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Dear Mr Fagan-Watson

Consultation reference: Transition Plan Requirements: Implementation Routes

The Universities Superannuation Scheme welcomes the opportunity to respond to the consultation *Transition Plan Requirements: Implementation Routes*.

About USS

Universities Superannuation Scheme (USS) was established in 1974 as the principal pension scheme for universities and higher education institutions in the UK. We work with around 330 employers to help build a secure financial future for almost 577,000 members and their families. We are one of the largest pension schemes in the UK, with total assets of around £76.8bn (at 31 March 2025).

The trustee of USS is Universities Superannuation Scheme Limited. It has overall responsibility for scheme management and administration, led by a non-executive board of directors and employs a team of pension professionals in Liverpool and London. The trustee is regulated by The Pensions Regulator and must ensure that benefits promised to members are paid in full on a timely basis.

The trustee delegates implementation of its investment strategy to a wholly-owned subsidiary – USS Investment Management Limited (USSIM) – which provides in-house investment management and advisory services to the trustee. USSIM currently manages around 76% of the investments in-house and appoints and oversees external investment managers to manage the rest. USSIM is authorised and regulated by the Financial Conduct Authority.

Key points to note

Our responses to the consultation questions are set out on the following pages, which we have also submitted directly via the online portal. We would, however, like to take this opportunity to emphasise the following points regarding transition plans:

- We believe that policy shifts will be the driver for achieving ‘real world’ decarbonisation. Mandating company disclosure may appear to be effective policy but is unlikely to result in significant changes in company behaviour or system level changes.
- For the real economy sectors, as defined by the Transition Plan Taskforce, we think there is continued value in understanding how companies are addressing transition and we regard

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embedding transition planning in Board strategy as a positive step, but this should not be done in isolation.

- We believe there is limited value for financial sub-sectors (namely asset owners, asset managers and banks), as defined by the Transition Plan Taskforce (TPT), in developing transition plans as we cannot transition without real economy decarbonisation.
- For asset owners such as USS, a key focus should be on the role of engagement.

Responses to Questions

Section A: The benefits and use cases of transition plans

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

We do not agree with the assessment that "Information from transition plans has the potential to be transformative for pension funds...". For the real economy, as defined by TPT, we believe that the driver for real world decarbonisation is policy shifts, not company reporting. We do not believe that embedding transition planning for companies in isolation will result in "generating value within an entity". This is not to deny the usefulness of transition plans for material emitters, but there is material overlap with ISSB, particularly if ISSB was extended to "comply or explain" on various climate related items.

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

USS produced its first TCFD Report in 2018 and has complied with the DWP regulations introduced in 2021 in its subsequent reports. This Report includes disclosures which would likely be covered by transition plan guidance. We are waiting to see where the regulations land before evolving our disclosure approach, noting that a review of TCFD reporting is currently underway by the Department for Work and Pensions and The Pensions Regulator.

- a. [if yes] What specific drivers have motivated your entity or pension scheme to engage in transition planning?

Regulation is the key driver. As a standalone exercise, we do not consider developing a transition plan as being an important driver of real-world decarbonisation. As such, we have not engaged in the process of developing a transition plan prior to the regulations being in place. Integrating the transition into our investment process is important to us, but that can be done separately.

- b. [If yes] Based on your experience, do you have any reflections on the purpose, benefits and costs (e.g. additional FTE, setup costs, etc) of developing your own transition plan?

Not applicable.

- c. [if yes] What specific challenges or obstacles (e.g., regulatory, organisational, market-related, guidance), if any, did or do you face in preparing your transition plan?

Not applicable.

- d. [if yes] Did you make use of the TPT's materials (now managed by the ISSB), and if so, how? Were there any challenges in doing so? Are there any further pieces of guidance or support that you feel would be helpful?

Please see our response to 2(e) below.

- e. [If no] If no, what are the main barriers preventing your organisation from developing a transition plan? Please provide any evidence where available to support your answer.

We do not consider that developing a transition plan would drive our objectives as a Universal Owner¹. The real economy, and particularly heavy emitters, is the main driver here, rather than investors. Clear UK regulations and incentives and/or penalties that drive the transition should be the focus. Investors disclosing transition plans is not going to replace a clear industrial and regulatory policy.

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

Yes. As a Universal Owner, we use information contained in transition plans as part of our broader ESG and climate assessment both at company level (bottom up) and at sector/economy level (top down), in order to identify financially material risks and opportunities. We find the standardised questions and layout in CDP reports particularly helpful. We review the impact on operating expenditure, capital expenditure and revenues in particular when assessing transition plans.

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.

Using transition plans practically generally requires staff with a fairly specialised skill set, as they need to be able to assess the credibility of the plans and also understand financial accounts. The time taken tends to vary, but a reasonable starting point is a day of research as part of a broader two-day ESG assessment in cases where climate is material (shorter where it is not, and potentially longer when transition is a key part of an investment case). At the junior end, an appropriate staff member would receive a salary of between £60K - £65K, plus bonus, plus various costs for system access, pension, national insurance etc.

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

Working with groups such as the International Sustainability Standards Board, Securities and Exchange Commission, European Union, Asia Investor Group on Climate Change, and Carbon Disclosure Project (CDP) would help in aligning transition plan requirements with other relevant jurisdictions. We note that TPT already appears to be doing much of this.

Section B: Implementation options

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

We are in favour of proportionate obligations, focusing on the real economy over financials, and material emitters within the real economy. Where an obligation is imposed however, this framework could be helpful in understanding what to report and how, particularly where there is flexibility to comply or explain: "report X or explain why".

The TPT Disclosure Framework should play a key role in future obligations by providing a clear, consistent, and internationally aligned standard for transition plan disclosures, supporting both investor decision-making and the effective management of climate-related risks. As a reporting entity, the application of the

¹ Universal ownership involves having highly diversified and long term portfolios that, by virtue of their large size, are broadly representative of global capital markets.

framework would depend on whether it is mandated or voluntary, along with the specific requirements of the UK SRS and ISSB standards. However, we do believe that industrial and real economy regulations are far more important in driving the transition to a low carbon economy. We believe mandatory transition disclosure without the real economy signals will not produce significant real-world outcomes.

We would add that introducing a new framework at this stage is likely to cause further confusion about the expectations for the contents of transition plans.

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

Where such reports are material, the draft UK Sustainability Reporting Standards (UK SRS) S2 is doing its job. Orthodox, practical metrics are included such as capital expenditure. Notes on including a single amount or a range are useful and welcome.

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

Where such reports are material, again, the draft UKSRS S2 is doing its job. Some of the "key assumptions" could be quite lengthy: "developments in technology" in particular could end up being long, detailed and challenging to produce for many companies.

Section B1: Developing and disclosing a transition plan

Given the links between the above options and any requirements under UKSRS, we will account for your answers to questions 7 and 8 in considering your responses to the following questions.

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

Capital expenditure and operating expenditure are the most important elements. On the upside, information about revenue potential (and at what margin) are very useful too. Operating expenditure (particularly energy costs for energy intensive companies) under different scenarios can be useful on both the upside and downside.

Information on a company's supply chains (or end demand) can help also, and we frequently get this information through Scope 3 emissions. This can help us recognise when a company is exposed to the transition through its supply lines, even when its own operations (Scope 1+2 emissions) have relatively low emissions. This is often the case for companies with material agricultural input.

A climate transition plan should describe the supporting financial plans, budgets, and related financial targets (e.g. amount of capital and other expenditures supporting the decarbonisation strategy). This should also include details about spending and/or revenue that is aligned with the organisation's transition.

Consistency of disclosure across companies is particularly decision-useful to investors, as it allows us to make peer comparisons.

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.

Yes, "comply or explain" approaches are practical and at least force companies to have explicitly considered and rejected an idea, and why. Additionally, optional reporting helps us differentiate as investors, by seeing who chooses to complete reporting.

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

Mandatory reporting should be based on proportionality and real financial exposure to transition risks and opportunities. Only for carbon intensive sectors should it be mandatory. For non-carbon intensive sectors and for the financial sector it should be voluntary.

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

As investors, the consistent format of CDP's reports is helpful to us, and we would not want mandatory UK reporting to discourage/replicate these. Equivalence and/or directing people to CDP in places seems practical, and we are encouraged by CDP's involvement so far.

We are in support of standardised and streamlined transition reporting. The focus should be on reducing reporting fatigue and the burden on reporting entities.

Pension funds

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

Transition plan requirements would need to replace the existing climate-related disclosure requirements aligned to TCFD of various UK regulators and government departments (FCA, DWP, TPR etc.) where the disclosure requirement is duplicative. Otherwise, preparers will be asked to produce the same content to meet different regulations which is not a good use of time and resources.

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

Not applicable as we do not produce a transition plan at present.

Section B2: Mandating transition plan implementation

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.

Robust sustainable finance regulation is essential to provide investors with the data they need to assess financially material climate-related risks and opportunities and the transition efforts of their holdings.

In particular, the implementation of sector-specific standards is essential for helping investors understand specific climate-related risks and opportunities they are exposed to across individual industry sectors, as well as for companies seeking to better navigate their own exposures and impacts. However, hard to abate sectors can only transition if there are clear real economy policy signals and tools, including de-risking, guarantees, carbon taxes, finance mechanisms, carbon border adjustment mechanisms, emissions trading

schemes, innovation funds, etc. Mandating transition plans disclosure in the absence of such policy tools will not achieve any decarbonisation goals.

As a standalone exercise, we do not consider developing a transition plan as being an important driver of real-world decarbonisation. For that reason, **we would support transition plans for the real economy if they were supported by policy interventions.**

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

Periodicity of reporting should be aligned with standardised financial reporting. As stated previously, policy interventions will likely be the most important driver of real-world decarbonisation. As such, regulation and/or market mechanisms are unlikely to ensure that companies are delivering on their plan.

Section B3: Aligning transition plans to net zero by 2050

17. What do you see as the potential benefits, costs and challenges of government mandating requirements for transition plans that align with NetZero 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?

Producing a transition plan will require significant resources from a central sustainability function and input from investment teams and senior committees. It is unlikely to positively impact our strategy to managing systemic climate risks as a Universal Owner for the reasons described in our response to question 1. Alignment with 1.5°C should be tempered by flexible wording, to capture the material risk that IPCC projections move to 2C (net zero pathway from now) or 3C (current policies) by 2100.

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

We use a range of sources, including Transition Pathway Initiative (TPI), Science Based Targets initiative (SBTi) and S&P Trucost to assess transition plans. Much like with financial metrics, we are comfortable using a range of approaches. We note SBTi's move away from Greenhouse Gas Emissions per unit of value added towards a more straightforward absolute contraction approach. Approaches that have a sector specific sectoral decarbonisation approach for key sectors, complemented with a general approach for everything else, are useful and practical.

Many methodologies struggle with long term projects, including how to build in corporate targets and assess their credibility (Are company targets built in? Are the technological/grid assumption reasonable? Is the company spending sufficient capex?)

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

In some cases, there is a lack of credible standards, for example there is still not an SBTi Oil & Gas standard, with development currently paused. While noting this, we still regard TPI and SBTi as sensible starting points.

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

While companies should strive to follow legal obligations around reporting, focusing on the country of economic risk and headquarters make sense.

Section B4: Climate adaptation and resilience alignment

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

The current draft is sensible and proportionate on adaptation. It does not need to be strengthened further.

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

Circa 3°C is not unreasonable for 2100 given current projections, so anchoring there has some merit. While it is the mid-point of 2-4°C, climate change is non-linear and has tipping points.

Section B5: Nature alignment

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

As the Glasgow Financial Alliance for Net Zero supplemental guidance points out, there is no net-zero without nature. To this point, nature is an essential element of transition planning. Nature-related levers are particularly relevant for certain sectors (Agriculture, Forestry and Other Land Use) but can be considered by all corporates. Within transition plans there also needs to be consideration for the different trade-offs that may be present between climate, nature and society. Transition plans should explain how nature-related levers, synergies and trade-offs are understood and any relevant actions being taken to mitigate/capture these. For financial institutions, climate and nature modelling can help us to better understand synergies and trade-offs behind different climate pathways.

Potential disadvantages:

- Can add too much complexity to the process of designing and implementing Net Zero Transition Plans leading to less impactful and slower decision-making
- The data for nature is well behind climate, and, whilst not necessary for action, can make it harder to measure impact and report

We are dealing with dual crises of climate and nature, driven in part by current models of production and consumption, and rethinking these systems means looking beyond just emissions to broader environmental impacts. As an asset owner, all systemic risks could affect us, so we have a vested interest in looking at nature and climate together.

Section B6: Scope

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

The government should weight the materiality and usefulness of the information to investors, and whether improved disclosure is being used as a substitute for changes in the energy mix that are better left to other elements of regulation and legislation. The burden on both reporting companies and investors in preparing and reviewing plans should be considered, particularly the impact on smaller companies in the value chain

and the UK's competitive position.

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 could aid smaller companies, with carveouts for suppliers below a certain scale (on a range of metrics), and also through tools such as templates or softer reporting requirements for those companies. This kind of information source can be an important asset to small and medium sized enterprises that often make up supply chains, reducing the risk that they are over burdened with regulatory requirements, or miss out on business to larger companies that are better able to devote resources to carbon reporting.

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

No strong view, beyond the cost to both producers and investors outlined elsewhere in this response.

Section B7: Legal risk

27. Do you have views on the legal implications for entities in relation to any of the implementation options and considerations as set out in sections B1-B4 in this consultation?
28. In the UK's wider legal framework what – if any - changes would be necessary to support entities disclosing transition plans and forward-looking information?

As a general response to these questions, we are of the view that the risk of legal or regulatory redress for disclosures which turn out to be inaccurate to some degree with the benefit of hindsight could limit the extent to which companies are prepared to make more ambitious disclosures/transition plans, similar to the fear of inadvertent Greenwashing. To address this issue clear guidance in legislation would be needed as to the level of protection available for making disclosures in good faith and on the basis of necessary assumptions, with clear explanation of the prerequisite steps for validation of information to avail of these protections. We believe this would be necessary to provide the necessary level of comfort for companies to be able to produce full and decision useful disclosures.

Section C: Related policy and frameworks

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

We have a strong preference for reducing carbon emissions over carbon credits as this will improve the broader environment, which is our focus as a Universal Owner. Subject to this preference, we still regard carbon credit guidance as useful, as some activities have emissions that are hard to abate, but we have question marks over the legal/regulatory status of some credits. Further guidance here would help mitigate our concerns. Where carbon credits are used, having high integrity carbon credits would be an asset. Regulatory guidance, including on matching carbon credits with actual power consumption in terms of both geography and time, would be useful to investors.

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

Alignment with other major jurisdictions' sustainability reporting is critical. Simplification and streamlining of the rules could help to make the regime more workable in practice.

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

Transition planning, including industrial policies, can significantly contribute to the UK's domestic net zero targets while also supporting sustainable investment in Emerging Markets and Developing Economies (EMDEs) provided it is approached in a coordinated, credible and inclusive way. A strong domestic transition creates a demonstration effect, showcasing how structured transitions can balance growth, emissions reductions, and investor returns.

It also increases demand for low-carbon solutions (e.g., green hydrogen, carbon capture), supporting innovation and driving down costs for technologies that EMDEs can later adopt. Developed markets institutions (banks, asset managers, insurers) with credible transition plans are more likely to develop blended finance vehicles or transition finance instruments for EMDEs. With appropriate risk-sharing mechanisms (e.g., Multilateral Development Banks guarantees), EMDE projects become investable, despite longer or less linear transition pathways. Transition plans that incorporate Scope 3 emissions (e.g., emissions from imported goods) create incentives to decarbonise global supply chains, supporting cleaner production in EMDEs. Transition planning can help identify and remove policy and regulatory barriers (such as currency risk or legal uncertainty) that hinder EMDE access to sustainable investment. Transition planning frameworks in the UK should recognise differentiated responsibilities; EMDEs may have slower timelines and different starting points.

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

Transition plans should be forward looking in their design, which would mean they are less reliant on backward looking carbon emissions. Standardised tables based on regional and sector/industry can aid in reporting, as can standardised lists of expected data items. The latter has the added virtue of boosting peer comparability for investors, along with making it easier for companies to prepare material by knowing what is expected, and aid in populating this information.

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

The guidance should provide the framework for responders to define their own objectives and the measures / milestones to reach them. TCFD related regulations have been too specific on the metrics that need to be reported, and these do not always align with the risks and opportunities identified by companies.

I hope you find this helpful as you continue to consider this important topic. Please let us know if we can provide any additional information or input.

Yours sincerely

Simon Pilcher
USSIM Chief Executive Officer