

# CORPORATE CLIMATE TRANSITION PLANS: WHAT TO LOOK FOR

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## Corporate Climate Transition Plans: What to look for

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# TABLE OF CONTENTS

Introduction	04
<b>1</b> <b>How to assess plans to avoid greenwashing</b>	06
Red Flag Indicators for screening Climate Transition Plans	08
Minimum assessment criteria for a robust transition plan	12
• Step 1: Robust decarbonization targets	12
• Step 2: A sound decarbonization strategy	15
• Step 3: A relevant engagement strategy	17
• Step 4: The integration in reporting and governance	18
• Step 5: Considering Just transition and biodiversity	20
Conclusion	22
<b>2</b> <b>How robust transition plans could help meet regulatory and supervisory expectations</b>	24
A roadmap for meaningful CSRD reporting	26
Answering supervisory expectations	31
Conclusion	33
Methodology	34
Appendix	40
Footnotes	48

# INTRODUCTION

Climate transition plans are the link between international climate goals and the climate-related activities of individual entities – governments, cities, non-financial companies, and financial institutions. Maintaining a 50% chance to keep global warming under 1.5°C requires emissions stay below 500 GtCO<sub>2</sub> after January 1st 2020,<sup>11</sup> a volume that will likely be exceeded before 2030 if current emission trends continue. For companies around the world, this global need for a swift and drastic shift in emission trends means that a complete overhaul of practices and business models is urgent. The absolute emissions of individual companies must be reduced at a pace consistent with the global 1.5°C trajectory, and notably must halve by 2030 and reach carbon neutrality by 2050 at the latest.<sup>12</sup> Achieving this requires the transformation of companies' activities along their value chain, which in turn requires the establishment of mechanisms that enable for climate progress to be monitored and ensure climate goals are protected from other competing objectives. It is the purpose of the climate transition plan to tackle all these aspects, thus providing a robust, transparent, and evidence-based roadmap for the company to transition and for other stakeholders to hold it accountable.

In this context, the growing popularity of climate transition plans should not come as a surprise. The share of large publicly listed companies with net-zero targets has more than doubled in just over two years, from 417 in December 2020 to 929 in June 2023.<sup>13</sup> Regulators and supervisors have acknowledged they are a meaningful “forward looking indicator” that contributes to manage climate-related risks. Net-zero alliances and investors have developed their own transition plan frameworks for their members to fulfil their various climate pledges (and avoid more stringent regulation). The United Nations has identified them as a major focus for the climate action of non-state entities. But, while corporate climate transition plans can significantly help drive global decarbonization and the transformation of the real economy, ill-designed or incomplete plans would only enable greenwashing, delay potential regulations and increase systemic risks.<sup>14</sup>

To avoid such a disastrous outcome, the part 1 of this report provides essential recommendations for corporate climate transition plans. These recommendations are based on a critical review of 26 prominent transition plan frameworks.<sup>15</sup> While they do not cover all the aspects of a transition

plan, they provide companies, financial institutions, regulators, and supervisors with a list of minimum criteria to assess the adequacy of a climate transition plan. The detailed research on which these recommendations rely is available in full in the excel file [The Transition Plan Checklist](#).

To facilitate their use, the recommendations have been summarized and formulated into “Red Flag Indicators”. More information on the rationale behind these indicators and their precise meaning can be found in the body of the report. The table itself is intended to help stakeholders quickly identify insufficient or misleading climate transition plans.

Building on this work, the Part 2 considers how applying the minimum criteria identified can contribute to fulfill disclosure and prudential expectations and/or requirements. By analyzing the content of the EU ESRS E1-1 and of the ECB Supervisory Expectations on climate-related risks, it shows that many aspects of a robust transition plan are directly relevant to complying with these regulations. It therefore demonstrates that such transition plans are essential tools for financial institutions as well as non-financial companies and that – if designed properly – they can strengthen the resilience of financial institutions and the financial system in the face of a wide variety of challenges.



# PART 1. HOW TO ASSESS PLANS TO AVOID GREENWASHING

This section lays out minimum criteria to ensure the quality of transition plans. The criteria are summarized into red flag indicators to identify clearly insufficient transition plans.



# RED FLAG INDICATORS

The Red Flag Indicators focus on major gaps and inconsistencies in climate plans. They should be used to screen these plans and identify those that contribute to greenwashing. However, the absence of red flags does not mean that a plan is robust. Additional elements must be considered when conducting a full analysis of a plan, including the minimum assessment criteria developed in this report.

## Step 1: Robust decarbonization targets

Targets must be based on absolute emissions.

Incomplete activity or GHG coverage:

- Not all activities and/or jurisdictions are included.
- Scope 1 and 2 are not fully included.
- For short term targets: Scope 3 is not included /or/ Insufficiently included.<sup>16</sup>
- For middle- and long-term targets: Scope 3 is not fully included.
- Carbon offsets are considered in intermediate targets and/or account for a disproportionate share of long-term targets.<sup>17</sup>

Irrelevant or unprecise timeline for targets:

- No short-term target is set (2025 and/ or 2-5 year).
- No intermediary targets are set (2030

and 2035 and/or every 2 or 5 years after the initial target year).

- No target to reach carbon neutrality or zero GHG emissions by 2050 at the latest is set.

Dangerous baseline:

- The climate scenario used for target setting is not a 1.5°C low/no overshoot scenario with a limited level of negative emissions.
- The base year is not recent and representative.

Insufficient ambition:

- Targets are not consistent with halving emissions by 2030.
- Targets do not aim for reducing emissions by at least 90% by the defined carbon neutrality date.

## Step 2: A sound decarbonization strategy

Unrealistic or insufficiently substantiated decarbonization action plan:

- No action plan is provided /or/ The action plan does not cover short-, medium- and long-term targets.
- The actions are not linked to expected quantitative GHG emissions reductions.

Unaligned financial targets:

- No financial targets – including at least a capex target - have been set to increase investment in climate solutions.
- No financial targets – including at least a capex target - have been set to ensure that no new investment goes to harmful activities and that the involvement in high carbon activities is progressively reduced /or/ Current capex devoted to harmful activities is too high to enable short term decarbonization or avoid locking in large emission volumes.
- No definition for climate solutions is set /or/ The definition of climate solutions includes activities tied to fossil fuel production, transport, transformation, or use.
- No or insufficient link between financial targets and the decarbonization action plan.<sup>18</sup>

Locked-in emissions are not tackled:

- No qualitative and quantitative

assessment of the potential locked-in GHG emissions is provided, or the assessment does not cover all relevant assets and all relevant emission scopes.

- No explanation is provided of plans to manage GHG/energy-intensive assets and products.

Providing the importance of the energy transition, additional red flags must be considered for entities involved in the fossil fuel value chain and financial institutions:

No robust plans to phase-out fossil fuels and stop contributing to their development:

- No immediate end to all support to the development of coal, oil and gas production projects and coal power projects, and to the companies that develop them.
- No immediate end to all support to the development of oil and gas midstream infrastructures – including LNG terminals – and to the companies that develop them.<sup>19</sup>
- No commitment to phase out thermal coal by 2030 in the OECD and 2040 worldwide.
- No plans for the decommissioning and disposal of fossil fuel infrastructure aiming for a full phase-out by 2050 at the latest.

### Step 3: A relevant engagement strategy

Lobbying activities are not clearly aligned with climate goals:

- No public review of direct and indirect advocacy activities /or/ Review that show that advocacy activities are not fully aligned, and no short-term action is proposed to remedy this.
- No coverage of representative entities in the review of advocacy activities.

Vague or incomplete engagement:

- The engagement strategy does not cover all key stakeholders in the entity's value chain.
- The outcomes of engagement and how it contributes to targets are not disclosed.
- No escalation process is defined to ensure the effectiveness of engagement, with timebound consequences for engaged stakeholders.

### Step 4: The integration in reporting and governance

Insufficient reporting to monitor progress:

- The entity does not annually report on progress /or/ Reporting is insufficient to monitor progress.<sup>20</sup>
- The entity does not disclose in an open and public format.

Low level of responsibility and incentives:

- No responsibility and oversight of climate-related and the implementation of the plan at board level.
- No review of the climate-related competencies of the board and upper management.

- Remuneration policies are not incentivizing the implementation of the transition plan.

No clear review process for the transition plan:

- No review process set /or/ The review process set does not ensure a regular review of the plan.
- No commitment to review the plan to integrate major new scientific findings and/or changes at entity level.

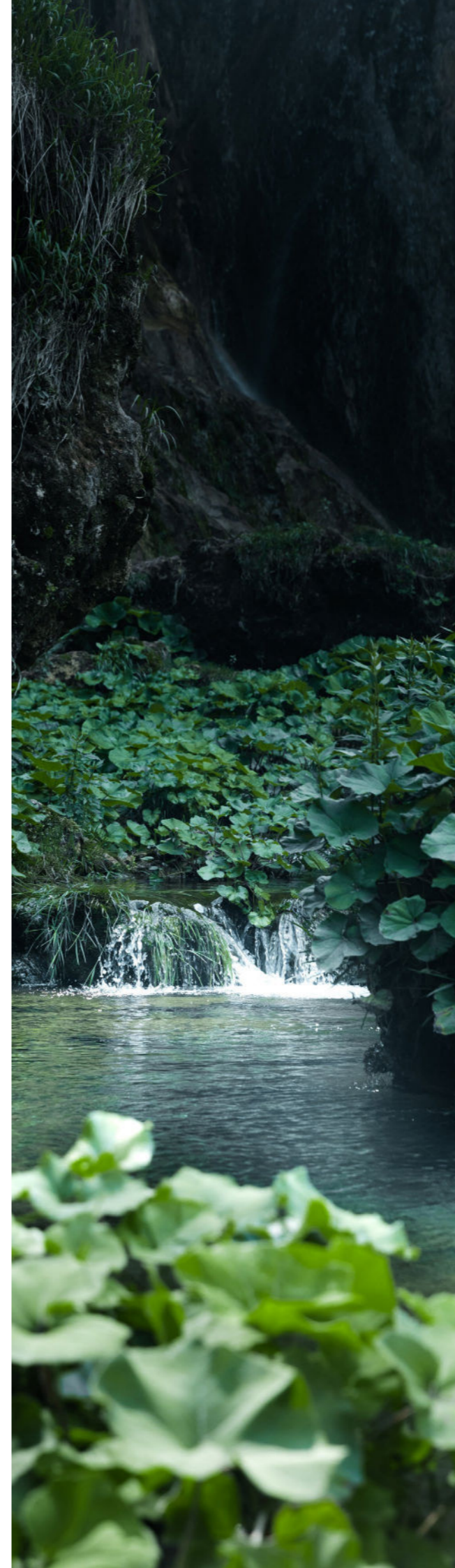
### Step 5: Considering Just transition and biodiversity

Activities harmful to the environment and nature are not considered:

- The entity does not identify harmful activities and adopt plans to manage them.
- The entity does not commit to stop contributing to deforestation and peatland loss by 2025, and to ecosystem conversion by 2030 at the latest.

The need for a Just Transition is ignored:

- The entity does not explain how their transition plan is compatible with a just transition and provide KPIs to assess this dimension.
- The entity does not collect input from workers and affected communities.



# MINIMUM ASSESSMENT CRITERIA FOR A ROBUST TRANSITION PLAN

A climate transition plan should outline a robust strategy that shows that an entity has the ambition to transition at a pace aligned with the 1.5°C objective and has adopted the plans, processes, and tools to do so. According to the EU ESRS, with its climate transition plan “the undertaking is expected to provide a high-level explanation of how it will adjust its strategy and business model to ensure compatibility with the transition to a sustainable economy and with the limiting of global warming to 1.5°C in line with the Paris Agreement (or an updated international agreement on climate change) and the objective of achieving climate neutrality by 2050 with no or limited overshoot”.

The climate transition is therefore a puzzle made of many pieces - from well-known GHG emission reduction targets to intricate governance processes - and each piece requires specific attention. The minimum criteria identified in this paper therefore do not cover all potential aspects of a climate transition plan. Instead, they focus on some prominent aspects that are especially highlighted in current transition plan frameworks. By doing so, it provides stakeholders with a starting point in building and analyzing climate transition plans.

## Step 1: Robust decarbonization targets

**Robust “science-based” decarbonization targets are an essential feature of a climate transition plan. These targets are essential to guide the progressive reduction of the entities’ GHG emissions, in line with global and sectoral emission trajectories that keep global warming under 1.5°C. Without such targets, it is simply impossible to determine whether the future emission levels of the entity are compatible with climate mitigation goals.**

Emission coverage: Targets must cover all GHGs.<sup>21</sup> When relevant, non-GHG climate forcers should also be covered.<sup>22</sup> Scope 1, 2 and 3 emissions must be covered by all targets. However, while scope 1 and 2 emissions must be fully included in all targets,<sup>23</sup> some adjustments can be allowed on scope 3:<sup>24</sup>

- For short-term targets, the inclusion of some scope 3 emissions could be prioritized depending on the activity of the entity and the share of these scope 3 emissions in its overall emissions. Scope 3 emissions directly related to the entity’s activity – for example the use of sold products in the industrial or oil and gas sectors – and sections of scope 3 that are most material must be included. If any part of scope 3 emissions is excluded from short-term targets, two additional conditions must be met: 1) The entity must report on how it plans to increase its scope 3 coverage and remedy any data gaps;<sup>25</sup> 2) The entity must ensure that these targets include at least 90% of total (scope 1-3) emissions.<sup>26</sup>
- Medium and long-term targets must include all scope 3 emissions.<sup>27</sup>
- Entities can rely on proxies when scope 3 data is not fully available, but such a reliance should be limited and justified.<sup>28</sup>

Activity and geographical coverage: Targets must cover all jurisdictions where the entity

is active, and all of its value chain.<sup>29</sup> For financial institutions, this means that all financial services must be covered, with targets encompassing both financed and facilitated emissions.<sup>30</sup>

Targets timeline: The plan must include targets for 2025, 2030, 2035, and to reach carbon neutrality by 2050 at the latest.<sup>31</sup> Additional intermediate targets should be defined throughout the decarbonization process (for example every 2 years).<sup>32</sup> Such targets are particularly important for 2025-2030 and 2030-2035.

Absolute emission reductions: Targets must be based on absolute emission reductions.<sup>33</sup> When relevant, intensity targets can be defined in addition to absolute targets.

Underlying climate scenario:<sup>34</sup> Targets must be based on and aligned with a 1.5°C no/low overshoot pathway relying on a limited volume of negative emissions.<sup>35</sup> Such pathways include the IEA NZE (2023 update). Other relevant pathways can be identified by applying to 1.5°C no/low overshoot pathways like the IPCC’s C1 pathways the reasonable negative emission ranges identified by the IISD Navigating the Energy Transitions.<sup>36</sup>

Base years: Targets must be set against the most recent year where data is available unless this year significantly differs from the normal activities and emissions of the entity.<sup>37</sup> In such cases, and for the base year to always remain recent and representative,

base year value can be calculated on a three-year average calculated on recent years. Furthermore, if the relevance of the target is compromised by a material change in the entity's structure, the target should be re-baselined with a clear explanation of the reason and method.

Minimum short-term ambition: Targets must ensure that emissions do not rise above their base year value<sup>38</sup> and are at least reduced by 42-50% by 2030 compared to base year.<sup>39</sup>

Minimum long-term ambition: Targets must enable the entity to reach carbon neutrality by 2050 at the latest and sustain it after,<sup>40</sup> with a reduction of emissions of at least 90%.<sup>41</sup> The emission reduction level must be above 90% in some sectors, and even reach 100% in sectors that are easier to decarbonize and/or needed to decarbonize the overall economy such as the power sector. Long-term targets should ideally aim at reaching zero emission - not net-zero - by 2050 at the latest and to be net negative after.

Methane emissions: Specific methane targets should be set by all entities emitting this GHG through their operations. Such targets must be set in sectors with the highest methane emissions (including energy, agriculture, waste management and disposal). For non-energy entities, methane emissions should at least drop by 30% by 2030. For energy entities, they should drop by at least 75% from 2022 to 2030

as in the IEA Net-Zero scenario. Additional commitments and steps must be taken in the coal, oil and gas sector, in line with the recommendations of the IEA.

Carbon offsets: Entities must not count offsets in their short- and medium-term targets.<sup>42</sup> Offsets could only be considered to address residual emissions in carbon neutrality targets when sufficient emission reductions (90% or higher) have been achieved. Offsets can also be purchased as a voluntary effort to support climate mitigation ("beyond value chain mitigation"),<sup>43</sup> in which cases they should be accounted separately from any target.

Offset quality: Entities must ensure that any offsets they purchase are additional and represent permanent<sup>44</sup> removals.<sup>45</sup> Furthermore, offsets must not result in adverse consequences for local populations. The type and quantity of offsets to be used must be disclosed, along with data on the certifying agencies and identifiers to ensure that offsets are not double counted.

Carbon capture and storage in the entity's own value chain: Entities must disclose their target's reliance on carbon dioxide removal (CDR) in their own value chain (i.e not based on the purchase of offsets).<sup>46</sup> Carbon capture must not be used to extend the lifetime of fossil fuel assets and overall reliance on such technologies should remain limited. Entity disclosures should cover:

- The type of CDR used, and its planned quantitative contribution to each target;
- The steps and measures planned in case of failure to capture and store the planned emission volumes.

## Step 2: A sound decarbonization strategy

**While the drastic reduction of GHG emissions necessary to keep global warming under 1.5°C requires a deep transformation of entities' activities, decarbonization targets do not give any information on the actions and steps planned to achieve this.<sup>47</sup> In other words, decarbonization targets set a destination for the entity, without charting the course it should take to arrive there, nor providing the navigation tools. To arrive safe and sound, entities must adopt transition plans that back up targets with a detailed decarbonization strategy.**

Decarbonization action plan: Entities must adopt an action plan laying out the measures planned to reach short-, medium- and longer-term targets.<sup>48</sup> This plan should include a quantification of expected reductions by action. The action disclosed must cover at least 100% of targeted short term, 75% of medium term, and 50% of long-term targets reductions.<sup>49</sup> The purchase of carbon offsets cannot be classified as a decarbonization action.

Locked-in and embedded emissions: Entities must provide a qualitative and quantitative assessment of the potential locked-in GHG emissions from their assets and products.<sup>50</sup> The assessment must explain whether these emissions could jeopardize the achievement of GHG emission reduction

targets and include an explanation of the entities' plans to manage its GHG-intensive and energy-intensive assets and products accordingly (including plans to transform or decommission assets). The assessment must at least cover:<sup>51</sup>

- Key assets, defined as both existing and planned assets;
- Scope 1 and 2 emissions over the assets' operating lifetime;
- Scope 3 from use of sold products over the assets' operating lifetime.

Financial targets: Entities must align their financial planning with the targets and objectives of the transition plan.<sup>52</sup> To do so entities must:



- Provide a definition of climate solutions.<sup>53</sup> This definition must strictly exclude infrastructure and activities in the fossil fuel value chain. The alignment of these definitions with international frameworks (e.g taxonomies) could be disclosed.
- Disclose the share of revenues, operational expenditures, and capital expenditures linked to carbon intensive activities and climate solutions.<sup>54</sup> No or only marginal capex should be devoted to carbon intensive activities, as any large investment in such activities could easily jeopardize short term emission reductions and increase locked-in emissions.
- Define specific targets for an increased contribution to the deployment of climate solutions and reduced involvement in carbon intensive activities. This must include capex targets, with no capex being provided to harmful projects and activities (such as new fossil fuel production projects).<sup>55</sup> This can also include targets on revenue shares and operational expenditures. Targets must be linked to the decarbonization measures and levers to enable stakeholders to identify which resources are allocated to their effective deployment.

Risk and opportunities: Entities must include an assessment of their exposure to climate-related risks and opportunities,<sup>56</sup>

in line with major reporting frameworks like the EU ESRS. For a proper assessment of these risks, entities must provide detailed information on the assumptions underpinning their plans and GHG targets, including estimates for the potential impact of each assumption.<sup>57</sup>

The decarbonization strategy must specifically tackle the issue of the energy transition. To do so, the below criteria must be considered depending on the entities' activities:

For entities involved in the fossil fuel value chain and financial institutions<sup>58</sup> - Phasing-out support to fossil fuels:<sup>59</sup> Entities must ensure their transition plans include:<sup>60</sup>

- An immediate end to any support provided to the development of coal,<sup>61</sup> oil and gas<sup>62</sup> production projects and coal power projects, and to the companies that develop them;<sup>63</sup>
- An immediate end to any support to the development of oil and gas midstream infrastructures – including LNG terminals – and to the companies that develop them.<sup>64</sup>
- The phase out of thermal coal (including mining, transport, combustion, and other infrastructure) by 2030 in the OECD and 2040 worldwide;<sup>65</sup>
- Plans for the decommissioning and disposal of fossil fuel infrastructure. Any sale should be paired with strong

guarantees for a timely closure of the infrastructure and the reduction of its operational emissions;<sup>66</sup>

- A broad phase-out plan for all fossil fuel assets by 2050 at the latest, that includes – when relevant – elements on the just transition and the inclusion in shut down planning of local communities and fossil fuel sector workers.<sup>67</sup>

For all entities - Phasing-out fossil fuels in the companies' own operations: Entities should adopt specific targets and plans to switch their energy use and production

from high carbon sources to sustainable energy.<sup>68</sup> They can notably set:

- Targets and quality criteria for sustainable energy procurements;<sup>69</sup>
- Energy switching targets;
- Specific metrics on the deployment of sustainable energy in their own value chain and/or portfolio. For financial institutions, this includes setting financial and capacity targets aligned with the need to swiftly reach a sustainable power sector.<sup>70</sup>

### Step 3: A relevant engagement strategy

**Engagement strategies are an important piece of the decarbonization strategy. Indeed, engagement with some part of the value chain could be necessary to reach the necessary emission reductions. Furthermore, engagement can help create the enabling conditions to reach these goals, for example through lobbying in favor of climate action and new practices from suppliers or clients.**

Lobbying activities:<sup>71</sup>

- Entities must review their direct and indirect advocacy activities to ensure their consistency with the entities' targets and international climate goals.<sup>72</sup> The results of this review must be disclosed and – if not already achieved – included in the near-term actions planned to ensure a full

alignment.<sup>73</sup>

- Entities must address any misalignment from trade associations or other representative bodies by setting up an escalation process that ultimately result in leaving them if they do not sufficiently change their positions.<sup>74</sup>
- Entities should define what public

policies are essential to achieve climate goals and what role they can play in their own decarbonization.<sup>75</sup>

Engagement all along the value chain:

- Entities must adopt an engagement strategy covering all key stakeholders in their value chain.<sup>76</sup> This strategy can include collective engagement,<sup>77</sup> and, in such cases, details should be provided on the role of the entity in relevant collective initiatives.
- Entities must disclose the outcomes of their engagement and how it contributed to their own targets. Depending on their activities, and

for all financial institutions,<sup>78</sup> they must define an escalation process that sets timebound objectives and consequences to stakeholders.

- Non-financial entities should include the alignment of financial partners to their engagement objectives.<sup>79</sup> They should review the activities and pledges of the banks, investors, and insurers they work with considering their own climate plans. Depending on the result of this assessment, they should engage with financial partners and adapt their choice of partners to ensure full alignment.

## Step 4: The integration in reporting and governance

**Once the targets have been defined and the relevant strategy to reach them set, the implementation of the plan relies on reporting and governance mechanisms. Without such mechanisms it is not possible to monitor progress and correct course, create incentives, and ensure accountability.**

Reporting:

- Reporting on progress: Entities must report on the progress made on their transition plans. This requires annually disclosing GHG emissions and their evolution, notably based on the GHG protocol, as well as specific

information on the factors that led to GHG variations, and the measures and actions taken by the entity.<sup>80</sup>

- Annual disclosure: Disclosures must be made annually and in an open format.<sup>81</sup> Entities are encouraged to submit their reporting to standardized platforms

including CDP and the UNFCCC Global Climate Portal.

- External verification of GHG reporting: Entities should seek third-party verification of their GHG emissions reporting.<sup>82</sup> They should provide qualitative information on the limitations of their reporting, and the steps taken to mitigate these.<sup>83</sup> They are encouraged to take specific measures to precisely establish emission levels in high-risk activities (for example detection of methane leaks in the fossil fuel value chain).<sup>84</sup>

Governance:<sup>85</sup>

- Board responsibility and competency: Entities must set responsibility and oversight for climate-related matters and the implementation of the transition plan at board level.<sup>86</sup> They must review the competencies of the board and upper management on the topic and provide relevant training when necessary.
- Remuneration and incentives: Entities must tie the transition plan objectives to the remuneration of board members and upper management.<sup>87</sup> In doing so, they must ensure that climate-related components constitute a sufficient share of compensation and that no other incentives are working against climate objectives.

- Integration in financial statements: Entities must integrate climate-related matters into their financial statements.<sup>88</sup> They are encouraged to provide detailed information on the financial viability of their plan. Auditors should also assess this dimension.
- Review process of the transition plan: Entities must establish a clear review process for their transition plan.<sup>89</sup> They should at least:
  - » Review it every three years;
  - » Review it in case of major changes, either in the entity's value chain or externally;
  - » Review it in case of changes regarding the scientific elements available, and notably the remaining carbon budget.
- Say on Climate: Entities should annually submit their transition plan to the vote of shareholders.<sup>90</sup> Significant shareholder opposition to the plan should require it to be updated and made more ambitious.<sup>91</sup>

## Step 5: Considering Just transition and biodiversity

Climate transition plans logically focus on GHG emissions and the actions and steps that must be taken to reduce them. However, their consequences and compatibility with the protection of natural ecosystems as well as their social and human impact must be considered. If these issues are only marginally covered in currently available methodologies, the below elements set a general direction of travel for entities to tackle them.

**Harmful activities:** Beyond fossil fuels, entities must adopt policies to cut support to “harmful activities” that are major contributors to biodiversity depletion. This includes activities related to deforestation and peatland loss by 2025, and to ecosystem conversion by 2030.<sup>92</sup> In doing so, entities are encouraged to work with CSOs to identify the activities and companies that have a large negative impact on biodiversity.<sup>93</sup>

**Biodiversity preservation:** Entities must adopt biodiversity and nature preservation plans, notably building on WWF’s Nature in Transition Plans report, on the ESRS

disclosures regarding biodiversity transition plans, and on the TNFD guidance.<sup>94</sup>

**Just Transition:** Entities must explain how their transition plan is compatible with a just transition and provide KPIs to assess this.<sup>95</sup> In developing the transition plan, the input of key stakeholders should be collected. The plan should notably integrate the actions planned to mitigate potential negative impact on workers<sup>96</sup> and affected communities.



# CONCLUSION

**The minimum assessment criteria do not exhaustively cover the content required in climate transition plans. They rather focus on some key dimensions that have been identified in prominent frameworks essential to determine whether a plan can be aligned with the 1.5°C objective and consider the transition of the business model of the company, beyond merely setting high-level goals and commitments.**

As the executive board member of the Bundesbank [Sabine Mauderer](#) underlines, “transition plans function as a market instrument that can help to channel financing to companies that have made a credible commitment to achieving climate targets”, and this means that “companies that cannot credibly set out a path to a low-carbon business model might struggle to access financing in the future”. These comments highlight the importance of robust climate transition plans for companies themselves, but also for all financial institutions.

On one hand, following the minimum assessment criteria is a way for companies to answer the demands of their clients, investors, civil society stakeholders, policymakers, and regulators. On the other, it enables auditors and supervisors to do a primary assessment of the quality of plans and how they fit into existing requirements or measure up to voluntary commitments. Part 2 - Transition planning to match regulatory and supervisory

expectations provides strong reasons for auditors, European supervisors and policymakers to immediately consider the minimum criteria and “Red Flag Indicators” in their activities by showing how they enable entities to satisfy their reporting obligations under the CSRD and contribute to satisfying prudential expectations set by the ECB.

To avoid climate transition plans becoming a new greenwashing tool that could further delay climate action, Reclaim Finance urges:

1. Non-financial companies to:
  - Adopt a robust climate transition plan that meets the minimum criteria.
  - Immediately stop any new coal,<sup>97</sup> oil and gas production and/or coal power projects.
  - Immediately stop any new midstream oil and gas projects.

2. Financial institutions to:

- Adopt their own robust climate transition plan that meets the minimum criteria. This requires defining a fossil fuel policy that cuts all financial services to new fossil fuel production and midstream projects and to the companies that develop them.<sup>98</sup>
- Uses the list of “red flag indicators” to identify companies with insufficient plans that should not benefit from new financial services.
- Engage other companies on the adoption of robust transition plans leveraging the minimum criteria.

3. Auditors, supervisors, and civil society stakeholders to:

- Use the minimum criteria in assessing companies’ climate transition plans, notably identifying potential cases of greenwashing using the “Red Flag Indicators”.
- Build clear expectations on climate transition plans leveraging the minimum criteria.

4. Policymakers to:

- Make the adoption and implementation of climate transition plans mandatory, using the minimum criteria to set guidance on their content.

- Set up a mechanism to ensure that companies are held accountable for implementing their climate transition plans.
- Condition any subsidy and tax credit to companies to the adoption of climate transition plans and use the “red flag indicators” to identify insufficient plans from companies that should not benefit from it.
- Condition the use of all “climate/sustainable/ESG” labels and funds to the adoption of climate transition plans that meet the minimum criteria by portfolio companies.

## **PART 2. HOW ROBUST TRANSITION PLANS COULD HELP MEET REGULATORY AND SUPERVISORY EXPECTATIONS**

This section shows how leveraging the minimum criteria detailed in the first part of this report enables companies to meaningfully respond to their reporting obligations and provide the information necessary to the management of climate-related by banks.



Beyond voluntary commitments and civil society pressure, climate transition plans are rapidly becoming mandated by public authorities and supervisors. While they are already explicitly mentioned in European regulation, they will likely make their way into regulation in many parts of the world. Indeed, the work of the Network for Greening the Financial System (NGFS) shows that financial supervisors understand their relevance and usefulness. Furthermore, initiatives like the US Treasury's [principles for net-zero finance](#) and the UK [Transition Plan Taskforce](#) (TPT) are the last steps before more stringent regulatory measures are taken.

In this context, the minimum criteria identified in the part 1 of this report help companies fulfill new obligations or anticipate future ones. They also help public authorities to design future rules on the topic and clarify their expectations on applying them.

Transition plan obligations are currently developing in two areas: disclosure and prudential requirements. The EU leads on both fronts. In this section, we explore how climate transition plans can meet European disclosure requirements and prudential expectations.

Many aspects of a robust transition plan are relevant to meeting the EU European Sustainability Reporting Standards (ESRS) E1-1 and the European Central Bank (ECB)

Supervisory Expectations on climate-related risks. Such transition plans are therefore essential tools for non-financial companies as well as financial institutions and- if designed properly - they can enable these entities to face a wide variety of challenges. On the contrary, ill designed plans and the greenwashing that result from them can contribute to higher systemic risks by misleadingly reassuring financial regulators and supervisors on level of preparation of companies and financial institutions in the face of climate change.

# A ROADMAP FOR MEANINGFUL CSRD REPORTING

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Disclosure requirements on climate transition plans are integrated in ESRS E1 Climate Change. These requirements are gathered in section E1-1 "Transition plan for climate change mitigation" and can be summarized into the three following categories:

1. GHG reduction targets:
  - GHG reduction targets and their compatibility with the 1.5°C goal.
  - Explanation of decarbonization levers.
  - Evaluation of embedded/locked-in emissions, and their impact on GHG reduction targets.
2. Financial levers:
  - Explanation and amounts of funding/ investment devoted to implementing the transition plan.
  - Explanation of the capex allocation (including taxonomy) and their link with targets.
  - If relevant, capex allocated to fossil fuels.
3. Operational integration:
  - Description of the integration of the plan into overall corporate strategy and financial planning.

- Approval of the plan by governance bodies.
- Explanation of progress in implementing the plan and reaching targets.

These ESRS E1-1 requirements can easily be linked to some of the key aspects covered by Reclaim Finance's minimum criteria in Part I, namely: decarbonization targets and locked-in emissions; decarbonization strategy and financial targets; governance and reporting. Furthermore, other disclosure requirements in the ESRS outside of ESRS E1-1 are also related to our climate transition plan minimum criteria, notably: carbon credits (E1-4 and E1-7), energy mix (E1-5), decarbonization targets and ambition (E1-4 and E1-6), remuneration policies (E1-13), climate risk and opportunities (E1-4, E1-8 and E1-9). Biodiversity transition planning is covered separately in E4-1 of the ESRS.

The table "Links between key steps of transition planning and ESRS E1 elements" presents a simplified vision of the links between key features of the ESRS E1-1, other ESRS E1 elements and Reclaim Finance's minimum criteria

## Links between key steps of transition planning and ESRS E1 elements

Key step identified by Reclaim Finance	ESRS E1-1 references and related application requirements	ESRS E1-1 draft datapoints <sup>99</sup>	Other ESRS E1 link
Decarbonization targets <sup>100</sup>	ESRS E1-1 16.a) i) AR2	Explanation of how targets are compatible with limiting global warming to 1.5°C in line with Paris Agreement	E1-4 – Targets related to climate change mitigation and adaptation  E1-7 – GHG removals and GHG mitigation projects financed through carbon credits
Decarbonization strategy	ESRS E1-1 16.b) c) d) e) f) h) AR3 / AR4	Disclosure of decarbonization levers and key actions  Disclosure of significant operational expenditures (opex) and (or) capital expenditures (capex) required for implementation of action plan  Financial resources allocated to action plan (opex)  Financial resources allocated to action plan (capex)  Explanation of potential locked-in GHG emissions from key assets and products and of how locked-in GHG emissions may jeopardize achievement of GHG emission reduction targets and drive transition risk  Explanation of any objective or plans (capex, capex plans, OpEx) for aligning economic activities (revenues, capex, opex) with criteria established in Commission Delegated Regulation 2021/2139  Explanation of how transition plan is embedded in and aligned with overall business strategy and financial planning	E1-3 – Actions and resources in relation to climate change policies

Key step identified by Reclaim Finance	ESRS E1-1 references and related application requirements	ESRS E1-1 draft datapoints <sup>99</sup>	Other ESRS E1 link
Decarbonization strategy – Energy specific criteria <sup>101</sup>	ESRS E1-1 16 d) f) g) AR3 / AR4 / AR5	Explanation of potential locked-in GHG emissions from key assets and products and of how locked-in GHG emissions may jeopardize achievement of GHG emission reduction targets and drive transition risk  Significant capex for coal-related economic activities  Significant capex for oil-related economic activities  Significant capex for gas-related economic activities  Undertaking is excluded from EU Paris-aligned Benchmarks <sup>102</sup>	E1-5 – Energy consumption and mix
Reporting <sup>103</sup>	ESRS E1-1 16 j)	Explanation of progress in implementing transition plan	E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions
Governance <sup>104</sup>	ESRS E1-1 16 h) i) j)	Explanation of how transition plan is embedded in and aligned with overall business strategy and financial planning  Transition plan is approved by administrative, management and supervisory bodies  Explanation of progress in implementing transition plan	

# ANSWERING SUPERVISORY EXPECTATIONS

Outside of the ESRS E1, it is worth noting the minimum criteria proposed are also directly related to other ESRS requirements including:

- For biodiversity, ESRS E4 on biodiversity and ecosystems.
- For the engagement strategy, ESRS S1 on own workforce, S2 on workers in the value chain, S3 on affected communities, and S4 on consumers and end-users.
- For lobbying, which is included in the minimum criteria proposed for engagement as public engagement, ESRS G1-5 on political influence and lobbying activities.
- For governance, ESRS 2 General Disclosures (GOV-1, 2 and 3).
- For the decarbonization strategy, ESRS 2 General Disclosures (SBM-1 and 3).

Therefore, while the ESRS remains vague on the material elements that should be provided under each of the climate transition plan disclosure requirements

in E1-1, the minimum criteria show what the related expectations of supervisors, regulators, policymakers, auditors, investors, and civil society would look like. As such, they provide immediate recommendations and assessment criteria to ensure the quality of ESRS reporting around climate transition plans. They would also help companies and financial institutions fulfill the obligation to adopt and “put into effect” climate transition plans in the new Corporate Sustainability Due Diligence Directive (CSDDD).<sup>105</sup>

Providing these elements, Reclaim Finance urges companies, auditors, supervisors, and regulators to consider its minimum criteria on decarbonization targets, strategy and reporting and governance (Steps 1, 2 and 4 in Reclaim Finance’s “Red Flag” classification) in building ESRS E1 reporting and in assessing it. At the same time, EU policymakers should clarify the reporting elements expected under ESRS E1-1 using these minimum criteria. Non-EU policymakers should do the same when building their own disclosure regulation.

Financial supervisors and regulators agree on the importance of adopting a forward-looking approach to climate-related risks,<sup>106</sup> and climate transition plans are one of the main tools available to make such an approach operational.

In its [Stocktake on Transition Plans](#), the Network For Greening the Financial System (NGFS) “recognises that transition plans have the potential to provide much needed forward-looking visibility on the real economy’s pathway to a net-zero future”, and notes that “the forward-looking information contained in transition plans will be key to enable the financial sector to mobilise private finance in support of the transition”. The NGFS further clarifies that “transition plans could be a useful source of information for micro-prudential authorities to develop a forward-looking view of whether the risks resulting from an institution’s transition strategy are commensurate with its risk management framework.” In other words, transition plans can help solve prudential supervision challenges.<sup>107</sup>

In the EU, transition plans were mentioned by ECB Board Member Frank Elderson

[as early as 2021](#). Now, the inclusion of “prudential” climate transition plans is being discussed in the Capital Requirements Regulation (CRR), Capital Requirements Directive (CRD)<sup>108</sup> and Solvency II. And, while no definition of these prudential transition plans is available, the ECB’s work on climate-related risks gives important elements on their basic content.

Indeed, the ECB’s November 2020 [Guide on climate-related and environmental risks](#) sets supervisory expectations relating to risk management. The central bank expects banks under its supervision to comply by the end of 2024.<sup>109</sup> While the supervisory expectations themselves remain broad, the ECB published a report on [Good practices for climate-related and environmental risk management](#) to help banks identify concrete steps and measures. Comparing the recommendations in this ECB report to the components of a robust climate transition plan identified by Reclaim Finance enables us to understand what some of the key elements of a prudential transition plan should be.

In fact, many supervisory expectations set by the ECB can be linked to climate



transition plans. Looking at the good practices highlighted by the central bank, it becomes apparent that some key aspects of transition plans and minimum criteria are especially relevant to meeting these expectations, notably:

- The criteria applied to fossil fuels and other harmful activities, with a focus on biodiversity and nature.
- The decarbonization targets and their quality/alignment.
- The decarbonization strategy, and especially the elements related to financial planning.
- Engagement activities and their consequences for companies.
- The integration of climate objectives in reporting and governance.

The connections between ECB supervisory expectations, good practices in the November 2022 report, and these aspects of transition plans are summarized in the table in the appendix.

The many links between ECB supervisory expectations and climate transition plan components show that financial supervisors, regulators, and financial institutions should consider the minimum criteria on climate transition plans identified above to meet prudential obligations. The likely integration of transition plan provisions in prudential regulation – in the

EU through CRR, CRD and Solvency II, and internationally with the upcoming work of the Financial Stability Board<sup>111</sup> – make this need even more urgent.

Fortunately, the transition plan elements needed on the prudential front largely converge with the elements needed to comply with the ESRS.<sup>112</sup> They also provide a response to many of the shortcomings of banks' net-zero commitments identified by the ECB in the paper An examination of net-zero commitments by the world's largest banks (including regarding the completeness and scope of alignment metrics, exposures to carbon intensive sectors and the design of targets).

Therefore, financial institutions can leverage the minimum criteria proposed to build climate transition plans that enable them to respond to a large portion of both their disclosure and prudential obligations, as well as civil society concerns.<sup>113</sup> To build these plans, they should set transition plan expectations for the companies they support using the same criteria, a demand that will be facilitated by the fact that these companies will at the same time increasingly be required to report on the ESRS. Additionally, climate transition plans that fit the minimum criteria of this report can simultaneously tackle several of the use cases identified by NGFS members.<sup>114</sup>

# CONCLUSION

**If they are sufficiently robust, climate transition plans can fulfil many of the requirements and expectations set by public authorities. While the CSRD does not provide detailed explanations on the quality of the information that should be disclosed, the minimum criteria identified by Reclaim Finance in the part 1 of this report set a benchmark for meaningful compliance with the standard. Similarly, for financial institutions to match ECB Supervisory Expectations, the same key elements should be considered.**

The minimum criteria are therefore also intended to help essential actors like auditors and supervisors navigate the jungle of voluntary commitments and individual plans. To do so, Reclaim Finance urges:

1. Auditors to:
  - Assess the compliance of entities with the ESRS E1-1 on climate transition plans using the minimum criteria to ensure sufficient quality and credibility in the information provided.
2. Supervisors and regulators to:
  - Explicitly integrate climate transition plans using the minimum criteria in their supervisory expectations and other regulatory frameworks.
  - Increase capital requirements for:
    - » Activities that are at odds with the transition and bring heightened climate-related risks, starting with fossil fuel production (pillar I), and/or;
3. Policymakers to:
  - Make the adoption and implementation of climate transition plans mandatory using the minimum criteria to set guidance on their content.
  - Set up a mechanism to ensure that companies are held accountable for implementing their climate transition plans.

# METHODOLOGY

Reclaim Finance’s analysis is based on a review of 26 “transition plan frameworks”. Throughout this document, the term “transition plan frameworks” is used in a non-specific way to designate all reviewed documents.

## 1. Reviewed transition plan frameworks

For the sake of this study, only frameworks that are public as of October 1st, 2023, have been considered. They have been selected based on the reputation and influence of the entities behind them and the usefulness of their contribution. The selection of frameworks also aims at ensuring some diversity between the stakeholders represented (including international expert groups, NGOs and others).

The transition plan frameworks reviewed can be divided into four broad categories:

1. Assessment methodologies (AM): frameworks that evaluate at least some aspects of transition planning using a predefined list of criteria and/or methodologies. They result in giving companies an alignment score and/or validating their decarbonization target methodologies. Examples of assessment methodologies include the Assessing Low Carbon Transition (ACT)

methodology or the Climate Action 100+ Net Zero Benchmark. While also being classified in this category, the Science Based target initiative has a narrower focus on GHG reduction targets.

2. Transition plan standards/expectations (TPS): frameworks that set expectations regarding the content of transition plans. They can set minimum expectations for transition planning as well as identify red lines and key focus areas. Examples of transition plan standards include the UN HLEG Integrity Matters report, the ISO Net Zero Standard, or the CBI Guidance on Transition Plans.

3. Disclosure frameworks covering impact, risk, and opportunities (DI): frameworks that help or mandate companies to publish specific indicators and data points regarding the impact of their activities on climate and the risk and opportunities they are exposed to. The impact dimension is important as it means the contribution of the company to global warming

and environmental degradation should be directly considered, and not only considered through a narrow financial risk lens.<sup>1</sup> The EU European Sustainability Reporting Standards (ESRS) and UK Transition Plan Taskforce (TPT) are disclosure standards that adopt such an approach.

4. Disclosure frameworks covering risk and opportunities (DR): frameworks that help or mandate companies to publish specific indicators and data points regarding the climate risk and opportunities they are exposed to. These disclosure frameworks are the International Financial Reporting Standards (IFRS) and the Taskforce on Climate-Related Financial Disclosures (TCFD).

While the recommendations in this document are not sector specific, a few frameworks related to financial institution transition plans have been included in the scope of the review.<sup>2</sup> Indeed, as financial institutions finance the whole economy, the transition plans they set have a cascading impact on non-financial companies. Furthermore, these frameworks help determine the expectations of investors for investee companies on transition planning. It is worth noting that there is a high degree of convergence between general corporate frameworks and frameworks specific to financial institutions.

Additionally, a review of some transition plan frameworks already conducted by McGiver et al. (“Defining Net Zero for organizations: How do climate criteria align across standards and voluntary initiatives?”) has been considered in the analysis.

The 26 frameworks reviewed are listed in the table “Frameworks reviewed by Reclaim Finance”. The full analysis of the framework is available in the [Transition Plan Checklist](#) made public by Reclaim Finance.

## 2. Reclaim Finance’s transition plan framework analysis grid and recommendations

Reclaim Finance’s review of transition plan frameworks builds on the UN HLEG Integrity Matters report. However, it goes well beyond this report by establishing precise indicators for each criterion listed by HLEG, and by looking at additional dimensions not covered in its report but featured in other transition plan frameworks. Reclaim Finance’s recommendations on transition plans therefore provide stakeholders with a set of actionable and concrete indicators to assess the relevance of transition plans that covers all the dimensions identified by HLEG.

Reclaim Finance’s analysis grid (available in [The Transition Plan Checklist excel file](#)) is composed of:

## Frameworks reviewed by Reclaim Finance

General corporate	Financial institution	Type	Author	Name	Abbreviation in this document
✓	✓	TPS	United Nations High Level Expert Group on net zero	<a href="#">Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions / Implementation Checklist<sup>3</sup></a>	UN HLEG
✓		AM	Climate Action 100+	<a href="#">Net Zero Company Benchmark</a>	CA100+
✓		TPS	International Standards Organization	<a href="#">Net Zero Guidelines</a>	ISO
✓		TPS	Race To Zero	<a href="#">Starting Line Criteria 3.0 / EPRG Interpretation Guide V 2.0<sup>4</sup></a>	RTZ
✓		AM	Science Based Target initiative	<a href="#">Corporate Net Zero Standard V.1.1</a>	SBTi
✓		AM	New Climate Institute	<a href="#">Corporate Climate Responsibility Monitor Methodology 2022</a>	CCRM
✓		AM	Transition Pathway Initiative	<a href="#">Methodology Report: Management Quality and Carbon Performance V.4.0</a>	TPI
	✓	TPS	Climate Policy Initiative	<a href="#">What Makes a Transition Plan Credible? Considerations for Financial Institutions</a>	CPI
	✓	TPS	World Wide Fund for Nature	<a href="#">Criteria for Credible Climate and Nature Transition Plans for Financial Institutions</a>	WWF
✓		TPS	Glasgow Financial Alliance for Net Zero	<a href="#">Expectations for Real Economy Transition Plans</a>	GFANZ
	✓	TPS	Glasgow Financial Alliance for Net Zero	<a href="#">Financial Institution Net-Zero Transition Plans Fundamentals, Recommendations, and Guidance</a>	GFANZ
✓		TPS	Institutional Investors Group on Climate Change	<a href="#">Corporate Climate Transition Plans: A Guide to Investor Expectations</a>	IIGCC
✓		AM	Institutional Investors Group on Climate Change	<a href="#">Investor Expectations of Corporate Transition Plans: From A to Zero</a>	IIGCC

General corporate	Financial institution	Type	Author	Name	Abbreviation in this document
	✓	TPS	United Nations Environment Program Finance Initiative	<a href="#">High-Level Recommendations for Credible Net-Zero Commitments from Financial Institutions</a>	UNEP FI
	✓	TPS	Climate Safe Lending	<a href="#">The Good Transition Plan For Banks and Lending Institutions</a>	CSL
✓		AM	We Mean Business Coalition	<a href="#">Climate Transition Action Plans</a>	CTAP
✓		TPS	Climate Bond Initiative	<a href="#">Guidance to Assess Transition Plans</a>	CBI
✓		TPS	Climate Bond Initiative	<a href="#">Transition Finance for Transforming Companies</a>	CBI
✓		AM	Assessing Low Carbon Transition	<a href="#">Generic 1.1<sup>5</sup></a>	ACT
✓		AM	As You Sow	<a href="#">Road to Zero Emission 2022<sup>6</sup></a>	As You Sow
	✓	TPS	United States Treasury	<a href="#">Principles for Net-Zero Financing and Investment</a>	US Treasury
✓		DI	Climate Disclosure Program	<a href="#">Reporting Guidance 2023 / Technical Note: Reporting on Climate Transition Plans / Climate Transition Plan: Discussion Paper<sup>7</sup></a>	CDP
✓		DI	European Union	<a href="#">ESRS E1</a>	ESRS
✓		DR	International Sustainability Standard Board	<a href="#">IFRS S2 / Accompanying Guidance<sup>8</sup></a>	IFRS
✓		DI	Transition Plan Task Force	<a href="#">Disclosure Framework and Implementation Guidance - Draft for Consultation<sup>9</sup></a>	UK TPT
✓		DR	Task Force on Climate-Related Financial Disclosures	<a href="#">Guidance on Targets, Metrics and Transition Plan / Implementation Guidelines<sup>10</sup></a>	TCFD

Note: For the sake of simplicity in this document the various frameworks from GFANZ, IIGCC and CBI considered in the research are assimilated to a single entity position. The references to these three organizations made in the footnote of the document are therefore based on an aggregation of the analysis of the framework available in full in the [Transition Plan Checklist excel file](#).

- 8 categories: general issues that are addressed by transition plan frameworks (for example “I. Announcing a net-zero pledge and setting aligned targets”);
- 23 assessment criteria: these translate the categories into key separate issues (for example “F. Target completeness and integrity”);
- 73 sub-assessment criteria: these enable a precise determination of the recommendations based on the assessed frameworks.

Beyond transition plan frameworks, the analysis grid can be used to analyze transition plans themselves.

The analysis grid enables Reclaim Finance to identify for each indicator:

1. The convergence and divergence of recommendations.
2. The best practices emerging from the frameworks.

The recommendations synthesized in this paper are the result of this analysis. A few recommendations go beyond the content of the framework to mitigate identified shortcomings but always remain directly linked to their content.

The wording of the recommendations reflects a certain level of prioritization between criteria. Concretely, the criteria containing “must” are considered

essential, while the “should” are additional recommendations that may not be fulfilled by all entities despite being relevant to the quality of transition plans. “Can” is used to show a possibility that is open to entities, without making any specific recommendation.

Building on the recommendations, the “Red Flag Indicators” specifically reflect elements that Reclaim Finance identified as being essential to determine the quality of the transition plan.



# APPENDIX

## Connections between ECB supervisory expectations and transition plan elements

The tables in the appendix identify the relation between the elements of the recommendations of Reclaim Finance on transition plans in Part 1 of this report and the Supervisory Expectations of the ECB on managing climate-related risks and related good practices identified by the central bank. By doing so, they show these key elements of transition plans are necessary for a sound management of climate-related risks.

### Transition plan element: Fossil fuels and biodiversity/nature

N°	ECB Supervisory Expectations
1.1	When scanning their business environment, institutions are expected to identify risks arising from climate change and environmental degradation at the level of key sectors, geographic areas and related to products and services they are active in or are considering becoming active in.
1.2	Institutions are expected to understand how climate-related and environmental risks affect their business environment in the short, medium and long term to inform their business strategy process.
2.1	Institutions are expected to determine which climate-related and environmental risks impact their business strategy in the short, medium and long term, for example by using (stress) scenario analyses
2.2	The institution's business strategy and its implementation is expected to reflect climate-related and environmental risks, for example by setting and monitoring key performance indicators (KPIs) that are cascaded down to individual business lines and portfolios.
7.1	Institutions are expected to have a holistic and well-documented view of the impact of climate-related and environmental risks on existing risk categories.

7.2	Institutions are expected to comprehensively include climate-related and environmental risks in their assessment of materiality for all of their business areas in the short, medium and long-term under various scenarios.
7.3	Institutions are expected to adequately quantify the climate-related and environmental risks that the institution is exposed to.
7.4	Institutions are expected to adopt a strategic approach to managing and/or mitigating climate-related and environmental risks in line with their business strategy and risk appetite, and to adapt policies, procedures, risk limits and risk controls accordingly.
7.5	Institutions are expected to conduct a proper climate-related and environmental due diligence, both at the inception of a client relationship and on an ongoing basis.
8.2	Institutions are expected to adjust risk classification procedures in order to identify and evaluate, at least qualitatively, climate-related and environmental risks.

N°	Related good practices for climate-related and environmental risk management identified by the ECB <sup>10</sup>
2.2.1	Mapping climate-related and environmental risk drivers - Risk identification (internal and external sources, including major scientific research and pathways) ; heatmapping of risks by sectors based on risk level severity
3.1.2	Scenario choice for target-setting - Integrating risks in strategic target setting; exclusion of particularly risky exposures (coal, oil and gas); short, medium and long term targets building on pathways; use of science-based methodologies (SBTi, PACTA, PCAF); level of ambition of the scenario that has an impact on potential risk exposure, scenario choice should be compatible with entity's own ambition
3.2.1	Maintaining and exiting client relationships - Engage with climate that represent transition risks; several steps can be taken (reduce limits or exposure to the client, reduce the loan tenor, adjust client ratings following its rating system, ask clients to implement time-bound action plans, exit the client relationship)
5.1.1	Data-driven due diligence of (new) clients - Use of criteria on lending (exclusion criteria or phase-out criteria); quantitative and qualitative analysis (for example regarding GHG emissions)
5.1.2	Assessing clients for potentially controversial activities - Identification of client exposure to controversial activities (check against reputation-sensitive exclusion factors, a list of economic activities typically associated with significant adverse environmental impact, verification of the existence of negative news in the media and identification of possible future controversies related to C&E factors); evaluation if concerns are identified (notably check against commitments); action plan

5.2.1	Classifying debtors via a stand-alone scorecard and/or integration in PD-rating systems - Covers risks and negative impact
5.5.1	Excluding clients that conduct activities with an adverse environmental impact - Exclusion of activities with high impact (damage to world heritage sites, wetlands, endangered species and high conservation value forests); reference to international agreements and standards
5.5.2	Addressing environmental risks in client due diligence - Sector level heatmaps; client level due diligence, informing credit decision and risk mitigation

## Transition plan element: Decarbonization targets

N°	ECB Supervisory Expectations
2.1	Institutions are expected to determine which climate-related and environmental risks impact their business strategy in the short, medium and long term, for example by using (stress) scenario analyses
2.2	The institution's business strategy and its implementation is expected to reflect climate-related and environmental risks, for example by setting and monitoring key performance indicators (KPIs) that are cascaded down to individual business lines and portfolios.
4.1	Institutions are expected to develop a well-defined description of climate-related and environmental risks in their risk inventory that feeds into their risk appetite statement (RAS).
4.2	Institutions are expected to develop appropriate key risk indicators and set appropriate limits for effectively managing climate-related and environmental risks in line with their regular monitoring and escalation arrangements.
4.3	Institutions are expected to ensure that their remuneration policy and practices stimulate behavior consistent with their climate-related and environmental (risk) approach, as well as with voluntary commitments made by the institution.
7.4	Institutions are expected to adopt a strategic approach to managing and/or mitigating climate-related and environmental risks in line with their business strategy and risk appetite, and to adapt policies, procedures, risk limits and risk controls accordingly.
7.5	Institutions are expected to conduct a proper climate-related and environmental due diligence, both at the inception of a client relationship and on an ongoing basis.

N°	Related good practices for climate-related and environmental risk management identified by the ECB
3.1.1	Managing risk via transition planning - Link between assessment of material transition risk drivers, strategic targets, risk appetite framework and risk management tools; key risk indicators based on alignment objectives and pathways; evaluation of client alignment and engagement; could be also integrated to product offering.
3.1.2	Scenario choice for target-setting - Integrating risks in strategic target setting; exclusion of particularly risky exposures (coal, oil and gas); short, medium and long term targets building on pathways; use of science-based methodologies (SBTi, PACTA, PCAF); level of ambition of the scenario that has an impact on potential risk exposure, scenario choice should be compatible with entity's own ambition
3.2.1	Maintaining and exiting client relationships - Engage with climate that represent transition risks; several steps can be taken (reduce limits or exposure to the client, reduce the loan tenor, adjust client ratings following its rating system, ask clients to implement time-bound action plans, exit the client relationship)
3.2.2	Assessing the maturity of client transition plans - Methodology to assess client's plan maturity/robustness; look at the progress made
4.4.1	Pointing forward with key risk indicators - Definition of KRIs, including based on targets; different alignment/misalignment levels.
5.1.1	Data-driven due diligence of (new) clients - use of criteria on lending (exclusion criteria or phase-out criteria); quantitative and qualitative analysis (for example regarding GHG emissions)
5.2.1	Classifying debtors via a stand-alone scorecard and/or integration in PD-rating systems - Covers risks and negative impact

## Transition plan element: Decarbonization strategy

N°	ECB Supervisory Expectations
1.1	When scanning their business environment, institutions are expected to identify risks arising from climate change and environmental degradation at the level of key sectors, geographic areas and related to products and services they are active in or are considering becoming active in.
1.2	Institutions are expected to understand how climate-related and environmental risks affect their business environment in the short, medium and long term to inform their business strategy process.

2.1	Institutions are expected to determine which climate-related and environmental risks impact their business strategy in the short, medium and long term, for example by using (stress) scenario analyses
2.2	The institution's business strategy and its implementation is expected to reflect climate-related and environmental risks, for example by setting and monitoring key performance indicators (KPIs) that are cascaded down to individual business lines and portfolios.
3.1	The management body is expected to explicitly allocate roles and responsibilities to its members and/or its sub-committees for climate-related and environmental risks. Institutions are expected to ensure that the functions involved in managing climate-related and environmental risks have the appropriate human and financial resources.
4.1	Institutions are expected to develop a well-defined description of climate-related and environmental risks in their risk inventory that feeds into their risk appetite statement (RAS).
4.2	Institutions are expected to develop appropriate key risk indicators and set appropriate limits for effectively managing climate-related and environmental risks in line with their regular monitoring and escalation arrangements.
4.3	Institutions are expected to ensure that their remuneration policy and practices stimulate behavior consistent with their climate-related and environmental (risk) approach, as well as with voluntary commitments made by the institution.
5.2	Institutions are expected to ensure that the functions involved in managing climate-related and environmental risks have the appropriate human and financial resources.
5.4	Institutions are expected to define the tasks and responsibilities of the risk management function for identifying, assessing, measuring, monitoring and reporting climate-related and environmental risks.
5.5	Institutions are expected to define the tasks and responsibilities of the compliance function by ensuring that compliance risks stemming from climate-related and environmental risks are duly considered and effectively integrated in all relevant processes.
7.1	Institutions are expected to have a holistic and well-documented view of the impact of climate-related and environmental risks on existing risk categories.
7.2	Institutions are expected to comprehensively include climate-related and environmental risks in their assessment of materiality for all of their business areas in the short, medium and long-term under various scenarios.
7.3	Institutions are expected to adequately quantify the climate-related and environmental risks that the institution is exposed to.
7.4	Institutions are expected to adopt a strategic approach to managing and/or mitigating climate-related and environmental risks in line with their business strategy and risk appetite, and to adapt policies, procedures, risk limits and risk controls accordingly.
7.5	Institutions are expected to conduct a proper climate-related and environmental due diligence, both at the inception of a client relationship and on an ongoing basis.

8.2	Institutions are expected to adjust risk classification procedures in order to identify and evaluate, at least qualitatively, climate-related and environmental risks.
<b>N°</b>	<b>Related good practices for climate-related and environmental risk management identified by the ECB</b>
3.1.1	Managing risk via transition planning - Link between assessment of material transition risk drivers, strategic targets, risk appetite framework and risk management tools; key risk indicators based on alignment objectives and pathways; evaluation of client alignment and engagement; could be also integrated to product offering.
3.1.2	Scenario choice for target-setting - Integrating risks in strategic target setting; exclusion of particularly risky exposures (coal, oil and gas); short, medium and long term targets building on pathways; use of science-based methodologies (SBTi, PACTA, PCAF); level of ambition of the scenario that has an impact on potential risk exposure, scenario choice should be compatible with entity's own ambition
3.1.3	Transition finance products and services - Development of new products and services (specifically related to energy)
3.2.1	Maintaining and exiting client relationships - Engage with climate that represent transition risks; several steps can be taken (reduce limits or exposure to the client, reduce the loan tenor, adjust client ratings following its rating system, ask clients to implement time-bound action plans, exit the client relationship)
3.2.2	Assessing the maturity of client transition plans - Methodology to assess client's plan maturity/robustness; look at the progress made
4.1.1	Steering on business strategy and net-zero commitments - Responsibility and oversight by management (for example, the approval of the strategy); dedicated committee with appropriate knowledge; top-down and bottom-up integration; look at financial and human resources
4.4.1	Pointing forward with key risk indicators - Definition of KRIs, including based on targets; different alignment/misalignment levels.
4.3.1	Climate-related risks and the second line of defense - Wide range of activities (opinion on client transactions, compliance); definition of greenwashing risk.
5.1.1	Data-driven due diligence of (new) clients -use of criteria on lending (exclusion criteria or phase-out criteria); quantitative and qualitative analysis (for example regarding GHG emissions)
5.1.2	Assessing clients for potentially controversial activities - Identification of client exposure to controversial activities (check against reputation-sensitive exclusion factors, a list of economic activities typically associated with significant adverse environmental impact, verification of the existence of negative news in the media and identification of possible future controversies related to C&E factors); evaluation if concerns are identified (notably check against commitments); action plan

5.2.1	Classifying debtors via a stand-alone scorecard and/or integration in PD-rating systems - Covers risks and negative impact
5.5.2	Addressing environmental risks in client due diligence - Sector level heatmaps; client level due diligence, informing credit decision and risk mitigation

## Transition plan element: Engagement

N°	ECB Supervisory Expectations related to engagement
2.1	Institutions are expected to determine which climate-related and environmental risks impact their business strategy in the short, medium and long term, for example by using (stress) scenario analyses
2.2	The institution's business strategy and its implementation are expected to reflect climate-related and environmental risks, for example by setting and monitoring key performance indicators (KPIs) that are cascaded down to individual business lines and portfolios.
7.4	Institutions are expected to adopt a strategic approach to managing and/or mitigating climate-related and environmental risks in line with their business strategy and risk appetite, and to adapt policies, procedures, risk limits and risk controls accordingly.
8.2	Institutions are expected to adjust risk classification procedures in order to identify and evaluate, at least qualitatively, climate-related and environmental risks.
N°	Related good practices for climate-related and environmental risk management identified by the ECB
3.1.1	Managing risk via transition planning - Link between assessment of material transition risk drivers, strategic targets, risk appetite framework and risk management tools; Key risk indicators based on alignment objectives and pathways; evaluation of client alignment and engagement; Could be also integrated to product offering.
3.2.1	Maintaining and exiting client relationships - Engage with climate that represent transition risks; several steps can be taken (reduce limits or exposure to the client, reduce the loan tenor, adjust client ratings following its rating system, ask clients to implement time-bound action plans, exit the client relationship)
3.2.2	Assessing the maturity of client transition plans - Methodology to assess client's plan maturity/robustness; look at the progress made
5.2.1	Classifying debtors via a stand-alone scorecard and/or integration in PD-rating systems - Covers risks and negative impact

## Transition plan element: Reporting and governance

N°	ECB Supervisory Expectations
2.1	Institutions are expected to determine which climate-related and environmental risks impact their business strategy in the short, medium and long term, for example by using (stress) scenario analyses
2.2	The institution's business strategy and its implementation are expected to reflect climate-related and environmental risks, for example by setting and monitoring key performance indicators (KPIs) that are cascaded down to individual business lines and portfolios.
3.1	The management body is expected to explicitly allocate roles and responsibilities to its members and/or its sub-committees for climate-related and environmental risks. Institutions are expected to ensure that the functions involved in managing climate-related and environmental risks have the appropriate human and financial resources.
4.3	Institutions are expected to ensure that their remuneration policy and practices stimulate behavior consistent with their climate-related and environmental (risk) approach, as well as with voluntary commitments made by the institution.
5.2	Institutions are expected to ensure that the functions involved in managing climate-related and environmental risks have the appropriate human and financial resources.
6.1	Institutions are expected to develop a holistic approach to data governance for climate-related and environmental risks.
6.2	As climate-related and environmental risks have distinctive characteristics, institutions are expected to consider adapting their IT systems to systematically collect and aggregate the necessary data to assess their exposures to these risks.
6.3	An institution's risk reports are expected to convey the impact of climate-related and environmental risks on its business model, strategy and risk profile.
6.4	An institution is expected to be able to generate aggregated and up-to-date climate-related and environmental risks data in a timely manner.
7.4	Institutions are expected to adopt a strategic approach to managing and/or mitigating climate-related and environmental risks in line with their business strategy and risk appetite, and to adapt policies, procedures, risk limits and risk controls accordingly.
7.5	Institutions are expected to conduct a proper climate-related and environmental due diligence, both at the inception of a client relationship and on an ongoing basis.
8.2	Institutions are expected to adjust risk classification procedures to identify and evaluate, at least qualitatively, climate-related and environmental risks.



N°	Related good practices for climate-related and environmental risk management identified by the ECB
3.1	Managing risk via transition planning - Link between assessment of material transition risk drivers, strategic targets, risk appetite framework and risk management tools; Key risk indicators based on alignment objectives and pathways; evaluation of client alignment and engagement; Could be also integrated to product offering.
3.2	Assessing the maturity of client transition plans - Methodology to assess client's plan maturity/robustness; look at the progress made
4.1	Steering on business strategy and net-zero commitments - Responsibility and oversight by management (for example, the approval of the strategy); dedicated committee with appropriate knowledge; top-down and bottom-up integration; look at financial and human resources
4.1	Aligning remuneration policies with climate-related objectives - climate-related KPIs for remuneration
4.5	Governance, processes and collection of C&E-related risk data - Responsibility and governance for data; data gap analysis; use of several sources.
4.5	Internal reporting on climate-related risks
5.1	Data-driven due diligence of (new) clients -use of criteria on lending (exclusion criteria or phase-out criteria); quantitative and qualitative analysis (for example regarding GHG emissions)
5.2	Classifying debtors via a stand-alone scorecard and/or integration in PD-rating systems - Covers risks and negative impact

## FOOTNOTES

1. More information on “impact” materiality can be found in [the EFRAG’s work on sustainability reporting](#).
2. Additional considerations must be taken into account when designing a climate transition plan for a financial institution. Indeed, the specificities of the financial sector must be taken into account, notably to avoid several flaws in the calculation of financed and facilitated emissions.
3. The UN HLEG checklist transcribes the recommendations of the Integrity Matter report into a list of criteria. It has therefore been analyzed jointly with the report itself.
4. For RTZ, both the Starting Line Criteria and Leadership Practices V.3.0 and EPRG Interpretation Guide V.2.0 have been reviewed. They are analyzed together as they are [understood by RTZ as being complementary](#).
5. The ACT contains several [sectoral methodologies](#) – including for electricity, transport, automobile, construction.. – that are not covered in this research.
6. A [2023 version](#) of the As You Sow Road To Zero Emission report was published in November 2023, after the review was conducted. However, the elements featured in this updated version do not significantly differ from the 2022 version.
7. For CDP, three different documents related to transition planning have been reviewed: the Reporting Guidance 2023, as well as a specific document on reporting on transition plans, and a discussion paper on the issue. For the sake of clarity and simplicity, all the elements in these documents have been analyzed as one CDP position on transition plans.
8. The IFRS also include [industry-based guidance](#) that provides sectoral elements that are not included in the scope of this review.
9. The UK TPT published [the final version of its Disclosure Framework](#) in October 2023, after the review was conducted. However, the elements featured in this final version do not significantly differ from the consultation material.
10. The TCFD Guidance on Targets, Metrics and Transition and Implementation Guidelines are analyzed as one TCFD position because of their complementarity. The [2017 TCFD recommendations](#) is not listed but is covered by the more recent Implementation Guidelines.
11. Estimates for the remaining carbon budget are provided by the IPCC in its [AR6 WGIII Report](#). The carbon budget for a 67% chance to keep global warming under 1.5°C is only 400 GtCO<sub>2</sub>. About 410 GtCO<sub>2</sub> were emitted between 2010 and 2019 alone.
12. According to the IPCC, to keep global warming under 1.5°C, emissions must peak by 2025, fall by 43% by 2030 and 84% by 2050.
13. Pledges from major companies are monitored by the [Net Zero Tracker](#).
14. Stakeholders have many reasons to be concerned about poorly designed transition plans. For example, the [Net Zero Stocktake 2023](#) that only looks at a narrow part of transition plans already

showed that most targets are inadequate and riddled with gaps.

15. Some frameworks have been analyzed based on several documents, meaning that a total of 32 documents were reviewed (see Methodology).
16. The inclusion of scope 3 can automatically be considered insufficient if any of the following condition is met: 1) not all key scope 3 components are included (for example use of sold products for an oil and gas or industrial company); 2) the excluded scope 3 emissions constitute a significant share of total emissions (ideally the total scope 1-3 coverage should cover at least 90% of emissions); 3) no justifications are provided on the exclusion of a share of scope 3, and no details are given on the measures taken to progressively increase this coverage and ensure a full inclusion in longer term targets.
17. Offsets can only be used to address residual emissions in carbon neutrality targets when sufficient emission reductions (90% or higher) have been achieved.
18. Financial targets must enable stakeholders to identify whether sufficient resources are devoted to the decarbonization measures/levers identified by the company.
19. The frameworks reviewed do not explicitly cover midstream infrastructures. However, Reclaim Finance considers the development of new midstream – in particular LNG export terminals – are likely to contribute to the development of new fields and increase of production. This assessment is coherent with the IEA finding that LNG capacity (planned and operational) largely excess the needs of a 1.5°C scenario. Furthermore, it is worth noting the SBTi Net-Zero for Financial Institutions (FINZ) under development included midstream in the definition of the oil and gas value chain where financial support must be restricted.
20. Monitoring progress on targets requires annual disclosures of: 1) GHG emissions and their evolution (on all scopes and for all the value chain); 2) The factors that led to GHG emission variations; 3) The measures and actions taken by the entity to correct any insufficient reduction.
21. The GHGs are listed in the [Kyoto Protocol](#). The protocol includes: 1) Carbon dioxide (CO<sub>2</sub>); 2) Methane (CH<sub>4</sub>); 3) Nitrous oxide (N<sub>2</sub>O); 4) Sulfur hexafluoride (SF<sub>6</sub>); 5) Hydrofluorocarbons (HFCs); 6) Perfluorocarbons (PFCs).
22. The coverage of non-GHG climate forcers can be highly relevant for companies that rely on aerosols (also referenced as [Short-Lived Climate Forcers](#)).
23. Among reviewed frameworks, there is a consensus that scope 1 and 2 emissions must be covered and included in short-, medium- and long-term targets. Most frameworks recommend a full inclusion, without any materiality consideration (see for example TCFD Metric and Targets b or the Climate Responsibility Monitor 2022). Some methodologies – including SBTi, CA100+ and IIGCC - use a 95% minimum threshold on scope 1 and 2 inclusion.
24. Among reviewed frameworks, there is a consensus that scope 3 should be covered in short-, medium- and long-term targets. If many initiatives recommend a full inclusion in targets, entities are regularly allowed to include only “material/relevant/appropriate” scope 3 emissions depending on their activities. As you Sow specifically evaluates companies on the inclusion of all 15 categories of scope 3 emissions identified by the GHG Protocol and aims to ensure that at least 95% of these emissions are covered.
25. Justifications in case of data gaps on scope 3 are notably required by GFANZ. The ISO standard specifically requires elements to narrow down data gaps on emission coverage.
26. A best practice from the Assessing Low Carbon Transition (ACT) methodology regarding the

coverage of scope 1-3 emissions is to consider if targets cover at least 95% of the entities' GHG emission scope.

27. Scope 3 inclusion expands with time, to reach full inclusion in the longer term. For example, the SBTi Net-Zero Standard requires at least 90% of scope 3 emissions to be included in long term targets, compared to 2/3 in short- and medium-term targets (for companies where these emissions constitute at least 40% of emissions).
28. Following HLEG's recommendations, information should be provided on the dataset or estimates used for scope 3 if entity data is not entirely available.
29. While not all frameworks explicitly require the full coverage of activity and value chain, it is the case of HLEG and IIGCC. NGO expectations (for example CPI, WWF, CSL) also include this.
30. The entirety of financed and facilitated emissions should be included. No weighting that would reduce the volume of GHG emissions reported and the scope of the targets should be attributed to these emissions.
31. There is a global consensus on the need to set short-, medium- and long-term targets. However, the precise timeframe for these targets can vary between frameworks. Concretely: 1) Setting a 2025 target is a common feature of several major frameworks. While most frameworks do not explicitly specify the year 2025, they require setting short term targets within 5 years after taking the pledge. Some also underline the need for shorter term targets (2-5 years) to be set to incentivize action; 2) Major frameworks agree on the need to set a 2030 target. If some frameworks do not make this target year mandatory, they emphasize the need to define regular targets, including every 5 years or 5 and 10 years after the pledge; 3) Compared to 2025 and 2030, a 2035 target is rarely mentioned. The need to define regular targets emphasized in several important frameworks is coherent with such a target; 4) Most frameworks define a carbon neutrality (or “zero carbon”) target for 2050 or earlier.
32. The ISO standard notably requires targets to be set every 2-5 years. Similarly, the ACT methodology requires targets to be no more distant than 5 years.
33. This criterion is fully aligned with the HLEG recommendation on absolute emission targets. Beyond the HLEG recommendations, most frameworks require an absolute emission target, whether alone or paired with an intensity target. Those that do not usually require any intensity target to be matched against an absolute reduction trajectory (for example the SBTi).
34. The choice of a reference scenario by the entity has a direct impact on its GHG reduction target but can also impact its choices regarding the various decarbonization levers engaged. Indeed, scenarios are not based on the same hypothesis and do not require the same technology deployments or business model changes. The criteria laid out here for the selection of an underlying scenario for setting decarbonization targets are also highly relevant to selecting a scenario to identify such levers and changes.
35. Most frameworks require targets to be based on a 1.5°C no/low overshoot scenario. The IEA NZE and IPCC C1 are regularly mentioned in frameworks and, while they do not restrict the scenario choice to only these scenarios, frameworks often use them as examples of scenarios fit for purpose and/or as benchmarks. A few frameworks explicitly mention the need for underlying scenarios to rely on a limited volume of negative emissions, but a clear definition of such a volume is not given.
36. In the report [Navigating the Energy Transitions](#), IISD identified a reasonable range of negative emissions based on the work of the IPCC and filtered IPCC scenarios accordingly. The maximum volumes for sequestration in scenarios were limited to 3 Gt CO<sub>2</sub>/year for BECCS, 3.8 Gt CO<sub>2</sub>/

year for fossil CCS, and 3.6 Gt CO<sub>2</sub>/year by 2050.

37. Frameworks converge on the need for the base year to be recent and representative. They especially call for consistency on base years between the different targets set. However, most of them do not define clearly what would qualify as a recent base year. Regarding representativeness, some suggest using average values established based on three years.
38. While the work of the IPCC showed that GHG emissions must peak by 2025, most frameworks do not mention this, or fail to set related requirements (for example the HLEG and GFANZ). However, some prominent frameworks include this requirement or a comparable requirement for emissions not to rise above base year level – including the ISO and SBTi standards.
39. Most frameworks require to at least halve emissions by 2030 (see HLEG, ISO, RTZ, CCRM, CDP, CBI). The exact reduction percentage defined in frameworks can range from 42 to above 50%.
40. Several major frameworks include elements to ensure carbon neutrality is sustained after 2050 (see ISO, RTZ, SBTi), including by reaching zero or net negative emissions levels. For most frameworks, however, this remains implicit.
41. While not all frameworks define the maximum level of residual emissions, those that do define it at 10% or lower (see SBTi, ISO, CCRM). Similarly, the ESRS application requirements include a reference to a 90% reduction by 2050.
42. There is a consensus among all frameworks on the need to prioritize GHG reductions. Most frameworks therefore forbid the inclusion of carbon credits in intermediate targets. Carbon credits are however counted in net-zero targets if they remain limited to “residual emissions”. While several frameworks fail to define what this term means, major frameworks like ISO, GFANZ, ESRS, CBI or SBTi limit “residual emissions” to 5-10% of total emissions.
43. Several major frameworks support the deployment of “beyond value chain” mitigation through offsets. This comes in addition to necessary GHG reduction efforts. The SBTi is currently [developing guidelines](#) on the issue.
44. [Permanent removals](#) are at least intended to trap carbon for a hundred years. However, other frameworks require removals to last more than 500 or 1000 years.
45. Frameworks generally require guarantees to be provided on the quality and integrity of offsets. They agree that only “high-quality” credits should be used. The international initiatives [ICVCM](#) and [VCMI](#) are regularly mentioned, for example by the HLEG. These voluntary initiatives should however be considered with caution as they do not yet have a track record of success and previous efforts to ensure offset integrity have failed. Pace setters also define minimum characteristics for carbon credits to be considered high-quality, including on integrity, permanence, and additionality (see ISO and CCRM). Beyond recommendations set by various frameworks, forest offsets should be considered with extreme caution, acknowledging their [long track record of failure](#).
46. Frameworks often require disclosures on the extent to which targets rely on negative emissions (see ISO for example). Some – like the IIGCC – specify that this volume should be limited. The CA100+ benchmark notably requires information on technical feasibility.
47. Getting GHG reduction targets “validated” by the Science Based Target initiative (SBTi) is often misleadingly presented as testifying of the robustness of the whole transition plan. However, the SBTi itself underlines that it does not consider the quality and credibility of this plan in its process. Its [communication guidance](#) for companies with validated targets urge them not to say that the SBTi has – for example – approved their abatement strategy. In fact, the SBTi focuses on

the elements provided by the company on GHG emissions, and not on the transformation of its activities. It is worth noting the SBTi is currently conducting work on “[Measurement Reporting and Verification](#)” (MRV) to at least follow the company progress on validated targets.

48. There is a general agreement on the need to provide elements on the measures planned to achieve targets, and to quantify the contribution of these measures (see UK TPT, CTAP, IIGCC, GFANZ, CA100+).
49. IIGCC requires actions to be disclosed to cover at least 75% of short-term and 50% of long-term emission reductions. Short-term actions are also highlighted in other frameworks.
50. The need to tackle locked-in emissions is commonly referred in frameworks. GHG-intensive assets – starting with those tied to fossil fuels – as well as assets related to deforestation and peatland loss are especially mentioned.
51. This criterion builds on the ESRS that requires “a qualitative assessment of the potential locked-in GHG emissions from the undertaking’s key assets and products”. The assessment “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 undertaking’s plans to manage its GHG-intensive and energy-intensive assets and products”. The assessment covers: 1) Key assets, defined as both existing and planned assets; 2) Scope 1 and 2 emissions over the operating lifetime; 3) Scope 3 from use of sold products over the operating lifetime; 4) explanations on how to transform or decommission assets.
52. While the modalities and focuses of each framework vary, many frameworks require entities to provide at least elements of a financial alignment plan. This plan can cover activities, revenues, products and capital expenditure (capex) and operational expenditure (opex). The disclosure of capex allocation and targets are especially common.
53. Some frameworks require entities to disclose their definition of climate solutions. When referencing specific standards, these frameworks generally use public taxonomies (for example the EU sustainable taxonomy). The [Sustainable Power Policy Tracker](#) from Reclaim Finance provides a definition of sustainable power for the sector.
54. Most frameworks that require financial alignment plans require transparency on the alignment of capital allocation. This includes disclosures on the share devoted to climate solutions as well as to potentially harmful activities (see IIGCC and CA100+).
55. Most frameworks require elements to be provided to ensure the alignment of capex with the transition plan, notably through its reallocation to climate solutions from carbon intensive assets (see IIGCC and CA100+). Some frameworks provide more detailed guidance on aligning capex in critical sectors and specifically underline the need to cut capex to some harmful projects.
56. Frameworks agree on the need to address climate-related risks and opportunities. Even when this topic is not explicitly covered, it is understood to be one of the prerequisites. Indeed, climate risks and opportunities are the focus of most disclosure frameworks, with the ESRS and TPT also addressing climate impact to some extent. However, this is not the focus of the other transition plan frameworks reviewed that go well-beyond risk management and opportunities.
57. Disclosing information on the assumptions behind the plan is a common feature of several frameworks and of all reporting initiatives (ESRS, TPT, IFRS, TCFD).
58. For financial institutions, detailed recommendations and an analysis of current fossil fuel policies is provided in the [Coal Policy Tracker](#) and [Oil and Gas Policy Tracker](#).
59. There is a broad consensus on the need to phase down and/or out fossil fuels, and to consider this in

transition plans. Specific plans and details on decommissioning and disposal of fossil fuel assets can be required. Furthermore, major frameworks underline the need to immediately stop fossil fuel development (this need is notably featured prominently in recent frameworks for financial institutions, for example TPI or SBTi Net Zero). Finally, a few frameworks underline the need to address the potential transfer of fossil fuel assets and/or the just transition aspect of the energy transition. These fossil fuel requirements are based on the fact - underlined by the IPCC - that the consumption of currently exploited coal, oil and gas reserves would lead to emissions exceeding the remaining carbon budget for limiting global warming to 1.5°C. Several scientific studies emphasize that a significant proportion of these reserves should not be extracted, and that the exploration and exploitation of new reserves is incompatible with the Paris Agreement. In addition to ending the development of coal, oil and gas, these conclusions call for a rapid and significant reduction in production, as identified by the United Nations' [Production Gap Report 2023](#).

60. The below criteria are notably aligned with HLEG guidance, as well as with the ACT methodology for financial institutions and the draft criteria for the SBTi Net-Zero methodology for financial institutions. They can be applied relying on the Global Coal Exit List and Global Oil and Gas Exit List from Urgewald.
61. Restriction on coal production must cover both thermal and [metallurgical coal](#). Indeed, the IEA 1.5°C scenario (NZE) shows that currently operating metallurgical coal mines will be able to meet demand until 2050. Yet, according to Global Energy Monitor's Global Coal Mine Tracker updated in May 2023, there are 138 proposed projects consisting partly or entirely of metallurgical coal, of which at least 85 are brand new projects and 48 are mine expansions. A third of these projects, making up almost half of the global planned production capacity, aim to start production by 2030. Taken together, these projects represent 406 Mtpa of planned production capacity, while already operating mines have the capacity to produce 1,687 Mtpa, meaning a proposed 24.1% increase.
62. It is worth noting the [current plans](#) of oil and gas companies - and notably the programmed increase of production via the development of new fields and infrastructures - are at odds with the goal of limiting global warming to 1.5°C. As the [IEA recently pointed out](#), oil and gas companies face "a moment of truth" and must urgently shift their model or progressively disappear.
63. Fossil fuels is a focus sector identified in the methodologies reviewed. The need to immediately shut down the development of fossil fuel production is especially highlighted by HLEG, while also being mentioned in other frameworks such as the CBI. Frameworks related to the financial sector especially integrate this issue, with clear criteria against expansion being included in UNEP FI, CSL, [the Foundations Paper for the SBTi FINZ](#) and the [TPI Net Zero Banking Assessment framework](#). Furthermore, IIGCC mentions the need to align with the [IEA NZE scenario](#), which does not include new fossil fuel production projects. Beyond the various frameworks considered, it is important to remember that the need to cut fossil fuel expansion directly stems from the fact - underlined by [the IPCC](#) and [independent studies](#) - that consuming currently exploited fossil fuel reserves would largely exceed the remaining 1.5°C carbon budget. No new fossil fuel production is therefore a characteristic of 1.5°C scenarios that do not rely on an unrealistic level of negative emissions. Companies developing new coal or oil and gas projects can be identified using Urgewald's [Global Coal Exit List](#) and [Global Oil and Gas Exit List](#).
64. The frameworks reviewed do not explicitly cover midstream infrastructures. However, Reclaim Finance considers the development of new midstream - in particular LNG export terminals - are likely to contribute to the development of new fields and increase of production. This assessment is coherent with the IEA finding that LNG capacity (planned and operational) largely exceeds the needs of a 1.5°C scenario. Furthermore, it is worth noting the SBTi Net-Zero for Financial

Institutions (FINZ) under development included midstream in the definition of the oil and gas value chain where financial support must be restricted.

65. Phasing out coal by 2030/2040 is an explicit requirement in HLEG and ISO. CA100+ includes some indicators on unabated coal power phase-out. More broadly, these phase-out deadlines have been widely adopted worldwide since being first identified by [Climate Analytics](#), including in the [Powering Past Coal Alliance](#) and in [UN demands](#) at various COPs.
66. Some guidance has been developed by EDF and Ceres [on oil and gas mergers and acquisitions](#) to tackle the issue of transferred emissions.
67. Different fossil fuel phase-out deadlines can be defined in a just transition approach relying on [the research conducted by Anderson and Calverley \(2022\)](#).
68. Frameworks regularly expect the adoption of measures to speed up the deployment of renewables (see ISO, CTAP, CA100+). This includes: 1) Relying on renewable energy procurement; 2) Adopting targets and/or plans to switch energy consumption and use and/or to deploy renewables. Furthermore, Reclaim Finance encourages entities to focus on the development of sustainable energy, thus clearly excluding any fossil-reliant solutions as well as biomass and nuclear energy. A definition of sustainable energy as well as an analysis of the policies of financial institutions on the issue is provided by the [Sustainable Power Policy Tracker](#).
69. Some [recommendations on renewable energy procurements](#) have been set by the UK Climate Change Committee.
70. The [Sustainable Power Policy Tracker](#) from Reclaim Finance evaluates banks' policies on sustainable power. It notably provides guidance on establishing financial and capacity targets, including to align with the investment need identified in the IEA NZE scenario. Financial institutions should notably [commit to a 6:1 financing ratio](#) by 2030 for sustainable power compared to fossil fuels.
71. Beyond the recommendations featured in this document, several standards can be considered by entities to align their lobbying activities, including: CDP, Ceres and EDF [The AAA Framework for Climate Policy Leadership: A Guide for Companies](#); Ceres [Blueprint for Responsible Policy Engagement](#); ClimateVoice [Going "All In": A Climate Policy Guide for Business Leaders](#); Responsible Climate Lobbying [The Global Standard](#). The work and recommendations from the [NGO InfluenceMap](#) should also be considered.
72. Frameworks agree entities should align their advocacy activities with international climate goals. This alignment should ensure that lobbying is fully consistent with the entities' own climate plan, and the result of the review conducted to meet this requirement should be disclosed.
73. The NGO Influence Map analyzes the public engagement of major companies on climate and provides key recommendations to improve this. In [November 2023](#), it noted that "corporate net zero or similar targets are rarely matched by support for government climate policy, with 58% of almost 300 companies from the Forbes 2,000 found to be at risk of "net zero greenwash" due to their policy engagement".
74. There is a broad consensus that trade associations should be covered in the commitment to align advocacy activities. Disclosure is necessary, and specific measures ("escalation processes") are recommended by several frameworks. Several frameworks - including the ACT methodology and HLEG recommendations - mention the need to ultimately disaffiliate with misaligned trade associations.
75. Some frameworks like the CTAP recommend focusing on specific policies and/or providing an

- assessment of their impact on the transition and/or the entity's practices.
76. Frameworks agree that engaging with clients, investors, suppliers, and peers could be an important tool. Several major initiatives recommend having a specific engagement strategy, with detailed disclosures on the means and modalities of engagement, as well as on its objectives (see ACT). Frameworks that look at financial sector alignment require a clear and timebound escalation process for engagement (see GFANZ, US Treasury Principles and HLEG).
  77. Collective engagement is generally encouraged by frameworks and/or included in broader engagement recommendations.
  78. The report [Climate Stewardship: a guide for effective engagement and voting practices](#) from Reclaim Finance provides recommendations for financial institutions on engagement activities.
  79. The IIGCC notably expects companies to opt for financial partners aligned with climate ambitions. The initiatives launched by [Reclaim Finance and partners in France](#) – where companies are pushed to better select their employee savings scheme, and local public authorities the banks they work with using non-financial criteria – can serve as models for companies wishing to apply this recommendation. At the international level, the [Exponential Roadmap Initiative](#) also provides tools and recommendations to green companies' cash holdings in banks.
  80. There is a broad consensus that entities must annually report on the progress made in their transition plans. This includes disclosing GHG emissions and their evolution (see ACT, ISO and SBTi for example). The GHG Protocol is regularly mentioned by frameworks as the main standard to follow in this (see ISO and CBI), even though other sectoral standards can also be mentioned. Frameworks also often require specific information on the factors that led to GHG variations and/or the measures and actions taken (see CA100+).
  81. There is a broad consensus on the need for reporting on targets and plans to be annual. A few frameworks require this annual reporting to be standardized in open format. They sometimes suggest submission to standardized platforms like the UNFCCC's Global Climate Portal or CDP (see HLEG, SBTi, RTZ).
  82. Major initiatives recommend having GHG emissions and/or progress on targets verified by an independent-third party. Some initiatives also recommend disclosing details on internal verification processes and/or limitations (see CDP and ISO).
  83. Major initiatives underline the need for entities to identify, explain and takes steps to remedy data gaps and uncertainties (see e.g. ISO and CBI).
  84. While this practice is not explicitly mentioned in the reviewed initiatives, several major initiatives clearly identify the need to tackle data gaps and uncertainties in specific sectors. This recommendation is highly relevant for sectors where the risk of GHG emissions being inaccurately accounted for is the highest, such as in the fossil fuel sector where regular methane leaks are uncovered, and the methane intensity of certain installations has been chronically under evaluated.
  85. For general recommendations on climate governance, see the OECD Principles on [Climate Change and Corporate Governance](#).
  86. There is a broad consensus on the need to establish responsibility and oversight of climate matters at board level. Most frameworks agree entities must also assess their board's competencies with respect to achieving climate targets and managing climate risks and opportunities (see ACT, CA100+, UK TPT). The result of this assessment should be disclosed. Additional recommendations on board level responsibility can be found in World Economic Forum [How to Set Up Effective Climate Governance on Corporate Boards Guiding principles and questions](#).
  87. Frameworks agree that remuneration of executives should be linked to climate performance, notably to the entities' own climate targets (see ACT, CA100+, UK TPT). Most frameworks that recommend this require detailed information on the incentives deployed and their characteristics. Reporting frameworks especially consider the relative impact of climate-related incentives compared to other incentives (see UK TPT, ESRS, IFRS).
  88. Disclosure frameworks require elements on the integration of climate matters into financial statements (see UK TPT, ESRS, IFRS, TCFD), while other frameworks do not cover this issue. The CA100+ benchmark and ACT methodology providers indicators that are especially helpful to assess this. Additionally, the [ESMA report on disclosures on climate related matters in financial statements](#) published in October 2023 can provide useful information.
  89. Most frameworks require some kind of review process for transition plans and targets. Some require detailed review processes to be set up to ensure that the latest climate science and any changes – including progress on targets and potential obstacles – are integrated (see CTAP and GFANZ). Some require regular reviews, for example every three or five years (see UK TPT and UN HLEG).
  90. CDP is the only framework to explicitly mention Say on Climate resolutions. However, this good practice can be included in broader requirements on governance in many other frameworks. Indeed, the Say on Climate resolution was notably [identified as an important practice](#) by the French Market Authority and its internal climate commission. Furthermore, in October 2023, [a coalition of investors](#) collectively holding £1.8trn in assets sent letters to 35 chairs of FTSE 350 companies asking them to organize votes on their climate transition plans at next years' AGMs.
  91. As mentioned by the [Climate Commission of the French Market Authority](#), 20% of shareholder opposing the resolution can be considered a significant opposition to the plan.
  92. A few major frameworks mention the specific need to end deforestation and peatland loss (see HLEG and ISO).
  93. Frameworks fail to provide a clear definition of these activities. Entities are therefore encouraged to build on scientific and NGO work, including the work of the NGO Global Canopy and its [Forest 500 tool](#).
  94. Beyond deforestation, some frameworks address the need to establish a plan to protect biodiversity and/or to demonstrate the contribution of the transition plan on this issue. A few incentivize investment in nature protection and restoration, but overall, these recommendations remain vague. Entities are therefore encouraged to build on existing initiatives like [WWF's Nature in Transition Plans](#), the ESRS E4 and the [Task Force on Nature-related Financial Disclosures \(TNFD\)](#). Elements from the [IPBES](#) and the [Kunming-Montreal Global Biodiversity Framework](#) can also be considered.
  95. Frameworks generally require entities to provide elements on how their transition plan meet just transition expectations (see RTZ, IIGCC, CTAP). However, they rarely provide clear recommendations to do so, and some frameworks do not even explicitly consider this. While the need for specific KPIs is mentioned, only SDGs are regularly mentioned (see CA100+). Entities are therefore encouraged to engage directly with key stakeholders and review the [World Benchmarking Alliance Just Transition guidance](#) to ensure that their plans are compatible with a just transition. Additionally, elements from the [International Labour Organization](#) and from the [Climate Justice Alliance](#) can be considered.
  96. In 2022, Friends of the Earth Scotland worked with employees from the oil and gas industry to build [joint transition demands](#) that fully consider the just transition dimension for workers. This

process provides a concrete example of how workers can be implicated directly into building a sustainable model for companies.

97. Restriction on coal production must cover both thermal and metallurgical coal. Indeed, the IEA 1.5°C scenario (NZE) shows that currently operating metallurgical coal mines will be able to meet demand until 2050. Yet, according to Global Energy Monitor's Global Coal Mine Tracker updated in May 2023, there are 138 proposed projects consisting partly or entirely of metallurgical coal, of which at least 85 are brand new projects and 48 are mine expansions. A third of these projects, making up almost half of the global planned production capacity, aim to start production by 2030. Taken together, these projects represent 406 Mtpa of planned production capacity, while already operating mines have the capacity to produce 1,687 Mtpa, meaning a proposed 24.1% increase.
98. Reclaim Finance provides detailed recommendations and an assessment of current sectoral policies applied by financial institutions worldwide in its Coal Policy Tracker and Oil and Gas Policy Tracker.
99. The analysis is conducted based on the draft list of datapoints published in October 2023. The ESRS E1 section contains 220 datapoints, of which 16 are for E1-1 specifically. Many ESRS E1 datapoints outside of E1-1 are also directly linked to the minimum criteria from Reclaim Finance – for example the various datapoints related to GHG emission reduction targets on each scope.
100. The minimum criteria in "1. Decarbonization targets" that are not directly related to ESRS E1-1 are those related to carbon credits. These criteria remain relevant for other sections of the ESRS E1 (including E1-4 and 7) and are useful to ensure the quality of elements related to decarbonization targets included in E1-1.
101. The minimum criteria in "2. Decarbonization strategy" that are not directly related to ESRS E1-1 are those related to renewable energy deployment. These criteria remain relevant for other sections of the ESRS E1 (including E1-5).
102. The Paris-Aligned Benchmark includes exclusions related to fossil fuels. Companies are excluded if they derive: (i) 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite; (ii) 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels; (iii) 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels; (iv) 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO<sub>2</sub> e/kWh.
103. The minimum criteria in "4. Reporting and governance" related to reporting that are not directly related to ESRS E1-1 are those related to the verification of reporting. These criteria remain relevant for other sections of the ESRS E1 (including E1-4) and are useful to ensure the quality of elements related to decarbonization targets included in E1-1.
104. The minimum criteria in "4. Reporting and governance" related to governance that are not directly related to ESRS E1-1 are those related to the remuneration policies and the climate transition plan review and update. These criteria remain relevant for other sections of the ESRS E1 (including E1-4 and E1-13) and are useful to ensure the quality of elements related to decarbonization targets and strategy included in E1-1.
105. The compromise between the Council of the EU and the Parliament on CSDDD includes the obligation for large companies - including financial institutions - «to adopt and put into effect, through best efforts, a transition plan for climate change mitigation.»

106. The NGFS highlights the need for a forward-looking approach in its report Capturing risk differentials from climate-related risks. Forward-looking metrics and information are also prominently featured in the FSB report on Supervisory and Regulatory Approaches to Climate-related Risks.
107. In the paper "Prudential transition plans: the great enabler for effective supervision and regulation of climate-related financial risks?", Morgan Després and Hugh Miller underline that transition plans can be used to solve shortcomings of the conventional prudential framework including: "the poor availability and consistency of data, modelling constraints, and the long time horizon over which risks may materialize".
108. The European Banking Authority (EBA) mentions the use of transition plans in its report on the role of environmental and social risks on the prudential framework published in October 2023 that looks at short term actions that should be taken in light of the revision of CRR/CRD. The EBA notably says that "as the role of transition plans increases across industries, consideration should be given to the transition plans of counterparties when assessing environmental-related concentration risks".
109. In November 2022, the ECB set deadlines for banks to meet all supervisory expectations by the end of 2024. At the same time, the ECB raised Pillar 2 capital requirements for "a small number of banks" due to insufficient progress on climate-related risk management.
110. For the sake of clarity, the good practices identified by the ECB are summarized in the tables.
111. The Financial Stability Board's 2023 Work Programme features further work on climate change that includes the issue of transition plans.
112. Minimum criteria on decarbonization targets, decarbonization strategy and reporting and governance are relevant to both the EU ESRS disclosure requirements and the ECB supervisory expectations.
113. In a speech delivered in November 14th 2023, the Executive Board Member of the Bundesbank Sabine Mauderer underlined that: "Ideally, by disclosing one transition plan, companies can comply with regulatory requirements in multiple jurisdictions. And ideally, this one transition plan would provide banks and investors with the information they need." Having such plans that provide a response to competing regulations and expectations is indeed needed, but it requires setting up strong quality criteria to ensure the credibility and robustness of the plan.
114. NGFS members surveyed in the Stocktake on Transition Plans identified different purposes of transition plans: "Risk mitigation"; "Risk mitigation and greening system"; "Change management"; "Greening system"; "Disclosure tool"; "Risk mitigation and disclosure tool". The minimum criteria in this report deal with several of these purposes simultaneously.

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## Corporate Climate Transition Plans: What to look for

### Who are we?

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Reclaim Finance is an NGO affiliated with Friends of the Earth France. It was founded in 2020 and is 100% dedicated to issues linking finance with social and climate justice. In the context of the climate emergency and biodiversity losses, one of Reclaim Finance's priorities is to accelerate the decarbonization of financial flows. Reclaim Finance exposes the climate impacts of some financial actors, denounces the most harmful practices and puts its expertise at the service of public authorities and financial stakeholders who desire to bend existing practices to ecological imperatives.



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