Green Finance Team
Department for Energy Security and Net Zero
3 Whitehall Place
London
SW1A 2AW

By email: transitionplans@energysecurity.gov.uk

17 September 2025

Dear Green Finance Team,

Re: BVCA response to transition plan requirements consultation

The British Private Equity and Venture Capital Association (BVCA) is the industry body and public policy advocate for the private capital industry in the UK. With a membership of around 600 firms, we represent UK-based venture capital, private equity and private credit firms, as well as their professional advisers and investors. The private capital industry backs 13,000 UK businesses, nine in 10 of which are small or medium-sized enterprises. Businesses backed by the industry employ 2.5 million people across the UK and contribute 7% to GDP.

In 2024, £29.4bn was invested by private capital into UK businesses in sectors across the UK economy, ranging from consumer products to emerging technology. This increased investment has fuelled the growth of businesses across the UK, with six in ten (58%) of the businesses backed in 2024, located outside of the capital. These investments are long term, with an average investment period of six years, in contrast to less than a year in public markets.

The UK's private capital industry has a leading role to play in global efforts to eliminate the causes and combat the effects of climate change. Whilst the transition to a net zero economy and increase in regulation is driving the increase in green investment, there is also increasing evidence that encompassing ESG (Environmental, Social and Governance) factors makes for a smart business strategy and drives value creation. As either majority or significant minority owners, principally of unlisted, fast-growing SMEs, private capital funds managed by BVCA member firms are well-placed to drive transition in areas of the UK and global economies that public markets cannot reach. This includes backing innovation that creates the technology needed to fight climate change and supporting businesses to transition to a low carbon economy.

We are grateful for the opportunity to respond to the Department for Energy Security and Net Zero (DESNZ)'s open consultation on climate-related transition plan requirements. As part of our broader commitment to advancing sustainability, the BVCA also supports the UK Government's proposals to create the UK Sustainability Reporting Standards (UK SRS). By aligning the UK SRS with the Transition Plan Taskforce (TPT) frameworks, the standards promote consistent disclosures of sustainability information, allowing entities to enhance transparency, manage risks and align with global standards for sustainability disclosures. As such, private capital funds operating internationally will benefit from these harmonisation efforts. We continue to welcome the prioritisation of climate-related work and have been engaging on a range of sustainability topics with government departments as well as regulators both here in the UK and in the EU.

Since our members are mainly private capital firms with investments in unquoted companies, we have restricted our comments to aspects of the consultation of relevance to them. In particular, we do not

British Private Equity & Venture Capital Association
+44 (0)20 7492 0400 | bvca@bvca.co.uk | www.bvca.co.uk

express any views on aspects of the consultation which would apply to non-financial FTSE 100 companies.

Structure of private capital

To provide deeper context, we have included insights into the structure of private capital, emphasising its distinct characteristics and inherent complexities. This understanding is essential when evaluating transition plans, as private capital plays a pivotal role in financing long-term sustainability efforts. Its diverse investor expectations, governance structures and risk-return profiles can significantly influence how and when capital is deployed, shaping the pace and effectiveness of transition strategies.

Private capital firms are long-term investors, typically investing in companies for around 3-7 years in fund structures that typically subsist for 15 years. This means a commitment to building lasting and sustainable value in the businesses they invest in.

Private capital firms raise capital to invest from sources such as pension funds, endowments, insurance companies, banks, family offices/high net worth individuals and sovereign wealth funds (together, limited partners). They typically use a limited partnership to structure funds and an example of a structure is set out below.

- The general partner of the limited partnership fund will delegate its power and authority to the private equity manager (often limited liability partnerships with the partners being the executives).
- Private capital firms will manage one or more funds. The funds are closed-ended meaning that they have a limited life span, the industry standard being between 10 to 15 years. The life span of a fund can be extended (if permitted in the fund's constitutional agreement) and this is typically contractually up to two additional years with an option to further extend the life of the fund where assets have not been realised.
- Private capital firms raise capital to invest from multiple sources. These overwhelmingly institutional and well-informed investors will be limited partners in the fund and their liability is limited to the capital provided to the fund.
- The fund will typically invest in 10-15 portfolio companies in the earlier part of a fund's life until an agreed date (e.g. 5 to 10 years) and exit investments in the run up to the fund's fifteenth anniversary. Earlier stage investors may invest in up to 30-40 smaller portfolio companies. Typically, firms will sell their stake in a company by listing on the public markets or, more frequently, selling to a strategic buyer.
- The fund's ownership percentage in the portfolio companies will vary depending on the private capital strategy (e.g. buyout, minority stake).
- Private equity acquisitions will often be partly financed by debt, often provided by a number of banks.
- The portfolio companies will operate entirely independently of each other.

The fund manager will typically have the right to appoint a representative(s) to the board of directors of its portfolio companies.

Summary of key points from consultation response

The BVCA welcomes the Government's efforts to assess how transition plans may affect companies, recognising the importance of both transparency in reporting and the associated costs. The BVCA, however, does not support a blanket mandate for Transition Plan disclosures. We believe the TPT framework should preserve flexibility, proportionality and meaningful reporting that inspires change, particularly in relation to long-term targets and commitments. Private companies backed by private capital often operate in fast-changing environments, where shifting circumstances can undermine the feasibility of previously stated transition goals, even if those goals were initially pursued with genuine best-effort intentions. We have provided below a summary of our key considerations and asks:

- Transition plans are valuable for both large corporates and investors, particularly in supporting due diligence and strategic planning for a low-carbon economy. However, proportionality is essential. **A comply or explain basis, should, at least initially, be an appropriate model for the largest listed UK companies**. For smaller businesses or low-emitting sectors the costs of understanding and reporting may outweigh the benefits. Restricting UK asset managers to offer only products aligned with strict net zero plans could threaten their business and reduce the UK's global competitiveness. To avoid weak explanations that do not convey helpful information or rely on pro forma statements, we strongly recommend the introduction of a more structured "explanation" requirement.

- Given the diversity of UK financial institutions, **mandating transition plans, particularly for smaller firms, risks being overly burdensome**. Any requirements should be proportionate, taking into account firm size, materiality and alignment with business strategy. This approach enables firms to focus on areas where they can drive meaningful change as part of the green transition and reduces drag on economic growth.

- Standardised and credible transition plans will enhance comparability across markets. **Credibility should be demonstrated** through alignment with key aspects of the TPT framework, future national and international guidance or validation by an external third party. This should not reduce ambition to a compliance exercise and therefore, the Government's approach should remain flexible.

- While aligning with net zero by 2050 is important to meet the UK's climate targets, the Government must **avoid discouraging ambitious yet credible transition plans through overly rigid legal requirements**. Transition plans should therefore focus on genuine, achievable objectives and avoid greenwashing or diluted ambitions, which can undermine the credibility and impact of the transition effort. There should be a place for companies to explain why the progress towards decarbonisation does not align with published plans and to adjust in light of new circumstances. Furthermore, targets should allow for long-term flexibility, while maintaining strict adherence to robust interim milestones that drive progress toward ambitious long-term goals.

Section A: The benefits and use cases of transition plans

Question 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 Government's comments regarding the value of transition plans to large corporates as well as investors. Many private capital investors conduct thorough due diligence on the sustainability performance of potential investee companies and, for certain types of company, the existence of a transition plan (particularly in a standardised format) would be a valuable means of supplementing and streamlining elements of that due diligence, potentially reducing costs for these investors and speeding up the investment processes. It is also important for certain types of business to develop a transition plan as part of their strategic planning, helping senior management to identify actionable steps to prepare for a low carbon economy.

Development of standardised transition plans over time will help support capital markets in the UK. The private capital industry is international, investing and operating across borders. Convergence around the various elements of a credible transition plan will ensure comparability across businesses, supporting sustainable capital markets in the UK and internationally.

However, proportionality is also an important consideration and we therefore support the proposal to limit the obligation to prepare and disclose a credible transition plan to the very largest, listed UK companies. For many smaller companies and for those operating in low-emitting sectors, the costs of preparing a plan would be outweighed by any benefits. In addition, for companies without a stock market listing and a large number of smaller shareholders, the costs of disclosing any plan that is prepared, including the information it could provide to competitors, may outweigh any benefits. Transition plans vary widely across companies and while size may serve as an initial guidance, expectations should increasingly be informed by industry type and the nature of the business. For firms with a green mandate, implementation should naturally align with their core business activities.

While we always support regulatory certainty, we would encourage Government to evolve its approach to transition planning over the coming years, primarily based on evidence of the efficacy of the requirements in driving change at the required rate. We would distinguish the obligation for investee companies to adopt transition plans from an obligation for financial institutions to adopt a transition plan. The challenges of this are discussed below.

Throughout this paper we refer to "credible" transition plans. We would encourage Government to consider how best to ensure credibility in a way that does not deter ambition. We do not support a regime which amounts to a check-box compliance exercise, unsupported by real actions to drive the shift to a low carbon economy, which should be the core whole system outcome of any new obligation. Alignment with key aspects of the TPT Framework, future national or international guidance or requirements on credible transition plans, or validation by an external third party, should all be means of demonstrating credibility. In this regard, we further encourage Government to consider responses to the *Transition Finance Council's Consultation on entity-level Transition Finance Guidelines*[1] to help set the boundaries for credible transition finance.

Through the consultation and our recent engagement with Government, policymakers are seeking better understanding on how investors assess and integrate investee transition plans into their decision-making frameworks and their own transition plans. From a private capital perspective, several members consider investee transition plans, not only when regarding capital allocation, but also when understanding their own transition targets and disclosures. The degree to which these plans are considered varies depending on the materiality of climate-related issues for each specific investee. Some members also have near-term science-based targets, which are often used as engagement objectives (i.e., targets of a target). As such, members generally expect portfolio companies to

[1] Transition Finance Guidelines Consultation on entity-level Transition Finance Guidelines

eventually set their own targets and develop corresponding transition plans. That said, there is no expectation for these plans to be presented as standalone documents.

However, many members emphasised the challenges they encounter in requiring their portfolio companies to develop transition plans, reviewing those plans and integrating them into their own strategic frameworks. These difficulties arise from the diverse nature of companies within a fund's portfolio, the complexity of collecting consistent data across these entities and the challenge of translating that data into actionable insights for their own transition planning. Furthermore, changing compositions of portfolios due to exits add an extra layer of complexity in a fund's transition plan as this will result in target misalignment if longer-term targets are set with the inclusion of those companies in mind.

Question 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.

The benefits to investors of corporate transition plans are not necessarily matched when considering the imposition of a transition planning requirement on financial services institutions (such as asset managers), on account of the different nature of these types of businesses. These differences must be taken into account if financial institutions, including asset managers, are to be subject to any transition planning requirements.

Financial services firms, including asset managers, can and do employ emissions reduction programmes across their own operations so as to minimise their impacts, improve resilience and reduce costs. However, these operational emissions (scopes 1 and 2 and certain scope 3 categories) generally represent a very small proportion of firms' overall impacts when considering the impact of their investment activities (scope 3 category 15). This fact results in a number of issues for private capital firms' design and implementation of transition plans covering not just their own operations but also their investment activities, including the following:

- Private equity asset managers are intermediaries sitting between the ultimate investor and the investee companies and must respond to the investment preferences of their investors (known as limited partners or LPs). Significant funds are available in the market with the aim of investing sustainably (including in alignment with net zero and/or the Paris Agreement goals), but many fund managers continue to pursue multiple strategies with a variety of goals, responding to investor demand. LPs will naturally select a range of investments for optimal risk management. Imposing a legal requirement that restricts UK-regulated asset managers to offering only products aligned with an absolute net zero transition plan could undermine their commercial viability. Such constraints risk diminishing the UK's attractiveness as an investment hub, particularly for global capital providers like US LPs, thereby weakening the UK's competitiveness and access to international capital pools.
- Private capital firms often act as strategic stewards rather than operational managers. While they typically do not intervene in the day-to-day running of portfolio companies, they play a crucial role in guiding and incentivising firms toward decarbonisation, particularly when such efforts align with long-term financial performance. Their influence is exerted from a higher-level vantage point, focusing on governance, capital allocation and strategic direction. In some cases, such as credit strategies, the structure of the investment may limit the feasibility of direct engagement, making active ownership more about setting expectations and monitoring progress than hands-on involvement.

- Holding periods for investments are generally in the range of five to seven years, meaning that managers' ability to influence the longer-term (7+ years) outcomes of the investee company, and conversely for an exiting portfolio company on a decarbonisation trajectory to help the manager reach its own goals, is limited. Therefore, focus should be on short- and medium-term targets which result in ambitious longer-term (7-10+ years) targets being met.

These factors may lead to obligated firms needing to simply avoid or even divest certain investments, as a means of quickly reducing emissions, when evidence supports the position that responsible managers should be allowed to engage with high impact firms for the best chance of positively changing their business during the investment period. It is preferable to enable responsible managers to engage collaboratively on climate initiatives with companies that, despite having material carbon emissions, are actively pursuing climate goals, rather than transferring ownership to a less climate-oriented firm that may default to business-as-usual operations. This transformative behaviour should be deemed compatible with the transition to a low carbon economy.

Furthermore, the imposition of a net zero transition planning obligation may require the manager to reassess the compatibility of its current portfolio with its transition plan. It is not always possible, and often as noted above not desirable, for firms to simply divest from companies which do not align with the manager's plan.

In light of the above concerns, the Government may consider whether a financial services firm can be deemed to have adopted a credible transition plan where it uses an approach which is specific to the investment in question. In the case of a wholly owned private equity investment in a relatively small portfolio, it may be reasonable for the company to be brought wholly within the firm's emissions reduction targets, whereas for a public market investment it may be sufficient for the firm to exercise its voting rights in a manner consistent with its transition plan (though the company itself may be out of the scope of its emissions reduction target).

Firms should be able to adopt transition plans selectively, tailoring them to individual strategies or funds based on relevance and feasibility. For example, a private markets firm might implement a plan for its impact or infrastructure fund, maintain a separate plan for its buyout fund that is shared with investors but not publicly disclosed due to commercial sensitivities and opt not to adopt a plan for its credit strategy, explaining why such a plan is not appropriate. In some cases, firms may also focus on aligning with Scope 3 emissions, particularly Category 15 (investments and financed emissions), without including them directly in their transition plans, acknowledging that these emissions are shaped by the changing composition of portfolios and are not directly controllable. This reflects a pragmatic approach where Net Zero plans concentrate on areas under direct influence, while Category 15 objectives are pursued through broader alignment efforts.

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

The UK has been a leader in transition planning in the formation of the TPT. It is relevant that the TPT now sits under the International Sustainability Standards Board ("ISSB") and that the ISSB has recently issued guidance on transition planning. As discussed in more detail below, the BVCA supports alignment with current TPT requirements under the ISSB's IFRS 2 requirements. Furthermore, despite not encouraging alignment with the EU's Corporate Sustainability Due Diligence Directive (CSDDD), we believe signposting should be allowed to meet transition plan obligations. Adoption of the ISSB sustainability framework is growing rapidly and private capital funds operating internationally will greatly benefit from these harmonisation efforts.

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In the first instance, this may be a UK specific requirement (the exact nature of which is discussed in other sections of this paper) that any transition plan disclosed must align with the brief requirements in the IFRS S2 standard, namely that it includes targets, actions and resources, and discusses key assumptions and dependencies, with a non-binding recommendation to take into account the ISSB's guidance or the full TPT framework. In future, the ISSB may provide more specific requirements in respect of transition plans, or mandate the use of the TPT framework, which we presume will be ported across to UK SRS at the appropriate time.

We would expect this to be consistent with the approach taken by other countries considering adoption of or having adopted ISSB standards; to the extent that the obligation within S2 is strengthened in future, this will likely be tracked through to national adoptions of the ISSB standards. We note that at present, the ISSB does not specify whether a transition plan must align with net zero.

While we recognise the EU as a key trading partner, at this point, the BVCA would not support alignment with the transition planning obligation in the EU CSDDD, given that this is likely to change in the near future. However, to the extent that companies are required to adopt and/or disclose a credible transition plan under EU legislation (which would require analysis of the final amendments to the directives via the Omnibus package), we would strongly support an approach where this is recognised as meeting UK requirements with no further duplication of requirements.

A subset of economic actors voluntarily disclose transition plans, including under the CDP which notes that 1 in 4 reporters in 2024 disclosed the existence of a transition plan. The CDP also publishes guiding principles of a Climate Transition Plan as well as elements of a credible plan, which, while useful to be taken into account, should be reviewed for consistency with other frameworks.

In the interests of future-proofing the regime, the Government should also introduce a mechanism to allow recognition of transition plans from other jurisdictions. The Government could reserve for itself the right to issue equivalence decisions, but this would likely slow down the process considerably. To the extent that transition plans are part of the annual accounts and/or subject to assurance, the auditor/assurer may attest that the transition plan meets the requirements for equivalence by reference to Government guidelines. We would encourage the Government (and auditors) to be pragmatic and avoid any duplication of requirements based on non-material differences between transition plans prepared for different purposes or in different jurisdictions.

Section B: Implementation options

Question 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 acknowledge the importance of the TPT disclosure framework in advancing climate reporting. However, how the IFRS Foundation chooses to integrate it into its own standards will be critical to maintaining global interoperability. It is therefore essential that the UK Government remains closely engaged in this process.

We view the TPT framework and in particular the disclosure recommendations as "gold standard" best practice. As such, it should not be used as a baseline for companies at different stages of familiarity with climate transition planning. To the extent that the Government encourages or requires entities to follow the structure of the TPT framework, it should be clear how the five disclosure elements (Foundations, Implementation Strategy, Engagement Strategy, Metrics & Targets and Governance) map across to the brief requirements set out in the IFRS S2 disclosure requirement (targets, actions, resources), as well as the ISSB's four pillars (Governance, Strategy, Risk Management and Metrics & Targets). As per the ISSB's recent guidance document, there is no straightforward correspondence between the frameworks.

The BVCA's recently updated Walker Guidelines[2] encourage large Private Equity-backed companies to use the TPT disclosure framework and implementation guidance when developing their strategic ambitions for decarbonisation, but do not mandate it. The revised Walker Guidelines recommendations are on a comply or explain basis.

Question 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 prefer the adoption of a "comply or explain" obligation, for larger asset managers and economically significant private companies.

To support firms that are explaining rather than complying and to avoid weak explanations that do not convey helpful information or rely on pro forma statements, we would support the introduction of a more structured "explanation" requirement. This should include any time frame by which the entity plans to adopt a plan and steps it is taking to progress such adoption.

Commitment to future adoption of plans can significantly enhance credibility for large, listed corporations, especially when accompanied by public announcements of their targets. This approach not only adds weight and long-term value but also aligns with the Government's broader carbon reduction goals. However, any time-limits imposed must be reasonable and any carve-outs should be clearly explained from the outset to ensure transparency and maintain trust.

As noted above, firms should be able to disclose a single plan, a series of strategy-by-strategy plans, or a plan covering only part of its business, provided either "compliance" and/or "explanation" cover its entire business. It must be noted that this approach should not lead to a "comply or fail" model, where companies are subject to scrutiny for providing an explanation for non-compliance. This can be detrimental for growth and detract from companies' ambitions to enact tangible change.

In our view, a comply or explain requirement should only apply to larger asset managers – perhaps using the same thresholds as currently apply for TCFD reporting. For companies that fall below the thresholds it would be overly burdensome to require the same approach.

To the extent that the Government requires disclosure of the transition plan itself, rather than just the entity's statement that such a plan exists, there should be suitable protections for commercially sensitive information. However, we do not consider that a plan is only useful where publicly disclosed; in formulating plans, firms will strategically consider their decarbonisation journey and will be (at least) encouraged to apply strong governance to it. It should therefore serve as an important internal document. Furthermore, investors may well request direct disclosure of transition plans where firms have indicated that they exist.

Question 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

[2] Walker Guidelines

disclosure as part of annual reporting? When responding, please explain the advantages and disadvantages of this option.

We do not support this option for asset managers.

In practice, mandated reporting has raised major concerns for members – particularly under CSDDD. This arises from questions around the value that mandatory reporting is providing when compared to the strain on resources. It is therefore essential that similar obligations are limited in their effect, especially as private companies continue to question the value in the approach at all.

For financial firms that are subject to a requirement under any new rules, the proportionality of an active transition planning requirement may relate to various aspects of the plan, including the level of ambition, the coverage of the plan and the required level of detail. Entities may be offered a materiality threshold, such that non-material aspects of their business could be excluded from the transition plan (at least initially) and provided these are not highly impacting activities such as those supporting expansion of the fossil fuel sector. This would allow businesses to focus on the areas in which they can have the most impact.

Additionally, mandating creates significant legal uncertainty. Whilst we believe that transition plans should always take a forward-looking approach, climate-related commitments are difficult to make and enforce when the external environment is constantly evolving. This means that plans may be embedded with a number of caveats to ensure that companies are protected against any unintended consequences that may result from failure to meet targets. This could possibly dilute climate ambitions within their transition plans and may make it difficult to differentiate between companies for whom climate has the most material impact.

However, if the Government does elect to mandate development of transition plans for certain asset managers, it is critical that this is introduced in a proportionate and flexible way. The range of UK-regulated financial institutions means that the resources and economic significance of these firms varies greatly. Many of our members fall into the lower midmarket category (low levels of assets under management) and it would clearly be disproportionate to require them to prepare transition plans, even on a comply or explain basis.

Furthermore, if this is mandated, it is likely that many companies for whom climate is less material than other areas, such as AI, plans may be perceived as performative. To avoid verbiage and greenwashing, companies should feel able to commit to genuine materiality-aligned objectives that are achievable, commercially viable and align with individual business strategies, without conforming to rigid regulations and requirements in the form of transition plans that they may not fully believe in. The most effective climate commitments will be those that are targeted and business-specific and will be those that are supported by evidence which can help uptake of adoption and drive long-term meaningful value.

Therefore, we do not agree with mandatory transition plans. To the extent that the Government does require development of transition plans, we support measures to increase the likelihood that plans are effective and that transition planning does not become simply a compliance cost, including all necessary support and guidance. This may include prescribing core aspects such as interim targets.

Question 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 an obligation for firms to "adopt and implement" transition plans. It would be an unfortunate situation where entities could be held liable for failing - and potentially even forced - to take actions which may no longer be technically or economically viable or even desirable to achieve the stated aim. Instead, as mentioned in questions 10 and 11, a “comply or explain” approach, at least initially, would be more valuable.

For private capital firms, there may be a variety of circumstances in which the firm is unable to take the actions laid out in the plan. Critically, this includes a situation where the firm's fiduciary duty to investors conflicts with the transition plan. Any transition planning obligation should not expose the firm or its officers to a risk of breaching separate legal obligations in the proper performance of their fiduciary duty, provided the statements of intent were made honestly and in good faith at the relevant time. This naturally means that firms will need to update their transition plans regularly (we would suggest, at least annually) to reflect the current state of the firm's plan.

Question 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 pathways? Where challenges are identified, what steps could government take to help mitigate these?

We acknowledge that a requirement to align with net zero may be justified in view of the urgent action needed to tackle climate change and to assist the UK in meeting its legally binding target of net zero by 2050. We, therefore, encourage the Government to support the achievement of these targets by incentivising ambitious, yet credible, transition plans particularly in the development of the legal framework any associated liability regime.

It should further be acknowledged that the current level of global warming may not be consistent with a requirement to implement a 2050 net zero aligned transition plan. The EU's Copernicus programme observed that 2024 was already above 1.5C degrees of warming, though this does not necessarily mean that overall warming cannot be contained (though a June 2024 report by the Priestley Centre for Climate Futures at the University of Leeds estimates that only 3 years remain to keep warming to that level). It would be wrong for the Government to impose a legal requirement to achieve an outcome that is impossible or technically very unlikely to be achievable, where legal liability flows from this.

The Government should therefore seek a middle ground in which climate ambition is maximised whilst not imposing unreasonable burden and potential legal liability of UK businesses. It may be the case that some companies cannot initially foresee a route to net zero but can evolve a plan over time to achieve it.

Entities should be encouraged to be as ambitious as possible considering the unique circumstances pertaining to their business. They may then be asked to describe the barriers to their achievement of net zero; these are likely to be varied and may include investor appetite, technological limitations, financial or regulatory barriers or disincentives. This would also be useful information for Government to determine what further policy adjustments it should make to facilitate more entities achieving net zero.

If net zero goals are not naturally aligned to business plans, companies should be able to communicate this, providing a valid reason why, for example, either it is not relevant at the specific time or is generally immaterial for business growth.

An absolute net zero alignment requirement will pose challenges across many sectors. For the financial services industry, it is particularly the case that investment in certain key areas must not be hampered; these include technologies crucial to climate adaptation, new and innovative products and services that play a key role in avoiding future emissions and existing technologies which are critical to the low carbon economy and energy transitions. In each case, the investee's own emissions may not align with net zero, and in some instances their operational emissions, may be high or early-stage companies may not have accurate data available.

It may be useful to examine how the EU Taxonomy designates certain activities as "transitional" or "enabling" and how investment in companies undertaking these activities can still support a credible transition plan. This also raises the question of whether such companies should themselves be subject to transition planning requirements. As the methodologies for avoided emissions mature, it may be possible for both investors and the companies themselves to better reflect their whole lifecycle impact on the climate. Further reference could be made to Science Based Targets initiative's Finance Institutions Net Zero standard (FINZ)[3] and its implementation list[4] that provides additional frameworks that can be used for the definition of transition enabling activities.

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

As noted above, we are keen to see the Government apply any future transition plan obligations in a proportionate and scalable way. We do not think that, for corporates, it would be proportionate or beneficial to apply any mandatory requirements to unquoted companies, including economically significant companies. Rather, a best-efforts approach would ensure that companies set ambitious targets that are within the limits of their resourcing capabilities. Companies can also be encouraged to have regard to the work for the TPT and ISSB requirements in their strategic planning and approach to disclosure and prepare transition plans on a voluntary basis.

In relation to UK-regulated financial institutions, we have outlined the perceived difficulties with applying the requirements to private capital firms in particular. We appreciate the importance of private capital in the transition to a low carbon economy, but as outlined, it may not be feasible to subject the entirety of the business, including investment activities, to absolute net zero alignment.

It may be that businesses carrying out enabling or transitional activities which are critical to the low carbon transition should qualify for a full or partial exemption from the transition planning requirements. Similarly, investments in such companies could be carved out from the transition plans of private capital firms.

The nature of the obligation – whether "comply or explain" or "develop and disclose" - is relevant to determination of scope, with the former providing significantly more flexibility for entities to grow into their obligations over the first few years of application. Furthermore, regarding scope, members have emphasised that any thresholds established should align with those used for UK SRS reporting and should also reflect the thresholds under consideration in the ongoing non-financial reporting review.

The Government should also be clear on whether non-UK established entities will be caught by these obligations and whether they extend to the business of only the entity in question or its entire corporate group. It is critical to clarify that these obligations are not intended to apply to the Fund or

[3] FINZ standard

[4] FINZ implementation list

LLP level, which would otherwise risk unnecessary disaggregation of the portfolio. Drawing on lessons from ESOS, where similar issues arose, clarity at this stage would help ensure that reporting remains proportionate and practical. Entire corporate groups caught by TPT obligations would result in difficulties in collecting transition plans and information, especially reporting transition plans as part of a group when considering the respective counterparts.

Additionally, it is important that there is no duplication of obligations between any future mandatory disclosure under UK SRS on the one hand and transition plans on the other. High levels of resourcing are needed to develop and meet these requirements and so alignment across all reporting regulations is key to ensuring fairness and harmonisation.

If the Government elects not to use the relevant provision in IFRS S2 as the basis for the transition planning obligation, then that provision should be disapplied for entities subject to both. This also means that the requirement for companies to report under TCFD and TPT will depend on what the latter regulation looks like.

Question 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?

The Government is correct to identify this potential issue, which involves large actors pushing down their obligations onto small and medium enterprises ("SMEs") who would then face costs or potential boycott of their business in favour of those already in close alignment with the larger entity's goals.

Firms and companies should be provided with sufficient flexibility to ensure that they can engage with suppliers to improve efficiency and performance, rather than immediately switching away to more efficient suppliers. This may have unintended consequences in third countries, especially those in the Global South, which depend on foreign customers and where impacts can be concentrated on specific industries such that the cumulative effect is very damaging. With this in mind, any guidelines regarding both the design and evaluation of climate transition plans should be clear and detailed enough that those writing and reading transition plans understand that an effective transition plan may not simply reduce emissions at the fastest rate but would effect broad change and bring multiple benefits across the supply chain over a longer period.

Question 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?

We note the FCA's recent confirmation that transition plans in prospectuses may qualify as protected forward-looking statements and we encourage the Government to ensure that any statements by asset managers are given similar levels of protection. Entities should be encouraged to be ambitious, but this ambition will be tempered by potential legal liability for statements which are alleged to be misrepresentative.

We encourage the Government to protect, as far as possible, all statements contained in transition plans that are made honestly and in good faith. Companies and financial firms that adopt a transition plan in good faith should not face legal liability for failing to achieve the plan, nor for revision of the plan, where accompanied by a reasoned explanation for such revision.

It is important to incorporate safeguards that protect managers from legal liability in cases where targets or broader transition plans are not ultimately achieved. These protections should apply when such plans are adopted in good faith, based on the best available information at the time and executed with appropriate care, diligence and professional skill.

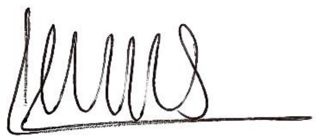
These terms should be clearly defined and explained by the Government. If there are risks that the firm could be legally responsible for a failure to achieve its ambition, that will necessarily limit the ambition of any plan that is adopted. This also risks making the UK less competitive if (as would be the case) such an obligation is out of step with other key jurisdictions.

Question 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?

In response to this question, we encourage the Government to consider the BVCA's response[5] to *DESNZ's Voluntary Carbon and Nature Markets: Raising Integrity consultation.*

The BVCA are supportive of the Green Finance Team's drive to understand what transitions means to companies of all sizes and sectors. However, we emphasise the importance of flexibility, allowing companies to tailor their plans in ways that best suit their unique needs and circumstances. For further engagement or to explore perspectives on Private Capital, please feel reach out to Chris Khoury or Harriet Assem.

Yours sincerely,



Lucie Mills, Chair, BVCA Responsible Investment Advisory Group

[5] BVCA's response to DESNZ's Voluntary Carbon and Nature Markets: Raising Integrity consultation

British Private Equity & Venture Capital Association
+44 (0)20 7492 0400 | bvca@bvca.co.uk | www.bvca.co.uk