Planning … for financial institution transition plan disclosures

What to look out for in bank and asset manager disclosures with new EU regulatory requirements to disclose climate transition plans

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The association is the result of a merger between the "Observatoire de la finance durable", an initiative of the French Finance Minister, and the think tank 2° Investing Initiative.

The mission is to support changes in financial practices among economic actors, driving their impact toward a sustainable societal model. The think tank adopts a pragmatic approach based on studies, tools and methodologies to directly benefit these economic actors and make a real impact on the economy.

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Published February 2025

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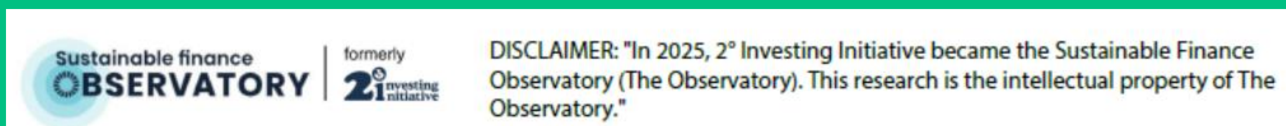

Executive Summary

GFANZ and the net zero financial alliances have published a large body of different guidance to support transition finance. These materials consistently emphasise the importance of evaluating client and investee company *transition plans* to inform transition finance related investment decisions. Banks and asset managers should also disclose their own transition plans setting out how they will align their own business activities with a net zero transition.[1] However, as a voluntary market initiative this guidance is not followed by all financial market participants and market practice remains heterogenous.

In the EU, a requirement to disclose a climate transition plan has now been formalised with the introduction of the Corporate Sustainability Reporting Directive[2] (**CSRD**) which requires large companies to report in accordance with sector wide European Sustainability Reporting Standards[3] (**ESRS**) for financial years starting after 1 January 2024. The first climate transition plans in compliance with these CSRD/ESRS regulatory requirements are expected during 2025.

In the run up to these CSRD/ESRS regulatory requirements coming into force this paper presents thematic insights about what to look out for in bank and asset manager transition plans in accordance with these CSRD/ESRS regulatory requirements. It is informed by our qualitative review of the most recent disclosures from a sample of banks and asset managers and identifies where disclosures should be closely monitored to ensure compliance with the CSRD/ESRS regulatory requirements and that the necessary information is included in disclosures.

The five main thematic insights from this paper are:

- Despite the influence and activities of the net zero financial alliances, currently there are a significant number of financial market participants who are not disclosing a transition plan but who will nevertheless be required to do so during 2025. These transition plans must be included in the sustainability statement for the financial market participant and will therefore be subject to the audit requirement. But it remains to be seen how market practice will develop in relation to the quality of these transition plans (particularly for financial market participants outside of the net zero financial alliances) and how clearly identifiable the transition plan information will be compared to other disclosures in the sustainability statement.
- The current CSRD/ESRS reporting requirements are articulated to be generally applicable for undertakings in all economic sectors. Nevertheless, interpreting these reporting requirements in a finance sector context is often not clear. Perhaps even worse, some of these reporting requirements are articulated in a way which does not make sense in the finance sector context (for example, many reporting requirements are predicated on the concept of CapEx which is less relevant in a finance sector context).
- Even among financial market participants who are members of a net zero financial alliance and are already disclosing a transition plan, it is difficult to ascertain the credibility of these transition plans. There is a concern that these transition plans cherry pick information to showcase the positive activities of the institutions. Key problem areas to monitor in upcoming disclosures relate to where CSRD/ESRS reporting requirements cover information which is not disclosed by any financial market participant currently (even those within the net zero financial alliances) – most critically exposure to coal, oil and gas activities.

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[1] And ACT Finance articulates that the cornerstone of a financial institution's transition plan is the assessment of the underlying (real economy) client or investee company transition plan.
[2] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (which entered into force on 5 January 2023)
[3] 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

- Comparability across disclosures from different financial market participants is likely to be limited. Given the flexibility in relation to the structure of the sustainability statement and the difficulties in interpreting the reporting requirements in the finance sector context, there is a significant risk of the current heterogeneity continuing among financial market participants (even as organisations operating in the same economic sector).
- There are concerns about whether the likely oversight will be sufficient to effectively monitor compliance with the CSRD/ESRS reporting requirements. There have been various statements from the Commission alluding to a light touch approach to regulatory oversight. In addition, shareholder oversight is weakened because shareholder approval of the transition plan is included in the standard shareholder vote on approval of the annual report as a whole (i.e. there is no provision for a separate shareholder vote to approve the transition plan).

The paper demonstrates that delaying development and implementation of sector specific standards is a grave mistake in the finance sector context. The CSRD/ESRS reporting requirements coming into effect will mean that a significant proportion of financial market participants must disclose a transition plan during 2025. But the articulation of the CSRD/ESRS reporting requirements in the finance sector context is not clear and there is a risk of highly variable market practice. Finance sector specific standards will be key to specifying how the reporting requirements can be applied in a coherent way by different types of financial institution. Without finance sector specific standards, the regulatory change is only half complete and means that financial market participants are now subject to new reporting requirements but there is significant uncertainty about how to comply with them.

This current situation with the potential confusion caused by the absence of finance sector specific standards may add fuel to the fire for arguments seeking to reduce sustainability reporting requirements because of concerns about the effectiveness of the reporting requirements, competitiveness etc. Considering the recent announcements in relation to proposed omnibus legislation to simplify the Taxonomy Regulation, CSRD and Corporate Sustainability Due Diligence Directive, it is difficult to see how this political direction of travel is compatible with speeding up or finalising the sector specific standards. But without the sector specific standards the CSRD/ESRS regulatory requirements may be somewhat redundant in the finance sector context as the very policy objective of translating the international decarbonisation challenge into the financial institution's operational roadmap is undermined. The focus of the proposed omnibus legislation on streamlining runs the risk of dismantling regulation which is only half complete and retreating further from the policy objective of a net zero transition.

This argumentation becomes even more critical in the context of the Net-Zero Asset Managers (**NZAM**) Initiative suspending activities[4], the significant number of major banks withdrawing membership[5] of the Net-Zero Banking Alliance (**NZBA**) and the various signs pointing to a weaker calibration of GFANZ and the net zero financial alliances.

[4] Net Zero Asset Managers Initiative, 2025, Update from the Net Zero Asset Managers initiative
[5] Global Trade Review, 2025, Top Canadian banks latest to pull out of Net Zero Banking Alliance

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Introduction

Transition finance refers to the strategic mobilisation and reallocation of capital to support a net zero economic transition by 2050 through enabling industries to undertake the necessary changes to achieve net zero greenhouse gas (**GHG**) emissions. With estimates of the required capital expenditure amounting to several hundred trillion[6] and far surpassing public finance resources, banks and investors play a critical role as providers of transition finance to support these changes in the real economy.

In the face of this huge challenge, the net zero financial alliances (including the Net-Zero Banking Alliance (**NZBA**) for banks and the Net-Zero Asset Managers (**NZAM**) Initiative for asset managers) were established to mobilise the finance sector in support of the net zero transition. And at COP26 in 2021, the Glasgow Financial Alliance for Net-Zero (**GFANZ**) was established to bring the net zero financial alliances under a common network and increase coordination of finance sector efforts for the net zero transition.

GFANZ and the net zero financial alliances have published a large body of different guidance to support transition finance. These materials consistently emphasise the importance of evaluating client and investee company *transition plans* to inform transition finance related investment decisions. And banks and asset managers should at the same time disclose their own transition plans setting out how they will align their own business activities with a net zero transition. However, as a voluntary market initiative this guidance is not followed by all financial market participants and market practice remains heterogenous.

In the EU, a requirement to disclose a climate transition plan has now been formalised with the introduction of the Corporate Sustainability Reporting Directive[7] (**CSRD**) which requires large companies to report in accordance with sector wide European Sustainability Reporting Standards[8] (**ESRS**) for financial years starting after 1 January 2024. Together these set out specific requirements for what must be included in a climate transition plan and should help support a more homogeneous and market wide approach. This will help banks and asset managers access information about client and investee company transition planning to inform transition finance related investment decisions, but it also means they must disclose their own climate transition plans. The first climate transition plans in compliance with these CSRD/ESRS regulatory requirements are expected during 2025.

This paper is addressed to financial sector stakeholders (including policy makers, sustainable finance initiatives and coalitions and financial market participants themselves) and presents thematic insights about what to look out for in bank and asset manager transition plan disclosures in accordance with these CSRD/ESRS regulatory requirements. It is informed by our qualitative review of the most recent disclosures from a sample of banks and asset managers and identifies where disclosures should be closely monitored to ensure compliance with the CSRD/ESRS regulatory requirements and that the necessary information is included in disclosures.

The paper is structured as follows:

- Section 1 summarises the background context in relation to the emergence of the transition plan context and the CSRD/ESRS reporting requirements to disclose a climate transition plan together with the scope of the qualitative review.
- Section 2 articulates the insights revealed by the qualitative review of current EU bank and asset manager transition plan disclosures and what to look out for in bank and asset manager transition plan disclosures in accordance with the CSRD/ESRS regulatory requirements.
- Section 3 sets out concluding remarks.

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[6] For example, one estimate puts the cost at USD275 trillion over 30 years which amounts to just over USD9 trillion per year. (McKinsey & Company, 2022, The net-zero transition. What it would cost, what it would bring.)

[7] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (which entered into force on 5 January 2023)

[8] 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

Section 1

The new paradigm for transition plan disclosure

This section summarises the background context in relation to the emergence of the transition plan context and the CSRD/ESRS reporting requirements to disclose a climate transition plan together with the scope of the qualitative review.

1.1 The emergence of the transition plan concept

There are varying definitions of transition finance but broadly speaking the concept relates to financing that supports a net zero transition by enabling industries to undertake changes to achieve net zero GHG emissions. In the EU, transition finance is defined as 'financing of investments compatible with and contributing to the transition, that avoids lock ins.'[9] [10] Transition finance therefore relates to financing organisations and activities that are on a committed net zero transition. This can include financing the development and scaling of climate solutions but also financing carbon-intensive companies which are transitioning towards net zero.

As a concept, a climate transition plan articulates how a company will 'take credible, immediate term steps as an effective way of translating the international decarbonisation challenge into a company's operational roadmap to transition its strategy and operations to align with the 1.5°C trajectory recommended in the Paris Agreement.'[11] This concept of a climate transition plan has emerged as a key aspect to transition finance planning. For example, to support bank efforts to increase transition finance activities, the NZBA has published the *NZBA Transition Finance Guide*[12] where a lot of the guide is devoted to helping banks assess client transition plans to ensure that transition finance meaningfully advances a client's net zero journey.[13]

Like most sustainability disclosures, transition plans originated as a voluntary disclosure. As shareholders demand greater accountability and action on climate-related matters, shareholder engagement with investee companies has focussed on requesting companies publish climate transition plans and ensure performance against the climate transition plan. Where these engagement activities include shareholder resolutions these have come to be known colloquially as *Say on Climate* resolutions and have emerged as a powerful tool for driving corporate climate action and fostering sustainable business practices.

1.2 EU regulatory requirement for disclosure of a transition plan

In the EU, the CSRD now requires relevant companies to include in the management report '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 […] and the objective of achieving climate neutrality by 2050 […] and, where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities.'[14] Furthermore relevant companies are required to include 'a description of the time-bound targets related to sustainability matters set by the undertaking, including, where appropriate, absolute greenhouse gas

[9] Commission Recommendation (EU) 2023/1425 of 27 June 2023 on facilitating finance for the transition to a sustainable economy
[10] Transition finance can be considered as a sub-category of sustainable finance which includes: (1) green finance of organisations and economic activities already at the performance level considered green; and (2) transition finance of organisations and economic activities that supports their transition from any current performance level to a level which can be considered green.
[11] Say on Climate, 2024, Climate Transition Plans
[12] UNEP FI, 2022, NZBA Transition Finance Guide
[13] Similarly, NZAMI is focused on guiding the asset management industry in committing to net zero and has developed a Net Zero Investment Framework and a Supplementary Guidance to offer a comprehensive approach to implementing transition finance strategies.
[14] Art 1(4) CSRD amending Art 19(a) Directive 2013/34/EU

emission reduction targets at least for 2030 and 2050, a description of the progress the undertaking has made towards achieving those targets.'[15]

Further detail for how to comply with this reporting requirement is included in the ESRS. ESRS E1 relates to climate change disclosures and Disclosure Requirement E1-1 sets out what must be included in the transition plan for climate change mitigation (while Disclosure Requirement E1-2, E1-3 and E1-4 does the same for respectively policies, actions and targets related to climate change mitigation and adaptation). As it is presented now, the CSRD/ESRS will be implemented in phases so that large companies (more than 500 employees) that are already subject to the Non-Financial Reporting Directive (**NFRD**) will have to start reporting in compliance with CSRD/ESRS in 2025 for financial years starting on or after 1 January 2024.[16]

Alongside the CSRD/ESRS, the Corporate Sustainability Due Diligence Directive[17] (**CSDDD**) requires relevant 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.'[18] Relevant companies that have disclosed a climate transition plan under CSRD are deemed to have complied with this obligation.[19] These transition plans must be updated every 12 months and contain a description of the progress made towards achieving the targets contained in the transition plan.[20] [21]

1.3 Contents of a climate transition plan

The above-mentioned regulatory changes now formalise the requirements for what must be included in a climate transition plan which are summarised in Table 1 below.

Table 1: What must be included in a climate transition plan?

1	[T]he plans of the undertaking, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1,5°C in line with the Paris Agreement under the United Nations Framework Convention on Climate Change adopted on 12 December 2015 (the 'Paris Agreement') and the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 of the European Parliament and of the Council, and, where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities.	Art 19a and Art 29a, CSRD Para 14, ESRS E1
2	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.	Para 16(a), ESRS E1
3	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.	Para 16(b), ESRS E1
4	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	Para 16(c), ESRS E1

[15] Art 1(4) CSRD amending Art 19(a) Directive 2013/34/EU
[16] The next phase of reporting will extend to smaller companies (more than 250 employees and/or €50m in turnover and/or €25m in total assets) will have to start reporting in compliance with CSRD/ESRS in 2026. And then there is the small and medium-sized enterprises (SMEs) from the following year (excluding companies with fewer than 10 employees or less than €2m in turnover).
[17] 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
[18] Art 22(1) CSDDD
[19] Art 22(2) CSDDD
[20] Art 22(3) CSDDD
[21] In addition to these public facing disclosures, the Capital Requirements Regulation and Directive (CRR-CRD) and Solvency II also require credit institutions and insurance companies to develop plans to assess and manage sustainability risks. In addition, further guidance is currently being developed by the European Banking Authority (EBA) and the European Insurance and Pensions Authority (EIOPA). However, this paper does not focus on these plans although it should be noted that these plans should be consistent with the transition plan disclosed under CSRD/ESRS.

	taxonomy-aligned CapEx, and where relevant the CapEx plans, that the undertaking discloses in accordance with Commission Delegated Regulation (EU) 2021/2178.	
5	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.	Para 16(d), ESRS E1
6	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.	Para 16(e), ESRS E1
7	If applicable, a disclosure of significant CapEx amounts invested during the reporting period related to coal, oil and gas-related economic activities.	Para 16(f), ESRS E1
8	A disclosure on whether or not the undertaking is excluded from the EU Paris-aligned Benchmarks.	Para 16(g), ESRS E1
9	An explanation of how the transition plan is embedded in and aligned with the undertaking's overall business strategy and financial planning.	Para 16(h), ESRS E1
10	Whether the transition plan is approved by the administrative, management and supervisory bodies.	Para 16(i), ESRS E1
11	An explanation of the undertaking's progress in implementing the transition plan.	Para 16(j), ESRS E1
12	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.	Para 17, ESRS E1

1.4 Scope of this review

The combined effect of the CSRD/ESRS should mean that there is a significant increase in *which* EU organisations (both real economy and financial market participants) will be required to disclose a climate transition plan, as well as a more harmonised practice about *what* information is included in a climate transition plan This will help banks and asset managers access information about client and investee company transition planning to inform transition finance related investment decisions, but it also means they must disclose their own climate transition plans which should draw the interlinkages between their transition finance activities and their own transition planning.

In this context, this paper presents thematic insights what to look out for in bank and asset manager transition plan disclosures in accordance with these CSRD/ESRS regulatory requirements. It is informed by our qualitative review of the most recent disclosures from a sample of banks and asset managers to assess the current extent of any disclosures about transition planning and identifies where disclosures should be closely monitored to ensure compliance with the CSRD/ESRS regulatory requirements and that the necessary information is included in disclosures. The sample of financial market participants covers banks (both NZBA members and non-members) and asset managers (both NZAM members and non-members) to identify any material differences in current disclosures between financial market participants which are members of a net zero financial alliance and those which are not. Please refer to the Annex for a summary of the methodology used for the qualitative review.

This focus on the upcoming regulatory requirements and thematic insights about what to look out for in bank and asset manager transition plan disclosures in accordance with these CSRD/ESRS regulatory requirements is therefore different to the monitoring framework provided by the Net-Zero Donut. This provides much more in depth analysis of the transition plans disclosed by financial market participants who are members of the net zero financial alliances. The Net-Zero Donut provides a holistic monitoring tool to assess the individual net zero commitments of relevant financial market participants (see *Information Box: Net-Zero Donut*) whereas this paper focuses on thematic insights for what to expect on an EU market wide basis when the CSRD/ESRS regulatory requirements come into force.

Section 2

Key areas to monitor in transition plan disclosures

This section articulates the insights revealed by the qualitative review of current EU bank and asset manager transition plan disclosures and what to look out for in bank and asset manager transition plan disclosures in accordance with the CSRD/ESRS regulatory requirements.

2.1 A difficult step change in finance sector transition plan disclosure

The first aspect of the qualitative review was to assess how many financial market participants are disclosing a clearly delineated transition plan (either in the annual report itself or in a separate sustainability report/non-financial statement or separate transition plan disclosure). While just over half of banks who are NZBA members had a clearly delineated transition plan – the overriding majority of financial market participants in the other samples did not disclose a clearly delineated transition plan. Indeed, many financial market participants might have published some sort of net zero commitment – but have not disclosed anything by way of transition planning as to how to meet that target.[22] In addition, consolidated reporting makes it difficult to identify elements of a transition plan which relate to different business units (where this does in fact exist).

Among the sample of banks who are NZBA members the transition plans were always included in a separate transition plan disclosure (i.e. outside of the annual report or non-financial/sustainability statement). While this perhaps stands to reason at this stage before the regulatory requirement to include the transition plan in the sustainability statement comes into effect, this does mean that the transition plan is outside of the audit requirement which applies to the annual report and the non-financial/sustainability statement. This in turn means that these transition plans may have been subject to less internal or external oversight or assurance.

Therefore, despite the influence and activities of the net zero financial alliances, currently there are a significant number of financial market participants who are not disclosing a transition plan but who will nevertheless be required to do so during 2025. What is more, the transition plans disclosed during 2025 must be included in the sustainability statement which means that they will be subject to the audit requirement which should assist with increasing quality. While we have written elsewhere about our concerns with the adequacy of this audit requirement[23] it is set to become more comprehensive, and it is still better than no audit requirement at all. This should in theory help to elevate practice of all financial market participants in relation to their transition plans – both those who are disclosing a transition plan for the first time because of the regulatory requirements and those who are already disclosing a transition plan through their membership of a net zero financial alliance.

However, it remains to be seen how market practice will develop in relation to clearly delineating the transition plan from other disclosures in the sustainability statement. While there is a requirement to have a separate sustainability statement (which is where the transition plan must be included), and this must be structured in a way that 'facilitates access and understanding of the sustainability statement, in a format that is both human-readable and machine readable'[24] there is still a lot of flexibility on how the sustainability statement is

[22] Nevertheless, this is quite a difficult indicator to interpret in some respects. And it should be noted that in our qualitative review we took the decision that even if this indicator was not satisfied we continued to assess the relevant disclosures for if there was any information which related to transition planning. It should be noted that for many financial market participants in the sample, this indicator may not have been satisfied but other constituent elements for what should be included in the transition plan were spread across other disclosures.
[23] The CSRD establishes enhanced audit requirements for sustainability information, but it is too soon to see what the audit practice will be and there are several key aspects to the new audit framework which are yet to be put in place. The CSRD mandates the Commission to 'adopt delegated acts […] to provide for limited assurance standards setting out the procedures that the auditor(s) and the audit firm(s) shall perform in order to draw his, her or its conclusions on the assurance of sustainability reporting' (Art 3(15) CSRD amending Directive 2006/43/EC) but the deadline for this is 1 October 2026. See 2° Investing Initiative, 2024, Reframing the EU landscape for corporate sustainability information.
[24] ESRS 1, Para 111(a)

structured. The ESRS suggested structure for the sustainability statement[25] does not articulate that the transition plan must be clearly delineated and much of the ESRS requirements emphasise interlinkages with other reporting requirements (e.g. transition plans should be linked to GHG emission reduction targets, climate change mitigation actions etc.). Therefore, it may be the case that it remains difficult to clearly identify the constituent elements of the transition plan.

2.2 Interpreting transition plan reporting requirements is difficult in the finance sector context

As ESRS E1 is a sector agnostic standard, the reporting requirements are articulated to be generally applicable for undertakings in all economic sectors. Nevertheless, interpreting these reporting requirements in a finance sector context is not necessarily clear cut. Perhaps even worse, some of these reporting requirements are articulated in a way which does not make sense in the finance sector context.

Key areas where these reporting requirements are problematic are references to CapEx (e.g. 'key performance indicators of taxonomy aligned CapEx'[26] and 'CapEx amounts invested during the reporting period related to coal, oil and gas related economic activities'[27]) and references to 'locked in GHG emissions' which do not make sense in the context of a financial portfolio of credit facilities for a fixed duration or the ability to divest from investee companies. These reporting requirements (and a further example being 'exposure to coal, oil and gas related activities'[28]) may lead to an intuitive interpretation of what is expected for financial market participants, but in the absence of guidance which works for the finance sector there is a risk of heterogeneous market practice.[29] These observations lead to the key conclusion of this paper that finance sector specific standards are very necessary to ensure homogenous market practice.

Alongside these observations that interpreting the reporting requirements in the finance sector context is difficult, it is worth noting that there may be key gaps in these CSRD/ESRS reporting requirements compared to the guidance and materials developed by the net zero financial alliances and other finance sector initiatives for finance sector transition plans. However, a comparison of the CSRD/ESRS reporting requirements compared to these guidance and materials for the finance sector is outside the scope of this paper.

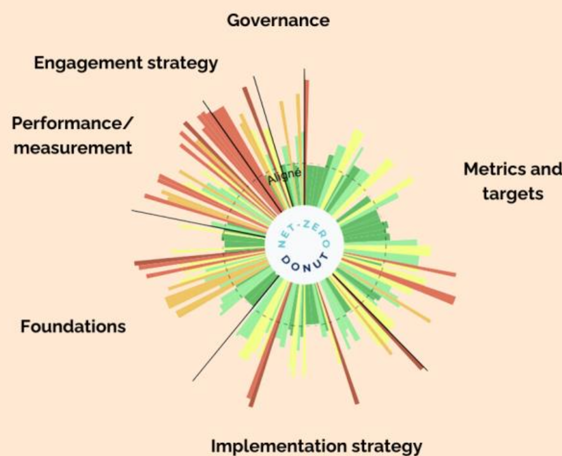
[25] ESRS 1, Appendix F
[26] ESRS E1, Para 16(c)
[27] ESRS E1, Para 16(f)
[28] ESRS E1, Para 15
[29] Another example is 'investments and funding supporting transition plan' for other sectors this is quite clear (e.g. costs of refurbishing/replacing equipment etc.) but in the finance sector context should this be interpreted as the amount of financing in accordance with the transition plan or financing associated with the ancillary activities to support the transition plan.

Information Box: Net-Zero Donut

The Net-Zero Donut is a framework for analysing financial institutions' climate transition targets and plans. The Net-Zero Donut includes more than 222 indicators to monitor and assess interim targets, definitions for green activities, internal climate risk management processes, sector policies (particularly on fossil fuels) and other transition plan aspects. The financial market participants analysed are the signatory members of the NZAM, NZAOA and NZBA on a French and European scale.

The latest report[30] takes stock of the practices of 19 major French and European banks that are signatories of the NZBA. As NZBA members, these banks have committed to achieving carbon neutrality by 2050 and have set interim decarbonisation targets for the near future (2025, 2030) based on the methodology proposed by the NZBA.

Below is the aggregated Net-Zero Donut for the 19 banks in 2024



This latest report includes the following insights about the current practices of these (supposedly) leading financial market participants:

Framework for analysing companies' transition plans	'*Banks do not prioritise the analysis of the transition plans of the companies they finance'* The analysed NZBA member banks do not yet appear to be structuring their strategy around analysing client transition plans and categorising them in terms of transition as proposed by the GFANZ (aligned, in the process of aligning, non-aligned). Instead, they continue to focus mainly on technical targets, aggregated in terms of GHG emissions, which only allow for ex-post monitoring of client's effective decarbonisation.
Fossil fuels	*'Only one bank is planning an early phase-out of fossil fuels'* Bank practices are heterogeneous regarding fossil fuels. While all the banks in the study had set fossil fuel exposure reduction targets (generally with separate targets for thermal coal on the one hand and oil and gas on the other) only one bank appears to have committed to moving away from oil and gas. A majority are committed to a complete exit from coal (with 16% committed to this before 2030) but coverage of the sector's value chain is generally incomplete and varies from one bank to another. Indeed, the value chains used in calculations rarely encompass upstream, midstream and downstream activities. A small proportion of banks communicate on their carbon emissions and residual exposure to coal. Finally, 84% of the banks in the study continued to allocate new financing to oil and gas-related companies in 2024, which is contrary to any credible transition plan according to the IEA and the IPCC.

[30] Sustainable Finance Observatory, 2024, European Banks' 'Net Zero' Commitments, Analysis of the NZBA signatory banks' 'net zero' transition plans based on data from the Net-Zero Donut

Sectoral emissions reduction targets	*'All banks have set sectoral GHG emission reduction targets'* All banks have set sectoral GHG emission reduction targets covering all or part of the 9 most carbon-intensive economic sectors covered by NZBA (agriculture, aluminium, cement, coal, real estate, steel and metals, oil and gas, power generation and transport). However, some sectors (aluminium, agriculture) are only considered by a minority of banks. A large majority of banks support these sectoral targets with transition financing targets across a broader scope of assets.
Progress in reaching targets	*'48% of the sectoral decarbonisation targets have not progressed'* Overall, compliance with the interim targets set appears to be partial. In fact, 48% of bank sectoral decarbonisation targets had not progressed and only 42% of these targets followed a linear trajectory in 2023.
GHG emissions	*'16% banks disclose their absolute emissions for full scopes 1, 2 and 3'* Banks seem to agree on a minimum basis for their carbon accounting methodology, all referring to the PCAF and GHG Protocol standards (which themselves vary in terms of implementation). As part of the sectoral targets they set, their financed emissions are detailed at least in terms of physical intensity for the sectors concerned. A minority of banks also choose to publish them in monetary intensity or absolute value. However, the final absolute value of emissions financed is almost never reported, with only 16% of banks in the sample doing so for a full scope 1, 2 and 3.
Focus on French banks	*'No French bank has published a holistic transition plan'* The analyses did not reveal any major differences between French and European banks in terms of reporting intermediate targets. In fact, the French banks analysed (8 banks or 42% of the sample) show few differences in practice from their European counterparts when it comes to the content of their extra-financial reports, or the amount of information made publicly available. However, to date they have not published a holistic transition plan as required by the NZBA.
Financial activities	*'37% banks include their off-balance sheet activities'* The financial activities covered by interim targets differ between banks. Although all banks in the study include lending activities when defining their interim targets, only 37% include off-balance sheet lending activities. A small majority of banks (53%) include their capital markets activities in the scope of their interim targets.

Alongside these insights, the report also notes that the average data availability rate for the 19 banks is 88% (ranging from 81% to 92%) relative transparency of the banks across the wide range of Net-Zero Donut indicators.[31] The availability of data also makes it possible to understand which issues banks are most transparent on and which are currently lacking clarity in their public documentation. We find that banks are most transparent on issues such as oil and gas and decarbonisation targets. Conversely, they are the least transparent when it comes to foreseeing events that could lead to the redefinition of their interim targets, measuring metrics that are key to the transition of financial institutions, and developing internal capabilities to ensure the successful achievement of their interim targets. We also note a lower availability of information on coal and on engagement processes with peers, companies and the public sector.

[31] The Net-Zero Donut analysis is based on 200+ indicators, used for all banks in the perimeter. Data availability refers to the share of these indicators for which corresponding data was found in the financial institutions' public documentation.

2.3 Key areas of weakness in existing finance sector disclosures

Although outside of the net zero financial alliances it is extremely difficult to identify a clearly delineated transition plan (and within the net zero financial alliances it is not 100% - see *Information Box: Net-Zero Donut*), we were interested in how financial market participants might already be disclosing discrete information which would fall under CSRD/ESRS reporting requirements for the transition plan. Based on our qualitative review we have the following observations about current areas of weakness and what to look out for in assessing bank and asset manager transition plan disclosures in accordance with the CSRD/ESRS regulatory requirements.

ESRS E1-1, Para 15. 'strategy and business model are compatible with the transition to a sustainable economy'
While this is not a reporting requirement per se (rather it is the objective for the transition plan as a whole) it is nevertheless very hard to evaluate if this requirement is satisfied. While vague statements about support for the Paris Agreement may be commonplace, an effective and detailed explanation of how the business model and strategy are aligned with the Paris Agreement was in most cases absent. In reality, assessing compliance with this requirement would require detailed interrogation of the information available – it is not a simple tick box assessment and goes to the heart of the existing concerns about credibility (see *Section 2.4 Comparability between financial market participants is difficult*). This is one reason why the insights contained in this paper are expressed to be informed by a qualitative review (and therefore no quantitative data is provided).

ESRS E1-1, Para 16(a) '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'
Many financial market participants disclose information in relation to what may be considered as climate targets. As expected, these disclosures are most evident for members of a net zero financial alliance. For financial market participants outside of a net zero financial alliance there are significant gaps in disclosing a climate target. The CSRD/ESRS reporting requirements coming into effect will therefore mean that many more financial market participants will need to disclose this information during 2025.

However, there is significant variability in how these climate targets are formulated. While some financial market participants disclose a target which is expressed in GHG terms (e.g. GHG intensity), these targets are generally restricted to specific sectors rather than the overall portfolio. Equally these targets can be expressed in different metrics which makes comparability between different financial market participants difficult. Other financial market participants disclose climate targets expressed in terms of increasing the amount of financing to specific sectors such as renewable energy, electrified vehicles etc. (or correspondingly reducing exposure to GHG intensive sectors) or an exit date from coal. While these may be considered as climate targets in an intuitive sense, they are of limited utility because they do not provide any understanding of the current GHG emissions associated with the financial market participant's portfolio and how these are expected to change.

When it comes to any explanation of how these targets are compatible with the Paris Agreement this was a key area where information is lacking. Members of a net zero financial alliance often disclose that their targets are in accordance with a relevant initiative (e.g. SBTi) or credible climate scenarios, but even here detailed explanation of compatibility of the target with the Paris Agreement was lacking.

The net zero financial alliances and other initiatives have published guidance about how to set credible and legitimate climate targets in the finance sector context. But there are still significant concerns about the credibility of transition plans which are disclosed by members of the net zero financial alliances (hence the need for initiatives like the Net-Zero Donut). And it remains to be seen how this guidance will influence climate targets which are set by financial market participants outside of the net zero financial alliances. Indeed, a few of these financial market participants discuss GHG emissions purely in the context of those associated with their own operations. This is a key area where sector specific ESRS are very necessary to ensure homogenous market practice as nothing on the face of the sector agnostic ESRS reporting requirement indicated that targets should relate to the financial portfolio.

ESRS E1-1, Para 16(b) 'an explanation of the decarbonisation levers identified, and key actions planned, including changes in the undertaking's product and service portfolio and the adoption of new technologies in its own operations, or the upstream and/or downstream value chain'

This is an area where comparability between disclosures by different financial market participants is extremely difficult. Financial market participants in the net zero financial alliances do generally disclose information about decarbonisation levers they have identified. However, the decarbonisation levers are highly variable and include simple alignment measures (e.g. reducing financing to GHG intensive industries and increasing financing to more sustainable alternatives), seeking financing opportunities for new technologies, adoption of new internal ESG assessment frameworks etc. It is nigh on impossible to assess the overall effect of these measures for the financial market participant itself or to compare between different organisations. Very few disclosures relate to how a financial market participant can leverage its influence to assist a client or investee company transition (e.g. what might be termed financial institution or investor impact).

ESRS E1-1, Para 16(c) 'an explanation and quantification of the undertaking's investments and funding supporting the implementation of its transition plan, with a reference to the key performance indicators of taxonomy-aligned CapEx, and where relevant the CapEx plans'

This reporting requirement could be interpreted in different ways in the finance sector context. In other economic sectors this would generally be the amount for refurbishing/replacing infrastructure, establishing governance etc. In the finance sector this could be interpreted as the amount of investment in accordance with the transition plan. Of the disclosures seen it was difficult to assess if these arose from cherry picking those activities which showcase a positive narrative (e.g. something like a marketing claim) or a comprehensive picture (as it is difficult to assess the relative proportion of these investments in the context to the totality of investments made by the financial market participant).

ESRS E1-1, Para 16(d) 'a qualitative assessment of the potential locked-in GHG emissions from the undertaking's key assets and products … an explanation of the plans to manage its GHG intensive and energy-intensive assets and products'

It was commonplace to see statements about increasing the proportion of financing to clean/renewable energy, electric vehicles etc. But while these disclosures tell a positive story about (future) financing decisions, information about managing GHG intensive financial assets was largely absent. This is another area where sector specific ESRS are very necessary to interpret the requirements in the finance sector context.

ESRS E1-1, Para 16(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'

There are taxonomy reporting requirements[32] already in effect which require relevant undertakings to provide various taxonomy related information according to specific templates defined for different types of entity. Currently these requirements do not include information about plans to increase taxonomy alignment. Therefore, although financial market participants are already disclosing information about taxonomy aligned investments, these disclosures will need to be enhanced to include the relevant transition plan information when the CSRD/ESRS reporting requirements come into effect.

[32] Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation

ESRS E1-1, ESRS E1-1, Para 15 'exposure to coal, oil and gas-related activities' and Para 16(f) 'significant CapEx amounts invested during the reporting period related to coal, oil and gas-related economic activities'

This is a key area to monitor how market practice develops once the CSRD/ESRS reporting requirements come into effect. While the concept of CapEx does not really work in the context of financing arrangements one of the overall objectives for the transition plan is to 'enable an understanding of the … the undertakings exposure to coal, oil and gas-related activities.'[33] Among NZBA and NZAMi, financial market participants generally disclose their planned exit date from coal – but only a few provide information relevant to oil and gas economic sectors. But even these disclosures do not provide information about the current exposure to coal, oil and gas-related activities. No financial market participant provided any information about the current amount of financing or investment to these sectors. This is a further key area where sector specific ESRS are very necessary to interpret the requirements in the finance sector context.

ESRS E1-1, Para 16(h) 'how the transition plan is embedded in and aligned with the undertaking's overall business strategy and financial planning'

ESRS E1-1, Para 16(i) 'whether the transition plan is approved by the administrative, management and supervisory bodies'

Disclosures about how sustainability features in corporate governance were one of the most common disclosures (and linking any climate related aspects to these existing corporate governance structures was commonplace). This is likely due to the pre-existing reporting requirements in relation to the non-financial statement and corporate governance more generally. However, given this existing practice it will be interesting to note whether transition plan responsibility will be subsumed within the existing corporate governance architecture for general sustainability aspects or whether a separate corporate governance architecture will be established for transition plan responsibility. In the finance sector context, where the transition plan should be highly determinative of investment decisions it could be highly problematic if transition plan responsibility is not high on the corporate governance agenda.

2.4 Comparability between financial market participants is difficult

With the emergence of the transition plan concept, much of the focus has been on how to assess the credibility of transition plans. Credibility refers to the fact that a transition plan should not only include scientifically sound climate targets which are aligned with the Paris Agreement, but also that the implementation actions and the financial and other resourcing of these implementation actions are sufficient to ensure that the transition plan is effective.

These concerns as to credibility are why initiatives such as the Net-Zero Donut, which provides a framework enabling assessment of transition plan credibility (see *Information Box: Net-Zero Donut*), exist. A further notable example is the ATP-Col initiative which draws on existing publicly available international documentation related to transition plans and expert opinions to present a credibility assessment process for transition plans.[34]

But the previous bugbear for sustainability reporting – comparability – is just as relevant to transition plan disclosures. The Commission's fitness check on the EU framework for public reporting by companies[35] identified the limited comparability and reliability of sustainability information disclosed under the Non-Financial Reporting Directive as a significant problem.

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[33] ESRS E1-1, Para 15
[34] Assessing Transition Plan Collective (ATP-Col), 2024, Assessing the credibility of a company's transition plan: framework and guidance
[35] EU Commission, 2021, Fitness Check on the EU framework for public reporting by companies Accompanying the document Report from the Commission to the European Parliament, the Council and the European Economic and Social Committee on the review clauses in Directives 2013/34/EU, 2014/95/EU, and 2013/50/EU

Indeed, the CSRD/ESRS reporting requirements are supposed to increase comparability between disclosures by different organisations by being much more prescriptive about what must be included in the sustainability statement and how it is presented. 'The sustainability reporting standards shall ensure the quality of reported information, by requiring that it is understandable, relevant, verifiable, comparable and represented in a faithful manner.'[36]

Yet it remains to be seen how market practice will develop and how comparable disclosures by different organisations will be – certainly given current heterogeneity in reporting practice. And given the insights elsewhere in this paper (particularly the flexibility in relation to the structure of the sustainability statement (see *Section 2.1 Overview of the expected step change in finance sector transition plan disclosure*) and the difficulties in interpreting the reporting requirements in the finance sector context (see Section *2.2 Interpreting transition plan requirements is difficult in the finance sector context*) there is a significant risk of this heterogeneity continuing among financial market participants (even as organisations operating in the same economic sector).

2.5 Limited oversight of transition plan disclosures

In the context of the above-mentioned observations, the issue of likely oversight of transition plan disclosures is very relevant. The CSRD/ESRS reporting requirements discussed in this paper are subject to the existing regulatory oversight provisions. These are very broadly drafted at EU level which permits a variable oversight practice and culture at national level.

In addition, there are worrying signs that there will be an abnormally permissive oversight culture in the early years of compliance. Infringement proceedings have been started against 17 Member States (including Germany and Spain) for failing to adopt the CSRD into national law by the EU's July deadline.[37] And alongside these delays at national level, the Commission appears to be backtracking in its intention.

The outgoing Commissioner for Financial service, Financial Stability and Capital Markets Union stressed the importance of taking 'practical steps to minimise the burden on companies associated with the new reporting requirements.'[38] This includes 'encouraging companies to make full use of the transitional provisions included in the ESRS to ease implementation' and 'engaging with supervisory authorities and assurance providers to stress the need for a proportionate approach, recognising that there will be a learning curve and that reporting will improve over time.' These indicative signs about a relaxed approach to regulatory oversight are now bolstered by the recent announcements in relation to the proposed omnibus legislation to simplify the Taxonomy Regulation, CSRD and CSDDD (which itself follows the Commission's ambition to reduce the reporting burden by 25%). It is hard to believe that there will be a high degree of scrutiny and oversight of transition plan disclosures for compliance against reporting requirements which subject to potentially significant changes.

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[36] Art 1(8) CSRD inserting Art 29b in Directive 2013/34/EU
[37] Real Economy Progress, 2024, Don't over-implement CSRD EU official urges firms to use 'common sense' with reporting law
[38] https://finance.ec.europa.eu/document/download/e01b2044-9fb8-45a0-9752-ee07eef76f84_en?filename=240918-letter-mcguinness-hungary-csrd_en.pdf

The level of oversight that will be provided by the audit process is also questionable. While the CSRD introduces enhanced requirements for auditors in relation to sustainability reporting, these have a phased approach to implementation which is dependent on adopting further delegated legislation. Initially, auditors must provide a limited assurance level of assessment[39] which requires less tests than a reasonable insurance engagement. How these limited assurance engagements can operate to provide a thorough vetting of information in transition plans is not clear at all.

A further weakness in oversight is apparent in the context of shareholders. According to the CSRD, transition plan disclosures should be included in the sustainability statement in the management report (which itself forms part of the annual report). On this basis one would assume that shareholder approval of the transition plan is included in the standard shareholder vote on approval of the annual report as a whole (i.e. there is no provision for a separate shareholder vote to approve the transition plan). In theory, this could potentially constrain the ability of shareholders to take issue with a transition plan if they deem it to be lacking credibility or not sufficiently ambitious. Despite the growth in investor climate coalitions, at present most of the shareholder base may be unlikely to disapprove of the annual report as a whole because of an inadequate transition plan. Therefore, if a transition plan has been disclosed in compliance with the regulatory requirements and approved by shareholders by virtue of the shareholder vote to approve the annual report, this may limit the ability for interested shareholders to take steps to address a poor transition plan (e.g. by filing a specific shareholder resolution on the topic). Therefore, there are concerns in relation to accountability because transition plans will only be subject to shareholder approval as part of a wealth of other information included in the annual report.[40]

[39] 'The assurance profession distinguishes between limited assurance engagements and reasonable assurance engagements. The conclusion of a limited assurance engagement is usually provided in a negative form of expression by stating that no matter has been identified by the practitioner to conclude that the subject matter is materially misstated … The conclusion of a reasonable assurance engagement is usually provided in a positive form of expression and results in providing an opinion on the measurement of the subject matter against previously defined criteria.' (Recital 60, CSRD)

[40] Sustainable Finance Observatory (formerly 2° Investing Initiative), 2024, A changing climate … for investor engagement on transition plans in France

Conclusion

The CSRD/ESRS reporting requirements to disclose a transition plan reflects the fact they are seen as a key tool to translate the international net zero challenge into an individual company's operational roadmap and make its activities compatible with a net zero world. The CSRD/ESRS reporting requirements coming into effect will significantly change the landscape of bank and asset manager disclosure on transition plans. This will be the case for both financial market participants outside of the net zero financial alliances and those who are members of a net zero financial alliance.

This points to the importance of mandatory regulatory requirements following voluntary market initiatives. And this is even more crucial considering the current turmoil in the net zero financial alliances.[41] The NZAM has now suspended its activities[42] and there are numerous reports of high profile banks withdrawing membership from the NZBA –the six largest banks in the US[43] and five of the largest Canadian banks[44] have announced their departure as of January 2025.[45] And it has been reported that GFANZ will change its relationship with the net zero financial alliances so that 'companies will be able to draw on GFANZ for guidance and assistance but won't need to align their operations with the goals of the Paris climate agreement.'[46] These developments raise critical questions about the future ability of the net zero financial alliances to increase finance sector efforts for the net zero transition. And therefore, one would hope that the CSRD/ESRS reporting requirements could counteract these developments.

For EU financial market participants outside of a net zero financial alliance, disclosure on transition plans is minimal. Because of existing sustainability reporting requirements[47], these financial market participants do disclose information on various climate aspects – and while some of these disclosures may relate to (or overlap with) constituent elements of the upcoming CSRD/ESRS reporting requirements, these disclosures do not amount to a comprehensive transition plan. This observation is perhaps to be expected but it does emphasise that the CSRD/ESRS reporting requirements will mean that a significant number of financial institutions will be required to disclose a transition plan for the first time. And these financial institutions may have less organisational capacity or interaction with the net zero ecosystem which will have knock on consequences in terms of quality and credibility of these transition plans.

Even among financial market participants who are members of a net zero financial alliance and are already disclosing a transition plan, it is difficult to ascertain the credibility of these transition plans. There is a concern that these transition plans cherry pick information to showcase the positive activities of the institutions. As the Net-Zero Donut monitoring framework shows there are still large gaps in these disclosures in terms of providing a comprehensive view of the transition activities of the institution. It remains to be seen whether the CSRD/ESRS reporting requirements coming into effect will significantly change the market practice of members of a net zero financial alliance so that the transition plans show a more faithful picture of the overall transition activities of the institution. It should also be noted that the CSRD/ESRS reporting requirements cover information which is not disclosed by any financial market participant currently – most critically exposure to coal, oil and gas activities.

[41] Sustainable Finance Observatory (formerly 2° Investing Initiative), 2024, Financing the Transition: Improving the effectiveness of the Net-Zero Alliances
[42] Net Zero Asset Managers Initiative, 2025, Update from the Net Zero Asset Managers initiative
[43] JP Morgan and Morgan Stanley left in early January 2025 while Bank of America, Citigroup, Wells Fargo and Goldman Sachs announced their withdrawal in December.
[44] TD Bank, Bank of Montreal, National Bank of Canada, Canadian Imperial Bank of Commerce and Scotiabank.
[45] Global Trade Review, 2025, Top Canadian banks latest to pull out of Net Zero Banking Alliance
[46] March, A, 2024, A Top Climate Group for Banks and Asset Managers is Making Changes
[47] For example, those contained in the Non-Financial Reporting Directive and potentially the multitude of other finance sector initiatives outside of the net zero financial alliances.

Currently transition plan disclosures can be found across several different locations – and indeed a fair amount of desk top research may be required to locate a transition plan. Therefore, the fact that the CSRD/ESRS will centralise this information in a single location (i.e. the sustainability statement in the management report) should greatly assess with accessing relevant information. In addition, the fact that this information must be included in the sustainability statement means that it is subject to the audit requirement which should help improve the quality of the information which is disclosed.

But there are several issues which must be monitored in relation to forthcoming transition plans disclosed in accordance with the CSRD/ESRS reporting requirements. For larger financial market participants, the group will often include bank and asset manager (and other) business activities. However, when reporting at the consolidated level it may be difficult to disentangle the elements of the transition plan which relate to the different business units (if indeed there is sufficient specificity and detail in the transition plan in the first place). And while the transition plan must now be included in the sustainability statement, there is still a high degree of flexibility in terms of how the sustainability statement is structured and how it intersects with other information in the management report. Many of the constituent elements of the new transition plan reporting requirements overlap with or strongly relate to existing reporting requirements (e.g. in relation to taxonomy related metrics, corporate governance, business model and strategy). Therefore, it is difficult to know what prominence will be given to the transition plan compared to the wealth of other sustainability information required by the CSRD/ESRS reporting requirements or how much any transition plan will be clearly delineated form this broader sustainability information. Consequently, there is a risk of transition plan information being lost and it may be difficult to identify and assess the relevant information.

When assessing whether a transition plan complies with the CSRD/ESRS reporting requirements, the devil is in the detail. Whether a transition plan includes certain information is only a superficial level of assessment – but whether the information meets the objective of providing an understanding that the strategy and business model are compatible with the Paris Agreement and whether this information is accurate is more difficult. Given the variety of operating contexts, possible features for transition planning and flexibility in reporting this assessment makes comparability across disclosures from different financial market participants difficult.

But perhaps the most pressing issue relates to the fact that the CSRD/ESRS reporting requirements are sector agnostic – therefore how they should be interpreted in the finance sector context is often not clear. Many of the reporting requirements are expressed in a way or refer to concepts (notably CapEx) which do not really fit with the finance sector operating model. While these reporting requirements may lead to an intuitive interpretation for what should be required in disclosures from financial market participants, in the absence of guidance which works for the finance sector there is a risk of heterogeneous market practice.

The CSRD itself recognises this problem and as a result it stipulates that '[t]he Commission should adopt a second set of sustainability reporting standards by means of delegated acts by 30 June 2024, specifying complementary information that undertakings should disclose about sustainability matters and reporting areas, where necessary, and information that is specific to the sector in which an undertaking operates.'[48] [49] However, as part of the as part of the EU Commission's 2024 Work Programme to reduce reporting burdens, this has now been postponed by 2 years.[50]

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[48] Recital 54, CSRD

[49] As a result of this, the mandate given to EFRAG also included the development of these sector specific reporting standards, and in September 2022, EFRAG started the development of the first set of Exposure Drafts, including SEC1 Sector Classification and 4 sector standards. As at the date of this paper EFRAG work in relation to a sector specific standard for financial institution is still only at research phase (https://www.efrag.org/en/sustainability-reporting/esrs-workstreams/sectorspecific-esrs)

[50] Directive (EU) 2024/1306 of the European Parliament and of the Council of 29 April 2024 amending Directive 2013/34/EU as regards the time limits for the adoption of sustainability reporting standards for certain sectors and for certain third-country undertakings

The paper demonstrates that delaying development and implementation of sector specific standards is a grave mistake in the finance sector context. The CSRD/ESRS reporting requirements coming into effect will mean that a significant proportion of financial market participants must disclose a transition plan during 2025. But the articulation of the CSRD/ESRS reporting requirements in the finance sector context is not clear and there is a risk of highly variable market practice. Finance sector specific standards will be key to specifying how the reporting requirements can be applied in a coherent way by different types of financial institution. Without finance sector specific standards, the regulatory change is only half complete and means that financial market participants are now subject to new reporting requirements but there is significant uncertainty about how to comply with them.

This current situation with the potential confusion caused by the absence of finance sector specific standards may add fuel to the fire for arguments seeking to reduce sustainability reporting requirements because of concerns about the effectiveness of the reporting requirements, competitiveness etc. Considering the recent announcements in relation to proposed omnibus legislation to simplify the Taxonomy Regulation, CSRD and Corporate Sustainability Due Diligence Directive, it is difficult to see how this political direction of travel is compatible with speeding up or finalising the sector specific standards. But without the sector specific standards the CSRD/ESRS regulatory requirements may be somewhat redundant in the finance sector context as the very policy objective of translating the international decarbonisation challenge into the financial institution’s operational roadmap is undermined. The focus of the proposed omnibus legislation on streamlining runs the risk of dismantling regulation which is only half complete and retreating further from the policy objective of a net zero transition.

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Legislation

Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation

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Annex: Methodology

Abstract

SFO reviewed current market practice for transition plan disclosures for a sample of EU banks and asset managers. The research provides a qualitative review of the most recent disclosures in the annual report, sustainability report or separate transition plan disclosures for four samples of EU financial market participants: (1) banks which are members of the NZBA; (2) banks which are not members of the NZBA; (3) asset managers which are members of NZAMI; and (4) asset managers which are not members of the NZAMI. The disclosures were reviewed to generate insights about what to look out for in bank and asset manager transition plan disclosures with the upcoming CSRD/ESRS regulatory requirements to disclose climate transition plans.

Sample definition

The sample includes financial market participants from four Member States: France, Germany, Spain and Italy.[51] These Member States represent significant financial markets operating in the EU and are subject to the CSRD/ESRS regulatory framework.

Banks

The European Central Bank (**ECB**) publishes a *List of Supervised Entities* which includes both significant supervised entities which are directly supervised by the ECB (Part A) and less significant supervised entities which are indirectly supervised by the ECB (Part B).[52] As of 1 July 2024, the List of Supervised Entities includes a total of 3,077 banks which includes 113 significant institutions directly supervised by the ECB. Of these 113 significant institutions, 92 banks disclosed their total assets (in EUR).

The total bank sample (i.e. (1) banks which are members of the NZBA and (2) banks which are not members of the NZBA) includes the largest 28 banks from the selected Member States out of these 92 significant institutions directly supervised by the ECB and which have disclosed their total assets.[53]

The total bank sample was then cross referenced against the list of members on the NZBA website. As a result, our total bank sample consists of 19 banks which are members of the NZBA and 9 banks which are not members of the NZBA. However, it should be noted the disclosures for some banks were not reviewed due to the language for these disclosures not being in English.

Asset managers

The TAI & Pensions & Investments (P&I) *World's Largest 500 Asset Managers, 2024*[54] report provides a list of the largest asset managers globally as at the end of 2023 based on total assets in USD.

The total asset manager sample (i.e. (3) asset managers which are members of NZAMI and (4) asset managers which are not members of the NZAMI) includes the largest 30 asset managers from the selected Member States.[55]

The total asset manager sample was then cross referenced against the list of members on the NZAMI website. As a result, our total asset manager sample consists of 13 asset managers which are members of the NZAM and 17 asset managers which are not members of the NZAM. However, it should be noted the disclosures for some asset managers were not reviewed due to the language for these disclosures not being in English.

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[51] World Economic Forum, 2023, These are the European Union countries with the largest economies
[52] ECB, 2024, List of supervised entities as of 1 July 2024
[53] We began by including all banks with total assets over €1,000 billion, then progressively expanded the range (from largest to smaller.
[54] TAI & P&I, 2023, The world's largest 500 asset managers
[55] To determine this selection, we employed a method that progressively reduced the asset size threshold – same approach that is employed for the bank selection, moving from the largest to smaller asset managers.

Collecting information

For each financial market participant, we accessed the company website to collect the following publicly available documents in order of preference:

- the latest available annual report (including the management report with non-financial statement); or
- any separate non-financial statement or sustainability report (where disclosed separately from the annual report); or
- any separate transition plan disclosure.

Analysing information

The publicly available documents for each financial market participant were reviewed to see if they contained any disclosures in relation to a climate transition plan. Any disclosures in relation to a climate transition plan were reviewed against the indicators in Table 2 below according to the criteria to assess if the indicator is satisfied. These indicators were designed to closely correlate with the reporting requirements articulated in the CSRD/ESRS.

Table 2: CSRD/ESRS transition plan requirements and corresponding indicators

CSRD/ESRS Requirement	*Indicator*	*Criteria to assess if the indicator is satisfied*
ESRS E1-1, Para 14. The undertaking shall disclose its transition plan for climate change mitigation.	The transition plan is public.	This indicator is satisfied if the undertaking discloses its transition plan in the latest annual report (or a separate sustainability report or transition plan disclosure which is publicly available). The methodology ascertains first if there is a clear section of the relevant report titled 'Transition Plan' or similar. If 'yes' then the indicator is satisfied. If 'no' then the indicator is not satisfied but we continue to assess if the relevant report(s) have any constituent elements of a transition plan spread over other sections.
ESRS E1-1, Para 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.	Demonstrates how the undertaking's business model and strategy are aligned with the limiting of global warming to 1.5°C in line with the Paris Agreement.	This indicator is satisfied if the undertaking includes an explanation of how its strategy and business model are compatible with the goals of the Paris Agreement and limiting global warming to 1.5°C. (Note however that this relevant ESRS requirement is formulated as an objective rather than a specific content requirement).
	Discloses amount of the undertaking's investments in coal, oil and gas sector.	This indicator is satisfied if the undertaking's investment amount is disclosed for the oil, gas and coal sector. This was considered to be the most intuitive interpretation of 'exposure' in the finance sector context. (Note however that this relevant ESRS requirement is formulated as an objective rather than a specific content requirement).
ESRS E1-1, Para 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.	Identifies GHG reduction targets for its financial portfolio.	NOTE: The ESRS disclosure requirements for the transition plan are closely connected to the ESRS disclosure requirements for targets related to climate change mitigation and adaptation (ESRS E1-4). There are numerous provisions (ESRS E1 Paragraphs 30-34) which stipulate requirements for climate targets. However, assessing the credibility and compliance of climate targets themselves is outside the scope of this review. Therefore, this indicator is satisfied if the undertaking has disclosed a simple climate target for 2030.

	Provides an explanation of how the climate targets are compatible with the limiting of global warming to 1.5°C in line with the Paris Agreement.	If the indicator in relation to 'Identified GHG reduction targets for its financial portfolio' is not satisfied then this indicator cannot be satisfied. Otherwise, this indicator is satisfied if: (1) there is an explanation of how the climate targets are compatible with the limiting of global warming to 1.5°C in line with the Paris Agreement or (2) the targets are expressed to be science based and in accordance with an established methodology.
ESRS E1-1, Para 16. The information required by paragraph 14 shall include: … (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.	Provides an explanation of the decarbonisation levers which can be implemented.	If the indicator in relation to 'Identified GHG reduction targets for its financial portfolio' is not satisfied then this indicator cannot be satisfied. Otherwise, this indicator is satisfied if the undertaking identifies measures which could be adopted to decarbonise the financial portfolio.
	Provides an explanation of the actions the undertaking is planning to decarbonise the financial portfolio.	If the indicator in relation to 'Identified GHG reduction targets for its financial portfolio' is not satisfied then this indicator cannot be satisfied. Otherwise, this indicator is satisfied if the undertaking explains the actions it will take to decarbonise the financial portfolio.
ESRS E1-1, Para 16. The information required by paragraph 14 shall include: … (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.	Explains and quantifies investments and funding to support the transition plan.	This indicator is satisfied if the undertaking discloses the number of investments allocated in accordance with its transition plan. Note however that during the review it became clear that there could be quite different interpretations of the ESRS disclosure requirement in the finance sector context.
	Refers to key performance indicators related to taxonomy.	This indicator is satisfied if the undertaking references KPIs related to EU Taxonomy. Note however that on the face of the ESRS disclosure requirement the reference to CapEx is not a good fit for the finance sector context.
ESRS E1-1, Para 16. The information required by paragraph 14 shall include: … (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.	Describes emissions profile of the current financial portfolio and associated transition risk.	This indicator is satisfied if the undertaking provides any explanation of the emissions profile of the portfolio (e.g. key hotspot areas for GHG emissions) and associated transition risk.
	Identifies plans to manage exposure to GHG intensive/energy intensive portfolio holdings.	This indicator is satisfied if the undertaking provides an explanation of plans to manage GHG intensive/energy intensive portfolio holdings.
ESRS E1-1, Para 16. The information required by paragraph 14 shall include: … (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	Describes current level of taxonomy aligned investment and future plans for increasing taxonomy aligned investment.	This indicator is satisfied if the undertaking provides an explanation of current level of taxonomy aligned investment and future plans for increasing taxonomy aligned investment.

(revenues, CapEx, OpEx) with the criteria established in Commission Delegated Regulation 2021/2139.		
ESRS E1-1, Para 16. The information required by paragraph 14 shall include: … (f) if applicable, a disclosure of significant CapEx amounts invested during the reporting period related to coal, oil and gas-related economic activities.	Discloses amount of the undertaking's investments in coal, oil and gas sector.	This indicator is satisfied if the undertaking's investment amount is disclosed for the oil, gas and coal sector. This was considered to be the equivalent/analogous metric in the finance sector context.
ESRS E1-1, Para 16. The information required by paragraph 14 shall include: … (g) a disclosure on whether or not the undertaking is excluded from the EU Paris-aligned Benchmarks.	Includes statement as to whether included or excluded from the EU Paris-aligned Benchmarks.	During the review, we took the decision to remove this indicator on the basis that in the absence of the regulatory requirement being in force, it does not make sense to report compliance against it.
ESRS E1-1, Para 16. The information required by paragraph 14 shall include: … (h) an explanation of how the transition plan is embedded in and aligned with the undertaking's overall business strategy and financial planning.	Explains how the transition plan is embedded in the institution's overall business strategy.	This indicator is satisfied if the undertaking states how climate-related targets and actions align with long-term business goals.
	Explains how the transition plan is integrated into key decision-making processes.	This indicator is satisfied if the undertaking shows how strategic decisions, including investments and financial planning, product development, and market positioning, are guided by the climate transition plan.
ESRS E1-1, Para 16. The information required by paragraph 14 shall include: … (i) whether the transition plan is approved by the administrative, management and supervisory bodies.	Identifies the governance body responsible for implementing the transition plan.	This indicator is satisfied if the undertaking demonstrates the transition plan has been approved by the company's administrative, management and supervisory bodies.
ESRS E1-1, Para 16. The information required by paragraph 14 shall include: … (j) an explanation of the undertaking's progress in implementing the transition plan.	Includes tracking and reporting on KPIs related to the transition plan.	This indicator is satisfied if the undertaking provides a clear and detailed explanation of the company's progress in executing its transition plan, specifies any milestones (KPIs) achieved in the transition process, describes how progress aligns with the intermediate targets.
ESRS E1-1, Para 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.		During the review, we took the decision to remove this indicator on the basis that in the absence of the regulatory requirement being in force, it does not make sense to report compliance against it.

Any disclosures in relation to a climate transition plan were reviewed against these indicators using a structured evaluation framework. For each indicator a binary "Yes" or "No" was assigned according to the criteria to assess whether indicator is satisfied for compliance with the relevant ESRS requirement together with qualitative information (e.g. relevant text from the respective report) copy pasted into the results database to substantiate the decision.

Weaknesses in the methodology

Reviewing individual disclosures against the indicators in the table above requires a significant degree of subjective interpretation – one person's interpretation may be different to another person's interpretation.

The original intention was to perform a 'readiness review' of current financial market participant disclosures – on the assumption that with the activities and influence of the net zero financial alliance then many financial market participants (even outside the net zero financial alliances) may already be disclosing some of the constituent elements of a transition plan. However, it quickly became apparent that we would not be able to frame this research as anything other than a qualitative review – it was simply not really possible to derive any

credible quantitative analysis. Outside of the net zero financial alliances transition plan disclosures are so piecemeal that it makes any overall comparison extremely difficult– and even within the net zero financial alliances transition plans are not disclosed by every financial market participant and may not include many of the information points which will be required when the CSRD/ESRS requirements come into effect.

There is a lot of overlap between the different elements of the reporting requirements. In addition, the review focussed on the reporting requirements articulated in ESRS E1-1, Para 14-16 which are those specific to transition planning – but these cross refer to other reporting requirements (e.g. GHG emission reduction targets (as required by Disclosure Requirement E1-4) and climate change mitigation actions (as required by Disclosure Requirement E1-3)) which were not reviewed.

The fact that many of the financial market participants have a group structure and implement consolidated reporting means it is difficult (or impossible) to separately identify disclosures for different business units (e.g. banking and asset management).

Therefore, the review did not aim to provide a complete picture of individual financial market participant transition plans but rather to provide thematic insights about what to look out for in bank and asset manager transition plan disclosures in accordance with these CSRD/ESRS regulatory requirements. It identifies where disclosures should be closely monitored to ensure compliance with the CSRD/ESRS regulatory requirements and that the necessary information is included in disclosures.

Finance ClimAct contributes to the implementation of French and European policies for sustainable finance, in line with the European Green Deal and France's National Low Carbon Strategy.

It will develop the tools, methods, and new knowledge to achieve this goal in the coming years by: (1) supporting investments in energy efficient, and low-carbon industries, (2) considering the double materiality of climate change in financial management and supervision and (3) integrating environ mental objectives into retail investors' decisions.

The project is coordinated by the French Agency for Ecological Transition, The Ministry for Ecological Transition, The Autorité des marchés financiers, the Autorité de contrôle prudentiel et de résolution, 2° Investing Initiative, The Institute for Climate Economics, the Institut de la Finance Durable and RMI.

Finance ClimAct is an unprecedented programme which comprises a total budget of 18 million euros, 10 million of which are provided by the European Commission.

Duration: 2019-2024