Transition plans:

What are they and why do they matter for accountants?

This guide forms a series of information guides aimed at assisting finance professionals and finance teams to prepare for the reporting and disclosure requirements aligned with Australian climate-related financial disclosures.

The *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act 2024* amended *the Corporations Act 2001* (the Act) to bring into effect mandatory climate-related financial disclosures for certain entities from 1 January 2025.

The Australian Accounting Standards Board (AASB) has developed AASB S2 *Climate-related Disclosures* for entities to meet the new mandatory reporting requirements, which is aligned with IFRS S2.[1] It has also developed AASB S1 *General Requirements for Disclosure of Sustainability-related Financial Information* which is a voluntary standard aligned with IFRS S1.

AASB S2 paragraph 14(iv) requires reporting entities to disclose information about *'any climate-related transition plan the entity has, including information about key assumptions used in developing its transition plan, and dependencies on which the entity's transition plan relies.'*

This guide aims to provide finance professionals and teams with essential information to help them better understand climate-related transition plans and begin their journey toward effectively disclosing and assessing these plans.

1 IFRS S2 is issued by the International Sustainability Standards Board (ISSB)

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What are transition plans and why do they matter?

Increasing numbers of entities have set net zero greenhouse gas (GHG) emissions reduction targets. A transition plan is a strategic, forward-looking document that details how an entity plans to achieve those targets and contribute to the global transition to net zero.

AASB S2 defines a climate-related transition plan as *'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.'*

Climate transition plans are powerful tools that guide entities through their transition to net zero while supporting financial and government institutions in their decision-making processes.

Transition plans offer a clear and actionable roadmap for entities to achieve their net zero GHG targets. They outline specific strategies and milestones that help build trust with stakeholders, ensure accountability and reduce the risk of greenwashing.

Credible transition plans also provide stakeholders with insights into the entity's net zero transition strategies, enabling them to make informed decisions. Transition plans consolidate relevant information into a central document, offering stakeholders a comprehensive view of how entities are addressing climate risks.

A transition plan is a business opportunity – investors use transition plans to decide where to direct capital and are seeking this information from the companies they invest in. A study of 300 institutional investors found that 37% of investors already allocate to funds or strategies that have credible transition plans, with a further 26% planning to do so within the next 1-2 years.[2]

Transition plans act as a key data point for many investors doing their due diligence and represent an opportunity for entities to set themselves apart.

2 2024 Global Climate Investing Survey (2024)

How do transition plans relate to mandatory climate-related disclosures?

Currently, AASB S2 only compels entities to disclose a transition plan if they have one, along with any key assumptions and dependencies underpinning the plan. The current climate-related mandatory disclosures focus on climate-related risk management. Accordingly, some components of a transition plan are already part of these disclosures, such as GHG emissions reduction targets, governance structure and engagement processes. The Glasgow Financial Alliance for Net Zero illustrates the complementarity of the two processes in the image below.

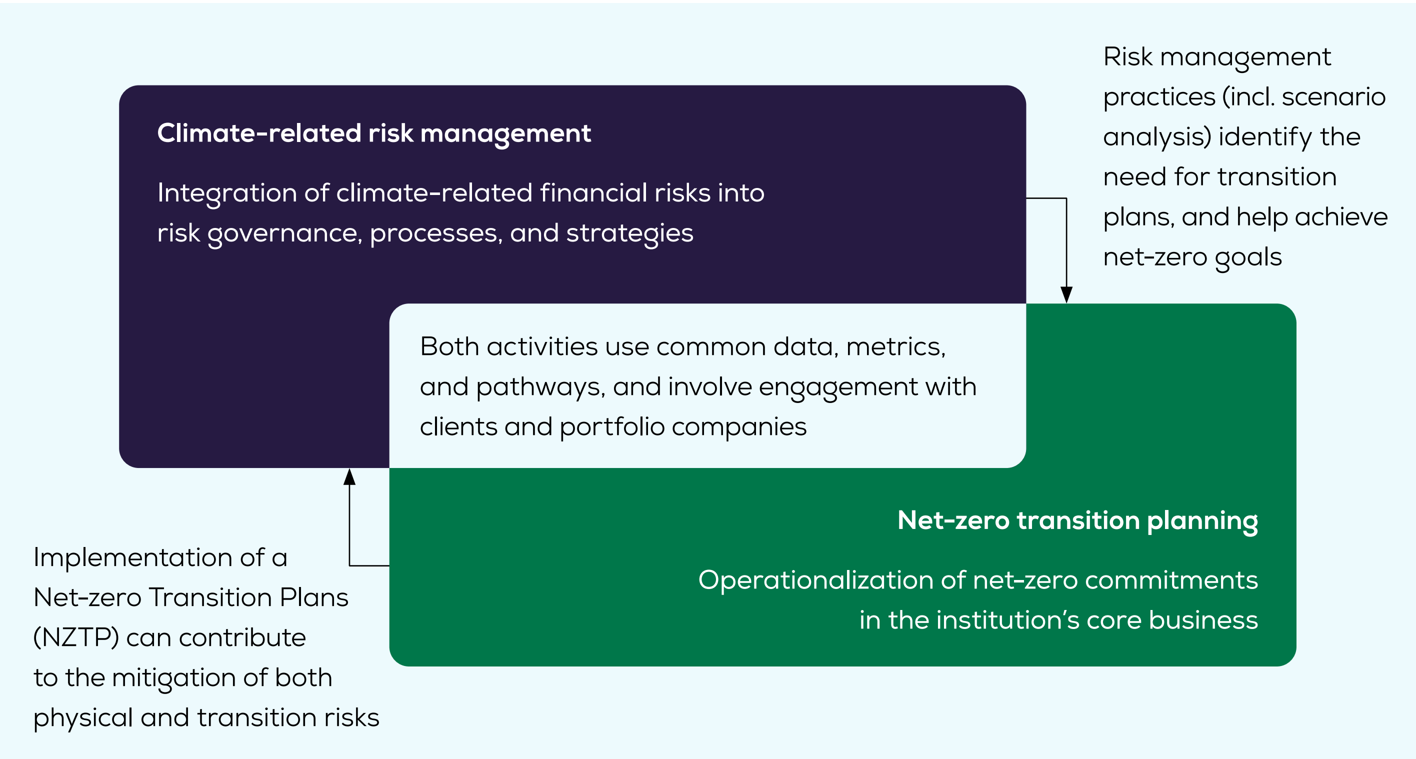
Best practice recommends that entities revisit their transition plan at least every three years or when there is a material change in the entity.[3] Progress against targets included in the transition plan should be disclosed annually as part of the mandatory climate-related disclosure requirements.

Protected statements

Under the reporting regime, a statement about transition plans is considered a 'protected statement' from 1 Jan 2025 to 31 December 2027.[4] During this period, no action, suit or proceeding can be brought against a person (i.e. a director), except if it is criminal in nature or brought by ASIC.

This modified liability regime applies to a sustainability report or in an auditor's report of an audit or review of a sustainability report for the first 3 years commencing on 1 January 2025.

Figure 1. The relationship between risk and transition planning



Source: Expectations from Real-Economy companies (Glasgow Financial Alliance for Net Zero, 2022)

3 Transition Plan Taskforce Disclosure Framework (2023)
4 Corporations Act 2001 Section 1707D(3)(b)(iii)

Ensuring credibility in transition plans: why and how?

Not all transition plans are created equally. Entities' transition plans can be misaligned with the targets and actions required to meet the commitments in the Paris Agreement. Transition plan disclosures can also be insufficient or misleading, an issue that can pose significant legal and financial risks, as evidenced by the Santos litigation in 2022.[5] A 'credible' transition plan is becoming a critical aspect of businesses securing ongoing access to capital in the long term.

CA ANZ is part of a collaborative Transition Plan Working Group of Australian member associations. Through this working group, Climateworks Centre has collated an initial sector-agnostic high-level set of credibility criteria informed by analysis of other leading transition plan assessment initiatives, notably the World Benchmark Alliance's Assessing Transition Plans Collective (ATP-Col) framework to assess the credibility of transition plans.

'Credibility criteria' refers to specific requirements that users and preparers of transition plans can use to demonstrate credibility: the plan is aligned with the Paris Agreement,[6] comprehensive, feasible, and integrated across a company's structure, finance and processes.

More specifically, credible climate-related transition plans meet the following criteria:

- They include science-based net zero target(s) and supporting interim emissions reduction targets covering scope 1, 2 and relevant scope 3 emissions.
- They set out specific, feasible and measurable decarbonisation actions to meet its short- and medium-term targets and explain how the company positions itself to achieve long-term targets.
- They include actions that prioritise direct emissions reduction within the value chain and consider carbon credits when appropriate.
- They set out how the company integrates its transition strategy within the wider organisational strategy - including financial planning.
- They detail the company's engagement strategy related to decarbonisation actions, including policy advocacy.
- They clearly define their governance structure, which is embedded into the company's overall governance, with a supportive culture and clear incentives for the Board, executives and senior management.
- They outline how they will be verified and maintained over time, while retaining comparability.

In addition, credible transition plans acknowledge the interconnectivity of climate change with broader sustainability issues and extend beyond emissions reduction to other challenges and opportunities - particularly adapting to a changing climate and reducing physical risks, managing impacts and dependencies on nature and ensuring a just transition.

5 Australasian Centre for Corporate Responsibility, Greenwashing Proceedings in Federal Court

6 The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at the UN Climate Change Conference (COP21) in Paris, France, on 12 December 2015. It entered into force on 4 November 2016. Its overarching goal is to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels."

What role can accountants play to help us get to net zero?

An accountant's role is to understand material financial risks and ensure they are accurately and consistently reflected in company disclosures. As acknowledged by Australia's financial regulators, climate risk is a financial risk.[7] It will be increasingly important that accountants understand climate-related risks to ensure that those are being managed and appropriately disclosed.

Whether supporting the financing, development, disclosure or assessment of transition plans, accountants will be at the forefront of helping entities disclose credible transition plans and increasing market confidence in transition plan disclosures.

Sector transition planning will be in focus for 2025

Transition planning is most effective when underpinned by sector and country-specific pathways, recognising that each sector has unique challenges, dependencies and opportunities that impact the decarbonisation pace. For example, within the building sector, technologies are currently readily available and commercially viable. This enables entities in this sector to decarbonise more quickly than others.

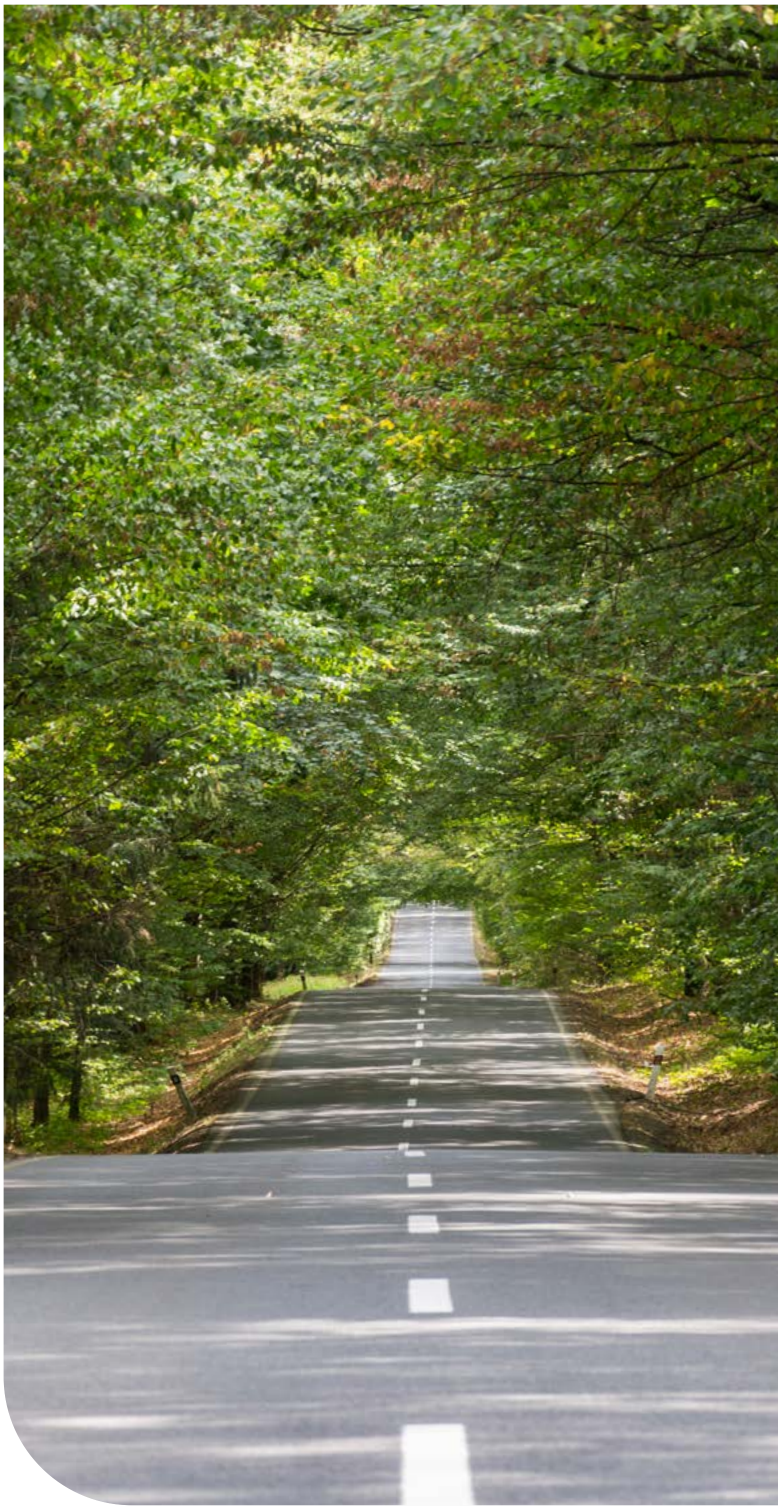
At the time of publishing, the Australian Government is developing sector plans outlining how net zero can be achieved in six sectors; electricity and energy, transport, industry, agriculture and land, resources and the built environment. These plans will underpin the government's Net Zero Plan.[8]

The Climate Change Authority also released a review of potential technology transition and emissions pathways for the same six sectors of the economy, along with barriers and potential solutions for the net zero transition.[9]

Additionally, the Australian Sustainable Financial Institute is developing a sustainable finance taxonomy specifically for Australia that is internationally interoperable. The taxonomy will cover climate mitigation criteria for six priority sectors; electricity generation and supply, transport, manufacturing and industry, agriculture and land, minerals, mining and metals, and construction and buildings.[10]

7 Council of Financial Regulators Climate Change Activity Stocktake 2021
8 Net Zero, Department of Climate Change, Energy, the Environment and Water, 2024
9 Sector Pathways Review, Climate Change Authority, 2024
10 Taxonomy Project, Australian Sustainable Finance Institute, 2024

Where to find more information?



1. **Australian context**
   - Treasury Sustainable Finance Roadmap

2. **Transition plan disclosure frameworks**
   - The Transition Plan Taskforce's (TPT) disclosure framework and related guidance is considered a leading framework for transition plan disclosure – and is now under the responsibility of the IFRS Foundation. The TPT has a suite of supplementary guidance to support entities in developing and disclosing transition plans.
   - IFRS S2 Climate related Disclosures – TPT Disclosure Framework technical mapping
   - Disclosure Framework Technical mapping documents

3. **Credible transition plan assessment guidance and frameworks**
   - UN's Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions
   - Investor Group on Climate Change Corporate Climate Transition Plans: A Guide to Investor Expectations
   - Institutional Investors Group on Climate Change: Expectations of Corporate Transition Plans: From A to Zero
   - Assessing Transition Plan Collective (ATP-Col)'s Assessing the credibility of a company's transition plan: framework and guidance
   - International Organisation for Standardization's Net Zero Guidelines
   - SBTI's Beyond Value Chain Mitigation Guidance
   - External Reporting Board (XRB)'s transition planning – A guide for directors
   - Reclaim Finance: Corporate Climate Transition Plans: What to look for

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Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 139,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live.

Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Climateworks Centre

Climateworks Centre bridges the gap between research and climate action, operating as an independent not-for-profit within Monash University.

Climateworks develops specialist knowledge to accelerate emissions reduction, in line with the global 1.5°C temperature goal, across Australia, Southeast Asia and the Pacific.

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