afme/
Finance for Europe

Linklaters

Climate transition plans: current and emerging frameworks for the European financial services sector

July 2024

Association for Financial Markets in Europe
www.afme.eu

Disclaimer

July 2024

Contents

Foreword

We have seen a proliferation of initiatives related to climate transition plans over the last few years, with a number of voluntary frameworks, upcoming legal requirements and growing regulatory attention across Europe and internationally.

AFME is pleased to partner with Linklaters in helping financial institutions navigate the different initiatives and regulatory requirements. This paper takes stock of current and upcoming standards and regulation, highlighting key developments and considerations for banks in the EU and UK.

As policymakers and regulators continue to consider standards and requirements for climate transition plans, AFME is keen to continue engagement to share our members' observations and experience. Transition plans are important for banks from multiple perspectives. Banks themselves are preparers of transition plans, and transition plans support the provision of financing to their clients. Corporate transition plans can provide valuable information for banks to understand the decarbonisation trajectories of their clients, engage with them to understand their transition strategies and identify potential needs or opportunities for financing, including the provision of transition finance.

It is important to be clear on the role of transition plans and recognise that transition plans alone will not shift the economic conditions needed to make real economy transition activity commercially viable. Implementation of transition plans will not be solely under the control of the company, but will depend upon other factors including government policy. The successful implementation of transition plans requires the mobilisation of all stakeholders including governments and non-financial sectors. It is vital that governments provide supporting policy including setting out transition pathways for key sectors and technologies, together with the accompanying policy tools to facilitate the transition.

Careful consideration is required as voluntary frameworks are translated into legal requirements. Any transition plan disclosure requirements should provide enough flexibility to account for the fact that each company's business strategy with respect to the Net Zero transition will need to be tailored to its particular business model, size, geography, and other unique factors. The aim should be to provide clarity to investors while also avoiding prescribing companies' global business strategy.

Businesses must feel able to set out their strategy without undue concern over incurring legal liability or reputational risk which could potentially reduce the level of ambition and/or detail provided. Businesses must also balance comprehensive disclosure with competition and confidentiality concerns, as they do with financial reporting. Finally, it is also important to sequence transition plan disclosures between non-financial and financial institutions, as financial institutions will need information from their clients' transition plans to inform their own disclosures.

"While we welcome progress in the EU, UK and internationally on the development of frameworks for transition planning, it is essential that requirements are clear, interoperable and work for international businesses"

While we welcome progress in the EU, UK and internationally on the development of frameworks for transition planning, it is essential that requirements are clear, interoperable and work for international businesses. Banks and companies currently face challenges in navigating a plethora of initiatives. We regard the transition plan disclosure requirements under CSRD and ISSB as comprehensive. We welcome interoperability efforts between transition planning frameworks including IOSCO's ongoing work, that of the UK Transition Plan Taskforce, and ongoing work between EFRAG and the ISSB, amongst others.

AFME continues to contribute to the development of standards and requirements for climate transition plans. As legal requirements are being introduced across jurisdictions, further work is needed to ensure a coordinated and a workable approach for groups which operate internationally. As discussed below (see sections 1.1 and 1.3), EU and potentially UK policy is shifting from requiring disclosure of transition plans to requiring the implementation of transition plans which align with climate targets. This moves beyond disclosure to directing business strategy, creating potential challenges for companies in implementation, not least because their ability to transition will be dependent on external factors including public policy and the transition of the broader economy. For global groups, it is also unclear how mandated alignment with EU climate targets can be applied across jurisdictions, given the differing pace of the climate transition across the globe.

We also believe that careful consideration and international coordination is required on discussions regarding the relevance of transition plans from a micro-prudential perspective[1]. It is essential that any "prudential transition plans" and the role of prudential supervisors are clearly focused on the prudential management of ESG risks.

We hope that this paper assists firms in navigating requirements. AFME will continue to work with members and policymakers to support an effective disclosure framework for transition plans and policy measures in support of the transition.

Oliver Moullin
Managing Director, Sustainable Finance and General Counsel
Association for Financial Markets in Europe

1 See AFME response to EBA consultation on Draft Guidelines on the management of ESG risks

Introduction

In recent years, increasing numbers of organisations have set climate-related targets to reduce emissions or meet Net Zero ambitions, either voluntarily or following encouragement from regulators, investors and other stakeholders. A growing number of institutions have developed and published transition plans, explaining how they intend to achieve those targets.

The focus has shifted towards setting systematic expectations for organisations to put in place detailed transition plans to operate in a low-carbon economy and set out how they plan to meet their targets.

In many jurisdictions and under standards such as those created by the International Sustainability Standards Board ("**ISSB**") and the EU Corporate Sustainability Reporting Directive ("**CSRD**"), the expectation is increasingly that transition plans, or at least parts of them, will be publicly disclosable, meaning they will be subject to stakeholder scrutiny. The EU has gone further, and the recently adopted Corporate Sustainability Due Diligence Directive ("**CSDDD**") introduces for the first time a requirement for in-scope companies to adopt and put into effect a transition plan. Organisations are therefore keen to understand transition planning standards, obligations and expectations.

This note considers climate transition plan developments that are applicable to the financial services sector, and focuses on the development of international, EU and UK frameworks.

"The focus has shifted towards setting systematic expectations for organisations to put in place detailed transition plans to operate in a low-carbon economy and set out how they plan to meet their targets"

1. Transition plans: birds eye view

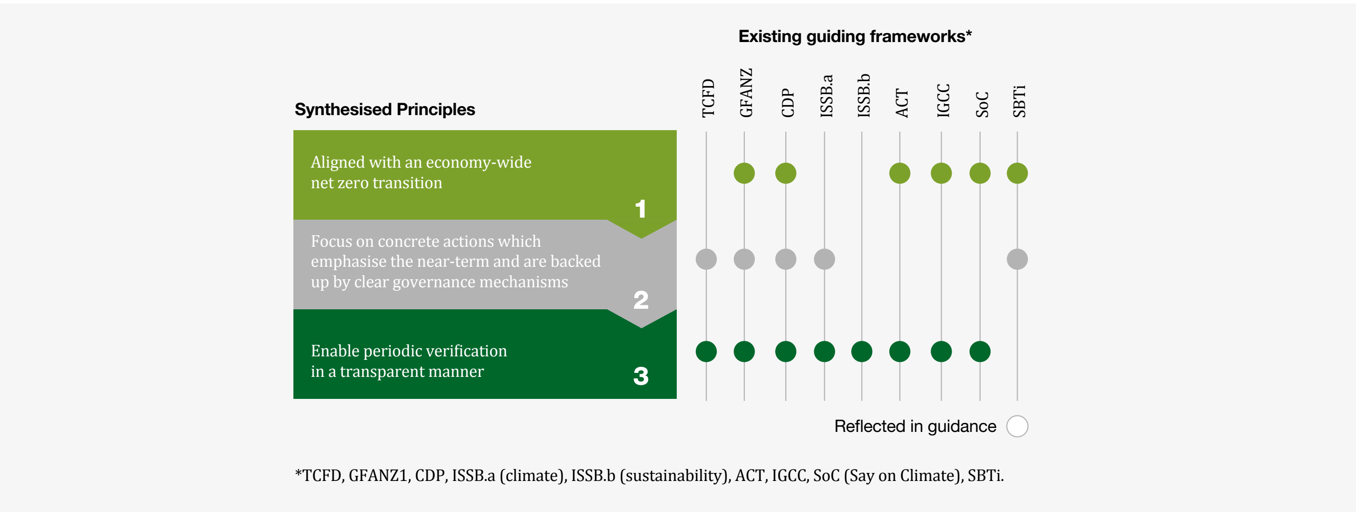
There is not yet one common global standard on what credible transition plans should look like or include. Indeed in its April 2024 stock take, the Network for Greening the Financial System expressed its concern that "*while the central concept of strategy focused plans may be well understood as an articulation of an institution's approach to achieve its transition strategy, the available frameworks and literature speak to a mix of objectives, audiences, and concerns*".[2]

With constant attention on the need for interoperability, international momentum is building around the development of consistent and complementary standards. Most recently, the International Organisation for Standardisation ("**ISO**") has stepped into this space to propose a global standard for financial institution transition plans. Other international bodies are also working on transition plans including the Glasgow Financial Alliance for Net Zero ("**GFANZ**"), the G20, IOSCO and the Financial Stability Board.

1.1 Steps towards global consistency and the challenges of interoperability

At this point in time, the guidance that exists across the globe is not entirely consistent in what it suggests transition plans should include, although a concerted effort is being made to work towards alignment. Most recently, this concern has mobilised the ISO, which is now asking its members whether it should develop a global standard (that is to say, an accreditation) for climate transition planning by financial institutions. Also with an eye to global standardisation, the UK Transition Plan Taskforce ("**TPT**") notes that its recommendations are intended to be used as guidance on how to make more effective disclosures under the ISSB's IFRS S2 and draws on the components of a good transition plan as identified by GFANZ [3]. A table from the UK TPT assesses its own principles against approaches taken by other frameworks (and in Table 2 of the same document includes a more detailed analysis of the elements required – or not – under existing regimes – see Annex 3).

Figure 1: **Alignment of TPT Principles of Transition Plans with existing guiding frameworks**



Source: TPT's "A Sector-Neutral Framework for private sector transition plans, Call for Evidence", accessible at TPT_Call_for_Evidence.pdf (transitiontaskforce.net)

2 ngfs_transition_plan_package.pdf

3 Guidance on Financial Institution Net-zero Transition Plans for the Financial Sector

1. Transition plans: birds eye view

International organisations are coordinating their work on transition plans. The role of transition plans as micro and macro-prudential tools to understand and manage climate-related financial risks is addressed by the Financial Stability Board ("**FSB**") in its Roadmap for Addressing Financial Risks from Climate Change Progress Report.[4] The FSB has set up a Transition Plans Working Group to develop its understanding of the role transition plans may play in driving financial stability, and is tasked with working with other organisations in this space. Similarly, in the securities space, IOSCO's work program for 2023/24 identifies as one of its priorities work on the role of securities regulators on transition plan disclosures. IOSCO notes that this work will be coordinated with relevant ongoing work at other international organisations.

Whilst a coordinated approach to transition plan formulation and disclosure is the aim, we are not there yet. In the 2030 EU Policy Roadmap published in March 2024, the Principles for Responsible Investment ("**PRI**") identifies the proliferation of transition plan frameworks over the past five years and calls for the Commission to "consider the interoperability between transition plan requirements and other policy files (sector roadmaps, the EU Taxonomy, the Sustainable Finance Disclosure Regulation (SFDR), Capital Requirements Directive (CRD), Solvency II, etc.)"[5]. That said, key international and national standard setters are actively collaborating. Only recently the ISSB announced its intention to develop strategic relationships with the TPT, amongst other bodies[6]. This is critical; in the absence of a harmonised approach to transition plans, global financial institutions face myriad differing approaches, forcing them to prepare multiple versions of their transition plan to meet local requirements.

1.2 Common transition plan approaches

Although we may not have one single global standard or approach yet, frequently occurring themes for inclusion in transition plans are easier to identify. Most are influenced by the core pillars first established by the Taskforce for Climate-related Financial Disclosures ("**TCFD**"): governance, strategy, risk management, and metrics and targets. Indeed, the latest proposal by the ISO refers to these four pillars. Most frameworks anticipate that a transition plan will be developed by reference to short-, medium- and long-term targets and timelines, with an implementation strategy (including in respect of capital allocation and other resourcing, alignment of products and services etc), an engagement strategy (including investors, suppliers, customers, regulators), and use of implementation metrics and governance to oversee delivery and disclosures. Many seek an explanation of the company's approach to offsets and encourage the build out of assurance for any disclosures.

1.3 Setting a plan: moving from voluntary to mandatory

Until recently, regimes covering transition plans have required disclosure of a transition plan/transition target *if* there is one.

CSDDD introduces, for the first time, an obligation for in-scope companies to *adopt and put into effect* transition plans for climate change mitigation. This is distinct from the requirement to *disclose* any plan the company has set (which has been the focus of the CSRD and other global regimes to date).

More information on various key regimes covering transition plan content and disclosure is included in Annex 1 (Transition plan laws, regulations, frameworks and guidance) to this paper.

4 See FSB, Roadmap for Addressing Financial Risks from Climate Change Progress report and FSB 2024 Work Programme

5 PRI's 2030 EU Policy Roadmap: Accelerating private investment for the economic transition | PRI (unpri.org)

6 IFRS - ISSB delivers further harmonisation of the sustainability disclosure landscape as it embarks on new work plan

2. Stakeholder and NGO review and scrutiny

In addition to rapidly developing regulatory and soft law guidance on transition plans, organisations are coming under increasing pressure from other stakeholders to prepare and publish transition plans.

Many listed companies are voluntarily choosing to put their own ESG-related resolutions and transition plans to a stand-alone shareholder vote, even though there is no legal requirement to do so. In some cases, this is to counter the threat of a shareholder resolution (see the following paragraph), but in others, it is because of influential campaigns, such as, from 2020, the Say on Climate initiative, supported by the Children's Investment Fund Foundation, which has encouraged listed companies of all types to submit a climate transition action plan to an advisory vote by shareholders at the AGM. In January 2021, the Investor Forum (set up to encourage collective action where this is deemed helpful to engage effectively with a business) also called on the UK government to consult on making climate resolutions at AGMs mandatory.

In the UK, groups such as Follow This and Share Action, sometimes acting together with institutional investors, have obliged a number of companies, including Shell, BP, Glencore, Barclays and HSBC, amongst others, to put various climate-related resolutions to their AGMs. Shareholder proposals on ESG issues are also commonly being put by a number of other organisations, including As You Sow and the Australasian Centre for Corporate Responsibility, and in many different jurisdictions, including the US, Canada, Australia, France, Japan, and others. The number of proposals which might be put in a jurisdiction does differ markedly and depends on how permissive the legal regime is in this area. In the UK, there will typically only be a handful every year, whilst in the US there are many hundreds. The outcomes of these proposals also vary.

Proxy advisors are increasingly considering transition planning in their guidelines. For example, Institutional Shareholder Services and Glass Lewis both state they will evaluate transition plans based on whether they are aligned with TCFD (among other criteria).

In addition, various investor groups and not for profit organisations are reviewing and reporting on organisations' transition plans, and in some cases providing guidance on how to improve.

A few examples amongst a range of guidance offered on transition plans are set out below.

- CDP (formerly the Carbon Disclosure Project), a not for profit which runs a global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts, has published: a discussion paper on what credible transition plans should include; a note on reporting on transition plans; and a report reviewing companies' disclosure of their transition plans. The discussion paper identifies the key elements of a credible transition plan as: (i) governance; (ii) scenario analysis; (iii) financial planning; (iv) value chain engagement and low-carbon initiatives; (v) policy engagement; (vi) risks and opportunities; (vii) targets; and (viii) scope 1, 2 and 3 accounting with verification. For more detail, see paragraph 1 of Annex 2.

- Climate Action 100+, an investor-led group engaging with the world's largest corporate greenhouse gas ("**GHG**") emitters on climate change, has a strategic project which benchmarks transition plans and seeks to define the key elements of a robust net zero strategy. Their most recent benchmark assessment in October 2023 identified that, although there has been steady improvement in net-zero transition disclosures, much faster progress is needed. For more detail, see paragraph 2 of Annex 2.

- NewClimate Institute for Climate Policy and Global Sustainability is an NGO which carries out and reports on "net zero stocktakes", in which it tracks and assesses whether companies have net zero targets and looks at the credibility of targets which have been set. This includes checking whether companies: (i) have a specific net zero pledge; (ii) have published a plan on how they intend to achieve interim and long term targets; (iii) are taking immediate action to proceed on their commitments; and (iv) publish progress reports on achievements against targets. Its 2023 report[7] argues that if Phase Two of net zero was about pledges to get to net zero, Phase Three will be, crucially, about delivery on these pledges. In contrast to even a year prior, the report notes that the standards and expectations for net zero target-setting are clearer and regulators are transforming pledges into requirements for companies, with particular focus on disclosure and transition planning. For more detail, see paragraph 3 of Annex 2.

7 Net_Zero_Stocktake_2023.pdf (edcdn.com)

3. Use cases for transition plans

Transition plans are being used for many different purposes. They serve a primary purpose to outline a company's business strategy with regard to the net zero transition. For example, they may set the steps by which the company will implement actions and engagements to achieve its climate objectives and targets. Transition plans may also communicate how the company's climate strategy will be integrated across its value chain, ensuring that various parts of the business are aligned with its decarbonisation goals.

Financial institutions are also users of the corporate transition plans of their clients, including as an input to client and transactional due diligence, to set parameters for transition and sustainable finance products, and to assess alignment with and progress against their own targets, policies and transition plan. Asset owners and asset managers are also using plans in stewardship discussions and in their own processes that respond to regulatory requirements and client preferences. In addition, plans are a valuable input to insurers at aggregated and individual level and a required disclosure for placing cover in some sectors.

We can also expect policymakers at national and international level to consider transition plans in making their assessment of progress and in making policy or defining national targets and strategies at a whole economy level.

As recently highlighted by the Network for Greening the Financial System[8], micro-prudential supervisors are considering the role of transition plans from a micro-supervisory perspective. The Financial Stability Board is also considering the relevance of transition plans from a financial stability perspective.

There is increased focus on the value of transition plans to micro-prudential regulators and central bank regulators in their financial stability assessments. This has led to a distinction being articulated, for example in the EBA's draft guidelines on the management of ESG risk ("**EBA Draft Guidelines**") as to the content and purpose of prudential vs. non-prudential transition plans: prudential transition plans shall focus on the management of ESG risks, while the disclosure of the institution's business strategy and targets for aligning its business with climate change objectives is the focus of non-prudential transition plans[9]. Clearly there will be overlap between the two, and the EBA Draft Guidelines identify that transition plans elaborated under the Capital Requirements Directive "may also support institutions in addressing other requirements, such as CSDDD requirements and CSRD disclosure requirements on business strategies and transition plans".

This approach is strongly encouraged by the sector, including in AFME's response to the EBA Draft Guidelines[10] as it appears unlikely that one "type" of transition plan will suffice in meeting the disclosure requirements across all EU sustainable finance regulation. AFME also highlighted in its response that this is an area that needs further careful consideration and international coordination amongst regulators. AFME highlighted that any "prudential transition plans" and the role of prudential supervisors should remain clearly focused on the prudential management of ESG risks. AFME therefore supports the EBA's view that plans under CRD as discussed in Annex 1, Section 10 are focused on prudential risks with a view to ensuring their institutions' soundness and resilience to the risks faced, forming a risk management tool for institutions to understand, assess and manage ESG risks.

Finally, climate campaigners and other stakeholders including potential claimants will use transition plans in the context of efforts to encourage companies to transition in accordance with the targets they have set as discussed at sections 2 and 4.

8 Credible Transition Plans: The micro-prudential perspective, April 2024

9 Guidelines on the management of ESG risks | European Banking Authority (europa.eu)

10 AFME Consultation Response - EBA ESG GL consultation.pdf

4. Impact of transition plans on climate-related litigation

In addition to evolving regulatory requirements and investor expectations, the risk of claims relating to climate transition plans is real and likely to build as plans become more widespread.

Currently, climate change litigation stands as one of the most transformative phenomena. As the climate crisis continues to escalate, there is a growing number of lawsuits that seek to hold states and corporates accountable for failing to address global warming. These cases are increasingly being presented in both domestic courts across Europe and regional tribunals, including the Court of Justice of the European Union and the European Court of Human Rights.

Litigants are consistently crafting new types of cases and legal strategies and there is a notable increase in transnational collaboration between countries. Activist groups and civil society organisations continue to be key proponents of using climate litigation to impact climate governance.

9 April 2024 represented a pivotal turning point for both EU and international climate litigation: the European Court of Human Rights ruled that the state has a positive duty to develop and enforce legislation and actions that address and prevent the ongoing and potential irreversible impacts of climate change (for more information, please see: *KlimaSeniorinnen v Switzerland case*)[11].

The impact of the European Court of Human Rights' ruling extends across various levels. Firstly, it influences other pending climate-related cases before this Court, as they were on hold awaiting this judgment. Secondly, the interpretation of Article 8 of the European Convention on Human Rights set forth by this Court will likely guide national courts in countries having ratified the Convention. It can be also anticipated that, in due course, the Court of Justice of the European Union will likely address a similar claim. Lastly, the decision holds significance outside of Europe, affecting global climate litigation due to the increasing practice of referencing landmark cases across different jurisdictions.

Anyone developing a transition plan should consider how to articulate their proposed approach in light of these shifting requirements and expectations, and with a clear understanding of the potential sources of liability. By way of example, in the UK, types of liability for inaccurate climate-related disclosures including transition plans could include:

- Statutory civil liability regime for listed companies;
- Statutory civil liability regime for directors;
- (Common law) Liability for misrepresentation, deceit or negligence;
- Liability for regulatory breaches;
- Liability for breach of directors' duties; and
- Risk of parent company liability claims[12].

11 KlimaSeniorinnen v Switzerland case.

12 This has been established in Lungowe v Vedanta [2019] UKSC 20 and Okpabi v Shell [2021] UKSC 3, in which the UK Supreme Court outlined three situations where corporate policies, guidelines and similar documents (published or internal) promulgated by a UK-based parent company may give rise to a duty of care to third parties in relation to subsidiaries' operations, namely: (1) if the corporate documents contain "systematic errors" which cause harm to third parties once implemented by a subsidiary; (2) if a parent company takes active steps to ensure that group-wide policies are implemented by its subsidiaries; and (3) where a parent company says that it exercises a degree of supervision and control of its subsidiaries in a relevant aspect, and it does not, in fact, do so.

Publication of transition plan frameworks are unlikely to give rise to new heads of liability that do not already exist in relation to the disclosure of information (including transition-related information). Nonetheless, the disclosure of transition plan-related information may in practice have some effect on companies' or directors' exposure to legal risk. The UK Financial Conduct Authority ("**FCA**") has already been asked to consider which forward-looking statements it would exclude from liability under the prospectus regime, and it remains to be seen whether the UK Government will be willing to allow a similar exclusion for transition plans when it comes to make their disclosure mandatory.

Handling this requires a careful approach to statements made in the transition plan (e.g. ensuring these are specific and capable of verification), testing of proposed actions by reference to deliverability, and effective disclosure along the way. It will be important for methodology, limitations and disclaimers, assumptions and dependencies to be explained and a more detailed record kept for internal purposes. Reliance on third party assurance and verification will play a role, in part determined by the legal or regulatory requirements adhering to the particular framework. For example, CSRD initially requires limited assurance of CSRD sustainability disclosures (which includes transition plans) and may be enhanced to a requirement for reasonable assurance should it be determined feasible for auditors and for reporting entities.

5. Summary of transition plan frameworks for European financial services

In Annex 1 of this report we survey the key international, EU and UK transition plan laws, regulations, frameworks and guidance that exist at this point in time. The table below provides a snapshot of what we cover.

Transition plan framework	Voluntary or mandatory?	Key dates/milestones
International		
TCFD	Voluntary, but made mandatory in many jurisdictions (including the UK)	TCFD was disbanded in 2023 and superseded by ISSB. However, TCFD recommendations are still relied upon (or compliance with them mandated in jurisdictions which took this step) whilst the process of ISSB endorsement is undertaken.
ISSB	Voluntary. Numerous jurisdictions are consulting on proposals to introduce ISSB standards into regulatory frameworks	The ISSB published its first two standards in 2023: IFRS S1 and IFRS S2. The implementation date set for IFRS S2 is for annual reporting periods beginning on or after 1 January 2024 (earlier application of the requirements is permitted provided IFRS S1 requirements are also applied).
GFANZ	Voluntary	GFANZ Recommendations published in 2022.
NZBA	Voluntary	NZBA Guidelines were first published in 2021, with Version 2 published in March 2024.
OECD	Voluntary	OECD Guidance published in 2022.
ISO	Voluntary	The ISO has asked its members whether it should develop a global standard for climate transition planning for use by financial institutions. Should the proposal be endorsed, development of the standard would begin in July 2024 with a public consultation likely in Q1 2025 and an official launch towards the end of 2025.
UK		
TCFD-aligned requirements	Mandatory	The FCA integrated TCFD guidance on transition plans into its mandatory TCFD disclosure requirements for UK listed issuers and most asset managers.
TPT	Voluntary	The Disclosure Framework and accompanying guidance was published in October 2023. In April 2024, sector specific guidance, including in relation to banking, asset managers and asset owners was published. The UK Government's approach to the status of the TPT is awaited.
EU		
CSRD	Mandatory – obligation to disclose any transition plan companies may have for climate change mitigation in accordance with the ESRS.	CSRD came into force at the beginning of 2023 and its application is being phased in. The first sustainability statements in accordance with the European Sustainability Reporting Standards (ESRS) under the CSRD are expected in 2025. EFRAG is preparing implementation guidance to help companies disclose their transition plans for climate change mitigation in line with ESRS. Finalisation of the guidance is expected in Q4 2024, preceded by a public consultation.
CSDDD	Mandatory – disclosure and implementation obligation. Disclosure of a CSRD transition plan may fulfil a company's obligation to adopt a transition plan for climate change mitigation under CSDDD.	CSDDD was formally adopted by the EU co-legislators in Q1 2024 and published in the Official Journal of the EU on 5 July 2024. It must then be transposed by EU member states into their national laws by July 2026. Transition periods will apply based on a staged approach, with actual entry into application of the CSDDD rules from mid-2027 for the largest in-scope companies.
CRD6/CRR3	Mandatory	CRD6/CRR3 came into force on 9 July 2024. CRR3 applies from 1 January 2025. CRD6 has an 18-month national transposition period ending January 2026 (excl. Art 21c transitional arrangement). EBA consulted on draft guidelines on ESG risks including "prudential" transition plans. EBA to review Pillar 3 ESG ITS with consultation expected in 2024.

Annex 1: Deeper dive into transition plan frameworks and guidance

International Frameworks and Guidance

1. Task Force on Climate-related Financial Disclosures ("TCFD")

1.1 Background

The TCFD was set up by the FSB in 2015. This led to the development of a global disclosure framework for climate risks and opportunities to provide investor-useful climate data that is clear, reliable and comparable. The disclosure framework was set out in the recommendations of the Task Force on Climate-related Financial Disclosures (the "**TCFD Recommendations**")[13] and detailed implementation guidance[14].

Although the TCFD framework is voluntary, it rapidly became the global gold standard for climate disclosures with several countries including the UK making TCFD disclosures mandatory across a large part of the economy – specifically for UK listed issuers and for most asset managers.

The TCFD Recommendations did not expressly require disclosure of transition plans. However, TCFD published specific guidance on transition plans in October 2021 (the "**TCFD Transition Plan Guidance**)[15]. In the UK, the FCA integrated this into its mandatory TCFD disclosure requirements.

At the end of 2023, the FSB mandated the International Financial Reporting Standards Foundation ("IFRS") to take over the monitoring of the progress of companies' climate-related disclosures from TCFD, and the TCFD was disbanded. At this time, TCFD recommendations are still incorporated into several national frameworks, for example in the UK Listing Rules, UK Companies Act, and UK FCA's rules. The IFRS confirmed that "companies applying IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Informatio*n and IFRS S2 *Climate-related Disclosures* will meet the TCFD recommendations as the recommendations are fully incorporated into the ISSB's standards[16]."

1.2 Status of guidance

As noted above, the TCFD has been disbanded with its role handed over to the IFRS. However, its recommendations and guidance are still relevant to the extent they have been incorporated into national climate reporting frameworks and are not yet replaced with ISSB-referenced frameworks (or the equivalent), as is the case in the UK for the time being, and with many international entities still choosing to report voluntarily in line with or based on the TCFD recommendations.

1.3 Content of guidance

The TCFD Transition Plan Guidance states that the TCFD Recommendations implicitly cover and require disclosure of the key aspects of transition plans, especially where organisations: (i) have made GHG reduction commitments; (ii) operate in jurisdictions with such commitments; or (iii) have agreed to meet investor expectations on reductions.

The TCFD Transition Plan Guidance covers: (i) characteristics of effective transition plans; (ii) transition plan considerations; and (iii) disclosing transition plan information.

13 TCFD Recommendations of the Task Force on Climate-related Financial Disclosures 2017

14 TCFD Implementation Guidance 2021

15 Task Force on Climate-related Financial Disclosures Guidance on Metrics, Targets, and Transition Plans

16 IFRS - ISSB and TCFD

2. International Sustainability Standards Board ("ISSB")

2.1 Background

The ISSB was set up by the IFRS Foundation in November 2021 to develop comprehensive global standards for sustainability-related disclosures.

It published its first two standards in 2023:

a. IFRS S1 (*General Requirements for Disclosure of Sustainability-related Financial Information)* provides a set of disclosure requirements designed to enable companies to communicate to investors about the sustainability-related risks and opportunities they face over the short, medium and long term. It sets out the core content for a complete set of sustainability-related financial disclosures, establishing a comprehensive baseline of sustainability-related financial information to meet the needs of global capital markets;

b. IFRS S2 (*Climate-related Disclosures)* sets out the requirements for a company to disclose information about its climate-related risks and opportunities, while building on the requirements described in IFRS S1. IFRS S2 integrates the TCFD recommendations and requires the disclosure of information about both cross-industry and industry-specific climate-related risks and opportunities.

2.2 Status of guidance

The implementation date set for IFRS S2 is for annual reporting periods beginning on or after 1 January 2024 (earlier application of the requirements is permitted provided IFRS S1 requirements are also applied).

Although the ISSB's standards are voluntary and do not automatically become law, a number of jurisdictions (including the UK through its Sustainability Disclosure Standards proposal) have stated their intention to endorse the ISSB standards and require companies to disclose in line with ISSB's standards in future. It is also likely that many companies in jurisdictions that do not formally endorse ISSB may nonetheless voluntarily apply the standards, in the same way as many have applied the TCFD Recommendations.

2.3 Content of guidance

The ISSB defines a transition plan very similarly to the TCFD Recommendations, as being "an aspect of an entity's overall strategy that lays out the entity's targets and actions for its transition towards a lower carbon economy, including actions such as reducing its GHG emissions".[17]

IFRS S2 requires entities to disclose information on climate-related risks and opportunities which would be useful to investors when making decisions about providing resources to the entities. The disclosures in IFRS S2 are in respect of the four key pillars of governance, strategy risk management and metrics / targets. This includes information on the effects of these risks and opportunities on its strategy and decision making, which requires the disclosure of a range of information on any transition plan which the entity has developed.[18] As part of strategy disclosures, IFRS S2 requires an entity to disclose information on any transition plan it has in place, including information about:

a. key assumptions used in developing the transition plan;

b. dependencies on which the transition plan relies;

c. how the entity is resourcing, and plans to resource, activities outlined in its transition plan; and

d. quantitative and qualitative information about the progress of previously disclosed transition plans.

17 S2, Definitions

18 S2, paragraph 13

More broadly, the ISSB expects related disclosures to include information about: (i) climate-related targets it has set to monitor progress towards achieving strategic goals; (ii) how these targets will be achieved (including the use of carbon offsets); and (iii) companies' plans and assumptions for legacy assets.

3. Glasgow Financial Alliance for Net Zero ("GFANZ")

3.1 Background

GFANZ is a global coalition of financiers and funds launched in April 2021 as part of a campaign to mobilise private capital for the net zero transition in the lead up to COP26 in Glasgow. All GFANZ signatories are required to set science-aligned interim and long-term targets, to reach net zero no later than 2050 and to supplement this with short-term targets and action plans.

3.2 Status of guidance

In November 2022, GFANZ published its long-awaited Recommendations and Guidance on Financial Institution Net-zero Transition Plans (the "**GFANZ Recommendations**")[19]. These were supplemented by a technical review note entitled "Scaling Transition Finance and Real-Economy Decarbonization" in December 2023.[20] GFANZ intends the GFANZ Recommendations to be durable, but states that it is monitoring developments and will consider updating the GFANZ Recommendations as appropriate.

The GFANZ Recommendations are voluntary and do not have the status of, or replace, legislation or regulation. However, they are intended to be instructive and widely applicable for use across the financial sector.

GFANZ also has a suite of other publications providing guidance on transition plans[21] (including a report distilling existing transition plan guidance[22]).

3.3 Content of guidance

The GFANZ Recommendations make clear that a transition plan "should translate [an entity's] net-zero commitment into a coherent strategy with specific objectives and actions aimed at reducing real-economy GHG emissions against which progress can be assessed".[23] GFANZ believes that a credible net-zero transition plan is one that is actionable, focused on near-term action, and aligned with a carbon budget for limiting warming to 1.5°C with low or no overshoot, according to the latest findings of the Intergovernmental Panel on Climate Change.

19 Guidance on Financial Institution Net-zero Transition Plans for the Financial Sector

20 GFANZ Secretariat Technical Review Note: Scaling Transition Finance and Real-Economy Decarbonization

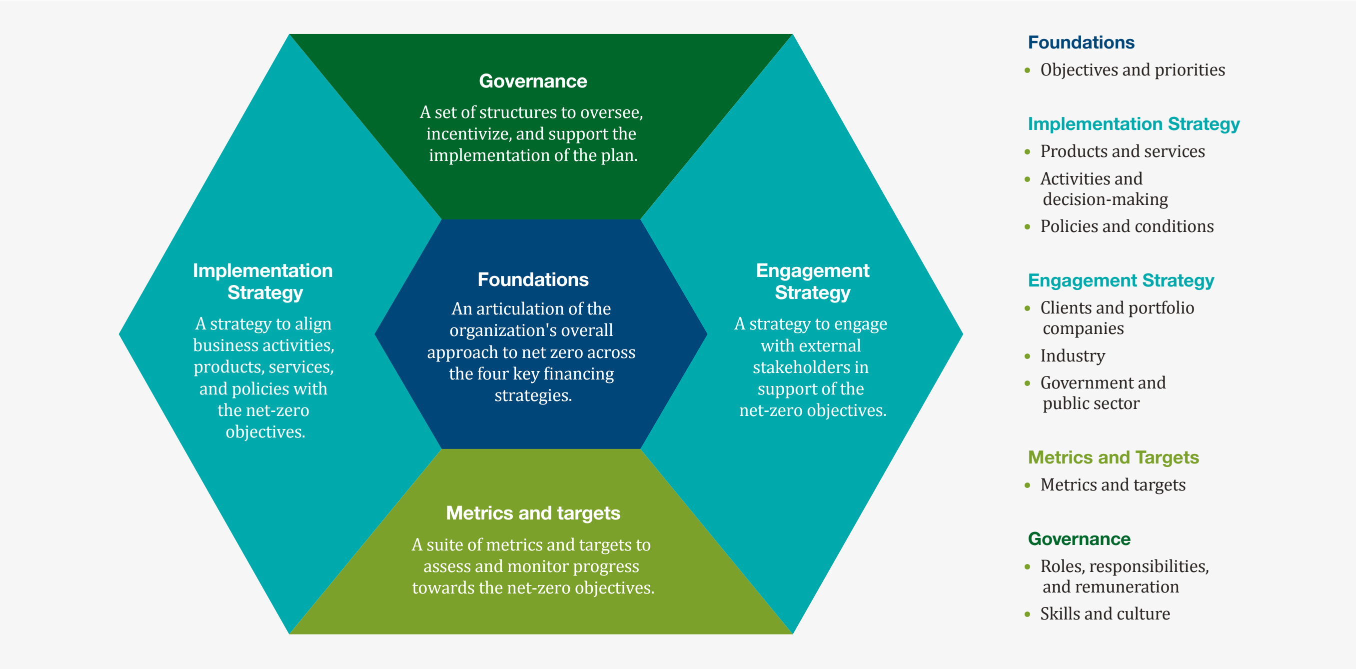
21 Glasgow Financial Alliance for Net Zero (gfanzero.com)

22 https://assets.bbhub.io/company/sites/63/2022/09/Expectations-for-Real-economy-Transition-Plans-September-2022.pdf

23 Financial-Institutions-Net-zero-Transition-Plan-Executive-Summary.pdf (bbhub.io)

GFANZ recommends a financial institution's net-zero transition plan address ten core components that are grouped into five themes.

Figure 2: **GFANZ financial institution net-zero transition plan framework**



Source: GFANZ Recommendations, page 31 Recommendations-and-Guidance-on-Financial-Institution-Net-zero-Transition-Plans-November-2022.pdf (bbhub.io)

Taken together, these components are designed to support financial institutions in developing a credible transition plan that is "actionable, measurable, focused on the near term, based on climate science, and against which there is accountability and appropriate transparency".[24]

For each of the ten components, the GFANZ Recommendations include more detailed recommendations and suggested disclosures. These are set out in Table 1 of the GFANZ Recommendations (from page 24), but in summary require:

a. Products and services: Aligning existing and new with a 1.5°C pathway, providing education and advice, and supporting portfolio decarbonisation;

b. Activities and decision making: Embedding net-zero objectives in decision-making processes;

c. Policies and conditions: Establishing and applying on priority sectors and activities;

d. Clients and portfolio companies: Providing feedback and support to clients and portfolio companies to encourage net zero-aligned transition strategies and having an escalation framework with consequences if engagement is not effective;

e. Industry: Engage with peers to exchange expertise, work on common challenges, and represent cohesive views to external stakeholders;

f. Government and public sector: Ensure that lobbying does not contravene net-zero commitments, review the same for portfolio companies and use engagement levers to encourage consistency;

24 Recommendations-and-Guidance-on-Financial-Institution-Net-zero-Transition-Plans-November-2022.pdf (bbhub.io), page 25.

g. Metrics and targets: Set targets that support net-zero strategy and priorities (including managed phaseout where relevant) and monitor a range of metrics to assess progress;

h. Roles, responsibilities, and remuneration: Define board and senior management roles so they have ownership and oversight of net-zero targets, assign individuals and teams to all aspects, regularly review transition plan and update where required; and

i. Skills and culture: providing training and development for those implementing and overseeing the plan and implement a change management programme to embed the transition plan in the organisation's culture and practices.

The GFANZ Recommendations are designed to complement, and expressly build on, the TCFD Transition Plan Guidance.

The GFANZ Recommendations also identify the following areas that GFANZ says require further work to enhance transition planning: adaptation and resilience; carbon credits; data challenges; just transition; integration of nature, biodiversity and nature-based solutions.

4. Net Zero Banking Alliance ("NZBA")

4.1 Background

Industry-led and UN-convened, the NZBA is a group of global banks who have committed to financing climate action to transition the real economy to net-zero greenhouse gas emissions by 2050. It is the sector-specific alliance for banks under the GFANZ.

All NZBA signatories commit to:

a. Transition the operational and attributable greenhouse gas emissions from their lending and investment portfolios to align with pathways to net-zero by 2050 or sooner;

b. Within 18 months of joining, set targets for 2030 or sooner and a 2050 target, with intermediary targets to be set every 5 years from 2030 onwards;

c. In respect of first 2030 targets, focus on priority sectors where the bank can have the most significant impact, i.e. the most GHG-intensive sectors within their portfolios, with further sector targets to be set within 36 months;

d. Annually publish absolute emissions and emissions intensity in line with best practice and within a year of setting targets, disclose progress against a board-level reviewed transition strategy setting out proposed actions and climate-related sectoral policies and

e. Take a robust approach to the role of offsets in transition plans.

4.2 Status of guidance

The Guidelines for Climate Target Setting for Banks (the "**NZBA Guidelines**") were first published in 2021, with Version 2 published in March 2024[25]. They are voluntary and do not have the status of, or replace, legislation or regulation. However, in becoming signatories, NZBA members commit to apply the NZBA Guidelines, although the NZBA Guidelines do not create binding obligations themselves. They are also to be applied by signatories to the Principles for Responsible Banking that have selected climate mitigation as one of their priority impact areas.

25 Guidelines for Climate Target Setting for Banks – Version 2 – United Nations Environment – Finance Initiative (unepfi.org)

4.3 Content of guidance

There are four specific guidelines within the NZBA Guidelines, relating to: the setting and disclosure of long term and intermediate targets; the establishment of an emissions baseline to measure and report the emissions profile of lending, investment and capital markets activities; the use of science-based decarbonisation scenarios; and regular review to ensure consistency with climate change science.

According to the first guideline, banks should publish, at a minimum, a high-level transition plan, which may be part of existing disclosures, providing an overview of the categories of actions expected to be undertaken to meet the targets and an approximate timeline. This should be done within 12 months of setting the targets and renewed every five years.

5. Organisation for Economic Cooperation and Development ("OECD")

5.1 Background

On 3 October 2022, the OECD published guidance on ensuring credibility of corporate transition plans (the "**OECD Guidance**")[26]. The OECD Guidance draws on existing guidance and frameworks on corporate transition plans to identify key elements of credible transition plans. The OECD intends to revise the OECD Guidance in future to take account of subsequent work and the expected evolution of best practice on transition plans.

5.2 Status of guidance

The OECD Guidance is not binding but is a further useful demonstration of how international bodies are considering transition plans.

It aims to outline key challenges in transition plans and therefore states that it can, amongst other purposes, be used by financial market participants to "identify credible investment opportunities among corporates who are raising finance to implement their transition plans"[27].

5.3 Content of guidance

The OECD Guidance identifies the following as elements that are consistently included in existing frameworks on transition plans (though to varying extents and with differing requirements): setting net zero and interim targets; metrics; use of carbon credits and offsets; coherence with the company's business plan; governance guidance; and transparency and verification issues.

It also notes that the following are elements that are key to transition plans but are not consistently or extensively included in existing frameworks: inclusion of non-climate related sustainability impacts in transition planning; use of sustainable finance tools like taxonomies to inform transition planning; just transition aspects; tailored approaches for micro, small and medium-sized enterprises; and considerations for companies operating in emerging markets (which may require additional flexibility).

26 OECD Guidance on Transition Finance: Ensuring Credibility of Corporate Climate Transition Plans | en | OECD

27 OECD Guidance on Transition Finance: Ensuring Credibility of Corporate Climate Transition Plans | en | OECD

The OECD Guidance states that the following are the key elements of credible transition plans:

a. Setting temperature goals, net zero targets, and interim targets;

b. Using sectoral pathways, technology roadmaps, and taxonomies;

c. Measuring performance and progress through metrics and KPIs;

d. Providing clarity on the use of carbon credits and offsets;

e. Setting out strategy, actions and implementation steps (including on preventing carbon-intensive lock in);

f. Addressing adverse impacts through the 'do no significant harm' principle (as developed in relation to the EU Taxonomy) or (especially for companies outside of the EU or with activities not covered by the EU Taxonomy) risk based due diligence in line with the OECD Due Diligence Guidance for Responsible Business Conduct;

g. Outlining how the company will support a just transition;

h. Integration with financial plans (the transition plan should be integrated into the business plan and should be considered concurrently with financial reporting) and internal coherence;

i. Ensuring sound governance and accountability (including process and responsibilities for regular monitoring and reporting progress, regular update of the plan, and board and senior management approval and oversight); and

j. Transparency (commitments to regularly disclose targets, underlying assumptions, and progress), verification (seeking third party verification of its plan and related targets), labelling and certification (though it notes that this may not be feasible for all companies).

6. International Organisation for Standardisation ("ISO")

The ISO has asked its members whether it should develop a global standard for climate transition planning for use by financial institutions. The standard would build on the work already undertaken by the likes of TPT and GFANZ but is envisaged as being particularly useful in smaller, emerging economies which have less advanced financial architecture and little or no guidance or expectations on transition planning. Should the proposal be endorsed, development of the standard would begin in July 2024 with a public consultation likely in Q1 2025 and an official launch towards the end of 2025.

UK Framework and Guidance

7. UK Transition Plan Taskforce[28] ("TPT")

7.1 Background

The TPT was set up by the UK Treasury to develop a gold standard for transition plans, by setting clear expectations of what a good transition plan looks like. It was launched on 25 April 2022 originally with a two-year mandate. In January 2024, this mandate was extended to the end of October 2024 to support the UK Transition Finance Market Review ("**TFMR**"). The TPT is made up of representatives from industry, academia and regulators.

Publication of the TPT Disclosure Framework and associated reports was driven by the UK Government's promise to mandate transition plan disclosure. In the 2023 Green Finance Strategy, the UK government promised consultation on requirements for the UK's largest companies to disclose their transition plans if they have them.

In October 2023, the TPT published its final Disclosure Framework and accompanying guidance ("**TPT Disclosure Framework**"). In April 2024, sector specific guidance, including in relation to banking, asset managers and asset owners, followed to supplement the core TPT Disclosure Framework.

In its party manifesto, the Labour party promised to mandate the development and implementation of transition plans by financial services firms and FTSE 100 companies. It is expected that the government will consult on the introduction of mandatory disclosure of transition plans for the UK's largest companies (not yet defined) with reference to the TPT framework.

In parallel, there are similar developments by the FCA in relation to its transition plan disclosure requirements, held in its ESG Sourcebook in the FCA Handbook. It is expected that the FCA will consult on introducing requirements for listed companies to apply UK-endorsed sustainability reporting standards, together with expectations on transition plan disclosures "in line with the TPT framework" in Q1 2025.[29].

Read more about the TPT's Disclosure Framework and its sector-specific guidance.

7.2 Status of guidance

The TPT Disclosure Framework and accompanying guidance is a framework for private sector transition plans (with associated guidance on the role of assurance, third party verification, and implications for reporting). Its purpose is to set out good practice recommendations to help companies make high quality, consistent and comparable transition plan disclosures.

The extent of its role and status in the future will emerge when the approach is delineated by the government in its forthcoming consultation on how the UK's largest companies can disclose their transition plans with reference to the TPT. The UK government published an implementation update in May 2024 indicating that this consultation would take place in Q2 2024, although this timing has been impacted by parliamentary elections and has not taken place as of July 2024.[30]

28 For more information on the UK TPT, see the Call for Evidence document.

29 HM Government Sustainability Disclosure Requirements: Implementation Update 2024

30 HM Government Sustainability Disclosure Requirements: Implementation Update 2024

Following the UK's 2023 Green Finance Strategy, the UK Treasury and Department for Energy Security and Net Zero jointly launched the TFMR. The purpose of the TFMR is to demonstrate the credibility and integrity of transition finance and the contribution that credible transition plans can make. In March 2024, the TFMR the launched a call for evidence seeking views on how the UK can leverage its existing strengths to become a global hub for funding the global net zero transition[31]. One of the things the TFMR will consider is how the TPT disclosure framework and other standards can be used to build confidence in the market and what core transition principles (such as transition plan disclosures, science-based targets, and capital allocation plans) may be necessary for a plan or strategy to be credible. The TFMR is expected to report on its findings in July 2024. Although its findings will comment on the role of transition plans, it is not likely to make recommendations as to their content, on which it will defer to the TPT.

Read more on the TFMR.

7.3 Content of guidance

TPT Disclosure Framework

The TPT Disclosure Framework provides a set of principles-based disclosure recommendations that firms can use as guidance on how to report more effectively on the transition plan-related aspects of IFRS S2 issued by the ISSB, as part of wider sustainability-related disclosures in its general-purpose financial reports. The TPT Framework aims to provide clarity and guidance on what good practice looks like and has drawn on transition plan components identified by GFANZ to set out five key elements of a good practice transition plan. These involve disclosure by an entity of its:

a. Foundations: the strategic ambition of its plan, including objectives and priorities for transitioning towards a low-GHG emissions, climate-resilient economy, how the plan will avoid adverse impacts for stakeholders and society and safeguards natural environment and key assumptions / external factors underpinning the plan.

b. Implementation Strategy: the actions it is taking within its business operations, products and services, and policies and conditions to achieve the strategic ambition, and the implications for financial position.

c. Engagement Strategy: how it is engaging with value chain, industry peers, government, public sector, communities and civil society to achieve its strategic ambition.

d. Metrics and Targets: metrics and targets using to drive and monitor progress towards its strategic ambition.

e. Governance: how an entity is embedding its transition plan within its governance structures and organisational arrangements in to achieve the strategic ambition.

The TPT Disclosure Framework seeks to be internationally aligned by leveraging ISSB's work, including its definition of climate-related transition plan, approach to materiality, and the wider set of concepts and definitions set out in the ISSB's General Requirements standard (IFRS S1). It also sets out a table of provisions corresponding to the main provisions in IFRS S2 that contain disclosure requirements.

31 TFMR call for evidence (theglobalcity.uk)call for evidence (theglobalcity.uk)

TPT Specific Guidance

In April 2024, the TPT published its range of sector specific guidance[32]. For the financial services, these comprise banks, asset managers, asset owners. There is also guidance for industrial sectors - food and beverage, electric utilities and power generators, metals and mining and oil and gas. We include below information on the sector guidance for banks and asset managers.

a. Banks.[33] The guidance for banks covers a wide spectrum of banking activities and, while a range of investment banking activities are covered, the focus of the TPT is on commercial and retail banking. The guidance recommends that banks should address their full range of operations and activities in their transition plans, covering on- and off- balance sheet activities, including (but not limited to) lending, sales and trading, capital markets, and advisory activities. Where banks have in-house asset management functions, the TPT recommends that it also use the TPT Asset Managers guidance.

b. Asset managers.[34] The guidance for asset managers primarily covers investment activities and notes that an asset manager should incorporate all relevant asset classes within its transition plan, with distinctions made between asset classes where relevant. Asset managers are recommended to consider addressing their full range of operations and activities in their transition plans and incorporate all relevant asset classes within the transition plan, with distinctions made between asset classes where relevant. However, the TPT recognises that there may be data and/or methodology limitations for some asset classes and recommends that asset owners be transparent in identifying these limitations, outlining any steps that they are taking, or plan to take, to address them.

Read more on the content of the sector specific guidance for financial services.

32 Sector Guidance | Transition Plan Taskforce (transitiontaskforce.net)

33 TPT-Banks-Sector-Guidance.pdf (transitiontaskforce.net)

34 TPT-Asset-Manager-Sector-Guidance.pdf (transitiontaskforce.net)

EU Law, Regulation, Frameworks and Guidance

8. Corporate Sustainability Reporting Directive ("CSRD")

8.1 Background and status

The CSRD came into force at the beginning of 2023. It extends the scope of the longstanding Non-Financial Reporting Directive to all EU large companies (listed or not) and all EU listed companies, as well as non-European companies meeting certain requirements. The CSRD requires in-scope organisations to report on sustainability-related information using a set of mandatory disclosure standards, known as European Sustainability Reporting Standards ("**ESRS**"). The European Commission mandated the European Financial Reporting Advisory Group ("**EFRAG**") to develop the ESRS.

Subject to the materiality assessment, the CSRD requires disclosure in relation to an entity's transition plan for climate change mitigation if it has one. Where the entity does not have a transition plan, it shall disclose whether and when it will adopt a transition plan.

For entities with a transition plan, the precise transition plan content requirements are elaborated in ESRS. Final versions of the first set of ESRS were published in December 2023 and have applied since 1 January 2024.[35] These are sector-agnostic standards which outline the sustainability information which must be disclosed under CSRD and include information relating to an entity's transition plan for climate change mitigation. These disclosure requirements are aimed at ensuring an understanding of an entity's past, current, and future mitigation efforts to ensure its strategy and business model are compatible with the transition to a sustainable economy.

Additionally, the Commission is required to adopt:

a. Sector-specific ESRS outlining information particular to certain sectors; and

b. ESRS for non-EU entities conducting business in the EU which meet specific thresholds that bring them within the scope of CSRD.

We understand that EFRAG will consult on the draft ESRS for the financial sector (three categories: credit institutions, capital markets and insurance) during 2025. It remains to be seen if the sector-agnostic ESRS transition plan reporting requirements are supplemented by the ESRS for the financial services sector.

In May 2024, the IFRS and EFRAG published **Interoperability Guidance** to illustrate the alignment between the ISSB standards and the ESRS[36]. The guidance's value lies in its helpful assertion that there is a high degree of alignment in the two sets of climate-related disclosures. Additionally, it sets out useful points that an entity starting with ESRS needs to consider when also applying ISSB standards to enable compliance with both sets of standards, including in relation to transition plans (for example, see *Transition Plan assumptions* on p14).

EFRAG has announced that it is preparing guidance to help companies disclose their transition plans in line with ESRS. A public consultation is expected to follow, with the guidance expected to be finalised in November 2024.

Read more on CSRD here.

35 European Sustainability Reporting Standards published 22 December 2023.

36 esrs-issb-standards-interoperability-guidance.pdf (ifrs.org)

8.2 Content of CSRD transition plan requirements

EFRAG's first set of ESRS requires disclosures relating to a company's transition plan for climate change mitigation to include, amongst other information, an explanation of:

a. how the entity's targets are compatible with limiting global warming to 1.5 °C in line with the Paris Agreement (by reference to GHG emission reduction targets);

b. decarbonisation levers identified, and key actions planned;

c. the entity's investments and funding supporting the implementation of its transition plan;

d. potential locked-in GHG emissions from the entity's key assets and products;

e. how the transition plan is embedded in and aligned with entity's overall business strategy and financial planning; and

f. the entity's progress in implementing the transition plan.

As stated above, ESRS E1-1 ("Transition plan for climate change mitigation") provides that, 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.

The ESRS also set out disclosure requirements in respect of biodiversity and ecosystems and an entity's transition plan. Disclosure can include, amongst other factors:

a. an explanation on how an entity's biodiversity strategy interacts with its transition plan;

b. an explanation on how biodiversity offsets used as part of its transition plan (and if so, where offsets are planned to be used, the extent of use in relation to the overall transition plan and whether mitigation hierarchy was considered);

c. an explanation of investments and funding supporting implementation of the transition plan; and

d. explanation how the transition plan is implemented and updated and how progress is monitored.

In line with ESRS E4-1 ("Transition plan and consideration of biodiversity and ecosystems in strategy and business model"), an undertaking may disclose its transition plan to improve and, ultimately, achieve alignment of its business model and strategy with the vision of the Kunming-Montreal Global Biodiversity Framework and its relevant goals and targets, the EU Biodiversity Strategy for 2030, and with respecting planetary boundaries related to biosphere integrity and land-system change.

Drafts of the sector-specific ESRS have not yet been published.

9. Corporate Sustainability Due Diligence Directive ("CSDDD")

9.1 Background and status

The CSDDD imposes comprehensive due diligence obligations on large companies operating in the EU regarding actual and potential adverse human rights and environmental impacts, with respect to their own operations, those of their subsidiaries, and those carried out by their business partners in their upstream and downstream chains of activities.

It also introduces, for the first time, an obligation for those companies to *adopt and put into effect* a transition plan for climate change mitigation. This is distinct from the requirement to *disclose* any plan the company has set (which has been the focus of the CSRD and other global regimes to date).

Having gone through an intense negotiation process, the CSDDD has now been published in the Official Journal of the EU and enters into force on 25 July 2024[37]. Transition periods will apply based on a staged approach, with actual entry into application of the CSDDD rules from mid-2027 for the largest in-scope companies.

Read more about the CSDDD here.

9.2 Scope of CSDDD transition plan requirements

CSDDD has complex rules determining which entities are within scope. The information here focuses on those aspects regarding transition plan adoption and disclosure only.

Although CSDDD has certain carve outs for financial services firms in respect of its due diligence obligation, financial services firms are nonetheless required to adopt and implement transition plans for climate change mitigation.

CSDDD provides that parent companies within the scope of CSDDD may fulfil the obligation to adopt and put into effect a transition plan on behalf of their subsidiaries which fall within the scope of the directive. This is subject to an obligation on the subsidiary to comply with the obligations under Article 22 in accordance with the parent company's transition plan "accordingly adapted to its business model and strategy".[38]

CSDDD also provides that companies that are included in the transition plan of their parent undertaking reported in accordance with CSRD shall be deemed to have complied with the obligation to adopt a transition plan for the purposes of CSDDD.[39]

37 https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202401760

38 See Article 6 CSDDD

39 See Article 22(2) CSDDD

9.3 Content of CSDDD transition plan requirements

In-scope companies are required to adopt and put into effect a transition plan for climate change mitigation. The plan must aim to ensure, through best efforts, that the business model and strategy of the company are compatible with the transition to a sustainable economy and with limiting global warming to 1.5 °C in line with the Paris Agreement and the objective of achieving climate neutrality as established in the European Climate Law, including its intermediate and 2050 climate neutrality targets.[40]

The transition plan will have to be updated yearly, and must 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 including, where appropriate, absolute emission reduction targets for greenhouse gas for scope 1 (companies' own emissions), scope 2 (emissions entailed by the company's energy consumption) and scope 3 greenhouse gas emissions for each significant category;

b. a description of decarbonisation levers identified and key actions planned to reach targets, including where appropriate changes in the company's product and service portfolio and the adoption of new technologies;

c. an explanation and quantification of the investments and funding supporting the implementation of the transition plan; and

d. a description of the role of the administrative, management and supervisory bodies with regard to the plan.

Helpfully, Article 22 and Recital 73 of CSDDD provide that companies that report a transition plan in accordance with CSRD shall be deemed to have complied with the obligation to adopt a transition plan under CSDDD, although how this works for example where a CSRD transition plan is qualified or partial remains to be seen. While the adoption obligation will be considered to have been met, companies will still be subject to the obligation to put that transition plan for climate change mitigation into effect. The transition plan must be updated every 12 months and contain a description of the progress the company has made towards achieving the targets.

40 Regulation (EU) 2021/1119

10. Capital Requirements Directive 6 ("CRD6") / Capital Requirements Regulation 3 ("CRR3")

10.1 Background

The EU Banking Package was published in the Official Journal of the EU in June2024. This reform package includes, amongst other requirements, amendments to CRR3 and CRD6 to require banks to have prudential transition plans in place with quantifiable targets and processes to address short, medium and long-term climate-related and environmental risks arising from the process of adjustment towards climate neutrality by 2050.

In addition, CRD6 mandates the EBA to set out the minimum requirements and expected content of these transition plans. National regulators will be required to monitor and assess against these minimum requirements via the supervisory review and evaluation process ("SREP") and take steps to require a reduction of exposures where necessary.[41] In this respect, transition plans are expected to be used as a micro-prudential risk management tool.

To fulfil its mandate, the EBA has proposed guidelines on the management of ESG risk ("**EBA Draft Guidelines**"). Still in draft, these are expected to be finalised by the end of 2024. Their application date will be aligned with the application date of CRD6 – 11 January 2026.

Click here to see blacklines showing the amendments to CRR3 and CRD6.

Read more on the EBA Draft Guidelines here.

10.2 Status of reforms

The new rules apply from 11 January 2026. CRD6 (by virtue of being a directive and not a regulation) will need to be transposed into national law by member states. The ECB has announced that it will revise the SREP guidelines for national competent authorities, which may provide further details on the criteria that prudential transition plans will be assessed against and how the guidelines will be used by national competent authorities.

10.3 Content of framework

In the EBA Draft Guidelines, the EBA describes a CRD-based prudential transition plan as an overview of strategic actions and risk management tools which institutions should adopt with the aim of increasing preparedness for their transition to a sustainable economy, ensuring that banks are prepared to adapt and integrate ESG factors into risk management.

The proposed EBA Draft Guidelines provide a framework for several key features of transition planning, including the internal processes and ESG risk management arrangements that institutions should have in place to help them prepare for a transition to more sustainable economy and implement their objectives and targets. In particular, this may involve engagement with counterparties, integration of ESG criteria into loan origination policies, changes in strategic financing choices, approach to mitigation of and adaptation to physical risks, development of new products or services, new policies and conditions or setting specific lending or investment criteria. This should function as an integrated part of an institution's risk management and governance processes and be underpinned by metrics and targets with regular review of plan documentation.

41 Directive (EU) 2024/1619, Article 87a.

Annex 2: Investor and NGO analysis and expectations

1. CDP

CDP is an international non-profit that runs a carbon and environmental reporting system. It has published various documents to assist companies in preparing transition plans, including:

a. a climate transition plan discussion paper[42];

b. a technical note on reporting on transition plans[43];

c. a report on companies' disclosure on their transition plans[44], which shows that only a minority of companies disclosing to CDP have developed low-carbon transition plans, and even fewer reported on all of the key transition plan indicators included in the CDP questionnaire. The report shows a decrease in organisations which meet the required disclosure criteria since the CDP's 2021 assessment of disclosures. This reduction is based on CDP strengthening the disclosure criteria for what constitutes a credible transition plan by uploading the plans to 1.5°C alignment.

The discussion paper gives a helpful overview of what a climate transition plan is, and states that it is a time-bound action plan setting out how an organisation will achieve its strategy towards alignment with "the latest and most ambitious climate science recommendations, i.e...limiting global warming to 1.5°C".

It identifies the following as key elements of a credible transition plan:

a. governance (board level oversight on the transition plan and governance mechanisms);

b. scenario analysis (underpinning the plan);

c. including time-bound financial planning details as part of the strategy to achieve net zero;

d. value chain engagement and low-carbon initiatives;

e. demonstrating that public policy engagement aligns with climate ambitions and strategy;

f. the process for minimising risks and maximising opportunities;

g. targets (time bound, verified and science based targets in line with the latest climate science – including halving emissions by 2030 and a net zero target by 2050; and

h. Scope 1, 2 and 3 accounting with verification (a climate transition plan should be accompanied by an annual Scope 1, 2 and 3 emissions inventory that is complete, accurate, transparent, consistent, relevant, and verified by a third-party).

42 Climate Transition Plan: Discussion Paper

43 CDP Technical Note: Reporting on Transition Plans

44 2022 Climate Transition Plan Disclosure

2. Climate Action 100+ ("CA100+")

CA100+, an investor-led engagement initiative on climate change, was launched at the end of 2017. Its focus is to ensure that the world's largest corporate emitters of GHG take action on climate change. It seeks commitments from boards and management relating to governance of climate change risk, disclosure in line with TCFD Recommendations, and taking action to reduce GHG emissions across companies' value chain.

One of CA100+'s strategic projects is a net-zero company benchmark, which assesses companies' alignment with ten indicators that together reflect the key commitment priorities of the CA100+ initiative.

CA100+'s second benchmark (released in March 2022)[45] was updated in March 2023 and remains a key pillar for CA100+ as it moves into its second phase which will run until 2030. The updated benchmark has a stronger focus on (i) emission reductions and underlying drivers, (ii) alignment with 1.5°C pathways and evaluation of whether companies are on track to meet the goals of the Paris Agreement, and (iii) net-zero transition planning, including assessments of key levers for company decarbonisation, corresponding capital allocation and asset-level changes.

CA100+'s 2023 results found that no company was fully aligned with the second benchmark disclosure framework. The findings indicate that:[46]

a. there is steady improvement in key areas of net-zero transition disclosures, although most companies are not moving quickly enough to align with the goals of the Paris Agreement and reduce investors' risk;

b. although more companies are setting out how they will decarbonise, they fail to quantify how these actions will contribute to emissions reductions targets;

c. although companies continued to perform well in relation to medium and long-term GHG reduction targets and TCFD-aligned disclosure, these targets lack ambition and are not always underpinned by commitment to short-term action;

d. a significant number of companies are disclosing the role climate solutions play in their business models;

e. there is low evidence of companies adopting strategies in line with a 1.5°C pathway; and

f. there is urgent need for companies to set out credible, just transition plans with no companies scoring on CA100+'s just transition indicator.

45 Climate Action 100+ releases the latest evolution of the Net Zero Company Benchmark | Climate Action 100+. Company assessments are accessible here.

46 Climate Action 100+ October 2023 Results.

3. NewClimate Institute for Climate Policy and Global Sustainability ("NewClimate Institute")

The NewClimate Institute carries out and issues reports on "net zero stocktakes", in which it tracks and assesses whether companies have net zero targets and looks at the credibility of targets which have been set. As part of this, the NewClimate Institute looks at: (i) whether a company has a specific net zero pledge; (ii) whether it has published a plan on how it intends to achieve interim and long-term targets; (iii) whether the company is taking immediate action to proceed on its commitments; and (iv) publishing progress reports on target achievements and annual measurements.

The NewClimate Institute's 2023 report notes that, in contrast to even a year prior, the standards and expectations for net zero target-setting are clearer and that governments and regulators are transforming pledges into requirements for companies, with particular focus on disclosure and transition planning. Regulatory changes across the world are expected to put "almost half of global GDP and global emissions under disclosure rules" which will rise to two-thirds if similar proposals are passed in the US.[47] The report found that emerging voluntary net zero standards have strongly covered on principles but require more specificity to give clarity to companies wanting to set credible strategies.

4. World Benchmarking Alliance ("WBA")

The WBA is a group of "allies" drawn together from global, regional and local organisations (excluding companies – given they are the subject of benchmarking) whose common purpose is to shape the private sector's contribution to achieving the UN's 17 Sustainable Development Goals[48].

The WBA's Financial System Benchmark measures and ranks the 400 most influential financial institutions on their contribution to a just and sustainable economy. As such, the WBA is able to identify actions that financial institutions can take to contribute to sustainability and therefore the benchmark can act as a global accountability mechanism. The key finding of the 2022 benchmark was that the majority of financial institutions do not acknowledge their impact on the environment or society. WBA went on to explain that "only 20% of financial institutions publicly acknowledge their impact on people and planet. This is a minimum requirement for financial institutions, as without acknowledgment they are unable to put processes in place to identify and manage the impact they have, set targets and monitor progress.[49]"

In 2023, the WBA with the Columbia Center on Sustainable Investment launched a new working group called the "ATP-Col - Assessing companies Transition Plans Collective"[50]. This is a group of experts from 40 organisations whose aim is to develop guidance on how to assess the credibility of companies' transition plans.

47 Net_Zero_Stocktake_2023.pdf (edcdn.com)

48 Home | World Benchmarking Alliance

49 Financial System Benchmark | World Benchmarking Alliance

50 Assessing companies Transition Plans Collective (ATP-Col) | World Benchmarking Alliance

Annex 3: Elements of transition plans across existing guidance frameworks[51]

a. Ambition		TCFD	GFANZ	CDP	ISSB	CA100+	ACT	ICAPs	CSLN	CPI	IGCC	TPI
Sub-element	**Notes**											
Overall ambition	• Overall emissions reduction targets and target year (absolute emissions and/or emissions intensity) and scope of the targets. • Information on how the organisation has taken the temperature goals enshrined in the Paris Agreement into account in setting its target • Alignment with a national strategy to achieve net zero	•	•	•	•	•	•	•	•	•	•	•
Interim targets and dates	• Quantitative, interim short and medium-term emissions reduction targets	•	•	•	•	•	•	•	•	•	•	•
Implications for business model	• Explanation of how the business model needs to evolve to deliver the target and allow the company adapt to an economy-wide transition	•		•	•		•	•	•	•	•	•
Alignment with just transition principles	• Overall strategy for ensuring that the entity's decarbonisation supports just transition objectives	•	•	•	•	•	•	•	•	•	•	•

51 Table 2 from the TPT's "A Sector-Neutral Framework for private sector transition plans, Call for Evidence", accessible at TPT_Call_for_Evidence.pdf (transitiontaskforce.net)

b. Target Setting

Sub-element	Notes	TCFD	GFANZ	CDP	ISSB	CA100+	ACT	ICAPs	CSLN	CPI	IGCC	TPI
Baseline year and GHG emissions	• Baseline year and emissions used to set targets. • Includes reference to methodology used to develop GHG inventory and any third-party verification procedures	•	•	•	•	•	•	•	•	•	•	•
Target year and GHG emissions	• Overall GHG emissions reduction targets (absolute emissions and/ or emissions intensity) • Includes interim targets and dates (see Ambition)	•	•	•	•	•	•	•	•	•	•	•
Scope of business activities covered	• Overview of target boundaries (e.g., in terms of territorial scope or activities covered) • These boundaries should be aligned with the GHG inventory	•	•	•	•	•		•	•	•	•	•
Third party verification targets	• Information on whether targets have been verified by a third party (e.g., SBTi)				•			•			•	
Alignment with sectoral benchmark	• Alignment of the organisational decarbonisation target with relevant sectoral net zero pathways (e.g., SBTi/TPI)	•	•			•		•	•	•	•	•
Alignment with temperature trajectory/ transition pathway	• Alignment of the organisational decarbonisation target with global transition pathways and temperature goals	•	•			•	•	•	•	•	•	•
Reliance on offsets	• Transparency on the reliance of offsets/carbon credits	•	•		•	•			•	•	•	
Third party verification offsets	• Information on whether offsets used are subject to a third-party verification/certification scheme		•		•				•	•	•	
Offset type	• Detail on the type of offset used (e.g., nature based vs. technological; carbon removal vs. emissions avoidance)		•		•					•	•	
Other factors on offset credibility/ integrity	• Other significant factors required to assess the credibility and integrity of offsets used (e.g., on permanence)		•		•	•				•	•	

c. Management activities and plans

Sub-element	Notes	TCFD	GFANZ	CDP	ISSB	CA100+	ACT	ICAPs	CSLN	CPI	IGCC	TPI
Business plan	• Action plan with short, medium and long-term steps/activities undertaken to achieve the overall emissions reduction target • Estimated emissions impact associated with each step/activity	●	●	●	●	●	●			●	●	●
Financial plan	• Plan of key financial impacts of the transition, incl. CAPEX, OPEX, revenue forecasts etc. • Information on the use of internal carbon pricing and other climate-related metrics used for financial decision-making	●		●	●	●	●			●	●	●
Operations and production	• Action plan of short, medium and long-term steps/activities undertaken to decarbonise direct operations/production	●	●	●	●		●			●	●	
Sensitivity analysis	• Key assumption underlying transition plans and assessment of the plan's sensitivity to changes in these assumptions • Overview of the dependencies on external developments (e.g., policy changes, technological advances)	●	●	●		●	●	●			●	●

d. Internal policies

Sub-element	Notes	TCFD	GFANZ	CDP	ISSB	CA100+	ACT	ICAPs	CSLN	CPI	IGCC	TPI
Transition-related company policies	• Other entity-level policies adopted to support the transition, which are not covered by the remaining elements (e.g., zero deforestation policies, company-wide strategies for phasing out carbon-intensive assets, policies for engaging communities impacted by asset phase-outs etc.) • These are likely to be specified in greater detail in sectoral guidelines		●		●			●	●	●	●	●

e. Products and services

Sub-element	Notes	TCFD	GFANZ	CDP	ISSB	CA100+	ACT	ICAPs	CSLN	CPI	IGCC	TPI
Plans to increase portfolio of low-carbon products and services	• Plans to expand the portfolio of products and services that support or de-risk the net zero transition			•	•	•	•	•	•	•		•
Emissions impact of changes to products and services	• Estimated emissions impact of planned changes to the portfolio of products and services					•	•	•	•	•	•	

f. Engagement: Value chains/portfolio

Sub-element	Notes	TCFD	GFANZ	CDP	ISSB	CA100+	ACT	ICAPs	CSLN	CPI	IGCC	TPI
Engagement with portfolio companies, customers and suppliers	• Overview of engagement activities with actors across the value chain to support the development and implementation of transition plans		•	•			•	•	•	•	•	
Value chain/Portfolio emissions reduction target	• Share of total emissions reduction target that is expected to derive from value chain emission reductions				•			•	•		•	

g. Engagement: Public sector

Sub-element	Notes	TCFD	GFANZ	CDP	ISSB	CA100+	ACT	ICAPs	CSLN	CPI	IGCC	TPI
Direct engagement	• Commitment to ensuring that direct lobbying activities are aligned with and support the decarbonisation target		•	•		•	•	•	•		•	•
Indirect engagement	• Explanation of how the entity ensures all indirect lobbying activities are aligned with and support the decarbonisation target • For financial sector actors this could include commitments on addressing lobbying activities by portfolio companies		•	•		•	•	•	•		•	•

h. Engagement: Industry peers

Sub-element	Notes	TCFD	GFANZ	CDP	ISSB	CA100+	ACT	ICAPs	CSLN	CPI	IGCC	TPI
Engagement with industry peers	• Explanation of how an entity engages with trade associations and industry peers to accelerate sectoral net zero ambitions			•				•	•			•

i. Metrics and monitoring progress

Sub-element	Notes	TCFD	GFANZ	CDP	ISSB	CA100+	ACT	ICAPs	CSLN	CPI	IGCC	TPI
GHG KPIs	• Define and annually report on GHG emissions targets and other emissions related KPIs used to assess performance against interim targets	•	•	•	•	•	•	•	•	•	•	
Financial KPIs	• Define and regularly report on key financial KPIs that are clearly linked to the financial plan (see above)	•	•		•	•	•	•	•	•	•	•
Business KPIs	• Define and regularly report on key business indicators of progress on transition plans • KPIs should be clearly linked to the business plan (see above) and reflect sector-specific guidance on metrics and targets	•	•		•	•	•	•	•	•	•	
Non-climate related impact KPIs	• Set and regularly report on non-climate related external impact KPIs					•				•		

j. Skills, incentives and accountability

Sub-element	Notes	TCFD	GFANZ	CDP	ISSB	CA100+	ACT	ICAPs	CSLN	CPI	IGCC	TPI
Skills and training	• Information on how the organisation ensures that it has the required expertise/capabilities to execute the transition plan				•	•	•		•	•		
Incentives and renumeration	• Information on how the incentive and renumeration structures are aligned to the decarbonisation target, including whether executive renumeration is linked to KPIs embedded in the transition plan (see GHG, Financial and Business KPIs above)	•	•			•	•	•		•		•

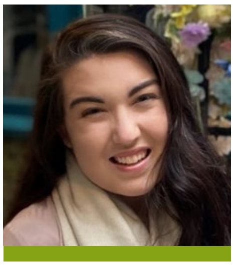
k. Governance, roles and responsibilities

Sub-element	Notes	TCFD	GFANZ	CDP	ISSB	CA100+	ACT	ICAPs	CSLN	CPI	IGCC	TPI
Board oversight	• Governance procedure grants oversight of transition plan to the board or relevant board committee	•	•	•		•	•	•	•			•
Board approval	• Governance procedure makes transition plan subject to board approval	•	•				•	•	•			
Report and review mechanism	• Governance procedure outlines a mechanism for the regular reporting of transition plans and a review cycle of the decarbonisation target, activities and steps, as well as the metrics used to assess progress	•	•		•			•	•	•		
Senior management accountability	• Governance procedure delegates responsibility for the execution of the transition plan to senior management	•		•	•		•	•	•	•		
Transparency	• Governance procedure outlines how the organisation will report its transition plan and progress to external stakeholders	•	•	•	•	•		•	•	•		

Contacts

AFME

Oliver Moullin
Managing Director, Sustainable Finance, General Counsel and Comp
+44 (0)7785 623 441
oliver.moullin@afme.eu



Rachel Sumption
Manager, Sustainable Finance
+44 (0) 7501 366 127
rachel.sumption@afme.eu

Carolina Cazzarolli
Manager, Advocacy
+32 479 26 98 91
carolina.cazzarolli@afme.eu

Caroline Liesegang
Managing Director, Head of Capital & Risk Management, Sustainable Finance and Research
+44 (0)7917 763 720
caroline.liesegang@afme.eu

Linklaters

Rachel Barrett
Partner, Corporate, London
Tel: +44 207456 5414
rachel.barrett@linklaters.com

Raza Naeem
Partner, Financial Regulation, London
Tel: +44 2074565272
raza.naeem@linklaters.com

Victoria Hickman
Senior Associate, Financial Regulation, London
Tel: +44 207456 4565
victoria.hickman@linklaters.com

Claire Kernick
Managing Associate, Corporate, London
Tel: +44 207456 4505
claire.kernick@linklaters.com

About Linklaters

Linklaters LLP is a leading global law firm focused on bringing legal certainty in a changing world. We support and invest in the future of our clients wherever they do business. We combine legal expertise with a collaborative and innovative approach to help clients navigate constantly evolving markets and regulatory environments, pursuing opportunities and managing risk worldwide.

Our ESG team is longstanding, and has many years of experience advising on environmental, social and governance issues across a wide range of sectors and contexts. We are market leaders in advising on incoming ESG requirements of regulators and other stakeholders, including investors, business partners and financiers. Our multidisciplinary and experienced team has a robust understanding of the regulatory and policy drivers of a wide range of markets and a very strong appreciation of the opportunities and challenges arising out of the growing focus on sustainability. We are at the forefront of supporting clients on environmental and climate matters, navigating emerging soft law standards and evolving stakeholder expectations. We work seamlessly with clients and with each other on a global basis to provide the strategic, transactional, and regulatory advice our clients need to transform their projects, their businesses, and their value chains.

/ About AFME

The Association for Financial Markets in Europe (AFME) is the voice of all Europe's wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues.

We represent the leading global and European banks and other significant capital market players.

We advocate for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society.

We aim to act as a bridge between market participants and policy makers across Europe, drawing on our strong and long-standing relationships, our technical knowledge and fact-based work.

Focus
on a wide range of market, business and prudential issues

Expertise
deep policy and technical skills

Strong relationships
with European and global policymakers

Breadth
broad global and European membership

Pan-European
organisation and perspective

Global reach
via the Global Financial Markets Association (GFMA)

afme/
Finance for Europe

London Office
Level 10
20 Churchill Place
London E14 5HJ
United Kingdom
+44 (0)20 3828 2700

Brussels Office
Rue de la Loi, 82
1040 Brussels
Belgium
+32 (0) 2 883 5540

Frankfurt Office Neue
Große Gallusstraße 16-18
60312 Frankfurt am Main
Germany
+49 (0)69 710 456 660

Press enquiries
Rebecca O'Neill
rebecca.oneill@afme.eu
+44 (0)20 3828 2753

Membership
Elena Travaglini
Head of Membership
elena.travaglini@afme.eu
+44 (0)20 3828 2733

AFME is registered on the EU Transparency Register, registration number 65110063986-76