

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

### EXECUTIVE SUMMARY

*This debate paper\* provides recommendations to policy makers, at national, European, and international level, as they incorporate the concept of transition plans into the climate-related regulatory framework.*

*While transition plans are increasingly recognised as an essential tool in the transformation towards a low-carbon socio-economic system, lack of global harmonisation about their characteristics hampers their comparability and credibility. Indeed, it appears that multiple initiatives coexist, arguably addressing different goals and audiences, but largely overlapping.*

*In this context, for the large transformative effort expected from non-financial corporates and financial institutions to occur, it is crucial to clarify and unify these coexisting frameworks (to the extent possible). It is also key to provide clear guidance to the private sector as they work on converting their commitments into workable action plans.*

*Based on interviews with 22 recognised experts (annex 2), this debate paper provides recommendations on three areas:*

- *the structure and content of a transition plan;*
- *the process of transition planning; and*
- *the usability of transition plans to enable and accelerate transition finance.*

*Throughout this work, we review the main regulatory (e.g., European Sustainability Reporting Standards (ESRSs)), Pillar 3, etc.) and voluntary (e.g., Glasgow Financial Alliance for Net Zero (GFANZ), etc.) initiatives. While we find some convergence and overlap between these frameworks, there remain differences in building blocks and definitions. We thus propose a combined structure for a transition plan, based on the key underlying assumption that **a given company will only elaborate one unique transition plan**. We also identify the need to distinguish between what information should be publicly disclosed to allow proper economic decision by stakeholders, and a more granular level of information that should not be disclosed but should be made available to allow third party verifiers (and supervisors) to get comfortable about the reliability of the transition plan such that they can then provide the necessary (limited) assurance.*

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\* This Debate Paper was prepared by a dedicated working-group (annex 1) composed of representatives of institutional members of the AEFR or not participating in a personal capacity whose aim is to initiate a discussion on key issues at stake for a proper implementation of transition plans. The views expressed in this paper do not necessarily reflect the views of the individual members of the working group. The study has greatly benefited from interviews carried out with key institutional and market participants stakeholders, who should be thanked for their very valuable contributions (annex 2).

Furthermore, we focus extensively on the transition planning process, which is essential to demonstrating the credibility of a transition plan. The transition planning process needs to be anchored in the overall business strategy and carried through to individual business lines and/or geographies. An adequate degree of accountability is then also required for the transition plan to be credible. Concurrently, it is important to recognise that transition plans will not be static; they need to be able to adapt to evolving technological, scientific, legal, and business and macro-trends. This implies sufficient flexibility should be provided, to contain the legal and reputational risks while unlocking necessary adaptations.

Finally, we observe that the disclosure of transition plans is crucial, but is only a means to an end, which is to channel adequate funding for adequate investments, and accelerate the real-world transition. To reach this goal, we recommend also addressing the incentives to be implemented, to differentiate companies with aligned transition plans from others. We believe that transition plans could be leveraged in various ways, implying corresponding regulatory adaptations, such as:

- complementing the EU Green Bond Standard (GBS) with an entity-level Transition bonds framework;
- providing a clear definition of Transition funds in the Sustainable Finance Disclosure Regulation (SFDR) framework;
- complementing the Green Asset Ratio with a Transition Asset Ratio;
- recognising transition plans as a mitigant to climate-related risks in the prudential framework.

### Summary of main recommendations:

- [1] *Non-Corporate sustainability Due Diligence Directive (CS3D)-covered companies should be incentivised to develop and disclose a transition plan, given their financing needs and their role in value chains.*
- [2] *There should be a unique transition plan, which implies to build 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 assumptions, execution, and monitoring.*
- [5] *The global transition should be supported by public policies in line with countries' commitments 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, and a common assurance standard framework is necessary to provide consistent assurance engagements.*
- [10] *Transition plans should be leveraged into efficient tools for transition finance across the EU regulatory framework.*
- [11] *Other environmental and social goals should be progressively and as soon as possible included in transition plans, so their scope extends beyond climate mitigation.*

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## 1. INTRODUCTION

More than thirty years after the first Intergovernmental Panel on Climate Change (IPCC) report ([WME/UNEP IPCC, 1992](#)), the plethora of scientific evidence on climate change now leaves no doubt about the urgency of the situation. “Widespread and rapid changes in the atmosphere, ocean, cryosphere and biosphere have occurred” ([IPCC, 2023b, §2.1.2.](#)) and characterise the Anthropocene as threatening planetary health and human well-being.

Overall, **the ineluctable deep and large-scale transformation of the global socio-economic system** will rapidly challenge stakeholders.

While the first approach implemented in the European Union (EU) Environmental Social and Governance (ESG) regulatory framework has been to define “what is green”, through the EU Taxonomy, there has been a progressive recognition that such an approach should be complemented to enable the transition from the current state of the economy towards a low-carbon economy, across industry and finance sectors and geographies, with the view of achieving the goal of the Paris Agreement, and the race to Net Zero in 2050. With this perspective, **transition plans have been the subject of increased attention in policy circles and in the literature, to now being identified as plausible key enabling tools for the transition.** In June 2023, the European Commission published a recommendation on transition finance extending the current approach and acknowledging the central role of transition plans ([European Commission, 2023c](#)). We notably observe transition plans are gradually included in the European normative and legislative landscape: in sustainability disclosure frameworks, in the European Banking Authority (EBA) Pillar 3 ESG, in the European Central Bank (ECB) supervisory expectations, in the CS3D and in various international voluntary frameworks (e.g., GFANZ), Science Based Targets Initiative (SBTi), the UK Transition Plan Taskforce (TPT), etc.).

Concurrently, we note **rising doubts on whether transition plans, net-zero targets, and transition finance are credible mechanisms, or just mere communication tools.**

In this context, corporates and financial institutions are now facing confusion on transition plans (for instance; what targets should be followed, what constitutes a transition plan, how should a transition plan be built, what purposes it would serve, or how should accountability be defined). This uncertainty slows down the transformation of business models and increases legal and reputational risks.

This paper therefore takes stock of the current state of play in this area, and endeavours to identify the key principles that should underpin the creation, disclosure, and monitoring of transition plans. It also looks to identify the core issues to be addressed, to make transition plans a tool which is a corner stone of a private sector contribution to an orderly transition.

## 2. STAKEHOLDERS' ROLES IN THE TRANSITION: A TRIANGLE OF RESPONSIBILITIES

### 2.1. The critical role of public policies

The extensive transformation of our socio-economic and financial systems requires strong support from the public sector, with a clear and large-scale engagement in all its various roles. The latter mainly encompass:

- **Engaging for the low-carbon economy.** Public engagement informs economic and financial stakeholders by providing a global vision to help them navigate the business environment. It should ensure the consistency of public policies, so the economic stakeholders embark on a common pathway to carbon neutrality. Doing so **encompasses the necessary policies to orientate economic activity towards carbon neutrality, to adapt the legislation to new technology and infrastructure development (e.g., renewables sandboxes), etc.** Other benefits may be found from a political perspective ([Sasse et al., 2021](#)); engagement gives politicians scope to act, favours support for action and can improve policy implementation. Moreover, governments and supra-national entities (e.g., the European Commission, or organisations such as the United Nations, the Conference of Parties (COP), the OECD, etc.) have a substantial influence and leadership capacity which they can exert on economic stakeholders through multiple levers.
- **Unlocking capital to finance the transition.** Delivering on the global low-carbon transition requires substantial investment. To achieve climate neutrality in 2050 indeed entails to upgrade global capital stock: to develop clean energy capacities, to renovate buildings and replace production apparatuses with energy and resource-efficient ones. The European Commission estimates, that just for the EU, **additional annual investment in the 2021-2030 decade would amount to EUR 350 bn (compared with the 2011-2020 period)** ([European Commission, 2020a](#)). Globally, infrastructure investment would need to reach about USD 93 tn by 2030 ([United Nations, 2023](#); [World Bank, 2015](#)). In addition to those transformative investments, one should also consider the funds required for adaptation measures, with 'no-regret' investments. It is crucial that public entities engage in large-scale funding to support 40-60% of the financing needs as a complement to the private sector. Note a large part of funds that should be dedicated to the transition may come from capital reallocation (from currently wasted subsidies for instance that would represent over USD 6tn a year globally ([World Bank, 2023b](#))).
- **Supporting a just transition.** Furthermore, the public sector is responsible for ensuring the transition towards a low carbon economy is *a just transition*. Governments should therefore notably guarantee fair and decent work in the green economy, boost inclusion and diversity, and support the transition from brown jobs and labour force redeployment.

Furthermore, a challenging issue for the transition towards a global Net Zero Emissions (NZE) is found in the **geographical fragmentation of economic and political conditions** throughout the world. This fragmentation exists at almost every level; from continents and regional entities to very local disparities. In the (geo)politics of the low-carbon transition, we observe different standpoints, approaches, and speed of action. We regard it as highly important that the European Union does not abandon its lead on building a favourable environment to enable the transition, which it has held over the past years. However, such international discrepancies should be overcome soon to

unlock the development of low-carbon economies not only in the ‘rich’, ‘developed’ countries but throughout the globe. We believe that the United Nations, through a reformed approach of the Conferences of Parties, may well be suited to take on this challenge.

2.2. An increasing normative and regulatory interest on transition plans in Europe

Regulatory entities present additional responsibilities to those they hold in operating in the public sector, with in particular:

- **Ensuring a favourable business environment for the transition.** Regulators should implement a transparent and consistent enabling regulatory environment in relation to the transition.
- **Ensuring a level playing field.** By establishing norms and standards, regulators contribute to the mechanisms for enhancing comparability and accountability. Also, they should address international regulatory dumping.

The current European regulatory environment and its proposed evolutions already include requirements on transition plans.

Figure 1: European regulatory landscape on transition plans

In the European Union	Corporate sustainability Reporting Directive (CSRD) <a href="#">(European Parliament, 2022)</a>	Disclosure	Art.(30): "[The undertakings] should also be required to disclose any plans they may have to ensure that their business model and strategy are compatible with the transition to a sustainable economy and with the objectives of limiting global warming to 1,5 °C in line with the Paris Agreement and achieving climate neutrality by 2050, as established in Regulation (EU) 2021/1119, with no or limited overshoot."  The ESRS <a href="#">(European Commission, 2023d)</a> details disclosure requirements relating to transition plans for climate change mitigation (see ESRS 2 E1-1) and for voluntary transition plans on biodiversity (see ESRS 2 E4-1).
	European GBS <a href="#">(European Parliament, 2023b; 2023c)</a>	Standard	Inscribes bonds in support of CSRD transition plans: "All companies choosing to adopt the standards and therefore also the EuGB label when marketing a green bond will be required to disclose considerable information about how the bond’s proceeds will be used. They would also be obliged to show how these investments feed into the transition plans of the company as a whole. The standard therefore requires companies to be engaging in a general green transition."
	Capital Requirement Directive (CRD)6 <a href="#">(European Parliament, 2023a)</a>	Prudential	The CRD review proposal includes requirements for banks to have in place specific plans and quantifiable targets to monitor and address the risks arising in the short, medium, and long term in the transition to a more sustainable economy. (Mandate given to the EBA).
	<a href="#">CS3D (2022)</a>	Governance	Building on the CSRD, the directive (under negotiation) introduces the notion of transition plans in respect of company director duties, with an explicit reference to the 1,5°C scenario.  Art. 15. "Member States shall ensure that companies referred to in Article 2(1), point (a), and Article 2(2), point (a), shall adopt a plan to ensure that the business model



			<i>and strategy of the company 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. This plan shall, in particular, identify, on the basis of information reasonably available to the company, the extent to which climate change is a risk for, or an impact of, the company's operations."</i>
In France	Green Industry Bill (Sénat, 2023)	Industrial policy	Allows public entities to exclude suppliers that do not present a transition plan, from their invitations to tender.  Requires that entities subject to Universal Registration Document (URD) publication include information on their transition plan (in accordance with Art.L225-102-1 of the Business Code) in addition to publishing their GHG emissions assessment (Grenelle II law).
In the UK	Financial Conduct Authority (FCA) rules (2023)	Prudential	The FCA intends to require Task Force on Climate-Related Financial Disclosures (TCFD)-based transition plans, with an upcoming update based on International Sustainability Standards Board (ISSB) and TPT works.

### 2.3. The private sector: interplay between corporates and financial institutions

The role of corporates in the transition towards NZE will be central bearing in mind that they have to **transform their business models to reinvent the production and consumption of goods and services in a low-carbon economy**. However, for this to materialise, their transition is dependent on a clear and favourable legislative environment, on the transformation of their business environment (clients, suppliers, energy mix, infrastructure, etc.) and on their access to financing. The factors driving the motivation of corporate organisations to transition encompass a broad range of drivers including:

- (i) Strategy: positioning the company's activities in line with an environment that is undergoing a transition (e.g., new consumer preferences, or early adoption of technologies of rupture) to prepare for the NZE economy.
- (ii) Risk management: integrating climate, environmental and social risks into the company's risk framework to manage adverse effects.
- (iii) Regulatory: complying with a more stringent legislative and normative framework on C&E and social issues
- (iv) Own engagement: committing to a societal vision in line with the organisation's values, responding to external and internal calls for engagement (e.g., from peers, shareholders, own work force, consumers, etc.).

Though countries' ability to unlock large pools of investment to finance the transition may seem important, **public spending alone cannot operate and support the global transition. Beyond private finance substantial lever to fund investment projects, its capital allocation role in the functioning of the global economy is key**. Indeed, the traditional approach of considering private finance in a passive position vis-à-vis the real economy (i.e., financial institutions only reflect the real economy as they respond to its demand for financing) fails to capture the power of the influence it is endowed with through its **macroeconomic role in capital allocation**. However, financial institutions are in a special position because they operate as intermediaries to the real economy; their downstream scope 3 (cat. 15 (Greenhouse Gas (GHG) Protocol, 2023)) emissions thus represents the majority of

their GHG emissions. Funded emissions would even be 700 times greater than own emissions for financial institutions to represent 97% of total GHG emissions ([Carbon Disclosure Project \(CDP\), 2021](#); [New Climate Institute, 2020](#)). In these conditions, the notion of transition refers, for financial institutions, to the decarbonisation of their counterparties' operations (it is an indirect transition).

The transition dynamic is therefore—in theory—the following:

- (i) Financial institutions look to channel funds towards transition “aligned” or “enabling” assets, while their counterparties need funding.
- (ii) **Transition plans here appear to be of a significant importance in providing heightened information** about counterparties and their prospects (transition alignment, risk profile, etc.).
- (iii) **If the transition plan is deemed credible**, is aligned to the financing institution’s engagements, and mitigate the counterparty transition risk, then the financing institutions proceeds to its traditional granting procedure. If it is not, the institution may exclude the counterparty from its financing realm or engage with the counterparty (either to confirm the assessment with further information, or to accompany it towards a credible transition).
- (iv) If counterparties remain transition laggards, they should (all limitations considered) thus lose access to financing.

As such, **financial institutions will play a key role in channelling funds to the transitioning economy. Transition plans here appear to be significant in providing financial institutions with reliable information on borrowers’ or investees’ transition plans.**

### 3. TRANSITION PLANS: PURPOSE AND STATE OF PLAY

#### 3.1. An unsettled definition ...

With the increasing recognition of the potential for transition plans to become a core tool for the global transition of the economic and financial system, **most initiatives and literature seem to agree on its general concept** as illustrated with a few examples of definition listed below.

Overall, it appears transition plans should include three main components:

- ❖ **Targets**
- ❖ **Actions** (including implementation, engagement, monitoring)
- ❖ **Governance and accountability**

Figure 2: Main definitions for the notion of transition plans

<p>EU (in the CSRD <a href="#">(European Parliament, 2022)</a>)</p>	<p><i>“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 [...]”</i></p>
<p>European Commission &amp; EFRAG</p>	<p><i>“[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.”</i></p>

(in the ESRS (European Commission, 2023d) for the CSRD)	
TCFD (2021)	<i>"[They 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."</i>
GFANZ (2022c)	<i>"[They 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."</i>
CDP (2023c)	<i>"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."</i>

### 3.2. ... that may be explained by a plurality of perspectives

The growing attention to transition plans/planning is seen in the rapid expansion of the number of frameworks and literature on the topic. However, each constituency setting requirements or guidance as regards transition plans tends to have a specific angle, linked to its broader mandate. Understanding the purpose behind the proposals is therefore crucial to optimize the framework in a holistic way.

In particular, the main, and various purposes that a transition plan can address are:

- Providing substance and credibility to the commitments (GFANZ, SBTi) with a view of evolution from high-level targets to concrete implementation plans
- Complementing a disclosure framework based on reported emissions with forward looking information to help investors make better decisions (ISSB, CSRD, European Financial Reporting Advisory Group (EFRAG))
- Contributing to climate risk analysis which requires forward-looking assessment (EBA, CRD/Capital Requirement Directive (CRR), ECB supervisory expectations)

While these purposes are clearly different, they contain numerous elements of overlap. However, given each framework has been developed and has evolved in silos, with different decision bodies and timelines, similar concepts unfortunately are translated into differing definitions and methodologies.

### 3.3. State of play of transition plans initiatives

To better understand the state of play, and identify possible gaps and key issues, we have focused on some key initiatives (Annex 4). The below encompass insights from the scientific community and experts, public authorities, and private organisations. Also, we consider relevant to this analysis initiatives participating in building knowledge on transition plans and planning with reference scenarios, disclosure, and reporting practices, or which relate directly to the topic.

(i) *On reference scenarios and the target state of the economy*

We note **discrepancies regarding the target state of the economy, and specifically regarding the use of reference scenarios**. Indeed, in their forward-looking exercise, stakeholders would use such scenarios either to build their NZE pathway, or as a benchmark reference for their in-house scenario. Despite efforts on transparency, questions remain on key issues.

Main reference scenarios that may be relevant for stakeholders include:

*Figure 3: Main reference scenarios for transition plans*

IPCC <a href="#">(2014; 2007)</a>	The expert group of the IPCC provides macro-level temperature scenarios and related transformation pathways. These scenarios are modelled based on an important scientific stocktake (cf. IPCC reports), investigating near-term and future choices.
International Energy Agency (IEA) <a href="#">(2022b)</a>	The IEA studies three macro-level scenarios for the energy system: 2050 NZE, announced pledges (AP) and stated policies (STEP). Providing cross-cutting inputs and assumptions to 2030 and 2050, those scenarios model capacities in energy markets, technology trends, policy strategies and investment trends, while focusing on sectors (industry, transport, building) and end-users. Outputs are also consolidated and translated into temperature scenarios, which correspond with IPCC's insights.
Network for Greening the Financial System (NGFS) <a href="#">(2021)</a>	The NGFS provides a micro-prudential approach to scenario modelling. Their three integrated assessment models (GCAM, MESSAGEix-GLOBIOM and REMIND-MAgPIE) provide six scenarios from an orderly NZE transition to a hot house world with current policies. Models' outputs focus on decarbonising electricity generation, electrifying building-industry-transport, switching to carbon neutral fuels, CCS, energy efficiency, and decarbonising agriculture-forestry-land uses.
European Commission <a href="#">(2021a)</a>	The EC's modelling work provides insights for EU Member States with horizon 2030 and 2050 with: <ul style="list-style-type: none"> <li>▪ Macroeconomic scenarios <a href="#">(European Commission, 2021b)</a> that use two models (GEM-E3-FIT and E3ME) to analyse clean energy transition's implications and megatrends.</li> <li>▪ Three policy scenarios <a href="#">(European Commission, 2021c)</a> that investigate means of delivering the EU Green Deal (or 'Fit-for-55') on the basis of a 2020 reference scenario: REG, MIX and MIX-CP. Outputs focus on the energy and transport sectors, overall GHG emissions with details on non-CO2 and Land Use, Land Use Change and Forestry (LULUCF) emissions and air pollution. Despite their core limitations being EU-centric, these models are very interesting for a financial institution operating in the EU, especially considering they serve in the EC's impact assessments for climate policies <a href="#">(European Commission, 2020b)</a>.</li> </ul>

First, **the lack of granularity** of these reference scenarios could largely hinder its transposition for stakeholders. Sectoral granularity is important for (i) corporates which require guidance on their sectoral decarbonisation pathway; and (ii) financial institutions whose portfolios span over multiple sectors. For instance, the IEA NZE 2050 modelling outputs [\(IEA, 2022b\)](#) present the industry as a macro-sector whereas the NGFS NZE scenario [\(NGFS, 2021\)](#) modelling distinguishes specific industrial sub-sectors (e.g., chemicals, cement, steel, non-ferrous metals). Additionally, reference scenarios often lack country-level/local disaggregation of global scenarios.

Then, reference scenarios are based on heterogenous **assumptions, which lack transparency, hindering their usability**. For instance, little information is provided on considered carbon budgets (at regional, national, or sectoral level). Such core assumptions also encompass the role of negative emissions in the transition to NZE. On that note, we observe the current IEA NZE 2050 model does

not consider land and the subsequent nature-based carbon sequestration, and thus attributes a preponderant role to technology-based carbon capture and storage. However, the opposite applies with the IPCC (2014) and NGFS models' outputs, where land is included. Other examples of divergent assumptions can be found in the respective share of GHG emissions reductions attributed to sober behaviours. Contrary to others, the French environmental planification strategy (Secrétariat général à la planification écologique, 2023) clearly outlines the importance of sobriety, and the IEA NZE 2050 scenario describes demand reductions.

*Illustration of the importance of assumptions with issues on **the notion of a 1.5°C target.***

As underlined by the IPCC, the probability of achieving the 1.5°C target is lessening.<sup>1</sup> Moreover, so far for 2023 (January-September), Copernicus data display the global mean temperature is already 1.40°C higher than the preindustrial average (Copernicus, 2023). Evidence of slow climate action on a global basis also argues for a low probability of achievement as it stands. For stakeholders planning their transition, setting 1.5°C targets at individual level might thus present the risk to, from the start, adopting an unreachable target. This is therefore likely to lead to successive transition plans which deceptively present the entity as a laggard because it would fail to achieve its ambitious pathway.

On this observation, two conclusions might be drawn.

First, one could call for transition plan/planning initiatives to account for a less ambitious temperature target (i.e., one that presents a higher probability of achievement, for instance a 2°C target for 2050). However, this would certainly send out wrong signals; by levelling down the ambition, it negates the argument that every incremental fraction of a Celsius degree matters and risks understating the required transformations. If we consider the global 1.5°C target is associated with a ≤50% probability to be overshoot, the 2°C target only lessens this by 17 pp while presenting exponential additional disruptions.<sup>2</sup> **If the temperature target is revised, the new target should be as close to the original 1.5°C target as considered feasible.**

Second, this argues for the establishment of a sound transition enabling environment that would support transition plans as previously stated. The example of ESRS Application Requirements ([European Commission, 2023d](#)) illustrates the problem we evoked earlier can easily be prevented if the stakeholder is deemed to report its relative position to a 1.5°C pathway rather than its alignment. In this circumstance, the entity can tailor its targets, so they correspond to its identified decarbonisation levers, while maintaining high ambition and avoiding the risk of reporting that it has failed to meet all interim targets.

Furthermore, it appears **interlinkages between reference scenarios and public policies** remain unclear. On the one hand, it is important that reference scenarios are transparent about the assumptions made on the state of the legislative environment. We observe this is usually well described (e.g., distinctions between *current policies* or *COP26 pledges* scenarios). On the other hand, public policies should clearly state the scenario(s) on which they are backed (e.g., an industrial policy for green hydrogen development may be justified by IEA projections on hydrogen needs by 2030 for the iron sector). Such a link between public policies and scenarios is for instance expressed in the *Agence de la transition écologique (ADEME)*'s sectoral transition pathways.

One could consider the dense EU Fit-for-55 package ([European Council](#)) often fails to explicitly describe interlinkages between policies and the decarbonisation scenario. The plans of companies will be dependent on key assumptions (such as their sectorial decarbonation pathway, regulatory and fiscal policies, carbon price, green infrastructure, etc.), and being able to state and monitor these assumptions will be key for the plan credibility, bearing in mind the plan will evolve over time to adjust for external and internal conditions.

*(iii) On transparency and planning initiatives*

We furthermore observe a large part of the existing frameworks on transition plans relate to matters of **disclosure**. This is the main approach of the legislative frameworks (e.g., CSRD ([European](#)

[Commission, 2023f](#)), ISSB standards ([2023](#)) and of other frameworks such as the TCFD ([2021](#)). We nonetheless note large discrepancies among initiatives, such as between national entities (e.g., France versus USA), between regional entities (e.g., France versus European Union), or between organisations (e.g., European Commission versus EBA). Such discrepancies appear to demonstrate divergences in goals and application scopes.

In addition, it appears that the underlying purposes of transition plans may differ. On the one hand, 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 that it faces in relation to its transition plan. On the other hand, some transition plans adopt a **strategy-based** approach. This then presents a larger scope of application and allows the organisation the opportunity to present a holistic approach of how it intends to navigate the transition and operate in a low-carbon economy. Note the two approaches present significant overlap; climate and environmental (C&E)-related risk management practices inform transition planning, whose implementation can contribute to risk mitigation. We find such a dual perspective with some frameworks—in particular disclosure ones—focusing on risk management (e.g., the CRD6 proposal ([ACPR, 2022](#))) or on a strategic approach (e.g., Science Based Targets initiative ([SBTi, 2015](#))). We observe the choice between these two broad transition planning approaches, even though they cannot strictly be separated, depends on **the organisation**, its motivation, and its disclosure intention. Indeed, transition plans may be designed by a diverse panel of actors: scientists and experts (e.g., IEA), public authorities (e.g., central banks, governments, European Commission), or private companies (corporates or financial institutions). According to their role in the economy, these organisations are likely to have different approaches to transition plans. First, their role impacts whether they can voluntarily plan their transition and its disclosure, or if they are mandated to. Second, they have different intentions. For instance, a corporate would intend to demonstrate its ability to align with the ambitions set and provide transparency to its internal and external shareholders, investors, and consumers. Most likely, it might be prompted to do so by its local jurisdiction. A public entity, however, might intend to present its national strategy to meet climate targets (e.g., a government) or to ensure systemic financial stability and resilience to C&E risks (e.g., a financial regulator). We note that **many stakeholders, notably financial institutions, are in a special position as they will both use and produce transition plans.**

Figure 4: Categories of transition plans use cases

Actor requiring transition plans	Government	Corporate	Financial Regulator		
<b>Regulatory objective</b>	Climate outcomes (e.g., Paris Agreement)	N/A	Market conduct / consumer protection	Financial Stability	Safety and Soundness of financial institutions
<b>What is the primary objective of the transition plan?</b>	Achieve national climate outcomes through corporate action	Inform shareholders and investors of a corporate's strategy in response to climate change and transition	Provide transparency to market actors e.g., maintain market integrity, prevent financial misconduct and/or greenwashing	Effective management of aggregate climate-related financial risks (externalities and systemic vulnerabilities)	Effective management of climate-related financial risks (institution level)
<b>What is the primary tool to achieve that purpose?</b>	Disclosure of strategy to meet climate targets	Disclosure of strategy to meet climate targets	Disclosure of strategy to meet climate targets	Aggregate report on the potential build-up of climate-related risks in the financial system	Report to supervisor on how the institution will manage climate related risks associated with corporate strategy
<b>Who is the primary audience?</b>	Public	Shareholders and investors	Market participants, consumers	Macro-prudential regulators	Micro-prudential regulators
<b>Is the information publicly available?</b>	Yes	Yes	Yes	Jurisdiction-specific decision to determine whether it needs to make the information public to meet regulatory objectives	Jurisdiction-specific decision to determine whether it needs to make the information public to meet regulatory objectives

Source: [Stocktake on Financial Institutions' Transition Plans and their Relevance to Micro-prudential Authorities](#), NGFS (May 2023)

3.4. Types of transition plan usage

We have considered the plurality of perspectives on transition plans and transition planning to better grasp why these concepts appear to remain ambiguous. This stock-take endeavour highlights there exist large discrepancies between the European and international landscapes, as well as between existing initiatives.

**Credibility and feasibility of transition plans appear to be a key issue to instil trust and engage stakeholders around the entity.** It furthermore comes as a risk mitigant for greenwashing and legal or reputational risks. For financial institutions, credible plans and planning provide clarity and predictability for risk and opportunities assessment, lifting barriers for their engagement with the entity, and unlocking capital allocation for the transition. In addition to delivering on their own climate engagements, financial institutions also require such information to fulfil regulatory exercises (e.g., banks answering EBA's requirements on Pillar 3).

To bring clarity, we propose with the figure below a summary of practical reasons that may prompt organisations to plan and disclose their transition:



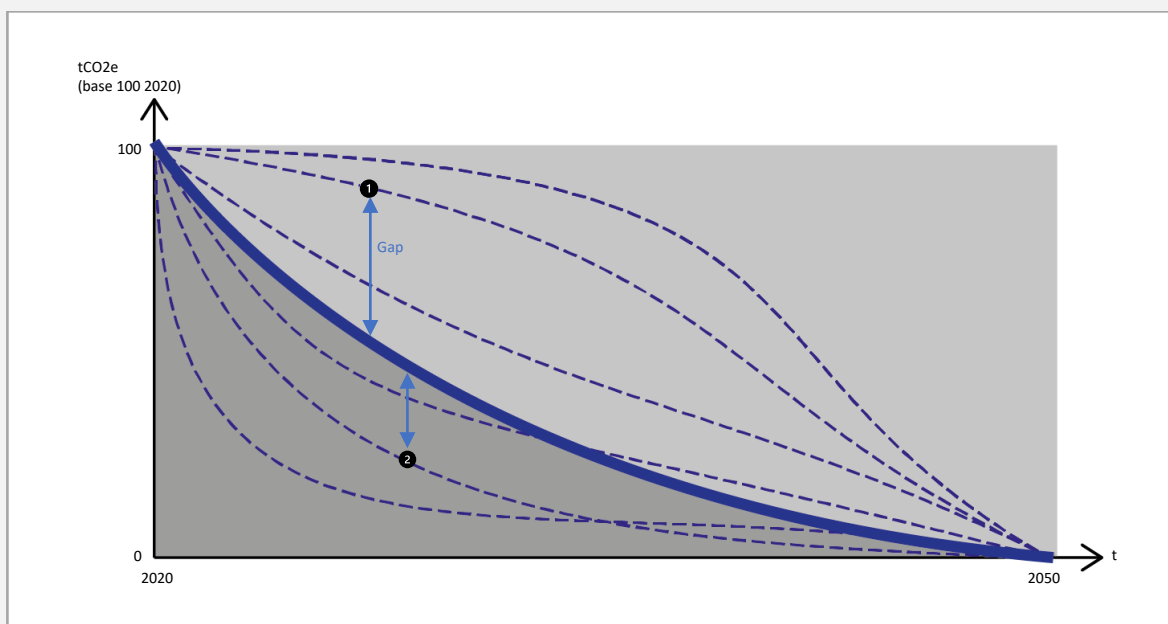
Figure 5: Transition plans usage

Operational	Strategy	Companies' approach to the low carbon transition, its vision on how its business will evolve to address a new environment and incorporate ESG considerations. For corporates, this implies defining long term investments, R&D, value chain evolutions, etc. For financial institutions, details on portfolio evolution and alignment targets, new markets, products, services, etc.
	Risk management	Details the organisation's vulnerability and approach on the management of climate and environmental-related financial risks related to transition planning. Counterparties transition plan as an input to financial institutions risk management framework.
External communication/disclosure		Addresses the need for transparency by providing information so that stakeholders (equity and debt investors, bank lenders and counterparties, NGOs, clients, ESG and credit rating agencies, ESG data providers, public authorities) can take informed decisions.
Regulatory and supervision		<p>Responds to regulatory requirements (e.g., transition plans are required by the European CSRD).</p> <p>Provides information for the assessment of micro and macro prudential risks of the low carbon transition.</p>

To highlight interlinkages between the risk and strategic approaches, we could also present the paradoxical situation stakeholders might be confronted with. As illustrated in what we will call *The Shallot Chart* (Figure 6), stakeholders have to manage the risk of (i) **missing their targets** or (ii) **choosing the wrong pathway**.



Figure 6: The Shallot Chart



Assume that action is implemented from 2020, leading to GHG emissions decreasing or at least plateauing, and NZE to be achieved in 2050. In this case, the grey rectangle represents the universe of possible pathways a stakeholder might embark on (examples are represented with dotted curves). Now, if we take the solid blue curve to represent the actual transition pathway of the economy that is observed at a given time ( $t$ ), every stakeholder whose own pathway is not on the solid blue curve experiences a gap ( $Gap = tCO2_{observed} - tCO2_{smooth}$ ).

Then, at  $t$ , two situations may exist:

- i. The situation illustrated in ❶ corresponds to the one of a stakeholder that fails to present sufficient decarbonisation rates; the gap is positive. This situation is considered risky because the laggard is exposed to high transition risks.
- ii. Alternatively, as illustrated in ❷, a stakeholder may experience a negative gap. **Adopting a risk approach in this situation underlines a paradox.** From an ecological point of view, the stakeholder is a best in class and performs better than the economy. However, it appears this situation may present higher transition risks than if the stakeholder's state at  $t$  was on the economy curve. The issue for the stakeholder can then consist in being *too early* and will face additional costs compared to their competition or may run the risk of choosing the wrong technology (e.g., organisations whose sole business is hydrogen-powered electric vehicles are now confronted with large difficulties as EVs appear to be the future of car manufacture (IEA, 2023c)). This underlines the importance of transition plans as an input into financial institutions risk management processes and the importance for public authorities to remove so far as possible the economic uncertainties (planification, R&D support, etc.).

4. ENSURING ROBUST TRANSITION PLANNING PROCESS

Operating a distinction between transition plans disclosure and transition planning and leveraging nascent best practices into harmonised guidelines on transition planning would foster comparability and credibility of transition plans.

4.1. Existing transition planning guidelines

Transition planning activities cover planning and execution activities, such as defining the governance (including incentive and remuneration criteria) and organisation, the operating model, the technologies, and processes being developed and associated Capex and Opex, people and skills, milestones, schedules, commercialisation, management of plan change, risk analysis, engagement activities, etc.

There exist various frameworks as regards the elaboration of transition plans (please find further details on the examples below in the state of play in Annex 5):

Figure 7: Transition planning frameworks

<p>NGFS stocktake <a href="#">(NGFS, 2023)</a></p>	<p>The NGFS considers that distinguishing between transition plans and transition planning would address potential confusion between the formal document that is disclosed publicly by the entity, and the operational and strategic planning which could encompass a larger scope than what is disclosed.</p>	<p><i>"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."</i></p>
<p>GFANZ</p>	<p>The GFANZ has provided members of its alliance with detailed guidelines on how to build a credible transition plan.</p>	
<p>ACT</p>	<p>In considering the Assessing Low Carbon Transition (ACT) assessment framework, we find sectoral declinations, which are particularly useful for stakeholders.</p>	
<p>TPT</p>	<p>The UK TPT identifies transition planning as a central issue, and notably proposes "key stages to preparing a transition plan".</p>	

## 4.2. Key issues in the transition planning process.

### 4.2.1 Mainstreaming transition planning throughout the organisation

Successfully achieving the committed targets requires a considerable transformation of business models. Consequently, companies need to engage all staff, in various business lines and/or geographies, in identifying and implementing decarbonisation levers. While target setting has generally been a top-down exercise, the planning of implementation needs to be a bottom-up approach, with actions and investments for all facilities and industrial processes, or new commercial and pricing strategy of the associated product. This process can be compared to (and is sometime included in) the budget process, although it also has to cover longer horizons.

One specific issue of this bottom-up approach is data collection. The planning process should be based on a clear mapping of data that is used for different business portfolios, their sources, and their degree of reliability, as well as actions taken to remediate potential shortcuts.

A further issue is the capacity building process throughout the organisation, including training of a large proportion of staff.

Transition planning should also include a monitoring framework, with key metrics to follow, assessment procedures and possible actions for remediation.

### 4.2.2. Ensuring ownership and accountability at the highest level

The quality of the transition planning process must be a key topic that a board should assess, to get comfort on the capacity of the company to engage in a credible transition pathway.

The incorporation of the elements of the transition planning process, as a complement to the transition plan itself, in the management report (URD in the EU) solidifies the ownership and accountability of the board.

The board also needs to ensure, for the company's strategy at large, that the policies and procedures are in place to foster the implementation of the transition plan. Additionally, the board needs to monitor closely the progress in implementation and the outcomes.

Concurrently, transition pathways and resulting GHG emissions are by nature both forward-looking, and remain highly uncertain, as they will be impacted by a wide range of technological shifts, exogeneous events, etc., which are largely out of control for the company.

Therefore, policy makers and supervisors should avoid putting excessive pressure on the achievement of targets, and in particular should avoid implementing a too rigid legal and reputational liability framework. As per the 2023 G20/OECD Principles of Corporate Governance (2023), and in line with the Duty of Care principles applying to overall board responsibilities, "Board members should be protected against litigation if a decision was made in good faith with due diligence. Protecting board members and management against litigation, if they made a business decision diligently, with procedural due care, on a duly informed basis and without any conflicts of interest, will better enable them to assume the risk of a decision that is expected to benefit the company, but which could eventually be unsuccessful. Subject to these conditions, such a safe harbour would apply even if there are clear short-term costs and uncertain long-term negative

impacts to the company, as long as managers diligently assess whether the decision could be reasonably expected to contribute to the long-term success and performance of the company.” This safe harbour principle is particularly important as regards sustainability commitments, as if too much room is given to the ability of litigation, companies may be incentivised to reduce the degree of ambition of their commitments, to the point that it may jeopardise the collective net zero target.

#### 4.2.3. Foster transition plan implementation through adequate incentives

As part of the board’s duty to align key executive and board remuneration with the longer-term interests of the company and its shareholders, boards should ensure that, **where climate and environmental risks are deemed material, C&E metrics are included in the attribution criteria of the variable remuneration scheme of key executives and directors**. Such metrics should be included in due proportions and accompanied with a robust validation framework.

#### 4.2.4. Engaging with stakeholders

While a company has its Scope 1 GHG emissions under its direct control, their direct influence on Scope 2 and 3 may be largely limited. Hence, engaging with upstream and downstream stakeholders is essential to foster implementation of a consistent transition plan throughout a value chain. Consequently, as part of transition planning, companies must define and implement, an engagement policy that is commensurate with their degree of reliance on Scope 3 emissions. Such engagement practices will obviously vary by sector, and depending on the weight that a company may or may not have on its clients’ and suppliers’ practices.

As regards financial institutions, as Scope 3 represents most of their total emissions, engagement should be seen as the main driver of a transition plan. Banks should engage with borrowers to ensure they have a credible transition plan. Institutional investors invested in equities should also include ESG transition considerations in their investment and voting policies and practices.

One additional aspect of engagement mentioned in the OECD Corporate Governance principles is the need for consistency between commitment and targets and positions defended in the policy debate: “Boards should ensure that companies’ lobbying activities are coherent with their sustainability-related goals and targets. Boards should effectively oversee the lobbying activities management conducts and finances on behalf of the company, in order to ensure that management gives due regard to the long-term strategy for sustainability adopted by the board. For instance, lobbying against any carbon pricing policy may be expected to increase a company’s short-term profits but not be in line with the company’s goal to make an orderly transition to a low carbon economy.”

#### 4.2.5. Bridging issues on confidentiality of information

If transparency is crucial to ensure credible transition plans (see Section 4.3), it is essential to recognise that not all information needs to be disclosed. While it is important for instance that companies disclose information in their transition plan on the various decarbonation levers and the associated financial and human means as required by CSRD, standard setters should avoid interpreting this to mean that all information, up to the most granular level by business and by geography, should be published. Too much information kills information, and the ESG disclosure

framework is already extremely difficult for its end-users to digest. Instead, it should be recognised that there is a limit between information to be disclosed to the market, and information that can be shared, on a confidential basis, with specific stakeholders such as supervisors, verifiers, ESG rating agencies, etc.

#### 4.2.6. Organising an efficient external assessment

The assurance process is at the core of the credibility of the overall ESG framework. In the EU, The CSRD requires compulsory external assurance, starting with limited assurance (from 2024) and moving to reasonable assurance by October 2028 if assessed feasible. The distinction between limited vs. reasonable assurance must however be clarified, as ESG disclosure is much less mature than financial reporting, from that perspective also the distinction between the transition plan and the transition planning process can be very useful.

An external assurance provider can provide comfort (providing either reasonable or limited assurance) on the fact that the transition planning process has been developed according to the transition planning guidelines and that the transition plan is compliant with the transition plan disclosure framework. As part of its engagement, the assurance provider would have access to more granular, undisclosed information about the processes, investments, technological choices, etc., to support his assessment.

Note this type of engagement should not be regarded as an assessment by the external assurance provider about whether the company's strategy is the correct one. Similarly, financial auditors would not express an opinion on the relevance of a company financial strategy, but on the fact that financial statements are free of material misstatements and fairly presented.

As an illustration, the assurance provider would be able to review whether a company have followed a sound process to define its decarbonation target and could assess:

- Whether the relevance of the reference scenario chosen by the company have been analysed and in particular whether it is science based or whether it is consistent with the company business model (location, applicable regulations, technologies, etc.).
- Whether the choice of the baseline year has been justified.
- Whether there is a clear rationale for the scope on which target has been set and whether the scope is consistent with the company sectors and activities.
- Whether the main external and internal assumptions, resources and levers have been assessed and faithfully disclosed.
- Whether there is clear ownership and accountability in target setting, and whether the process have been independently reviewed by second line and third line of defence.
- Whether decarbonation target have been fully integrated in the company strategy and its operating model.
- Whether assumption and performances are monitored including performance attribution and whether a clear process and monitoring has been set up to update target.
- Etc.

The assurance work plan would follow all steps of transition planning and this where the existence of public transition planning guidelines would provide both preparers and assurance providers with a reference they can build on (see Figure 7 and 8).

Market participants would also rely on views by other external experts to qualify transition plans. For instance, for target setting they would be able to assess whether the targets are ambitious enough, the company is well placed compared to peers, or the investment and divestment are sufficient considering the sector in which it operates.

For the sake of transparency and comparability, ESG rating agencies should leverage the constitution of a unique transition plan framework and planning guidelines. The new ESG Rating regulation is welcome from that perspective and should help provide some convergence of the ESG methodologies, currently very diverse and potentially confusing. For instance, ACT proposes a final rating ranging from 1E- to 20A+ determined by a performance ([1,20]), a narrative ([E, A]) and a trend ([-; +]) score. Moody’s proposes a rating scaling from NM (not meaningful) to NZ-1. These assessments are generally tailored by sectors.

Assurance providers and assessment expert should be part of the development of the transition plan framework and planning guidelines and should then build the assurance methodology and the assessment methodology based on these guidelines.

4.2.7. Proposed components of a transition planning guideline

We may propose the following illustrative components that could be considered in transition planning:

Figure 8: Transition planning guidelines component

Metrics	GHG footprint <i>scope 1&amp;2 and significant scope 3 categories, locked in emissions calculation</i>
	Methodology <i>coverage, soundness, limitations, granularity incl negative emissions</i>
	Data <i>quality and control procedures, completeness, representativeness</i>
Scenarios & targets	Target determination per milestone
	Soundness <i>Science-based and compatibility/benchmark to a 1.5° scenario, assumptions (sales volumes, shift in customer preferences, geography, regulatory factors, electricity mix), consistency, technology (per lever, availability, and feasibility), use of negative emissions, scope coverage, limitations, baseline year</i>
	Governance <i>accountability, ownership, validation</i>
Strategy	Incorporation in general strategy
	Business case <i>Identification of decarbonation levers: technology and infrastructures per activity, investment, and funding (revenues, capex, opex), other</i>

	<i>mitigation actions, assumptions and estimations, taxonomy alignment, market impact, capabilities assessment, alternative scenario analysis</i>
	Operational and transformation blueprint <i>organisation and responsibilities change and run, activities covered, governance and monitoring</i>
	<i>Exclusions for EU Paris-aligned benchmarks</i>
Implementation	<i>Policies and processes</i>
	R&D investment
	<i>Risk Management</i>
	Commercial & product/solutions development
	<i>Locked-in emissions management</i>
	Engagement policy, lobbying
	Role and responsibilities
	People and skills <i>upskilling plans</i>
	Support of IT systems
Governance	Accountability <i>approval of the transition plan by the administrative, management and supervisory bodies</i>
	Skills
	Incentive procedures
Monitoring	<i>Monitoring of scenarios and targets performance, assumptions update, attribution</i>
	<i>Monitoring of implementation Overall progress, project milestones, performance, change management and monitoring</i>

Elements in colour correspond to CSRD requirements.

## 5. LEVERAGING CREDIBLE TRANSITION PLANS AS AN EFFICIENT TOOL FOR TRANSITION FINANCE

Ultimately, what matters is **ensuring that the companies with a credible transition plan have the means to implement it**, which implies that they can finance the necessary investment at the scale needed and at competitive costs, notably compared to companies not having such plans.

We list below some possible avenues to consider, to provide concrete incentives and recognition of appropriate transition plans across the EU ESG regulatory framework, without reopening the EU Taxonomy legislation.

We consider these topics important regarding our discussion on transition plan and planning, however deserving to be treated more thoroughly than we may in this work, and/or to be the subject of further research and dialogue between authorities and the private sector.

### 5.1. Transition bonds

Transition bonds could be of two types: Use of Proceeds Bonds which target the financing of specific assets, or Sustainability Linked Bonds targeting general purpose financing.

The European Union has just finalised its EU GBS framework, which constitutes a gold standard for green bonds, being rooted in the EU Taxonomy. Such a framework is extremely useful to provide certainty to investors that their investment is “already green”. However, it does not provide for a broader scope of investment options to be made available to investors that want to invest in the greening of the economy.

Rather than “diluting” the EU GBS, it may be preferable to define transition bonds as a separate category, to allow better informed choices to investors.

Sustainability linked instruments can be powerful tools to foster transition finance, provided that the proportion of coupon at stake is material, and that the chosen performance indicators are aligned with a credible transition plan.

### 5.2. Transition funds

Similarly, equities and bonds issued by companies with a credible transition plan should be eligible for “transition funds”, or for a “transition” compartment in a “green fund”. This might imply to include this categorisation in the review of SFDR (2019). Appropriate disclosure rules and calibration of those compartments should be defined for transition assets, as for “green assets”. More generally, labels can include the existence of a transition plan as an eligibility criteria such as what is envisioned for the reformed French label *Investissement Socialement Responsable* (ISR).

### 5.3. Transition Asset Ratio

Notably considering limitations in the Green Asset Ratio (GAR) in financial institutions’ operations, we could argue for **the development of an additional Transition Asset Ratio (TAR)**. We indeed consider a TAR could complement the tools currently available to financial institutions to inform their stakeholders on the extent to which they progressively align their portfolios with the Paris Agreement target and could provide better incentives to accelerate the operationalisation of financial institutions’ transition planning. A TAR would represent the proportion of exposure to companies having a credible transition plan. This ratio would be a crucial information for stakeholders to assess and compare the concrete engagement of financial institutions in the financing of the transition.

### 5.4. Transition plans as a mitigant to banks’ climate risks

The transition characteristics of a bank portfolio should be explicitly affirmed as a mitigant to climate transition risk over the medium and long term. Indeed, as climate risks materialises over time mainly through credit risk, the lower the proportion of stranded assets, the less the vulnerability of the portfolio to climate risks. This implies that the transition characteristics of a bank portfolio should be considered in the SREP as part as the business model analysis, as well as in the climate-related scenario analysis, which is consistent with a dynamic balance-sheet approach.



Individual transition plans will also be a key input to financial institutions' counterparty risk management assessment. It however requires financial institutions to handle thousands of counterparties in a consistent manner. While this can be facilitated by a unified transition planning framework it would also require further standardisation and specification of relevant transition target and performance metrics per sector (and in particular calculation of scope 3 emissions, relevant categories for scope 3 target or value chain definition, etc.).

## 6. RECOMMENDATIONS TO UNLOCK TRANSITION PLANS' POTENTIAL

6.1. Non-CS3D-covered companies should be incentivised to develop and disclose a transition plan.

All companies will be impacted by the transition imperative. To (i) reduce uncertainty by clarifying the economic and financial environment and its prospects; and (ii) prompt transparency on how actors are positioned regarding the transition; the disclosure of a **transition plan should be incentivised for non-CS3D-covered companies** (i.e., companies which will not be required to disclose a transition plan). Given the decarbonation path levers often require long-term planning and actions, it is of the companies' interest, including small and medium size companies, to start the analysis now as it is likely that some decarbonation targets will be binding on them by 2030.

The level of detail and prescription should however be commensurate with the size and the complexity of the company. Focus should be put on the main transition risks and levers of companies (significant scope 1 & 2, sold product emissions, dependency on the carbon intensive value chain, etc.). Such a proportional approach may for instance be found in the CSRD application requirements.

6.2. 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.

Considering we do not find significant discrepancies between definitions (see Section 2.1.), we consider that **priority should be to define what transition plans should encompass at a more granular level**. In particular, **in the European Union, there should be a unique definition, content and structure for a transition plan (Annex 3), for example in CSRD/ESRS, rather than a multiplicity of legislative and regulatory texts having their own definitions**, to avoid confusion. Every text that would need to include a reference to transition plans or planning should refer to this unique definition.

In the absence of a unique framework, it is natural to observe a plurality of approaches. However, transparency and comparability cannot be achieved if every transition plan which is disclosed is based on divergent definition, structure, or information. In the absence of a common framework, transition plans users would naturally tailor their requests for information according to their anticipated use. This inevitably results in an unnecessary burden for the organisation and inefficiencies.

However, building a unique framework risk failing to satisfy the requirements of the different usages of transition plans. In order to provide users with a framework that would suit their respective roles, **we call for the definition of common core pillars that would be complemented by additional key**

**building blocks associated with a particular usage** ([Boissinot, 2022](#)). The key pillars would ensure there exist a unique transition plan framework (that includes common definitions, structure and core information), while addressing specific requirements of the different users with additional blocks that will expand some sections of the transition plan. For instance, in the case of a financial institution, prudential supervision would require the organisation to undertake detailed analysis regarding the evolution of its portfolio(s) under diverging stress scenarios. However, the detailed information would not need to be included in a transition plan addressed to the general public (the relevant information for the latter would rather be on the financial institution's portfolio decarbonisation path and the result of alternative scenarios).

6.3. The framework should be constructed on existing requirements and build on the well advanced European regulatory framework.

To be adopted as a common framework, we consider it important that;

- **it builds on existing disclosure requirement standards** in the EU, which is the most advanced jurisdiction on the matter (e.g., CSRD requires specific disclosure on transition plan with targets & metrics, actions, governance, etc.).  
At the European level, EFRAG should define these pillars, and all other European initiatives should take this as a baseline (including in those situations where their mandate requires them to add specific building blocks). We furthermore consider EFRAG should accompany its disclosure requirements with technical guidelines and standards (e.g., on scope 3 calculation).
- **at an international level, a common definition is promptly proposed by an international standard setter**, leveraging on European acquis, and referencing existing international initiatives (e.g., TCFD, ISSB, BCBS, NGFS).

6.4. 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.

The transition plan is a document constituted with the intent of being published. This makes it by definition non-exhaustive about the entity's transition planning activities, which should ultimately encompass all of the company's strategic and operational execution activities.

As such, the disclosed information within the transition plan can only be a subset of transition planning activities. The credibility of the transition plan will be dependent on the credibility of the transition planning.

From a practical standpoint, the forward-looking nature of transition planning requires choices to be made about key assumptions, shaping the stakeholder's vision of the future low-carbon economy. Nevertheless, we observe the current economic environment fails to provide clear guidance on several key notions, which implies stakeholders may adopt divergent positions when building their scenarios.

To ensure transition plans are credible and efficient for the transition towards a low-carbon economy, we consider **it is crucial to follow a robust approach on the selection of assumptions, and to provide transparency on key assumptions, as well as on their update and monitoring.**

We provide an example of the broad categories that could be included in transition planning guidelines and their articulation with the CSRD disclosure requirements in Figure 8.

6.5. The global transition should be supported by public policies in line with countries commitment to the Paris Agreement.

To ensure the efficacy of transition plans as catalysts for the transformation of the economic and financial system towards a global NZE, we consider it is crucial to **emphasise the role of strong and ambitious public policies in providing a sound transition enabling environment.**

Clarity on the current regulatory environment and its prospects is key for the forward-looking view of a stakeholder's transition. Predictable policies are then essential to enable economic and financial actors to make long-term decisions that align with the decarbonisation of the economy.

Furthermore, **a stable and favourable environment would be required if we consider a macro-prudential approach of the low-carbon transition. In this optic, the transformation of the economic and financial system must occur rapidly and most importantly should follow a smooth pathway.**<sup>3</sup> This concept stresses the importance of minimising economic disruptions, maximising efficiency, and opportunity exploitation, and ensuring resilience while transitioning.

Public authorities may utilise a broad range of policies to support the transition, ranging from incentives (subsidies, grants, tax arrangements) to carbon pricing and legal standards.

We consider building a favourable environment furthermore implies that public authorities provide **clarity about key concepts that are fundamental to the composition of stakeholders' decarbonisation scenarios.** In order that divergences between stakeholders is limited, thus greatly easing the comparability of their transition plans, the latter should for instance include:

- Sectorial decarbonisation targets,
- Prospects on macro-trends (GDP, energy prices, technology penetration, etc.),
- Public policies and the regulatory environment for their application,
- The transition scenario under consideration.

The public and private sectors should collaborate on the declination of macro-level transition scenarios.

Considering this, we call for **strong collaboration between the public and private sector to develop credible and feasible transition strategies at the sectoral and local level.** The work undertaken by the French Government that has led to the *Planification Écologique* plan is a good example of such an approach.

Ensuring the appropriate financing of these approach and developing a consistent planification at a European level will be key for its success.

In the absence of strong signals and a favourable environment that help stakeholders navigate through the transition of the economy, economic and financial stakeholders' transition might be hampered by uncertainty in decisions and present efficiency losses.

#### 6.6. Coordination and monitoring of the transition at European level must be developed.

Ultimately, **transition plans should also be consolidated at country/EU level, to allow a bottom-up monitoring of the progress towards the country committed pathway.** While, at this stage, this may be a sweet dream, this consolidation is crucial to enable countries to monitor their progress towards the Paris Agreement target.

In this respect, a European monitoring mechanism could be put in place, to monitor the implementation of the Fit for 55 package by Member States. This would follow an approach similar to the monitoring of the 'Maastricht criteria' ([Council, 1997](#)) for the public deficit where, in order to ensure economic and financial convergence and stability, the achievement of baseline criteria is required. Here, the same would apply for environmental and social objectives; with the EU Commission having the power to request a remediation plan if commitments not respected.

#### 6.7. European supervisory and regulatory entities should align their approach on transition plans.

**Supervisory and regulatory entities should overcome mandate discrepancies to avoid diverging strategic and risk approaches to the transition.** This would help clarify the stakeholders' environment (e.g., limiting standard multiplicity) and would allow for efficiency (e.g., limiting compliance burden, policy alignment, etc.).

In the European Union, considering the EU Green Deal, the European Commission should avoid its current silo organisation and ensure an efficient and streamlined strategic approach.

On this issue, we note the September 2023 French-German roadmap for the Capital Market Union (CMU) draws similar conclusions: "[...] given the rapid expansion of regulation in recent years, we need to look more closely at the possibility of consolidating and, where relevant, correcting the existing framework—without compromising its objectives. Different regulatory approaches—for example, in relation to transition planning requirements—should be streamlined ([2023](#))."

#### 6.8. Scenario makers should clarify the assumptions on which the scenarios are based and provide granular outputs.

To ensure their assumptions are credible, **stakeholders need to refer to reference scenarios.**

Reference scenarios may first be used in the construction of the stakeholder's scenario to define baseline assumptions and targets. Considering industry specificities, reference scenarios may also identify decarbonisation levers, their priority in use (by order of importance and/or ease of operationalisation) and the required timeframe. Stakeholders might then tailor this insight to their own business specificities. A second use is to serve as a benchmark reference for the stakeholder's assumptions. For instance, the stakeholder might justify its use of Carbon Capture, Utilisation and Storage (CCUS) with the argument that it is aligned with assumptions considered in a reference scenario.

It is important though to keep in mind that reference scenarios provide a general view of what the economy/sector could look like in terms of total GHG emissions, technology use, investment trend, etc. This general view may therefore be challenged.

However, the use of reference scenarios to instil trust in stakeholders' transition plans is dependent on the transparency effort made by the reference scenario developers. **We consider crucial reference scenarios should be supported by a clear and detailed documentation to enable (i) their use by stakeholders building scenarios; and (ii) possibilities of easy external verification of the assumptions relied on.** From this perspective, open-source models are to be praised (e.g., NGFS scenarios), but they would also benefit from a more readable interface.

**Overall, to ensure the credibility of a transition plan, the use of reference scenarios should be subject to very detailed disclosure so that it may be controlled.**

6.9. 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.

An external assessment can be performed provided that a consistent and transparent overall framework has been developed (a transition plan framework *and* transition planning guidelines) that can be used by both the company and the external entities that will independently assess the company transition plan.

Two types of entities can be involved:

- **External assurance providers**, who can assess whether the transition plan is compliant with the transition plan framework and that it has been developed in accordance with the transition guidelines. The assurance provided would cover the transition planning process but would not be a judgment on the company's strategy. External assurance is compulsory in the EU (starting with limited assurance and going to reasonable assurance) as part of the assurance provided to the sustainability report. But while national assurance standards could be used pending Commission delegated acts, it is necessary the latter are enacted according to the timetable set by the CSRD to provide the necessary EU harmonisation. On August 2, 2023, the International Auditing and Assurance Standards Board (IAASB) launched a public consultation on its landmark proposed global sustainability assurance standard, International Standard on Sustainability Assurance (ISSA) 5000, defining General Requirements for Sustainability Assurance Engagements (2023). Such a global framework, even if only principle-based, would be an important step forward in the harmonization of practices, capacity building, and ultimately trust in companies' disclosures and targets.
- **Specialised entities and rating agencies that can provide an expert judgment on the overall relevance and credibility of the transition planning, including the strategy** (such as the ACT initiative (2019) or Moody's' net zero assessment methodology (2022b)). These assessments are usually performed following a rating scale and tailored by sectors. We welcome the European Commission's June 2023 proposal for a Regulation on ESG ratings (2023a)<sup>4</sup> which should help clarify such assessments by enhancing transparency.

Finally, it is important to keep a plurality of external experts that can evaluate companies' transition plans.

#### 6.10. Transition plans should be leveraged into efficient tools for transition finance.

Most of the work undertaken by policy makers and other stakeholders has focused so far on the content and process of transition plan building. While this is a crucial step, the framework should not stop there, and it should envisage how to reach the intended benefit of transition plans, in terms of acceleration of the channelling of financial investments to transition.

Heightened information and transparency are crucial to enable transition finance to extend its spectrum of financial instruments, notably with a more prominent role for equity investment (that remains a minority ([Tandon, 2021](#))). Transition finance can be an effective tool to channel funds to transition activities and should as such be encouraged.

In particular, it appears that instruments and incentives should be developed to allow a financial differentiation between transitioning companies and others. At this stage we have identified several initiatives that would be of high relevance for unlocking the benefits of transition plans:

- The definition of a robust framework for transition bonds.
- The recognition of transition assets in “green” and/or “transition” funds, within a reviewed SFDR framework ([European Commission, 2023g](#)).
- The implementation of a TAR as a complement to the GAR.
- The recognition of transition plans as a mitigant for climate risks, notably in scenario analysis/climate stress tests.

#### 6.11. Other fundamental topics should be progressively and as soon as possible included in transition plans, so their scope extends beyond climate mitigation.

**Climate change mitigation transition plans and planning should not hide away other environmental and social goals to the extent they are intertwined and greatly matter for building a future sustainable economy.** Bearing this in mind, we call for a large research endeavour to fill existing gaps in the literature and in the scientific community, as regards scenarios and pathways, and on the specific subject of transition plans and planning, identify how to approach issues on adaptation and biodiversity (including pollution, water, etc.). Concurrently, social and fairness issues, and circular economy should be addressed too.

The transition planning guidelines defined in this report should be considered relevant when expanding the climate transition framework to these other objectives.

## 7. CLOSING REMARKS

Throughout this paper, we have delved into the potential of transition plans and planning to become efficient tools for prompting the ambitious action that climate change urges. These plans provide the transformative ability to guide entities and to unlock capital allocation for a sustainable future.

We have highlighted the intricate interplay between the potential of transition plans in the race to global NZE, and their credibility. The effectiveness of transition plans hinges upon their credibility, which in turn relies on a multiplicity of factors. As such, the significance of transparency cannot be underestimated, as it bridges the gap between intention and impact, enhancing the credibility of endeavours aimed at transition.

Having, studied these factors of credibility on the one hand, and apparent barriers for transition plans/planning efficacy on the other, we draw the following four conclusions:

- (i) The definition of a robust, unique framework for transition plans and planning, whose architecture is composed of key pillars with additional blocks, should overcome numerous difficulties. This should furthermore be developed considering transition plans as tools for the transition beyond an information reporting exercises, and as such take stock of sectoral specificities with a science-based approach.
- (ii) Transition plans and transition planning are complementary: transparency without proper operationalisation would lead to a risk of greenwashing, while internal operationalisation without transparency would mislead external stakeholders that are assessing the company's forward-looking strategy and position in a low carbon economy.
- (iii) To achieve an efficient transition, one needs a clarified environment which should be constituted by ambitious and coherent public policies. A sound transition enabling environment would notably set out the pathways for economies to follow and would ensure a holistic engagement of stakeholders.
- (iv) The disclosure of reliable, ambitious, and credible transition plans is only a mean to an end. To reach the objective of the transition, adequate incentives must be put in place to help stakeholders differentiating transitioning firms from others in their business and financial choices.

Fostering transparency, enhancing credibility, and building a common approach would then allow transition plans and transition planning to become powerful tools for the low carbon transition and gather momentum for climate action.

## NOTES

<sup>1</sup> For instance: “Unless there are immediate and deep emissions reductions across all sectors, limiting global warming to 1.5°C will be beyond reach. Global greenhouse gas emissions implied by Nationally Determined Contributions announced prior to COP26 make it likely that warming will exceed 1.5°C and will also make it harder to limit warming to below 2°C” in [IPCC, 2022](#).

<sup>1</sup> Probability to limit warming to 1.5°C is “>50%” in current IPCC projections from pre-COP26 NDCs. Probability for 2°C is “>67%”. IPCC (2022), [Climate Change 2022, Mitigation of Climate Change](#), p.15, WG3 contribution to AR6

<sup>1</sup> See for reference: NGFS ([2022](#)), or other NGFS studies on scenarios which explore the notion of *smooth* or *orderly* scenarios. And ESRB ([2016](#)), which elaborates on a *gradual* transition.

<sup>1</sup> The vote in ECON Committee is scheduled on November 28, 2023.

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## ANNEXES

### Annex 1: Working-group composition

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## Annex 2: People interviewed

We are grateful for experts who have provided compelling insight:

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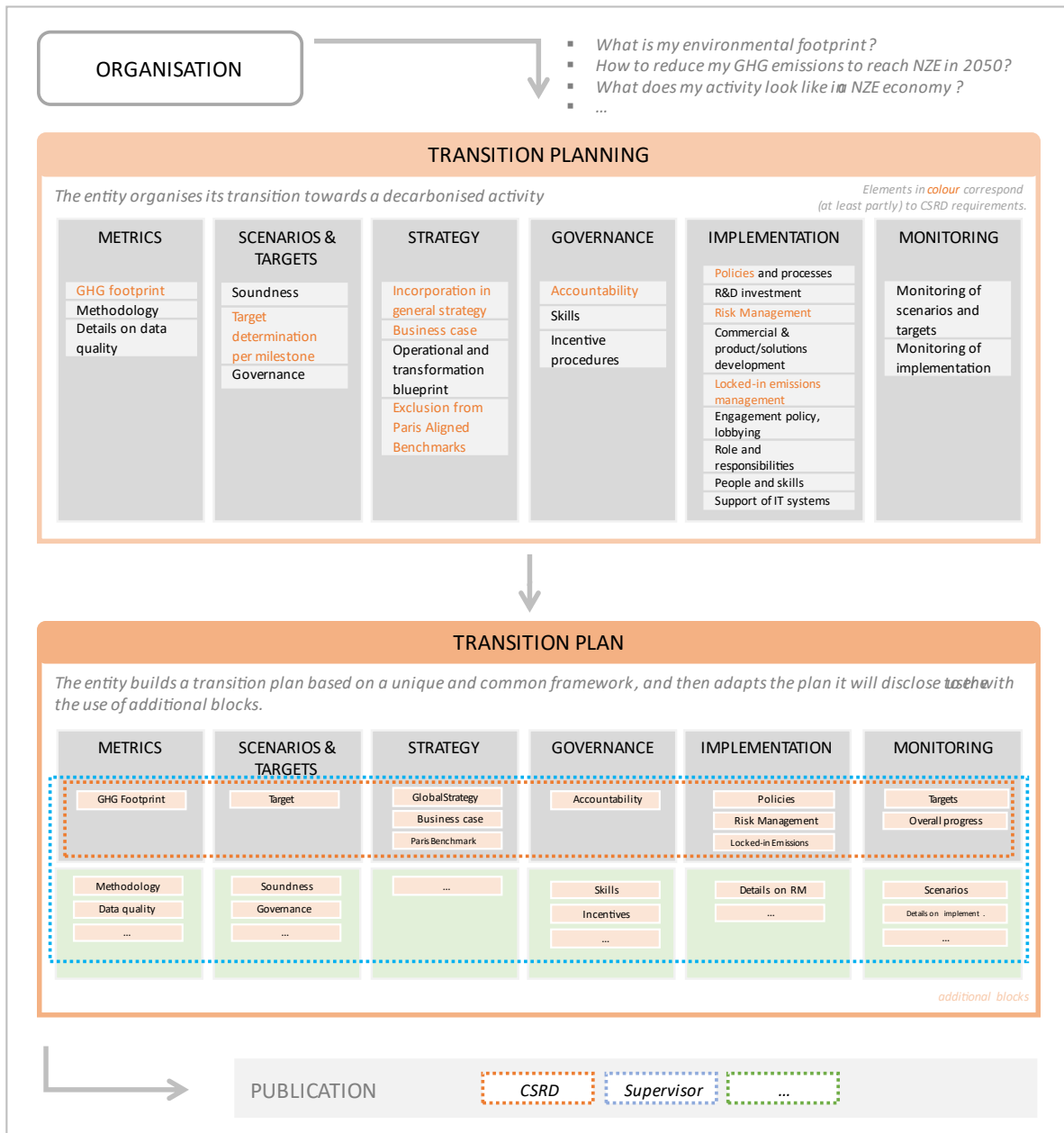
Frédéric Painchault, ArcelorMittal

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Yasmina Serghini, Moody's ESG

### Annex 3: Illustration of a common framework





## Annex 4: Summary of main transition plan components in various studies

IGCC		ACT	GFANZ		
GHG targets	Comprehensive 1.5°C aligned commitment	Targets	Foundations	Objectives and priorities	
	Short, Medium and Long-term targets	Material investment	Implementation strategy	Activities and decision-making	
	Absolute & Intensity	Intangible investment		Policies and conditions	
Strategy	Quantified decarbonisation actions	Sold product performance	Engagement strategy	Product and services	
	Tackling operational emissions	Management		Value chain	
	Taking sector-specific actions	Supplier		Industry	
	Aligning capital allocation	Client	Government and public sector		
	Setting out neutralisation strategy	Policy engagement	Metrics and targets		
	Underlying historic performance	Business model	Governance	Roles, responsibilities and remuneration	
	Governance structure			Skills and culture	
Engagement	Value-chain engagement	CDP	I4CE		
	Climate policy engagement		Banking institutions	Carbon neutrality by 2050 target	
	Financing and investment			Global decarbonisation strategy, broken down by sector	
	Just transition		Scenario analysis	5-year interim targets	
Climate solutions (investment)	Climate solutions definition	Financial Planning	Sectoral trajectories with reference scenario, in connection with EU transition plans		
	Investment in solutions	Value chain engagement & low carbon initiatives	Minimal use of carbon offsetting		
	Low-carbon production	Policy engagement			
	Nature based solutions	Risks & opportunities			
GHG accounting and disclosure	Emissions/energy consumption	Targets			
	Impact of 1.5°C on accounts	GHG accounting			

TCFD		UN	
Governance	Approval	<i>Corporates</i>	
	Oversight		GHG emissions reduction targets (absolute and relative if relevant)
	Accountability		Third-party verification approach and audited accuracy
	Incentive		Comparison to a 1.5°C reference scenario
	Reporting		CCUS usage
	Review		Value-chain engagement
	Transparency		Engaged financial capacities (CapEx, R&D, investment)
	Assurance		Actions to address data gaps
Strategy	Alignment with strategy		Governance structure
	Plan assumptions		Policy engagement
	Prioritised opportunities		Report on progress
	Action plans		Contribution to a just transition
	Financial plans		Conservation of natural ecosystems throughout the value-chain
	Scenario analysis	in addition for <i>financial institutions</i>	
Risk management	Description of risks		Incorporation of the strategy in all parts of the business, with strategy to phase out stranded assets
	Plan challenges and uncertainties		Strategy to address emissions that remain non accounted for in certain asset classes
Metrics and targets	Metrics		Engagement in voting
	Targets		Demonstration of alignment with real economy decarbonisation
	Methodology	<i>Territorial entities</i>	
	Dates		Strategic roadmap for GHG emission reduction and strengthened resilience
	GHG emissions reductions		Community engagement and social justice
			Assessment of current situation (GHG emissions , risks, socioeconomic priorities)

TPT	
Foundations	Strategic ambition
	Business model and value chain
	Key assumptions and external factors
Implementation strategy	Business operations
	Products and services
	Policies and conditions
	Financial planning
Engagement strategy	Engagement with value chain
	Engagement with industry
	Engagement with government, public sector and civil society
Metrics & targets	Governance, business and operational metrics and targets
	Financial metrics and targets
	GHG metrics and targets
	Carbon credits
Governance	Board oversight and reporting
	Roles, responsibility and accountability
	Culture
	Incentives and remuneration
	Skills, competencies and training

Source: [Investor Expectations of Corporate Transition Plans: From A to Zero](#), IIGCC (2023); [ACT Assessment Framework](#), ACT (2019); [Expectations for real-economy transition plans](#), GFANZ (2022b); [Climate Transition Plan: Discussion Paper](#), CDP (2021); [Disclosure Framework](#), TPT (2023).

**Annex 5: State of play of main initiatives on transition plans and transition planning**

(i) *Reference scenarios/target state*

Relevant reference	Source	Key topic	Synthesis of main insights
<a href="#">Assessing Transformation Pathways, WG3-AR5- Chap.6</a>	IPCC	Macro-level temperature scenarios and related transformation pathways	<ul style="list-style-type: none"> <li>- IPCC assessment reports propose a synthesis of scientific knowledge on climate. In this particular chapter, the IPCC considers over 1000 new scenarios from integrated modelling research groups published since AR4. Focus here is to highlight structuring choices for defining global transformation pathways, and key characteristics of chosen pathways.</li> <li>- New scenarios considered introduce <i>non-idealised international implementation</i> and <i>limited technology</i> pathways</li> <li>- For comparison, the IPCC groups scenarios by key parameters (e.g., radiative forcing intervals), and mapped.</li> <li>- Identifies determinants of emissions profiles (degree of possible overshoot, technology options and deployment, policy assumptions)</li> <li>- Assesses the link between concentration, radiative forcing and temperature</li> <li>- Focuses on key elements to break trends and head towards global decarbonisation (e.g., reducing carbon intensity of energy)</li> </ul>
<a href="#">Global Energy and Climate Model</a>	IEA	Macro-level scenarios for the energy system	<ul style="list-style-type: none"> <li>- The International Energy Agency (IEA) delves into a comprehensive exploration of three distinct scenarios. These scenarios encompass a vision for achieving Net Zero Emissions (NZE) by the year 2050, as well as an analysis of scenarios that align with publicly announced pledges and existing stated policies (NZE S, APS, STEPS). Crucially, these scenarios are intrinsically linked with projected temperature trajectories. This interconnected framework provides a holistic perspective and incorporates a wide array of inputs and assumptions, spanning over two crucial horizons: 2030 and 2050.</li> <li>- To achieve this comprehensive analysis, the IEA employs advanced modelling techniques that encompass multiple dimensions. These dimensions include capacities within energy markets, the evolution of technology trends, strategic policy formulations, and the dynamic landscape of investments. Notably, the focus of these analyses is directed towards the pivotal sectors of industry, transportation, and buildings. These sectors, serving as the ultimate end-users, are central to the IEA's endeavour to map out effective transition pathways towards sustainable and low-carbon practices.</li> </ul>
<a href="#">NGFS climate scenarios</a>	NGFS	Macro-level scenarios to understand possible evolutions of physical and transition risks	<ul style="list-style-type: none"> <li>- The NGFS presents 3 integrated assessment models (GCAM, MESSAGEix-GLOBIOM and REMIND-MAGPIE) and 6 scenarios grouped according to a transition-physical risks matrix. The latter are Orderly (NZE, below 2°C), Disorderly (divergent NZE, delayed transition), Hot house world (NDCs, current policies).</li> <li>- Outputs of the models focus on decarbonising electricity generation, electrifying building-industry-transport, switching to carbon neutral fuels, CCS, energy efficiency, decarbonising agriculture-forestry-land uses</li> </ul>
<a href="#">Guide to climate scenario analysis for central banks and supervisors</a>	NGFS	Guidelines on scenario analysis	<ul style="list-style-type: none"> <li>- Guidelines provided for central banks and supervisors, that also provide useful insights for all scenario users/conceptors (e.g., Chap.5 focusses on using climate scenarios to assess financial risks)</li> </ul>
<a href="#">Survey on Climate Scenarios - Key findings</a>	NGFS		<ul style="list-style-type: none"> <li>- Reports feedback on NGFS scenario use for later improvement:               <ul style="list-style-type: none"> <li>&gt; pros that it emanates from a public entity and is freely accessible</li> <li>&gt; a better and clearer guidance would be appreciated</li> </ul> </li> <li>- Next versions will focus on expanding:               <ul style="list-style-type: none"> <li>&gt; sectoral granularity</li> <li>&gt; physical risks</li> <li>&gt; ease of usability &amp; documentation</li> <li>&gt; inclusion</li> </ul> </li> </ul>
<a href="#">Climate Scenario Analysis by Jurisdictions</a>	NGFS - FSB		<ul style="list-style-type: none"> <li>- Provides a synthesis of the findings from climate scenario analysis exercises undertaken by financial authorities at the individual firm level, at the level of the different financial sectors, and at the overall financial system level.</li> <li>- Key messages:</li> </ul>

			<ul style="list-style-type: none"> <li>&gt; important use of NGFS scenarios from financial authorities' in climate scenario analysis exercises</li> <li>&gt; large heterogeneities in scope and objectives of climate scenarios (macroprudential, microprudential, communication, etc.).</li> <li>&gt; importance of C&amp;E risks for financial stability while measures of exposure and vulnerability remain understated</li> <li>&gt; limitations due to data gaps, but with initiatives to bridge them</li> </ul>
<a href="#">(French) La planification écologique : synthèse du plan</a>	E. Borne's government (FR)	Planning method for transforming the French economy (under development)	<ul style="list-style-type: none"> <li>- Key decarbonisation levers and targets are identified</li> <li>- Five key issues considered: mitigation of climate change, adaptation to the inevitable consequences of warming, preservation and restoration of biodiversity, conservation of resources, reduction of pollutants affecting health</li> <li>- Provides key action for: <ul style="list-style-type: none"> <li>&gt; transportation</li> <li>&gt; housing</li> <li>&gt; preservation and enhancement of our ecosystems</li> <li>&gt; production</li> <li>&gt; nutrition</li> <li>&gt; consumption</li> <li>&gt; adaptation</li> </ul> </li> </ul>
<a href="#">(French) Plan de transition sectoriel de l'industrie cimentière en France</a>	ADEME	Decarbonisation plan for the French cement industry to enable the French national strategy (SNBC)	<ul style="list-style-type: none"> <li>- 3 scenarios: <ul style="list-style-type: none"> <li>&gt; sobriety (-81% in CO2 2015-2050; demand -60%)</li> <li>&gt; reference scenario (cooperation with industrial actor to unlock decarbonation; -54% in CO2 2015-2050; demand -13%)</li> <li>&gt; techno-push (-81% in CO2 2015-2050; demand -6%)</li> </ul> </li> <li>- Identifies main decarbonisation levers: upgrading of infrastructures, lowering energy carbon intensity, reducing the clinker ratio, expansion of incremental technology benefits, CCS (10% of 2050 reduction)</li> </ul>
<a href="#">Fit for 55 package</a>	European Union	The Fit for 55 package is a set of proposals aiming to establish the legislative framework in relation to this goal.	<ul style="list-style-type: none"> <li>- The package includes: reforming the EU ETS, reducing emissions from transport/buildings/agriculture/waste, goals for land and forestry, addressing extra-EU emissions, a support fund, electrifying transportation and increasing the uptake of greener fuels in the aviation and maritime sectors, regulating CH4 emissions, revising energy taxation, boost renewables, increase energy efficiency, greening gases.</li> <li>- The Fit for 55 package is part of the EU Green Deal</li> </ul>

(ii) *Transparency and planning initiatives (disclosure frameworks, planning methodology and assessment frameworks)*

Relevant reference	Source	Key topic	Synthesis of main insights
<a href="#">CSRD (ESRS)</a>	EC with EFRAG		<p><b>CSRD:</b></p> <ul style="list-style-type: none"> <li>- Stipulates that firms in its scope are required to disclose plans to ensure that their 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 as established in the European Climate Law, and, where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities. (§30)</li> <li>- goal of convergence with ISSB</li> <li>- plans should be based on the latest science on climate issues (e.g., IPCC reports)</li> <li>- "Article 8" (EU/2020/852) could be used in support where appropriate</li> </ul> <p><b>ESRS:</b></p> <ul style="list-style-type: none"> <li>&gt; The undertaking shall disclose its transition plan for climate change mitigation. In case the undertaking does not have a transition plan in place, it shall indicate whether and, if so, when it will adopt a transition plan. (§14)</li> <li>&gt; Information required: <ul style="list-style-type: none"> <li>&gt;&gt; compatibility with 1.5°C target (§16.a)</li> <li>&gt;&gt; mitigation actions and decarbonisation levers (§16.b/ E1-3)</li> <li>&gt;&gt; embedding of the plan in overall business strategy (§16.h§AR 1)</li> </ul> </li> </ul>

			<ul style="list-style-type: none"> <li>&gt;&gt; governance of the plan (§16.i)</li> <li>&gt;&gt; supporting fundings (§16.c)</li> <li>&gt;&gt; progress in plan implementation (§16.j)</li> <li>- Requirements (optional) on transition plans for biodiversity in ESRS E4-1</li> <li>- Adaptation: no plan required but resilience analysis</li> </ul>
<a href="#">IFRS S2 Climate-related Disclosures Art.29 LEC</a>	IFRS (ISSB)  French Government	Disclosure requirements for transition plans  Frames FI's extra-financial reporting	<p>Entities are for instance required to disclose the effects of climate-related risks and opportunities on the entity's strategy and decision-making, including information about its climate-related transition plan.</p> <ul style="list-style-type: none"> <li>- Defines what shall be reported in the investment policy regarding ESG and transition enabling actions</li> <li>- Extends the scope to banks' AM and investment activities, credit institutions, investment institutions and real estate funds</li> <li>- On ESG risk management: disclosure (extended to biodiversity issues)</li> <li>- On strategies: <ul style="list-style-type: none"> <li>&gt; investment strategies vs. C&amp;E: should be aligned with COP21 / requires 5 years targets to 2050 / information on methodologies / information on actions</li> <li>&gt; investment strategies vs. biodiversity: should be aligned with the UN Convention on Biological Diversity</li> </ul> </li> <li>- Requires a report on progress (i.e., transition plan) to be transmitted to the ADEME (Climate Transparency Hub – CTH)</li> <li>&gt; should include info on where the FI stands, identified opportunities for improvement and related actions to implement in order to reach targets</li> </ul>
<a href="#">Implementation Guidance Disclosure Framework</a>	TPT - HM Treasury (HMT) / FCA (UK)	Guidelines to assist in the preparation of credible, useful, and consistent transition plans in line with the TPT Disclosure Framework / Builds on the existing recommendations to disclose transition plans under the TCFD Recommendations and accompanying guidance, as well as transition plan disclosure recommendations in the ISSB's proposed standards	<ul style="list-style-type: none"> <li>- Outlines why transition plans are useful, encourages the creation of standardised and comparable disclosures and provides a standard against which plans can be assessed</li> <li>- Definition and covering of transition plans (draw on the GFANZ's insight)</li> <li>- Built on three pillars: ambition, action, accountability</li> <li>- Identifies key issues: <ul style="list-style-type: none"> <li>&gt; Baselining current position</li> <li>&gt; Setting ambition</li> <li>&gt; Developing an action plan</li> </ul> </li> <li>- Ensuring accountability for delivery</li> <li>- Identifies key issues for its disclosure: <ul style="list-style-type: none"> <li>&gt; how it fits into the existing and emerging disclosures</li> <li>&gt; location</li> <li>&gt; audit</li> </ul> </li> <li>- Lists disclosure elements and sub-elements</li> <li>- Proposes <a href="#">sector guidance</a> (banks, AM, asset owners, electric utilities &amp; power generators, food &amp; beverage, metals &amp; mining, oil &amp; gas)</li> </ul>
	US SEC	Disclosure	<ul style="list-style-type: none"> <li>- US firms are not required to disclose transition plan but the Securities and Exchange Commission (SEC) proposes that a public firm discloses its transition plan if it was voluntarily adopted as part of the firm's climate-related risk management strategy.</li> </ul>
<a href="#">Pillar 3</a>	EBA		<ul style="list-style-type: none"> <li>- Quantitative and qualitative information on ESG risk exposure</li> <li>- Includes quantitative disclosures on institutions' mitigating actions supporting their counterparties in the transition to a carbon neutral economy and in the adaptation to climate change. <ul style="list-style-type: none"> <li>&gt; E.g., "Template 3: Banking book"</li> <li>&gt;&gt; Risk disclosures (transition &amp; physical)</li> <li>&gt;&gt; Mitigation actions (actions for transition and adaptation)</li> <li>&gt;&gt; GAR and EU Taxonomy alignment</li> </ul> </li> <li>- Climate change transition risk: Alignment metrics" with IAE NZE2050</li> </ul>
<a href="#">Integrity Matters: Net Zero Commitments by Businesses</a>	UN Framework Convention on	Guiding vision of what credibility means and what must be done to ensure trust	<ul style="list-style-type: none"> <li>- Provides recommendations to avoid greenwashing on: <ul style="list-style-type: none"> <li>&gt; NZE Pledges, NZE targets, use of voluntary credits, creating a transition plan, fossil phase out, lobbying, just transition, accountability, investment</li> <li>&gt;&gt; on NZE: definition, interim targets, in line with IPCC or IEA scenarios, publicly disclose and report progress, what is to be aligned, what is to achieve NZE,</li> </ul> </li> </ul>

<a href="#">Financial Institutions, Cities and Regions</a>	Climate Change (UNFCCC)	that delivery of this commitments is occurring	what to count >> on transition plans: what to disclose, audit, references to scenarios, details on CCS, how data gaps are bridged, value chain engagement, ...
<a href="#">Financial Institution Net Zero Transition Plans (FI NZTP): Fundamentals, Recommendations, and Guidance</a>	GFANZ	Provides recommendations and guidance on the components GFANZ believes are essential for a credible net-zero transition plan from a financial institution	<ul style="list-style-type: none"> <li>- Components: <ul style="list-style-type: none"> <li>&gt; Objectives &amp; priorities</li> <li>&gt; Implementation strategy on products &amp; services, activities &amp; decision-making, policies</li> <li>&gt; Engagement strategy on clients &amp; portfolio companies, industry, the public sector</li> <li>&gt; Metrics &amp; targets</li> <li>&gt; Governance: roles, responsibilities, remuneration, skills &amp; culture. (cf. Annex 4)</li> </ul> </li> </ul>
<a href="#">Real economy one</a>	GFANZ	Serves as a practical guide for companies in the real economy when building transition plans and disclosing progress against them	<ul style="list-style-type: none"> <li>- The transition plan components draw from, and make reference to, existing transition plan guidance, rather than creating a new framework.</li> <li>&gt; Lists the components of real-economy transition plans relevant for financial institutions (same than identified in FI NZTP)</li> <li>&gt; Confronts this list to existing initiatives (#page=6)</li> <li>- Provides disclosure principles for transition plans</li> <li>- Elaborates on the role of FI's transition for the real economy</li> </ul>
<a href="#">Guidance on use for financial institutions</a>	GFANZ	Aims to support financial institutions in understanding and comparing sectoral pathways, facilitate engagement between financial institutions and their clients and portfolio firms, and communicate pathway needs to developers	<ul style="list-style-type: none"> <li>- Provides guidelines on how to understand and compare pathways</li> <li>- Compares macro scenarios and provides guidelines on how to choose amongst them</li> </ul>
<a href="#">Net Zero Guidelines</a>	ISO	Guiding principles and recommendations on how enable an approach to achieve Net Zero GHG	<p>Net Zero guidelines that include</p> <ul style="list-style-type: none"> <li>- Established levels and boundary for net zero</li> <li>- Leaderships and commitment</li> <li>- Targets</li> <li>- Mitigation planning and Prioritization of mitigation actions</li> <li>- Counterbalancing residual emissions</li> <li>- Measurement and monitoring</li> <li>- Wider impact, equity, and empowerment</li> <li>- Communication, reporting and transparency</li> <li>- Improvement</li> </ul>
<a href="#">ACT assessment sectoral methodologies</a>	ACT Initiative	Assessment of corporate carbon transition	<ul style="list-style-type: none"> <li>- Assessment of: <ul style="list-style-type: none"> <li>&gt; Commitment: What is the company planning to do?</li> <li>&gt; Transition plan: How is the company planning to get there?</li> <li>&gt; Present: What is the company doing at present?</li> <li>&gt; Legacy: What has the company done in the recent past?</li> <li>&gt; Consistency: How do all these plans and actions fit together?</li> </ul> </li> <li>- ACT rating based on 3 scores: performance (alignment with KPIs), narrative (whole), trend (forecast of future rating changes), range is [1E- ; 20A+]</li> <li>- Defines list of KPIs by sector to measure the alignment</li> <li>&gt; <a href="#">illustration</a> of the notion of alignment (methodology framework)</li> <li>- Assessment of financial stakeholders' transition plans in draft (cf. Annex 4)</li> </ul>
<a href="#">Net Zero Company Benchmark</a>	Climate Action 100+	Assessment of the world's larger corporate GHG emitter net zero transition	<p>Assessment approach follows to categories of indicators.</p> <ul style="list-style-type: none"> <li>- Disclosure framework (assessed by TPI and FTSE Russell) based on corporate disclosure (along Net Zero ambition, long term targets, medium term targets, short term targets, decarbonation strategy, capital allocation, climate policy engagement, Climate governance, just transition, TCFD disclosure, historical GHG emission reductions)</li> </ul>

			<ul style="list-style-type: none"> <li>- Alignment assessments (assessed by CTI, InfluenceMap and RMI) which evaluate the alignment of company's actions with the Paris Agreement goals (capital allocation alignment for aviation, automotive, cement, steel, utilities, oil and gas sector, climate policy engagement alignment, climate accounting and audit hybrid assessments)</li> </ul> <p>Climate Action 100+ disclose its methodologies and the assessments of 170 companies</p>
<a href="#">Management Quality and Carbon Performance</a>	TPI	Assessment of companies' low carbon transition	<p>TPI assesses companies' low transition along two dimensions.</p> <ul style="list-style-type: none"> <li>- Management quality: quality of companies' governances/management of the GHG emissions and of risk and opportunities (19 indicators)</li> <li>- Carbon performance: evaluation of companies' carbon emissions against different climate scenarios climate scenarios consistent with the UN Paris Agreement (1,5 °; below 2°, National Pledges)</li> </ul> <p>TPI disclose its methodology and the assessment of more than 1000 companies</p>
<a href="#">SECTORAL DECARBONIZATION APPROACH (SDA): A method for setting corporate emission reduction targets in line with climate science</a>	SBTi	Sectoral guidance for corporates to set science-based targets to understand and implement actions to align with a 2°C goal	<ul style="list-style-type: none"> <li>- Considers the IEA ETP 2DS for carbon budget and the IPCC's AR5 scenarios (RCPs)</li> <li>&gt; translates macro budgets to sectoral budgets to company targets</li> <li>&gt; defines activity KPIs used</li> <li>&gt; defines the company's performance relative to its sector (based on IEA 2DS). Scope 3 is not included except for light duty vehicles.</li> <li>- Data in input (from case study): sector, base year, target year, activities (volume) in base year, annual activity growth rate, scope 1&amp;2 base year, scope 1&amp;2 intensity base year, electricity consumption base year</li> <li>- Only fixing a target, but no guidelines on actions, communication, etc. (cf. Annex 4)</li> </ul>
<a href="#">CS3D</a>	EC		<ul style="list-style-type: none"> <li>- Requires transition plans</li> <li>- Requires companies with more than 1,000 employees to tie performance on the plan's targets to directors' variable compensation</li> <li>- Companies in the 500 employees/€150 million revenue group will also be required to have a plan to ensure that their business strategy is compatible with the Paris Agreement goal of limiting global warming to 1.5 °C. extending later to companies with over 250 employees and €40 million revenue. Non-EU companies with revenues earned in the EU above the thresholds would also be required to follow the rules.</li> </ul>
<a href="#">CRR3/CRD6</a>	EC	Proposal of a new banking package	<ul style="list-style-type: none"> <li>- Still in negotiation</li> <li>- Requires banks to have in place specific plans and quantifiable targets to monitor and address the risks arising in the short, medium, and long term in the transition to a more sustainable economy.</li> <li>- Mandates the EBA to set out the minimum requirements and expected content of these transitions plans with expectations for competent authorities to monitor and assess them. In this respect, transition plans are expected to be used as a micro-prudential risk management tool.</li> </ul>
<a href="#">Guidance on Metrics, Targets, and Transition plans</a>	TCFD		<ul style="list-style-type: none"> <li>- Disclosure</li> <li>- Defines a transition plan and key characteristics of effective transition plans, elements to consider when developing transition plans, and the types of transition plan information firms should include as part of their disclosure of climate-related financial information.</li> </ul>

(iii) *Other contributions*

<a href="#">Regulation (EU) 2020/852</a>	EU	The EU Taxonomy	<p>"The taxonomy is a classification system that defines criteria for economic activities that are aligned with a net zero trajectory by 2050 and the broader environmental goals other than climate." (EC)</p> <p>The regulation is constituted and complemented by <a href="#">Delegated acts</a>.</p>
<a href="#">Stocktake on Financial Institutions' Transition Plans and their Relevance to Micro-</a>	NGFS	Stocktake on financial institutions' transition plans	<ul style="list-style-type: none"> <li>- Conclusions of the stocktake include:</li> <li>&gt; Among NGFS members, 3/48 have mandated transition plans or have established a definition</li> <li>&gt; Multiple definitions of transition plans, for different uses: broadly two approaches: reduce GHG, reduce risk exposure</li> <li>&gt; Distinguishes "transition planning" (transition strategy) from a "transition plan" (transparency to a specific audience)</li> </ul>



<a href="#">prudential Authorities</a>			<ul style="list-style-type: none"> <li>&gt; Find common elements that could inform the design of transition plan frameworks regardless of their thematic category or whether they are adopted by the microprudential authority, securities regulators, financial/climate reporting authority or alternate Micro-prudential approach</li> <li>&gt; Comparison between the EU-UK-Philippines-US approaches to transition plans</li> <li>- Focus on credibility</li> </ul>
<a href="#">UNFCCC Global Climate Action Portal (GCAP)</a>	UNFCCC	The UN's data access point for all non-Party stakeholder voluntary climate action commitments	<ul style="list-style-type: none"> <li>- Groups information on non-Party stakeholders: announced commitments, tracked ones, GHG inventory, initiative participation, action undertaken, impact</li> <li>- "[non-state actors'] commitments will be publicly recorded, their progress independently verified, theirs successes and best practice recognised, and their challenges acknowledged"</li> <li>- "it is not intended that GCAP will act as a reporting platform for individual non-State entity GHG data and progress reports. Rather it is expected that data on individual entities will be transmitted in aggregate format by other existing reporting platforms. "</li> </ul>
<a href="#">Draft Implementation Plan with respect to Net-Zero Pledges of non-State actors and Integrity Matters</a>	UNFCCC	UNFCCC Secretariat Recognition and Accountability Framework, articulating guidelines expressed in the Integrity Report and detailing the rationale for the GCAP	<ul style="list-style-type: none"> <li>- The guidance of the secretariat will then be transformed into standardised templates to submit net zero pledges and transition plans for publication in GCAP</li> <li>- the UNFCCC secretariat will provide guidance and standardised reporting templates for the submission of net zero pledges and transition plans (March 2024)</li> <li>- The UNFCCC will convene a group of independent experts to guide the creation of appropriate analysis processes of transition plans of individual entities and recommend approaches to assure their progress towards alignment with the recommendations of the Integrity Matters report</li> </ul>
<a href="#">Directive (EU) 2022/2464</a>	EU	Considered by the EC to set the reporting standards needed for transition plans	
	USA	US banking agencies (the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation)	<ul style="list-style-type: none"> <li>- US agencies do not have a mandate to promote or facilitate a transition to a low carbon economy.</li> <li>- The US banking agencies expect firms to demonstrate robust management of all material risks, including those related to climate change.</li> <li>- If supervised firms issue transition plans on a voluntary basis, supervisors may have an interest in the governance and risk management components of the plan</li> </ul>