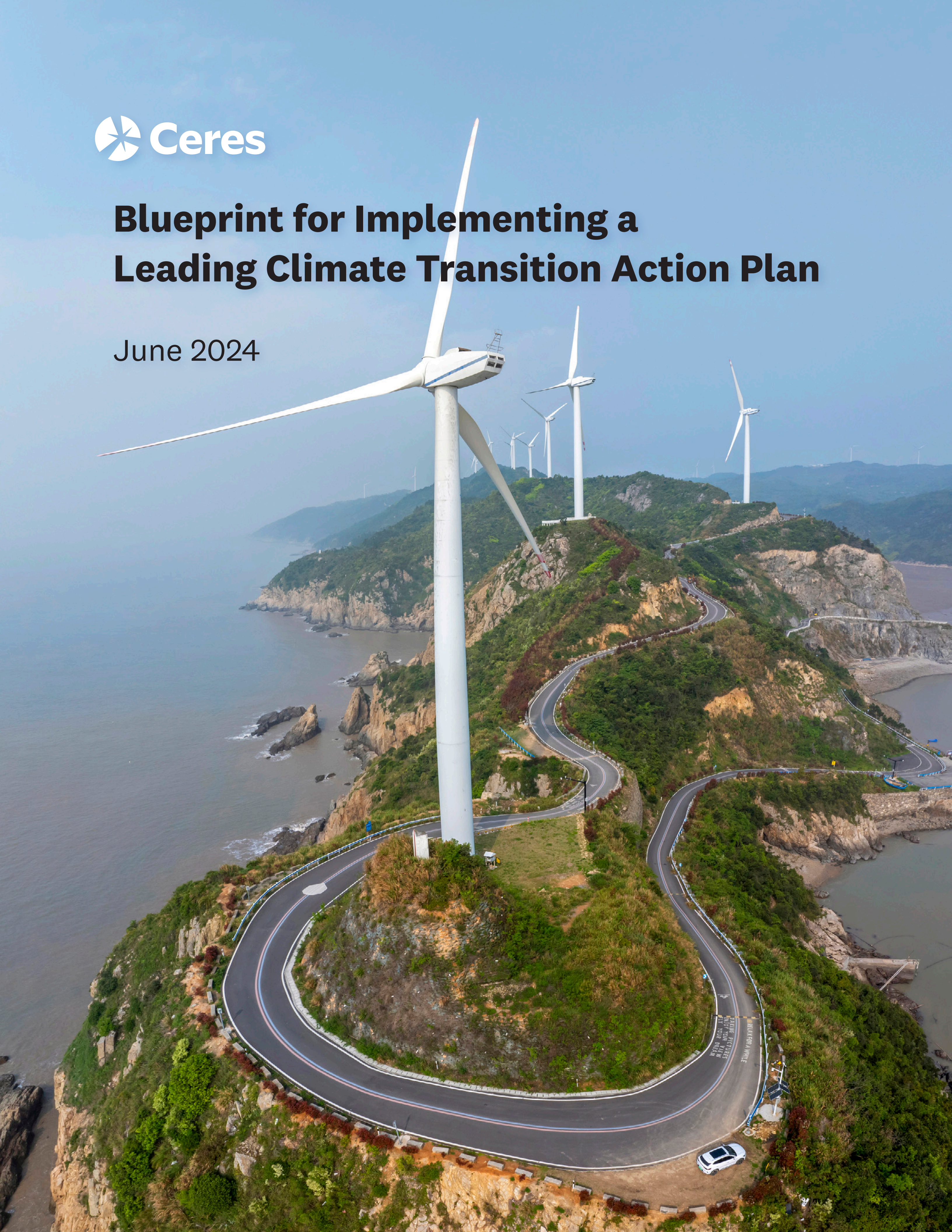
Ceres

Blueprint for Implementing a Leading Climate Transition Action Plan

June 2024



About Ceres

Ceres is a nonprofit advocacy organization accelerating the transition to a cleaner, more just, and sustainable world. United under a shared vision, our powerful networks of investors and companies are proving sustainability is the bottom line – changing markets and sectors from the inside out. For more information, visit ceres.org and follow @CeresNews.

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Thanks to the colleagues at Ceres who provided invaluable editorial review and design support with this project, including Maura Conron and Heather Green.

Ceres would like to thank the following external reviewers for contributing their valuable time and thoughtful feedback to this project and informing its recommendations.

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Ceres' Climate Transition Plan Work

In October 2022, Ceres worked with the We Mean Business Coalition, CDP, and Environmental Defense Fund (EDF) to publish our joint report, Climate Transition Action Plans: Activate Your Journey to Climate Leadership. Since then, Ceres has supported two dozen S&P 500 companies and institutional investors on corporate climate transition planning while hosting events and workshops with broader audiences throughout 2023 and 2024. This work – and the perspectives of the companies, investors, and peer NGOs we work with – informed this report and the action-oriented recommendations contained within.

Throughout this report, Ceres provides best available examples in each of the different action areas, but this does not indicate an endorsement by Ceres of the companies' overall transition plans.

Introduction

In recent years, climate transition plans have emerged as a centerpiece of accountability and planning when it comes to corporate climate action.

These forward-looking, near-term, and quantitative action plans provide companies their best opportunity to share not only what their climate-related goals are but how they will work to achieve them. In 2023, the ecosystem advanced significantly with the release of a variety of standards by governments and NGOs and several companies publishing their first plans. Indeed, as former SEC Commissioner and vice chair of the Glasgow Financial Alliance for Net Zero Mary Schapiro said, "2023 is the year of the transition plan."

Despite this strong momentum, companies are still grappling with how to move beyond existing climate disclosure to developing and implementing what constitutes a leading Climate Transition Action Plan (CTAP).

At the same time, the spotlight on corporate climate risks is rising. Around the world, the adoption of new disclosure regulations and reporting standards will require companies to disclose their transition risks – and efforts to manage them. Transition plans are a key tool for businesses that recognize the value of going beyond basic regulatory requirements and that want to position themselves for success in the transition to a low-carbon economy. A leading CTAP lays out strategies to meet sustainability goals and details how a company is making the transition to a just, low-carbon economy part of its core business strategy.

In this report, Ceres makes the business case for CTAPs in response to climate-related risks, opportunities, and regulations. Companies that meet baseline regulatory requirements of disclosing these risks but also go further, integrating these risks and opportunities into core business strategy via transition planning, can position themselves for not just compliance but success in the low-carbon-economy.

- With our new tool, the Climate Transition Plan Ambition Spectrum, we lay out the **action steps** companies can take to enhance an existing disclosure practice by creating a leading transition plan.
- The report also details **key challenges** companies may encounter in developing and implementing plans, as well as practical recommendations and case studies for overcoming those hurdles.

This implementation guidance builds on our CTAP work and is meant to compliment transition planning disclosure frameworks, such as those offered by the Transition Plan Taskforce, Glasgow Financial Alliance for Net Zero, CDP, and the We Mean Business Coalition. As companies and investors familiarize themselves with these frameworks, we expect a growing number will explore issues contained within this report and publish transition plans in 2024 and beyond.

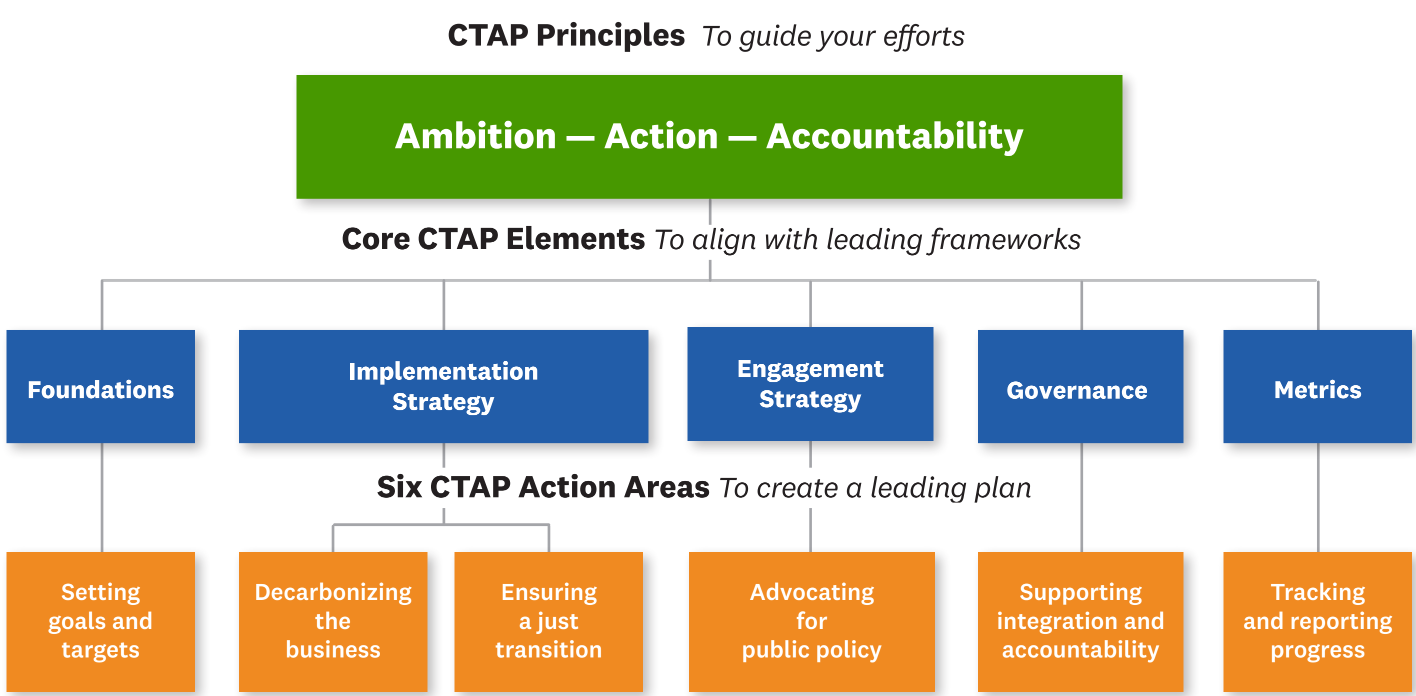
What is a CTAP?

In our joint report from 2022, Climate Transition Action Plans: Activate Your Journey to Climate Leadership, we identified three principles of CTAPs: ambition, action, and accountability. We defined CTAPs as "a forward-looking, quantitative set of actions a company will take in the near- and medium-term to reduce GHG emissions and align business strategies and policy advocacy with limiting climate change to 1.5 °C in a way that is just and equitable."

As other frameworks for transition plans disclosure have emerged, there has been clear alignment on the goals and principles. Companies and their investors should feel confident using any of these leading frameworks. The implementation guidance in this report is aligned with the core disclosure elements found in the Transition Plan Taskforce (TPT) and Glasgow Financial Alliance for Net Zero (GFANZ) frameworks. Building on these elements, we provide specific ways companies can create a leading plan across six action areas:

1. **Setting goals and targets**
2. **Decarbonizing the business**
3. **Ensuring a just transition**
4. **Advocating for public policy**
5. **Supporting integration and accountability**
6. **Tracking and reporting progress**

Figure 1 - Building Blocks of a Leading CTAP



A key question from companies, investors, and other stakeholders is, "How are transition plans different from existing disclosures?"

Transition plans differ from traditional disclosures in several ways:

- **Forward-looking**
  As opposed to the point-in-time updates or backwards-looking accomplishments often shared in ESG and CSR reports.
- **Near-term**
  Outlining companies' planned near term actions (for example, in the coming one to three years), and how those actions roll up to medium-term strategies and long-term goals.
- **Quantitative**
  Estimating reductions companies expect from strategies employed and whether these strategies add up to achieving stated emissions targets.
- **Enabling**
  Tying together activities that enable the company's decarbonization plan, and that support sector-wide decarbonization, such as business integration, governance, public policy advocacy, and just transition.

Transition plans should also be publicly disclosed and regularly updated. While some companies may have two versions of their CTAP, internal and external, to protect confidential information and strategies, their investors, regulators, and other stakeholders want public disclosures that are regularly updated to reflect updated strategies, challenges, and the latest climate science. Moreover, transition plans are meant to complement, not replace, existing disclosures. While existing disclosures typically detail companies' efforts to date and risks and opportunities identified, transition plans describe continuing and new efforts to address those risks and opportunities, and how those actions contribute to alignment with a 1.5 °C future.

CTAPs Are

- Forward-looking, near-term, quantitative, and enabling
- Clear actions and investments to achieve medium- and long-term emissions reduction and other sustainability goals
- Integration of climate risks and opportunities into core business strategy and external engagement
- Tackling largest emissions sources (climate risk) in the value chain - both upstream and downstream
- Aligning with just transition principles for a net zero economy
- Publicly available and regularly updated on a one-to-three year basis

CTAPs Are Not

- Point-in-time updates or backwards-looking summaries of accomplishments
- Financial assessments of climate-related risks and opportunities - without corresponding actions in response
- High-level goals or targets without strategies and action to achieve them nor quantitative metrics to measure and track progress
- Intended to cover the full range of potentially material "ESG" topics

The Business Case for Climate Transition Plan

Transition plans, at their core, are organizational strategies for meeting climate goals through mitigating climate-related risks and maximizing opportunities. Leading companies recognize that the risks and opportunities identified through TCFD-aligned scenario analysis need to be acted on, and that doing so helps future proof their business and provides competitive advantage in the marketplace. For companies that seek to ensure alignment between their business and climate strategies, transition plans are a foundational tool.

Case study: the business case

Unilever's Transition Plan

"As a company dependent on agricultural and energy-intensive chemical ingredients, we believe that transitioning to become a lower emission business has many benefits. It increases resilience, improves efficiency, and future-proofs our value chain against transition risks such as carbon prices, while sparking innovation and helping to attract the best talent. In proactively managing our transition to net zero, we also ensure we respond to the opportunities and risks highlighted through our Task Force on Climate-related Financial Disclosures scenario analysis process."

For other companies, executive leadership may need some convincing. Climate risks may seem too futuristic or unpredictable to reasonably incorporate into a business strategy, or the perceived or actual cost of mitigation may outweigh competitive advantage in the short term. There is a real tension here: many climate risks show up on scenario models as occurring across a five- to twenty-year period. However, the actions needed to manage those risks must start now and will require a whole-of-business approach. Building the business case with leadership for implementing a near-term transition plan is essential.

Some of the Best Available CTAP Examples

In the past two years, numerous companies have published inaugural transition plans. These plans are not necessarily perfect and do not include every element recommended in Ceres' or others' guidance. However, transition planning is an exercise in continual improvement. Examples of strong transition planning practices and disclosures to date include:

- National Grid's Reaching Real Zero: Our Climate Transition Plan
- General Mills' Climate Transition Action Plan
- Mars Inc.'s Net Zero Roadmap
- Ball Corp.'s Climate Transition Plan
- Unilever PLC's Climate Transition Action Plan
- HSBC Holding's Net Zero Transition Plan

CTAP Business Case #1

Investors and financial institutions increasingly expect portfolio companies to have and disclose detailed transition plans – making them key to companies' continued access to market-rate capital.

Financial institutions seek to gain a return on investment and minimize risks within the investment decision-making process. Investors have a fiduciary responsibility to manage risks within their portfolios, including their exposure from portfolio companies to climate-related physical and transition risks. Many investors seek comprehensive and robust transition plans from their portfolio companies that fill the gap between disclosures that identify risks and targets and companies' plans and actions to manage those risks and achieve targets.

Examples include:

- **20% of climate-related shareholder resolutions tracked by Ceres at North American companies (55 of 274) included investor asks for transition plans** in the 2024 proxy season, compared to just 3% in 2022.

- **Major asset managers and pension funds are referencing responses to climate risk, 1.5 ºC targets, and transitioning planning in their board and proxy voting criteria**, including BNP Paribas, CalSTRS, Mass PRIM, New York State Common Retirement Fund, Parnassus Investments, and Wespath.

- **602 global investors managing $42 trillion in assets** called for "public disclosure of 1.5 ºC pathway-aligned, science-based, and independently verifiable climate transition plans" in the 2022 Global Investor Statement to Governments on the Climate Crisis.

- **400 investors managing $65 trillion** in assets joined the Institutional Group on Climate Change's 2023 Net Zero Engagement Initiative, engaging an initial list of 107 companies on transition planning.

- **130 global banks** committed to meet a net zero by 2050 goal for their lending, including via 2030 interim targets, as part of the United Nations-convened Net-Zero Banking Alliance.

CTAP Business Case #2

More jurisdictions around the globe are adopting or considering adopting regulations for climate-related disclosure. Companies that act proactively reduce transition risks for their businesses and better position themselves within the quickly evolving regulatory landscape.

These regulations by jurisdictions around the globe will continue to strengthen investor, financial institution, and other stakeholder expectations of how corporations are not only identifying but managing climate-related risks. While the specific regulations vary, all require companies to disclose some level of emissions and climate-related risks, and, in some cases, plans to manage those risks.

- In January 2023, the European Commission's Corporate Sustainability Reporting Directive went into effect, requiring disclosure of "plans to ensure that [a company's] business model and strategy are compatible with the transition to a climate-neutral economy and with limiting global warming to 1.5° C in line with the Paris Agreement." This was followed by the Corporate Sustainability Due Diligence Directive (CS3D), approved by the European Parliament in April 2024, which expands upon these obligations.
- In June 2023, the International Sustainability Standards Board (ISSB) released standards IFRS S1 and IFRS S2 (replacing TCFD standards) for countries to adopt as regulation. Many countries are working on doing so and at COP 28 64 jurisdictions committed to advancing ISSB as a global baseline. IFRS S2 requires disclosure of how the entity "plans to respond to, climate-related risks and opportunities in its strategy and decision-making, including how the entity plans to achieve any climate-related targets it has set and any target it is required to meet by law or regulation. Specifically, the entity shall disclose information about... any climate-related transition plan the entity has."
- In March 2024, the U.S. Securities and Exchange Commission (SEC) announced the Enhancement and Standardization of Climate-Related Disclosures for Investors, requiring climate disclosures in companies' registration statements and annual reporting. As part of this regulation, a SEC registrant that has adopted a transition plan to manage a material transition risk is required to describe that plan, which may include "a plan to reduce its GHG emission in line with its own commitments or commitments of jurisdictions within which it has significant operations."

Even as the SEC rule undergoes legal challenges or countries debate which parts of the ISSB standards to include in their regulations, mandatory disclosure of climate-related information is here to stay. Companies that are proactive, rather than taking a "wait and see approach," will be better prepared and better insulated from regulatory shock. Even if regulations ultimately are slowed or require less disclosure, investors, financial institutions, customers, and even employees will continue to look for confirmation from companies that these risks are being managed and opportunities leveraged.

Companies that have been voluntarily disclosing meaningful and useful climate-related information and using it to influence and drive action in their value chains are better prepared for evolving business, stakeholder, and regulatory requirements. Companies that have treated climate disclosure as a check-the-box exercise now have a chance to leverage the activity to go further: driving action and turning climate risk management into a business strategy.

CTAP Business Case #3

Transition plans support strategy development and implementation, risk mitigation, and long-term value creation. In addition to meeting investor expectation and regulatory requirements, CTAPs can:

- **Equip internal teams across the organization** with strategies and the commitment from leadership to achieve medium- and long-term goals and with mechanisms for cross-company knowledge sharing, collaboration, and key progress indicator (KPI) alignment.
- **Reduce "greenwashing" concerns** by clearly and transparently communicating measurable actions being taken to achieve medium- and long-term goals.
- **Tie climate goals with core business priorities** by connecting climate-related actions and programs to positive business and financial outcomes.
- **Meet increasing client and consumer expectations** by responding to the demands of companies, consumers, and governments seeking to reduce their own emissions and in turn, looking to the companies they do business with for low-carbon products and services. Additionally, customers want to see that the companies they support are working to be part of the solution to the warming planet and pollution.
- **Communicate ambition to suppliers** by signaling what the company will require from its suppliers in terms of innovation, sourcing, manufacturing, etc.
- **Communicate ambition to policymakers** by articulating the private sector's need and support for policies that will enable decarbonization for the company, its supply chain, and its sector.
- **Create competitive advantage** by being the first to capitalize on the opportunities provided by the low-carbon transition.

Case study:
driving strategy, integration, and governance

Yahoo Finance

"Mars' CFO on spending $1 billion to reduce emissions and integrate sustainability into 'the core of the business'"

"I'm really keen to integrate this sustainability or climate agenda into the core of the business… starting from strategic priorities and strategic resource allocation… We've allocated the human and fiscal resources to it. And now we're setting the system up to also track our progress… If you look at any competitive strategy, you need to follow the consumer and what your own associates are telling you that you need to be doing. That's just going to make your business sustainable in the long term. We believe that by doing this the right way, that will give us a competitive advantage that will allow our business to continue to grow."

Building Upon Existing Disclosures to Develop a Leading Climate Transition Action Plan

The first step to creating a leading transition plan is to understand how well a company's current disclosure or planning follows best practice. To help, Ceres has defined the evolution in four stages:

- **Existing disclosures (Pre-CTAP)**
  Reactive to requirements and expectations, but do not go beyond general commitments to sustainability and lack meaningful leadership buy-in.
- **Emerging transition plan**
  Responsive to calls to manage climate change with a climate policy in place, some quantitative goals, and high-level strategies to meet them; however, these efforts are not connected to core business strategies or transition risks and opportunities of the business.
- **Robust transition plan**
  Proactive identification of activities that the company is taking to align its business strategy with a low-carbon economy, accompanied by robust tracking, reporting. and analysis of progress.
- **Leading transition plan**
  Systemic in driving change and providing evidence that the company is positioned to succeed in the transition to a low-carbon economy through internal implementation of quantitative, time-bound, and measurable strategies, as well as strategies that contribute to advancing systemic changes to decarbonize its sector and the broader economy.

This report introduces the **CTAP Ambition Spectrum** as a tool companies can use to self-assess how they can improve their planning in six key transition plan action areas:

- Setting goals and targets
- Decarbonizing the business
- Ensuring a just transition
- Advocating for public policy
- Driving strategy, integration, and accountability
- Tracking and reporting progress

Some companies' early plans may have strengths and weaknesses. For example, a company's plan can have robust targets and decarbonization levers but room for improvement on policy advocacy or ensuring a just transition. It is simply expected that companies improve their plans from where they sit today. However, much more needs to be done to increase the speed and scale with which we are transitioning to a just, sustainable, and thriving economy for people and the planet. Leading transition plans are defined to provide a goal to strive for to drive systemic change.

CTAP Ambition Spectrum	Existing Disclosure	Emerging CTAP	Robust CTAP	Leading CTAP
Goals and Targets	No goals or one-off goals not tied to reducing emissions or managing risk.	Quantitative goals for individual climate strategies and/or a company-wide emissions reduction goal, which could be science-based in the near and long term.	Near- and long-term science-based emissions targets and/or climate goals that focus on material emission sources.	Third-party validated near- and long-term science-based targets and net zero goal by 2050 or sooner.
Decarbonization	No decarbonization strategy or one-off sustainability initiatives that are not tied to managing climate transition, risks, or opportunities.	Specific decarbonization strategies however it is not clear how strategies add up and if they are sufficient to achieve stated goals.	Details quantitative, forward-looking, and time-bound strategies to achieve stated goals. Strategies and associated emissions reductions are visualized individually and/or in aggregate.	Details quantitative, forward-looking, and time-bound strategies. Strategies and associated emissions reductions are visualized and individually quantified. Includes investments towards sector and/or systemic decarbonization efforts.
Just Transition	Just Transition is not an element of sustainability or climate strategies. DEI initiatives maybe included.	Sustainability strategies include consideration of impacts on stakeholders and efforts to reduce harms.	Specific and public commitment to just transition principles within climate strategy and corresponding actions. Stakeholder input a key feature of development and implementation of transition plan.	Public commitment to ensuring a just climate transition and integration throughout climate strategies. Forward-looking actions and investments to support affected stakeholders. Contributions to advancing social protections. Measurement and accountability mechanisms.
Public Policy	Public policy advocacy for climate-related legislation, regulation, and/or incentives is not a listed strategy to achieve sustainability goals or emissions targets.	Listed policy preferences and/or backwards-looking areas of engagement. Policy advocacy is not seen as a core business opportunity or mechanism to achieve climate goals.	Policy advocacy is a key pillar of climate strategy. Forward-looking actions to advocate for policies are listed. Strong assessment of policy/ lobbying efforts aligment with stated goals and oversight mechanisms.	Policy advocacy is key pillar of climate strategy and company lists specific forward-looking actions at state, federal, and/or international levels. Significant efforts to influence/align trade associations' lobbying. Beyond-value-chain advocacy for systemic decarbonization.
Integration and Accountability	Sustainability strategies are not associated with core business goals or integrated into core business planning. There is little or no disclosure of governance oversight on sustainability.	Sustainability is considered across business units but climate change is not assessed/ considered for materiality. Siloed sustainability team and low executive/board accountability.	Planning for material impacts of climate change is core strategic planning question and responses are part of integrated planning cycle. Board and executive expertise and oversight of climate-related issues and planning.	Mitigating climate change to reduce material impacts is a core business strategy. Business model, operations, and emissions are aligned with or on track to align with 1.5 ° C sectoral requirements. Climate expertise and culture at all relevant levels within the organization.
Tracking and Reporting Progress	No quantitative metrics. Progress reporting is absent or does not illustrate progress towards total goal achievement. Sustainability reporting is separate from regulatory and/or financial reporting.	Quantitative metrics to track sustainabilty efforts. Progress is reported on an annual basis, but can be difficult to follow over time.	Transition plan is published and updated on a one-to-three-year basis in addition to annual progress. Quantitative and visual reporting shows progress towards science-based goals and in relation to sectoral pathways.	Standalone document or easy-to-use index that is updated every one-to-three-years in addition to annual progress. Quantitative and visual reporting of progress towards validated science-based goals. Integrated into regulatory/financial reporting.

1 Setting Goals and Targets – Why is this required for a transition plan?

Challenge

For a variety of reasons, it can be difficult for companies to set ambitious quantitative targets for emissions reductions or other climate-related goals.

Recommendations and Opportunities

To guide their efforts and measure progress, companies set goals and targets. These may include financial targets for revenue growth, cost reductions, market share, and sales, technology and innovation targets related to RD&D and digital transformation, supply chain targets for transparency and traceability, or social targets related to DEI, labor, policymaker engagement, and supply chain responsibility. Targets that will help companies address climate-risks and future proof their business – whether related to circular economy, sustainable sourcing, biodiversity, renewable energy, energy efficiency, water use, or GHG emissions reductions – should be no different.

Done well, transition plans will lay out near-term, time-bound actions a company will take to address its transition risks, and metrics to track progress – even if the company does not have an overall emissions target. These are important steps for a company to take. But without a holistic target to build a strategy around, one that is science-based and covers the companies full value chain, it is difficult to assess whether the company's actions are ambitious enough to mitigate its climate-related risks and position its business for success in the transition to a 1.5 °C economy. Goals will not be met without plans to achieve them, much in the same way that plans without goals can lack direction and accountability.

For this reason, a leading transition plan is grounded in overarching emissions reduction goals, which for most companies means validated near-term (usually over the next five – 10 years) and long-term (2050 or sooner) science-based net zero goals. However, a transition plan can still be robust without validated or even overall science-based goals, if the company has established quantitative interim goals it is working towards and if the near-term actions a company is taking equips it to set science-based goals in the future. Companies are encouraged to reassess goal setting over time and move towards near- and long-term science-based targets as they gain confidence in their ability to achieve decarbonization.

Case study: integrating climate transition investments into core business planning

Danone's Climate Transition Plan

"By integrating climate transition investments into our annual operating plan and annual strategic planning, we can address climate-related risks, strategically assess programs and geographic alignment with our local business priorities and reinforce Danone's strong financial commitment. Consequently, this enhances our capacity to attract potential external co-founders for our initiatives."

Additional Examples - Setting Goals and Targets

Ball Corporation (pg.5), Allianz (pg.3), Unilever (pg.41), and EDP (pg.15).

The Importance of Target Setting Based on Science and Third-Party Validation

Investors and other stakeholders want confidence that a company's climate goals and plans put them on a path to thrive in a low-carbon economy. Goals that have been third-party validated, developed through transparent methodologies in line with science, and publicly reported provide that confidence.

The most established way for companies to do this is through SBTi, which provides publicly available sector specific and economy-wide pathways for companies to set and validate Science-Based Targets (SBTs) based on scientific consensus and in alignment with a 1.5 °C pathway. SBT pathways are available for all companies except those that are subject to the SBTi 's Oil and Gas Policy.

Companies may prefer to set their own science-based targets using other guidelines and validate their targets with alternative standards or validators. This approach may be valid; however, companies, investors, and stakeholders should exercise caution when assessing the intent, strength, and scientific rigor of these alternate targets and standards. Questions to consider include methodology, stakeholder input, validation process, public disclosure mechanism, funding structure, staff expertise, membership, and level of ambition. There are also assessments, such as the Transition Pathway Initiative, that provide public benchmarks of a company's carbon performance alignment with the Paris Agreement for some sectors based on publicly available methodology. These may be useful to investors and other stakeholders who seek to assess the validity of a company's target if it has not been otherwise validated.

2 Decarbonizing the Business – strategies to reach goals and how they add up

Challenge

Existing sustainability reporting often includes information about initiatives the company is implementing to reduce greenhouse gas emissions and provides a view of past performance. However, existing reporting may not inform investors and other stakeholders of the company's forward-looking strategies and whether those strategies are driven by an overall vision, sufficiently ambitious to mitigate the worst impacts of climate change, and ultimately contribute to the achievement of company-wide goals.

Recommendations and Opportunities

Robust transition planning is both a strategy and communications exercise. By detailing quantitative, forward-looking, and time-bound strategies to achieve emissions targets and other sustainability goals, the company is equipping its staff to pursue those strategies and allocate resources within their business units. At the same time, done well, transition plans build stakeholder confidence by providing a candid analysis of the quantitative contributions of different strategies the company has chosen. Sustainability strategies the company pursues should work to address risks and opportunities for the business.

Quantifying and visualizing these strategies' contributions – both individually and in sum – are key traits of leading transition plans. While challenging, this furthers the company's understanding of whether its strategies are sufficient to achieve its goals, gives confidence to investors and other stakeholders, and identifies gaps that companies can then work with policymakers, investors, financial institutions, governments, and other stakeholders to overcome. Indeed, it is okay and even expected for companies to have such gaps – especially if they are brainstorming ways to overcome them.

Recognizing that no company alone can fully mitigate the effects of climate change, a leading transition plan goes a step further and includes strategies, investments, and peer and policymaker engagement designed to contribute to sector and systemic decarbonization efforts. This positions the company to reap the benefits of enabling policies and regulations, inter- and intra-sector innovation, and a reputation of climate leadership.

Companies know their business better than anyone, but the following steps may be helpful in developing their transition plan's decarbonization strategies:

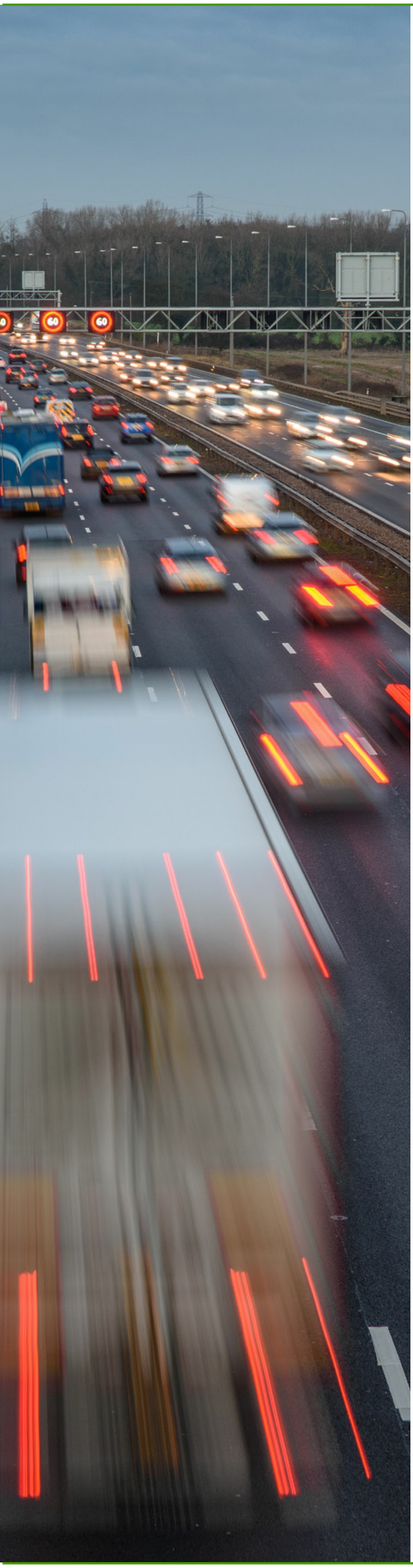
1. Determine their largest sources of emission across the full value chain (scopes 1-3) and related transition risks.
2. Identify the best strategies to reduce those emissions and how acting on these strategies will reduce risk and provide opportunities.
3. Estimate quantitatively the expected emissions reductions of selected strategies and show these planned reductions visually over time.
4. Evaluate what influence the company can have within but also beyond its value chain to reduce emissions and advance policy, equity, and economy-wide decarbonization.
5. Select meaningful metrics for measuring and communicating the results of these efforts.

When available, companies should always use sector-specific guidance in addition to sector-neutral resources. Examples include the Transition Plan Taskforce's Sector Guidance and Ceres' Climate Transition Plans in the U.S. Food Sector.

Lastly, for additional detail of the types of information and metrics companies may consider disclosing within their overall decarbonization strategies, Ceres recommends the Transition Plan Taskforce's Disclosure Framework, the International Financial Reporting Standards Foundation's S2 Climate-related Disclosures, and for companies that are European-based or do significant business in Europe, the Corporate Sustainability Reporting Directive's European Sustainability Reporting Standards (ESRS) and Corporate Sustainability Due Diligence Directive (CS3D).

Additional Examples - Decarbonizing the Business

National Grid (pg.8), Ball (pg.15), Unilever (pg.18), US Steel, Nestlé (pg.4), Southwest Airlines (pg.36), Citi (pg.21).

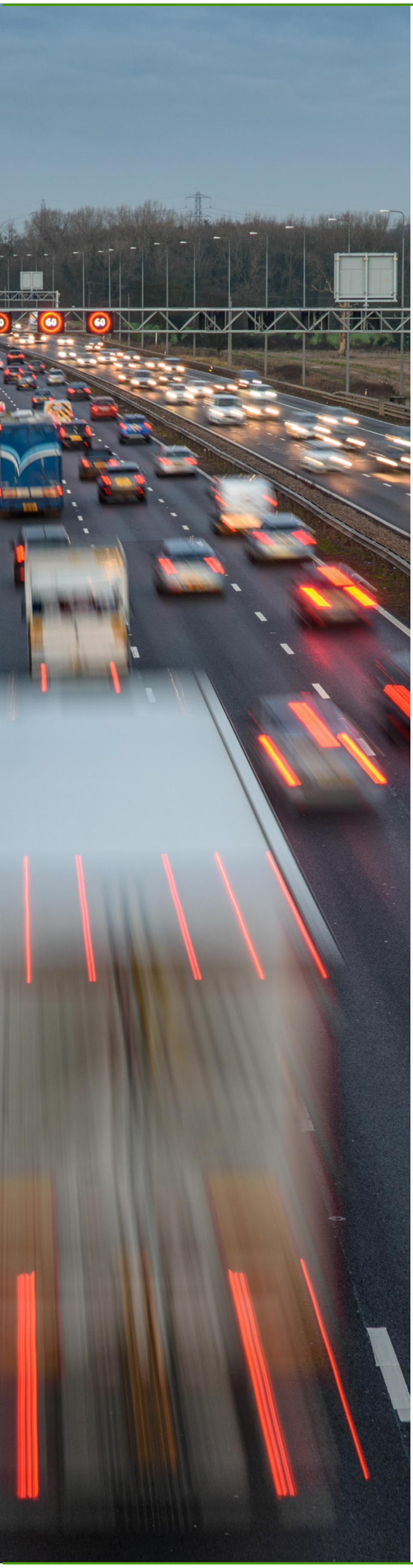


How to Take Scope 3 Action and Showcase Progress

For most companies, key emission sources occur in their value chain, or scope 3. Scope 3 emission account for 70% of emissions on average for most sectors, and 99% of emissions for financial institutions. Because of this, scope 3 disclosure provides invaluable information about the hot spots of climate risks and opportunities that exist in a company's value chain, and most credible net zero goals include scope 3 reductions. However, companies regularly cite addressing the scope 3 emissions from their value chain as one of the most difficult aspects of emissions accounting, risk assessment, and transition planning. Challenges that businesses often cite include the complexity of supply chains, data availability and quality, boundary setting, life cycle assessments, supplier and customer engagement, regulatory requirements, quantification, and demonstrating progress.

For companies that procure high emission materials or services, such as agricultural products, metals, chemicals, transportation, and fuels, or companies that make products that require fuel or electricity in their use phase, activities in the value chain will be the main focus of their emission reduction strategy. To move from an emerging to leading transition plan, companies should consider the following actions to address scope 3 emissions:

- **Estimate emissions to identify hot spots.** If data limitations are prohibiting a company from doing this for all scope 3 categories, it should disclose this limitation and identify actions to improve data over time.
- **Once hot spots are identified, develop a reduction strategy** for the emissions in question. Examples could include regenerative agricultural practices for a food company or procuring low-carbon steel for a major steel consumer (both upstream) or working via policy advocacy to decarbonize local electrical grids for a device manufacturer (downstream).
- **Provide estimates for the emission reductions** that will result from implementing a reduction strategy, such as carbon sequestered by adopting regenerative agricultural practices or the difference in embodied carbon of two steel products.
- **Identify near-term actions the company will take** to enable the reductions, such as providing incentives for farmers to implement regenerative practices or signing an offtake agreement with a steelmaker for a low-carbon product. Investors have shared that even early qualitative steps, such as forward-looking plans to collect emissions information from a certain number of suppliers, show effort and meaning in early iterations of plans.



One example of scope 3 guidance for a high emitting sector is Cere's report Cultivating Innovation: Practical Solutions for Companies to Reduce Agricultural Emissions. This report identifies critical ways food companies can drive agricultural innovation – both within their supply chains and sector wide – to meet ambitious climate targets outlined in their transition plans.

The GHG Protocol and Science-Based Targets initiative are both undergoing updates to address some of the challenges with disclosing scope 3 emissions and showing progress towards scope 3 targets. In the meantime, transition plans provide an excellent platform for companies to detail the methodologies behind their calculations and assumptions associated with scope 3 reduction activities and explain why resulting reductions may not be visible in their scope 3 inventory. Given the urgency of the climate crisis and the growing climate-related risks they face, companies can demonstrate leadership by moving forward with actions that they know will impact their hot spots while continuing to improve data availability, quality, and standardization around disclosure and target setting.

Case study: the value of scope 3 accounting, action, and visualized reductions

Mars' Roadmap to 2050

"Since 2015, Mars has included emissions from land use change in our Scope 3 emissions tracking. While this increased our GHG footprint, making that quantitative connection to our GHG goals
accelerated our deforestation work and has been an important contributor to reducing our overall emissions... Thanks to a detailed analysis of our Scope 3 emissions, we know the opportunity to transition to renewable electricity up and down our value chain is even bigger than in our direct operations."

On pg.13 of its Roadmap, Mars provides detailed and visualized reductions by strategy including but not limited to direct operations, agriculture, and logistics.

Demonstrating Sufficient Investment – it's not how much, but how it's allocated

Capital expenditures are often pointed to as the best indicator of whether a company is allocating appropriate resources to decarbonize its assets and achieve other climate-related goals. However, determining what is sufficient capex is a key challenge and varies dramatically by company and by sector, making it challenging for companies and stakeholders alike to determine what is appropriate. Additionally, many companies' sustainability investments are equally driven by operating expenses, procurement, and other expenditures versus the narrow focus on capex.

Companies should not publish sensitive financial information. However, quantitative disclosure of investments that are being made or, minimally, analysis and rationale that demonstrate that companies' investment strategies are sufficient to achieve climate-related (and especially 1.5º C–aligned) goals builds the confidence of investors, financial institutions, and other stakeholders. Companies may also consider publishing a range or percentage rather than specific values. The Glasgow Financial Alliance for Net Zero in its Expectation for Real-economy Transition Plans puts a particular emphasis on the usefulness of these disclosures for financial institutions to make lending decisions and meet their own net zero commitments and includes suggested financial metrics regarding capex and operating expenses.

For increased transparency, investors have specifically indicated they would value companies:

- **Detailing their investments** – quantitatively or minimally qualitatively – broken apart by strategy, such as renewable energy, energy efficiency, electrification, acquisitions, retirements and divestments, joint ventures, innovations, research & development, new business areas, and climate solutions
- **Sharing of capex trends over time** – even year over year
- **Including feasibility studies of emerging technologies they plan to invest in** (such as carbon capture and storage and hydrogen to scale), as well as insight into the challenges and successes associated with these technologies to date and gap analysis between these technologies' contributions and achieving 1.5 ºC

In addition to describing how an entity is financing or investing in its transition plan, the Transition Plan Taskforce (TPT) Disclosure Framework suggests that entities "disclose information about the effects of its transition plan on its financial position, financial performance and cash flows over the short-, medium-, and long-term." For companies listed in the U.S., disclosing this information also aligns with requirements under the SEC's climate disclosures rule.

3 Supporting a Just Transition – within the transition to a low-carbon economy

A just transition is a fair and equitable process of moving towards a healthy, regenerative global economy where the social risks and impacts on key stakeholders such as workers, suppliers, communities, and consumers are well managed.

Challenge

The importance of a just transition is not new. Minimizing harm and maximizing benefits to all impacted stakeholders is a global priority in the transition to a low-carbon economy. This is why just transition is a core component of leading transition planning frameworks. However, because actions needed to achieve a just transition are specific to a sector and even a location, there is insufficient guidance and examples to help companies understand how to identify and implement these actions.

Recommendations and Opportunities

Ensuring that the transition to a low-carbon economy is just, equitable, responsible, and informed by stakeholders impacted by the shift should be a core consideration of all the strategies in a robust CTAP. Robust plans should include specific strategies and actions to ensure a just transition for workers, suppliers, customers, and communities. Doing so supports the efficacy and durability of strategies being implemented and can shield companies from reputational, legal, and regulatory risks – especially in their relationships with labor. Factoring in considerations for a just transition are meant to fortify, not delay, a company's decarbonization efforts and ensure efficient, durable, and positive long-term economic outcomes.

Leading transition plans go a step further, detailing efforts to advance social protections beyond the company's direct value chain and including measurement and accountability mechanisms to meaningfully integrate the support of social goals into the company's core business. For example, a company could invest in the workforce development and training that its sector as a whole requires. It could also advocate in favor of social and labor protections within society broadly, supporting continued access to a stable, prosperous, and protected workforce. These steps help maximize the benefits of the stakeholders and the industry and bolster even further the reputational advantages for the company.

Case study: just transition disclosure

Glencore's Climate Action Transition Plan

There are relatively few publicly available corporate disclosures on just transition by name. Glencore, a Swiss multinational commodity trading and mining company, provides an example laying out in its disclosure its just transition principles, planning, and actions on pg. 27.

The following steps can help companies identify and act on priorities for a more just, equitable, and sustainable transition:

1. **Make a public commitment** to ensure a just transition when implementing the company's climate strategy (see the case studies and additional resources linked below). When workers are affected, this commitment should include efforts to retain, upskill, redeploy, and compensate as appropriate.
2. **Conduct an impact assessment** to identify the possible negative or positive impacts that the company's climate strategy could have on local communities, employees, suppliers (and supplier's employees and communities), or other stakeholders. Strongly consider sharing results within the company's transition plan. (Note: an impact assessment looks at all potential impacts versus a materiality assessment which is designed, in turn, to identify and understand the relative importance and prioritization of these considerations for the business.)
3. **Conduct stakeholder engagement and create ongoing feedback mechanisms** regarding climate transition and just transition strategies. Input should be sought early, while plans are still being developed and up until and after they are finalized. Companies should seek feedback from all stakeholders impacted including their workforce, labor groups, residents, community groups and leaders, local governments, suppliers, customers, and investors – as well as the internal business units that interact with these groups (operations, procurement, supply chain, logistics, marketing, finance, legal, etc.).
4. **Implement and disclose forward-looking actions** that minimize possible negative externalities identified by the company's impact assessment and maximize benefits. Companies should provide clear evidence of how stakeholder feedback was incorporated, and from whom, through actions such as:
    a. Retaining, upskilling, redeploying, and compensating affected workers.
    b. Creating a fund for workers or communities negatively impacted by decarbonization strategies and by climate-related disasters.
    c. Providing financial support and incentives for suppliers to support workers and communities in the transition.
    d. Engaging local governments and advocate in support of regulations that ensure worker, human rights, community, and other social protections within the climate transition.
    e. Ensuring trade associations have made strong public statements and support just transition principles.
    f. Investing in local communities via educational programs, apprenticeships, and technical support that advance the transition.
5. **Define roles, responsibilities, and accountability** at various levels within and across the organization (including board and executive) that are tasked with implementing the company's just transition strategy. Define metrics to measure progress and ensure organizational and individual accountability. Integrate relevant just transition considerations throughout the organization, including risk management and strategic planning, to ensure its incorporation into both short- and long-term decision-making.
6. **Consider efforts outside of the direct value chain** that support the rights and social protections of workers, labor, vulnerable groups, and minorities via public policy engagement, philanthropy and other initiatives.

The suggested actions on ensuring a just transition are based upon the disclosure recommendations of the International Labour Organization, United Nationals Global Compact, World Benchmarking Alliance, London School of Economics, and Climate Action 100+. Companies can find deeper detail and additional resources from those organizations.

The majority of guidance on a just transition is sector neutral, which may present a gap in the guidance space worth filling. However, some sector-specific resources are available for sectors where just transition is of elevated concern. One example is Ceres' Climate Transition Plans in the U.S. Food Sector: Addressing Risks to Farmers and Farmworkers.

Case study:
standalone just transition plan

SSE's Just Transition Plan

Scottish multinational energy company SSE published a standalone just transition plan, which Ceres identifies as among the best examples of disclosure and action on just transition topics.

Case study:
just transition community initiatives that also benefit the business

Exelon and Electrification Advocates Support Electric School Bus Transition

Exelon, CALSTART, EPRI, Clean Energy Works, World Resources Institute, and Edison Electric Institute released joint research on the environmental justice, business, and climate benefits of replacing diesel school buses.

Additional Examples - Ensuring a Just Transition

Mercedes (pg.36), General Mills (pg.16) HSBC (pg.13), Colgate-Palmolive (pg.15), Uniper (pg.12).

4 Advocating for Public Policy – Inflation Reduction Act, implementation, and continuing engagement

Challenge

Companies often neglect policy advocacy within their transition plans. Companies may be unaware of or unwilling to engage with their trade associations' lobbying practices – even when they are in direct opposition to the company's own climate goals. Proactive engagement and support on policies at all levels of government is needed to ensure the policies are in place that enable companies to meet their goals. This will be a new level of advocacy for many companies.

Recommendations and Opportunities

Implementing forward-looking public policy advocacy actions – both direct and indirect through trade associations – is a core element of a robust transition plan. Innovative clean energy and climate policies and regulations pave the way for companies and sectors to achieve their climate-related goals, particularly in a cost-competitive manner. Advocacy can be for new legislation and regulation to help shape the implementation of existing programs and increase their impact or to support the benefits of existing programs by highlighting their business benefits for policymakers and peers.

Leading transition plans clearly outline a company's advocacy efforts, detailing planned engagement at the local, state, federal, or international levels and assessing the company's trade associations' alignment with its own climate advocacy. Leading transition plans also consider beyond-value-chain advocacy and outline actions the company is taking to advance systemic decarbonization, including as part of inter- or intra-sector coalitions and pre-competitive collaborations. This has significant reputational and relationship-building benefits, both with fellow companies and policymakers, which supports the company's future advocacy efforts.

Case study:
2022 Inflation Reduction Act

After 2,900 U.S. companies and associations advocated in favor of the business benefits of the 2022 Inflation Reduction Act (IRA), the law passed as the most significant investment on clean energy and climate change in U.S. history. Since then, $352 billion in public and private funds have been invested across the U.S., more than 270,000 jobs created, and 523 clean energy products begun or expanded. In addition to being good for business, the Department of Energy estimates that the Inflation Reduction Act and the Infrastructure Investment and Jobs Act will cut U.S. greenhouse gas emissions by up to 41% from 2005 levels by 2030. Coupled with federal, state, and local government actions, these reductions put within reach the U.S.' nationally determined contribution under the Paris Agreement of 50-52% reductions by 2030 and net zero by 2050.

To properly integrate policy engagement and lobbying activities within a transition plan, companies should consider:

1. **Publicly committing to 1.5º C lobbying and transparency** by publishing a commitment to 1.5 ºC-aligned lobbying and publishing annual lobbying reports.
2. **Assessing existing engagements and policies for alignment** to ensure that the company's direct lobbying efforts and indirect efforts through its trade associations are aligned with meeting its own climate-related goals and supporting the transition to a 1.5º C economy. The company should disclose trade association memberships, the alignment analysis, and possible actions to address misalignment within the company's transition plan.
3. **Identifying priority policies at the local, state, national, or international level the company supports** that will enable the achievement of its own goals, support its sector's transition, and guide the company's engagement.
4. **Listing ongoing and near-term policy engagement actions**, detailing where, how, and with whom the company will advocate in the near term (one to three years) to advance policies that support the achievement of its climate-related goals and economy-wide decarbonization. These should include direct and indirect efforts and collaborative efforts with peers to advance these policies.
5. **Marketing current policies the company is using** to spread awareness of available programs, demonstrate their efficacy in supporting private sector action on climate, and build durable support for their continuation.
6. **Ensuring oversight of climate engagement efforts** at the board and executive level that enables meaningful collaboration and consistency with the company's government relations team and advocacy on other issues.

To support assessing existing engagements and policies for alignment, companies may consider the Global Standard on Corporate Climate Lobbying and its fourteen indicators. For an overview of current U.S. federal climate policy priorities and ways businesses can benefit from the Inflation Reduction Act, visit the AAA Framework for Climate Policy Leadership, Ceres' Blueprint for Responsible Policy Engagement on Climate Change, The White House's Inflation Reduction Act Guidebook, and Rocky Mountain Institute's IRA Program and Tax Incentive Summary tool. To get involved in advancing state- and federal-level policies, consider joining coalitions such as Ceres' BICEP Network.

Case study: trade association alignment

E&E News by Politico

"Climate strife divides US Chamber. Will departures follow?"

"At least 37 member corporations have objected to the powerful business lobby's climate policies… The growing divide between the Chamber and its membership comes amid sharpening scrutiny by lawmakers and investors around the trade association's efforts to undermine policies that could force businesses to overhaul polluting facilities or build cleaner products."

Additional examples - Advocating for Public Policy

Unilever (pg.30), Ball (pg.53) H&M (pg.11), Danone (pg.42), Glencore (pg.30), Delta Airlines (pg.55)

5 Supporting Integration and Accountability

Challenge

There is a learning curve when integrating the transition to a low-carbon economy into a company's core business strategy. Companies may already share the results of climate-related scenario analysis that describe material risks and opportunities. However, most companies have not yet developed the cross-organization expertise and skill to make the connection between these analyses and the sustainability actions companies are taking. This level of integration may require a shift in company culture, operations, and risk management – as well as leadership buy-in. Similarly, developing or implementing accountability mechanisms that drive strategy execution can be challenging.

Recommendations and Opportunities

Integration of climate action into core business strategy is imperative to securing leadership support, adequate resource allocation, and actionable cross-company collaborations. At the same time, board and leadership accountability to climate goals is a critical signal to employees and stakeholders that the company rightly emphasizes climate action and that managing transition risks is a core competency of leadership. Steps companies can take to support this integration and accountability include:

1. **Conduct climate-based risk assessments to identify relevant emissions** sources using well-established principles (see box below) and include the results of this scenario analysis in the company's transition plan. Scenario analysis is familiar to companies that have reported according to TCFD.
2. **Use risk assessment to identify material transition risks and opportunities** tied to core business strategy. Companies will need to disclose these risks as part of their financial disclosures. This provides an opportunity for sustainability teams to make the case to business leaders that climate action is not an add on, it is core business.
3. **Use (or establish) board, executive, and cross-company committees** tasked with assessing risks and opportunities to prioritize actions that align with organizational strategy and long-term value creation. In parallel, as part of their transition plans, companies should seek to strengthen and disclose existing climate expertise among board and executives. Doing so is a clear way to show responsible governance and oversight to external stakeholders.
4. **Bring together staff responsible for disclosure, strategy, and implementation –** the comptroller, the sustainability team, the risk team, government relations, procurement, and product design – and take that opportunity to build a culture of climate action throughout the organization so that, for example, changes in leadership do not slow progress. Within a robust transition plan, sustainability factors should be considered and acted upon across business units and the sustainability team should be composed of a cross-function expert group across business units and management levels.
5. **Link executive compensation with climate-related targets and goals** – to ensure and incentivize accountability, and clearly disclose mechanisms in place.

Scenario analysis resources:

- Resources from the Task Force for Climate-related Financial Disclosures, CDP, World Resources Institute, and Network for Greening the Financial System;
- Tools and software – examples: Four Twenty Seven, Riskthiking.AI;
- Integrated assessment models (IAMs) – examples: UNFCCC, Climate Interactive's En-ROADs simulator; and
- Consultancies (such as Deloitte, PwC, EY, and KPMG) and ESG research and advisory firms (including MSCI, Sustainalytics, ISS ESG, and Moody's).

Case study:
TCFD analysis and climate-related opportunities
Unilever’s Climate Transition Action Plan

"As a company dependent on agricultural and energy-intensive chemical ingredients, we believe that transitioning to become a lower emission business has many benefits. It increases resilience, improves efficiency, and future-proofs our value chain against transition risks such as carbon prices, while sparking innovation and helping to attract the best talent. In proactively managing our transition to net zero, we also ensure we respond to the opportunities and risks highlighted through our Task Force on Climate-related Financial Disclosures scenario analysis process."

Case study:
scenario analysis for strategic and financial planning
National Grid’s, Climate Transition Plan

"In reaching full TCFD compliance, alongside the publication of this Climate Transition Plan, we have refreshed our energy transition scenarios and completed the first stage of our comprehensive Group-wide assessment into the physical risks facing the Group under 2 degrees and 4 degrees scenarios. Scenario analysis to 2050 and beyond guides our strategic and financial planning with respect to climate change."

Additional Examples - Supporting Integration and Accountability:
HSBC (pg.77), Glencore (pg. 23), Citi (pg.9), Intel (pg.13).

How to Disclose Forward-looking Information

Disclosing forward-looking information is key to robust transition planning and execution, but companies are sometimes hesitant to publish forward-looking information with the necessary level of detail that climate transition action plans suggest. Companies cite regulatory, legal, competitive, and reputational risks.

The United States' Congress provided legal protection or a ″safe harbor″ for forward-looking information in the Private Securities Litigation Reform Act of 1995 (PSLRA). This legal protection extends to private securities lawsuits for false or misleading information about future plans or events. Accordingly, companies routinely publish information about sales targets, financial projections, strategic plans, market outlook, and risk factors as part of core business planning. To obtain the legal protection, forward-looking statements must be accompanied by meaningful cautionary language that identifies factors that could cause actual results to differ materially. The involvement of legal counsel in the drafting of such statements is essential.

There has been some uncertainty whether transition plans constitute ″forward-looking information″ that would qualify for the PSLRA′s safe harbor. That is because transition plans may include, in addition to forward-looking information, historic factual information, which the safe harbor explicitly does not cover.

The SEC directly addressed this issue in its climate disclosure rule and decided to provide a new safe harbor in addition to the PSLRA′s expressly for transition plans (along disclosures relating to scenario analysis, internal carbon pricing, and targets and goals). The SEC said it was doing so ″to avoid having to disentangle the information to claim protection for forward-looking statements under the PSLRA safe harbors, which would increase the compliance burden under the final rules and potentially reduce the usefulness of those disclosures for investors. We also believe that a safe harbor for these disclosures will help incentivize more comprehensive disclosures on these matters to the benefit of investors.″ The SEC′s rule is currently subject to a stay order, but the safe harbor will be applicable once the stay is lifted, assuming the rule is upheld by courts.

As case studies, companies may find useful the disclaimers in Ball Corporations' Climate Transition Plan, HSBC's Net Zero Transition Plan, and Unilever's Climate Transition Action Plan.

6 Tracking and Reporting Progress

Challenge

Existing corporate sustainability strategies are often qualitative and narrative based. That can make it challenging for investors and other stakeholders to understand the level of the company's ambition, its timelines, and its progress. It may be difficult to get leadership on board to openly discuss progress or to publish quantitative metrics in ways that are easy to follow over time.

Recommendations and Opportunities

First and foremost, transition plans should be public and freely accessible. Companies may attach them to their CDP reports and investor filings, but they also should include them on their sustainability pages to ensure accessibility. To shift from the existing qualitative and narrative based reporting, companies should adopt the following elements of a robust transition plan:

- Clearly defined metrics that track and communicate progress towards goals.
- Progress against plan goals that is reported regularly – and an update of the transition plan itself on a one-to-three-year basis to reflect updated strategies, challenges, and the most up-to-date climate science.
- A clear explanation of updated baselines or other changes that may impact data over time and commensurate updates to progress. This avoids stakeholders' reviewing previous reporting and drawing conclusions about inaccurate progress reporting.
- In addition to being qualitative and quantitative, reporting should be visual (via graphs or charts), showing progress towards science-based goals and in relation to 1.5 °C-aligned sectoral pathways.

A leading transition plan goes farther in two ways: a) it is available as a standalone document or an easy-to-use index, and b) climate-related strategies and investments are incorporated into the company's financial and regulatory filings. These two actions increase the access and usability of information for financiers, clients, customers, and other stakeholders, resulting in fewer requests for information from the company, and increased credibility. For example, the SEC rule requires companies to disclose a material transition plan if they have one. Leading companies should set the example by disclosing these plans in their filings, making it easier for investors and other stakeholders to access this information, and helping create systemic change by building best practice for other companies to follow.

These actions support both the company's strategic understanding and stakeholders' confidence in the credibility of the company's effort. Companies will not make progress every year – and in some years, they may lag in meeting their goals. Sharing this transparently with stakeholders builds trust, and it also provides opportunities to identify areas where additional policy, sector collaboration, or civil society support is needed to overcome barriers to decarbonization. Companies may also find value in offering stakeholders or peer company opportunities to review transition plans and consider their feedback as part of their update process.

Leading guidance frameworks recommend that companies define and disclose what metrics they will use for each goal, strategy, and action it plans to employ – and on what timeline. The TCFD was previously the gold standard metrics guidance. Companies may still use its resources; however, they should consult the International Financial Reporting Standards Foundation's IFRS S2 which has officially replaced the TCFD. Transition planning specific metrics guidance is also available from the Transition Plan Taskforce's Disclosure Framework, which has robust guidance that companies can use to identify metrics, including for governance and business operations, financials factors, GHG metrics and targets, and carbon credits. Companies should, of course, also consult any mandatory guidance in defining metrics for their transition planning efforts.

Additional Examples - Tracking and Reporting Progress: Nestlé (pg.10), Ball (pg.9), Citi (pg.35).

Conclusion

Developing a transition plan to manage material climate risks should not be seen as a check-the-box disclosure exercise. Transition plans provide companies with the opportunity to move climate action from a siloed “add on” to an integrated part of the business strategy. It also gives them the opportunity to be part of an international effort to decarbonize the entire economy and work towards a just and sustainable future for all.

First movers already know that having a robust plan to manage transition risks will allow them to seize competitive advantage and be prepared for the policy, market, and technological changes that come with the transition to a low-carbon economy. The self-assessment tool and guidance provided in this report provides an opportunity for any company who is looking to build the business case and address common questions as they move from existing disclosures to a leading transition plan.