

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

**STATUS OF THIS DRAFT**

Early draft.

Internal quality review in progress on the contents already available.

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 in EFRAG website.**

Please note that:

[notes in yellow are contextualising, raising questions on text proposed or text that is still to be reviewed with stakeholders]



## 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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## Summary in 10 key points

1. Purpose and Scope: 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. Regulatory Compliance: The document details ESRS disclosure requirements, linking them to EU laws like the Corporate Sustainability Due Diligence Directive (CSDDD) and EU Taxonomy, among others.
3. ERS Structure: The guidance is structured into multiple chapters, covering the European framework, specifics of disclosure requirements for climate transition plans, connections to other European regulatory frameworks and international standards and Frequently Asked Questions (FAQs).
4. Target compatibility: Undertakings must disclose their targets and explain how they are compatible with the 1.5°C target set by the Paris Agreement.
5. Actions and Decarbonization levers: Undertakings must describe the decarbonization levers, such as operational and product adjustments, that support emissions reduction.
6. Investment and funding: They are also required to disclose investments and funding supporting these plans, including EU Taxonomy-aligned CapEx.
7. Supporting disclosures: Undertakings conducting activities covered by the EU Taxonomy for sustainable finance must disclose their alignment with taxonomy criteria. This includes climate-related objectives and compliance with technical screening criteria.
8. Governance and strategy: The document emphasises that climate transition plans must be embedded in a undertaking's overall strategy, with explicit support from governance bodies. This ensures alignment between sustainability goals and corporate planning.
9. Progress Reporting: Undertakings are required to provide updates on the progress of implementing their transition plans. This includes tracking the effectiveness of planned actions and their contribution toward emission reduction targets.
10. IROs arising from the transition plan for climate change mitigation: The guidance highlights the importance of considering social and biodiversity impacts, risks and opportunities connected to the climate transition plan. Undertakings must disclose how transition plans may affect workers, communities, and ecosystems and may be dependent from its adaptation actions.

# 1. Introduction

11. This Guidance aims to support preparers (undertakings) and users of ESRS sustainability statements on the implementation of the disclosure requirements related to transition plans for climate change mitigation (DR E1-1 and ESRS 2 relevant DRs). 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 ESRS<sup>1</sup> (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 italic***, as it does in the ESRS, and its definition is presented in a footnote when first used.
14. This Guidance is referring to sector-agnostic ESRS which apply to all undertakings, regardless of which sector or sectors they operate in. As such, its content may not fully address the sector-specific challenges related with reporting on the climate mitigation transition plans. Namely, further clarifications on transition plans for financial institutions will be provided via sector standards.
15. This guidance is focused on transition plans for climate change mitigation. However, due to their strategic nature, transition plans often interact also to other environmental and social topics (also referred to as just transition). Therefore, relevant interfaces are identified and briefly described in this guidance, for example regarding biodiversity or ensuring a just transition. However, this guidance exclusively focuses on clarification on disclosure requirements on transition plans for climate change mitigation as outlined in ESRS E1-1. Given the structure of the ESRS disclosures, disclosure requirements covering such information beyond climate are covered by the other topical ESRS; for example, ESRS S1 for employees or ESRS S3 for affected communities.

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<sup>1</sup>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 sustainability reporting standard, 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').

## 1.1. Structure

16. This Guidance organises its content in the following chapters:

- Chapter 2 explains the European framework for transition plan disclosures, introduces disclosure E1-1 on Transition Plan for Climate Change Mitigation and the wider context of European Union requirements.
- Chapter 3 details what and how to disclose with regards to each data point required in DR E1-1-Transition plan for climate change mitigation.
- Chapter 4 details how other sources may be considered when preparing ESRS disclosures and links to other reporting frameworks on transition plan for climate change mitigation.
- Chapter 5 complements chapters 2 to 4 with responses to FAQs.

## 1.2. Cross-references to the EFRAG document « Reference Practices on Climate Transition Planning »

17. The European Commission has promoted the constitution of a group of experts<sup>2</sup> who advised EFRAG in preparing educational material illustrating the process of 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 good practices for transition planning and achieving meaningful disclosure on a transition plan for climate change mitigation under ESRS.

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)

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<sup>2</sup> For details on composition of this group please check the document ###.



CSRD - Corporate Sustainability Reporting Directive (2022/2464)

CTP - Climate 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

DR - disclosure requirement

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

EU Taxonomy - Regulation (EU) 2020/852<sup>3</sup>

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

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<sup>3</sup> 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. European framework for transition plans

21. Meeting the 2050 climate neutrality goals is a key policy priority for the EU, and the concept of “Transition Plan” is reflected in a series of EU policy instruments.
22. As such, transparency on Transition Plan is based upon both ESRS 2 DRs, as well as, in the case of the **Transition Plan for Climate Change mitigation**, E1 topical DRs.
23. The next section presents the EU regulatory framework and transparency requirements related to **Transition Plans**. It presents the ESRS general approach and cross dependencies between ESRS standards to disclose on transition plans for climate change mitigation in accordance with ESRS. The requirements specifically related to **Transition Plan for Climate Change mitigation** in ESRS E1 will be described in detail in Chapter 3.
24. European undertakings, as well as other undertakings operating within the EU, may face a number of different requirements related to transition plans and transition plan for climate change mitigation. These requirements may originate from EU regulation and policy initiatives, or from voluntary international frameworks and initiatives. In the following paragraphs relevant legal requirements from Union law are briefly described (section 2.1). Afterwards the transition plan disclosures in the ESRS are explained (section 2.2).

### 2.1 Transition plan requirements in the European Union

25. The requirements on transition plans included under the different EU regulations have different but complementary purposes and should be addressed in a coherent manner. The different EU regulations focusing on transition plans, compose a set of requirements for sustainability transition, which can be supported by the transparency requirements set by the ESRS.
26. The key EU regulations which interact with the CSRD and ESRS disclosure requirements on CTP are briefly summarised in the following paragraphs. Further information can also be found in Chapter 4 explaining in more detail the requirements of other EU regulation beyond CSRD and how they interact with ESRS.
27. [EU Taxonomy](#) - is a cornerstone of the EU’s sustainable finance framework and an important market transparency tool. It helps direct investments to the economic activities most needed for the transition, in line with the European Green Deal objectives. EU Taxonomy disclosure can provide key metrics for monitoring progress in transition plans.
28. 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, through best efforts, a transition plan for climate change mitigation aligned with the 2050 climate neutrality objective of the Paris Agreement, as well as intermediate targets under the European Climate Law.

29. 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 with regard to 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/CRR risk-based transition plans have been proposed by the EBA as part of the [consultation paper on Draft Guidelines on ESG Risk Management](#). 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. Contrary to CSRD, prudential plans are not subject to disclosure but will be assessed by banking prudential supervisors as part of the supervisory review and evaluation process.
30. [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.
31. [EU Green Bonds](#) - 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 to define green economic activities, ensures levels of transparency in line with market best practice and establishes supervision of undertakings carrying out pre- and post-issuance reviews at European level.
32. EU Emissions Trading Scheme ([EU ETS](#)) - it is a cornerstone of the EU's climate mitigation policy and its key tool to reduce greenhouse gas emissions cost-effectively. The EU ETS Directive (as amended in May 2023) requires certain operators to establish climate-neutrality plans. Climate-neutrality plans are to be drafted in order to receive the conditional free allocation by operators of installations whose greenhouse gas emission levels are higher than the 80th percentile of emission levels for the relevant product benchmarks.
33. Industrial and Livestock Rearing Emissions Directive ([IED2.0](#)) - is the main EU instrument to reduce these emissions into air, water and land, and to prevent 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.
34. 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.

35. 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 and 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.

## 2.2. Transition plan disclosures in ESRS

36. The ESRS provide in Annex II of the Delegated Act (Acronyms and Glossary of terms) three relevant definitions which are framing the key conceptual references for disclosing on transition plans: (i) actions and action plans, (ii) transition plan and (iii) transition plan for climate change mitigation.

37. Definition of Actions:

*« 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. »*

38. Definition of climate change mitigation: 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.

39. Definition of Transition plan:

*« A specific type of action plan that is adopted by the undertaking in relation to a strategic decision and that addresses:*

*i.e. 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<sup>4</sup>. »*

a) Definition of Transition plan for climate change mitigation:

*« An aspect of an undertaking' targets, actions and resources for its transition towards 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<sup>5</sup>.»*

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<sup>4</sup> From ESRS Annex II Acronyms and glossary of terms.

<sup>5</sup> From ESRS Annex II Acronyms and glossary of terms.

40. 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, as well as and forthcoming sector standards) with respects to sustainability disclosures; third, the fact that ESRS disclosures are to be incorporated as part of the sustainability statement in the undertaking management report, which is subject to external audit.
41. As mentioned above in paragraph 30 the founding elements of the definition of a transition plan are:
- a. the plan is 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;
  - b. the plan is 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;
  - c. the plan is substantiated by a set of targets; and
  - d. the plan is accompanied by key actions
  - e. key actions are accompanied with allocated resources necessary to implement them.
42. Undertaking actions in the context of a transition plan may materially impact other topics (this is also acknowledged in the Art 8 Taxonomy with the DNSH (Do No Significant Harm) principle<sup>3</sup>). Consequentially, in accordance with ESRS 1, chapter 3.6 "Material impacts or risks arising from actions to address sustainability matters", the undertaking's may identify situations in which its actions to address 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§53 clarifies that in such situations the undertaking shall:
- a. 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
  - b. provide a description of how the material negative impacts or material risks are addressed under the topic to which they relate.
43. 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: 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]; and it may also form part of the disclosures of stakeholder engagement [ESRS2-SBM2]; or other environmental impacts, e.g., biodiversity [E4]. These may be referenced in the context of E1§16(b) or

E1§16(c) which reference the climate change mitigation actions planned as well as the investments and funding to support them.

44. 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 to ensure that the transition plan as a whole meets these characteristics. Only in this way the plan can be regarded as effectively meeting the disclosure objectives, such as the ESRS E1-1, §15 for climate transition plans.
45. Even if not explicitly related to transition plans, general disclosure requirements from ESRS 2 also support its overall consistency as a whole and compatibility with the European framework:
  - a. 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 CSDDD's comprehensive requirements regarding transition plan's governance.
  - b. Disclosure Requirements regarding the description of the process to identify and assess 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 approach to manage them.
  - c. Disclosure requirements regarding the strategy, business model and value chain [SBM-1], the interests and views of stakeholders [SBM-2], 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 to address IROs and its resilience in the process of addressing them and adapting the strategy and business model. It ensures consistency between the identified material sustainability IROs and the undertaking's capacity to address them.
46. More specifically, the **Climate Transition Plan for Climate Change Mitigation's** disclosure requirements are addressed in the **Disclosure Requirement E1-1**.

47. When reporting the **Climate 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 §16] and are applicable. They provide more details about actions and targets supporting the CTP.
48. Minimum disclosure requirements on Actions [ESRS 2 MDR-A§60-62 and §66-69], and Targets [ESRS 2 MDR-T §70-72 and §78-81] referenced in ESRS E2 are also applicable and their datapoints fully integrated as they are required to disclose on [E1-3] and [E1-4].
49. Even though not explicitly referenced in E1-1, the definition of **Policy**<sup>6</sup> [ESRS 2 MDR-P §60-62 and §63-65], is equally relevant in this context: considering the strategic importance of the transition plan, it is anticipated that the organization's strategic goals should be reflected in the policies the organization 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 policies<sup>7</sup> will help to increase the whole CTP consistency and readability.

## 2.3. Disclosing on material negative impacts arising from a transition plan

50. This Guidance does not cover topics beyond climate change. However, this section illustrates briefly the interaction with other topics.

### 2.3.1 Just transition in the context of transition plans for climate change mitigation

51. Just transition<sup>8</sup> is relevant for undertakings to consider in relation to disclosures on transition plans for climate change mitigation. The concept of

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<sup>6</sup> 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 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 undertakings' applicable governance rules. A policy is implemented through actions or action plans.

<sup>7</sup> A reminder that the ESRS does not oblige undertakings to adopt a policy but, at the minimum, to disclose whether it has one or not.

<sup>8</sup> The UNOHCR and ILO define a 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

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 in the economy, from energy and transport to agriculture or financial services.

52. 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 the ESRS S1 to S4 for social. Specifically, ESRS 2 GOV-4, SBM-3, IRO-1 and IRO-2 and the minimum disclosure requirements as relevant 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.

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

53. Just as with social impacts, the actions need to implement in a CTP may have both positive and negative impacts on biodiversity. This often arises 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.
54. When defining their decarbonization levers and actions to achieve their 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 & 53, disclosing such material impacts and risks in accordance with ESRS E4 and cross referencing where needed in E1-1.

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

55. Climate change mitigation and adaptation strategies are frequently interconnected, as effective mitigation efforts often depend on, and are influenced by, adaptation measures. Some of the ways mitigation and adaptation can be connected comprise:
  - a. Reliance on carbon sinks: Adaptation efforts aimed at protecting and restoring ecosystems—such as forests, wetlands, and oceans—are crucial for maintaining their role as carbon sinks. However, these ecosystems are increasingly vulnerable to climate change effects, such as wildfires, droughts, and rising temperatures. Adaptation measures like fire management, reforestation with climate-resilient species, and wetland restoration help ensure the continued

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must include the entire economic spectrum, from energy and transport to agriculture to financial services.”  
UNOHCR and ILO (2023):

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



functionality of these carbon sinks, enabling them to contribute effectively to mitigation goals.

- b. Agriculture: agricultural activity is both a source of emissions and an area where mitigation can occur through practices that increase carbon sequestration in soils. However, climate change impacts like droughts, floods, and shifting growing seasons can undermine these efforts. Adaptation measures, such as changing crop varieties to more resilient species, improving irrigation efficiency, and practicing climate-smart agriculture, help farmers maintain or even enhance their ability to sequester carbon in soils, contributing to overall mitigation strategies.
- c. Energy Supply Chains: Adaptation measures that strengthen the resilience of energy systems also support mitigation efforts by preventing disruptions in the supply chain of renewable energy. For instance, hydropower plants may suffer from reduced water availability due to changing precipitation patterns, or solar panels could be damaged by storms. Adaptation strategies like water management, diversifying renewable energy sources, and climate-proofing infrastructure ensure that renewable energy production remains consistent and reliable, sustaining the transition away from fossil fuels.
- d. Urban Planning adaptation: Urban adaptation measures – such as designing cities with green spaces, improving water management systems, and enhancing the resilience of buildings to extreme heat – can also support mitigation by reducing energy demand. For instance, adapting buildings to be more energy-efficient and resistant to heat reduces the need for air conditioning, thus lowering overall energy consumption. Similarly, enhancing public transportation systems to make them more resilient to climate impacts encourages the use of low-carbon transportation options, contributing to reduced emissions.
- e. Nature-Based Solutions: many nature-based adaptation solutions, such as restoring mangroves, wetlands, and coastal ecosystems, provide dual benefits. Not only do they help communities adapt to rising sea levels, storm surges, and flooding, but they also sequester carbon, contributing to mitigation. These integrated solutions demonstrate how adaptation can enhance mitigation efforts by leveraging natural processes to address both current vulnerabilities and long-term emission reductions.

56. [Further text to be provided]

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

57. This section explains how to implement the requirements of ESRS E1, following the structure of ESRS E1-1 paragraph 16.

#### 3.1 Overall disclosure objective of ESRS E1-1

1. The **transition plan for climate change mitigation**<sup>9</sup> covered by ESRS E1-1 disclosure requirement contains different elements related to strategy, policies, targets, action plans and resources. 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 as a transparency over the plan, that provides a level of information enabling users to assess the ambition and credibility<sup>10</sup> of the transition plan itself in connection with limiting global warming to 1.5°C. This compatibility is crucial for limiting global warming to 1.5°C, as per the Paris Agreement, and achieving climate neutrality by 2050. By disclosing the elements detailed in paragraph 16, explained below, the undertaking can effectively illustrate its strategy and ambition to mitigate climate change.
2. The disclosures on the plan provided under E1§16, are designed to provide an understanding of the plan as a whole. Consideration should be given to the consistency between the targets and the proposed actions, investments and changes in strategy and business model. Required information encompasses the steps, timelines, responsibilities [ESRS 2§; E1§], means and resources allocated or planned to make its strategy and business model compatible with 1.5°C.
3. ESRS E1 (paragraph 16 a) requires transparency on the level of compatibility of the targets. Undertakings that report on climate targets under E1-1 and assess their targets as not compatible with 1.5°C (and disclose them as such under paragraph 34 e) should ensure that this is clearly understandable across all the disclosures prepared under ESRS.
4. For each of the subchapters below, the list of all relevant datapoints to be disclosed according to ESRS is presented in the CTP Workbook. The CTP Workbook is a tool provided by EFRAG that aims to aggregate all ESRS E1 DRs and ARs, grouping them together accordingly with the appropriate data point under ESRS E1 paragraph 16. [[separate document - link](#)].

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<sup>9</sup> An aspect of an undertaking's overall strategy that lays out the undertaking's targets, actions and resources for its transition towards 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.

<sup>10</sup> The credibility of a transition plan for climate change mitigation is not a concept that is currently defined under ESRS. For possible reference see XXX.

## 3.2 References to other ESRS requirements beyond E1-1

5. 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 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.
6. 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 consequence, the undertaking will be able to present the information as most appropriate to its individual case, provided ESRS 1 *Section 8.2 Content and structure of the sustainability statement* requirements are met.
7. 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 the mention '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 (ESRS1§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;*

8. This explanation is intended to provide transparency on how the undertaking 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 level of 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 emissions reduction targets and reference pathways and target values have been established shall be provided.

**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§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.

The RTV can be used to benchmark the ambition of the undertaking's own GHG emissions reduction target. To determine RTVs undertakings can use climate scenarios containing GHG emissions 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 this calculations, as referred to in ESRS E1-1 AR2, is **expected to be** addressed within the EU by European Climate Law-aligned sectoral pathways **forthcoming link**. Beyond the EU, SBTi provides tools to set reference target values based on sectoral pathways.

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. It should then aggregate the results back to the consolidated level, in line with its overall sustainability statement as required by CSRD.

It is to be noted that the associated application requirement (AR 27) underlines that *'the reference target value may be calculated by multiplying the GHG emissions in the base year with either a sector-specific (sectoral decarbonisation methodology) or cross-sector (contraction methodology) emission reduction factor. These emission reduction factors can be derived from different sources. The undertaking should ensure that the source used is based on an emission reduction pathway compatible with limiting global warming to 1.5°C'*.

9. This disclosure shall take account of the general disclosure objective of ESRS E1-1 (see above) stated in ESRS E1-1§15.
10. This disclosure is based on the GHG emissions reduction targets disclosure required by ESRS E1-4, including reference to the statement whether its GHG emissions reduction targets are science-based and compatible with limiting global warming to 1.5°C (ESRS E1-4§34(e)).
11. 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 level of compatibility of its targets under ESRS E1-1§16(a) without prejudice of the additional statement required under ESRS E1-4§34(e).

#### **How do ESRS E1-1§16(a) and ESRS E1-4§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 level of compatibility shall be factual and objective by reference to an appropriate reference target value clearly described.

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).

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 and 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.

## Context

12. 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§17.
13. After calculating its GHG emissions, according to paragraph 33 of E1-4, the undertaking shall report whether and how it has set **GHG emissions reduction**<sup>11</sup> targets or other climate-related targets, which are forward-looking information reflecting the undertaking’s level of ambition with regards to reducing its emissions and establishing its climate action pathway.
14. Following the provisions of ESRs MDR-T and the related paragraphs of E1-4, the undertaking reports its targets:
  - a. in absolute values, and, if relevant, intensity values. If only intensity targets are set, the undertaking shall also disclose the associated absolute GHG emission values for the target and interim years. This

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<sup>11</sup> 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.

- could mean disclosing an increase in absolute GHG emissions if the business expects significant organic growth;
- b. 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;
  - c. 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 5-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 the past 5-years delivery performance on climate actions;
  - d. including at least target values for 2030 and, if available, 2050.
15. Further information on base year setting can be found in [the compilation of explanation released in July 2024](#) (ID 552). [Note: Other explanations related to the base year will be published in the coming months].
16. Beyond the statement on target compatibility, E1-4§34(e) also requires to state whether GHG emission reduction targets are science-based as well as 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.'
17. E1-4 (paragraph 34 (e)) also requires an explanation of how future developments (e.g., 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;*

18. Paragraph 16 (b) of E1-1 disclosure requires the undertaking to explain its **decarbonisation levers**<sup>12</sup> and key planned actions and their contribution to filling the gap between the baseline and the target, particularly on the current 5-year target period. This shall be done by reference to GHG emissions reduction targets (E1-4) and climate change mitigation actions E1-3).
19. The undertaking may, in addition to the explanation, present its GHG emission reduction targets together with its decarbonisation levers as 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 into streams of actions that help the undertaking communicate the 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 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 can extend to its value chain in order to reduce the undertaking's Scope 3 emissions.

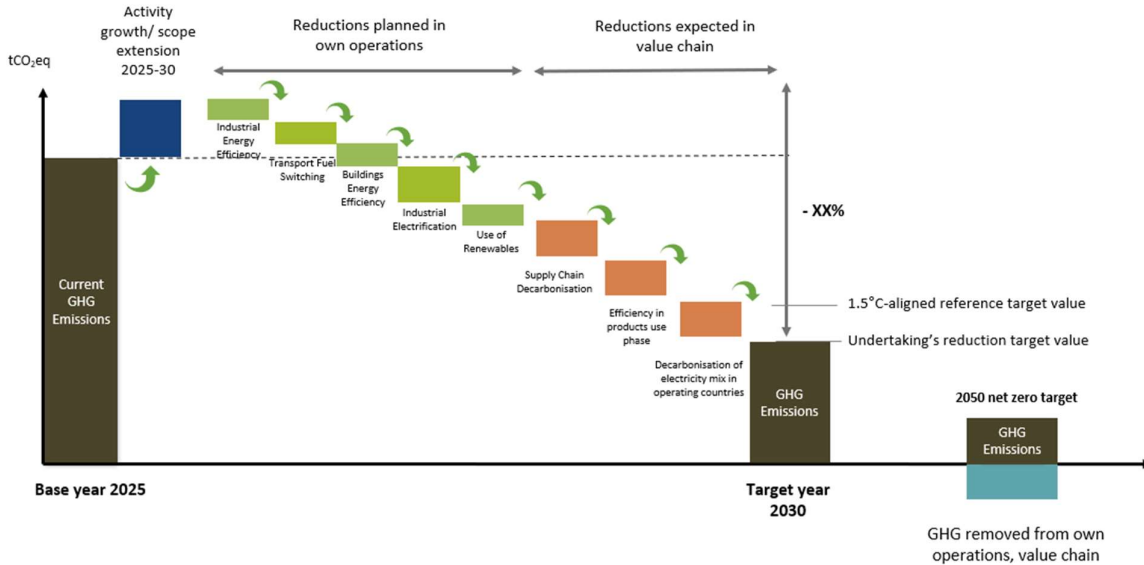
For example, a decarbonisation lever identified as 'electrification' may include a number of actions taken by the undertaking: replacing natural gas-powered boilers with electric heating, changing the fleet to electric, implementing heat pumps, and exchanging gas to electric furnaces.

It is important to keep in mind that the contribution of decarbonization levers to target achievement is forward-looking information that requires estimation leveraging plausible assumptions, that 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.

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<sup>12</sup> 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.



	Base year (e.g., 2025)	2030 target	2035 target	...	Up to 2050 target
GHG emissions (ktCO <sub>2</sub> 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	-	-			

20. Explaining the actions supporting the implementation of the undertaking's CTP (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 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.

**Context**

21. 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 target on a mid-term (5-year, unless the possibility offered by ERS1§80 is chosen) time horizon.



22. Disclosure E1-3 requires to describe key actions taken (in the reporting year, short-term horizon) and planned (mid and long-term horizon). Following the applicable ESRS 2 MDR-A, the undertaking discloses its time horizons (short, mid, 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 mid-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 5-year cycles.
23. Furthermore, the decarbonisation levers disclosed under ESRS E1-1§19(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. 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;*

24. This disclosure requires transparency on the financial planning related to the decarbonisation levers 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 of their deployment. It should also be clear on the planned financial resources allocated to actions over the same time horizon. This should take into consideration that an action can also be "decisions to support ... with financial, human or technological resources" (see Time horizons box, below). This is expected to ensure that actions planned are properly resourced, the plans are auditable, and reductions have a reasonable likelihood of being achieved over the mid-term horizon period.
25. 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, 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.

26. 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 decarbonization lever level under this specific disclosure requirement. One way to do this is to first identify all decarbonization 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 decarbonization levers. The global Opex and Capex amounts associated to the actions should be aggregated at decarbonization 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 net zero trajectory by 2050 and the broader environmental goals. The 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.

### **Time horizons**

To align with Taxonomy requirement, the transition plan may be expressed in the form of a forward-looking disclosure on the mid-term time horizon (5 years) on CapEx (or OpEx) plans. 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 5 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 may be broken into different steps as well as the financial resources allocated. It should be clear, however, that financial resources allocated to such large projects can be considered as "actions" in the mid-time horizon, even if the carbon reductions may only come to fruition in the long-term horizon.

Large CapEx and OpEx projects shall [ESRS 2-MDR-A\$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

27. 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.
28. 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 the 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;*

29. 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. Although qualitative, the assessment should be based on assumptions consistent with the scenarios/pathways considered for setting the targets.
30. 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 tCO<sub>2</sub>eq.
31. Under certain circumstances, the undertaking may consider that its asset base that generates 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 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.

32. For assets that generate locked-in emissions that pose a risk for the attainment of targets, or for those that carry significant transition risk, the undertaking should establish and disclose 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 emissions reduction targets and plans. This allows information users to understand the 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 ESRS glossary, the 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 the 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; 3) the expected utilisation rate 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 the viability helps to inform the credibility of an undertaking's transition plan. In particular, locked 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.

33. For further guidance on assessing the 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 2021/2139<sup>13</sup>;

34. The scope of this disclosure is limited to the undertakings that carry out activities that 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.
35. 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.
36. This may be expressed in the form of a forward-looking disclosure on the mid-term time horizon (5 years) on CapEx (or OpEx) plans to align current existing eligible activities with the criteria of the EU Taxonomy or to invest in new aligned activities. 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.
37. Aligning the undertaking's existing eligible activities will mean that the undertaking is addressing any outstanding technical screening criteria that the activities do not comply with respect the Do No Significant Harm principle and other environmental objectives or the minimum EU social safeguards.

#### **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. The 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 means an activity that complies with the requirements 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]

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<sup>13</sup> ### Climate delegated act of EU Taxonomy

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

38. 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, D.46.71. Investments in gas-fired power generation have to be included in the figure if the emission intensity is above 270 g CO<sub>2</sub>eq/kWh for the output energy in line with criteria laid out for this activity in the EU Taxonomy. [Please note that this deviates from footnote (37) in E1, but we believe this is what is meant in that footnote, namely that “For gas-related activities” means for gas-fired electric power generation where the limit of 270 g CO<sub>2</sub>/kWh applies].
39. Beyond CapEx invested in fossil fuel activities, the undertaking may want to consider the present and past fossil fuel exposure and provide as 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 the revenue from these activities is already requested in ESRS E1 §67(e), and it may be useful to establish a link or make a reference to this section for context. [Note: this paragraph goes a beyond what is strictly in the text, but in cases where there is exposure to fossil fuels, it would make sense to reflect or link it to a CTP disclosure].

#### **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, transmission or distribution that may be dependent of 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; as well as 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 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 are higher than 270 gCO<sub>2</sub>/kWh.

### 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;*

40. This disclosure requires a yes or no statement regarding whether the undertaking is excluded from the EU Paris-aligned Benchmarks. This disclosure helps information users to directly identify undertakings that carry out activities that are deemed incompatible with the Paris Agreement, per the definitions laid out in Commission Delegated Regulation 2020/1818 (Climate Benchmark Standards Regulation).
41. Pursuant to AR 5, this statement is made in accordance with the exclusion criteria stated in articles 12.1 (d) to (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 CO<sub>2</sub> 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;*

42. The undertaking may want to provide a narrative on such aspects 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 to 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**

43. The undertaking should build on information disclosed pursuant to ESRS 2 SBM-3. It may also choose to disclose the information contained in other DRs that are 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; and;*

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

#### **What governance bodies to consider for approving the transition plan?**

The administrative, management and supervisory bodies, according to ESRS glossary, 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

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

### 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.*

47. This is a narrative disclosure intended to summarise the factual progress 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.
48. 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 target(s) performance, as well as for reviewing the target(s). Crucially, the progress in implementing the different actions of the CTP can also be used to explain how the different target(s) translate in terms of GHG emission for the reporting year, and likely performance in the mid-term horizon (on target/target delayed/ahead of target).
49. The principle of monitoring the progress is embedded in 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 the 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.

50. In the first year of implementing the transition plan, this disclosure requirement is not a strict requirement to fulfil the objective of E1-1 disclosure. However, undertakings that are already monitoring relevant indicators are encouraged to communicate on these, to demonstrate past progress on transition efforts.

### 3.8. Whether and when a CTP 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.*

51. [To cover all of E1-1 datapoints, §17 has been added. To be developed if agreed this is right place in structure.]

## 4. Considering other sources

52. 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 presents reference practices on the process of transition planning.
53. This Chapter dedicates several sections to establishing links and explaining how ESRS disclosures on CTP 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?**

EFRAG guidance relates to the implementation of mandatory reporting requirements originating from the CSRD. These requirements include specific rules, scope, and characteristics of presenting sustainability information. The disclosures under ESRS, such as disclosure requirement E1-1, are integral to the undertakings' annual 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.

[Note: the sections below present preliminary text, that still needs further validation and coordination work with the different bodies responsible for each area].

## 4.1 EU

### 4.1.1 EU Taxonomy

54. 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 advancements towards climate neutrality.
55. EU Taxonomy metrics on turnover, CapEx, 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 for EU Taxonomy purposes.

56. 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.
57. Since the EU Taxonomy can be used as a reference and is constantly evolving to account for technological progress, undertakings are led 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.

#### 4.1.2 CSDDD

58. The CSDDD (Directive 2024/1760, JUST) establishes a corporate due diligence duty. Among its provisions, it sets out an obligation for the undertakings in scope to adopt and put into effect, through best efforts, a transition plan for climate change mitigation aligned with the 2050 climate neutrality objective of the Paris Agreement as well as intermediate targets under the European Climate Law.
59. Both CSDDD and CSRD use the same definition for what a transition plan for climate change mitigation is. Further to that, "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 scope of CSDDD, additional requirements to implement the plan through its best efforts should be considered. As the CSDDD imposes a behavioural duty to 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 degrees global warming objective, it is required to adopt a transition plan and targets that are compatible with the 1.5 degrees objective and aligned with the reference target value.
60. 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 own operations, their subsidiaries and business partners - as well as to prevent, mitigate, and remediate those potential adverse impacts (art.5 and art.7 to art.16). These obligations equally apply to the implementation of its transition plan - with respect to potential adverse impacts to affected stakeholders (individuals, communities or business partners in the value chain). Reporting on these aspects can take

place in the sustainability statement prepared according to ESRS<sup>14</sup> (please check FAQ 11-13).

#### 4.1.3 CRD/CRR – Pillar 3 ITS

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, as well as, where relevant for international active institutions, third country objectives. EBA has published [a consultation paper on guidelines on management of ESR risks in January 2024](#) where it details the prudential plan. The prudential plan under CRD is focused on prudential risk and constitutes a new risk management tool. Contrary to CSRD, plans required under CRD Art. 76(2) are not subject to disclosure but will be assessed by banking prudential supervisors as part of the supervisory review and evaluation process. As detailed in the draft guidelines, they have been prepared by taking into consideration other initiatives and legislative frameworks related to (transition) plans, that should be disclosed and/or developed by sets of non-financial and financial corporates to ensure that their business model and strategy 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). Nevertheless, CRD-based plans are not required to set out an objective of fully aligning with Member States or Union sustainability objectives or one specific transition trajectory. They should though include actions and targets with regard to the business model and strategy that are consistent with CSRD plans. Importantly, institutions need In conclusion, the requirements on plans included under the different EU regulations have indeed different but complementary purposes and should be addressed in a coherent and consistent manner.

61. As 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 CRR3 to guarantee a common understanding of ESG risks. [On-going: to be provided]

#### 4.1.4 Solvency II

62. 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](#). [On-going: to be provided]

#### 4.1.5 EU Green Bonds

63. 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

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<sup>14</sup> [Refer to section 6.4 of the Directive on Corporate Sustainability Due Diligence – Frequently asked questions 240719.](#)

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]

#### 4.1.6 Climate Neutrality Plans (EU ETS)

64. 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.
65. The scope regards 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.
  - h. Milestones and objectives in these plans 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.
66. Undertakings that own or operate these assets (installations under the EU ETS), the climate-neutrality plans should be reflected as an integral part of the CTP. Sometimes the 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 annual report in accordance with ESRS 1 paragraph 54 (see FAQ13).

#### 4.1.7 Transformation Plans (IED)

67. The Industrial Emissions Directive (IED, ENV) specifies the standards for developing transformation plans intended at managing pollution, decarbonisation, and the circular economy at the installation level. This regulation is planned to take effect for energy-intensive businesses on June 30, 2030, and for all other sectors beginning in 2030.

68. 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 the 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 utilised 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.
69. The transformation plans are not directly aligned with the Paris Agreement's 1.5°C target. Instead, they give 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.
70. The transformation plans should include detailed information about the installation, historical emissions, conditions enabling historical emissions, milestones and targets, including intermediate goals, 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.
71. 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 June 30, 2026 and evaluated by December 31, 2034. The transformation plans are part of the installation's EMS, thus they are subject to external audits every three years.
72. 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.
73. [On-going, to understand reporting obligations, how it links with CTP and CSRD.]

#### 4.1.8 Energy action plan (EED)

74. 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 necessity for businesses to prioritise energy efficiency at the corporate level.
75. Article 11(2) distinguishes two types of organizations 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 the suggestions from the energy audits, ensuring that businesses take practical actions to improve their energy efficiency.

76. 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.
77. [On-going: to provide link to CTP as component of actions linked to EE as a decarbonisation lever.]

## 4.2 International

### 4.2.1 SEC rules

78. 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, allowing undertakings to demonstrate the deployment of climate change mitigation or adaptation activities.
79. 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.'
80. As part of the transition plan (TP) disclosure, the registrant will provide, only in the case in which it has adopted a TP:
81. a description of its TP for managing a material transition risk (item 1502(e)(1));
82. 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;
83. 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);
84. 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);
85. 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;
86. 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 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 afore-mentioned 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.

87. 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 the investors' voting decisions and consideration of current climate-related information in their decision-making.
88. The requirement in c) is intended to capture the (significant) material effect that TPs can have on a undertaking's business, results of operations, or financial condition.
89. 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.
90. Regarding e), it is intended to support investors in their assessment of the financial effects related to a TP, as well as of a registrant's climate risk management and strategic decision-making about taking actions under 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.
91. 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 purposes of the Private Securities Litigation Reform Act ("PSLRA") safe harbors.<sup>1</sup>

#### 4.2.2 TPT

92. The TPT 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 their disclosure requirements across different frameworks and build knowledge on a variety of market practices may be interested to consult TPT, which offers a valuable reference point for approach to disclosing on transition plans.
93. 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.

94. The TPT Disclosure Framework - ESRS Comparison document<sup>15</sup>, provides a useful comparison 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 Annex #.**
95. 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+ sectors in its Sector Summary, along with more detailed Sector Guidance for Asset Managers; Asset Owners; Banks; Electric Utilities & Power Generators; Food & Beverage; Metals & Mining; and Oil & Gas.

#### 4.2.3 GFANZ

96. 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 to consult GFANZ, which offers a valuable reference point on an approach to transition planning and transition plan disclosure.
97. 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 and consolidated existing work on climate transition planning.
98. The framework acts as a guide for developing and implementing transition plans, and it intends to help firms get started and in doing so, upskill on the key elements of transition planning. It offers examples of the types of metrics that could be useful, and the considerations when using 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.
99. For financial sector firms who anticipate that the provision of transition finance will be a core part of their transition plan, 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.

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<sup>15</sup> [TPT Disclosure Framework – European Sustainability Reporting Standards comparison, October 2023](#)



## 5. Frequently asked questions (FAQs)

100. Some questions related to E1 have been already answered by the EFRAG Secretariat and can be found [here](#) (July 2024 version). These questions are related 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. **[To discuss their potential inclusion here or not.]**

### 5.1. Targets-related FAQ

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

101. The main focus of the ESRS E1-1 is the transition plan for climate change mitigation, which is driven by the GHG emissions reduction targets, mentioned in the first paragraph of the specific ESRS requirement (ESRS E1-1§16a). This paragraph requires, 'by reference to GHG emission reduction targets (as required by Disclosure Requirement E1-4), an explanation of how the undertaking's targets are compatible with the limiting of global warming to 1.5°C in line with the Paris Agreement'.
102. It is therefore expected that GHG emissions reduction targets are used as reference under ESRS E1-1. Any other climate-related target (such as, for example target related to climate change adaptation awareness and training), can be disclosed under E1-3§33 as complementary to the reduction target but does not fulfil the requirement of ESRS E1-1§16a.

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

103. No, an undertaking cannot consider the purchased and planned carbon credits in measuring its GHG emission reduction target.
104. ESRS E1-1§16a relates to information complementing GHG emission reduction target, as set in ESRS E1-4. Hence the targets contributing to the transition plan should follow the same requirements as ESRS E1-4.
105. ESRS E1-4§34b 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 AR43, AR45, AR46 highlight that neither of 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 its calculation.
106. While it cannot be considered in its gross GHG emission reduction target, ESRS E1-7§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 it has financed or intends to finance through any purchase of carbon credits.

107. More specifically, if the undertaking discloses a net zero target, in addition to the gross GHG emission reduction target, ESRS 1-7§60 clarifies that it shall explain how the residual GHG emissions are intended to be neutralised by GHG removals and carbon credits. ESRS E1-7§61 also specifies that in the case where the undertaking may have made public claims of GHG neutrality that involve the use of carbon credits, it shall explain how they are accompanied by GHG emission reduction targets, whether and how they neither impede or reduce the achievement of its GHG emission reduction targets, and the credibility and integrity of the carbon credits used.
108. GHG removals and carbon avoidance/reduction fall within the umbrella term that is carbon credits, but while credits for GHG removals can be used to achieve a net zero GHG emissions target, carbon credits of avoidance or reduction can only be used for compensation, not to achieve net zero (netting).
109. The ESRS Annex II defines carbon credits as 'a transferable or tradable instrument that represents one metric tonne of CO<sub>2</sub>eq emission reduction or removal and is issued and verified according to recognised quality standards.'
110. 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 CO<sub>2</sub> 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 CO<sub>2</sub> from the atmosphere, can remove atmospheric CO<sub>2</sub> if it is combined with bioenergy production (Bioenergy with Carbon Capture & 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 CO<sub>2</sub> 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?

111. Yes. ESRS E1-1§16a) requires the undertaking to explain how its GHG emissions reduction targets are compatible with 1.5°C, with reference to its disclosure under ESRS E1-4. The disclosure on climate targets under E1-4 requires the company to state whether targets are science-based and compatible with 1.5°C. Therefore, the undertaking may publish non-compatible targets, as long as this is made transparent under both E1-4§34e and E1-1§16a and as long as the other elements of the E1-1 disclosures on transition plan for climate change mitigation provide an appropriate understanding of the key features of the adopted transition plan.

### FAQ 4: If an undertaking has an already public GHG emission reduction target, does the associated base year need to be restated to follow ESRS recommendations?

112. No, if an undertaking already has GHG emission reduction targets in place which have been publicly disclosed prior to the first CSRD reporting, these should not be updated for the purposes of CSRD requirements provided the

baseline value calculation meet the ESRS E1-6 requirements and the target year and value meet the ESRS E1§34 and ESRS 2 MDR-T requirements. The target base year can remain unchanged, until the target is required to be updated, e.g. due to significant changes in scope, once they have been achieved, or after 2030. Information on these targets should be reported in line with CSRD requirements.

113. If an undertaking has no previously publicly communicated target, ESRS E1 AR 25 (b) does not set a recommendation but a methodological (application) requirement to set a new target base year, '... that does not precede the first reporting year of the new target period by longer than 3 years. ...'. In other words, the base year must be one of the last three years in which the undertaking has reliably measured its GHG emissions.

#### FAQ 5: How to calculate and report on the GHG emission reduction target benchmark comparison with the reference target value?

114. To answer this question, we will work through an example. Imagine a company TARGEX that is a food and beverage company producing long duration packaged milk with operations in 5 EU countries and milk production units in 3 EU countries. It has set separate targets for each of its Scope 1, Scope 2 and four categories of Scope 3 emission categories (purchased goods and services; upstream transport and distribution; waste generated in operations, and downstream transport and distribution). [To be further developed]

## 5.2. Decarbonisation levers-related FAQ

#### FAQ 6: How does the scenario analysis in ESRS E1 interact with the transition plan disclosure and which scenario to use for which purpose?

115. Scenario analysis, according to the ESRS Glossary, is a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. With regards to E1, the undertaking shall explain how it uses climate-related scenario analysis to
- a. determine its impacts on climate change, i.e. its future GHG emissions (paragraph 20 (a));
  - b. inform the establishment and ambition of its GHG emission reduction targets (paragraph 34 (e)); and
  - c. inform the identification and assessment of climate-related physical and transition risks and opportunities (paragraph 21) and the resilience of its strategy and business model (paragraph 19 (b)).
116. 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 compatible

with the Paris Agreement and identify dependencies which driver transition risk.

117. Paris aligned GHG mitigation scenarios can also be used to produce decarbonization 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.
118. The use of scenario analysis is also relevant in 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 is based on.
119. The results of the scenario analysis are disclosed according to E1 ESRS 2 IRO-1 Disclosure Requirement that is intended to provide transparency on the approach taken by the undertaking to identify and assess its climate-related impacts, risks and opportunities.
120. Having identified its impacts, risks and opportunities, the undertaking can adopt appropriate policies, actions to implement them, as well as 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, 16 (b) referring to GHG emission reduction targets and climate change mitigation actions, or 16 (c) referring to climate change mitigation actions.
121. The scenarios analysis also supports the disclosures on paragraphs 16 (d) and 16 (e). 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 solution do not undermine GHG mitigation objectives under the Paris Agreement or hinder the deployment of climate mitigation solutions'.
122. 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 a subject of disclosure under E1 ESRS 2 SBM-3. The outcome of this will inform the E1-1 disclosures, such as paragraph 16 (h), requiring an explanation of how the CTP is embedded in and aligned with the overall business strategy and financial planning of the undertaking.

## 5.3. Financial planning-related FAQ

### FAQ 7: What is the difference between stranded assets and locked-in emissions?

123. The two concepts are linked since stranded assets are the key assets currently used or planned (most likely to be deployed over the medium-term) with significant locked-in GHG emissions over their operational life which create a significant risk for the undertaking not to be in a position to recover the full monetary amount recognised at year-end as an asset. Stranded assets are a source of financial risk for undertakings as they are investments or assets whose value is devalued because of changes in legislation, environmental constraints, or technologies. When assessing stranded assets, locked-in emissions relating to the 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 emissions can become stranded, stranded-assets do not necessarily have to have high locked-in emissions.
124. To be noted that 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.
125. If applicable, the undertaking shall disclose on ESRS E1 paragraph 16 (f) significant CapEx amounts invested during the reporting period related to coal, oil and gas-related economic activities. 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.

## 5.4. Supporting disclosures related FAQ

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

126. 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 Paris Agreement.
127. Commission Delegated Regulation (EU) 2020/1818 supplements further the above-mentioned regulations by specifying exclusions from EU Paris-aligned Benchmarks. Notably, in its articles 12.1 (d) to (g) and 12.2 it refers to the exclusion of:



- 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));
- 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;
- undertakings that derive 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO<sub>2</sub> e/kWh;
- 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.

## 5.5. Strategy and progress-related FAQ

### FAQ 9: How to determine if the undertaking Transition Plan for Climate Change mitigation disclosure is complete?

128. Having complete information supports the quality of faithful representation. Paragraph QC5 of Appendix B of ESRS 1 indicate 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 the 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.
129. 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 CTP. However, there may be cases in which the disclosure required by E1-1 are not sufficient to meet the disclosure objective in E1§15 and therefore to provide a complete depiction. 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 when the disclosures required by E1 or elsewhere in ESRS are not sufficient to address a sustainability impact, risk or opportunity related to its CTP (in accordance with paragraph 11 of ESRS 1).
130. In certain cases, information necessary to provide a complete depiction of the CTP maybe included under other ESRS disclosures. In such cases the CTP disclosures should provide appropriate links to the relevant information that is available elsewhere in the sustainability statement.
131. Conversely, there may be situations in which not all the datapoints set out in E1-1 are material and therefore not necessary to provide a complete depiction of the undertaking's CTP. In those cases, ESRS 1 sets out specific

provisions to determine that certain information is not material and how to proceed in these cases. One such circumstance is if it is determined that a specific data point is not needed under the materiality of information [ESRS1§31]. For example, E1§16(e) is only applicable for undertakings with significant CAPEX in economic activities related to coal, oil, and gas.

132. Given that a transition plan follows the materiality regime of Actions, in accordance with Annex E of ESRS 1 the undertaking shall disclose the data points from the topical standard (E1-1§16 or E1-1§17)) in conjunction with the relevant DRs of ESRS 2, Annex C. In cases such as ESRS E1§16(c) and CapEx plans (“... where relevant...”) or ESRS E1§16(f) (“...significant CapEx amounts...”), it is up to the undertaking to determine what is “relevant” and “significant” considering the qualitative characteristics (Annex B, 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 paragraph, unless it does not clearly apply, e.g. E1§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§16(e) does not need to be disclosed. Likewise, the disclosure of significant CapEx invested in coal, oil and gas-related economic activities only applies if CapEx is invested, otherwise is not applicable.

**FAQ 10: 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 at its site need to disclose this investment under paragraph 16 (f) or not?**

133. As stated in ESRS E1-1 paragraph 16 (f), the CapEx amounts considered are related to the following NACE codes:
134. B.05 Mining of coal and lignite, e.06 Extraction of crude petroleum and natural gas (limited to crude petroleum), e.09.1 Support activities for petroleum and natural gas extraction (limited to crude petroleum),
135. C.19 Manufacture of coke and refined petroleum products,
136. D.35.1 - Electric power generation, transmission and distribution,
137. D.35.3 - Steam and air conditioning supply (limited to coal-fired and oil-fired power and/or heat generation),
138. G.46.71 - Wholesale of solid, liquid and gaseous fuels and related products (limited to solid and liquid fuels).
139. 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 it is active in when determining whether it shall disclose any amount under ESRS E1 paragraph 16 (f).

## 5.6. IROs arising from the CTP related FAQ

### FAQ 11: How can undertakings disclose on social impacts in the context of just transition?

140. The transition plan disclosure requirements, in particular, ESRS E1§16(b) requires undertakings to set out their decarbonization 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 and opportunities and negative impacts and cite just transition as an example of material negative social impacts or risks that result from actions to address climate change. In addition, ESRS 2 paragraph 61, allows 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.
141. As set previously in the TPIG, undertakings shall consider and disclose relevant information on their own climate adaptation and resilience to physical risk in their transition planning process. This includes related social impacts, i.e., ESRS S1 to S4. In ESRS 1, paragraph 50, disclosures could also reflect an undertakings' potential dependencies on the capabilities and wellbeing of people in the context of adaptation, and on relationships with people in the context of adaptation, that would materially affect their ability to deliver their transition plans.
142. 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 the 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 12: What sort of social impacts can undertakings disclose in relation to transition plans?

143. Undertakings may use the topics to be covered in materiality assessment processes that are set out in ESRS 1-AR16 to identify and disclose potential negative 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.
144. Examples of how affected stakeholders set out in ESRS S1 to S4 could be affected by the actions set out in transition plans include:
  - a. 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. Just transition measures to mitigate these (potential) negative impacts may thus include employment

guarantees, retraining to enable deployment elsewhere in the undertaking, job creation through new products and services, early retirement. These could equally apply to workers in the value chain.

- b. Additionally, workers in the value chain (ESRS S2) might also be negatively impacted by decarbonization levers that focus on renewable energy solutions, which while 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).
- c. Regarding affected communities (ESRS S3), climate transition plans can have negative impacts through reducing or terminating production or the provision of services, e.g., through plant or mine closures as well as related to initiation of new climate friendly products and services that may include impacts, risks and opportunities related to communities. Affected communities may be impacted in terms of their land-related rights, ability to secure adequate food and housing, might adversely affect vulnerable people such as children, as well as economic, social and cultural rights at large. Disclosure on any impacts on the rights of Indigenous Peoples should be taken into account, including the right to free, prior and informed consent. Other potential impacts on affected communities include impacts associated with innovation and restructuring, closure of mines, as well as increased mining of critical transition minerals, affecting their livelihoods, lands and territories.
- d. For consumers and end-users (ESRS S4), access to clean energy at affordable prices may be affected by the success or otherwise of an undertaking's transition plan, impacting their ability to meet their energy needs.

### FAQ 13: How can social dependencies and capabilities affect the credibility of transition plan disclosure?

- 145. ESRS 1, paragraph 38 notes that financial and impact assessments are inter-related and the interdependencies between these two dimensions shall be considered. 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 AR14 that could materially affect their ability to deliver their transition plan, and whether issues set out in ESRS 1 AR16 such as training of own workforce, health and safety of workers in the value chain, and access to land for affected communities could therefore affect the viability - and therefore the credibility - of transition plans on climate change mitigation.
- 146. Specifically, undertakings should 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, (c) the specific universe of people on whose capabilities, wellbeing and relationships the credibility of transition plan may depend.

147. Where material issues in relation to the transition plan for topics, sub-topics and sub-sub-topics 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 annual double materiality assessment as set out in ESRS 1, section 3.3.
148. For example:
- 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; and those impacts may generate a backlash against the transition plans, for example in the form of higher exit rates from the undertaking by affected workers, or strikes at the undertaking's production facilities.
  - b) A change in agricultural methods applied by smallholders whose commodities the undertaking buys, which is needed as part of a transition plan, may not appear material in terms of impacts on those smallholders or risks and opportunities for the undertaking. Yet if the smallholders' primary concern is that the new methods will cost too much and make their incomes unsustainable, then their reaction to that expected change can make a material difference to the viability of the transition plan.
  - c) A change of employment status to temporary contracts or to jobs via an agency where wages or benefits are much lower may not be assessed as material if it affects just 3-5% of the workforce. But if it is 30-50% of the workforce at those operating sites that are central to the transition plan, it is material in that context, affecting the justness of the transition as a critical mass of affected workers face more precarious work situations.

#### FAQ14: What sort of biodiversity impacts may emerge in the context of climate transition plans

149. Some of the known potential biodiversity risks associated with decarbonization efforts comprise:
- a. 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.
  - b. 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 and the health of downstream habitats.

- c. Invasive Species and Novel Ecosystems: Some decarbonization 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.

#### FAQ15: What sort of adaptation and resilience dependencies and impacts may emerge in the context of climate transition plans

150. Climate change mitigation and adaptation strategies are frequently interconnected, as effective mitigation efforts often depend on, and are influenced by, adaptation measures. Some of the ways mitigation and adaptation can be connected comprise:

- a. Reliance on carbon sinks: Adaptation efforts aimed at protecting and restoring ecosystems—such as forests, wetlands, and oceans—are crucial for maintaining their role as carbon sinks. However, these ecosystems are increasingly vulnerable to climate change effects, such as wildfires, droughts, and rising temperatures. Adaptation measures like fire management, reforestation with climate-resilient species, and wetland restoration help ensure the continued functionality of these carbon sinks, enabling them to contribute effectively to mitigation goals.
- b. Agriculture: agricultural activity is both a source of emissions and an area where mitigation can occur through practices that increase carbon sequestration in soils. However, climate change impacts like droughts, floods, and shifting growing seasons can undermine these efforts. Adaptation measures, such as changing crop varieties to more resilient species, improving irrigation efficiency, and practicing climate-smart agriculture, help farmers maintain or even enhance their ability to sequester carbon in soils, contributing to overall mitigation strategies.
- c. Energy Supply Chains: Adaptation measures that strengthen the resilience of energy systems also support mitigation efforts by preventing disruptions in the supply chain of renewable energy. For

instance, hydropower plants may suffer from reduced water availability due to changing precipitation patterns, or solar panels could be damaged by storms. Adaptation strategies like water management, diversifying renewable energy sources, and climate-proofing infrastructure ensure that renewable energy production remains consistent and reliable, sustaining the transition away from fossil fuels.

- d. Urban Planning adaptation: Urban adaptation measures – such as designing cities with green spaces, improving water management systems, and enhancing the resilience of buildings to extreme heat – can also support mitigation by reducing energy demand. For instance, adapting buildings to be more energy-efficient and resistant to heat reduces the need for air conditioning, thus lowering overall energy consumption. Similarly, enhancing public transportation systems to make them more resilient to climate impacts encourages the use of low-carbon transportation options, contributing to reduced emissions.
- e. Nature-Based Solutions: many nature-based adaptation solutions, such as restoring mangroves, wetlands, and coastal ecosystems, provide dual benefits. Not only do they help communities adapt to rising sea levels, storm surges, and flooding, but they also sequester carbon, contributing to mitigation. These integrated solutions demonstrate how adaptation can enhance mitigation efforts by leveraging natural processes to address both current vulnerabilities and long-term emission reductions.

#### FAQ 16: How does the business model's resilience to physical risks relate to the transition plan?

151. 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 organization 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 vs. mitigation) as well as physical climate changes leading to lower mitigation impacts than originally forecasted.

152. 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 it to be addressed at a strategic level within the CTP.

153. Undertakings may also find opportunities within their climate adaptation response, on which they can capitalise for their transition.
154. However, from a CTP disclosure point of view, there isn't a place where to discuss these aspects within the structure of E1-1 disclosures. In this sense, the provisions in ESRS 1§53a apply - if there are material negative impacts or material risks originating from within the CTP in relation to the adaptation sub-topic - or the other way around - the undertaking shall provide a description of how the material negative impacts or material risks are addressed under the CTP disclosure - or, in the other direction, under adaptation and resilience disclosures.
155. 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. [To understand better if link to Taxonomy has any specific aspects linked to adaptation].

## 5.7. Other FAQ

### FAQ 17: What are the key characteristics of transition plans?

156. Transition plans typically feature the following characteristics *inter alia*:
  - a. 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 to limit global warming to 1.5 degrees above pre-industrial levels in line with the Paris Agreement and Art. 2 EU Climate Law.
  - b. They are forward-looking: as opposed to the point-in-time updates or retrospective achievements frequently shared in sustainability reports;
  - c. They span different time horizons: they delineate undertakings' intended near-term actions (for instance, in the forthcoming one to three years), and how these actions roll up into medium-term strategies and long-term objectives;
  - d. They include quantitative information: they estimate the reductions undertakings anticipated from the actions deployed and assess whether these add up to achieving stated emissions targets;
  - e. 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;



- f. They are enabling: they integrate activities that facilitate the undertaking's and overall economy decarbonisation such as sector-wide cooperation, business integration, public policy advocacy and just transition.

#### FAQ 18: What should the undertaking disclose, if it does not have a transition plan for climate change mitigation?

157. In case the undertaking has identified climate change mitigation as material and represents a strategic issue but does not have a transition plan in place, it shall indicate whether and, if so, when it will adopt a transition plan. [E1-1§17]
158. However, it may happen that undertakings only have some elements of a CTP, as laid out by E1-1. 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 CTP as required by CSRD / ESRS is disclosed. If yes, the CTP can be disclosed as such. If not, undertakings may disclose the available elements as part of their sustainability reporting but are encouraged to consider with care the use of a CTP qualification for the disclosed information. 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 the elements of information which are missing and what they intend to do about it in the future years.
159. If E1-1 paragraph 16 disclosure is not complete, the undertaking should still report under [E1-1§17] if it intends to have a fully-fledged CTP and by when. Undertakings with non-compatible targets should also report under this disclosure.

#### FAQ 19: Can the undertaking conclude that transition planning is not material?

160. The undertaking can conclude that the transition plan for climate change mitigation is not material, if the undertaking concludes that the topic climate change or the sub-topic climate change mitigation is not material. According to ESRS 1§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 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.
161. If the undertaking has determined in dialogue with its auditor that climate change is not material, then it does not need to disclose any of the E1 standard disclosures, but it has to disclose the information in accordance with ESRS 1 §32. The conditions to make this determination are undertaking and entity specific.
162. If the undertaking concludes that the topic of climate change or sub-topic 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 sub-topic climate change adaptation. This would include disclosing on policies and targets related to climate change adaptation according to ESRS E1-2 and E1-4.

163. Even if the undertaking has determined that climate change is material, this does not necessarily mean that the transition plan is material, e.g., due to small emissions from travel. If this is the case, the undertaking would disclose a mitigation action plan rather than a strategic transition plan.

#### FAQ 20: Should subsidiaries be integrated in the transition plan for climate change mitigation or have their own?

164. According to ESRS 1 Chapter 7.6 paragraph 102, when the undertaking is reporting 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.
165. 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.
166. 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.
167. Consequently, an undertaking shall integrate its subsidiaries in its disclosure on transition plan for climate change mitigation.
168. However, it should be noted that, when the activities of the undertaking and its subsidiary are distinctly different, it should consider having separate transition plans since the associated decarbonisation levers and even units for targets can be different.

#### FAQ 21: Does the undertaking need to disclose asset-level data as part of its CTP disclosures?

169. In preparing a CTP, 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 CTP meet the requirements in ESRS 1 paragraphs 107 and 108. An undertaking shall disclose asset-level data when:
- a. material impacts, risks and opportunities are highly dependent on a specific asset (ESRS 1§54); and
  - b. if this information is not considered as sensitive or classified (ESRS 1§105).

170. Undertakings that own or operate installations under the EU ETS, may incorporate or benefit of the climate-neutrality plans and integrate them into the corporate CTP. 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§54.
171. 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.