EFRAG IG [4]

Implementation Guidance [draft]

Transition Plan for Climate Change Mitigation

STATUS OF THIS DRAFT

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

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

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

Disclaimer on "compatibility" with 1.5-degree target : The disclosure requirements on transition plan for climate change mitigation in ESRS E1-1 focus on explaining the undertaking's past, current, and future mitigation efforts in line with the Paris Agreement (or an updated international agreement on climate change) and compatible with limiting global warming to 1.5°C. This includes 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. How the concept of "compatibility with 1.5-degree target" has to be understood in the context of E1, is an aspect of the reporting that would need clarification, as there are possible diverging interpretations of the content of the standard. It is important to note that regarding this aspect, EFRAG has been instructed not to provide interpretations, which the European Commission consider as being outside EFRAG remit. Consequently, the content of this Implementation Guidance does not seek to expand on the matter, but instead remains neutral, replicating the content of ESRS E1. This issue may be addressed later by the European Commission.

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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Executive summary

1. This guidance is intended to help undertakings disclose transition plans for climate change mitigation, in line with the EU's European Sustainability Reporting Standards (ESRS). It is non-authoritative, meaning that the ESRS take precedence in any cases of apparent contradiction, and should not substitute for the advice and support of qualified professionals.
2. A transition plan sets out how an organisation intends to adjust its strategy and business model to ensure compatibility with the transition to a sustainable economy. ESRS E1 (Climate change) requires companies to disclose information on climate mitigation transition plans (CMTPs), and sets disclosure requirements in ESRS E1-1.
3. The CMTP information required under ESRS E1-1 should provide a strategic summary of key aspects of the organisation's past, current and future efforts to ensure that its strategy and business model are compatible with limiting global warming to 1.5˚C, in line with the Paris Agreement. This means that there is no expectation for the full CMTP to be disclosed in the sustainability statement. The ESRS requires assurance only of the elements of the plan disclosed under E1-1, not the entire transition plan.
4. Such CMTPs, which should be overseen by the highest levels of governance within the disclosing undertaking, should be potentially transformative, and be substantiated by targets and key actions, with associated resources, to meet those targets. They should include decarbonization levers and actions over the long-, medium- and short-term, aligning with the time horizon of public climate goals but also internal financial planning.
5. Specifically, undertakings shall disclose the following information required in paragraph 16 of ESRS E-1 about their CMTP:
    a. An explanation of how the **targets** adopted as part of their CMTP are compatible with limiting global warming to 1.5°C. They shall also illustrate how their targets compare with a 1.5°C reference target value.
    b. **The decarbonisation levers** that will drive the organisation's climate change mitigation, and how the actions will enable to close the gap between the organisation's current emissions and its targets. All planned actions might not be implemented, in particular those that relied on uncertain future developments, being understood that reasonable assumptions and estimates used are to be accurately described and explained. Undertakings shall explain if and to what extent their ability to implement the actions depends on the availability and allocation of resources. They also need to analyse unimplemented actions, where applicable, and provide yearly update disclosures on their implementation progress (ESRS 2, paragraph 68) and the achieved and expected GHG emission reductions.
    c. **Investment and funding to implement the CMTP,** including both capital and operating expenditures, with reference to the time horizon used.
    d. **Explaining locked-in emissions,** that are those likely to be caused by an organisation's existing or planned emissions-intensive key assets, or by the associated products or services sold. ESRS requires

qualitative, rather than quantitative, disclosure of locked-in emissions, to establish whether these emissions could potentially put the implementation of the CMTP at risk.

e. **Any plans to align its activities with the EU Taxonomy.** Organisations with activities covered by Taxonomy regulations on climate mitigation or adaption are required to disclose capital and/or operational expenditure plans to align current existing eligible activities with the criteria of the EU Taxonomy or to invest in new aligned activities if they have such plans.

f. **Explaining any coal-, oil- and gas-related capital expenditure.** This covers extraction, transformation and wholesale of fossil fuels or heat and power generation, as well as any fossil fuel-dependent transmission or distribution, and provides an indication of risks of stranded assets or locked-in emissions.

g. **Exclusion from EU Paris-aligned Benchmarks.** These benchmarks exclude companies whose activities are not judged to be compatible with the goals of the Paris Agreement.

6. A complete Transition plan for climate change mitigation should describe as minimum content the targets, actions, financial planning, how it is embedded and aligned with the strategy, and business model and if the plan has been approved by the administrative, management and supervisory bodies.

7. The Transition plan for climate change mitigation disclosures should seek to clearly layout the coherence between targets, actions, financial planning and strategy and business model, as well as the other disclosures that, given facts and circumstances, may be required (e.g. CAPEX amounts invested in coal, oil and gas; or locked-in emissions for relevant sectors). The CMTPs can generate impacts, opportunities and risks (IROs) relating to other sustainability matters, such as climate adaptation, biodiversity and Just Transition. When material, these also need to be disclosed in the sustainability statements.

8. This guidance also addresses frequently asked questions (FAQs) relating to CMTP disclosures required by the ESRS. These include questions on emissions targets, use of carbon credits, climate scenarios, Paris-aligned Benchmarks, IROs, processes around and contents of CMTPs disclosures, and the relationship between ESRS CMTP disclosures and guidance from other bodies, such as the Transition Plan Taskforce (TPT) and the International Sustainability Standards Board (ISSB).

9. ESRS E1 and IFRS S2 have a high level of alignment. As this guidance does not modify the requirements in ESRS E1, it is not expected to have an impact on the level of alignment between these two standards. The TPT Framework provides a practical complement to the standards. Appendix III shows how the content of this guidance can be mapped to the content of the material issued by the TPT.

1. Introduction

10. This Guidance aims to support preparers (i.e. undertakings) and users of ESRS sustainability statements on the implementation of disclosure requirements related to transition plans for climate change mitigation (DR E1-1 and ESRS 2 relevant Disclosure Requirements). Through it, users and preparers should be able to better understand the nature of the information and data to be disclosed in sustainability statements and possible methodologies to be used to produce that information. The content of this guidance has been developed on the basis of the July 2023 Delegated Act on the ESRS[1] (Delegated Act).

11. 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.

12. This Guidance also uses certain terminology, most of which is defined in the ESRS Glossary or in other parts of the Delegated Act. When a certain term is used and is defined in the ESRS, it appears in ***bold italics*** as it does in the ESRS, and its definition is presented in a footnote when first used.

13. This Guidance refers to sector-agnostic ESRS, which apply to all undertakings regardless of which sector or sectors they operate in. Unless otherwise specified, it is applicable to information to be disclosed on CMTP by preparers who have assessed climate to be a material subject. As such, its contents may not fully address sector-specific challenges related to reporting on CMTP. Further clarifications on CMTP may be provided via ESRS sector Standards, including the sector standards for financial institutions.

14. This guidance is focused on CMTPs disclosures as required by ESRS. However, due to their strategic nature, CMTPs disclosures often interact also with other environmental and social topics. Therefore, relevant interfaces are identified and briefly described in this Guidance, for example regarding biodiversity or ensuring a Just Transition. However, this Guidance focuses exclusively on clarification of disclosure requirements on CMTP as outlined in ESRS E1-1. Given the structure of the ESRS, disclosure requirements covering transition related information beyond climate change mitigation are covered by the other topical ESRS, for example ESRS S1 for employees or ESRS S3 for affected communities.

1.1. Structure

15. This Guidance organises its content into the following chapters.

    - Chapter 2 introduces transition plan requirements under EU law, focusing on ESRS requirements.

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

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

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

16. The European Commission has promoted the constitution of a group of experts[2] who advised EFRAG in preparing educational material illustrating the process for developing a CMTP – the transition planning process – aligned with the applicable European regulation and international practice. This educational material is compiled by EFRAG Secretariat 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.
17. This Guidance references the RP on Climate Transition Planning, which is not an integral part of it, but constitutes an important contextual element for understanding best practices for transition planning and achieving meaningful disclosure on a transition plan for climate change mitigation under ESRS E1-1.
18. 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

19. Acronyms in this Guidance are used as follows:
    a) CSDDD – Corporate Sustainability Due Diligence Directive (2024/1760)
    b) CSRD – Corporate Sustainability Reporting Directive (2022/2464)
    c) CMTP – Climate Mitigation Transition Plan (the same as transition plan for climate change mitigation)
    d) Delegated Act 2023/2772 – Commission Delegated Regulation supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards
    e) DR – Disclosure Requirement
    f) ESRS – European Sustainability Reporting Standards derived from (EU) 2023/2772 from 31 July 2023

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

g) EU – European Union

h) EU Taxonomy - Regulation (EU) 2020/852[3]

i) ESRS Glossary – Annex 2 of the Delegated Act 2023/2772, including Acronyms and Terms defined in the ESRS

j) GHG – Greenhouse Gases

k) MDR – Minimum Disclosure Requirements

l) IROs – Impacts, Risks and Opportunities

m) TPT - UK Transition Plan Taskforce

n) SBTi – Science Based Targets initiative

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

2. Transition plan transparency requirements in the ESRS

20. Meeting the 2050 climate neutrality goals is a key policy priority for the EU[4], and the concept of '"transition plan"' is reflected in a series of EU policy instruments. Undertakings active in the EU may face a number of different requirements related to transition plans. These requirements may originate from EU regulation and policy initiatives. In this section, the Transition Plan disclosures in the ESRS are briefly introduced and presented. Other relevant legal requirements from European Union law or from international standards and frameworks are addressed in Appendix I.

21. In the ESRS, transition plans are understood as the plan(s) of an undertaking to adjust its strategy and business model to ensure compatibility with the transition to a sustainable economy. Disclosures relating to transition plans are mandatory in ESRS E1 (Climate change) and voluntary in ESRS E4 (Biodiversity and ecosystems).

22. Four definitions laid out in Annex II of the ESRS glossary are relevant in this regard:

    (a) 'Actions are defined as*:*

        i. actions and action plans (including transition plans) that are undertaken to ensure that the undertaking delivers against targets set and through which the undertaking seeks to address material impacts, risks and opportunities; and

        ii. decisions to support these with financial, human or technological resources.'

    (b) 'Climate change mitigation' is defined as 'The process of reducing GHG emissions and holding the increase in the global average temperature to 1.5°C above pre-industrial levels, in line with the Paris Agreement.'

    (c) 'Transition plan' is defined as 'A specific type of action plan that is adopted by the undertaking in relation to a strategic decision and that addresses:

        i. public policy objective; and/or

        ii. an entity-specific action plan organised as a structured set of targets and actions, associated with a key strategic decision, a major change in business model, and/or particularly important actions and allocated resources.' [5]

    (d) 'Transition plan for climate change mitigation' is defined as 'An aspect of an undertaking's overall strategy that lays out the undertaking's targets, actions and resources for its transition to a lower-carbon economy, including

[4] The climate neutrality objective has been established by Directive EU 2021/1119 ('European Climate Law').
[5] From ESRS Annex II *Acronyms and Glossary of terms*.

actions such as reducing its GHG emissions with regard to the objective of limiting global warming to 1.5° C and climate neutrality.' [6]

23. 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 (ESRS 1, ESRS 2, the 10 Topical Standards and forthcoming Sector Standards) with respect to sustainability disclosures; and third, the fact that ESRS disclosures are to be incorporated as part of the sustainability statement in the undertaking's management report, which is subject to external assurance.

24. As mentioned above in paragraph 22, the founding elements of the definition of a transition plan stipulate that:

    (a) the plan be adopted in relation to a public policy objective and/or an entity-specific plan associated with a key strategic decision or a major change in the business model;

    (b) the plan be associated with the undertaking's strategy, i.e.:

        (i) it involves the approval by 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 be substantiated by a set of targets;

    (d) the plan be accompanied by key actions; and

    (e) key actions be accompanied with allocated resources necessary to implement them.

25. An undertaking's actions in the context of a transition plan may materially impact other sustainability topics. This fact is acknowledged in the Taxonomy Regulation with two additional criteria: the DNSH (Do No Significant Harm) principle which ensures that economic activities making a substantial contribution to a particular environmental objective do not significantly harm others; and respect for the EU minimum social safeguards. Consequentially, in accordance with ESRS 1, Chapter 3.6 *Material impacts or risks arising from actions to address sustainability matters*, the undertaking may identify situations in which its actions for addressing certain impacts or risks, or to benefit from certain opportunities in relation to a sustainability matter – such as the ones addressed through transition plan – might have material IROs associated with other sustainability matters. ESRS 1 paragraph 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 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.

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

26. 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 climate adaptation, biodiversity and Just Transition. Further guidance on disclosures on non-climate related sustainability matters connected to the CMTP disclosures is provided in section 3.9.

27. 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 required in ESRS E1 and referenced in the CMTP disclosure requirement (E1-1) but also to ensure that the CMTP disclosure (E1-1), as a whole, meet these characteristics. Only in this way can the CMTP disclosure be regarded as effectively meeting the disclosure objectives such as laid out in ESRS E1-1, paragraph 15, for CMTPs.

28. To this regard, some general disclosure requirements of ESRS 2 contribute to the overall coherence of the transition plan disclosures in the annual report, as well as with the alignment with expectations from other frameworks:

    (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 relevant to the CSDDD's comprehensive requirements regarding the governance, and adoption, of CMTPs.

    (b) Disclosure requirements regarding the description of the process for identifying and assessing material impacts, risks and opportunities (IRO-1), provide relevant context on important processes to assess IROs that should inform critical transition planning steps, such as setting targets or defining the action plan and its external dependencies.

    (c) Disclosure requirements regarding strategy, business model and value chain (SBM-1) can provide relevant contextual information to characterise how the transition plan is embedded with strategy and business model.

    (d) The interests and views of stakeholders disclosure (SBM-2) may be used to provide insight into stakeholder engagement, which is an aspect often considered critical for the successful delivery of the transition plan.

    (e) The material impacts, risks and opportunities and their interaction with strategy and business model disclosure (SBM-3) contain requirements related with the interaction of addressing IROs and the resilience of the strategy and business model, which concern to core of decisions that have to be taken in creating a transition plan.

(f) Minimum disclosure requirements on Actions (ESRS 2 MDR-A paragraphs 60-62 and paragraphs 66-69) and Targets (ESRS 2 MDR-T paragraphs 70-72 and paragraphs 78-81) provide support for transparency on targets and actions which are part of a transition plan. For example, when reporting the Transition Plan for Climate Change Mitigation as required by ESRS E1-1, the undertaking has to disclose information by reference to disclosure requirements E1-3 (Actions) and E1-4 (Targets), both referencing ESRS 2 MDR-A and MDR-T, respectively.

(g) The definition of Policy[7] (ESRS 2 MDR-P paragraphs 60-62 and paragraphs 63-65) is equally relevant in this context. It can be anticipated that the policies[8] of the undertaking will support its transition plan implementation. This can include policies on various sustainability matters, such as climate mitigation, adaptation, energy, supplier and policy engagement, land use, human rights, and workforce management.

29. As such, transparency on action plans – and a transition plan is a specific type of action plan - is based upon both ESRS 2 DRs, as well as, in the case of Transition Plan for Climate Change mitigation, ESRS E1 topical DRs.

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

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

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

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

31. ESRS 1 Section 8.2 "Content and structure of the sustainability statement", which includes requirements on presentation, does not impose a fixed presentation structure for disclosures on the transition plan for climate change mitigation. As a result, the undertaking will be able to present the information as most appropriate to its individual case, provided that ESRS 1 Section 8.2 requirements are met.

32. Sometimes, undertakings must relate specific components of the CMTP disclosure requirement (E1-1) back to information required to be provided in other ESRS E1 disclosure requirements. When a reference to another DR is required (indicated by mentioning 'by reference to'), the undertaking is not limited to this reference and may either be obligated to, or may choose to, add additional information. Moreover, the undertaking can opt to include a simple reference to information contained in other DRs or choose to include the information in ESRS E1-1 and refer to it in other disclosures (ESRS 1 paragraph 115). It is not mandatory to duplicate information required under different DRs, although it is possible to duplicate it if the undertaking deems this relevant and necessary for clarity's sake. ESRS 1 Appendix B QC17 states that for sustainability disclosures to be concise, they need to avoid unnecessary duplication of information, including information also provided in financial statements.

3.1 Overall disclosure objective of ESRS E1-1

33. The information on ***Transition Plan for Climate Change Mitigation***[9], as required by ESRS E1-1,includes various elements related to strategy, policies, targets, action plans and resources. As a consequence, the information provided under ESRS E1-1 should be connected with disclosures required under other ESRS E1 and ESRS 2 requirements, offering a strategic summary of key aspects of the undertaking's CMTP. The main objective of ESRS E1-1 disclosure is to provide transparency of both technical and financial dimensions of CMTP and explain the link between the undertakings' technical and financial planning. This disclosure (E1-1) outlines the CMTP that the undertaking has or uses for internal purposes and should be based on and consistent with that plan. Its specific aim is to provide users of information with a concise 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. By disclosing the elements detailed in ESRS E1 paragraph 16 (explained below), the undertaking provides an executive summary of its CMTP, enabling users of the management report to assess its

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

ambition and robustness[10]. This means that there is no expectation for the full CMTP to be disclosed in the sustainability statement. The ESRS requires assurance only of the elements of the plan disclosed under E1-1, not the entire transition plan.

34. There are different possible scenarios for the content of the disclosure, depending on the actual plans of the undertaking:

    (a) When climate mitigation is a material topic:

        (i) The undertaking may have a complete CMTP, meaning that the plan, either partly or fully, includes: the setting of GHG emission reduction targets; the definition of decarbonization levers and key planned actions; the determination of investment needs and identification of funding sources for implementation; and, the establishment of a governance framework for the plan (FAQ 13). In such cases, undertakings should disclose this information under ESRS E1-1, paragraph 16, as detailed in sections 3.2 to 3.5 of this guidance.

        (ii) The undertaking may have an incomplete CMTP, this is, not all the conditions of the paragraph 34(a)i above are observed. This may also happen when the undertaking is working toward adopting a CMTP in the future. In this case, undertakings should disclose the required information under ESRS E1-1, paragraph 17 (FAQ 15).

        (iii) The undertaking does not have a CMTP because Climate Mitigation is not a strategic sustainability matter. In this case (FAQ 17, paragraph 162) a transition plan is not required. However, the undertaking may still disclose an action plan under ESRS E1-3 and must also disclose E1-1, paragraph 17.

    (b) When climate is not a material topic, undertakings are not required to disclose on E1-1 (FAQ 17, paragraphs 160 and 161).

35. The disclosures on the transition plan for climate change mitigation provided under ESRS E1 paragraph 16 are designed to provide a generic understanding of the CMTP, and the detail of the information disclosed under ESRS E1-1 is to be proportionate to the IROs of the undertaking – which can be related to its size, exposure to high climate change impact/high risk climate activities. For example, undertakings with a large share of locked in emissions, may need to consider more details; smaller, less exposed undertakings, may provide simpler disclosures.

36. Consideration should be given to the consistency between the description of the targets and the proposed actions, investments and changes in strategy and business model. Other key considerations are (i) the consistency of the information disclosed under ESRS E1-1 and the information disclosed in the financial statements, and (ii) the assumptions used in the preparation of both the financial statements and the sustainability statement. Required information encompasses the steps, timelines, responsibilities (ESRS 1 paragraph 123;

[10] The robustness of a transition plan for climate change mitigation is not a concept that is currently referred to ESRS. The EU Platform on Sustainable Finance report "Building trust in transition: core elements for assessing corporate transition plans" examines some of the key elements that financial market participants should consider when evaluating the robustness of transition plans in the EU, for the purposes of providing transition finance.

ESRS E1 paragraph 1), means and resources allocated or planned to make the undertaking's strategy and business model compatible with limiting global warming to 1.5 °C.

37. The understanding of the compatibility of targets with the objective of limiting warming to 1.5°C plays an important role in the consideration of transition plans for climate change mitigation, in particular regarding the assessment of the undertaking's efforts to ensure that its Strategy and Business Model are compatible with limiting of global warming to 1.5 °C in line with the Paris Agreement. In particular:

    (a) ESRS E1-1, paragraph 16(a), requires transparency on how the undertaking's targets are compatible with the objective of 1.5°C.

    (b) ESRS E1-4 requires the disclosure of GHG emission reduction targets if the undertaking has set them.

    (c) ESRS E1-4, paragraph 34(e), requires a statement whether the GHG emission reduction targets are science-based and compatible with limiting global warming to 1.5°C.

38. Following the connectivity principle (ESRS 1, section 9.2), the disclosure under ESRS E1 paragraphs 16(a) and 34(e) should be presented in a way that facilitate an understanding of the overall aspects of the undertaking's transition plans.

ISSB Interoperability

The International Sustainability Standards Board (ISSB) and the European Commission services, together with EFRAG, have worked together during the development of the ESRS and the IFRS Sustainability Disclosure Standards (ISSB Standards) to achieve a high degree of alignment of the respective standards, with a specific focus on climate-related reporting. Consequently, there is a high degree of alignment of the climate-related disclosures in the two sets of standards and, in particular, almost all the disclosures in ISSB Standards related to climate are included in ESRS. The joint interoperability guidance[11] describes the alignment of disclosure requirements and information that an entity starting with each set of standards needs to know to enable compliance with both sets of standards, ensuring interoperability between them.

Paragraph 9(c) of IFRS S2 requires an entity to disclose the effects on the entity's strategy and decision-making of climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, including information about is climate transition plan.

Paragraph 14(a)(iv) of IFRS S2 requires disclosure of any climate-related transition plan the entity has, including information about key assumptions used in developing its transition plan, and dependencies on which the entity's transition plan relies. An entity applying ESRS that also wants to comply with IFRS S2 should ensure that any key assumptions and dependencies that are not already captured through the disclosure required by ESRS E1 are included in the disclosure in order to meet the requirement in paragraph 4(a)(iv) of IFRS S2.

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

Paragraphs BC46-BC52 of the Basis for Conclusions on IFRS S2 provides further context about the rationale for the requirements in IFRS S2.

Furthermore, the IFRS Foundation has assumed responsibility for the disclosure-specific material developed by the Transition Plan Taskforce (TPT) and expects to use this material to develop educational material to support the implementation of IFRS S2. Appendix III shows how the content of this guidance can be mapped to the content of the material issued by the TPT.

3.2. Explaining targets' compatibility – ESRS E1 paragraph 16(a)

Disclosure (ESRS E1-1 paragraph 16(a)) [The information required by paragraph 14 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;

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

What is the reference target value?

'Reference target value' is a term used in the context of GHG targets disclosure pursuant to ESRS E1-4 disclosures. Its use relates to the statement required by ESRS E1 paragraph 34(e) on whether the GHG emission reduction targets are science-based and compatible with limiting global warming to 1.5 °C.

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

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

The absence of sectoral pathways defined by the public policies to inform these calculations, as referred to in ESRS E1-1 AR2, is [expected to be] addressed for the EU through European Climate Law-aligned sectoral reference pathways made available through this guidance

document[12]. The objective of these pathways is to provide publicly available, user-centric information covering both a) **decarbonisation pathways** providing a direction of travel to companies, and b) **decarbonisation lever pathways** to provide companies with an indicative set of mitigation options relevant to their sectors. The pathways are [expected to be] incorporated in accompanying guidance documents that aim to facilitate the pathways use. See Appendix II for further information.

Beyond the EU, the Science Based Target initiative [SBTi] provides tools to set reference target values based on cross-sectoral or sectoral pathways produced by sectoral or international institutions and scientific consortiums. Pathways may also be based on public policy objectives from countries (or sectors), provided these are aligned with the goal of limiting global temperature rise to 1.5°C.

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

40. This disclosure is based on the GHG emission reduction targets disclosure required by ESRS E1-4, including reference to the statement whether an undertaking's GHG emission reduction targets are science-based and compatible with limiting global warming to 1.5 °C (ESRS E1-4 paragraph 34(e)).

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

The purpose of ESRS E1-1 is to provide transparency on how a CMTP is compatible with limiting global warming to 1.5 °C (ESRS E1 Basis for Conclusion, paragraph 15).

ESRS E1-1 paragraph 16(a) supports this objective by requiring an explanation of how targets are compatible with 1.5˚C by reference to DR ESRS E1-4. The explanation of the compatibility of the targets shall be factual and objective and based on an appropriate reference target value clearly described and selected in accordance with AR 26 and AR 27.

ESRS E1-4 paragraph 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 compatibility of the targets it has set. It shall provide contextual information as further indicated under paragraph 34(e).

Context

41. Accounting and reporting GHG emissions pursuant to disclosure ESRS 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

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

and cooling) and Scope 3 (all other indirect emissions that occur in the undertaking's value chain).

42. After calculating its GHG emissions, according to ESRS E1-4 paragraph 33, the undertaking shall report whether and how it has set ***GHG emission reduction***[13] targets, which are forward-looking information reflecting the undertaking's level of ambition with regard to reducing its emissions and establishing its climate action pathway.

43. Following the provisions of ESRS MDR-T and the related paragraphs ESRS E1-4, the undertaking reports its targets:

    (a) in absolute values and, if relevant, intensity values. If the undertaking considers that intensity targets are more relevant given its sector, it shall disclose them, but it shall nevertheless disclose the associated absolute values for the target and interim years, to meet the requirement set in ESRS E1-4 (AR 23). This could mean disclosing an increase in absolute GHG emissions if the business expects significant organic growth. Please see FAQ 2 for further information. It can be noted that this provision means that intensity targets always need to be linked with its corresponding absolute value indicator. The relevance of the intensity targets may depend on the facts and circumstances of the undertaking. Unlike absolute targets, physical intensity targets provide a robust and comparable denominator, which depends on the sector, economic activities and products and services of the undertaking. For example, certain undertakings characterised by very homogenous physical units of production across their business activities may benefit from setting physical intensity targets which will be meaningful to disclose under ESRS E1-4 (e.g. manufacturing sector).

    (b) for Scope 1, 2 and 3 emissions, either separately or combined, specifying which scopes and GHGs are included in the targets (ESRS E1, paragraph 34(b)). Targets shall be gross, excluding GHG removals, carbon credits or avoided emissions, as a means of achieving the GHG emission reduction targets. Targets should be consistent with the GHG emissions inventory boundaries and the undertaking shall explain how it ensures the consistency between targets and GHG inventory (E1, paragraph 34(b)). However, a gap between the scopes of the targets and the GHG inventory may exist, depending on the individual undertaking's circumstances and its ability to influence reductions. For these reasons, ESRS provisions allow the disclosure of multiple GHG emission reduction targets, regardless of whether they are set for Scope 1, 2, and 3 combined, solely for Scope 2, solely for Scopes 1 and 2, or any other combination of these. The undertaking shall explain the coverage of the target (ESRS 2, paragraph 80) in terms of activities, upstream and downstream value chain (where

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

applicable), geographical boundaries and the share related to each respective GHG emission Scope (ESRS E1-4, paragraph 34(b)).

(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 five years are required, as they create accountability and facilitate the presentation of CapEx and OpEx plans for that period. This five-year pace also enhances alignment with the financial planning and allows to assess the connectivity and consistency with it; and

(d) including at least target values for 2030 and, if available, 2050.

44. As per ESRS E1 paragraphs 30 and 33, the undertaking shall disclose the targets it has set – but there is no obligation to set targets. While ideally the GHG emissions targets scope should correspond to the scope reported under GHG emissions ESRS E1-6, the targets considered under the transition plan for climate change mitigation may not need to cover the full scope of emissions. Targets must specify the included GHG emission scopes (1, 2, and/or 3) and the share of each scope, as noted in 43b. The decision on target scope can depend on the undertaking's ability to influence emissions reductions and its strategic focus. However, the undertaking should ensure adequate coverage of its total Scope 1, 2 and 3 emissions, in order to preserve the strategic integrity of its transition plan for climate change mitigation and so that it can "enable an understanding of the […] efforts to ensure that its strategy and business model are compatible with the transition to a sustainable economy, and with the limiting of global warming to 1.5 °C in line with the Paris Agreement and with the objective of achieving climate neutrality by 2050 […]".

45. Beyond the statement on target compatibility, ESRS E1-4 paragraph 34(e) also requires a statement on whether GHG emission reduction targets are science-based, as well as on the nature of the framework and methodology used to determine the targets. The reference value should be calculated based on a sectoral decarbonisation pathway, if available, rather than a cross-sectoral pathway.

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

47. Further information on GHG emissions target-setting can be found in the Compilation of Explanations released periodically by EFRAG (see in November 2024, ID 206, 531, 552 and 734).

3.3. Explaining decarbonisation levers – ESRS E1-1 paragraph 16(b)

Disclosure (ESRS E1-1 paragraph 16(b)) [The information required by paragraph 14 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;

48. The disclosure in paragraph 16(b) of ESRS E1-1 requires the undertaking to explain its ***decarbonisation levers***[14] and key planned actions, as well as their contribution to filling the gap between the baseline and the target, over the target period. This shall be done by reference to GHG emission reduction targets (ESRS E1-4) and climate change mitigation actions (ESRS E1-3).

49. The undertaking may, in addition to the explanation, present its GHG emission reduction targets together with its decarbonisation levers in a table or graphical pathway showing developments over time (see Figure 1).

What are the climate change mitigation actions and decarbonisation levers?

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

Decarbonisation levers are ways of aggregating climate change mitigation actions and reductions expected in the value chain into streams of actions that help the undertaking communicate key strategic options through which it will seek to decarbonise its business. Undertakings can organise decarbonisation levers as they see best to communicate their actions. The fundamental concept behind decarbonisation levers is that, over the target period, the cumulative effect of these levers should match the reduction target. These levers should be 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 could extend to its value chain in order to reduce the undertaking's scope 1, 2 and 3 emissions.

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

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

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

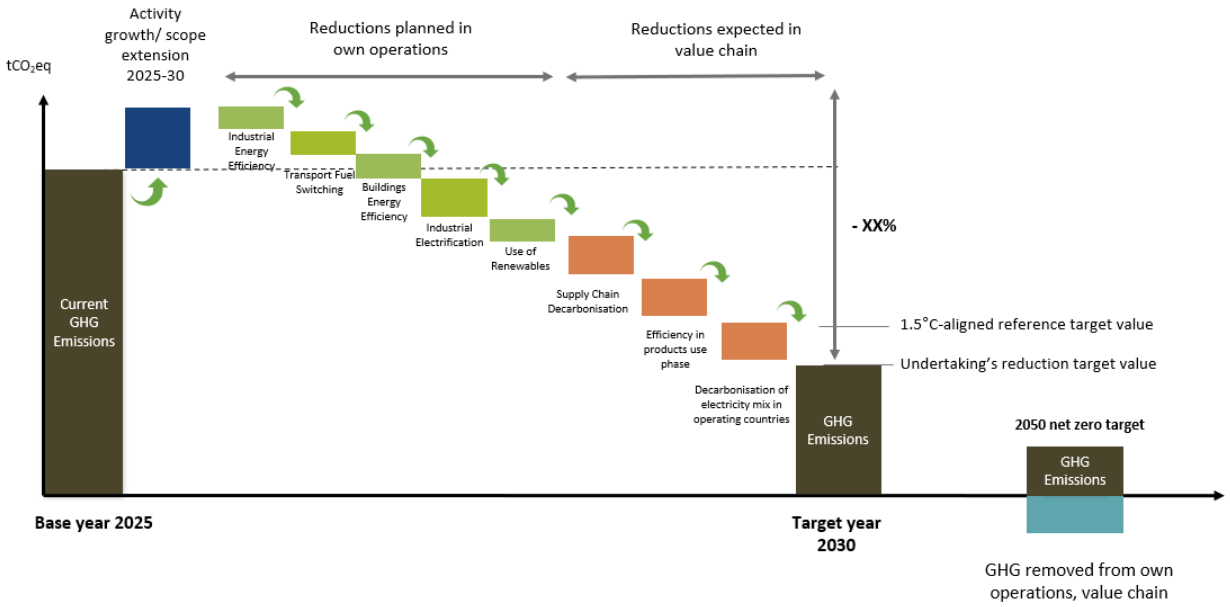


Figure 1 Graphical pathway showing targets and decarbonisation levers to achieve them, derived from ESRS E1 AR 31.

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

Figure 2 Example of target setting

50. Explaining the actions supporting the implementation of the undertaking's CMTP (aggregated into decarbonisation levers) is intended to demonstrate the modelling effort performed by the undertaking and the seriousness of its roadmap. Such modelling efforts should include, but not be limited to, the use

of policy or market development scenarios or technology pathways. This ensures that the undertaking has considered its decarbonisation levers' dependencies on external factors, such as the evolutions of its operating environment, and their possible interactions with the implementation of its CMTP. For more details related to the modelling efforts, please refer to the RP on Climate Transition Planning.

51. ESRS are about transparency on actions planned and implemented by the undertaking. Consequently, they do not require to plan specific actions nor do they set an obligation to implement them, in particular those that relied on uncertain future developments, being understood that reasonable assumptions and estimates used are to be accurately described and explained. When presenting their planed actions, undertakings shall explain if, and to what extent, their ability to implement these depends on the availability and allocation of resources. The key actions disclosed can also more broadly address other material IROs as determined in the materiality assessment and as reported under SBM-3. However, sustainability disclosures need to avoid unnecessary duplication of information, including information also provided in financial statements (ESRS 1 Appendix B QC17), e.g. CapEx, OpEx, or debt and financing.

Context

52. 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 (ESRS E1 Basis for Conclusion, paragraph 40). It was designed to ensure that the contributions of the decarbonisation levers fully cover the GHG emission reduction targets on the different time horizons defined by the undertaking.

53. Disclosure ESRS E1-3 requires the description of key actions taken (in the reporting year, the short-term time horizon) and planned (medium- and long-term time horizons). Following the applicable ESRS 2 MDR-A, the undertaking discloses its time horizons (short-, medium- and long-term), the key actions' dependencies on specific conditions (e.g. granting of financial support or public policy and market developments) and their expected outcomes for addressing material impacts, risks and opportunities. This allows the user to understand the undertaking's forward-looking plans for reducing emissions, namely the expected medium-term GHG emissions reductions. The description of expected (future) GHG emission (ESRS E1, paragraph 29 (b)) reductions is naturally uncertain and, when appropriate, undertakings can do it through the provision of qualitative information. Long-term planned actions should also be described, notably because the decarbonisation of certain types of assets and activities requires planning over several five-year cycles. However, it is understood that actions in the long-term horizon are necessarily more uncertain and likely to have stronger dependencies on external factors - as such, the long-term action plan can be described at a more aggregated level (e.g. levers) or groups of actions, that reflect their inherent uncertain.

3.4. Explaining investment and funding – ESRS E1-1 paragraph 16(c)

Disclosure (ESRS E1-1 paragraph 16(c)) [The information required by paragraph 14 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;

54. This disclosure requires transparency on financial planning related to the decarbonisation levers that the undertaking has put forward in its CMTP. In this guidance, financial planning refers to an undertaking's consideration of how it will fund the actions that are needed to meet its objectives and ultimately achieve its strategic goals. The process of financial planning allows organisations to assess future inflows and outflows of financial resources and allocate resources in pursuit of short- and long-term actions and objectives. Often, financial planning has a time horizon below or equal to five years. However, actions in CMTPs may extend beyond the typical 3-5 year financial plan (e.g., investment, research and development, manufacturing, and markets)"[15]. Financial planning is used in this guidance as a shorthand for the "quantification of the undertaking's investments and funding supporting the implementation of its transition plan" (ESRS E1-1 16(c)), not only in its dimension of investment as "significant monetary amounts of CapEx and OpEx required to implement the actions taken or planned" (ESRS E1-3 29(c)) but also to sources of funding, e.g. types of financial resources such as working capital, equity, loans, lines of credit, and other investments, including relevant "sustainable finance instruments, such as green bonds, social bonds and green loans" (ESRS 2, paragraph 69(a)).

55. As referred to in the previous section, in disclosing in accordance with ESRS 2 MDR-A the undertaking should be clear as to the time horizon for the transition plan's deployment. It should also be clear on the planned financial resources allocated to actions over the same time horizon. This should take into consideration the fact that actions can also be 'decisions to support … with financial, human or technological resources' (see the time horizons box below). This is expected to ensure that actions planned are properly resourced, that the credibility of the transition plan is auditable and reductions over the financial planning horizon (1 to 5 years, depending on the undertaking financial planning practices) have a reasonable likelihood to be achieved. Following paragraph 69 (a) of ESRS 2 the undertaking shall describe the financial resources allocated to the transition plan. If there are planned actions expected to take place after the horizon of the financial planning, the undertaking should

[15] Task force on Climate-related Financial Disclosures (2017), "Recommendations of the Task Force on Climate-related Financial Disclosures - Final Report", June 2017. The term "financial planning" is equally used in the IFRS S2 Climate-related Disclosures Standard and the Transition Plan Taskforce (TPT) Disclosure Framework (Framework).

describe an estimate of financial resources that may be necessary to implement in the future or are already implemented.

56. The disclosure of ESRS E1-1 paragraph 16(c) only requires a reference to the undertaking's taxonomy-aligned CapEx. However, OpEx may be equally significant to ensure that the CMTP can be implemented and achieved. Thus, it should be noted that E1-1, paragraph 16(c) is made by reference to ESRS E1-3, which also includes a link to OpEx required to implement the actions taken or planned to support implementation of the CMTP (E1-3, paragraph 29(c)).

57. It can be noted that the CapEx and OpEx amounts disclosed should not be limited or restricted only to the EU Taxonomy disclosures, as the relevant expenditures may be associated with activities not yet eligible to the EU Taxonomy. That is why ESRS E1-3 paragraph 29(c) states that the undertaking shall relate significant monetary amounts of CapEx and OpEx required to implement the actions taken or planned to the relevant line items or notes in the financial statements, in addition to the Taxonomy-related KPIs.

58. The undertaking should use the information that it has disclosed under ESRS E1-3 *Actions and resources in relation to climate change policies* and aggregate this information to the decarbonisation lever level under this specific disclosure requirement. One way to do this is to first identify all decarbonisation actions that are being considered by the undertaking and estimate OpEx and CapEx amounts that will be required to implement them. This includes incremental CapEx as mentioned under ESRS E1-3 AR 20 - meaning the cost of the investment connected to the implementation of the actions. After this, the undertaking could map out similar actions to higher-level decarbonisation levers. The global OpEx and CapEx amounts associated to actions could be aggregated at decarbonisation lever level and disclosed in association to these. Undertakings are not expected to disclose twice the actions under E1-3 and E1-1§16(b).

EU Taxonomy and its related disclosures

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

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

Non-financial undertakings disclose the proportion of environmentally sustainable economic activities that align with the EU Taxonomy criteria. The shift of the business model is approximated and monitored through financial variables, which are referred to as KPIs and include turnover, CapEx and OpEx.

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

Time horizons

Under the Taxonomy Regulation Disclosures Delegated Act 2021/2178 (Article 8), companies shall disclose CapEx or OpEx investment plans for eligible economic activities to become taxonomy-aligned over the mid-term (within a period of five, and exceptionally ten years). However, it is important to note that the expected time of deployment of an asset – for example, energy-intensive, industrial and infrastructure physical assets – is often longer than five years. For example, a decision to deploy a complex zero-carbon industrial plant will take several intermediary steps – including preliminary viability studies, detailed engineering design, tendering and construction – all of which may take several years and require substantial financial resources. In these cases, the actions as well as the financial resources allocated may be broken into different steps. It should be clear, however, that financial resources allocated to such large projects can be considered as 'actions' in the medium-time horizon even if carbon reductions may only come to fruition in the long-term horizon.

With respect to significant CapEx and OpEx projects, an undertaking shall (ESRS 2-MDR-A paragraph 69):

(a) describe the type of current and future financial and other resources allocated to the action plan, including, if applicable, the relevant terms of sustainable finance instruments, such as green bonds, social bonds and green loans, the environmental or social objectives, and whether the ability to implement the actions or action plan depends on specific preconditions, e.g. granting of financial support or public policy and market developments;

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

(c) provide the amount of future financial resources.

3.5. Explaining supporting disclosures

3.5.1 Explaining locked-in emissions – ESRS E1-1 paragraph 16(d)

Disclosure (ESRS E1-1 paragraph 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.

59. 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 and how this may impact the attainment of the GHG emission reduction targets. Another example are the planes sold by an aircraft manufacturer with an expected lifetime of 25/30 years for passenger transport and 40 years when it comes to freight. However, in this case, the undertaking may already report (quantified) emissions under the Scope 3, Use of Sold products category and may just refer to these figures. Although qualitative, the assessment should be based on assumptions consistent with the scenarios/pathways considered for setting the targets.

60. 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_2eq.

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

62. For assets that generate locked-in emissions that pose a risk for the attainment of targets - e.g. assets under the EU ETS, which may have a climate-neutrality plan as explained in Appendix I to this guidance - or for those that carry significant transition risk such as assets at risk of becoming stranded, undertakings may consider providing an explanation of the plans to manage these risks (ESRS E1 AR 23(c)). The management of the risks may entail efforts to decommission these assets and replace them by more performant equivalents or the steps that are planned to bring these assets in line with GHG emission reduction targets and plans. If considered material information in the context of its efforts related to Climate Change mitigation, the undertaking shall disclose such risk management efforts under ESRS 2 SBM-3. This helps users of information to understand underlying risks regarding the undertaking's current and planned asset base and assess whether the plans proposed by the undertaking satisfactorily answer these risks.

63. It should be emphasised that the locked-in emission qualitative assessment that is required by ESRS E1 paragraph 16(d) is made to ensure that these emissions were adequately considered by the undertaking in its CMTP. Since the disclosure requirement refers to the qualitative, instead of quantitative assessment, the aim of the disclosure is to demonstrate the magnitude of the locked-in emissions and whether they could potentially put at risk the eventual implementation of the CMTP. Therefore, the disclosure seeks to provide information that will allow verifying the consistency of reporting on the subject, rather than precise quantitative data on locked-in emissions. If the undertaking has only started the assessment, it can disclose its progress.

64. For practical examples on assessing locked-in emissions, please refer to EFRAG secretariat paper "Reference Practices on Climate Transition Planning".

3.5.2 Explaining EU Taxonomy alignment – ESRS E1-1 paragraph 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[16];

65. The scope of this disclosure is limited to undertakings that carry out activities which are eligible for EU Taxonomy delegated regulations on climate adaptation or mitigation and/or 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. It shall also be noted that the CapEx requested in paragraph 16(e) is calculated on a different principle than the EU Taxonomy Capex and it refers only to incremental financial investments, as referred to as in ESRS E1 AR 20 (see paragraph 57 of this guidance).
66. Pursuant to this disclosure and ESRS E1 paragraph AR 4, if an undertaking has any objective plans for aligning its economic activities with the EU Taxonomy, 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 if it is a non-financial undertaking) required to be disclosed under Article 8 of 2020/852 regulation.
67. This may be expressed in the form of a forward-looking disclosure of CapEx (or OpEx) investment plans to align current existing eligible activities with the criteria of the EU Taxonomy or to invest in new aligned activities over the medium-term time horizon (up to five years, or exceptionally beyond five years as per ESRS 1, paragraph 80). Likewise, the undertaking can disclose if it has any objectives related to revenue from EU Taxonomy aligned activities which would be consistent with a CMTP.
68. ESRS E1 paragraph AR 22 states that the undertaking shall explain any potential differences between the significant OpEx and CapEx amounts disclosed in relation to actions under ESRS E1 and the key performance indicators disclosed under the EU Taxonomy due to, for instance, the disclosure of non-eligible economic activities as defined in the EU Taxonomy. The undertaking may structure its actions to implement the CMTP by economic activity, as classified in the EU Taxonomy and to allow for comparison.

[16] Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives (OJ L 442, 9.12.2021, p. 1).

69. Aligning the undertaking's existing eligible activities will mean that the undertaking is addressing any outstanding technical screening criteria for substantial contribution, Doing No Significant Harm to other environmental objectives and the minimum EU safeguards that are not currently met.

3.5.3 Explaining coal-, oil- and gas-related CapEx – ESRS E1-1 paragraph 16(f)

> **Disclosure (ESRS E1-1 16(f))** [The information required by paragraph 14 shall include]
>
> *if applicable, a disclosure of significant CapEx amounts invested during the reporting period related to coal, oil and gas-related economic activities …*

70. The CapEx amounts concerned by this disclosure are related to the following NACE codes: B.05, B.06, B.09.1, C.19, D.35.1, D.35.3, and D.46.71.

71. Regarding electricity generation from fossil gaseous fuels, high-efficiency co-generation of heat/cool, power from fossil gaseous fuels, and production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system, as stated in Q&A[17] of the EU Taxonomy Complementary Climate Delegated Act covering certain nuclear and gas activities, the undertaking needs to meet either of the following emission thresholds:

    a. lifecycle emissions are below 100gCO2e/kWh; or

    b. until 2030 (the date of approval of the construction permit) and where renewables are not available at a sufficient scale, direct emissions are below 270gCO2e/kWh or, for the activity of electricity generation, their annual direct GHG emissions must not exceed an average of 550kgCO2e/kW of the facility's capacity over 20 years. In this case, the activity must meet a set of cumulative conditions, e.g. it replaces a facility using solid or liquid fossil fuels, the activity ensures a full switch to renewable or low-carbon gases by 2035 and a regular independent verification of compliance with the criteria is carried out.

72. Beyond CapEx invested in fossil fuel activities, the undertaking may want to consider the present and past fossil fuel exposure, and provide as an undertaking-specific disclosure a qualitative overview of its current ownership and dependency on fossil fuel assets to which the new CapEx accrues. For example, an indication of the undertaking's exposure to coal-, oil- and gas-related activities through the disclosure of revenue from the undertaking's customers operating in these activities is already requested in ESRS E1 paragraph 67(e), and it may be useful to establish a link or make a reference to this section for context.

> **What activities fall under the listed NACE codes?**
>
> The activities that fall under this disclosure are the ones related to the extraction, transformation and wholesale of fossil fuels or heat and power generation as well as the transmission or distribution that may be dependent on fossil fuel use. This gives a clear indication of risks for

[17] https://ec.europa.eu/commission/presscorner/detail/en/qanda_22_712

stranded assets/locked-in emissions and, when put into context with the CapEx associated with the CMTP, a measure of the commitment to the transition.

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

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

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

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

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

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

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

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

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

For gas-fired electric power generation, the NACE code definition addresses activities with direct GHG emissions that either have a lifecycle emissions are above100gCO2e/kWh; or until 2030 (the date of approval of the construction permit) and where renewables are not available at a sufficient scale, direct emissions are above 270gCO2e/kWh or, for the activity of electricity generation, their annual direct GHG emissions must exceed an average of 550kgCO2e/kW of the facility's capacity over 20 years.

3.5.4 Explaining EU Paris-aligned Benchmarks – ESRS E1-1 paragraph 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 …

73. This disclosure requires an affirmative or negative statement regarding whether the undertaking is excluded from the EU Paris-aligned Benchmarks. This disclosure helps users of information to directly identify undertakings that carry out activities which are deemed incompatible with the Paris Agreement, per the definitions laid out in Commission Delegated Regulation 2020/1818 (Climate Benchmark Standards Regulation). This data point is not applicable to financial institutions.

74. Pursuant to ESRS E1 AR 5, this statement is made in accordance with the exclusion criteria stated in Articles 12.1(d)-(g) and 12.2 of Commission Delegated Regulation 2020/1818 (Climate Benchmark Standards Regulation). These exclusion criteria include: undertakings that derive 1% or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite; undertakings that derive 10% or more of their revenues from the exploration, extraction, distribution or refining of oil fuels; undertakings that derive 50% or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels; and undertakings that derive 50% or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh, as well as, following article 12.2, any undertakings identified as significantly harming one or more environmental objectives under Article 9 of Regulation (EU) 2020/852.

3.6. Explaining governance, strategy and progress

3.6.1 Explaining transition plan inclusion in strategy and business model – ESRS E1-1 paragraph 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 …

75. The undertaking may want to provide a narrative on aspects such as how it can continue to create value (financial and other types of value) in the process of transitioning to a sustainable economy, briefly explaining how this interacts with financial planning and the investment and operational aspects of the transition plan; how its CMTP contributes to managing the changes required for its business model; and/or how, in continuing its business, it contributes to the low-carbon transition. It can comment on its strategic position and the strategy adopted to explore the opportunities and manage the risks created by the transition to a sustainable economy.

Context

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

3.6.2 Explaining the approval of the CMTP – ESRS E1-1 paragraph 16(i)

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

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

77. Disclosure ESRS E1-1 paragraph 16(i) requires an affirmative or negative statement on the fact of approval of the CMTP. The undertaking may reference to its disclosure under ESRS GOV-1 specifying the body that approved the CMTP.

What governance bodies should be considered for approving the CMTP?

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

Context

78. This disclosure partially addresses the requirements of Article 22 of the CSDDD, which requires 'the transition plan for climate change mitigation … [to] contain (d) a description of the role of the administrative, management and supervisory bodies …' on what concerns the approval of the CMTP.

79. Disclosures of GOV-1 may be used to disclose information on the role of administrative, management and supervisory bodies regarding the CMTP. This may be relevant to the undertaking subject to the reporting requirement in Article 22, paragraph (d) of the CSDDD.

3.6.3. Explaining progress in implementing the CMTP – ESRS E1-1 paragraph 16(j)

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

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

80. This is a narrative disclosure intended to summarise the factual progress made on implementing the CMTP. 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 implies 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.

81. The narrative assessment of the undertaking's progress regarding the implementation of the CMTP should be provided when applying ESRS E1-1 16(j). This may imply references to, or duplication of, relevant information contained in other disclosures (for example, rate of fleet electrification). This content may cover information on the processes used to monitor the performance of target(s) as well as for reviewing the target(s). Crucially, the progress in implementing the different actions of the CMTP can also be used to explain how the different target(s) translate in terms of GHG emissions for the reporting year and likely performance in the medium-term horizon (on target/target delayed/ahead of target).

82. The principle for monitoring progress is embedded in the ESRS 2. For example, according to MDR-A, actions supporting policy implementation are accompanied by quantitative and qualitative information regarding the progress. The MDR-T also highlights the role of target-setting in measuring progress in achieving policy objectives. Likewise, metrics disclosed under ESRS E1, namely ESRS E1-5 (on energy consumption) or ESRS 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 CMTP.

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

3.7. Whether and when a CMTP will be adopted – ESRS E1-1 paragraph 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.

84. In case the undertaking has identified climate change mitigation as a material sustainability matter and representing a strategic issue, but it does not have a CMTP in place, it shall indicate whether and, if so, when it will adopt a CMTP (ESRS E1-1 paragraph 17). For more information see FAQ 15.

85. If the undertaking does not have a CMTP because its climate action plan does not have consequences on strategy and business model (see FAQ 13 and FAQ 17) it shall indicate this fact in accordance with ESRS E1-1 paragraph 17.

3.8. Interfaces of the CMTP with other sustainability matters

86. IROs linked to other sustainability matters may arise from an undertaking's CMTP due to the CMTP's impacts and dependencies on internal factors and external factors. Some of these IROs linked to other sustainability matters are covered in detail in this section including adaptation, biodiversity and social IROs.

87. The undertaking should scope risks related to the often complex interactions of CMTP with other sustainability matters, and it shall disclose material IROs in accordance with ESRS 1, chapter 3.6. In such situations, the undertaking shall disclose the existence of material negative impacts or material risks, together with the actions that generate them, and with a cross-reference to the topic to which the impacts or risks relate. The undertaking shall also provide a description of how the material negative impacts or material risks are addressed under the topic to which they relate (ESRS 1, paragraph 53).

88. Disclosing on material impacts, risks and opportunities from climate change mitigation may include disclosures related to non-climate sustainability matters (that interact with climate change mitigation), such as: Just Transition related to impacts on own workforce (ESRS S1-SBM3), workers in the value chain (ESRS S2-SBM3) and impacts on communities (ESRS S3) as well as consumers and end users (ESRS S4); business conduct policies and corporate culture (ESRS G1-1); policy engagement (ESRS G1-5); or other environmental impacts, e.g. biodiversity (ESRS E4). These may be referenced in the context of ESRS E1 paragraph 16(b) or ESRS E1 paragraph 16(c), which covers climate change mitigation actions planned, as well as investments and funding to support them.

89. Forward-looking CMTPs are inherently uncertain and can generate risks that are non-linear and can materialise in multiple ways. Hence, any actions taken in the scope of a strategic plan, such as the CMTP, should be analysed through the undertaking risk management function. How to deal with specific uncertainties connected to the dependencies of mitigation actions and decarbonisation levers, included in the CMTP, on internal and external factors are covered in FAQ 5.

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

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

91. Climate change mitigation and adaptation strategies are frequently interconnected. Effective mitigation efforts often rely on and are shaped by adaptation measures, while mitigation actions can sometimes hinder adaptation. Similarly, adaptation initiatives aimed at increasing resilience may influence mitigation outcomes. Within a CMTP, it is essential to identify both win-win opportunities (opportunities) and potential trade-offs (impacts and risks) between mitigation and adaptation. These interactions can vary by location and sector.

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

93. Some of the ways mitigation and adaptation can be connected and are shown in Figure 3#.

Win-win	Adaptation that has consequences or trade-offs with mitigation	Mitigation that has consequences or trade-offs for adaptation
• Climate smart agriculture. • Protection and rehabilitation of carbon sinks, including forestry. • Ecosystem based adaptation. • Climate 'proofing' mitigation infrastructure. • Passive ventilation for building energy use	• Increased air conditioning. • Increased pumped irrigation. • Increased fertilizer use. • Desalinization. • Low density urban planning.	• Biofuels and bioenergy. • Energy efficiency for buildings. • High density urban planning. • Renewable-energy technologies that use water or affect water management.

Figure 3 Synergies and trade-offs between mitigation and adaptation (Source: GIZ, 2019)

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

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

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

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

97. Some of the known potential biodiversity risks associated with decarbonisation 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 as well as the health of downstream habitats;

c. invasive species and novel ecosystems: some decarbonisation activities inadvertently create favourable conditions for invasive species. For example, large-scale biomass plantations may introduce non-native species into new areas, potentially outcompeting local plants and destabilising ecosystems. When invasive species establish themselves, they often lack natural predators, which can lead to dominance over native species and a loss of biodiversity. Furthermore, the intentional or unintentional creation of 'novel ecosystems' can alter the natural balance of native ecosystems, impacting local biodiversity; and

d. Waste increase: transitioning to more sustainable operations may lead undertakings to phase out carbon-intensive assets in favour of low-carbon alternatives. This may lead to an increase in waste if it causes early retirement of equipment or assets, which in turn may increase the risks and impacts of improper waste management on ecosystems and biodiversity through e.g. pollution, habitat loss and biodiversity loss.

3.8.3 Just Transition in the context of transition plans for climate change mitigation

98. Just Transition[18] is relevant for undertakings to consider in relation to disclosures on transition plans for climate change mitigation. The concept of Just Transition involves the consideration of the social implications of a transition to a climate-neutral, more sustainable economy. It is widely recognised that this transition has significant implications for workers,

[18] The UNOHCR and ILO define 'Just Transition' as 'the transition to a human rights economy that is fair, equitable, inclusive and sustainable, creates decent work opportunities, reduces inequalities and poverty as well as upholds the human rights of workers and affected communities, in particular Indigenous Peoples and communities affected by environmental degradation and by the measures that are needed to address it. Stakeholder engagement or social dialogue is also important and the shift towards a sustainable economy must include the entire economic spectrum, from energy and transport to agriculture to financial services.' UNOHCR and ILO (2023): https://www.ohchr.org/sites/default/files/documents/issues/climatechange/information-materials/v4-key-messages-just-transition-human.pdf

communities and consumers across the various sectors of the economy, from energy and transport to agriculture and financial services.

99. Just Transition forms part of the overall human rights lens on disclosures on social and human rights as set out in the sector agnostic ESRS and is not separate to those disclosures and specific circumstances.

100. The ESRS architecture is such that when material IROs are identified, the minimum disclosure requirements apply, and this is the case for just-transition-related matters across ESRS S1 to S4 for the Social sector. Specifically, ESRS 2 GOV-4, SBM-3, IRO-1 and IRO-2 and the minimum disclosure requirements, as applied together with topical requirements across ESRS S1 to S4, provide for reporting on material social impacts related to climate change and transition planning. Undertakings can leverage these requirements to integrate social considerations into their transition plan reporting (see FAQ 9, 10 and 11).

4. Frequently asked questions (FAQs)

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

4.1. Targets-related FAQs

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

102. No, as ESRS E1-1 paragraph 16(a) requires an undertaking, by reference to its GHG emission reduction targets, to explain how these targets are compatible with the limiting of global warming to 1.5°C in line with the Paris Agreement. Paragraph 16 requires to cross-reference the GHG emission reduction target(s) already disclosed under E1-4. Other climate-related targets, reported under ESRS E1-4 paragraph 33, such as renewable energy deployment, energy efficiency or targets related to climate-related transition risks may be used by the undertaking to complement the information on its CMTP.

FAQ 2: Can an undertaking only disclose intensity GHG emission reduction targets?

103. As detailed in ESRS E1 paragraph 34 (a), the undertaking shall disclose GHG emission reduction targets in absolute value, and where relevant in intensity value. ESRS E1 paragraph AR 23 specifies that when disclosing intensity value, the undertaking shall nevertheless disclose the associated absolute values for the target. In other words, if the undertaking discloses intensity value, it shall give an indication on what it expects the absolute GHG emission value be in the target year, e.g. if a decrease in intensity GHG emission reduction target result in an increase/decrease in absolute value and an estimate of that increase/reduction (e.g. approximately 30% reduction).

FAQ 3: Can an undertaking consider the purchased and planned carbon credits to achieve its GHG emission reduction target?

104. No, an undertaking cannot consider the purchased and planned carbon credits in measuring and claiming progress towards its GHG emission reduction target.

105. ESRS E1-1 paragraph 16(a) relates to information complementing GHG emission reduction targets, as required in ESRS E1-4. Hence, the GHG emission reduction targets contributing to the transition plan for climate change mitigation follow the same requirements as ESRS E1-4.

106. ESRS E1-4, paragraph 34(b), clarifies two aspects regarding GHG emission reduction targets. First, it shall be explained how their consistency with the undertaking's GHG emission inventory, as described in ESRS E1-6, is ensured. Second, GHG reduction targets shall not include any GHG removals or carbon credits as a means of achieving the GHG emission reduction targets. In addition, ESRS E1-6 AR 43, AR 45 and AR 46 highlight that no Scope 1, Scope 2 or Scope 3 GHG emissions shall include any removals or any purchased, sold or transferred carbon credits or GHG allowances in their calculation.

107. While it cannot be considered in its gross GHG emission reduction target, ESRS E1-7 paragraph 56 requires the undertaking to be transparent on the amount of GHG emission reductions or removals from climate change mitigation projects outside its value chain that it has financed or intends to finance through any purchase of carbon credits.

108. ESRS E1 allows the undertaking to disclose net zero targets and GHG neutrality claims in addition to the gross GHG emission reduction target. For both, ESRS 1-7 specifies the provisions for disclosure.

    a) If the undertaking discloses a net zero target, ESRS E1-7 paragraph 60 clarifies that it shall explain how the residual GHG emissions are intended to be neutralised by GHG removals in and outside its value chain. As stated by ESRS E1-7 AR 56 GHG removals outside the value chain may be accounted for via credible carbon removal credits and disclosed separately as required by ESRS E1-7 paragraphs 56 (b) and 59.

    b) In the case where the undertaking may have made public claims of GHG neutrality, ESRS E1 paragraph 61 clarifies that those can involve the use of carbon credits. In this case the undertaking shall explain how these claims are accompanied by GHG emission reduction targets, whether and how the use of carbon credits neither impede nor reduce the achievement of the GHG emission reduction targets, or, if applicable, its net zero target and how the credibility and integrity of carbon credits used is ensured.

109. Financing GHG removals and carbon avoidance/reduction of actors outside the value chain fall within the umbrella term of carbon credits. Carbon credits of avoidance or reduction can only be used in relation to GHG neutrality claims, not to achieve net zero.

110. The ESRS Glossary defines carbon credits as 'a transferable or tradable instrument that represents one metric tonne of CO2eq emission reduction or removal and is issued and verified according to recognised quality standards.'

111. GHG removals are defined in ESRS Glossary as 'the withdrawal of GHGs from the atmosphere as a result of deliberate human activities. These include enhancing biological anthropogenic sinks of CO2 and using chemical engineering to achieve long-term removal and storage. Carbon capture and storage (CCS) from industrial and energy-related sources, which alone does not remove CO_2 from the atmosphere, can remove atmospheric CO_2 if it is combined with bioenergy production (Bioenergy with Carbon Capture and Storage - BECCS). Removals can be subject to reversals, which are any movement of stored GHG out of the intended storage that re-enters the atmosphere. For example, if a forest that was grown to remove a specific amount of CO_2 is subject to a wildfire, the emissions captured in the trees are reversed.'

4.2. FAQs related to decarbonisation levers

FAQ 4: How does the climate-related scenario analysis in ESRS E1 interact with the transition plan for climate change mitigation disclosure, and how can scenarios be used?

112. Climate-related scenario analysis, according to the ESRS Glossary, is the process for identifying and assessing a potential range of outcomes of future

events under conditions of uncertainty. Regarding ESRS E1, the undertaking shall explain how it uses climate-related scenario analysis to

c) assess climate physical and transition risks;

d) set reduction targets;

e) assess resilience; and

f) assess financial effects.

113. During this process, high emissions climate scenarios are used for the identification of climate-related hazards and the assessment of the undertaking's exposure and sensitivity to them (i.e. climate-related physical risks). Scenarios consistent with the Paris Agreement and limiting climate change to 1.5 °C are used to identify transition events and the assessment of exposure to them. Different scenarios can be used to explore different policy and technology trajectories to reach a given temperature target and identify dependencies which drive transition risk.

114. Paris-aligned GHG mitigation scenarios can also be used to produce decarbonisation pathways for the undertaking used to derive in a top-down approach science-based GHG mitigation targets and to derive reference target values used to compare and benchmark GHG emission reduction targets or interim targets in the respective scopes. This is done with reference to a sector-specific (if available) or a cross-sector emission pathway compatible with limiting global warming to 1.5 °C.

115. The use of climate-related scenario analysis is also relevant to the process of understanding, modelling and deciding on the undertaking's targets and pathway and is therefore a cornerstone of the CMTP. The different scenarios shape and define the assumptions and sensitivity analyses upon which the target and ambition are based on.

116. The outcome of the scenario analysis shapes the assumptions made. The results of the risk analysis are disclosed according to the ESRS E1 ESRS 2 IRO-1 Disclosure Requirement, which is intended to provide transparency on the approach taken by the undertaking to identifying and assessing its climate-related impacts, risks and opportunities.

117. Having identified its impacts, risks and opportunities, the undertaking can adopt appropriate policies, actions to implement them and targets to support them. These climate-mitigation actions and targets will in turn inform the disclosures of ESRS E1-1, such as, in particular, paragraph 16(a) referring to GHG emission reduction targets, paragraph 16(b) referring to GHG emission reduction targets, decarbonisation levers and climate change mitigation actions, or paragraph 16(c) referring to climate-change-mitigation actions and investments or funding supporting the implementation of the transition plan for climate change mitigation.

118. The scenarios analysis also supports disclosures of ESRS E1paragraphs 16(d) and 16(e), jointly with business scenarios. When disclosing on paragraph 16(d), the assessment of locked in emissions should be consistent with the assumptions of the Paris-aligned scenario selected to set the reference target. When disclosing on paragraph 16(e), the undertaking shall, for Taxonomy-eligible activities, report objectives and plans to align economic activities with the Taxonomy Regulation criteria. For climate change mitigation, the technical

screening criteria include that 'the projected life-cycle GHG emissions from the researched technology, product or other solutions do not undermine GHG mitigation objectives under the Paris Agreement or hinder the deployment of climate mitigation solutions'.

119. Implementation of actions and resources to mitigate material risks will also result in the undertaking's ability to absorb material risks or adapt the business model, which is referred to as resilience and is subject to disclosure under E1 ESRS 2 SBM-3. The results of scenario analysis used to conduct resilience analysis should also inform other ESRS E1-1 disclosures, such as the assessment of anticipated financial effects from material physical and transition risks (ESRS E1-9 paragraph 65 (a)) or an explanation of how the CMTP is embedded in and aligned with the overall business strategy and financial planning of the undertaking (ESRS E1-1 paragraph 16(h)). This consistency also applies across sustainability reporting and financial reporting, as the undertaking shall briefly explain how the climate scenarios used are compatible with critical climate-related assumptions made in the financial statements (ESRS E1 paragraph AR 15).

120. Data and assumptions used in preparing the sustainability statement shall be consistent to the extent possible with the corresponding financial data and assumptions used in the undertaking's financial statements.

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

121. The choice of mitigation actions and decarbonisation levers in a CMTP may give rise to IROs such as impacts on local resource availability (e.g. demand for renewable energy sources), risks relating to the CMTP's dependency on key infrastructure (e.g. availability of necessary transport networks) or opportunities to create synergies with other undertakings and public authorities, mutualising efforts to decarbonise (e.g. innovation hubs).

122. These IROs relate to the external factors where the undertaking operates. To identify these IROs, an undertaking may consider non-physical factors (policies, regulatory framework, market and economics, public acceptance, consumer and client behaviour) and physical factors (infrastructure availability and logistics, ecosystem services, labour, technology and resource availability).

4.3. FAQs related to financial planning

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

123. Stranded assets are the key assets currently used or planned (most likely to be deployed over the medium-term) which create a significant risk for the undertaking in not being in a position to recover the full monetary amount recognised at year-end as an asset, because of their risk of not being able to deliver their initial foreseen value because of changes in legislation (e.g. assets with significant locked-in emissions), environmental (e.g. asset can no longer be utilised because lack of available water) or technological constraints (e.g. asset technology is no longer competitive). When assessing stranded assets, locked-in emissions relating to assets of the undertaking are to be used as a factor informing the assessment. However, there are additional criteria to that

of locked-in emissions that also are to be considered. While assets with high locked-in emission can become stranded, stranded assets do not necessarily have to have locked-in emissions. For example, an asset may be at risk of becoming stranded due to a lack of access to critical infrastructure which the undertaking depends on to deliver its CMTP. Locked-in emissions related to products may reduce the lifetime and/or sales of these products, hence reducing future cash-flows that may lead to depreciation of related assets used to produce these products.

124. To be noted, a distinction can be made between stranded assets from which 100% of the relative emissions are locked-in for their entire lifetime versus stranded assets for which undertakings can reduce the share of locked-in emissions over time. Some assets can be retrofitted (i.e. ICE cars can potentially be retrofitted to electric or biofuels; emissions related to buildings in which one consumes gas and shift to electricity over time, retrofitting for boats; etc.), and the possibility of doing these retrofits is important for the transition. However, this does not only apply to stranded assets, nor does it mean that assets being retrofitted are necessarily stranded.

125. The undertaking shall include, if applicable, a disclosure of significant CapEx amounts invested during the reporting period related to coal-, oil- and gas-related economic activities (ESRS E1, paragraph 16(f)). This disclosure will show investments that are at risk of becoming stranded assets due to the transition and that may have significant locked-in emissions. A qualitative assessment of the potential locked-in GHG emissions from the undertaking's key assets and products shall be disclosed under ESRS E1-1 paragraph 16 (d).

FAQ 7: Does an undertaking from a sector not related directly to coal, oil and gas economic activities (e.g. manufacturing) which builds a gas-fired power plant (e.g. construction) at its site need to disclose this investment under ESRS E1 paragraph 16(f) or not?

126. As stated in ESRS E1-1 paragraph 16(f), the CapEx amounts considered are related to the following NACE codes:

    a) B.05 – Mining of coal and lignite, e.06 Extraction of crude petroleum and natural gas (limited to crude petroleum), and e.09.1 Support activities for petroleum and natural gas extraction (limited to crude petroleum);

    b) C.19 – Manufacture of coke and refined petroleum products;

    c) D.35.1 – Electric power generation, transmission and distribution;

    d) D.35.3 – Steam and air conditioning supply (limited to coal-fired and oil-fired power and/or heat generation); and

    e) G.46.71 - Wholesale of solid, liquid and gaseous fuels and related products (limited to solid and liquid fuels).

127. If an undertaking invests in one of those activities during the reporting period, it shall disclose the significant CapEx amount if applicable. The undertaking shall look at the nature of the investment (NACE code) and not to the ESRS sector that it is active in when determining whether it shall disclose any amount under ESRS E1 paragraph 16(f).

128. This means that undertakings active in construction of non-renewable power plants (identified as *F42.9 - Construction of other civil engineering projects*). They do not have to disclose the significant CapEx amount of their investments.

129. If the undertaking has investments in smaller fossil fuel installations (e.g. heating systems, smaller generators etc.), it needs to apply judgement to assess whether it is a significant investment.

4.4. Supporting disclosures related FAQs

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

130. According to Regulation (EU) 2016/1011, benchmarks refer to indices used to measure the performance of investment funds, financial instruments or financial contracts among other inputs, or can also be used for other purposes, e.g. pricing of financial instruments. As an increasing number of investors pursue low-carbon investment strategies and use low-carbon benchmarks to measure the performance of investment portfolios, this regulation was further amended by (EU) 2018/2089, which established the definition of EU Paris-aligned Benchmarks, underpinned by a set of criteria linked to the commitments of the Paris Agreement.

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

    f) 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));

    g) undertakings that derive 10% or more of their revenues from the exploration, extraction, distribution or refining of oil fuels;

    h) undertakings that derive 50% or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels;

    i) undertakings that derive 50% or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh; and

    j) 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.

132. In the context of transition plans for climate change mitigation, Paris-aligned benchmarks are important tools to identify undertakings that carry out activities that are deemed incompatible with the Paris Agreement (see section 3.6.4 for further explanations on this disclosure).

133. Article 7 of the Delegated Regulation 2020/1818 (Climate Benchmark Standards Regulation) sets out the requirement of an annual decarbonisation trajectory of 7% GHG emission reduction.

134. Benchmarks are not the only input that can be used to measure the performance of financial products, but simply one of many parameters. However, they are commonly used instruments by the industry and PAB

exclusions are applied to EU SFDR Art 9 funds with decarbonization objectives. Moreover, benchmarks can also be used for other purposes, e.g. pricing of financial instruments.

4.5. FAQs related to IROs arising from the CMTP

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

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

136. As set previously in the guidance, an undertaking shall assess and disclose relevant information on risks related to their transition planning process. This includes related social impacts (i.e., those within the scope of ESRS S1-S4) that may arise and, in particular, to Just Transition (as defined in section 3.8.3). For example, an undertaking that is active in non-renewable energy production and closes down its coal plants to transition into renewable energy; the closure of the plan will have an impact to the coal plant jobs that are to be terminated or relocated and also impacts on the affected communities when such plant is decommissioned production elsewhere will create impacts on its employees and local communities in terms of job losses.

137. 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 CMTP, the undertaking may consider engaging with stakeholders affected by the proposed actions in the plan and by external risks. An undertaking's own workforce (ESRS S1 paragraph 14), workers in the value chain (ESRS S2 paragraph 9) and affected communities (ESRS 3 paragraph 7) are identified as key groups of affected stakeholders and could be consulted in this context.

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

138. Undertakings may use the topics to be covered in materiality assessment processes that are set out in ESRS 1 AR 16 to identify and disclose potential impacts on its own workforce (ESRS S1), workers in the value chain (ESRS S2), affected communities (ESRS S3) and consumers and end users (ESRS S4) related to its transition planning.

139. The transition can have potential positive impacts on workers or affected communities through e.g. the creation of new and sustainable jobs or through the reduction of pollution (often associated with direct GHG emissions), new

opportunities due to re- and up-skilling, reduction of inequalities, and social inclusion from improved access to renewable energy.

140. Examples of how affected stakeholders in ESRS S1 to S4 could be negatively affected by the actions set out in transition plans include the following:

    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.

    b) Additionally, workers in the value chain (ESRS S2) might also be negatively impacted by decarbonisation levers that focus on renewable energy solutions, which while though climate- friendly, have value chains that have been known to result in forced labour or other severe human rights impacts (such as those documented in relation to solar panels, battery production or critical minerals).

    c) Regarding affected communities (ESRS S3), climate transition plans can have negative impacts through changing, reducing or terminating production or the provision of services, e.g. through plant or mine closures, as well as related to initiation of new climate friendly products and services that may include impacts, risks and opportunities related to communities. This may include impacts, risks and opportunities related to communities, their land-related rights, their ability to secure adequate food and housing, and their economic, social and cultural rights at large. Disclosure on any impacts on the rights of Indigenous Peoples may be taken into account, including the right to free, prior and informed consent.

    d) For consumers and end users (ESRS S4), access to clean energy at affordable prices may be affected by the success or failure of an undertaking's transition plan, impacting their ability to meet their energy needs.

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

141. ESRS 1 paragraph 38 notes that financial and impact assessments are interrelated and that the interdependencies between these two dimensions shall be considered. As set in ESRS 1 paragraph 50, the undertaking shall also disclose its dependencies on natural, human and social resources that can be sources of financial risks or opportunities. Undertakings could explain whether there are potential dependencies on the capabilities and wellbeing of people or on relationships with people as defined in ESRS 1 AR 14 that could materially affect their ability to deliver their transition plan for climate change mitigation and whether issues set out in ESRS 1 AR 16 could affect the transition plan for climate change mitigation.

142. Specifically, undertakings may consider whether there are material dependencies in the context of their transition plan for climate change mitigation informed by (a) the particular time horizon of the CMTP, (b) the specific universe of people affected by the CMTP and the severity and likelihood of negative impacts, and (c) the specific universe of people on whose capabilities, wellbeing and relationships the credibility of the CMTP may depend.

143. Where material issues in relation to the transition plan for climate change mitigation for topics, subtopics and sub-subtopics for ESRS S1 to S4 as set out in ESRS 1-AR16 are not currently considered material for the organisation as a whole, the undertaking may disclose this and how it will impact its double materiality assessment as set out in ESRS 1 Section 3.3.

144. Consider the following examples:

    a) Workers negatively impacted by a transition away from existing production methods may be a small proportion of a global workforce but a significant proportion of those whose jobs are created, changed or lost due to the transition itself.

    b) A change in operations, methods or action taken to implement the CMTP may be dependent on the workforce reaction to those changes and become material due to the associated risks that affect the undertaking's ability to implement the CMTP.

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

145. The undertaking business model's resilience to physical risk is part of the transition planning activities to the extent that its climate mitigation strategy may have dependencies on its ability to adapt to climate change. The organisation must adjust to both current and anticipated climate changes, recognising that mitigation strategies need to account for the committed warming in the climate system, even if the most ambitious target of 1.5 °C is achieved. This implies significant physical risks from climate change, which may impact climate mitigation strategies both due to competition between different investment priorities (adaptation versus mitigation) and physical climate changes leading to lower mitigation impacts than originally forecasted.

146. 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 CMTPs, but also because future mitigation actions can be critically dependent on changes in climate variables (e.g. rainfall). Once climate risks have been identified and assessed, they should be managed through actions and plans to increase the undertaking's resilience as well as its value chain. Climate adaptation and resilience to physical risk should be part of the transition planning process and can be a material sustainability matter requiring addressal at a strategic level within the CMTP.

147. Undertakings may also find opportunities within their climate adaptation response on which they can capitalise for their transition.

148. In these cases (link to adaptation and resilience), the provisions in ESRS 1 paragraph 53(a) apply – if there are material negative impacts or material risks originating from within the CMTP in relation to the subtopic adaptation or the other way around, the undertaking shall provide a description of how the material negative impacts or material risks are addressed under the transition plan for climate change mitigation disclosure – or, in the other direction, under adaptation and resilience disclosures.

149. 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 for climate change mitigation shall include an explanation of any objective or plans (CapEX, CapEx plans, OpEX) that the undertaking has for aligning its economic activities (revenues, CapEx, OpEx) with the criteria established in Commission Delegated Regulation 2021/2139.

4.6. Other FAQs

FAQ 13: When is a CMTP complete?

150. A transition plan for climate change mitigation under ESRS E1 is considered complete if it meets the disclosure objective of ESRS E1-1 (paragraph 15 and AR 1). This objective is "to enable an understanding of the undertaking's […] efforts to ensure that its strategy and business model are compatible with the transition to a sustainable economy, and with the limiting of global warming to 1.5 °C in line with the Paris Agreement and with the objective of achieving climate neutrality by 2050 […]" .

151. To achieve this, the undertaking's CMTP must address the following elements:

    a) Setting GHG emission reduction targets;

    b) Defining decarbonization levers and key planned actions;

    c) Determining investment needs and identifying funding sources for implementation;

    d) Establishing clear roles and responsibilities for defining and executing the plan;

    Additionally, the CMTP must be embedded at strategic level, driving changes in the business model and influencing financial planning.

152. Even if the elements in paragraph 151 are only partially covered, their internal consistency should ensure the strategic integrity of the CMTP. The transition plan for climate change mitigation should still enable an understanding of how the undertaking is adapting its strategy and business model in line with the transition to a sustainable economy and the goal of limiting global warming to 1.5°C, as required by ESRS E1-1.

153. It is recognised that professional judgment plays a role in determining whether an undertaking's transition plan for climate change mitigation is complete. Ultimately, this assessment should guide the decision to disclose information under paragraph 16 (for complete plans) or paragraph 17 (for incomplete plans).

FAQ 14: When is a transition plan for climate change mitigation disclosure complete in accordance with ESRS E1?

154. If all items defined under paragraph 151 above (FAQ 13) can be confirmed, the CMTP generally qualifies to be disclosed under ESRS E1-1, paragraph 16. In this case the undertaking is expected to report the GHG emission reduction targets it has set (paragraph 16 (a)), the decarbonisation levers it has identified and the key actions it has planned (paragraph 16 (b)) as well as the investment and funding it has actually allocated to the transition plan (paragraph 16 (c)). Information already disclosed under ESRS E1-3 (Climate change mitigation

actions) and ESRS E1-4 (GHG emission reduction targets) is to be referenced and does not have to be duplicated.

155. Undertakings with a CMTP that, for example, does not include GHG emission reduction targets for all emissions scopes or does not include longer-term actions, may still qualify for disclosure if the limited transition plan can fulfil the disclosure objective of ESRS E1-1 (paragraph 15), i.e. if it can "enable an understanding of the undertaking's […] efforts to ensure that its strategy and business model are compatible with the transition to a sustainable economy, and with the limiting of global warming to 1.5 °C in line with the Paris Agreement and with the objective of achieving climate neutrality by 2050 […]".

156. In addition to the elements above – targets (paragraph16(a), decarbonisation levers and key actions (paragraph 16(b) and financial planning for implementation (paragraph 16(c)) - the undertaking needs to disclose information on:

    a. Locked-in emission assessment (paragraph 16(d));
    b. Exclusion from EU Paris-aligned Benchmarks (paragraph 16(g));
    c. How the plan is embedded in strategy and financial planning (paragraph 16(h));
    d. If the transition plan is approved by the administrative, management and supervisory bodies (paragraph 16(i));
    e. Transition plan implementation progress (paragraph 16(j);
    f. If applicable, objectives or plans for aligning its economic activities with the EU Taxonomy criteria (paragraph 16(e)) and investments in coal, oil and gas-related economic activities during the reporting period (paragraph 16(f)).

FAQ 15: What if I do not have a complete CMTP?

157. If the undertaking does not have a CMTP, because it does not qualify for disclosure under ESRS E1-1 (FAQ 13), then it has to apply E1 paragraph 17. This means it has to indicate whether and, if so, when it will adopt a CMTP.

158. If the undertaking does not have a CMTP in place it may nevertheless consider disclosing as an additional element of information on:

    a) Locked-in emissions;
    b) Exclusion from EU Paris-aligned Benchmarks;
    c) Objectives or plans (CapEX, CapEx plans, OpEX) for aligning economic activities (revenues, CapEx, OpEx) with the EU Taxonomy criteria;
    d) Investments in coal, oil and gas-related economic activities during the reporting period; and
    e) Relevant information on the undertaking's climate-related impacts, risks and opportunities.

FAQ 16: What are the key characteristics of transition plans?

159. 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 of limiting global warming to 1.5 °C above pre-industrial levels in line with the Paris Agreement and Article 2 of EU Climate Law.

b) They are forward-looking as opposed to 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 (on a five-year rolling period) and how these actions roll up into medium-term strategies and long-term objectives.

d) They include quantitative information: they estimate the reductions undertakings anticipate from the actions deployed, and assess whether these add up to achieving stated emission 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 overall economy decarbonisation such as sector-wide cooperation, business integration, public policy advocacy and Just Transition.

FAQ 17: Can the undertaking conclude that the CMTP is not material?

160. The undertaking can conclude that the CMTP is not material if it concludes that the topic of climate change or the subtopic of climate change mitigation is not material. According to ESRS 1 paragraph 32, if the undertaking concludes that climate change is not material and therefore omits all disclosure requirements in ESRS E1 *Climate change*, it shall provide a detailed explanation of the conclusions of its materiality assessment with regard to climate change (see the ESRS 2 IRO-2 Disclosure Requirements in ESRS covered by the undertaking's sustainability statement), including a forward-looking analysis of the conditions that could lead the undertaking to conclude that climate change is material in the future. The conditions to make this determination are undertaking- and entity-specific.

161. If the undertaking concludes that the subtopic of climate change mitigation is not material, it can conclude that the CMTP is not material and still disclose under ESRS E1 on the subtopic of climate change adaptation. This would include disclosing on policies and targets related to climate change adaptation according to ESRS E1-2 and E1-4.

162. Even if the undertaking has determined that climate change is material, this does not necessarily mean that the CMTP is material. In some cases, an undertaking's climate impact may be so minimal that a comprehensive CMTP is unnecessary. For example, a consulting-sector undertaking with insignificant emissions primarily from business travel might not require a full transition plan. Instead, such an undertaking could disclose specific targets or actions addressing those limited emissions. In this case the undertaking should disclose information required under paragraph 17.

FAQ 18: Should the transition plan report details at subsidiary level?

163. ESRS 1 paragraphs 55 and 56 clarify that depending on the undertaking's specific facts and circumstances, a disaggregation by subsidiary may be necessary. The key aspect is to achieve the appropriate level of disaggregation that is not obscuring material information nor aggregating elements that differ in nature.

164. According to ESRS 1 Chapter 7.6 paragraph 102, when the undertaking reports on a consolidated level, it shall perform its assessment of material impacts, risks and opportunities for the entire consolidated group regardless of its group legal structure. It shall ensure that all subsidiaries are covered in a way that allows for the unbiased identification of material impacts, risks and opportunities.

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 CMTP, 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 the transition plan for climate change mitigation.

168. However, it should be noted that when the activities of the undertaking and its subsidiary are starkly different, it should consider having separate disclosure of transition plans since the associated decarbonisation levers and even units for targets can be different.

FAQ 19: Does the undertaking need to disclose asset-level data as part of its transition plan for climate change mitigation disclosures?

169. In preparing a transition plan for climate change mitigation, 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 transition plan for climate change mitigation 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 paragraph 54); and

    b) if this information is not considered as sensitive or classified (ESRS 1 paragraph 105).

170. Undertakings that own or operate installations under the EU ETS may incorporate or benefit from climate-neutrality plans and integrate them into the corporate CMTP. Some assets may be deemed material for the undertaking, and the climate-neutrality plan of the asset(s) shall also be disclosed in the annual report in accordance with ESRS 1 paragraph 54.

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. In this case, this fact shall be disclosed as per BP-1 – General basis for preparation of the sustainability statement.

FAQ 20: How can the information related to the CMTP be disclosed?

172. The undertaking shall disclose the information required in ESRS E1-1 on its CMTP in its sustainability statements. This provides a strategic summary of key aspects of the organisation's past, current and future efforts to ensure that its strategy and business model are compatible with limiting global warming to 1.5˚C, in line with the Paris Agreement. This summary is made by reference to disclosures provided in the sustainability statements related to IROs connected to climate change mitigation.

173. Additionally, the undertaking may publish, separate from its annual management report, a more detailed CMTP as a standalone document that is periodically updated to communicate to the market.

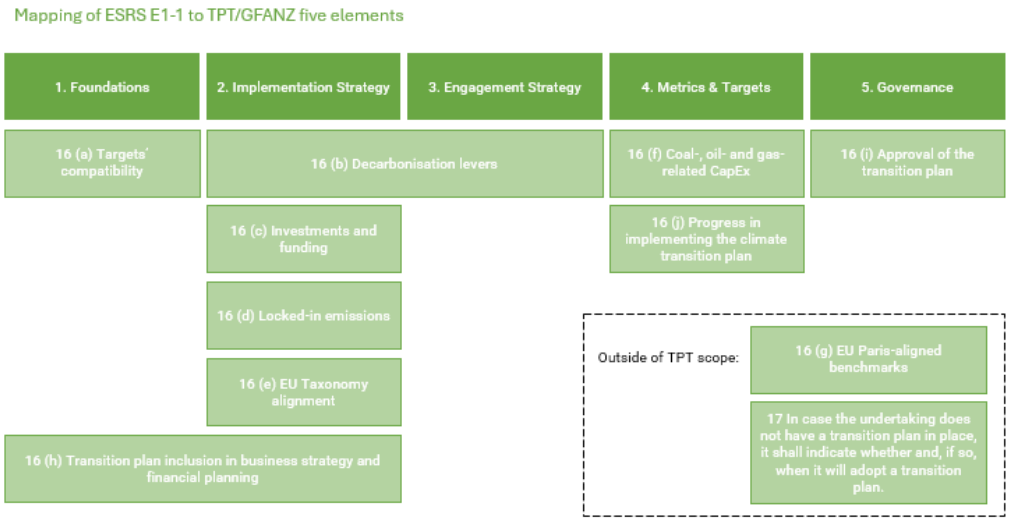
174. Ultimately, the decision of whether to publicly disclose a CMTP as a separate document is a strategic one that should be made on a case-by-case basis. It is important to weigh the potential benefits and risks before deciding.

FAQ 21: How can an undertaking using the TPT Disclosure Framework for its transition plan disclosures meet ESRS E1-1 requirements?

175. An undertaking with a CMTP aligned with the TPT Disclosure Framework can comply with ESRS E1-1 by adding a few disclosures. The TPT and ESRS share a common view on key information to be included in a CMTP, with most of the TPT Framework's sub-elements covered at a high-level in this guidance.

176. The TPT Disclosure Framework is organised across five elements, drawing on the components of a good transition plan identified by GFANZ: Foundations, Implementation Strategy, Engagement Strategy, Metrics and Targets, and Governance. The visual shown in Figure shows how the ESRS E1-1 disclosure requirements relate to this five-element structure that some undertakings are using to structure their CMTPs. All disclosures in ESRS E1-1 correspond to disclosures in the TPT Framework, with the exception of and ESRS E1-1 paragraph 16 (g) and E1-1 paragraph 17.

Figure # - Mapping of ESRS E1-1 to TPT/GFANZ five elements



177. The key points of correspondence between ESRS E1 and TPT include the disclosure of:

a) an explanation of decarbonisation levers, including actions planned in its business operations, products and services, and value chain (ESRS E1-1 paragraph 16 (b));

b) an explanation of the investments and funding supporting the implementation of the CMTP (ESRS E1-1 paragraph 16 (c));

c) the nature of the key assumptions on which the CMTP depends such as customer preferences, regulation or new technologies (ESRS E1-4 paragraph 34 (e));

d) an undertaking should disclose how the CMTP is embedded in and aligned with the overall business strategy and financial planning processes (ESRS E1-1 paragraph 16 (h));

e) an undertaking should disclose key governance mechanisms that underpin the transition plan, including who is responsible for approval of the plan (ESRS E1-1 paragraph 16 (i)).

178. There is partial correspondence between ESRS E1 and TPT Disclosure Framework on the following points, where an undertaking disclosing a CMTP in-line with the TPT Framework will need to disclose additional information to comply with ESRS:

a) when disclosing information on GHG targets, an undertaking should disclose an explanation of how its targets are compatible with the limiting of global warming to 1.5°C in line with the Paris Agreement (ESRS E1-1 paragraph 16(a));

b) when disclosing information on actions related to its business operations and products and services, an undertaking should provide additional information on its assessment of potential locked in emissions from key assets and products (ESRS E1-1 paragraph 16(d));

c) when disclosing information on underlying taxonomies used to classify products and services or metrics and targets, an undertaking should

disclose additional information to explain EU Taxonomy alignment (ESRS E1-1 paragraph 16(e));

d) when disclosing information on financial metrics and targets, an undertaking should disclose additional information on coal-, oil- and gas-related CapEx, if applicable (ESRS E1-1 16 (f)). The relevance of these disclosures is also noted in the TPT Sector Guidance on Oil & Gas, and Metals & Mining.

179. In addition, an undertaking complying with ESRS will need to include a disclosure on whether the undertaking is excluded from the EU Paris-aligned Benchmarks (ESRS E1-1 paragraph 16 (g)). This disclosure is outside the scope of the TPT Framework.

180. In preparing its disclosures on transition plans for climate change mitigation, the undertaking will need to ensure that it follows the general reporting requirements set out by the CSRD and ESRS framework including e.g., on connected information, double materiality, level of disaggregation, etc.

181. A detailed correspondence mapping between TPT and ESRS E1 has been included in Appendix III of this guidance.

FAQ 22: How does the ESRS-ISSB Standards Interoperability Guidance support an undertaking applying ESRS that also wants to comply with ISSB Standards?

182. The ESRS-ISSB Standards Interoperability Guidance sets out the commonalities between ESRS E1 and IFRS S2, including the E1-1 disclosure requirement in Transition Plans for Climate Change Mitigation as well as on e.g. target setting and scenario analysis, to increase efficiency for entities that report under both sets of standards. Section 3 of the ESRS-ISSB Standards Interoperability Guidance, 'ESRS to IFRS S2 (climate)', sets out the information that an undertaking starting with ESRS needs to know when also applying ISSB Standards to enable compliance with both sets of standards.

183. The ESRS-ISSB Standards Interoperability Guidance highlights specifically the requirements on transition plan assumptions, scenario analysis, industry-based metrics, GHG emissions, climate related opportunities, capital deployment and carbon credits. It explains how they correspond and any points to consider when disclosing on these topics.

184. The disclosure requirements in ESRS in relation to resources to achieve climate-related objectives and actions (ESRS E1 paragraph16 (c), (e) - (f) as well as paragraph 29 (c)), including transition plans, correspond to the disclosure requirements in IFRS S2 about capital deployment. An entity applying ESRS that also wants to comply with IFRS S2 should ensure that disclosures provided also comply with the requirements in paragraph 29(e) of IFRS S2. Paragraph 14(a)(iv) of IFRS S2 requires disclosure of any climate-related transition plan the entity has, including information about key assumptions used in developing its transition plan, and dependencies on which the entity's transition plan relies. The ESRS require an entity to disclose its transition plan for climate change mitigation (see ESRS E1 paragraph 14) and list detailed information that should be included (see ESRS E1 paragraph 16(a)–(g)) as well as refer to greenhouse gas emission reduction targets, actions and resources allocated to that plan. One requirement is to explain how the greenhouse gas reduction targets are compatible with the 1.5°C goal. In addition, ESRS E1 paragraph 34(e) and ESRS

1 paragraph 21 also refer to critical assumptions used. In case the entity does not have a transition plan in place, it shall indicate whether and, if so, when it will adopt a transition plan (see ESRS E1 paragraph 17). An undertaking that applies ESRS but also wants to comply with IFRS S2 should ensure that any key assumptions and dependencies that are not already captured through the disclosures required by ESRS E1 are included in the disclosure in order to meet the requirement in paragraph 14(a)(iv) of IFRS S2.

185. In the context of the transition plan for climate change mitigation, the undertaking starting with ESRS and wanting to comply with IFRS S2 will for example need to ensure that two different disaggregation's of GHG emissions can be provided if needed, and that key assumptions that underpin its scenario analysis meet both requirements. The undertaking should also note that IFRS S2 requires additional climate-related disclosures on financed emissions for which there are no corresponding disclosure requirements in ESRS E1 but are expected to be further developed in the forthcoming financial sector standards (beyond current reference in E1 AR46(b)).

Appendices