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## Transition Plan Implementation Guidance

### Cover note

#### Objective

1. To collect feedback and input on the strategic direction on the Transition Planning Implementation Guidance (TPIG) from SRB.

#### Background

2. In the ESRS, the Transition Plan is referred to particularly in E1 Climate Change (ESRS E1 E1-1). The transition plan is of key importance for the E1 Climate Change standard, but also links to other topical standards. Disclosure of a Transition Plan is a challenge not only for ESRS preparers but also under other EU legislations that require a transition plan<sup>1</sup>. The implementation guidance will be able to address this new priority in the political landscape, and support convergence and coherence with the EU regulations currently addressing the topic.
3. On the SRB meeting of 24 January 2024, EFRAG Secretariat was asked to draft implementation guidance related to the transition plan and ESRS E1-1 by the SRB. The implementation guidance on 'transition plans', as proposed by the Secretariat, was identified as a priority. As of March 2024, this is an official workstream of EFRAG Secretariat. For an overview of the workplan, please see agenda paper 04-02.

#### Project and approach

4. The objective of the project is threefold:
  - (a) To support companies using ESRS in disclosing their Transition Plans, making their life easier;
  - (b) Answer questions from preparers on reporting on Transition Plans; and
  - (c) Layout the EU view of what good transparency on transition plans is.
5. The guidance should address the scientific basis and references, policy environment and requirements, financial system needs and expectations, and good practices and challenges of transition plans. In the SRB meeting of 24 January, SRB members stressed that the scope of the IG should remain within the ESRS and cautioned about creating a transition plan 'performance standard'. The TPIG will, therefore, focus on what good transparency of Transition Plans looks like – focusing on **what** and **how** to report, e.g., what a clear and concise disclosure on GHG targets looks like - rather than delving into methodological

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

challenges on how to derive credible GHG targets. Instead, the guidance will provide links to appropriate references that may provide this developed by other EC bodies.

6. The approach to drafting the guidance is similar to an active research project: 1) The EFRAG project team will conduct research and draft the guidance based on desk research, company questions, grey literature, etc, looking into real-life examples of disclosures on Transition Plans; 2) the guidance is written to answer companies questions; 3) the content receives feedback from all the different structures governing the project, as well as companies. The project is deadline-driven with the pace set by the rhythm and availability to discuss the structure and content within the Advisory Group (see below), TEG, and SRB. Adjustments are made, as necessary, depending on feedback received.
7. Consultations with a diverse group of companies will be conducted. A call for companies to interview was published on the EFRAG website in the middle of April and interviews will be scheduled throughout April and the first half of May.
8. In terms of structure of the document, the proposal is for the guidance to be structured in such a way that it guides companies **through the Transition Planning process**. This proposal aims to adopt a structure that guides the (majority of) companies that do not have a transition plan and need to go through the process to establish one and thus, we believe, this structure is better able to support companies in that journey. We will validate this approach through structured interviews with the companies. A given chapter will include sections and subsections that are directly linked to ESRS disclosure requirements. Supporting guidance will also be provided for the undertakings that are just getting started to work on the transition planning.

### Summary of Advisory Group discussions

9. EFRAG Secretariat has established an Advisory Group (AG) which it will consult to articulate links to appropriate references. The AG consists of representatives from several European institutions, such as DG FISMCA C1 and coordinating unit B2, DG CLIMA, DG ENVv, EBA, DG ENER, EIOPA, JRC, PSF, and EFRAG SR TEG<sup>2</sup>. All these organizations have their own regulatory or policy initiatives that interact with the topic of transition plans, and that may require specific disclosures from companies. It is an important requirement overall for the EC to streamline, to the extent possible, the disclosure requirements across the different initiatives, or understand and explain, how they can be connected.
10. EFRAG Secretariat held its **first AG meeting** on 3<sup>rd</sup> April 2024. During the meeting, a number of essential points were discussed. First, the team and overall topic was introduced as well as the workplan. Then, an example of approach and section of the guidance was introduced for discussion. The plan for the underlying research and company dialogues were also presented. Particularly, the choice to draft guidance with a management approach (transition planning) shaping its structure rather than following the structure of the plan itself was discussed and well received.
11. The **second AG meeting** was held on the 19<sup>th</sup> April 2024. It focused on consulting the advisory group on the structure and content of the guidance. The four topics discussed were:
  - (a) Transition Plan Materiality:
    - (i) The discussion covered whether all companies should have and disclose a Transition Plan. The AG members shared their input and perspective on the approach and the importance of including both high- and low emitters iwas stressed.
  - (b) Define your ambition: Compatible versus aligned:

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<sup>2</sup> The two EFRAG SR TEG members that are part of the advisory group are Eric Duvaud and Christoph Töpfer.

- (i) The AG discussed the use of the terms ‘compatible’ versus ‘aligned’ with the Paris Agreement (1.5 degrees) and how to define them. The discussion surrounded alignment in terms of language use and how to ensure that the term is understandable for readers while also signalling the correct level of ambition. We learned that, within certain parts of the EC this debate is already occurring and that different terminology is being used by different actors, so important for EFRAG to take this into account and participate in those discussions.
- (c) Process versus disclosure requirement view:
  - (i) The third topic of discussion was on structure and different approaches identified as a ‘process’ and ‘reporting’ view respectively. The complexity of the checkbox structure was also discussed. The importance of balancing simplicity of language and to follow EFRAG and ESRS language was noted. The proposed “compliance checkbox” structure is to be deliberated further and streamlined.
- (d) Table visualisation to support structure:
  - (i) Finally, the team presented different approaches on how to link interrelated DRs through text or graphic visualisation. The AG members expressed a general support for the inclusion of visual elements and their integration throughout the document rather than in an Annex.

**Question for EFRAG SRB**

- 12. Does EFRAG SRB have any feedback and input on the approach taken so far on the Transition Planning Implementation Guidance (TPIG) (see agenda paper 04-02)?
- 13. Does the EFRAG SRB have any feedback on the methodology being followed or on the Draft Table of Content?

**Next steps**

- 14. Consultations with companies and research (April and May).
- 15. Further progress and streamline drafting process.
- 16. Continue the conversations with the different DGs from EC entities working on TP.

**Agenda papers**

- 17. In addition to this cover note, agenda papers for this session are:
  - (a) Agenda paper 04-02 – Scope and project plan PPT for AG session
  - (b) Agenda paper 04-03 - Draft Table of contents with text examples
  - (c) Agenda paper 04-04 – [PPT TP IG for SRB] [Late upload by 30.04.2024].