Investment

DESNZ Consultation seeking views on implementation routes for transition plan requirements

Response from Nest Corporation

17th September 2025

1 About us

Nest was established in 2010 as part of the auto enrolment programme to help people save for retirement. Unlike any other pension scheme in the UK, Nest has a legal obligation to accept any employer that wishes to use us to discharge their auto enrolment obligations. As at 31 August 2025, over 1.2 million employers have signed up to use Nest.

Over the last decade, Nest has grown to be one of the largest pension schemes in the UK, with £56bn under management as at 31 August 2025. We are operating at scale as a high-quality, low-cost pension scheme helping over 13.6 million members save for their retirement. Many are low to moderate earners who may be saving into a pension for the first time.

Nest is built around the needs and behaviours of our members, from our approach to responsible investment to our focus on customer service. We now occupy a place in the market as a major Master Trust, helping to drive up standards and best practice across the industry. Nest has great potential for delivering pensions to mass market consumers for many years to come, leveraging our scale to deliver value through the combination of low costs, our market leading investment strategy and modernised services all overseen by strong trustee governance.

2 Response

We welcome the opportunity to respond to the Department for Energy Security and Net Zero's (DESNZ) consultation seeking views on implementation routes for transition plan requirements. We believe that transition plan requirements will play an important role in the UK's ambition to be a leader in sustainable finance and an area where further regulatory clarity is urgently needed. We believe that the introduction of TCFD reporting has created a more robust investment environment in the UK, equipping pension funds like Nest to make better informed investment decisions with more robust climate risk management. As the energy transition accelerates, investors will require more granular, forward-looking data and tools to assess the financial implications of climate scenarios across asset classes and geographies.

Nest has been a vocal supporter of transition plans, which we believe are a key tool for investors when making capital allocation decisions that align with long-term sustainability goals. When the Transition Plan Taskforce (TPT) was developed, Nest Invest's CEO Mark Fawcett sat on the steering group. Our consultation response outlines how we use transition plans in our investment processes.

We support corporates being required to develop and disclose transition plans, or 'Option 2' in this consultation. We support TPT's guidance on what this report should look like: a standalone document every three years, with updates and progress against targets detailed as part of reports which are already prepared annually.

We recognise that reporting requirements, including any regarding the preparation of transition plans, can present challenges for smaller companies. To balance ambition with proportionality, we recommend that government consider a scope which is based on company size. Larger, in-scope

entities would be subject to full mandatory disclosure, while smaller companies which are initially out of scope could follow a 'comply or explain' approach. This would provide flexibility for companies with limited resources, while maintaining a clear trajectory toward full disclosure across the market.

We do however believe that the risks of making the implementation of transition plans mandatory outweigh the benefits. Transition plans should be ambitious but grounded in reality and supported with evidence and a credible strategy for achievement. While encouraging ambition, we recognise that companies are at different stages of transition planning, and that some industries are facing challenging conditions, and so we do not believe that plans should be required to be aligned with a 1.5°C scenario.

2.1 Section A. The benefits and use cases of transition plans

1. **To what extent do you agree with the assessment of the benefits and use cases of transition planning set out in Section A? Are there any additional benefits or use cases for transition plans? Do you have any further insights and evidence on the purpose, benefits and use cases of increased and improved transition planning —including economy-wide impacts?**

We agree with the list of benefits and use cases of transition planning set out in Section A, and see the following additional benefits:

- **For preparers:** clear, mandatory guidance and expectations for the content of transition plans would provide a valuable steer to management for company strategy. Setting requirements that are ambitious would provide impetus for relative laggards to improve their transition strategies in line with higher performing peers.
- **For investors:**
    - Standardised transition plans would better enable investors to compare investee companies within sectors; a clear company roadmap to net zero is a necessary tool to monitor company progress and hold management accountable for its implementation. This is especially relevant for investors' engagement efforts with companies.
    - Investors would also benefit from an improvement in company transition planning standards from the point of view of bringing laggards in line with relative leaders, ideally reducing the amount of effort spent engaging with companies who are more resistant to transition planning.
    - We also emphasise the important role of transition plans outlined in Section A around assessing financially material risks and opportunities and informing capital allocation decisions.
- **For the UK economy:** standardised, mandatory reporting would simplify regulator/policymaker efforts to ascertain where UK corporates sit in their preparedness for the transition and their alignment with the legislated net zero goal. It also presents an opportunity for the UK to set best-in-class practices which could be emulated in other jurisdictions.
- **For other stakeholders, including customers and employees:** Customers are becoming aware about companies' contribution to climate change and are increasingly factoring this into their consumer choices. There is also increasing concern about greenwashing, and a robust and credible framework for transition planning could help to combat this issue. We believe that transition plans are also an opportunity to engage employees on net zero, and the required investment in skills and training to deliver a "Just Transition" should be a fundamental element of corporate transition planning.

2. **For preparers of transition plans: Does your organisation already produce, or intend to produce, a transition plan and disclose it publicly?**

a. [if yes] What specific drivers have motivated your entity to engage in transition planning?
b. [If yes] Based on your experience, do you have any reflections on the purpose, benefits and costs (e.g. additional FTE, setup costs, etc) of developing your own transition plan?
c. [if yes] What specific challenges or obstacles (e.g., regulatory, organisational, market-related, guidance), if any, did or do you face in preparing your transition plan?

d. [if yes] Did you make use of the TPT's materials (now managed by the ISSB), and if so, how? Were there any challenges in doing so? Are there any further pieces of guidance or support that you feel would be helpful?
e. [If no] What are the main barriers preventing your organisation from developing a transition plan? Please provide any evidence where available to support your answer.

Nest has not yet published a transition plan, though we intend to in the future. Our existing disclosures, including our climate change policy and roadmap, meet key elements of the TPT's guidance. The climate roadmap, published in 2021, outlines interim steps to achieving our net zero by 2050 target. Among these steps are I) applying the methodology of our climate aware equity strategy to an increasing number of asset classes; ii) investing directly in renewables infrastructure; iii) reducing the carbon emissions of our portfolio; and iv) divesting from particularly carbon intensive / environmentally damaging forms of oil, gas, and thermal coal production.

The intention was for this climate roadmap to form the basis of our transition plan. However, we elected to postpone the preparation of a transition plan until the government issued guidance on what should be included (and in anticipation of this consultation). The rationale being that we did not want to allocate resources to producing a transition plan, the content of which would then need to change in, say, 1-3 years, particularly when this would largely duplicate information published elsewhere.

3. For users of transition plans: How do you use transition plans? E.g. if you are an investor, do you use transition plans to inform your investment strategy (both in terms of how you identify opportunities where to invest, and how you identify, manage and assess risks to investment portfolios)

Nest's investment strategy derives considerable value from transition plans, and we have consistently highlighted how important it is for us as an investor to understand how the companies we do, or could, invest in are setting plans to address the climate emergency and adapt to, and thrive in, a net zero future.

Some of the ways we use transition plans in our investment processes include:

- **Determining funds' investable universes:** Nest's developed market equity portfolio (comprising c. 40% of our £56bn AUM) considers climate risks and opportunities in its strategy. Companies are under/over weighted in the fund according to their performance against transition metrics which fall under the categories of adaptation, mitigation, and transition readiness. Assessing companies based on the content of their transition plans is an important step in this process.
- **Identifying climate solutions:** Climate solutions are a key part of our climate roadmap. Nest has a target to invest at least £1.4bn in climate solutions, like renewable energy infrastructure, by 2030. One of the investment aims of our thematic equities mandate is to invest in climate solutions, and transition plans inform our fund manager when they're evaluating potential investments; some companies may have a high carbon footprint now, but the transition plan describes a credible plan for its reduction. We encourage all of our fund managers to look for opportunities for climate solution mandates, including in private markets.
- **Company engagement:** We use plans to determine a subset of corporates on which we should focus our engagement efforts. Plans then are used to determine what areas of corporate strategy to focus on during engagements (e.g., emissions reductions targets, growth of transition resilient business operations, identification of transition risks). We also use plans to establish what constitutes best practice among the industry, and pointing to peer transition plans is useful when engaging with transition laggards.
- **Voting:** We use transition plans to inform our shareholder votes. The content is informative of its own accord, but non-standardised reports present a challenge when it comes to extracting data and using it for insights on a portfolio-wide scale. Going forward we will be able to use a framework that helps us vote consistently. Under the existing reporting regime, some investors will support a plan just to credit a company for having one at all. Mandatory disclosure would raise the bar for what warrants investor support, and would ensure investors are duly informed on the company strategy.

- **Assessing fund managers:** All of Nest's AUM is currently managed by external fund managers. It is important that we select managers who can execute on our climate objectives in the relevant asset classes. The managers' own transition plans can be a useful way to assess their approach to climate change including through product development, stewardship, and broader advocacy as part of our due diligence.

4. Do you have any reflections on the additional costs and challenges of using transition plans? Please provide evidence where available to support your answer.

We have found there to be a number of challenges when relying on company transition plans:

- **Inconsistency:** Companies report different metrics and targets to one another, and use different methodologies to compute metrics. We then incur costs when trying to harmonise company statements and see if they are 'truly' comparable. For example, a company may state that their strategy is Paris aligned but is based on transition pathways/assumptions which differ from their peers. We then need to judge whether those assertions are credible.
- **Incompleteness:** We often find that there are gaps in company transition plans (e.g. reporting of scope 3 emissions and targets for their reduction, capital expenditure plans tied to transition targets).
- **Accountability:** The external environment of late has led to some companies backtracking previous commitments. While we certainly recognise that there needs to be flexibility for companies to adapt business strategy according to the environment they operate in, this sense of wider industry backtracking – particularly in certain sectors – calls into question whether we as an investor can trust that medium to long term transition plans are credible.

5. Do you have any reflections on how best to align transition plan requirements with other relevant jurisdictions?

We believe that the harmonisation of reporting requirements with existing approaches and initiatives would alleviate the reporting burden on preparers. We would also emphasise the importance of international reporting requirements, as Nest's portfolio is globally diverse and we are often assessing UK companies against their international peers. As our later answers will show, we would advise the Government against making 1.5°C-alignment mandatory, and that would be particularly helpful for companies operating mainly in jurisdictions where 1.5°C alignment is not legislated for.

More broadly, we believe that this is an important opportunity for the UK to continue its role as a leader in the field of climate risk reporting, and would encourage the Government to continue to promote the importance of this field in the G20.

2.2 Section B. Implementation options

6. What role would you like to see for the TPT's disclosure framework in any future obligations that the government might take forward? If you are a reporting entity, please explain whether you are applying the framework in full or in part, and why.

We see benefits in the government encouraging companies to consider the TPT's disclosure framework and report against it as far as possible. The TPT brought together subject matter experts from government, academia, corporates, financial institutions and NGOs to develop its sector-neutral as well as a set of sector-specific frameworks to establish a gold standard for transition plans. In our experience, companies and stakeholders in the broader investment community recognise and support the TPT's framework, and many have voluntarily based their reporting (at least partially) on it. We also positively note that the TPT's alignment with the IFRS S2, and the GFANZ framework and its reference

in emerging transition plan disclosure regulations in other jurisdictions such as Australia[1], in the context of the importance of harmonisation mentioned above.

7. **[Climate mitigation] To what extent do the requirements in the draft UK SRS S2 provide useful information regarding the contents of a transition plan and how an entity is preparing for the transition to net zero? If you believe the draft UK SRS S2 does not provide sufficient information, please explain what further information you would like to see.**

UK SRS S2 does not require entities to have a plan, nor does it set out key elements that such a plan should contain, though it does include provisions to disclose information about how entities are planning to respond to climate-related risks in their strategies and decision-making, and requires entities to disclose the key information about any climate-related plan they have developed. This could therefore lead to significant divergence in the content of plans, undermining the points about standardisation highlighted above. The TPT provided a useful mapping of its framework against IFRS S2, now hosted by the IFRS Foundation, which we believe comprehensively addresses this question.[2]

8. **[Climate adaptation and resilience] To what extent do the requirements in the draft UK SRS S2 provide useful information regarding the contents of a transition plan and how an entity is adapting and preparing for the transition to climate resilience? If you believe the draft UK SRS S2 does not provide sufficient information, please explain what further information you would like to see.**

Please refer to our response to question 7. In addition, UK SRS S2 does not require entities to provide information on adaptation and resilience.

2.2.1 Section B1. Developing & disclosing a transition plan

Given the links between the options above and any UK SRS requirements, we will take your answers to questions 7 and 8 into account when evaluating your responses to the next questions.

9. **What are the most important, decision-useful elements of a transition plan that the government could require development and/or disclosure of? Please explain why and provide supporting evidence.**

Transition plans have two primary use cases:

i) Climate impact reduction plan
ii) Climate related risk (physical/transition) mitigation plan

For most corporates, the climate impact reduction plan will be grounded in the decarbonisation of operations and a reduction of carbon emissions. Decision-useful information for this use case includes:

i) Plans to reduce emissions (operational changes, supplier changes, business model changes) and associated investment costs
ii) Disclosure of scope 1, 2 and 3 GHG emissions
iii) Disclosure of short and medium term emission reduction targets, set in line with the business cycle.
iv) Alignment of decarbonisation pathway with temperature scenarios/outcomes.
v) Disclosure of carbon credit purchasing plans for hard-to-abate residual emissions, and associated costs.

[1] https://consult.treasury.gov.au/c2025-683229

[2] https://www.ifrs.org/content/dam/ifrs/knowledge-hub/resources/tpt/ifrs-s2-climate-disclosures-tpt-tech-map-oct-2023.pdf

vi) Disclosure of executive remuneration plans and the extent to which they incentivise emissions reductions.

To inform investors about climate related risk mitigation, a transition plan should include:

i) Disclosure of physical and transition risks to which the company is exposed to throughout its supply chain.
   a. For physical risks, this would ideally include the name and location of infrastructure which is at risk, and which risks they are exposed to.
   b. For transition risks, this would ideally include the climate-related policies (e.g., deforestation free supply chains, CBAM) and/or transition-related technological competition (e.g., biofuels, renewables, EVs) that the company is exposed to.

ii) Risk mitigation plans and associated capital investment cost projections.

iii) Corporate assumptions about the pace of transition and/or physical climate scenarios which could crystallise risks (this should include commodity price forecasts under different transitions scenarios, where relevant).

iv) Where relevant, costs of decommissioning infrastructure which are not compatible with the transition (e.g., coal mines, pipelines, wells, ICE manufacturing plants) and the NPV impact of sooner-than-expected decommissioning.

v) Disclosure of executive remuneration plans and the extent to which they incentivise corporate strategy vis-à-vis the transition.

vi) Assessments and, where necessary, mitigation plans for at-risk stakeholders like the workforce, and local economies.

We would also welcome the inclusion of any work the company has done on its nature risks and dependencies.

We note that many of these elements are captured through a number of existing sources. We are broadly supportive of the guiding principles and the five disclosure elements of the TPT's disclosure framework, and note the usefulness of other sources including the Climate Action 100+ 'Net Zero Company Benchmark' and the IIGCC's 'Net-Zero Investment Framework'.

Option 1: Require entities to explain why they have not disclosed a transition plan or transition plan-related information.

Option 2: Require entities to develop and disclose transition plans

10. Please state whether or not you support Option 1, which would require entities to explain why they have not disclosed a transition plan or transition plan-related information. Please explain the advantages and disadvantages of this option.

We do not support option 1: Require entities to develop and disclose transition plans, as mandatory disclosure is essential to drive consistency, comparability, and high-quality reporting across the market. This will enable investors to assess climate-related risks and opportunities more effectively and support the UK's net-zero ambitions.

However, we recognise that smaller companies may face greater challenges in preparing transition plans. To balance ambition with proportionality, we recommend that government consider a size-based threshold, where larger in-scope entities are subject to full mandatory disclosure, while smaller entities could initially follow a 'comply or explain' approach. This would provide flexibility for companies with limited resources, while maintaining a clear trajectory toward full disclosure.

We suggest that the scope of requirements align with the UK's existing TCFD regime and expand over time to include other economically significant businesses, as defined in the upcoming Non-Financial Reporting Review (NFRR). A clear implementation roadmap should be set out to guide the transition, with appropriate sequencing across sectors and company sizes.

We would also suggest that the reporting requirements focus on corporates first, with investors second, such that corporate transition plans can then inform an investor's view on their own portfolio.

11. **Please state whether or not you support Option 2, which would require entities to develop a transition plan and disclose this. Please further specify whether and how frequently you think a standalone transition plan should be disclosed, in addition to transition plan related disclosure as part of annual reporting? When responding, please explain the advantages and disadvantages of this option.**

As highlighted in our response to the previous question, our preference would be for government to confirm its support for 'Option 2'.

In terms of the location of transition plan disclosures, we would favour a requirement for in-scope companies to publish a standalone plan on a triennial basis, with flexibility in place for companies that would like to voluntarily produce plans more regularly than three years, or to update them more frequently.

For example, this could be annually within their annual report in response to any material changes and developments. The triennial timeframe for standalone plans we propose in our response, which could be accompanied by some flexibility to allow in-scope entities to explain why they are publishing their plans less frequently (e.g. every 4-5 years), would facilitate a more strategic mindset among companies to transition plan reporting. An alternative timeline could be aligning the production of transition plans with the business planning cycle, which could be longer than 3 years.

We expect that **reporting every three years would enable those preparing transition plan reports to be able to take a relatively longer-term view on their company's future prospects and the opportunities to adapt to a changing world.**

Finally, in terms of envisaged benefits of a standalone transition plan these include the following:

- The ability for companies to provide more in-depth insights on their plan and explain its objectives; the clarity this can bring for preparers in terms of the business opportunities.
- The flexibility to construct a narrative around their climate change targets, ambitions, and actions for a range of external audiences (not just investors).
- The additional transparency for investors and other stakeholders generated via a 'single source of truth'.
- A standalone plan's utility as a useful engagement tool for a company's external stakeholders and policymakers; improved comparability between companies' transition strategies and progress against their transition plans.
- Its role in encouraging internal action and 'buy-in' on transition planning and integration into core decision-making and corporate strategy.

12. **If entities are required to disclose transition plan-related information, what (if any) are the opportunities to simplify or rationalise existing climate-related reporting requirements, including emissions reporting, particularly where this may introduce duplication of reporting? These responses will support the government's review of the non-financial reporting framework.**

As outlined in a number of our answers, Nest strongly agrees with the harmonisation of new transition plan requirements with existing climate and sustainability reporting. One area for simplification for companies could be greenhouse gas (GHG) emissions reporting, which is currently prepared for the TCFD report, as well as the SRS aligned reporting.

Pension funds

13. **How do you think any new transition plan requirements should integrate with the existing requirements in UK law for some larger schemes to produce TCFD reports and to calculate the portfolio alignment metric?**

We welcome confirmation by The Pensions Regulator (TPR) that it intends to work closely with the UK's pensions sector to establish a dedicated, 'voluntary' transition plan template for trust-based occupational pension schemes.

We hope that among its priorities, the TPR helps to identify ways to help integrate transition plan requirements with existing TCFD requirements for schemes and other climate-related reporting where possible, and draw closely on the TPT's existing Asset Owners Sector Guidance in the development of its template.

If implemented within a robust, mandatory, transition plan mechanism, the transition plan could subsume TCFD reports, which would reduce the reporting burden.

We believe that the portfolio alignment metric is value additive. Nest reports a portfolio alignment by measuring the percentage of holdings which have Science Based Targets Initiative (SBTi) approved decarbonisation targets. However, some flexibility around alignment metric is necessary. Our portfolio alignment measure covers only listed corporate equities and bonds, and private equity. For investments in other asset classes, that data is not yet available (like private credit) and/or not applicable (like direct real estate).

14. To what extent does your pension scheme already produce transition plans? What are their intended purposes, what information do they draw on, and what challenges have you encountered in developing them?

As we stated in our answer to question 2, Nest does not currently produce a transition plan. We have chosen to await regulatory guidance before dedicating resources to its production.

2.2.2 Section B1. Developing & disclosing a transition plan

15. To what extent do you support the government mandating transition plan implementation and why? When responding, please provide any views on the advantages and disadvantages of this approach.

We do not support the government mandating transition plan implementation. We would recommend that the government focuses on the monitoring of implementation, while being open to considering mandatory implementation provisions later in time. There are several reasons why we believe that mandatory implementation could create challenges to the market-wide production of credible transition plans:

- Overly stringent provisions relating to implementation could have the effect of discouraging, inadvertently, some companies from disclosing high-quality plans or weakening existing plans owing to concerns over their ability to meet their plan's ambitions.
- We would like companies to use their transition plans to lay out strategies that are both ambitious and credible, and caution that mandating implementation could lead to the report being treated as a 'tick box', compliance exercise.
- There does not appear to be clear legal provisions to support mandatory implementation, as evidenced by challenges to the EU's CSDDD provisions on transition plan implementation on a "best efforts" basis which have been softened in the Omnibus proposals, and we believe it would be challenging for the government to decide what is within the power of the company to implement, particularly if the company is operating in other jurisdictions.
- Implementation would require significant resources from government and regulators.

We are aware of the risks of companies backtracking on their plans, especially in the face of challenging political and/or regulatory environments, but view market-based mechanisms as the most appropriate monitoring tool for companies. That being said, it would be worth government using plans to inform actions taken to mitigate environmental challenges, and so that policymakers are aware of the status of economy-wide progress towards the transition.

16. In the absence of a legal requirement for companies to implement a plan, to what extent would market mechanisms be effective mechanisms to ensure that companies are delivering upon their plan?

As mentioned in answer to question 15, we view market-based mechanisms as the most appropriate tool for monitoring company progress. However, we do see value in some level of government oversight, including engagement with the finance industry, real economy firms and civil society, to measure how well these market-based mechanisms are working and whether further measures could be readily layered over the existing framework to promote action.

2.3 Section B3. Aligning transition plans to net zero by 2050

17. What do you see as the potential benefits, costs and challenges of government mandating requirements for transition plans that align with Net Zero by 2050, including the setting of interim targets aligned with 1.5°C? Where challenges are identified, what steps could government take to help mitigate these?

Nest has a long-term investment horizon, and is a universal owner, so we are keenly aware that every additional fraction of a degree of warming could have severe negative impact on our investment performance and broader outcomes for our members. Nest has an ambition to reach net zero by 2050 in line with the 1.5°C pathway for our portfolio, and has maintained this expectation of our investee companies.

While we intend to pursue 1.5°C alignment across our own portfolio, we recognise that not all companies will be in a position to aim for such a target. Our concern with mandating 1.5°C alignment is that companies will publish plans that are overly ambitious / not credible (if implementation is not made mandatory), or that companies will be overly conservative in their publications. We believe that a more useful mandatory requirement would be for companies to publish the difference between the pathway they are on and one which is 1.5°C aligned, as well as the key barriers for the sector.

18. Which standards and methodologies are effective and reliable for developing and monitoring climate-aligned targets and transition plans, in particular those that are aligned with net zero or 1.5°C pathways? Where possible, the government would welcome evidence from entities that have used such methodologies, explaining how they have arrived at that conclusion.

As we outlined in our answer to question 13, Nest reports portfolio alignment by measuring the percentage of holdings which have Science Based Targets Initiative (SBTi) approved decarbonisation targets. Methodologies and approaches are still evolving. The percentage of portfolio with net zero targets is the simplest and most transparent approach and allows for a basic assessment of the extent to which a portfolio is committed to net zero but is far from perfect. The SBTi methodology only applies to companies, so we are not currently able to measure alignment for other asset classes such as sovereign debt and commodity futures. Another drawback of the binary target approach is that only the alignment of investments with validated targets is known, which is currently a relatively small proportion of the total portfolio. The speed at which coverage increases is dependent on the resources of SBTi.

19. What are the unique challenges faced by hard-to-abate sectors in setting and achieving targets in transition plans aligned to net zero by 2050 – including interim targets? What methodologies or approaches would enable transition planning to support hard-to-abate sectors to achieve net zero by 2050?

Nest invests in a diverse range of companies across all sectors of the economy, and we recognise that some sectors – especially those which are hard to abate – will require a transition plan that takes into account particular challenges that that production process faces in decarbonising.

Government could legislate for such sectors by requiring that entities use a “reasonable method” which is based on credible, science-based pathways aligned with the Paris goals, to determine emissions targets. For the benefits of investors, companies should also be expected to sufficiently disclose the full range of dependencies and other barriers that could prevent the achievement of their targets. This should better equip transition plan users to monitor company progress towards goals, as well as

remove any perceived liabilities on the company's part, thus mitigating the risk of companies setting deliberately conservative targets.

20. For entities operating in multiple jurisdictions, what are your views on target setting and transition planning in global operations and supply chains?

We expect there will be some complexities for some global companies in disclosing transition plans, including in regards to their global activities and supply chain disclosures.

In our view, as previously highlighted in our response, this consultation can effectively respond to these challenges through determining a proportionate approach to scoping requirements for UK subsidiaries belonging to a global parent group, for example drawing on the TCFD's approach to this specific group of companies. Challenges can also be addressed to an extent through the UK's transition plan requirements aligning and building on the ISSB's IFRS S2 which we have recommended in our response.

2.3.1 Section B4: Climate adaptation and resilience alignment

21. What is your view on the role of climate adaptation in transition plans? Is there a role for government to ensure that companies make sufficient progress to adapt, through the use of transition plan requirements?

We believe that climate adaptation is an important requirement in transition planning, particularly when it comes to managing physical risk. We support greater consideration of climate adaptation and resilience by corporates. However, we recognise that there are some limitations to what corporates can do when it comes to climate adaptation, and that some system-level adaptation issues will fall under the remit of policymakers instead. Generally, we would recommend that the government's transition plan policy approach to encourage reporting is broadly aligned with the TPT framework's disclosure provisions on physical climate risks and adaptation, not only climate mitigation.

22. How can companies be supported to undertake enhanced risk planning in line with a 2°C and 4°C global warming scenario? Are these the right scenarios? To what extent are these scenarios already being applied within company risk analysis and how helpful are they in supporting companies in their transition to climate resilience?

We do not believe that alignment with a high temperature warming outcome, like 4°C should be endorsed by government, but we do see the value in embedding climate scenario analysis into company reporting and that could include higher-warming outcomes like 4°C. It could be useful for transition plan preparers to have guidance on this temperature warming analysis – even if qualitative – so that investors can better understand what their business looks like in, for example, a 4°C future. Government should encourage the development of tools, like warming scenarios, which are fit for purpose for this.

Nest produces climate stress testing analysis on the value at risk in our portfolio under the temperature scenarios published by the Network for Greening the Financial System (NGFS), which includes "hot house" outcomes.

2.3.2 Section B5: Nature alignment

23. To what extent do you think that nature should be considered in the government's transition plan policy? What do you see as the potential advantages and disadvantages? Do you have any views on the potential steps outlined in this section to facilitate organisations transitioning to become nature positive?

We support the inclusion of the recommendations on nature in the Transition Plan Taskforce and GFANZ frameworks. We are cognisant that nature analysis and data is at a much more nascent stage than climate, and so we would not expect to see transition plan preparers ready or willing to publish a suite of nature related disclosures within the timeline for this reporting requirement. That being said, we would expect companies to be actively considering nature related risks and opportunities, and for that to be supported in the content of their transition plan.

2.3.3 Section B6: Scope

24. Do you have any views on the factors the government should consider when determining the scope of any future transition plan requirements?

We believe that the government should take into account the following considerations when determining the scope of requirements:

- **Interoperability with global standards** to reduce the reporting burden on companies. This could include drawing on TCFD's scope requirements, as well as SRS and the EU's CSRD and CSDDD.
- **Benefits to the transition of the real economy**, including equipping regulators and policymakers with the necessary information to monitor the progress of the transition across sectors.
- **Financial system stability:** as a universal owner, Nest is concerned about the impact that the crystallisation of transition risks will have on both the corporate we invest in, but also the wider system (particularly participants like banks, insurance companies and pension funds).
- **Contribution to the UK as a desirable venue for investment**. We believe that the system wide integration of a credible transition plan would act as a draw for capital investment – particularly 'green' capital – to the UK.

25. We are interested in views about the impact on supply chains of large entities that may be in scope of transition plan requirements. Do you have views on how the government could ensure any future requirements have a proportionate impact on these smaller companies within the supply chain?

We recognise that enhanced reporting requirements may present greater challenges for small companies with more limited resources. However, we believe that large, listed companies often have a significant leeway to set the terms under which their supply chains operate. Given this, we see a significant opportunity for large corporates to improve standards throughout the value chain.

26. Do you have any views on how the government could redefine the scope to protect the competitiveness of the UK's public markets?

Our views on this question are presented in the answer to question 24.

2.3.4 Section B6: Legal Risk

27. Do you have views on the legal implications for entities in relation to any of the implementation options and considerations as set out in sections B1-B4 in this consultation?

28. In the UK's wider legal framework what – if any - changes would be necessary to support entities disclosing transition plans and forward-looking information?

2.4 Section C: Related policy and frameworks

29. What role could high integrity carbon credits play in transition plans? Would further guidance from government on the appropriate use of credits and how to identify or purchase high quality credits be helpful, if so, what could that look like?

We strongly believe that the use of carbon credits in an entity's decarbonisation strategy should be disclosed. We believe that an overreliance on carbon credits can dilute the credibility of a company's transition plan, and do not view carbon credits as a substitute for full value chain emissions reductions.

There may be a role for carbon credits where a company has residual, hard-to-abate emissions. For those cases, we would suggest that government draw on the TPT Disclosure Framework's specific guidance on the disclosure of carbon credits within companies' transition plans and how this can help credibly achieve the ambitions set out in a company's plan.

30. Are there specific elements of transition plan requirements or broader policy and regulatory approaches from other jurisdictions that the government should consider?

We would advise that government continue to draw on any emerging best-practice on transition planning in other jurisdictions. As part of this, government should seek to evolve the UK's disclosure approach to plans in line with recognised international transition plan standards, while also exporting our practice internationally as we have done in other areas of sustainable finance (e.g. UK's leadership in delivering on mandatory roll-out of TCFD and UK Stewardship Code leadership) and wider financial services rulemaking.

31. How can transition planning contribute to achieving the UK's domestic net zero targets while ensuring it supports sustainable investment in EMDEs, where transition pathways may be more gradual or less clearly defined?

We believe that climate change is a systemic risk which means that it cannot be managed by diversification alone. Our research, including scenario analysis, suggests that an orderly transition will be in the best financial interest of Nest members. But the transition needs to happen at a global scale in the real economy to avoid the worst physical impacts from climate change. EMDEs now account for around two thirds of global emissions, and this number is rising as their population and energy needs increase. There is a funding gap of c. $3tn per year for climate and nature-related investments in emerging markets and developing countries to meet the Sustainable Development Goals (SDGs) and the goals of the Paris Agreement.[3] A significant part of this funding shortfall will need to come from the private sector. Yet existing TCFD disclosure requirements for financial institutions focus on carbon emissions, which can have unintended consequences of shifting capital away from EMDEs, which tend to have higher emissions than developed markets. For example, our emerging markets equity fund has a scope 1 and 2 emissions footprint approximately three times as large as our developed markets fund.

We believe that transition plans can address this by encouraging entities to consider their wider impact on the transition and encouraging a more holistic set of KPIs to assess progress against the plan, for example capital expenditure or financing for climate solutions.

We do not believe that increased investment in EMDEs will lead to capital flight from the UK. As a UK pension fund, investing in the UK can bring benefits to our members beyond attractive financial returns. Asset owners can play a role in driving forward the transition both domestically and globally.

32. How could transition planning account for data limitations, particularly in EMDEs, where high-quality, comparable sustainability reporting may be less available?

Nest is a member of the Emerging Markets and Developing Economies (EMDE) Investor Taskforce which brings together leaders from 15 major financial services firms, including insurers, pension funds, asset managers, banks, investment consultants, and development finance institutions, with government expertise from the Foreign, Commonwealth and Development Office (FCDO) and HM Treasury. The Taskforce will develop practical solutions such as capacity building and product innovation to overcome barriers that currently constrain long-term private capital from investing at scale into climate, transition, and sustainable investment opportunities in regions. Data is often cited as a key barrier to allocating more capital into EMDEs and therefore one of the four workstreams of the taskforce. This is not limited to sustainability data but also includes limited historic data on returns, yields or default rates. Some initiatives such as the Global Emerging Markets Risk Database Consortium (GEMs database) is already helping investors get a better understanding of actual risk of allocating to EMDEs. We believe it is important to build relationships and bring together government, investors and multilateral

[3] IHLEG (2022). **Finance for climate action: Scaling up investment for climate and development.**

development organisations (DFIs/MDBs) to overcome challenges such as information asymmetries and gaps between risk perception and actual risks of investing in EMDEs.

33. What guidance, support or capacity building would be most useful to support effective transition planning and why? For respondents that have developed and/or published a transition plan, what guidance, support or capacity building did you make use of through the process? Please explain what additional guidance would be helpful and why?

We believe that further statutory guidance highlighting the TPT Disclosure Framework would be particularly valuable, especially if accompanied by case studies of good practice to support implementation across sectors. This would help build confidence and consistency in how transition plans are developed and disclosed.

We also welcome the Pensions Regulator's recent support for narrative reporting and believe this should be clearly reflected in government guidance. Encouraging high ambition in transition planning—rather than a narrow compliance mindset—will be key to ensuring disclosures are decision-useful for investors and aligned with the UK's climate goals.