

EFRAG IG [4]
Implementation Guidance [draft]
Transition Plan for Climate Change Mitigation

STATUS OF THIS DRAFT

Approval draft.

Editorial review on-going.

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Once approved in draft by SR TEG and SRB, it will be exposed for public feedback and finalised reflecting the outcome of this feedback.

This document will be publicly available on EFRAG's website.

[text in yellow mark external links or references to be provided]



Disclaimer

This implementation guidance is non-authoritative and accompanies the European Sustainability Reporting Standards (ESRS), as stipulated in Articles 19a and 29a of Directive 2013/34/EU (the Accounting Directive), but does not form part of them. This means that if anything in this guidance appears to contradict any requirement or explanation in ESRS, ESRS take precedence. This implementation guidance is issued following EFRAG's due process for such non-authoritative documents and under the sole responsibility of EFRAG.

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This implementation guidance has been developed for use by large listed and unlisted companies that are subject to ESRS. It is therefore not intended for use by non-listed small- and medium-sized enterprises (SMEs), which may use the upcoming Voluntary SME Standard.

This implementation guidance relates to the sector-agnostic ESRS as adopted by the European Commission on 31 July 2023. Sector-specific Standards may add sector specifications to be followed by specific sectors.

About EFRAG

EFRAG's mission is to serve the European public interest in both financial and sustainability reporting by developing and promoting European views in the field of corporate reporting. EFRAG builds on and contributes to progress in corporate reporting. In its sustainability reporting activities, EFRAG provides technical advice to the European Commission in the form of draft European Sustainability Reporting Standards (ESRS) elaborated under a robust due process and supports the effective implementation of ESRS. EFRAG seeks input from all stakeholders and obtains evidence about specific European circumstances throughout the standard-setting process. Its legitimacy is built on excellence, transparency, governance, due process, public accountability and thought leadership. This enables EFRAG to speak convincingly, clearly and consistently and be recognised as the European voice in corporate reporting and a contributor to global progress in corporate reporting.



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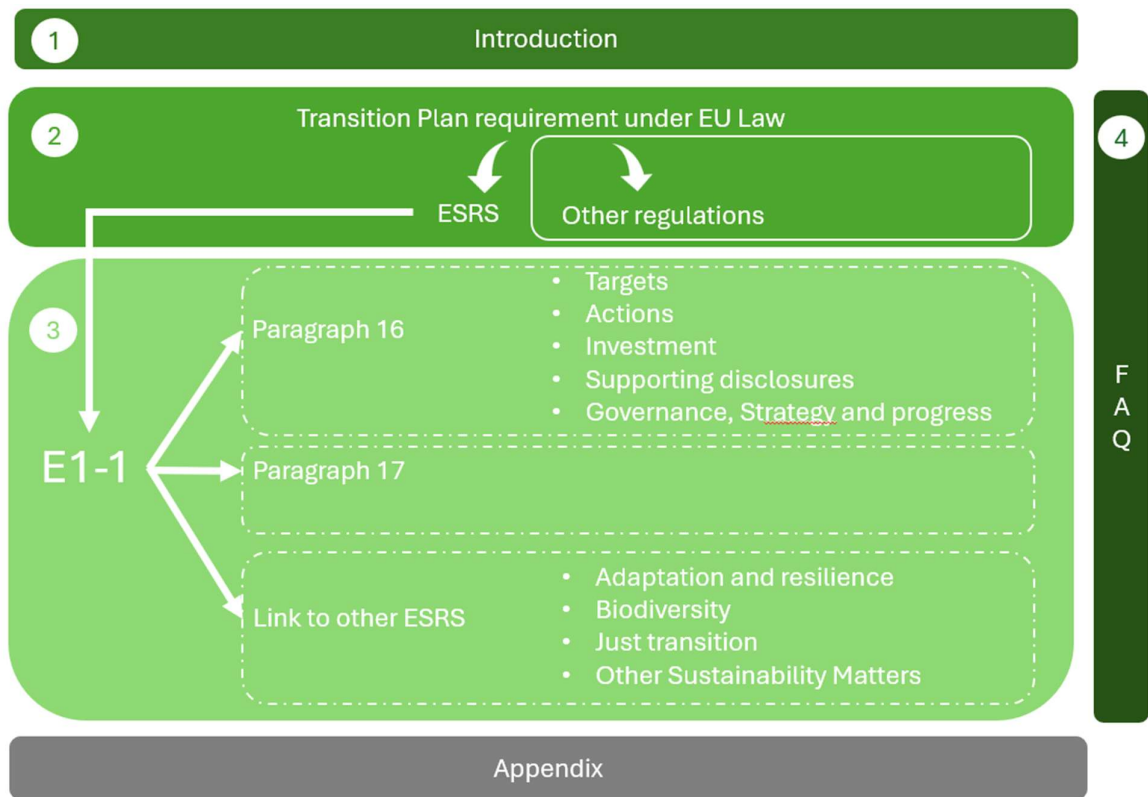
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About this guidance

1. This guidance provides non-authoritative support for undertakings in implementing transition plans for climate change mitigation, as required under the European Sustainability Reporting Standards (ESRS).
2. The document also provides context on reporting requirements on Transition plan under EU laws and how these interact with ESRS transition plan disclosure requirements, as well as Frequently Asked Questions on Transition Plan for Climate Change Mitigation.
3. The guidance is structured in four chapters including the Introduction. **Figure 1** gives you the overall content scheme covered by this guidance, for each of its chapters and Annexes.

Figure 1 – Structure and key content of this guidance



Key highlights of ESRS requirements

4. ESRS E1-1 sets the disclosure requirements on Transition Plan for Climate Change Mitigation. It supports the preparation of a strategic summary about the actions, targets and other elements of the efforts to manage the IROs connected to climate change mitigation.
5. The Transition Plan for Climate Change Mitigation should address the entirety of the reported emissions in E1-6, determined subject to the materiality assessment process, including significant Scope 3 emissions determined based on their magnitude.
6. The undertaking shall disclose whether the targets adopted as part of its climate mitigation transition plan are compatible with limiting global warming to 1.5°C. It shall also illustrate how their targets compare with a 1.5°C target base value.
7. The action plan shall encompass a 5-year period but longer-term planned actions should also be described, given that certain types of assets and activities requires planning over several five-year cycles. Undertakings are not required to implement the actions, in particular those that are not possible due to expectations on external factors not being met, but need to carry out analysis the analysis of what these are, and provide yearly update disclosures on their implementation progress (ESRS 2, paragraph 68) and the achieved and expected GHG emission reductions.
8. The Transition Plan for Climate Change Mitigation disclosures should seek to clearly layout the coherence between targets, actions, financial planning and strategy and business model. Climate change mitigation can generate impacts, risks and opportunities connected to other sustainability matters that also need to be transparently disclosed.
9. A complete Transition Plan for Climate Change Mitigation should describe as minimum content the targets, actions, financial planning, how it is embedded and aligned with the strategy and business model and if the plan has been approved by the administrative, management and supervisory bodies. However, an undertaking can disclose an incomplete Transition Plan for Climate Change Mitigation in E1-1 by disclosing only the elements that it has in place.
10. ESRS E1 and IFRS S2 have a high level of alignment. As this guidance does not modify the requirements in ESRS E1, it is not expected to have an impact on the level of alignment between these two standards. Appendix 4 shows how the content of this guidance can be mapped to the content of the material issued by the UK TPT.



1. Introduction

11. This Guidance aims to support preparers (i.e. undertakings) and users of ESRS sustainability statements on the implementation of disclosure requirements related to transition plans for climate change mitigation (DR E1-1 and ESRS 2 relevant Disclosure Requirements). Through it, users and preparers should be able to better understand the nature of the information and data to be disclosed in sustainability statements and possible methodologies to be used to produce that information. The content of this guidance has been developed on the basis of the July 2023 Delegated Act on the ESRS¹ (Delegated Act).
12. This Guidance is non-authoritative. In cases where this Guidance presents approaches or methodologies that are not explicitly detailed in the Delegated Regulation (EU) 2023/2772, these should be understood as possible implementation options, not excluding alternative approaches. In any case, the requirements in the ESRS prevail.
13. This Guidance also uses certain terminology, most of which is defined in the ESRS Glossary or in other parts of the Delegated Act. When a certain term is used and is defined in the ESRS, it appears in ***bold italics*** as it does in the ESRS, and its definition is presented in a footnote when first used.
14. This Guidance refers to sector-agnostic ESRS, which apply to all undertakings regardless of which sector or sectors they operate in. As such, its contents may not fully address sector-specific challenges related to reporting on climate mitigation transition plans. Further clarifications on transition plans may be provided via ESRS sector Standards, including the sector standards for financial institutions.
15. This guidance is focused on transition plans for climate change mitigation. However, due to their strategic nature, transition plans often interact also with other environmental and social topics. Therefore, relevant interfaces are identified and briefly described in this Guidance, for example regarding biodiversity or ensuring a just transition. However, this Guidance focuses exclusively on clarification of disclosure requirements on transition plans for climate change mitigation as outlined in ESRS E1-1. Given the structure of the ESRS, disclosure requirements covering transition related information beyond climate change mitigation are covered by the other topical ESRS, for example ESRS S1 for employees or ESRS S3 for affected communities.

1.1. Structure

16. This Guidance organises its content into the following chapters.
 - Chapter 2 introduces transition plan requirements under EU law, firstly focusing on ESRS requirements and then briefly describing

¹ Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023, supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards European Sustainability Reporting Standards, in accordance with the requirements of Articles 19a and 29a of the Directive 2013/34/EU (referred to as the 'Accounting Directive') as amended following the Corporate Sustainability Reporting Directive (referred to as 'the CSRD').

transition plan transparency requirements under other EU policies and laws.

- Chapter 3 details what and how to disclose regarding each datapoint required in DR E1-1-transition plan for climate change mitigation and interface of E1-1 with other sustainability matters.
- Chapter 4 complements Chapters 2 to 3 with responses to FAQs.
- The appendices present other information that could be relevant to stakeholders on topics covered by this guidance, e.g. further details on EU Law requirements, links to other transition plan reporting frameworks on transition plan; or information about EU scenario mitigation pathways.

1.2. Cross-references to EFRAG's 'Reference Practices on Climate Transition Planning'

17. The European Commission has promoted the constitution of a group of experts² who advised EFRAG in preparing educational material illustrating the process for developing a transition plan for climate change mitigation – the transition planning process – aligned with the applicable European regulation and international practice. This educational material is compiled in the Reference Practices (or RP) document on Climate Transition Planning. The RP document does not bind the European Commission and does not constitute authoritative interpretation under EU law.
18. This Guidance references the RP on Climate Transition Planning, which is not an integral part of it but constitutes an important contextual element for understanding best practices for transition planning and achieving meaningful disclosure on a transition plan for climate change mitigation under ESRS E1-1.
19. The RP on Climate Transition Planning, which focuses on process elements, provides further useful information and practical examples on aspects of GHG inventory and GHG emission reduction targets.

1.3. Acronyms used

20. Acronyms in this Guidance are used as follows:

CSDDD - Corporate Sustainability Due Diligence Directive (2024/1760)

CSRD - Corporate Sustainability Reporting Directive (2022/2464)

CMTP - Climate Mitigation Transition Plan (the same as transition plan for climate change mitigation)

Delegated Act - Commission Delegated Regulation supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards

² For details on the composition of this group, please see the document "Reference Practices on Climate Transition Planning", page #.

DR - disclosure requirement

ESRS - European Sustainability Reporting Standards derived from (EU) 2023/2772 from 31 July 2023

EU Taxonomy - Regulation (EU) 2020/852³

ESRS Glossary - Annex 2 of the Delegated Act with Acronyms and Terms defined in the ESRS

GHG - greenhouse gases (GHG)

MDR - Minimum Disclosure Requirements

IROs - impacts, risks and opportunities

³ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13)

2. Transition plan requirements under EU law

21. Meeting the 2050 climate neutrality goals is a key policy priority for the EU⁴, and the concept of “transition plan” is reflected in a series of EU policy instruments. Undertakings active in the EU may face a number of different requirements related to transition plans. These requirements may originate from EU regulation and policy initiatives. In the following sections, the transition plan disclosures in the ESRS (Section 2.1) and other relevant legal requirements from European Union law (Section 2.2) are briefly introduced. .

2.1 Transition plan requirements in the ESRS

22. In the ESRS, transition plans are generally understood as the plan(s) of an undertaking to adjust its strategy and business model to ensure compatibility with the transition to a sustainable economy. Transition plans are a mandatory disclosure in ESRS E1 (Climate change) and a voluntary disclosure in ESRS E4 (Biodiversity and ecosystems).
23. Four definitions laid out in Annex II of the ESRS delegated act are relevant in this regard:
- (a) According to the definition of ‘actions’ stipulated therein, ‘Actions refer to:
 - i. actions and action plans (including transition plans) that are undertaken to ensure that the undertaking delivers against targets set and through which the undertaking seeks to address material impacts, risks and opportunities; and
 - ii. decisions to support these with financial, human or technological resources.’
 - (b) ‘Climate change mitigation’ is defined as ‘The process of reducing GHG emissions and holding the increase in the global average temperature to 1.5°C above pre-industrial levels, in line with the Paris Agreement.’
 - (c) ‘Transition plan’ is defined as ‘A specific type of action plan that is adopted by the undertaking in relation to a strategic decision and that addresses:
 - i. public policy objective; and/or
 - ii. an entity-specific action plan organised as a structured set of targets and actions, associated with a key strategic decision, a major change in business model, and/or particularly important actions and allocated resources.’⁵
 - (d) ‘Transition plan for climate change mitigation’ is defined as ‘An aspect of an undertaking’s overall strategy that lays out the undertaking’s targets, actions and resources for its transition to a lower-carbon economy, including actions such as reducing its GHG emissions with regard to the objective of limiting global warming to 1.5° C and climate neutrality.’⁶

⁴ The climate neutrality objective has been established by Directive EU 2021/1119 (‘European Climate Law’).

⁵ From ESRS Annex II *Acronyms and Glossary of terms*.

⁶ From ESRS Annex II *Acronyms and Glossary of terms*.

24. Some key features to highlight in relation to the CSRD requirements on transition plans are: first, the mandatory nature of the CSRD and ESRS disclosures; second, the comprehensiveness of the ESRS framework (ESRS1, ESRS 2, the 10 Topical Standards and forthcoming Sector Standards) with respect to sustainability disclosures; and third, the fact that ESRS disclosures are to be incorporated as part of the sustainability statement in the undertaking's management report, which is subject to external audit.
25. As mentioned above in paragraph 25, the founding elements of the definition of a transition plan stipulate that:
 - b. the plan be adopted in relation to a public policy objective and/or an entity-specific plan associated with a key strategic decision or a major change in the business model;
 - c. the plan be associated with the undertaking's strategy, i.e.:
 - i. it involves the highest levels of governance bodies; and
 - ii. it has a transformative potential of the undertakings' business model/products/services/markets/operations/value chain;
 - d. the plan be substantiated by a set of targets;
 - e. the plan be accompanied by key actions; and
 - f. key actions be accompanied with allocated resources necessary to implement them.
26. An undertaking's actions in the context of a transition plan may materially impact other topics. This is also acknowledged in the Taxonomy Regulation with the DNSH (Do No Significant Harm) principle - which ensures that economic activities making a substantial contribution to a particular environmental objectives does not significantly harm others. Consequentially, in accordance with ESRS 1, Chapter 3.6 *Material impacts or risks arising from actions to address sustainability matters*, the undertaking may identify situations in which its actions for addressing certain impacts or risks, or to benefit from certain opportunities in relation to a sustainability matter - such as the ones addressed through a transition plan - might have material IROs associated with other sustainability matters. ESRS 1 paragraph 53 clarifies that in such situations the undertaking shall:
 - g. disclose the existence of material negative impacts or material risks together with the actions that generate them, with a cross-reference to the topic to which the impacts or risks relate; and
 - h. provide a description of how the material negative impacts or material risks are addressed under the topic to which they relate.
27. In the context of a transition plan for climate change mitigation, this may include disclosures on several non-climate related sustainability matters that interact with climate change mitigation, such as adaptation, biodiversity and Just Transition. Further guidance on disclosures on non-climate related sustainability matters is provided in section 3.9.
28. ESRS 1 requires undertakings to apply the qualitative characteristics of information when preparing the sustainability statement. While such

characteristics apply to each and every disclosure included in the sustainability statement, they are particularly relevant when groups of disclosures - as it is the case for transition plans - are intended to provide information on different sustainability aspects of a complex economic or business phenomenon. An undertaking is therefore expected to apply these qualitative characteristics - relevance, faithful representation, comparability, verifiability and understandability - not only to the individual pieces of information conveyed by the transition plan but also to ensure that the transition plan as a whole meets these characteristics. Only in this way can the plan be regarded as effectively meeting the disclosure objectives such as laid out in ESRS E1-1, paragraph 15, for climate transition plans.

29. Even if not explicitly related to transition plans, general disclosure requirements from ESRS 2 also support their overall consistency as a whole and compatibility with other European Union law requirements.
 - i. Disclosure requirements regarding the role of the administrative, management and supervisory bodies (GOV-1), information provided to and sustainability matters addressed by the undertaking's administrative, management and supervisory bodies (GOV-2), the integration of sustainability-related performance in incentive schemes (GOV-3), and the statement on sustainability due diligence (GOV-4) are necessary to fully comply with the CSDDD's comprehensive requirements regarding the governance, and adoption, of transition plans.
 - j. Disclosure requirements regarding the description of the process for identifying and assessing material impacts, risks and opportunities (IRO-1), and the disclosure requirements in ESRS covered by the undertaking's sustainability statement (IRO-2), provide a comprehensive and mandatory disclosure framework that captures all the different aspects related to sustainability IROs and the undertaking's approach to managing them.
 - k. Disclosure requirements regarding strategy, business model and value chain (SBM-1); the interests and views of stakeholders (SBM-2); and the material impacts, risks and opportunities and their interaction with strategy and business model (SBM-3) contain requirements related to strategy and business model, actions for addressing IROs and the resilience of the undertakings strategy and business model in the process of addressing the IROs and adapting the strategy and business model. In disclosing these requirements the undertaking should ensure consistency between the identified material sustainability IROs and the undertaking's capacity to address them.
30. More specifically, the **Transition Plan for Climate Change Mitigation's** disclosure requirements are addressed in **Disclosure Requirement E1-1**.
31. When reporting the **Transition Plan for Climate Change Mitigation** as required by ESRS E1-1, the undertaking shall also disclose information responding to **disclosure requirements** on action and resources in relation to climate change policies (E1-3) and targets related to climate change mitigation and adaptation (E1-4), which are directly referenced in (E1-1

paragraph 16) and are applicable. They provide more details about actions and targets supporting the CMTP.

32. Minimum disclosure requirements on Actions (ESRS 2 MDR-A paragraphs 60-62 and paragraphs 66-69) and Targets (ESRS 2 MDR-T paragraphs 70-72 and paragraphs 78-81) referenced in ESRS 2 are also applicable and their datapoints are fully integrated, as they are required to disclose on (E1-3) and (E1-4).
33. Even though not explicitly referenced in E1-1, the definition of **Policy**⁷ (ESRS 2 MDR-P paragraphs 60-62 and paragraphs 63-65) is equally relevant in this context: considering the strategic importance of the transition plan, it is anticipated that the organisation's strategic goals should be reflected in the policies the organisation adopts on various sustainability matters, such as climate mitigation, adaptation, energy, supplier and policy engagement, land use, human rights, and workforce management. Therefore, disclosing on the existence and content of related policies⁸ will help to increase the whole CMTP consistency and readability.
34. As such, transparency on action plans is based upon both ESRS 2 DRs, as well as, in the case of Transition Plan for Climate Change mitigation, E1 topical DRs.
35. The next section presents the EU law transparency requirements related to climate action plans and transition plans. It presents the ESRS general approach and cross dependencies between ESRS standards to disclose on **Transition Plan for Climate Change Mitigation** in accordance with ESRS. The requirements specifically related to **Transition Plan for Climate Change Mitigation** in ESRS E1 are described in detail in Chapter 3. (adjust in the following text too..)

2.2 Transition plan requirements in other EU laws

36. The requirements on transition plans included under the different EU regulations have different but complementary purposes and should be addressed in a coherent manner. Different EU regulations focusing on climate action or sustainability compose a set of requirements for sustainability transition, which can either support or be supported by the transparency requirements set by the ESRS.

⁷ A set or framework of general objectives and management principles that the undertaking uses for decision-making. A policy implements the undertaking's strategy or management decisions related to a material sustainability matter. Each policy is under the responsibility of a defined person(s), specifies its perimeter of application and includes one or more objectives (linked, when applicable, to measurable targets). A policy is validated and reviewed following the undertaking's applicable governance rules. A policy is implemented through actions or action plans.

⁸ A reminder that the ESRS do not oblige undertakings to adopt a policy but, at a minimum, to disclose whether they have one or not.

37. The key EU regulations which interact with the CSRD and ESRS disclosure requirements on CMTP are briefly summarised in the following paragraphs. Further information can also be found in Annex 1, explaining in more detail the requirements of other EU regulation beyond CSRD and how they interact with ESRS.
38. The [EU Taxonomy](#) is a cornerstone of the EU's sustainable finance framework and an important market transparency tool. It is a classification system that defines criteria for economic activities that are aligned with a net zero trajectory by 2050 and the broader environmental goals other than climate. It helps direct investments into the economic activities most needed for the transition, in line with the European Green Deal objectives. EU Taxonomy disclosures can provide key metrics for monitoring progress of transition plans, including whether spending (capex) is in line with sustainability goals. The disclosures on eligibility and alignment with the EU Taxonomy criteria and the respective amount of operating and capital expenditure of the undertaking are part of the sustainability statement and can be used as metrics for monitoring progress in transition plans.
39. The Corporate Sustainability Due Diligence Directive ([CSDDD](#)) aims to foster sustainable and responsible corporate behaviour in undertakings' operations and across their global value chain. Among its provisions, it sets out an obligation for the undertakings in scope to adopt and put into effect a transition plan for climate change mitigation which aims to ensure, through best efforts, that the business model and strategy of the undertaking are compatible with the transition to a sustainable economy and with the limiting of global warming to 1,5 °C in line with the Paris Agreement and the objective of achieving climate neutrality as established in Regulation (EU) 2021/1119 (EU Climate Law), including its intermediate and 2050 climate neutrality targets.
40. The Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRD/CRR) transpose the global standards on bank capital (the Basel III agreement) into EU law, providing a framework strengthening the requirements regarding corporate governance arrangements and processes. It also introduces rules aimed at improving the status of the risk management function and ensuring its effective monitoring by risk supervisors. In this context, CRD requires institutions to develop specific plans to monitor and address ESG risks including those that may arise as the EU transitions towards a net-zero economy and mandates the EBA to specify the key contents of these plans. Accordingly, the CRD requirements are further specified by the EBA Guidelines on the management of ESG risks [link towards the final GLs to be added once they're published]. Plans under CRD focus on (prudential) risks and constitute a new risk management tool through which institutions should understand, assess and manage the risks stemming from their activities and exposures in view of the process of adjustment towards the regulatory sustainability objectives of the jurisdictions they operate in or broader transition trends towards a sustainable economy. As the ESRS requires IRO analysis and to anticipate the financial effects, institutions that are in the scope of these requirements should develop a coherent and consistent approach to complying with both pieces of legislation and reach important synergies, such as by relying on materially identical or significantly comparable relevant information to the extent possible. Contrary to CSRD, prudential plans are not

subject in their entirety to disclosure – although some parts would feed into disclosures required by CSRD and/or Pillar 3 – but will be assessed by banking prudential supervisors as part of the supervisory review and evaluation process.

41. Solvency II is the prudential regime for insurance and reinsurance undertakings in the EU. Insurance undertakings are required to identify and manage sustainability risks as part as part of the regulatory requirements on risk management (See: Commission Delegated Regulation (EU) 2021/1256 of 21 April 2021 amending Delegated Regulation (EU) 2015/35 as regards the integration of sustainability risks in the governance of insurance and reinsurance undertakings, Articles 260 and 269). In addition, EIOPA has received under Solvency II a mandate to develop draft Regulatory Technical Standards (RTS) to further specify the minimum standards and references methodologies for the identification, measurement, management, and monitoring of sustainability risks (Solvency II Directive, Article 44 new paragraph 2c). Elements of these sustainability risk “plans” will need to be disclosed, as required under the Solvency II Directive. The draft RTS enable insurance undertakings, including those that are subject to the Corporate Sustainability Reporting Directive (CSRD), to report and disclose on sustainability risk in a consistent and efficient manner. The RTS specify the minimum standards and methodologies, including selected risk metrics, for performing on prudential sustainability risks, as required by the Solvency II Directive, in more detail than the CSRD. The disclosure requirements aim to be consistent with the general disclosure requirements on risks covered by the CSRD. To the extent relevant, the reporting requirements on elements of the Solvency II sustainability risk plan align with the structure of the CSRD disclosures, limiting the reporting burden for insurance undertakings. In particular, the elements identified for public disclosure as part of the Solvency II Solvency and Financial Condition Report (SFCR) are consistent with disclosures required under CSRD. The draft RTS under solvency II do not specify elements for transition plans as defined under CSRD, as their primary focus is on prudential risks, including those caused by the transition. The undertaking’s risk management should consider risks arising from its transition planning and ensure consistency between targets and actions reported under CSRD for reducing the impact of the underwriting or investment strategy on sustainability factors, on the one hand, and targets and actions to manage the financial risk arising from these actions, on the other hand. As for the CRD, the “sustainability risk plans” are not subject to (public) disclosure but will be assessed by banking prudential supervisors as part of the supervisory review and evaluation process.

42. [EU Green Bonds](#) play an important role in financing assets needed for the low-carbon transition. With the European Green Bond Standard, the EU aims to set a clear gold Standard for green bonds. The Standard relies on the detailed criteria of the EU taxonomy for defining green economic activities, ensuring levels of transparency in line with market best practice and establishing supervision of undertakings carrying out pre- and post-issuance reviews at European level. The strategy adopted by the undertaking regarding the use of those green bonds can related to the CMTP, especially for the financial sector.

43. The EU Emissions Trading Scheme ([EU ETS](#)) is a cornerstone of the EU's climate mitigation policy, and it is a key tool for reducing greenhouse gas emissions in a cost-effective way. The EU ETS Directive (as amended in May 2023) requires certain operators to establish climate-neutrality plans. Climate-neutrality plans are to be drafted to receive the conditional free allocation of installations by operators whose greenhouse gas emission levels are higher than the 80th percentile of emission levels for the relevant product benchmarks. Where these plans exist at asset level, they will inform or be part of the inputs into the undertaking consolidated transition plan.
44. The Industrial and Livestock Rearing Emissions Directive ([IED2.0](#)) is the main EU instrument for reducing these emissions to air, water and land and for preventing waste generation from large industrial installations and intensive livestock farms (pig and poultry). Industries will have to develop transformation plans, describing how their installations will progress towards decarbonisation, zero pollution and a circular economy. As with the EU ETS plans, asset level plans should inform the undertaking consolidated transition plan.
45. The Energy Efficiency Directive ([EED](#)) introduces a series of measures to help accelerate energy efficiency, including embracing the 'energy efficiency first' principle in the energy and non-energy policies. It requires firms to create an action plan based on an energy audit every four years beginning in 2026, as detailed in Article 11(2) of the EED. This action plan is a key input that can feed the CMTP detailed in this guidance informing actions related to energy efficiency, an essential decarbonization level for the transition.
46. The commission recommendation on facilitating finance for the transition to a sustainable economy provides guidance as well as practical examples for undertakings and the financial sector on transition finance. It details practical suggestions on how to approach transition finance.
47. The Eco-management and Audit Scheme ([EMAS](#)) set up by Regulation 1221/2009 is the premium voluntary environmental management system which registered undertakings can use as a basis to draft their transition plan. They can use from EMAS verified information about its policies, objectives/targets, actions and strategy according to Annex IV B (b, d, e) as key elements to start drafting their transition plan as well as to disclose on ESRS E1-1 whenever those cover climate change.

3. Transition plan for climate change mitigation (E1-1)

48. This section provides guidance for the implementation of disclosure requirement ESRS E1-1 'Transition Plan for Climate Change Mitigation'. It follows the structure of disclosure requirement laid out in paragraph 16 of ESRS E1-1.

3.1 Overall disclosure objective of ESRS E1-1

49. The **Transition Plan for Climate Change Mitigation**⁹ covered by the ESRS E1-1 Disclosure Requirement contains different elements related to strategy, policies, targets, action plans and resources. It is, in practice, a strategic summary of disclosures provided in E1, with some additional transparency elements. This differs from a simple, generic climate plan as its specific intention is to provide users of information with an understanding of the undertaking's past, current and future efforts to ensure that its strategy and business model are compatible with the objective of limiting global warming to 1.5 °C. Hence, it is to be understood in terms of transparency with regard to the transition plan, which provides a level of information enabling users to assess the ambition and credibility¹⁰ of the transition plan itself in connection to limiting global warming to 1.5 °C. By disclosing the elements detailed in paragraph 16 explained below, the undertaking can effectively illustrate its strategy and ambition to mitigate climate change.
50. The disclosures on the plan provided under E1 paragraph 16 are designed to provide an understanding of the plan as a whole, and the detail of the information disclosed under E1-1 is to be proportionate to the IROs of the undertaking - which can be related to its size, exposure to high impact/high risk climate activities. For example, undertakings with a large share of locked in emissions, may need to consider more details; smaller, less exposed undertakings, may provide simpler disclosures.
51. Consideration should be given to the consistency between the targets and the proposed actions, investments and changes in strategy and business model. Other key considerations are (i) the consistency of the information disclosed under E1-1 and the information disclosed in the financial statements, and (ii) the assumption used in the preparation of both the financial statement and the sustainability statement. Required information encompasses the steps, timelines, responsibilities (ESRS 1 paragraph 123; E1 paragraph 1), means and resources allocated or planned to make its strategy and business model compatible with limiting global warming to 1.5 °C.
52. The compatibility of targets with the objective of limiting warming to 1.5°C plays an important role in the consideration of transition plans, in particular

⁹ An aspect of an undertaking's overall strategy that lays out the undertaking's targets, actions and resources for its transition to a lower-carbon economy, including actions such as reducing its GHG emissions with regard to the objective of limiting global warming to 1.5 °C and climate neutrality.

¹⁰ The credibility of a transition plan for climate change mitigation is not a concept that is currently defined under ESRS. For a possible reference see the [NGFS report on credible micro-prudential transition plans](#) that provides the following definition: "the credibility of a transition plan could be broadly defined as the quality and completeness of the described actions to mitigate and adapt to climate risks."

regarding the assessment of the undertaking's efforts to ensure that its Strategy and Business Model are compatible with limiting of global warming to 1.5 °C in line with the Paris Agreement. In particular:

- i. ESRS E1-4 requires the disclosure of GHG emission reduction targets if the undertaking has set them.
 - m. Paragraph E1.34) (e) requires a statement whether the GHG emission reduction targets are science-based and compatible with limiting global warming to 1.5°C.
 - n. ESRS E1-1, paragraph 16(a), requires transparency on how the undertaking's targets are compatible with the objective of 1.5°C.
53. Following the connectivity principle (ESRS 1, section 9.2), the disclosure under paragraph 16(a) and that under paragraph 34(e) should be presented in a way that facilitate an understanding of the overall aspects of the undertaking's transition plans.
54. For each of the subchapters below, the list of all relevant datapoints to be disclosed according to ESRS is presented in the CMTTP Workbook. The CMTTP Workbook is a tool provided by EFRAG that aims to group all ESRS E1 DRs and ARs together, accordingly, with the appropriate datapoints under ESRS E1, paragraph 16. [[separate document - link](#)].

ISSB Interoperability

The International Sustainability Standards Board (ISSB) and the European Commission services, together with EFRAG, have worked together during the development of the ESRS and the IFRS Sustainability Disclosure Standards (ISSB Standards) to achieve a high degree of alignment of the respective standards, with a specific focus on climate-related reporting. Consequently, there is a high degree of alignment of the climate-related disclosures in the two sets of standards and, in particular, almost all the disclosures in ISSB Standards related to climate are included in ESRS. The joint interoperability guidance¹¹ describes the alignment of disclosure requirements and information that an entity starting with each set of standards needs to know to enable compliance with both sets of standards, ensuring interoperability between them. Paragraph 14(a)(iv) of IFRS S2 requires disclosure of any climate-related transition plan the entity has, including information about key assumptions used in developing its transition plan, and dependencies on which the entity's transition plan relies. An entity applying ESRS that also wants to comply with IFRS S2 should ensure that any key assumptions and dependencies that are not already captured through the disclosure required by ESRS E1 are included in the disclosure in order to meet the requirement in paragraph 14(a)(iv) of IFRS S2.

3.2 References to other ESRS requirements beyond E1-1

55. In certain disclosure requirements present in ESRS E1-1, references to other ESRS exist. Multiple elements of ESRS 2 provide the basis for the transparency

¹¹ <https://www.efrag.org/sites/default/files/sites/webpublishing/SiteAssets/ESRS-ISSB%20Standards%20Interoperability%20Guidance.pdf>

required to understand **transition plans**. These are described in the previous chapter. In Chapter 3, references to other ESRS E1 disclosure requirements are also made when they are necessary to inform reporting requirements directly related to ESRS E1-1.

56. ESRS 1 Section 8.2 *Content and structure of the sustainability statement*, which includes rules on presentation, does not impose a fixed presentation structure for disclosures on the transition plan for climate change mitigation. As a result, the undertaking will be able to present the information as most appropriate to its individual case provided that ESRS 1 Section 8.2 *Content and structure of the sustainability statement* requirements are met.
57. Sometimes undertakings must relate specific components of the transition plan back to information provided in other DRs. When a reference to another DR is required (indicated by mentioning ‘by reference to’), the undertaking is not limited to this reference and may either be obligated to, or may choose to, add additional information. Moreover, the undertaking can opt to include a simple reference to information contained in other DRs or choose to include the information in ESRS E1-1 and refer to it in other ESRS disclosures (ESRS 1 paragraph 115). It is not mandatory to duplicate information required under different DRs although it is possible to duplicate it if the undertaking deems this relevant.

3.3. Explaining targets’ compatibility – 16(a)

Disclosure (ESRS E1-1 16(a)) [The information required by paragraph 16 shall include]

by reference to GHG emission reduction targets (as required by Disclosure Requirement E1-4), an explanation of how the undertaking’s targets are compatible with the limiting of global warming to 1.5 °C in line with the Paris Agreement;

58. This explanation is intended to provide transparency on how the undertaking’s targets are compatible with the limiting of global warming to 1.5 °C in line with the Paris Agreement and with the transition to a climate- neutral economy. The compatibility is to be presented by disclosing GHG emissions reduction targets benchmarked to a reference pathway to 1.5 °C and by providing an explanation of how and to what extent the undertaking’s strategy, business model(s) and climate transition plans are contributing to, and compatible with, the transition to a climate-neutral economy and with the limiting of global warming to 1.5°C in line with the Paris Agreement. Relevant contextual information on how the GHG emission reduction targets and reference pathways as well as target values have been established shall be provided. Besides the E1-1 paragraph 16(a), E1-4 paragraph 34 also deals with target value, precisely the reference target value.

What is the reference target value?

‘Reference target value’ is a term used in the context of GHG targets disclosure pursuant to ESRS E1-4 disclosures. Its use relates to the statement required by E1 paragraph 34(e) on whether the

GHG emission reduction targets are science-based and compatible with limiting global warming to 1.5 °C.

The reference target value (RTV) is the level of GHG emissions' reduction for Scope 1 and 2 (and, if applicable, Scope 3) that would be necessary to align with the goal of limiting global temperature rise to 1.5°C above pre-industrial levels, as established by the Paris Agreement and translated to the EU-level through the European Climate Law's long term and intermediate emission reduction targets.

The RTV shall be used to benchmark the ambition of the undertaking's own GHG emission reduction target as required by ESRS E1 AR 26. To determine RTVs, undertakings can use climate scenarios containing GHG-emission-mitigation trajectories as well as variables that characterise activity levels (when building GHG intensity trajectories).

The absence of sectoral pathways defined by the public policies to inform these calculations, as referred to in ESRS E1-1 AR2, is [expected to be] addressed for the EU through European Climate Law-aligned sectoral reference pathways made available through this guidance document¹². The objective of these pathways is to provide publicly available, user-centric information covering both a) **decarbonisation pathways** providing a direction of travel to companies, and b) **decarbonisation lever pathways** to provide companies with an indicative set of mitigation options relevant to their sectors. The pathways are [expected to be] incorporated in accompanying guidance documents that aim to facilitate the pathways use. See Appendix II for further information.

Beyond the EU, SBTi provides tools to set reference target values based on cross-sectoral or sectoral pathways produced by credible sectoral or international institutions and scientific consortiums.

If the undertaking has diversified activities, it may choose to base itself on different pathways relevant to each of its activities and therefore calculate reference targets specific to each activity. When relevant and possible, it can then aggregate the results back to the consolidated level in line with its overall sustainability statement, as required by the CSRD.

59. This disclosure shall take account of the general disclosure's objective of ESRS E1-1 paragraph 15 *'the objective of this Disclosure Requirement is to enable an understanding of the undertaking's past, current, and future mitigation efforts to ensure that its strategy and business model are compatible with the transition to a sustainable economy, and with the limiting of global warming to 1.5 °C in line with the Paris Agreement and with the objective of achieving climate neutrality by 2050 and, where relevant, the undertaking's exposure to coal, oil and gas-related activities'*.
60. This disclosure is based on the GHG emission reduction targets disclosure required by ESRS E1-4, including reference to the statement whether an undertaking's GHG emission reduction targets are science-based and compatible with limiting global warming to 1.5 °C (ESRS E1-4 paragraph 34(e)).

¹² This work has been contracted by the European Commission from ICF and CLIMACT through the project 'Credible & Climate Law-aligned Transition Plans' under Framework contract CLIMA.A4/FWC/2023/0002.

61. Under E1-4, adopted GHG emissions reduction targets are not necessarily compatible with limiting global warming to 1.5°C. In all cases, the undertaking shall disclose all elements required under ESRS E1-1 and provide relevant explanations on the compatibility of its targets under ESRS E1-1§16(a).

How do ESRS E1-1 paragraph 16(a) and ESRS E1-4 paragraph 34(e) interact?

The purpose of E1-1 is to provide transparency on how a transition plan for climate change mitigation is compatible with limiting global warming to 1.5 °C (BC15).

E1-1§16(a) supports this objective by requiring an explanation of how targets are compatible with 1.5°C by reference to DR E1-4. The explanation of the compatibility of the targets shall be factual and objective and based on an appropriate reference target value clearly described and selected in accordance with AR26 and AR27.

E1-4§34(e) requires a statement on “whether the GHG emission reduction targets are science based and compatible with limiting global warming to 1.5 °C”. Under this requirement the undertaking shall clearly disclose its assessment with respect to the compatibility of the targets it has set and in doing so provide every relevant contextual information as further indicated under §34(e).

Following the connectivity principle, the disclosure under paragraph 16 (how the targets compare to 1.5 target values) and that under paragraph 34 (whether the targets are compatible with 1.5) should be presented in a way that facilitate an understanding of the overall aspects of the undertaking’s transition plans.

The undertaking shall state whether the GHG emission reduction targets are science-based and compatible with limiting global warming to 1.5 °C. The undertaking shall state which framework and methodology has been used to determine these targets, including whether they are derived using a sectoral decarbonisation pathway, and what the underlying climate and policy scenarios are as well as whether the targets have been externally assured. As part of the critical assumptions for setting GHG emission reduction targets, the undertaking shall briefly explain how it has considered future developments (e.g. changes in sales volumes, shifts in customer preferences and demand, regulatory factors, and new technologies) and how these will potentially impact both its GHG emissions and emissions reductions.

If the statement under §34(e) is that the targets are not compatible, then the undertaking should consider disclosing whether, when and under which conditions its transition plan for climate change mitigation may include in the future additional actions towards the objective of limiting global warming to 1.5°C and climate neutrality.

Context

62. Accounting and reporting GHG emissions pursuant to disclosure E1-6 is a fundamental step that will serve to establish a baseline for setting GHG targets and monitor the progress toward a previous baseline. This encompasses the organisation of an inventory of GHG sources and the calculation of GHG emissions under Scope 1 (direct emissions from own operations), Scope 2 (indirect emissions from the generation of purchased electricity, steam, heating and cooling) and Scope 3 (all other indirect emissions that occur in the undertaking’s value chain). Because this step is essential to the development of a transition plan for climate change mitigation, undertakings that have not

calculated or disclosed a GHG emissions inventory under E1-6 should report that they do not have a transition plan under E1-1 paragraph 17.

63. After calculating its GHG emissions, according to paragraph 33 of E1-4 the undertaking shall report whether and how it has set **GHG emission reduction**¹³ targets, which are forward-looking information reflecting the undertaking's level of ambition with regard to reducing its emissions and establishing its climate action pathway.
64. Following the provisions of ESRS MDR-T and the related paragraphs of E1-4, the undertaking reports its targets:
 - o. in absolute values and, if relevant, intensity values. Even if the undertaking considers that intensity targets are more relevant given its sector, the undertaking shall also disclose the associated absolute GHG emission values for the target and interim years to meet the requirement set in E1-4. This could mean disclosing an increase in absolute GHG emissions if the business expects significant organic growth;
 - p. for Scope 1, 2 and 3 emissions, either separately or combined, specifying which scopes and GHGs are included. Targets shall be gross, excluding GHG removals, carbon credits or avoided emissions, as a means of achieving the GHG emission reduction targets;
 - q. including the current base year and baseline value, with updates every five years from 2030 onwards. Past progress can be disclosed if it meets the standard requirements. Target periods of five years are required as they create accountability and facilitate the construction of auditable CapEx and OpEx plans for that period, including a reality check of delivery performance over the past five years on climate actions; and
 - r. including at least target values for 2030 and, if available, 2050.
65. GHG emissions targets scope should correspond to the scope reported under GHG emissions E1-6, because these were determined based on materiality (at the level of Scopes), and for the significant Scope 3 categories, determined based on the magnitude and other criteria (ESRS E1, paragraph 51 and AR46)(d)(e)) as per the GHG Protocol.
66. Further information on base-year-setting can be found in [the Compilation of Explanations released in July 2024](#) (ID 552). (Note: Other explanations related to the base year will be published in the coming months.)
67. Beyond the statement on target compatibility, E1-4 paragraph 34(e) also requires a statement on whether GHG emission reduction targets are science-

¹³ 'GHG emission reduction' (ESRS Glossary): 'Decrease in the undertaking's Scope 1, 2, 3 or total GHG emissions at the end of the reporting period, relative to emissions in the base year. Emission reductions may result from, among others, energy efficiency, electrification, suppliers' decarbonisation, electricity mix decarbonisation, sustainable products development or changes in reporting boundaries or activities (e.g. outsourcing, reduced capacities), provided they are achieved within the undertaking's own operations and upstream and downstream value chain. Removals and avoided emissions are not counted as emission reductions for this disclosure.'

based as well as on the nature of the framework and methodology used to determine the targets. The reference value shall, if available, be calculated based on a sectoral decarbonisation pathway rather than a cross-sectoral pathway.’

68. E1-4 paragraph 34(e) also requires an explanation of how future developments (dependencies on external factors such as changes in sales volumes, shifts in customer preferences and demand, regulatory factors, and new technologies) have been considered and how these impact its GHG emissions and emissions reductions.

3.4. Explaining decarbonisation levers – E1-1 16(b)

Disclosure (ESRS E1-1 16(b)) [The information required by paragraph 16 shall include]

by reference to GHG emission reduction targets (as required by Disclosure Requirement E1-4) and the climate change mitigation actions (as required by Disclosure Requirement E1-3), an explanation of the decarbonisation levers identified, and key actions planned, including changes in the undertaking’s product and service portfolio and the adoption of new technologies in its own operations, or the upstream and/or downstream value chain;

69. The disclosure in paragraph 16(b) of E1-1 requires the undertaking to explain its **decarbonisation levers**¹⁴ and key planned actions and their contribution to filling the gap between the baseline and the target, on the current five-year target period. This shall be done by reference to GHG emission reduction targets (E1-4) and climate change mitigation actions E1-3.
70. The undertaking may, in addition to the explanation, present its GHG emission reduction targets together with its decarbonisation levers in a table or graphical pathway showing developments over time (see Figure ##).

What are the climate change mitigation actions and decarbonisation levers?

The ESRS Glossary specifies that actions refer to ‘(i) actions and action plans (including transition plans) that are undertaken to ensure that the undertaking delivers against targets set and through which the undertaking seeks to address material impacts, risks and opportunities; and (ii) decisions to support these with financial, human or technological resources.’

Decarbonisation levers are ways of aggregating climate change mitigation actions and reductions expected in the value chain into streams of actions that help the undertaking communicate key strategic options through which it will seek to decarbonise its business. Undertakings can organise decarbonisation levers as they see best to communicate their actions. The fundamental concept behind decarbonisation levers is that over the target period the cumulative effect of these levers should match the reduction target. These levers should be

¹⁴ ‘Decarbonisation levers’ (ESRS Glossary): ‘aggregated types of mitigation actions such as energy efficiency, electrification, fuel switching, use of renewable energy, products change, and supply-chain decarbonisation that fit with undertakings’ specific actions.’

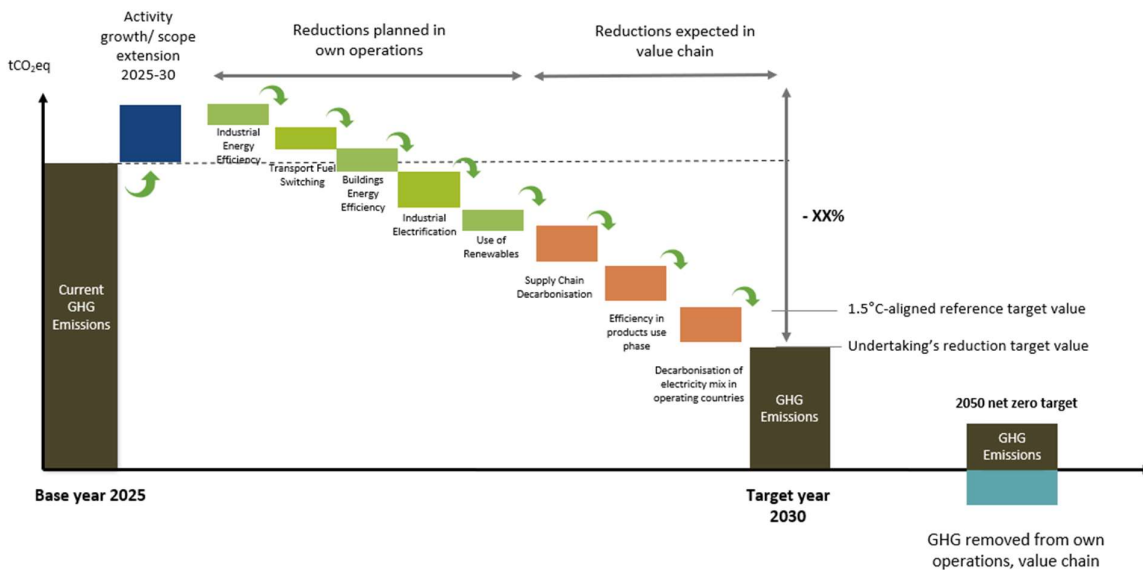
differentiated between the current target period and long-term periods to ensure that the planned actions are designed to achieve the desired reduction in GHG emissions.

Decarbonisation levers are intended to achieve GHG emission reductions. As such they are not limited to the undertaking's own operations and should extend to its value chain in order to reduce the undertaking's scope 1, 2 and 3 emissions.

For example, a decarbonisation lever identified as 'electrification' may include a number of actions taken by the undertaking: replacing natural gas-powered boilers with electric heating, changing the fleet to electric, implementing heat pumps and exchanging gas to electric furnaces. An example of decarbonisation lever at the level of scope 3 might be to support the supplier in the production of less carbon intensive products or to improve the current investment as well as procurement policies of the undertaking.

It is important to keep in mind that the contribution of decarbonisation levers to target achievement is forward-looking information that requires estimation leveraging plausible assumptions, which may be derived from such tools as policy scenarios and technology pathways.

Figure ## Graphical pathway showing targets and decarbonisation levers to achieve them, derived from ESRS E1 AR 31.



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

71. Explaining the actions supporting the implementation of the undertaking's CMTP (aggregated into decarbonisation levers) is intended to demonstrate the modelling effort performed by the undertaking and the seriousness of its roadmap. Such modelling efforts should include, but not be limited to, the use of policy or market development scenarios or technology pathways. This ensures that the undertaking has considered its decarbonisation levers' dependencies on external factors such as the evolutions of its operating environment, and their possible interactions with the implementation of its transition plan. For more details related to the modelling efforts, please refer to the RP on Climate Transition Planning.
72. Undertakings are not required to implement the actions, in particular those that are not possible due to expectations on external factors not being met, but to carry out analysis of what these are, and transparently report on them, and provide yearly update disclosures on their implementation progress (ESRS 2, paragraph 68) and the achieved and expected GHG emission reductions;
73. The key actions disclosed can also more broadly address other material impacts as determined in materiality assessment and reported under SBM-3.

Context

74. Disclosure requirement E1-3 covers the credibility of the undertaking's policies, strategy and business model regarding climate change by demonstrating that they are embedded in the business planning (BC40). It was designed to ensure that the contributions of the decarbonisation levers fully cover the GHG emission reduction targets on a medium-term time horizon (i.e. of five years, unless the possibility offered by ESRS 1 paragraph 80 is chosen).
75. Disclosure E1-3 requires the description of key actions taken (in the reporting year, the short-term time horizon) and planned (medium- and long-term time horizons). Following the applicable ESRS 2 MDR-A, the undertaking discloses its time horizons (short-, medium- and long-term), the key actions' dependencies on specific conditions (e.g. granting of financial support or public policy and market developments) and their expected outcomes for addressing material impacts, risks and opportunities. This allows the user to understand the undertaking's forward-looking plans for reducing emissions, namely the expected medium-term GHG emissions reductions. Long-term

planned actions should also be described, notably because the decarbonisation of certain types of assets and activities requires planning over several five-year cycles. However, it is understood that actions in the long-term horizon are necessarily more uncertain and likely to have stronger dependencies on external factors - as such, the long-term action plan can be described at a more aggregated level (e.g. levers) or groups of actions, that reflect their inherent uncertain.

76. Furthermore, the decarbonisation levers disclosed under ESRS E1-1 paragraph 16(b) will need to be associated to the undertaking's GHG emissions reduction targets (as required by ESRS E1-4). In particular, the undertaking is required to describe and quantify each lever's expected quantitative contribution to the achievement of GHG emissions reduction targets - covering both reductions planned in own operations and reductions expected in value chain. For more information regarding this disclosure, undertakings should refer to ESRS E1-3, which concern climate change mitigation actions and decarbonisation levers.

3.5. Explaining investment and funding - E1-1 16(c)

Disclosure (ESRS E1-1 16(c)) [The information required by paragraph 16 shall include]

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

77. This disclosure requires transparency on financial planning related to the decarbonisation levers that the undertaking has put forward in its transition plan. As referred to in the previous section, in disclosing in accordance with ESRS 2 MDR-A the undertaking should be clear as to the time horizon for the plan's deployment. It should also be clear on the planned financial resources allocated to actions over the same time horizon. This should take into consideration the fact that actions can also be 'decisions to support ... with financial, human or technological resources' (see the time horizons box below). This is expected to ensure that actions planned are properly resourced, that the plans are auditable and that reductions have a reasonable likelihood of being achieved over the medium-term time horizon period.
78. The disclosure is designed to ensure credibility and consistency between the CapEx and OpEx disclosed in ESRS reporting and the corresponding metrics presented under the EU Taxonomy's Article 8 disclosures. At the same time, it can be noted that the CapEx and OpEx should not be limited or restricted only to the EU Taxonomy disclosures, as the relevant expenditures may be associated with activities not yet eligible to the EU Taxonomy. That is why E1-3 paragraph 29(c) state that the undertaking shall relate significant monetary amounts of CapEx and OpEx required to implement the actions taken or planned to the relevant line items or notes in the financial statements, in addition to the Taxonomy-related KPIs.

79. The undertaking should use the information that it has disclosed under ESRS E1-3 *Actions and resources in relation to climate change policies* and aggregate this information to the decarbonisation lever level under this specific disclosure requirement. One way to do this is to first identify all decarbonisation actions that are being considered by the undertaking and estimate Opex and Capex amounts that will be required to implement them. After this, the undertaking should map out similar actions to higher-level decarbonisation levers. The global Opex and Capex amounts associated to actions should be aggregated at decarbonisation lever level and disclosed in association to these.

EU Taxonomy and its related disclosures

The EU Taxonomy for sustainable activities is a classification system that defines criteria for economic activities that are aligned with the net zero trajectory by 2050 and the broader environmental goals. Regulation 2020/852/EU is currently implemented through a number of delegated acts. In particular, the 2021/2139 (Climate Delegated Act) establishes the technical screening criteria related to climate change mitigation activities, while the 2021/2178 (Disclosure Delegated Act) specifies the methodology to comply with Taxonomy-disclosure obligations.

Non-financial undertakings disclose the proportion of environmentally sustainable economic activities that align with the EU Taxonomy criteria. Environmental performance is translated into financial variables, which are referred to as KPIs and include turnover, CapEx and OpEx.

When it comes to financial undertakings, they disclose Gross Annual Revenue (GAR), GAR (flow), financial guarantee, assets under management aligned, underwriting KPI and investment KPI to reflect the proportion of environmentally sustainable economic activities which are aligned with the EU Taxonomy criteria.

Time horizons

Under the Taxonomy Regulation Disclosures Delegated Act (Article 8) companies can disclose CapEx or OpEx investment plans for eligible economic activities to become taxonomy-aligned over the mid-term (within a period of five, and exceptionally ten years). However, it is important to note that the expected time of deployment of an asset - for example, energy-intensive, industrial and infrastructure physical assets - is often longer than five years. For example, a decision to deploy a complex zero-carbon industrial plant will take several intermediary steps - including preliminary viability studies, detailed engineering design, tendering and construction - all of which may take several years and require substantial financial resources. In these cases, the actions as well as the financial resources allocated may be broken into different steps. It should be clear, however, that financial resources allocated to such large projects can be considered as 'actions' in the medium-time horizon even if carbon reductions may only come to fruition in the long-term horizon.

Large CapEx and OpEx projects shall (ESRS 2-MDR-A paragraph 69):

(a) describe the type of current and future financial and other resources allocated to the action plan, including, if applicable, the relevant terms of sustainable finance instruments, such as green bonds, social bonds and green loans, the environmental or social objectives, and whether

the ability to implement the actions or action plan depends on specific preconditions, e.g. granting of financial support or public policy and market developments;

(b) provide the amount of current financial resources and explain how they relate to the most relevant amounts presented in the financial statements; and

(c) provide the amount of future financial resources.

Context

80. Disclosure requirement E1-3 (and ESRS 2 MDR-A), together with the description of actions, intends to establish transparency on how the undertaking intends to achieve its GHG emission reduction targets and therefore demonstrates the seriousness of its decarbonisation roadmap.
81. In particular, paragraph 29(c) of the E1-3 disclosure seeks transparency on the significant monetary amounts (CapEx and OpEx) required to implement the actions. This information shall relate to the relevant items in the financial statements as well as key performance indicators and CapEx plan (if applicable) required by regulation EU 2021/2178.

3.6. Explaining supporting disclosures

3.6.1 Explaining locked-in emissions – E1-1 16(d)

Disclosure (ESRS E1-1 16 (d)) [The information required by paragraph 14 shall include]

a qualitative assessment of the potential locked-in GHG emissions from the undertaking's key assets and products. This shall include an explanation of if and how these emissions may jeopardise the achievement of the undertaking's GHG emission reduction targets and drive transition risk, and if applicable, an explanation of the undertaking's plans to manage its GHG-intensive and energy-intensive assets and products ...

82. Importantly the disclosure requires a qualitative, rather than a quantitative, assessment of the potential locked-in emissions from key assets and products. The undertaking may, however, disclose quantitative elements to substantiate its qualitative disclosure if this is relevant. The qualitative assessment may comprise, for example, a description of an undertaking's car fleet or investments made in fossil-powered plants that need to be operated throughout their expected operating lifetime. Another example are the planes sold by an aircraft manufacturer with an expected lifetime of 25/30 years for passenger transport and 40 years when it comes to freight. Although qualitative, the assessment should be based on assumptions consistent with the scenarios/pathways considered for setting the targets.
83. The undertaking may consider disclosing the cumulative locked-in GHG emissions associated with key assets and with the direct use-phase GHG emissions of sold products in tCO₂eq.
84. Under certain circumstances, the undertaking may consider that its asset base or planned product portfolio generating locked-in emissions may jeopardise its ability to reach its target. For example, this may be because the undertaking

realises that the locked-in emissions that are implied by its current or planned asset base already account for a significant share of the yearly emissions that it can still produce by implication of its targets. In this case, the undertaking should identify the risk that these locked-in emissions pose even if this is not done by referencing a specific quantitative figure. This analysis should also be conducted to assess the transition risk associated with assets or long-lifecycle products that have high locked-in emissions. Indeed, these may become unusable for legal or cost-efficiency reasons as policy and technological updates occur, leading to a stranding risk.

85. For assets that generate locked-in emissions that pose a risk for the attainment of targets - e.g. assets under the EU ETS, which may have a climate-neutrality plan as explained in paragraph 36 of this guidance - or for those that carry significant transition risk such as assets at risk of becoming stranded, the undertaking should establish a management plan. This may entail any efforts to decommission these assets and replace them by more performant equivalents or the steps that are planned to bring these assets in line with GHG emission reduction targets and plans. If considered material information in the context of its efforts related to Climate Change mitigation, the undertaking shall disclose such management plans. This helps users of information to understand underlying risks with regard to the undertaking's current and planned asset base and assess whether the plans proposed by the undertaking satisfactorily answer these risks.

What are the locked-in GHG emissions?

According to the ESRS Glossary, locked-in GHG emissions are estimates of future GHG emissions that are likely to be caused by an undertaking's key assets or products sold within their operating lifetime.

They represent the future GHG to which undertakings are committed due to existing infrastructure, investments or business model choices. The GHG locked-in emissions are linked to three main variables: 1) the GHG or energy intensity character of the asset/product, 2) their expected lifetime and 3) the expected rate of use during the lifetime.

Examples of locked-in emissions can include, but are not limited to, fossil-fuel powered fleet, infrastructure, facilities or other products with a long cycle of life.

Reporting on locked-in emissions of key assets and products indicates that viability helps to inform the credibility of an undertaking's transition plan. In particular, locked-in emissions need to be considered in the GHG emission-reduction-target-setting and may pose important financial constraints to the viability of climate mitigation actions. In this context, the quantification of locked-in emissions may become relevant to better understand all constraints and trade-offs between different possible actions. Locked-in GHG emissions are also an indicator of the risk of stranded assets.

86. For further guidance on assessing locked-in emissions, please refer to EFRAG's RP on Climate Transition Planning.

3.6.2 Explaining EU Taxonomy alignment - E1-1 16(e)

Disclosure (ESRS E1-1 16 (e)) [The information required by paragraph 14 shall include]

for undertakings with economic activities that are covered by delegated regulations on climate adaptation or mitigation under the Taxonomy Regulation, an explanation of any objective or plans (CapEx, CapEx plans, OpEx) that the undertaking has for aligning its economic activities (revenues, CapEx, OpEx) with the criteria established in Commission Delegated Regulation 2021/2139¹⁵;

87. The scope of this disclosure is limited to undertakings that carry out activities which are eligible for EU Taxonomy delegated regulations on climate adaptation or mitigation or undertakings that plan to expand their activities to those covered by the EU Taxonomy. The objective of this requirement is consistency between legislations and associated disclosures.
88. Pursuant to this disclosure and AR 4, the undertaking is required to explain how the alignment of its economic activities with the provisions of the EU Taxonomy delegated regulations is expected to evolve over time. This shall be done by taking account of the key performance indicators (turnover, CapEx and OpEx) required to be disclosed under Article 8 of 2020/852 regulation.
89. This may be expressed in the form of a forward-looking disclosure of CapEx (or OpEx) investment plans to align current existing eligible activities with the criteria of the EU Taxonomy or to invest in new aligned activities over the medium-term time horizon (five years - and exceptionally, ten years). Likewise, the undertaking can disclose if it has any objectives related to revenue from EU Taxonomy aligned activities which would be consistent with a transition plan.
90. ESRS E1 AR 22 states that the undertaking shall explain any potential differences between the significant OpEx and CapEx amounts disclosed in relation to actions under ESRS E1 and the key performance indicators disclosed under the EU Taxonomy due to, for instance, the disclosure of non-eligible economic activities as defined in the EU Taxonomy. The undertaking may structure its actions to implement the transition plan by economic activity, as classified in the EU Taxonomy and to allow for comparison.
91. Aligning the undertaking's existing eligible activities will mean that the undertaking is addressing any outstanding technical screening criteria for Doing No Significant Harm to other environmental objectives and the minimum EU social safeguards that are not currently met..

Climate Delegated Act of EU Taxonomy

¹⁵ ### Climate delegated act of EU Taxonomy

2021/2139 (Climate Delegated Act) establishes the technical screening criteria for determining under which conditions an economic activity qualifies as contributing substantially to climate change mitigation.

EU Taxonomy distinguishes between eligible and aligned activities. A taxonomy-eligible activity is an economic activity described in the Delegated Act adopted pursuant to (EU) 2020/852 irrespective of whether it meets any or all of the technical screening criteria included within this Act. A taxonomy-aligned activity is an activity that complies with the requirements: (i) being eligible, (ii) significantly contribute to an ENV objective of the taxonomy, (iii) do not significantly harm any other objective of the taxonomy and (iv) respect minimum EU social safeguards of 'Criteria for environmentally sustainable economic activities' of Article 3 (EU) 2020/852.

3.6.3 Explaining coal-, oil- and gas-related CapEx - E1-1 16(f)

Disclosure (ESRS E1-1 16(f)) [The information required by paragraph 14 shall include]

if applicable, a disclosure of significant CapEx amounts invested during the reporting period related to coal, oil and gas-related economic activities ...

92. The CapEx amounts concerned by this disclosure are related to the following NACE codes: B.05, B.06, B.09.1, C.19, D.35.1, D.35.3 and D.46.71.
93. Regarding electricity generation from fossil gaseous fuels, high-efficiency co-generation of heat/cool, power from fossil gaseous fuels, and production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system, as stated in Q&A of the EU Taxonomy Complementary Climate Delegated Act covering certain nuclear and gas activities, the undertaking needs to meet either of the following emission thresholds:
 - s. lifecycle emissions are below 100gCO₂e/kWh; or
 - t. until 2030 (the date of approval of the construction permit) and where renewables are not available at a sufficient scale, direct emissions are below 270gCO₂e/kWh or, for the activity of electricity generation, their annual direct GHG emissions must not exceed an average of 550kgCO₂e/kW of the facility's capacity over 20 years. In this case, the activity must meet a set of cumulative conditions, e.g. it replaces a facility using solid or liquid fossil fuels, the activity ensures a full switch to renewable or low-carbon gases by 2035 and a regular independent verification of compliance with the criteria is carried out.
94. Beyond CapEx invested in fossil fuel activities, the undertaking may want to consider the present and past fossil fuel exposure and provide as an undertaking-specific disclosure a qualitative overview of its current ownership and dependency on fossil fuel assets to which the new CapEx accrues. For example, an indication of the undertaking's exposure to coal-, oil- and gas-related activities through the disclosure of revenue from the undertaking's customers operating in these activities is already requested in ESRS E1 paragraph 67(e), and it may be useful to establish a link or make a reference to this section for context.

What activities fall under the listed NACE codes?

The activities that fall under this disclosure are the ones related to the extraction, transformation and wholesale of fossil fuels or heat and power generation as well as the transmission or distribution that may be dependent on fossil fuel use. This gives a clear indication of risks for stranded assets / locked-in emissions and, when put into context with the CapEx associated with the transition plan, a measure of the commitment to the transition.

NACE is the statistical classification of economic activities across the European Union for systematic data collection and analysis. The listed NACE codes refer to the following activities.

B.05: Mining of coal and lignite: This division includes the extraction of solid mineral fuels through underground or open-cast mining and includes operations (e.g. grading, cleaning, compressing and other steps necessary for transportation, etc.) leading to a marketable product.

B.06: Extraction of crude petroleum and natural gas (limited to crude petroleum): This division includes the production of crude petroleum, the mining and extraction of oil from oil shale and oil sands and the production of natural gas and recovery of hydrocarbon liquids.

B.09.1: Support activities for petroleum and natural gas extraction (limited to crude petroleum): This class includes oil and gas extraction service activities provided on a fee or contract basis.

C.19: Manufacture of coke and refined petroleum products: This division includes the transformation of crude petroleum and coal into usable products. The dominant process is petroleum-refining, which involves the separation of crude petroleum into component products through such techniques as cracking and distillation.

D.35.1: Electric power generation, transmission, and distribution: This group includes the generation of bulk electric power, transmission from generating facilities to distribution centres and distribution to end users.

D.35.3: Steam and air conditioning supply (limited to coal-fired and oil-fired power and/or heat generation): This class includes production, collection and distribution of steam and hot water for heating, power and other purposes; production and distribution of cooled air; production and distribution of chilled water for cooling purposes; and production of ice for food and non-food (e.g. cooling) purposes.

D.46.71: Wholesale of solid, liquid and gaseous fuels and related products (limited to solid and liquid fuels): Wholesale of fuels, greases, lubricants and oils (e.g. charcoal, coal, coke, fuel wood and naphtha; crude petroleum, crude oil, diesel fuel, gasoline, fuel oil, heating oil and kerosene; liquefied petroleum gases, butane and propane gas; and lubricating oils, greases and refined petroleum products).

The descriptions of NACE codes mentioned above are derived from the NACE Rev. 2.0 structure and explanatory notes. For a more complete understanding, they should be read in conjunction with the full definitions provided by Eurostat.

For gas-fired electric power generation, the NACE code definition addresses activities with direct GHG emissions that either have a lifecycle emissions are above 100gCO₂e/kWh; or until 2030 (the date of approval of the construction permit) and where renewables are not available at a sufficient scale, direct emissions are above 270gCO₂e/kWh or, for the activity of electricity

generation, their annual direct GHG emissions must exceed an average of 550kgCO₂e/kW of the facility's capacity over 20 years

3.6.4 Explaining EU Paris-aligned Benchmarks - E1-1 16(g)

Disclosure (ESRS E1-1 16 (g)) [The information required by paragraph 14 shall include]

a disclosure on whether or not the undertaking is excluded from the EU Paris-aligned Benchmarks ...

95. This disclosure requires an affirmative or negative statement regarding whether the undertaking is excluded from the EU Paris-aligned Benchmarks. This disclosure helps users of information to directly identify undertakings that carry out activities which are deemed incompatible with the Paris Agreement, per the definitions laid out in Commission Delegated Regulation 2020/1818 (Climate Benchmark Standards Regulation).
96. Pursuant to AR 5, this statement is made in accordance with the exclusion criteria stated in Articles 12.1(d)-(g) and 12.2 of Commission Delegated Regulation 2020/1818 (Climate Benchmark Standards Regulation). These exclusion criteria include: undertakings that derive 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite ; undertakings that derive 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels; undertakings that derive 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels; and undertakings that derive 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO₂ e/kWh.

3.7. Explaining governance, strategy and progress

3.7.1 Explaining transition plan inclusion in strategy and business model - E1-1 16(h)

Disclosure (ESRS E1-1 16 (h)) [The information required by paragraph 14 shall include]

an explanation of how the transition plan is embedded in and aligned with the undertaking's overall business strategy and financial planning ...

97. The undertaking may want to provide a narrative on aspects such as how it can continue to create value (financial and other types of value) in the process of transitioning to a sustainable economy, briefly explaining how this interacts with financial planning and the investment and operational aspects of the transition plan; how its transition plan for climate change mitigation contributes to managing the changes required for its business model; and/or how, in

continuing its business, it contributes to the low-carbon transition. It can comment on its strategic position and the strategy adopted to explore the opportunities and manage the risks created by the transition to a sustainable economy.

Context

98. The undertaking should build on information disclosed pursuant to ESRS 2 SBM-3. It may also choose to disclose information contained in other DRs that are the most relevant to the proper integration of the transition plan in its strategy and business model in this Section, although simple references to these sections are also allowed.

3.7.2 Explaining the approval of the transition plan - E1-1 16(i)

Disclosure (ESRS E1-1 16 (i)) [The information required by paragraph 14 shall include]

whether the transition plan is approved by the administrative, management and supervisory bodies ...

99. Disclosure E1-1 16(i) requires an affirmative or negative statement on the fact of approval of the transition plan. For transparency reasons, the undertaking may with reference to its disclosure under ESRS GOV-1 specify the body that approved the transition plan.

What governance bodies should be considered for approving the transition plan?

According to the ESRS Glossary, the administrative, management and supervisory bodies are the 'governance bodies with the highest decision-making authority in the undertaking including its committees. If in the governance structure there are no members of the administrative, management or supervisory bodies of the undertaking, the CEO, and if such function exists, the deputy CEO, should be included. In some jurisdictions, governance systems consist of two tiers, where supervision and management are separated. In such cases, both tiers are included under the definition of administrative, management and supervisory bodies.'

Context

100. This disclosure partially addresses the requirements of Article 22 of the CSDDD, which requires 'the transition plan for climate change mitigation ... [to] contain (d) a description of the role of the administrative, management and supervisory bodies ...'.
101. Disclosures of GOV-1 can also be used to disclose information on the role of administrative, management and supervisory bodies with regard to the transition plan for climate change mitigation. Undertakings are required to report such information under the CSDDD. In other words, once an undertaking is subject to the CSDDD, it will disclose paragraph (d) of Article 22 of the CSDDD in ESRS 2 GOV-1, GOV-2 and GOV-3, which in turn will inform the disclosure under E1-1 16(i) (please see Section 4.1.2).

3.7.3. Explaining progress in implementing the climate transition plan - E1-1 16(j)

Disclosure (ESRS E1-1 16 (j)) [The information required by paragraph 14 shall include]

an explanation of the undertaking's progress in implementing the transition plan.

102. This is a narrative disclosure intended to summarise the factual progress made on implementing the transition plan. This disclosure must provide an explanation regarding whether the undertaking is on track to achieve its reduction target and compatibility with 1.5 °C. This explanation should be based on an assessment of the correspondence between delivered and planned GHG emissions reductions implied by the undertaking's targets, which may imply the disclosure of relevant quantitative elements. Moreover, the undertaking should consider the following elements when disclosing on its progress: implementation of key actions, accomplished shifts in strategy, shift in the product mix, acquired new markets for low carbon products, etc.
103. The narrative assessment of the undertaking's progress regarding the implementation of the transition plan should be provided in E1-1 16(j). This may imply references to, or duplication of, relevant information contained in other disclosures (for example, rate of fleet electrification). This content may cover information on the processes used to monitor the performance of target(s) as well as for reviewing the target(s). Crucially, the progress in implementing the different actions of the CMTP can also be used to explain how the different target(s) translate in terms of GHG emissions for the reporting year and likely performance in the medium-term horizon (on target / target delayed / ahead of target).
104. The principle for monitoring progress is embedded in the ESRS 2 Standard. For example, according to MDR-A actions supporting policy implementation are accompanied by quantitative and qualitative information regarding the progress. The MDR-T also highlights the role of target-setting in measuring progress in achieving policy objectives. Likewise, metrics disclosed under E1, namely E1-5 (on energy consumption) or E1-6 (on gross Scopes 1, 2, 3 and total GHG emissions), are metrics that should be used as a reference for the results achieved from the implementation of the transition plan.
105. In the first year of implementing the transition plan, this disclosure requirement is not a requirement needed to fulfil the objective of the E1-1 disclosure. However, undertakings that already monitor relevant indicators are encouraged to communicate on these to demonstrate past progress on transition efforts.

3.8. Whether and when a CMTP will be adopted - E1-1 17

Disclosure (ESRS E1-1 17) [In case the undertaking does not have a transition plan in place,]

it shall indicate whether and, if so, when it will adopt a transition plan.

106. In case the undertaking has identified climate change mitigation as material and representing a strategic issue but it does not have a transition plan in place, it shall indicate whether and, if so, when it will adopt a transition plan (E1-1 paragraph 17).

3.9. Interfaces of the CMTP with other sustainability matters

107. IROs linked to other sustainability matters may arise from an undertaking's CMTP due to the CMTP's impacts and dependencies on internal factors and external factors. Some of these IROs linked to other sustainability matters are covered in detail in this section including adaptation, biodiversity and social IROs.
108. The undertaking should scope risks related to the, often complex, interactions of CMTP with other sustainability matters and shall disclose material IROs in accordance with ESRS 1, chapter 3.6 In such situations the undertaking shall disclose the existence of material negative impacts or material risks together with the actions that generate them, with a cross-reference to the topic to which the impacts or risks relate; and provide a description of how the material negative impacts or material risks are addressed under the topic to which they relate (ESRS 1, paragraph 53).
109. Disclosing on material impacts, risks and opportunities from climate change mitigation may include disclosures related to non-climate sustainability matters (that interact with climate change mitigation), such as: Just Transition related to impacts on own workforce (S1-SBM3), workers in the value chain (S2-SBM3) and impacts on communities (S3) as well as consumers and end users (S4); business conduct policies and corporate culture (G1-1); policy engagement (G1-5); or other environmental impacts, e.g. biodiversity (E4). These may be referenced in the context of E1 paragraph 16(b) or E1 paragraph 16(c), which references climate change mitigation actions planned as well as investments and funding to support them.
110. Forward-looking climate change mitigation plans are inherently uncertain and can generate risks that are non-linear and can materialize in multiple ways. Hence, any actions taken in the scope of a strategic plan such as the CMTP should be analysed through the undertaking risk management function. Specific uncertainties connected to the dependencies of mitigation actions and decarbonisation levers included in the CTP on internal and external factors are covered in FAQ 5.
111. This Guidance does not cover topics beyond climate change. However, this Section illustrates briefly the interaction with other topics.

3.9.1 Adaptation and resilience in the context of transition plans for climate change mitigation

112. Climate change mitigation and adaptation strategies are frequently interconnected, as effective mitigation efforts often depend on, and are influenced by, adaptation measures; or climate mitigation may undermine adaptation efforts; or where actions taken to increase resilience may impact on climate mitigation efforts. For this reason, within a CMTP undertakings may identify both win-win (opportunities), as well as trade-offs (impacts, risks)

between climate mitigation and adaptation. These can be location or/and sector specific.

113. Addressing the trade-offs and/or maximising the synergies between mitigation and adaptation may be a significant practical challenge but that can be addressed through the tight integration of the risk management function with the financial (investment) and business strategy functions. It will also be important to consider the different time-horizons which are being used to plan actions or quantify IROs for both mitigation and adaptation, seeking to more closely coordinate basic assumptions on analysis of both sustainability matters.

114. Some of the ways mitigation and adaptation can be connected comprise are shown in Figure 2.

Figure 2 – Synergies and trade-offs between mitigation and adaptation (Source: GIZ, 2019¹⁶)

<u>Win-win</u>	<u>Adaptation that has consequences or trade-offs with mitigation</u>	<u>Mitigation that has consequences or trade-offs for adaptation</u>
<ul style="list-style-type: none"> • Climate smart agriculture. • Protection and rehabilitation of carbon sinks, including forestry. • Ecosystem based adaptation. • Climate 'proofing' mitigation infrastructure. • Passive ventilation for building energy use 	<ul style="list-style-type: none"> • Increased air conditioning. • Increased pumped irrigation. • Increased fertilizer use. • Desalinization. • Low density urban planning. 	<ul style="list-style-type: none"> • Biofuels and bioenergy. • Energy efficiency for buildings. • High density urban planning. • Renewable-energy technologies that use water or affect water management.

3.9.2 Biodiversity IROs in the context of transition plans for climate change mitigation

115. Although the actions needed to implement a CMTP typically have positive impacts on environmental matters, they can also have negative impacts that should be considered. This often happens because climate mitigation actions – like expanding renewable energy, altering land use and deploying large-scale energy storage – introduce new environmental dynamics that can affect ecosystems and species in significant ways.

116. When defining its decarbonisation levers and actions to achieve its GHG emission reduction targets, the undertaking shall consider the risks and impacts to biodiversity and ecosystems that result from such actions to address climate change mitigation, as per ESRS 1, paragraphs 52 and 53, disclosing such material impacts and risks in accordance with ESRS E4 and cross-referencing, where needed, to E1-1

117. Actions leading to biodiversity loss can for instance create climate impact and risks that affect the credibility and implementation of the transition plan. For example, the promotion and establishment of afforestation initiatives in natural

¹⁶ [Watkiss, P. and Klein, R. \(2019\) "Long-term Strategies in a Changing Climate". GIZ](#)

non-forested ecosystems to mitigate climate change may lead to unintended consequences such as loss of biodiversity. In turn, biodiversity underpins functioning ecosystems and ensure that ecosystem services that are critical for climate change mitigation, for example by improving the ecosystem's carbon sequestration potential. Biodiversity loss diminishes this potential and exacerbates the climate impact and associated risks from GHG emissions. This highlights the importance of a wider approach to risk management and to acknowledge interactions between decarbonisation efforts, biodiversity and ecosystems that may impact the strategic objectives of the undertaking and its transition plan for climate change mitigation.

118.. Some of the known potential biodiversity risks associated with decarbonisation efforts comprise:

- u. land use and habitat loss or fragmentation: many renewable energy sources such as solar farms, wind turbines and bioenergy crops require large land areas. The construction of extensive solar or wind farms can disrupt native habitats, leading to the displacement of local species. Forests, grasslands and other biodiverse ecosystems may be cleared or fragmented to accommodate these projects, causing loss of biodiversity and changes to habitats. Furthermore, bioenergy crops often compete with natural landscapes or agricultural land, leading to further habitat encroachment. Habitat fragmentation by creating physical barriers that alter wildlife movement patterns can also occur;
- v. pollution and ecosystem imbalance: while many GHG reduction actions will reduce air pollution, some renewable technologies generate (directly or indirectly) localised pollutants. For example, mining for materials used in solar panels and batteries like lithium, cobalt and rare earth metals often takes place in sensitive ecosystems. Mining activities release toxic waste into surrounding areas, which can harm local flora and fauna. Hydropower can disrupt freshwater ecosystems by altering river flow and sediment patterns, impacting water quality and fish populations as well as the health of downstream habitats; and
- w. invasive species and novel ecosystems: some decarbonisation activities inadvertently create favourable conditions for invasive species. For example, large-scale biomass plantations may introduce non-native species into new areas, potentially outcompeting local plants and destabilising ecosystems. When invasive species establish themselves, they often lack natural predators, which can lead to dominance over native species and a loss of biodiversity. Furthermore, the intentional or unintentional creation of 'novel ecosystems' can alter the natural balance of native ecosystems, impacting local biodiversity.
- x. Waste increase: transitioning to more sustainable operations may lead undertakings to phase out carbon-intensive assets in favour of low-carbon alternatives. This may lead to an increase in waste if it causes early retirement of equipment or assets, which in turn may increase the risks and impacts of improper waste management on

ecosystems and biodiversity through e.g. pollution, habitat loss and biodiversity loss.

3.9.3 Just transition in the context of transition plans for climate change mitigation

119. Just Transition¹⁷ is relevant for undertakings to consider in relation to disclosures on transition plans for climate change mitigation. The concept of Just Transition involves the consideration of the social implications of a transition to a climate-neutral, more sustainable economy. It is widely recognised that this transition has significant implications for workers, communities and also consumers across the various sectors of the economy, from energy and transport to agriculture and financial services.
120. Just Transition forms part of the overall human rights lens on disclosures on social and human rights as set out in the sector agnostic ESRS and is not separate to those disclosures and specific circumstances.
121. The ESRS architecture is such that when material IROs are identified, the minimum disclosure requirements apply, and this is the case for just-transition-related matters across ESRS S1 to S4 for the Social sector. Specifically, ESRS 2 GOV-4, SBM-3, IRO-1 and IRO-2 and the minimum disclosure requirements, as applied together with topical requirements across ESRS S1 to S4, provide for reporting on material social impacts related to climate change and transition planning. Undertakings can leverage these requirements to integrate social considerations into their transition plan reporting (see FAQ 11, 12 and 13).

¹⁷ The UNOHCHR and ILO define ‘just transition’ as ‘the transition to a human rights economy that is fair, equitable, inclusive and sustainable, creates decent work opportunities, reduces inequalities and poverty as well as upholds the human rights of workers and affected communities, in particular Indigenous Peoples and communities affected by environmental degradation and by the measures that are needed to address it. Stakeholder engagement or social dialogue is also important and the shift towards a sustainable economy must include the entire economic spectrum, from energy and transport to agriculture to financial services.’ UNOHCHR and ILO (2023):

<https://www.ohchr.org/sites/default/files/documents/issues/climatechange/information-materials/v4-key-messages-just-transition-human.pdf>

4. Frequently asked questions (FAQs)

122. Some frequently asked questions related to E1 have been already answered by EFRAG and can be found [here](#) (July 2024 version). These questions relate to GHG emissions, climate-related targets, gross risks and GHG removals. It is expected that other explanations will be published in the coming months addressing transition-plan-related topics.

4.1. Targets-related FAQs

FAQ 1: Can a climate target other than a GHG emission reduction target be used as reference under ESRS E1-1?

123. ESRS E1-1 paragraph 16a requires an undertaking, by reference to its GHG emission reduction targets, to explain how these targets are compatible with the limiting of global warming to 1.5°C in line with the Paris Agreement. Paragraph 16 allows to cross-reference the GHG emission reduction target(s) already disclosed under E1-4. Other climate-related targets, reported under E1-4 paragraph 33, such as renewable energy deployment, energy efficiency or targets related to climate-related transition risks may be used by the undertaking to complement the information on its transition plan.

FAQ 2: Can an undertaking consider the purchased and planned carbon credits to achieve its GHG emission reduction target?

124. No, an undertaking cannot consider the purchased and planned carbon credits in measuring and claiming progress towards its GHG emission reduction target.
125. ESRS E1-1 paragraph 16(a) relates to information complementing GHG emission reduction targets, as required in ESRS E1-4. Hence the GHG emission reduction targets contributing to the transition plan follow the same requirements as ESRS E1-4.
126. ESRS E1-4 paragraph 34(b) clarifies two things regarding GHG emission reduction targets. First, they shall be consistent with the undertaking's GHG emission inventory as described in ESRS E1-6. Second, that GHG reduction targets shall not include any GHG removals or carbon credits as a means of achieving the GHG emission reduction targets. In addition, ESRS E1-6 AR 43, AR 45 and AR 46 highlight that no Scope 1, Scope 2 or Scope 3 GHG emissions shall include any removals or any purchased, sold or transferred carbon credits or GHG allowances in their calculation.
127. While it cannot be considered in its gross GHG emission reduction target, ESRS E1-7 paragraph 56 requires the undertaking to be transparent on the amount of GHG emission reductions or removals from climate change mitigation projects outside its value chain that it has financed or intends to finance through any purchase of carbon credits.
128. ESRS E1 allows the undertaking to disclose net zero targets and GHG neutrality claims in addition to the gross GHG emission reduction target. For both, ESRS 1-7 specifies the provisions for disclosure.

- y. If the undertaking discloses a net zero target, ESRS E1-7 paragraph 60 clarifies that it shall explain how the residual GHG emissions are intended to be neutralised by GHG removals in and outside its value chain. As stated by ESRS E1-7 AR 56 GHG removals outside the value chain may be accounted for via credible carbon removal credits and disclosed separately as required by ESRS E1-7 paragraphs 56 (b) and 59.
 - z. In the case where the undertaking may have made public claims of GHG neutrality, ESRS E1 paragraph 61 clarifies that those can involve the use of carbon credits. In this case the undertaking shall explain how these claims are accompanied by GHG emission reduction targets, whether and how the use of carbon credits neither impede nor reduce the achievement of the GHG emission reduction targets, or, if applicable, its net zero target and how the credibility and integrity of carbon credits used is ensured.
129. Financing GHG removals and carbon avoidance/reduction of actors outside the value chain fall within the umbrella term of carbon credits. Carbon credits of avoidance or reduction can only be used in relation to GHG neutrality claims, not to achieve net zero.
130. The ESRS Annex II defines carbon credits as 'a transferable or tradable instrument that represents one metric tonne of CO₂eq emission reduction or removal and is issued and verified according to recognised quality standards.'
131. GHG removals are defined in ESRS Annex II as 'the withdrawal of GHGs from the atmosphere as a result of deliberate human activities. These include enhancing biological anthropogenic sinks of CO₂ and using chemical engineering to achieve long-term removal and storage. Carbon capture and storage (CCS) from industrial and energy-related sources, which alone does not remove CO₂ from the atmosphere, can remove atmospheric CO₂ if it is combined with bioenergy production (Bioenergy with Carbon Capture and Storage - BECCS). Removals can be subject to reversals, which are any movement of stored GHG out of the intended storage that re-enters the atmosphere. For example, if a forest that was grown to remove a specific amount of CO₂ is subject to a wildfire, the emissions captured in the trees are reversed.'

FAQ 3: Can an undertaking disclose a transition plan with a GHG emission reduction target not compatible with 1.5 °C degrees under ESRS E1?

132. Yes. ESRS E1-1 paragraph 16(a) requires the undertaking to explain how its GHG emission reduction targets are compatible with 1.5 °C with reference to its disclosure under ESRS E1-4. The disclosure on GHG emission reduction targets under E1-4 requires the undertaking to state whether targets are science-based and compatible with 1.5 °C. Therefore, the undertaking may publish non-compatible targets so long as the level of ambition is made transparent under both E1-4 paragraph 34(e) and E1-1 paragraph 16(a) and so long as other elements of disclosure requirement E1-1 provide an appropriate understanding of the key features of the adopted transition plan.

133. If the statement under §34(e) is that the targets are not compatible, then the undertaking should consider disclosing whether, when and under which conditions its transition plan for climate change mitigation may include in the future additional actions towards the objective of limiting global warming to 1.5°C and climate neutrality.

4.2. FAQs related to decarbonisation levers

FAQ 4: How does the climate-related scenario analysis in ESRS E1 interact with the transition plan disclosure, and which scenario should one use for which purpose?

134. Climate-related scenario analysis, according to the ESRS Glossary, is the process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. With regard to E1, the undertaking shall explain how it uses climate-related scenario analysis to
- aa. assess climate physical and transition risks;
 - bb. set reduction targets;
 - cc. assess resilience; and
 - dd. assess financial effects.
135. During this process, high emissions climate scenarios are used for the identification of climate-related hazards and the assessment of the undertaking's exposure and sensitivity to them (i.e. climate-related physical risks). Scenarios consistent with the Paris Agreement and limiting climate change to 1.5 °C are used to identify transition events and the assessment of exposure to them. Different scenarios can be used to explore different policy and technology trajectories to reach a given temperature target and identify dependencies which drive transition risk.
136. Paris-aligned GHG mitigation scenarios can also be used to produce decarbonisation pathways for the undertaking used to derive in a top-down approach science-based GHG mitigation targets and to derive reference target values used to compare and benchmark GHG emission reduction targets or interim targets in the respective scopes. This is done with reference to a sector-specific (if available) or a cross-sector emission pathway compatible with limiting global warming to 1.5 °C.
137. The use of climate-related scenario analysis is also relevant to the process of understanding, modelling and deciding on the undertaking's targets and pathway and is therefore a cornerstone of the transition plan. The different scenarios shape and define the assumptions and sensitivity analyses upon which the target and ambition are based on.
138. The outcome of the scenario analysis shapes the assumptions made. The results of the risk analysis are disclosed according to the E1 ESRS 2 IRO-1 Disclosure Requirement, which is intended to provide transparency on the approach taken by the undertaking to identifying and assessing its climate-related impacts, risks and opportunities.
139. Having identified its impacts, risks and opportunities, the undertaking can adopt appropriate policies, actions to implement them and targets to support them. These climate-mitigation actions and targets will in turn inform the

disclosures of E1-1, such as, in particular, paragraph 16(a) referring to GHG emission reduction targets, point 16(b) referring to GHG emission reduction targets, decarbonisation levers and climate change mitigation actions, or point 16(c) referring to climate-change-mitigation actions and investments or funding supporting the implementation of the transition plan.

140. The scenarios analysis also supports disclosures on paragraphs 16(d) and 16(e) jointly with business scenarios. When disclosing on paragraph 16(d), the assessment of locked in emissions should be consistent with the assumptions of the Paris-aligned scenario selected to set the reference target. When disclosing on paragraph 16(e), the undertaking shall for Taxonomy-aligned activities report objectives and plans to align economic activities with the Taxonomy Regulation criteria. For climate change mitigation, the technical screening criteria include that ‘the projected life-cycle GHG emissions from the researched technology, product or other solutions do not undermine GHG mitigation objectives under the Paris Agreement or hinder the deployment of climate mitigation solutions’.
141. Implementation of actions and resources to mitigate material risks will also result in the undertaking’s ability to absorb material risks or adapt the business model, which is referred to as resilience and is subject to disclosure under E1 ESRS 2 SBM-3. The results of scenario analysis used to conduct resilience analysis should also inform other E1-1 disclosures, such as the assessment of anticipated financial effects from material physical and transition risks (E1-9 §65 (a)) or an explanation of how the CMTP is embedded in and aligned with the overall business strategy and financial planning of the undertaking (E1-1 paragraph 16(h)). This consistency also applies across sustainability reporting and financial reporting, as the undertaking shall briefly explain how the climate scenarios used are compatible with critical climate-related assumptions made in the financial statements (ESRS E1 paragraph AR 15)

FAQ 5: How can an undertaking identify IROs relating to the mitigation actions and decarbonisation levers in the CTP?

142. The choice of mitigation actions and decarbonisation levers in a CMTP may give rise to IROs such as impacts on local resource availability (e.g. demand for renewable energy sources), risks relating to the CMTP’s dependency on key infrastructure (e.g. availability of necessary transport networks) or opportunities to create synergies with other undertakings and public authorities, mutualising efforts to decarbonise (e.g. innovation hubs).
143. These IROs relate to the external factors where the undertaking operates. To identify these IROs, an undertaking may consider non-physical factors (policies, regulatory framework, market and economics, public acceptance, consumer and client behaviour) and physical factors (infrastructure availability and logistics, ecosystem services, labour, technology and resource availability).

4.3. FAQs related to financial planning

FAQ 6: What is the difference between stranded assets and locked-in emissions?

144. Stranded assets are the key assets currently used or planned (most likely to be deployed over the medium-term) which create a significant risk for the undertaking in not being in a position to recover the full monetary amount recognised at year-end as an asset because of their risk of not being able to deliver their initial foreseen value because of changes in legislation (e.g. assets with significant locked-in emissions), environmental (e.g. asset can no longer be utilized because lack of available water) or technological constraints (e.g. asset technology is no longer competitive). . When assessing stranded assets, locked-in emissions relating to assets of the undertaking are to be used as a factor informing the assessment. However, there are additional criteria to that of locked-in emissions that also are to be considered. While assets with high locked-in emission can become stranded, stranded assets do not necessarily have to have locked-in emissions. For example, an asset may be at risk of becoming stranded due to a lack of access to critical infrastructure which the undertaking depends on to deliver its transition plan. Locked-in emissions related to products may reduce the lifetime and/or sales of these products, hence reducing future cash-flows that may lead to depreciation of related assets used to produce these products.
145. To be noted, a distinction can be made between stranded assets from which 100 % of the relative emissions are locked-in for their entire lifetime versus stranded assets for which undertakings can reduce the share of locked-in emissions over time. Some assets can be retrofitted (i.e. ICE cars can potentially be retrofitted to electric or biofuels; emissions related to buildings in which one consumes gas and shift to electricity over time, retrofitting for boats; etc.), and the possibility of doing these retrofits is important for the transition. However, this does not only apply to stranded assets nor does it mean that assets being retrofitted are necessarily stranded.
146. The undertaking shall include, If applicable, a disclosure of significant CapEx amounts invested during the reporting period related to coal-, oil- and gas-related economic activities (ESRS E1, paragraph 16(f)). This disclosure will show investments that are at risk of becoming stranded assets due to the transition and that may have significant locked-in emissions. A qualitative assessment of the potential locked-in GHG emissions from the undertaking's key assets and products shall be disclosed under E1-1 paragraph 16 (d).

FAQ 7: Does an undertaking from a sector not related directly to coal, oil and gas economic activities (e.g. manufacturing) which builds a gas-fired power plant (e.g. construction) at its site need to disclose this investment under paragraph 16(f) or not?

147. As stated in ESRS E1-1 paragraph 16(f), the CapEx amounts considered are related to the following NACE codes:
- ee. B.05 - Mining of coal and lignite, e.06 Extraction of crude petroleum and natural gas (limited to crude petroleum), and e.09.1 Support activities for petroleum and natural gas extraction (limited to crude petroleum);

- ff. C.19 - Manufacture of coke and refined petroleum products;
 - gg. D.35.1 - Electric power generation, transmission and distribution;
 - hh. D.35.3 - Steam and air conditioning supply (limited to coal-fired and oil-fired power and/or heat generation); and
 - ii. G.46.71 - Wholesale of solid, liquid and gaseous fuels and related products (limited to solid and liquid fuels).
148. If an undertaking invests in one of those activities during the reporting period, it shall disclose the significant CapEx amount if applicable. The undertaking shall look at the nature of the investment (NACE code) and not to the ESRS sector that it is active in when determining whether it shall disclose any amount under ESRS E1 paragraph 16(f)
149. This means that undertakings active in construction of non-renewable power plants are (*F42.9 - Construction of other civil engineering projects*) do not have to disclose the significant CapEx amount of their investments.
150. If the undertaking has investments in smaller fossil fuel installations (e.g. heating systems, smaller generators etc.), it needs to apply judgement to assess whether it is a significant investment.

4.4. Supporting disclosures related FAQs

FAQ 8: What are the EU Paris-aligned Benchmarks (EU PABs)?

151. According to Regulation (EU) 2016/1011, benchmarks refer to indices used to measure the performance of investment funds, financial instruments or financial contracts. As an increasing number of investors pursue low-carbon investment strategies and use low-carbon benchmarks to measure the performance of investment portfolios, this regulation was further amended by (EU) 2018/2089, which established the definition of EU Paris-aligned Benchmarks, underpinned by a set of criteria linked to the commitments of the Paris Agreement.
152. Commission Delegated Regulation (EU) 2020/1818 supplements further the above-mentioned regulations by specifying exclusions from EU Paris-aligned Benchmarks. Notably, in Articles 12.1(d)-(g) and 12.2 it refers to the exclusion of:
- jj. undertakings that derive 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite (Article 12.1(d));
 - kk. undertakings that derive 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels;
 - ll. undertakings that derive 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels;
 - mm. undertakings that derive 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO₂ e/kWh; and

nn. any undertakings that are found or estimated by them or by external data providers to significantly harm one or more of the environmental objectives referred to in Article 9 of Regulation (EU) 2020/852 of the European Parliament and of the Council, in accordance with the rules on estimations laid down in Article 13(2) of this Regulation.

153. In the context of transition plans for climate change mitigation, Paris-aligned benchmarks are important tools to identify undertakings that carry out activities that are deemed incompatible with the Paris Agreement (see section 3.6.4 for further explanations on this disclosure). Article 7 of the Delegated Regulation 2020/1818 (Climate Benchmark Standards Regulation) sets out the requirement of an annual decarbonisation trajectory of 7% GHG emission reduction.

154. Benchmarks are not the only input that can be used to measure the performance of financial products, but simply one of many parameters. Moreover, benchmarks can also be used for other purposes, e.g. pricing of financial instruments.

4.5. FAQs related to IROs arising from the CMTP

FAQ 9: How can undertakings disclose on social impacts in the context of the Just Transition?

155. The transition plan disclosure requirements, in particular, ESRS E1 paragraph 16(b), requires undertakings to set out their decarbonisation levers in line with ESRS E1-3 (mitigation actions) and ESRS E1-4 (reduction targets). In doing so, it is relevant to consider ESRS 1 paragraphs 52 and 53 in relation to the materiality assessment; these paragraphs acknowledge the interdependencies between risks, opportunities and negative impacts and cite just transition as an example of material negative social impacts or risks that result from actions taken to address climate change. In addition, ESRS 2 paragraph 61 provides that undertakings may disclose information in one place where it relates to one sustainability matter and cross-reference it from another place in the report for those matters that are interconnected.

156. As set previously in the TPIG, an undertaking shall assess and disclose relevant information on risks related to their transition planning process. This includes related social impacts (i.e., those within the scope of ESRS S1-S4) that may arise and, in particular, to Just Transition (as defined in section 3.9.3). For example, an undertaking that is active in non-renewable energy production and closes down its coal plants to transition into renewable energy; the closure of the plan will have an impact to the coal plant jobs that are to be terminated or relocated and also impacts on the affected communities when such plant is decommissioned production elsewhere will create impacts on its employees and local communities in terms of job losses.

157. Engaging with affected stakeholders is central to the undertaking's ongoing due diligence process and it informs the sustainability materiality assessment (ESRS 1 paragraph 24). Therefore, in the context of its transition plan, the undertaking may consider engaging with stakeholders affected by the proposed actions in the plan and by external risks. An undertaking's own workforce (ESRS S1 paragraph 14), workers in the value chain (ESRS S2

paragraph 9) and affected communities (ESRS 3 paragraph 7) are identified as key groups of affected stakeholders and could be consulted in this context.

FAQ 10: What sort of social impacts can undertakings disclose in relation to transition plans?

158. Undertakings may use the topics to be covered in materiality assessment processes that are set out in ESRS 1-AR 16 to identify and disclose potential impacts on its own workforce (ESRS S1), workers in the value chain (ESRS S2), affected communities (ESRS S3) and consumers and end users (ESRS S4) related to its transition planning.
159. The transition can have potential positive impacts on workers or affected communities through e.g. the creation of new and sustainable jobs or through the reduction of pollution (often associated with direct GHG emissions), new opportunities due to re- and up-skilling, reduction of inequalities, and social inclusion from improved access to renewable energy.
160. Examples of how affected stakeholders in ESRS S1 to S4 could be negatively affected by the actions set out in transition plans include the following.
 - oo. For ESRS S1 (own workforce), climate transition plans often involve restructuring (e.g. discontinuation of specific products, plant closures, etc.) which can have negative impacts on workers, such as job and income loss.
 - pp. Additionally, workers in the value chain (ESRS S2) might also be negatively impacted by decarbonisation levers that focus on renewable energy solutions, which while though climate- friendly, have value chains that have been known to result in forced labour or other severe human rights impacts (such as those documented in relation to solar panels, battery production or critical minerals).
 - qq. Regarding affected communities (ESRS S3), climate transition plans can have negative impacts through changing, reducing or terminating production or the provision of services, e.g. through plant or mine closures. This may include impacts, risks and opportunities related to communities, their land-related rights, their ability to secure adequate food and housing, and their economic, social and cultural rights at large. Disclosure on any impacts on the rights of Indigenous Peoples may be taken into account, including the right to free, prior and informed consent.
 - rr. For consumers and end users (ESRS S4), access to clean energy at affordable prices may be affected by the success or failure of an undertaking's transition plan, impacting their ability to meet their energy needs.

FAQ 11: How can social dependencies and capabilities affect the credibility of transition plan disclosure?

161. ESRS 1 paragraph 38 notes that financial and impact assessments are interrelated and that the interdependencies between these two dimensions shall be considered. As set in ESRS 1 paragraph 50, the undertaking shall also

disclose its dependencies on natural, human and social resources that can be sources of financial risks or opportunities. Undertakings could explain whether there are potential dependencies on the capabilities and wellbeing of people or on relationships with people as defined in ESRS 1 AR 14 that could materially affect their ability to deliver their transition plan and whether issues set out in ESRS 1 AR 16 could affect the transition plan on climate change mitigation.

162. Specifically, undertakings may consider whether there are material dependencies in the context of their transition plan informed by (a) the particular time horizon of the transition plan, (b) the specific universe of people affected by the transition plan and the severity and likelihood of negative impacts, and (c) the specific universe of people on whose capabilities, wellbeing and relationships the credibility of the transition plan may depend.
163. Where material issues in relation to the transition plan for topics, subtopics and sub-subtopics for ESRS S1 to S4 as set out in ESRS 1-AR16 are not currently considered material for the organisation as a whole, the undertaking may disclose this and how it will impact its double materiality assessment as set out in ESRS 1 Section 3.3.
164. Consider the following examples:
 - a) Workers negatively impacted by a transition away from existing production methods may be a small proportion of a global workforce but a significant proportion of those whose jobs are created, changed or lost due to the transition itself.
 - b) A change in operations, methods or action taken to implement the transition plan may be dependent on the workforce reaction to those changes and become material due to the associated risks that affect the undertaking's ability to implement the transition plan.

FAQ 12: How does the business model's resilience to physical risks relate to the transition plan?

165. The undertaking business model's resilience to physical risk is part of the transition planning activities to the extent that its climate mitigation strategy may have dependencies on its ability to adapt to climate change. The organisation must adjust to both current and anticipated climate changes, recognising that mitigation strategies need to account for the committed warming in the climate system, even if the most ambitious target of 1.5 °C is achieved. This implies significant physical risks from climate change, which may impact climate mitigation strategies both due to competition between different investment priorities (adaptation versus mitigation) and physical climate changes leading to lower mitigation impacts than originally forecasted.
166. Undertakings need to assess and manage physical climate risk, which means understanding their exposure and vulnerability as well as their adaptive capacity. This is needed because physical risk - even if sometimes perceived as longer-term - can materialise at any moment and potentially undermine transition plans, but also because future mitigation actions can be critically dependent on changes in climate variables (e.g. rainfall). Once climate risks

have been identified and assessed, they should be managed through actions and plans to increase the undertaking's resilience as well as its value chain. Climate adaptation and resilience to physical risk should be part of the transition planning process and can be a material sustainability matter requiring addressal at a strategic level within the CMTP.

167. Undertakings may also find opportunities within their climate adaptation response on which they can capitalise for their transition.
168. However, from a CMTP disclosure point of view, there is not a place where to discuss these aspects within the structure of E1-1 disclosures. In this sense, the provisions in ESRS 1 paragraph 53(a) apply - if there are material negative impacts or material risks originating from within the CMTP in relation to the subtopic adaptation or the other way around, the undertaking shall provide a description of how the material negative impacts or material risks are addressed under the CMTP disclosure - or, in the other direction, under adaptation and resilience disclosures.
169. For undertakings with economic activities that are covered by delegated regulations on climate adaptation or mitigation under the Taxonomy Regulation (ESRS E1 paragraph 16(e)), the transition plan shall include an explanation of any objective or plans (CapEX, CapEx plans, OpEX) that the undertaking has for aligning its economic activities (revenues, CapEx, OpEx) with the criteria established in Commission Delegated Regulation 2021/2139..

4.6. Other FAQs

FAQ 13: How should one determine whether the undertaking's Transition Plan for Climate Change Mitigation disclosure is complete?

170. Given the objective of providing an understanding of the key components of a transition plan, undertakings are encouraged to assess whether all the necessary information of a CMTP as required by ESRS is disclosed.
171. In general, by meeting the disclosure requirements set out in E1-1 in line with the disclosure objective in paragraph 15 of E1, an undertaking is expected to be able to provide a complete depiction of its CMTP. A complete Transition Plan for Climate Change Mitigation should describe as minimum the content of E1-1, paragraph 16 that is not conditional to specific circumstances, this is the targets (E1.16(a)), actions (E1.16(b)), financial planning (E1.16(c)), how it is embedded and aligned with the strategy and business model (E1.16(h)) and if the plan has been approved by the administrative, management and supervisory bodies (E1.16i)).
172. However, it may happen that undertakings only have some elements of a CMTP, as laid out by E1-1. If all the necessary elements of a CMTP are not present undertakings may disclose the available elements as part of their sustainability reporting but are encouraged to not create any ambiguity about the level of completeness of their transition plan, i.e. they should disclose clearly which elements are included and which are not included. This is to facilitate the flow of information across market actors (as well as public actors) about undertakings' preparedness, their achievements and their challenges in

the transition. They should also indicate what they intend to do about the missing elements it in the future years.

173. In certain cases, information necessary to provide a complete depiction of the CMTP may require asset-level disclosure (as per FAQ 21) or may be included in other ESRS disclosures. In those cases, an undertaking may need either to make use of additional disclosures required under the relevant sector ESRS (if they exist) or to develop entity-specific disclosures on its CMTP, in accordance with paragraph 11 of ESRS 1. Some of the observed market practices show that undertakings sometimes go beyond the current disclosure requirements set by the ESRS to provide a complete picture of its CMTP.
174. In certain cases, information necessary to provide a complete depiction of the CMTP may be included under other ESRS disclosures. In such cases the CMTP disclosures should provide appropriate links to relevant information available elsewhere in the sustainability statement, e.g. to ESRS S1-4 on Just Transition or ESRS E4 on biodiversity and ecosystems
175. Given that a transition plan follows the materiality regime of Actions, in accordance with ESRS 1 chapter 3 and Annex E the undertaking shall disclose the datapoints from the topical standard (E1-1 paragraph 16 or E1-1 paragraph 17)), and, in conjunction with ESRS 2 General Disclosures, also the relevant DRs of ESRS 2 Appendix C. In cases such as ESRS E1 paragraph 16(c) and CapEx plans ('where relevant') or ESRS E1 paragraph 16(f) ('significant CapEx amounts'), it is up to the undertaking to determine what is 'relevant' and 'significant' considering the qualitative characteristics (Annex B of ESRS 1) of the information that it is providing. In all other cases, the undertaking is expected to address the requirement as required in the specific paragraph unless it does not clearly apply - e.g. E1 paragraph 16(e) is for 'undertakings with economic activities that are covered by delegated regulations on climate adaptation or mitigation under the Taxonomy Regulation'. If this is not the case, then E1 paragraph 16(e) need not be disclosed. Likewise, the disclosure of significant CapEx invested in coal-, oil- and gas-related economic activities only applies if CapEx is invested; otherwise, this is not applicable.
176. Having complete information supports the quality of faithful representation. Paragraph QC5 of Appendix B of ESRS 1 indicates that faithful representation requires information to be (i) complete, (ii) neutral and (iii) accurate. In particular, a complete depiction of an impact, a risk or an opportunity includes all material information necessary for users to understand that impact, risk or opportunity. This includes how the undertaking has adapted its strategy, risk management and governance in response to that impact, risk or opportunity as well as the metrics identified to set targets and measure performance.

FAQ 14: What are the key characteristics of transition plans?

177. Transition plans typically feature the following characteristics *inter alia*.
 - ss. They are detailed multi-year accounts of targets and actions that set out how a given undertaking will ensure that its business model and strategy are compatible with a specific objective, in this case the goal of limiting global warming to 1.5 °C above pre-industrial levels in line with the Paris Agreement and Art. 2 EU Climate Law.

- tt. They are forward-looking as opposed to point-in-time updates or retrospective achievements frequently shared in sustainability reports.
- uu. They span different time horizons: they delineate undertakings' intended near-term actions (on a five-year rolling period) and how these actions roll up into medium-term strategies and long-term objectives.
- vv. They include quantitative information: they estimate the reductions undertakings anticipated from the actions deployed and assess whether these add up to achieving stated emission targets.
- ww. They also include qualitative information: they include narratives on how the different elements - action plans, financial plans, governance, strategy and business model - are consistent and coherent with each other.
- xx. They are enabling: they integrate activities that facilitate the undertaking's overall economy decarbonisation such as sector-wide cooperation, business integration, public policy advocacy and just transition.

FAQ 15: Can the undertaking conclude that the transition plan is not material?

178. The undertaking can conclude that the transition plan for climate change mitigation is not material if it concludes that the topic of climate change or the subtopic of climate change mitigation is not material. According to ESRS 1 paragraph 32, if the undertaking concludes that climate change is not material and therefore omits all disclosure requirements in ESRS E1 *Climate change*, it shall provide a detailed explanation of the conclusions of its materiality assessment with regard to climate change (see the ESRS 2 IRO-2 Disclosure Requirements in ESRS covered by the undertaking's sustainability statement), including a forward-looking analysis of the conditions that could lead the undertaking to conclude that climate change is material in the future. The conditions to make this determination are undertaking- and entity-specific.
179. If the undertaking concludes that the subtopic of climate change mitigation is not material, it can conclude that the transition plan for climate change mitigation is not material and still disclose under ESRS E1 on the subtopic of climate change adaptation. This would include disclosing on policies and targets related to climate change adaptation according to ESRS E1-2 and E1-4.
180. Even if the undertaking has determined that climate change is material, this does not necessarily mean that the transition plan for climate change mitigation is material. In some cases, an undertaking's climate impact may be so minimal that a comprehensive transition plan for climate change mitigation is unnecessary. For example, an IT-sector undertaking with insignificant emissions primarily from business travel might not require a full transition plan. Instead, such an undertaking could disclose specific targets or actions addressing those limited emissions. .

FAQ 16: Should the transition plan report a detail at subsidiary level?

181. ESRS 1 paragraph 55 and 56 clarify that depending on the undertaking's specific facts and circumstances, a disaggregation by subsidiary may be necessary; the key aspect is to achieve the appropriate level of disaggregation that is not obscuring material information nor aggregating elements that differ in nature.
182. According to ESRS 1 Chapter 7.6 paragraph 102, when the undertaking reports on a consolidated level, it shall perform its assessment of material impacts, risks and opportunities for the entire consolidated group regardless of its group legal structure. It shall ensure that all subsidiaries are covered in a way that allows for the unbiased identification of material impacts, risks and opportunities.
183. When it comes to GHG accounting, ESRS E1-6 requires the inclusion of GHG emissions connected to the parent undertaking and the subsidiaries in the financial consolidation scope as well as for entities, sites and assets that are under operational control of the parent undertaking and its consolidated subsidiaries.
184. When determining the GHG emission reduction targets for its transition plan, the undertaking shall also take account of the targets related to its subsidiaries. As stated in ESRS E1 paragraph AR 25, the undertaking shall analogously apply the requirements related to the GHG emission reduction targets at the level of the subsidiary.
185. Consequently, an undertaking shall integrate its subsidiaries in its disclosure on the transition plan for climate change mitigation.
186. However, it should be noted that when the activities of the undertaking and its subsidiary are starkly different, it should consider having separate disclosure of transition plans since the associated decarbonisation levers and even units for targets can be different.

FAQ 17: Does the undertaking need to disclose asset-level data as part of its CMTP disclosures?

187. In preparing a CMTP, an undertaking takes into account the conditions allowing for the omission of selected information in accordance with ESRS 1 paragraph 106. When information of sensitive or confidential nature is omitted in accordance with ESRS 1 paragraphs 105 and 106, the undertaking ensures that the disclosures in the CMTP meet the requirements in ESRS 1 paragraphs 107 and 108. An undertaking shall disclose asset-level data when:
 - yy. material impacts, risks and opportunities are highly dependent on a specific asset (ESRS 1 paragraph 54); and
 - zz. if this information is not considered as sensitive or classified (ESRS 1 paragraph 105).
188. Undertakings that own or operate installations under the EU ETS may incorporate or benefit from climate-neutrality plans and integrate them into the corporate CMTP. Some assets may be deemed material for the undertaking,

and the climate-neutrality plan of the asset(s) shall also be disclosed in the annual report in accordance with ESRS 1 paragraph 54.

189. Some strategic assets (e.g. linked to national electricity infrastructure, energy production or supply) play a critical role in the transition but may require measures and policies – e.g. planning alternative assets, specific financial compensations, etc. – from governments at the national level. This may be considered as sensitive information and consequently not disclosed.

FAQ 18: How should the TP be disclosed?

190. The Transition Plan for Climate Change Mitigation covered by the ESRS E1-1 Disclosure Requirement is a strategic summary of disclosures provided in the sustainability statements related to IROs connected to climate change mitigation.
191. The undertaking can publish its transition plan as a standalone document that is periodically updated, separate from its annual management report. Alternatively, an undertaking may choose to only publicly disclose the information required in E1-1 integrating its transition plan disclosures into its sustainability statements, making it easier for users of information to find all relevant information in one place.
192. Ultimately, the decision of whether to publicly disclose a transition plan as a separate document is a strategic one that should be made on a case-by-case basis. It is important to weigh the potential benefits and risks before deciding.

Appendices

Appendix I: Other sources of transparency requirements related to transition plan

1. As part of this Guidance, EFRAG has worked to explain how undertakings can consider references other than ESRS to report efficiently according to the E1-1 requirement. Throughout the drafting process, EFRAG had an ongoing dialogue with other actors, partners and experts to integrate other regulatory and market practices in its implementation guidance. Section 1.2 of this Guidance details the cross-references to the RP on Climate Transition Planning that present reference practices on the process of transition planning.
2. This Chapter dedicates several sections to establishing links and explaining how ESRS disclosures on CMTP relate to other initiatives on the topic. Most sections deal with EU regulatory initiatives, but other jurisdictions as well as voluntary initiatives are also covered. The objective is to explain how these initiatives can be considered to support the undertaking when disclosing on the climate transition plan according to ESRS E1-1.

What is the difference between this EFRAG Guidance and other available references?

This EFRAG Guidance relates to the implementation of mandatory reporting requirements originating from the CSRD. These requirements include specific rules, scope and characteristics involved in presenting sustainability information. The disclosures under ESRS, such as disclosure requirement E1-1, are integral to the undertaking's management reports and subject to audit obligations. This Guidance addresses the implementation of the ESRS as a non-behavioural set of reporting rules stemming from Union law.

It should be noted that other existing frameworks, guidance and tools may be complementary to E1-1 requirements. These external frameworks may offer a useful set of tools, resources and guidance that can assist undertakings in collecting, preparing and disclosing ESRS sustainability information. They help undertakings understand best practices, provide examples of methodologies and, importantly, contribute to the overall ambition of transition plans.

AI.1 EU

AI.1.1 EU Taxonomy

3. The EU Taxonomy (FISMA) disclosure can provide key metrics for monitoring progress in transition plans, especially for objectives (1) climate change mitigation and (2) climate change adaptation. By coordinating climate mitigation transition plans with Taxonomy requirements, undertakings can track and report progress towards climate neutrality.
4. EU Taxonomy metrics on turnover, CapEx and OpEx, offer insights into how climate mitigation plans are incorporated into the undertaking's financial planning. The undertaking can use these metrics to illustrate how its investments and operational expenses are contributing to its alignment with climate change mitigation objectives. These metrics are leveraged in reporting on ESRS E1-1 disclosure requirements. While these metrics are sector-agnostic, financial undertakings need to disclose their green asset

ratio (GAR), green investment ratio (GIR) and green underwriting ratio (GUR) for EU Taxonomy purposes.

5. The definition of sustainable activities under the EU Taxonomy can support undertakings in identifying potential decarbonisation levers and climate mitigation actions to be included in their climate mitigation transition plan and support undertakings in setting realistic and ambitious targets at the activity level. For example, actions such as improving energy efficiency in industrial processes can be benchmarked against technical screening criteria. By clearly defining and prioritising these actions, undertakings can effectively allocate resources and measure progress towards their climate mitigation transition plan. Additionally, the EU Taxonomy offers robust support as it provides the most rigorous definition of green activities currently available, ensuring a high standard of environmental integrity and comparability.
6. Since the EU Taxonomy can be used as a reference and is constantly evolving to account for technological progress, undertakings are encouraged to adopt an incremental strategy to move towards Taxonomy-aligned activities. Disclosing both Taxonomy-aligned and non-Taxonomy-aligned investments that support the transition is essential for achieving forward-looking alignment.

AI.1.2 CSDDD

7. The CSDDD (Directive 2024/1760, JUST) establishes a corporate due diligence duty. In addition, it sets out an obligation for undertakings in scope to adopt and put into effect, through best efforts, a transition plan for climate change mitigation which aims to ensure that the business model and strategy of the undertaking are compatible with the limiting of global warming to 1.5 °C in line with the Paris Agreement and the objective of achieving climate neutrality established in the European Climate Law including intermediate and 2050 targets.
8. Both the CSDDD and the CSRD use the same definition for a transition plan for climate change mitigation. Furthermore, 'Companies that report a transition plan for climate change mitigation ... shall be deemed to have complied with the obligation to adopt a transition plan for climate change mitigation' in accordance with CSDDD Article 22(2). At the same time, for the undertaking in the scope of the CSDDD, additional requirements to implement the plan through its best efforts should be considered. As the CSDDD imposes a behavioural duty to adopt and put into effect the transition plan which aims to ensure that the business model and strategy of the undertaking is compatible with the 1.5 °C global warming objective, it is required to adopt a transition plan and targets that are compatible with the 1.5 °C objective and at or below the reference target value. Art. 22 (1) CSDDD requires that the design of the transition plan for climate change mitigation shall contain time-bound targets related to climate change for 2030 and in five-year steps up to 2050 based on conclusive scientific evidence and, where appropriate, absolute emission reduction targets for greenhouse gas for scope 1, scope 2 and scope 3 greenhouse gas emissions for each significant category.

9. For undertakings falling under the CSDDD, there are obligations to conduct risk-based human rights due diligence concerning actual and potential adverse impacts with respect to their own operations, the operations of their subsidiaries and the operations carried out by their business partners in the chains of activities of those undertakings. This includes preventing, mitigating and remediating adverse impacts (Article 5 and Articles 7-16). These obligations equally apply to the implementation of the undertaking's transition plan - with respect to potential or actual adverse impacts to affected stakeholders associated with the undertaking's transition. Reporting on these aspects can take place in the sustainability statement prepared according to ESRS18 (please see FAQ 11-13).

AI.1.3 CRD/CRR – Pillar 3 ITS

10. According to Article 76(2) of the CRD, institutions shall set out specific plans to monitor and address the financial risks arising from the transition and process of adjustment to the relevant Member States and Union regulatory objectives in relation to ESG factors, including where this is relevant for international active institutions and third country objectives. The CRD requirements are further specified by the EBA Guidelines on the management of ESG risks. The prudential plan under the CRD is focused on prudential risk and constitutes a new risk management tool. Contrary to the CSRD, plans required under CRD Art. 76(2) are not subject to disclosure – although some parts may be covered by transparency requirements of the CSRD and/or Pillar 3 – but will be assessed by prudential banking supervisors as part of a supervisory review and evaluation process. Whilst the EBA guidelines are focused on prudential aspects of transition planning, the EBA has emphasised that institutions need to develop a single, comprehensive strategic planning process that covers all regulatory requirements stemming from applicable legislation (i.e. including the CSRD, the CSDDD, sectoral legislation, etc.) and all relevant aspects, including, inter alia, business strategy, risk management, due diligence and sustainability reporting. Although CRD-based plans are not required to set out the objective of fully aligning with Member States' or Union's sustainability objectives or one specific transition trajectory. They should include, though, actions and targets with regard to the business model and strategy that are consistent with CSRD plans. In conclusion, the requirements on plans included under the different EU regulations have indeed different but complementary purposes and should be addressed as part of a consistent, comprehensive and strategic planning process.
11. Like the CRD, the CRR recognises that the financial sector plays an important role regarding the transition towards a climate neutral and sustainable economy. Definitions of ESG risks, physical risk, transition risk, social risk and governance risk have been detailed in Article 1 of the CRR 3 to guarantee a common understanding of ESG risks. [On-going: to be provided]

¹⁸ [Refer to section 6.4 of the Directive on Corporate Sustainability Due Diligence – Frequently asked questions 240719.](#)

AI.1.4 Solvency II

12. Solvency II - Solvency II is the prudential regime for insurance and reinsurance undertakings in the EU setting out requirements with the aim to ensure adequate protection of policyholders and beneficiaries. Solvency II has a risk-based approach that enables to assess the "overall solvency" of insurance and reinsurance undertakings through quantitative and qualitative measures. EIOPA has issued advice and guidance to support the sustainability risk management as well as the prudential treatment of sustainability risks related to insurers' assets and liabilities. EIOPA has received under Solvency II a mandate to develop draft Regulatory Technical Standards to require insurance undertakings to report to national competent authorities on how they manage sustainability risks. The "sustainability risk plans" aim to structure the identification, assessment, management, and monitoring of sustainability risks by insurers, thereby codifying evolving practices, clarifying the regulatory framework, and enabling convergent supervisory practices. Mandated in Solvency II, these plans seek to establish minimum standards and reference methodologies for insurers to manage sustainability risks effectively. The plans integrate the assessment of sustainability risks into the insurer's long-term strategy, risk appetite, and investment and underwriting strategy and decisions. This includes evaluating the materiality of risks and, where deemed material, conducting forward-looking scenario analysis to assess potential financial impacts. This includes assessment of the materiality of the risks, and where deemed material, the performance of forward-looking scenario analysis to assess financial impacts. Solvency II ORSA already requires insurers to conduct forward-looking scenario analysis on material climate related risks (Article 45a Solvency II Directive). The plans aim to be consistent with disclosure requirements from the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD):

- a. The sustainability risk plan focuses on financial risk aspects, which include risks arising from the transition.
- b. Risk assessment need to include the assessment of transition risks, which arise from the transition to a climate-neutral economy. Information concerning the undertaking's transition plan can serve as input for sustainability risk management purposes and vice versa. This should be achieved, for instance, by ensuring the consistency between targets and actions set out in transition plans to reduce the impact of underwriting or investment strategies on sustainability factors, and targets and actions to manage the financial risk arising from these actions.
- c. Furthermore, where the sustainability risk plan identifies potential financial risks arising from impacts on sustainability factors (including legal, operational, reputational, or market and underwriting risks), the measures taken to mitigate these risks can also support the achievement of transition targets.
- d. It embeds a double materiality approach, encompassing both the impact of sustainability factors on the insurer's financial situation and the impact of the insurer's activities on sustainability factors.

- e. Disclosure requirements are proposed by EIOPA under the new draft RTS

AI.1.5 EU Green Bonds

- 13. The EU green bonds play an important role in financing assets needed for the low-carbon transition. As detailed in the Annex of the EU Green bonds, the issuer shall detail the link to the transition plan in the European Green bond fact sheet. It shall detail the manner in which the bond proceeds are intended to contribute to funding and implementing those plans. [On-going: to be provided]

AI.1.6 Climate Neutrality Plans (EU ETS)

- 14. The EU Emissions Trading System (EU ETS) is an important legislative mechanism for decreasing greenhouse gas (GHG) emissions. The directive required the top 20% of EU ETS installations, depending on GHG emission intensities, to present a climate neutrality strategy by May 2024 if their operators want to receive free allocations. This submission is one-time only, but a progress report is due every five years. The Climate Neutrality Plan is the appropriate provision for meeting this criterion. This can be related to the decarbonisation levers and actions.
- 15. The scope pertains to 370 EU ETS (plus eligible district heating) installations, all of which must design and submit a climate-neutrality plan for receiving a free allocation of emission allowances. The content and structure of these plans as well as guidance can be found here. Key elements of the climate neutrality plans include:
 - a. general information about the installation;
 - b. historical emissions data;
 - c. conditions enabling the historical emissions;
 - d. detailed milestones and targets, including intermediate goals;
 - e. conditions enabling the achievement of these milestones and targets;
 - f. measures and investments planned to meet the targets;
 - g. estimated impacts of these measures and investments; and
 - h. milestones and objectives, which must be consistent with the European Climate Law's climate-neutrality goal. This alignment guarantees that the submitted plans successfully contribute to the overarching objective of becoming climate-neutral by 2050.
- 16. For undertakings that own or operate these assets (installations under the EU ETS), climate-neutrality plans should be reflected as an integral part of the CMTP. Sometimes climate-neutrality plans of specific assets may be deemed material for the undertaking. In this case specific information about the climate-neutrality plan of the asset(s) shall also be disclosed in the management report in accordance with ESRS 1 paragraph 54 (see FAQ17).

AI.1.7 Transformation Plans (IED)

17. The Industrial Emissions Directive (IED, ENV) specifies the standards for developing transformation plans intended for managing pollution, decarbonisation and circular economy at the installation level. This regulation is planned to take effect for energy-intensive businesses on 30 June 2030, and for all other sectors, beginning in 2030.
18. The transformation plans are the relevant provision for these needs, which span a number of crucial areas. The transformation plans aim to address pollution, decarbonisation and circular economy. These plans are unique to each installation, and while decarbonisation elements may link to neutrality plans under the EU ETS Directive, they cannot be used to fulfil the EU ETS climate-neutrality plan criteria. The complete obligation to establish these transformation plans will not take effect until the updated IED is accepted by co-legislators, which is expected to occur in 2030.
19. The transformation plans are not directly aligned with the Paris Agreement's 1.5 °C target. Instead, they offer guiding principles for operators to follow. Operators must establish a transformation strategy, which is non-prescriptive. These plans are strategy papers that outline how installations will become sustainable, clean, circular, resource-efficient and climate-neutral by 2050.
20. The transformation plans should include detailed information about the installation, historical emissions, the conditions enabling historical emissions, milestones and targets, including intermediate goals, the conditions enabling the achievement of these milestones and targets, measures and investments planned to meet the targets, and estimated impacts of these measures and investments.
21. The transformation plans are part of the installation's overall Environmental Management System (EMS). An external audit of the EMS, including a conformance review of the transformation plan, is needed one year after the plan is created. The content of the transformation plans will be established in a delegated act that must be enacted by 30 June 2026 and evaluated by 31 December 2034. The transformation plans are part of the installation's EMS. Thus, they are subject to external audits every three years.
22. This rule assures that EU installations take substantial efforts toward sustainability, with an emphasis on extensive planning and frequent evaluations to achieve long-term environmental goals.

AI.1.8 Energy action plan (EED)

23. The Energy Efficiency Directive (EED) requires firms to create an action plan based on an energy audit every four years beginning in 2026, as detailed in Article 11(2) (ENER). This clause underlines the need for businesses to prioritise energy efficiency at the corporate level.
24. Article 11(2) distinguishes two types of organisations based on their energy use. Undertakings with an average annual energy use of more than 85 TJ during the last three years must establish an energy management system. Undertakings with an average annual usage greater than 10 TJ but less than

85 TJ must undertake an energy audit if they do not have an energy management system in place. Based on the findings of this audit, which will be undertaken at least once every four years beginning in 2026, these firms must provide a specific and achievable action plan. This action plan must be based on suggestions from the energy audits, ensuring that businesses take practical actions to improve their energy efficiency.

25. The regulation requires energy-intensive firms to use systematic techniques to control and minimise their energy use, therefore contributing to overall energy efficiency and sustainability goals.

AI.1.9 Commission Recommendation on facilitating finance for the transition to a sustainable economy

26. As detailed in the Recommendation, this document aims to support market participants that wish to obtain or provide transition finance by offering practical suggestions on how to approach transition finance. This document is intended for undertakings active or not in the financial sector. It deals with the following topics (non-exhaustive list):
 - a. Use of credible transition pathways to set science-based targets
 - b. Use of a credible transition plan
 - c. Transition and physical risk
27. These recommendations could be leveraged with regards to the CMTP.

AI.2 International sources of transparency requirements related to transition plan

AI.2.1 SEC rules

28. The final rules adopted by the Securities and Exchange Commission (SEC) to enhance and standardise climate-related disclosures by public undertakings and in public offerings require the inclusion of climate risk disclosures in an entity's SEC filings (e.g. annual reports, registration statements). The transition plan is one of the fundamental components of the entity's climate-related risk management strategy alongside scenario analyses or internal carbon pricing, offering undertakings the ability to demonstrate the deployment of climate change mitigation or adaptation activities.
29. The final rules define a transition plan (item 1500) as 'a registrant's strategy and implementation plan to reduce climate-related risks, which may include a plan to reduce its GHG emissions in line with its own commitments or commitments of jurisdictions within which it has significant operations.'
30. As part of the transition plan (TP) disclosure, the registrant will provide only in the case in which it has adopted a TP:
 - a. a description of its TP for managing a material transition risk (item 1502(e)(1));
 - b. updated annual report disclosures about the TP each fiscal year, with a description of any actions that were taken during the year under plan, including how such actions have impacted the registrant's business, results of operations or financial condition;
 - c. a description of how any of the transition plans relate to the registrant's business model or strategy (e.g. material expenditures made for climate-related research and development);
 - d. a description of whether and how the board of directors oversees progress against the transition plan if there is a transition plan disclosed pursuant to item 1502(e)(1); and
 - e. a quantitative and qualitative disclosure of material expenditures incurred and material impacts on financial estimates and assumptions as a direct result of the disclosed actions in the TP.
31. Considering (a), the SEC rules do not mandate the adoption of a transition plan (TP). Therefore, no disclosure is required when a registrant does not have a plan, nor are there any specific climate-related risk practices, strategies or tools prescribed by the SEC. The adoption of a TP is voluntary. However, if the undertaking had adopted a TP, the disclosure of the aforementioned information on it becomes compulsory. This is to improve the decision-usefulness of the provided information for investors, allowing them to evaluate more consistently and predictably the impact of TPs on operational results and the financial condition of the registrant.
32. As for the yearly update in (b), this was devised to allow investors to track progress over time under the TP of the registrant. The annual frequency will

foster consistency in investors' voting decisions and consideration of current climate-related information in their decision-making.

33. The requirement in (c) is intended to capture the (significant) material effect that TPs can have on an undertaking's business, results of operations or financial condition.
34. Provision (d) excludes a mandatory formal approval of the TP by the registrant's board of directors, as approval is not a determining factor for disclosing on a TP. Nonetheless, information on the oversight progress of a TP is to be reported.
35. Regarding (e), it is intended to support investors in their assessment of financial effects related to a TP as well as of a registrant's climate risk management and strategic decision-making about taking actions under the TP. Material expenditures are here intended to cover both capitalised and expensed elements and made during the fiscal year under a transition plan. The registering entity is also here required to provide a description of how the estimates and assumptions used by the registrant to produce the financial statements were materially affected (if they were) by risks and uncertainties associated with any disclosed transition plans.
36. The rules feature additional provisions on opportunities, targets and goals, carbon offsets and credits, and safe harbor extension. On opportunities included in a TP, an entity is not required to report them; however, it may still choose to provide further information on an opportunity that is intended to be considered. As for targets and goals, these can be discussed as part of the TP disclosure. Concerning carbon offsets and credits, registrants will determine their importance to the overall TP they have adopted. Finally, the final rules extend the safe harbor provision to climate-related disclosures pertaining to TPs, stating that the TP disclosures constitute 'forward-looking statements' for the purposes of the Private Securities Litigation Reform Act ('PSLRA') on safe harbors.

AI.2.2 Transition Plan taskforce (TPT)

37. The TPT is a voluntary framework, and as such, undertakings are not required to be familiar with it when reporting under ESRS, which remain the regulatory standards of the European Union. However, undertakings that are subject to ESRS and wish to compare their disclosure requirements across different frameworks and build knowledge on a variety of market practices may be interested in consulting the TPT, which offers a valuable reference point for approaching disclosure on transition plans.
38. The Transition Plan Taskforce (TPT) was a public-private taskforce established by the UK's Treasury in early 2022 to develop good practice for transition plan disclosure for finance and the real economy. The Taskforce published the TPT Disclosure Framework October 2023, followed by a suite of sector guidance, implementation guidance and advisory papers on nature, just transition and adaptation which aim to support preparers and users in applying the Disclosure Framework. It concluded its work in October 2024.

39. The TPT Disclosure Framework and supporting TPT Implementation Guidance provides a comprehensive set of resources that can help undertakings to develop and disclose forward-looking transition plans. The TPT has designed a single framework that applies across the financial and non-financial sectors. By enabling undertakings to think through the elements of a transition plan for climate change mitigation, the work of the TPT can help them prepare for disclosures under the ESRS.
40. In addition, the Sector Guidance released by the TPT provides a helpful tool for undertakings that fall under ESRS and are looking to prepare a transition plan for climate change mitigation, particularly those from sectors that are not yet concerned by the development of ESRS sector-specific standards. The TPT has produced high-level sector guidance for 30-plus sectors in its Sector Summary along with more detailed Sector Guidance for asset managers, asset owners, banks, electric utilities and power generators, food and beverage, metals and mining, and oil and gas. Undertakings in the insurance sector may also find the guidance developed by the UN Forum for Insurance Transition to Net Zero relevant, which builds on the TPT Disclosure Framework to develop insurance-specific guidance¹⁹.
41. In June 2024, the IFRS Foundation assumed responsibility for the disclosure-specific materials developed by the TPT and has housed these materials on the IFRS Sustainability knowledge hub. The IFRS Foundation will be using the TPT disclosure-specific materials to develop educational materials for IFRS S2 Climate-related disclosures, tailoring them to ensure global applicability and to deliver full compatibility with the global baseline. Over time, the ISSB will consider the need to enhance the application guidance within IFRS S2 on transition plans and will utilise these materials, as relevant, to support the provision of high-quality disclosures to meet investors' information needs. This means that the TPT can also be used as guidance on how to report more effectively on the transition plan-related aspects of IFRS S2 Climate-related Disclosures.
42. The TPT Disclosure Framework is organised across five elements, drawing on the components of a good transition plan identified by GFANZ: Foundations, Implementation Strategy, Engagement Strategy, Metrics and Targets, and Governance. The TPT Disclosure Framework breaks these elements down into 19 sub-elements, each of which is supported by a series of Disclosure Recommendations.
43. As shown in Appendix 4, the ESRS transition plan disclosures can be mapped against this five-element structure, which can help undertakings to understand how individual disclosure requirements in the ESRS standard relate to the common components used by both GFANZ and TPT.
44. The TPT Disclosure Framework – European Sustainability Reporting Standards: Comparison document²⁰ provides a more granular comparison

¹⁹ United Nations Environment Programme, [Closing the Gap The emerging global agenda of transition plans and the need for insurance-specific guidance](#), November 2024

²⁰ [TPT Disclosure Framework – European Sustainability Reporting Standards comparison, October 2023](#)

of the TPT Disclosure Framework with relevant provisions of ESRS 2 General Disclosures and ESRS E1 Climate. A table comparing ESRS with relevant provisions of the TPT (other direction) can be found in Appendix 4.

AI.2.3 GFANZ

45. The GFANZ is a voluntary framework, and as such, undertakings are not required to be familiar with it when reporting under the ESRS, which remains the regulatory standard of the European Union. However, undertakings that are subject to ESRS and wish to compare its disclosure requirements across different frameworks and build knowledge on a variety of market practices may be interested in consulting the GFANZ, which offers a valuable reference point on an approach to transition planning and transition plan disclosure.
46. The GFANZ framework can support the undertaking's discussions about components of transition plans and related practices. It is a sector-agnostic and principles-based framework that can be adopted by a wide range of financial and real economy undertakings. The framework drew on consolidated existing work on climate transition planning.
47. The framework acts as a guide for developing and implementing transition plans. It intends to help firms get started and, in doing so, enhance their understanding of the key elements of transition planning. It offers examples of types of metrics that could be useful and guidance for when to use them. There is a range of external inputs to a transition plan which are also rapidly evolving, including national-level transition plans, sectoral pathways, methodologies and data, technological and scientific advances, and the wider regulatory environment.
48. For financial sector firms which anticipate that the provision of transition finance will be a core part of their transition plan, the GFANZ has also published a [guide to scaling transition finance](#). This sets out the different financing strategies that could be considered transition finance, their key attributes and KPIs and how firms can calculate forward-looking metrics to capture the expected impact of their financing. For financial institutions, the guidance and methodologies published by *Net Zero Banking Alliance*, *UN-convened Net Zero Asset Owner Alliance*, *Net Zero Asset Manager Initiative* and other *Financial Institutions Net Zero Alliances* can inform and support the undertaking's discussions about components of transition plans and related practices, in particular in relation to investments transition plans.

Appendix II: European Climate Law-aligned sectoral reference pathways

Objective

The objective of providing European Climate Law-aligned pathways and the KPIs underpinning them is to offer a reference that companies can draw on to prepare their transition plans. By addressing the intermediate level between companies and the EU's economy-wide European Climate Law-targets, the pathways are expected to reduce the reporting burden for companies.

Outputs

Two sets of user-centric indicative KPIs will underpin the European Climate Law-aligned sectoral reference pathways:

- **Decarbonisation emission pathways** providing an indicative direction of travel for decarbonisation to companies regarding their sectors.
- **Decarbonisation lever pathways** providing a set of indicative mitigation options currently available in their sectors.

These two types of sectoral reference pathways will be made available as **sectoral fiches**.

The pathways will be:

- For a selected set of economic sectors (see covered sectors section);
- With an EU scope, consistent with the European Climate Law and its climate targets;
- Provided in the form of projected corridors to provide an indicative range on each KPI forming a pathway;
- Indicative only, for companies to adapt the pathways and underlying KPIs for their specific context and circumstances as useful; and,
- A publicly accessible reference that companies can use, as relevant to them, to measure their progress against indicative European Climate Law-aligned KPIs and pathways.

The pathways will not be:

- Forecasts, as they solely represent scenario-based trajectories for reference purposes;
- Prescriptive or binding, as they are based on the European Climate Law and its emission reduction targets, which are legally-binding for the Union, but not for companies. Companies may deviate from the pathways based on specific factors such as their activities, location, capital expenditure plans, etc.;
- Comprehensive, as they will cover an indicative set of mitigation options for each included sector, and options may vary for specific companies; and,
- Dynamic, as they will reflect the status quo at publication and may become less aligned with evolving technological developments, for instance.

Covered sectors

The pathways will cover the following seven sectoral areas:

- Agriculture, Forestry and Other Land Use (AFOLU)
- Industry

- Energy supply
- Transport
- Financial services
- Buildings
- Other services

For a selection of sectors, to be confirmed in due course, more detailed sector-specific pathways and KPIs will be presented.

Sample fiche

An illustrative a sector fiche showing decarbonisation intensity pathway of scope 1 emissions is provided below. Similar fiches will be developed for each covered sector.

Illustrative sector fiche

Example sector

Select Sector

[Sector] ▾

- AFOLU
- Industry
- Energy supply
- Transport
- Financial services
- Buildings
- Other services

Select KPI

[KPI] ▾

Decarbonisation

- [Sector] emission evolut...
- Carbon intensity of the produ...
- [Sector] production evolution...
- Energy mix: Electricity share...
- Energy mix: fossil-free electri...

Carbon capture

- Share of emissions captured...

Financials

- Investments in low carbon te...

ILLUSTRATIVE

Introduction

- General short description of the sector/sub-sector, including key trends in the sector, key enablers and challenges faced by the sector.
- Specification of the geography covered by the fiche when relevant.
- Brief description of the goals of the sections of the fiches.

Selected indicator: Projected [sector] emissions evolutions, on scope 1 core boundaries

Indexed sector specific data (2020 base year)

Year	Index Value
2010	100
2015	100
2020	100
2025	85
2030	65
2035	45
2040	30
2045	25
2050	20

Summary of sector KPIs

Type	KPIs	Unit
Decarbonisation	[Sector] emissions evolutions, on scope 1 core boundaries (indexed with 2020 base year)	index (MtCO ₂ e in 2020)
	Carbon intensity of the production	tCO ₂ /ton of [material]
	[Sector] production evolution (indexed with 2020 base year)	index (kt in 2020)
	Share of production that is secondary [i.e. using recycled materials]	% (kt)
	Energy mix: Electricity share in final energy	% (TWh)
Carbon capture	Energy mix: fossil-free electricity share in total electricity	% (TWh)
	Share of emissions captured with Carbon Capture technologies	% (MtCO ₂ e)
Financials	Investments in low carbon technologies share within total investments of the company	% (EUR)

Assumptions
The [sector] boundaries include [description of upstream and downstream activities].

Sources
The corridor illustrated above is based on the European Commission's analytical work from [source] and Pathways Explorer and [additional source].

Methodology

The guiding methodology to quantify and develop the underpinning KPIs for the fiches consists of two main steps:

- 1) **Definition of the KPIs:** For each sector, an indicative list of KPIs is identified based on a review of EU and international transition plan-relevant initiatives and stakeholder consultations.
- 2) **Quantification of the KPIs:** A quantification of indicative corridors and associated ranges for each KPI, consistent with the objectives of the European Climate Law and its 2050 climate neutrality and intermediate mitigation targets. One source of information to inform the KPI database is the European Commission's analytical work supporting these targets. Other key sources include CLIMACT's open-source Pathway Explorer model ([link](#)), which is based on relevant databases, including Eurostat, IDEES, UNFCCC, FAO.

Appendix III: CMTP Workbook

The CMTP Workbook presents a list of all relevant datapoints to be disclosed according to ESRS. The CMTP Workbook is a tool (MS Excel File) provided by EFRAG that aims to group all ESRS E1 DRs and ARs together, accordingly, with the appropriate datapoints under ESRS E1, paragraph 16. You can find it [here](#).