ARE COMPANIES DEVELOPING CREDIBLE CLIMATE TRANSITION PLANS?

Disclosure to key climate transition-focused indicators in CDP's 2022 Climate Change Questionnaire

February 2023

Contents

Key findings

1. In 2022, 18,600+ organizations disclosed through CDP's climate change questionnaire, of which 4,100 of them disclosed that they had already developed a 1.5°C-aligned climate transition plan.
2. Of these 4,100 organizations, 81 of them reported sufficient detail to all 21 key indicators in the climate change questionnaire that align with a credible climate transition plan. These 81 organizations represent 0.4% of the entire disclosure sample in 2022 (18,600+).
3. In our 2021 assessment of climate transition plan disclosure, 135 organizations met the disclosure criteria to all key indicators. The reduction seen this year is based on CDP strengthening the disclosure criteria for what constitutes a credible climate transition plan by upholding them to 1.5°C alignment.
4. 6,520 organizations reported that they plan on developing a climate transition plan within two years.
5. Over 60% of all disclosing organizations fall within the 'few' threshold of credible climate transition plan disclosure, i.e., these organizations disclosed to less than seven of the key indicators of a credible climate transition plan.
6. More than a third of the disclosing organizations met the disclosure criteria for the risks & opportunities element of a credible climate transition plan – this was followed closely by the governance element (24%) and the policy element (19%).
7. In contrast, financial planning, targets, and strategy to achieve net-zero were the poorest performing elements of a credible climate transition plan with 3%, 4% and 7% of organizations meeting the disclosure criteria in these respective elements.
8. Across the 13 industries assessed, power generation and infrastructure were the front runners with 2.2% and 1.7% of all organizations in each of these industries disclosing against all 21 key indicators of a credible climate transition plan.
9. The apparel, fossil fuels, and hospitality industries had the poorest levels of disclosure with only one organization in each of these industries disclosing against all the 21 key indicators of a credible climate transition plan. Of the key industries identified, the best and worst performing elements were consistent with the trends identified in key findings 5 & 6.
10. Whilst no geography had an outstanding record, Japan leads the regional assessment with 16 Japanese organizations disclosing to all 21 key indicators of a credible climate transition plan.

Introduction

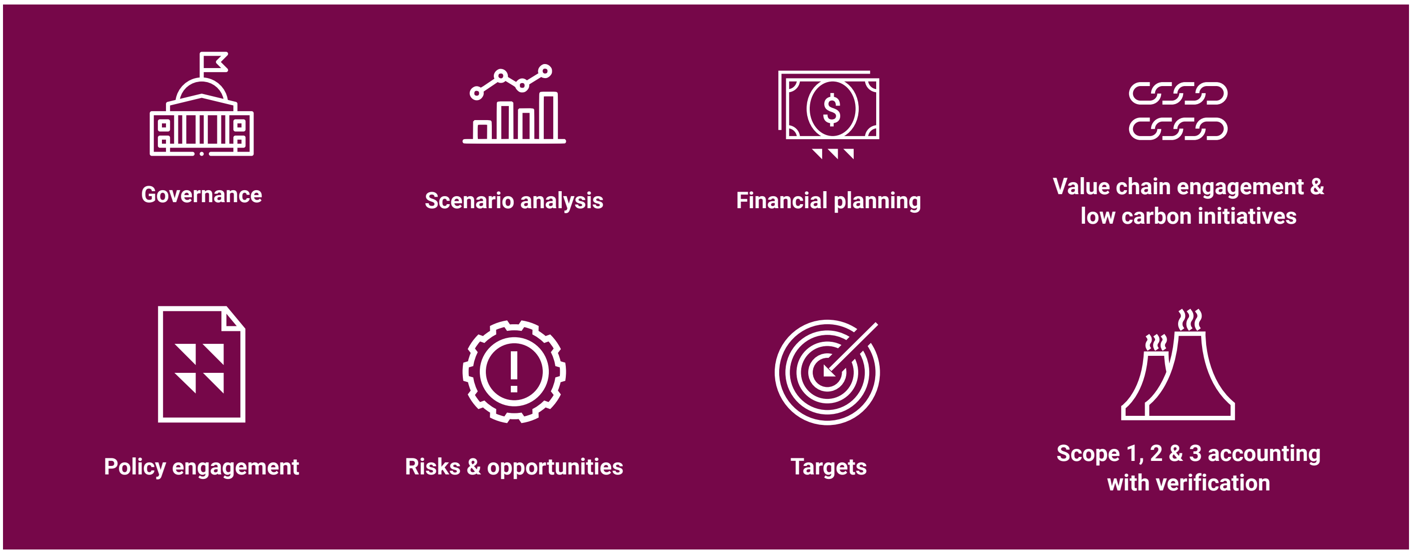
This report provides an overview of the current state of climate transition plan information disclosed through CDP's 2022 climate change questionnaire. The data analyzed in this report spans over 18,600 organizations in 13 industries and across 135 countries.

While this report is not an assessment of an organization's climate transition towards a 1.5°C-aligned world – it is an evaluation of whether an organization's disclosure is sufficient and credible. By strengthening the criteria for what makes a credible climate transition plan i.e. enforcing that a plan must be aligned to 1.5°C and have a rigorous target, CDP continued to raise the bar in this year's assessment of what is considered a credible climate transition plan. This report focuses on climate transition plans, but CDP recognizes that climate is only a facet of a wider, environmental challenge and the critical need for organizations to include nature in their thinking and broader transition planning. As such, we will include wider environmental indicators when defining a credible transition plan in the future.

Across the globe in 2022 we saw an increase in value placed on organizations disclosing and developing transition plans. In the US, the Securities and Exchange Commission (SEC) proposed climate disclosure regulation, including disclosure of climate targets and transition plans. Regulation set to be implemented in the European Union (EU) will also require disclosure of climate transition plans, as outlined in the draft European Sustainability Reporting Standards (ESRS). Similarly, the publication of the International Sustainability Standards Board's (ISSB) Exposure Drafts on climate and general sustainability-related financial disclosures proposes a range of disclosures around an organization's transition plans. Other industry-led coalitions including the Taskforce on Climate-Related Financial Disclosures (TCFD) and the Glasgow Financial Alliance for Net Zero (GFANZ) are also applying pressure on organizations and financial institutions to develop and disclose transition plans. Most recently at COP27 in November 2022, the UK Transition Plan Taskforce (UK TPT - convened by the UK government post COP26) released the first draft of its Disclosure Framework, outlining requirements from publicly listed organizations and financial institutions in the UK to publish their climate transition plans. In January 2022, the FCA introduced rules for listed companies and large regulated asset owners and asset managers to disclose transition plans as part of their TCFD aligned disclosures, initially on a comply or explain basis. The first disclosures under these rules will be made in 2023. The UK TPT's outputs will support UK firms and companies to publish high quality plans under existing rules. Please see CDP's Technical Note for the alignment between the identified elements of a credible climate transition plan and the various incoming mandatory disclosure recommendations.

This evolution towards policy regulation demonstrates the increasing pressure on organizations and financial institutions to improve and outline their transition plans. Considering incoming regulation (as of December 2021) around transition disclosure, this report also reflects global readiness amongst existing disclosers.

In November 2021, CDP pioneered a discussion paper on climate transition plans, in which we identified the following key elements that constitute a credible climate transition plan:



These elements can be evidenced through the disclosure to 21 key indicators dispersed throughout the 2022 climate change questionnaire[1] (see Appendix). The questionnaire collects data disclosed through these indicators, and this is the basis on which CDP has established credible climate transition plan disclosure – please refer to CDP's Technical Note on climate transition plans for more detail.

A climate transition plan is a **time-bound action plan** that clearly outlines how an organization will achieve its strategy to pivot its existing assets, operations and entire business model towards a trajectory that aligns with the latest and most ambitious climate science recommendations, i.e., halving greenhouse gas (GHG) emissions by 2030 and reaching net-zero by 2050 at the latest, thereby limiting global warming to 1.5°C. Environmental disclosure alone is not enough – it needs to lead to **accountability** and **transformation**; hence the relevance of climate transition plans as part of a business's strategy.

1. In the 2021 version of this report, the assessment outlined 24 key climate transition indicators in the 2021 questionnaire – however, due to the ongoing evolution of the climate change questionnaire, these indicators have been streamlined to 21. Please note, despite these questionnaire revisions, the same (and in some cases, more) information can still be reported on, in these 21 indicators, when compared to the 24 indicators in the 2021 assessment. These 21 indicators are only a core subset of a wider set of transition relevant indicators in the climate change questionnaire

Disclosure to key transition-focused indicators

4,100

organizations disclosed through CDP that they have a 1.5°C-aligned climate transition plan.

Over

28%

of all disclosing organizations in the power generation industry reported developing a public climate transition plan with a shareholder feedback mechanism in place.

Disclosure of climate transition plans and strategy

In 2022, 4,100 organizations disclosed through CDP that they have a 1.5°C-aligned climate transition plan[2]. Of the organizations who reported to have developed a 1.5°C-aligned climate transition plan, only 1,751 of them reported that it was publicly available, and that there was a well-defined mechanism in place to collect feedback from shareholders. Even among leading organizations more transparency is needed to be responsive to stakeholder feedback. **Alarmingly, 3,341 organizations indicated that their strategy has been influenced by climate, but they do not intend to develop a 1.5°C climate transition plan**. However, it is encouraging to see that 6,520 organizations reported that they are developing a climate transition plan within two years. We expect to see significant improvement in the quantity and quality of transition plans over the coming years.

Over 28% of all disclosing organizations in the power generation industry reported developing a public climate transition plan with a shareholder feedback mechanism in place, the highest of any industry. This represents a promising trend from one of the most important industries to lead the climate transition. Similarly, 26% of all disclosing financial institutions reported developing a public climate transition plan with shareholder feedback mechanisms in place, signaling strong ambition from an industry with great influence over the whole economy's transition. Conversely, manufacturing, services, food & beverage, hospitality, and biotechnology are lagging with less than 9% of disclosing organizations in these industries reporting a public climate transition plan with shareholder feedback mechanisms in place.

In 2022, 5,552 organizations disclosed that climate issues have influenced (or that evaluation was in progress) their supply chain and/or value chain, products and services, operations, and investment in research & development (R&D). Of these, less than half also reported developing a climate transition plan aligned to a 1.5°C world, and only 1,307 of these are publicly available with shareholder feedback mechanisms in place. This suggests that many organizations have not yet developed a climate transition plan that will demonstrate to capital markets, customers, and other stakeholders how they plan to mitigate climate risks and realize opportunities of aligning with a 1.5°C world. **This represents a gap of 444 organizations that do not support their climate transition plan with robust disclosure on how it will impact each aspect of their business strategy.**

2. This statistic references data which was extracted from the CDP platform, as of 18 October 2022.

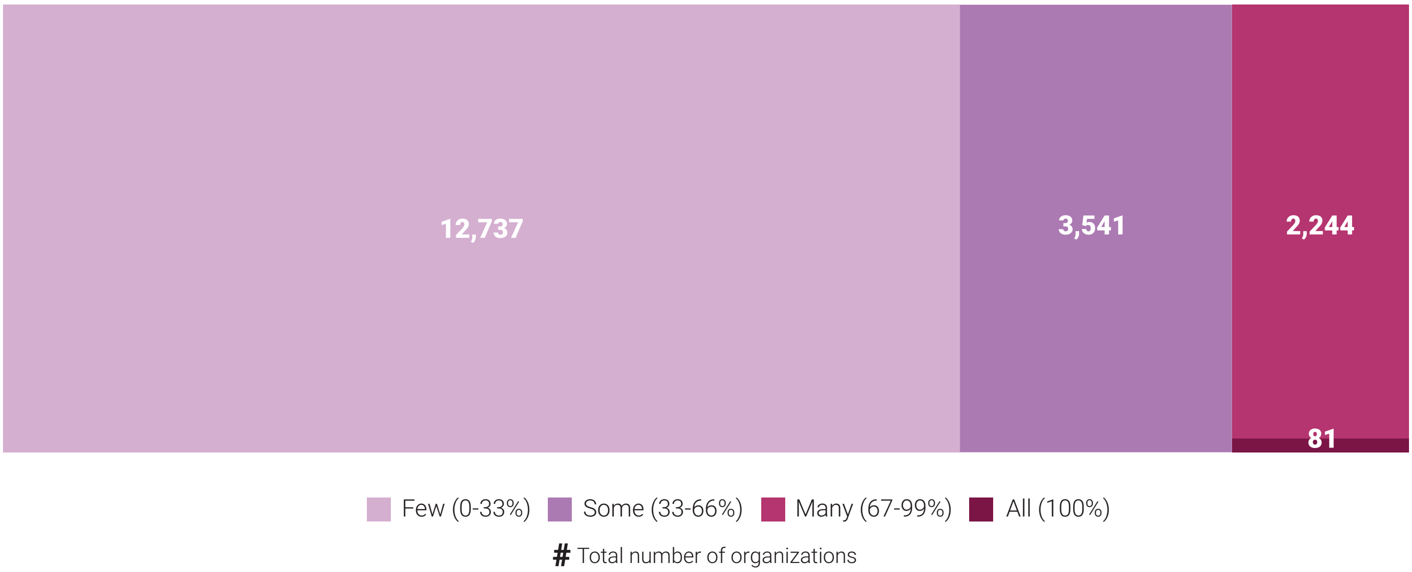
Summary of disclosure to all key indicators

Along its sustainability journey, an organization will typically set emissions reduction targets, commit to monitoring its progress on climate, and reduce its exposure to climate-related risks. Over the past 20 years, CDP has played a transformational role in driving disclosure and action from businesses, capital markets, cities, and governments around the world – through its disclosure platform and scoring methodology. Further to these actions, a climate transition plan serves as a strategic planning instrument that helps organizations align their various climate actions. An organization should disclose sufficient details to all 21 key climate transition-focused indicators to demonstrate the robustness and credibility of its climate transition plan and track the progress of its transition to a 1.5°C world.

Although this level of disclosure is critical, many organizations are failing to disclose to all the key indicators. **12.6% of the organizations reporting through CDP have many elements of a credible climate transition plan, however only 81 (0.4%) of them disclosed sufficient detail to all key indicators.** Whilst over 4,100 organizations disclosed that they had developed a 1.5°C-aligned climate transition plan, only a small minority of these are demonstrating through their disclosure, that they have a credible plan in place. With a 40% increase in overall disclosure when compared to the 2021 disclosure cycle, it is rational to expect the new organizations to be at the start of their transition journey and therefore not yet have a credible climate transition plan. Going forward, as these disclosures and their implementation mature, we expect their quality to also improve. CDP regularly raise the bar for what qualifies as environmental leadership in line with emerging science, feedback from stakeholders, and market needs for greater environmental transparency. This is evidenced by the reduction seen in the number of organizations who disclosed against all the key indicators in the climate change questionnaire (135 in 2021). This reduction is due to more stringent criteria on 1.5°C alignment from companies.

Distribution of disclosure to all 21 key indicators

Figure 1. 2022 disclosure to climate transition plan indicators – by disclosure tier



Organizations have been categorized into four tiers, based on their level of credible disclosure against the 21 key indicators – please see Appendix for a detailed breakdown of these relevant tiers. The 'few' tier represents organizations that have disclosed against up to 33% of the key indicators, the 'some' tier represents organizations in the 34%-66% range, the 'many' tier represents organizations in the 67%-99% range and the 'all' tier represents organizations who disclosed to 100% of the key indicators of a credible climate transition plan.

The largest proportion of all disclosing organizations fall within the 'few' tier, representing 68% of all organizations that disclosed through the climate change questionnaire in 2022. The 'few' tier is followed by the 'some' tier with 19% of disclosing organizations falling within this tier. Combined, these bottom two tiers represent 87% of all disclosing organizations, demonstrating that a large group of disclosers are failing to disclose to many or all of the transition-relevant indicators. **This leaves 13% of organizations that disclose to many of the climate transition plan indicators and 0.44% disclosing to all indicators.** Most organizations have a long way to go to improve transition-relevant disclosures in their CDP climate change response.

Organizations that disclosed that they have developed a public 1.5°C-aligned climate transition plan with defined shareholder feedback mechanisms predominantly disclosed to many indicators of a credible climate transition plan, with 949 organizations disclosing within this tier.

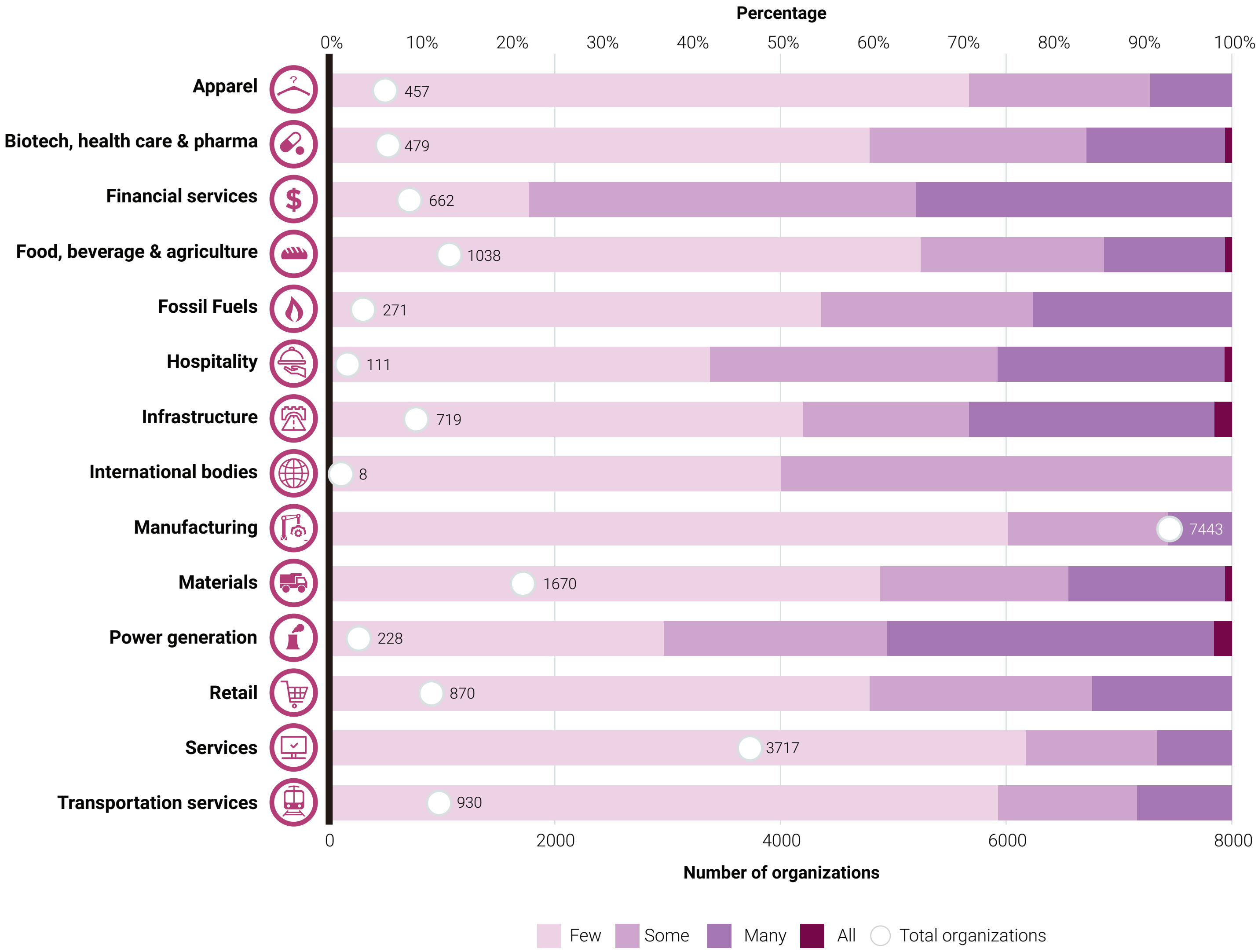
Industry Trends

Summary of industry trends

The top industries that made up the 81 organizations who reported against all key indicators include: services, manufacturing, materials, and infrastructure. Influential organizations in high-emitting industries are not changing their business models fast enough. This risks making global targets unachievable unless they accelerate their rate of change.

To better understand climate transition plan disclosure performance across various industries, CDP analyzed overall industry disclosures.

Figure 2. Industry breakdown across disclosure tier - climate transition plan indicators



Power generation and infrastructure had the highest disclosure rate[3] with 2.2% and 1.7% of all organizations in each of these industries disclosing to all 21 key indicators of a credible climate transition plan. This demonstrates a significant gap within all industries. Apparel, fossil fuels and hospitality had the poorest rate of disclosure with only one organization in each of these industries disclosing to all key indicators.

However, there are some promising trends. The industries with the strongest disclosure rates to many or all of the key indicators were power generation with 38% and financial services with 35%. It is critical that power generation organizations and financial institutions continue to develop more robust and credible climate transition plan disclosures in order to facilitate and finance a transparent climate transition.

To negate the risk of not meeting our global climate ambitions, more pressure needs to be applied to organizations in the fossil fuels industry. In 2021, fossil fuels were among financial services and power generation as the leading industries in climate transition plan disclosure with 5% of organizations in their industry disclosing to all key indicators. However, the decrease in transparency from fossil fuel organizations (now with only one organization disclosing to all key indicators) in this year's analysis is concerning, as they are falling behind key value chain partners (power generation and financial services). With global energy demand expected to rise by population and economic growth particularly in developing economies, it is vital that there is an increase in disclosure to help mitigate the transition being derailed in an attempt to meet increased energy demand.

3. Disclosure rate = Total number of disclosures in the threshold as a proportion of total disclosure (across all thresholds), per industry.

Geography Trends

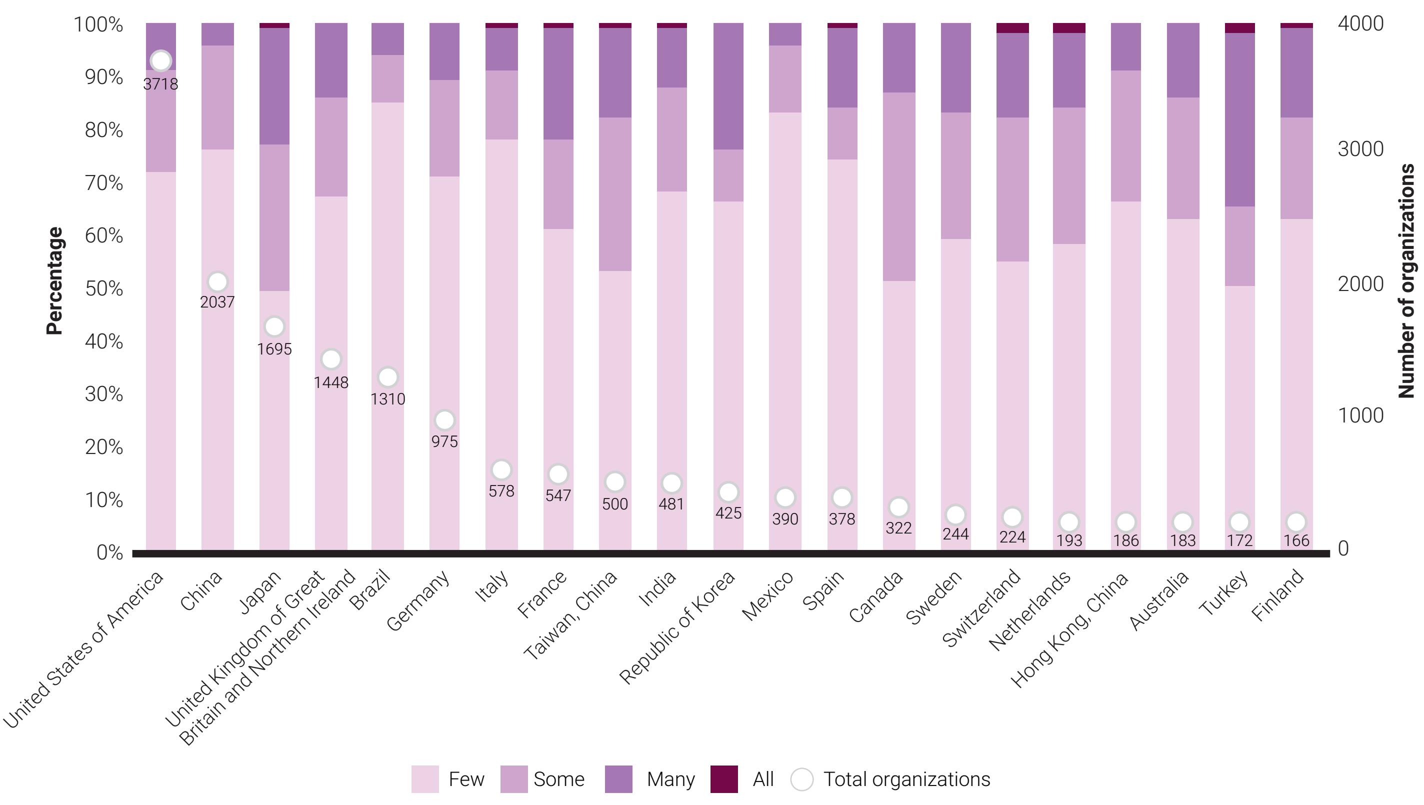
We recognize the complexity of assessing regional disclosures, hence this section of the report does not present any analysis on the underlying factors/broader implications of the trends identified from this regional assessment.

Summary of geography trends

Organizations headquartered in over 135 countries disclosed through CDP in 2022. **When evaluated for disclosure to all key indicators of a credible climate transition plan, Japan was the leader with 16 organizations.** Japan was also the leading country in the 2021 assessment of the disclosure of credible climate transition plans.

Please see Figure 3, below, for a regional breakdown of disclosure performance to the key climate transition plan indicators.

Figure 3. Disclosure performance, by country/region (Top 20)



G20 narrative

According to The Climate Transparency 2022 Report, the G20 is responsible for approximately 75% of GHG emissions. In 2022, research found that energy emissions rebounded 5.9% to above pre-pandemic levels. To prevent the global temperature rising above 1.5°C and halve emissions by 2030, the G20 has an important role to play. Worryingly, no organizations from countries in the G20 other than Portugal, had a disclosure rate higher than 2% when assessed for disclosure to all 21 key indicators. Several organizations from countries such as Canada and China had no disclosures meet the criteria on all key indicators. However there are more encouraging signs when looking at disclosure to many (14 - 20) of the key indicators. Please see the Appendix for total regional disclosure (and tier breakdown).

UK

Given that the UK government will be making disclosure of transition plans for publicly listed organizations and financial institutions mandatory in 2023[4], a marked increase in UK climate transition plan disclosure is expected. **Out of the 1,448 UK organization that disclosed through CDP in 2022, 28% (404) reported having developed a 1.5°C-aligned climate transition plan.** Of these 404 organizations, six disclosed to all 21 key indicators. 15% (212) of all UK organizations disclosed to many of the key indicators. Concerningly, most UK organizations (960) were in the few threshold, having disclosed to less than a third of the key indicators.

CDP has worked and continues to collaborate with the UK TPT in its mandate to establish best practice for firm-level transition plans. CDP's research, data and disclosure guidance aims to support the UK TPT's ambition to help UK organizations and financial institutions to improve the quality of transition plan disclosure.

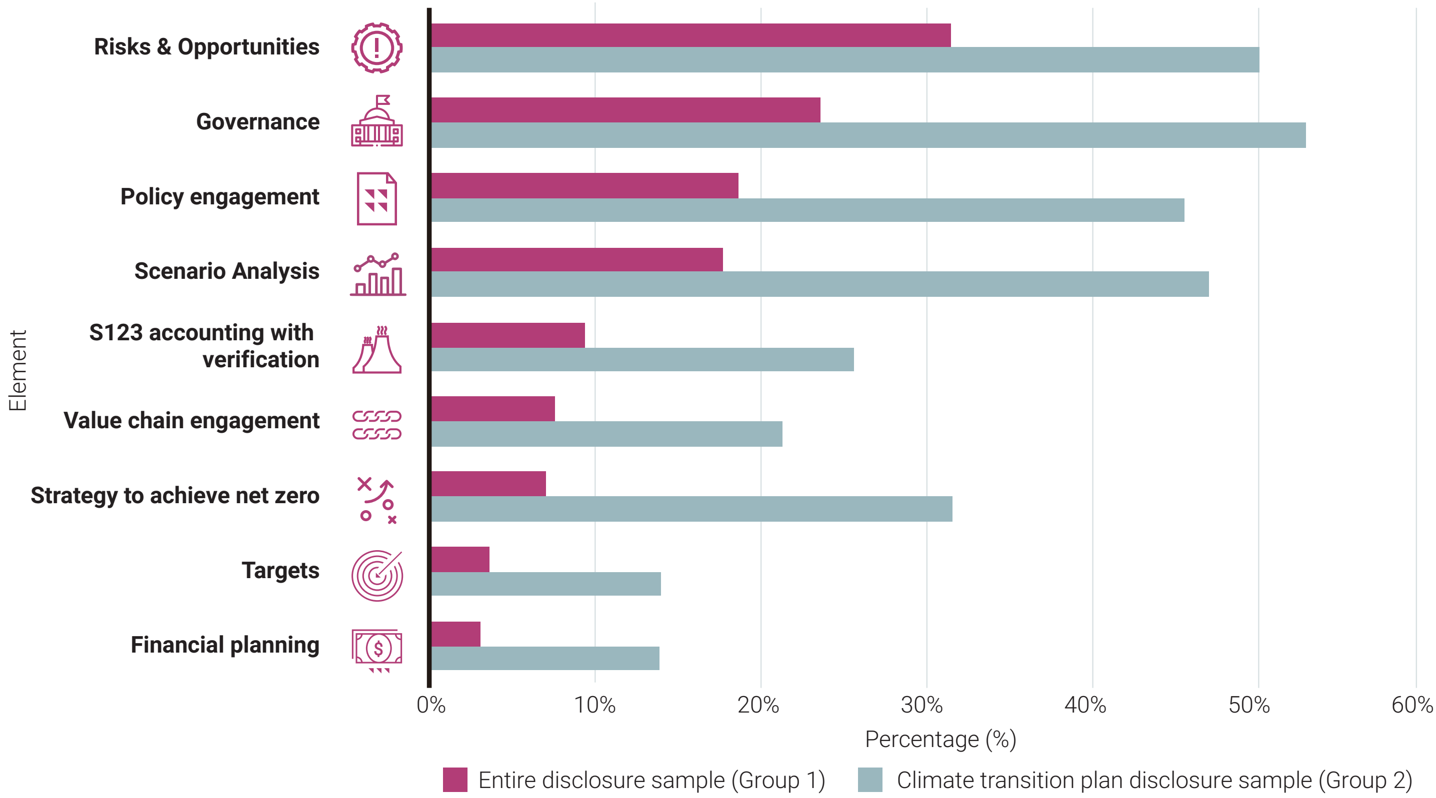
4. From 2023 – 2024, the Financial Conduct Authority (FCA) plans to consult on changes to its Listing Rules to reference ISSB standards, expected to be adopted in the UK once finalized. The FCA intends on considering UK TPT outputs as a basis to strengthen its transition plan disclosure expectations of listed companies, asset managers and FCA-regulated asset owners.

Element-level trends

Figure 4 shows the percentage of all disclosing organizations that disclosed sufficient detail for each individual element of a credible climate transition plan. The chart compares disclosure trends using two groups:

- **Group 1** – Entire disclosure group: The 18,600 + organizations who disclosed through the climate change questionnaire in 2022
- **Group 2** – Climate transition plan disclosure group: The 4,100 organizations who reported to have developed a 1.5°C-aligned climate transition plan

Figure 4 – Disclosure to the climate transition plan elements



Although there may be unique cases, the trend of disclosure and implementation of a credible climate transition plan follows a journey which is initiated by identification of risks & opportunities, establishment of governance structures to guide progress of the transition, strategizing through robust scenario analysis, implementation of a plan by setting science-based targets (SBTs) and establishment of resources (financial and otherwise) to achieve set targets. This should be continually validated by an ongoing audit of the plan's performance.

This journey is consistent with the data assessed in this report as **more than a third of the disclosing organizations met the disclosure criteria for the risks & opportunities element of a credible climate transition plan – this was followed closely by the governance element (24%) and the policy engagement element (19%).**

In contrast, financial planning, targets, and strategy to achieve net-zero were the poorest performing elements of a credible climate transition plan with 3%, 4% and 7% of organizations meeting the disclosure criteria in these respective elements. It is essential that disclosure to each element increases at pace.

The following sub-section demonstrates the progression along this journey and further analyzes the disclosures within each individual element:

Risks & opportunities

A climate transition plan should outline an organization's process for minimizing identified climate-related risks and maximizing climate-related opportunities. Organizations should disclose any identified climate-related risks and/or opportunities with the potential to have financial or strategic impact on their business and their plans to manage them. Where these risks or opportunities have not been identified organizations should disclose why they consider their business to not be exposed to these climate-related risks and/or opportunities.

Disclosure of potential climate-related risks or, where appropriate, disclosure of a reason for why risks have not been identified was strong with 40% of organizations disclosing sufficient detail. Disclosure of potential climate-related opportunities, or where appropriate, disclosure of a reason for why opportunities have not been identified was slightly stronger with 42% of organizations disclosing sufficient detail.

For organizations to disclose sufficiently to this element, they should disclose on both their risk and opportunities management processes. **It is encouraging that 32% of disclosing organizations disclosed sufficient detail of their process for managing risks and realizing opportunities.** In contrast, only 6% of organizations that disclosed that they have a 1.5°C climate transition plan with a defined shareholder feedback mechanism also disclosed sufficient detail of their risk and opportunities management processes.

It is essential that organizations disclose their risk and opportunities management process, and that any climate transition plan manages risks and plans to realize opportunities if they have been identified. A climate transition plan demonstrates how an organization plans to continue to be relevant (i.e., profitable) in a 1.5°C-aligned world. The risk and opportunities element of a credible climate transition plan is where an organization can demonstrate this business-related planning element.

Governance

Good governance means an organization has board-level oversight on the climate transition plan and that there are defined governance mechanisms in place to ensure implementation of the plan. **Over one-third of all disclosing organizations reported having board-level oversight of climate transition plans.** Additionally, more than one-quarter of disclosing organizations reported having incentives in place for the management of climate related issues. Less than a quarter of disclosing organizations have both board-level oversight and incentives in place.

When examining these governance indicators among organizations that reported having a public 1.5°C-aligned climate transition plan with shareholder feedback mechanisms in place, more than 68% also have board-level oversight and offer incentives. While most organizations with strong climate transition plans report having these governance practices in place, there are many organizations that need to improve their governance. Similarly, organizations without climate transition plans are less likely to have robust governance practices in place. The data suggests that organizations with climate transition plans tend to have better governance practices than organizations without climate transition plans.

Scenario analysis

A climate transition plan should be underpinned by robust scenario analysis — to identify potential substantive climate-related risks and opportunities, enhance critical strategic thinking, and help an organization understand how it might perform in different future states. **Of the 18,600+ organizations that disclosed in 2022, just 3,315 organizations disclosed a robust scenario analysis process.** Of the 1,751 organizations that reported a public 1.5°C-aligned climate transition plan with a defined shareholder feedback mechanism in place, about 63% (1,111 organizations) also disclosed details which demonstrate robust scenario analysis. It is critical that organizations engaged in climate transition planning implement scenario analysis as an important strategic planning tool. To learn more about scenario analysis and best practices for disclosure, see CDP's Technical Note on Scenario Analysis.

Targets

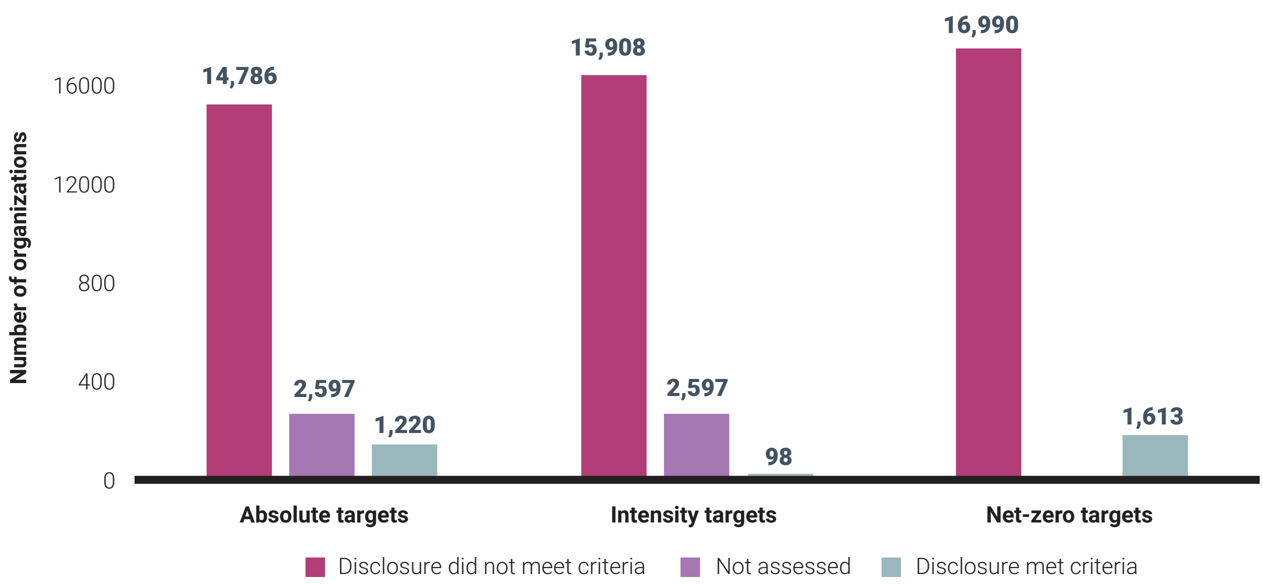
SBTs are a vital part of a credible climate transition plan. A climate transition plan should contain time-bound, and where possible, verified SBTs which are in line with the latest climate science. Organizations should set near-term SBTs to halve emissions by 2030 and should also set a net-zero long-term target – by 2050 at the latest. CDP assessed disclosed targets and investigated three key indicators: **(1)** absolute targets, **(2)** intensity targets, and **(3)** net-zero targets. For analysis of this element, there were 2,597 organizations that could not be assessed this year – please see Appendix for more detail.

For analysis of this element, two assessment routes were considered:

- **SBTi route:** This assessment route aligns with the underlying methodology of the Science Based Targets initiative (SBTi) for setting credible science-based targets.
- **CDP route:** For organizations who do not have SBTi validation, CDP offers an alternative way to assess leadership within disclosure of targets. For more information, please see here.

Of the three target indicators assessed within this element, reported net-zero targets met the disclosure criteria most, followed by absolute targets, and then intensity targets – see Figure 5, below.

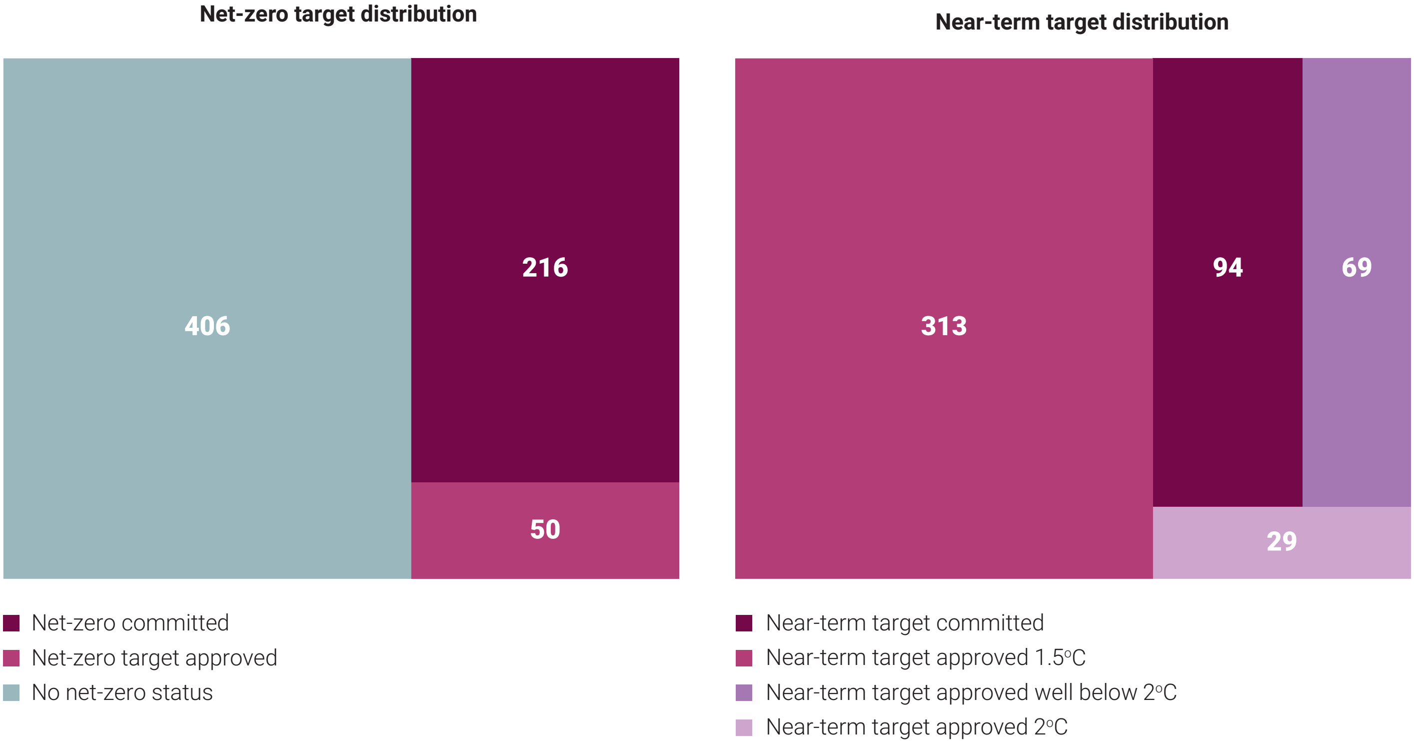
Figure 5 – Distribution of disclosed targets data



672 organizations met the disclosure requirement for targets i.e., these organizations credibly disclosed either an absolute or intensity target and a net-zero target, amounting to 4% of the total sample. Over half of these organizations (384) also disclosed that they have a 1.5°C transition plan with a defined shareholder feedback mechanism. Although organizations may disclose that they have ambitious emissions reduction targets via other means, CDP views the SBTi as the gold standard for setting credible SBTs. This is because the SBTi follows an independent, rigorous, verified and science-aligned process aimed at driving ambitious climate action in the private industry.

Of the 672 organizations that met the disclosure criteria for the targets element, three-quarters of them have some level of SBTi status - see Figure 6 for distribution of these SBTi targets.

Figure 6 – Breakdown of SBTi status amongst 672 organizations who met the disclosure criteria for credible targets element level disclosure



Out of the 672 organizations, 313 of them have a 1.5°C SBTi approved near-term target, with 50 of these also having an SBTi net-zero approved target. The data highlights a discrepancy between the number of disclosed targets and transition plans in general. Even though organizations demonstrate that they have science-based targets, the data suggests that this is not always supported by a credible climate transition plan demonstrating how they will achieve them.

Financial planning

As part of its strategy to pivot to a 1.5°C-aligned world, an organization should outline time-bound financial planning details required to achieve its climate transition. **35% of organizations disclosed broad details on how climate issues have impacted their financial planning.** Stakeholder demand is rapidly increasing for transparent and granular reporting on Capital Expenditure (CAPEX) and other financial planning details. All emerging transition plan frameworks recommend organizations to disclose financial planning information to report on the impacts of climate-related risks and opportunities on their business and strategy.

In 2022, CDP introduced a new question to collect granular, forward-looking information on Revenue, CAPEX, Operating Expenditure (OPEX), or other financial metrics in alignment with the transition to 1.5°C for the reporting year and planned for 2025 and 2030[5]. **Only 581 organizations (just over 3%) provided financial figures AND a methodology explaining the estimation used to calculate any reported financial metric.** Approximately 407 of these organizations with strong financial planning disclosure also reported a public 1.5°C-aligned climate transition plan with feedback shareholder mechanisms in place. This demonstrates that many (approximatley 174) organizations that reported having developed a 1.5°C-aligned climate transition plan are in fact missing this essential aspect of credible climate transition plan disclosure.

Disclosure to the financial planning element was the weakest with on average 3% of organizations disclosing sufficiently to these indicators across the entire disclosure sample. Yet nearly 15% of organizations in the power generation industry provided robust disclosures on the current and future planned financial planning in alignment with their 1.5°C climate transition plan, the most of any industry. This is a promising trend from an important industry. From all other industries, less than 8% of organizations disclosed these details, and manufacturing and services industry disclosure rate was 2%.

5. In 2021, only organizations in certain high-emitting sectors were requested to report on industry-specific questions regarding CAPEX plans or investment in R&D.

Value chain engagement & low carbon initiatives

A climate transition plan should include time-bound actions to decarbonize business processes (and those of its value chain), with time-bound KPIs. This includes three distinct elements: **(1)** value chain engagement; **(2)** increasing share of revenue from low-carbon products and services; and **(3)** implementing emissions reduction initiatives for its direct and indirect operations. The key indicators assessed within this element include the disclosure of supply chain engagement strategy and the disclosure of details and revenue from low-carbon products and/or services.

Value chain engagement enables an organization to effectively transition across its wider operations and drive down emissions that are located within its value chain. Whilst such actions are essential to any credible transition and central to a credible climate transition plan, organizations disproportionately failed to disclose details of their supply chain engagement strategy. **Only 16% of organizations disclosed details on their supply chain engagement strategy,** which requires organizations to disclose the type of engagement, description of the impact, percentage of coverage over supplies and procurement spend, and a rationale for engagement.

Driving down emissions within an organization's direct operations through increasing the portfolio of low-carbon products and/or services is another feature of this element. Organizations should disclose the percentage of revenue they receive from their low-carbon products and/or services and elaborate with a comment. **Only 11% of disclosing organizations disclosed sufficient details on their low-carbon products and/or services.** Discouragingly, fewer organizations disclosed details on their products and/or services than supply chain engagement strategies.

Disclosure of this element was particularly poor. **Organizations that disclosed details on both their supply chain engagement and low-carbon products and/or services only represent 8% of the entire disclosures to the climate change questionnaire in 2022.** Similarly, only 3% of those organizations that disclosed that they have a public 1.5°C-aligned climate transition plan with a defined shareholder feedback mechanism in place, disclosed details on both their supply chain engagement and low-carbon products and/or services, more work is needed.

Policy engagement

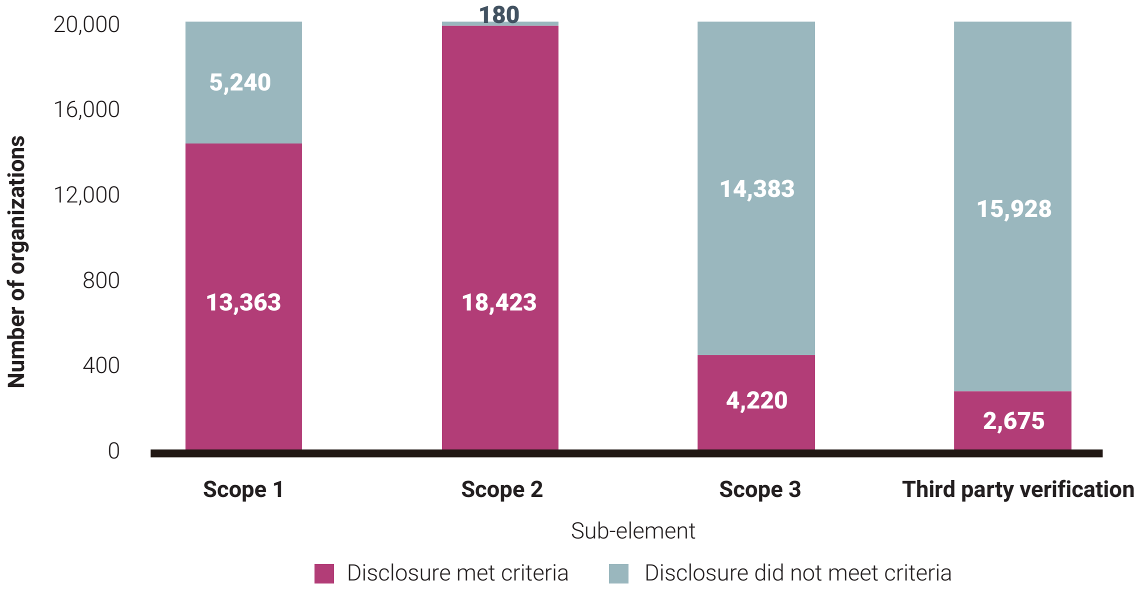
A climate transition plan should demonstrate that an organization's public policy engagement aligns with its climate ambition and strategy. Any existing or planned engagement should contribute toward creating an accommodative policy environment with climate-positive policies that support an organizational and an economy-wide transition.

Organizations should disclose whether their engagement activities are in line with the Paris Agreement and details on their processes in place to ensure engagement activities are consistent with their overall climate change strategy. 19% of organizations disclosed such details on their policy engagement including an explanation of why such direct or indirect engagements were not taking place. Concurrently, **81% of organizations disclosing via the 2022 climate change questionnaire failed to disclose sufficient details of their policy engagement.** Most organizations that disclosed that they have a 1.5°C climate transition plan with a defined shareholder feedback mechanism were not transparent with their policy disclosure, with only 6% disclosing sufficient detail of this crucial element of credible climate transition plans.

Scope 1, 2 and 3 accounting with verification

A climate transition plan should be accompanied by an annual Scope 1, 2 and 3 emissions inventory that is complete, accurate, transparent, consistent, relevant, and verified by a third-party. In this year's analysis, we assessed the disclosure of indicators within this element and identified that of all three scopes of emissions reported, Scope 2 disclosures most met the disclosure criteria (99%), followed by Scope 1 (71%) and Scope 3 (22%) - see Figure 7, below:

Figure 7 – Scope 1, 2 and 3 accounting with verification



As you cannot manage what you do not measure, a robust emissions inventory with third party verification is the bedrock of the transition journey and the foundation of setting science-based targets which underpin a credible climate transition plan. Of the entire group assessed, 1,750 organizations met the disclosure criteria for this element i.e., these organizations disclosed robustly to all three scopes of emissions and reported the existence of a credible third-party verification system. Interestingly, the data shows that **of the 4,101 organizations who reported to have developed a climate transition plan, less than half (approximately 43%) of them had a credible and third party verified emissions inventory, which accompanied their plan.** Although this element is not a direct indicator of climate transition plans, credible climate transition plans must be accompanied by robust and complete disclosure of GHG emissions to track progress.

Conclusion

With only 0.4% of all disclosing organizations reporting details of a credible climate transition plan, it is clear that better quality disclosure is needed, but pivoting towards a 1.5°C-aligned trajectory is a journey. This report shows encouraging signs and interest in the uptake of climate transition plans from various stakeholders and organizations.

Over 30% of all disclosing organizations reported that they intend on developing a 1.5°C-aligned climate transition plan in the next two years. There are encouraging signs that signal a substantial number of organizations are on the journey to improve their transition-relevant disclosure. Further, with a rapidly evolving regulatory landscape seen across the UK, the EU and the US, forthcoming legislation on transition plans will be a key driver of increased (and improved) climate transition plan disclosure.

It should be emphasized that although there were only 81 organizations who met the criteria for all the indicators of a credible climate transition plan in this year's assessment, there was also a subset of over 2,000 organizations who reported to many (14–20) of the key climate transition plan indicators. CDP recognizes that climate transition plans are a vital mechanism for transition to a 1.5°C-aligned world. This is why transition planning features in the CDP 2021–2025 strategy, placing transparency and accountability at its heart. CDP's disclosure platform, disclosure guidance and thematic research seeks to incentivize the disclosure of credible climate transition plans as they catalyze ambition from disclosure & oversight to action plan.

Appendix

Assessment methodology & key transition-focused indicators in the 2022 climate change questionnaire

Climate transition plan element	CDP 2022 climate change question and question code	Relevance to climate transition plans	Assessment methodology
Governance	(C1.1b) Provide further details on the board's oversight of climate-related issues.	An organization should have board-level oversight of its climate transition plan with defined governance mechanisms in place to ensure delivery of the plan. Climate issues should be a scheduled item at all or some board meetings.	Organization discloses the frequency with which climate-related issues are a scheduled agenda item, the governance mechanisms into which climate issues are integrated and elaborate with an explanation.
	(C1.3a) Provide further details on the incentives provided for the management of climate related issues.	To incentivize conscious action and commitment in realizing the plan's goals, it is recommended that executive management incentives are aligned with the organization's climate transition plan goals.	Organization discloses who is entitled to the incentives, the type of incentive and the activity incentivized, and elaborated with a comment.
Scenario analysis	(C3.2a) Provide details of your organization's use of climate-related scenario analysis.	Robust scenario analysis is an important strategic planning tool that can be used to inform the development of a climate transition plan.	Organization discloses on its use of climate-related scenario analysis, scenario analysis coverage, temperature alignment of scenario, parameters, assumptions, and analytical choices.
Financial planning	(C3.4) Describe where and how climate-related risks and opportunities have influenced your financial planning.	Financial planning is crucial when demonstrating that an organization is aligning with climate goals (as elaborated in its climate transition plan), and that it will be relevant (i.e., profitable) in a 1.5°C-aligned world. Climate transition plans should include a demonstration of how they have aligned/intend to align their financial planning with their climate transition plan in the reporting year and at milestone years '2025' and '2030'. Financial details may describe revenue, CAPEX, and/or OPEX projections which are crucial for realizing the plan's ambition.	Organization reports on at least one area of its financial planning that has been influenced by climate and describes its influences.
	(C3.5a) Quantify the percentage share of your spending/revenue that is aligned with your organization's transition to a 1.5°C-aligned world.		Organization must select at least one financial metric and disclose the percentage share of the selected financial metric which is aligned with a 1.5°C world in the reporting year, 2025, 2030 and description of methodology used to identify spending/revenue that is aligned with a 1.5°C world.
Value chain engagement & low carbon initiatives	(C12.1a) Provide details of your climate-related supplier engagement strategy.	Organizations are facing resiliency risks in the value chain that have material environmental and financial implications; hence, value chain engagement plays a significant role in realizing a climate transition plan. Organizations with significant emissions in their supply chain can leverage their buyer power and engage their suppliers towards a 1.5°C-aligned transition. A climate transition plan should include time-bound actions to decarbonize business processes within the value chain, including supply chain engagement that covers at least 25% of its suppliers by procurement spend or Scope 3 emissions.	Organization discloses the type of supplier engagement, details of the engagement, a description of the impact of the engagement, including measures of success, a figure in both the % of suppliers by number and % of procurement spend, and a rationale for the cover of its engagement.
	(C4.5a) Provide details of your products and/ or services that you classify as low-carbon products or that enable a third party to avoid GHG emissions.	A climate transition plan should include time-bound actions to decarbonize business processes, such as growing the revenue earned from its products and services portfolio.	Organization discloses details of its low-carbon products and services, as well as a non-zero figure for the % revenue from that product in the reporting year and elaborate with a comment.

Climate transition plan element	CDP 2022 climate change question and question code	Relevance to climate transition plans	Assessment methodology
Policy engagement	(C12.3) Does your organization engage in activities that could either directly or indirectly influence policy, law, or regulation that may impact the climate?	For many organizations, a successful climate transition will depend on an accommodative policy landscape, thus organizations should advocate for climate-positive policies that impact their relevant industry(s). A climate transition plan should demonstrate that an organization's public policy engagement aligns with its climate ambitions and strategy.	Organization should disclose whether it has a direct or indirect engagement that could influence policy, law, or regulation that may impact climate, whether it has a public commitment or position statement to conduct its engagement activities in line with the goals of the Paris Agreement, describe the process(es) it has in place to ensure that its engagement activities are consistent with its overall climate change strategy and where relevant, a reason (and explanation) for not engaging in activities that could directly or indirectly influence policy, law, or regulation that may impact the climate.
Strategy	(C3.1) Does your organization's strategy include a transition plan that aligns with a 1.5°C world?	Developing a climate transition plan provides certainty to data users that a company is aligning to the long-term climate goals and that its business model will continue to be relevant in a net-zero carbon economy. Collecting feedback on the transition plan allows shareholders to review and raise resolutions related to progress.	Organization discloses that it has a publicly available 1.5°C climate transition plan with a well-defined feedback mechanism in place, to track progress.
	(C3.3) Describe where and how climate-related risks and opportunities have influenced your strategy.	A climate transition plan should outline how an organization will achieve its strategy to pivot its products and services, supply/value chain, investment in R&D, and operations to a 1.5°C-aligned world.	Organization describes how climate has influenced, has not influenced, or how they are considering climate's influence to their products and services, investment in R&D, operations, and supply/value chain.
Risks & opportunities	(C2.3a) Provide details of risks identified with the potential to have a substantive financial or strategic impact on your business. (C2.3b) Why do you not consider your organization to be exposed to climate-related risks with the potential to have a substantive financial or strategic impact on your business?	Disclosing details of material climate risks posed to an organization, including the potential financial impact and the cost to respond to these risks, indicates a robust climate transition plan is in place.	Organization reports details of at least one climate-related risk identified, including the potential financial impact and cost to respond to the risk. However, if an organization has not disclosed to C2.3a, it must have disclosed to C2.3b, by providing an explanation why it does not consider itself to be exposed to climate related risks with the potential to have a substantive financial or strategic impact on its business.
	(C2.4a) Provide details of opportunities identified with the potential to have a substantive financial or strategic impact on your business. (C2.4b) Why do you not consider your organization to have climate-related opportunities?	Disclosing details of material climate opportunities posed to an organization, including the potential financial impact and the cost to realize these opportunities, indicates a robust transition plan is in place.	Organization reports details of at least one climate-related opportunity identified, including the potential financial impact and cost to realize the opportunity. However, if an organization has not disclosed to C2.4a, it must have disclosed to C2.4b, by providing an explanation why it does not consider itself to be exposed to climate related risks with the potential to have a substantive financial or strategic impact on its business.

Climate transition plan element	CDP 2022 climate change question and question code	Relevance to climate transition plans	Assessment methodology
Targets	(C4.1a) Provide details of your absolute emissions targets and progress made against those targets. (C4.1b) Provide details of your emissions intensity target(s) and progress made against those target(s).	A climate transition plan should be underpinned by ambitious near-and long-term science-based targets which are in line with the latest climate science to achieve a 1.5°C-aligned world.	The criteria for credible targets disclosure within a credible climate transition plan require an organization to disclose: (1) its target to have a science-based status, (2) details on intensity or absolute emissions targets (3) that it has a 1.5°C-aligned target. For this year's assessment, we leveraged the CDP scoring methodology and resultantly, 2,597 organizations could not be assessed for several operational reasons such as: Late submissions, minimum tier responses with Investor request only, HQ in Russian Federation/Belarus, Forests only - Coal OR Metals & mining companies, Forests only - didn't respond to any commodity, Unpaid administration fees.
	(C4.2c) Provide details of your net-zero target(s).	A climate transition plan should aim to achieve science-based net-zero targets in line with the latest climate science to achieve a 1.5°C-aligned world by 2050 at the latest.	Organization reports on whether it is reporting a net-zero target, whether it is science based – and if so, it also reports details on its net-zero target.
Scope 1,2,3 Accounting with verification	(C6.1) What were your organization's gross global Scope 1 emissions in indicator tons CO2e?	A climate transition plan should be accompanied by a complete, accurate, transparent, consistent, and relevant inventory of all three scopes of emissions. Organizations should calculate and disclose all material categories of Scope 3 and provide an explanation for categories that are not relevant.	Organization discloses a figure for its Scope 1 emissions.
	(C6.3) What were your organization's gross global Scope 2 emissions in indicator tons CO2e?		Organization discloses a figure for its Scope 2 location-based or market-based emissions.
	(C6.5) Account for your organization's gross global Scope 3 emissions, disclosing and explaining any exclusions.		For each category of Scope 3 emissions, the organization discloses a figure for any "relevant, calculated" or "not relevant, calculated" categories, or provides an explanation for any categories "not relevant, explanation provided".
	(C10.1) Indicate the verification/ assurance status that applies to your reported emissions.	A climate transition plan should be accompanied by a complete annual inventory Scope 1, 2, & 3 emissions that is verified by a third party.	Organization reports verification is in place for its Scope 1, 2, and 3 emissions.

Threshold breakdown

Name	Threshold	Meaning
All	100%	Organizations in this tier disclosed to all 21 key indicators of a credible climate transition plan.
Many	67 - 99%	Organizations in this tier disclosed between 14 and 20 of the key indicators which comprise a credible climate transition plan.
Some	34 – 66%	Organizations in this tier disclosed between 7 and 13 of the key indicators which comprise a credible climate transition plan.
Few	0 – 33%	Organizations in this tier disclosed less than 7 of the 21 key indicators which comprise a credible climate transition plan.

Total industry disclosure (and threshold breakdown)

	TIERS				
Industry	Few	Some	Many	All	Total
Apparel	324	91	41	1	**457**
Biotech, health care & pharma	285	116	75	3	**479**
Financial services	143	284	233	2	**662**
Food, beverage & agriculture	678	211	143	6	**1,038**
Fossil fuels	147	64	59	1	**271**
Hospitality	47	35	28	1	**111**
Infrastructure	377	135	195	12	**719**
International bodies	4	4			**8**
Manufacturing	5,571	1,304	553	15	**7,443**
Materials	1,019	350	288	13	**1,670**
Power generation	84	57	82	5	**228**
Retail	519	214	133	4	**870**
Services	2,854	533	314	16	**3,717**
Transportation services	685	143	100	2	**930**
Grand total	**12,737**	**3541**	**2244**	**81**	**18,603**

Total country/region disclosure (and tier breakdown)

Country/region	Few	Some	Many	All	Total
United States	2,678	705	330	5	**3,718**
China	1532	416	89		**2,037**
Japan	835	467	377	16	**1,695**
United Kingdom	960	276	206	6	**1,448**
Brazil	1,114	118	77	1	**1,310**
Germany	700	171	103	1	**975**
Italy	447	78	49	4	**578**
France	335	91	116	5	**547**
Taiwan, China	266	143	87	4	**500**
India	328	95	53	5	**481**
Republic of Korea	278	44	101	2	**425**
Mexico	324	50	15	1	**390**
Spain	279	38	56	5	**378**
Canada	166	115	41		**322**
Sweden	143	59	41	1	**244**
Switzerland	123	61	35	5	**224**
Netherlands	111	51	27	4	**193**
Hong Kong, China	123	47	16		**186**
Australia	114	43	26		**183**
Turkey	87	25	57	3	**172**
Finland	105	31	29	1	**166**
Denmark	109	30	21		**160**
Poland	98	30	1		**129**
Ireland	51	29	36		**116**
Singapore	77	20	13		**110**
Belgium	62	15	28	1	**106**
Norway	47	17	35	4	**103**
Austria	61	24	18		**103**
Indonesia	78	16	7		**101**
Malaysia	78	18	3		**99**
Thailand	65	13	17	2	**97**
South Africa	29	28	34		**91**
Argentina	64	8	1		**73**
Portugal	47	7	11	4	**69**
Colombia	53	7	7		**67**

Country/region	Few	Some	Many	All	Total
United Arab Emirates	50	9	3		**62**
Chile	34	2	8		**44**
Greece	24	11	7	1	**43**
Romania	39	4			**43**
Hungary	37	4	1		**42**
Saudi Arabia	37	3			**40**
New Zealand	14	12	13		**39**
Czechia	34	5			**39**
Viet Nam	33	2			**35**
Philippines	18	8	7		**33**
Israel	19	7	3		**29**
Ecuador	26	1	1		**28**
Egypt	22	5	1		**28**
Kuwait	24		1		**25**
Pakistan	16	7	1		**24**
Luxembourg	6	7	9		**22**
Slovenia	16	5			**21**
Russian Federation	5	8	7		**20**
Bangladesh	15	4			**19**
Slovakia	15	2	1		**18**
Qatar	17	1			**18**
Costa Rica	15		1		**16**
Peru	8	8			**16**
Kazakhstan	13	1	1		**15**
Nigeria	12	3			**15**
Lithuania	11	2	1		**14**
Bermuda	4	6	2		**12**
Oman	12				**12**
Uruguay	11	1			**12**
Guatemala	9	2			**11**
Trinidad and Tobago	11				**11**
Macao, China	9	1			**10**
Iraq	10				**10**
Algeria	8				**8**

Country/region	Few	Some	Many	All	Total
Estonia	6	2			8
Panama	7	1			8
Cayman Islands	3	2	2		7
Bulgaria	5	1	1		7
Sri Lanka	6		1		7
Croatia	7				7
Iceland	1	3	2		6
Guyana	5	1			6
Serbia	5	1			6
Kenya	4		1		5
Ukraine	5				5
(blank)	5				5
Dominican Republic	2	2			4
Ghana	4				4
Malta	1		2		3
Cyprus	2		1		3
Angola	3				3
Bolivia (Plurinational State of)	3				3
Cambodia	2	1			3
El Salvador	2	1			3
Honduras	3				3
Jersey	1	2			3
Jordan	3				3
Madagascar	3				3
Mauritius	1	2			3
Puerto Rico	3				3
Tunisia	2	1			3
Uganda	2	1			3
Morocco	1		1		2
Belarus	2				2
Georgia	2				2
Lebanon	2				2
Libya	2				2
Mauritania	2				2

Country/region	Few	Some	Many	All	Total
Nicaragua	2				2
Paraguay	2				2
Guernsey			1		1
Marshall Islands			1		1
Afghanistan	1				1
Åland Islands	1				1
Bahrain	1				1
British Virgin Islands	1				1
Brunei Darussalam	1				1
Cameroon	1				1
Congo	1				1
Côte d'Ivoire	1				1
Equatorial Guinea	1				1
Eritrea	1				1
Eswatini	1				1
Fiji	1				1
Greenland	1				1
Isle of Man		1			1
Jamaica	1				1
Monaco	1				1
Mongolia	1				1
Mozambique		1			1
Myanmar	1				1
Namibia	1				1
Norfolk Island	1				1
San Marino	1				1
Senegal	1				1
South Sudan	1				1
Turkmenistan	1				1
United Republic of Tanzania	1				1
United States Minor Outlying Islands		1			1
Yemen	1				1

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ABOUT CDP

CDP is a global non-profit that runs the world's environmental disclosure system for companies, cities, states and regions. Founded in 2000 and working with more than 680 financial institutions with over $130 trillion in assets, CDP pioneered using capital markets and corporate procurement to motivate companies to disclose their environmental impacts, and to reduce greenhouse gas emissions, safeguard water resources and protect forests. Nearly 20,000 organizations around the world disclosed data through CDP in 2022, including more than 18,700 companies worth 50% of global market capitalization, and over 1,100 cities, states and regions. Fully TCFD aligned, CDP holds the largest environmental database in the world, and CDP scores are widely used to drive investment and procurement decisions towards a zero carbon, sustainable and resilient economy. CDP is a founding member of the Science Based Targets initiative, We Mean Business Coalition, The Investor Agenda and the Net Zero Asset Managers initiative.

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