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# CLIMATE-RELATED DISCLOSURES: TRANSITION PLANNING

## A Strategic Imperative for Climate-related Disclosures

As expectations around climate-related disclosures grow, credible and actionable transition plans are becoming a core part of an organisation's climate strategy. A formal transition planning process will provide necessary discipline to meet disclosure requirements while strengthening internal clarity and strategic direction.

If not already in place, focus should be on establishing readiness, defining strategic ambition, and developing a high-level transition plan framework. The process does not need to be overly complex and we have aimed to simplify the steps, delivered through a series of pragmatic and interactive workshops, culminating in a documented transition plan suitable for internal approval and external reporting.

## What is Transition Planning?

Transition planning is one of the most critical parts of the climate-related disclosures regime. It is the point at which many disclosure outputs converge, including the intersection of scenario analysis, identified climate-related risks and opportunities, and GHG emissions. Transition planning enables businesses to build a strategic plan with the right knowledge and context, and for many, this is where "*the rubber hits the road*".

Effective transition planning sets out how an organisation will achieve its purpose, goals, and strategy in the context of three key challenges:

- The significant disruption associated with transitioning to a low-emissions, climate-resilient economy
- The increasing severity and frequency of physical climate impacts; and
- Rapidly changing market conditions, including shifts in customer affordability, competitor behaviour, and the cost and reliability of supply chains

## Key Points

- **Understand your disclosure reporting requirements**
- **Would you benefit from a trial run before your first disclosure period?**
- **Understand what you can do internally and what you might need assistance with**
- **Consider the four key stage approach**

## Transition Planning Process Overview

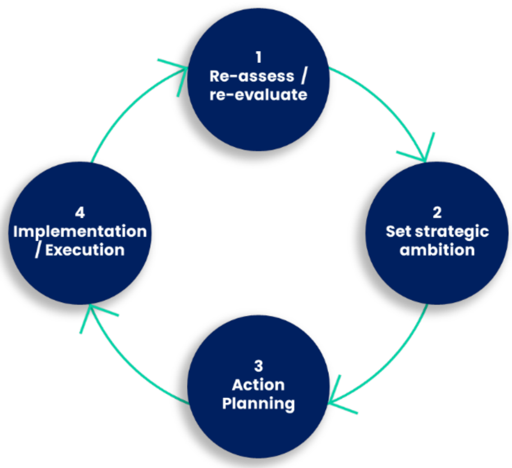
The transition planning process is designed to support climate-related disclosures by guiding a business through the development of a credible and evolving strategic plan. The core stages in the transition cycle are:

**Stage 1: Re-assess / Re-evaluate** – Assess readiness for transition planning and identify key gaps

**Stage 2: Set Strategic Ambition** – Define the organisation's long-term climate-related ambition and test its resilience

**Stage 3: Action Planning** – Develop a transition plan with key themes, initiatives, and timelines

**Stage 4: Implementation / Execution** – Coordinate delivery and track progress across the business



In an organisation's first disclosure the focus will be on completing Steps 1 and 2, and initiating Step 3. Step 4 and the detailed development of Step 3 will be addressed in the next year cycle.

## Benefits of a Transition Plan

*"Companies with credible transition plans may increasingly be able to access products and services tailored to low-carbon business models. In contrast, companies that do not have credible transition plans may face higher costs and / or restricted access to financial products and services (e.g., higher costs of capital) depending on the decision-making process of their financial institution(s)."*

Glasgow Financial Alliance for Net Zero (GFANZ)

Whilst conversations continue around the globe as to the timing or target dates of various climate related initiatives, the relevance for most organisations exists in some shape or form. A large majority of both New Zealand and Australian companies trade with areas of the world with well established climate reporting programmes. As reporting and compliance requirements cascade through the supply chain many businesses who consider themselves 'outside the regime' may find, to their cost, that a lack of preparedness comes back to bite. Hence the encouragement to consider the potential wider benefits to have something in place – or at least be ready to go.

There is always a cost / benefit equation to consider but an open mind has shown in many cases that a willingness to consider change has resulted in smarter business practices and not just simply getting a tick in the box in a climate or sustainability register.

Business benefits:

- Enhance Board governance of climate resilience
- Reduce exposure to legal, trade and capital access risks and attract investors
- Identify and seize opportunities & business model changes
- Enable the Board to define robust long-term strategic direction – better decisions, avoiding lock-ins, and ensuring timeliness and right sizing of execution
- Improve adaptability to uncertainties (incl. non-climate disruptions)
- Build confidence in, and support for, business transformation
- Develop dynamic planning capabilities

Broader benefits:

- Support technological transformation
- Drive productivity
- Access to capital & market value - Evidence shows that businesses that proactively respond to climate risk are rewarded by the market: those that do not are punished

*"The main difference with existing strategic planning processes are the longer timeframes and the need to take a systemic view."*

Chapter Zero New Zealand

## Be Proactive

As a climate reporting entity in NZ or a Group 1, 2 or 3 entity in Australia, there is merit in getting ahead of the curve – for Australian entities, even if it is to understand or trial run what might be required in advance of your first disclosure reporting period.

As stated above, there is no need to overcomplicate what is needed but this should be balanced against the fact that the work required is not an overnight exercise.

Forward planning, with a clear strategy, will help to alleviate concerns of management and / or Boards. If you would like to discuss how to prepare and progress in this area, please speak with your advisor or contact us using your preferred method, as per the contact details below.

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