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Implementation Guidance

Transition Plan for Climate Change Mitigation

Cover note

Objective

1. To update SRB on the process of writing the Implementation Guidance on Transition Plan for Climate Change Mitigation (TPIG) and approve version 1.8.4 for public feedback period.

Background

2. The transition plan for climate change mitigation is referred to in E1 Climate Change, E1-1 Disclosure. It is of key importance for the E1 Climate Change standard, but also links to other topical standards. This disclosure is of relevance not only for preparers under CSRD, but also undertakings that are in scope of other EU legislations that require a transition plan¹. The implementation guidance ('IG') prepared by EFRAG intends to support the political priorities of the EU relative to climate change mitigation² and contribute to the convergence and coherence with the EU regulations currently addressing the topic of transition plans for climate change mitigation.
3. On the SRB meeting of 24 January 2024, EFRAG Secretariat was asked to draft implementation guidance related to the transition plan for climate change mitigation disclosed according to ESRS E1-1. This implementation guidance was identified as a priority by EFRAG SRB. As of March 2024, this is an official workstream of EFRAG Secretariat.
4. During the meeting of 24 January 2024, SRB members stressed that the scope of the IG should remain within the ESRS. TPIG will, therefore, focus on what good transparency of Transition Plans looks like – focusing on **what** and **how** to report, e.g., what a clear and concise disclosure on GHG targets looks like - rather than delving into methodological challenges on how to derive credible GHG targets.

Process of development of IG

5. EFRAG Secretariat has established an Advisory Group ('AG') which it consults to articulate links to appropriate references. The AG consists of representatives from European institutions, such as DG FISIMCA C1 and coordinating unit B2, DG CLIMA, DG ENV, EBA, DG ENER, EIOPA, JRC, PSF, and EFRAG SR TEG. These organisations have their own regulatory or

¹ Besides CSRD transition plans are also featured in at least the CSDDD, Solvency II, CRR (Pillar 3 IRS), CRD, EU ETS, IED and the EED.

² https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13793-EU-climate-target-for-2040_en

policy initiatives that interact with the topic concerned by the IG. Therefore, the Advisory Group was established to ensure streamlining and harmonising the approach across the different initiatives. Meetings with the AG were held throughout April 2024 (2 meetings) and in July 2024 (1 meeting).

6. At the early stages of project, EFRAG Secretariat engaged with preparers to identify the key areas that should be addressed by IG. A call for companies to engage in interviews was published on the EFRAG website in the middle of April. Following this, 35 interviews were scheduled throughout April to May. In addition to that, a survey was launched to all the preparers that expressed an interest in engagement, which yielded in total 50 responses between July and September 2024. The received feedback informed the process of developing the IG.
7. A first proposal presented to the Advisory Group proposed one single document structured along the Transition Planning process, which would characterize how to do the process and, at the same time, the disclosures requirements related to the transition plan (this is, the outputs of the planning process). After the second meeting of the Advisory Group (4th June) and based on feedback received, a decision was made to separate the content into two documents: The Transition Plan IG (focusing on transition plan disclosure) and the Reference Practices on Transition Planning (focusing on the planning process).
8. In the TEG meeting of the 3rd of July an initial discussion of the first draft of the Transition Plan IG was held. EFRAG Secretariat has received more than 250 comments from 26 SR TEG or Advisory group members (word comments, mails, comments during SR TEG and Advisory groups) since the presentation of the first draft version of the implementation guidance. The comments relate to both Reference Practices on Transition Planning as well as Transition Plan Implementation Guidance. Approximately 80% of the comments are currently reflected in the draft versions of the two documents and we will keep working on those still to be addressed. Priority has been given to the Transition Plan IG, but work is being carried out in both documents (Plan and Planning) simultaneously.
9. Another TEG meeting was held on the 18th of July, where additional comments were collected from SR TEG members on the overall structure of the Reference Practices on Transition Planning, on the suggestion to provide a tool to support preparers (workbook), and on the materiality regime applicable to the Transition Plan for Climate change mitigation. SR TEG members commented on the use of the word 'benchmarking' in relation to transparency and ambition. One SR TEG member suggested not considering the 3 scopes in the transition plan as the undertaking might be penalised by the industry's poor performance while performing well. SR TEG members also highlighted the need to focus on where ESRS aligns with SBTi, GHG Protocol and on link with the EU Taxonomy. The comments have been included in the log and work to include them is ongoing.
10. On the 12 July 2024, the Advisory Group, EFRAG Secretariat and the SRB Chair engaged in dialogue about the topic of compatibility with 1.5°C. The SRB Chair stressed the importance of separating the two documents (Plan vs Planning) and not exceeding the mandate given to EFRAG as a standard setter by going further than what is stated in the ESRS. The discussion covered the understanding that ESRS E1-1 interacts with other regulations and that additional guidance emerging on the topic should be pre-empted by explaining how to disclose according to paragraph 16. The issue of transparency and lack of definition of alignment/compatibility with 1.5°C was discussed and the AG members provided their respective perspectives on the topic.
11. On the 22nd of August 2024 a new version of the TP IG and Reference Practice Document was sent for comments by the SR TEG and AG by the 13th of September.

12. In a joint SRB and SR TEG meeting on 4 September 2024, EFRAG Secretariat engaged with SRB and SR TEG members to update them on the drafting progress, the decision to divide the work into two documents and the revised workplan. It was concluded that the Reference Practices on Transition Planning document will not be published through the EFRAG due process but as an EFRAG Staff/Secretariat paper. DG Clima also led an educational session on the ongoing project to develop guidance on 'Credible and climate law aligned Transition Plans' to SRB and SR TEG members. The objective of the project was defined as to help facilitate preparation and use of credible EU climate law aligned transition plans and to be a single point of reference for climate law KPIs at sectoral level. The session included an overview of the progress, approach, the project timeline and links to the EFRAG Transition Plan IG.
13. By the 13th of September over 242 comments were received from TEG and ASG, of which about 73% have been addressed and closed with current version 1.7.5.
14. In the joint SRB and SR TEG meeting on 18 September 2024, the discussion continued with the topic of compatibility. At this meeting, the Platform on Sustainable Finance (PSF) also presented their work on Transition Finance.
15. In agreement with SRB Chair, the workplan has been updated to meet the requests from the market and stakeholders. The objective is to finalise V3 of the Transition Plan IG by the end of 2024 and launch the public feedback period in early 2025. This also takes into consideration company feedback to not release the IG before the publication of the first Annual Reports incorporating the ESRS. Finalisation of the IG on Transition Plan for Climate Change Mitigation ('TPIG') is expected to take place in the spring of 2025.

Updated workplan:

	Dec	Jan	Feb	Mar	Apr	May
<i>Scoping</i>						
<i>Research</i>						
<i>Development</i>	V3 TPIG					
<i>Feedback</i>		Feedback period				
<i>Finalisation</i>			Finalisation of the TPIG			

Question for EFRAG SRB

16. Does EFRAG SRB have comments on each of the Chapters of the TPIG?
17. Does EFRAG SRB have any suggestions on the high-level work plan and timelines?
18. Does EFRAG SRB approve this draft version as a version for public feedback?

Next steps

19. Continue to address the feedback received so far by AG and SR TEG, including new feedback addressed in V1.7.5 of the Transition Plan IG.
20. Discuss next version (V3) of Transition Plan IG with SR TEG in January.

Agenda papers

21. In addition to this cover note, agenda papers for this session include:
 - 03-02 Transition Plan Implementation Guidance V1.8.4
 - 03-03 Transition Plan Implementation Guidance V1.8.4 – Red line comparison with V1.7.5