



Climate-related Disclosures Staff Guidance

Transition planning disclosures



About this guidance

This guidance provides further, detailed guidance relating to transition planning to supplement the [Guidance for All Sectors](#). It is designed to be a standalone piece of guidance that you can pick up that covers all elements relating to transition planning disclosures. It will be integrated into the Guidance for All Sectors when it is next updated. It is also designed to be relevant for all types of climate reporting entities.

We replicated some of the content in the Guidance for All Sectors specifically related to transition planning disclosures so it is easier for readers to see where the expanded content will fit in the future update. The new content is in [purple](#).

To begin thinking about transition planning, we recommend starting with our short guide [Transition planning – Questions to get started](#).

While this guidance focuses on transition planning disclosures, other guidance is also available relating to the underlying work of transition planning, published in partnership with the following organisations:

- [Transition planning – An overview](#), with the Sustainable Business Council
- [Transition Planning – A guide for directors](#), with Chapter Zero New Zealand
- [Transition Planning – A guide for executives](#), with the Sustainable Business Council
- [Transition Planning – A guide for staff](#), with the Sustainable Business Council



7.7 Strategic position

NZ CS 1
NZ CS 2
NZ CS 3

[NZ CS 1 paragraph 11(e)]

This disclosure provides an opportunity for an entity to communicate to primary users how it intends to transform itself to contribute to a low-emissions, climate-resilient economy. How well the entity communicates its intentions may influence the confidence of primary users in allocating capital.

The entity should describe how it will position itself to thrive in a world that is attempting to rapidly reduce its emissions and adapt to the consequences of climate change. This transition will pose challenges for most entities. Acknowledging these challenges, while setting out a case for how they could be overcome, would likely reassure primary users that their investments may be more resilient to climate-related risk.

Under NZ CS 1, a ‘transition plan’ is defined as “...an aspect of an entity’s overall strategy that describes an entity’s targets, including any interim targets, and actions for its transition towards a low-emissions, climate-resilient state”. Preparers should note that this definition broadens the scope of what a transition plan should cover, removing the need for an entity to develop an adaptation plan.

Climate-related metrics are vital to monitoring the effectiveness of transition planning aspects of an entity’s strategy [NZ CS 1 paragraphs 21(a) to (c)].

This disclosure requires an entity to describe how it will position itself for a low-emissions, climate-resilient future. Sub-disclosures in paragraphs 16(a) to 16(c) form the basis of disclosure 11(e).

A transition plan is an aspect of an entity’s overall strategy that describes an entity’s targets, including any interim targets, and actions for its transition towards a low-emissions, climate-resilient future.

Further guidance on transition planning



Some of these sources do not include adaptation within the scope of transition planning. An entity should keep this in mind when using these sources.

Cambridge Institute for Sustainability Leadership, 2022. Net Zero Business Transformation – [A framework for accelerating change in an era of turbulence and complexity](#)

FCLT Global, 2022. [Sustainability or Strategy: Bridging the gap between climate change and long-term value creation](#)

UK TPT, 2022. [A Sector-Neutral Framework for private sector transition plans: Call for Evidence](#), pages 10-22.

CA100+, 2022. [Climate Action 100+ Net Zero Company Benchmark v1.1](#), pages 1-6.

UN, 2022. United Nations High Level Expert Group on the Net Zero emissions commitments of non-state entities – Integrity matters: [Net zero commitments by businesses, financial institutions, cities and regions](#)

CLC, 2022. [Statement of Ambition Information for Sustainability Practitioners](#), pages 12-13.

TCFD, 2021. [Guidance on Metrics, Targets, and Transition Plans](#), pages 39-44.

IGCC, 2022. [Corporate climate transition plans: a guide to investor expectations](#), pages 6-16.

GFANZ, 2022. [Recommendations and Guidance: Financial Institution Net-zero Transition Plans](#), pages 19-101.

Strategic position > business model

NZ CS 1

NZ CS 2

NZ CS 3

[NZ CS 1 paragraph 16(a)]

Primary users want to understand in general, high-level terms what the entity's business model and strategy is. This contextualises the disclosures to follow that illustrate changes to the business model and strategy.

The disclosure should be a brief description that summarises the entity's business model and strategy as concisely as possible. This may include a simple diagram of the entity's business model and a short paragraph describing the key components of its strategy.

A business model describes the entity's architecture for how it creates and delivers value, and the mechanisms employed to capture a share of that value. It includes the flows of costs, revenues, and profits. The design and operation of business models rely on the entity's capabilities and are interdependent with strategy. Strategy guides business model design and is partly shaped by it.

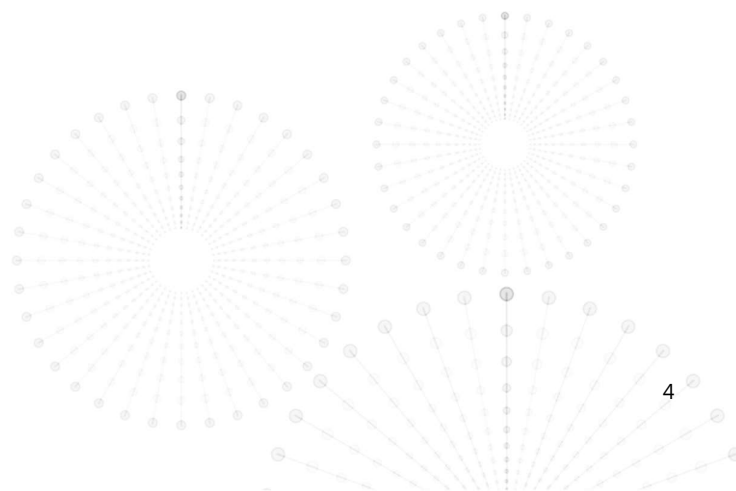
A strategy describes how the entity will compete in its relevant market(s). This is about how the entity intends to create and maintain its advantage, i.e., what choices it is making about what to do and how it will do it, rather than just what aspirations it has. Strategy should not be assumed to refer to a 'strategic plan', although this is a common approach to strategy. Strategy is increasingly understood to require more adaptive approaches that involve continuous processes that generate a living, dynamic plan informed by testing, learning, triggers, and signposts – rather than a static plan that is informed by forecasting of markets and deterministic thinking about meeting narrow objectives, assuming all else remains equal.

Further guidance on business model and strategy



David Teece, 2018. [Business models and dynamic capabilities](#), section on *Business models in the dynamic capabilities framework*.

Michael Mankins and Mark Gottfredson, 2022. [Strategy-making in turbulent times](#)



Strategic position > transition planning

NZ CS 1

NZ CS 2

NZ CS 3

[NZ CS 1 paragraph 16(b)]

An entity is expected to inform its primary users about the role it will play in reducing the level of climate-related risks facing present and future generations. For investors, this expectation is expressed as a demand for credible transition planning among those they invest in.

Primary users of this disclosure will therefore seek to understand how an entity's statements in regard to their transition toward a low-emissions, climate-resilient future state, are consistent with the entity's core business model and strategy, and that its stated aspirations are backed up by concrete actions.

This disclosure also provides primary users with information about the options available to an entity in response to the climate-related risks and opportunities it has identified. Primary users will be looking for information indicating flexibility in the face of uncertain future change, represented by the strategy and business model options that the entity envisions are feasible to pursue as circumstances demand.

An important component of transition planning is the extent to which an entity's business model and strategy might change to enable the achievement of its transition targets and objectives. The entity should describe any options to enhance the resilience of its business model and strategy it sees as feasible to implement, over what timescale, and, where possible, under which conditions it will make choices between them.

Entities are not expected to disclose all the details of their strategy

Transition planning is complex and could branch in several potential directions when taking an adaptive strategy approach (i.e. anticipating different potential pathways to pre-position itself depending on how some critical uncertainties unfold). As an aspect of the entity's strategy, transition planning is going to contain strategic information.

The TCFD states that "*as a matter of principle, an entity should err on the side of disclosure*"¹. Entities should consider the principles and general requirements in NZ CS 3, while balancing commercial confidentiality, to strike an appropriate level of detail and to provide information that is useful to its primary users.

For example, an entity might not want to publicise its intentions to competitors, or its views about what may happen in the jurisdictions in which it operates, but might want to get buy-in from investors to support its strategy. Similarly, in the case of an adaptive strategy, it will not want to confuse its primary users with too many hypothetical options, but want to reassure its primary users that it is taking concrete actions along the way.

Entities could ask themselves if the information they provide is useful to inform an investor's 'buy, sell or hold' decision, for example.

Disclosing without perfect information

Transition planning can be described as the "so what" of the climate-related disclosures process (i.e., where the entity discloses what it intends to do based on what it has learnt from the underlying work to support the preparation of its climate statements). However, an entity

¹ https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Guidance-Scenario-Analysis-Guidance.pdf, page 52.

does not need perfect information to get started on transition planning and disclose useful and material information to its primary users. On the contrary, imperfect information is an inevitable part of any forward-looking strategic process.

Transition planning is an iterative and dynamic process, with the strategy, actions, and disclosure evolving year on year. For example, while having a good grasp of scope 3 GHG emissions is an important part of the picture, neither primary data nor precise quantification of scope 3 GHG emissions are needed to start thinking about strategy, nor start developing an action plan. Furthermore, as an entity's information, understanding and maturity evolve, so too will what its primary users find material.

Primary users' information needs can be different than the needs of an entity to make its own decisions. Primary users may often prefer to have imperfect information rather than no information. This means there may be a tension between what the entity feels comfortable disclosing and what is available to them that could be material to the primary users. In this case, entities will need to apply judgement, focusing on the needs of the primary users.

Short- or mid-term trade-offs (e.g., lower dividends, capital investment) may be required to achieve part of an entity's transition plan. The principle of completeness may be particularly important in such cases, as different primary users might consider different time horizons when making a decision. Further, transition planning may signal that some activities may become 'sunset' in nature, which is equally an important disclosure.

Transition planning will evolve over time as entities better understand their climate risk and opportunities. This is expected and therefore it must be clear to primary users what the material changes are year on year.

The key elements: Direction, actions, funding, and targets

When disclosing the transition plan aspects of its strategy, including how its business model and strategy might change to address its identified climate-related risks and opportunities, considering the following three key elements can be a starting point:

- The strategic direction of the entity
- The actions it intends to take
- How capital allocation will be aligned with those actions and strategic direction (see guidance related to NZ CS 1 paragraph 16 (c)).

Targets can be used to support any of these elements. The remainder of this guidance explains these key elements in more detail.

An entity should disclose what is expected to change (i.e. from its current situation as per NZ CS 1 paragraph 16(a)), how, how much, and how fast. This will need to be balanced against evidence that any commitments made are supported by a credible transition plan.

Beyond specific points of disclosure, it will be important for primary users to understand the overall narrative to assess an entity's prospects and understand the changes to come during the transition period.

Our [Questions to get started](#) guidance includes questions that primary users might ask.

Strategic direction

The strategic direction the entity is going to take considering its identified climate-related risks and opportunities is important information to contextualise any specified actions. How its business model and strategy might change essentially means making clear what the entity is moving away from, or moving into.

This may also include strategic shifts on how the balance sheet and financing are managed (such as deciding to diversify or hedge risk by selling and leasing assets and/or deploying capital differently). However, it should be clear that while such shifts might externalise some risks for the entity, it doesn't necessarily make those immaterial (e.g. the loss of an asset might still have material consequences to an entity's operations).

Being clear about what the entity is moving away from, doing less of, and/or stopping

A key consideration when disclosing changes to business model and strategy are what aspects of the current business model and strategy, if any, are being 'transitioned away from'.

Illustrative examples:

- We are exiting/pivoting away from *[market/process/etc...]* [x].
- We are undertaking a managed phaseout of *[technology/fuel/material/product]*. We have a plan to complete it by *[year]*.
- From *[date]* we will no longer provide product [x].
- From now on, we will focus our investments toward [x] and [y], while we exhaust our assets [z] / sunset this activity over the next [x] years.
- From now on, we will not engage in new contracts in *[sector]*. To support our current customers in this sector who wish to transition, we will [...].
- We will no longer be financing *[activity/sector/geography]* [x] for reason [z].
- We will *[review/apply the following changes to]* our supply chain to *[reason]* by *[actions]*.
- We will take the following steps *[actions]* to enable the transition of our *[customers/suppliers]* and reduce our supply chain risks [x/y/z].



Where the entity has not yet made firm decisions:

- We are currently attempting to exit market [x] and to show we are committed we are doing *[actions]* and will make a final decision on date [y] or following milestone [z].
- We are exploring our long-term options and have not committed to a specific pathway yet. What is clear to us is that *[list of challenges/issues the entity is working to solve through its renewed strategy]*. We have halted/halved investments in [x] as we focus on avoiding stranded asset risks. Our remaining investment capability will be deployed over the next three years in new opportunities we have identified and are currently testing.

This aspect of moving away/stopping is of particular interest to primary users in relation to high physical or transition risk and/or high emissions processes, products, locations and markets. It can also help build credibility in the new strategic direction and actions, as it helps to indicate that priorities are shifting and thus so are resources and with that, the ability to implement.

Entities should focus on material shifts, and avoid claims that could be misleading, such as giving the impression of significant change or ambition by focusing on a marginal aspect.

Being clear about what the entity is moving into, doing more of, and/or starting

Where an entity has clear decisions and plans (or none), disclosure is likely to be more straightforward. When there is more uncertainty, disclosure is likely to be more challenging (for example, an indicative direction without a fully formed plan). Due to the complexity of a transition, most entities won't be able to go from business as usual to a fully-fledged strategic direction in just a year.

When the transition plan is not refined enough to disclose detailed actions, an entity should clearly state that this is the case and avoid creating confusion by disclosing immaterial information such as marginal actions.

Entities can also disclose aspects that might help primary users to understand the entity's progress, how it will approach the transition, and where it might go in the future.

Changes in strategy and actions like moving into a new market, piloting a new technology or exploring business model innovation might be of interest to primary users. Such signals could inform investors about how an entity intends to adapt and transform to ensure it remains viable in the future.

A key judgement call for the entity will be balancing the level of specificity to avoid inadvertently closing off possibilities (i.e. getting too specific), while being clear and not perceived as too vague.

An entity considering making less detailed disclosures around new actions due to commercial confidentiality concerns may wish to disclose the reason why the information is disclosed in less detail than other actions.

Illustrative examples:

- We will vertically integrate into home insurance to better manage the climate risks of our mortgage activity.
- We are going to diversify into [x].
- We are going to stay focused on our core activity but expand in several other regions to increase our resilience to acute physical risks.



Where the entity has not yet made firm decisions:

- We have not yet decided to make a material pivot toward alternative proteins, but we are positioning ourselves to be able to expand rapidly in this field through partnerships and start-ups acquisitions, in both labgrown and plant-based solutions.
- We are committed to decarbonise faster than our competitors, but have not yet confidence in which technology will win the future. All new vessels will be equipped with a range of low-emissions propulsions technologies, and we expect to be in a position to commit to some of these technologies for our existing fleet by 2028.
- We are not yet in a position to develop the new products and services our customers might need in the future. We are focusing our efforts on growing our capabilities to better understand and manage systemic climate-related risks to better inform the risk profile of our current funds.

Actions

Action-related disclosures could be used by primary users to assess the credibility and scale

of the stated strategic direction.

Actions within an entity's control, with appropriate details regarding resources and timing, will provide credibility to a transition plan. These should not be confounded with uncertain actions from others that the entity is waiting for, which are in fact dependencies (for example, a breakthrough technology or low emissions fuel becoming 'economic', or a regulation or policy to be enforced). Dependencies can be important contextual information and could be disclosed as such, but are not actions.

Entities should carefully consider NZ CS 3 principles when making action-related disclosures. For example, 'remove coal boiler' could also be disclosed as 'replace coal boiler with an electric boiler' or 'on x date we plan to replace y coal boiler with z electric boiler model x.' There is a need to consider what is material to give credibility to this action eventuating, without going too far and providing unnecessary detail.

In this example, the level of detail will also depend on the entity's context: If the entity operates many similar assets, the disclosure will likely be at the level of total boiler capacity, with higher level details about procurement and resources to demonstrate this is a tangible roll out. If a given asset is a major source of the entity's GHG emissions, users might want to be able to scrutinise it in greater detail to make informed decisions. Closing down a high-emissions site, or replacing a key asset with a new technology, may raise important questions from users regarding capital allocation or operating costs.

For financial entities, action disclosures might take different forms, with a greater focus on processes rather than discrete investment decisions, such as how:

- risk management processes will evolve to better factor the systemic risks posed by climate;
- climate considerations will be embedded in decision-making processes to align with the indicated strategic direction and/or targets;
- new offerings/products/services will propel the entity in the indicated strategic direction and help deliver on its targets; or
- the organisation will align its capabilities with the intended strategic direction and to deliver on its targets.

If an entity's transition plan is adaptive in nature (i.e. different pathways depending on how some critical uncertainties unfold), an entity can still disclose aspects such as:

- what the entity is monitoring to inform its future decisions (linked to its identified climate-related risks and opportunities);
- how much resourcing the entity has committed to allocate to its transition plan and over which timeframe;
- the no-regrets actions it will take in the short term (i.e. the actions that make sense regardless of scenarios);
- the approach(es) the entity will use to make future decisions; and
- how the entity intends to transform itself (structure, processes, culture, etc...) to achieve its strategy and deliver on its targets.

For a transition plan that include a range of options for actions that may appear quite divergent, some approaches to ensure useful disclosure might include:

- grouping several possible options (e.g. “We will continue to invest in electrifying our plants, through a combination of electro-technologies that we are still testing before making a more significant commitment to one”);
- being explicit about the few remaining options, what would drive a future decision, and how the entity is positioning itself ahead of this choice;
- focusing on what is clear and explain what is still not clear and what the process will be to navigate current uncertainties moving forward; and
- seeking to strike a balance of open and clearly defined actions, i.e. make them no higher level than they need to be.

Innovation or nascent activities should not be overstated and the level of resources that the entity will allocate to them should be explicit enough to avoid confusion between a major shift and exploration.

Because all these disclosures are forward looking, judgement will be required about the degree of certainty (see NZ CS 3). While some evolution is expected as entities mature and/or get new insights, unexplained shifts or rollbacks might impact trust in future statements.

Entities may wish to disclose the use of estimates or ranges with respect to emissions reductions or increased adaptive capacity associated with an action(s). Associated disclosure around critical uncertainties and dependencies might be needed to manage expectations that a future action will have a certain effect, or a capital expenditure will be at a certain level.

Target(s)

(Please also refer to [section 9.5 related to targets in the Guidance for All Sectors.](#))

Targets can be an important component of a credible transition plan. They can display a level of commitment, enable accountability as the entity progresses the implementation of its strategy, and help primary users assess alignment between targets and the resources dedicated to achieve them.

While targets are defined in NZ CS as “A specific level, threshold, or quantity of a metric that an entity wishes to meet over a defined time horizon in order to achieve an entity’s overall climate-related ambition and strategy”, they require context to be meaningful. An entity may wish to disclose other goals, objectives, vision, purpose or mission statement and link these to the targets to track these.

Note that this definition of target is not limited to GHG emissions targets and an entity could include a range of other targets relevant to its wider transition strategic objectives.

Illustrative examples in relation to transition planning:



- Amount of investment in [x] by [date]
- % of future-proofed assets
- % of insured assets
- % of revenues from activities [x]
- % of the transition plan funding secured
- % of the workforce trained in [x]
- No more than x% of revenues in one [sector/geography/activity]
- Long-term partnership to improve [resilience/sustainability] in the value chain covering x% of our supply

It is possible that an entity has not yet set measurable targets for all its objectives, especially the long-term ones. Long-term targets can usefully inform a direction, while shorter-term targets are more likely to be used by some primary users to assess credibility, commitment or performance, and hold an entity's leadership accountable. Both have their place, but clarity will be important, as per the principles of NZ CS 3.

An entity should avoid misrepresenting any targets as being supported by processes, actions and incentives when this is not the case in reality. It should be clear if a target is aspirational, or if it represent a material performance driver for the entity.

For the avoidance of doubt, it is not required to set targets for the purpose of transition planning disclosures.

Conversely, an entity could have different emissions reduction targets for different business units but decide to disclose a single target for the whole entity as a result of its fair presentation or materiality judgement.

A clear and cohesive narrative to link the transition planning elements

A clear and cohesive narrative is important to provide sufficient context to make sense of related information (e.g. on direction, actions, targets) for primary users. For example:

- A stated change in strategy without associated actions might raise questions about commitment and/or the ability to implement.
- A list of actions not linked to a strategy might raise questions about long-term viability, and the relevance, efficiency and/or sufficiency of these actions.
- A change in strategy backed with clearly articulated actions provides credibility about the new direction.
- A broad change in strategy, with actions in too many different directions, might raise questions about credibility, and concerns about the entity spreading itself too thin.

If the intent is to change in response to climate-related drivers, this would be key information that should form a coherent narrative of the transition planning disclosures: Why is change needed? What is going to change? How is it going to lead to success? How is the entity going to make it happen?

If the entity is undertaking a range of marginal emissions reduction and adaptation actions but it fundamentally expects to keep doing what it has always done (i.e. there are no business model or strategy changes anticipated) it is important to ensure this is clearly

disclosed as part of its transition plan. This may include disclosing that the entity has not changed its business model or strategy, and that it does not currently plan to do so. Information about the risks of not responding to identified climate-related risks and opportunities may be material information in such cases.

Adoption provision 3

NZ CS 1

NZ CS 2

NZ CS 3

[NZ CS 2]

An entity may choose to apply adoption provision 3 providing an exemption from this requirement in its first reporting period. However, if it elects to use the adoption provision, it must instead provide a description of its progress.

Strategic position > alignment

[NZ CS 1 paragraph 16(c)]

Primary users will want information that illustrates the extent to which an entity's statements regarding transition planning are backed by clear linkages to capital deployment and funding decision-making processes.

For example, this could include:

- the scale of financial resources expected to be required to implement the transition plan (expectations regarding accuracy will vary depending on time horizons);
- where the entity expects these financial resources to come from;
- what change/s (if any) have been made to capital deployment and funding decision-making processes to ensure sufficient financial resources are directed, in a timely manner, toward the transition plan aspects of its strategy; and
- capital deployment targets for key transition plan actions and targets.



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Level 6/154 Featherston St
Central Wellington
6011
NEW ZEALAND

www.xrb.govt.nz