

# *LCP's response to DESNZ's consultation regarding climate-related transition plan requirements*

**17 September 2025**

*This document provides LCP's response to the [Department For Energy Security and Net Zero's consultation](#), published on 25 June 2025.*

## **Who we are**

LCP is a firm of financial, actuarial, and business consultants, specialising in pensions, investment, insurance, energy, health and business analytics. We have around 1,200 people in the UK, including over 190 partners and around 275 qualified actuaries. Our core business is the provision of actuarial, investment, covenant, governance, pensions administration and benefits advice, and directly related services. About 85% of our work is advising trustees and employers on all aspects of their pension arrangements, including investment strategy. The remaining 15% relates to insurance consulting, energy and health analytics.

Our investment professionals advise on over £330bn in assets, across around 500 clients. The clients we advise range in size from under £10m to tens of billions of pounds of assets.

## **Context for our response**

LCP welcomes the opportunity to respond to DESNZ's consultation on climate-related transition plan requirements.

Transition planning is important for asset owners, such as pension schemes, whose long-term obligations depend on stable financial markets and resilient investment returns. Climate change poses a systemic risk, particularly through severe physical impacts that can destroy value and undermine long-term pension outcomes. While portfolio decarbonisation can protect portfolios from asset-specific risks arising from the transition, this typically has little effect on the real-world decarbonisation which is vital to achieve net zero goals and hence protect portfolios from market-wide physical risks over the longer term.

It is important to acknowledge that asset owners and corporates have different abilities to decarbonise. Pension schemes' investments are typically globally diversified, operate with non-executive trustee boards that have limited time and resource, and often rely on third-party investment managers to implement their investment allocations.

In preparing our response, we have considered the proposals primarily from the perspective of our role as investment advisers to pension schemes: supporting trustees in preparing climate transition plans, and assessing investment managers and other providers on behalf of trustees. We also acknowledge the importance of transition plans as part of investment managers' due diligence of portfolio holdings and the stewardship activity they undertake on behalf of our clients. **We have focused on the consultation questions most relevant to these areas, rather than responding to every question.**

We support the aim of improving the credibility and effectiveness of climate planning across the economy and financial system.

## **Executive summary**

We are supportive of the government's objective to improve the credibility, comparability and actionability of transition plans. We believe this is critical to enabling capital allocation that supports a net zero and climate-resilient economy.

We would support the government mandating the disclosure and implementation of transition plans, given the critical importance of decarbonising the economy and managing systemic climate-related risks. We would support a structure where a full transition plan is reviewed and disclosed on a three-year cycle, supplemented by annual progress reports on delivery. However, we believe that requirements must be designed carefully to respect wider legal duties and be accompanied by a supportive policy context and frameworks. We recommend that any new

requirements are aligned with existing guidance and frameworks. We believe it is useful for transition planning to include adaptation and nature-related considerations alongside climate mitigation, and we suggest that transition plans and annual progress reports focus on the actions planned and undertaken by entities.

For pension schemes in particular, it is important that the requirements are proportionate, due to their resource constraints. We have been engaging with the Pensions Regulator (“TPR”) and the Department for Work and Pensions (“DWP”) on this issue through our work with the Investment Consultants Sustainability Working Group (“ICSWG”) and would be happy to provide more detailed suggestions on how a proportionate approach could be implemented.

We strongly urge the government to integrate any new transition plan requirements for pension schemes into the existing Task Force on Climate-Related Financial Disclosures (“TCFD”)-based regime, under which climate-related reporting is already extensive. It was recently announced that DWP is reviewing the current TCFD requirements, and any future introduction of transition plan requirements should build on this process. Taken together, these two exercises provide a valuable opportunity to streamline reporting, reduce duplication, and refocus efforts on implementation over compliance.

We recommend that any requirements for pension schemes are principle-based. This will allow for flexibility across different types of schemes and avoid encouraging a compliance-driven or box-ticking approach. Statutory guidance should be kept to a minimum, with separate educational materials – ideally developed through industry groups rather than solely by regulatory bodies – used to support good practice and innovation.

We are happy for LCP to be named as a respondent to the consultation, for our response to be in the public domain, and for you to reference our comments in any government response.

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## LCP's response to the consultation questions

### **1. To what extent do you agree with the assessment of the benefits and use cases of transition planning set out in Section A? Are there any additional benefits or use cases for transition plans? Do you have any further insights and evidence on the purpose, benefits and use cases of increased and improved transition planning—including economy-wide impacts?**

We largely agree with the assessment of benefits and use cases for transition plans outlined in Section A. Transition plans are a critical tool for achieving a low-carbon transition and supporting economy-wide net zero goals.

We see particular value in the process of preparing a transition plan. It encourages an organisation to define its decarbonisation strategy and build internal alignment and resources to work towards it. Transition plans could also play an important role in raising market standards for disclosure and accountability. As more organisations publish credible and comparable plans, we see more opportunities for sharing of best practice.

We believe that publishing transition plans also supports alignment across value chains – enabling organisations to assess whether their suppliers, partners and service providers are aligned with their own decarbonisation strategy. For asset owners, this is especially relevant when evaluating the approach of investment managers who manage assets on their behalf (this is often the most direct route through which an asset owner can deliver on its own net zero target).

From an investor perspective, transition plans support more informed decision-making. Investors can use them to assess whether a company is taking credible steps towards alignment with net zero, and whether those steps are likely to lead to meaningful change. This insight supports both construction of a portfolio that is aligning with net zero and the use of stewardship to improve alignment over time.

For transition plans to be transformative for pension schemes, in line with the aspiration set out in the consultation document, they need to be available across:

- **Investment managers and service providers**, including buy-in providers, master trusts and other defined contribution (DC) pension providers;
- **Sponsoring employers** of defined benefit (DB) schemes;
- **Current and prospective investee companies**, across public and private markets.

Many of these entities, particularly investee companies, are not UK-based, and are likely to fall outside the scope of UK disclosure requirements. Widespread adoption of transition plans will be necessary to realise the full potential for pension schemes. In our view, the UK government should take a leading role in promoting global adoption of transition plan standards.

### **3. For users of transition plans: How do you use transition plans? E.g. if you are an investor, do you use transition plans to inform your investment strategy (both in terms of how you identify opportunities where to invest, and how you identify, manage and assess risks to investment portfolios)**

We are potential users of transition plans on behalf of our investment clients as we support many of them in assessing and responding to long-term risks and opportunities, including those linked to climate change and the transition to net zero. We already use them to some extent and expect this to increase, especially if their publication becomes mandatory.

Our clients are most likely to use transition plans when selecting a provider (for example investment managers, buy-in providers, master trusts or DC providers). In these cases, transition plans could be used to assess whether the provider has a credible and deliverable net zero strategy that aligns with the client's own net zero objectives. Transition plans could also be used to assess a provider's approach to climate risk management, although we expect that other documents (for example TCFD reports) would likely be more useful.

Individual companies' transition plans are more likely to be used by investment managers when selecting investments and undertaking stewardship activity on our clients' behalf. Some large pension schemes with in-house teams may also refer to individual companies' transition plans themselves, to help them select investments and to inform voting and engagement activity.

**4. Do you have any reflections on the additional costs and challenges of using transition plans? Please provide evidence where available to support your answer.**

Transition plans can provide important information that is often missing from current climate disclosures. They offer forward-looking insight into strategy, capital allocation, and emissions targets, which are essential for assessing credibility and ambition of net zero commitments.

However, there are challenges. Transition plans could become lengthy and time-consuming to review, especially where only a small part of the information is directly relevant. For example, a pension scheme might be assessing a specific investment fund offered by an investment manager, but the transition plan would cover the entire organisation. Identifying the relevant information could be time-intensive.

To be effective, transition plans should be clear, concise and presented in a fairly standardised format. A consistent structure would make it easier to compare across entities. For pension schemes, we do not believe pension scheme transition plans should be designed as member-facing documents given members' lack of engagement with existing sustainability reporting.

**5. Do you have any reflections on how best to align transition plan requirements with other relevant jurisdictions?**

We strongly support efforts to align UK transition plan requirements with existing international frameworks. We believe transition plans should build on the foundations already laid by initiatives such as the TCFD and the Transition Plan Taskforce ("TPT"). There are also useful frameworks available within the financial sector, including the Paris Aligned Investment Initiative's Net Zero Investment Framework ("NZIF") and the Glasgow Financial Alliance for Net Zero's ("GFANZ") work on transition planning.

A clear and practical UK framework can play a leadership role in shaping best practice internationally. We encourage the government to promote the global uptake of transition plans and adoption of consistent standards. For instance, the UK could encourage other jurisdictions to base their requirements on established international frameworks such as the TCFD or the TPT to achieve consistency of information.

**6. What role would you like to see for the TPT's disclosure framework in any future obligations that the government might take forward? If you are a reporting entity, please explain whether you are applying the framework in full or in part, and why.**

We see the TPT framework as a gold standard for transition planning. It provides a strong basis for credible disclosures and should be used to shape best practice. However, it is highly detailed and would be burdensome for many organisations to implement in full (including UK pension schemes). It should not be viewed as a baseline for compliance. We believe that regulatory requirements should draw on it where appropriate, but remain proportionate to the role and capacity of different types of organisations.

For UK pension schemes, even the largest ones, the full TPT framework is likely to be disproportionate. Trustees act in an oversight capacity, often with limited time and resource, and rely heavily on third parties to deliver their investment strategies. We see the TPT as one helpful input, amongst others, to developing a framework suitable for pension schemes.

**7. [Climate mitigation] To what extent do the requirements in the draft UK SRS S2 provide useful information regarding the contents of a transition plan and how an entity is preparing for the transition to net zero? If you believe the draft UK SRS S2 does not provide sufficient information, please explain what further information you would like to see.**

UK SRS S2 provides a solid foundation for understanding how organisations are managing climate-related risks and opportunities. It includes relevant disclosures on governance, strategy, risk management and metrics, which are important building blocks for transition plans. These disclosures are particularly useful where decarbonisation of a business model is being used as a tool to manage risks or capture opportunities.

However, we believe SRS S2 is primarily inward-looking, focused on how an entity protects itself from climate risks, rather than outward-looking, which we view as a core purpose of a transition plan. In particular, it does not fully address how an entity is contributing to the broader economy-wide transition or whether its actions align with a net zero pathway.

Paragraph 14 provides useful insight, but its relevance to transition planning is dependent on whether the organisation has set climate targets aligned to net zero pathways, or any climate-related targets at all. Paragraph 28(c) is relevant and useful too, as it provides further information on the targets themselves. Some of the metrics in Paragraph 29 could also be useful, especially (a) greenhouse gases, (d) climate-related opportunities and (e) capital deployment. They would be more useful if accompanied by commentary on changes over time.

For SRS S2 to be more useful, it should explicitly require disclosures relating to how an entity is contributing to the economy-wide transition, including through influencing others, and the extent to which its plans align with net zero pathways.

**8. [Climate adaptation and resilience] To what extent do the requirements in the draft UK SRS S2 provide useful information regarding the contents of a transition plan and how an entity is adapting and preparing for the transition to climate resilience? If you believe IFRS S2 does not provide sufficient information, please explain what further information you would like to see.**

UK SRS S2 provides a helpful starting point for understanding how organisations are identifying and managing the physical risks of climate change. This is well aligned with SRS S2's focus on climate risk management.

**9. What are the most important, decision-useful elements of a transition plan that the government could require development and/or disclosure of? Please explain why and provide supporting evidence.**

We believe the following elements – which draw on key elements within the TPT and NZIF frameworks – are particularly important, based on our experience of assessing investment managers' and insurers' net zero plans:

- Short- and medium-term targets that reflect the organisation's key levers for decarbonisation\*
- A clear explanation of why the targets are appropriate (including the level of targets)
- An assessment of how the targets compare with the pace of change required under global net zero pathways to 2050 (adjusted for sectors and geographies)
- A delivery plan, including the actions, milestones and timelines for achieving the targets
- Any dependencies on external actors, such as regulators, suppliers or service providers for achieving the targets
- Reporting on progress against targets, including whether the organisation remains on track and how it is implementing the actions set out in its delivery plan.

\*For asset owners, these levers include alignment of assets with net zero pathways, overseeing and holding investment managers accountable for stewardship, and allocating capital in line with long-term decarbonisation goals, including in climate-related solutions where appropriate given their investment strategy.

\*For investment managers, these levers include undertaking engagement with investee companies, offering products that are aligned with net zero pathways, and facilitating investment in climate-related solutions (where available in the asset classes offered). Transition plans provide an important mechanism for investors to understand which parts of an investment manager's assets under management are in scope for their net zero commitments, how those assets will be managed in line with net zero, and the extent to which this is reflected in fund-level net zero targets. It should be possible for asset owners to identify the information relevant to their mandates with the asset manager (eg the approach taken for different asset classes), but we would not usually expect detailed transition plans to be available at the fund level.

It may also be helpful for transition plans to include:

- Governance structures that clearly identify roles and responsibilities for delivery of the transition plan
- Engagement strategies that describe how the organisation is influencing others involved in the transition
- Disclosures on policy positions and advocacy efforts, where relevant.

For pension schemes, we believe that requiring transition plans that cover all the areas set out above would help to drive two important changes. Firstly, a broadening of perspectives from focusing mainly on how climate change affects schemes (as in the current TCFD requirements), towards also considering how schemes' investment decisions affect climate outcomes in the real economy (through their impact on the net zero transition). Secondly,



from the current focus on processes towards a greater focus on action. We believe this would help to deliver improved member outcomes and accelerate the transition.

**10. Please state whether or not you support Option 1, which would require entities to explain why they have not disclosed a transition plan or transition plan-related information. Please explain the advantages and disadvantages of this option.**

We do not support Option 1.

While this approach would be less burdensome for reporting entities, it is unlikely to drive meaningful change. Requiring an explanation for non-disclosure provides limited incentive for organisations to develop and publish credible transition plans. As a result, we believe it would do little to support real-world decarbonisation or improve the availability of decision-useful information.

For transition planning to have impact, we believe it needs to be positioned as a standard part of strategic risk and opportunity management, rather than an optional disclosure. Option 1 risks reinforcing the view that transition plans are only relevant for some organisations.

We recognise that some organisations may feel that transition planning is not relevant for them and so may prefer Option 1. For example, pension schemes planning to transact with insurers in the short term may face practical challenges in developing a transition plan. However, we believe these situations are better addressed through practical implementation guidance or careful definition of the entities in scope, rather than adopting a weak default requirement that risks undermining the overall ambition of the policy.

**11. Please state whether or not you support Option 2, which would require entities to develop a transition plan and disclose this. Please further specify whether and how frequently you think a standalone transition plan should be disclosed, in addition to transition plan-related disclosure as part of annual reporting? When responding, please explain the advantages and disadvantages of this option.**

We support Option 2.

This approach is far more likely to accelerate decarbonisation across the real economy. Requiring entities to develop and disclose transition plans increases the likelihood that they will set appropriate targets, define clear actions, and take accountability for progress. It would also improve the ability of investors to allocate capital to entities with credible decarbonisation plans and support engagement activity to drive improvements over time.

We would support transition plans being disclosed on a triennial basis, with annual reporting of progress.

This would align well with existing reporting cycles for pension schemes. For example, the requirement could mirror the approach taken for pension schemes' Statements of Investment Principles, which are reviewed at least every three years, and Implementation Statements, which report annually on progress. We would support a similar structure for transition plans, with a full standalone plan reviewed and disclosed on a three-yearly cycle, alongside annual progress reports on delivery against that plan. This structure would strike a good balance between limiting the reporting burden (noting that strategic plans should not change frequently) and regular accountability.

**12. If entities are required to disclose transition plan-related information, what (if any) are the opportunities to simplify or rationalise existing climate-related reporting requirements, including emissions reporting, particularly where this may introduce duplication of reporting? These responses will support the government's review of the non-financial reporting framework.**

There is an opportunity to streamline climate-related reporting for companies by aligning transition plan disclosures with the draft UK SRS S2. As noted in our response to Q7, many of the elements typically included in a transition plan could be reported under S2, particularly where an entity has chosen to develop and implement a strategy that contributes to the economy-wide transition. The main limitation of S2 is that many of these disclosures are dependent on the nature of any climate targets the organisation has set.

Combining transition plan reporting with S2 requirements would help reduce duplication, ensure consistency, and make reporting more efficient for preparers and more coherent for users.

For pension schemes, there is also scope to simplify the existing climate reporting framework, irrespective of any future transition plan requirements. Current requirements are often seen as overly detailed, resource-intensive and could be simplified. We have previously shared these concerns with TPR and would be pleased to contribute to DWP's review should there be an opportunity to do so. This aligns with one of our [climate policy asks](#), which we developed to guide our discussions with policymakers and regulators on climate change: that climate regulations for investors should aim for real-world impact, not (just) disclosure. **We invited asset owners to endorse this policy ask, and 64 asset owners with assets totalling £194.9bn have already done so.**

**13. How do you think any new transition plan requirements should integrate with the existing requirements in UK law for some larger schemes to produce TCFD reports and to calculate the portfolio alignment metric?**

Any new transition plan requirements should be fully integrated with the existing TCFD framework for pension schemes. Adding separate or standalone transition plan obligations would risk duplication and increase complexity without necessarily improving outcomes. We would also like to see existing requirements simplified, as noted in our response to Q12.

The current TCFD requirement to report a portfolio alignment metric is helpful but has had limited effect, especially where schemes have not adopted it as the basis of their target. Future guidance should clarify how transition planning and portfolio alignment metrics can be used together to support effective climate risk management by supporting real-world decarbonisation.

In our view, transition plan requirements should only apply to schemes that are in scope for TCFD reporting. However, the criteria to determine which schemes are captured by both requirements should be reviewed and refined. A more targeted approach could focus on schemes with higher exposure to climate-related risks and greater ability to contribute to the low carbon transition.

We see a case for easing requirements for schemes that are close to transferring their assets to another entity (eg a DB scheme undertaking a full buy-in with an insurer or a DC scheme transferring to a master trust). While climate-related risks remain important for these schemes, it may not be proportionate to expect them to develop a full transition plan. Instead, a light-touch approach could be adopted, focused on the important aspect of how climate transition considerations are factored into the provider selection process. If the transaction does not proceed, the scheme could then re-evaluate its approach and develop a fuller transition plan.

Integration of TCFD and transition plan requirements could be achieved by adopting a double materiality perspective to report on both:

- The outside-in view, which focuses on how climate risks affect the scheme's investments and ability to pay member benefits. This is the focus of the current TCFD requirements for pension schemes, which emphasise climate change as a financial risk to the scheme.
- The inside-out view, which focuses on how the scheme's investments affect climate risks in the real-world, which is the focus of transition plans. Pension schemes' investment decisions can influence the economy-wide transition, for example, by directing capital towards companies and projects that are aligned with a net zero pathway and by engaging with those that are not. These real-world impacts in turn affect the systemic risks that pension schemes are exposed to, particularly over the long term. By contributing to the wider transition, schemes can help to reduce the likelihood of severe physical and transition risks that could undermine investment returns and ultimately affect member outcomes.

**14. To what extent does your pension scheme already produce transition plans? What are their intended purposes, what information do they draw on, and what challenges have you encountered in developing them?**

Many larger pension schemes have now set net zero targets and have developed some form of plan to support delivery against those commitments. In some cases this takes the form of a fuller internal climate transition plan, while in others it is reflected across existing strategy documents, TCFD reports, or stewardship policies. These plans are typically used to support internal governance and oversight, guide discussions with investment managers, and monitor progress against climate objectives. However, they are rarely published in a standalone format or recognisable as "transition plans".

The plans that schemes have prepared generally apply to a scheme's specific journey and expected asset allocation changes over time, drawing on:

- Information from investment managers and stewardship providers on portfolio decarbonisation approaches.
- Climate data and reporting outputs (e.g. from TCFD exercises).
- External guidance such as NZIF and other industry initiatives.

Adoption across the pension sector remains uneven. While some schemes have well-developed plans, others are at a much earlier stage. Common challenges include:

- gaps in data coverage, especially for private market assets and Scope 3 emissions;
- uncertainty over how to interpret fiduciary duties where net zero alignment may introduce financial trade-offs; and
- resource constraints, including limited time of trustee boards.

In most cases, the ability of pension schemes to align with the transition is heavily dependent on the strategies and capabilities of their investment managers. This creates further challenges where schemes invest in pooled funds or in asset classes where transition methodologies are still maturing.

A proportionate and more standardised approach to transition planning – adopted by investment managers, investee companies and pension schemes – could help address these barriers, particularly if it builds on existing regulatory frameworks.

**15. To what extent do you support the government mandating transition plan implementation and why? When responding, please provide any views on the advantages and disadvantages of this approach.**

We support the government mandating the implementation of credible transition plans, given the critical importance of decarbonising the economy and managing systemic climate-related risks. Strengthening the link between planning, reporting and delivery is essential to ensure that climate commitments translate into real-world outcomes.

We believe the key benefit of mandating implementation is that it increases the likelihood that transition plans will translate into real-world reductions in climate risk. This could also promote accountability and credibility, ensuring that plans are not just prepared and published, but actively delivered.

However, we believe any mandatory requirements must be carefully designed. In particular:

- **Legal duties must be respected:** Companies and pension schemes are bound by duties to shareholders and beneficiaries. Implementation requirements must not create conflict with these duties unless those duties are formally revised, which would be a significant change requiring careful consideration.
- **Supportive policy context and frameworks are critical:** Organisations can only deliver meaningful transition plans if they operate within an economy-wide transition, supported by clear policy and regulatory frameworks.

We believe that – if implementation of transition plans is mandated – the focus should be on whether the entity is undertaking the actions set out in its plan rather than whether the entity is achieving its targets, since the outcomes of some targets (particularly emissions reductions) will depend on a range of factors beyond the direct control of individual entities.

**16. In the absence of a legal requirement for companies to implement a plan, to what extent would market mechanisms be effective mechanisms to ensure that companies are delivering upon their plan?**

We recognise the important role market mechanisms can play in supporting the delivery of transition plans. However, we believe they are unlikely to be sufficient on their own to drive consistent and credible implementation across the economy.

Market-based tools such as investor engagement, shareholder resolutions, and reputational scrutiny can help incentivise delivery. Where investors use transition plans to assess companies, this can lead to more targeted capital allocation and stewardship. For example, investment managers may use transition plans to evaluate issuers



and inform engagement activity. Where issuers are judged to lack credible plans, managers may escalate their engagement, adjust their voting approach at AGMs, or ultimately reallocate capital away from those companies. This cycle of assessment, engagement, escalation and potential capital reallocation creates pressure on companies to strengthen their transition planning and delivery, reinforcing accountability through the market.

Despite these pressures, to be effective, market mechanisms need widespread and consistent support for transition goals across the investment chain. This includes asset owners applying pressure to managers, who in turn influence companies and their supply chains. In practice, this influence varies significantly across sectors and geographies. Market pressure on its own has not yet delivered decarbonisation at the pace required. This is despite the widespread adoption of net zero goals by investors and growing support for stewardship as the primary mechanism to achieve them. While stewardship and market signals can play an important role, current experience suggests they are not sufficient to drive the scale and speed of change needed across the economy.

Without a legal requirement, there is a risk of partial implementation, limited accountability, and missed opportunities to accelerate progress.

**17. What do you see as the potential benefits, costs and challenges of government mandating requirements for transition plans that align with Net Zero by 2050, including the setting of interim targets aligned with 1.5°C pathways? Where challenges are identified, what steps could government take to help mitigate these?**

We support the government setting Net Zero greenhouse gas emissions by 2050 as the benchmark for transition planning. Achieving this is essential to limit the harmful impacts of climate change. However, we also recognise that on current trajectories, global alignment with Net Zero by 2050 is increasingly unlikely, and emerging evidence suggests that even this may not be enough to avoid severe climate impacts. We note that potentially catastrophic effects are within the lifetime of many pension scheme members and their dependants.

Given this, we support transition plans as an important way to help close the gap between current emissions pathways and those required to deliver a low-carbon future. Specifying that they must be linked to Net Zero by 2050 would provide a clear reference point, making disclosures more comparable across the economy. For investors such as pension schemes, this would improve the information available to guide capital allocation and stewardship.

However, there are challenges with aligning with Net Zero by 2050. Companies and pension schemes must act within the constraints of their fiduciary and legal duties. Any requirement to align with Net Zero by 2050 must allow for flexibility where actions may not be in the interests of shareholders or beneficiaries. To achieve this, we suggest that entities are required to assess and disclose how closely their plans align with a sector- and geography-specific Net Zero by 2050 pathway, and explain any material divergences. A key action for government will be to develop such pathways, or promote suitable pathways developed by others, so that there is a common understanding across the UK economy, and ideally globally, of the target pathways against which plans should be assessed. The government also has a crucial role in ensuring policy and regulatory frameworks support economy-wide action in line with Net Zero by 2050.

We do not support mandating alignment with 1.5°C temperature pathways. We believe targets should be based on emissions, not temperature outcomes, as the latter are subject to uncertainty and scientific developments outside an entity's control. As understanding of climate sensitivity evolves, carbon budgets will likely need to be adjusted, resulting in changes to 1.5°C temperature pathways. It is possible that the remaining global budget for 1.5°C alignment has already been exhausted, in which case 1.5°C alignment will become infeasible.

We also acknowledge that there may be financial costs of investing in line with Net Zero by 2050, where trade-offs between meeting financial and climate goals may exist. These trade-offs may be reduced by taking a long-term and scheme-level perspective (rather than, say, focusing on short-term costs associated with individual assets). Where trade-offs remain, trustees' fiduciary duty to members should take precedence, ie financial goals should be prioritised where necessary.

**18. Which standards and methodologies are effective and reliable for developing and monitoring climate-aligned targets and transition plans, in particular those that are aligned with net zero or 1.5°C pathways? Where possible, the government would welcome evidence from entities that have used such methodologies, explaining how they have arrived at that conclusion.**

In our work with pension schemes, we focus on high-level approaches such as those in NZIF. This framework provides a practical and credible basis for setting overarching targets and transition plans at the whole-portfolio level (the level at which many of our clients operate).

We note that, while useful, these methodologies are not always available or mature across all asset classes or geographies. In such cases, investors often need to make pragmatic choices, balancing ambition with feasibility.

We also recognise that more detailed methodologies are needed to translate portfolio-level targets and plans into investment mandates. At the level of individual investments, particularly for company engagement and security selection, effective implementation depends on access to robust, sector-specific net zero pathways and standards.

This is where investment managers play a critical role. We look to them to apply their resources and expertise to identify and implement appropriate methodologies at the mandate and investment level. We understand that, in doing so, many managers draw on standards such as:

- the **Science Based Targets initiative (SBTi)**, which offers a well-established framework for corporate target setting;
- the **Transition Pathway Initiative (TPI)**, which supports comparative analysis of corporate transition readiness; and
- the **TPT Disclosure Framework**, which provides useful structure for reporting on transition planning.

We recognise that managers' ability to use these frameworks depends on the quality and availability of underlying data from investee companies. Without consistent and robust disclosures from companies, both investment managers and asset owners face limitations in how effectively they can develop and monitor their own climate-aligned targets and transition plans.

## **21. What is your view on the role of climate adaptation in transition plans? Is there a role for government to ensure that companies make sufficient progress to adapt, through the use of transition plan requirements?**

We support entities taking a holistic approach to climate change that integrates mitigation and adaptation (and also nature and social considerations). Adaptation is essential for long-term resilience, and we believe it should be a core element of credible transition plans.

Including adaptation in transition planning ensures that companies are not only working to reduce their emissions, but are also building resilience to the physical impacts of climate change. This is particularly important given the increasing likelihood of more severe and frequent climate events, as highlighted by the latest scientific evidence.

While UK SRS S2 includes disclosure requirements that help investors assess how companies are managing physical climate risks, it stops short of requiring companies to demonstrate that they are making adequate progress on adaptation. This limits its usefulness as a forward-looking tool.

We support the inclusion of adaptation within any future transition plan requirements. This could include asking companies to:

- Set out an assessment of their exposure to physical climate risks;
- Develop proportionate plans to build resilience to these risks across their operations;
- Develop proportionate plans to build resilience, where possible, within their value chains, recognising the limitations on how much they can influence the actions of third parties;
- Confirm, with justification, that they believe they are taking adequate steps to adapt to the effects of climate change;
- Monitor and report on progress over time.

There is also a clear role for government in introducing these requirements and supporting their implementation. In particular, we would welcome:

- Sector-specific climate risk maps to help companies assess exposure;
- Planning frameworks that guide adaptation responses;
- Clear and proportionate adaptation guidance that supports consistent disclosure and effective action.

These steps would help companies embed adaptation more effectively into their strategy, improve transparency, and contribute to a more resilient economy.

**22. How can companies be supported to undertake enhanced risk planning in line with a 2°C and 4°C global warming scenario? Are these the right scenarios? To what extent are these scenarios already being applied within company risk analysis and how helpful are they in supporting companies in their transition to climate resilience?**

We note that limiting global warming to 2°C now appears optimistic, with the [2024 UN Emissions Gap Report](#) estimating that current government pledges would result in up to 3.1°C of warming by 2100, with even full delivery of existing pledges still exceeding a 2°C outcome.

While there is value in using 2°C and 4°C scenarios to bookend possible outcomes, it is important that government guidance acknowledges the limitations of these scenarios – particularly the low likelihood of 2°C pathways and the difficulties of modelling 4°C pathways due to their high uncertainty – and sets expectations accordingly.

It is also worth noting that we don't expect much divergence in physical impacts between 2°C and 4°C scenarios for several years, so the choice of scenario may not make much difference to short- and medium-term business planning. As highlighted in the [USS No Time To Lose report](#), global warming over the 2020s is largely 'pre-determined' by existing emissions, with the range of possible outcomes comparatively modest during this period. However, the divergence in impacts becomes much more material over the longer term, which is particularly important when making long-term decisions and capital investments.

**23. To what extent do you think that nature should be considered in the government's transition plan policy? What do you see as the potential advantages and disadvantages? Do you have any views on the potential steps outlined in this section to facilitate organisations transitioning to become nature positive?**

Climate and nature impacts are inherently interconnected. Addressing one without the other is likely to be counterproductive. We support the inclusion of nature in transition planning to help organisations better understand and manage nature-related risks. However, we believe it should be introduced in a proportionate manner. This should recognise that nature-related tools for companies and investors are less mature than those for climate change, and that obtaining decision-useful data is complex and challenging.

For pension schemes, we believe it is important that requirements allow for qualitative approaches at this stage. Schemes should not be expected to produce detailed nature-related metrics or quantitative scenario analysis, but instead explain how they are beginning to consider nature in their governance, investment strategy and stewardship activities.

Asset owners depend on their investment managers and investee companies, many of whom are typically outside the UK's jurisdiction, for the information needed to reflect nature considerations in their transition plans. It will therefore be less helpful if only a narrow subset of companies incorporate nature, as investors need consistent information across the market. Nonetheless, we support inclusion of nature in UK companies' transition plans and encouragement of other countries to adopt equivalent requirements.

**24. Do you have any views on the factors the government should consider when determining the scope of any future transition plan requirements?**

We believe any future transition plan requirements should be targeted to ensure proportionality and effectiveness.

For pension schemes, we believe that the requirements should only apply to those in scope of climate-related governance and reporting requirements. We support a review of the scope of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 to ensure they are focused on schemes with the most material climate-related risks and the greatest capacity to contribute to the low-carbon transition. This is likely to include:

- DC master trusts
- DB consolidators
- Collective DC schemes
- Larger own-trust DB and DC schemes, based on a size threshold that is tested against assets excluding buy-in contracts and UK government bonds.

While this approach would apply to a relatively small number of schemes, these schemes hold the majority of UK occupational pension scheme assets. Targeting them would achieve an appropriate balance between maximising coverage of assets under management and limiting the administrative burden on pension schemes. In addition, we support the introduction of TCFD and transition plan requirements for Local Government Pension Schemes, recognising their scale and systemic importance.

For investment managers, we support including UK-regulated firms above an appropriate assets under management threshold (eg aligned with the Financial Conduct Authority's thresholds for TCFD reporting). This would help our clients in assessing their managers' approach to net zero alignment, assuming they include the key elements we have suggested in our response to Q9.

For other UK corporates, we support the inclusion of economically significant companies, particularly those operating in high-emitting or systemically important sectors. This would help improve the availability of consistent, decision-useful information across investment portfolios.

**27. Do you have views on the legal implications for entities in relation to any of the implementation options and considerations as set out in sections B1-B4 in this consultation?**

As noted in our response to Q15, there is a risk that mandatory transition plan requirements conflict with the fiduciary duties of pension scheme trustees. When our clients set net zero targets or develop related plans, these are always subject to fiduciary duty taking precedence in the event of a conflict.

We would expect any government-mandated transition plan requirements to acknowledge and respect this legal context. At the same time, we believe that clarifying how fiduciary duties apply in the context of climate change would help trustees act with greater confidence and ambition. This aligns with another of our climate policy asks: that pension trustees' fiduciary duty should be reinterpreted to have a longer time horizon and include macro (impact) as well as micro (risk) considerations. **To date, this ask has been endorsed by 57 asset owners with assets totalling £164.5bn.**

Such clarification could allow:

- Trustees to take a long-term perspective, consistent with members' lifetimes.
- Climate-related decisions to be considered at the level of the scheme as a whole, rather than being constrained to individual asset or mandate-level considerations.
- Trustees to consider the real-world impacts of their investments where relevant to members' long-term financial outcomes, not just the direct climate risks to their investment portfolios.

Endorsement of the [Financial Markets Law Committee \(FMLC\) paper on fiduciary duty and climate change](#) by the government and TPR would provide immediate comfort to trustees, and we recommend this as a near-term action. More detailed consideration of fiduciary duty could then be taken forward as part of any future regulatory framework for transition plan requirements.

**28. In the UK's wider legal framework what – if any – changes would be necessary to support entities disclosing transition plans and forward-looking information?**

As noted in our response to Q15, the ability of entities to align with net zero by 2050 is heavily dependent on a broader economy-wide transition taking place. This, in turn, requires clear and consistent direction from government.

We believe the UK's wider legal and regulatory framework plays a critical enabling role in supporting credible transition planning. The government should set and maintain clear, credible and stable policies that align the UK economy with its legally-binding carbon budgets and long-term climate goals. These policies must provide a predictable environment for investment and planning, allowing entities to develop forward-looking transition plans with greater confidence. This aligns with one of our climate policy asks: that governments should set clear, credible and consistent net zero plans, which are nature-friendly and socially just, so investors can invest in the transition with confidence. **To date, this ask has been endorsed by 66 asset owners with assets totalling £195.8bn.**

While transition plan disclosure requirements can help raise standards and transparency, they will only be effective in supporting the UK's net zero objectives if supported by an aligned and coherent policy framework.

**29. What role could high integrity carbon credits play in transition plans? Would further guidance from government on the appropriate use of credits and how to identify or purchase high quality credits be helpful, if so, what could that look like?**

We do not believe carbon credits should play a significant role in pension schemes' transition plans.

We do not think that schemes should purchase carbon credits to meet emissions reduction targets, nor should investment managers do so on their behalf. This would provide no direct benefit to members and so is unlikely to be consistent with trustees' fiduciary duties.

Under a credible net zero pathway, we would expect most companies to have reduced their GHG emissions to near zero by 2050, with carbon credits used only by a minority of companies in hard-to-abate sectors (and their use kept to a minimum in these sectors). Companies' transition plans should therefore include the changes required to business strategies and operations to achieve this outcome, while recognising that some of these changes require a long lead time.

That said, carbon credit markets can play a role in supporting the transition by accelerating mitigation efforts in areas where reductions are more readily achievable and by building market infrastructure and standards needed for the credible "net" element of net zero targets. However, steps should be taken to ensure that carbon credits are used appropriately, and that their use does not distract companies from making changes to their business strategies and operations that would directly reduce greenhouse gas emissions.

To support this, we recommend the government:

- Provides clear guidance on the appropriate use of carbon credits within transition plans, including how they should be reported and distinguished from direct emissions reductions.
- Promotes standards for identifying high-integrity carbon credits, with transparency on project quality, permanence, and additionality.
- Emphasises that carbon credits are not a substitute for the deep decarbonisation needed in business strategies and operations.

It is important that any use or intended use of carbon credits is clearly disclosed within a transition plan to ensure transparency and avoid misinterpretation.

**31. How can transition planning contribute to achieving the UK's domestic net zero targets while ensuring it supports sustainable investment in EMDEs, where transition pathways may be more gradual or less clearly defined?**

We support an approach to transition planning that enables delivery of the UK's domestic net zero targets while recognising the need for flexibility in emerging markets and developing economies (EMDEs).

It is important that net zero alignment is assessed relative to decarbonisation pathways that are appropriate to the geography or sector in question, while remaining consistent with global net zero greenhouse gas emissions by 2050. This enables UK-based investors, including pension schemes, and UK companies with international operations or supply chains, to contribute meaningfully to the UK's climate goals while continuing to invest in EMDEs in a responsible and sustainable way.

To support this, we encourage the government to:

- Ensure UK-specific decarbonisation pathways and sectoral roadmaps are publicly available and easy to use in transition planning.
- Support the development of equivalent decarbonisation pathways in EMDEs, including through capacity building, international partnerships and technical assistance.
- Recognise that transition planning in EMDEs may need to follow different trajectories, with expectations that are realistic but ambitious.

We also see a role for UK aid, blended finance, and partnerships with development finance institutions to help accelerate investment in low-carbon infrastructure and technologies in EMDEs, while maintaining appropriate flexibility in transition expectations.



**32. How could transition planning account for data limitations, particularly in EMDEs, where high-quality, comparable sustainability reporting may be less available?**

We recognise that data availability and quality remain a challenge, particularly in many EMDEs. However, this should not be used as a reason for inaction or reduced ambition. Entities should do the best they can with the data currently available. Transition plans should also describe the steps being taken to improve the quality and availability of data over time, for example through engagement with investee companies and supply chain partners.

Where material data gaps remain, entities should be transparent about these limitations and explain where estimates, proxies or assumptions have been used.

**33. What guidance, support or capacity building would be most useful to support effective transition planning and why? For respondents that have developed and/or published a transition plan, what guidance, support or capacity building did you make use of through the process? Please explain what additional guidance would be helpful and why?**

We support the development of a practical and proportionate approach to transition planning for pension schemes. We welcome TPR's announcement that it is convening an industry group to test a voluntary net zero transition plan template for occupational schemes, drawing on the TPT framework. We look forward to contributing to this work through our membership of the ICSWG.

For pension schemes, clear guidance will be important if transition plans are made a requirement. However, we believe:

- Any statutory guidance should remain high-level and principles-based, to allow for flexible implementation based on scheme-specific circumstances.
- Supplementary guidance should be educational rather than prescriptive (e.g. positioned as “may” rather than “should”) and ideally issued by the industry rather than government or regulators.
- Practical case studies and illustrative examples would be more useful than detailed templates or checklists.