



AEFR Debate Paper

Transition plans: ensuring their comparability, credibility and effectiveness to accelerate the low carbon transition

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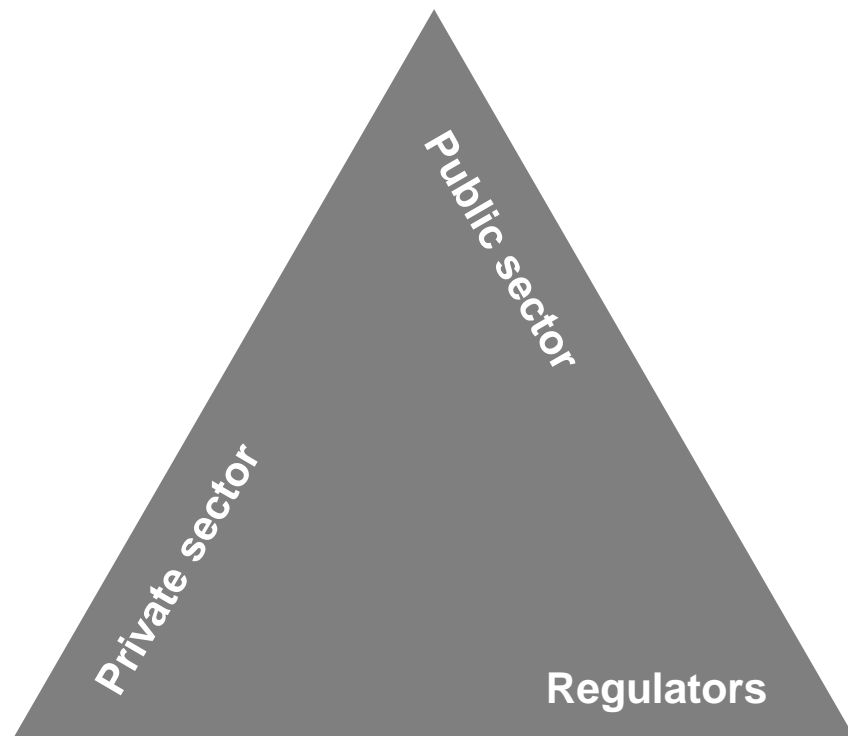
The triangle of responsibilities in the Transition

Accelerating transition towards a low carbon economy is paramount; “[...] **the 1.5°C goal will be gone within a few years** unless nations collectively commit to cut **42% of annual GHG emissions by 2030 and 57% per cent by 2035** in the next round of NDCs and back this up with rapid action.”

[UN Emissions Gap Report \(2024\)](#)

Transition is a collective endeavour.

It requires that all stakeholders take their part of responsibility: the Public Authorities, Regulators and the Private Sector.



PUBLIC SECTOR

- ❖ **Engaging** for the low-carbon economy and providing the **necessary policies to orientate economic activities towards carbon neutrality.**
- ❖ **Unlocking capital** to finance the transition
- ❖ Supporting a **just transition**

THE SUPERVISORY & REGULATORY INSTITUTIONS

- ❖ Ensuring a **favourable business environment** for the transition by implementing a transparent and consistent enabling regulatory environment in relation to the transition.
- ❖ Ensuring a **level playing field**

THE PRIVATE SECTOR

- ❖ **Strategic** positioning
- ❖ C&E **risk management**
- ❖ Regulatory **compliance**
- ❖ **Engagement**

& FINANCIAL INSTITUTIONS

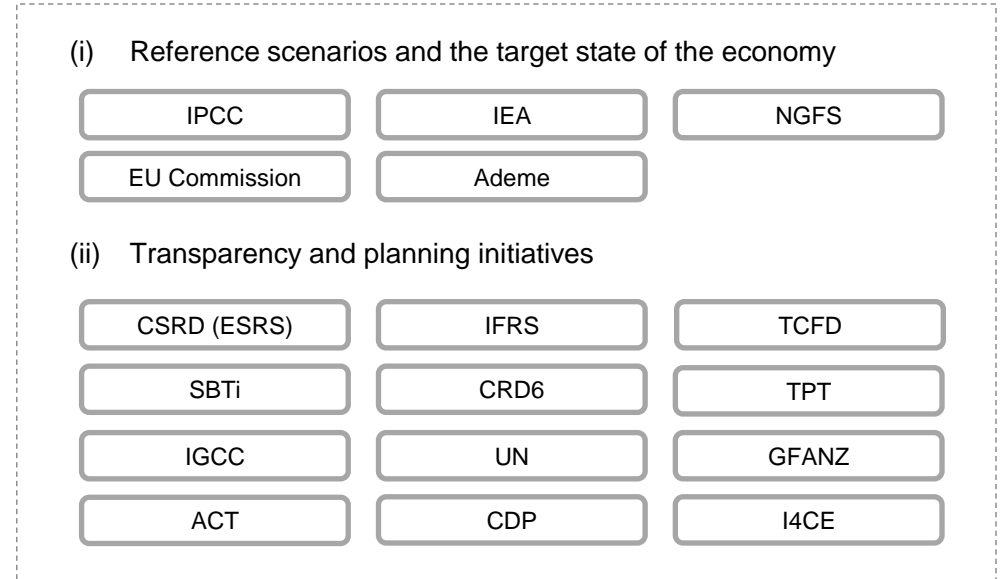
- ❖ **Funding** investment projects (60-40%)
- ❖ **(Re-)Allocate capital** for the transition

Heterogeneities among transition plans

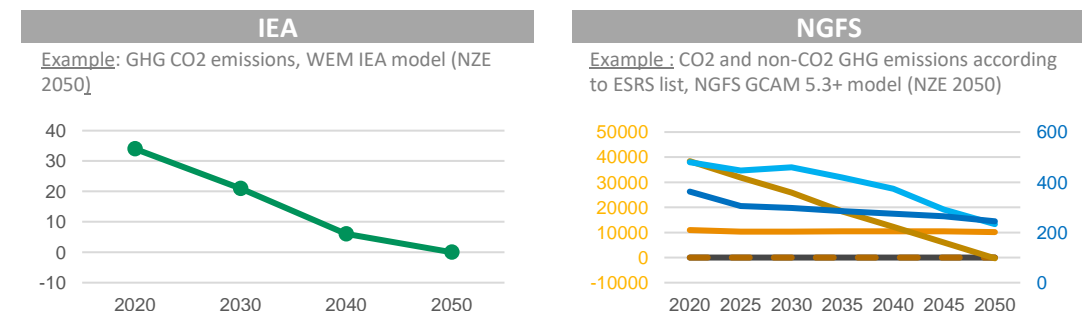
There exist multiple definitions of the notion of ‘transition plan’ and of what it should encompass:

<p>Corporate Sustainability Reporting Directive (CSRD)</p> <p>European Parliament, 2022</p>	<p>“The plans of the undertaking, including implementing actions and related financial and investment plans, [to] ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement [...] and the objective of achieving climate neutrality by 2050 [...]”</p>
<p>European Sustainability Reporting Standards (ESRS)</p> <p>EFRAG for the European Commission, 2023</p>	<p>“[Transition plans for climate change mitigation are] an aspect of an undertaking’s overall strategy that lays out the undertaking’s targets, actions and resources for its transition towards a lower-carbon economy, including actions such as reducing its GHG emissions with regard to the objective of limiting global warming to 1.5°C and climate neutrality.”</p>
<p>TCFD</p> <p>Task Force on Climate-related Financial Disclosures, October 2021</p>	<p>“[Transition plans] are an aspect of an organisation’s overall business strategy that lays out a set of targets and actions supporting its transition toward a low-carbon economy, including actions such as reducing its greenhouse gas (GHG) emissions.”</p>
<p>GFANZ</p> <p>Glasgow Financial Alliance for Net Zero, 2022</p>	<p>“[Transition plans consist in] a set of goals, actions, and accountability mechanisms to align an organisation’s business activities with a pathway to net zero GHG emissions that delivers real-economy emissions reduction in line with achieving global net zero.”</p>
<p>CDP</p> <p>CDP, 2024</p>	<p>“A credible climate transition plan is a time-bound action plan that outlines how an organisation will achieve its strategy to pivot its existing assets, operations, and entire business model towards a trajectory aligned 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.”</p>
<p>...</p>	<p>...</p>

A significant number of initiatives and frameworks related to transition plans/planning:



And non-aligned core assumptions with reference scenarios:



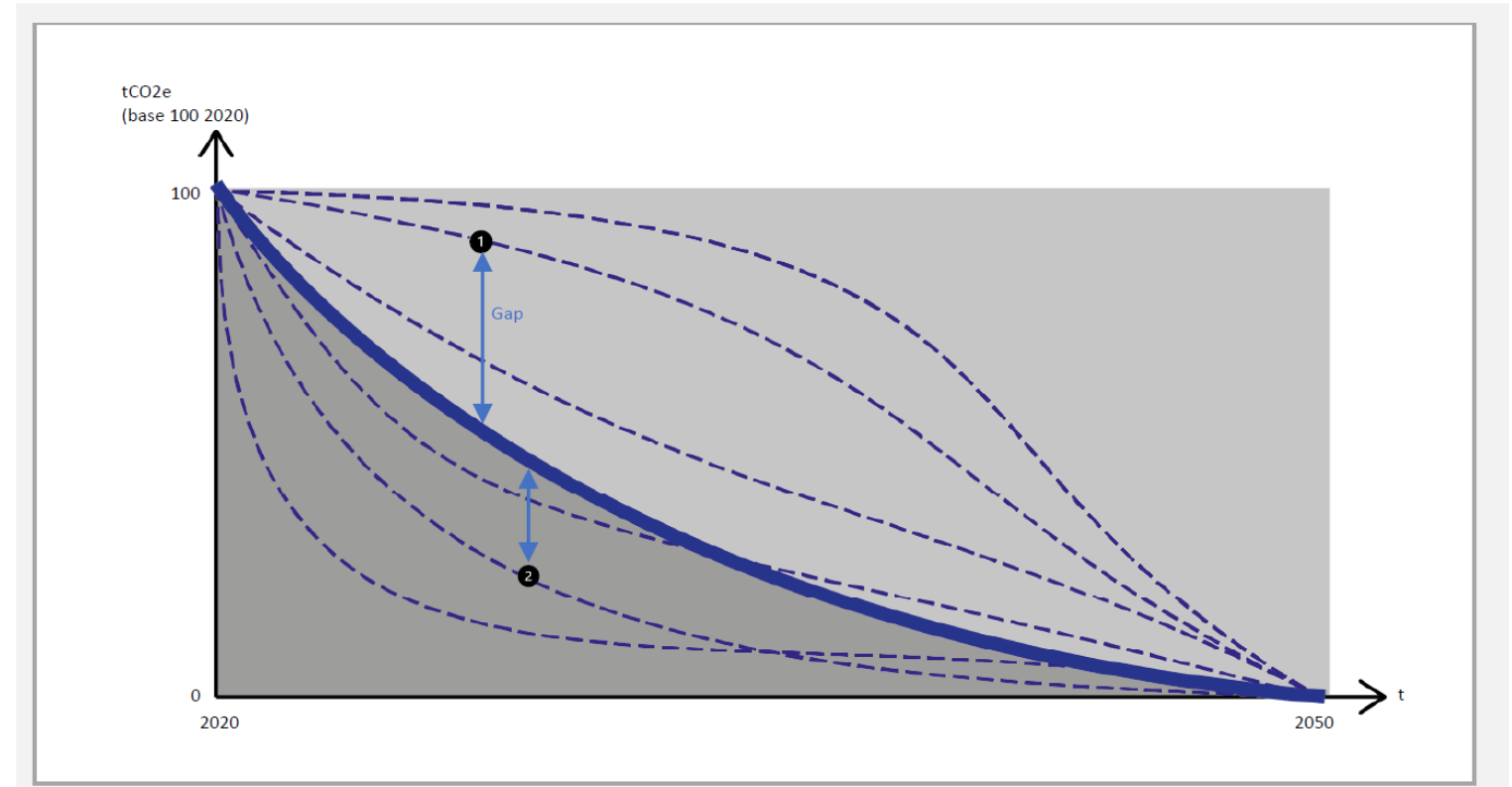
Heterogeneities among transition plans : strategy vs risk

Figure 6: The Shallot Chart

Some plans are driven by **risk-management considerations** and detail how an organisation addresses and manages the financial impact of the climate and environmental risks.

Other transition plans are driven by a **strategy-based approach**.

- There is strong interlinkage between the risk and strategic approaches,
- As illustrated, once the strategy is set **stakeholders have to manage the risk of (i) missing their targets or (ii) choosing the wrong pathway.**



Heterogeneities among transition plans : plan vs planning

Operating a semantic distinction between **transition plans** and **transition planning** could bring clarity.

Note these notions are unsymmetrically intertwined; there cannot be a transition plan without transition planning, while the inverse may be possible—though transition plan disclosure is a key element of efficiency.

Transition planning

“Transition planning is the internal process undertaken by a firm to develop a transition strategy to i) deliver climate targets that firms may voluntarily adopt or that are mandated by legislation or the appropriate authority, and/or ii) prepare a long-term response to manage the risks associated with a transition to a low emission economy.” (NGFS, May 2023)

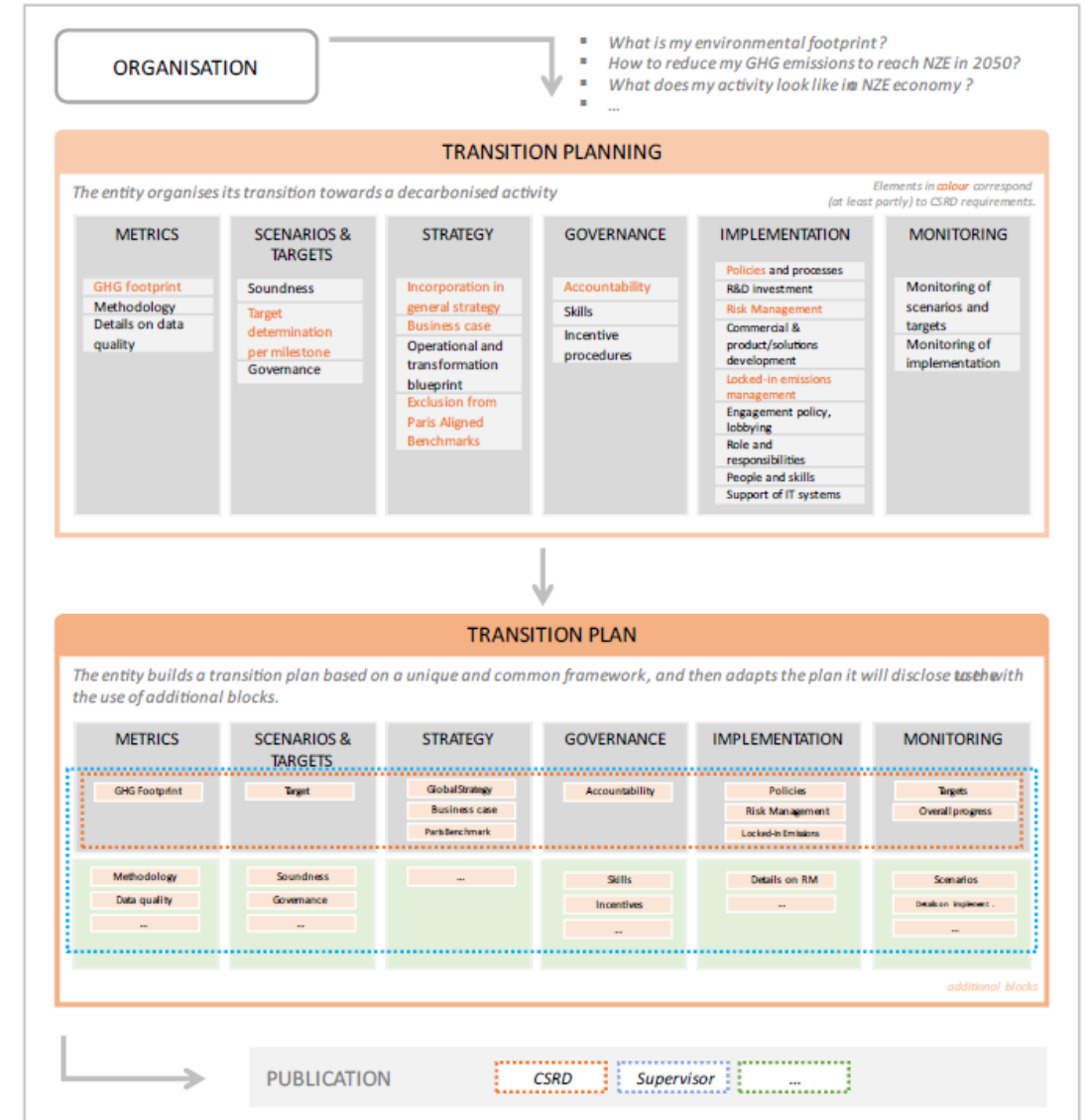
- The operational and strategic planning

Transition plan

“Transition plans are a key product of the transition planning process and are an external facing output for external audiences, such as investors and shareholders and regulators.” (NGFS, May 2023)

- The formal document that is disclosed publicly by the entity, for instance under the CSRD.

Annex 3: Illustration of a common framework



AEFR WGTP's 11 recommendations for transition plans

- 1 Non-CS3D-covered companies should be **incentivised to develop and disclose** a transition plan.
- 2 There should be **a unique transition plan**, which implies building a unique common framework, that can be complemented with **additional building blocks** to fit the different usages.
- 3 The framework should be **constructed on existing requirements** and build on the well advanced European regulatory framework.
- 4 In addition to the transition plan framework, **transition planning guidelines should be developed by public authorities**, and these should specifically include guidance on assumption, execution and monitoring.
- 5 The global transition should be **supported by public policies** in line with countries commitment to the Paris Agreement.
- 6 **Coordination and monitoring of the transition at European level** must be developed.
- 7 **European supervisory and regulatory entities should align their approach** on transition plans.
- 8 Scenario makers should **clarify the assumptions on which the scenarios are based and provide granular outputs**.
- 9 **External assessments** are necessary to **ensure the credibility** of an organisation's transition plan, but a common assurance standard framework is necessary to provide harmonised assurance engagements.
- 10 Transition plans should be **leveraged into efficient tools for transition finance**.
- 11 **Other fundamental topics** should be progressively and as soon as possible included in transition plans, so their scope extends beyond climate mitigation.

The AEFR Working Group on Transition Plans

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Thank you for your attention