Institute and Faculty of Actuaries

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IFOA RESPONSE TO DESNZ CLIMATE-RELATED TRANSITION PLAN REQUIREMENTS

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 34,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers. Actuaries are big-picture thinkers who use mathematical and risk analysis, behavioural insight and business acumen to draw insight from complexity. Our rigorous approach and expertise help the organisations, communities and governments we work with to make better-informed decisions. In an increasingly uncertain world, it allows them to act in a way that makes sense of the present and plans for the future.

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the DESNZ consultation seeking views on implementation routes for transition plan requirements. This response is prepared by the IFoA Sustainability, Pensions and Finance & Investment Boards. It is written in the public interest.

- There are advantages and disadvantages to both comply-or-explain and mandatory approaches to Transition Plan disclosures.
- We do not support mandatory Transition Plan implementation.
- We believe that Transition Plans should not include portfolio decarbonisation metrics.
- UK transition plans should align to CCC carbon budgets and not global temperature targets.

Actuaries have a crucial role to play in promoting the understanding and integration of climate risks and opportunities within decision-making, and in making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. By evaluating systemic sustainability impacts on the financial systems, actuaries are involved in assessing how sustainability topics and the transition to net zero may impact on our assessment of future liabilities and the adequacy of returns to meet these future liabilities.

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Q. 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?

Transition Plans should serve as the implementation roadmap for trustees to deliver on the strategy outlined in their TCFD reports. They must be action-oriented and forward-looking, focusing on real-world impact rather than theoretical metrics.

Transition plans are relevant to asset owners in understanding whether their companies are addressing the material risks they can.

93% of institutional investors think corporates could decarbonise further. Transition plans are useful to institutional investors in assessing companies and engaging with them to challenge their thinking and help them develop further. 44% of institutional investors have already raised at least one issue about a company's credible transition plan[1].

Q. 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)

An investment company is likely to look at SBTi commitment / approval, but only for net-zero and sustainable client portfolios.

For ESG integration, this might be material in the sectors where the transition matters: e.g. energy, materials, chemicals, agriculture etc. Even here, it is only to understand whether the companies are cornering technologies or moving faster than governments are requiring them to, and therefore potentially making themselves more or less uncompetitive vs global peers. The time horizons of investment are generally too short to make the 2030s relevant.

In the finance sectors, transition plans are relevant to understanding whether the companies are attractive to customers in different markets rather than whether they are taking material unrewarded risks. The one exception is potentially fossil fuel financing.

Q. 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.

While the UK SRS S2 provides a sufficient framework for transition plans (covering adaptation, risk mitigation, and planning for risks), the TPT framework is a useful guide on best practice. Its recommendations are helpful for companies that want to go into greater detail on implementation and engagement, thinking beyond the entity level, and on metrics and scenarios.

Q. 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

[1] Lloyds Credible Transition Plans: Reporting vs Real

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 provides a useful foundation for disclosing material information on climate-related risks, opportunities, and strategic responses. It requires those entities that have a transition plan to disclose information about the plan, and key assumptions and dependencies.

Further information that would be useful includes detail on risk and transition strategies, methodology and scenarios used, and connection with the financial statements (e.g. accounting policy and disclosures around related stranded assets), as well as full disclosure of related impacts (on customers and suppliers), not just GHG emissions. Any framework or measure introduced should be future proofed to allow for the evolution of IFRS to include nature, etc.

Q. **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.**

Further information that would be useful includes detail on risk and transition strategies, methodology and scenarios used, and connection with the financial statements (e.g. accounting policy and disclosures around related stranded assets), as well as full disclosure of related impacts (on customers and suppliers), not just GHG emissions. Any framework or measure introduced should be future proofed to allow for the evolution of IFRS to include nature, etc. Disclosures may include those on a more localised level, given the nature of adaptation and resilience.

The draft UK SRS S2 provides a useful starting point for disclosing climate resilience strategies. We recommend non-mandatory signposting to the TPT adaptation guidance and case studies to help adaptation planning and disclosure.

Q. 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.

Key elements of a decision-useful transition plan are the strategic ambition, the implementation strategy (commitment to effecting change and a clear statement on how the transition is incorporated into the business strategy), and metrics & targets to demonstrate progress and management.

Q. 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.

Advantages of requiring firms to explain why they have not disclosed: There may be legitimate reasons for not disclosing a transition plan, for example, if a firm is already aligned with net zero outcomes. Firms with foreign parents may find it harder to publish a transition plan compatible with UK law because their parent may have an overall plan which is difficult to segment.

Disadvantages of requiring firms to explain why they have not disclosed: This may result in sporadic reporting preventing access to information, increasing the gap between large and small firms.

We believe the window of 3 years for transition plan reporting is adequate.

Publishing a transition plan or explaining why not will provide transparency for investors and stakeholders. To mitigate the risk of divestment that transparency may bring, the Government could introduce measures such as blended finance solutions, or government insurance arrangements to transfer higher levels of risk away from investors, allowing them to achieve their targets while also meeting their transition plans.

Q. 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.

Advantages of requiring firms to develop a transition plan and disclose this: It enables consistent and robust data to be gathered across value chains to understand how entities are responding to the transition.

Disadvantages of requiring firms to develop a transition plan and disclose this: It adds an additional reporting burden for firms. However, this can be ameliorated through proportionate expectations, for example, allowing transition plans to focus on the business structure and strategy and key metrics that can be used to measure delivery of plans.

Q. 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.

Global consistency and reuse of existing standards are important to help reduce the complexity of sustainability reporting. Consistency will facilitate auditing and investor/ stakeholder understanding and alleviate the need for additional training. Harmonisation will reduce duplication and regulatory burden. It is important to ensure clarity on how transition plan disclosures fit into existing climate-related requirements under the Companies Act, SFDR and TCFD; inconsistent or duplicative requirements will create unnecessary confusion and additional reporting burden that should be avoided.

Consolidating climate reporting requirements can be done by designating UK SRS S1/S2 as the single statutory baseline and replacing legacy TCFD and emission reporting obligations such as SECR. This will alleviate any reporting duplication. The TPT framework should be referenced as guidance to support preparers in fulfilling SRS S2 transition plan requirements appropriately. The annual SRS report - evolved from the initial basis of TCFD - would be the means by which a reporter gives investors a progress update. The obligation to disclose a plan would not be annual.

We would favour principles-based disclosures over prescriptive requirements.

Q. 13. How do you think any new transition plan requirements should integrate with the existing requirements in UK law for some larger schemes to produce TCFD reports and to calculate the portfolio alignment metric?

Portfolio decarbonisation metrics should be removed from both TCFD reports and Transition Plans. The complex assumptions and data requirements underlying the metrics make them difficult to calculate and understand[2]. These metrics often give a misleading impression of progress without delivering tangible emissions reductions, and risk distracting trustees from meaningful action.

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[2] LCP Portfolio Alignment Metrics

Without global usage, portfolio alignment metrics will not do enough to encourage investment portfolios which enable the net zero transition, other than at a more regional level. They are more likely to become a technical tool for asset managers with only a limited impact on the transition. If the investment industry believes portfolio alignment metrics should remain a key approach to facilitate the transition, then more education and better data is needed to encourage take-up across the world, possibly backed up with stronger regulatory requirements.[3]

Transition Plans should set out how trustees intend to deliver their net zero strategy across several key areas:

1. **Investment in future fossil fuel projects:**
   Trustees must take a clear position on this critical issue. The scientific consensus is unequivocal: we cannot achieve net zero by 2050 if new fossil fuel developments continue. Transition Plans should clarify the scheme's stance and intended actions.

2. **Forward-looking climate targets:**
   Trustees should outline specific targets, such as Science-Based Targets initiative (SBTi) coverage and implied temperature rise, to provide a measurable trajectory towards net zero.

3. **Investment in clean energy and supporting infrastructure:**
   Transition Plans should detail strategies for increasing exposure to renewable energy and the infrastructure necessary to support the transition.

4. **Engagement with the UK Government:**
   Pension schemes, as major holders of sovereign debt, have a role in shaping the policy environment. Transition Plans should explain how trustees are using their influence to support the development of a robust regulatory framework for achieving net zero, including collaboration with investment managers and other asset owners.

5. **Engagement with investee companies:**
   Effective stewardship is essential—across both debt and equity holdings. Trustees should describe how they are influencing corporate climate strategies and working with investment managers and peers to drive alignment with net zero.

6. **Engagement across the investment supply chain:**
   Trustees should also consider how they engage with key service providers, such as collateral banks and custodians, on their own net zero plans.

7. **Addressing data and engagement gaps:**
   Transition Plans must acknowledge any areas where data is limited or engagement is challenging—such as with gilts, LDI, or private markets—and explain how trustees are addressing these gaps.

Transition planning should embrace the complexity of the risks and interactions Pension Funds face. These need to work backwards from core goals, such as paying pensions, through interconnected risks, including aspects such as covenant risk, down to climate and broader systemic drivers.

The current TCFD reporting requirements are overly burdensome. Reports frequently exceed 40 pages, consuming significant time and resources—often to the detriment of actual climate strategy development and execution. Streamlining disclosure requirements would allow trustees to focus more effectively on delivering real-world outcomes through their transition plans.

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[3] IFoA Net Zero and the Implications for Investment Portfolios Working Party Portfolio alignment metrics What are they and how are they used in net zero investing?

Q. 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 would not support mandating transition plan implementation. There is a risk that if transition plan implementation is mandated with penalties for non-compliance, then firms will not be sufficiently ambitious in their transition planning, so that it has the opposite effect to that intended.

Q. 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?

Ensuring transparency and requiring the publication of financially material and decision-useful information allows users of the reports to make informed decisions. In particular, for investors, access to this information enables them to carry out their fiduciary responsibilities.

The most appropriate and feasible way of directing implementation is through ensuring an appropriate policy landscape that facilitates companies to deliver on transition strategies.

Q. 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?

The Climate Change Act 2008 created a legally binding commitment for the UK to reduce emissions, later amended to require reaching net zero emissions by 2050. The Act requires the government to set carbon budgets which limit the total amount of greenhouse gases the UK can emit. These budgets are set in 5-year periods by the Climate Change Committee (CCC).

Logically, in order for the UK to meet its overall Carbon Budgets the emission reductions of individual firms must add up to the reductions required in the UK as a whole. Therefore, while small deviations in individual cases are possible and there will be differences between sectors, transition plans of individual firms must align to the CCC Carbon budgets in total.

It's the role of the CCC to set the overall carbon budget and decide on the alignment to a particular temperature target. If that temperature target is not achieved[4], for example because emissions in other countries are too high, it does not follow that the UK should weaken its own transition plan. Decarbonising the UK economy faster more quickly prepares the UK for the inevitable post-fossil fuel era and ultimately is good for international competitiveness. Research indicates that a faster transition net saves money, even without taking into account climate change[5].

A challenge for financial firms is that the level of their emissions largely depends on decisions made by their clients rather than by themselves. In other words, they are dependent for the success of their transition on the overall pace of decarbonisation in the economy. The government can mitigate this risk by continuing with policies to assist the rapid decarbonisation of the economy, and allowing leeway to firms for those aspects that are beyond their control.

[4] Emission budgets for a 1.5°C increase will be passed within the next few years: Climate Change Tracker

[5] J. Doyne Farmer and Rupert Way interview We have the chance to make energy cheaper than it has ever been

Q. 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?

Risk planning in line with 2°C aligns with ISSB. Although 4°C may be too long-term for a majority of corporate actors, a reverse stress testing exercise[6] from 4°C is a useful exercise to develop thinking around extreme scenarios and the urgency of early action to mitigate damages from climate change.

Companies need to take a view according to what scientists are telling us. Many climate-scenario models in financial services are significantly underestimating climate risk. The current prevailing models have predicted that damages from global warming will be as low as 2% of global economic production for a 3˚C rise in global average surface temperature - the IFOA/Exeter University Planetary Solvency model combining actuarial risk analysis with climate science estimates over 25% GDP loss[7].

Tools such as our Planetary Solvency Risk Dashboard[8] are helpful to show the systemic nature of climate change and the increase in risk across climate, nature, society and the economy. Current climate change models are deeply flawed; they ignore climate tipping points, extreme events, wild-fires, flooding, food system failure and societal disruption. Carbon budgets may be smaller than anticipated, and risks may develop more quickly[9].

Regulatory scenarios introduce consistency but also the risk of groupthink, with scenario analysis outcomes being taken too literally and out of context. Greater awareness needs to be built around scenario assumptions and limitations, and uncertainties around climate change. Qualitative scenarios that reflect the emerging reality of climate change to complement models are useful, as well as margins to reflect uncertainties[10].

Q. 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?

Climate and nature are inextricably linked. The framework has the potential to deliver against both climate and wider nature goals. Water scarcity, deforestation and soil degradation are material risks for many sectors, and many climate mitigation and adaptation strategies rely on nature-based solutions.

The IFoA has called for the explicit acknowledgement of the twinned importance of biodiversity and other intersectional risks in climate-related risk analysis and management, with the need to explicitly consider the plausible macro-economic and geopolitical consequences of climate-related and nature-related “extreme but plausible” events[11].

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[6] PRA CP10/25 Enhancing banks’ and insurers’ approaches to managing climate-related risks

[7] IFoA-Exeter University Planetary Solvency

[8] IFoA-Exeter University Planetary Solvency Risk Dashboard

[9] IFoA-Exeter University Emperor’s New Climate Scenarios

[10] IFoA climate papers in collaboration with earth system scientists at Exeter University: Emperor’s New Climate Scenarios; Climate Scorpion – the sting is in the tail;

[11] IFoA response to PRA consultation CP10/25

A recent GFI report emphasises that nature-related risks might be just as impactful on the UK economy as climate change risks[12]. So robust risk management approaches should include the compounding impacts across these broader environmental and economic factors.

The Government's transition plan policy should be extended to include social elements. The work of the Just Transition lab[13] highlights the importance of the transition to be just and fair. Physical impacts of climate change are likely to be greater on more vulnerable communities that are less resilient to the impacts. Thus, the compounding impacts on health, life expectancy[14], income, affordability and social cohesion should be directly considered by financial institutions.

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

Consideration should be given to other thresholds than FTSE 100, which is not aligned with the size of emissions. Instead, the scope of future requirements should be those under TCFD and FCA Sustainability Disclosure Requirements and under UK ETS in order to capture high emitters.

We would favour principles-based disclosures over prescriptive requirements.

Q. 33. What guidance, support or capacity building would be most useful to support effective transition planning and why? For respondents that have developed and/or published a transition plan, what guidance, support or capacity building did you make use of through the process? Please explain what additional guidance would be helpful and why?

Additional consideration may be given to the role of geoengineering projects. The IFoA will be publishing a paper on this topic later in the year.

Should you wish to discuss any of these points further, please contact Caroline Winchester in the first instance, caroline.winchester@actuaries.org.uk

[12] GFI Assessing the Materiality of Nature-Related Financial Risks for the UK (2024)

[13] The Just Transition Lab

[14] Club Vita Still Hot and Bothered?