CDP Technical Note: Reporting on Transition Plans

CDP Climate Change Questionnaire

Contents

Version

Version	Revision date	Revision summary
1.0	February, 2022	First published version.

About this document

This technical note provides guidance on how organizations disclosing through CDP can demonstrate that they have a credible climate transition plan in place - as described in CDP's climate transition plan discussion paper. This understanding will support disclosure requests for 2022 and evolve yearly beyond.

Part 1 introduces the concept of corporate climate transition plans and explains their importance.

Part 2 provides a technical definition of climate transition plans, the principles which govern their credibility and the elements which they comprise of.

Part 3 lists the questions in the 2022 CDP Climate change questionnaire that relate to credible climate transition plans.

Part 4 provides additional resources which supplement information detailed in this technical note.

Part 5 lists the frameworks and initiatives which relate to climate transition plans.

1. Introduction

1.1 What are corporate climate transition plans and why are they important?

What do we mean by transition and what is a climate transition plan?

Transitioning refers to taking actions that:

- align a business model with a world in which the global average temperature is allowed to rise by no more than 1.5°C above pre-industrial levels.
- enable a thriving economy that works for people and planet in the long term.

A corporate climate climate transition plan sets out how an organization will achieve the above. Part 2 below, provides a definition of climate transition plans, based on a synthesis of current thought leadership from the frameworks and initiatives listed in the Appendix section (Part 5).

Why are climate transition plans and disclosure about them important?

Organizations typically set emissions reduction targets, commit to monitoring their progress on climate action and reduce their exposure to climate related risks. A climate transition plan is an encompassing instrument that helps organizations to align their climate ambitions. This alignment is achieved by establishing specific strategies and clear accountability mechanisms to track progress. While strategic planning for the future is not a new instrument, the extent of transition and the hard limits set on such a transition through scientific discoveries mean that transition plans are often a critical element in ensuring a future for the organisation.

- The need for a transition plan has been accelerated by the evolving regulatory landscape. Organizations that have prepared for regulatory change will avoid regulatory shocks. In addition to highlighting the influence of non-state actors on accelerating action for a transition towards a 1.5°C world, COP26 led to some significant announcements and commitments highlighting the need for organizations to create credible climate transition plans to prepare for regulatory change:
    - The International Financial Reporting Standards (IFRS) announced the formation of a new International Sustainability Standards Board (ISSB) to develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs. This may have regulatory implications in jurisdictions where Task Force on Climate related Financial Disclosures (TCFD) compliant disclosure is recommended – especially as the TCFD has updated its guidance to reflect thought leadership on transition plans.
    - The UK Government became the first to announce mandatory transition plans for listed companies and financial institutions by 2023.
- Organizations need a clear accountability mechanism and transparency (via disclosure) because there is growing interest from investors, customers, and employees in how they (organizations) plan on tackling the climate crisis and transitioning their business model to one that aligns with a 1.5°C world.
    - In November 2021, the European Investment Bank (EIB) announced its Paris alignment framework. From 2022, EIB corporate clients will need to develop and disclose decarbonization and resilience plans. EIB will no longer finance standard low-carbon

projects of high-emitting corporates if the corporate continues to operate or invest in activities that are not aligned with the goals of the Paris Agreement.

- Aviva Investors, the global asset management business of Aviva Plc, announced its Climate Engagement Escalation Programme, focused on its investments in 30 'Systemically Important Carbon Emitters'. The investment firm will require these companies to deliver net zero scope 3 emissions by 2050 and establish robust transition roadmaps to demonstrate their commitment to immediate action on climate change as the world's carbon budget diminishes.

2. Credible transition plans

A credible transition plan is one that sets out how a business will thrive, while securing a sustainable future.

2.1 CDP's definition of a credible Climate Transition Plan

A climate transition plan is a **time-bound action plan** that outlines how an organization will pivot its existing assets, operations, and entire business model towards a trajectory aligned with the latest and most ambitious climate science[1] recommendations. i.e., halving greenhouse gas (GHG) emissions by 2030 and reaching net-zero by 2050 at the latest, thereby limiting global warming to 1.5°C.

Based on CDP data and research into established frameworks, CDP considers a credible climate transition plan to be defined by the five following characteristics:

- It supports a strategy for the transition i.e., actions that need to occur for an organization to pivot towards a net-zero future, with near-term (five-ten year) science-based targets (emissions reduction targets in line with 1.5°C pathways), and then long-term science-based targets (SBTs) (for 2050 at the latest)
- It contains verifiable and quantifiable key performance indicators (KPIs) which:
  - measure the success of an organization's climate transition; and
  - are tracked regularly.
- It is succinctly integrated into an organization's existing mainstream filings (in annual financial reporting/sustainability reporting/overall business strategy)[2], and provides an accountability mechanism
- It is guided by the principles outlined in section 2.2
- It contains the key elements outlined in section 2.3

These criteria demonstrate to investors, and other stakeholders that an organization is aligning with ambitious long-term climate goals, and that its business model will transition, in order to be relevant (i.e., profitable) in a net-zero carbon economy. To avoid potential regulatory shocks, organizations should aim to align, as a minimum, with relevant Paris Temperature Aligned policy goals for where the organization operates (this includes direct and value chain operations). Given the number of

[1] As communicated by scientifically reliable and reputable institutions such as the *Intergovernmental Panel on Climate Change* (IPCC) and the *Science Based Targets initiative* (SBTi).
[2] The exact reporting system utilised may vary by organization. For better accountability, (1) ease of integration and (2) reporting frequency should be the key factors used to assess where to integrate the transition plan.

countries that have committed to net-zero emissions, it is critical that investors and stakeholders are able to assess an organization's plans to align with such a future (refer to NetZero tracker).

2.2 Principles for a credible Climate Transition Plan

CDP has developed six fundamental principles that will guide the preparation of a credible climate transition plan:

1. **Accountability:** The plan has clearly defined roles and responsibilities. This includes effective governance mechanisms, where the board and C-suite executives are accountable for delivery of the plan.
2. **Internally coherent:** The plan is integrated into the overall business strategy of the organization and linked to the profit and loss statement.
3. **Forward looking**: The plan is focused on the near- and long-term future, trending towards 2050. An emphasis on the near-term (the next 5-year timeframe) is critical to achieve long-term climate ambitions, which should be supported by governance mechanisms (new or existing).
4. **Time bound and quantitative:** The plan's KPI's are quantifiable and are outlined for defined timeframes.
5. **Flexible and responsive**: The plan is reviewed and updated regularly[3], with a defined stakeholder feedback mechanism in place (e.g., shareholders and AGMs).
6. **Complete**: The plan covers the whole organization and its value chain, i.e., any exclusions from the plan must not be material to the organization and/or its impact on the natural environment (ensuring the double materiality principle applies to disclosure of exclusions).

2.3 Elements of a credible Climate Transition Plan

The key elements of a climate transition plan are described below, and they are the outcome of an extensive technical review.

The table below indicates how each element relates to the TCFD's 2021 update to its report on "*Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures (2017 annex)*" to provide additional guidance on disclosing metrics, targets, and transition plan information in line with the TCFD recommendations. It specifies that transition plans should at a minimum be reviewed every five years for continuous relevancy and efficacy and updated if required. The TCFD also notes that progress against the plans should be reported annually, alongside any material, substantive changes to the plan.

Transition Plan Element	Description	TCFD Pillar
GOVERNANCE	This demonstrates that an organization has board-level oversight on the climate transition plan and that there are defined governance mechanisms in place, to ensure delivery of the plan's targets.	**Governance**
SCENARIO ANALYSIS	A climate transition plan should be underpinned by robust scenario analysis[4] - to identify potential substantive climate-related risks and opportunities.	**Strategy**
FINANCIAL PLANNING	As part of its strategy to achieve net zero, an organization should outline time-bound financial planning details of its transition. For example, Capital Expenditure (CAPEX), Operating Expenditure (OPEX), Revenue, etc.	
VALUE CHAIN ENGAGEMENT & LOW CARBON INITIATIVES	A climate transition plan should include time-bound actions to decarbonize business processes (and those of its value chain), with time-bound KPIs. This includes four distinct elements[5]: **(1)** supply chain engagement **(2)** increasing portfolio of low carbon products and services **(3)** customer engagement and **(4)** implementing emissions reduction initiatives for its direct operations.	
POLICY ENGAGEMENT	A climate transition plan should demonstrate that an organization's public policy engagement[6] aligns with its climate ambitions and strategy.	
RISKS & OPPORTUNITIES	A climate transition plan should outline an organization's process for minimising identified climate-related risks and maximising substantive climate related opportunities.	**Risk Management**
TARGETS	A climate transition plan should contain time-bound, verified science-based targets which are in line with the latest climate science. Organizations should set near-term SBTs to halve emissions by 2030 and can also set a Net Zero long-term target – by 2050 at the latest.	**Metrics & Targets**
SCOPE 1,2 & 3 ACCOUNTING WITH VERIFICATION[7]	A climate transition plan should be accompanied by an annual Scope 1, 2 and 3 emissions inventory that is complete, accurate, transparent, consistent, relevant, and verified by a third-party.	

[4] While the scenario analysis is not the plan, it helps to set the temperature target and the implications will inform the risks & opportunities which the strategy seeks to address.
[5] The focus should be on the most relevant parts of the value chain – not necessarily all 4 distinct elements will be relevant for every sector/organization
[6] Public policy engagement includes direct policy and lobby group engagement.
[7] The inventory accounting includes emissions and energy sources accounting.

2.4 Alignment with other frameworks and initiatives

The table below shows the level of alignment between CDP's elements of a climate transition plan and other reporting frameworks and initiatives.

CDP CLIMATE TRANSITION PLAN ELEMENTS	ACT	CA100+	TCFD	GFANZ	IIGCC	ICAPs	TPI	ALCT	ACCR	CBI	ICMA	CSLN
Governance	Full alignment	Full alignment	Partial alignment	Partial alignment	Partial alignment	Full alignment	Full alignment	Partial alignment	Full alignment	Full alignment	Partial alignment	Full alignment
Scenario Analysis	Full alignment	Full alignment	Full alignment	Partial alignment	Full alignment	Full alignment	Full alignment	Full alignment	No alignment	Partial alignment	Full alignment	Full alignment
Risks & Opportunities	Full alignment	Full alignment	Full alignment	Partial alignment	Partial alignment	Full alignment	Full alignment	Full alignment	No alignment	Full alignment	Partial alignment	Full alignment
Strategy to achieve Net Zero	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment	Partial alignment	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment
Financial Planning	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment	Partial alignment	Full alignment	Full alignment	Partial alignment
Targets	Full alignment	Full alignment	Full alignment	Partial alignment	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment	Full alignment
Scope 1,2,3 accounting with verification	Full alignment	Partial alignment	Full alignment	Partial alignment	Partial alignment	Full alignment	Partial alignment	Full alignment	Full alignment	Full alignment	Full alignment	Partial alignment
Policy	Full alignment	Full alignment	No alignment	Full alignment	Full alignment	Full alignment	Full alignment	No alignment	Full alignment	No alignment	No alignment	Full alignment
Value chain engagement & Low carbon initiatives	Full alignment	Partial alignment	Partial alignment	Partial alignment	Full alignment	Full alignment	Partial alignment	Full alignment	Partial alignment	Partial alignment	No alignment	Full alignment

Full alignment   Partial alignment   No alignment

3. Reporting on your transition plan

CDP's climate change (CC) questionnaire collects data on the transition plan elements. Questions which align directly to the climate transition plan elements (as currently defined above) are set out below.

3.1 Map of climate transition plan elements against the CDP 2022 climate change questions

To demonstrate a credible climate transition plan and existing efforts to transition to a 1.5°C world, an organization should report on the direct and supporting questions with the CDP questionnaire, such as those outlined below:

DIRECT INDICATORS: These questions allow organizations to indicate that their climate transition plan includes forward looking and quantitative information, such as associated financial planning details and climate related targets.

- C3.1, C3.5, C3.5a

- C4.1, C4.1a, C4.1b, C4.2a, C4.2b, C4.2c
- C-EU9.5a, C-EU9.5b

SUPPORTING INDICATORS: Beyond the direct indicators, other CDP questions allow organizations to report actions and data that evidence the robustness and credibility of their transition plan, such as the foundational elements of governance. These supporting indicators are not necessarily forward-looking but allow organizations to report information that complements their transition plan, e.g., activities and data such as emissions accounting and verification, or how climate has impacted their strategy or engagement in the reporting year.

- C1.1, C1.1a, C1.1b, C1.1d, C1.2, C1.2a, C1.3, C1.3a
- C2.1, C2.2, C2.3, C2.3a, C2.4, C2.4a
- C3.3, C3.2, C3.2a, C3.2b, C3.4
- C4.5, C4.5a C4.3b
- C5.2
- C6.1, C6.3, C6.5
- C-CE9.6a, C-CG9.6a, C-CH9.6a, C-CN9.6a/C-RE9.6a, C-CO9.6a/C-EU9.6a/C-OG9.6a, C-MM9.6a, C-ST9.6a, C-TO9.6a/C-TS9.6a
- C10.1a, C10.1b, C10.1c
- C12.1, C12.1a, C12.1b, C12.1d, C12.2, C12.2a, C12.3, C12.3a, C12.3b, C12.3c

For the financial services sector, questions which relate to portfolio activities (i.e., banking, investment, and insurance underwriting) and provide supporting data for disclosing transition activity (and complement their transition plans) will be released in a forthcoming publication.

The table below maps the 2022 CDP CC questions (direct and supporting indicators) to the key elements of a credible climate transition plan (in section 2.3) (*direct indicators – forward looking and quantitative):

Climate Transition plan element	Aligned CDP CC question (2022)	Relevance
GOVERNANCE	C1.1, C1.1a, C1.1b (Board level oversight)	To ensure compliance and accountability for creating an ambitious plan as well as delivery of the plan's ambitions, board level oversight is crucial in steering business strategy towards a 1.5°C aligned trajectory.
	C1.1d (Board expertise on climate related issues)	Addressing climate change requires specific expertise related to climate change and its impacts, and the potential direct and indirect effects on the business. Ensuring this capability within existing governance structures indicates an organization's competence in delivering on its climate transition plan and increases the chance of success.
	C1.2, C1.2a (Senior management accountability & feedback mechanism)	Senior management have responsibility for **(1)** execution of the plan, and **(2)** frequently reporting to the board on progress towards realizing the plan's ambitions.

Climate Transition plan element	Aligned CDP CC question (2022)	Relevance
	C1.3, C1.3a (Executive remuneration linked to climate KPI's)	To incentivize conscious action and commitment in realizing the plan's goals, it is recommended that executive remuneration is aligned with the organization's climate transition plan.
STRATEGY	C3.1* (Existence of "1.5°C world" aligned transition plan within business strategy & shareholder feedback)	An organization's climate transition plan should: - **Be aligned with a 1.5°C trajectory**: to signal climate ambition. - **Integrated into the overall business strategy**: to fulfil the principle of internal coherence. - **Have a defined shareholder feedback mechanism**: to incentivize regular feedback collection.
	C3.3 (Link between identified (and potential) climate related risks, opportunities & company strategy)	Here, organizations can explain how climate-related risks and opportunities have led to the development of their strategy and climate transition plan, specifically in areas of products/services, supply/value chain, investment in R&D and operations.
SCENARIO ANALYSIS	C3.2, C3.2a, C3.2b (Details of scenario analysis)	Scenario analysis is used as a strategic tool to inform the development of the climate transition plan, based on several potential future climatic states.
FINANCIAL PLANNING	C3.4, C3.5*, C3.5a* (Financial planning details associated with a 1.5°C world)	Financial planning is crucial when demonstrating that an organization is aligning with climate goals, and that it will be relevant (i.e., profitable) in a 1.5°C world. Organizations can use these CDP questions to demonstrate how they have aligned their financial planning with their climate transition plan. Financial details may describe revenue, CAPEX, and/or OPEX projections which crucial for realizing the plan's ambition.
	C4.5, C4.5a (Low-carbon products or services)	Organizations can develop their low carbon products or services portfolio over time to signal how they intend on transitioning their existing assets, operations, and entire business model towards a 1.5°C trajectory.
	C-EU9.5a* (CAPEX – for low carbon power generation)	Electric utility companies can use this question to indicate how they are aligning their CAPEX spending on different sources of

Climate Transition plan element	Aligned CDP CC question (2022)	Relevance
		power generation with their climate transition plan.
	C-EU9.5b* (CAPEX – emerging products & services)	Electric Utility companies can use this question to indicate how they are aligning their CAPEX spending on products and services with their climate transition plan.
	C-CE9.6a, C-CG9.6a, C-CH9.6a, C-CN9.6a/C-RE9.6a, C-CO9.6a/C-EU9.6a/C-OG9.6a, C-MM9.6a, C-ST9.6a, C-TO9.6a/C-TS9.6a (Low carbon R&D investment – Sector specific)	Here, organizations can use these questions to demonstrate how they are investing in R&D to align their product portfolio with their climate transition plan. The level of investments in low-carbon R&D among high-impact sectors provides an indication of the financial planning element of their climate transition plan.
VALUE CHAIN ENGAGEMENT & LOW CARBON INITIATIVES	C4.3b (Low carbon initiatives – direct operations)	One of the key elements of a climate transition plan is that it contains time-bound actions to decarbonize business processes and implement low carbon initiatives.
	C12.1, C12.1a, C12.1b, C12.1d, C12.2, C12.2a (Value chain engagement)	Organizations are facing resiliency risks in the value chain that have material environmental and financial implications; hence, value chain engagement plays a significant role in realizing a climate transition plan. For organizations with significant emissions in their supply chain, they can leverage their buyer power and engage their suppliers towards a 1.5°C aligned transition.
POLICY ENGAGEMENT	C12.3, C12.3a, C12.3b, C12.3c (Alignment of public policy engagement with climate ambition & strategy)	Ensuring that an organization's internal activities are supported by fully aligned external policy engagement (policy, law, regulation, and trade associations) demonstrates an ambitious effort towards achieving a 1.5°C world. For many companies, a successful transition will depend on an accommodative policy landscape, thus companies should advocate for climate-positive policies that impact their relevant sector(s).
	C2.1, C2.2	To demonstrate forward planning (which is crucial for a climate transition plan), an

Climate Transition plan element	Aligned CDP CC question (2022)	Relevance
RISKS & OPPORTUNITIES	(Process for identifying climate related risks & opportunities)	organization's transition plan should include or reflect a process for identifying, assessing, and responding to climate related risks and opportunities.
	C2.3, C2.3a (Climate related risks – risks, potential financial impact and response strategy)	Details of the risks posed to an organization by climate-related issues, and the estimated potential financial impact of these risks at the corporate level, as well as the response strategy to manage these risks.
	C2.4, C2.4a (Climate related opportunities – opportunities, potential financial impact and response strategy)	Details of the opportunities posed to an organization by climate-related issues, and the estimated potential scale of these opportunities at the corporate level as well as the response strategy required to take advantage of these opportunities.
TARGETS	C4.1*, C4.1a*, C4.1b* (Emissions reduction targets – absolute & intensity)	The plan includes near-and long-term, verified science-based targets which are in line with the latest climate science, with time-bound KPI's.
	C4.2a*, C4.2b* (Other climate related targets)	Ambitious climate transition plans will include other climate related targets, such as but not limited to increased low carbon energy consumption or production targets.
	C4.2c* (Net-zero target)	The plan includes a net zero target, in line with the latest climate science, with time bound KPI's.
SCOPE 1,2,3ACCOUNTING, WITH VERIFICATION	C5.2, C6.1, C6.3, C6.5, C10.1a, C10.1b, C10.1c (Comprehensive and third-party verified emissions accounting)	A climate transition plan should be accompanied by a complete, accurate, transparent, consistent, and relevant inventory of all three scopes of emissions. Any individual organization may find it important to fully disclose to C5 – C10. • Third-party verification is necessary for credibility and transparency on progress against a transition plan. • Companies should calculate and disclose all material categories of scope 3 and provide an explanation for categories that are not relevant.

4. Further resources

- CDP's discussion paper on climate transition plans (2021)
- Examples of corporate climate transition plans (note: inclusion in this list does not imply an assessment by CPD that these plans are 'credible').
  - Aena Climate Action Plan
  - Unilever Climate Transition Action Plan
  - Orsted Climate Action Plan

5. Appendix - List of frameworks and initiatives related to climate transition plans

The following frameworks and initiatives informed CDP's approach to Climate Transition plans:

- Task Force on Climate Related Financial Disclosures (TCFD)
- Climate Safe Lending Network (CSLN)
- Assessing Low Carbon Transition (ACT)
- Climate Action 100+
- Say on Climate initiative [CIFF]
- Oxford Martin Principles for Climate-Conscious Investment
- Alliance for Corporate Transparency
- Australasian Centre for Corporate Responsibility (ACCR)
- The International Capital Market Association (ICMA)
- Glasgow Financial Alliance for Net Zero (GFANZ)
- The Institutional Investors Group on Climate Change (IIGCC)
- Investor Climate Action Plans (ICAPs)
- Transition Pathway Initiative (TPI)
- Climate Bonds Initiative (CBI)