Chapter Zero | Transition Planning Series | EY

July 2024

Getting Started: Navigating the regulatory landscape

In collaboration with EY, the second module in our Transition Planning series equips non-executive directors (NEDs) to navigate the rapidly evolving regulatory landscape in which climate transition planning sits and understand the implications for businesses.

"We see transition plans as being useful to identify and prioritise strategies, as well as helping us to understand how our investee companies are transitioning."

Nilufer von Bismarck
Chapter Zero Fellow and non-executive director, Legal & General Plc

"Smart transition choices whilst still delivering performance is good for business. We also need broader systemic changes in regulation and consumer behaviour to support this."

Teye Mkushi
Global Finance ESG and Sustainability Director, Diageo Plc

Key takeaways for non-executive directors

1. In the short term, transition planning might be motivated by compliance and the evolving regulatory landscape. However, businesses shifting the focus to the long term will find that transition plans can bring multiple benefits and foster value creation.

2. Developing a transition plan helps organisations mitigate transition risks, better allocate capital and create a competitive advantage by responding to investor and other stakeholder expectations.

3. Adopting frameworks such as the Transition Plan Taskforce (TPT) and Science Based Targets initiative (SBTi) can help organisations develop credible transition plans which are aligned with global climate goals and strategically position the organisation to reduce costs and open up new revenue generation opportunities.

4. It is important to consider the iterative nature of transition plans and to refine them according to up-to-date climate science and the business strategy, this will contribute to mitigating litigation risks and greenwashing. Other factors decreasing risk include making appropriate legal disclaimers, engaging with stakeholders and the value chain, and ensuring effective climate governance.

Practical insight: What is the current regulatory landscape of transition plans?

The regulatory and compliance landscape regarding climate-related risks and opportunities keeps evolving and is moving towards better harmonisation. Taking a step forward and aligned with the Taskforce on Climate-Related Financial Disclosures (TCFD), the the Transition Plan Taskforce (TPT) launched in 2022 and focuses on managing transition risks and opportunities by developing a time-bound and costed decarbonisation plan. The TPT framework is the gold standard for businesses in developing a transition plan. Signposting further harmonisation, in June 2024 the the International Financial Reporting Standards (IFRS) Foundation assumed responsibility for the disclosure-specific materials developed by the TPT.

Transition planning in the UK

The UK is consulting on transition plan disclosures and how to adopt the International Sustainability Standards Board (ISSB) reporting standards. Specific UK sustainability disclosure standards will likely be effective from January 2026.

Transition planning globally

The EU's Corporate Sustainability Reporting Directive (CSRD) mandates transition plan disclosures from January 2024, which impacts UK companies with EU listings, and groups with large EU operations from 2025 onward.

The US Securities and Exchange Commission (SEC) mandates that companies with material transition risks disclose their transition plans, focusing on the financial impact of these plans.

Other countries, including Brazil, Türkiye, Japan, Australia, India and Canada, are adopting or consulting on the adoption of ISSB standards which mandate transition plans.

Audit and assurance of transition plans

Currently, under ISA 720, auditors ensure transition plans are not materially inconsistent with the financial statements but are not required to deeply scrutinise these plans.

Organisations can also seek limited or reasonable assurance under ISAE 3000 to enhance credibility. Both are voluntary in the UK, but CSRD will require limited assurance initially, and anticipates reasonable assurance in the longer term. SEC will enforce limited assurance requirements on Scope 1 and Scope 2 GHG emissions by 2029 and reasonable assurance by 2033.

The role of the NED in fostering and executing transition plans

Non-executive directors can foster transition planning by highlighting its role in achieving both climate and business ambitions. NEDs can help ensure transition plans are embedded in the business strategy rather than treated as a siloed issue. This can be underpinned by clear identification of cost-saving opportunities (e.g. energy efficiency improvement, avoided carbon tax, financing cost) and revenue generation (e.g. through winning customers or charging a premium). While the ultimate net zero goals may be set for 2050, it is important to establish and monitor interim targets to keep the organisation on track – NEDs should look for transition plans with clear actions and quantified impacts, risks and dependencies, costing and financing. They should ask questions to monitor progress and link plans to executive incentives. To best fulfil their role, it is important that NEDs leverage internal and external expertise to stay informed of the latest climate trends and the regulatory landscape, and to manage the legal risks.

Additional resources

Watch the webinar recording

Find out more about climate policy and regulation

Use the Chapter Zero Transition Planning Toolkit

Visit the EY website