



Transition plans: beyond sustainable finance?

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The Paris Agreement

Commitment To **limit increase in global** average **temperature** to well below 2.0°C and **pursuing efforts** to limit the 1.5°C

Making all **finance flows** consistent with a pathway **towards low-emissions** and **climate-resiliency**

Private pledges Numerous pledges of private sector to meet the Paris targets of net-zero emissions by 2050

Top 3: **financial** institutions, **energy**, and **fossil fuels** sector

Transition plans in multilateral, national and market guidelines

Multilateral

UN High Level Working Group

OECD

The G20 Sustainable Finance Working Group

National

UK Transition Plan Taskforce (under public consultation; towards mandatory planning)

US SEC (under public consultation; towards mandatory disclosure)

Japan Clean Energy Strategy & Basic Guidelines on Climate Transition Finance (non-binding)

Banks

European Investment Bank

Market

International Sustainability Standards Board

Science Based Targets Initiative

Glasgow Financial Alliance for Net Zero

Transitional Pathways Initiative

Climate Bonds Initiative (and many other)

Transition plans in multilateral, national and market guidelines II

Common features:

Net-zero and interim targets

Performance metrics and Key Performance Indicators (KPIs)

Carbon credits and offsets

Actions towards implementation

Internal coherence with the company's business plan

Governance and accountability

Transparency and verification

Transition plans in the Corporate Sustainable Reporting Directive (2022)

What is CSRD?

Requirement of detailed reporting about **impact of the company** and **risks to the company** related to environment, human rights, social standards, governance

Transition plan?

Disclosure of the existing plans of the company to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the 1.5 °C target - in line with the Paris Agreement and the EU Climate Law

Must contain **implementing actions** and related **financial** and **investment** plans

External verification by certified verifiers

Transition plans in the European Sustainability Reporting Standards (2023)

What are ESRS?	ESRS are standards to be applied in the CSRD reporting
Principle	Providing an understanding of the transition plan of the undertaking and its compatibility with the 1.5°C target
Disclosure	Reference to the company's GHG reduction targets , climate mitigation plan, decarbonisation levers, key actions, like changing products and services, adopting new technologies; financial resources, impact of emitting assets and products
The Taxonomy link	Linking transition planning with the plan of Taxonomy-alignment
Dynamic image	Progress made in its implementation

Transition plans in the Corporate Sustainable Due Diligence Directive (2024?)

What is CSDDD?

Beyond disclosure: obligation of companies to identify, **prevent, end, mitigate** and publicly inform on risks for **human rights** and **environment** along their value chain

Transition plan?

Article 15 **requires** the Member States to **ensure that** large companies **adopt a plan to ensure** that the **business model** and **strategy** of the company **are compatible** with the transition to a sustainable economy and **with the 1.5 °C target in line with the Paris Agreement.**

The legal obligation to **have** a plan

“Who” comparison

CSRD

Large (500+ employees) listed undertakings → will extend to 250+ employees (also non-listed) and all listed undertakings (incl. SMEs)

Non-EU companies generating 150 EUR mln turnover and having a subsidiary or branch in the EU

CSDDD

Large, limited liability companies: 500+ employees and 150 mln EUR revenue

Extension to 250+ employees and 40 mln EUR revenue after 2 years (in high-risk sectors, like agriculture, textiles, minerals)

Transition plans in the EU Green Bond Standard?

What is EUGBS? An EU voluntary standard for bonds to raise funds on capital markets to finance environmentally sustainable projects

Proceeds must be spent on Taxonomy-aligned activities

Transition plan? The European Parliament wants a transition plan to be a **condition to issue green bonds** under the EU GBS

Other “transition plans”: the EU Taxonomy

What is it?

Classification of economic activities contributing significantly to climate & environment (six objectives)

Obligatory reporting by non-financial undertakings and financial market participants based on the Taxonomy

What plan?

Plan to **expand the Taxonomy-aligned economic activities** or to **make them Taxonomy-aligned** within a period of 5 years (or max. 10 y)

Other “transition plans”: EU Climate Law and sectoral transition pathways

EU Climate Law

Encourages sectors to draw up **voluntary** roadmaps and to **plan their transition** towards the Union’s climate-neutrality objective by 2050

Mandates the Commission to engage in preparation of such sectoral transition pathways

Sectoral transition pathways

Objective: strengthening **sectoral engagement for climate-neutral solutions** and assisting in **planning the necessary investments**

Possible development: the European Parliament wants to **reduce the amount of ETS free allocations** for the companies **not having a decarbonisation plan** or failing to meet its milestones

Conclusions

Transition plans **show the dynamic path towards sustainability**, not a static image of few best performers – positive concept in principle

Increasing **interest in having transition plans**, driven by the financial sector

The PA is a long-term, forward looking commitment addressed to state actors - it is a **challenge to translate it into company's action**

There is a **growing number** of multilateral, national and private guidelines, methodologies and regulation(s)

Various “transition plans” appear in the EU regulations as a mandatory requirement

The EU is not a first mover: it must take account of existing international developments

Therefore, there is a **question of consistency** (externally and internally)

Guidance is needed in linking CSRD/ESRS - CSDDD - Taxonomy - sectoral transition pathways

The **quality of regulation** on transition plans is **priority** over the expansion of this concept to other EU policies

Guiding questions

How to translate the Paris Agreement commitments credibly and effectively to the individual company's actions in various sectors?

How to navigate between the EU regulatory requirements on transition and decarbonisation plans with international and private guidelines (UN, OECD, ISSB, SBT, TPI and other)?

How to relate transition and decarbonisation plans with other EU policies implementing the climate-neutrality objective?

How to connect transition planning with transition financing (e.g. with what financial tools, verification process)?