MOVING TOWARDS A HOLISTIC TRANSITION PLANNING FRAMEWORK IN THE EU

POLICY BRIEFING
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EXECUTIVE SUMMARY

This briefing takes stock of the EU transition planning framework initiatives and calls for a systemic approach – moving towards a simple and holistic transition planning framework that aligns various governance systems and policy tools within the EU, while ensuring consistency with international climate goals such as the Paris Agreement. **A strategic, well-coordinated transition planning framework would mobilise public and private finance to meet the EU's climate targets, while also supporting the EU's simplification agenda for greater consistency** as highlighted in the new Commission's priorities. The recommendations in this paper suggest a way to reduce complexity for market actors, enable convergence between multiple EU policy goals, and support European leadership in the international context.

The first part of the briefing provides a comprehensive overview of transition finance governance and policy tools shaping transition finance in the EU, addressing both public and private dimensions:

- Relevant international approaches, such as those from the UNFCCC and G20.
- The role of the EU Climate Law in delivering sectoral roadmaps for the EU, which could become a powerful tool for supporting Member States' transitions.
- The impact of EU governance on national transition strategies and EU legislation's role in guiding entity-based transition plans.

The second part of the paper provides recommendations on how to move towards a simple and holistic transition planning framework. It explores how to make the approaches more coherent, systemic and interconnected. We recommend three comprehensive steps to achieve this:

- The European Commission should **establish a 'Transition Committee' to set out a unified economic direction for the EU's transition**. This Committee would be tasked with facilitating alignment and coherence across international, Member-State and entity-level transition planning requirements.

- Policymakers should **ensure coherence of EU regulation at various governance levels to facilitate transition finance**. This entails achieving vertical alignment of transition planning regulation, starting from EU-wide requirements, through Member States ones, down to entity level.

- Policymakers should **advance the development of an EU Single Transition Plan regulatory framework.** Achieving this requires taking normative steps to enhance horizontal coherence within the EU framework for entity-level transition plan requirements, while ensuring alignment with international transition frameworks, such as the ISSB standards and G20 principles.

Additionally, the briefing looks at three case studies from Member States - Italy, Germany, and France - highlighting the pros and cons of different approaches to transition planning. These countries are key actors in advancing an ambitious transition finance governance agenda within the EU, as well as securing political buy-ins from Member States for the forward development of the transition planning framework.

INTRODUCTION

To ensure a holistic transition planning framework, climate resilience must be considered

The re-election of Ursula von der Leyen as European Commission President marked a significant shift in Europe's political priorities, with Europe's economic competitiveness, industrial policy, security and defence taking centre stage in her new mandate. The focus has moved from the European Green Deal to the newly outlined "Clean Industrial Deal", as seen in the mission letters to the future commissioners. At the same time, the new 2024-29 Commission is expected to be an "Investment Commission" as stated in President von der Leyen's political guidelines, and will have as one of its priorities, the scaling up and acceleration of investments for a sustainable future. This overarching goal will determine the success of the EU's transition. Such a process will need Member States to better absorb public funding as well as integrate and transpose sustainable finance policies. The success of EU policy tools in the various Member States will test the EU's ability to sustain its ambition, political and social support, as well as global leadership for the transition. This paper looks at how the EU can face such a pivotal moment for setting the direction of travel at EU and Member State level.
In addition, while the content of this briefing does not focus specifically on climate risk resilience, most of the elements of the EU sustainable finance agenda are deeply interconnected with broader EU resilience efforts. For having a whole-of-economy transition, resilience awareness and risk management practices must be embedded in EU requirements for corporate transition plans, as well as in ministries' assessments when developing national and sectoral transition plans. There was a clear emphasis on scaling up sustainable finance and finance for the transition and climate resilience in the mission letter to the future Commissioner for financial services. The thematic and policy link between finance and resilience is expected to be developed under the leadership of the new Commission. This connection is extremely relevant for ensuring the effective implementation of the EU sustainable finance policy framework, also at Member State level. This is further in line with the work G20 Brazilian Presidency has been doing on sustainable finance in 2024, where emphasis has been put on risks and dependencies, as well as contribution to whole-of-economy transition.

The two main challenges ahead for moving towards a holistic transition planning framework in the EU

To meet the EU objectives of the Paris Agreement, all sectors of the economy must rapidly decarbonize while simultaneously strengthening their resilience to climate change. The importance of transition and decarbonization within the EU's sustainable finance framework became evident around 2021, as the EU expanded its focus from "sustainable" and "green" finance to include "transition" finance[1]. This shift, however, has led to some gaps in policy coherence, presenting new challenges. **The goal now is to address and resolve these issues by moving toward a simple and holistic transition planning framework in the EU, where governance systems and policy tools align to ensure a smooth transition to the EU's climate goals.**

There are currently two key challenges in achieving this holistic framework.

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[1] Although the EU does not have a legal definition of transition finance, the Commission Recommendation on transition finance defines it as "the financing of climate- and environmental performance improvements to transition towards a sustainable economy, at a pace that is compatible with the climate and environmental objectives of the EU". https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32023H1425

The first challenge is **ensuring coherence across various governance and policy tools at the EU level** to facilitate transition finance. This coherence is critical not only for reducing the regulatory burden on entities but also for optimizing governance across different levels. This involves better alignment between the approaches of the EU and Member States to transition finance and plans, as well as with requirements for entity-based (i.e., corporate) transition plans. Harmonizing governance and policy tools must also account for international developments, such as G20 discussions on national transition plans and entity-based principles. Achieving interoperability across different governance layers is essential for establishing a simple, holistic, systemic, and coherent approach to transition finance. To ensure this coherence in the EU, certain governance and policy tools may need updating, such as revising the EU Governance Regulation to help Member States plan their national transition investments more effectively.

The second challenge is **consolidating the EU requirements for entity-based transition plans**. Currently, these requirements are scattered across various policies, such as reporting obligations (CSRD), due diligence (CSDDD), and prudential requirements (CRD/S2). There are also overlaps with other plans under the Industrial Emissions Directive (IED). Efforts, led by the European Financial Reporting Advisory Group (EFRAG) and the EU Platform on Sustainable Finance, are underway to harmonize these processes. Entity-based requirements should be aligned both across the EU frameworks and with the broader EU policy landscape that is driving the transition.

Failing to address these challenges risks creating reporting burdens and inefficiencies, as well as not capitalizing on the potential of global and EU transition planning efforts to inform the investments and policy action needed to drive the transition. This could slow progress towards meeting the goals of the Paris Agreement and the EU's 1.5°C climate objectives, with catastrophic consequences for people and societies everywhere, while also contradicting the EU Commission's simplification agenda for regulation, particularly under its current "Investment Commission" approach.

This paper begins by providing a comprehensive overview of transition finance governance and policy tools shaping transition finance in the EU, addressing both public and private dimensions, before moving to a set of recommendations on how to move towards a simple and holistic transition planning framework.

PART 1: OVERVIEW OF RELEVANT GOVERNANCE APPROACHES AND POLICY TOOLS FOR EU TRANSITION PLANNING

From international approaches to the EU, Member States and entity-based requirements

The EU has a significant opportunity to frame **transition plans as strategic tools** able to provide clear pathways for countries and companies to meet climate goals, rather than as regulatory burdens. These plans present opportunities to ensure resilience, drive growth, foster innovation, and create jobs. This approach underscores the idea that a well-structured transition plan requirement contributes to a more resilient and prosperous economy, aligning with the EU's simplification agenda. By managing risks and fostering long-term growth, these plans will play a critical role in the economy-wide transition to sustainability.

2025 will be a crucial year to design and implement the next cycle of sustainable finance policies and activities in the EU. On top of scaling up transition finance, with special consideration on climate resilience, other priorities that President von der Leyen asked the Commissioner-designate for financial services are:

- Ensuring the effective implementation of the EU sustainable finance framework.
- Maintaining EU leadership in sustainable finance at the global level.

Both goals should be addressed with a systemic approach, starting with the global governance framework (e.g., UNFCCC's 1.5°C target), then aligning it with EU-level governance through initiatives like "Fit for 55", and finally adapting it at the EU member state (energy and industrial policies) and entity levels (CSRD/ESRS, CSDDD).

In this section, we provide an overview of the most relevant governance levels to better address these two EU-based parallel challenges, while emphasizing the need for a systemic approach that links the different governance layers.

1. RELEVANT INTERNATIONAL GOVERNANCE AND APPROACHES – THE UNFCCC AND THE G20 ROLE ON TRANSITION PLANNING

1.1. NATIONALLY DETERMINED CONTRIBUTIONS (NDCS) AND LONG-TERM STRATEGIES (LTSS): PILLARS OF A CREDIBLE INTERNATIONAL GOVERNANCE FRAMEWORK

The upcoming COP29 conference is putting Nationally Determined Contributions (NDCs) in the spotlight as countries prepare to announce updated climate targets, which will be due by 2025. The NDCs are a fundamental part of the Paris Agreement and form the basis for accountable international climate action. They represent each country's (or regional organization such as the European Union's) short- to medium-term goals for reducing greenhouse gas emissions. Alongside NDCs, countries are also required by the Paris Agreement to develop Long-Term Strategies (LTSs), which provide a more comprehensive and forward-looking roadmap for decarbonization, aimed at limiting global warming to well below 2°C above pre-industrial levels, and pursuing efforts to limit it to 1.5°C. Both instruments are vital for setting clear pathways to meet international climate goals, and

their combined use is key to creating a robust governance framework for transition finance and planning.

In line with the provisions and implementation decisions of the Paris Agreement, and in line with the EU NDC submission, the European Union has promoted legislative initiatives to establish a framework that translates international targets into domestic objectives (e.g. the EU Climate Law and the "Fit for 55" package). Additionally, the EU has defined a governance structure for climate and energy through the Energy Union Governance Regulation[2]. These legislative actions underscore the EU's intention to convert international climate commitments into actionable national policies: under the Governance Regulation, EU Member States develop integrated national energy and climate plans (NECPs) based on a common template.

NDCs, which operate on five-year cycles, outline the specific targets each country commits to for reducing emissions. These emission targets are tailored to the national context, reflecting each country's unique circumstances, capacities, and priorities. However, **NDCs are not merely statements of intent: they are potentially important mechanisms through which nations can influence private and public financial flows toward the decarbonization** of the global financial and economic system. Through a cyclical process of updating and reporting, NDCs promote transparency, ensuring accountability and fostering trust between countries. This process could create important signals for investors, helping to guide financial flows into projects aligned with the climate goals set in the Paris Agreement.

LTSs, on the other side, provide a longer-term strategic framework. Countries are expected to communicate their plans for achieving low-carbon development by mid-century, helping them align short-term actions with long-term climate goals.

The EU, in particular, recognized that stable Long-Term Strategies are crucial to help achieve the economic transformation needed and broader sustainable development goals, as well as move towards the Paris Agreement's goal. LTSs are crucial because they can send strong long term investment signals as well as guide corporate and financial decision-making in capital allocation, ensuring that countries do not lock themselves into carbon-intensive technologies or infrastructure that could hinder future decarbonization efforts. LTSs offer a vision that extends beyond political cycles, setting the stage for economic transformation, innovation, and sustainable development. They also provide essential signals to the private sector, allowing businesses and investors to plan for the future with confidence that policies will remain stable and aligned with global climate objectives. The integration of NDCs and LTSs is critical for effective climate governance. As countries update their NDCs every five years, their LTSs ensure that these shorter-term targets remain aligned with broader, long-term climate ambitions. This alignment prevents a fragmented or inconsistent approach to climate action, where near-term measures might undermine longer-term objectives. Moreover, both NDCs and LTSs contribute to a coherent governance structure that can drive systemic change across sectors and enable the financial system to play a decisive role in supporting the transition.

[2] REGULATION (EU) 2018/1999 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 11 December 2018 on the Governance of the Energy Union and Climate Action, amending Regulations (EC) No 663/2009 and (EC) No 715/2009 of the European Parliament and of the Council, Directives 94/22/EC, 98/70/EC, 2009/31/EC, 2009/73/EC, 2010/31/EU, 2012/27/EU and 2013/30/EU of the European Parliament and of the Council, Council Directives 2009/119/EC and (EU) 2015/652 and repealing Regulation (EU) No 525/2013 of the European Parliament and of the Council

In the context of transition finance, NDCs and LTSs shouldn't be seen as standalone tools; they have to be part of a broader governance framework that can help steer the entire economic and financial system toward sustainability. This systemic approach ensures that both public and private investors can make informed decisions based on reliable, long-term climate policies, thus accelerating the transition.

The governance framework needed for the transition goes beyond the NDCs and LTSs themselves. These tools set out the targets and provide the strategic direction, but to implement them effectively, countries must develop detailed National Transition Plans (NTPs) that identify the specific measures, policies, and projects needed to achieve their decarbonization goals. A prime example of such implementation tools is the European Union's National Energy and Climate Plans (NECPs), which lay out in detail (explaining detailed measures and policies) how each Member State intends to meet its energy and climate targets over the next decade. These plans represent the first attempt to bridge the gap between long-term climate objectives and concrete, actionable steps that can attract investment and drive progress. Although NECPs are required to be consistent with Member State's LTS, ensuring their credibility as NTPs may depend on continued enhancement—such as integrating more robust financial strategies, fiscal policies, and adaptation measures.

1.2. THE G20 WORK ON NATIONAL AND ENTITY TRANSITION PLANS, AND THEIR LINK TO COUNTRY PLATFORMS (CPS)

To achieve better alignment and integration with international commitments, the collective Nationally Determined Contribution (NDC) of the EU, which aims for an at least 55% reduction in emissions by 2030 and climate neutrality by 2050, should be supported by comprehensive National Transition Plans (NTPs) produced by EU Member States (MSs). NTPs can operationalize Member States' international commitments (and consequently EU ones), effectively bringing them to connect sector pathways and individual entities. NTPs would bring a unified approach to several scattered national documents, allowing MSs to coordinate their efforts among each other as well as internally (i.e. across the sectors in transition and the engagement among relevant stakeholders, including ministries, agencies, subnational authorities, public and private financiers, and civil society). National Transition Plans have the potential to address the unique political and socioeconomic challenges of each Member State. They should be the central piece of information for an integrated transition planning ecosystem, providing long-term confidence to investors and the real economy through sustained political commitment.

NTPs, which in the EU context can be seen as an aggregation of key strategic documents like MS fiscal plans as well as more investment friendly NECPs (see recommendations below), should have as one of the key objectives; the enhancement of policy clarity and planning, therefore aiming to unlock ambition in private spending and fostering transitions in corporate and financial services. Coherence between NTPs and entity-based EU transition plans is crucial for accelerating investment and aligning private sector action with national commitments, and therefore these documents should be developed following common principles, in line with G20 discussions and including the importance of risks and resilience as well as decarbonization and contribution to whole-of-economy transition. Public and private coherence in the design of transition strategies may play a crucial role in enhancing both the quality and quantity of future EU public finance absorption. The next Multiannual Financial Framework (MFF) is expected to adopt a more tailored, Member State-based approach, addressing the specific needs and starting points of the 27 Member States. Having a strategic centralized document at the government level, such as National Transition Plans, aligned with Member State MFF plans will be beneficial. This alignment will be particularly effective if the NTPs follow principles similar to those developed by companies, as it may facilitate a better allocation of transition capital in the real economy.

1.2.1. DESIGNING NATIONAL TRANSITION PLANS IN THE EU

When designing future NTPs, and following the recommendations of the EU Commission to MSs for facilitating transition finance, it is essential to consider the links and dependencies with private sector planning. As highlighted in a report by the European Commission's Joint Research Centre, numerous dependencies exist between private sector transition plans and government decarbonization strategies, including critical and interconnected aspects such as government policy, regulatory environments, economic conditions, market dynamics, and technological advancements. These dependencies can influence the implementation of transition plans within the private sector.
Developers of NTPs from the MS ministries and relevant bodies should therefore understand the external factors that can impact corporate transition planning objectives[3]. NTPs, among other strategic governmental goals such as social and just transition elements, should take an investable form to ensure public transition finance is successfully allocated and private transition finance leveraged. NTPs will have to include sector-by-sector feasibility checks, providing clearer details on sector-specific pathways, outlining quantified investment requirements, implementing supportive policies and identifying medium- and long-term adaptation needs. Private entities are increasingly urging governments to take measures to make these documents more attractive for investment.
In addition to governmental targets and standards, the private sector can benefit from clear National Transition Plans that guide private actors in identifying capital allocations that could lead to stranded assets inconsistent with government climate objectives. By providing this clarity, governments can mitigate the risks of carbon lock-in and abrupt transitions while also addressing concerns related to moral hazard.

1.2.2. EU NATIONAL TRANSITION PLANS AND THEIR LINK TO COUNTRY PLATFORMS AT INTERNATIONAL LEVEL

NTPs development proves how international and G20 discussions matter for the EU. There is now a window of opportunity to gain coherence within the EU framework on transition finance as well as between the EU and international developments. The Brazilian G20 Presidency's Taskforce on Climate Finance Mobilization (TF-CLIMA) prioritized the development of NTPs and country platforms to meet key sustainable development challenges within a broader context of financial system reform. In October 2024, TF CLIMA set out detailed principles for both national transition plans, and country platforms. Meanwhile the G20 Sustainable Finance Working Group set out detailed principles for private sector transition plans. All these documents were endorsed by the G20 Finance Ministers and Central Banks plenary in their final communique.

NTPs, as seen above, can be seen as national documents forming the foundation to connect international climate goals with national and regional contexts, through a tailored approach able to recognize various EU regional specificities and starting points. In this context, country platforms (CPs) could serve as mechanisms **to coordinate and catalyse financial and technical support aligned**

[3] Rose et al. (2024) and European Commission's Joint Research Centre

with national priorities. A "country platform" could be seen as a government-led multistakeholder partnership, aimed at attracting and coordinating international public finance to achieve shared goals. It envisions a more organized approach to international cooperation on development and climate change at the national level. While there are various interpretations of this concept, country platforms are generally seen as opportunities to improve development effectiveness, strengthen global financial systems, link private investors to viable projects, and speed up the delivery of public goods in developing and emerging economies. For country platforms (CPs) to serve as effective mechanisms in meeting climate and development priorities, they must be anchored in ambitious, 1.5°C-aligned NDCs, supported by robust development and transition plans. Moreover, they must be tailored to specific national contexts and regions, as well as grounded in core principles [4] . When designed effectively, they can:

- Foster collaboration among a wide array of national and international development and climate actors in support of national priorities.
- Improve access to diverse financing options.
- Serve as essential mechanisms for national transition planning and climate-positive growth.

The EU, by developing credible NTPs based on its NDC, Member States' NECPs, and other key planning documents, can support this international process. The EU, as a G20 member, should lead by example in harmonizing this approach, clarifying the roles of NDCs, the importance and interconnection of NTPs, as well as how to use the CPs.

EU economic and finance ministers should commit to producing NTPs with all relevant sectors included, aligned with the EU NDC. As recognized by the G20 TF-CLIMA, National Transition Plans are integral to a country's growth strategy, advancing low-GHG, climate-resilient development in line with NDCs, National Adaptation Plans (NAPs), and Long-Term Strategies. Ambitious and well-structured NTPs provide the foundation for effective CPs, which is why G20 nations, including the EU, should take a leading role. G20 members should gain commitments at both finance minister and leadership levels to ensure the development of robust NTPs aligns with climate goals.

All G20 countries, including the EU, should demonstrate leadership by submitting NDCs no later than the February 2025 deadline, accompanied by clear investment plans for their implementation. This should also lead G20 to prioritize NTPs and CPs in the 2025 Finance track, creating a forum for exchanging lessons learned from the initial implementation of CPs and encouraging best practices for engaging investors and stakeholders.

Moreover, on the international front, G20 countries generally, and the EU specifically, are encouraged to take actions to establish a framework for implementing a high-quality set of next-generation CPs (i.e., not necessarily by developing an EU Member State CP, but by also facilitating it in other countries that can benefit from having one).

[4] At the country and political level these include: (1) safeguarding country ownership and leadership; (2) grounding their design and implementation in a robust and sustainable political settlement around a given national development and transition pathway; (3) featuring high-level, long-term political commitment from international partners, consistent with the timeframe of the transition; and (4) having a clear vision for how to actively integrate the "just" component of a just transition in the given context. See Country platforms for climate safety and sustainable development – E3G for a full overview, including principles at the operational level.

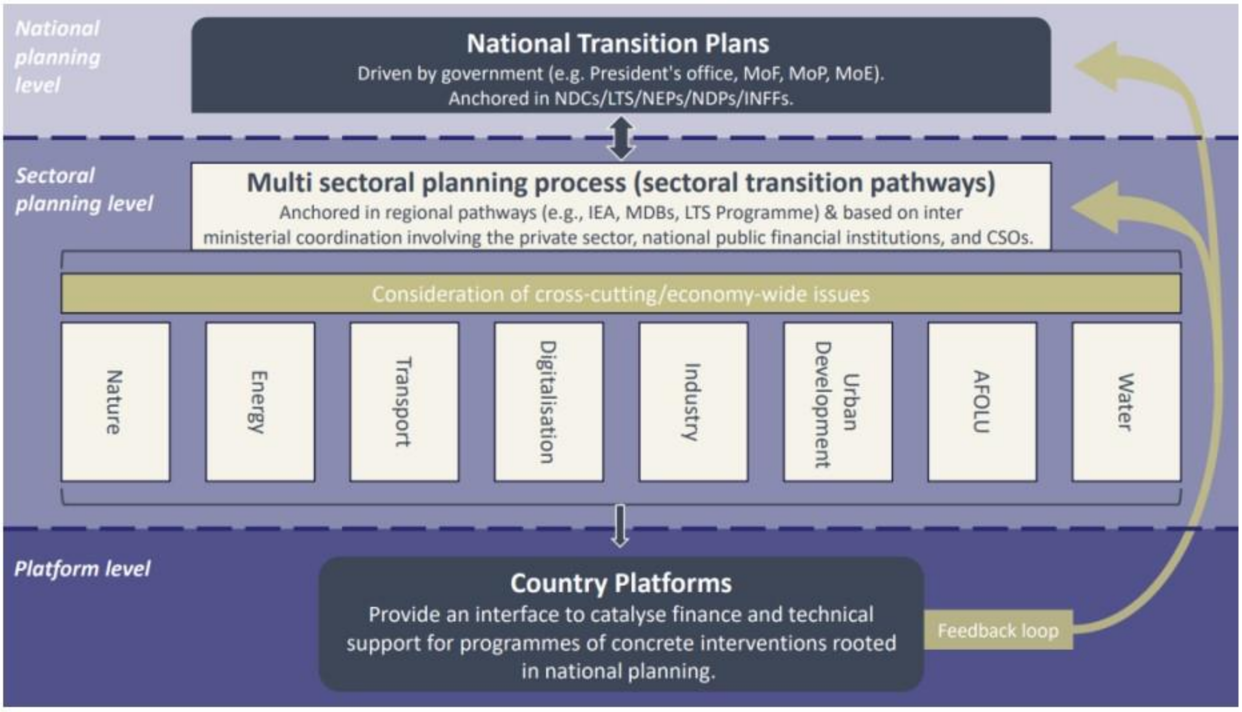

***Figure 1** sets out the relationship between CPs and national planning processes, reflecting CPs as mechanisms to catalyse support and investment for the sectoral and thematic priorities identified by the broader national transition planning process. NOTE: the sectors described are included as a non-exhaustive illustration.*

2. EU REGULATION WITH AN IMPACT ON EU TRANSITION PLANNING

The EU Climate Law and its mandate to develop EU sectoral roadmaps

The European Climate Law formalizes the EU's goal of achieving climate neutrality by 2050, establishing a legally binding target to reduce greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels. Effective from July 2021, the law provides a key framework for guiding EU climate actions and aligning policies with international commitments.

The law's objectives include setting a long-term direction toward 2050, achieving the 2030 emissions reduction target, and ensuring consistent monitoring of progress, with actions taken as necessary. It also aims to offer predictability for investors and economic actors by establishing a stable course and making the transition to climate neutrality irreversible.

Article 10 of the law mandates the Commission to work with sectors of the EU economy that opt to create voluntary roadmaps outlining their path to climate neutrality. The Commission can oversee the progress of these roadmaps and facilitate dialogue at the EU level, promoting the sharing of best practices among relevant stakeholders.
According to many experts and standard setters, essential elements in roadmaps include technological and non-technological levers required for decarbonization, their optimal selection and sequencing, expected greenhouse gas (GHG) reductions, required investments, and research and innovation needs. Both EU and national sectoral emissions roadmaps must therefore be aligned with their respective regions' net-zero targets, as well as being granular enough to provide a solid foundation for companies to set their own net-zero targets and develop credible transition plans, in line with international commitments. Companies can use publicly available roadmaps to set scientifically-based targets and determine their transition finance strategy and needs.

Roadmaps' role should also be to reduce risks and uncertainties in the public and private allocation of transition finance, especially if jurisdictions and market actors establish a coordination mechanism (see section above on National Transition Plans and Country Platforms) as well as standards and frameworks for identifying sources of carbon lock in whilst developing and disclosing credible corporate climate transition plans. Clear guidance on which investments are incompatible with the Paris Agreement's temperature goals can reduce uncertainty for companies and investors, further enhancing the reliability of transition finance. In this context, excluding the most emissions-intensive energy sources from eligibility for transition finance will strengthen the credibility of these frameworks.

Work has already been performed by the EU Commission on transition pathways (to be considered as a synonym for roadmaps) for European industrial ecosystems. It is worth noting that these were not initiated under the European Climate Law, but under the EU's industrial strategy. These pathways represent a valuable effort to foster dialogue between industrial stakeholders and the EU Commission, helping to identify next steps. However, these pathways are currently more a collection of information on the policy context in each sector, rather than a pathway providing insights on future ambition needs. This is extremely helpful but does not meet roadmaps' requirements in providing companies' forward-looking information. Scientific foundations and international climate targets should be considered, and the final EU roadmaps should strike a balance between involved stakeholder buy-in and scientific integrity.

CASE STUDY 1. France's sector roadmaps: How to use sector roadmaps at Member State level, in line with the EU international commitments on climate action

ADEME, the French Environment and Energy Management Agency, in collaboration with industries and as part of the Finance Climate project, has developed sectoral transition plans (STPs) for France's nine most energy-intensive industrial sectors, which represent two thirds of total industrial emissions. These sectors are vital to meet the 81% GHG emissions reduction goal under France's Stratégie Nationale Bas-Carbone (SNBC) (i.e., part of France's NECP). Through dialogue with industry stakeholders, ADEME devised various pathways for each sector, detailing the investment needs, public policies, and technological advancements required to achieve this target. To account for potential future trends and market projections, the STPs were developed by analysing a minimum of two distinct climate scenarios. In the French context, the STPs are accompanied by a series of supporting documents, which include sub-national pathways for industrial zones and company-level decarbonisation strategies.

ADEME's findings highlight that STPs offer a bottom-up perspective, addressing the strategic needs essential for decarbonization of France's industry. These sectoral plans have the ability to complement European and national top-down transition frameworks, aligning public funding and private investment with sector-specific needs as well as national and regional priorities. Furthermore, STPs help identify investment gaps across sectors, as well as specific needs that require tailored national interventions. Implementing a harmonised approach to transition plans across the EU would improve comparability of such STPs across Member States and facilitate large-scale pan-European strategic planning.

Building on the experience of developing STPs, ADEME created a methodological guide to assist other Member States in drafting their own sectoral transition plans for industry decarbonisation. This guide laid the groundwork for a new European-level standard under development by CEN CENELEC, the European standardization organization. In addition, ADEME also plays a governmental role in evaluating and, when appropriate, supporting key industrial assets with public subsidies to aid their transition. This represents a pragmatic step of how to connect public and private finance when full information on sectoral pathways is public. One notable example in France is the appraisal of the ArcelorMittal steel plant in Northern France.

3. ENSURING SYSTEMIC INTERCONNECTION BETWEEN EU AND MEMBER STATES GOVERNANCE LEVELS

3.1. THE EU GOVERNANCE REGULATION

The EU Governance Regulation, which came into force in December 2018, establishes a unique framework for strategic long- and mid-term climate and energy planning. It primarily requires Member States to produce Long-Term Strategies (LTSs) with an outlook to 2050 and National Energy and Climate Plans (NECPs) with an outlook to 2030. The Regulation established an iterative process for the strategic planning of energy and climate policies, aimed at achieving the Energy Union long-term objectives and the 2030 energy and climate targets. Importantly for the proposed systemic approach, it enables the EU and MSs to comply with UNFCCC reporting requirements, allowing them to report progress on climate change objectives and targets under the UNFCCC and the Kyoto Protocol. The Governance Regulation ultimately provides an umbrella framework for entity-level transition plans, with the LTSs and NECPs serving as the overarching context within which private sector actors develop their own decarbonization strategies.

Despite its strengths, the Regulation is not fully aligned with the significant transformations in the European and international energy and climate policy landscape in recent years. The Regulation was designed in a pre-COVID, pre-Ukraine war, pre-energy crisis, and pre-Green Deal context, so in some respects, is no longer fully aligned with current realities. However, many of the more technical aspects have been updated through amendments to other laws and regulations like the Climate Law. It still falls short in providing the substantial transitional investments required to meet the targets (see Italian case study below) and in promoting a consolidated approach to transition planning with a whole-of-government strategy. Five main issues hinder its effectiveness:

- Inconsistencies between Long Term Strategies (LTSs) and National Energy and Climate Plans (NECPs): While Article 15(6) of the Regulation mandates that NECPs align with LTSs, there are misalignments in submission timelines. Initial LTSs were required to be submitted after the first NECPs, and the Regulation does not oblige MSs to revise their LTSs until January 1, 2029, coinciding with the deadline for updating NECPs. Furthermore, LTSs have fewer substantive and procedural requirements than NECPs and do not require mandatory updates post-adoption. This makes LTSs more susceptible to becoming outdated, diminishing their utility in informing energy and policy planning amidst increasing energy and climate ambitions. Conversely, the 10-year NECP planning horizon may be too short for some of the more long-term investment cycles (e.g. industry).
- Sectoral Gaps in NECPs: NECPs are legally required to describe their targets in an integrated manner, detailing policies and measures until 2030 (with an outlook to 2040). Specifically, they need to show how they will deliver on national binding emission reductions targets for sectors covered by the Effort Sharing Regulation (i.e. agriculture, road transport, buildings, waste and small industry) and for LULUCF (Land Use, Land Use Change and Forestry) sector, as well as how they will contribute to the EU's 2030 renewables and energy efficiency targets. It is important to note that the national targets and contributions are based on the ambition levels set in the Effort Sharing Regulation (ESR), the LULUCF Regulation, the Renewable Energy Directive (RED) and the Energy Efficiency Directive (EED) respectively. However, crucial sectors covered by the EU Emissions Trading System (ETS) are not mandatorily required to be included into NECPs templates, and therefore generally absent from many NECPs. Although in the NECPs of some countries ETS sectors are included for having a whole-of-economy approach (especially in overview chapters), this is not mandatory yet. This is an important

element lacking in systemic governance and spending strategies, with the need to include industry transformation.

- Inconsistencies between NECPs and other EU-level planning and funding mechanisms: the timeline of the NECPs and their update does not correspond to the EU's seven-year multiannual financial framework cycle, creating an information gap for public and private operators alike regarding the funding available at EU-level to support the implementation of the NECPs. This also creates, among other things, funding problems. Furthermore, the introduction of the new EU economic governance framework requires Member States to submit medium-term fiscal-structural plans covering a period of four to seven years, creating an additional, overlapping, planning horizon for national budgets and their accompanying investments and reforms. The Social Climate Fund, which will support Member States in mitigating the adverse distributional effects of the extension of the ETS for vulnerable groups, will add another overlapping layer of investment and reform commitments through its Social Climate Plans.
- Information Gaps Affecting Investment: Evidence regarding the Regulation's effectiveness in stimulating targeted spending and investments is limited and mixed. Public authorities tend to view the Regulation positively compared to industry and third-sector representatives, many of whom find it challenging to directly link investments to the objectives of the Regulation. Several factors have hindered the Regulation's ability to foster a predictable investment environment and support informed policy analysis. A major issue is the lack of detailed analysis on investment needs at sectoral level and funding sources within NECPs, even though there is a clear request by the NECP template to provide such info (which are, as already mentioned, not representative of the MS whole economy in case industrial transformation and ETS sectors are not included voluntarily). There are significant data gaps concerning the link between NECP and LTS targets and actual investments and financing needs, as well as available public & private funding sources. This lack of systematic data reduces predictability for investors and hampers informed policy analysis, with many stakeholders attributing these deficiencies to limited capacity within Member States to gather and report this information.
- Poor enforcement: while Member States must take Commission recommendations regarding their draft (updated) NECPs into account when formulating their final (updated) NECPs, these are not legally binding. An external review of the 2019 draft NECPs process found that 53% of recommendations were only partially addressed, while 13% were not at all addressed.[5] Infringement procedures have only been opened (and subsequently closed) for late submission of NECPs and LTSs, rather than for failing to address Commission recommendations. Possible ways to introduce an incentive to invest and implement NECP objectives is to link them to upcoming MFF, which will likely be tailored to specific needs of Member States.

[5] European Commission (2024), *Report [...] on the Review of the Regulation on the Governance of the Energy Union and Climate Action*

CASE STUDY 2. Italian NECP in focus: A missed opportunity for a solid National Transition Plan

The decision at COP28 regarding the Global Stocktake has underscored the urgency of "transitioning away from fossil fuels in energy systems". In the lead-up to COP30, as mentioned above, countries are required to review and submit revised NDCs by February 2025. These NDCs must address the need to phase out fossil fuel use, aligning with broader global climate goals. In this governance context, the European National Energy and Climate Plans (NECPs) for 2030 serve as a key foundation for contribution to the global climate effort and for supporting the transition of each Member States toward meeting the European collective goals of the "Fit for 55" package and fulfilling their commitments under the Paris Agreement.

Italy's NECP, which was revised and submitted in June 2023 and later updated in July 2024, plays a crucial role given the country's lack of a dedicated national climate law. This absence means that the NECP is one of the few formal tools Italy has to align its domestic policies with international climate commitments. The Italian NECP, therefore, is pivotal not just for outlining Italy's pathway to decarbonization, but also for structuring the country's transition strategy in a way that involves both public and private sectors in achieving climate objectives. The 2023 report from the European Court of Auditors highlights several weaknesses in Italian NECP: one major criticism is the lack of clarity around specific policies and how they will be implemented. Without concrete measures, it is difficult to assess whether Italy will be able to meet its 2030 climate goals. The report also notes that many necessary policies for the post-2022 period are either unapproved or unbudgeted, further complicating the path toward successful implementation.

According to this paper, Italy's NECP should become a crucial element of the Italian National Transition Plan (NTPs), and therefore be capable of driving forward the implementation of policies, actions and investments needed to meet global targets, defined in the NDCs and Long-Term Strategies. However, among other elements, the current version lacks a clear financial strategy, a critical component of a solid Transition Plan. The Plan merely estimates the financial needs for achieving the 2030 objectives but falls short in detailing how these measures will be financed, which sources of funding will be used, and what mechanisms will incentivize private sector mobilization. Without this financial architecture linked with national and international policy goals, the Italian NECP risks remaining a theoretical exercise rather than a practical tool for achieving decarbonization.

A key recommendation for improving Italy's NECP is to integrate a coordinated financial strategy that involves both public and private investment, at different level. National development banks such as CDP (Cassa Depositi e Prestiti), Invitalia and SACE (the Italian Export Credit Agency) can play a crucial role in this effort. These institutions, alongside mechanisms like national guarantees schemes and blended finance instruments, could help mobilize private capital by providing the necessary risk mitigation and incentives. For instance, CDP and SACE could work more closely with private investors and companies to structure transition plans that align with the goals outlined in the NECP. This approach would offer clear signals to the market, demonstrating that Italy is committed to a long-term, sustainable transition.

Moreover, the Italian NECP must include a transparent mechanism for tracking and monitoring both public and private sector investments in the transition. This would help ensure that resources are directed effectively, and that progress is regularly assessed. Clear guidelines should be set for institutions like SACE and CDP to align their investment portfolios with the decarbonization objectives. By doing so, Italy could ensure that its National Transition Plan becomes a living document—adaptable, measurable, and able to evolve alongside its climate commitments.

One of the most critical aspects for a successful national transition plan is coherence between national and international objectives. The Italian NECP should provide an integrated framework that not only outlines the necessary domestic policies but also ties them to Italy's international climate commitments under the Paris Agreement. The coordination of public institutions and private investors, with clear goals and timelines, will be essential for unlocking the necessary financial resources to meet both short-term and long-term climate targets.
Lastly, since the Italian NECP is still mitigation-focused, Italy's plan necessarily lacks critical information regarding the country's climate vulnerabilities and resilience strategies. The recently approved National Plan for Adaptation to Climate Change (PNACC), finalized in December 2023, provides this essential perspective. To ensure a comprehensive National Transition Plan, integrating the PNACC with the NECP would enhance economic planning by addressing both mitigation and adaptation.

4. EU LAWS WITH TRANSITION PLANNING REQUIREMENTS FOR ENTITIES

In the EU, transition plan requirements are a critical policy tool for private sector entities to attract green and transition finance to support their decarbonization process and to ensure adequate risk management. However, these requirements are dispersed across various EU policies, leading to inconsistencies that make it difficult for businesses to scale up transition finance and to have certainty for investment planning. Additionally, it is important to note that transition plan requirements under EU law have primarily focused on climate change mitigation. The absence of explicit climate adaptation considerations within these frameworks' risks underestimating the impacts of physical climate risks on businesses and value chains.

The centrepiece of transition plan definition in the EU can be interpreted as the combined requirements set by the Corporate Sustainability Reporting Directive (CSRD), its European Sustainability Reporting Standards (ESRS), and the Corporate Sustainability Due Diligence Directive (CSDDD).

The CSRD is a transparency framework that mandates large corporations, publicly listed companies, and financial institutions to report on environmental and societal impacts of their activities, as well as the associated financial risks and opportunities. Its implementation will unlock high-quality and comparable sustainability-related data of corporate actors, fundamental to attract transition finance. Its standards, the ESRS, define the ESG-related disclosure obligations necessary to comply with the CSRD. Specifically, the ESRS outlines the technical criteria which companies should follow when reporting on their climate transition plans. This includes, among other things, information on climate mitigation metrics and targets, the companies' implementation strategy, decarbonization levers as well as the financial allocation to achieve them, and governance-related processes[6].

On the other hand, the CSDDD is a behavioural law that establishes the due diligence framework for large EU-based corporations and financial institutions, starting from 2027. We believe that CSDDD contributes to three fundamental elements which complement the CSRD definition of transition plans.

- Firstly, the CSDDD sets out the mandatory adoption and implementation of entity-level transition plans. It is the first law worldwide to do so. Additionally, the CSDDD mandates entity-level transition plans to be compatible with the 1.5-degree limit of the Climate Law and Paris Agreement. However, the EU has not yet defined the technical criteria demonstrating such compatibility.
- Secondly, the CSDDD fills an important gap in CSRD, which is the engagement strategy, present in many international frameworks such as G20 and TPT. Being a disclosure-only regulation, the CSRD does not contain provisions to require companies to change their behaviours regarding their value chains and portfolio activities. The CSDDD rightfully fills this gap.
- Thirdly, the CSDDD gives EU Member States the opportunity to require national authorities to supervise the implementation of transition plans. Currently, mandatory supervision of

[6] Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards; https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32023R2772

transition plans under CSDDD is limited to the “adoption” and “content” of transition plans. When transposing CSDDD into national laws, Member States can consider giving the powers to supervisory authorities also to check the “put into effect” of transition plans[7]. This reading is allowed under CSDDD language, but not considered mandatory. This would make transition plans not only strategic tools for corporate decarbonization but also key to unlocking access to public funding.

Despite significant commonalities in the criteria of both directives, certain inconsistencies remain. The CSRD and CSDDD can however form the basis of a single, modular regulatory framework for transition plans in the EU.

Prudential requirements could also be integrated into this modular transition plan framework. In Europe, risk management practices for banks and insurers are envisioned by the Capital Requirements Directive (CRD) and Solvency II, respectively. These practices include the requirement to develop specific plans, with measurable targets and processes, to manage financial risks arising from ESG factors across the short, medium, and long term. Recent updates to both prudential frameworks have introduced provisions aimed at aligning these plans with the CSRD’s transition plan requirements[8][9]. Specifically, financial institutions developing plans to manage ESG-related risks must ensure consistency with their CSRD-disclosed plans. This implies that risk management practices of a financial entity can be an integral part of its overarching transition strategy, addressing both physical and transition risks amidst the operational and value chain decarbonization.

However, challenges remain regarding how risk management requirements from a prudential perspective should be incorporated into a comprehensive, entity-level transition plan. In the European context, the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA) have been tasked with defining technical criteria for the specific plans for the banking and insurance sectors, respectively. In parallel, the EU Platform on Sustainable Finance is exploring ways to further integrate prudential considerations into a harmonized transition plan definition. Internationally, the integration of risk management in transition planning is also reflected in the ‘strategic and rounded’ approach of the Transition Plan Taskforce (TPT).

Our recommendations below build on existing regulations and directives to propose potential resolutions to these gaps. Through these, we aim to offer targeted solutions that support the development of a single, modular transition plan framework.

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[7] Commission Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859; https://eur-lex.europa.eu/eli/dir/2024/1760/oj

[8] Commission Directive (EU) 2024/1619 of the European Parliament and of the Council of 31 May 2024 amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks; https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32024L1619

[9] European Parliament legislative resolution of 23 April 2024 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/TA-9-2024-0295_EN.pdf

4.1. ADDITIONAL EU POLICIES FOR ENTITIES REQUIRING TRANSITION PLANS

In addition to the emerging framework for entity-level planning, installation-level transition plans are addressed under the Industrial Emissions Directive (IED). From 2030, the regulation will require companies engaged in specific industrial activities that contribute to pollution to develop a single transformation plan encompassing all installations under their control in each Member State. The transformation plan devises the strategic steps that a company takes to convert the specific installation into the short-, mid- and long-term to contribute to the climate neutrality target. These transformation plans are intended to complement the entity-level transition plans mandated by the CSRD.

Nonetheless, the alignment between industrial- and entity-level transition plans presents some uncertainties that are yet to be resolved. Firstly, the European Commission is expected to establish the technical criteria for transformation plans in 2026. Therefore, it is currently difficult to evaluate how the technical criteria of these plans will be integrated into CSRD-based transition plan. Secondly, transformation plans cover a broader range of pollution activities, extending beyond GHG emissions reduction targets. As CSRD spans a wide range of ESG-related information, it could be beneficial to explore potential inconsistencies between pollution-related requirements. Solving these uncertainties would ensure that transformation plans can serve as installation-level implementations of a company's entity-level transition plan, tailored to the specific installations within their scope.

CASE STUDY 3. Germany's approach to link entity-based TPs with public incentives (KNUT)

Germany aims to achieve climate neutrality by 2045 – a reduction target of at least 88 percent applies for the year 2040 (see amended Climate Protection Law/Klimaschutzgesetz (KSGÄndG)). To achieve this goal, government transition plans and entity-based transition plans need to be well harmonised and coordinated. In this regard, a clear legal framework for robust entity-based transition plans combined with public incentives can support the transition of the private sector to a carbon neutral economy, in line with the national climate target.

The KNUT (climate neutral companies/klimaneutrale Unternehmen) consultancy contract authorised by the German Ministry of Economic Affairs and Climate Action (BMWK) can be considered as a first attempt to explore how to link public incentives to entity-based transition plans. KNUT ran from 2023 to 2024, was commissioned by the BMWK and carried out by the German Energy Agency (Deutsche Energie-Agentur, dena). The aim of KNUT was to develop a standardised terminology for 'climate-neutral companies' to counteract misuse and create better incentives for companies undergoing transformation. Together with proposals for a legal definition of 'climate-neutral companies', an accompanying level system for companies on the path to climate neutrality was developed (i.e. to show the level of transition of a company). Important regulatory orientations for the project were the EU Directive on empowering consumers for the green transition (EmpCo) and the Green Claims Directive. In addition, the reporting requirements of the CSRD and the related ESRS were partly applied. The final report was published and submitted to the BMWK in May 2024, however, the results have not (yet) been realised politically.

The project proposed three different variants to define climate-neutral companies or those on the path towards it: 1) Variant 1 maps the emissions intensity of gross value added, (2) while variant 2 is based on absolute emission rates and 3) variant 3 is a combination of the first two. The second variant is closely linked to the requirements of the CSRD and the ESRS and uses the instrument of transition plans to enable a review of forward-looking climate neutrality announcements by companies. The reduction targets in the respective transition plans must be tied to the amended Climate Protection Law (KSGÄndG) with a climate target by 2045 and reviewed externally.

In addition to the three proposed variants, part of the KNUT project was to propose and assess various options to connect the legal definition of a climate-neutral company or a company on a robust path to becoming one (level system) with various public privileges or incentives. Possible legal consequences mentioned included, for example:

- simplifications for categorised companies when participating in public tenders,
- higher financing quotas
- financial risk protection measures for decarbonisation investment projects
- increased public credibility of a company's own climate efforts through a state label

In summary, the KNUT project is a positive example of striving for a more systemic approach of transition planning. It aims to legally define companies' climate efforts and then link them to public incentives in order to achieve the German national climate target for 2045. Variant 2 of the KNUT project is particularly promising, since it is aligned with the EU requirements of the CSRD and the ESRS and to a transition plan, thus proposing to embed the EU sustainability standards into other national legislations. In the current negative red tape discourse in Germany around EU legislations on sustainable finance, it seems increasingly important that policy makers explore ways of combining compliance with EU reporting and transition planning requirements with (public) incentives to win back support for regulation. In this context, BMWK's initiative to commission the KNUT project was highly welcome. Unfortunately, the project proposals have not been implemented politically. While it is uncertain whether this will happen in Germany in the near future, the results might inspire the development of further approaches to systemically intertwining national and entity-based transition plans.

This case study was written and contributed by Yanika Meyer-Oldenburg (Germanwatch).

PART 2: RECOMMENDATIONS FOR ACHIEVING A HOLISTIC TRANSITION PLANNING FRAMEWORK IN THE EU

The above-mentioned challenge of ensuring internal EU coherence on transition planning approaches may seem abstract, but it is critical for achieving more simplification by harmonizing and integrating transition finance requirements across various EU governance levels. The recommendations below identify high-level next steps for policy makers ahead of 2025, which will be a crucial year for international and EU climate finance discussions.

When considering these recommendations, it is important to keep in mind that Europe is not operating in a vacuum. Its domestic economy and financial system are highly interconnected at the international level, and achieving the goals of the Paris Agreement will require the transition of globally interconnected economic systems. This means that the success of a European transition depends on actions that are taking place in other regions of the world, in a similar way to how the success of an individual firm's transition will depend, in part, on actions taking place across its entire supply chain. At the same time, the European Union has a significant ability to accelerate and embed the transition beyond its borders.

Given the interdependencies between private and public actors to achieve ambitious transition plans, it is important to design a strong single transition plans framework for entities. Moreover, international engagement is relevant to harmonise global efforts and reduce frictions, particularly through G20 discussions. These challenges can be tackled by adopting a systemic approach to EU transition finance, harmonizing requirements and tools across all levels.

To do so, policymakers should address the following recommendations:

Recommendation 1: Establish a 'Transition Committee' to facilitate alignment and coherence across levels of requirements. The EU should consider forming a "Transition Committee" across various EU Commission Directorate-Generals to promote alignment, starting at EU-wide requirements, through those at Member State level down to entity-level, considering the impact of international dynamics at each stage. This committee would be tasked with providing unified economic direction for the EU's transition, aligning and refining different policy tools as necessary. Such a committee could also offer solutions to enhance coherence across EU legislations – from the Governance Regulation and Climate Law to entity-level requirements like the CSRD and CSDDD – while aligning with international transition finance governance. The Committee could furthermore support greater horizontal coherence within the EU for entity-level transition plan requirements as these are currently dispersed across multiple pieces of legislation and supervisory tools. To harmonise these regulations, the proposed Transition Committee could establish a clear timeline and pathway towards creating a single transition plan regulatory framework (see recommendations below).

Recommendation 2: Ensure EU coherence at various governance levels to facilitate transition finance. This should take into consideration international developments, and achieving vertical alignment of transition planning regulation, starting from EU-wide requirements, through Member States ones, down to entity level. Policymakers should take the following steps to achieve this:

- **EU governments should develop consistent NTPs** by aggregating all the various documents already in place (NECPs, industrial strategies, Adaptation plans, etc.) and reflect into NTPs their

NDC ambition, facilitating the production of sectoral pathways at Member State level and other documents useful for the private sector to concretely enable the transition.

- **Make the EU NDC and NECPs more investable by considering how to finance each target, while creating a feedback loop with NECPs, NTPs, and CPs**. This should be done with clear and defined roles for each strategic document in mind.
- **Work constructively with the G20 South Africa Presidency in 2025 – both at EU level and through MS that are G20 members – and bring to the G20 2025 Leaders' meeting a demonstration of a comprehensive and harmonised approach to EU transition planning**, i.e. a package of enhanced NDC, NTPs and simple and coherent private sector transition plan requirements. This work should build on the EU's role in reaching G20 consensus on principle for national and private sector transition plans in October 2024.
- **Use the EU Climate Law as the point of reference for developing EU transition roadmaps, which in turn should inform Member States' processes for developing such roadmaps.** These roadmaps will eventually serve as a reference to produce entity-based transition plans. It is crucial that the proposed Transition Committee and relevant EU bodies work with Member States to empower them to develop sectoral roadmaps which can provide further guidance at a more granular level.
- When reopening the **EU Governance Regulation** at the end of 2025 or beginning 2026, policymakers should consider transition finance for public and private entities as one of the main priorities to be integrated. Notably they should:
    - Ensure **Long-Term Strategies (LTSs)** are informed by and inform EU sectoral pathways. LTS should provide technological and market feasibility information, making them more aligned with transition planning.
    - Use **National Energy and Climate Plans (NECPs)** as key documents to inform an overall National Transition Plan (NTP). The upcoming review and revision of the Governance Regulation could expand the reporting obligations under the NECPs to better account for industrial transformation (i.e., ETS sectors and beyond) and introduce national granularity in the presentation of modelling results and impact assessments. NECPs should also ideally specify financial instruments to influence private sector Transition Plans (TPs), especially if public funding is unavailable. Additionally, national Development Finance Institutions (DFIs) and National Promotional Banks (NPBs) should be mandated to act as Climate Banks. Clear government investment plans outlined in the NTPs would build confidence among private investors that the transition is the right path to follow. This, in turn, would help mobilize private resources.
- **Seek greater consistency with broader EU policy coordination and funding mechanisms, notably the economic governance framework** (e.g. the European Semester and MS fiscal plans) and the next Multiannual Financial Framework (MFF). If the next MFF takes the form of multiple country funding plans, incentive mechanisms linking the MFF and updated NECPs, including industrial sectors, should be further considered.

Recommendation 3: Set a clear timeline and pathway to develop an EU Single Transition Plan regulatory framework by horizontally reaching greater coherence within the EU framework for entity-level transition plan requirements. To achieve this, the proposed Transition Committee and various EU bodies should consider the following measures.

- **Clarify links between ESRS and CSDDD and help preparers navigate the inconsistencies.** To facilitate the adoption of standardized transition plans, DG FISMA, DG JUST and EFRAG should collectively consider developing an in-depth mapping of matching criteria between the ESRS and CSDDD, accompanied by clear articulations for navigating potential gaps and inconsistencies. Such a matching exercise would (i) solidify the minimum legal criteria of transition plans in Europe, (ii) simplify the readability, interpretation and implementation of CSRD & CSDDD criteria at entity-level (i.e. clarifying the strategic planning practices), and (iii) address legal uncertainties of the CSRD-CSDDD interaction.

- **Set out a credibility framework for when a transition plan is deemed "1.5-degree compatible" and who is responsible for confirming that alignment.** While both the CSRD and the CSDDD aim to align climate transition plans with the 1.5-degree limit, only the CSDDD explicitly mandates this alignment. The ESRS seeks to promote the compatibility of transition plans with the 1.5-degree limit. However, as it primarily serves as a transparency framework, it does not impose a legal requirement for companies to adopt a 1.5-degree compatible plan. Companies are, however, required to express an informed statement on their climate targets and disclose how they plan to achieve their objectives, whether or not these are compatible with the 1.5-degree goal. In contrast, under the CSDDD, supervisors are mandated to ensure that companies' transition plans are compatible with the 1.5-degree target. This effectively requires supervisors to assess whether the transition plans can credibly be considered in line with the 1.5-degree limit. In case of incompatibility, the entity would be deemed non-compliant with the CSDDD requirements. Considering this, we recommend the proposed Transition Committee, or a collective of Commission Directorate-Generals, to set out a clear framework to assess the credibility of transition plans. This framework would be mandated, amongst other requirements, to define the 1.5-degree compatibility of entity-level transition plans. Finally, the framework should identify the European and national authorities responsible for the oversight of such compatibility.
- **Address how to fully integrate the risk dimension in the EU single transition plan framework. This would include asking prudential supervisors to set out how they will consider the forward-looking information contained in transition plans in the context of prudential supervision.**
    - Banking union alignment (CRD & CRR): In the EU context, the CRD requires banks to adopt and be supervised on transition plans, with reference to alignment with CSRD-based transition plans. These plans are then disclosed under CRR requirements and inform capital requirements considerations. The CSRD, along with its ESRS, will require banks to conduct internal risk management assessments and disclose a transition plan. The ESRS definition of transition plans has therefore the potential to serve as a micro-prudential tool for banks, and to be elevated to a macroprudential financial framework for Member States. The ESRS already incorporates key risk management requirements outlined under Pillar 3 of the CRR, including: (a) disclosure of transition plan, (b) GHG emissions reporting, (c) financial effects arising from physical and transition risks. Supervisors and central banks could then assess the ESRS transition plan criteria from a micro-prudential perspective, determining whether banks are meeting their CRD and CRR obligations and disclosing them in line with CSRD requirements. This alignment could also inform future macro-prudential policy developments. We recommend that the EBA and ECB establish clear guidelines on how they will incorporate forward-looking information in transition plans within the scope of prudential supervision. Strengthening risk management oversight in this manner would significantly enhance the financial stability of the European economy. If necessary, certain details from a bank's internal prudential assessments may remain undisclosed. The ESRS includes an exclusion clause that permits entities to withhold sensitive or classified information. For a bank disclosing a transition plan following

ESRS criteria, the non-disclosure of micro-prudential considerations would be therefore allowed.

  - Insurance regulation alignment (S2): Similarly, Solvency II requires European insurance companies to adopt and be supervised on transition plans, with a focus on aligning these plans with CSRD-based transition plans. These plans inform capital requirements for insurance entities. As with the banking regulation, we suggest that an insurance company disclosing a CSRD-aligned transition plan would naturally integrate the risk management practices required under Solvency II. Supervisors could then use these disclosed CSRD transition plans to assess whether insurance companies are fulfilling their Solvency II obligations. We recommend that EIOPA establish clear guidelines for supervisors to assess the forward-looking criteria in transition plans within the context of prudential supervision.

- **Work with Member States to leverage supervisory powers and ensure plans' implementation.** To strengthen the credibility of entity-level transition plans, the Commission, together with the European Supervisory Authorities should ensure a three-tiered oversight framework involving: (i) internal management and board oversight, (ii) external assurance, and (iii) supervision by national authorities. Each stage of this process is critical for upholding the credibility of the sustainability-related information disclosed within a transition plan. Currently, under the CSDDD, mandatory supervision of transition plans is limited to their adoption and content. We recommend that, in transposing the CSDDD into national legislation, Member States clarify that supervisory authorities' mandates should extend to overseeing the implementation phase of transition plans. While this oversight of implementation is referenced in the CSDDD, it is not yet mandatory for supervisors to monitor it.
- **Clarify how installation-level plans should be integrated into broader entity-level transition plans, and thus in the Single Transition Plan framework**. Installation-level transformation plans mandated by the IED are intended to align with and feed into the entity-level transition plans adopted and disclosed under the CSRD. However, two key uncertainties remain regarding the harmonization of these policies. Firstly, the technical criteria outlining the content of these transformation plans have yet to be defined, with the European Commission tasked with specifying these requirements by mid-2026. Secondly, transformation plans address a wide range of pollution activities, while the CSRD covers a broad spectrum of ESG-related disclosures. It would be beneficial to explore commonalities and potential inconsistencies between pollution-related disclosures under both frameworks. To address this, we recommend that the European Commission clarify how transformation plans should integrate into the broader entity-level transition plans disclosed under the CSRD. This issue could be effectively addressed in the forthcoming Delegated Act for the content of IED transformation plans.
- **Ensure that the pathway towards achieving an EU Single Transition Plan takes into consideration the interoperability with international transition plan frameworks, such as the ISSB standards and the G20 principles**. Many EU businesses and financial institutions operate globally, and discrepancies in TP requirements across regions can lead to inefficiencies, duplicative efforts, and increased compliance costs. Internationally interoperable approaches to transition plans – whether national or private – simplify implementation, making it easier for businesses to integrate climate strategies across borders. Ensuring interoperability between these standards lowers reporting complexity, allowing companies to dedicate more resources to actual decarbonization rather than navigating diverse regulatory frameworks.

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