A&L Goodbody

ESG RESEARCH REPORT SERIES | PART 1

Climate transition plans 101

Climate transition plans have emerged in recent years as key tools in translating companies' broad climate goals into tangible strategies that can be effectively communicated to investors and other stakeholders.

In setting out actionable plans relating to climate change mitigation, climate transition plans offer companies an opportunity to highlight the way in which they intend to contribute to the transition to a sustainable economy and the achievement of climate neutrality by 2050.

15 MIN READ

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ALG research

According to the findings of our research, Irish companies are falling behind on climate transition planning. ALG recently published a research report setting out the findings from a survey of over 100 corporate representatives operating in Ireland across a range of industries.

We asked companies about their awareness and understanding of legislative proposals, and explored the E, S and G matters that they are most focused on as well as their companies' current and future compliance plans. On climate transition plans, we asked the following questions:

- Have they adopted or are they in the process of adopting a climate transition plan?
- Where a climate transition plan has been adopted, was it done voluntarily or in compliance with upcoming legislative requirements?

Our research found that many organisations seem to lack sufficient insight into the urgency, risks and possibilities surrounding the climate transition. While only 21% of companies surveyed have adopted a climate transition plan, it is encouraging that a further 31% of companies are in the process of adopting one. For those companies that have adopted a climate transition plan, an overwhelming majority have done so on a voluntary basis (81%), indicating that disclosure requirements under the Corporate Sustainability Reporting Directive (CSRD) are not a key driver for businesses when adopting a transition plan.

While there is no standardised approach to developing a transition plan, high level requirements are detailed in various pieces of legislation included CSRD and the Corporate Sustainability Due Diligence Directive (**CSDDD**) as well as sector specific legislation, discussed further below. In addition, guidance has been issued by a number of advisory bodies including EFRAG, the Transition Plan Taskforce[1] (**TPT**) and the EU Platform on Sustainable Finance (**Platform**) that can assist businesses in preparing their climate transition plans. While transition plans can be prepared more broadly such as the biodiversity transition plans referred to in ESRS E4-1, in this article, we focus on the key elements that businesses should consider when preparing or reviewing their existing transition plan relating to climate change mitigation.

1 The UK's TPT concluded its work in October 2024. This work involved developing good practice for transition plan disclosures and a number of guidance notes on climate transition planning were published by the TPT. Responsibility for the maintenance of these notes has passed to the IFRS Foundation.

21%

of companies surveyed have adopted a climate transition plan

31%

of companies are in the process of adopting one

What is a climate transition plan?

Simply put, it is a detailed roadmap outlining a company's strategic approach to adapting its business model and operations to manage the risks and leverage the opportunities in supporting the climate transition in line with global, regional and national ambitions.

The European Sustainability Reporting Standards (**ESRS**) defines "Transition plan for climate change mitigation" as:

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

For those that need to consider the sustainability standards prepared by the International Sustainability Standards Board (**ISSB**), it should be noted that IFRS S2 sets out a similar definition:

> *An aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions."*

Helpfully the TPT has published comparison documents between its disclosure framework and both the ESRS and IFRS S2. These are designed to assist with interoperability as companies transition from voluntary to mandatory requirements.

Initiatives encouraging the use of climate transition plans have largely been voluntary to date including OECD guidance, the Task Force on Climate-Related Financial Disclosures (**TCFD**) recommendations on climate-related disclosures and the TPT Disclosure Framework. The need to put in place a climate transition plan has been accelerated by the push towards mandatory sustainability reporting and due diligence. The two primary EU pieces of legislation at the forefront of companies' minds in this context are CSRD and CSDDD. Although there are a number of other sector specific requirements worth highlighting including:

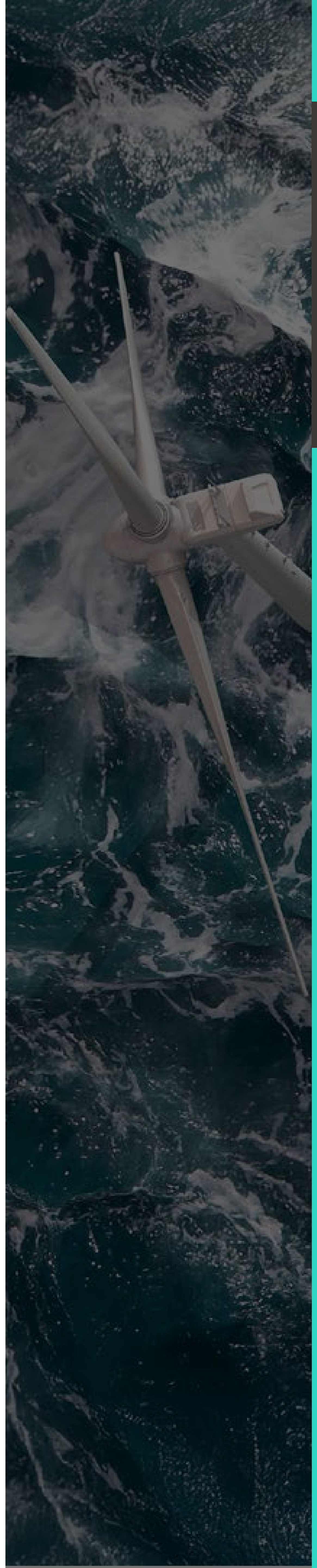
- The Capital Requirements Directive (**CRD**), which requires banks to prepare transition plans by 2026. The focus is on risk-based transition planning from a micro prudential perspective. The European Banking Authority (**EBA**) recently published **guidelines** on the management of environmental, social and governance risks which state that the "*objective is to ensure that institutions comprehensively assess and embed forward-looking ESG risk considerations in their strategies, policies and risk management processes, including by taking a long-term perspective and with a view to ensuring their soundness and resilience to the risks faced*".
- The Emissions Trading System Directive, which requires certain operators to establish climate neutrality plans.
- The Energy Efficiency Directive, which requires companies to prepare action plans based on energy audits.
- Industrial Emissions Directive, which requires operators of installations to develop transformation plans, describing how their installations will contribute to the progress towards decarbonisation, zero pollution and a circular economy.

For those that are registered with the Eco-management and Audit Scheme (**EMAS**), EMAS verified data can be used as a starting point to assist with the preparation of a transition plan.

A recently published **report**, Building trust in transition: core elements for assessing corporate transition plans, provides an useful summary of the EU transition plan requirements[2].

For those companies that are subject to the sustainability reporting obligations stemming from CSRD, the disclosure requirements set out in the European Sustainability Reporting Standards (**ESRS**) and the details set out in EFRAG's draft **implementation guidance** on transition plan for climate change mitigation will be a helpful starting point.

2 See Table 1 on pages 14 and 15 of the Platform's report.



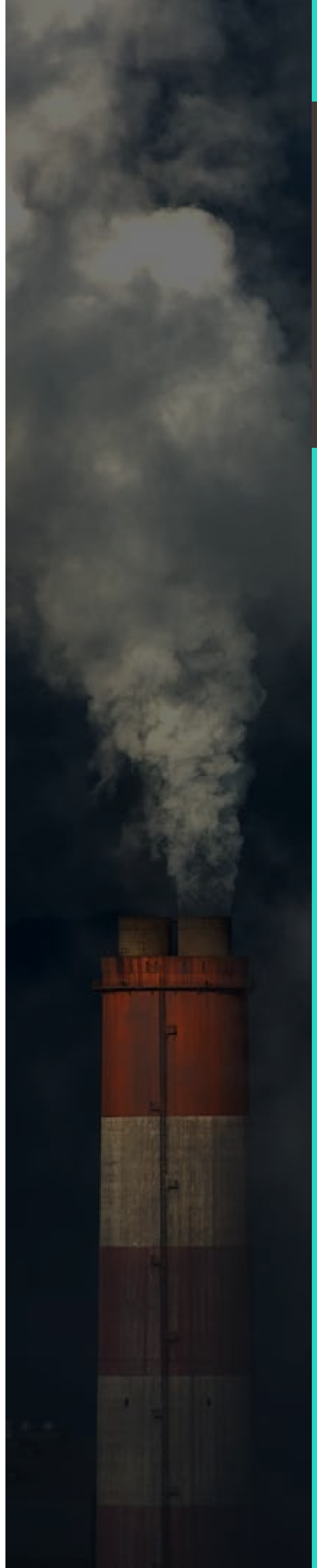
While companies in scope of CSRD are not required to adopt climate transition plans, they may need to disclose whether they have a plan in place or not. Where an assessment has been made that climate change is not a material topic for its business, a company must provide a detailed description of why that is the case. If a company considers climate change to be material but does not have a transition plan, it is required to indicate whether it intends to adopt a plan in the future and, if so, when.

CSDDD, subject to any changes that may be made by the proposals set out in the Omnibus package on sustainability, requires companies *"to adopt and put into effect a transition plan for climate change mitigation which aims to ensure, through best efforts, that the business model and strategy of the company 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 the objective of achieving climate neutrality (...) by 2050."* As such, in scope companies will have an active obligation to develop a climate transition plan. While one of the proposals included in the Omnibus package relates to amending the language in CSDDD to remove reference to a climate transition plan being "put into effect" and replacing this with reference to "implementing actions", it isn't clear what the intended practical effect of this proposed amendment will be.

CSDDD, CSRD and the ESRS set out specific elements that should be included in a climate transition plan, extracts are set out in the Annex to this document.

Principles	Ambition	Action		Accountability	
Disclosure Elements	1. Foundations	2. Implementation Strategy	3. Engagement Strategy	4. Metrics & Targets	5. Governance
Disclosure Sub-Elements	1.1 Strategic Ambition	2.1 Business operations	3.1 Engagement with value chain	4.1 Governance, engagement, business and operational metrics and targets	5.1 Board oversight and reporting
	1.2 Business model and value	2.2 Products and services	3.2 Engagement with industry	4.2 Financial metrics and targets	5.2 Management roles, responsibility and accountability
	1.3 Key assumptions and external factors	2.3 Policies and conditions	3.3 Engagement with government, public sector, communities and civil society	4.3 GHG metrics and targets	5.3 Culture
		2.4 Financial planning		4.4 Carbon credits	5.4 Incentives and remuneration
					5.5 Skills competencies and training

Taken from the **TPT disclosure framework.**



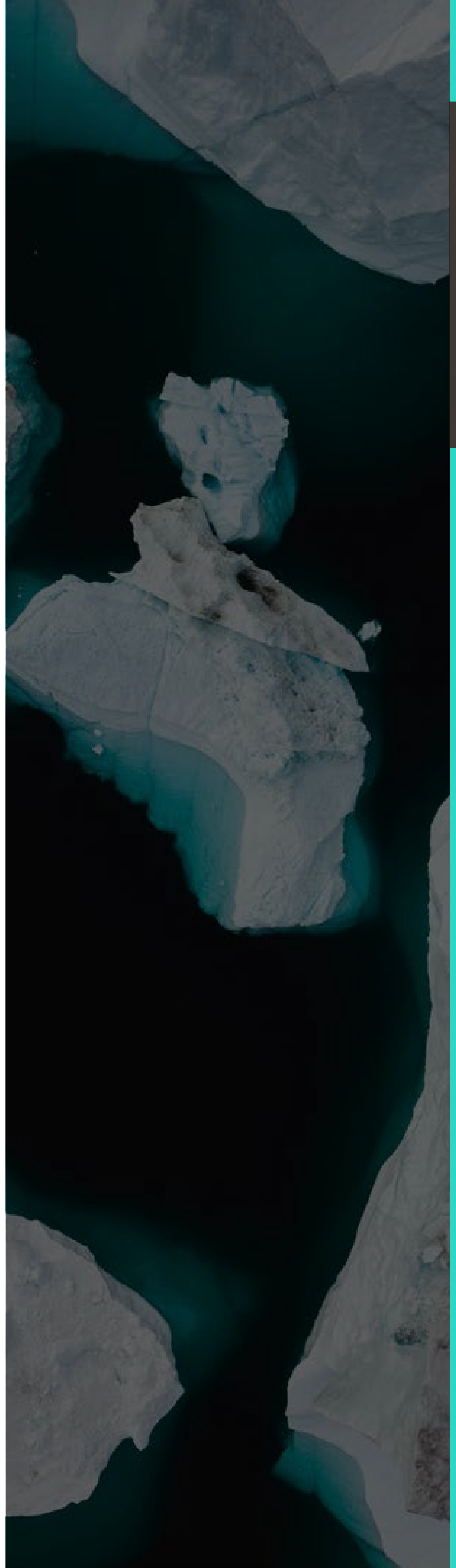
While the key concepts from the voluntary initiatives are broadly covered in CSDDD, the disclosure requirements set out in the ESRS and EFRAG's draft guidance, investment and funding is another key topic on which information should be sought.

Sector specific guidance, including that prepared by the TPT[3], should also be considered when putting in place a climate transition plan.

Key concepts are:

1. setting out the company's strategic ambition
2. identifying the actions needed to achieve this ambition
3. specific targets and metrics to drive and measure progress
4. engaging with stakeholders to achieve its ambition
5. ensuring that the plan is embedded in governance frameworks

3 In addition to the Sector Summary which provides an overview of transition plan guidance for 30 financial and real economy sectors, the TPT published sector specific guidance for the following sectors – Asset Managers, Asset Owners, Banks, Electric Utilities & Power Generators, Food & Beverage, Metals & Mining, and Oil & Gas.



What makes a good climate transition plan?

In its report, the Platform called on the European Commission to develop a common transition plan template for non-financial undertakings. The idea is that the template would serve as a tool for companies in designing robust transition plans that can be used to meet obligations stemming from EU legislation. However, in the absence of such a template, companies must determine the best way to prepare transition plans in alignment with the existing and proposed EU regulation, policy initiatives and voluntary international frameworks detailed in this article.

According to the Platform, there are four core elements that need to be considered:

1. science-based and time-bound targets
2. key levers and actions to achieve these targets
3. financial planning (investments and funding supporting the plan)
4. governance and oversight of the plan and its implementation

EFRAG's draft guidance builds on this, stating in response to FAQ 17 that the key characteristics of a transition plan include:

1. providing detailed multi-year accounts of targets and actions, identifying how a company will ensure that its business model and strategy are compatible with a specific objective (such as the EU's net zero by 2050 ambition)
2. being forward looking
3. spanning different time horizons
4. including both qualitative and quantitative information, which helps track the progress being made

The draft guidance focuses on the key topics that companies need to consider as part of the preparation of a climate transition plan that complies with the ESRS disclosure requirements:

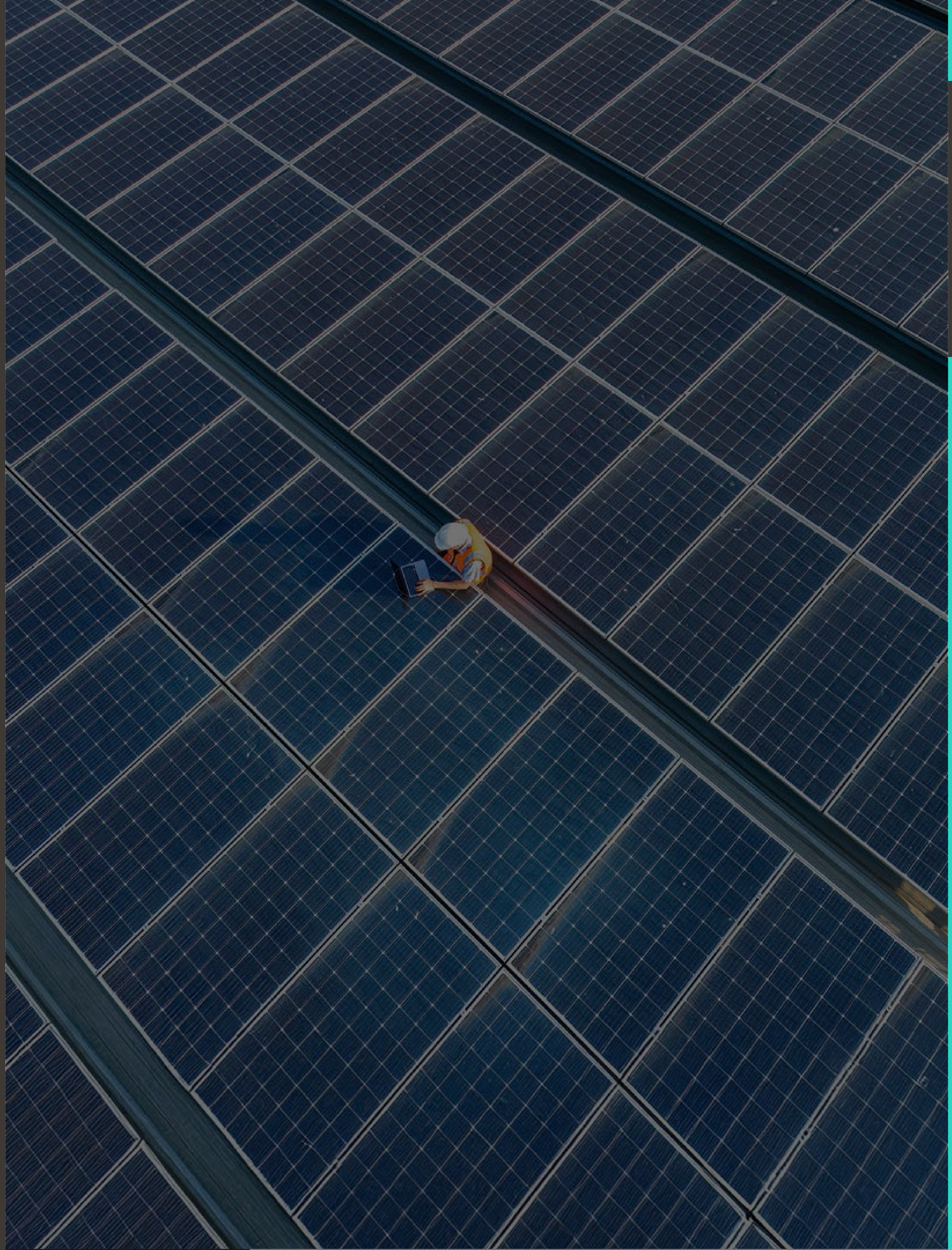
1. target compatibility
2. actions and decarbonisation levers
3. investment and funding
4. governance and strategy
5. progress reporting
6. supporting disclosures

Taking target compatibility as an example, companies need to be transparent on how their targets are compatible with the limiting of global warming to 1.5°C in line with the Paris Agreement and with the transition to a climate neutral economy. The draft guidance states that the level of compatibility should be presented by disclosing GHG emissions reduction targets benchmarked to a reference pathway to 1.5°C and that relevant contextual information on how the GHG emissions reduction targets and reference pathways and target values have been established should also be provided. The Platform acknowledges that CSDDD recognises the complexity of achieving transition plan targets and that there may be circumstances that lead to underperformance against targets.

The decarbonisation goals of the jurisdiction in which a company operates should also be taken into account as part of the preparation of a climate transition plan. Among the most significant policies shaping Ireland's climate efforts are the Climate Action Plans prepared in accordance with the Climate Action and Low Carbon Development Act 2015 (as amended), the latest being the Climate Action Plan 2024 (**CAP24**). The CAP24 lays out a roadmap for achieving transition to a climate resilient, biodiversity rich, environmentally sustainable and climate neutral economy by 2050. While the CAP24 does not explicitly require companies to adopt transition plans, it sets out sector emissions ceilings for industry and key sectors such as transport, electricity, the built environment and agriculture. These ceilings should be considered as part of the transition planning process.

While the draft guidance relates to transition plans for climate change mitigation, EFRAG acknowledges the importance of considering social and biodiversity impacts, risks and opportunities connected to the plan. For example, the potential impacts on workers, communities and ecosystems. This is also highlighted by the Platform in their report which emphasises that

"Understanding and addressing the social implications of climate transition plans is also crucial to ensuring a just transition for corporates, their workers and wider communities."



Why produce a climate transition plan?

With the risks associated with adverse climate events continuing to increase, many companies have already identified a need to prepare for the practical impacts these events can have. The consequences of more regular and more intense storm events, increased flood risks etc. are at the forefront of, for example, insurers' minds. Companies will increasingly find that being able to demonstrate that they have robust plans in place to manage those risks will be key to managing insurance costs. In some cases, these plans will be essential to ensuring the continued availability of coverage.

A climate transition plan can serve many purposes including providing shareholders and other stakeholders with insight into a company's climate-related impacts, risks and opportunities. Failing to meet their climate targets could result in reputational damage or increased litigation risk, as climate advocates or other stakeholders seek to hold companies accountable for such failures. However, it should be acknowledged that successful implementation of a climate transition plan will require engagement and input from a variety of stakeholders and this should be clearly articulated in the plan itself.

The Platform's report focuses on identifying guiding principles which financial market participants should use when assessing transition plans as part of their financing and investment processes. Having a credible and robust plan in place will likely make it easier for businesses to access transition financing. As set out above, the Platform has identified four key elements that financial market participants should consider in their assessment of companies' climate transition plans. Ensuring that each of these are clearly dealt with in a company's plan will make that assessment easier to undertake. Climate transition plans may also be necessitated by investor demands. Having a detailed plan in place demonstrates to investors that a company is aware of the risks that the climate transition poses and is taking steps to mitigate such risks.

Conclusion

It is increasingly evident that businesses have a crucial role to play in contributing to climate change mitigation. Climate transition plans are central to managing the risks associated with climate change and futureproofing a business as it moves towards net zero. A credible and robust transition plan can serve as a potential defence against greenwashing claims. They offer companies an opportunity to showcase their role in the transition to a low-carbon economy with greater precision. Regardless of legal requirements, there are a number of clear benefits for companies in adopting a credible transition plan with clear targets and timelines for implementation.

Annex

CSRD
Article 19a(2) and 29a(2)

Article 19a(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 (*8), and, where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities;

(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;

Article 29a(2)

The information referred to in paragraph 1 shall contain:

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

(iii) the plans of the group, 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 and the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 and where relevant, the exposure of the group to coal-, oil- and gas-related activities;

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

ESRS
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 energy-intensive 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 2021/2139 (36);

(f) if applicable, a disclosure of significant CapEx amounts invested during the reporting period related to coal, oil and gas-related economic activities; (37)

(g) a disclosure on whether or not the undertaking is excluded from the EU Paris-aligned Benchmarks; (38)

(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.

CSDDD
Article 22 – Combating climate change

1. Member States shall ensure that companies referred to in Article 2(1), points (a), (b) and (c), and Article 2(2), points (a), (b) and (c), adopt and put into effect a transition plan for climate change mitigation which aims to ensure, through best efforts, that the business model and strategy of the company 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 the objective of achieving climate neutrality as established in Regulation (EU) 2021/1119, including its intermediate and 2050 climate neutrality targets, and where relevant, the exposure of the company to coal-, oil- and gas-related activities.

The design of the transition plan for climate change mitigation referred to in the first subparagraph shall contain:

(a) time-bound targets related to climate change for 2030 and in five-year steps up to 2050 based on conclusive scientific evidence and, where appropriate, absolute emission reduction targets for greenhouse gas for scope 1, scope 2 and scope 3 greenhouse gas emissions for each significant category;

(b) a description of decarbonisation levers identified and key actions planned to reach the targets referred to in point (a), including, where appropriate, changes in the product and service portfolio of the company and the adoption of new technologies;

(c) an explanation and quantification of the investments and funding supporting the implementation of the transition plan for climate change mitigation; and

(d) a description of the role of the administrative, management and supervisory bodies with regard to the transition plan for climate change mitigation.

2. Companies that report a transition plan for climate change mitigation in accordance with Article 19a, 29a or 40a, as the case may be, of Directive 2013/34/EU shall be deemed to have complied with the obligation to adopt a transition plan for climate change mitigation referred to in paragraph 1 of this Article.

Companies that are included in the transition plan for climate change mitigation of their parent undertaking reported in accordance with Article 29a or 40a, as the case may be, of Directive 2013/34/EU, shall be deemed to have complied with the obligation to adopt a transition plan for climate change mitigation referred to in paragraph 1 of this Article.

3. Member States shall ensure that the transition plan for climate change mitigation referred to in paragraph 1 is updated every 12 months and contains a description of the progress the company has made towards achieving the targets referred to in paragraph 1, second subparagraph, point (a).

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Resources:

[2025 ALG ESG research report – keep pace with the evolving landscape]

[EBA guidelines on the management of environmental, social and governance risks]

[Building trust in transition: core elements for assessing corporate transition plans]

[EFRAG's draft implementation guidance on transition plan for climate change mitigation]

[TPT disclosure framework]

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