

Sustainable investments

Transition planning



Julia Dreblow discusses the moral and financial benefits and ongoing challenges of moving the economy towards net zero

Recent months have seen a flurry of consultations and related activity from the Government, regulators and international standard setters on the subject of 'transitioning' – the process of aligning an economy towards net zero in a way that supports both resilience and growth.

While transitioning is firmly an international challenge, the UK Government has for some years made it clear that the UK plans to lead in this area - in recognition of growing sustainability related risks, opportunities – and our skills, particularly in finance.

Behind this sits the need to deliver an orderly transition to lower carbon economies – where the risk of severe, and indeed systemic, environmental risks are minimised, and assets including investments - are protected. Governments, like investors, have to manage many risks all at once.

These recent publications have largely moved beyond referencing climate scenarios and assessing the costs of continuing on our current trajectory, to where we go next, but taking stock of where we are now.

Climate change impact

For example, Europe has had a terrifyingly dry spring this year - followed by an unusually hot summer. Instances of fires, crop failures, algal blooms and water shortages are being constantly reported. Spain has also had a particularly torrid time, although images of the recent floods further afield in Pakistan remind us that this is by no means a local issue. And if we are being honest most of us in the UK need to do little more than look out of our windows to see the problem. Indeed, you need to be particularly optimistic – some might say myopic - to maintain the view that 'climate change is happening, but we don't need to do anything'.

Likewise, the views 'the UK only accounts for a tiny proportion of emissions – why bother / what can we do?' sounds rather uncaring, defeatist and unambitious to me. The UK is one of the world's biggest economies and one of its largest financial centres. So, the answer is under our noses.

This article is written in that context. I believe that we can make a difference and that doing so is morally right as well as financially attractive - not just for individuals, but for the financial sector, and the UK as a whole. However, I do not believe success is guaranteed. This is going to be challenging – which is why Government, standard setters and businesses must get serious about forging ambitious, workable plans.

The consultation plan that first caught my eye was the Department for Energy Security and Net Zero *'Transition Plan Requirements'* consultation (closes on 17 September). It aligns to, and articulates, the Government's commitment to mandate "UK-regulated financial institutions (including banks, asset managers, pension funds and insurers) and FTSE 100 companies to develop and implement credible transition plans that align with the +1.5°C goal of the Paris Agreement" – as flagged in the Chancellor's 2024 Mansion House speech. The other key parties to this are the FCA and the FRC.

Improving reporting

The consultation is part of a suite of initiatives aimed at modernising and improving sustainability-related corporate reporting, to enable better informed decision making across financial markets. It builds on earlier work such as SDR (The FCA published Sustainability Disclosure Requirements), TCFD reporting requirements – as required by the FCA (now ISSB) and the TPT report (Transition Planning Taskforce – launched by the Treasury in 2022).

Explaining the aims of this work, the DESNZ paper states that: "The Government wants to ensure that any future transition planning requirements achieve the following objectives:

- support an orderly transition in line with global climate goals;
- enhance transparency for investors and promote efficient capital allocation;
- support companies to capture the opportunities from the global net zero transition; and
- support the UK's growth by ensuring its sustainable finance framework is internationally competitive and maintains the UK's status as a global financial hub."

Page 9 of the DESNZ consultation explains that the report is one of three interconnected pieces of work:

- A consultation on the Government's 'exposure draft' proposing UK Sustainability Reporting Standards (UK SRS). The requirements will be based on the international standards published by ISSB in June 2023 (search IFRS S1 and S2), and are intended to become the foundation of a future UK sustainability disclosures regime.
- A consultation on the providers of 'assurance' over sustainability related financial disclosure, to strengthen audit and corporate governance processes in this area. The Government is working with the FRC on this - and a new registration scheme may emerge.
- A consultation on transition planning and how this might work alongside UK SRS (introduced below).

Explaining what transition planning is, DESNZ offers two definitions

IFRS S2: An aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions. [footnote 14]

Transition Plan Taskforce: The TPT builds from the definition in IFRS S2, recommending that a good practice transition plan clearly articulates the entity's Strategic Ambition. This comprises its objectives and priorities for responding and contributing to the transition towards a low GHG-emissions, climate-resilient economy. It also sets out whether and how the entity is pursuing these objectives and priorities in a manner that captures opportunities, avoids adverse impacts for stakeholders and society and safeguards the natural environment.

In summary – the DESNZ consultation is wide ranging. It references climate, nature loss and implementation options – asking for feedback on decision-usefulness, mandating, how this might work internationally, legal implications and usefulness. It makes regular reference to ensuring investors have access to financially relevant information - materiality - and

notably, the role of trust-based pension schemes and SIPs. This has been welcomed by the FCA, as follows:

“Our future plans - We welcome the Government’s consultations published on 25 June 2025, including the draft UK Sustainability Reporting Standards (UK SRS). We intend to consult later this year on how listed companies will adopt these standards, promoting international alignment and the growth of the UK as a centre for sustainable finance. This will include our proposed approach to the disclosure of transition plans.

“We’re also beginning work to streamline and enhance our sustainability reporting framework for asset managers and FCA-regulated asset owners. If you would like to engage with us as part of this next phase of work, please email sustainabilitydisclosures@fca.org.uk.”

In addition, the **International Standards Organisation (ISO)** - that the BSI, the UK’s national standards body is a member of – also shared a (now closed) consultation this summer entitled: *‘ISO 32212 – Net Zero Transition Planning for Financial Institutions’*.

The consultation covers similar ground - (ie building on ISSB, GFANZ and TPT), however its focus is slightly different in that it aims to be more practical. It places greater emphasis on areas such as governance, communication and how to conduct reviews – all of which will be important if transitioning is to succeed.

But will it work?

As 2024 was the first calendar year when global temperatures were 1.5°C above pre-industrial levels (Copernicus), the (2024) FCA Financial Lives Survey indicated that 72% of individual investors wanted to ‘do some good as well as make a financial return’ – and the Institute and Faculty of Actuaries have been warning of potentially ruinous financial impacts of climate risk you might think that addressing related challenges ought to be relatively straightforward now, particularly given the success of renewables.

However, financial markets appear strangely oblivious to the risk of stranded assets, or worse.

Putting sustainability reporting on a similar footing to financial reporting internationally, and requiring transition plans to be maintained and audited may not delight everyone – but it will be a step change, and should help. These measures won’t make problems go away – and data won’t be perfect – but allowing corporate strategies to be interrogated so that better informed decisions can be made matters to the providers of capital.

Narrative will, however, remain vital in my view – to explain the numbers and guard against greenwash allegations. This should

involve exploring and explaining nuances and compromises that some may not like, but – in my view – are better aired than hidden. The FCA started this process when they adopted the term ‘Improver’ as an SDR label, which as well as being plain English – helps manage expectations.

Having been part of the SDR process, I am perhaps biased, but the concept of ‘improvement’ is central to our ability to address environmental and social challenges and how sustainable investment works. No company is perfect.

The adoption of this label has however, so far, been underwhelming. We only know of 11 funds that have chosen the ‘Sustainability Improver’ label - against 74 using the ‘Sustainability Focus’ label and 25 using the ‘Sustainability Impact’ label. (Source: Fund EcoMarket).

My hope and expectation is that this will change if and when the rule simplifications flagged by the FCA succeed. This is in part because ‘improvement’ opens the door to diverse investment strategies – that sit well alongside other labels for both portfolio planning and effecting a transition. Strategies can involve major or minor exclusions, limited or targeted responsible engagement, the setting of forward-looking science-based targets and, or the reallocation of capital towards renewables and other solutions (all searchable options on Fund EcoMarket).

We need all of this to happen, and more, if we are to reduce what the Royal Meteorological Society is rather ominously calling ‘weather whiplash’ where weather extremes oscillate violently, a concept that

could easily have financial market parallels.

Whether you prefer to use the term ‘transitioning’ or ‘improving’ with clients is a personal decision. However, the core messages are not. Environmental issues matter. Some, like climate change and nature loss, have the potential to collapse financial markets. The process of building corporate and financial market reporting infrastructure to guard against this has begun and the UK plans to lead, not follow.

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SOURCES

<https://www.gov.uk/government/consultations/climate-related-transition-plan-requirements>
<https://www.gov.uk/government/consultations/exposure-drafts-uk-sustainability-reporting-standards>
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<https://www.fca.org.uk/firms/climate-change-sustainable-finance/reporting-requirements#revisions>
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<https://www.fundecomarket.co.uk/fund-ecomarket/>

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