reduce burdens on entities that are not currently required to make resiliency disclosures under the UKLR or CFD regime. The TCFD guidance on climate scenario analysis<sup>10</sup> will be helpful for entities in this category. It is noted that support is also available from the professional services sector in the UK, which has developed expertise in conducting CSAs since the TCFD recommendations were adopted.

## **Section B5: Nature alignment**

### **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 consider that the government should certainly encourage 'nature positivity' as a matter of policy, particularly against the backdrop of the targets which the UK has agreed to in the Kunming-Montreal Global Biodiversity Framework (on an international level), and the government has enshrined in law in the Environment Act 2021 (on a domestic level). However, it is important to note that the concept of a 'transition plan' in a nature context is distinct from the 'transition plan' being consulted on in this proposal, which relates to the transition towards net zero. While the issue of nature is very intertwined with that of climate change, the role of nature in the context of a transition towards net zero is slightly narrower than the role of nature within policymaking in the context of a nature-positive transition, defined by the Taskforce for Nature-Related Financial Disclosures as a plan or strategy to *"respond and contribute to the transition implied by the Global Biodiversity Framework where biodiversity loss is halted and reversed by 2030 to put nature on a path to recovery by 2050."*

Given that this consultation concerns the net zero transition, we consider that the government's policy in this area should be oriented towards facilitating an understanding (both on the part of corporates as well as their stakeholders) of the key role of nature in the net zero transition, and the interdependencies between nature and climate change. Nature-based solutions (and minimising impacts on nature) are undoubtedly key to addressing

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<sup>10</sup> [The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities - TCFD Knowledge Hub](#).



climate change – there are countless examples of this, many of which have been captured in a study from Natural England published in 2021<sup>11</sup> on the impact that different UK habitats can have on carbon storage and sequestration. Failing to adequately address impacts on nature can also exacerbate climate change. A recent study from the University of Cambridge showed that wildfires on carbon-rich peatlands were both disastrous for biodiversity, as well as disproportionately contributing to 90% of annual fire-driven carbon emissions in the UK when viewed through the lens of climate change. However, there is a general dearth of understanding of the importance and role of nature in climate change, not least because nature-related risks and dependencies are far more specific from company to company, but also because changes in climate which arise from changes in nature are more difficult to quantify and assess than carbon emissions.

As the consultation notes, many UK companies are already beginning to assess and address their nature and climate-related risks and opportunities in an integrated way. However, as noted above, corporate understanding of nature-related issues is still in its relative infancy in most sectors, apart from those which have a direct nexus with nature (such as agriculture). Therefore, any policies encouraging nature-related risk management and disclosures should be phased and iterative, in order to allow sufficient time for capacity-building in this area.

The government should support this trend by creating an environment where more UK companies are able to assess and address the nexus between their impacts and dependencies on nature, and climate change. We therefore:

- Support the government's proposal to solve nature-related data gaps, or provide guidance for organisations, because an assessment of risks and dependencies will have to be rooted in data. This should also contribute towards capacity-building in the market to enable a future prioritisation on nature-positivity. That being said, this has to be balanced against the potential to burden companies with disclosure requirements relating to immaterial datapoints, which will negatively impact them.
- Support the government's proposal to encourage the development of market-led 'nature positive' sectoral pathways for high-nature impact sectors (such as water, agriculture and the built environment), which should both serve to encourage a greater understanding of the specific nexus between nature and the relevant sectors, but also provide a long-term framework which will allow companies interested in addressing their nature-related risks and opportunities to appropriately direct their resources.

Insofar as net zero transition plans are concerned, we would suggest that an attempt to integrate nature-focussed disclosure frameworks such as the TNFD's, or nature transition plans into net zero transition runs the risk of overreaching the matter of net zero transition planning into nature positivity. In certain sectors such as agriculture and forestry, the nexus between climate change and nature might be very large, but in other sectors such as the tech and professional services industry, this nexus may be far smaller.

We therefore suggest that while nature should certainly be part of any net-zero transition plan, nature transition disclosure frameworks and nature transition plans should generally be kept separate from it. However, we expect that an initial focus on assessing nature from a climate perspective should naturally lead to a greater understanding of a company's dependencies and impacts on nature more generally. This should then contribute towards a growing institutional knowledge base and capacity relating to nature which, coupled with future developments in the government's nature-positive policy, should interact with climate transition planning in a virtuous cycle.

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<sup>11</sup> [Carbon Storage and Sequestration by Habitat 2021 - NERR094](#).



## **Section B6: Scope**

### **25. We are interested in views about the impact on supply chains of large entities that may be in scope of transition plan requirements. Do you have views on how the Government could ensure any future requirements have a proportionate impact on these smaller companies within the supply chain?**

For many businesses the credibility and success of their own transition plan and delivery of their climate targets will be contingent to some degree on their suppliers' actions to reduce their GHG emissions and transition plans. This dependency can lead to a 'trickle down' effect where companies require their suppliers to set climate targets that align with their own and to produce transition plans, which will allow them to assess their suppliers' progress towards the targets.

Noting the substantial trickle down effects under the Corporate Sustainability Reporting Directive (CSRD) and the CSDDD, in its first Omnibus Package<sup>12</sup> the EU Commission has proposed limits on the amount of information that can be requested by in-scope entities from companies in their value chain that are SMEs.

To take a similar approach in relation to mandatory transition plan requirements in the UK, the Government could develop a shorter version of the TPT Disclosure Framework for SMEs that would form the upper limit of the information that companies in-scope of the mandatory transition plan requirements could request of suppliers who are SMEs. We are aware that Bankers for Net Zero have already undertaken work with the TPT before it was disbanded on proportionate sustainability reporting and transition planning activities for SMEs. In particular, the resulting April 2024 advisory paper<sup>13</sup> recommended that the Government should work with lenders and investors to develop standardised transition plan disclosure requests from the Government, investors and lenders. Building on this work, would allow the Government to adopt the suggestion above based on an approach already developed with input from the SME business community.

### **26. Do you have any views on how the Government could redefine the scope to protect the competitiveness of the UK's public markets?**

The Consultation Paper acknowledges the tension between ensuring that investors (including Pension funds) can access decision-useful information on a company's decarbonisation plans and progress, while not overburdening listed entities with excessive reporting requirements.

The CLLS considers that in striking this balance in relation to transition plan requirements, issues to take into account include:

- UK reporting requirements should remain broadly aligned with the level of reporting required in other key jurisdictions. IFRS S2 has been widely accepted by over 36 jurisdictions as an appropriate global baseline so aligning with the transition plan requirements in S2 and the associated guidance<sup>14</sup> will be an important way to remain in-step with other jurisdictions and to ensure that UK requirements are proportionate. The Government should monitor the ongoing uptake<sup>15</sup> of IFRS S2 and the guidance to be able to assess that alignment. However, it is noted that some jurisdictions, notably the US, are taking a very different approach in relation to climate disclosures. The CLLS is not advocating that the Government abandons the

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<sup>12</sup><sup>12</sup> [Commission simplifies rules on sustainability and EU investments.](#)

<sup>13</sup> [Considerations-on-SMEs-and-Transition-Plans-Transition-Plan-Taskforce-and-Bankers-for-Net-Zero.pdf.](#)

<sup>14</sup> [IFRS - IFRS Foundation publishes guidance on disclosures about transition plans.](#)

<sup>15</sup> [IFRS - Use of IFRS Sustainability Disclosure Standards by jurisdiction.](#)

UK's ambition in terms of climate disclosures given the need for the UK to meet its targets under the Climate Act 2008 and its commitments under the Paris Agreement, but this – and the EU's experience – does reinforce the need to adopt proportionate rules that are generally supported by business and are not imposed without adequate time for entities to prepare.

- The use of tools to smooth reporting burdens including, a phased-in approach perhaps starting initially with a 'comply or explain' requirement to transition plans and moving to mandatory reporting.
- Agreeing with the relevant regulators that they use a similar approach to that taken in respect of the introduction of the CFD regime when more leeway was given to reporting entities in the first couple of years to allow them to familiarise themselves with the new requirements. Also, capacity building was supported by thematic reviews of the disclosures to help identify best practice (see for example, the FRC, CRR Thematic review of TCFD disclosures and climate in the financial statements<sup>16</sup>)
- Allowing (as is the case for certain aspects of the CFD disclosures) entities to explain that they do not have a transition plan because climate is not material for them.

## **Section B7: Legal risk**

### **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?**

There is a risk that requiring transition plan implementation would lead to regulatory overreach, conflicts with fiduciary duties and challenges for international firms subject to multiple jurisdictions and potentially conflicting laws and regulations. As set out in our response to question 17, there are also concerns about the risks of overly rigid expectations around 1.5°C-alignment.

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. In light of the ClientEarth legal opinion, express confirmation that the existing s.463 safe harbour regime applies to transition plan disclosures (even if they are not included in the directors' report or the strategic report) would provide comfort to companies and clarity in relation to potential liability.

The ClientEarth legal opinion also discusses the helpful role that disclaimers and exclusionary statements might play in excluding or minimising a company's liability with respect to its transition plan. This could be especially relevant with respect to forward-looking statements, or statements made with limited confidence about expectations or targets (which are likely to be highly reliant on factors outside the company's control). We recommend that the government recognise and clarify the appropriate role of disclaimers and exclusionary statements within transition plans, either in future regulation or as part of accompanying guidance.

Additional considerations for the government include:

- the need for companies to balance disclosure with antitrust or confidentiality concerns that may arise;

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<sup>16</sup> [FRC TCFD disclosures and climate in the financial statements July 2022](#).

- the requirement for multinational companies to balance the multiple regulatory regimes to which they are subject, mitigating both direct and indirect risks;
- the evolving nature of the litigation landscape and the risk of novel claims if there is not a clear liability regime in place; and
- the usefulness of disclosures made by companies without a clear legal framework, as the priority may be in mitigating risk of liability rather than clear disclosures.

**28. In the UK's wider legal framework what – if any - changes would be necessary to support entities disclosing transition plans and forward-looking information?**

See response to question 27.

**Section C: Related policy and frameworks**

**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?**

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 to net zero. Providing sector-specific scenarios and worked examples would help clarify expectations, boost investor confidence, and encourage broader participation and faster growth of the market as a whole.

**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 above, the government should consider alignment with the EU's CSRD/ESRS and CSDDD, consider broader international harmonisation, and provide exemptions for subsidiaries of UK and non-UK parent companies that publish group-level transition plans.

***For further information, please contact:***

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