Developing a credible climate transition plan

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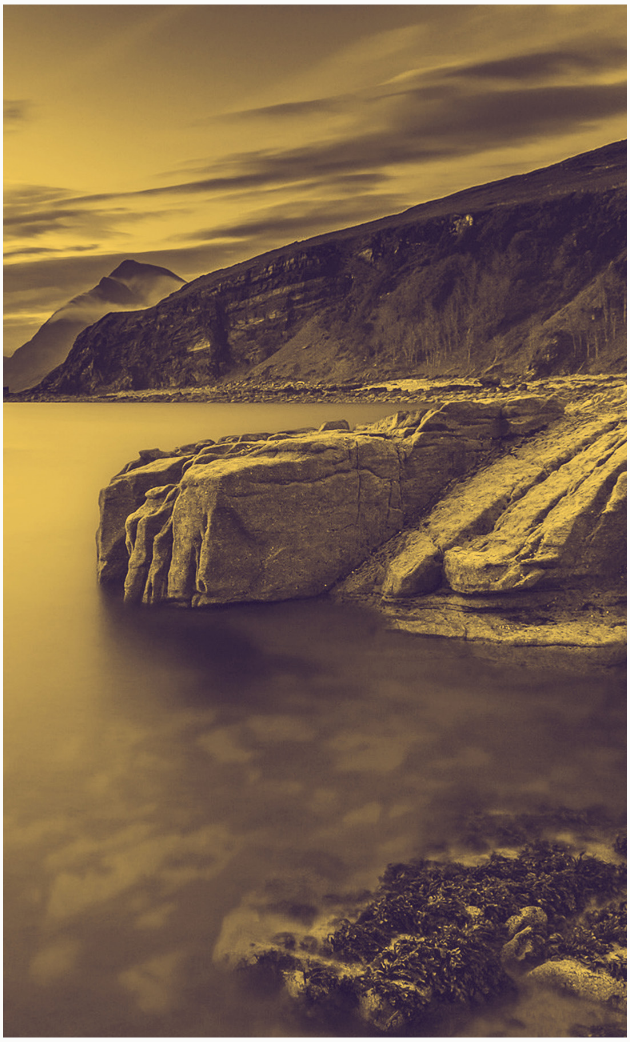
Introduction

More than 3,000 organizations have set science-based targets to reduce greenhouse gas (GHG) emissions and mitigate the effects of climate change. Thousands more are releasing public climate reports and disclosures about their climate performance.

Despite this abundance of public climate commitments, only a fraction of companies have credible plans for reaching their targets.

About half of the 556 organizations reviewed by Manifest Climate publish a climate transition plan. Of that number, only 12% discuss their transition plans' impacts on resource allocation or business strategy, while just 5% publicly update their plans and progress annually, and 5% detail the specific metrics and targets used to manage physical and transition risks in their transition plans.

The absence of these details in organizations' disclosures impacts their public credibility since they do not demonstrate a clear line of sight in the shift toward a low-carbon economy. Put differently, a lack of detail in publicly disclosed transition plans indicates that the private sector is still, for the most part, unclear on exactly *how it* will achieve net zero by 2050. This white paper outlines what makes a credible climate transition plan and how companies can create one.



What is a climate transition plan?

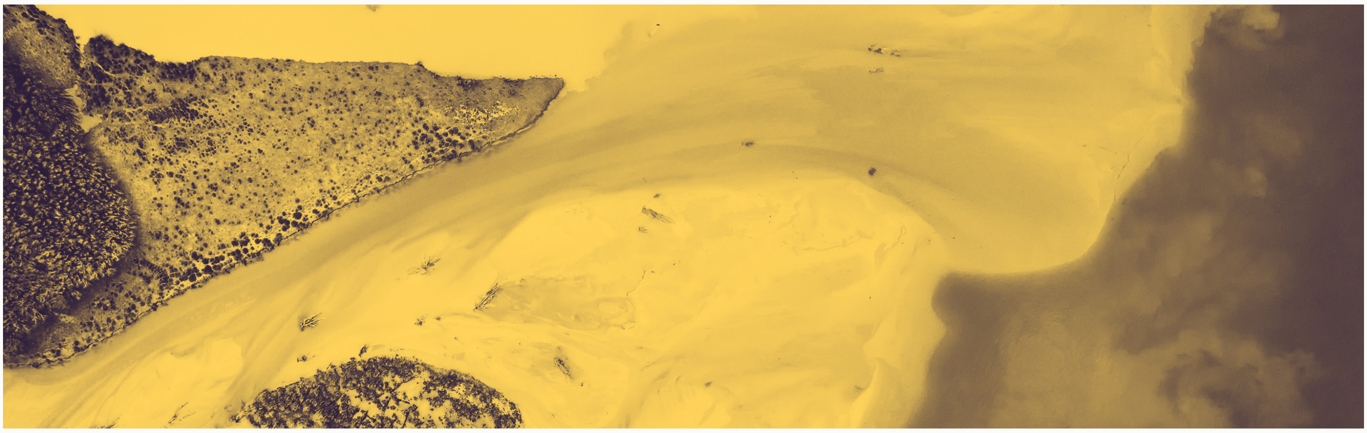
A climate transition plan details how a company plans to achieve its climate targets, including how its assets, operations, and business models will be transformed so they align with a low-carbon economy. Transition plans act as roadmaps for a company's net-zero goals. They don't just stipulate climate targets (net zero by 2050, for example) — they outline *how* these targets will be achieved in the short, medium, and long term.

Transition plans may or may not include a company's plans to adapt to climate change. Some frameworks, such as the one produced by the Transition Plan Taskforce (TPT), contemplate adaptation efforts. Other frameworks — such as the Task Force on Climate-related Financial Disclosures (TCFD), the reporting framework that forms the basis of many climate reporting regulations — separates transition plans from adaptation activities.

The **Task Force on Climate-related Financial Disclosures (TCFD)** — the world's premier climate reporting framework — and the **International Sustainability Standards Board (ISSB)** — a global standard-setting body — both similarly define a climate-related transition plan as part of an entity's overall strategy that describe its targets, actions, and resources for transitioning toward a lower-carbon economy, including efforts such as reducing its greenhouse gas emissions.

The **CDP** — an environmental disclosure non-profit, formerly known as the Carbon Disclosure Project — describes a credible climate transition plan as a "time-bound action plan that outlines how an organization will achieve its strategy to pivot its existing assets, operations, and entire business model towards a trajectory aligned with the latest and most ambitious climate science recommendations."

The **We Mean Business Coalition** — a global non-profit dedicated to catalyzing climate action among big business — describes a climate transition action plan as "a forward-looking list of actions taken in the near term to align internal strategies and external climate and energy policy advocacy, in order to reduce GHG emissions in line with a 1.5°C pathway and achieve a just transition."



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Why do you need a transition plan?

The most pressing reason for companies to develop a transition plan is simple: climate risk is business risk. Without a transition plan, your business is more vulnerable to physical and transition climate-related risks, such as regulatory changes, market shifts, and extreme weather.

Transition plans are also critical assets for communications and stakeholder relationships. Increasingly, investors are demanding rigorous climate risk management, governments are asking for more in the way of climate disclosures, and stakeholders — including clients, counterparties, and employees — want to know that your company will survive in a changing climate. Transition plans demonstrate business model resilience in a transitioning economy. They show your stakeholders that you're prepared for the road ahead and are mitigating and adapting to physical and transition climate risks as necessary.

Transition plans are also important for complying with relevant climate disclosure obligations, like the US Securities and Exchange Commission's (SEC) proposed climate disclosure rule and the ISSB's climate disclosure standard. Both these and other requirements ask organizations to develop transition plans to ensure that their climate targets are substantiated with reasonable strategies.

What makes a transition plan effective and credible?

It's possible to understand what a transition plan is, feel the need to develop one, and still fail to develop a *credible* climate transition plan.

Not all transition plans are created equal. Your company's plan must follow particular principles and contain certain key elements to make it credible and effective at guiding your organization through its climate journey. The good news is that there is plenty of guidance to help those who have been tasked with developing a credible transition plan. The bad news is that there is *lots* of guidance, which could be difficult to decipher and comb through. That's why Manifest Climate has created a guide that reflects key features of a credible transition plan. Our manual also outlines seven steps for developing a credible transition plan, which are intended to help you accelerate your climate

Transition plan guidance

A number of frameworks and organizations have provided guidance on developing a credible transition plan.

- TCFD
- CDP
- Transition Plan Taskforce
- Glasgow Financial Alliance for Net Zero
- We Mean Business Coalition

Transition plans should be embedded in business strategy and contain ambition for more effective climate governance

It is impossible to develop a credible transition plan and to execute on it without embedding climate-related actions and targets into your company's business strategy.

Without executive and stakeholder buy-in, you won't get anywhere. And without eliminating 'say-do' gaps, a company exposes itself to stakeholder criticism. For example, a company that claims to be on a net-zero pathway, and still lobbies for the expansion of fossil fuels, reveals both a failure of executive buy-in and a lack of governance safeguards. This is a high risk approach and archetypal failure.

Your plan must also include adequate resource allocation to make short- and long-term initiatives feasible. And to make things personal, companies should put the proper governance mechanisms — such as climate-linked pay

— in place to incentivize behavior change. One effective motivator is offering climate-related financial incentives. These incentives should be significant enough to drive change and may need to extend beyond the C-suite.

It's crucial that your entire company is bought into, and aligned with, your transition plan, and that it has the resources necessary to implement it.

FROM THE DATA

Only a small number of companies in Manifest Climate's database have disclosed connections between executive pay and their climate objectives. Out of 556 organizations studied, 474 (85%) have shared at least one type of climate-related target. However, just 120 (22%) have shared information that indicates a link between CEO compensation and climate goals. This indicates that most companies with climate goals lack a compensation-based accountability system for achieving them.

Transition plans must be metrics-driven and based on good data

Transition plans should start with establishing a baseline. This involves not just examining your company's emissions, but also assessing climate risk and opportunity, identifying decarbonization levers, and analyzing how these factors are connected.

Strong baselines are grounded in robust accounting for present carbon-emitting activities and numerical targets for the future. Transition plans should be time-bound and quantifiable — including numerical key performance indicators (KPIs) to be measured within specified timeframes.

Numerical targets set for multiple timeframes are what differentiate credible climate transition plans from other documents like impact reports or sustainability updates. While the latter publications may use vague statements and big picture vision messaging ('climate neutral by 2040'; 'contributing to a better world'), credible climate transition plans include measurable targets and back these up with feasible initiatives for achieving them. Climate initiatives should also be consistent with your other business activities. For example, it would be ineffective to earmark a dollar figure to spend on climate action, while also putting significant funds toward maladaptive climate practices.

FROM THE DATA

Data from Manifest Climate reveals that only 5% of organizations with transition plans have identified specific metrics and targets for managing physical and transition climate risks.

Transition plans must propose realistic short-term, mid-term, and long-term goals

Although transition plans are built around long-term net-zero goals, an organization's primary focus should be on realistic, achievable short- and medium-term initiatives that will help a company reach its climate targets. **A transition plan is not simply a net-zero target**. The best plans define targets and detail the action steps that are needed to get there across multiple time horizons.

FROM THE DATA

Manifest Climate's data reveals that while 77% of consumer discretionary organizations — companies that sell goods that people want, not need — have climate targets, only 36% of these report interim targets.

Transition plans must include provisions for reporting, monitoring, and accountability

Transition plans should clearly state how a company plans to report on and review its progress toward climate goals. This makes the transition plan a dynamic roadmap that can evolve with a company. Publicly disclosing a company's transition plan promotes accountability, as it keeps stakeholders informed about the planned actions, thereby increasing the chances of the company following through on its commitments.

Credible transition plans are **flexible and responsive.** They should include provisions for regular reviews and updates, as well as explain how stakeholder feedback will be aggregated and used for these updates.

Part of this flexibility and responsiveness is to ensure that your transition plan fulfills the requirements of the standards or frameworks that you currently report against or may be mandated to report against in the future. Standards and frameworks on transition plans continue to mature, and it's important to stay informed about their expectations as they evolve over time.

FROM THE DATA

Manifest Climate's data shows that almost 19% of organizations with transition plans have a process in place to review climate targets and goals. However, just over 5% of companies with documented transition plans clearly update their progress toward their targets every year.

Key elements of a credible climate transition plan

- ☑ Embedded in business strategy and contains provisions for effective climate governance
- ☑ Based on good data and metrics-driven
- ☑ Proposes realistic short-term, mid-term, and long-term goals
- ☑ Includes provisions for reporting, monitoring, and accountability

7 steps to creating a credible transition plan

1. Identify climate-related risks and opportunities

Identifying climate-related risks and opportunities is a critical first step in developing a credible and effective climate transition plan. This phase requires broad thinking and input from a range of stakeholders that are both external (customers, investors, partners, trade associations, community organizations, etc.) and internal (leadership, managers, employees).

Conduct a materiality assessment by interviewing stakeholders, consulting published lists of climate-related risks and opportunities, and analyzing the disclosures and transition plans of relevant industry peers and climate leaders.

What is a materiality assessment?

A materiality assessment helps clarify the relevant importance of climate risks and opportunities to your organization. It's an important foundational step in any climate strategy because it highlights the most pressing risks that organizations need to manage and adapt to.

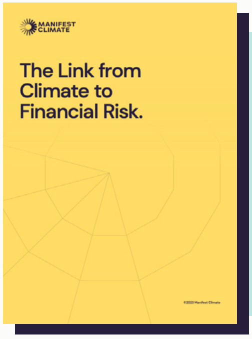
Conducting a materiality assessment can be an involved process. That's why it's important to start with the right definitions, which can vary across reporting frameworks.

For example, the **ISSB** explains that information is material if excluding or mischaracterizing it could influence stakeholder decisions. The standard-setter encourages companies to include both quantitative and qualitative factors when determining material information, such as considering the magnitude and nature of the effect of a sustainability-related risk or opportunity.

Meanwhile, Europe's **Corporate Sustainability Reporting Directive (CSRD)** invokes a number of materiality-based concepts. This includes impact materiality (a company's impact on people and the environment), financial materiality (sustainability concerns that generate financial risks or opportunities for a company's future cash flows and enterprise value), and double materiality (how a company affects people and the environment, as well as how sustainability considerations impact a company's businesses and operations).

Make sure to consult with internal stakeholders at all levels and from every relevant department within your organization. Those closer to operations on the ground will often be more in touch with what's possible and what needs to be addressed (i.e. what is material) than those in leadership positions.

Once you identify your organization's material climate-related risks and opportunities, it will become easier to start putting your transition plan into action.



Free download

Climate risk almost always equates to financial risk — although identifying the exact links can be challenging for organizations. Download our free whitepaper, **The Link from Climate to Financial Risk**, to learn more.

2. Benchmark against your peers

While the results may not appear in public-facing transition plans, peer and industry benchmarking can be an invaluable exercise when developing your own climate transition plan. Studying the climate disclosures and transition plans of industry peers and climate leaders can help inform your own materiality assessments, offer insights into potential challenges to your industry's unique net-zero pathway, and provide ideas for initiatives and next steps to work on.

When done correctly, benchmarking can also spark collaboration within and between industries. This collaboration is essential for achieving meaningful climate action at scale. It also helps to unify industries, creating universal environmental standards for suppliers and partners across an organization's value chain.

What does climate collaboration look like?

Thousands of corporations around the world are using the climate transition as an opportunity to work collaboratively with their peers. Here are a few examples of corporate collaborations:

- **Climate Action 100+** — an investor-led initiative that ensures the world's largest corporate greenhouse gas emitters take necessary action on climate change
- **Glasgow Financial Alliance for Net Zero** — a global coalition of leading financial institutions committed to accelerating the economy's decarbonization
- **Net Zero Asset Managers Initiative** — an international group of asset managers committed to supporting the goal of net-zero greenhouse gas emissions by 2050 or sooner
- **Net-Zero Asset Owner Alliance** — a member-led initiative of institutional investors committed to transitioning their investment portfolios to net-zero GHG emissions by 2050
- **ResponsibleSteel** — a global standard and certification initiative with a mission to drive the socially and environmentally responsible production of net-zero steel
- **World Business Council for Sustainable Development** — a global, CEO-led community of more than 200 businesses working to accelerate the system transformations needed for a net-zero, nature positive, and equitable future

Benchmark better with Manifest Climate

Manifest Climate analyzes hundreds of data points per company to reveal how your competitors and industry leaders are reporting on and managing climate risk. Rather than manually conducting a climate benchmarking assessment every year and working from potentially outdated information, you can keep up with competitors' climate management as new information is released.

3. Set long-term, near-term, and interim targets

Every sector needs to reduce its GHG emissions to limit global warming to 1.5°C above pre-industrial levels, the global target outlined in the 2015 Paris Climate Agreement. However, not all sectors can decarbonize at the same speed and to the same degree. For example, the aviation and agriculture industries will require significant innovation to reduce emissions to meet net zero by mid-century. In contrast, less carbon-intensive industries — like services— may find it easier to cut emissions.

Every sector has its own unique pathway and recommended approaches for achieving net zero. This means your transition plan should be customized to the requirements of your industry and reflect its best practices.

The first step to setting targets is to calculate your GHG emissions across Scope 1, 2, and 3 in line with the GHG Protocol or another recommended carbon accounting methodology. Choose a base year (no later than 2015 — we recommend referring to the SBTi's guidelines). In your transition plan, explain the science behind your accounting and any limitations that may be present in your data and methodologies.

Additionally, your transition plan should define a long-term net-zero goal, while heavily focusing on the short- and medium-term initiatives that will help your company meet this eventual target. By carefully studying your industry's specific net-zero pathway, including its particular opportunities and challenges, you can set more appropriate short- and mid-term targets, as well as map out a realistic journey to net zero.

4. Identify specific initiatives

The bulk of your climate transition plan should focus on the specific actions and initiatives that will take your organization from its baseline to its ultimate climate goal.

Many of these initiatives should be ready to implement in the here and now. For example, you may set a short-term target to increase your renewable energy mix to lower your Scope 1 and 2 emissions. You might also re-evaluate your spending for climate-related R&D and climate policy lobbying, as well as assess how climate-related factors can and should play into procurement decisions.

Planning for specific climate initiatives requires a detailed understanding of both your emissions baseline and other potential risks or weaknesses in your value chain and operations. It's also important to hear from as many stakeholders as possible, as well as to seek out competitor and industry best practice climate disclosures and transition plans for inspiration.

The TPT offers detailed guidance on developing an action plan, which includes designing a change management program, addressing material interdependencies, and performing sensitivity analysis.

Your climate risk management should include both mitigation and adaptation activities to address climate change's causes and effects. Depending on the framework you're reporting against, these may or may not be included in your transition plan. As noted above, the TCFD recommends developing both a transition plan and an adaptation plan, while the TPT disclosure framework combines the two into a single plan.

Mitigation vs. adaptation: What's the difference?

Mitigation initiatives address the causes of climate change. In a corporate context, this often means reducing a company's contribution to global GHG emissions. This is because more emissions contribute to a warmer planet, causing further climate-related physical risks.

On the other hand, adaptation initiatives help businesses adjust to the current and future effects of climate change. For example, if a particular crop or resource becomes scarce due to a changing climate, an adaptation initiative would involve proactively looking for alternatives before this begins to negatively affect the business.

While mitigation addresses the causes and attempts to minimize the impacts of climate change, adaptation focuses on adjusting to a changing world.

Identify next steps with Manifest Climate

Manifest Climate's proprietary methodology helps you accelerate your climate strategy. Our software assesses your climate disclosures and management, helping you to identify data-driven next steps for your climate action plan. Our technology also helps you prioritize what to do next to help your organization move forward on its climate journey.

5. Establish governance mechanisms

Ensure the climate mitigation and any adaptation initiatives in your transition plan align with your broader business strategy and financial plans. While certain details might need to be kept private for business reasons, make sure you know what specific initiatives will cost and confirm that your company will allocate the appropriate funds to start and sustain your climate ambition. In this context, be as transparent as possible and understand potential criticisms if details are omitted. What might appear to be a perfect transition plan on the surface may crumble under scrutiny (see step 6 for more on reputational impact).

Net zero should become a core part of your company's business strategy — not an add-on. Look for ways to incentivize and reward climate progress as you would with other KPIs. One effective governance mechanism can be adjusting executive and broader employee compensation to better match your transition plan's objectives.

Another strategy, and one that Manifest Climate recommends, involves empowering a *climate champion* to build internal climate expertise, as well as to integrate climate risk management and mitigation activities throughout the company. However, buy-in from a single person is not enough — your climate champion needs the whole company on board. That might involve difficult but necessary conversations.

Centralize climate management with Manifest Climate

Manifest Climate is your single source of truth for guiding your organization through the climate transformation. Our software ensures institutional continuity within your company and keeps your entire organization on the same page. Our Resources feature allows employees from any team to gain the skills required to identify climate risks, stay ahead of climate trends, and manage the climate transformation.

6. Plan for disclosure and address gaps

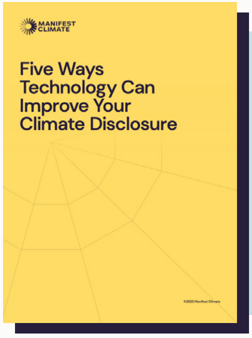
Transition plans should include provisions for the ongoing monitoring and reporting of progress. Depending on the frameworks and standards your company adheres to, your reporting plan may look different from that of your peers.

Although it may not appear in your transition plan, this is an ideal time to take stock of your current climate disclosure and management, as well as to look for ways to improve your company's procedures around these practices. Understanding what your investors and other stakeholders are looking for in your disclosures and transition plan will guide you in formulating and communicating both your plan and progress.

Climate disclosures can impact your company's reputation, so it's important to get them right. Failing to disclose transition initiatives may set companies up for allegations of 'greenhushing,' the practice of hiding climate-related goals to avoid public scrutiny. Likewise, failing to paint a complete picture — for example, by overstating climate-aligned R&D, relative to carbon-intensive R&D — may result in a company getting criticized for greenwashing, the practice of exaggerating a positive climate impact.

FROM THE DATA

Manifest Climate's 2022 Disclosure Benchmark Review reveals only 49% of climate disclosures contain information that investors consider useful for decision-makers. Additionally, none of the 3,000 organizations reviewed covered all the criteria required for disclosures to be considered decision-useful across all 11 TCFD recommendations.



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Technology can be a key asset for improving the quality and comprehensiveness of your climate disclosures. Download our free whitepaper, **Five Ways Technology Can Improve Your Climate Disclosure**, to learn more.

Close 'say-do' gaps with Manifest Climate

Manifest Climate improves your climate disclosures and management by identifying your existing information gaps. We help you to address these gaps and provide relevant, decision-useful information to investors and key stakeholders. Evaluate the alignment of your public disclosures against multiple frameworks and standards, and uncover new opportunities for strong climate risk management.

7. Understand how climate disclosure regulations affect your plan

As more climate disclosure regulations come online, companies should look carefully at which rules they will need to comply with and what these regulations say about transition plans.

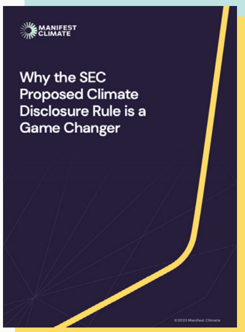
Each climate regulation or standard defines a transition plan differently, requiring unique elements and approaches. For example, the SEC's proposed climate disclosure rule references adaptation in its transition plan requirement. Meanwhile, the TCFD, ISSB, and CSRD place a heavier focus on decarbonization.

Companies subject to multiple regulations or which have pre-existing commitments to voluntary reporting frameworks will need to investigate the differences and similarities between these various standards and frameworks. After that, they will need to decide how they can best meet all the requirements. Companies may be able to address all of them through a single, all-encompassing transition plan, or they may find it simpler to develop multiple transition plans that each have a unique focus.

This step is equally important for companies with existing transition plans that are facing new regulations. A new regulatory requirement indicates that it's time to review and potentially update your existing transition plan.

Manage cross-jurisdictional reporting with Manifest Climate

Our software can simplify and improve companies' climate disclosures and management. Manifest Climate's technology is built around the TCFD's 11 recommendations and can evaluate your climate disclosures and management across multiple standards and regulations. These include reporting rules out of the US, Canada, and UK, as well as the ISSB's climate standard and the TCFD.



Free download

The SEC's incoming climate disclosure rule is ushering in a new era of climate-related disclosure. Download our free whitepaper, **Why the SEC Proposed Climate Disclosure Rule is a Game Changer**, to learn more.

Get started today

As climate-related physical and transition risks intensify, aligning business strategy with a clear decarbonization plan is essential for companies' survival. Ultimately, developing a credible climate transition plan is not just an exercise in good corporate citizenship — it is a business imperative. With stakeholders demanding clear, convincing information that your company can address its climate-related financial risks and meet global net-zero targets, developing a credible transition plan should be high on every company's agenda.

If your company does not have a climate transition plan, the time to start is now. Work with your leadership team to prioritize a transition plan, and seek out the tools and partners you need to craft one that is compelling and credible.

Make a credible transition plan with the help of Manifest Climate

Manifest Climate is a Climate Risk Planning software solution that helps companies supercharge their climate strategies. Our platform is the world's best at assessing climate disclosures and represents a single source of truth to guide your organization through the climate transformation in the long term. We help you save up to 75% of manual time and effort and up to 50% in costs by analyzing how your organization discloses its climate-related information. We also identify opportunities for improvement based on best practices.

Our climate assessments don't just tell you what's missing from your climate management. They also tell you what to do next. Our customized, next-step recommendations are based on what's worked for organizations just like yours and will help you develop a data-driven action plan to turn your climate commitments into action.

Manifest Climate helps your company:

- Identify material climate risks and opportunities
- Uncover gaps in your climate disclosures
- Improve your disclosure management with customized recommendations on what investors are looking for
- Benchmark your disclosures against peers and industry leaders
- Easily improve compliance with world-recognized frameworks and standards, including the TCFD and ISSB, as well as reporting rules out of the US, Canada, and UK
- Build internal expertise and manage climate knowledge from a central location
- Keep team members up-to-date on business-relevant climate trends and regulatory updates

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