

13 July 2022

ICMA Response to the UK Transition Plan Taskforce's Call for Evidence

The International Capital Market Association (ICMA) welcomes the opportunity to provide feedback on the UK TPT's Call for Evidence.

ICMA is a membership association, headquartered in Switzerland, committed to serving the needs of its wide range of members. These include private and public sector issuers, financial intermediaries, asset managers and other investors, capital market infrastructure providers, central banks, law firms and others worldwide. ICMA currently has around 600 members located in over 65 jurisdictions. See: www.icmagroup.org. ICMA's transparency register number is 0223480577-59.

This feedback is given on behalf of ICMA and its constituencies primarily in this case from the Climate Transition Finance working group (CTF WG) which consists of market participants from over 100 global institutions under the auspices of the Executive Committee of the Green Bond Principles, the Social Bond Principles, the Sustainability Bond Guidelines and the Sustainability-linked Bond Principles ("the Principles") supported by the International Capital Market Association (ICMA). The objectives of the group can be seen [here](#).

ICMA in 2020 published the [Climate Transition Finance Handbook](#) which seeks to provide clear guidance and common expectations to capital markets participants on the practices, actions and disclosures to be made available when raising funds in debt markets for climate transition-related purposes. The Handbook acts as additional guidance for issuers seeking to utilise green bonds, sustainability bonds or sustainability-linked bonds towards the achievement of their climate transition strategy. We believe that the recommendations made in the Handbook can also serve as the basis for a wider transition plan.

The response below has been directly submitted to the secretariat@transitiontaskforce.net.

Yours faithfully,

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1. Rationale for a transition plan

In order to meet the global objectives enshrined within the Paris Agreement significant financing is needed. Especially organisations in hard-to-abate sectors are under pressure from investors and other stakeholders including policy makers and regulators to respond in the short term with announcements regarding strategy, targets and related commitments. Addressing the issue of financing of business operations and infrastructure to ensure the operational picture can deliver the announced response over extended time horizons is more challenging and time-consuming. Having a transition plan in place which will be regularly reviewed and if necessary updated, will help with that.

Generally, we agree with the TPT's definition of a transition plan, however we point out that the definition is very general. Transition is mainly required by those industries with high greenhouse gas (GHG) emissions which face the most complex climate-related transition challenges. The transition plans should therefore communicate an organisation's corporate strategy to transform the business model in a way which effectively addresses climate-related risks and contributes to alignment with the goals of the Paris Agreement. More concretely, the strategy should be clear on how the organisation intends to adapt its business model to make a positive contribution to the transition to a low carbon economy. This planned climate transition trajectory should be relevant to the environmentally-material parts of the organisation's business model, taking into account potential future scenarios which may impact on current determinations concerning materiality.

A range of climate change scenario providers exist in the market today to inform strategy design. The choice of relevant provider, or the decision to design an in-house scenario, are up to the issuer. However, regardless of the source, an issuer's strategy should be guided by the objective of limiting global temperature increases ideally to 1.5°C and, at the very least, to well below 2°C. The [methodologies registry](#) published by ICMA, provides a list of tools that organisations as well as investors and financial intermediaries will find helpful to validate that their emission reduction trajectories/pathways are "science-based".

A transition plan should at the minimum include the following information and indicators:

- A long-term target to align with the goals of the Paris Agreement
- Relevant interim targets on the trajectory towards the long-term goal;
- Disclosure on the organisation's levers towards decarbonisation, and strategic planning towards a long-term target to align with the goals of the Paris Agreement;
- Clear oversight and governance of transition strategy
- Evidence of a broader sustainability strategy to mitigate relevant environmental and social externalities

Furthermore, we suggest that organisations should get an independent technical review of their strategy which may assist stakeholders such as investors in developing a view regarding the credibility of its strategy insofar as it addresses climate change risk issues. Such a review should include:

- Alignment of both the long-term and short-term targets with the overall scenario; and,
- The credibility of the organisation's strategy to reach the targets.

2. Build on existing frameworks

We concur that the TPT should leverage the existing ecosystem of guidance frameworks. Especially, the recommendations by the Taskforce on Climate-related Financial Disclosures 2021 (TCFD) which forms the basis of current proposals for sustainability reporting by the ISSB, US SEC and EFRAG, and is already being made mandatory in various jurisdictions including the UK.

Moreover, we are supportive of the proposed principles to guide a credible transition plan incorporating elements from other existing guidance frameworks. The proposed principles are aligned with the disclosures recommended in the ICMA Handbook which are based on analysis and of existing climate change disclosure frameworks. In addition, we would like to emphasize that an organisation's climate strategy should reference science-based targets and transition pathways. The planned transition trajectory should be:

- quantitatively measurable (based on a measurement methodology which is consistent over time);
- aligned with, benchmarked or otherwise referenced to recognized, science-based trajectories where such trajectories exist;
- publicly disclosed (ideally in mainstream financing filings), include interim milestones, and;
- supported by independent assurance or verification

3. Sector-neutral vs sector-specific frameworks

We agree that the TPT should create a sector-neutral framework which should set high-level guidelines and principles for disclosures as mentioned in section 2 of our response. More concretely, the sector-neutral framework should establish the minimum requirements for organisations across different sectors, provide grounds for comparability, and the common set of metrics to be covered (e.g. GHG emissions, circular economy, procurement) for sector-specific frameworks to build on.

In addition to creating a sector-neutral framework, it will be important to have sector-specific frameworks. As such, we think the TPT should prioritize the hard-to-abate sectors first because they have the most work to do to transition and adapt; most likely, they are also the ones who have been thinking about those topics the longest and would need a specific template. With regards to the real economy: most carbon intensive sectors should be prioritised, such as the energy sector, real estate, transportation, or mining. These sectors not only have a higher volume of scope 1 & 2 GHG emissions, but a large impact on the emissions throughout their value chain (scope 3) as well.

The TPT could also group sectors by the service they offer (e.g. aviation, automobile and soft motilities all aim to serve our mobility) and compare the carbon intensity of these sectors. The transition plan depends strongly on the assumption that carbon intensive sectors such as thermal automobiles must drastically reduce their carbon emissions in the context of a low-carbon economy, while low carbon substitutes such as electrical bikes could increase their own emissions while contributing to the decarbonisation of the economy by offering alternatives to carbon intensive services.

To ensure clarity and avoid duplicating work and disclosure, a clear link between the sector-neutral and the sectoral transition frameworks should be set, in order to establish how these two sets of guidance interoperate.

Overall, we agree that transition plans provide an opportunity to ensure the benefits of the climate transition are widely felt by UK households and consumers. In terms of costs, we believe that organisations should be able to forecast the impact of their transition plan on prices and costs. Such forecast cost increases should be disclosed, and a plan to mitigate cost increases to ensure affordability should be developed. In a context of rising cost of living as we currently find ourselves in, consumers may turn away from sustainable solutions and to cheaper options if their purchasing power is impacted. So, this element will be key to ensure wider adoption of transition plans. That said, in an environment of highly volatile energy prices and scarcity of resources, a credible transition plan will in the long-term help organisations minimise cost and risk at the same time.

Finally, the TPT should also consider the subject of a just transition, i.e. where a transition may have negative impacts for workers and communities, organisations should outline how they have incorporated consideration of a 'just transition' into their climate transition strategy.