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Only 5% of FTSE 100 Have “Credible” Net Zero Plans, Says Report

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A new report by professional services firm EY has found that only 5% of FTSE 100 companies have disclosed “credible” and sufficiently detailed transition plans to become net zero by 2050.

EY’s analysis finds that while 78% of FTSE 100 firms have published partially developed net zero plans, they have not yet addressed key questions on strategy and execution. Additionally, 17% of FTSE 100 companies are still in the early stages of plan development. The report suggests that companies need to do more work before their published plans fully align with guidance from the UK’s Transition Plan Taskforce (TPT). The TPT was launched by the UK Treasury in April 2022 to develop the “gold standard” for private sector climate transition plans, building on “international disclosure standards.” Even among the 5% of companies that have disclosed detailed plans, many still have gaps across a range of areas such as financial planning or the publication of defined financial metrics and targets.

The TPT Framework outlines five key elements for creating a credible net zero transition plan: Foundation (objectives, priorities, interim targets and milestones); Implementation Strategy (a roadmap of short, medium and long-term actions to achieve stated objectives); Engagement Strategy (engagement with the company’s value chain for support and feedback); Metrics & Targets (disclose metrics and targets used to assess progress towards stated objectives); and Governance (disclose arrangements for board governance over the transition plan). FTSE 100 firms scored best (with a 78% adherence) on the initial Foundation stage in the TPT Framework, which requires companies to publish transition objectives and priorities, as well as implications for business modelling. However, FTSE 100 businesses scored weakest (11%) with respect to the TPT Framework’s Implementation Strategy element, which requires companies to disclose how they intend to adapt business planning and operations, as well as outline proposed changes to products and services. The report highlights the need for more detailed and actionable transition plans as the UK government is set to mandate that all UK-listed businesses and financial institutions publish decarbonization plans by later in 2023.

Taking the Temperature: We have previously discussed the TPT Disclosure Framework, including observing that companies that conduct business in multiple jurisdictions need to navigate, at times, conflicting regulatory schemes. The challenge for boards and management raised by the TPT Disclosure Framework and its analogs in other jurisdictions is to take action based on applicable guidance and manage conflicting regulatory initiatives to the extent the company is subject to more than one regulatory scheme. Nonetheless, the TPT Disclosure Framework is likely to finalized this year, particularly given the positive feedback it received in the recently conducted "independent review of net zero and government progress towards achieving it" conducted by MP Chris Skidmore.

Relatedly, there has been increasing shareholder and regulatory activity focused on net zero-related aims that arguably are in conflict with each other: Certain shareholders have sought to require companies to articulate net zero or other carbon reduction goals, while at the same time, and in tension with those efforts, other shareholders are challenging whether companies that make net zero commitments are taking concrete steps to make those objectives realistically achievable.

To navigate successfully between this seeming Scylla and Charybdis, directors and officers should consider: (i) the establishment of processes (or the quality of how those processes function) for identifying, assessing, and making decisions regarding climate-related risks and opportunities, including risks to physical assets and transition risks; (ii) periodically testing the adequacy of these processes; (iii) even if not directly applicable, taking into account guidance in other jurisdictions regarding governance or disclosure in order achieve a best-in-class approach; (iv) carefully considering data collection and assessment issues, and (v) rigorously assessing the risks associated with potential challenges for greenwashing or, its corollary, greenhushing.