Building trust in transition: core elements for assessing corporate transition plans

EU Platform on Sustainable Finance

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SUMMARY REPORT

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Executive Summary

European businesses urgently require finance and investment to align their business models with the EU's environmental and social objectives, reflecting the global imperative to transition to a net-zero, resilient, environmentally sustainable, and inclusive economy. Private finance will be essential in closing the investment gap needed to maintain the competitiveness and sustainability of European industry, estimated to be around $750-800 billion annually, according to the Draghi report[1].

Transition plans are key – albeit not the only – tools to raise and grant transition finance. Financial market participants (FMPs) and public authorities should encourage companies to think of transition plans as an opportunity for robust planning and transparent communication, not as window dressing or a tick-box exercise.

For FMPs to provide effective transition finance, such investments must be grounded in robust corporate transition plans and science-based targets[2]. Legal requirements for companies to disclose – and, to adopt and implement - climate transition plans are set to come into effect soon[3]. This presents a timely opportunity to explore how the EU can use its framework to better facilitate transition finance.

Working with a clear concept of robust and Paris-aligned transition plans offers invaluable advantages. Credible forward planning will help target public interventions in an informed manner, to help manage an orderly and just transition that leaves no one behind. Additionally, greater transparency about the availability and affordability of technologies could foster technological innovation.

This report by the EU Platform on Sustainable Finance provides advice to the European Commission on the development and assessment of corporate transition plans aligned with the EU's environmental objectives and social commitments in line with the Paris Agreement. It identifies core elements for evaluating these plans, offering recommendations to the Commission for enhancing the effectiveness of its policy framework and supporting the market to provide and access transition finance.

All stakeholders should collaborate to support companies in developing robust transition plans over time. This can be achieved by companies clearly communicating any gaps and how they will be addressed to FMPs - who should, in turn, use credible and robust transition plans to help inform their investment and lending decisions while supporting companies in strengthening their plans over time.

[1] https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en

[2] As per the COMMISSION RECOMMENDATION (EU) 2023/1425 of 27 June 2023 on facilitating finance for the transition to a sustainable economy

[3] Under the EU Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Dilligence Directive (CSDDD). Only companies in scope of CSDDD are required to adopt and implement transition plans. See section 2 for a summary of existing EU requirements relating to transition plans.

Key findings include:

- FMPs can assess corporate transition plans based on four core elements aligned with the EU requirements, notably CSDDD and CSRD: i) science-based and time-bound targets ii) key levers and actions to achieve these targets, iii) financial planning (investments and funding supporting the plan) and iv) governance and oversight of the plan and its implementation.

- The EU Taxonomy, along with other tools such as disclosures from the EU legislative framework (e.g., EU ETS, IED), can be particularly useful to evaluate the robustness and consistency of transition plans. In particular, the Taxonomy can enhance the credibility of a company's financial planning by demonstrating how its expenditures align with the EU´s net zero by 2050 target and the other EU's environmental objectives.

- The Platform emphasises that a holistic approach, which integrates climate mitigation and adaptation action with broader environmental and social objectives, is crucial for the effectiveness of transition plans. While this report focuses on climate mitigation, the Platform acknowledges the importance of analysing other environmental goals, starting with adaptation, to ultimately support a comprehensive assessment of transition plans.

Summary of the Platform's recommendations to the European Commission:

Core transition plan elements	Assessments of plans	Recommendations to the Commission
Science-based and time-bound targets	Alignment of targets with the limiting of global warming to 1.5 °C with no or limited overshoot Use of scenarios for target-setting Scope of targets (mid-term targets, scopes 1-3, absolute and intensity targets, net vs gross)	**Develop sectoral transition pathways for high-emitting sectors at the EU level**, complete with technology roadmaps **Provide guidance for selecting scenarios** that can be used for credible science-based corporate target setting and transition planning **Develop a set of criteria for qualifying targets as credible and science-based**
Mitigation actions and levers	External dependencies (e.g. geographic and policy factors) DNSH assessment of implemented or planned actions Fossil fuel phase-out and carbon lock-in assessment	**Consider robust transition plans as a valuable source of information** for discussions on future decarbonisation initiatives and infrastructure planning
Financial planning	Integration with financial plan Taxonomy-aligned capex	**Conduct further work to adequately account for the depreciation of assets** at risk of becoming stranded, the impact of

	Capex for new investments in fossil fuel infrastructure	embedded emissions in fossil fuel reserves, and the identification of carbon lock-in with new investments
Governance	Board and audit committee oversight Stakeholder engagement and lobbying Monitoring and implementation of plan and actions	**Develop a monitoring framework or a public registry of emission reduction data** per sector to track implementation of transition plans at company and sector-level
Usability		**Develop a common transition plan template for non-financial undertakings**, that can be used across various pieces of EU legislation

1. About this report

1.1 Context

In the EU, transition finance is understood as financing aimed at improving climate and environmental performance to facilitate a sustainable economy, aligning with the EU's climate and environmental goals and social commitments, while avoiding carbon-intensive lock-in. This includes commitments as part of the 2015 Paris Agreement, notably the goal to limit global warming to 1.5 degrees Celsius by the end of the century. For climate mitigation, this concretely means achieving the EU's legally binding target of net-zero greenhouse gas emissions by 2050, as well as reducing net greenhouse emissions by at least 55% by 2030.

In June 2023, the European Commission issued non-binding recommendations[4] for how non-financial and financial companies can voluntarily use EU sustainable finance tools to generate, raise and attract transition finance. A key element of the Commission's recommendations on transition finance, as in comparable international frameworks, is the notion that credible transition plans are key tools to ensure transition finance transactions are robust and greenwashing is reduced.[5]

These plans are essential for providing understanding on how companies intend to transform and adapt their business models and operations to manage risks, leverage opportunities, support climate and sustainability transitions in line with EU and international targets, as well as remain competitive.

Recognising this key role of transition plans, co-legislators have since adopted the Corporate Sustainability Due Diligence Directive (CSDDD), which mandates the adoption of transition plans for climate change mitigation by companies in scope. This obligation is complemented by provisions as part of the Corporate Sustainability Reporting Directive (CSRD) that require the public disclosure of transition plans, where material and companies have them.

Both financial and non-financial undertakings can adopt transition plans. For the purposes of transition finance, corporate[6] transition plans have become essential in helping turn high-level climate and environmental targets into actionable strategies and investment plans that can be clearly communicated to financial market participants (FMPs)[7]. Ensuring these plans are robust, consistent, and readily

[4] COMMISSION RECOMMENDATION (EU) 2023/1425 of 27 June 2023 on facilitating finance for the transition to a sustainable economy.

[5] The Commission's definition of transition finance also includes: Investments in portfolios following EU climate transition and Paris-aligned benchmarks; investments in Taxonomy-aligned activities, including transitional economic activities as per Article 10(2) of Regulation (EU) 2020/852 for climate mitigation and Taxonomy-eligible activities becoming aligned within a maximum of 5 (or exceptionally 10) years; and investments in undertakings or activities with credible, science-based targets, supported by transparency and accountability measures. See recommendation 2.2. in COMMISSION RECOMMENDATION (EU) 2023/1425 of 27 June 2023 on facilitating finance for the transition to a sustainable economy.

[6] In the context of this report "corporates" refer to "non-financial undertakings". The latter is the definition used the EU legal framework but has been replaced by the term "corporates" in this report for brevity.

[7] FMPs are understood in this report according to the economic actors covered by the Regulation (EU) 2019/2088 on sustainability-related disclosure in the financial services sector (SFDR). However, the recommendations may also be relevant to credit institutions and other types of financial institutions as users of transition plans.

assessable by FMPs is crucial to advancing transition finance within the EU. Importantly, by leveraging the tools that preparers have at their disposal as part of the EU framework, they can significantly increase the robustness of their transition plans and facilitate their assessment by users.

1.2 Aim

To facilitate the process of developing and assessing corporate transition plans, by smartly using existing legal obligations rather than creating additional administrative burden for the private sector, this report by the EU Platform on Sustainable Finance has two key aims:

- First, it explores how the broader EU legal framework can be drawn upon to further operationalise the European Commission's Recommendation on Transition Finance and facilitate FMPs' assessment of corporate transition plans.
- Second, it provides recommendations to the European Commission on targeted policy interventions that can meaningfully enhance the effectiveness of the current framework as it pertains to corporate transition plans.

While the analysis and recommendations focus on the EU framework, they could also be useful in the context of operationalising transition plan frameworks that have been developed outside of the EU.

1.3 A note on the treatment of wider environmental and social objectives

Although corporate transition plans may cover a range of objectives[8], this report predominantly focuses on climate mitigation. That said, the Platform believes that a single, comprehensive transition plan integrating all material environmental objectives enhances effectiveness and ease of implementation, while also helping FMPs in their assessments.

Consideration of climate adaptation as part of transition planning is essential to address potential physical climate risks and ensure a company's ability to operate sustainably in the near, medium, and long term. Other environmental objectives should also be integrated where they materially impact or are impacted by the entity, in line with the double materiality principle. Adherence to the "Do No Significant Harm" (DNSH) principle remains essential across all objectives. Understanding and addressing the social implications of climate transition plans is also crucial to ensuring a just transition for corporates, their workers and wider communities.

The Platform recognises the need for detailed analysis of other environmental goals, beginning with adaptation, to ultimately support a holistic assessment of transition plans, which this report touches upon. It also stresses the need to integrate just transition considerations, highlighting the importance of assessing social impacts within transition plans. However, more work needs to be done on transition planning as it pertains to environmental and social objectives beyond climate change mitigation.

Finally, this report complements the forthcoming EFRAG Implementation Guidance on Transition Plans for Climate Change Mitigation, which will support entities in meeting ESRS transparency and disclosure

[8] See Recital 29 of COMMISSION RECOMMENDATION (EU) 2023/1425 of 27 June 2023 on facilitating finance for the transition to a sustainable economy: *A transition plan, which is an aspect of the overall strategy of the undertaking, can also cover the transition to environmental objectives.*

requirements for climate-related transition plans, by providing advice to the EC, which may also help companies understand FMP expectations for robust transition plans.

2. Overview of the EU legislative framework for transition plans

Companies operating in the EU today face a variety of different obligations related to transition plans and transition planning. They often serve different, and in some cases multiple purposes (transparency, strategy-setting, risk management, etc), and are aimed at various audiences (investors, clients, supervisors, civil society, etc.). In the context of corporate transition planning, the most relevant legal obligations are the following[9]:

2.1 Entity-level plans:

- Large corporate undertakings and financial institutions are required, under the Corporate Sustainability Due Diligence Directive (CSDDD), to adopt and put into effect *transition plans for climate change mitigation*. These plans must be compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 degrees in line with the Paris Agreement and contain climate targets in 5-year steps from 2030 to 2050[10].

- The Corporate Sustainability Reporting Directive (CSRD) and corresponding European Sustainability Reporting Standards (ESRS) provide detailed reporting requirements for companies and financial institutions that have *climate change mitigation transition plans*. ESRS E1-1 requires the company to explain how its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 degrees in line with the Paris Agreement and the objective of achieving climate neutrality by 2050. Undertakings are also required to provide information on their exposure to coal-, oil- and gas-related activities. ESRS E1-1 also requires disclosure of how the transition plan is embedded in and aligned with the undertaking's overall business strategy and financial planning. If the undertaking does not have a transition plan in place, it is required to indicate whether it will adopt a transition plan and, if so, by which date.

- If deemed material, companies may also disclose *transition plans for biodiversity and ecosystems* in line with ESRS E4-1.

- Likewise, if deemed material, companies may include *disclosures on several non-climate related sustainability matters* that interact with climate change mitigation, such as climate adaptation, other environmental impacts (e.g. biodiversity (E4)), just transition considerations related to impacts on own workforce (S1-SBM3), workers in the value chain (S1-SBM3) and impacts on

[9] See Table 1 for a more detailed summary of transition plan-related requirements in the EU.

[10] Article 22.1. of Directive (EU) 2024/1760 : 1. Member States shall ensure that companies (…) adopt and put into effect a transition plan for climate change mitigation which aims 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 the limiting of global warming to 1,5oC in line with the Paris Agreement and the objective of achieving climate neutrality as established in Regulation (EU) 2021/1119, including its intermediate and 2050 climate neutrality targets, and where relevant, the exposure of the company to coal-, oil- and gas-related activities.

communities (S3) as well as consumers and end users (S4); or business conduct policies and corporate culture (G1-1) and policy engagement (G1-5).

2.2 Activity and asset-level plans:

- Companies must also disclose their EU Taxonomy Key Performance Indicators (KPIs)[11], including *Taxonomy-aligned capital expenditure (capex) plans* to show how they are financing the transition of their economic activities as part of their entity-level transition plans under CSRD[12].

- Under the revised EU Emissions Trading System (ETS), to receive the full amount of free allocations, the 20% of installations with the highest GHG emission intensities and some district heating installations must submit a *climate neutrality[13] plan* at the installation level by May 2024.

- The recently revised Industrial Emissions Directive (IED) includes an obligation for operators of the installations in scope to adopt a *transformation plan*. Such a plan should contain information on how operators are planning to transform installations during the 2030-2050 period to contribute to a sustainable, clean, circular, resource-efficient and climate-neutral economy by 2050.[14]

CSDDD and CSRD/ESRS transition plan requirements are complementary: while the CSDDD provides an obligation for undertakings to *adopt and implement transition plans*, the CSRD requires *disclosure* of an undertaking's transition plan according to the detailed reporting standards set out under ESRS E1[15].

Accordingly, the content and design of climate transition plans required under CSDDD is consistent with the information to be disclosed under the CSRD. Article 22.1 of the CSDDD[16] specifies that the plan should

[11] The disclosure of EU Taxonomy KPIs are required for certain undertakings under the Disclosures Delegated Act of the Taxonomy Regulation.

[12] ESRS E1-1 16.c. by reference to the ***climate change mitigation actions*** (as required by Disclosure Requirement E1-3), an explanation and quantification of the undertaking's investments and funding supporting the implementation of its ***transition plan,*** with a reference to the key performance indicators of taxonomy-aligned CapEx, and where relevant the CapEx plans, that the undertaking discloses in accordance with Commission Delegated Regulation (EU) 2021/2178;

[13] See Guidance on Climate-neutrality plans as a condition for free allocation (2023). The definition of climate neutrality used in the EU ETS Directive and its implementing legislation, is based on the description of the EU's climate-neutrality objective for 2050, as established in Art.2 of the European Climate Law.

[14] Article 27(d) of Directive (EU) 2024/1785, https://eur-lex.europa.eu/eli/dir/2024/1785/oj

[15] It should be noted that the CSRD and CSDDD have different scopes of application. Most companies in scope of CSRD will not be captured by the CSDDD – only the largest will be in scope of both directives.

[16] Article 22.1. of Directive (EU) 2024/1760 : The design of the transition plan for climate change mitigation referred to in the first subparagraph shall contain:

contain i) science-based and time-bound GHG emissions reduction targets for 2030, and in five-year steps up to 2050, ii) key levers and actions to reach targets, iii) investments and funding supporting the plan and iv) governance of the plan. Thus, companies that disclose climate transition plans in accordance with the CSRD are deemed to comply with the CSDDD obligation to adopt such plans (Article 22.2.)[17].

Article 22 of the CSDDD sets out additional requirements for companies in scope. Notably, companies have to - on a best-effort basis - ensure the plan's implementation through actions and investments aimed at reaching the plan's targets, as well as update the plan on a yearly basis[18]. The CSDDD does recognise the complexity of achieving transition plan targets and allows for underperformance against targets where this is necessary[19]. To support companies in complying with these obligations, the European Commission will prepare practical guidance on applying Article 22 by December 2027.

In practice, most companies that are subject to the CSRD are not subject to the CSDDD, as the scope of the latter is narrower: while the CSRD applies to all large companies and listed SMEs (estimated at 49.000 companies when the CSRD was agreed), the CSDDD applies to companies that have more than 1.000 employees and a turnover over EUR 450 million (estimated at 6.000 companies). However, companies subject to the CSDDD are in most cases subject to the CSRD, meaning they can benefit from the complementary nature of the two directives.

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

[17] Article 22.2. of Directive (EU) 2024/1760: Companies that report a transition plan for climate change mitigation in accordance with Article 19a, 29a or 40a, as the case may be, of Directive 2013/34/EU shall be deemed to have complied with the obligation to adopt a transition plan for climate change mitigation referred to in paragraph 1 of this Article.(…)

[18] Recital 73 of Directive (EU) 2024/1760: While the adoption obligation will be considered to have been met, companies should still abide by their obligation to put that transition plan for climate change mitigation into effect and to update it every 12 months to assess progress made towards its targets.

[19] Recital 73 of Directive (EU) 2024/1760: (…) Such requirements should be understood as an obligation of means and not of results. Being an obligation of means, due account should be given to the progress companies make, and the complexity and evolving nature of climate transitioning. While companies should strive to achieve the greenhouse gas emission reduction targets contained in their plans, specific circumstances may lead to companies not being able to reach these targets, where this is no longer reasonable (…).

Table 1 - Summary of EU transition plan requirements and their interactions

Legislation	Scope	Purpose	Requirements	Interaction with CSRD
Corporate Sustainability Reporting Directive (CSRD)	Large companies and financial institutions	Transparency	Companies that have transition plans for climate mitigation must disclose them according to the standards set out in ESRS E1. This includes an explanation of its targets, actions and plans that should ensure that its business model and strategy are compatible with the goal of limiting emissions to 1.5 degrees in line with the Paris Agreement.	
Corporate Sustainability Due Diligence Directive (CSDDD)	Very large companies and financial institutions	Due diligence	To adopt and put into effect transition plans for climate mitigation. These plans must be compatible with the Paris Agreement and shall contain climate neutrality targets in 5-year steps from 2030 to 2050.	Companies that report climate transition plans under CSRD will be deemed to have complied with the obligation to adopt a transition plan.
Financial sector prudential plans				
Capital Requirements Directive/Regulation (CRD/CRR)	Credit institutions	Prudential/ risk management	Adopt transition plans to address the financial risks arising in short, medium and long-term from ESG factors. The specific content of these "prudential plans" has been defined by the EBA. These requirements supplement existing disclosure requirements (under Pillar 3 ITS on ESG risks) to show how they are embedding sustainability considerations in their risk management, business models and strategy and their pathway towards the Paris Agreement goals.	Consistency between CSRD and CRD is required explicitly in CRD, regarding commitments, targets and milestones, but also policies and operational actions reflected in these targets and milestones.
Solvency II	Insurance companies	Prudential/ risk management	Similarly to banks, insurers will be required to develop and monitor the implementation of specific plans to address specific risks arising from sustainability factors	Consistency is required among assumptions, methodologies and actions disclosed per the insurers' transition plan.
Economic activity-level plans				
Taxonomy Regulation	Large companies and financial institutions	Transparency	Disclosure of EU Taxonomy-aligned capex investment plans. Investments to reach taxonomy-alignment in five (exceptionally ten) years are recognised as taxonomy-aligned capex, if accompanied by a capex plan, a type of activity-level transition plan.	Capex plans can be disclosed as part of the CSRD entity-level transition plans (ESRS E1-1 16.c) to demonstrate deployment of sufficient financial means to achieve the climate objectives.
European Green Bond Standard	Companies issuing European green bonds	Standard	Issuers must disclose capex plans where use of proceeds is expected to become taxonomy-aligned before the bond reaches maturity.	Issuers must explain how the proceeds are intended to contribute /are contributing to funding and implementing of CSRD transition plan (if they are subject to CSRD or have voluntarily published a transition plan).
Installation/asset-level plans				
EU Emission Trading Scheme (ETS)	Large companies	Market instrument	Under the revised EU ETS, the 20% installations with the highest GHG emission intensities (370 installations) and some district heating installations must submit a climate neutrality plan at the installation	Asset-level ETS data (including climate neutrality plans for installations) can be

			level by May 2024 (one-off) as conditionality to receive the total amount of free allocation.	disclosed under CSRD transition plans to provide additional granularity.
Industrial Emissions Directive (IED)	Operators of installations		The Industrial Emissions Directive includes a requirement for operators of installations in scope to produce, by mid-2030, transformation plans showing how they will transform the installation in order to contribute to the emergence of a sustainable, clean, circular and climate-neutral economy by 2050. The transformation plans would be required either at group, corporate or installation level.	The revised IED allows operators to reference plans developed elsewhere, if those are compliant with the IED, e.g. ETS climate neutrality plans.
Financial products and instruments				
Sustainable Finance Disclosure Regulation (SFDR)	Financial institutions	Transparency	Under the Sustainable Finance Disclosure Regulation (SFDR), financial products whose objective it is reduce GHG emissions (Article 9.3) must either track one of the EU Climate Benchmarks or include a detailed explanation of how the continued effort of attaining the objective is ensured in view of achieving the long-term global warming objectives of the Paris Agreement. Transition-related provisions are also proposed in the final ESA report on revised SFDR RTS and in the Commission's recent consultation on a comprehensive assessment of SFDR.	While there is no reference to CSRD transition plans in SFDR, the proposed revised RTS in the ESA final report are consistent with the target-setting approach required under the ESRS.
Benchmarks Regulation	Benchmark providers	Standard	The BMR introduces two categories of regulated climate benchmarks, the EU climate transition benchmark (EU CTB) and the EU Paris-aligned benchmark (EU PAB) which incorporate climate objectives related to GHG emissions reductions and the transition to a low-carbon economy.	Under CSRD (ESRS E1-1 16.g) the reporting entity must disclose if it is excluded from the EU Paris-aligned Benchmarks
European Green Bond Standard	Issuers of green bonds	Standard	See above.	See above.

Policy frameworks should enable corporates to prepare transition plans for due diligence and sustainability reporting in a consistent and coherent manner. Such policy frameworks help achieve several objectives simultaneously:

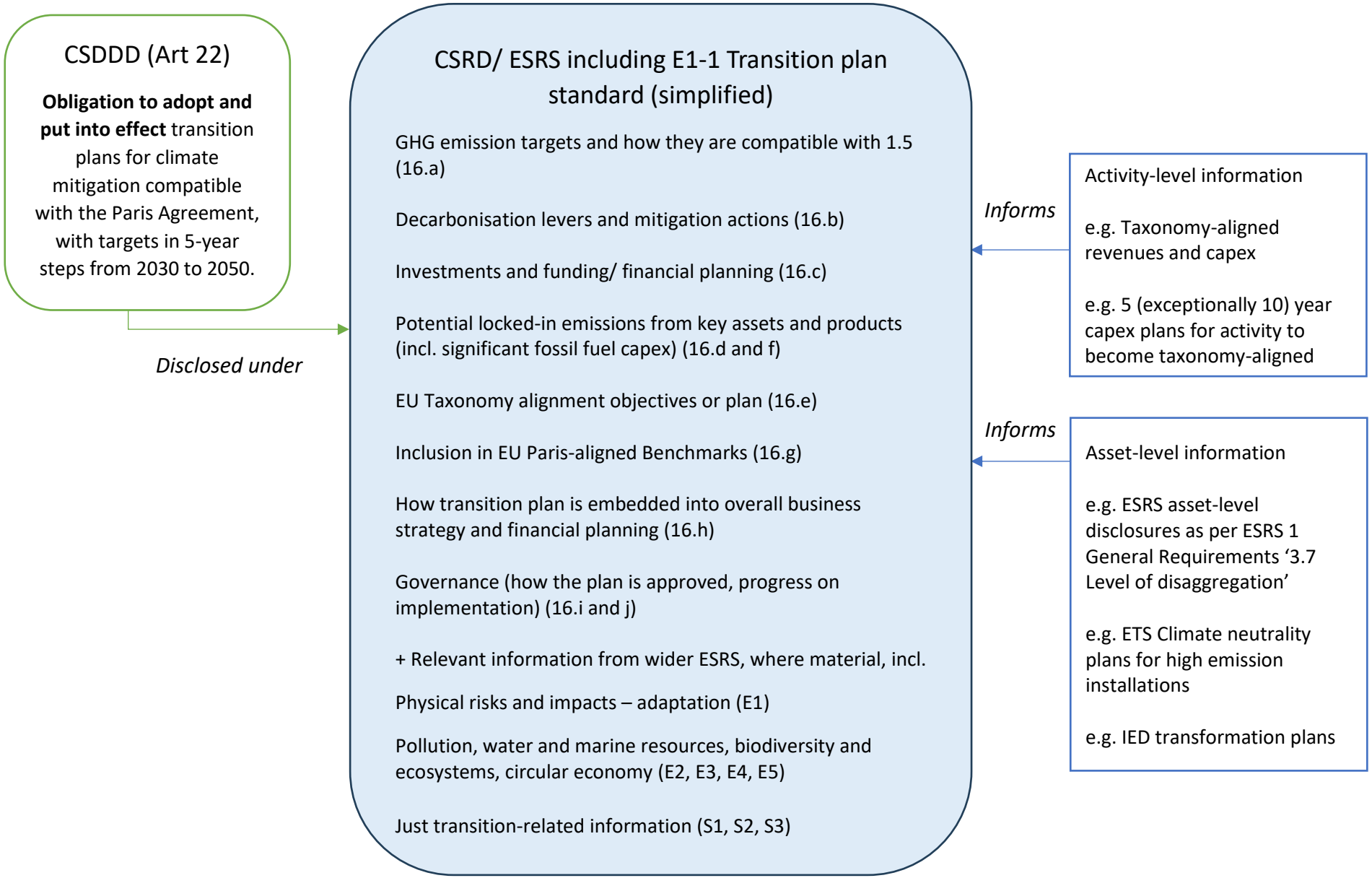
- Reducing administrative burden and increasing clarity for users and preparers;
- Supporting efficient coordination of transition efforts within companies, across value chains, and between financial and non-financial actors;
- Enabling financial institutions to manage climate -and sustainability-related risks; and
- Increasing availability and accessibility of sustainability-related information for users.

While the EU framework on transition planning is not yet complete to fully achieve all the above objectives, it features several useful tools that users and preparers can leverage to increase the robustness of corporate transition plans. For example, including asset or activity-level information (required as part of EU Taxonomy or EU ETS provisions) in transition plans can help companies (i) more concretely demonstrate decarbonisation efforts, and (ii) present the information in a way that is comparable across companies within the same sectors.

Figure 1 illustrates some of the links between transition plan requirements from the EU acquis, using a simplified view of the CSRD ESRS E1-1 as the starting point[20]. Section 3 of this report explores these links and complementarities further, while section 4 provides recommendations to the European Commission on how to complete the EU framework on transition plans in a meaningful and targeted way, as well as recommendations to help FMPs in their assessments of transition plans.

[20] The figure does not represent all the detailed requirements of the ESRS E1-1 disclosure requirements, nor does it set out in detail how ESRS E1-1 disclosure requirements connect with other ESRS disclosure requirements.

Figure 1 – Simplified overview of EU transition plan requirements



3. Core elements for Financial Market Participants to consider when assessing corporate transition plans in the EU

This section examines core elements that FMPs should consider when assessing corporate transition plans in the EU. It analyses how transition plans and science-based targets, as outlined in the Commission's recommendations on transition finance[21], can be further defined, building on existing EU tools. The section highlights core components of entity-level transition plans and explores how these elements can be used to evaluate various dimensions of a plan's robustness, drawing on relevant provisions from the CSDDD, CSRD/ESRS, and the broader EU acquis.[22]

The Platform believes that FMPs should assess transition plans based on all material impacts, risks, and opportunities faced by companies[23], not just those related to climate change mitigation. However, while the core principles and elements described in this paper could generally be used across environmental and social objectives a plan could aim to address, this report focuses predominantly on climate change mitigation. More analytical work and policy guidance is needed on transition planning as it pertains to other environmental and social objectives.

Guiding principles for transition plan assessments

The Platform has identified guiding principles FMPs should use, on a best effort basis, when assessing transition plans:

Ambition, environmental and social integrity (DNSH): When assessing transition plans, FMPs should examine if the targets outlined in the plan are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5°C, in line with the Paris Agreement. Overshooting this target should be avoided due to the significant risks posed to both natural and human systems, such as ecosystem loss, notably when surpassing climate tipping points. Targets should be defined across short, medium, and long-term timeframes and be based on scientific evidence, incorporating life-cycle considerations where feasible. Even if the focus is primarily on mitigation, FMPs should ensure that the plan avoids causing significant harm to other environmental and social objectives.

Consistency & feasibility: FMPs should assess whether the elements of a transition plan are consistent with the company's business strategy and ambition, ensuring that mitigation actions and decarbonisation levers are feasible given external dependencies and disclosed assumptions, as well as the relevant time horizons and regions (as per section 3.2.1). FMPs should evaluate whether the targets are both technologically achievable and economically viable, ensuring companies can remain globally competitive. If 1.5 aligned targets are not currently feasible, FMPs should work with clients and portfolio companies, as well as policymakers, to understand what actions companies need to take or what policies should be

[21] COMMISSION RECOMMENDATION (EU) 2023/1425 of 27 June 2023 on facilitating finance for the transition to a sustainable economy

[22] Further consideration of companies' climate transition plans as they are reported (in line with CSRD) and implemented (in line with CSDDD) will be important to deepen future analysis on the credibility of plans.

[23] Following the principle of double materiality.

put in place to make them achievable. This includes addressing potential limitations and external dependencies, to ensure the targets can be met in line with the 1.5°C goal over time.

Transparency & completeness: FMPs should work with clients and portfolio companies to encourage corporate transition plans that are publicly available and include all relevant information about the company's strategy, enabling a thorough assessment of its ambition and feasibility. The plan should provide sufficient detail for FMPs to evaluate whether the company's transition is realistic and aligned with its stated goals.[24]

Core elements for corporate transition plans

The CSDDD specifies that transition plans for climate change mitigation should contain i) science-based and time-bound GHG emissions reduction targets for 2030, and in five-year steps up to 2050, covering emission scopes 1-3; ii) key decarbonisation levers and actions to reach targets; iii) investments and funding supporting the plan and iv) governance of the plan.[25]

On this basis, in the view of the Platform, FMPs should look to the following core elements when assessing transition plans for climate change mitigation:[26]

1. Science-based and time-bound targets, along with impact metrics disclosures (e.g. scope 1, 2 and 3 gross GHG emissions disclosures);
2. Key levers and actions to reach targets, including fossil fuel phase-outs where relevant;
3. Financial planning: investments and funding supporting the plan; and where relevant CapEx related to fossil fuel activities;
4. Governance and oversight, including disclosure on alignment with overall business strategy and implementation progress.

A holistic approach to climate transition plans

The Platform considers that a holistic approach that aligns climate action with broader environmental and social objectives is essential for the effectiveness of transition plans. The existing EU framework allows, and often supports, the consideration of wider environmental and social objectives within climate transition plans:

- Following ESRS 1 paragraph 52 and 53, when the materiality assessment leads to the identification of non-climate related impacts, risks and opportunities (IROs) such as connected to own workforce (S1), workers in the value chain (S2), affected communities (S3), or biodiversity (E4) that originate from its climate transition plan, the company shall disclose such material impacts

[24] In accordance with CSRD and other EU disclosure requirements.
[25] As seen in Section 1, these core elements are consistent with climate transition plan-related disclosure requirements under CSRD.
[26] This list takes inspiration from the CSDDD, but only companies in the scope of the CSDDD have a legal obligation to adopt and implement transition plans for climate mitigation. It should also be noted that the Platform's recommendations for the assessment of plans do not apply to SMEs.

when describing the climate transition plan and shall provide a description of how it addresses these IROs under the topic to which they relate.

- The EU Taxonomy covers climate and environmental objectives beyond climate change mitigation (climate change adaptation, biodiversity, pollution prevention, water and marine resources, and circular economy) and defines the criteria to assess Do No Significant Harm (DNSH) at the activity level, as well as minimum social safeguards at the entity-level.
- Transition plans for climate change mitigation under CSDDD must be compatible with the transition to a "sustainable economy" – which arguably allows transition plans to consider the full range of environmental and social objectives.
- The Commission's recommendation on transition finance highlights that "a transition plan, which is an aspect of the overall strategy of the undertaking, can also cover the transition to environmental objectives" (Recital 29).

Adaptation and resilience planning

Extreme weather events have increased in recent years as temperatures have continued to rise, with major storms, floods, droughts and forest fires striking different parts of Europe. The European continent is heating at twice the global rate and its population in some regions will have to learn to live with climate that is on average 3 degrees warmer, even in a scenario where global warming is limited to the Paris Agreement threshold of 1.5 degrees.[27]

Ensuring that private sector operations and assets are resilient to the physical risks of climate change is therefore an essential aspect to consider as part of robust climate transition planning and business strategy. Integrated mitigation and adaptation planning is important due to the interdependencies between the two objectives.

FMPs should assess whether a transition plan effectively addresses physical climate risks and ensures the company's ability to operate sustainably in the near, medium, and long term, with a particular focus on the potential impact on the portfolio's overall risk profile. The assessment should cover the plan's capacity to minimise climate-related disruptions, safeguard against potential losses, and support ongoing resilience and adaptation to climate challenges. The EU Taxonomy can serve as a useful tool to demonstrate revenues and capex spent on activities that make a substantial contribution to climate adaptation, while doing no significant harm to mitigation and other environmental and social objectives.

DNSH to wider environmental objectives

Similarly, it is increasingly clear that climate change and nature loss need to be tackled together if either effort is to be successful. For example, enhancing biodiversity through ecosystem restoration can significantly contribute to carbon sequestration, helping to reduce overall emissions. Restoring natural

[27] World Meteorological Organisation (WMO) – State of the Climate in Europe 2022 https://wmo.int/publication-series/state-of-climate-europe-2022

habitats like forests and wetlands not only captures and stores carbon but also improves ecosystem resilience, making them less susceptible to the impacts of climate change.

FMPs should ensure that climate transition plans at the very least avoid significantly harming broader environmental objectives – for example, by prioritising nature-based solutions and other mitigation measures that provide additional benefits for wider environmental objectives. The EU Taxonomy and its Do No Significant Harm (DNSH) criteria provide a valuable tool to reduce harm for eligible economic activities. Plans to transition certain activities away from harmful levels of performance can be disclosed across the six environmental objectives – as set out previously by the Platform's report on an extended environmental Taxonomy[28].

FMPs should assess whether companies' transition plans clearly outline how material environmental impacts are identified and addressed, ensuring that the materiality assessment is robust and comprehensive. They should also evaluate whether the plan includes measures to avoid significant harm to other environmental objectives while making substantial progress toward net-zero emissions, ultimately supporting the company's long-term sustainability and resilience in the face of climate challenges.

The Platform highlights the importance of incorporating biodiversity plans into transition strategies for companies where it is material, helping to reduce the burden on businesses, improve consistency and impact, and simplify the overall assessment of companies' transitions for FMPs.

Just transition considerations

FMPs have several tools at their disposal to assess whether just transition considerations are integrated into corporate transition planning processes to mitigate adverse impacts on workers and communities, in line with the ESRS and wider EU framework.

The concept of a just transition was enshrined in the Paris Agreement in 2015, with the support of EU Member States, and has subsequently shaped the EU's own policy commitments. For example, as well as ensuring that the EU will become climate neutral by 2050 and reduce net GHG by 55% by 2030, an over-arching objective of the European Commission's Green Deal set out in 2019 is to improve the well-being of people; to achieve this the EU will help ensure a just and inclusive transition. A key EU instrument to achieve this is the Just Transition Mechanism and associated Just Transition Fund, which aim to alleviate the socio-economic impact of the transition in the most affected regions of the EU through targeted support and private finance mobilisation.[29]

For FMPs, a critical challenge is understanding how companies translate broad policy commitments into actionable strategies and measurable progress in their transition plans. Transparent disclosures are key in assessing how companies are addressing a just transition and ensuring accountability through governance and reporting processes. Several established international frameworks already explicitly

[28] https://finance.ec.europa.eu/system/files/2022-03/220329-sustainable-finance-platform-finance-report-environmental-transition-taxonomy_en.pdf
[29] Inforegio - Just Transition Fund

connect corporate climate action, human rights, and just transition principles, providing important reference points for FMPs evaluating companies' strategies and alignment with sustainability goals.

FMPs should consider the following when assessing corporate approaches to just transition:

1. The extent to which companies have integrated a people-centred and human rights-based approach into their transition plans, focusing on how they address the social impacts of the transition, respect human rights and labour standards, and promote employment and training opportunities
2. How companies have incorporated climate adaptation and resilience measures, recognising that workers are increasingly exposed to climate-related risks. Transition plans should include proactive adjustments to operations and mechanisms to safeguard working conditions against the impacts of climate change, which includes implementing real-time changes to operations and ensuring protections for working conditions against climate-related impacts.
3. The importance of meaningful stakeholder engagement in which rights holders and other affected stakeholders are prioritised, effective social dialogue, and adherence to international human and labour rights standards for a successful just transition.

The Corporate Sustainability Due Diligence Directive (CSDDD), which is based on existing international business and human rights standards[30], provide a framework for integrating human rights considerations into transition plans. These standards also relate to the EU Taxonomy's minimum social safeguards and certain reporting requirements under SFDR and CSRD[31].

An integrated approach is needed to ensure companies and investors can plan for a just transition while complying with EU regulations like the SFDR, EU Taxonomy, CSDDD, and CSRD. Greater understanding of how corporate respect for human rights relates to just transition will help boards develop sound transition plans which respond to both adaption and mitigation impacts and risks.

[30] Notably the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct.

[31] The CSDDD's due diligence provisions, and more detailed due diligence guidance on responsible business conduct by the UN and OECD, set out how companies can ensure human rights (and environmental) due diligence. This provides a process within which companies can include a more in-depth assessment of their human rights risks and impacts specifically linked to the elements of a just transition. With the ILO's emphasis on respect for fundamental principles and rights at work in its definition of just transition, there is also an clear link with the Minimum Safeguards outlined in the Taxonomy Regulation. The standards referenced in Article 18 of the Taxonomy Regulation (UN Guiding Principles on Business and Human Rights and OECD Guidelines for Multinational Enterprises) refer to the conduct of companies and their management and require a systematic entity-wide adoption to be effective.

3.1 Science-based and time-bound targets

Targets play a crucial role in transition plans, as they set the overall level of ambition. In the context of climate change mitigation, FMPs should assess whether transition plan targets are aligned with the goal to limit warming to 1.5°C with no or limited overshoot. This means reaching global net zero emissions by 2050, while remaining within a global carbon budget of ~400-500Gt.

Evaluating the ambition of GHG emission targets in the context of corporate climate mitigation transition plans can be a complex exercise. Moreover, the existing EU regulatory framework does not provide a definition of a credible and science-based target, despite referring to this concept as part of the sustainable finance framework - notably in the European Commission's Recommendation of June 2023 on facilitating finance for the transition to a sustainable economy.

To help fill this gap, this section outlines some of the key issues FMPs should consider when assessing GHG emission targets as part of corporate transition plans.

3.1.1 Assessing the use of climate change mitigation scenarios in target-setting and climate alignment

Setting science-based targets and assessing alignment of a corporate transition plan with the temperature goal of the Paris Agreement requires the use of reference scenarios that incorporate the latest available scientific evidence[32]. The main scenario sources used by companies and financial institutions for target setting and alignment assessment come from four providers[33]: the International Energy Agency (IEA)[34], the Network for Greening the Financial System (NGFS),[35] the European Joint Research Centre (JRC),[36] and the Institutions for Sustainable Futures (ISF).[37] Beyond target-setting and climate alignment assessments, scenarios can also be used for risk management purposes, including to plan for a disorderly transition. Scenarios are some of the best-available tools today to set targets and plan for the transition, but they also have important limitations.

Understanding the characteristics of climate mitigation scenarios used in target-setting

[32] This report replies on the definition of "climate change mitigation scenario" deployed by Pouille et al (0de87ef8-en.pdf (oecd-ilibrary.org)): "A climate change mitigation scenario is the coherent set of modelled quantitative pathways showing how to achieve a given climate goal. Depending on their complexity, climate change mitigation scenarios may include internally consistent pathways for hundreds of different variables, such as for the evolution over time of emissions by gas, energy use, energy supply, land use, economic and sectoral variables etc.". "Scenarios" are distinct from "emissions pathways", with the latter referring to "the modelled trajectory of anthropogenic emissions for a specific gas (e.g. carbon dioxide) or for aggregated GHG, that is part of a scenario." Despite this conceptual distinction, the term "pathway" is often employed more generally in reference to a complete mitigation scenario.

[33] For an overview and more information on each of the four scenario sources, please refer to Noels, J. et al. (2023), "Climate change mitigation scenarios for financial sector target setting and alignment assessment: A stocktake and analysis of their Paris-consistency, practicality and assumptions", *OECD Environment Working Papers*, No. 223, OECD Publishing, Paris, https://doi.org/10.1787/bcd25b82-en.

[34] Global and macro-regional pathways for broad sectors, through its World Energy Outlook, and based on the IEA Global Energy and Climate Model (GEC).

[35] Six scenarios classified in three categories: orderly transition, disorderly transition, hot house world.

[36] Scenarios generated under Global Energy and Climate Outlook (GECO), based on JRC's POLES model.

[37] Sectoral pathways that consider sector classifications used in financial and economic accounting, based on the One Earth Climate Model (OECM) scenarios.

To effectively assess corporate transition plans, FMPs need to understand the characteristics of scenarios used in target setting. This includes scenarios' overall consistency with the Paris Agreement, their underlying assumptions, and their practicality for use in the private sector – notably in terms of their sectoral and geographical granularity.[38]

For the purposes of assessing transition plan targets, as well as to assess whether information gaps, assumptions and uncertainties have been appropriately communicated by the transition plan preparer, FMPs should consider the following:

Degree of ambition: Evidence suggests that none of the scenarios most used in the market today can be considered fully consistent with a stringent interpretation of Paris Agreement goals. However, transition plan preparers can and should select ambitious scenarios which fulfil the following criteria: they avoid or have limited overshoot of 1.5°C, maintain a high likelihood of staying below 2°C, peak emissions early, and achieve net-zero GHG emissions.[39]

Sectoral and geographical granularity: The sectoral and geographical granularity of available scenarios varies greatly, with many not providing the breakdowns needed to match corporate business activities. FMPs should consider this when evaluating the appropriateness of a selected scenario for target-setting. Specifically, they should assess its granularity in relation to the company's needs and determine whether information gaps and associated assumptions have been adequately addressed in the transition plan.

Continuous evolution: Our understanding of what is compatible with climate and environmental objectives, as well as the available and feasible response measures, evolve over time. For example, if assumptions on mitigation pathways do not materialise in the near term, the probability of keeping global warming to 1.5°C or well below 2°C will decrease. This would ultimately require a revision of the emission cuts needed to remain within 1.5°C of warming. Scenario providers regularly update their scenarios, to reflect updated scientific knowledge as well as policy and technological trends. Such updates need to be reflected as appropriate in revised corporate and FMP alignment targets and transition plans.

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[38] See Noels, J. et al. (2023), "Climate change mitigation scenarios for financial sector target setting and alignment assessment: A stocktake and analysis of their Paris-consistency, practicality and assumptions", OECD Environment Working Papers, No. 223, OECD Publishing, Paris, https://doi.org/10.1787/bcd25b82-en.

[39] See Pouille, C., et al. (2023), "Paris-consistent climate change mitigation scenarios: A framework for emissions pathway classification in line with global mitigation objectives", OECD Environment Working Papers, No. 222, OECD Publishing, Paris, https://doi.org/10.1787/0de87ef8-en.

The framework developed by Pouille et al. analyses 81 scenarios in the IPCC AR6 database and sets out criteria for assessing Paris consistency of scenarios when considering aspects of both the long-term temperature goal (Article 2.1) and the emissions objective (Article 4) of the Paris Agreement: (i) To be in line with the Paris Agreement's Article 2.1 long-term temperature target scenarios must remain below 1.5°C by 2100 with limited overshoot (<0.1°C) with 50% chance and remain well-below 2°C throughout the century (meaning, very high likelihood of not exceeding 2°C); (ii) to be in line with Article 4 of the PA, scenarios must have an early peak in emissions (ideally by 2025, at least by 2030) and reach net-zero emissions in the second half of the century. Based on this, five criteria can be derived: 1.5 in 2100; no or limited overshoot of 1.5; well-below 2 throughout the century; early peak in GHG emissions; net-zero GHG emissions in second half of 21st century.

Variations in methodology and underlying assumptions: The methodology and assumptions underlying different scenarios can vary greatly, making comparisons challenging. Scenarios contain many variables that are generated using different models and technological, socio-cultural, economic, institutional, and geophysical assumptions. FMPs should bear this in mind when assessing targets and in particular when making comparisons across entities and assets in their portfolio. Depending on the scenario, the speed at which some sectors and regions decarbonise compared to others can vary greatly.

How to assess the climate ambition of scenarios used in transition plan target-setting?

In line with the IPCC approach on vetting of scenarios[40] and drawing from OECD analysis on climate mitigation scenarios for target setting,[41] FMPs should consider the following questions when assessing the scenarios used to set targets as part of a corporate transition plan:

1. **How consistent is the scenario with the Paris Agreement?**

Specifically, is the scenario clear about the associated global temperature outcome, and is that outcome in line with 1.5°C with no or limited overshoot, including a very high likelihood of staying below 2°C, peak emissions early, and achieve net-zero GHG emissions by mid-century?[42]

2. **Are annual reduction targets complemented by GHG budgets?**

The European Commission 2040 target recommendation[43] presented in February 2024 suggests a 90% reduction in net GHG emissions vs. 1990 levels, which corresponds to reaching approximately 460 Mt GHG/year (net) and over 800 Mt GHG/year (gross) in 2040 from over 3Gt GHG/year both gross and net in 2022. This target in yearly emissions reduction is complemented by a cumulative GHG emission budget of up to 16Gt for the period 2030-2050.

3. **Are the underlying assumptions clear and are sector-specific pathways available?**

The existing scenarios from the impact assessments for the EU 2030 target [44] and the European Commission 2040 target recommendation[45] can serve as a source of information regarding the EU targets' assumptions, before final decision on the official adoption of the 2040 target is made.

[40] On the basis of historical data, emission data required to evaluate the temperature outcome, and near-term feasibility concerns.

[41] Noels, J. et al. (2023), "Climate change mitigation scenarios for financial sector target setting and alignment assessment: A stocktake and analysis of their Paris-consistency, practicality and assumptions", OECD Environment Working Papers, No. 223, OECD Publishing, Paris, https://doi.org/10.1787/bcd25b82-en.

[42] For more detailed information on assessing the Paris consistency of climate mitigation scenarios, refer to Pouille, C., et al. (2023), "Paris-consistent climate change mitigation scenarios: A framework for emissions pathway classification in line with global mitigation objectives", OECD Environment Working Papers, No. 222, OECD Publishing, Paris, https://doi.org/10.1787/0de87ef8-en.

[43] https://climate.ec.europa.eu/eu-action/climate-strategies-targets/2040-climate-target_en

[44] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020SC0176

[45] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52024SC0063

For the 2040 target proposal, EU-specific models were used to generate four scenarios (S1, S2, S3, LIFE[46]) using common inputs from existing EU policies and proposals adopted up to May 2023, including the ETS and the Industrial Emissions Directive. This would imply that the EU targets are coherent with other regulatory requirements and the Fit-for-55 legislative package.

Assumptions related to removals should also be made transparent. Section 3.1.2. of this report provides more detail on relevant considerations related to carbon removals as well as the EU Carbon Removal Certification Framework Regulation.

4. Are the assumptions feasible?

The EU 2040 target proposals are built on advice provided by the European Scientific Advisory Board on Climate Change (ESABCC)[47], analysing a range of scenarios compatible with limiting global warming to 1.5 degree with no or limited overshoot (50% probability). The analysis filtered scenarios based on alignment with the 2030 EU climate targets (at least 55% reduction in net GHG emissions/year vs 1990), feasibility concerns (e.g. unlikely assumptions related CCUS or hydrogen), environmental risks and technological challenges.[48] The advice is ultimately built on 6 out of 63 scenarios[49].

The ESABCC's report highlights that the range of feasible EU 2040 targets and scenarios lead to a cumulative GHG budget larger than what would be considered the EU's 'fair-share' contributions to global ambitions, and recommend that the EU enhances any domestic target with a more ambitious package of climate action measures, for example by contributing to direct emission reductions outside the EU. The lower the ambition of the EU, the higher the implied emission reduction expected from other countries which can be an aspect undermining feasibility of the EU scenarios from a global perspective. Given recent estimates that show a drastic decrease in carbon budgets since 2023, emissions reductions higher than the current 2030 EU target of 55% would help reduce risks associated with late action and contribute to global net zero targets.

3.1.2 The full picture: target scope and coverage

Companies can have several targets across different parts of their operations, covering multiple scopes (scope 1, 2, and 3 - combined or separated), time-horizons (near-term or below 5-year horizon, mid-term or 5 to 10-year horizon, long-term or more than 10-year horizon), and parts in the organisation (entity level, business activity level, asset level). Given the importance of this decade to limit global warming to 1.5°C, the Platform sees near- and mid-term targets as an essential component of transition plans**.**

[46] All scenarios assessed aim at meeting climate neutrality by 2050. Three scenarios share the same key assumptions (S1, S2, S3) and allow to compare three levels of GHG emissions in 2040. The analysis is complemented by a variant, "LIFE", which illustrates the additional impact of different assumptions on circular economy, mobility and the food system.

[47] https://climate-advisory-board.europa.eu/reports-and-publications/scientific-advice-for-the-determination-of-an-eu-wide-2040/scientific-advice-for-the-determination-of-an-eu-wide-2040-climate-target-and-a-greenhouse-gas-budget-for-2030-2050.pdf/@@display-file/file

[48] The ESAB recommended GHG budget for the period 2030-2050 was within a range of 11 to 14 Gt of GHG emissions.

[49] Some of the scenarios' underlying variables are available here: https://data.ece.iiasa.ac.at/eu-climate-advisory-board/#/workspaces/122

Transition plan targets can also cover environmental objectives beyond climate change mitigation, such as by including actions to manage trade-offs between environmental objectives, or by setting separate targets for specific environmental objectives, e.g. biodiversity.

Net zero targets (and not intermediate targets) may incorporate the use of carbon removals, restricted to clearly defined applications addressing only residual emissions (after approximately 90-95% of GHG emission reduction with the possibility for justified sectoral variations) particularly relevant for hard-to-abate sectors such as agriculture. The use and potential misuse of carbon removals are critical factors for FMPs to consider when evaluating a transition plan, as their inclusion can strongly influence perceptions of emission reductions. Misuse, such as overstating their impact or substituting them for necessary emission reductions, raises concerns around opacity and additionality. Where transparency is lacking regarding the use and rationale for carbon removals, the risk of greenwashing increases, with the possibility that results were selectively presented to create a misleading impression[50]

Aligning ambitions: The importance of scope 3 emissions for robust targets

The average share of scope 3 emissions out of total emissions, across different sectors, is 86%[51]. Within that, upstream emissions in a company's supply chain are on average 11 times higher than direct emissions and account for more than 70% of total emissions[52]. In certain sectors[53], downstream emissions amount to over 90% of total emissions[54].

[50] See, for example, OECD Review on Aligning Finance with Climate Goals

[51] Harjoto, M.; Hoepner, A.; & Schneider, F. (2024). Scope 3 greenhouse gas disclosure: Evidence from oil and gas producers. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4100089

[52] CDP and SBTi (2023). Engaging supply chains on the decarbonization journey. https://sciencebasedtargets.org/resources/files/Supplier-Engagement-Guidance.pdf

[53] In the financial sector, the portfolio emissions of global financial institutions are on average over 700 times larger than direct emissions – CDP Technical Note: Relevance of Scope 3 Categories by Sector

[54] Club De Madrid (2024), Leadership For Net Zero, https://clubmadrid.org/wp-content/uploads/2024/04/Informe-02-CDM_Digital-1.pdf

However, measuring scope 3 emissions remains a significant challenge to date - especially for companies with long and complex value chains without full traceability, as well as for many SMEs considering their important role in many value chains. As a result, despite its materiality for most businesses, reporting on scope 3 emissions remains scarce, and existing obligations and reporting tend to focus on scope 1 and scope 2-[55].

What are scope 3 emissions?

Scope 3 emissions refer to upstream and downstream indirect emissions arising from activities or assets in a company's value chain. While indirect, a company's control over scope 3 emissions varies across economic activities. Depending on the sector, responsibility can differ; in some cases, a significant portion of these emissions may still fall under the company's responsibility—for example, in the design of a vehicle or in the case of financed emissions.

The Corporate Value Chain (Scope 3) Accounting and Reporting Standard as per the Greenhouse Gas Protocol is commonly used to account and report Scope 3 emissions, including in the ESRS, and identifies a total of 15 heterogenous categories of scope 3 emissions. CDP has also issued guidance on the relevance of scope 3 categories by sector, as they are highly sector-specific.

Responsibility for emissions across the entire value chain, including financed emissions, must be fully acknowledged and addressed to the extent possible and meaningful. This can allow for a holistic transition of a business model that includes working with suppliers and partners, rather than outsourcing the problem by moving emissions into other stakeholders' accounts rather than mitigating them.

Recent policy developments at European and international level show promise to be a driver of more comprehensive scope 3 reporting and ultimately better data for FMPs:

- At international level, the United Nations Secretary General´s High-level Expert Group (UN HLEG) on the Net Zero Emissions Commitments of Non-State Entities published the Integrity Matters Report[56] that recommends large firms to measure, report and reduce their scope 3 emissions. It stresses that urgent and deep reduction of emissions across value chain must be prioritised. It further recommends that all targets must include scope 3 emissions and contain interim targets for 2025, 2030 and 2035. Where data is missing for scope 3 emissions, businesses should explain how they are working to get the data or what estimates they are using. The OECD lists scope 3 emission targets and reporting as the third key element of credible transition plans, stressing that any omission must be "limited, justified, and clearly explained"[57].

[55] Fouret, F.; Haalebos, R.; Olesiewicz, M.; Simmons, J.; Jain, M.; & Kooroshy, J. (2024). Scope for improvement Solving the Scope 3 conundrum. https://www.lseg.com/content/dam/ftse-russell/en_us/documents/research/solving-scope-3-conundrum.pdf
[56] https://www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf
[57] OECD (2023). Green Finance and Investment - Mechanisms to Prevent Carbon Lock-in in Transition Finance. https://www.oecd.org/environment/mechanisms-to-prevent-carbon-lock-in-in-transition-finance-d5c49358-en.htm , p.89

- At European level, several developments are noteworthy, notably: the European Sustainability Reporting Standards (ESRS)[58], which mandates scope 3 emission disclosure subject to a (double) materiality assessment;] Article 4 of the SFDR (Annex I RTS) which mandates scope 3 reporting in the PAI Statement; and Article 22 of the CSDDD requires that targets should be set for each significant scope 3 category. The significance of scope 3 emissions for transition plans is also recognised by the European Security Market Authority (ESMA), which explicitly states that to assess the credibility of reduction targets it is key to clarify whether scope 3 emission are taken into account [59].

Despite these encouraging developments on the reporting side, for both preparers and users of transition plans, the complexity of comparing scope 3 emissions accounting across peers within the same sector remains complex, given their heterogeneity across sectors. Further guidance may be needed on the minimum set of GHG scope 3 sources at sector level that each company should consider when developing its GHG inventory.

The role of DNSH and broader environmental objectives in achieving mitigation targets

When assessing the robustness and comprehensiveness of transition plan targets, FMPs should also consider how other environmental objectives, beyond climate change mitigation, were taken into account by the transition plan preparer. Since climate and environmental objectives are interconnected, climate change mitigation targets cannot be assessed in isolation: for example, nature loss limits climate mitigation potential, and climate change is in turn one of the key drivers of nature and biodiversity loss. Mitigation scenarios also rely heavily on assumptions related to the state of nature[60].

This is also recognised by the European Commission in its impact assessment for the 2040 target[61], which includes important assumptions regarding land and forests carbon sinks, to absorb ~310Mt CO_2eq per year, and the new Land Use, Land Use Change and Forestry (LULUCF) Regulation sets this EU-level objective to reach 310 Mt/year of net removal by 2030. The key role of nature in climate change mitigation is also recognised in the Nature Restoration Regulation, which can make an important contribution to maintaining, managing and enhancing natural sinks and to increasing biodiversity while fighting climate change.[62] [63]

[58] The relevant parts of the ESRS are Disclosure Requirement E1-6: Gross Scopes, see paragraph 44 (c), and Application Requirements (AR) 3, 26, 39 to 42, 46, 50-52. The disclosure of gross Scope 3 GHG emissions required by paragraph 44 (c) shall include absolute GHG emissions in metric tonnes of CO2eq from each significant Scope 3 category. Companies should identify and disclose material Scope 3 categories based on criteria provided by standards, with the corporate standard of the GHG Protocol and ISO 14064 being explicitly referenced. Criteria include financial spend, influence, related transition risks and opportunities or stakeholder views.

[59] https://www.esma.europa.eu/sites/default/files/2023-10/ESMA32-193237008-1793_2023_ECEP_Statement.pdf

[60] The models used to estimate the temperature outcomes in scenarios are called Global climate models (GCM) and refer to complex computer simulations that represent the Earth's climate system. These models simulate the interaction of important drivers of climate change, including the atmosphere, ocean, land surface, and sea ice.

[61] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52024SC0063

[62] https://environment.ec.europa.eu/topics/nature-and-biodiversity/nature-restoration-law_en

[63] The enhancement of natural carbon sinks, which also implies at the very least the preservation of those natural carbon sinks (land/forest/ocean), is key to the limit global temperature to 1.5°C in mitigation scenarios.

For these reasons, when assessing the robustness of targets, FMPs should look for targets that:

- At a minimum, include considerations to do no significant harm to other environmental objectives; for example, using nature-based solutions and implementation of protection/restoration/mitigation measures where the negative environmental impact is located (e.g. for forests, oceans, biodiversity areas, land incl. wetlands, peatlands, grasslands). This applies to existing and potential future impacts introduced by the plan.
- Consider potential trade-offs and co-benefits between objectives to choose the appropriate mitigation action plan (e.g. avoid implementing mitigation measures that significantly harm the biodiversity objectives). This can be supported by appropriate filtering of scenarios as highlighted above.

Carbon removals

The treatment of carbon removals also influences the robustness of targets and subsequent assessment by FMPs. Carbon removals generally refer to mitigation actions beyond the value chain[64] and the IPCC distinguishes between two key types: "either enhancing existing natural processes that remove carbon from the atmosphere (e.g., by increasing its uptake by trees or other 'carbon sinks') or using chemical processes to, for example, capture CO2 directly from the ambient air and store it elsewhere (e.g., underground)".[65]

There are ongoing debates and differing views on the use of mitigation actions beyond the value chain, notably regarding the risk of using such actions "as an alternative to cutting a company's emissions today or as a reason for delayed mitigation action":[66]

- Based on the Commission's 2040 communication, "all zero and low carbon energy solutions (including […] CCS, CCU, carbon removals […] and all other current and future net-zero energy technologies) are [ultimately] necessary to decarbonise the energy system by 2040". The European Commission Communication on the EU 2040 Target[67] and the EU Sustainable Carbon Cycles resolution[68] emphasises that while carbon removals will play a growing role in achieving EU climate neutrality by 2050 to balance out greenhouse gas emissions from hard to abate activities, the EU must always prioritise rapid and predictable reductions in emissions.
- This is reflected in the ESRS requirement to disclose gross emission targets, rather than inclusive of GHG removals, carbon credits or avoided emissions, which ought to be disclosed separately. In general, the ESRS stipulates that the use of carbon removals should be clearly defined and limited

[64] https://www.oecd.org/en/publications/oecd-guidance-on-transition-finance_7c68a1ee-en/full-report/component-8.html#section-d1e7177
[65] IPCC (2018), Summary for Policymakers — Global Warming of 1.5 ºC, https://www.ipcc.ch/sr15/chapter/spm/ (accessed on 1 May 2022).
[66] https://www.oecd.org/en/publications/oecd-guidance-on-transition-finance_7c68a1ee-en/full-report/component-8.html#section-d1e7177
[67] European Commission Communication on 2040 Target which estimates the expected contribution from carbon removals https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2024%3A63%3AFIN
[68] https://www.europarl.europa.eu/doceo/document/TA-9-2023-0104_EN.html

to residual emissions, typically in hard-to-abate sectors, where the prevention of residual emissions may be particularly challenging. This approach is also taken in the OECD Guidance on Transition Finance[69].

- The Green Claims Directive[70] goes further when stipulating that climate-related compensation and emissions reduction claims based on carbon credits could only be used for residual emissions of a company through carbon credits certified under the EU carbon removals certification framework (CRCF), that was adopted by co-legislators in April 2024.

The specified goal is to ensure high-quality EU certified carbon removals, to both support investments towards carbon removal activities and limit greenwashing through quantification, monitoring and verification of the use of carbon removals. A transparent and credible governance framework as well as a public EU registry to ensure transparency is envisioned to enable this. While the rules apply to activities within Europe, a review with the ambition to assess the possibility of geological carbon storage in neighbouring countries is intended if they align with the EU standards. In line with Article 6(4) of the Paris Agreement, certified removals can only be used for the EU's climate objectives and nationally determined contribution (NDC) and must not contribute to other countries' NDCs or international compliance schemes.

Carbon removals that rely on capture and storage technologies (including direct air capture and BECCS), also have a role to play in in achieving the European Climate Law's climate neutrality target. While in 2021 EU gross emissions were around 3570 MtCO2-eq, by 2050 these are modelled to be at 400 MtCO2-eq. These residual emissions are modelled to be compensated by industrial as well as LULUCF net carbon removals to attain climate neutrality.[71]

This is consistent with IPCC analysis for the global level. Therein, carbon dioxide removals in IPCC C1 scenarios (1.5°C no or limited overshoot) range from 576Mt annual removals in 2050 to 20Gt annual removals in 2050 globally, for a similar temperature outcome.

For both the EU and global levels, the magnitude of the necessary emissions reductions before reaching the volumes that are estimated to be able to be neutralised through removals, means that removals should not be considered as a substitute deep reduction in emissions. Achieving these in turn requires science-based and viable climate mitigation transition plans.

3.1.3 Evidence from recent reporting

An analysis of voluntary disclosures[72] reveals three key reporting practices in relation to targets where better alignment with the EU framework can be achieved.

[69] https://www.oecd.org/en/publications/oecd-guidance-on-transition-finance_7c68a1ee-en/full-report/component-8.html#section-d1e7177

[70] Directive (EU) 2024/825, Directive - EU - 2024/825 - EN - EUR-Lex

[71] European Commission Impact assessment accompanying 2040 target communication https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52024SC0063

[72] Sample of over 5700 global large, listed companies that voluntarily disclosed to CDP in 2023

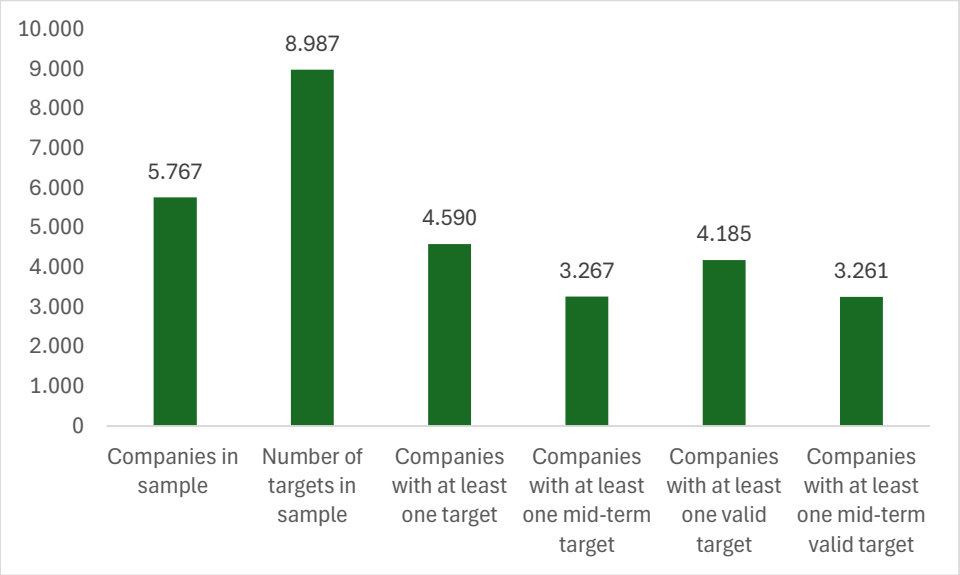
A snapshot of existing target disclosures

Out of approximately 5770 company disclosures (FY 2023) analysed by CDP, around 4590 reported at least one target (any type and time horizon). Of these, 4,180 had at least one "valid" target, defined as meeting all ESRS elements of target disclosures (baseline year, baseline emissions, target year etc). These elements are necessary to evaluate targets; incomplete disclosures hinder external assessments. Notably, target validity does not indicate the level of climate ambition.

The ESRS requires targets to be expressed in absolute terms, and if they are intensity-based, to include sufficient data for conversion to absolute terms (ESRS 1 AR23). Yet ~10% of companies analysed disclose intensity targets without providing adequate data for conversion.

Source: CDP, 2024

Figure 2 – Target-setting in existing transition plan disclosures within a sample of large and listed companies (CDP Net-zero alignment dataset, 2023)



1. **Use of yearly emission reductions instead of cumulative budgets**. Most companies set targets based on annual GHG emission reductions, rather than cumulative GHG budgets. Since scenarios vary in annual reduction rates, corporate emission targets could be achieved and yet overshoot national or global budgets.

2. **Gross vs net emission reductions**. Most existing voluntary targets disclosures fail to differentiate between gross and net emission reductions, often combining carbon credits, offsets, and removals within overall GHG inventories. In line with the ESRS, credible corporate emission reduction targets should be set and disclosed separately from any removals or offsetting.

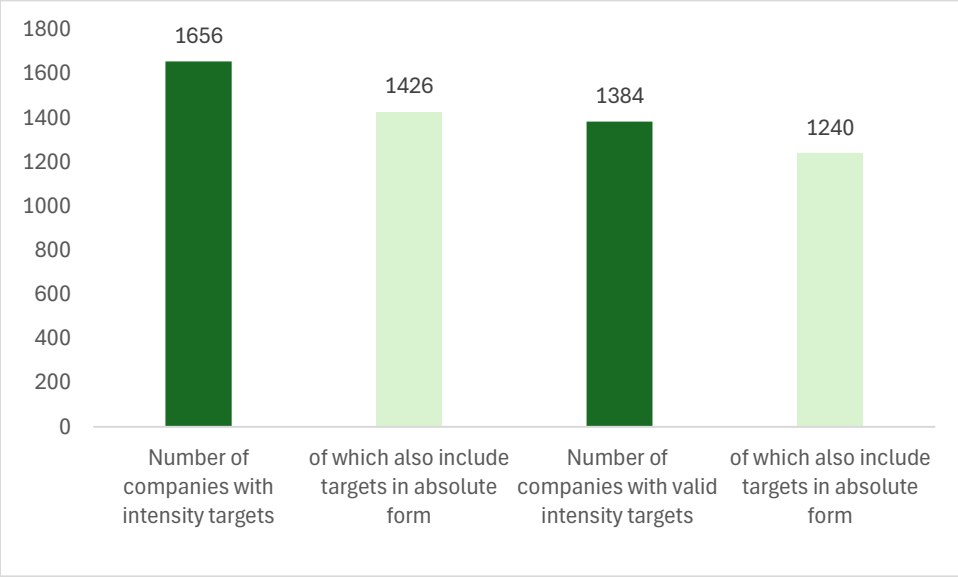
EU climate targets and GHG budgets assume the use of removals - notably, based on assumptions around Land Use, Land Use Change and Forestry (LULUCF) and technologies like direct air capture and Bio-Energy with Carbon Capture and Storage (BECCS). When companies incorporate removals into their overall GHG targets without proper disclosure, they risk appearing aligned with 1.5°C goals while falling short of global ambitions. EU and global scenarios use assumptions that limit the use of removals to feasible amounts. It is therefore crucial that companies report the use of removals separately, allowing FMPs to assess alignment with EU or global scenarios and reducing greenwashing risks.

3. **Intensity-based vs absolute targets**. Many companies set intensity-based targets alongside or instead of absolute targets. The ESRS E1 standard requires the disclosure of targets in absolute values, with intensity-based targets as supplementary where relevant.

   Intensity targets, usually defined in terms of economic output (i.e., GDP or revenues) or physical outputs (e.g., tonnes of cement produced), can be valuable for benchmarking within homogenous, high-emission sectors. For example, physical intensity targets in sectors like power generation or cement production can be compared against science-based sectoral pathways, considering mitigation potential and growth rates. They can also be compared to some of the carbon intensity-based technical screening criteria of the EU Taxonomy and the metrics used in the EBA Pillar 3 ESG requirements.

   Measuring carbon intensities per unit of production is an effective way to assess environmental performance at any point of time, which is more difficult to achieve with absolute reductions. They complement absolute emissions targets and annual reductions as they capture efficiency regardless of business expansion.

Figure 3 – Intensity-based and absolute target-setting in existing transition plan disclosures by large and listed companies (CDP Net-zero alignment dataset, 2023)



3.2 Decarbonisation levers and mitigation actions to reach targets

3.2.1 How can decarbonisation levers and mitigation actions be considered when assessing a transition plan?

Decarbonisation levers and mitigation actions can be categorised into three main types for direct operations:

1) Technological upgrades to improve efficiency and reduce emissions intensity.
2) Increasing the share of low-carbon products and services.
3) Decommissioning or phasing out carbon intensive assets.

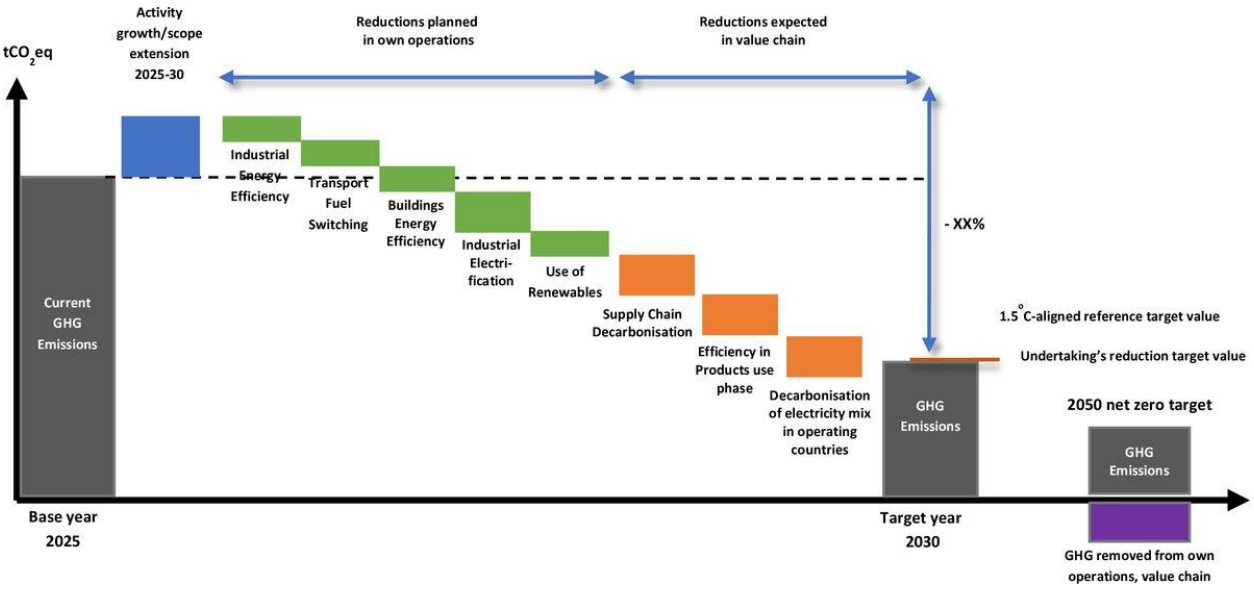
Certain actions and levers will be more relevant depending on the sector. This section focuses on key considerations for assessing these levers both quantitatively and qualitatively, as well as their interaction with the EU Taxonomy.

Quantitative assessments

FMPs need confidence that planned or implemented mitigation actions will lead to the intended emissions reductions and contribute measurably toward interim targets, typically set-in five-year increments. Assessments should compare projected annual emission reductions from current and planned actions with absolute reduction target over a 5–10-year horizon (e.g., by 2030).

Table 2 ESRS illustrative table and figure providing examples combing targets and decarbonisation levers (AR31 E1-4)

	Base year (e.g., 2025)	**2030 target**	**2035 target**	**…**	**Up to 2050 target**
GHG emissions (ktCO2eq)	100	60	40		
Energy efficiency and consumption reduction	-	-10	-4		
Material efficiency and consumption reduction	-	-5	-		
Fuel switching	-	-2	-		
Electrification	-	-	-10		
Use of renewable energy	-	-10	-3		
Phase out, substitution or modification of product	-	-8	-		
Phase out, substitution or modification of process	-	-5	-3		
Other	-	-			



Qualitative assessments

Qualitative evaluation involves identifying mitigation actions relevant to each sector, with a particular focus on targeting the highest-emission activities within each specific sector. FMPs need clarity on external dependencies[73], such as infrastructure, policy, or resources, that might affect implementation. Transparency on these dependencies and plans to address them builds credibility with FMPs and wider stakeholders (such as value chain partners, affected communities and policymakers) by providing with essential insights into potential risks and opportunities and supports the execution of transition plans.

Geographical dependencies

Geographic factors can influence the feasibility of implementing decarbonisation levers. Assessing how they relate to the location of specific assets (i.e. geographical dependencies) can support the assessment of a plan, as per the European Commission's Joint Research Centre[74]. For example, meeting the EU Taxonomy criteria for cement production for a specific asset may require specific regional infrastructure to support its deployment (e.g. industrial hub mutualising the costs of CCUS infrastructure and CO_2 pipelines). These geographical dependencies can significantly influence the technical and economic realities that companies may face.

Table 3 outlines key questions for assessing geographical dependencies of decarbonisation levers. The European Commission's Joint Research Centre continues to explore possible tools to support analysis of geographical dependencies.

[73] They are already one of the elements used by financial institutions assessments of 'likelihood of non-financial firm's following through with transition plan' as highlighted by the NGFS https://www.ngfs.net/sites/default/files/media/2024/04/17/ngfs_connecting_transition_plans.pdf

[74] Pickard-Garcia, N., Gourdon, T., Seigneur, I., Martiny, A., Arranz-Padilla, M., Beltrán-Miralles, M., Guerreiro-Miguel, M., Credible company transition plans for climate change mitigation: a geographical dependency assessment, European Commission, 2024, JRC139084.

Table 3 - Typology of external factors with examples, characterisation questions and credibility questions from 'Credible company transition plans for climate change mitigation: a geographical dependency assessment' (Pickard-Garcia et al., 2024)

	External factors and examples	**Characterisation questions,** to begin to determine geographic characteristics in the relevant perimeter	**Credibility questions,** to analyse geographical dependencies
1. Non-physical factors	**1.1 Policy strategy** *e.g. industrial strategy*	Is the decarbonisation lever (DL) supported by policies?	- Is the planned implementation of the DL consistent with the geographic characteristics of the external factors that the DL depends on? *(e.g. is the type of use[75] of the DL consistent with the use favoured by governing bodies?)* - How does the geographical dependency impact the planned implementation of the DL? *(e.g. assess future infrastructure availability to inform DL implementation)* - How do you address the DL's geographical dependencies? *(e.g. engagement with stakeholders who influence the geographical dependency)*
	1.2 Regulatory framework *e.g. legal framework*	Is the DL supported by regulation?	
	1.3 Market & economics *e.g. capital availability*	What is the economic environment related to the DL[76]?	
	1.4 Public acceptance *e.g. 'Not in my backyard'*	Are there concerns of public acceptance for the DL?	
	1.5 Consumer & client behaviour *e.g. willingness to adapt consumption*	What is the expected consumer and client willingness to pay a green premium for the end product?	
2. Physical factors	**2.1 Infrastructure & logistics** *e.g. for transport, distribution, storage*	Are the infrastructure and/or logistical requirements for the DL available?	
	2.2 Technology *e.g. innovation capacity*	Is the technology needed to implement the DL available?	
	2.3 Resource availability *e.g. land, raw materials, other inputs*	What is the availability of resources required for the DL?	
	2.4 Environmental impacts & ecosystem services *e.g. droughts*	What are the possible climate change impacts and ecosystem service implications that effect the DL?	
	2.5 Labour availability *e.g. skilled workers*	What is the possible skill gap relating to the DL?	

Addressing dependencies

Identifying dependencies should not be seen as a reason to reduce the ambition of a company's transition plan. Transition plans that clearly explain how the company intends to address these dependencies, such as securing long-term resource contracts, engaging stakeholders or advocating for supportive policies. Examples may include transparency on a company's engagements with policymakers to support the

[75] 'Type of use' refers to when a DL can be used in multiple sectors (e.g. biomass use for transport or for industry) but is prioritised for one.

[76] This does not include macroeconomic trends that are not specific to the DL such as inflation and interest rates.

development of fossil fuel phase-out policies in regions where the pace of transition is slower. While certain jurisdictions may present challenges or a slower decarbonisation ambition, FMPs should view these as part of the broader risk landscape, with only specific, tangible impediments (e.g., regulatory barriers) justifying deviations from the company's decarbonisation goals.

FMPs should acknowledge and value a company's proactive efforts to engage with stakeholders who influence relevant dependencies. These stakeholders can include the company's value chain, industry associations, government authorities, and neighbouring companies where the company operates. This collaborative approach enhances both the credibility and feasibility of transition plans.

3.2.2 Locked-in emissions and fossil fuel phase-outs

Mitigation actions in transition plans must address phasing out unsustainable assets or activities. Many sectors (notably hard-to-abate sectors such as cement, steel, glass, chemicals, and heavy-duty transport) are prone to locked-in emissions, where capital-intensive, carbon-heavy infrastructure continues to operate, delaying the shift to low-emission alternatives.

Defining carbon lock-in

Carbon lock-in occurs when fossil fuel-based assets (existing or new) remain in use, despite viable low-emission alternatives. While fossil fuels are a primary concern, carbon lock-in can also apply to other activities and infrastructure, such as certain manufacturing processes like cement or steel production, as well as agriculture and land use activities such as deforestation, monoculture farming, or land conversion. Examples of investments contributing to lock-in include:

- Efficiency improvements or CCUS for coal assets: While reducing emissions relatively, they maintain high lifetime emissions unless fully decarbonised;
- Gas infrastructure: Transmission and distribution networks, domestic gas boilers, and power generation plants like combined cycle power plants (CCGTs); and power, heating and cooling generation plants like combined heat and power plants (CHPs) to the degree they rely on fossil fuels[77];
- Industrial processes: Fossil-fuel-reliant facilities like blast furnaces for high-temperature applications.

While linked, asset stranding differs from carbon lock-in. Stranded assets typically involve economic losses or devaluations before their expected lifespan ends, posing financial risks to the asset owner. Lock-in, however, undermines net-zero transition efforts and can lead to greenwashing accusations. Investments may avoid stranding risks but exacerbate lock-in, such as through revenue-guaranteeing contracts.

Fossil fuel phase-out

Fossil fuel investments pose the greatest lock-in risks. According to the UN HLEG, companies exposed to fossil fuels must develop a strategy for phasing out these fuels in line with a 1.5°C trajectory. Key

[77] See the recently adopted EU Gas and Hydrogen market package https://www.consilium.europa.eu/en/press/press-releases/2024/05/21/fit-for-55-council-signs-off-on-gas-and-hydrogen-market-package/

recommendations by the UN HLEG, consistent with the IEA's roadmap for achieving net zero by 2050, include:

- For coal used in power generation, policies should immediately mandate the cessation of expanding coal reserves, developing and exploring new coal mines, extending existing coal mines, and operating coal plants by 2030 in OECD countries and by 2040 in the rest of the world.
- For oil and gas, companies must avoid exploring new oil and gas fields, expanding oil and gas reserves, and must include a phase-out strategy for oil and gas production.

It is also crucial for phase-out strategies to address the responsible retirement of high-emitting corporate assets, including considerations for a just transition. Potential emissions embedded in coal, oil, and gas reserves should be addressed as part of the strategy and disclosed separately.

For assets planning a fuel switch (e.g. gas to renewable hydrogen), flanking measures are crucial to prevent carbon lock-in and add credibility to phase-out strategies. These include:

- Investing in R&D and infrastructure for low-emission fuels and technologies. Linking, where relevant, to public incentive programmes that can help support the supply of low-emission replacement technologies;
- Securing contracts of supply for the low-emission replacement fuel to be agreed within a specified timeframe, ideally within three years of the initial investment;
- Setting detailed plans and binding timeframes on how the low-emission fuel will be used.

Assessing locked-in emissions

FMPs should ensure companies disclose a qualitative assessment of the potential locked-in GHG emissions from key assets and products, in line with the ESRS requirements. This shall include an explanation of if and how these emissions may jeopardise the achievement of the undertaking's GHG emission reduction targets and drive transition risk, and if applicable, an explanation of the plans to manage its GHG-intensive and energy-intensive assets at risk of becoming stranded and their products.

A few elements can be used to assess locked-in emissions[78], for example the lifetime emissions of an asset, the investment required to build the asset (the higher the initial investment, the higher the risks of locked-in), costs to transition the asset. The expansion of coal, oil and gas activities is critical when assessing locked-in emissions, as well as potentially capital-intensive investments in always significantly harmful activities (see below).

Asset-level data, like activity-level information, is vital for understanding the risk of locked-in emissions when assessing a company's transition plan. Confidentiality considerations allowing,[79] asset-level disclosures offer highly valuable insights for FMPs into location-specific risks, such as physical climate risks, stranded asset risks, operational efficiency, regulatory compliance, and alignment with a 1.5°C transition

[78] See also EBRD methodology on assessing carbon lock in https://www.ebrd.com/paris-agreement-methodology.pdf, page 18

[79] For competition and confidentiality reasons, companies may not always be able or wish to disclose detailed information on specific projects, assets, or planned technologies in their transition plans.

pathway[80]. This is particularly true for energy-intensive sectors, as it can provide insights into technologies employed by companies to reduce environmental impacts, show changes over time, as well as expected contribution across different assets[81].

Such information can help FMPs understand decarbonisation pathways and levers for specific locations, considering physical and non-physical dependencies (e.g. resource availability and policy support). The examples of geographical dependencies listed in Table 3 rely in significant part on asset level disclosures in transition plans.

For sectors and companies in the fossil fuel value chain, site-specific disclosures are important for evaluating locked-in emissions and assessing plans to decommission or transition assets. In line with ESRS 1, paragraph 54, site or significant asset-level disaggregation should be provided when necessary to understand material impacts, risks and opportunities. Ideally these disclosures provide enough information to assess the characteristics of products sold (including product performance, life cycle assessments, and share in total production).

Integration with EU tools

Linking asset-level disclosures with wider EU tools and requirements can add credibility and granularity to the plans and mitigation actions.

- EU Emissions Trading Scheme (EU ETS): The top 20% installations with the highest GHG emission intensities (370 installations) and some district heating installations are required to submit a climate neutrality plan by May 2024. These plans must include milestones and targets consistent with the European Climate Law, and estimated impacts.
- Industrial Emissions Directive[82]: By mid-2030, companies must prepare transformation plans at the installation level, showing how they will contribute to the emergence of a sustainable, clean, circular and climate-neutral economy by 2050.

Applying the EU Taxonomy at the asset level allows companies to attribute revenues to each of their plants or assets, allowing for more informed prioritisation of capital expenditures by focusing on the

[80] See for instance the Paris Agreement Capital Transition Assessment (PACTA), an open-source and free of charge software application that enables users to measure the alignment of financial portfolios with climate scenarios as well as analyse specific companies based on asset-level data.

[81] Assessing the Credibility of Climate Transition Plans in the Power Sector (Oxford, 2023)

"Regional variation can lead to confusion for multinational firms in setting carbon neutral targets when a country's pathway does not align with the international scenario. For example, Energetický a průmyslový holding (EPH Group), whose business is engaged in power production, heat production, electricity transmission and distribution, gas transmission, distribution, and storage, and mining, is a large European operator of coal and gas-fired power plants. They have a clear timeline for coal phase-out by 2030 (refer to pages 10–12 of their sustainability report). However, this transition plan does not apply in Germany, as the country plans to phase out coal by 2038, and the company intends to follow the German coal phase-out target (EPH, Sustainability Report 2021, page 4"

"In summary, asset-level data disclosure plays a pivotal role in assessing a company's transition to net zero emissions. It enables investors to evaluate progress and determine if a company's targets are achievable. Consistent disclosure of asset-level data strengthens credibility and accountability, fostering trust in the company's sustainability efforts and supporting the transition towards a sustainable, net zero future."

[82] DIRECTIVE (EU) 2024/1785, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202401785

upgrade or transformation of individual assets. This approach also helps FMPs better assess their exposure to sustainable investments by tracking revenues and capex linked to these assets.

ASH activities and sunset dates

The Platform has previously defined activities lacking technological solutions to achieve net zero but having lower-carbon alternatives as "always significantly harmful" (ASH) activities[83]. These activities require decommissioning or a managed exit plan. Identifying ASH activities would provide visibility on potential stranded assets at a company level but also within portfolios, financial instruments and products.

In the absence of a clear list of ASH activities, FMPs should in particular consider the information provided by companies exposed to fossil fuels; notably, whether they have a phase-out strategy in line with the IEA's net zero scenario[84] and do not invest in new fossil fuel assets, including coal reserves, oil and gas fields, operations, or production.

Setting sunset dates through sectoral pathways and policies (e.g. 2035 for internal combustion engine in the EU), also gives investors, banks and companies visibility to plan transition investments and craft strategies to phase-out ASH activities. Sunset clauses, like those for specific gas power generation in the EU Taxonomy, are critical for ensuring an orderly shift to net zero.

[83] https://finance.ec.europa.eu/system/files/2022-03/220329-sustainable-finance-platform-finance-report-environmental-transition-taxonomy_en.pdf

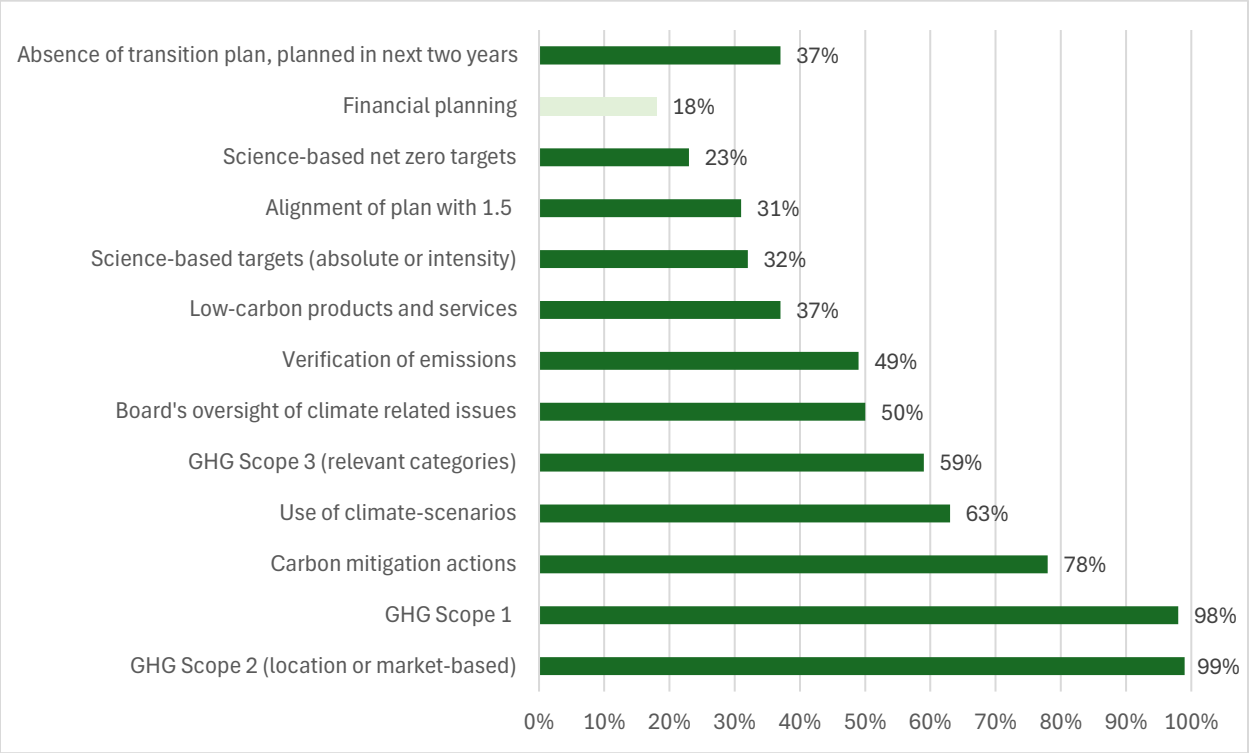
[84] See IEA (2024), Global Energy and Climate Model, IEA, Paris https://www.iea.org/reports/global-energy-and-climate-model

3.3 Financial planning

FMPs need to understand how a company's transition plan aligns with its broader business strategy, ensuring consistency and coherence. Effective financial planning is essential to ensure the credibility and sustainability of the transition plan, especially regarding investments and financial reporting.

Evidence of existing corporate climate disclosures to CDP (2023) highlights a significant gap in financial planning within transition plans (see Figure 4 below)[85]. Recent data from Climate Action 100+ shows that while 80% of the world's highest emitters have made a net zero commitment, only 3% committed to phasing out CapEx in unabated carbon-intensive assets by a specified year[86].

Figure 4 – Availability of different elements in existing disclosures, based on a sample of large and listed companies (CDP, 2023)



[85] It should also be noted that most companies still do not have a publicly available transition plan and that while net-zero commitments are increasingly being taken, intermediary, mid-term science-based targets still represent an important gap to address in making these long-term commitments more credible.

[86] Climate Action 100+ Net Zero Company Benchmark 2.1. 2024 Results https://www.climateaction100.org/wp-content/uploads/2024/10/2024_10_14-October-Final-Summary-Report-Slides.pdf. It should be noted that since the 2023 version, the proportion of companies disclosing the stated value of their capital expenditure going towards unabated carbon intensive assets or products has increased by 19 percentage points (Metric 6.1.b). Around half of this increase is due to is due to increased disclosure from Energy sector companies.

3.3.1 Capital Expenditures

Transitioning the global energy system will require $3 trillion annually by 2030 (~10% of global annual investments and 3% of global GDP).[87] It is therefore of crucial importance that companies increase the share of green CapEx in their overall investments, while minimising or eliminating investments in fossil fuels.

Sectoral and regional pathways can guide transition CapEx needs by technology and activity, particularly when complemented by technology roadmaps. The Platform's work on monitoring capital flows supports this at EU level by identifying which NACE 4-digit economic activities are being adequately or under-invested through various financial instruments.

EU Taxonomy-aligned expenditures

The EU Taxonomy is a vital tool for evaluating the environmental credibility of CapEx in transition plans. Transparency on Taxonomy-aligned expenditures reveals whether sufficient financial resources are allocated to achieve climate targets.

The Commission's Recommendation on facilitating finance for the transition to a sustainable economy[88] emphasises the connection between entity-level and activity-level plans by encouraging the use of the EU Taxonomy, particularly activity-level capex plans, in overall transition strategies. Paragraph 20 indicates that undertakings can use the Taxonomy as a forward-looking tool for their transition, using its criteria as benchmarks for setting targets. ESRS E1-1 requires the referencing of Taxonomy-aligned CapEx KPIs, and where relevant, CapEx plans, in disclosures of investments and funding supporting transition plans (E1-1 16.c.), as well as any objectives or plans for aligning economic activities with the Taxonomy's criteria (E1-1 16.e). Under the Taxonomy Regulation, investments aimed at achieving Taxonomy alignment within 5 (or exceptionally 10) years are recognised as CapEx aligned with the Taxonomy when accompanied by a CapEx plan.

In 2022, CapEx investments in activities already aligned with or set to become Taxonomy-aligned rose from €196bn to €248bn, with over €444bn directed to key sectors such as transportation, manufacturing, and power generation.[89] Taxonomy reporting reveals a 20% increase in green CapEx, while stock market data indicates that companies with strong Taxonomy alignment consistently outperform their peers.[90] Additionally, when alignment within the established timeframe is not feasible, companies can set targets based on the Taxonomy. Early data shows that around 600 companies reporting under the NFRD referenced EU Taxonomy KPIs in their financial planning and transition strategies, with those setting targets achieving higher levels of Taxonomy-aligned CapEx.[91]

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[87] https://www.energy-transitions.org/wp-content/uploads/2023/08/ETC-Financing-the-Transition-MainReport_update.pdf
[88] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52024SC0063
[89] GS Sustain: EU Taxonomy Monitor (2024)
[90] https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities/eu-taxonomys-uptake-ground_en
[91] https://clarity.ai/research-and-insights/regulatory-compliance/stronger-together-exploring-the-eu-taxonomy-as-a-tool-for-transition-planning/

Investments in Taxonomy-aligned activities act as a "stamp of approval", signalling that these investments are aligned with EU environmental objectives. For new acquisitions, temporary emissions increases can be justified if CapEx aligns with Taxonomy criteria or if a plan is in place to upgrade assets to meet the Taxonomy criteria. Companies can disclose efforts to achieve Taxonomy alignment even if immediate compliance isn't possible. In this way, taxonomy-related CapEx information complements data on absolute emission reductions.

If immediate alignment isn't possible, FMPs can assess whether the company has set targets to achieve it in the future. For instance, an eligible activity might meet Do No Significant Harm (DNSH) thresholds but not yet qualify for Substantial Contribution (SC). In such cases, and if this aspect represents a material impact, risk or opportunity for the company, its sustainability report can highlight efforts to minimize harm while progressing toward alignment with sustainability goals.

In the case of companies with Low Environmental Impact activities[92], while they cannot generate aligned revenues for those activities, they can designate related expenditures (CapEx and relevant OpEx) as taxonomy aligned. This encompasses procuring outputs from Taxonomy-aligned activities and implementing measures that facilitate low-carbon transitions or reduce greenhouse gas emissions, such as completing building renovations within 18 months. Despite their relatively minor impact, these companies can still stimulate demand for low-carbon electricity, transportation, and environmentally-friendly procurement. It is imperative for all economic actors to strive for net-zero emissions, minimising emissions through procurement policies, and operating with maximum efficiency. Establishing a transition plan and setting targets, even if they entail limited actions and reporting, is pivotal.

Fossil fuel capex

In the same way, it is fundamental for FMPs to understand the impact of a company's CapEx that is not aligned with sustainability goals. Investments in coal, oil, and gas expansion lead to lock-in and risk becoming stranded, as outlined in section 3.2.1 – and should be a red flag for any FMP focused on transition finance. While some CapEx for ongoing oil and gas operations may temporarily be necessary, the percentage should be very low if no expansion or new projects are involved. Therefore, disclosing CapEx related to fossil fuels—including details on any investments in exploration, extraction, production, processing, storage, and transportation—is crucial for assessing stranded asset and lock-in risks in financial planning.

Analysis of relevant existing disclosures on Capex in oil, gas, coal assets

Out of 148 fossil fuel companies reporting to CDP (30% response rate compared to total requested companies[93]), 60% disclose on at least one type of Capex category covering expansion of existing fields/exploration of new fields and mines. Caveat: while the ESRS specifies that only significant Capex should be included, the disclosure criteria used here includes zero values, and it looks at capex in upstream activities only given data availability. Considering

[92] https://finance.ec.europa.eu/system/files/2022-03/220329-sustainable-finance-platform-finance-report-environmental-transition-taxonomy_en.pdf

[93] Total sample of around 5700 listed companies (same sample of large listed companies used throughout the paper).

this, ~20% of companies analysed and involved in the upstream oil, gas, coal value chain did not disclose any details on their capex related to exploration/expansion of oil/gas fields and coal mines.

Source: CDP

The availability of such information is expected to increase in the coming years. The ESRS E1-1 transition plan standard requires, if applicable, a disclosure of significant CapEx amounts[94] invested during the reporting period related to coal, oil and gas-related economic activities (16.f)[95].. The Platform advises FMPs to closely scrutinise investments in fossil fuels and engage with companies to ensure that any capital expenditure (CapEx) allocated to fossil fuel activities is thoroughly evaluated in the materiality assessment process and disclosed appropriately. While a commonly referenced threshold is 5%[96] , appropriate thresholds may vary depending on the type of fossil fuel and the specific circumstances of the undertaking.[97] Materiality assessments should account for both quantitative and qualitative factors to ensure a comprehensive evaluation.

The breakdown of CapEx by fossil fuel type will be particularly relevant for FMPs, especially in the context of applying sector-specific policies, portfolio fossil fuel phase-out strategies, and selecting investments for transition-focused financial products, for which exposure to new fossil fuel investments should be excluded[98].

3.3.2 Connecting financial and non-financial statements

Connecting financial and sustainability disclosures is key to providing FMPs with transparent and decision useful information in the context of transition plans. It sheds light on the assumptions behind identified climate-related risks and opportunities, enabling investors to anticipate potential future impacts on financial performance and better understand how sustainability factors will shape long-term value.

Current research[99] on this issue seeks to establish criteria to ensure the transparency, coherence, and decision-usefulness of information across annual financial reports (AFR), encompassing both financial and

[94] As per the ESRS, The CapEx amounts considered are related to the following NACE codes:
(a) B.05 Mining of coal and lignite, B.06 Extraction of crude petroleum and natural gas (limited to crude petroleum), B.09.1 Support activities for petroleum and natural gas extraction (limited to crude petroleum),
(b) C.19 Manufacture of coke and refined petroleum products,
(c) D.35.1 - Electric power generation, transmission and distribution,
(d) D.35.3 - Steam and air conditioning supply (limited to coal-fired and oil-fired power and/or heat generation),
(e) G.46.71 - Wholesale of solid, liquid and gaseous fuels and related products (limited to solid and liquid fuels).
For gas-related activities, the NACE code definition addresses activities with direct GHG emissions that are higher than 270 gCO2/KWh

[95] In the absence of disclosures of fossil-fuel related capex, it can often be verified through the company´s financial reporting or strategy communication documents.

[96] U.S. Securities and Exchange Commission, "Staff Accounting Bulletin No. 99: Materiality," 1999.

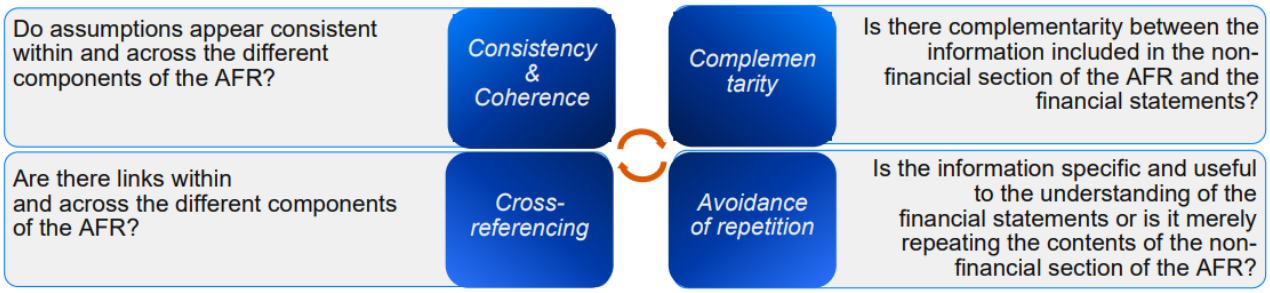
[97] The 5% rule serves as a general benchmark for materiality, but it is not absolute and requires professional judgment. ESMA highlights the need for a balanced approach, stressing that materiality should not rely solely on numerical thresholds but should also consider the broader context.

[98] See https://finance.ec.europa.eu/document/download/8a3d0e56-4453-459b-b826-101b1067290f_en?filename=241217-sustainable-finance-platform-proposal-categorisation-products_en.pdf

[99] EFRAG, Connectivity considerations and boundaries of different Annual Report sections, 28 June 2024 and IASB and ISSB, Connectivity—what is it and what does it deliver?, 23 March 2023

non-financial disclosures. A report published in 2023 by ESMA [100] provides examples related to connectivity between financial statements and non-financial information based on four principles.

Figure 5 - ESMA High-Level Principles Used To Identify Connectivity



According to this research, FMPs should consider the following when assessing the connectivity of transition plans for climate change mitigation with financial reporting:

Financial Impact of Climate Matters: FMPs should assess whether it is reasonable to expect that climate-related matters could materially affect a company's financial statements, such as impairment losses, provisions, or revisions to asset useful lives. It is important to review whether companies, especially those in high-emitting sectors, disclose the assessments made, assumptions used (including the time horizon), and the conclusions reached. This information is crucial even if no changes are made to asset useful lives, impairment losses, provisions, or contingent liabilities.

Material Exposures to Climate-Related Risks: FMPs should look for complementary information on major judgements and estimates related to climate-related matters. Companies should, where relevant, disclose material exposures by quantifying and breaking down (i) the carrying amounts of assets and liabilities, distinguishing exposure to physical and transition risks, (ii) the balance sheet or P&L line items most likely to be affected by climate risks, and (iii) whether sensitivity analyses are necessary to understand the potential financial impact.

Consistency Across Disclosures: FMPs should ensure consistency between (i) the judgements and estimates disclosed in the financial statements and their related uncertainties, (ii) other notes to the financial statements (e.g., impairment of non-financial assets), and (iii) disclosures related to climate-related risks and uncertainties in the management report and non-financial statements (e.g., GHG emissions, CO2 equivalent emissions). This alignment is crucial for a comprehensive understanding of a company's exposure to climate risks and their potential impact on financial performance.

[100] ESMA32-1283113657-1041. The Heat is On: Disclosures of Climate-Related Matters in the Financial Statements. 25 October 2023.

Box 1 - Impairment of assets

The International Accounting Standard (IAS) 36 on impairment of assets outlines principles for estimating recoverable amounts to assess the impairment of non-financial assets, including property, plant, equipment, right-of-use assets, intangible assets, and goodwill.

Key provisions include:

- At the end of each reporting period, companies must evaluate whether there are indicators of impairment. This includes considering external factors like new climate policies or changes in consumer behaviours, that may adversely impact the issuer's financial position, performance or cash-flows.
- Value-in-use (ViU) measurement involves estimating future cash flows generated by an asset in its current condition. These projections should rely on reasonable, supportable assumptions reflecting management's best estimates of future economic conditions. Climate-related matters, such as rising energy costs or CO2 prices, may affect the underpinning assumptions.
- Disclosures, where applicable, of events and circumstances leading to impairment losses, key assumptions underlying recoverable amount estimates, and potential changes in assumptions that could affect asset valuation.

For assessing the potential impairments of assets, FMPs should consider the following when evaluating company disclosures:

Reassessment of cash-generating units: FMPs should consider whether companies have reassessed the appropriateness of their historically defined cash-generating units, in light of climate-related risks and opportunities.

Climate considerations in financial estimates: FMPs should evaluate whether disclosures explain how climate-related matters were considered in cash-flow projections, discount or growth rates (e.g., increasing energy costs, CO_2 prices, or potential revenue reductions). FMPs should also look for quantified disclosures on key assumptions related to climate matters and how they were determined.

Sensitivity analyses: FMPs should verify if companies have included sensitivity analyses for key assumptions related to climate factors (e.g., CO_2 prices, commodity prices). If sensitivity scenarios deviate significantly from market-based scenarios (such as those published by the IEA), FMPs should expect companies to provide clear explanations for the use of diverging assumptions, such as why internal assumptions were applied instead.

3.4 Governance and oversight

3.4.1. Board and audit committee oversight

Effective board oversight and approval of a transition plan is crucial to provide FMPs with the confidence that the company is actively managing and mitigating sustainability-related risks, impacts, and opportunities. Boards are responsible for ensuring that appropriate strategies, disclosures, and management systems are in place to address these issues.

This includes linking executive remuneration to the company's sustainability goals, with a clear link between performance on sustainability-related targets and compensation. The ESRS require disclosure of whether it is the case (ESRS 2)[101]. For FMPs, board involvement offers confidence that the company's transition plan is being effectively implemented, monitored and aligned with long-term sustainability goals, thereby supporting informed investment decisions and enhancing accountability.

Typically, boards delegate the development of transition plans to sustainability committees, which present them for approval. U Understanding the governance of transition plans helps FMPs evaluate whether these plans are aligned with broader corporate strategies and are subject to appropriate oversight.

Role of audit committees

EU regulations establish a mandatory role for audit committees in overseeing the sustainability reporting process.[102] This oversight is vital for FMPs, as it ensures that companies' sustainability reports are accurate, consistent, and compliant with regulations. Responsibilities of the audit committee include:

- Reviewing the sustainability report and reporting to the management body on the integrity of the assurance process before the sustainability report is approved, providing an additional layer of assurance for FMPs that the information being disclosed is reliable.
- Assessing internal control systems to ensure the integrity of the reported sustainability information.
- Ensuring that the external assurance provider conducts a thorough and objective assessment, providing FMPs with reliable data to evaluate the company's transition performance and strengthen confidence in its strategy.

For FMPs, this reinforces the legal framework within which companies operate, providing assurance that companies are compliant with the latest regulatory requirements. Supporting the board on matters related to sustainability reporting and by extension transition plan reporting and progress is a key responsibility of the audit committee, underscoring the importance of having sufficient climate and sustainability expertise within the committee to effectively support these efforts. This expertise is essential for FMPs, as it ensures that the company is making informed, credible, and compliant disclosures related to its transition.

[101] See ESRS GOV-3. *The undertaking shall disclose the following information about the incentive schemes and remuneration policies linked to sustainability matters for members of the undertaking's administrative, management and supervisory bodies, where they exist.*
[102] Article 39 of the Audit Directive (as amended by the CSRD).

3.4.2. Stakeholder and policy engagement/lobbying

An enabling policy environment is crucial for companies to meet their net-zero commitments. Without it, the actions and levers outlined above will be insufficient to drive real economy emission reductions in line with the 1.5°C target.

For FMPs, it is essential to ensure that companies align their lobbying and advocacy activities with net-zero objectives. This alignment not only supports the achievement of climate goals but also provides FMPs with the confidence that the companies they invest in are actively contributing to a policy framework that accelerates the transition to a sustainable, low-carbon economy.

The UN HLEG report on net-zero commitments by non-state actors recommends that they must align their external policy and engagement efforts, including membership in trade associations, to the goal of reducing global emissions by at least 50% by 2030 and reaching net zero by 2050 – including disclosure of specific policies and regulations, including carbon pricing, that they would need to cut emissions in line with a 1.5°C scenario.

InfluenceMap's climate policy assessments for the investor collaborative engagement initiative Climate Action 100+ show that most companies still do not align their real-world climate policy engagement activities with Paris Agreement goals, although partial alignment is increasing: Only 4% of companies fully align their climate policy engagement with the goals of the Paris Agreement, while 23% are misaligned[103]. Most companies' policy engagement activities are partially aligned, indicating that they may still be engaging in some obstructive lobbying or refraining from supporting Paris-aligned climate policy.

The ESRS requires companies to disclose information on activities and commitments related to company political influence, including lobbying activities concerning material impacts, risks, and opportunities (ESRS G1-5). While not directly linked to climate transition plan disclosures (ESRS E1-1), these disclosures offer FMPs valuable insights into how a company's lobbying efforts align with its sustainability objectives and net-zero commitments.

[103] Climate Action 100+ Net Zero Company Benchmark 2.1. 2024 Results https://www.climateaction100.org/wp-content/uploads/2024/10/2024_10_14-October-Final-Summary-Report-Slides.pdf. See also InfluenceMap methodology for assessing climate policy engagement practices https://www.climateaction100.org/wp-content/uploads/2024/10/InfluenceMap-CA100Benchmark-Methodology_Sept24-copy.pdf

4. Recommendations

4.1 Recommendations to the European Commission

The following recommendations have been formulated by the EU Platform with the aim of helping the European Commission enhance the effectiveness of its policy framework to: (i) support companies in developing robust transition plans and setting science-based targets in line with EU goals; and (ii) facilitate the user assessments of the credibility of transition plans.

These recommendations are based on existing sustainability transparency requirements in the EU and should not lead to additional reporting for companies.

	Relevant section	Recommendation
1	Interaction of EU requirements	**Develop a common transition plan template for non-financial undertakings**, based on the EU framework, that can be used across various pieces of legislation. This template should serve as a core tool for companies to facilitate the design of robust corporate transition plans, while also making it easier for users to assess the information therein. Structured using a 'building block' approach, the template would allow companies to progressively 'fill in' the relevant blocks as their plans evolve and to select the blocks most applicable to their specific context and corresponding to the regulations they are subject to. Key areas to be addressed include mitigation, adaptation, just transition, other environmental objectives when material. Furthermore, the template should support the integration of activity or asset-level data into entity-level transition plans, enabling undertakings to link Taxonomy, IED, CSDDD, and ETS data and targets with their overall entity-level targets, actions, and financial planning. This should be solely based on existing disclosure requirements and should not add additional reporting for companies. The objective is to avoid duplication of effort and resources by ensuring that companies do not need to prepare multiple plans under different pieces of EU legislation. By harmonising these elements, the template will enable FMPs to effectively compare and assess the comprehensiveness and credibility of corporate transition plans, while supporting companies in reporting under the ESRS, in line with EFRAG's guidance.
2	Core elements for FMP assessments of corporate transition plans	**Develop a checklist of core elements FMPs should consider when assessing corporate transition plans for the purposes of providing transition finance in the EU.** It should build on the recommendations set out by the Platform in section 2 of this paper. The checklist can support FMPs' engagement practices with their investees and clients. It should not aim to be prescriptive nor exhaustive – as additional guidance may be necessary depending on the company's sector or specificities.

		The checklist should be based on existing EU sustainability transparency requirements and should not lead to additional reporting for companies. It should draw on relevant provisions from the CSDDD, CSRD/ESRS, and the broader EU acquis, and cover all material impacts, risks, and opportunities faced by companies, not just those related to climate change mitigation.
3	Science-based and time-bound targets	**Develop sectoral transition pathways for high-emitting sectors at the EU level**, complete with technology roadmaps. Such pathways are essential for supporting the preparation and assessment of sector-specific transition plans. They should be science-based and developed in consultation with the relevant industry stakeholders. EU sectoral pathways should be designed using a consistent approach that integrates existing policy tools (e.g., ETS, Taxonomy, CBAM) and sectoral policies (e.g., industrial or transport policy) to provide coherent signals to the market. These pathways must be consistent with EU Taxonomy climate mitigation TSC thresholds (and vice versa), EU ETS benchmarks, and upcoming ESRS sectoral standards to ensure coherence in metrics, scenarios, and milestones. This alignment should also clarify the position of the Taxonomy's TSC for transitional activities within future EU pathways and support the integration of activity and asset-level data—such as ETS and IED data—into company-level targets, particularly for high-emitting sectors. New technologies included in the technology roadmaps (e.g. investments in basic research, extending applied research) should also be reflected in future revisions of the EU Taxonomy criteria for climate mitigation. These pathways must align with EU policy ambitions, allowing emissions and production data to be tracked at the macro-level for effective corporate target assessments, ultimately supporting robust and comparable transition planning for companies and FMPs.
4	Science-based and time-bound targets	**Provide guidance for selecting scenarios** that can be used for credible science-based corporate target setting and transition planning. The criteria could for example, leverage the ESABCC filtering approach: i) for mitigation targets only allow scenarios that limit global warming to 1.5°C with no or limited overshoot, ii) pass a vetting process (e.g. consistency with recent realised emissions, emission data/key assumptions including CDR/temperature outcomes are provided), iii) do not pose high feasibility concerns (e.g. maximum thresholds on CCUS, CDR including land related measures, and other variables such as those related to technological challenges), iv) do not pose environmental or social risks (e.g. thresholds related to bioenergy). CDR and CCUS should be defined clearly to ensure

		gross emissions can be derived from net emission trajectories and that the approach is consistent across actors.
5	Science-based and time-bound targets	**Develop a set of criteria for qualifying targets as credible science-based targets**. These criteria should be built on the following: 1. **Alignment with the Paris Agreement:** Targets must be consistent with limiting global warming to 1.5°C above pre-industrial levels, in line with the Paris Agreement. 2. **Comprehensive Emission Coverage:** Targets should cover all of the company's greenhouse gas (GHG) emissions (Scopes 1, 2, and 3) with clear justification for any exclusions. 3. **Time-Bound and Measurable Commitments:** Include mid-term targets (e.g., 2030) as well as long-term targets, ensuring both near-term action and long-term strategic planning. 4. **Sectoral and Regional Relevance:** Targets should be based on sector-specific and regional pathways that reflect the company's main emission sources and external dependencies; or, to simplify and provide a consistent approach across all operations, adopt an international scenario and corresponding pathway aligned with a 1.5°C target with little to no overshoot. If and when European pathways, in line with the EU goal of achieving net zero by 2050 become fully available, companies could also use these as a default option. 5. **Use of Absolute and Intensity-Based Metrics:** Where relevant, both absolute and intensity-based metrics should be used to account for potential business growth while ensuring emissions reductions. 6. **External Assurance and Review:** Targets should undergo external assurance to validate credibility, using the same pre- and post-issuance review standards as outlined in the European Green Bond Standard. 7. **Compliance with EU Legislation:** Science-based criteria should adhere to European-level guidelines, including the CSRD/ESRS, CSDDD, Green Claims Directive, and Carbon Removal Certification Regulation, to ensure a unified and credible approach. 8. **Supervision and Accountability for Reviewers:** Entities providing certification or "second opinions" must be supervised and registered, meeting conditions similar to those set out in the European Green Bond Standard to prevent greenwashing. 9. **Consistency and Comparability:** Targets must enable comparability across sectors and regions, supported by transparent methodologies and data disclosure. 10. **Due Process and Accountability:** A clear process for establishing, monitoring, and enforcing these criteria should be established to ensure the integrity of transition finance mechanisms. This set of criteria will serve as a robust framework to guide companies, financial institutions, and third-party verifiers in developing and accessing

		credible science-based targets, minimising the risk of greenwashing while effectively supporting the transition to net zero.
6	Mitigation actions and decarbonisation levers	**Consider robust transition plans as a valuable source of information for discussions on future decarbonisation initiatives and infrastructure planning**. Given the substantial interdependencies between public sector strategies and company transition plans, this is particularly relevant when the transition plan includes asset-level data and accounts for geographical dependencies. The interplay between public sector strategies and company transition plans could be a key to coordinate the transition, as highlighted by Recommendation 4 of the UNFCCC *Recommendations for the Rapid Action Framework* (2024). Consistent approaches and dialogues on the basis of these transition plans could help to overcome bottlenecks and accelerate the implementation of decarbonisation levers and mitigation actions, while decreasing the risk of not delivering on ambitions.
7	Financial planning and consistency	**Conduct further work to adequately account for the depreciation of assets** at risk of becoming stranded, the impact of embedded emissions in fossil fuel reserves, and the identification of carbon lock-in associated with new investments. Capital expenditures (CapEx) related to fossil fuels and carbon lock-in can be significant red flags, and their disclosures are crucial. The Platform recommends that any CapEx invested in fossil fuel activities should be properly considered under the materiality assessment process to be disclosed. Materiality assessments should account for both quantitative and qualitative factors, with a commonly referenced threshold of 5%, adapted as needed to the type of fossil fuel and specific circumstances of the undertaking.
8	Governance	**Develop a monitoring framework** or public registry of emission reduction data per sector to track implementation of transition plans at company and sector-level. Corporate emissions should be tracked per sector to inform policy evaluation and potential developments, ensure that GHG budgets are respected as yearly emissions do not factor in the cumulative impact of emissions, and provide a starting point for supervisory monitoring under the CSDDD. Moreover, reliable corporate and sectoral emissions data will be instrumental in refining the calculation of scope 3 carbon footprints for both entities and financial institutions.
9	Adaptation, just transition and other material environmental objectives	**Provide guidance on how adaptation and just transition** can be further incorporated into climate mitigation plans, along with the full integration of **any other environmental objectives that are material** to the company and its activities as part of a comprehensive transition plan for sustainability. The

		previously mentioned template, designed with a 'building block' approach, should facilitate this process. Ensure CSDDD-related guidance explains how to strengthen alignment between robust transition plans, human rights due diligence, and sustainable finance regulations. To achieve this, the Commission should leverage international guidance and existing tools within the EU framework.

4.2 Recommendations to facilitate the assessment of corporate transition plans by FMPs

The elements highlighted below are not exhaustive - additional information and further guidance may be necessary depending on the company's sector or specificities.

These recommendations, based on the current EU framework as it pertains to corporate transition plans, should not lead to additional reporting for companies and can also be applied to transition plan frameworks developed outside the EU, where useful.

Core elements to assess	Platform recommendations for FMPs' assessment of corporate transition plans
Science-based and time-bound targets	**When assessing the core elements of corporate transition plans, FMPs should consider the following:** **Use of scenarios** • Pending the development of EU sectoral pathways that are aligned with the European Climate Law targets and Paris Agreement temperature goal of 1.5°C with no or limited overshoot, corporate transition plans can reference global scenarios with available breakdowns for emission-intensive sectors (e.g. power generation)[104]. The use of such scenarios allows FMPs to assess whether corporate targets are aligned with 1.5°C with no or limited overshoot. Scenarios should have publicly available assumptions and satisfy the vetting and filtering criteria, as set out in section 3.1.1. • Where companies use regional and/or sectoral scenarios to better reflect their main source of emissions or location of activities, such scenarios should be linked to a global temperature outcome, have publicly available assumptions and satisfy the vetting and filtering criteria, as set out in section 3.1.1. • Where feasible, FMPs should aim to understand the underlying assumptions behind the scenarios used for target-setting, along with their limitations, in line with the considerations and criteria outlined in section 3.1.1, and engage in dialogue with the transition plan preparer when necessary to gain further clarity. **Target ambition, scope and coverage** • FMPs should assess whether GHG emission reduction and net-zero targets are science-based (as per the Commission's transition finance recommendation) and whether the ambition is aligned with the limiting of global warming to 1.5 °C with no or limited overshoot in line with the Paris Agreement[105]. • GHG emission reduction targets should include a mid-term (e.g. 2030) target and cover all the emissions (scopes 1, 2 and 3) of the company, with a justification for any exclusion.

[104] Commission Recommendation (EU) 2023/1425 of 27 June 2023 on facilitating finance for the transition to a sustainable economy –"*When using scenarios or pathways, it is recommended to use those that are science-based, and in the case of decarbonisation pathways, those that are in line with the Paris Agreement, such as the 1.5°C scenarios of the International Energy Agency or the International Panel on Climate Change with no or limited overshoot*"

[105] FMPs should pay particular attention to disclosures under ESRS E1-1 Paragraph 16a which requires "by reference to GHG emission reduction targets (as required by Disclosure Requirement E1-4), an explanation of how the undertaking's targets are compatible with the limiting of global warming to 1.5°C in line with the Paris Agreement" and E1-4. 34.e. "the undertaking shall state whether the GHG emission reduction targets are science- based and compatible with limiting global warming to 1.5°C (…)."

	• Intensity targets should only complement absolute targets – and should be assessed according to the right benchmarks (see section 3.1.3). • In line with ESRS E1 climate, gross targets should exclude GHG removals, carbon credits, or avoided emissions. Permanent carbon removals will be required to neutralise residual emissions after achieving 90-95% reduction, with sector-specific variations aligned with decarbonisation pathways. Until then, carbon removals should complement, not replace, deep emission reductions, particularly in hard-to-abate sectors, and not be used to net emissions.
Mitigation actions and decarbonisation levers	**General considerations** • Assessments of mitigation actions and decarbonisation levers should be both qualitative and quantitative. Actions implemented and planned should contribute quantitatively to an amount that matches the target's ambition. • External dependencies, such as geographic and policy factors, should be considered when assessing the feasibility of the actions contributing to emissions reduction targets. • In their assessment, FMPs should also look for information showing that implemented or planned climate mitigation actions do not significantly harm wider environmental and social objectives. The EU Taxonomy's DNSH and minimum social safeguard criteria can be used to assess this at economic activity and entity-level respectively. **Fossil fuel phase-out and carbon lock-in** • FMPs should in particular consider the information provided by companies exposed to fossil fuels; notably, whether they have a phase-out strategy in line with the IEA's net zero scenario[106] and do not invest in new fossil fuel assets, including coal reserves, oil and gas fields, operations, or production. • Information on potential locked-in emissions and impairment at the asset-level and on assets at risk of becoming stranded is particularly important for high-emission sectors, where geographical and resource dependencies impact decarbonisation efforts.
Financial planning	**Integration with financial strategy** • FMPs should assess the integration of the transition plan's funding with the company's overall financial plan - addressing capital expenditure, operational costs, and working capital to align with transition targets and KPIs. • Assess the consistency between planned investments/ financial planning and stated decarbonisation actions and levers set out in the transition plan, particularly relating to the achievement of short and mid-term targets.

[106] See IEA (2024), Global Energy and Climate Model, IEA, Paris https://www.iea.org/reports/global-energy-and-climate-model

	Capital and operational expenditures • FMPs should use EU Taxonomy CapEx alignment information to assess whether a company is deploying sufficient financial means to achieve the targets set out in their transition plans. Capex plans for reaching Taxonomy alignment in five-ten years are particularly useful to understand how a company intends to transition eligible assets at the economic activity-level. • Check capital expenditure information for new investments in fossil fuel infrastructure[107]. • Use EU Taxonomy OpEx alignment information to assess company´s efforts in R+D+I.
Governance	**Board and audit committee oversight** • Assess to what extent the company's board and audit committee oversight is aligned with its transition plan and targets. Ensuring that the board approves and oversees the successful implementation of the company's transition plan, including the management of climate-related risks and opportunities is key to successful implementation. • This also applies to the audit committee, which should oversee the accuracy, consistency, and compliance of transition plan reporting, assessing internal control systems for data integrity, and ensuring external assurance providers conduct thorough, objective evaluations. **Stakeholder engagement and lobbying** • Assess to what extent the company's engagement with key internal and external stakeholders (including policy advocacy) is aligned with its transition plan and targets. Engagement within a company's value chain will be crucial to reducing scope 3 emissions over time. • External policy and engagement efforts, including membership and role in trade associations, should be consistent with the goal of reducing global emissions by at least 50% by 2030 and reaching net zero by 2050. These should relate to the policy-related dependencies set out in the transition plan. **Monitoring and implementation** • Check whether plans and actions are implemented and subsequent emissions tracked on a regular basis and verified by an independent third party. As providers of transition finance, FMPs have a key role in holding companies accountable for their targets and actions and should leverage their influence as stewards of these companies through engagement and voting. • Check whether the achievement of the transition plan's targets is tied to remuneration and incentives for senior management – and the existence of other financial incentives inconsistent with the transition plan's ambition.

[107] Excluding capex investments in line with EU Taxonomy's criteria for gas-related transitional activities.

List of abbreviations

AFR - Annual Financial Reports
BECCS - Bioenergy with Carbon Capture and Storage
CCS - Carbon Capture and Storage
CCUS - Carbon Capture, Utilization, and Storage
CDP - Carbon Disclosure Project
CSDDD - Corporate Sustainability Due Diligence Directive
CRR/CRD - Capital Requirements Regulation/Directive
CRCF - Carbon Removals Certification Framework
CSDDD - Corporate Sustainability Due Diligence Directive
CSRD - Corporate Sustainability Reporting Directive
DNSH - Do No Significant Harm
EBA - European Banking Authority
EFRAG - European Financial Reporting Advisory Group
ESABCC - European Sustainability Accounting Board (Climate Change)
ESMA - European Securities and Markets Authority
ESRS - European Sustainability Reporting Standards
EU CTB - EU Climate Transition Benchmark
EU ETS - EU Emissions Trading System
EU PAB - EU Paris-aligned Benchmark
GDP - Gross Domestic Product
GHG - Greenhouse Gas
IEA - International Energy Agency
IED - Industrial Emissions Directive
IRO – Impacts, Risks and Opportunities
IPCC - Intergovernmental Panel on Climate Change
ISF - Institutions for Sustainable Futures
JRC - Joint Research Centre
KPI - Key Performance Indicator
LULUCF - Land Use, Land Use Change, and Forestry
NGFS - Network for Greening the Financial System
NDC - Nationally Determined Contribution
OECD - Organisation for Economic Co-operation and Development
PAI - Principal Adverse Impact
RTs - Regulatory Technical Standards
SFDR - Sustainable Finance Disclosure Regulation
UN HLEG - United Nations High-Level Expert Group on Sustainable Finance

Acknowledgements

a. Lead Authors (in alphabetical order)

Organisation	Name
Principles for Responsible Investment (PRI)	Ben Leblique
Organisation for Economic Co-operation and Development (OECD)	Elia Trippel
Comisión Nacional del Mercado de Valores (CNMV)	Helena Viñes Fiestas
Carbon Disclosure Project (CDP)	Hélene Procoudine Gorsky

Other lead contributors (in alphabetical order)

Type A	Agnieszka Słomka-Gołębiowska
European Trade Union Confederation (ETUC)	Anne Lindsay
European Securities and Markets Authority (ESMA)	Cécile Rechatin
University College Dublin (UCD)	Fabiola Schneider
European Securities and Markets Authority (ESMA)	Guilain Cals
European Commission Joint Research Council (JRC)	Nicolas Pickard Garcia
European Financial Reporting Advisory Group (EFRAG)	Pedro Faria
European Commission DG CLIMA	Tilmann Morata Liebert

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Grantham Institute	Prof. Joeri Rogelj
Grantham Research Institute on Climate Change and the Environment	Nick Robins
Organisation for Economic Co-operation and Development (OECD)	Raphaël Jachnik

b. Chair

Organisation	Name
Comisión Nacional del Mercado de Valores (CNMV)	Helena Viñes Fiestas

c. Rapporteur(s)

Organisation / Subgroup Name	Name
UNEP FI / SG 1	Elodie Feller
AXA / SG 1	Clémence Humeau
EPA Network / TWG	Astrid Matthey
Orgalim / TWG	Andreas Brunsgaard
Skandinaviska Enskilda Banken (SEB) AB (publ) / SG 3	Karl-Oskar Olming
European Investment Bank (EIB) / SG 3	Bertrand Magné

d. Members

Organisation	Name
Agent Green	Theodor F. Cojoianu
Allianz SE	Jörg Ladwein
Association 2 Degrees Investing Initiative	Nicola Koch
AXA	Clémence Humeau
BusinessEurope	Erik Berggren
CDP Worldwide (Europe) gemeinnützige GmbH	Hélène Procoudine-Gorsky
Climate Bonds Initiative (CBI)	Sean Kidney
EPIA SolarPower Europe	Giulia Genuardi
Eurochambres	Karolina Opielewicz
Eurometaux	Mukund Bhagwat
European Alliance for Sustainable Finance in waste management&recycling	Daniel Houska
European Banking Federation aisbl	Hans Biemans
International Sustainable Finance Centre z.	Linda Zeilina
Natural Resources Institute Finland	Esa-Jussi Viitala
Orgalim	Andreas Brunsgaard
Skandinaviska Enskilda Banken (SEB) AB (publ)	Karl-Oskar Olming
SMEunited	Gerhard Huemer
Sustainalytics	Anne Schoemaker
Water Europe	Gonzalo Delacámara
World Green Building Council	Julie Emmrich
Type A	Agnieszka Slomka-Golebiowska
Type A	Andreas Höpner
Type A	Bernabé Alonso Farinas
Type A	Camille Leca
Type A	Enrico Benetto
Type A	Eila Kreivi
Type A	Linda Romanovska
Type A	Ottorino Morresi
Type B	Marie Baumgarts

a. Directly appointed members

Organisation	Name
European Banking Authority (EBA)	Ali Erbilgic
European Environment Agency (EEA)	Beate Hollweg
European Investment Bank (EIB)	Aldo Romani
European Investment Fund (EIF)	Merilin Hörats
European Insurance and Occupational Pensions Authority (EIOPA)	Pamela Schuermans
European Securities and Markets Authority (ESMA)	Angeliki Vogiatzi
EU Agency for Fundamental Rights (FRA)	Adrianna Bochenek

b. Observers

Organisation	Name
European Bank for Reconstruction and Development (EBRD)	Maya Hennerkes
European Central Bank (ECB)	Matthias Rau-Göhring
European Financial Reporting Advisory Group (EFRAG)	Kerstin Lopatta
European Network of the Heads of Environment Protection Agencies (EPA Network)	Natalie Glas
European Stability Mechanism (ESM)	Carlos Martins
Organisation for Economic Co-operation and Development (OECD)	Raphaël Jachnik
Principles for Responsible Investment (PRI)	Elise Attal
United Nations Environment Programme Finance Initiative (UNEP FI)	Elodie Feller
Bloomberg L.P.	Nadia Humphreys
Business and Science Poland	Łukasz Błoński
Cassa Depositi e Prestiti SpA	Gaia Ghirardi
CEFIC	Liesbeth Timmermans
European Trade Union Confederation (ETUC)	Marco Cilento
SGI Europe	Filippo Brandolini