

Focus Group

Transition plans for Climate Change Mitigation

Under EU Corporate Sustainability Reporting legislation

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Olivier Imbault, Andrei Marcu, Ana Ruiz

A) Mapping of legal provisions

TRANSITION PLAN for Climate Change Mitigation
1. Corporate Sustainability Reporting Directive (CSRD)
2. European Sustainability Reporting Standards (ESRS)
3. Corporate Sustainability Due Diligence Directive (CS3D)

OTHER PLANS	
Industrial Emissions Directive (IED)	<i>Transformation Plan</i>
EU- Emissions Trading System (EU-ETS)	<i>Climate Neutrality Plan</i>
Capital Requirements Directive (CRD)	<i>Specific plan</i>
EU Taxonomy	<i>CapEx plan</i>
EU Climate Law	<i>Sectoral Roadmap</i>
Regulation on the governance of the energy union and climate action	<i>National Energy and Climate Plans</i>

1. Corporate Sustainability Reporting Directive (CSRD)

- **Scope:** (estimation around 50.000 companies)
 - All companies listed on EU regulated markets (except micro-undertakings); and companies that meet two of the following conditions: (i) turnover > EUR 50 million; (ii) balance sheet total > EUR 25 million; (iii) employees > 250.
 - Non-EU company that has an EU turnover > EUR 150 million and at least one branch with turnover > EUR 40 million or a subsidiary meeting same thresholds applied for EU companies.
 - **Entry into force:** 5 January 2023
- **Deadline of transposition:** 6 July 2024
- **National Transposition by Member States:** Czechia, Denmark, France, Romania, Sweden, Ireland, Slovakia, Norway, Lithuania (9 MS)

- **Article 19a (Sustainability reporting):**

2. *The information referred to in paragraph 1 shall contain: (...)*

(a) (iii) 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 as established in Regulation (EU) 2021/1119 (European Climate Law), and where relevant, the exposure of the undertaking to coal, oil and gas-related activities; (...)

2. European Sustainability Reporting Standards (ESRS)



- **Commission Delegated Regulation under CSRD** prepared by **EFRAG (European Financial Reporting Advisory Group)**
- Directly applicable in all Member States **from 1 January 2024** for financial years beginning on or after 1 January 2024.
- **Obligation to disclose existing plans**. 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.

Terms defined in the ESRS: “Transition plan for climate change mitigation”

*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.*

ESRS (E1) (Cont.)

Disclosure Requirement E1-1 – Transition plan for climate change mitigation (14-17)

(i) Explanation of:

- **how the undertaking's targets are compatible with** the limiting of global warming to **1.5°C** (with reference to GHG emission reduction targets disclosure requirement **Scope 1, 2 and 3**).
- **the decarbonisation levers** identified, and key actions planned: (i) **changes in product** and service portfolio; (ii) **adoption of new technologies** in its own operations; (iii) changes in the upstream and/or downstream value chain.
- how the **transition plan is embedded in** and aligned with the **undertaking's overall business strategy** and financial planning;
- the **undertaking's progress in implementing** the transition plan.

ESRS (E1) (Cont.)

(ii) Explanation and quantification of the undertaking's investments and funding supporting the implementation of its transition plans, with reference to **KPI's of taxonomy-aligned CapEx**, and where relevant the Capex plans.

(iv) A qualitative assessment of potential *locked-in* GHG emissions from key assets and products;

- Explanation of if and **how these emissions may jeopardise** the achievement of the undertaking's **reduction targets** and drive transition risk;

v) For undertakings that are covered by delegated regulations on climate adaptation or mitigation **under the Taxonomy Regulation**, an explanation of any objective or plans (CapEX, CapEx plans, OpEX) that the undertaking has for aligning its economic activities (revenues, CapEx, OpEx).

3. Corporate Sustainability Due Diligence Directive (CS3D)

- **Scope:** (estimation around 6.000 EU companies; 900 Non-EU)
 - **EU companies of more than 1 000 employees on average with a net worldwide turnover exceeding €450 million; Non-EU companies** with a net turnover of at least EUR 450 000 000 within the EU.
- **Entry in to force:** 25 July 2024
- **Deadline of transposition:** 26 July 2026
- **(Phased) Application:**
 - 2027: + 5 000 employees, €1 500 million turnover (EU companies); and €1 500 million turnover in EU (Non-EU companies).
 - 2028: + 3 000 employees, €900 million turnover (EU companies); and €900 million turnover in EU (Non-EU);
 - 2029: All other companies in scope.

3. CS3D (Cont.)

Articles 1(1)(c) and 22:

– obligation for companies to adopt and put into effect a transition plan for climate change mitigation (and MS to ensure) which aims to ensure, through best efforts, compatibility of the business model and of the strategy of the company 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 as established in the EU Climate Law, including its intermediate and 2050 climate neutrality targets, and where relevant, the exposure of the company to coal-, oil- and gas-related activities.

Article 22(2) - Companies that report a transition plan for climate change mitigation in accordance with CSRD shall be deemed to have complied with the obligation to adopt a transition plan for climate change mitigation referred to in paragraph 1 of this Article.

3. CS3D (Cont.)

Transition plan for climate change shall contain:

- (a) **time-bound targets related to climate change for 2030 and in five-year steps up to 2050** based on conclusive **scientific evidence** and, where appropriate, absolute emission reduction targets for GHG for **scope 1, scope 2 and scope 3** GHG emissions for each significant category;
- (b) a **description of decarbonisation levers** identified and key actions planned to reach the targets, including, where appropriate, changes in the product and service portfolio of the company and the adoption of new technologies;
- (c) an **explanation and quantification of the investments and funding** supporting the implementation of the transition plan for climate change mitigation; and
- (d) a description of the role of the administrative, management and supervisory bodies with regard to the transition plan for climate change mitigation.

MS shall ensure that the transition plan for climate change mitigation referred is updated every 12 months and contains a description of the progress the company has made towards achieving the targets referred to in paragraph 1.

B) Developments underway

- **Transition Plan Implementation Guidance (TPIG)** is being currently developed by the **European Financial Reporting Advisory Group (EFRAG)**.
- **Report on the articulation between the different legislation** within the sustainable finance legal framework to be issued by the Sustainable Finance Platform (SFP).
- The **European Commission** will develop additional **practical guidelines on the development and implementation of transition plans** which are expected to be published by **26 July 2027** (cf. Article 19(2)(b) of the CSDDD).

C) Frameworks, guidelines and private initiatives

- **Multilateral:** OECD, UN High Level Working Group, The G20 Sustainable Finance Working Group
- **National:** UK Transition Plan Taskforce, US SEC, Japan Clean Energy Strategy & Basic Guidelines on Climate Transition Finance, Australasian Centre for Corporate Responsibility (ACCR)
- **Market/ private initiatives:** Force on Climate-Related Financial Disclosures (TCFD), Climate Safe Lending Network (CSLN), Assessing low-Carbon Transition (ACT), Climate Action 100+, Say on Climate initiative [CIFF], Oxford Martin Principles for Climate-Conscious Investment, Alliance for Corporate Transparency, The International Capital Market Association (ICMA), Glasgow Financial Alliance for Net Zero (GFANZ), The Institutional Investors Group on Climate Change (IIGCC), Investor Climate Action Plans (ICAPs), Transition Pathway Initiative (TPI), Climate Bonds Initiative (CBI), CDP, ISSB, SBTIs

D) Guiding Questions

1. Definition/interpretation	- What does it mean “ <i>to ensure that its business model and strategy are compatible (...) with limiting of global warming to 1,5°C in line with the Paris Agreement</i> ”?
2. EU regulatory consistency	- Does the disclosure of the transition plan, as foreseen in the CSRD, enables systematic compliance with CS3D?
3. Reliability	- Are current methodologies to assess the ambition of companies’ trajectory sufficiently reliable?
4. Level playing field	- Are available guidelines for transition plans published by national/international institutions/NGOs/initiatives/coalitions convergent (or not)?