Commission de Surveillance du Secteur Financier

Transition plans: Preparing for climate change impacts

Fact-finding exercise on issuers' sustainability reporting

December 2024

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Background

On 1 January 2024, the Corporate Sustainability Reporting Directive (the "CSRD") and the European Sustainability Reporting Standards (the "ESRS") came into force. The CSRD requires the following types of undertakings to apply the new rules for the first time in the 2024 financial year, for sustainability reports published in 2025:

- EU companies which are large public interest undertakings and have more than 500 employees, already subject to the Non-Financial Reporting Directive (the "NFRD");
- Non-EU companies with securities listed on an EU regulated market, which are large undertakings and have more than 500 employees.

The new CSRD/ESRS reporting requirements for sustainability information ("sustainability report") are far more granular and extensive than those currently applicable to non-financial disclosures under the NFRD ("non-financial statements"). Notably, stakeholders expect entity-specific disclosures on transition plans as well as on climate-related targets, actions and progress.

The CSSF has therefore decided to assess the disclosures on transition plans in the current and the future sustainability reporting by sending a questionnaire to a selection of issuers under its supervision and concerned by the CSRD ("issuers").

ESRS E1 - AR 1 defines a **transition plan** as relating to **the undertaking's efforts in climate change mitigation**. When disclosing its transition plan, the undertaking is expected to provide a high-level explanation of how it will adjust its strategy and business model to ensure compatibility 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 with no or limited overshoot (…), and where applicable, how it will adjust its exposure to coal, and oil and gas-related activities.

Objective of the review

The objective of the fact-finding exercise is to serve as a tool to draw the issuers' attention to key points to keep in mind when reporting on transition plans.

The intention was also to shed light on the challenges faced by issuers in the preparation of their transition plans and on their state of awareness and preparedness prior to the publication of their first sustainability reports in accordance with ESRS.

Scope and methodology

We prepared a questionnaire with 30 questions focused on certain disclosure requirements of the ESRS in relation to the transition plans and climate-related targets, actions and progress. For each question, issuers were requested to:

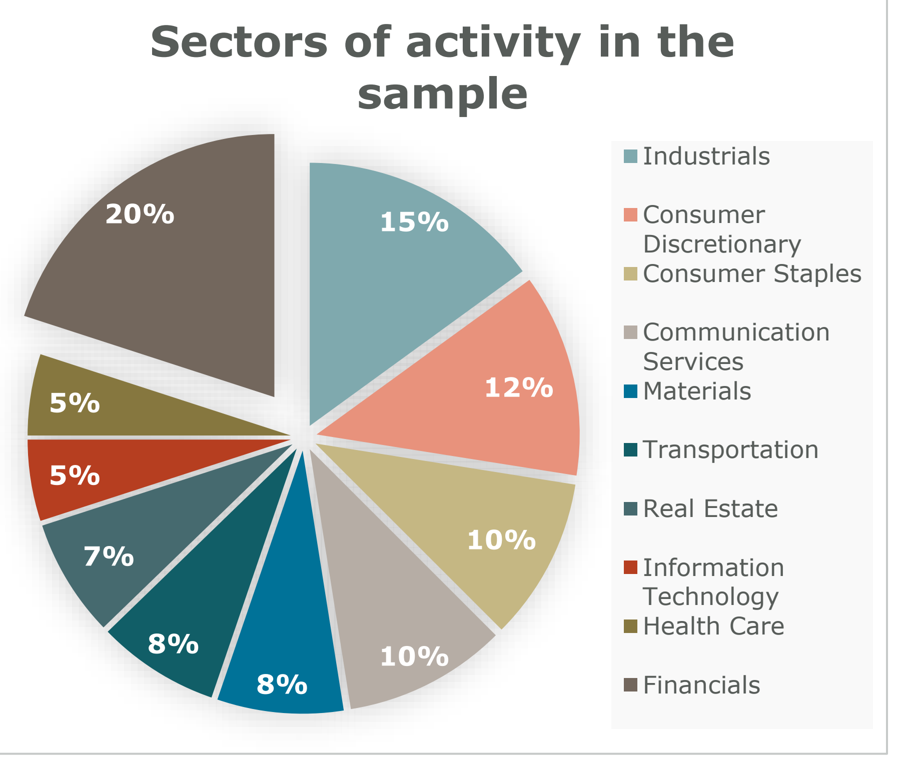
1. Answer using drop-down options by reference to the information disclosed in their 2023 non-financial statement;
2. Provide additional information and/or explanations;
3. Provide information on the planned improvements for their future sustainability reports, if relevant.

This analysis is based on the review of the answers of 40 issuers (80% non-financial undertakings and 20% financial undertakings) concerned by the CSRD for their sustainability reports to be published in 2025.

The sample is composed of:

- 29 European issuers already publishing non-financial statements in accordance with the NFRD;
- 4 European issuers exempted from publishing non-financial statements under the NFRD as subgroups of European issuers;
- 7 third-country issuers already publishing non-financial information whilst out of the remit of the NFRD.

The chart below outlines the sectors in which the issuers selected for the purpose of this report operate:



As the assessment was not intended as a supervisory enforcement examination, issuers provided the information and explanations on a voluntary basis. The aim of the questionnaire was mostly educational in order to remind issuers of the ESRS requirements concerning transition plans.

The findings presented in this report stem from the issuers' responses, i.e. on a declaratory basis, and not from the CSSF examination of the 2023 disclosures. We have occasionally adjusted inconsistent answers based on the accompanying comments and/or on checking the 2023 non-financial statements of the relevant issuers.

Fact-finding

Materiality assessment

42% (15 issuers) of the respondents that published a 2023 non-financial statement already performed a double materiality assessment and disclosed some information about it, while other 22% (8 issuers) still disclosed a "single" or "simplified" materiality assessment (often impact materiality), sometimes based on GRI.

9 issuers informed us that to date they have completed their first double materiality assessment in compliance with the CSRD requirements for the 2024 sustainability report. The remaining 8 issuers are either still working on their assessment or did not provide specific information to us.

Except for 5 issuers which have not carried out a materiality assessment yet, all issuers in the sample considered that climate change is a material topic.

Setting targets

In their sustainability reports, undertakings shall disclose the climate-related targets they have set to manage material climate-related impacts, risks and opportunities. Specific requirements apply for greenhouse gas (GHG) emissions reduction targets.

ESRS E1-4, par.34(a)

*GHG emission reduction targets should be disclosed in **absolute value**, (either in tonnes of CO2eq or as a percentage of the emissions of a base year) and, where relevant, in intensity value.*

78% of the respondents (31 issuers) have set climate-related targets. Unsurprisingly, most of these targets related to GHG emission reduction, either in absolute value (for 58% of them) or in intensity, or both. The most common reduction targets in absolute value disclosed in the 2023 non-financial statements of the issuers under review were reduction targets as a percentage of emissions of a base year.

58% of the respondents declared having also set other climate-related targets, for example regarding energy consumption reduction, physical and transition risk mitigation, or transition to renewable energy. This number should be taken with caution though, because some respondents also referred to targets related to waste management or sustainable use of water resources, which, although being fully relevant in the path for sustainability (and topics specifically treated in the ESRS), should not be included in the transition plan *per se*.

Commitment to science-based targets

Almost half the respondents having set climate-related targets, claim that they were compatible with the Paris Agreement: 19% had their targets validated by SBTi, another 19% used methodologies based on various existing guidelines, whereas we have been unable to conclude on the methodology used for the remaining 10%.

We noted that 18% of the respondents intended to submit their targets to SBTi validation (on top of those having already been validated), with various degrees of commitment so far.

Scope of the emission reduction targets

ESRS E1-4, par. 34(b)

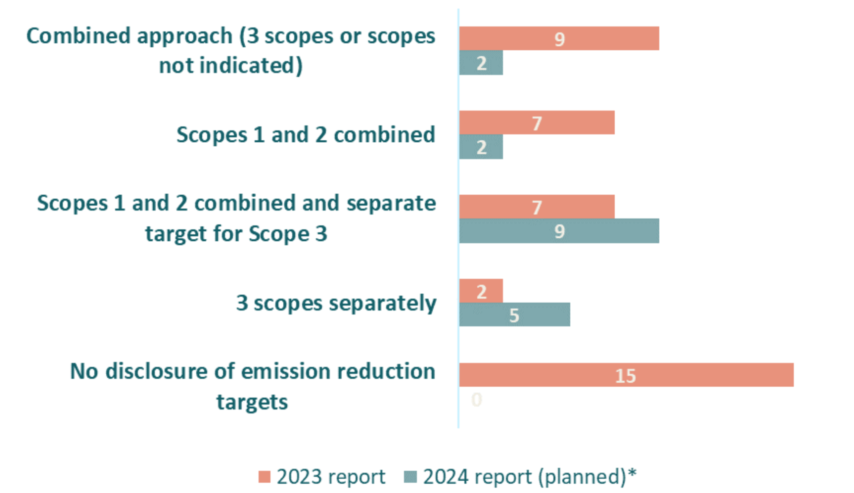
GHG emission reduction targets shall be disclosed for Scope 1, 2, and 3 GHG emissions, either separately or combined. The undertaking shall specify, in case of combined GHG emission reduction targets, which GHG emission Scopes (1, 2 and/or 3) are covered by the target, the share related to each respective GHG emission Scope and which GHGs are covered.

64% of the respondents having disclosed emission reduction targets in their 2023 non-financial statement had a combined approach and sometimes explicitly mentioned that their targets concerned only Scopes 1 and 2. Several issuers advised that targets would be presented separately next year, often combining Scopes 1 and 2 targets on one hand and having a separate Scope 3 target on the other hand. This was especially true for issuers seeking to have their targets SBTi validated.

However, in several cases, scopes covered by targets remained unclear.

Issuers should be transparent about the scopes covered when reporting on their emission reduction targets. Moreover, the method used to calculate the targets for Scope 2 emissions (location-based or market-based) should also be indicated.

Disclosure of targets by scope



* 22 inconclusive answers have been excluded

Timeline for targets

ESRS E1-4, par. 34(d)

GHG emission reduction targets shall at least include target values for the year 2030 and, if available, for the year 2050. From 2030, target values shall be set after every 5-year period thereafter.

74% of the respondents having set climate-related targets (23 issuers) disclosed them at least for 2030 in their 2023 non-financial statements, while 39% also disclosed targets for 2050.

With the exception of 2 issuers having set targets for 2035, others either set shorter-term targets or did not disclose such at all.

In order for users to understand and assess climate change-related targets set, and particularly GHG emission reduction targets, issuers shall disclose clear and specific information on the scopes concerned, the base year and baseline value, framework and methodology used, and critical assumptions.

While acknowledging the overall enhancement in issuers' recent disclosure on their targets, the CSSF emphasises that more efforts should be made to comply with the ESRS requirements and to meet investor expectations. Issuers are particularly encouraged to include Scope 3 emissions, when relevant, in their targets.

Decarbonisation levers, actions and financial resources

Disclosure of actions and levers

Decarbonisation levers consist of the aggregated types of mitigation actions such as energy efficiency, electrification, fuel switching, use of renewable energy, products change (e.g. phase out or substitution of products and process) and supply-chain decarbonisation that fit with undertakings' specific actions.

These levers are key to any transition plan and encompass both qualitative and quantitative elements. The qualitative description outlines the key actions required to achieve the undertaking's decarbonisation targets, while the quantitative description details the expected contributions of these actions to the overall decarbonisation pathway.

ESRS E1-3, par. 29(a)

An undertaking is required, when listing key actions taken in the reporting year and planned for the future, to present the climate change mitigation actions by decarbonisation lever including the nature-based solutions.

25 issuers, representing 81% of the respondents having set climate-related targets, disclosed expected decarbonisation levers identified to achieve their targets. Almost all indicated that they planned to improve and adapt their reporting in conformity with the ESRS E1 requirements.

6 respondents did not disclose information on decarbonisation levers yet as most of the time the information was not available for their 2023 non-financial statement. However, they envisaged to do so in their 2024 sustainability reports. The 9 remaining respondents had not set any climate-related targets.

23 of the 25 respondents disclosed a qualitative description, i.e. the nature and list of key actions to achieve the targets. However, most of them were still assessing the level of detail on the decarbonisation levers and associated key actions disclosures.

Only 8 respondents disclosed a quantitative description showing the respective contributions of the actions to the decarbonisation pathway, with only a few assigning these actions to identified levers. The other 17 issuers did not provide a description of the quantitative contributions in their 2023 non-financial statements.

One issuer (active in the real estate sector) indicated that a quantitative assessment would have been heavily based on assumptions used for estimations that often obscure highly building-specific criteria when it comes to renovation planning. This would have limited the accuracy of any estimated figures and therefore the issuer did not disclose such information.

The CSSF reminds issuers that, when describing the expected decarbonisation levers, they should provide information on the assumptions used to identify them and explain the estimated contributions of each to achieve emission reduction targets (e.g. by adoption of new technologies). They shall also explain whether and how they have considered a diverse range of climate scenarios.

Presentation of actions and levers

The ESRS do not prescribe how actions and levers are to be presented. However, undertakings may disclose the list of key mitigation actions alongside the measurable targets with disaggregation by decarbonisation levers.

ESRS E1-4, AR 31

An undertaking may present its GHG emission reduction targets together with its climate change mitigation actions as a table or graphical pathway showing developments over time.

7 of the 25 respondents having disclosed decarbonisation levers presented in tabular format or as a graphical visualisation the progress with respect to their GHG emission reduction targets together with climate change mitigation actions. Whereas several issuers indicated disclosing both a table and a graphical pathway, where the table would give a more global overview of the targets and the graph a more comprehensive one, most respondents only used one of both.

Regretfully, only 6 issuers disclosed specific information on the implementation timetable.

The CSSF highlights that the timetable is key in assessing the ambition and credibility of the strategy of an undertaking. In particular, short-term measures play an important role in demonstrating concrete progress towards decarbonisation and its verifiability.

Key actions

ESRS 2 MDR-A, par.68 (a)

An undertaking is required to disclose the list of key actions taken in the reporting year and planned for the future, their expected outcomes and, where relevant, how their implementation contributes to the achievement of policy objectives and targets.

73% of the respondents (29 issuers) described at least some key actions taken in the reporting year and planned for the future. Most of the respondents indicated to be in the process of investigating how to improve the disclosures on key actions taken and of aligning such disclosures with the future ESRS requirements. However, only some provided further detailed explanations about the planned actions to be disclosed in their future sustainability reports.

Another 10% of the respondents did not provide information on their key actions at all in their non-financial statements.

Financial resources

ESRS E1-3

An undertaking is required to disclose its climate change mitigation and adaptation actions and the resources allocated for their implementation. It shall relate significant amounts of capital expenditure ("CapEx") and operational expenditures ("OpEx") to the relevant line items or notes in the financial statements, the key performance indicators ("KPIs") and, if applicable, the CapEx plan, required by the EU Taxonomy regulation.

We noted that only 15% of the respondents (6 issuers) declared disclosing information on financial resources allocated to the transition plan. However, upon further analysis, we observed that almost all issuers only referred to the disclosures made in the context of the EU Taxonomy Regulation.

We remind issuers that where the implementation of an action plan requires significant CapEx and/ or OpEx, they should describe the type of current and future financial and other resources allocated to the action plan. In many cases, the scope of the CapEx and OpEx in the context of the transition plan exceeds CapEx and OpEx reported under the Taxonomy Regulation.

Issuers shall explain any potential differences between the KPIs presented under ESRS and those disclosed under the EU Taxonomy Regulation due to, for instance, the disclosure of non-eligible economic activities.

Issuers shall also provide an explanation of how the transition plan is embedded in and aligned with their overall business strategy and financial planning, i.e. the resources allocated to the five-year plan shall be reconcilable to the financial statements.

Connectivity of information disclosure

During the fact-finding exercise, we asked issuers whether they ensured connectivity of the disclosed information on financial resources with the disclosures in the financial statements, in the EU Taxonomy Regulation reporting, as well as in other relevant sections of the annual report.

Among the respondents disclosing information on financial resources, all but one ensured connectivity of the information disclosed on financial resources. They further explained that the connectivity has been ensured so far but also that they would improve this aspect in their future sustainability reports (e.g.: improve content and level of detail of information provided on connectivity).

The link and consistency of information disclosed between the sustainability report, the financial statements and other sections of the annual report are crucial for understanding how an issuer's financial performance and position are aligned with its climate-related goals and decarbonisation efforts. This underscores the credibility of the measures announced.

Locked-in emissions

Locked-in emissions are estimates of future GHG emissions that are likely to be caused by an undertaking's key assets or products sold within their operating lifetime.

ESRS E1, par.16 (d)

An undertaking shall disclose a qualitative assessment of the potential locked-in GHG emissions from its 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.

No issuer has reported its locked-in emissions. About one third of the respondents, mainly issuers active in the service sector or in industries relying on little or no physical assets, estimated that this topic was either not applicable or not material to them, because not intrinsic to their operations.

One issuer has pointed out that, while it did not report its locked-in emissions, those were limited to their actual level of emissions assuming that hydrogen would be freely available and at competitive market prices in quantities that would enable it to replace the use of fossil fuels throughout the production processes. However, the issuer has also clarified that if this turned out not to be the case, locked-in emissions would be more substantial.

A couple of players from the banking sector not only confirmed that they did not report currently on locked-in emissions but stated that they did not envisage to do so in the foreseeable future either. One of them expounded that, unlike the manufacturing or construction industries, at this moment no sufficient data was available in the financial services industry for it to be able to disclose information about its exposure to locked-in emissions.

Monitoring the progress

With the aim of monitoring the transition plan and measuring its progress and credibility, performance and progress indicators need to be followed up and disclosed. Investors consider monitoring of the transition plan over time to be one of the significant issues in their analysis of transition plans.

ESRS 2-5 MDR-T sets out the main principles for monitoring the effectiveness of policies and actions, applicable to transition plans.

Overall, respondents demonstrated varying degrees of maturity in terms of managing and communicating on their progress. While some have still not fully considered these future ESRS requirements in their 2023 non-financial statements (38% of the respondents), a few of them (20% of the respondents) tracked and disclosed the effectiveness of actions aimed at addressing material impacts, risks and opportunities related to climate change by comparing annual progress against their respective roadmaps.

Indicators

Unsurprisingly, to monitor and evaluate progress over time, the vast majority of respondents who provided information on progress used indicators relating to energy consumption and the reduction of GHG emissions.

ESRS 2 MDR-T, par. 79(a))

An undertaking shall specify which indicators are used to track the actions.

The ESRS framework specifies that reporting on total GHG emissions (as per ESRS E1-6, par. 45(d)) is a fundamental requirement for companies to measure and track their progress towards their own emissions reduction targets, as well as alignment with broader EU climate policy goals. In other words, reporting total GHG emissions for the financial year and historical data is a prerequisite.

A closer look at the GHG emission indicators shows that assessing progress against GHG emission targets is now a well-established practice, but data quality, especially for Scope 3, remains a challenge. Some issuers had shortcomings in setting and monitoring their Scope 3 targets.

The CSSF would like to highlight that, in the context of monitoring the transition plan over time and in response to growing investor interest in this area, issuers should indicate in their sustainability report the following information as a priority: (i) the GHG emissions for the financial year and historical data, (ii) a quantitative analysis of the differences between the targets set and what has been achieved to date, (iii) the level of implementation (% progress) of the plan and qualitative comments on the items listed.

Assessing the progress

ESRS 2 MDR-T, par. 80(j)

An undertaking shall indicate whether the progress made is in line with what was planned and explain any significant changes that have occurred. Moreover, Chapter 7 of ESRS 1 requires the disclosure of year-on-year comparisons of the quantitative metrics published for the reporting year.

Feedback from respondents on the above-mentioned requirement showed that most of them did not have sufficient hindsight and historical data to explain potential discrepancies observed between progress measured at a given point in time and previously defined objectives.

Some respondents also expressed concerns about potential changes in methodology. Specifically, monitoring transition plans requires consideration of uncertain and long-term developments. Several respondents highlighted the complexity of tracking GHG emissions year-over-year, citing various challenges such as:

- Redefining baseline calculations;
- Managing changes in emission factors;
- Calculating emissions from newly integrated subsidiaries;
- Accessing the consistency of data coming from the value chain from countries with different regulatory frameworks;
- Isolating the impact of external growth on group emissions.

These methodological challenges make it difficult to maintain consistent and comparable measurements over time.

Presentation of the progress

ESRS 2, AR 25

The information on progress made towards achieving the targets may be presented in a comprehensive table, including information on the baseline and target value, milestones, and achieved performance over the prior periods

About half of issuers transparently disclosed information on progress made in their 2023 non-financial statements. Interestingly, some of them already included a table that illustrated, in graphical form, the progress made towards intermediate (by 2030) science-based targets, including the actions completed during the financial year.

In particular, progress towards each of the science-based targets was presented in the form of annual checkpoints showing progress towards the targets for each action and included references to monitoring indicators (i.e. an indicative view on ability to control emissions) and impact indicators (i.e. an indicative view on the level of impact the action could potentially have on emissions reduction and progress toward targets).

For each potential action, milestones showed some of the potential key deliverables to measure and report on, including progress indicators to highlight the level of confidence issuers had in achieving these milestones.

Some also added a control indicator for each milestone, evidencing the ability to control its emissions reductions, all of which could affect the level of effectiveness of planned actions.

Governance

Approval of the transition plan

One third of the respondents (13 issuers) disclosed the fact that their transition plan was approved by the administrative, management and supervisory bodies ("management").

Some of the remaining respondents, despite claiming such disclosures were made, have not actually included an explicit statement to this effect. Instead, they merely referred to a general description of their governance of sustainability matters.

We observed that in most cases the Board of directors was directly in charge of the general oversight of sustainability matters, supported by a sustainability committee or a task force which comprised independent Board members and/or executives.

Most of the remaining two thirds of the respondents, which have not provided such disclosures, confirmed this was due to the fact that they currently did not have a transition plan in place. Many of the issuers with no transition plan, clarified that the work on devising a transition plan was ongoing and that they intended to disclose details about the management's approval thereof.

The CSSF would like to stress that, in addition to explaining how management is informed about sustainability matters and how it oversees that these matters are addressed, issuers which have elaborated transition plans, should not forget to explicitly disclose whether those have been approved by management.

Management remuneration - climate-related considerations

Almost half of the respondents (18 issuers) have factored climate-related considerations in the management's remuneration practices.

The other issuers advised that they have not included disclosures to this effect in their latest non-financial statements:

- One third of the issuers falling in this category, explicitly stated that they did not currently have climate-related incentives features in their management's remuneration policy. Several of them confirmed that they intended to disclose this fact in their future sustainability reports;

- A couple of issuers were currently analysing or developing such incentives and intended to disclose it, once the workings would be completed;
- Unfortunately, most issuers did not comment on their intentions on this matter.

The CSSF reminds issuers that disclosing whether and how climate-related considerations are factored into the remuneration of members of the administrative, management and supervisory bodies will be mandatory under CSRD and ESRS E1. Issuers whose remuneration policies do not take into account such aspects, will still need to explicitly state so.

Closing remarks

2025 priorities

In its priorities for 2024 corporate reporting, ESMA has outlined 2 priorities related to sustainability reports under ESRS:

Materiality considerations

The double materiality assessment, which considers both impact materiality and financial materiality, is fundamental in determining the information that must be disclosed in the sustainability report. The CSSF highlights that the issuers should not only disclose the outcome of the materiality assessment but should also explain the process itself.

Scope and structure of the sustainability report

The CSSF emphasises that the sustainability report must cover the same consolidation scope as the financial statements. Moreover, certain sustainability disclosures should extend to the issuer's entire value chain.

The CSSF also reminds that the structure of the sustainability report is outlined in Section 8 and Appendix D of ESRS 1. Issuers that use alternative presentation formats must ensure that their sustainability statement aligns with the general presentation objectives.

We anticipate substantial progress and good practices in sustainability reports. However, we recognise that the level of information might not always meet the full expectations of the CSRD. We are also aware that the CSRD is a step to climb that requires skills and experience that are not acquired overnight.

This suggests a supportive approach by the CSSF, understanding that implementing comprehensive sustainability reporting is a complex process that takes time to develop. We acknowledge that issuers may need time to build the necessary capabilities and expertise to fully comply with the CSRD requirements.

More information on the priorities set by the CSSF on the 2024 annual reports of issuers is available in the Communiqué published on 5 December 2024.

Looking ahead

While the scope of undertakings subject to the CSRD will expand in the next few years and the interest of investors for sustainability matters rapidly grows, we urge all entities concerned to prepare and be transparent about their transition plan and climate-related targets.

More information on the CSRD and ESRS is available in a dedicated page on the CSSF website.

Upcoming regulation: The CSDDD

On 25 July 2024, the Corporate Sustainability Due Diligence Directive (CSDDD - Directive 2024/1760) entered into force. The aim of this Directive is to foster sustainable and responsible corporate behaviour in companies' operations and across their global value chains.

As of 2028, this Directive will require very large companies to identify, and where necessary, prioritise, prevent and mitigate, bring to an end or minimise, and remediate actual or potential adverse human rights and environmental impacts connected with their own operations or in their value chain.

In addition, the Directive sets out an obligation for these companies to adopt and put into effect, through best efforts, a transition plan for climate change mitigation aligned with the 2050 climate neutrality objective of the Paris Agreement as well as intermediate targets under the European Climate Law.

Upcoming regulation: ESEF

Article 29d of the Accounting Directive, as amended by the CSRD, provides that undertakings, subject to the requirements of its Article 19a shall prepare their management report in the electronic reporting format specified in Article 3 of Commission Delegated Regulation (EU) 2019/815 (the "ESEF Regulation"), and shall mark up their sustainability reporting, including the disclosures required by Article 8 of Regulation (EU) 2020/852, in accordance with the electronic reporting format specified in the ESEF Regulation. Pursuant, the sustainability report should be made public in XHTML format and should be marked up using the Inline XBRL standard.

EFRAG has developed the ESRS Set 1 and Article 8 XBRL taxonomies. Both have been published on 30 August 2024.

ESMA is currently developing the draft Regulatory Technical Standard ("RTS") which will encompass the rules for marking-up the sustainability report. The RTS will finally be adopted by the EC by way of a delegated act amending the actual ESEF Regulation. It will take effect with the publication of the amended RTS in the European Official Journal and be applicable subsequently. ESMA is currently studying the implementation timeline and the digital marking-up requirements applicable to the sustainable report.

ESMA has published a consultation paper on the marking-up rule for sustainability reports in 2025. We encourage stakeholders to participate to this consultation process.

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