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Climate transition plans: State of play in EU legislation and policy recommendations

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At a glance

- Company transition plans (of real economy and financial market actors) have the potential to become a steering instrument for directing capital flows toward climate neutrality if systematically anchored in legislation.
- This policy brief provides an overview of the guidance that EU-legislation (is likely to) provide on transition plans – including the sustainability disclosure regulations (CSRD and SFDR), the Sustainability Due Diligence Directive (CSDDD), the banking package (CRR and CRD), and the Solvency II review.
- For transition plans to support the transition to climate neutrality, dissemination and accessibility, comparability, credibility, and scienced-based scenarios are key.
- Therefore, the disclosure of transition plans (for companies in the real economy and the financial sector) should be mandated and the provisions of the currently negotiated legislation should build on the CSRD to ensure harmonization.
- The further processes related to the CSDDD and the Banking Package/Solvency II will be crucial in terms of integrating accountability and oversight of transition plans into the legislation.

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Background

With continuously growing, hazardous impacts of climate change worldwide, a rapid transition to climate neutrality is needed. Climate transition plans, developed by both real economy and financial market participants, might play a crucial role in guiding the transition process. A climate transition plan is defined as an aspect of a firm's strategy to achieve national or international climate targets (European Commission, 2023); it maps out the (interim) steps a company plans to take over the next three decades to achieve climate neutrality, including actions to reduce greenhouse gas emissions, planned capital expenditure, and changes to the business model and operations.

Elements surrounding the disclosure, implementation, and oversight of corporate transition plans have been or are suggested to be incorporated in the EU sustainable finance package as well as in further EU-wide legislation. This policy brief provides an overview of where the (evolving) EU legislation features, or is likely to entail, provisions on transition plans. Key elements are identified that are essential for transition plans to serve as a steering tool for net zero, and thereafter recommendations for further policy processes at EU level are derived. Apart from the Corporate Sustainability Reporting Directive (CSRD), the legislation and related provisions on transition plans are still being negotiated.

This policy brief reflects insights from the nascent academic literature and from exchange with stakeholders, including transition plan creators (real economy and financial sector actors), prudential authorities, and civil society organizations (NGOs) involved in the debates.

Transition plans as steering instrument

Transition plans can fulfill multiple objectives. First, by developing transition plans, companies (real economy and financial market actors) can translate their net zero strategies into actionable steps; further, the planning process supports the assessment of risks and opportunities associated with the transition to climate neutrality. Second, via transition plans, real economy firms can signal their finance needs related to the transformation of their activities and business models; thus, transition plans can be directly linked to the provision of finance. Third, financial market participants can use the transition plans of real economy firms for investment decisions, to assess the transition risks in their portfolios, and, consequently, for portfolio allocation and engagement processes; ultimately with the objective of aligning their activities with their own transition plan. Compared to the use of current emissions data as a basis for decision-making by financial market actors, the forward-looking information from the transition plans takes account of that some sectors have to undergo, and are planning, far-reaching transformations. Fourth, the transition plans of banks, insurances, and investment companies can provide grounds for prudential authorities to assess transition risks and to intervene where necessary at the entity or systemic level (see Dikau et al. (2022) and the Institute For Climate Economics (2022a, 2022b)). In summary, transition plans might form the link between the real economy, financial markets, and supervision in systematically directing capital flows toward achieving climate neutrality.

Making transition plans work

To effectively use transition plans as instruments for achieving climate neutrality, several prerequisites are required in addition to anchoring accountability and oversight of transition plans in the laws:

- **Dissemination and accessibility**: Company transition plans must be broadly available and accessible to financial market actors. This can be achieved through mandated disclosure regulations[1]. For scientific calls to mandate transition plans, see e.g., Caldecott (2022).
- **Comparability**: for any aggregation of information from individual transition plans, as would be necessary for sector level analyses, but also for vis-à-vis assessment of company transition strategies, a high level of standardization of transition plan disclosures is necessary (see e.g., also the call by the International Monetary Fund (2023)).

[1] Current sustainability disclosure standards do not require companies to provide sensitive information in their transition plans.

- **Credibility**: to counteract greenwashing and facilitate the issuance of financial products, transition plans must be credible. The scientific work by Bingler et al. (2023), to be accompanied by an AI tool, can be a fruitful starting point for a credibility assessment of companies' transition plans. The Oxford Sustainable Finance Group has also provided guidance on the credibility of transition plans for specific sectors (Kampmann et al., 2023; Reséndiz & Shrimali, 2023; Rose et al., 2023; Zhou & Shrimali, 2023).
- **Scenario selection & transition pathways**: for the evaluation of the credibility and ambitions of transition plans, the authors consider the choice of scenarios a crucial element[2]. Currently, companies can choose from a wide range of climate scenarios – with different assumptions and levels of ambition – which results in additional complexity for companies and limits comparability.

As regards the first two prerequisites (dissemination and comparability), an important obligation lies with regulators and standard setters to provide the grounds that make transition plans work. The credibility of transition plans might also be enhanced by more detailed prescriptions for the necessary content of transition plans; in this respect, science and civil society will need to analyze whether the current disclosure obligations (which are increasingly being adopted by industry) provide a sufficient basis for companies to develop robust transition plans. With respect to the integration of scenarios and pathways in transition plans, more scientific work is needed that provides clear recommendations for regulators and standard setters to set (harmonized) requirements on scenarios, pathways, and metrics in their frameworks. Finally, if the general policy environment does not sufficiently encourage a transition to net zero, companies' internal plans for the transition may differ from the reported plans in terms of content and scenarios. It is therefore also up to policy makers to create an environment that aligns companies' internal plans more closely with the steps needed to achieve the climate targets.

[2] Which is planned to be outlined in a separate publication beginning of 2024.

Transition plans in the EU legislation

Transition plans are being integrated into EU legislation on sustainable finance and climate under the umbrella of the European Green Deal. The following section provides an overview on the regulations and directives and their provisions for transition plans. The Appendix provides detailed insight into the provisions contained in the final directives and the latest negotiation documents.

- In July 2023, the European commission adopted the **European Sustainability Reporting Standards** (ESRS) (European Commission, 2023) accompanying the **Corporate Sustainability Reporting Directive** (CSRD) (European Commission, 2022). The directive applies to large real economy as well as financial market companies.[3] The commission has implemented the provisions on transition plans in the ESRS, as proposed by the European Financial Reporting Advisory Group (EFRAG) (2022) (see textbox and appendix). Furthermore, EFRAG is currently developing sectoral ESRS, which might provide helpful indicators for transition planning beyond emission data. However, two elements in the current ESRS are likely to limit more widespread transition plan disclosures: a) materiality analysis requirement: If companies do not assess climate change to be material, they can bypass the requirement for disclosing climate transition plans; or b) 'comply or explain' clause: Companies without a transition plan are not obligated to create one. They must, however, explain their decision.

[3] Listed corporates and those fulfilling at least two of the following criteria: total balance sheet greater 20 million euros, net sales greater 40 million euros, more than 250 employees.

Key ESRS transition plan disclosure requirements:

(a) … 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;

(b) 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;

(c) … 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, …

(d) a qualitative assessment of the potential locked-in GHG emissions from the undertaking's key assets and products. …

…

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

(i) whether the transition plan is approved by the administrative, management and supervisory bodies; and

(j) an explanation of the undertaking's progress in implementing the transition plan

- Negotiations are currently underway in the EU trialogue on the **Corporate Sustainability Due Diligence Directive** (CSDDD), which defines companies' due diligence requirements with respect to climate change. The CSDDD can hold companies accountable for their due diligence obligations with respect to negative human rights and environmental impacts, including those in their value chains – meaning for financial institutions, their financed activities. However, the extent to which regulated financial undertakings will fall under the scope of the CSDDD, is currently being debated (Gambetta, 2023). Furthermore, it is up for negotiation if the CSRD will demand mere disclosures of transition plans (a reference to the CSRD will likely be established) or also their implementation, as proposed by the European Parliament. Lastly, there is also disagreement whether executives' remuneration should be linked to transition plan interim targets. Scientific work highlights this element of transition plans being a top priority (Bingler et al., 2023).

- The **EU banking package** includes a review of the Capital Requirement Directive (CRD6) and Capital Requirement Regulation (CRR3) to increase banks' resilience to economic shocks by implementing the international Basel III framework, but also to strengthen their role in the transition to climate neutrality. In June 2023, the Council presidency and the European Parliament provisionally agreed on amendments to the CRD6 and CRR3. The revised legislation is expected to lead to greater consideration of environmental, social and governance (ESG) factors as part of the Supervisory Review and Evaluation Process (SREP). Financial institutions that do not adequately manage ESG risks could ultimately face higher capital requirements. The July 2023 European Parliament proposal recommends that supervisors review the robustness of transition plans. Additionally, according to the proposal, a direct reference to the CSRD should be introduced regarding the requirements for transition plans. Guidance by the European Banking Authority (EBA) on the precise requirements for transition plans is supposed to be finalized within a year of the CRDs entry into force.
- Whereas the focus of **Solvency II** is on equity requirements for the insurance sector, the aim of the directive and its review process are similar to those of the banking package. The EU trialogue negotiations on the Solvency II review began in September 2023. The EU Parliament proposal contains a direct reference to transition plans in the CSRD (see appendix). However, at present, according to a press note by the non-profit organization ShareAction (2023), it seems as if insurers will merely be obliged to develop plans to deal with climate risks, which would reflect the original proposal of the European Commission (2021). It is conceivable that the outcome of the Solvency II review could also have an impact on the other negotiations on the banking package that are running in parallel.
- The **Sustainable Finance Disclosure Regulation** (SFDR) introduced mandatory sustainability disclosure obligations for financial market participants. In its current form, which came into effect in 2021 (European Commission, 2019), the regulation does not explicitly relate to transition plans or transition finance for climate neutrality; i.e., the financing of climate performance improvements. However, until mid-December 2023, the SFDR is open for consultation and the document for the targeted consultation contains a proposal for a classification scheme of financial

products that explicitly addresses transitional products (European Commission, 2023d). Transition plans might be used as finance tools under such a classification.

Policy recommendations

There is an opportunity for national policy makers to engage at the EU level, to push for the legislation to interact in a systemic way, such that transition plans can become the linking element between real economy, financial markets, and the financial supervision that is steering the transition:

1. The CSRD and final set of ESRS provide a solid ground for transition plan disclosures. The European Parliament proposals for the CSDDD, CRR/CRD, and Solvency II seek to harmonize disclosure obligations by linking the provisions on transition plans in these legislations to the CSRD. In upcoming negotiations, it will be important to maintain this direct link.

2. An obligation to disclose and implement transition plans via the CSDDD for companies in the real economy and the financial sector (as proposed by the European Parliament) would turn transition plans into a steering instrument. Therefore, the disclosure and implementation of transition plans in the CSDDD should be maintained for all companies under its scope, including the financial sector.

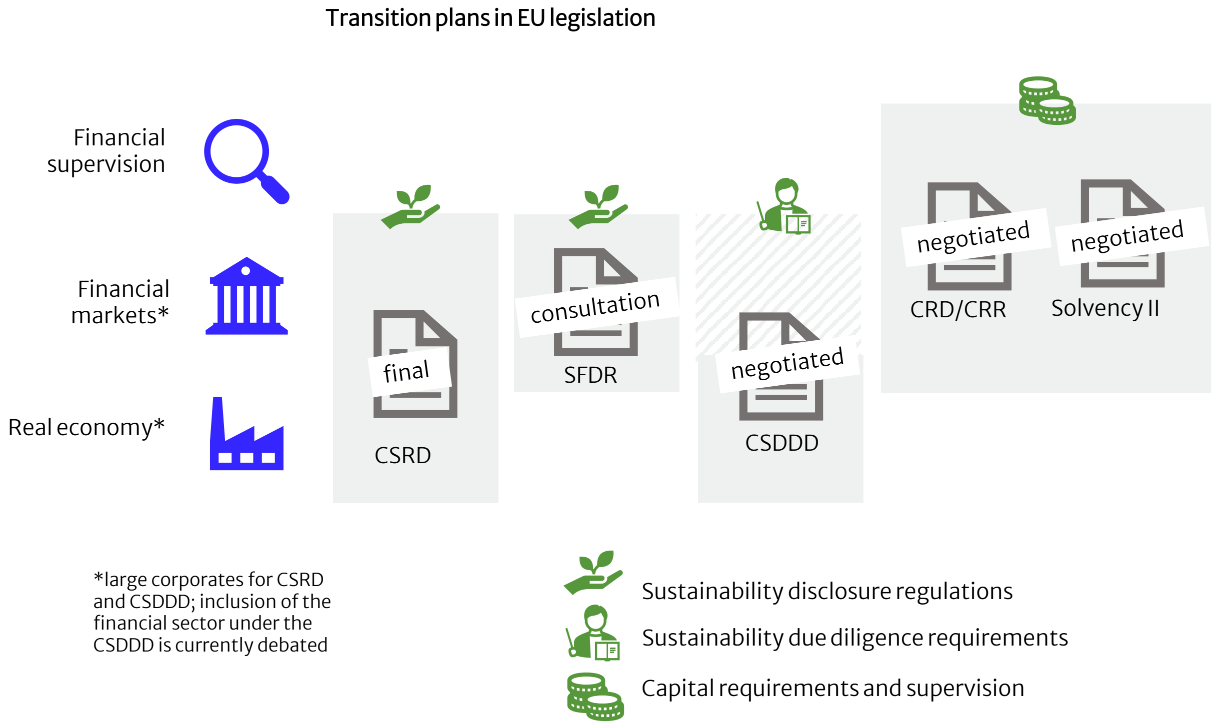
3. The outcomes of the CRR/CRD and Solvency II review will be critical in integrating transition plans in the micro- and macroprudential supervision. The legislation should not just cover transition plan disclosures of financial institutions, but also their oversight by prudential authorities to enable systemic transition risk assessment and intervention when necessary. With respect to the supervisory review and evaluation process (SREP), due to long-term scenarios inherently covering a wide range of possibilities (see also Wilkens et al. (2023) and Wilkens and Leister (2023)), the benefits of short-term transition scenarios as basis for stress tests should be emphasized (see also note by the Network for Greening the Financial System (2023)). An accelerated transition scenario indicating how firms would behave under more stringent policy conditions (e.g., climate neutrality in OECD countries

well before 2045) could provide a more robust indicator of transition risks (see also Marchewitz et al. (2022)).

4 As regards the SFDR, it is important to consider the conditions under which transition plans can be linked to the provision of transition finance. As disclosure of transition plans is likely to become standard in the coming years, a category of transition products could be linked to companies that meet high standards for transition plans, such as the Transition Plan Taskforce (2023) framework, or that demonstrate higher ambition to achieve climate neutrality, i.e. earlier than national targets.

5 For transition plans to be an effective tool for the transition to climate neutrality, standardization is important. To ensure the comparability of companies' transition plans, further standardization of the scenarios, interim targets, and metrics used is required. This could be achieved by refining the ESRS. In addition, national sectoral decarbonization pathways should be further developed and made accessible to ease the process of developing transition plans.

Global alignment and interoperability of transition plans are a critical component for users of transition plan data and reporting entities. Thus, engagement with German policy makers at the international level should aim to establish common grounds for the systematic integration of transition plans in the sustainable finance and policy legislation, e.g., within the International Platform on Sustainable Finance (IPSF), in the context of the G20's Sustainable Finance Working Group (SFWG), and through bilateral exchanges with individual G20 countries or subsets thereof. Finally, national policy makers also have an important function in sensibly and timely translating the forthcoming EU directives into national law.



Summary

The EU legislations can provide the grounds for transition plans to become a steering instrument in aligning economic activities with the EU net zero 2050 goal. Key for this will be that transition plans – by both real economy and financial market actors –are broadly available and accessible (through mandated disclosures), that the information from transition plan is comparable (through standardized disclosures), and that firms provide credible transition plans. Civil society and science will have to continuously judge and monitor the implementation of transition plans; for regulators it will be critical to ensure that the implemented legislation interact in a meaningful way. In this respect, it is important that all sectors are included in the climate due diligence obligations (CSDDD) and that the systematic assessment of climate transition risks and transition plans is part of financial supervision (CRR/CRD). Any requirements on the disclosure of transition plans should be harmonized, thus ensuring the comparability of information from transition plans and that firm reporting burdens are not further increased. Finally, a supportive policy environment for the transition to climate neutrality is needed to reduce any

discrepancies between companies' internal transition plans and the reported, net-zero aligned plans.

The focus of this policy brief is on climate transition plans, but in the face of increasing threats to ecosystem stability from global biodiversity loss (Richardson et al., 2023), the development, disclosure, and steady uptake of biodiversity considerations in the transition plans should be strongly encouraged.

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Appendix: legislative texts

Note: text passages explicitly pertaining to transition plans are colored green. The text excerpts relating to the CSDDD, CRD, CRR, and Solvency II correspond to the latest publicly available information as of November 2023, but may not reflect the current status of negotiations.

Corporate Sustainability Reporting Directive (CSRD)

Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022

amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=PI_COM:C(2023)5303

Article 19a

Sustainability reporting

1. Large undertakings, and small and medium-sized undertakings, except micro undertakings, which are public- interest entities as defined in point (a) of point (1) of Article 2 shall include in the management report information necessary to understand the undertaking's impacts on sustainability matters, and information necessary to understand how sustainability matters affect the undertaking's development, performance and position.

[...]

2.The information referred to in paragraph 1 shall contain:

(a)a brief description of the undertaking's business model and strategy, including:

[...]

(iii) the plans of the undertaking, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1,5 °C in line with the Paris Agreement under the United Nations Framework Convention on Climate Change adopted on 12 December 2015(the 'Paris Agreement') and the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 of the European Parliament and of the Council (*), and, where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities;

[...]

(v) how the undertaking's strategy has been implemented with regard to sustainability matters;

(b) a description of the time-bound targets related to sustainability matters set by the undertaking, including, where appropriate, absolute greenhouse gas emission reduction targets at least for 2030 and 2050, a description of the progress the undertaking has made towards achieving those targets, and a statement of whether the undertaking's targets related to environmental factors are based on conclusive scientific evidence;

Note: the provisions apply also to consolidated sustainability reporting (Article 29a).

European Sustainability Reporting Standards (ESRS)

Commission delegated regulation (EU) of 31 July 2023

supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards

https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=PI_COM%3AC%282023%295303

Disclosure Requirement E1-1 – Transition plan for climate change mitigation

14. The undertaking shall disclose its transition plan for climate change mitigation.

15. The objective of this Disclosure Requirement is to enable an understanding of the undertaking's past, current, and future mitigation efforts to ensure that its strategy and business model are compatible with the transition to a sustainable economy, and with the limiting of global warming to 1.5 °C in line with the Paris Agreement and with the objective of achieving climate neutrality by 2050 and, where relevant, the undertaking's exposure to coal, oil and gas-related activities. 16. The information required by paragraph 14 shall include:

(a) 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;

(b) 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;

(c) 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;

(d) 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 energyintensive assets and products;

(e) 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 2021/213936;

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

(g) a disclosure on whether or not the undertaking is excluded from the EU Paris-aligned Benchmarks;

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

(i) whether the transition plan is approved by the administrative, management and supervisory bodies; and

(j) an explanation of the undertaking's progress in implementing the transition plan

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."

Corporate Sustainability Due Diligence Directive (CSDDD)

Amendments adopted by the European Parliament on 1 June 2023

on the proposal for a directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937

https://www.europarl.europa.eu/doceo/document/TA-9-2023-0209_EN.html

Article 15

Combating climate change

1. Member States shall ensure that companies referred to in Article 2 develop and implement a transition plan in line with the reporting requirements in Article 19a of Regulation (EU) 2021/0104 (CSRD), to ensure that the business model and strategy of the company are aligned with the objectives of the transition to a sustainable economy and with the limiting of global warming to 1.5°C in line with the Paris Agreement and the objective of achieving climate neutrality as established in Regulation (EU) 2021/1119 (European Climate Law) as regards its operations in the Union, including its 2050 climate neutrality target and the 2030 climate target.

This plan shall include a description of:

(a) the resilience of the company's business model and strategy to risks related to climate matters;

(b) the opportunities for the company related to climate matters;

(c) where appropriate an identification and explanation of decarbonisation levers within the company's operations and value chain, including the exposure of the company to coal-, oil- and gas-related activities, as referred to in Articles 19a(2), point (a)(iii), and 29a(2), point (a)(iii), of

(d) how the company's business model and strategy take account of the interests of the company's affected stakeholders and of the impacts of the company on climate change; (e) how the company's strategy has been implemented and will be implemented with regard to climate matters, including related financial and investment plans;

(f) the time-bound targets related to climate change set by the company for scope 1, 2 and, where relevant, 3 emissions, including where appropriate, absolute emission reduction targets for greenhouse gas for 2030 and in five-year steps up to 2050 based on conclusive scientific evidence, and a description of the progress the company has made towards achieving those targets;

(g) a description of the role of the administrative, management and supervisory bodies with regard to climate matters.

[...]

3. Member States shall ensure that directors are responsible for overseeing the obligations set out in this Article and that companies with more than 1000 employees on average have a relevant and effective policy in place to ensure that part of any variable remuneration for directors is linked to the company's transition plan referred to in this Article. Such a policy shall be approved by the Annual General Meeting.

Capital Requirements Directive (CRD)

Draft European Parliament legislative resolution of 10 February 2023

on the proposal for a directive of the European Parliament and of the Council amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks, and amending Directive 2014/59/EU

https://www.europarl.europa.eu/doceo/document/A-9-2023-0029_EN.html

Article 76

Treatment of risks

(b) in paragraph 2 the following subparagraphs are added:

'Member States shall ensure that the management body develops specific plans, quantifiable targets and processes to monitor and address the risks arising from the short, medium and long-term ESG factors, including those arising from the transition and the process of adjustment to the applicable regulatory objectives towards a sustainable economy in relation to environmental, social and governance factors, in particular with the objective to achieve climate neutrality by 2050 as set out in Regulation (EU) 2021/1119.

The targets and measures to address the ESG risks included in the plans referred to in the first subparagraph shall take into account the latest reports and measures prescribed by the European Scientific Advisory Board on Climate Change, in particular in relation to the achievement of the climate targets of the Union. The plans shall adopt an holistic approach and cover all banks activities and clients. Where the institution discloses information on sustainability matters in accordance with Directive 2013/34/EU, the plans referred to in the first subparagraph shall be consistent with the plans referred to in Article 19a or Article 29a of that

Directive. In particular, the plans referred to in the first subparagraph shall include actions with regards to the business model and strategy of the institution that are consistent across both plans.

Member States shall ensure a proportionate application of the first and second subparagraphs for the management body of small and non-complex institutions, indicating in what areas a waiver or a simplified procedure may be applied.';

Article 87a

Environmental, social and governance risks

4. Competent authorities shall assess and monitor developments of institutions' practices concerning their environmental, social and governance strategy and risk management, including the plans to be prepared in accordance with Article 76, as well as the progress made and the risks to adapt their business models to the relevant applicable regulatory objectives towards a sustainable economy, taking into account related loan origination policies, and environmental, social and governance related targets and limits. Competent authorities shall verify the robustness of those plans as part of the supervisory review and evaluation process.

Where relevant, for the assessment referred to in the first subparagraph, Competent authorities may cooperate with authorities or public bodies in charge of climate change and environmental supervision.

5. EBA shall issue guidelines, in accordance with Article 16 of Regulation (EU) No 1093/2010, to specify:

(a) minimum standards and reference methodologies for the identification, measurement, management and monitoring of environmental, social and governance risks;

(b) the content of plans to be prepared in accordance with Article 76(2), which shall include specific timelines and intermediate quantifiable targets and milestones, in order to monitor and address the financial risks stemming from ESG factors, including those arising from the transition and the process of adjustment to the applicable regulatory objectives towards a sustainable economy, in particular the objective to achieve climate neutrality by 2050 as set out in Regulation (EU) 2021/1119;

(c) qualitative and quantitative criteria for the assessment of the impact of environmental, social and governance risks on the financial stability of institutions in the short, medium and long term;

(d) criteria for setting the scenarios and methods referred to in paragraph 3, including the parameters and assumptions to be used in each of the scenarios and specific risks.

Where relevant, the targets, methodologies and the content of the plans, including targets criteria and commitments included in the plans, referred to in Directive 2013/34/EU shall be consistent with the criteria, methodologies and the targets as mentioned in (a), (b), (c) and (d) of this paragraph and shall be consistent with assumptions and commitments included in the plans.

EBA shall publish the guidelines referred to in point (b) of the first subparagraph by [OP please insert the date = 12 months from the date of entry into force of this amending Directive], [...] EBA shall update those guidelines on a regular basis, to reflect the progress made in measuring and managing environmental, social and governance factors as well as the developments of policy objectives of the Union on sustainability.';

Capital Requirements Regulation (CRR)

Draft European Parliament legislative resolution of 9 February 2023

on the proposal for a regulation of the European Parliament and of the Council

amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor

https://www.europarl.europa.eu/doceo/document/A-9-2023-0030_EN.html

Article 449a

Disclosure of environmental, social and governance risks (ESG risks)

Institutions shall disclose:

[...]

(b) climate targets and transition plans, including absolute carbon emission reduction targets, submitted in accordance with Article 76(2) of Directive 2013/36/EU, and the progress made towards implementing them;

[...]

The information referred to in the first paragraph shall be disclosed on an annual basis by small and non-complex institutions and on a semi-annual basis by other institutions.

Solvency II

Draft European Parliament legislative resolution of 27 July 2023

on the proposal for a directive of the European Parliament and of the Council

amending Directive 2009/138/EC as regards proportionality, quality of supervision, reporting, long-term guarantee measures, macro-prudential tools, sustainability risks, group and cross-border supervision

https://www.europarl.europa.eu/doceo/document/A-9-2023-0256_EN.html

Article 44

Risk management

(c) the following paragraphs are inserted:

'2b. Member States shall ensure that insurance and reinsurance undertakings develop specific plans, quantifiable targets, and processes to monitor and address the risks arising in the short, medium, and long-term ESG factors, including those arising from the transition and the process of adjustment to the applicable regulatory objectives towards a sustainable economy in relation to environmental, social, and governance factors, in particular with the objective to achieve climate neutrality by 2050 as set out in Regulation (EU) 2021/1119 (European Climate Law). The targets and measures to address the ESG risks included in the plans referred to in the first subparagraph shall consider the latest reports and measures prescribed by the European Scientific Advisory Board on Climate Change, in particular in relation to the achievement of the climate targets of the Union. Where the undertaking discloses information on ESG matters in accordance with Directive 2013/34/EU the plans referred to in the first subparagraph shall be consistent with the plans referred to in Article 19a or Article 29a of that Directive. In particular, the plans referred to in the first subparagraph shall include actions with regards to the business model and strategy of the undertaking that are consistent across both plans.';

2c. By way of derogation, paragraph 2b shall not apply to low-risk profile undertakings.';

About the project

The Sustainable Finance Research Platform is a joint project between five German research institutions conducting research on different aspects of Sustainable Finance, e.g., sustainable investments, sustainability risks and chances, and sustainability reporting. With their independent research, the project partners aim to support stakeholders in politics, the financial sector, and the real economy in understanding and shaping the central role of capital markets in achieving a net-zero economy. The researchers involved answer social, political, and business-related questions, provide established and new research findings, and participate in political and public debate. They also want to establish sustainable finance as a topic in the German research landscape and secure connections with international institutes and processes.

More information can be found on the project's website wpsf.de/en/.

Partners of the Sustainable Finance Research Platform are

Universität Augsburg University | DIW BERLIN | Frankfurt School of Finance & Management German Excellence. Global Relevance. | Universität Hamburg DER FORSCHUNG | DER LEHRE | DER BILDUNG | UNIKASSEL VERSITÄT

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