

Joint Investor Statement: Corporate climate transition plans are an essential building block on global reporting baseline

A clear framework for developing and disclosing an entity's climate transition plan (**transition plan**) is critical to meet investor needs and promote ongoing investment in Australian companies. Transition plans will support Australia's whole of economy transition.

With members and signatories representing over two-thirds of Australia's investment industry and over AU\$100 trillion in assets under management globally, our networks engage with climate change risks and opportunities daily. Our networks provide support to investors and governments as we work towards achieving our shared goal of decarbonising the economy through an orderly and just transition to net zero.

We welcome the Australian Government's progress towards mandatory climate-related financial disclosures. Strengthening climate disclosures across the financial system through mandatory reporting is a top priority for investors. A recent Global Statement to Governments signed by 602 institutional investors highlighted that public disclosure of 1.5°C pathway-aligned, independently verifiable transition plans should be a critical element of mandatory reporting approaches.¹

Australian companies are beginning to publish transition plans, but a lack of standardisation and regulatory guidance means much of this disclosure is incomplete or inadequate for investor needs.

Adopting the International Sustainability Standards Board (**ISSB**) Standard IFRS S2 Climate-related Disclosures (**ISSB Climate Standard**) baseline requirements for the disclosure of transition plans² is a valuable starting point. However, further steps are needed to support Australian entities to produce credible transition plans which contribute to and are consistent with Australia's climate commitments and the goals of the Paris Agreement.

Accordingly, we recommend:

The Federal Government establish a clear framework for developing and disclosing transition plans which supports a whole of economy just transition aligned with limiting global temperatures to 1.5°C.³ This would include introducing best practice regulatory guidance and minimum requirements for transition plan disclosure in Australia. This should build on the ISSB Climate Standard, draw on international examples, and involve close consultation with finance sector representatives, industry experts and the wider community.

While guidance should support all entities with transition planning⁴, there is an urgent need to promote transparency and insight into how Australia's highest emitting and risk-exposed companies are pivoting their existing assets, operations, and business model to align with a 2050 net-zero trajectory.

¹ Investor Agenda, 2022 Global Investor Statement to Governments on the Climate Crisis (November 2022).

² [See IFRS S2 Climate-related Disclosures, Paragraph 13.](#)

³ Including with reference to Australia's legislated targets and policies.

⁴ including targeted sector guidance for companies and different financial institutions

1.5°C-aligned corporate transition plans

Investors need companies to show not just that they are assessing climate risk but how their assessment is informing and changing their strategies and decision-making from board governance to capital expenditure to future business opportunities. Investors expect to understand companies' plans to pivot their existing assets, operations, and entire business model to align with a 2050 net-zero trajectory and limit global temperatures to 1.5°C.⁵

While some Australian companies are beginning to produce standalone transition plans or incorporate relevant elements in their reporting, a lack of standardisation and regulatory guidance means much of this disclosure is incomplete or inadequate for investor needs. For example, recent analysis of 183 Australian companies reporting to CDP in 2022, shows that none of them met all 21 key indicators of a credible transition plan. Only 24 of the Australian companies assessed disclosed information on between 14 to 20 of the key indicators.⁶

Emerging international frameworks risk fragmentation

The ISSB Climate Standard requires an entity to disclose how climate-related risks and opportunities affect its strategy and decision-making, its plans to transition towards a lower-carbon economy, and its climate-related targets. It also requires an entity to disclose the assumptions it makes and the dependencies it identifies in developing its transition plans.⁷ This sets a valuable standardised and internationally aligned global baseline for disclosure of transition plans. The ISSB currently does not provide further guidance on best practice transition plan development and disclosure. It also does not specify any end transition goal and does not seek to ensure transition plans contribute to and are consistent with Australia's climate commitments and goals of the Paris Agreement. These tasks will be the responsibility of local jurisdictions.

Internationally, numerous frameworks for transition planning have emerged.⁸ The UK and EU, among others, are building on the ISSB baseline with additional regulations and guidance to strengthen transition planning and reporting, with others expected to follow. A lack of robust transition planning by Australian entities, relative to international peers, increases national transition risk and risks making Australia less attractive as a capital destination.

These existing frameworks should be used as a base in Australia to promote efficiency and reduce fragmentation in reporting approaches. They will also need to be contextualised for Australia in close consultation with stakeholders to best support entities to produce quality and decision useful transition plans. Harmonisation is important to enable investors with global exposure to assess progress and effectively engage with assets across their portfolio.

⁵ IGCC, Corporate transition plans: A guide to investor expectations (March 2022); Investor Agenda, 2022 Global Investor Statement to Governments on the Climate Crisis (November 2022).

⁶ CDP, Are Companies Developing Credible Climate Transition Plans (February 2023) .

⁷ ISSB Climate Standard Para 13; IFRS ISSB update (November 2022).

⁸ E.g., from the UK Transition Plan Taskforce, European Financial Reporting Advisory Group, Glasgow Financial Alliance for Net Zero, Climate Action 100+ Net Zero Benchmark, Transition Pathway Initiative, United Nations High Level Expert Group on the Credibility of Net Zero Commitments of Non-State Actors, and Taskforce for Climate-related Financial Disclosures.

Key principles for credible transition plans

Clear requirements and guidance for transition plans will promote transparency and insight into how entities are pivoting their existing assets, operations, and business model to align with a 2050 net-zero trajectory.

To align with emerging international practice and investors' expectations⁹, credible corporate transition plans should:

- Describe the **ambition of the entity's transition plan by disclosing its short, medium and long-term targets**, objectives, priorities, and milestones for responding and contributing to an orderly and just whole-of-economy transition.
- Describe the **business strategies and actions** to deliver those targets, including identifying implications for resourcing, products and services, capital and operational expenditure, engagement with stakeholders across the entity value chain, use of offsets as well as internal policies and financial planning.
- Demonstrate how targets, business strategies and actions **align with a 1.5°C decarbonisation pathway**, including with reference to the latest international agreement on climate change (i.e., the Paris Agreement), domestic regulatory commitments, and comprehensive and credible 1.5°C aligned **sector pathways**¹⁰, including underlying methodologies and assumptions.
- Demonstrate how **investment commitments and financial planning** (capital and operational expenditures, revenue etc) align with targets, including alignment of the overarching capital allocation strategy, acquisitions and disposals, disclosing a forward-oriented CapEx budget and details of the operating plan, commitments to a just transition, any closure provisions and rundown plans.
- Set out the **timing for disclosing, monitoring and tracking progress**, updating and verifying the transition plan including independent verification of targets.¹¹

We stand ready to work with the government, regulators and all stakeholders to promote investment in Australia through credible climate transition plans which facilitate transparency and insight into how entities are pivoting to align with and contribute to an orderly, just and climate-resilient net-zero trajectory.

⁹ This list draws on international frameworks including the UK TPT and research by CDP, IGCC and PRI, and is not intended to be exhaustive.

¹⁰ We welcome and recognise the Government and the Climate Change Authority's commitment to developing sector targets and pathways to 2050. These pathway ways must be 1.5°C aligned and we encourage this process to be undertaken in close consultation with relevant stakeholders and to be completed by the end of 2024. These sector pathways will be integral to underpinning credible transition plans.

¹¹ See further details for investor expectations in IGCC, Corporate transition plans: A guide to investor expectations (March 2022).