Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Planning for the Transition to Net Zero
Our Perspective

May 2025

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1. Executive Summary

There is an inevitability to the climate transition. Legally binding commitments at national and EU level require us to transition to net zero by 2050. We have seen that firms that have prepared for the future will be more resilient in the long term. A key tool for firms when aligning their business with a society that is transitioning to net zero, is "Transition planning".

The Central Bank of Ireland (the Central Bank) recognises that managing the risks arising from climate change in isolation is principally a defensive approach. Beyond that, like all sectors, financial services will also need to transition to net zero at a pace that is compatible with national and EU climate and other environmental objectives. Moreover, given the importance of financial services to the wider economy, the sector will both be affected by, and make an important contribution towards, the broader societal transition to net zero.

The Central Bank has highlighted the importance of credible transition plans as a mean to build resilience in firms and contribute towards a sustainable net zero economy.

We are aware that firms face a new and complex landscape, with transition planning being a feature of evolving financial regulation and corporate legislative environment. We are also aware that the topic of transition planning is nascent, and good practice is still emerging. However, the Central Bank believes that transition planning is good practice for firms even when there is no legislative requirement to publicly disclose a transition plan.

This Information Note is not guidance, nor should it be construed as such. Rather, it seeks to support firms in navigating the regulatory landscape, and provide an accessible roadmap for transition planning should a firm wish to use it. In looking to clarify what we believe is important, and

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provide focus for firms on the elements that are going to have the most impact, we are setting out a simplified approach to support firms' actions regarding transition planning in a meaningful way.

In adopting a proportionate principles based approach, this Information Note seeks to help firms of all sizes to consider transition planning, and endeavours to be largely future proofed against any changes to the EU sustainable finance /climate reporting obligations.

To support firms, this Information Note sets out an approach to the transition planning process through the development of a set of key principles aligned to firms' traditional risks, namely:

- Leadership: setting out the need for strong leadership with clear ambition, actions and accountability, is key when planning for the transition to Net Zero. Adequate levels of resourcing and expertise and robust governance are needed to help manage the firm's business model in the short to medium term with a transitioning economy, and in the longer term with a climate neutral economy.
- Viable Actions: Financial services firms should consider exploring viable actions that demonstrate how they will respond to, as well as support, the shift towards a net zero economy.
- Targets: outlining both the importance of setting targets in the transition planning process as a means to provide firms with clear direction and specific objectives to work towards, whilst also clarifying that targets should be proportional to nature, scale and complexity of the firm's business model.
- Risk Management: the approach makes clear that a firm's risk management framework for risks arising from climate change should be determined by a firm's exposure to those risks. It notes that this will be dependent on how advanced the firm is in collecting and recognising its exposure to the risks arising from climate change. The approach also sets out that this can be identified in the firm's transition planning phase.
- Monitoring and Reviewing: the approach suggests having a framework in place for the ongoing monitoring and review of progress made against the targets it has set in line with its strategic ambition.

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Firms that are interested in developing their approach to transition planning should view this note as a starting point on their journey.

2. Introduction

In a November 2023 speech 'Walking the path – the transition to Net Zero' the Central Bank noted that we know the pathway to a sustainable future involves a transition from our current unsustainable position, and while that transition needs financing it also needs planning and this is why there is also an increasing focus on ensuring firms have credible transition plans[1].

Without a plan for the transition, the challenge of decarbonising grows. So too does the probability of physical and transition risks crystallising – and with that, threats to the financial stability of the overall system, the safety and soundness of firms and, of course, threats to consumer and investor protection.

Transition planning can therefore be seen as a means for businesses to translate their environmental and climate ambitions into actions. It can help minimise the strategic and financial risks associated with the transition, identify business opportunities, and provide clarity on their business strategy – which can attract new investors and business partners. Ultimately, transition planning can help build resilience to the risks arising from climate change in firms.

The purpose of this Information Note is to assist regulated entities (firms) in their own transition planning and to help firms to assess the credibility of stakeholders' transition plans. As a result, they will be in a position to not only better plan and articulate how their own business model is aligned to support the transition but also to assist their stakeholders in their transition planning.

The Central Bank believes this Information Note will be of interest to all types of firms under its regulatory remit. However, certain aspects of the

[1] https://www.centralbank.ie/news/article/speech-sharon-donnerywalking-the-path-the-transition-to-net-zero-21-november-2023

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report will be more relevant to some firms than others, depending on the stage the firm is at in its transition planning, and the extent to which they are subject to specific regulatory requirements in this area.

3. Climate Targets: Global, Regional and National

In order for society to meet the commitments set out in EU and Irish law, there is a need for companies and other economic actors to align their activities with these commitments. The financial services sector, like all sectors, will also need to transition to net zero. More broadly, given the importance of finance to the broader economy, the financial sector is likely to be affected by the economy-wide transition, and also play a crucial role in financing, insuring and facilitating the activities needed in the future, both to transition away from high greenhouse gas (GHG) emission activities, and towards sustainable activities.

There are two legally binding agreements that guide Europe's climate policy; the Paris Agreement and the EU Green Deal. At national level, the Climate Action Plan (CAP) outlines Ireland's plan for achieving the country's target to reach net-zero GHG emissions by 2050, with a 51% reduction in GHG emissions by 2030. See Box 1 for further details.

Box 1. International and National Climate agreements

The Paris Agreement (2015)

- A legally binding international treaty on climate change.
- Its overarching goal is to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels."

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- To limit global warming to 1.5°C, greenhouse gas emissions must peak before 2025 at the latest and decline 43% by 2030.
- Actions under the Paris Agreement are known as “nationally determined contributions” (NDCs) and include commitments to reduce greenhouse gas emissions, enhance adaptation actions and capacity building. For Ireland, the EU’s NDC targets govern this process. NDCs embody efforts by each country to reduce national emissions and adapt to the impacts of climate change.

The EU Green Deal (launched 2019)

- A package of policy initiatives, which aims to assist the EU with its transition to a low-carbon economy.
- Its ultimate goal is to reduce net greenhouse gas emissions by at least 55% by 2030 and to reach “net zero” by 2050.
- The Green Deal has two main components: (i) “Fit for 55” and (ii) Climate Law.
    - **The Fit for 55 package** is a set of proposals to revise climate, energy, transport related legislation, and ensure they align with the EU’s climate goals.
    - **EU Climate Law** sets the legal framework for the actions to be taken by the EU and its member states to progressively reduce emissions and ultimately reach climate neutrality in the EU by 2050.

The Climate Action Plan (CAP)

- Annual plan that sets out Ireland’s decarbonisation policy pathway and describes Ireland’s latest emission targets and policies to reduce emissions by 51% (from a 2018 baseline) by 2030.
- “Carbon Budgets” represents the total amount of emissions that may be released during an agreed five-year period. This is measured in tonnes of carbon dioxide equivalent. It is calculated on an economy-wide basis and if we do not achieve one of our carbon budgets, any deficit must be made up in the next period. Ireland will very likely exceed its budget for the 2021-25 period.

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4. Central Bank of Ireland Strategy

Being future-focused is critical to enabling the Central Bank better understand, anticipate and adapt to far-reaching changes taking place across the financial services industry. The Central Bank's Strategy[2] is designed to ensure we can meet these challenges, including those relating to climate change risk. One of our strategic priorities aims to 'strengthen the resilience of the financial system to climate-related risks and its ability to support the transition to a low-carbon economy'.

It is widely acknowledged that the financial services sector can play a leading role in this transition. By appropriately incorporating climate change risk considerations into strategic planning and business decisions, and taking advantage of business opportunities arising from the transition, the financial services sector may be better placed to be resilient to the risks arising from climate change, and maintain a sustainable business model in the future. While the financial services sector is only directly responsible for a small portion of global GHG emissions, it facilitates, through providing funding and services to, investing in, or insurance of, much more. The actions that firms take now to reduce their GHG emissions across both direct (Scope 1) and indirect (Scopes 2 and 3) channels, can go a long way to contributing to the achievement of climate neutrality for society as a whole.

Since 2020, the Central Bank has actively engaged with the financial services sector to identify firms' exposure to, and management of, the risks arising from climate change. The Central Bank acknowledges that

[2] https://www.centralbank.ie/publication/corporate-reports/strategic-plan#:~:text=Our%20Strategy%20will%20enable%20us,the%20people%20as%20a%20whole%E2%80%9D.

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the financial services sector has already taken proactive steps, and a number of firms are responding in a significant and positive way.

However, it is clear that substantial progress is still required to meet legally binding commitments at national and EU level to mitigate the harm from climate change, and to embed the risks arising from climate change into firm's risk management frameworks.

As such, the Central Bank considers a forward-looking approach is critical in light of the far-reaching changes taking place in the financial system in particular the climate transition. Firms should anticipate, respond and adapt proactively to potential risks. The Central Bank, to be successful in our role and deliver on our mandate, expects the financial services sector to identify and manage the risks arising from climate change and play its role in the transition to a carbon neutral society.

The Central Bank recognises the challenge that the financial services sector faces in trying to fully understand and address the volume, variety and complexity of relevant sustainability legislation, objectives and targets. In this context, this Information Note seeks to assist firms navigate this complexity, and to provide firms with a simplified approach when considering transition planning and transition plans.

The Central Bank believes that transition planning is good practice for firms even when there is no legislative requirement to publicly disclose a transition plan. It can help build the firm's strategic, business and operational resilience as well as address their ethical responsibility to stakeholders.

5. Legislative Framework

Since the approval of the EU Green Deal in 2020, there has been significant developments to build the sustainable finance legislative framework. The aim of

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the EU sustainable finance legislation is to achieve a shift in the way that all sectors, including financial services, are responding to the climate emergency. We are at a point where many pieces of sustainable finance legislation in the EU have been agreed, and are coming into force. Nonetheless, the legislative environment continues to evolve, including in the context of the EU simplification agenda. Examples of legislative developments in recent years include:

- Taxonomy Regulation (phased in from January 2022) – Rules that define what is sustainable through a classification system for economic activities that are aligned with a net zero trajectory by 2050 and the broader environmental goals other than climate;
- Sustainable Finance Disclosure Regulation (SFDR) (Level 1 from March 2021; Level 2 from 2022) and the Corporate Sustainability Reporting Directive (CSRD, and accompanying European Sustainability Reporting Standards (ESRS) phased in from January 2024) promote transparency through disclosures; Corporate Sustainability Due Diligence Directive (CSDDD, proposed to be phased in from July 2028) will place obligations on large firms to identify and address adverse human rights and environmental impact of their actions;
- updates to Solvency II and CRD ensure that relevant firms are managing the risks arising from climate change;
- incorporating sustainability in financial advice in MiFID or IDD;
- ensuring that greenwashing is avoided – as set out in the recent ESMA, EIOPA and EBA greenwashing reports.

More specifically, the regulatory framework has been amended to introduce transition planning and the disclosure of transition plans for the financial services sector in a variety of ways and for different purposes (as set out in the Table 1 below).

Table 1. Transition Planning in Regulatory Frameworks

Legislation	Purpose	Key Requirement	Disclosure
CSRD[3]/ ESRS	Transparency	Proposal for firms in scope to disclose their transition plan, if they have one	Public via ESRS standard
CSDDD[4]	Due Diligence	Aligning the requirements on the transition plans for climate mitigation with the CSRD	Public via ESRS standard
CRD/CRR	Risk Management	Implement plans that address risks arising from ESG factors	Not public disclosure of certain elements under Pillar3 ITS on ESG risks, and disclosure of certain elements under CSRD/ESRS
Solvency II	Risk Management	Implement plans that address risks arising from ESG factors	Not public disclosure of certain elements under CSRD/ESRS and SFCR

Note: See Appendix 1 for more detail

Much of the Central Bank's focus to date, and that of other EU regulators, has been on ensuring that the financial services sector identifies, assesses and manages the potential financial impact of risks arising from climate change, and integrates and embeds these risks into its existing risk framework. For example, updates have been made to banking and (re)insurance legislation imposing requirements on firms in relation to their sustainability risk management approaches. European Supervisory Agencies (ESAs), and National Competent Authorities, including the

[3] Omnibus proposal
[4] Omnibus proposal

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Central Bank, have followed up with guidance to support firms in this regard[5].

We have reached a point where firms may benefit from broadening their focus from a risk management based approach ('outside in risk' to the firms), to also considering the impact they have on the climate ('inside-out' impact on the climate). This will not only help the firm effectively manage all the risks they are exposed to (e.g. relating to reputational risks), it will also help the firm understand how their business is aligned with any wider commitments.

At the Central Bank, we see transition planning as an important tool that will enable firms to align their business activities with their ambition, as well as assisting firms in meeting the relevant sustainable finance legislative requirements that apply to them. Planning for the transition is more than just a regulatory compliance exercise.

Currently, based on existing legislative and market practices, three types of transition plans can be identified as per Figure 1 below.

[5] https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/insurance-reinsurance/solvency-ii/requirements-and-guidance/guidance-re-insurance-undertakings-on-climate-change-risk.pdf?sfvrsn=a232991d_6
https://www.eba.europa.eu/sites/default/files/2025-01/fb22982a-d69d-42cc-9d62-1023497ad58a/Final%20Guidelines%20on%20the%20management%20of%20ESG%20risks.pdf
https://www.bis.org/bcbs/publ/d573.pdf

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Figure 1. Types of Transition Plans

1. Market led	2. Climate mitigation and adaptation	3. ESG Risk Management Plans
• Transition plans based on voluntary, market led initiatives such as GFANZ and TCFD	• Requirments on transition plans under CSRD/CSRD.	• Prudential legislation such as CRD6 and Solvency II have requirements for banks and insurers to monitor and address the financial risks stemming from ESG factors including risks arising from the transition to a net-zero economy.

While each initiative above has differing objectives, at its core, transition planning seeks to help ensure that activities across the firm align with the firm's overall ambition. These activities, and associated governance and processes, may be disclosed in firms' transition plans. A well-articulated plan for managing the transition will not only give credibility to the actions the firm is taking, it could assist firm's compliance with relevant legislation.

Where firms have made a pledge to their stakeholders to achieve, inter alia, net zero GHG emissions, these commitments may only be seen as meaningful if they are backed with actions, outlined in a transition plan, that is aligned to the firm's strategy and business model and embedded in the firm's governance and risk management framework, with active monitoring and reviewing of progress.

Applying a climate change lens to strategy and business decisions can help firms understand the impact of those decisions on the climate, and wider society.

6. Transition Planning

Transition planning is the internal strategic planning and risk management processes undertaken by a financial institution to prepare for risks and potential changes in business models associated with the transition to Net Zero. In essence, this can be a journey from transition readiness to a Net-zero pathway alignment[6]. If planning for the transition to Net Zero, a good starting point for firms is to establish where they currently stand in that journey and their ambition to progress.

Transition planning should therefore consider the overall ambition of the firm, which can be aligned with EU and/or national goals, or further defined by setting more detailed high-level targets for the firm[7]. Where firms can align their thinking with scientific understanding, and the broader regulatory framework, they will be well placed to integrate their climate ambition within their overall strategy and business model.

Transition planning can occur without the need for public disclosure, i.e. the process of transition planning does not automatically require the firm to publish a transition plan. However, public disclosure, and the resulting transparency it brings, is an important tool providing credibility to any public climate or transition related ambitions and high-level targets that firms have made. In addition, other stakeholders may need to understand a firm's plans for the transition to support their own objectives; for

[6] Transition readiness is not about net zero, but about helping and assessing an entity's preparedness to transition. Net-zero pathway alignment is specifically targeted at achieving net zero. See https://www.iosco.org/library/pubdocs/pdf/IOSCOPD772.pdf
[7] The Science Based Target Initiative (SBTi) provides useful resource material for setting targets. This is a collaboration between the CDP, the United Nations Global Compact, World Resources Institute and the World Wide Fund for Nature. Science-based targets show companies and financial institutions how much and how quickly they need to reduce their greenhouse gas (GHG) emissions to prevent the worst effects of climate change.
https://sciencebasedtargets.org/how-it-works

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example, rating agencies, reinsurers, or other firms who are committed to managing the emissions of their counterparties/stakeholders.

The Central Bank considers the following general principles to be key in order for transition planning (and the resulting published transition plan) to be successful and credible (Figure 2).

Figure 2: Five General Principles of Transition Planning

Leadership

Strong vision and leadership from the board is required to implement a credible transition planning process, as well as strong leadership from senior management to execute the plan and deliver on the firm's ambition. A key enabler is the allocation of adequate levels of resourcing and expertise within the organisation.

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The board lead the behavioural change within the organisation and 'tone from the top' is important here. The success of a firm's ambition will ultimately be determined by whether or not its people believe in it and are appropriately engaged in its success. The board and senior management can drive the message that the benefits of transition planning outweigh the costs in the long-term. In this regard, additional costs and potential savings might be considered in the overall strategy and business planning on the basis that macroeconomic studies[8] indicate that the economic costs of inaction far outweigh the cost of action. Further, at firm level, short-term costs could be outweighed over the long term by a business that is more resilient to risks arising from climate change and better placed to not only mitigate those risks but to benefit financially from the opportunities that will arise from the climate transition.

Each firm could consider how its business model and actions will be aligned in the short to medium term with a transitioning economy, and in the longer term with a climate neutral economy. As with other risks, a robust governance framework, with clear roles and responsibilities as well as accountability for the delivery, oversight and implementation of its defined transition planning process is important.

Firms might also consider whether they have the correct resources in place and endeavour to ensure staff receive the necessary training.

[8] https://www.un.org/en/climatechange/thought-leaders-simon-stiell
https://www.eesc.europa.eu/en/news-media/news/climate-change-existential-threat-and-economic-opportunity-eu#:~:text=The%20committee%20warned%20that%20the,%25%20between%202005%20and%202023
https://www.eesc.europa.eu/en/news-media/news/climate-change-existential-threat-and-economic-opportunity-eu#:~:text=Climate%20change%20is%20an%20existential%20threat%20and%20an%20economic%20opportunity%20for%20the%20EU,-25%2F10%2F2024&text=In%20a%20recent%20set%20of,economic%20opportunities%20it%20also%20presents.
https://www.euronews.com/green/2022/04/04/the-economic-benefits-of-climate-action-will-outweigh-the-costs-ipcc-report-finds
https://www.imf.org/en/Blogs/Articles/2023/12/05/benefits-of-accelerating-the-climate-transition-outweigh-the-costs

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There should be agreement at executive level for adequate levels of resourcing and expertise within the organisation.

Viable Actions

Financial services firms could consider exploring viable actions that demonstrate how they will respond, and contribute to, the shift towards a net zero economy. These actions can be grounded in robust climate science and aligned with broader decarbonisation objectives. A firm should then be able to translate its high level ambitions into a structured pathway, including short-, medium-, and long-term measures. Firms may consider prioritising actions such as engagement with high-emitting clients, reviewing investment portfolios and supporting decarbonisation through financing solutions.

The choice and combinations of actions a firm takes will depend on the type of activities it undertakes, which in turn will dictate the decarbonisation levers (i.e. tools, mechanisms and capabilities to reduce emissions) available to embed and accelerate the transition to a low-GHG emissions and climate-resilient economy. For example, a bank with a large residential mortgage loan-book will have a different set of decarbonisation levers available to it (such as changes to the carbon intensity of its loan portfolio) compared to a non-life insurance firm.

Engagement

As part of the role of the financial system to support the transition, firms should consider engagement with their stakeholders when developing their plans, setting science based targets, and how the transition will be funded.

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Stakeholder engagement is an important step in any planning process and for transition planning, active engagement, early on, with key stakeholders would be beneficial. This will ensure that a firm's climate transition planning is comprehensive and well informed. Enhanced stakeholder engagement, driven by the firm, can help with the identification of clients with a higher exposure to risks arising from climate change and understand potential measures to mitigate risks, while helping to inform a firm's strategy.

Regular engagement and communication about the firm's transition plan, progress against targets and timelines etc., can build trust with relevant stakeholders. A firm's engagement strategy can establish how a firm will set about collecting relevant data from its counterparties. These can help build transparency on the firm's goals and reduce reputational risk[9].

Data

Transition planning is dependent on data from stakeholders. In order for firms to credibly demonstrate progress against their plan, firms need to receive credible and complete data from their stakeholders on their progress. This may require innovative approaches to help incentivise and assist stakeholders to provide such data. Firms could use their influence with stakeholders to obtain and improve such data. Firms should be cognisant that where stakeholders have not developed any plans for the transition this will create a gap in data, which may not be consistent with the firm's ambition.

Likewise, it is important that where firms' stakeholders have made pledges, that these are aligned with their own transition planning process. To ensure such alignment occurs, firms should engage and support stakeholders in their transition planning process, as well as provide

[9] Based on. ECB (2020) "Guide on climate-related and environmental risks" section 3.2; BCBS (2019): SRP Supervisory review process SRP30 Risk management section 30.29ff.; EBA/REP/2023/16

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advice on financial options to support their transition activities (see sub-section below on Facilitating Finance for the transition).

A particularly important source of data for climate transition planning is GHG emissions data. GHG emissions can be categorised[10] both in terms of scope of emissions and in terms of direct and indirect emissions. In the context of direct (Scope 1) and indirect (Scope 2 and 3) emissions, while a firm has control over its direct emissions, it can also take action to reduce its indirect emissions. For all firms, transforming and influencing their value chain could be critical to bringing down their indirect emissions (see Appendix III for details). There are fundamental challenges in high emitting or hard-to-abate sectors so in addition to engaging early with such stakeholders on their transition plans, firms could also consider whether third party organisations[11] can assist in determining credible target setting. A clear understanding of sectoral transition pathways will support firms to tailor their engagement with stakeholders in a way that supports their transition needs.

The pace and cost of the transition will have implications for a firm's business decisions and is an important component of the transition planning process. For instance, a decision to 'stop' may not result in an immediate action. Firms might consider having a structured and strategic approach to their indirect GHG emissions, with actions depending on the exposure and counterparty (see Figure 3 below).

[10] See Figure 3 *Overview of GHG Protocol scopes and emissions across the value chain– source* [Corporate Value Chain (Scope 3) Accounting and Reporting Standard]
[11] E.g. the Science-Based Targets Initiative (SBTi) produces science-based target-setting methodologies, tools and guidance for a wide range of industrial sectors https://sciencebasedtargets.org/standards-and-guidance#sectors

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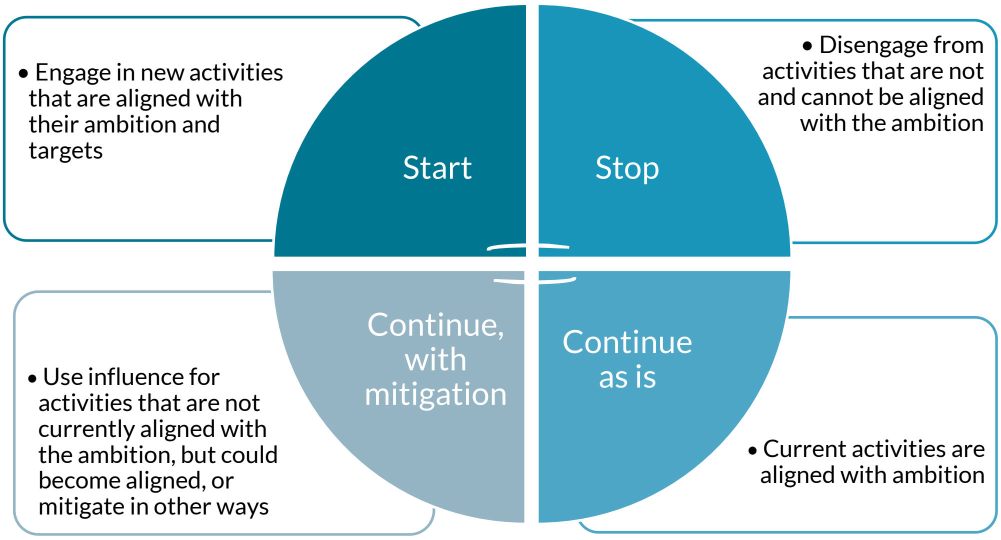
Figure 3: Viable Actions firms can take in reducing GHG emissions



In terms of the risk arising from climate change, firms can positively influence and guide their counterparties through their role as (i) investors and (ii) facilitating finance for the transition.

Investors

As asset owners[12] firms have direct control and influence over the types of investments they make. This may be through direct investments, or through mandates they give to asset managers, who invest on their behalf. They can take direct action to invest or disinvest in specific assets that are aligned with their strategy. They need to also be mindful of the transparency and disclosure requirements in relation to their investment decision-making process under the SFDR.

As asset managers[13] firms have a role to play to support the transition through collaborating with asset owners; for example in relation to investment mandates, fiduciary duty, strategies, stewardship activities, voting, and product development. Where firms seek to support the transition through the development of products that invest in transitional

[12] Asset owners to be understood here as any firm that owns financial assets.
[13] Asset managers to be understood here as any firm that manages financial assets - both direct and on behalf of clients.

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economic activities[14], firms can seek to enhance their ability to determine the credibility of such economic actors' transition plans (as set out in these principles) in order to avoid the risk of greenwashing.

Providing they have a mandate, firms can use their influence over current or potential investees/issuers, policy makers, service providers and other stakeholders to effect change in their underlying GHG emissions of the investment. The term 'stewardship' as defined, by the Principles for Responsible Investment (PRI[15]), *is the use of influence by institutional investors to maximise overall long-term value, including the value of common economic, social and environmental assets, on which returns, and clients and beneficiaries' interests, depend*. Firms can play an important "stewardship" role through sustainable investment activities that are aligned with their ambition.

Anticipating - and responding to – financing needs for the transition

In order to meet EU and national targets there is a need for investment across all parts of the economy. Finance for this transition can take many forms, from the lending activity of banks and credit unions, to capital markets, and insurance as well as Government funding.

As set out in the European Commission's Recommendation on facilitating finance for the transition to a sustainable economy[16], 'Sustainable finance is about financing both what is already environment-friendly and what is transitioning to such performance levels over time'. This Recommendation encourages the voluntary use of sustainable finance tools and disclosures in ways that can ensure the credibility of transition investment opportunities and for example, it sets out how financial institutions can make use of the EU Taxonomy. The Recommendation

[14] Activities which cannot yet be replaced by technologically and economically feasible low-carbon alternatives but support the transition to a climate-neutral economy.
[15] https://www.unpri.org/introductory-guides-to-responsible-investment/an-introduction-to-responsible-investment-stewardship/7228.article
[16] Published 27 June 2023: European Commission Recommendation on facilitating finance for the transition to a sustainable economy

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also describes transition finance as 'the financing of climate and environmental performance improvements to transition towards a sustainable economy, at a pace that is compatible with the climate and environmental objectives of the EU'.

The financial sector has a role to play in a credible economic transition by increasing the availability of products that support the transition. Facilitating finance for the transition could bring growth opportunities, as decarbonisation can create efficiencies and opens markets for low-emissions products and services.

Some firms may face challenges incorporating adaptation costs into their objectives. In its recently published Climate Adaptation Investment Framework, the OECD noted that while there are currently no comprehensive estimates of investment needs for adaptation in OECD countries, some indications are available from national and supranational studies. For example, an analysis for the UK estimated that addressing the 61 main risks identified in the 3rd Climate Change Risk Assessment could require annual investment (both public and private) in the region of GBP 5 billion per year (EUR 5.8 billion)[17].

In its publication 'Building trust in transition'[18] the EU platform on Sustainable Finance noted that consideration of climate adaptation as part of transition planning is essential to address potential physical climate risks and ensure a company's ability to operate sustainably in the near, medium, and long term. Both the G20 (G20's 2025 Sustainable Finance Working Group (SFWG) Workplan[19]) and the NGFS (Transition

[17] https://www.oecd.org/en/publications/climate-adaptation-investment-framework_8686fc27-en.html

[18] https://finance.ec.europa.eu/document/download/ec293327-af1d-432c-8523-cfe7eec8367e_en?filename=250123-building-trust-transition-report_en.pdf

[19] https://g20sfwg.org/wp-content/uploads/2025/02/2025-G20-SFWG-Note-on-Agenda-Priorities-rev.pdf

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Plans: Considerations for EMDEs[20]) highlight the importance of scaling up adaption funding, and where relevant this consideration should be incorporated into any transition planning process.

Targets

Setting targets in the transition planning process can provide firms with clear direction/focus and specific objectives/goals for the firm to work towards. Targets should be set in respect of the economic activities to which financial services are being provided, for example, the percentage of loans being provided to sustainable or transitioning activities over non-sustainable activities, or the sustainability profile of financial instruments produced or distributed.

The Central Bank recognises that there may be data gaps as firms develop their approach to assessing their emissions, for Scope 3 in particular. Firms may wish to consider, on a best efforts basis and where appropriate, how they can use existing data to fill data gaps e.g. data obtained in the loan origination, underwriting or due diligence processes. Where data is not available, an iterative approach, using simplified methods, proxies or approximations based on economic activity in the first instance, with a plan to improve the level of accuracy over time, could be adopted.

More specifically, firms could consider setting decarbonisation targets which are long-term, quantifiable and science based across both direct and indirect GHG emissions, with metrics supporting these targets (such as financed emissions and climate portfolio alignment) that a firm can use

[20] https://www.ngfs.net/system/files/import/ngfs/media/2024/04/17/ngfs_tailoring_transition_plans.pdf.pdf

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to measure progress[21]. Firm's transition plans might consider how Scope 3 emissions will be managed, or how locked-in emissions[22] or stranded assets may materialise in relation to existing investments, or products provided, over their operating lifetime. If targets are set they should be proportional to nature, scale and complexity of the firm's business model.

Firms could prioritise targets set based on the materiality of exposures. Large corporate exposures and exposures to Climate Policy Relevant Sectors[23] (e.g. fossil fuel extraction) are likely to be more material from the perspective of meeting commitments than the exposures to SMEs. Firms should consider the consequences of setting any targets and the cost of financing the transition.

Firms might also consider if the targets proposed to support the transition are consistent with the actions planned for the management of their risks arising from climate change. For example, planned actions to divest of high GHG emission assets, to reduce the risk of stranded assets, could be aligned in terms of timing and pace with the same planned actions to reduce the GHG emissions of the investment portfolio.

Risk Management

A robust risk management framework allows firms to identify risks early on, assess their impact on the firm, and address and mitigate the risks. For the purposes of risk management in firms, risks arising from climate change may not be considered risks in their own right, rather they are drivers of traditional risks such as credit, underwriting, market, operational, reputational

[21] EBA Guidelines on the management of ESG risks - https://www.eba.europa.eu/sites/default/files/2025-01/fb22982a-d69d-42cc-9d62-1023497ad58a/Final%20Guidelines%20on%20the%20management%20of%20ESG%20risks.pdf
[22] Estimates of the GHGs generated by the operation of long-life assets or products, measured between the reporting year and the end of their operational life.
[23] See Battiston et al - https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4223606

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risk etc. It is important when planning for the transition that there is alignment between risk management approaches and a firms approach to wider transition planning.

The way in which a firm integrates risks arising from climate change into their risk management framework will be determined by a firm's exposure to those risks. Risk arising from climate change can be incorporated as drivers into each of the firm's relevant risk areas. Any actions taken to manage risk arising from climate change should be aligned with, and complement, wider transition planning. In some cases, a firm's approach to risk management will be dependent on and determined by how advanced the firm is in collecting data on its exposure to the risks arising from climate change. Data collected through the transition planning process, and the use of climate metrics, could inform a firms' management of risks, and vice-versa. This might include consideration of the adaptation costs that are becoming ever more necessary, and early identification of areas of vulnerability that could help firms take proactive steps to mitigate the risks.

Transition planning may enable firms to better incorporate longer term impacts in its risk management strategies and framework. This might include consideration of the full impact of transitional risks, and may enable firms to better assess the resilience of their business model to a world where there are higher physical risks.

Climate change can also cause significant climate related business disruption which can impact a firm's operations and indeed longer term viability. As part of its transition planning, the risks arising from climate change can be built into the firm's Business Continuity Plan including the potential impact on third parties, supply chains, and geographical locations.

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Monitoring and Reviewing

The approach suggests having a framework in place for the ongoing monitoring and review of progress made against any targets it has set in line with its strategic ambition. Transition plans should be flexible, dynamic, and responsive to new information and external developments. They should therefore be regularly reviewed and updated.

A firm's monitoring framework could clearly define the process and responsibilities for regular internal monitoring and reviewing of progress towards targets, as well as for any timely and regular revision and update of the plan (e.g., on an annual basis), to take stock of lessons learnt, revisit assumptions, and identify levers for action, especially in areas that may be falling behind.

Even where no regulatory requirement exists in relation to the development of a transition plan, the monitoring of risks arising from climate change should be embedded within the firms risk management framework and should be carried out with the same frequency as all other risks.

7. Transition Plan

A firm's Transition Plan is a product of the transition planning process, and is a means of informing both internal and external audiences of the firms plan for transition. Therefore, the exact structure and design of a transition plan document may vary from firm to firm, depending on their regulatory obligations and reflecting the nature, scale and complexity of their business model.

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Firms that are in scope of the CSRD are required to disclose their transition plans if they have one. ESRS 1.1 specifies a minimum level of information under prescribed headings that should be disclosed in a transition plan. EFRAG is preparing to publish a guidance document to help companies disclose their transition plans in line with ESRS standards.

For firms that are not in scope of the CSRD, but who wish to develop and disclose their transition plan, the ESRS standard may be a useful reference point to inform the contents of their transition plan. While the level of disclosure under the ESRS may be too detailed and complex for many smaller firms, EFRAG are developing a simplified framework for SMEs. Several international bodies such as the OECD[24] and the NGFS[25] have also provided detailed guidance for firms on what should be included in a transition plan, which is aligned with GFANZ and Transition Plan Taskforce (TPT) disclosure framework[26].

In the Central Bank's view, there are some key components that a Transition Plan could include, incorporating the principles outlined in the Transition Planning section above in order for it to be considered credible. These are set out in the below table.

[24] OECD Guidance on Transition Finance: https://www.oecd.org/en/publications/2022/10/oecd-guidance-on-transition-finance_ac701a44.html

[25] NGFS: Transition Plan Package: https://www.ngfs.net/sites/default/files/medias/documents/ngfs_transition_plan_package.pdf

[26] TPT disclosure framework:https://www.ifrs.org/content/dam/ifrs/knowledge-hub/resources/tpt/disclosure-framework-esrs-comparison-oct-2023.pdf

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Table 2. Key components of a transition plan

	Component	Sub component
1	Leadership	Full details of the governance, oversight and approval structure of the transition plan.
		Details of the funding requirements and allocation of sufficient capital, resources and expertise and enabling processes/technology, to ensure the transition can be implemented.
		Articulation of accountability in decision making, target setting and monitoring and reporting of key performance metrics.
2	Strategy	Outline of the firm's ambition and its strategy to achieve this ambition and the impact, if any, on customers, employees, external stakeholders/third party providers.
		Explanation of how the transition plan is embedded in and aligned with the firm's overall business strategy and financial planning.
3	Engagement	Details of the firm's engagement strategy for both internal and external stakeholders.
4	Targets	Explanation of how the firm's targets are compatible with the limiting of global warming to 1.5°C in line with the Paris Agreement.
		Details of these science based targets based on available sectoral pathways, technology roadmaps, and taxonomies, where these are available.
5	Risk Management	As different firms will be challenged with different climate related risks, firms should outline those risks specific to them i.e. physical risk, transition risk, litigation risk, market risk etc.
		The path the firm will take to manage this risk and incorporate it into the firm's risk appetite and risk management framework.
6	Actions & Levers	Provide an explanation of the climate change decarbonisation levers identified, and the key actions planned, including changes in the firm's investment and service portfolio and the adoption of new technologies in its own operations, or the upstream and/or downstream value chain.
7	Quantifications	Quantification of investment and funding supporting the implementation of the transition plan i.e. the plan should identify how future operating and capital expenditures will be allocated to fund actions in order to achieve the identified targets.
8	Qualitative Assessment	An explanation of if and how potential locked-in emissions may affect the achievement of the firm's GHG emission reduction targets and drive transition risk, if applicable.
		An explanation of the undertaking's plans to manage its GHG-intensive and energy-intensive assets and products.

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9	**Monitoring & Reviewing**	An outline of the internal monitoring and review approach of its transition plan and how the firm has aligned this to its regulatory reporting requirements.
		It should include details of how progress on targets will be measured, tracked, assessed and verified.

3. Conclusion

Transition planning and the development of transition plans are an iterative process. They will evolve as knowledge and data availability improve and in response to changing business and external circumstances. Firms may decide to use other approaches to transition planning and transition plans to the one outlined in this Information Note.

We encourage firms to also refer to publications from specialist organisations such as the NGFS, TPT and OECD to gain a deeper understanding of transition planning approaches and related technical considerations. What is of primary importance is that firms consider transition planning and transition plans for their firm and then decide an appropriate approach and start to implement it if needed. What will be key is transparency around this process; the aim is not for perfection but progress.

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8. Appendices

Appendix I

Standards

At a corporate level, the EU's CSRD - Art. 19a(2)(a)(iii)27 states that management reports should include: "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;"

The CSRD and its accompanying standards (ESRS) will create an obligation on in scope entities, to disclose their transition plan, if they have one. These new disclosure requirements are obliging firms to gain a deeper understanding of how to design, implement and disclose a credible transition plan aligned with the 1.5°C target.

Furthermore, the requirement to have a transition plan for climate risk mitigation is included for very large firms in the CSDDD, which will be phased in from July 2028 to July 2029. The CSRD and the CSDDD can be seen as twin initiatives that should lead to synergies and the CSRD/CSDDD and CRD based plans should complement each other. The CSDDD should also underpin the SFDR and complement the Taxonomy Regulation.

The ESRS set out that a transition plan is a specific type of action plan that is "adopted by the undertaking in relation to a strategic decision and that addresses public policy objective and/or an entity-specific action plan

[27] https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX%3A32022L2464

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organised as a structured set of targets and actions, associated with a key strategic decision, a major change in business model, and/or particularly important actions and allocated resources". More specifically, the definition of transition plan for climate change mitigation is "an aspect of an undertaking' targets, actions and resources for its transition towards a lower-carbon economy, including actions such as reducing its GHG emissions with regard to the objective of limiting global warming to 1.5°C and climate neutrality".

In addition, the CSRD/ESRS obligations support Transition Plans requirements in prudential regulation such as Solvency II[28] and CRD[29]. Article 76(2) of the CRD requires institutions to set out specific plans to monitor and address the financial risks arising from the transition and process of adjustment to the relevant Member States and Union regulatory objectives in relation to ESG factors which shall include specific timelines and intermediate quantifiable targets and milestones.

Article 76(2) of the CRD requires institutions to set out specific plans to monitor and address the financial risks arising from the transition and process of adjustment to the relevant Member States and Union regulatory objectives in relation to ESG factors which shall include specific timelines and intermediate quantifiable targets and milestones. Article 87a[30] of the CRD states that 'Competent authorities (such as the Central Bank) shall assess and monitor the development of institutions' practices concerning their ESG strategies and risk management, including the plans that include quantifiable targets and processes to monitor and address the ESG risks arising in the short, medium and long term, to be prepared in accordance with Article 76(2).

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[28] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009

[29] Capital Requirements Directive, Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 and Capital Requirements Regulation, Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013.

[30] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202401619

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Article 44 2(b) of the Solvency II Directive[31] requires that (re)insurers implement, as part of their risk management approach, specific plans that include quantifiable targets and processes to monitor and address the financial risks arising in the short, medium and long term from ESG factors. This includes those risks arising from the process of adjustment and transition to relevant EU sustainability legal and regulatory objectives (these plans are referred to by some as 'sustainability plans' or 'prudential transition plans').

[31] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202500002

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Appendix II

At global level, the **International Sustainability Standards Board (ISSB)** Transition Plan disclosure (IFRS1 and IFRS2) incorporates recommendation of the TCFD. IFRS S1 and IFRS S2 requires a company to disclose information about its sustainability related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term (collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects'). **IFRS does not require an entity to have a transition plan but it requires disclosure of any transition plan it has.**

In November 2022, **GFANZ** published the Financial Institution Net-Zero Transition Plans (Fundamentals, Recommendations and Guidance) to provide financial institutions with background on potential avenues for meeting net zero commitments intended to address the financial and economic risks and opportunities posed by climate change and the transitions that would be necessary to mitigate those risks[32]. In summary GFANZ outline five recommendations that financial institutions should implement as they develop their net-zero transition plans; **Foundations (overall approach), Governance, Engagement Strategy, Metrics and Targets and Implementation Strategy.**

In April 2024, **the Network for Greening the Financial System (NGFS)** published its Credible Transition Plans: The micro-prudential perspective report[33] stated that 'Transition plans have the potential to become

[32] https://assets.bbhub.io/company/sites/63/2022/09/Recommendations-and-Guidance-on-Financial-Institution-Net-zero-Transition-Plans-November-2022.pdf

[33] https://www.ngfs.net/sites/default/files/media/2024/04/17/ngfs_credible_transition_plans.pdf

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centrepiece in showing the real economy's pathway to a net-zero future. For financial institutions, transition plans can be viewed as an important part of the wider transition finance framework that supports efficient allocation of capital across sectors toward a low emission economy as well as important tools to manage its risks arising from climate change in a forward looking manner'. The NGFS proposes a number of elements relevant for credible Transition Plans **including good governance structure, specific engagement strategies, transparent risk assessment and risk appetite for climate related risk, action plan, monitoring structure.**

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Appendix III

GHG Inventory

Measuring GHG emissions[34] across the value chain[35] and creating an emissions inventory is critical to understanding a firm's carbon footprint and impact. It also allows firms to better identify actions they will need to take, and priority areas to focus on to meet their ambition and targets. The initial assessment will provide a baseline and subsequent assessments can be used to measure progress against that baseline.

The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (the Corporate Standard) classifies a company's direct and indirect GHG emissions into three "scopes" for GHG accounting and reporting purposes[36].

The Corporate Standard also sets out five principles for the accounting and reporting of GHG emissions i.e. relevance, completeness, consistency, transparency and accuracy. These principles, along with the other considerations set out in the Corporate Standard such as organisational and operational boundaries can be used as helpful inputs for firms in establishing a measurement system and in setting targets for reducing their emissions levels.

Importance of Scope 3 emissions

For the financial services sector, Scope 3 emissions often account for more significant GHG emissions than Scopes 1 and 2 combined. If a firm is

[34] The two metrics that will help firms make the best decisions for reducing GHG emissions are absolute emissions and carbon intensity-based metrics, source: Sustain Life
[35] Emissions from the upstream and downstream activities associated with the operations of the reporting company, source: The Greenhouse Gas Protocol
[36] Please follow this link for an overview of GHG Protocol scopes and emissions across the value chain– source Corporate Value Chain (Scope 3) Accounting and Reporting Standard

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committed to reducing or even eliminating its carbon footprint, it will need to address all scopes including Scope 3. However, the Central Bank recognises that evaluating Scope 3 is not easy.

In order to identify the source of their GHG emissions for their inventory, firms will need to understand and identify all affected stakeholders up and down their value chain. The GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard categorises Scope 3 emissions into 15 distinct categories (see Figure 3 below).

Upstream or downstream	*Scope 3 category*
Upstream scope 3 emissions	**1.** Purchased goods and services **2.** Capital goods **3.** Fuel- and energy-related activities (not included in scope 1 or scope 2) **4.** Upstream transportation and distribution **5.** Waste generated in operations **6.** Business travel **7.** Employee commuting **8.** Upstream leased assets
Downstream scope 3 emissions	**9.** Downstream transportation and distribution **10.** Processing of sold products **11.** Use of sold products **12.** End-of-life treatment of sold products **13.** Downstream leased assets **14.** Franchises **15.** Investments

(Figure 3: Scope 3 emissions across the value chain, source GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard)

At present, Scope 3 emissions reporting is often categorised as optional; as such, firms may see calculation of Scope 3 emissions less of a priority. When CSRD comes into force Scope 3 emissions must be reported in the ESRS E1 climate change template.

The Global GHG Accounting and Reporting Standard (PCAF Standard) is comprised of three parts, **Part A - Financed Emissions, Part B – Facilitated Emissions and Part C – Insurance Associated Emissions.**

These publications provide detailed methodological guidance for firms to measure and disclose GHG emissions.

9. Abbreviations and Glossary

Carbon Budgets - A carbon budget is how some countries set a limit in policy or law on how much GHG they emit over a fixed time.

Carbon Neutral - Carbon neutrality means having a balance between emitting carbon and absorbing carbon from the atmosphere in carbon sinks (any system that absorbs more carbon than it emits).

Climate Action Plan (CAP) - The Irish Government's annual plan that sets out how we will meet our climate commitments and reach EU and international climate targets.

Climate Adaptation - Adapting to climate change means taking action to adjust to its present and future impacts.[37]

Climate Change - Refers to long-term shifts in temperature and weather patterns due to natural forces, or human activity, or both.

CRD – Capital Requirements Directive; the details could be found here.

CSDDD - Corporate Sustainability Due Diligence Directive - The aim of this Directive, which will apply from 2028 is to foster sustainable and responsible corporate behaviour and to anchor human rights and environmental considerations in companies' operations and corporate governance.

CSRD – Corporate Sustainability Reporting Directive - The aim of this Directive, which applies from 2028, is to require large companies and listed companies to publish regular reports on the social and

[37] https://climate.ec.europa.eu/eu-action/adaptation-climate-change_en

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environmental risks they face, and on how their activities impact people and the environment.

Decarbonisation levers – the tools, mechanisms and capabilities that a firm can use in terms of its financial services activities to reduce emissions. For example, a lender can decarbonise its loan portfolio by reducing lending to high carbon emitting activities or increasing lending to environmentally sustainable activities. In the investment sector an investment firm or asset manager can decarbonise its own investment portfolio holdings and the investment offerings its provides to clients by reducing holdings in securities that invest in high emitting economic activities or increasing investment in sustainable or transitioning economic activities.

EBA – European Banking Authority.

EIOPA – European Insurance and Occupational Pensions Authority.

Emissions Inventory - a database that lists, by source, the amount of air pollutants discharged into the atmosphere during a year or other time-period.

ESG – is an acronym for environmental, social and governance. ESG takes the holistic view that sustainability extends beyond just environmental issues.

ESG Regulatory Framework - a framework of reporting obligations contained in mandatory laws and voluntary guidelines, which helps relevant stakeholders, such as investors, shareholders, regulators, employees and consumers, understand how companies, investment management firms, financial advisors and other relevant actors manage

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risks and opportunities related to environmental, social and governance factors[38].

ESMA – European Securities and Market Authority.

ESRS -European Sustainability Reporting Standards – mandatory standards for use by all companies subject to the CSRD, which aims to ensure that companies across the EU report comparable and reliable sustainability information.

EU Climate Law - writes into law the goal set out in the EU Green Deal for Europe's economy and society to become climate-neutral by 2050. The law also sets the intermediate target of reducing net greenhouse gas emissions by at least 55% by 2030, compared to 1990 levels.

EU Green Bond Standard - Regulation (EU) 2023/2631 of the European Parliament and of the Council of 22 November 2023 on European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds[39].

EU Green Deal 'The Green Deal' - This plan is a roadmap for making the EU economy environmentally sustainable. It outlines the actions and targets needed to make Europe the first climate-neutral continent by 2050.

Fit for 55 - The Fit for 55 package is a set of proposals to revise climate, energy, and transport related legislation and ensure they align with the EU's climate goals.

GFANZ - Glasgow Financial Alliance for Net Zero is a global coalition of leading financial institutions committed to accelerating the decarbonisation of the economy.

[38] Link: https://data.oireachtas.ie/ie/oireachtas/libraryResearch/2023/2023-10-03_spotlight-environmental-social-and-governance-esg-and-sustainable-development-the-legal-and-regulatory-framework-in-ireland_en.pdf

[39] Link: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32023R2631

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Greenhouse Gas Emissions (GHG) - Gases that trap heat from the Earth's surface causing warming in the lower atmosphere and slowing down loss of energy from Earth. The major GHG that cause climate change are carbon dioxide, methane and nitrous oxide.

- **Scope 1 emissions** - GHG emissions are direct emissions from owned or controlled resources, i.e. that a company makes directly[40].
- **Scope 2 emissions** – GHG emissions are indirect emissions from the generation of purchased energy[41].
- **Scope 3 emissions** – GHG emissions are all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions)[42].

IDD – Insurance Distribution Directive.

IFRS1 – First-time adaptation of **International Financial Reporting Standards**.

IFRS2 – Share-based payment (International Accounting Standard).

ISSB – International Sustainability Standard Board.

ITS – Implementing Technical Standards.

MiFID – Markets in Financial Instruments Directive.

Net Zero Emissions - This refers to achieving an overall balance between GHG emissions produced by human activity and GHG emissions taken out of the atmosphere.

[40] Link: https://ghgprotocol.org/sites/default/files/2022-12/FAQ.pdf
[41] Link: https://ghgprotocol.org/sites/default/files/2022-12/FAQ.pdf

[42] Link: https://ghgprotocol.org/sites/default/files/2022-12/FAQ.pdf

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NGFS - Network for Greening the Financial System – launched in 2017, the network is a group of central banks and supervisors who on a voluntary basis share best practices and contribute to the development of environment and climate risk management in the financial services sector, and to mobilise mainstream finance to support the transition toward a sustainable economy.

Omnibus – a regulatory package from the European Commission that includes amendments to the Corporate Sustainability Reporting Directive, the Corporate Sustainability Due Diligence Directive, and a draft Taxonomy Delegated Act for public consultation.

Paris Agreement - this legally binding climate change agreement was adopted in Paris, France, in December 2015. It sets out a global framework to avoid dangerous climate change by limiting global warming to well below 2°C and trying to limit it to 1.5°C. It also aims to strengthen countries' ability to deal with the impacts of climate change and support them in their efforts.

Physical Risk - the financial impact of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as environmental degradation, such as air, water and land pollution, water stress, biodiversity loss and deforestation (NGFS)

Taxonomy Regulation - the EU taxonomy is a common classification system for sustainable economic activities that are aligned with a net zero trajectory by 2050 and the broader environmental goals

Transition Finance - should be understood as the financing of climate and environmental performance improvements to transition towards a sustainable economy, at a pace that is compatible with the climate and environmental objectives of the EU.

Transition Planning - the internal strategic planning and risk management processes undertaken by a financial institution to prepare

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for risks and potential changes in business models associated with the transition to low emission climate resilient economy.

Transition Plans - are a key product of the transition planning process and outline the steps a firm is taking to prepare for the shift to a low carbon economy. They are an external-facing output for external audiences, such as investors, shareholders and regulators.

Transition Risk – the financial risk which can result from the process of adjustment towards a lower-carbon economy prompted, for example, by changes in climate policy, technology or market sentiment (NGFS).

Sectoral Transition Pathways – an actionable plan for all stakeholders of a given industrial sector to follow to successfully achieve the green transition.

SFCR – Solvency and Financial Condition Reports.

SFDR - Sustainable Finance Disclosure Regulation - The Sustainable Finance Disclosures Regulation (SFDR) sets out how financial market participants and financial advisors have to disclose sustainability information to allow investors to properly assess how sustainability risks are integrated in the investment decision process.

Solvency II - the prudential regime for insurance and reinsurance undertakings in the EU.

Stranded Assets - They are assets that have significantly devalued because the market around them has changed[43].

Sustainable Finance - Sustainable finance refers to the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial services

43 https://www.thecorporategovernanceinstitute.com/insights/lexicon/what-are-stranded-assets-and-why-are-they-important/?srsltid=AfmBOoqz5fSloKXXJeiGZg4LZBACmU2NTx5tsULHq2VC3HwseKPnw70g

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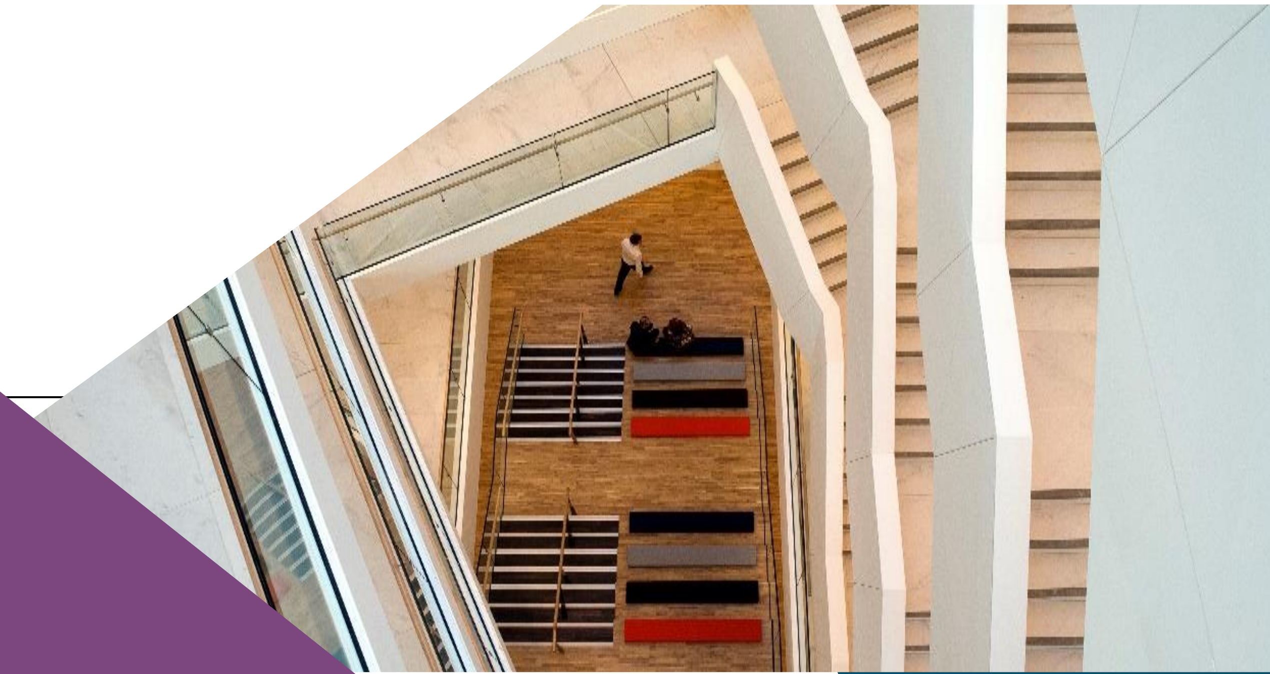
sector, leading to more long-term investments in sustainable economic activities and projects.

TCFD – Taskforce on Climate –Related Financial Disclosures

Value chain[44] **-** is defined as is the full range of activities, resources and relationships related to the undertaking's business model(s) and the external environment in which it operates. A value chain encompasses the activities, resources and relationships the undertaking uses and relies on to create its products or services from conception to delivery, consumption and end-of-life.



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