KPMG

Telling your transition story

IFRS® Sustainability Disclosure Standards

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Telling your transition story

What's the issue?

- Climate change is both a business risk and an opportunity to innovate. Investors and other stakeholders need to understand companies' ambitions and actions in response.
- Companies face increasing cost pressures, disruptive technology and an evolving policy landscape. Against this backdrop, transition planning offers an opportunity to protect, and create, long-term sustainable value.
- As transition planning becomes more common and investor demand for it grows, reporting frameworks and standards – including the IFRS Sustainability Disclosure Standards – increasingly require transition plan disclosures.

What's the impact?

- Companies can stand out from the crowd with quality transition plan disclosures that tell their story effectively.
- High-quality disclosures include relevant detail and are understandable and connected across the annual report.
- Transition plans require cross-cutting information. Developing the plan and preparing the related disclosures requires strong connectivity between multiple functions.

What's next?

- This guide provides an introduction to transition plan disclosures for those new to the topic.
- The International Sustainability Standards Board (ISSB) has also released guidance to help companies comply with its requirements in this area.
- This guide focuses on the IFRS Sustainability Disclosure Standards; however, it may also be useful to companies reporting under other frameworks, including European Sustainability Reporting Standards (ESRS).

Contents

01 What is a transition plan?

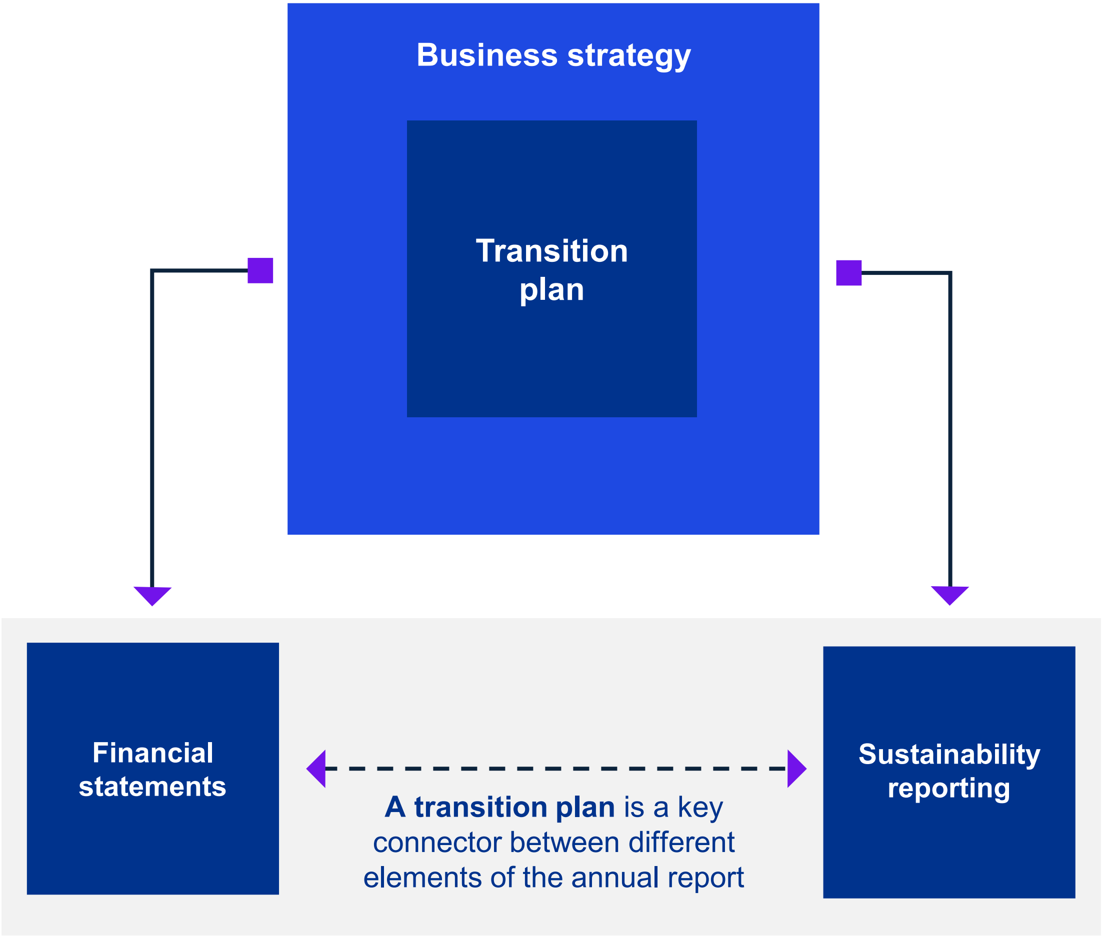
A **transition plan** is an aspect of a company's overall business strategy.

It lays out the company's **targets, actions and resources** for its transition towards a lower-carbon economy. This includes reducing the company's greenhouse gas (GHG) emissions and adapting to the effects of climate change.

The transition plan is a key mechanism for companies to become climate resilient and to unlock value. Companies can use disclosures about their transition plans as a tool for communicating effectively with investors, lenders and other stakeholders.

IFRS S2[1] refers to a 'climate-related transition plan'.

In addition, IFRS S1[2] emphasises the importance of providing connected information – e.g. connecting climate- and nature-related risks. See Question 5 and Question 6.



[1] IFRS S2 *Climate-related Disclosures*

[2] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

02 What does a transition plan include?

A transition plan brings together information about the company's:

- **ambition**;
- **actions**; and
- **accountability**.

It **connects the dots** between the company's actions and their impact on its financial position and performance (see Question 6).

The ISSB's guidance on transition plan disclosures is based on broader materials from the UK Transition Plan Taskforce (TPT).

The areas highlighted on this slide are consistent with the TPT's materials, which provide guidance on the transition planning process, the contents of a transition plan and related disclosures.

Transition plan

Ambition

Strategic ambition forms the foundation of the transition plan.

The plan sets out the company's overall objectives and key priorities in transitioning to a lower-carbon economy – including emissions reduction goals and plans to increase resilience.

Actions

Planned transition **actions** are explained in an **implementation strategy**.

It details the timeline and financing of actions and their expected impact on products and services, policies and financial performance.

Key actions include an **engagement strategy** for key stakeholders on the transition plan.

Accountability

Accountability measures include **governance** to ensure that delivery of the plan is embedded into the organisation and its culture.

Appropriate **metrics and targets** enable robust periodic monitoring and reporting.

Targets include GHG emissions and other governance, business and operational indicators.

03 What do you need to disclose under IFRS S2?

- Disclosures need to **tell a clear and connected story**.

  Companies have the opportunity to explain in their disclosures how they will protect and create value through their transition.

- There are relevant requirements in IFRS S2 regardless of whether a company has a transition plan, is in the process of creating one, or has set a strategic goal[1].

- If a company has a transition plan, then it provides information about it – including its key assumptions and dependencies.

Transition plan
- Ambition
- Actions
- Accountability

	1. Requirements[2]	2. Illustrative examples
Governance	• Governance body or individual(s) responsible for oversight of climate-related risks and opportunities • Management's role in the governance processes	• How the governance body's oversight of strategy considers the transition plan • Whether and how the company aligns remuneration for all employees with strategic goals
Strategy	• Climate-related risks and opportunities • Business model and value chain • Strategy and decision-making • Financial position, performance and cash flows • Climate resilience	• How policies contribute to achieving strategic goals • How engaging with stakeholders supports indirect mitigation and adaptation efforts • How actions to achieve strategic goals may affect asset valuations

Metrics and targets	• Climate-related metrics:
	  ◦ cross-cutting (including GHG emissions)
	  ◦ industry-specific
	• Climate-related targets
		• How the company monitors governance, engagement, business operations and finance
		• Whether metrics and targets consider just transition or nature

Guidance from the ISSB on IFRS S2

1. Adds non-mandatory application guidance to the requirements.
2. Provides examples and illustrations to help companies identify relevant information to disclose.

[1] The ISSB's guidance refers to a 'strategic goal' as relating to an entity's transition towards a lower-carbon economy and/or climate-resilient economy.

[2] IFRS S2 also includes requirements relating to risk management, but these are less relevant to transition plan disclosures.

04 Does a transition plan need to align with global climate goals?

- IFRS S2 **does not require alignment** with specific climate goals (e.g. 1.5°C).

  Instead, companies need to disclose how their climate-related targets are informed by international agreements (e.g. the Paris Agreement or nationally determined contributions).

  If a company does claim alignment, then it discloses the basis and assumptions.

- **Other reporting frameworks**, like ESRS, refer to the 1.5°C goal under the Paris Agreement in their definition of a transition plan.

- Targets are more **credible** if they are verified as 'science-based' – e.g. validated by SBTi[1]. IFRS S2 requires disclosure of whether targets are science-based or not.

Improving the quality of climate-related target disclosures

Do you have GHG reduction targets?

… do they include Scope 3 emissions?

…are they verified as 'science-based'?

Do you have a transition plan that sets out the actions and resourcing required to achieve the targets?

If 'yes', then the potential for higher-quality disclosures increases

[1] Science Based Targets initiative

05 Is a transition plan only about climate?

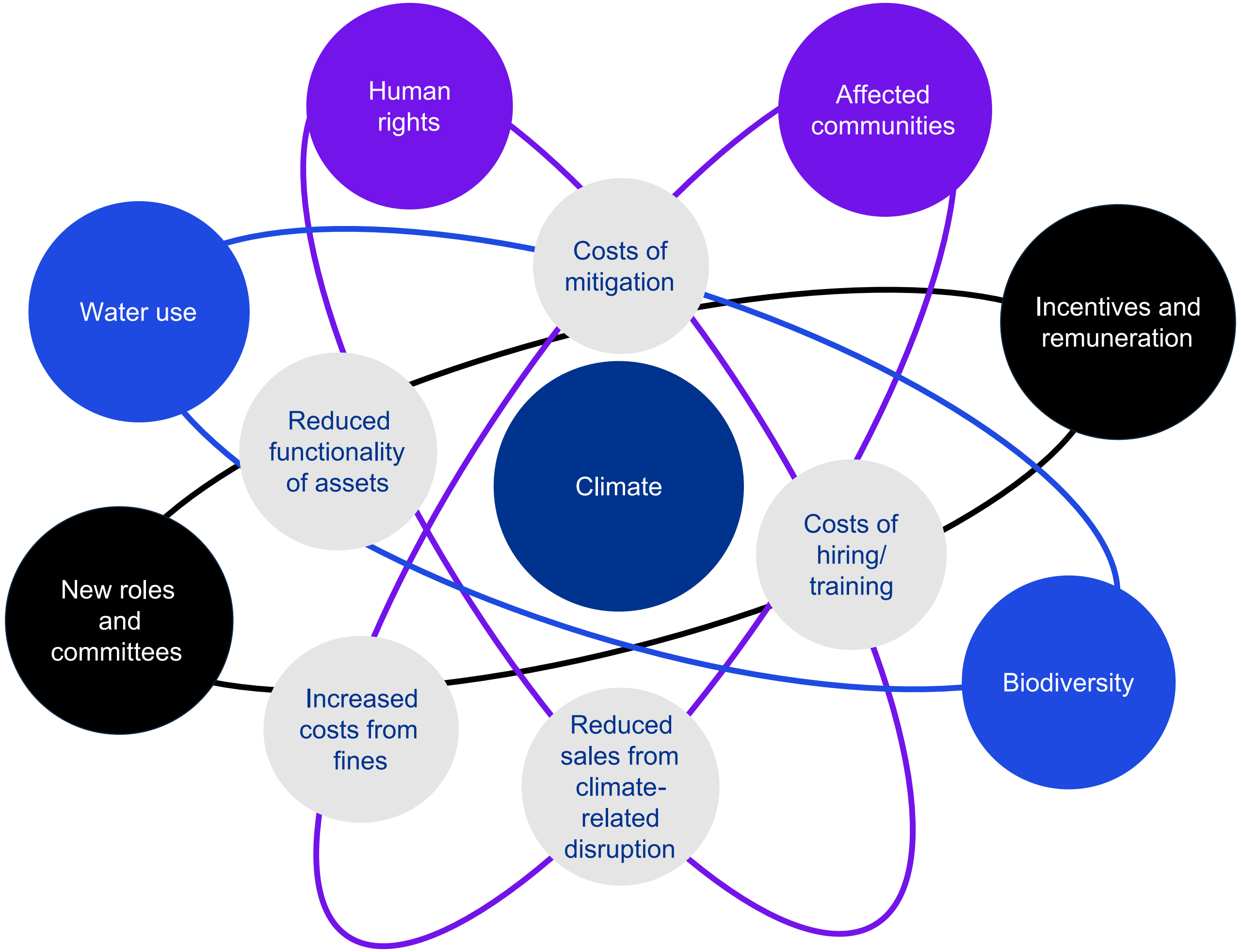
A transition plan considers the topics **connected** to, or arising from, the company's transition to a lower-carbon economy.

For example, a company may need to consider:

- how switching to lower-carbon raw materials may impact workers in its supply chain;
- how water-dependent operating assets may be affected by increasing water scarcity; and
- how transition plan delivery can be incentivised effectively through remuneration structures.

Climate change is a driver of biodiversity loss, and nature and biodiversity play a vital role in climate change mitigation and adaptation strategies.

Information on developing and disclosing nature-related transition plans can be found in draft guidance from the Taskforce on Nature-related Financial Disclosures (TNFD).



06 How do you connect the dots with financial reporting?

To ensure that users can **connect the dots** between the relevant pieces of information they need to make their investing and financing decisions (i.e. material information), a company follows these steps.

- Step 1: Consider specific **actions** in the transition plan.
- Step 2: Determine the **financial reporting impact** of each action. This can include the impact on the company's financial position and financial performance at the reporting date or at a future date.
- Step 3: **Disclose** material information – applying specific and overarching disclosure requirements in the IFRS Standards[1,2]. Choose the best way to **connect the dots** between information in different parts of the reporting – e.g. cross-references, reconciliations, separate note.

There is no specific guidance in the IFRS Standards on whether and where to provide **'no impact' disclosures**.

Judgement is required to determine if information about 'no impact' of a particular action in the transition plan on the financial position and performance at a specific reporting date is material, and if so, whether it needs to be provided in the financial statements and/or the sustainability reporting.

To ensure that users can **connect the dots…**

Consider specific **actions** in the transition plan

↓

Determine the **financial reporting impact** of each action

↓

Disclose material information and **connect the dots**

Transition plan

Financial statements

Sustainability reporting

[1] IFRS Standards refers to both IFRS Accounting Standards and IFRS Sustainability Disclosure Standards.

[2] For further details, read our talkbooks Clear on climate reporting and Net-zero commitments.

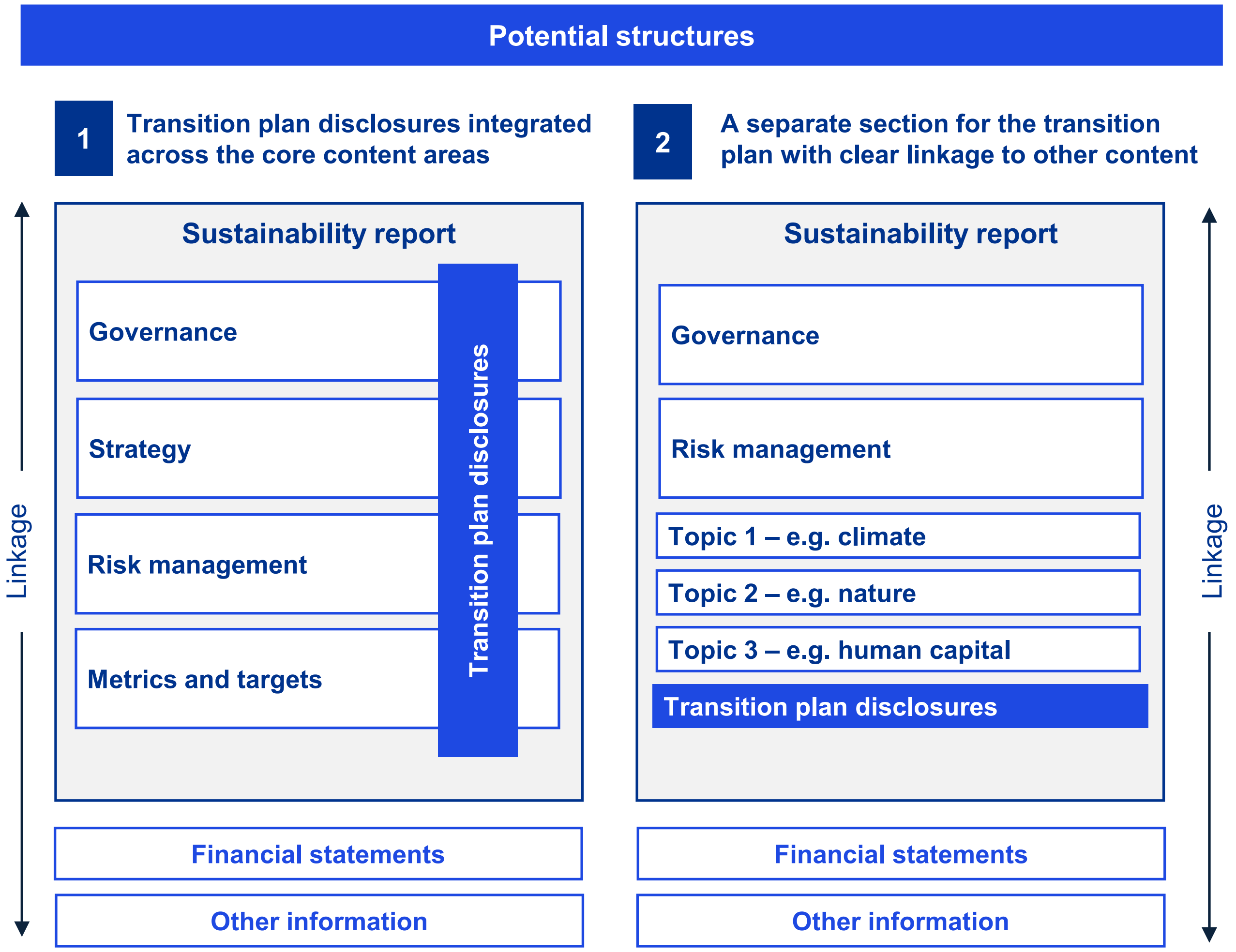
07 How is the information presented in the sustainability report?

Under IFRS S2, companies determine the **most appropriate structure** for their reporting.

- The transition plan can be presented as a **separate** section of the sustainability report or **integrated** with other disclosures.
- Alternatively, some companies choose to publish their transition plan in a separate report. IFRS S1 includes specific requirements for cross referencing.
- Jurisdictional requirements may influence a company's choice of structure – e.g. ESRS requires transition plan disclosures to be in the environment section of the report.

Information needs to be presented **coherently** and in a way that facilitates **linkage** with other information, including the financial statements.

Avoid duplication whenever possible – e.g. information about the governance of the transition plan may duplicate more general governance disclosures.



08 How do you manage uncertainty and sensitive information in disclosures?

Uncertainty is inherent

A transition plan is forward-looking – so information may be inherently uncertain or sensitive. Even near-term actions may be dependent on uncertain future events.

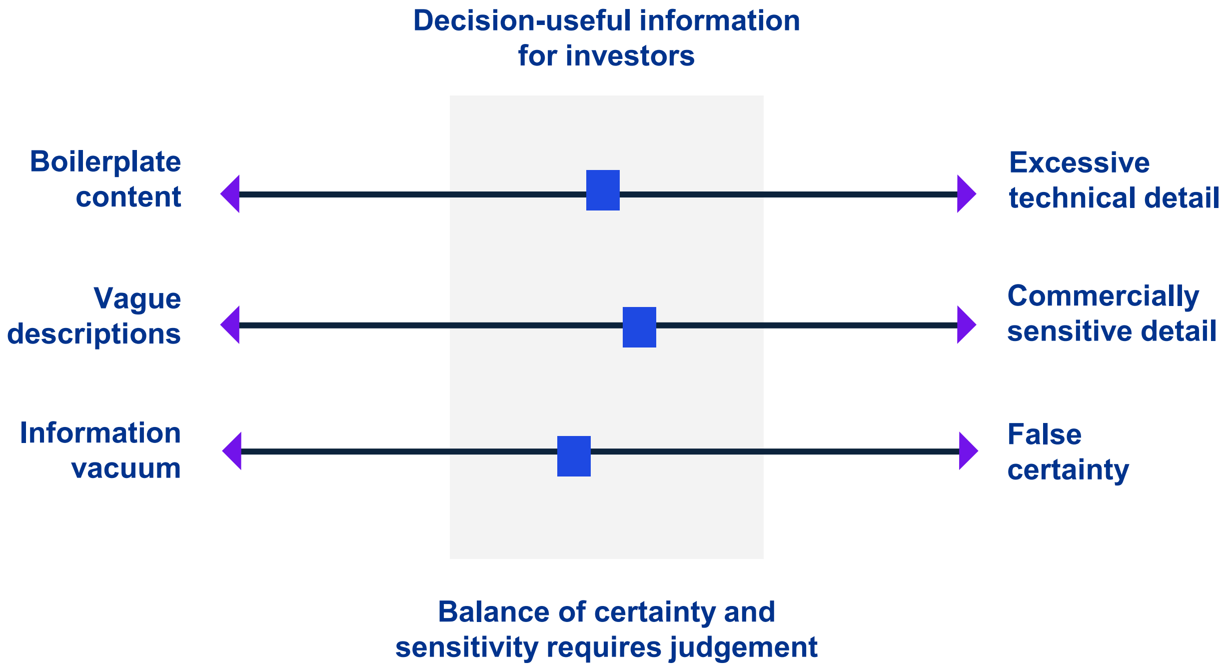
Transparency promotes credibility

To make uncertain information decision-useful for investors, it is important to explain the key areas of judgement, highlighting where and why there is uncertainty, and the key assumptions and dependencies.

Commercially sensitive information may be excluded in some circumstances

Companies can exclude information about opportunities within strict criteria, but there is no such exemption for risks.

If there is concern about providing information, a key judgement is whether disclosure objectives can be met in a different way.



It is important to involve the governance body early to ensure their full understanding of the disclosure requirements, including the need for uncertain or sensitive information.

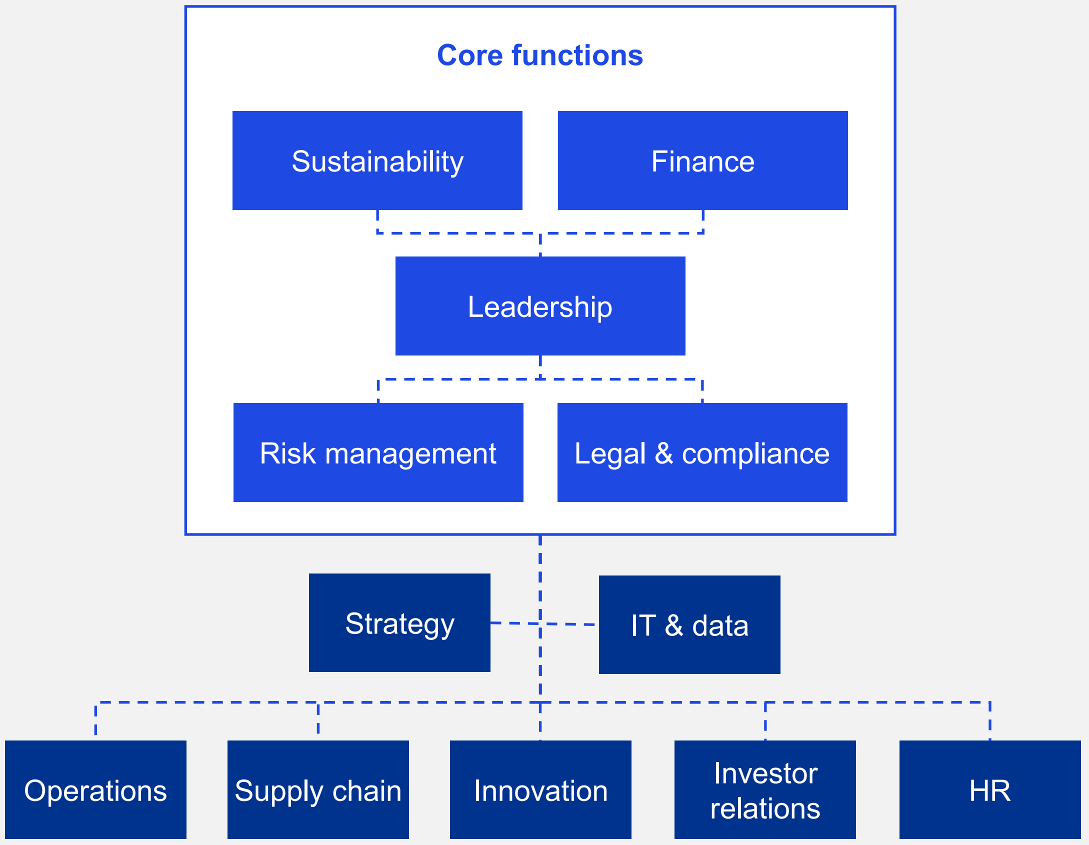
09 Who is involved in preparing the disclosures?

- Preparing transition plan disclosures is inherently **cross-functional**. It requires breaking down any functional silos to ensure connectivity.

- The following core functions are typically involved in preparing disclosures.
  - **Sustainability** often leads on decarbonisation strategy and setting carbon reduction targets.
  - **Finance** integrates climate-related risks into financial planning, reporting and disclosures, and ensures compliance with reporting standards.
  - **Risk management** assesses and quantifies climate- and nature-related risks.
  - **Legal & compliance** ensures disclosures are legally compliant and aligned with investor expectations.
  - **Leadership** provides oversight and challenges the transition plan and related disclosures.

- Other **functions** contribute data and support the disclosure process or are integral to the process of creating the transition plan.

Example functions involved in disclosures

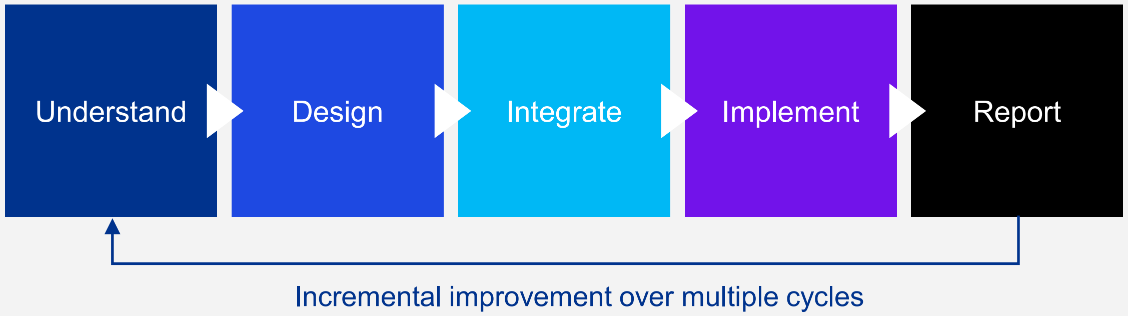


10 What do you need to do now?

Companies have the opportunity to create a clear strategy through their transition plan. This exercise will bring together the information needed to convey a strong narrative for investors in the disclosures.

- **Understand** the company's sustainability-related risks and opportunities, metrics, targets and policies and identify any gaps.
- **Design** the transition strategy – from high-level strategic ambition to detailed prioritisation of decarbonisation approaches and financial analysis methods.
- **Integrate** the transition strategy design into wider business strategy and governance. This includes designing the target operating model, technology and data solutions, financing strategies and remuneration incentive structures.
- **Implement** the transition plan, ensuring that processes are in place to monitor progress.
- **Monitor and report** internally and externally. Prepare clear and connected disclosures to tell your transition story.

The journey to disclosure



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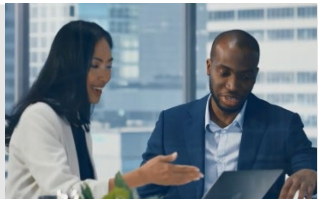
KPMG Global Corporate Reporting Institute



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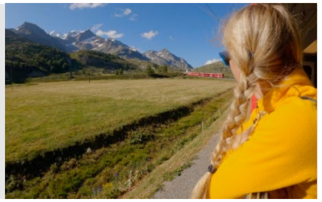

Clear on climate reporting

Digital hub

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Financial reporting in uncertain times

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European Sustainability Reporting Standards

Connected reporting

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