Stakeholders Consultation

‘Transition plans for Climate Change Mitigation’ (TPCCM)

What’s in a name?

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What's in a name?

CSRD: Requires companies to disclose their '*transition plan for climate change mitigation*', if they have one, **explaining how** the companies' strategy and business model are **compatible with the 1.5°C** goal of the Paris Agreement and the objective of achieving climate neutrality by 2050 as established in the EU Climate Law.

CS3D: Mandates companies to adopt and put into effect a *transition plan for climate change mitigation*, **aiming 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.

Terms defined in the ESRS Annex 2: "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.*

A) Relevance of the Topic

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- **Other (transition) plans**: *Climate Neutrality Plan* (EU-ETS); *Transformation Plan* (Industrial Emissions Directive (IED)); *Specific Plan* (Capital Requirements Directive (CRD)); *Prudential Transition Plan* (Solvency II Directive); *Sectoral Roadmaps* (EU Climate Law); *National Energy and Climate Plans* (Regulation on the Governance of the Energy Union and Climate Action)
- **Interconnection with other (EU and international) climate legislation**: EU Climate Law; Paris Agreement; EU Taxonomy (CapEx Plan)
- **Core instrument for companies in the upcoming years**: E.g., substantiation of future performance environmental claims in commercial practices (see Green Claims Directive proposal)

B) Guiding Questions discussed in the Focus Group

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1. Definition/interpretation	- What does it mean "*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*"?
2. EU regulatory choerence	- Does the disclosure of the TPCCM under the CSRD fulfil the obligation "*to adopt and put into effect*" the TPCCM under CS3D?"
3. Assessment & Reliability	- How is the TPCCM (and the company's trajectory) assessed and/or verified in practice?
4. Level playing field	- How these requirements affect EU companies (on the global playing field and competitiveness)?

B. 1) Compatibility with limiting global warming to 1.5 °C

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- Reference to the Paris Agreement (1.5°C goal) and the EU Climate Law: i.e., climate neutrality by 2050 and intermediate targets (i) a reduction of 55% by 2030, and (ii) the proposed 90% reduction target for 2040.
- According to the application requirements (ESRS E1 AR2 and AR26) current approaches suggest that **companies should benchmark their efforts against a 1.5°C aligned reference target for scope 1 and 2, and, if applicable, for scope 3.**
- This benchmark should be **based on a sectoral decarbonisation pathway**, if available for the company's sector, or on an economy-wide scenario, acknowledging its limitations.
- However, without clear methodologies or sector-specific pathways established by public policies, companies, **especially those operating across multiple sectors**, may face significant challenges.

Core element of TPCCM:

CSRD/ESRS: 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**).

CS3D: **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, scop 2 and scope 3** GHG emissions for each significant category.

B. 1) Compatibility with limiting global warming to 1.5 °C (Cont.)

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EFRAG Early Draft Implementation Guidance TPCCM

- Disclosing **GHG emissions reduction targets benchmarked to a reference pathway to 1.5 ° C;**
- Providing an **explanation of how** and to **what extent** the undertaking's strategy, business model(s) and climate transition plans are contributing to, and compatible with, the transition to a climate-neutral economy and with the limiting of global warming to 1.5°C in line with the Paris Agreement.
- Contextual information on **how the GHG emissions reduction targets and reference pathways and target values have been established shall be provided**.
- To determine Reference Target Values (RTVs), undertakings can use climate scenarios containing GHG emissions mitigation trajectories, as well as variables that characterise activity levels (when building GHG intensity trajectories).
- In the absence of sectoral pathways defined by the public policies (by European Climate Law-aligned sectoral pathways/roadmaps), SBTi provides tools to set RTVs based on sectoral pathways.

B. 2) Compliance with CSRD and CS3D

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a) Obligation to Adopt, Disclose and Implement

- Under CSRD/ESRS the emphasis is, *prima facie*, on the disclosure/ report of the TPCCM (which would imply a previous adoption?) – BUT if we look at the content requirements, these include an <u>explanation of implementation's progress</u>.

- In CS3D, the <u>**legal obligation in CS3D is explicitly twofold**</u>:

(i) the duty "*to adopt*", which implies the existence of a formal internal approval of the plan; and

(ii) the duty "*to put into effect*", which adds to the adoption a duty directed towards implementation.

B. 2) Compliance with CSRD and CS3D (Cont.)

b) Presumption of Compliance

- **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 (Article 22(2) CS3D).
- A *contrario sensu*, companies still have an additional obligation to put these plans into effect (Article 22(1) CS3D) and update them annually describing their process (Article 22(3) of the CS3D).

B. 2) Compliance with CSRD and CS3D (Cont.)

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c) Obligation of conduct/means vs result

- The last part of the CS3D TPCCM obligation, i.e., the duty to implement, is explicitly phrased (i.e., the wording "*through best efforts*") as **an obligation of conduct or means**.
- The "*best efforts*" refers to the goal, and *in casu* the goal is *ensuring 1.5°C compatibility* (*to global scenario or to a specific sectorial scenario*?) – not that 1.5°C is the result of any individual company's actions.
- Recital 73, clarifies: "*Such requirements should be understood as an obligation of means and not of results.(…)*"
- Hierarchically "*best efforts*" imposes a higher obligation surpassing "*reasonable effort*".

B.3) Assessment and reliability of the TPCCM

- How is the TPCCM (implementation), and the company's trajectory, assessed and/or verified in practice?
  - By organisations claiming they are able to certify TPCCM?
- Is this assessment and/or verification reliable?
  - Regulation monitoring the organisation certifying TPCCM ?
  - Based on which guidelines ? International guidelines, ESRS, National Financial Authority…
- Consistencies with other "transition plans" (EU ETS, NECPs, NDCs…)?
- Does it exempt the TPCCM (and its implementation) from being challenged?

B.4) Level Playing field

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- How these requirements affect EU companies (on the global playing field and competitiveness) in comparison to third-country competitors not subject to the same thresholds or obligations?
  - *International standards? - EU Double materiality principle, extension to all the value chain…*

- <u>Risks in developing countries</u>, such as <u>“sustainability leakage”</u>, were properly assessed? If EU companies will ultimately have to withdraw from certain suppliers due to sustainability issues, non-EU companies (out of the scope) may take over suppliers without improving human rights or environmental standards.

C) Developments underway

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- **Transition Plan Implementation Guidance (TPIG)** is being currently developed by the **European Financial Reporting Advisory Group (EFRAG)** – Q2 2025. EFRAG issued an early draft yesterday – 4/11/2024.
- **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).

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Thank you!