IOSCO Report on Transition Plans

FINAL REPORT

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Executive Summary

Climate-related transition plans can be a core component of climate disclosures, aiming to articulate the outputs of entities' internal strategic planning and risk management processes to prepare for risks, opportunities and potential changes in business models associated with the transition to a lower carbon, higher physical risk global economy.

Amid significant interest in transition plans from other international organizations, IOSCO has explored how disclosures about transition plans can support its objectives of investor protection and market integrity. We analysed current regulatory practices on transition plan disclosures by issuers and capital markets intermediaries as part of wider jurisdictional climate disclosure requirements. We also assessed current industry practices around the formulation, use and disclosure of transition plans by securities issuers, and by asset managers in relation to investment strategies, entity-level and fund-level disclosures.

IOSCO's outreach in connection with this Report was conducted through industry engagement with capital market participants in two global roundtables, a roundtable with its Affiliate Members Consultative Council (AMCC), bilateral sessions with credit rating agencies and finance industry associations, as well as a jurisdictional survey of the members of IOSCO's Sustainable Finance Taskforce (STF).

The Report provides a summary of the findings to convey how investors and other key stakeholders use transition plan disclosures, and their views on the current state of transition plan disclosures and whether and how guidance on the topic can help. The Report concludes by taking note of future developments that may help address some of the issues identified during IOSCO's outreach.

The Report is structured around six chapters. Chapter 1 introduces the topic and sets out the objective of the report. Chapter 2 provides background and context on the relevance of transition plan disclosures for capital markets and highlights the key features of existing disclosure frameworks. Chapter 3 summarizes the IOSCO fact-finding on current jurisdictional practices and recent developments on transition plan disclosures. Chapter 4 aggregates the inputs received from industry engagement on the use of transition plan information in primary and secondary markets, product design and credit ratings. Chapter 5 summarizes the key gaps and challenges relating to transition plan disclosures identified through the jurisdictional survey and industry outreach. Chapter 6 sets out the matters for future consideration and the implications of the STF findings on IOSCO's role in relation to transition plan disclosures.

The fact-finding exercise revealed that a range of transition plan related frameworks and guidance is currently available. Jurisdictions vary in their approach to what transition plan information should be disclosed as part of their wider climate disclosure frameworks, where entities have transition plans. Yet, most jurisdictions do not have transition plan-specific regulations.

IOSCO found that market participants are concerned about the current lack of standardization of transition plan disclosures with entities using different definitions and reporting frameworks or standards – or none. Above all, market participants called for consistent and comparable transition plan disclosures.

Comparable, consistent and reliable disclosures on core components of transition plans may have a positive effect on market participants' ability to make informed decisions. On the contrary, the provision of poor-quality disclosures may result in inefficient capital allocation and investor harm. With this in mind, the Report highlights **the five most useful components of transition plan disclosures** that were suggested by participants in IOSCO's outreach activities: 1) Ambition and targets; 2) Decarbonization levers and action plan; 3) Governance and oversight; 4) Financial resources and human capital; and 5) Financial implications.

These could be an important consideration for the IFRS Foundation's plan to develop educational material and, if needed, application guidance to support high-quality transition plan disclosures that provide investors with the information needed to make informed decisions about risks and opportunities. As set out in Chapter 6 of this Report, IOSCO welcomes this plan and encourages the ISSB to maintain a high level of interoperability of the IFRS Sustainability Disclosure Standards with key jurisdictional standards, such as the ESRS, as they develop globally applicable educational material. IOSCO will continue to engage with the ISSB on this topic, taking into account IOSCO's objectives of investor protection and market integrity.

Transition plans are part of an entity's strategy and enterprise risk management, and can ultimately impact value creation. Investors increasingly see the development and disclosure of transition plans as a material business imperative for entities to maintain access to capital. Well-articulated transition plan disclosures will therefore contribute to investors' overallassessment of how an entity navigates the risks and opportunities associated with the transition to a lower carbon, higher physical risk global economy and whether it remains viable to continue investing in the entity.

Market participants told IOSCO that whilst the current use of transition plans is nascent due to limited availability, comparability and reliability of the information, they are increasingly interested to use transition plans for their capital allocation, portfolio construction, risk assessment, pricing, valuation, product design and stewardship activities.

The Report highlights several challenges relating to transition plan disclosures that IOSCO heard through the jurisdictional survey and industry outreach. These include:

- the lack of a common definition for transition plans;
- the lack of global transition plan-specific disclosure guidance, including for financial institutions;
- information gaps in existing transition plan disclosures preventing investors from assessing progress on climate strategies;
- even where the information exists, the lack of a framework or standard that accounts for sectoral and jurisdictional differences – i.e., a "one size fits all" approach does not work for assessment of transition plans;
- the lack of assurance on the transition plan information and;
- the uncertainty for entities around the disclosure of forward-looking information, e.g. concerns about liability risks.

With a view to addressing these challenges, the key findings of the Report point towards a series of coordinated actions for IOSCO and other stakeholders to consider in the future. They concern four main aspects:

(i) encouraging consistency and comparability through guidance on transition plan disclosures,
(ii) promoting assurance of transition plan disclosures;
(iii) enhancing legal and regulatory clarity and oversight, and
(iv) building capacity.

List of Abbreviations

A	
AASB	Australian Accounting Standards Board
AFME	Association for Financial Markets in Europe
ASEAN	Association of Southeast Asian Nations
ASIFMA	Asia Securities Industry & Financial Markets Association
B	
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BRSR	India Business Responsibility and Sustainability Reporting
C	
capex	Capital Expenditure
CCA	Australia Climate Change Authority
CDP	Carbon Disclosure Project
CRAs	Credit rating agencies
CRD	Climate-Related Disclosure
CRMSA	Bank Negara Malaysia Climate Risk Management and Scenario Analysis
CS3D	Corporate Sustainability Due Diligence Directive
CSRD	Corporate Sustainability Reporting Directive
CSSB	Canadian Sustainability Standards Board
CVM	Brazil Comissão de Valores Mobiliários
E	
EBA	European Banking Authority
EFRAG	European Financial Reporting Advisory Group
ESG	Environmental, Social, and Governance
ESMA	European Securities and Markets Authority
ESRS	European Sustainability Reporting Standards
EU	European Union
F	
FCA	UK Financial Conduct Authority
FINMA	Swiss Financial Market Supervisory Authority
FRFI	Canada Federally Regulated Financial Institutions
FSB	Financial Stability Board
G	
G20	Group of 20
GDP	Gross Domestic Product
GHG	Greenhouse Gases
GFANZ	Glasgow Financial Alliance for Net Zero
GRI	Global Reporting Initiative

H

HKEX	Hong Kong Exchanges and Clearing Limited
HKMA	Hong Kong Monetary Authority

I

IAASB	International Auditing and Assurance Standards Board
ICMA	International Capital Markets Association
ICMA GBP	ICMA Green Bond Principles
IESBA	International Ethics Standards Board for Accountants
IESSA	International Ethics Standards for Sustainability Assurance
IFRS	International Financial Reporting Standards
IFRS S1	General Requirements for Disclosures of Sustainability-related Financial Information
IFRS S2	Climate-Related Disclosures
IIF	Institute of International Finance
IOSCO	International Organization of Securities Commissions
IOSCO AMCC	IOSCO Affiliate Members Consultative Committee
IOSCO STF	IOSCO Sustainable Finance Task Force
ISSA	International Standard for Sustainability Assurance
ISSB	International Sustainability Standards Board
ITR	Implied Temperature Rise

K

KPI	Key Performance Indicator

M

MAS	Monetary Authority of Singapore
MTCO2e	Metric Tons of Carbon Dioxide equivalent

N

NDC	Nationally Determined Contribution
NGFS	Central Bank and Supervisors Network for Greening the Financial System
NZBA	Net Zero Banking Alliance
NZTP	GFANZ Net Zero Transition Plan

O

OECD	Organization for Economic Co-Operation and Development
opex	Operating Expenditure

S

SASB	Sustainability Accounting Standards Board
SBTi	Science-Based Targets Initiative
SCS	Swiss Climate Scores
SEBI	Securities and Exchange Board of India
SEC	United States Securities and Exchange Commission
SFDR	Sustainable Finance Disclosure Regulation
SLB	Sustainability-linked Bond
SPTs	Sustainability Performance Targets

T

TCFD	Task Force for Climate-related Financial Disclosures
TPT	Transition Plan Taskforce

U

UN SIF	United Nations Sustainable Insurance Forum

Chapter 1. Introduction

Capital market participants increasingly consider climate-related information to be material, particularly as it relates to the potential impact of climate change on portfolio entities or clients' future prospects. The materiality of climate-related information is reflected in the adoption of mandatory climate disclosure requirements across multiple jurisdictions. For example, over 20 jurisdictions have decided to use or are taking steps to introduce the IFRS Sustainability Disclosure Standards, endorsed by IOSCO, in their legal or regulatory frameworks[1]. These jurisdictions include the EU, UK, Japan and China, and account for around 40% of global market capitalization.

Transition plans are the external facing output of an entity's internal strategic planning and risk management processes to navigate the changing business and regulatory landscape related to the transition to a lower carbon, higher physical risk global economy. As such, securities regulators may wish to consider whether entities are disclosing transition plan information adequately for capital market participants to make informed decisions.

From an **investor protection** perspective, inaccurate, inadequate, incomparable or unreliable transition plan disclosures could lead to mispricing of assets and misallocation of capital. These shortcomings can be compounded through the multiple layers of intermediaries along the value chain and could lead to misleading information for clients, misconduct and/or greenwashing[2].

Poor quality disclosures may also have an impact on **market integrity** as climate-related transition plans may form part of the information set used by investors and other market participants for decision making, product design and delivery, and reporting to both clients and regulators. On the contrary,

[1] IFRS - Jurisdictions representing over half the global economy by GDP take steps towards ISSB Standards

[2] As part of the mapping it conducted in 2023 covering key segments of the sustainable investment value chain, ESMA identified transition plans as one of the areas exposed to greenwashing risks. See ESMA's Progress report on greenwashing (June 2023), PP. 32 to 36, available here: https://www.esma.europa.eu/sites/default/files/2023-06/ESMA30-1668416927-2498_Progress_Report_ESMA_response_to_COM_RfI_on_greenwashing_risks.pdf

robust and reliable transition plan information can help detect and mitigate greenwashing risk in relation to the ambition, achievability and accountability of entities' general climate strategies.

In light of increasing evidence of the effects of climate change, a public policy response is therefore anticipated to address and adapt to the physical effects of climate change, which will create knock-on effects on economies and financial systems. Failure to transition globally could result in far greater physical impacts, against which entities need a strategy to ensure resilience.

As physical climate risks mount, investors are demanding more information on how entities are managing these risks. There may be disruption or sudden repricing of assets– arising from higher physical risks rather than transition risks such as higher carbon taxes – as financial models and scenario analyses are updated for greater physical impacts and their effects (for instance, on consumers' and companies' financial prospects).

To mitigate these unprecedented risks, corporates and financial institutions are quickly evolving their climate-related strategy, risk management, and governance. Climate-related transition plans can be a core component of climate disclosures by providing insights into entities' internal processes to prepare for risks, opportunities, and potential changes in business models associated with the climate transition.

While there is currently no globally used framework or definition of transition plans[3], the IFRS S2 Climate-Related Disclosures standard (IFRS S2) defines a climate-related transition plan as "An aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions" [4] . The IFRS S1 General Requirements for Disclosures of Sustainability-related Financial Information (IFRS S1) and IFRS S2 (hereafter the 'ISSB Standards') were endorsed by IOSCO in July 2023 as an effective and proportionate global framework for investor-focused climate disclosures[5].

Transition plan disclosures can be a critical input to inform investors' decision-making processes, we, client and regulatory reporting requirements, as well as the design and delivery of sustainability-labelled funds and instruments. When

[3] See pp. 30-33 of this report for a table showing the variation of jurisdictional definitions of a transition plan.

[4] See IFRS S2, Appendix A.

[5] See IOSCO Endorsement Assessment of ISSB Standards for Sustainability-related Disclosures.

material to investment and voting decisions, consistent, comparable and reliable transition plan disclosures may benefit investors as well as regulators and markets more broadly.

Market participants such as credit rating agencies, index providers, and ESG rating providers, among others, are interested in using transition plan disclosures as a part of the data set used to assess entities' climate- or transition-related resilience and readiness. Well-articulated transition plan disclosures provide financial markets with decision-useful information to improve the accuracy of market pricing and support capital allocation, risk management and stewardship decisions.

In connection with this report, IOSCO engaged with capital market participants and conducted a survey of 24 members of IOSCO's Sustainable Finance Taskforce (STF). Some market participants indicated that transition plan disclosures are essential to capital providers and market intermediaries for assessing an entity's performance and forming a view on its future prospects. However, the jurisdictional survey found that current approaches to transition plan disclosures vary. In jurisdictions where such disclosures are made, the lack of quantitative and granular information, comparability and jurisdictional and sectoral context can impact the provision of decision-useful and reliable information for investors.

Even though some commonalities can be observed across existing transition plan disclosure frameworks, there is currently no common guidance on the core components of transition plan disclosures. The approaches to transition plan disclosures are instead developing under different legal and regulatory frameworks as jurisdictions seek to provide additional detail to assist entities in their disclosure efforts, for example through the ongoing development by EFRAG on implementation guidance for transition plan disclosures under the ESRS and an intended FCA consultation on strengthening its existing transition plan disclosure expectations with reference to the Transition Plan Taskforce (TPT) Framework.

These jurisdictional developments are occurring alongside the creation of performance guidelines by private sector initiatives such as GFANZ. This has led to concerns about potential fragmentation, which can create investor protection and market integrity risks[6]. In June 2024, the IFRS Foundation announced that it will "support work to streamline and consolidate frameworks

[6] IOSCO's three objectives of securities regulation are those of protecting investors, ensuring that markets are fair, efficient and transparent and reducing systemic risk.

and standards for disclosures about transition plans"[7], and announced its expectation to issue educational materials using the TPT disclosure-specific materials (itself built upon the GFANZ transition plan framework) and to consider the need to enhance application guidance within IFRS S2.

Furthermore, the IFRS Foundation will assume responsibility for the disclosure-specific materials developed by the TPT as part of this consolidation. Through its work, the IFRS Foundation can play an important role in supporting interoperability of transition plan disclosure guidance currently under development.

The IOSCO Board established the STF in February 2020 to enable IOSCO to play a driving role in global efforts to address sustainable finance issues. IOSCO's report on Transition Plans is a further step to continue the progress the STF has made in addressing the challenges related to sustainability-related disclosures. This exercise will allow IOSCO to better understand whether and how it can further contribute to efforts to enhance the reliability and effectiveness of transition plan disclosures, and which matters it should focus on and pursue in the future.

What the Report aims to achieve and its structure

Amid significant interest in the topic from the G20, the Financial Stability Board (FSB) and other global organizations, IOSCO decided to explore how transition plan disclosures can support investor protection and market integrity as part of its Sustainable Finance Work Programme.

This Report is a continuation of IOSCO's work on sustainability-related corporate disclosures, after the July 2023 endorsement of the IFRS Sustainability Disclosure Standards IFRS S1 and IFRS S2 published by the ISSB. IOSCO has analysed current regulatory practices on transition plan disclosures by issuers and capital markets intermediaries as part of wider jurisdictional climate disclosure requirements. It has assessed current industry practices around the formulation, use and disclosure of transition plans by securities issuers, and by asset managers in relation to investment strategies, entity-level and fund-level disclosures.

In that context, the report summarizes the results of IOSCO's fact-finding work:

(i) survey responses from 24 of the 26 members of IOSCO's STF,

[7] See ISSB June 2024 Feedback Statement on its two-year work plan, page 3 at https://www.ifrs.org/news-and-events/news/2024/06/issb-delivers-further-harmonisation-of-the-sustainability-disclosure-landscape-new-work-plan/

(ii) industry engagement through a series of global roundtables, including with IOSCO's Affiliate Members Consultative Committee (AMCC), and

(iii) bilateral engagements with:

- credit rating agencies: Fitch Ratings, Moody's, S&P Global,
- finance industry associations, notably the Institute of International Finance (IIF), Association for Financial Markets in Europe (AFME), International Capital Markets Association (ICMA) and Asia Securities Industry & Financial Markets Association (ASIFMA), and
- international organizations and standard setters such as ISSB, EFRAG, NGFS, OECD, GFANZ and TPT[8].

IOSCO has also reviewed supporting documents provided by some of the above counterparties.

The overall goal of the Report is to provide a summary of these findings to convey how investors and other key stakeholders use transition plan disclosures and view the current state of transition plan disclosures, whether and how guidance on the topic can help, and to take note of future developments that may address some of the issues identified during IOSCO's outreach.

This report is structured as follows:

- Chapter 2 of the report provides background and context on the relevance of transition plan disclosures for capital markets and existing disclosure frameworks.
- Chapter 3 summarizes the IOSCO fact-finding on current jurisdictional practices and recent developments on transition plan disclosures.
- Chapter 4 summarizes the inputs received from industry engagement on the use of transition plan information in primary and secondary markets, product design and credit ratings, as well as the most useful transition plan information identified by market participants.
- Chapter 5 summarizes the challenges relating to transition plan disclosures following from the jurisdictional survey and industry outreach.
- Chapter 6 closes the report by setting out the matters for future consideration and the implications of the STF findings on IOSCO's role in relation to transition plan disclosures.

[8] IOSCO's engagement with the TPT took place before the IFRS Foundation's announcement on 24 June 2024 that it will assume responsibility for the disclosure-specific materials developed by the TPT.

Chapter 2. Background and Context

Relevance of Transition Plans to Investors and Capital Markets

Financial institutions and companies (hereafter referred to as 'entities') are increasingly making strategic climate commitments. This may be partly driven by jurisdictions starting to implement their commitments under international treaties, where applicable.

Some entities have chosen to adopt targets, such as the 8,928 entities[9] that have either already set or committed to set validated science based targets through the Science Based Targets Initiative (SBTi). Under the GFANZ framework, over 675 financial institutions from 50 jurisdictions have made science-based commitments to support the global transition to net zero, setting interim targets for 2025 or 2030 to reflect efforts towards a fair share of the 50% reduction in global GHG emissions by 2030[10].

Regardless of whether an entity has a net zero or any other climate commitment or goal, climate-related risks (both physical[11] and transition[12]) are

[9] Entities taking action - Science Based Targets Initiative. Last accessed 3 September 2024

[10] GFANZ 2023 Progress Report (December 2023)

[11] IFRS S2 Climate-related Disclosures Appendix A Defined Terms. *"Climate-related physical risks: Risks resulting from climate change that can be event-driven (acute physical risk) or from longer-term shifts in climatic patterns (chronic physical risk). Acute physical risks arise from weather-related events such as storms, floods, drought or heatwaves, which are increasing in severity and frequency. Chronic physical risks arise from longer-term shifts in climatic patterns including changes in precipitation and temperature which could lead to sea level rise, reduced water availability, biodiversity loss and changes in soil productivity."*

[12] IFRS S2 Climate-related Disclosures Appendix A Defined Terms. *"Climate-related transition risks: Risks that arise from efforts to transition to a lower-carbon economy. Transition risks include policy, legal, technological, market and reputational risks. These risks could carry financial implications for an entity, such as increased operating costs or asset impairment due to new or amended climate-related regulations. The entity's financial performance could also be affected by*

increasingly important considerations. In addition, the actions taken by jurisdictions to meet their climate commitments and changes in consumer preferences towards lower carbon alternatives could create business opportunities. Together, these risks and opportunities can affect a entity's financial prospects[13]. Climate transition plans aim to formulate and articulate an entity's strategic response to these risks and opportunities and can demonstrate how the entity would manage the potential risks and impacts to their business model and risk profile.

For entities that have developed transition plans, the disclosure of these plans could increase the provision of forward-looking information to the market. This enhances investors' understanding of entities' exposure to climate-related risks and the opportunities[14] that the transition presents.

This impacts different market participants in a variety of ways, including:

1. **Investors**, who may use this information to inform their assessment of security issuers' exposure to climate transition risk, their preparedness to harness transition opportunities and the resilience of the transition plans to increasing physical climate impacts. Climate-related transition plans may therefore constitute part of the material information set that investors use for decision making, product design and delivery, as well as reporting to both clients and regulators. This can yield several benefits for investors including:
   - Improved transition risk management and capital pricing methodologies and accuracy;
   - Confidence to capitalize on strategic opportunities;
   - Means to assess the deliverability of decarbonization targets, if applicable;
   - Input for capital allocation and stewardship decisions;
   - Enhanced ability to deliver on own climate commitments.

shifting consumer demands and the development and deployment of new technology."

[13] IFRS S2 Climate-related Disclosures P2: *"This Standard requires an entity to disclose information about climate-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. For the purposes of this Standard, these risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects."*

[14] IFRS S2 Climate-related Disclosures Appendix A Defined Terms. "*Climate-related opportunities refers to the potential positive effects arising from climate change for an entity. Efforts to mitigate and adapt to climate change can produce climate-related opportunities for an entity*."

2. **Capital Market Intermediaries,** where transition plans may form part of their core data set. Examples of use cases include:
    - Asset managers – development of funds and fund-level reporting to clients;
    - ESG ratings & data providers – aggregation, analysis and interpretation of climate transition data to provide climate-related scores or datasets used by investors;
    - Index providers – creation of low-carbon and other ESG-related indices (e.g., Dow Jones Sustainability World Index, MSCI Climate Paris-Aligned Indexes);
    - Second party opinion providers – provision of opinions on green and transition instruments;
    - Standard setters and framework providers – definition of minimum standards on processes and/or performance criteria for labelled instruments and funds (e.g., ICMA GBP[15]);
    - Credit rating agencies – assessment of impacts of transition risks on entities' creditworthiness at issuer and/or instrument level.

3. **Regulators**, as the effective integration of forward-looking metrics (provided by transition plans) into financial decision-making may support their objectives of enhancing investor protection, ensuring market integrity and promoting financial stability through reduction in systemic risk.

Accordingly, comparable, consistent and reliable disclosures on core components of transition plans may have a positive effect on market participants' ability to make informed decisions. On the contrary, the provision of poor-quality disclosures may result in inefficient capital allocation and investor harm. For example, inadequate disclosure of interim targets and progress hinders investors' ability to assess the achievability and ambition of an entity's overall climate strategy. Investors are unable to compare transition plan information and metrics over time on a like-for-like basis and hold entities to account if entities disclose inconsistent information. Inadequate disclosures may also lead to mispricing of assets, misleading information, misconduct and/or greenwashing.

[15] International Capital Market Association (ICMA)'s Green Bond Principles (GBP)

Current Frameworks

Tables 1 and 2 below set out a range of transition plan related frameworks and guidance currently available. The IFRS S2, CDP's Technical Note on Reporting on Transition Plans [16] and the European Sustainability Reporting Standards (ESRS) E1[17] are solely focused on disclosures, with all three requiring disclosure of transition plans when an entity already has one.

Of the above-mentioned three disclosure frameworks, only IFRS S2 adopts a financial materiality approach focused on the information needs of primary users of general purpose financial reports (existing and potential investors, lenders and other creditors), requiring disclosure of climate-related information reasonably expected to affect an entity's prospects. The ESRS E1 and CDP adopt a double materiality perspective [18]. The TPT framework [19] incorporates criteria for the development of robust and credible transition plans in addition to guidance on good quality disclosures. It primarily adopts the financial materiality approach defined in IFRS S1, but preparers may include additional information not considered financially material to communicate their climate transition strategy to other stakeholders.

Two performance guidelines focus on the development of credible transition plans for accountability and raising transition finance. ICMA's Climate Transition Finance Handbook provides guidance for entities to demonstrate to investors that they have a credible transition plan in place for the specific purpose of raising capital. Lastly, GFANZ Net Zero Transition Plan (NZTP) framework[20] is an example of a sector-specific framework which recommends strategies for financial institutions to decarbonize portfolios in line with net zero 2050 targets.

There is some degree of alignment among these frameworks. For example, the TPT Framework is built upon the 5 core elements in the GFANZ framework –

[16] See https://www.cdp.net/en/guidance/guidance-for-entities/climate-transition-plans

[17] See https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F08%252

[18] See "Framework scan" tables below for an overview, definitions and materiality comparisons

[19] See https://transitiontaskforce.net/build-your-transition-plan/

[20] See https://www.gfanzero.com/our-work/financial-institution-net-zero-transition-plans/

Foundations, Implementation Strategy, Engagement Strategy, Metrics and Targets, and Governance – while providing further depth and detail for preparers and users. The TPT's *Comparison* with ESRS found some alignment[21] between their approaches to transition plan disclosures. However, apart from IFRS S2's high-level references to transition plans, there is no global framework, standard or consensus on best practices in relation to climate-related transition plan disclosures using a financial materiality lens that focuses on an investor audience.

In May 2024, the IFRS Foundation and EFRAG published material which illustrates how an entity can apply both IFRS S2 and the ESRS and includes detailed analysis of the alignment in climate-related disclosures to aid reporting entities[22]. As a critical next step, in June 2024[23] the ISSB announced its new two year work plan towards "*further harmonisation and consolidation of the disclosure landscape"* and reducing the *"complexity of multiple sources of sustainability reporting initatives".*

The IFRS Foundation will work "to streamline and consolidate frameworks and standards for disclosures about transition plans" in order to support the application of IFRS S2 transition plan-related disclosure requirements and to reduce fragmentation in such information provided to the market. In that light, the focus of the ISSB will be on decision-useful information about the transition plans where entites have them (per IFRS S2), rather than requiring entities to engage in transition planning.

In order to achieve this, the IFRS Foundation will assume responsibility for the disclosure-specific materials developed by the TPT and expects to use these materials to develop globally applicable educational materials to support climate-related disclosures that meet the needs of investors and the financial markets. Over time, the ISSB will consider the need to enhance the IFRS S2 application guidance in line with the IFRS Foundation's established due process.

[21] TPT Disclosure Framework –European Sustainability Reporting Standards Comparison October 2023

[22] See https://www.ifrs.org/news-and-events/news/2024/05/ifrs-foundation-and-efrag-publish-interoperability-guidance/

[23] See https://www.ifrs.org/news-and-events/news/2024/06/issb-delivers-further-harmonisation-of-the-sustainability-disclosure-landscape-new-work-plan/

Framework Scan

The tables below set out some key features of available finalized disclosure frameworks and the most widely adopted performance guidelines (and related disclosure requirements). Considering that this is an evolving area and that other frameworks are still under development globally, it is not an exhaustive list of frameworks[24] nor characteristics but should give a basic overview of the similarities and differences among the selected ones. Noting that all frameworks are in relation to entity-level disclosures (and use of proceeds disclosures in ICMA), some of the features considered below are:

- Transition plan requirements / references
- Objectives and/or purpose of the framework
- Users of disclosed information
- Materiality considerations
- Net zero pathway alignment vs transition readiness
- Key framework components and metrics
- Sector-specific guidance.

The Task Force on Climate-Related Financial Disclosures (TCFD) is excluded from the below comparison on account of its sunsetting.

[24] For example, the ASEAN Capital Markets Forum (ACMF) issued in October 2024 the ASEAN Transition Finance Guidance Version 2 (ATFG) which addresses how entities may assess or demonstrate a credible transition in ASEAN to obtain financing from capital markets. The ATFG principles are grounded in existing international and regional transition finance guidelines to ensure coherence with global and scientific expectations, while enhanced with regional contextualisation.

Table 1: Framework Scan – Disclosure Frameworks

	ISSB	TPT	CDP	ESRS
Transition plan requirements/ references	ISSB's Climate-related Disclosures Standard, IFRS S2, requires entities to disclose information about any climate-related transition plans an entity has, including key assumptions used in developing these plans and the dependencies on which the plan relies.	The TPT Framework provides a set of Disclosure Recommendations that an entity can use as guidance on how to report more effectively on the transition plan-related aspects of IFRS S2.	CDP's Technical Note: Reporting on Climate Transition Plan identifies 6 principles for a credible climate transition plan and 8 fundamental elements of a credible transition plan, which outline how an organization will pivot its existing assets, operations, and business model towards alignment with the latest and most ambitious climate science recommendations.	Under E1-1, business entities are required to disclose information about transition plans that they may have, to ensure their business model and strategy are compatible with the transition to a climate-neutral economy and with limiting global warming to 1.5°C in line with the Paris Agreement. EFRAG is preparing guidance to help entities disclose their transition plans in line with ESRS.
Objective / Purpose of the framework (i.e., the preparers' perspective)	Disclosure standards for preparers to communicate material sustainability-related risks and opportunities to primary users (investors, lenders, and other creditors) of general purpose financial reports (including financial statements and sustainability-related financial disclosures) to inform their decision-making. This may be to obtain financing, communicate intentions and progress to stakeholders, and fulfil regulatory obligations, among others.	Framework for preparers to communicate to stakeholders on their public climate commitments, assure supervisors and regulators that its climate strategy and claims are well-founded, and provide additional information to capital providers for informed decision-making.	Framework for multiple stakeholders such as preparers and cities to track impacts and benchmark against peers, understand risks, communicate progress on commitments, build trust, or obtain financing.	Statutory requirements for business entities subject to reporting under the Corporate Sustainability Reporting Directive (CSRD) to communicate preparers' material impacts on environment and society, as well as effects of sustainability-related factors on the business.
Users of disclosed information	Primary users of general purpose financial reports. i.e. existing and potential investors, lenders and other creditors.	Investors and lenders, policymakers and regulatory authorities, and other stakeholders.	Capital providers, governments, supervisors and regulators, and other stakeholders such as non-governmental organizations.	Investors, civil society organizations, consumers, and other stakeholders.
Materiality	Financial materiality: information about climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. Information is	Primarily financial materiality as defined by IFRS S1. Secondarily, preparers may choose to include additional information not	Double materiality, which includes both impact materiality and financial materiality.	Double materiality, which includes both impact materiality and financial materiality.

	IFRS Sustainability	TPT	CDP	CSRD
	material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that primary users of general purpose financial reports make on the basis of those reports.	considered financially material that may be helpful for communicating climate transition strategy to other stakeholders.	Impact materiality: actual or potential significant impacts by the preparer on people or the environment over any time horizon. Financial materiality: actual or potential significant financial effects on the preparer, through risks or opportunities that may influence future cash flows and enterprise value of the preparer over any time horizon.	Impact materiality: actual or potential significant impacts by the preparer on people or the environment over any time horizon. Financial materiality: actual or potential significant financial effects on the preparer, through risks or opportunities that may influence future cash flows and enterprise value of the preparer over any time horizon.
Net-zero pathway alignment **vs** **Transition readiness[25]**	ISSB standards are disclosure focused. IFRS S2 requires disclosure of any climate-related transition plan the entity has, including information about key assumptions used in developing its transition plan, and dependencies on which the entity's transition plan relies.	TPT materials beyond disclosures[26] are focused on transition readiness, providing guidance for stakeholders to create credible and transparent transition plan disclosures, with an emphasis on climate mitigation, with consideration of adaptation and interdependencies with nature and social.	CDP is focused on how an organization is aligning with ambitious long-term climate goals, and that its business model will transition, in order to be relevant (i.e., profitable) in a 1.5°C world.	ESRS are disclosure standards. The disclosure on transition plan (E1-1) does not directly refers to net zero pathways but is meant to provide an understanding of how the entity ensures compatibility of its strategy and business model with the limiting of global warming to 1.5°C and with the objective of achieving climate neutrality by 2050.
Key framework components and metrics	• Governance • Strategy (including scenario analysis and financial planning) • Risk management • Metrics, targets	• Governance • Foundations • Implementation • Engagement strategy • Metrics and targets	• Governance • Strategy • Scenario analysis • Financial planning • Value chain engagement • Low-carbon initiatives	• Governance • Strategy, Impact • Risk and opportunity management • Metrics, targets

[25] Net-zero pathway alignment is specifically targeted at achieving net zero. Transition readiness is not about net zero, but about helping and assessing an entity's preparedness to transition.

[26] IFRS has assumed responsibility only for the TPT's disclosure-specific materials.

			• Policy engagement • Risks and opportunities • Targets Scope 1, 2 and 3 accounting with verification	
Sector-specific guidance	IFRS S1 requires an entity to refer to and consider the applicability of the Sustainability Accounting Standards Board (SASB) Standards, which offer detailed, industry specific disclosure requirements. IFRS S2 requires an entity to provide industry-specific disclosures where material, and in providing such disclosures to refer to and consider the *Industry-based Guidance on Implementing IFRS S2*.	TPT has published two types of sector guidance to complement the TPT Disclosure Framework: the TPT Sector Summary and the TPT Sector Deep Dives (asset managers, asset owners, banks, electric utilities & power generators, food & beverage, metals & mining, and oil and gas).	No sector specific guidance.	Plans for sector specific guidance, however, the implementation of sector specific standards have been delayed till June 2026.

Table 2: Framework Scan – Most widely used performance guidelines and related disclosure requirements

	ICMA	GFANZ
Transition plan requirements/ references	ICMA's Climate Transition Finance Handbook seeks to provide clear guidance and common expectations on the practices, actions and disclosures to be made available by issuers when raising funds for their climate transition strategy.	GFANZ has developed globally applicable, pan-sector recommendations and guidance for transition planning by financial institutions and defined the key components of a credible net-zero transition plan.
Objective / Purpose of the framework (i.e., the preparers' perspective)	Guidelines for issuers to disclose their climate transition strategy and governance in support of green, sustainability, or sustainability-linked bond issuances.	Voluntary framework for financial institutions to apply when developing and implementing net-zero transition plans, to help them meet their net-zero commitments through financing strategies that facilitate real-economy transition.
Users of disclosed information	Current and potential investors in green, sustainability, or sustainability-linked bonds.	Governments, real-economy entities and investees, investors in financial institutions, and other stakeholders such as non-governmental organizations.
Materiality	Effectively financial materiality: information that investors need to understand issuers' climate transition strategies and the effect on the issuance, including capital expenditures, operational expenditures, and Scope 3 greenhouse gas emissions, to inform investment decisions.	Effectively financial materiality. i.e. information needed to understand the financial institution preparer's transition strategy and response to climate-related risks and opportunities.
Net zero pathway alignment **vs** **Transition readiness[27]**	ICMA is focused on net zero pathway alignment, supporting climate mitigation efforts and addressing broader environmental issues including biodiversity and sustainable water management through its Green Bond Principles Net zero focused initiative.	GFANZ is focused on net zero pathway alignment, assisting financial institutions in developing and implementing climate mitigation strategies to achieve net zero 2050. GFANZ have initiated work on integrating nature into net zero transition plans
Key framework components and metrics	• Governance • Use of proceeds • Project evaluation and selection • Management of proceeds • Reporting metrics	• Foundations • Implementation Strategy • Engagement Strategy • Metrics and Targets • Governance
Sector-specific guidance	No sector-specific guidance.	GFANZ sectoral pathways provide specific guidance for high-emitting industries, such as coal power phaseout strategies and decarbonization efforts for heavy emitting sectors.

[27] Net-zero pathway alignment is specifically targeted at achieving net zero. Transition readiness is not about net zero, but about helping and assessing an entity's preparedness to transition.

Chapter 3. Jurisdictional Practices & Developments

This section presents the findings from IOSCO's regulatory survey on current practices and regulatory developments on transition plan disclosures, noting further details for responding jurisdictions can be found in Annex 1.

This jurisdictional analysis aims to understand the current and planned levels of climate-related disclosure requirements across jurisdictions as the foundation for transition plan disclosures; identify and assess common transition plan components in these requirements to understand the benefits and challenges that may arise from an investor protection and market integrity perspective; and identify areas of common interest across IOSCO members in terms of transition plan development and disclosures.

The findings are based on an analysis of survey responses from 24 members of the IOSCO STF, representing all 23 jurisdictions (of which 8 are EU members) as well as ESMA answering for the EU.

The 23 responding jurisdictions consist of Australia, Belgium, Brazil, Canada, China, Egypt, France, Germany, Hong Kong, India, Italy, Japan, Malaysia, Mexico, Morocco, the Netherlands, Portugal, Singapore, Spain, Sweden, Switzerland, United Kingdom and the United States of America.

Current landscape & trends

Current and planned jurisdictional requirements on transition plan disclosures vary in terms of (i) the type of entities scoped in by climate and transition plan disclosure requirements; (ii) the reference to specific transition plan-related frameworks and, within that, the definition of a transition plan; (iii) the target users for transition plan disclosures; and (iv) the use case for the entities disclosing against such frameworks (e.g. fund raising versus compliance with mandatory disclosure requirements). Further details are set out below.

National climate policy as the backdrop for disclosure requirements

All 23 responding jurisdictions explained that their jurisdictions have climate change public policy frameworks being implemented or under development, with the majority setting a net zero 2050 commitment based on the Paris Agreement. These frameworks include sector-specific targets and/or emissions reduction plans. However, it is not necessarily the case that the IOSCO members who responded to the survey have a mandate to advance these public policy objectives given that some regulatory authorities operate on an independent basis.

Among jurisdictions with net zero 2050 targets, different trajectories and interim targets have been adopted to reflect national circumstances. Even within the EU, whose members are bound by common targets through the EU Climate Law[28], some members have adopted more ambitious targets and/or shorter-term interim goals. For several emerging market jurisdictions[29], national climate policy objectives are dependent on international co-operation and/or financing which are not yet fully in place.

Requirements on climate-related disclosures

Requirements for listed entities

All 23 responding jurisdictions have finalized, or plan to finalize climate-related disclosure requirements for entities with listed securities. Eight responding jurisdictions[30] that are EU Member States will follow the requirements from the Corporate Sustainability Reporting Directive (CSRD). France is the only EU Member State that has additional national requirements in place for in-scope financial institutions. Switzerland, while not part of the EU, has indicated that it will align its requirements with the CSRD or equivalent, such as the ISSB Standards in combination with the GRI Standards. Seven of the 23 responding jurisdictions[31] have in place national requirements referring to the TCFD, and

[28] Target of net zero by 2050 and an interim target of a net greenhouse gas emissions reduction by 2030 of 55% compared to levels in 1990. See https://climate.ec.europa.eu/eu-action/european-climate-law_en.

[29] Mexico, Malaysia, India, Egypt, Morocco.

[30] Portugal, Spain, Sweden, France, Netherlands, Italy, Germany, Belgium.

[31] Egypt, Hong Kong, Japan, Malaysia, Singapore, Switzerland, United Kingdom.

another 3 jurisdictions[32] have finalized national requirements without reliance on any international standards. One jurisdiction[33] allows for the use of any internationally recognized reporting standard. In line with IOSCO's endorsement of the ISSB Standards as an effective global framework, 11[34] of the 23 responding jurisdictions have developed or are developing ISSB-based disclosure requirements for future implementation.

Taken together, 18[35] jurisdictions in total will use the ESRS or ISSB standards for transition plan disclosures now or in the near future. In May 2024, the IFRS Foundation and EFRAG published guidance material to demonstrate the high level of alignment between the ISSB Standards and ESRS[36]. Both sets of standards already require preparers who have transition plans to disclose them, and in the case of the ESRS, using a standardized format and providing more in-depth information if climate mitigation is assessed to be material. This provides impetus for the ISSB and EFRAG to continue enhancing and ensuring interoperability of their standards, including guidance related to transition plan disclosures.

Requirements for non-listed entities

Sixteen[37] of the 23 responding jurisdictions scope in mandatory climate disclosures for non-listed entities over time. These mainly refer to large private entities e.g. those with at least a minimum number of employees, and financial

[32] France, India, the United States of America. Note that on April 4, 2024, the U.S. Securities and Exchange Commission (SEC) issued an order staying the climate-related disclosure rules it adopted on March 6, 2024 (SEC Final Rule Release No. 33-11275, *The Enhancement and Standardization of Climate-Related Disclosures for Investors*, or "Climate-Related Disclosure Rules" hereafter). As a result, the effective date of those rules is stayed pending judicial review of the rulemaking. To the extent this Report discusses requirements of the Climate-Related Disclosure Rules, it should not be interpreted to mean that those rules are effective or that registrants are required to comply with them while they are stayed.

[33] Morocco.

[34] Australia, Brazil, Canada, China, Egypt, Japan, Hong Kong, Malaysia, Mexico, Singapore, United Kingdom.

[35] Australia, Belgium, Canada, China, Egypt, France, Germany, Hong Kong, Italy, Japan, Malaysia, Mexico, Netherlands, Portugal, Singapore, Spain, Sweden, United Kingdom.

[36] IFRS - IFRS Foundation and EFRAG publish interoperability guidance

[37] Australia, Belgium, Brazil, Egypt, France, Germany, Italy, Japan, Morocco, Netherlands, Portugal, Singapore, Spain, Sweden, Switzerland, United Kingdom.

institutions. In many cases the disclosure requirements are the same as those for listed entities.

Requirements when taking securities to market

All 23 responding jurisdictions have general provisions in their securities prospectus rules for disclosure of material risks, which may include climate or sustainability related risks where relevant. Some jurisdictions such as the EU Member States and 2 non-EU jurisdictions[38] cite sustainability information as potentially material disclosures. The US SEC's Climate-Related Disclosure Rules requires disclosure of material climate-related risks[39]. Five of the 23 responding jurisdictions[40] are considering the need for such mandatory disclosures in future.

Green bond issuers in most juridictions adhere to market-based standards or frameworks that have disclosure requirements, such as the ICMA Green Bond Principles. The EU and India have jurisdictional green bond standards that require disclosures. In particular, India prescribes mandatory transition plan disclosure requirements specifically for transition bonds. Singapore and Hong Kong either encourage or require, respectively, entities issuing transition-related bonds to disclose entity-level transition plans in order to apply for cost cover schemes to defray expenses related to second party opinions or external assurance.

Specific requirements relating to transition plan disclosures

Jurisdictions vary in their approach to what transition plan information should be disclosed as part of their wider climate disclosure frameworks, where

[38] Morocco, United States of America (See FN 31). On 11 July 2023, ESMA published a Statement on sustainability disclosure in prospectuses, which clarifies ESMA and European supervisors' expectations concerning sustainability disclosure in prospectuses. The Statement also explains that sustainability information can be material in the context of a prospectus, and if that is the case, the information must be disclosed in the prospectus. The Statement covers both equity and non-equity securities, and also includes specific disclosure requirements for green bonds and sustainability-linked bonds.

[39] See FN 31. To the extent this Report discusses requirements of the Climate-Related Disclosure Rules, which are stayed pending judicial review of the rulemaking, it should not be interpreted to mean that those rules are effective or that registrants are required to comply with them while they are stayed.

[40] Australia, Canada, Malaysia, Mexico, United Kingdom.

entities have transition plans. The requirements include different definitions of transition plans, some of which have been extended to include physical risk resilience through adaptation measures, as well as assurance over transition plan disclosures in certain cases.

More details on this can be found in the following sections that cover the specific requirements relating to transition plan disclosures, namely (i) transition plan disclosure requirements nested in jurisdictional climate-related reporting frameworks; (ii) definitions of a "transition plan"; and (iii) coverage of physical risk adaptation measures within jurisdictional transition plan disclosure definitions.

Transition plan disclosure requirements nested in jurisdictional climate-related reporting frameworks

Aligned with their current or planned implementation of mandatory climate-related disclosure requirements, all 23 responding jurisdictions have a current or planned framework that, to some extent, requires transition plan disclosures by entities which have transition plans[41]. Many of these frameworks are based on wider climate disclosure standards such as the IFRS S2 and ESRS E1, and are not transition plan-specific regulations..

Whilst not classed as a transition plan-specific regulation, the EU Taxonomy Regulation requires in-scope entities to disclose metrics that are relevant to transition plans, specifically the current percentage alignment of revenues, operating expenditure (opex), and capital expenditure (capex) against the EU Taxonomy. Financial institutions also have to disclose the degree of alignment of their products with the EU Taxonomy under the Sustainable Finance Disclosure Regulation (SFDR). The UK is intending to consult on strengthening transition plan disclosure expectations, with reference to the TPT Disclosure Framework; and Singapore will finalize voluntary Guidelines on Transition Planning for in-scope banks, insurers and asset managers which include guidance on transition plan disclosures.

Variation in the definitions of a "transition plan"

[41] See FN 31 above. On April 4, 2024, the U.S. Securities and Exchange Commission (SEC) issued an order staying the Climate-Related Disclosure Rules it adopted on March 6, 2024. As a result, the effective date of those rules is stayed pending judicial review of the rulemaking. To the extent this Report discusses requirements of the Climate-Related Disclosure Rules, it should not be interpreted to mean that those rules are effective or that registrants are required to comply with them while they are stayed.

The definition of what constitutes a transition plan varies across jurisdictions, often depending on which disclosure standards and/or transition plan frameworks the jurisdiction plans to use (e.g., ISSB, ESRS or their own national climate change public policy framework). The survey across the 23 jurisdictions identified a total of 7 unique definitions with some key differences.

There are commonalities between definitions, with some definitions being compatible with each other. For example, the ISSB and ESRS definitions for climate transition plans intentionally use similar language to aid interoperability. While most definitions center around strategy and actions to reduce GHG emissions, some definitions go further to refer to preparation for risks and changes to business models associated with the global transition towards a lower-carbon, high physical risk economy.

Further details are set out in the table below.

Table 3: Jurisdictional definitions of transition plans

Jurisdiction	Definition
European Union	**<u>Per ESRS (disclosure regulations):</u>** **General transition plan:** A specific type of action plan that is adopted by the undertaking in relation to a strategic decision and that addresses: i. a public policy objective; and/or ii. an entity-specific action plan organized 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. **Transition plan for climate change mitigation:** An aspect of an undertaking's overall strategy that lays out the undertaking's targets, actions and resources for its transition towards a lower-carbon economy, including actions such as reducing its GHG emissions with regard to the objective of limiting global warming to 1.5°C and climate neutrality. **<u>Per the European Commission's Recommendation on transition finance:</u>** "Transition plan means an aspect of the undertaking's overall strategy that lays out the entity's targets and actions for its transition towards a climate-neutral or sustainable economy, including actions, such as reducing its GHG emissions in line with the objective of limiting climate change to 1.5 °C."

India (transition bond framework)	While the framework does not include a definition of a transition plan, it defines "transition bonds" as those which comprise of funds raised for transitioning to a more sustainable form of operations, in line with India's Intended Nationally Determined Contributions (NDC). As part of the framework, entities are required to disclose a transition plan, containing the following: • Details of interim targets / milestones along with an indicative timeline for achieving the targets. • Brief of the project implementation strategy. • Details regarding the usage of technology for the project implementation. • Mechanism to oversee the utilization of the funds raised through transition bonds and the implementation of the transition plan. Issuers may form a committee to oversee the implementation and ensure timely completion of the defined targets.
Australia, Brazil, Canada, China, UK, Japan, Malaysia, Mexico, Singapore, Egypt, Hong Kong (ISSB) (disclosure regulations, in consultation or finalization phase)	An aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions.
Singapore (Transition Planning Guidelines for financial institutions, in addition to ISSB) (supervisory expectations)	In addition to the ISSB's definition, the voluntary TPGs have the following definitions: **Transition plan:** The firm's tangible output of the transition planning process. **Transition planning process:** the internal strategic planning and risk management processes undertaken to prepare for both risks and potential changes in business models associated with the transition.
UK (Transition Plan Taskforce, in addition to ISSB) (disclosure regulations)	TPT leverages the ISSB's definition of a climate-related transition plan and applies the same approach to materiality and the wider set of concepts and definitions that are set out in IFRS S1. Further, TPT builds on this definition recommending good practice for a transition plan:

	"a good practice transition plan clearly articulates the entity's Strategic Ambition. This comprises its objectives and priorities for responding and contributing to the transition towards a low GHG-emissions, climate-resilient economy. It also sets out whether and how the entity is pursuing these objectives and priorities in a manner that captures opportunities, avoids adverse impacts for stakeholders and society, and safeguards the natural environment. Elaborating the entity's strategic approach to supporting an economy-wide transition, while managing the risks and opportunities that arise from its impacts and dependencies, will provide users with valuable information on how it is protecting and enhancing long-term value. To drive good practice, TPT Framework applies three guiding principles of Ambition, Action and Accountability. The Framework is organized across five elements, which are consistent with the transition planning components proposed by GFANZ in its guidance."
USA (disclosure regulations)	The Securities and Exchange Commission (SEC) defined "transition plan" to mean a "registrant's strategy and implementation plan to reduce climate-related risks, which may include a plan to reduce its GHG emissions in line with its own commitments or commitments of jurisdictions within which it has significant operations"[42].

<u>Coverage of physical risk adaptation measures within transition plan definitions and disclosure requirements</u>

Disclosure requirements related to physical risk adaptation measures are expressly addressed within transition plans in 11[43] out of the 23 responding jurisdictions: 8 in the EU and 3 jurisdictions outside the EU, namely, the UK,

[42] See FN 31. On April 4, 2024, the U.S. Securities and Exchange Commission (SEC) issued an order staying the Climate-Related Disclosure Rules it adopted on March 6, 2024. As a result, the effective date of those rules is stayed pending judicial review of the rulemaking. To the extent this Report discusses requirements of the Climate-Related Disclosure Rules, it should not be interpreted to mean that those rules are effective or that registrants are required to comply with them while they are stayed.

[43] Belgium, China, France, Germany, Italy, Netherlands, Portugal, Singapore, Spain, Sweden, United Kingdom.

China, and Singapore. India has disclosure requirements related to adaptation if such adaptation actions are financed via transition bonds.

In the EU, transition plan disclosure requirements in the ESRS standards mandate information compatible with the transition to a sustainable economy, and with limiting global warming to 1.5°C in line with the Paris Agreement and with the objective of achieving climate neutrality by 2050 including adaptation actions.. In particular, ESRS E1 mandates disclosure of information on adaptation if deemed a material sustainability matter. Such information is typically part of the transition plan, for instance to address resilience towards physical risks. In addition, France and Spain have national level transition plans strategies that include adaptation measures, which can be referenced by preparers developing their transition plans.

In the UK, the TPT takes adaptation to physical impacts of climate change into account through its definition of transition plans, disclosure framework, and associated implementation guidance. The TPT states that a well-articulated transition plan should include adaptation measures, and material financial risks arising from adaptation should be reported within overall risk management disclosure. This should be accompanied by disclosure of the capital expenditure, financing, or investment deployed for climate adaptation by the entity. Entities should provide a list of the most material physical assets that are exposed to both transition and physical climate risks and opportunities.

Singapore and India have considered adaptation measures in their transition plan guidance and transition bond framework, respectively.

Singapore has proposed transition plan guidelines for asset managers, banks and insurers which include adaptation actions such as (i) engaging higher physical risk clients and investee entities on adaptation strategies instead of withdrawing capital, (ii) ensuring that risk mitigation and adaptation measures taken by clients and investee entities do not have unintended negative impacts on nature-dependent entities operating in the region which may further reduce the latter's resilience to physical risks, and (iii) placing higher physical risk clients and investee entities on enhanced monitoring and taking prompt risk mitigation actions to be taken where necessitated.

In India, adaptation actions can be financed via transition bonds as these actions are included in the transition bond framework[44]. This is intended to

[44] SEBI's *Master Circular for issue and listing of Non-convertible Securities, Securitised Debt Instruments, Security Receipts, Municipal Debt Securities and*

support India's NDC which seeks to enhance physical risk resilience for vulnerable sectors alongside climate mitigation activities.

Scope of the disclosure frameworks and requirements

In line with the principles of proportionality and public accountability, jurisidictions are first scoping public interest entities into climate disclosure requirements, i.e. listed entities and large financial institutions such as banks and insurers (listed or non-listed), with other types of entities following in stages. For example, the IFRS Foundation has noted, in its guide to support the adoption or other use of ISSB Standards across jurisdictions [45], that in describing jurisdictional approaches it will focus, among other things, on whether sustainability-related disclosure requirements have been introduced for all or most publicly accountable entities [46] providing general purpose financial reports as the primary preparers.

In addition to disclosure requirements, some jurisdictions will introduce transition plan development and performance criteria or credibility requirements. The EU Corporate Sustainability Due Diligence Directive (CS3D) will require in-scope entities with over 1,000 employees and over €450M turnover to adopt and implement a Paris Agreement aligned climate transition plan across their global supply chain. Similar to the extra-territorial reach of the CSRD, the CS3D is expected to scope in 900 large non-EU entities alongside around 6,000 large EU entities gradually over a 3-5-year period from July 2024, when the Directive entered into force[47].

Commercial Paper dated May 22, 2024. This master circular prescribes disclosure requirements in prospectus for issue of green debt securities, where transition bonds are one of the sub-categories of a "green debt security".

[45] IFRS Foundation Inaugural Jurisdictional Guide for the adoption or other use of ISSB Standards May 2024

[46] Defined by IFRS Foundation as "entities whose securities are traded in a public market or entities in the process of issuing securities for trading in a public market (sometimes called listed entities or public entities)" and "entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses (for example, banks, credit unions, insurance entities, securities brokers/dealers, mutual funds and investment banks) and have a significant weight in the jurisdiction, regardless of their ownership structure or listed status"

[47] https://commission.europa.eu/business-economy-euro/doing-business-eu/corporate-sustainability-due-diligence_en

Implications of financial supervisory developments on real economy entities' transition plan disclosures

Respondents highlighted the lack of supervisory expectations or guidance for financial institutions to collect consistent transition plan-related metrics from clients and portfolio entities, potentially making it difficult for these financial institutions to develop and disclose their own transition plans. From a prudential perspective, financial supervisors are currently developing their thinking on their role in relation to supporting financial institutions' transition planning and transition plan disclosures; the relevance of transition plans for financial stability and microprudential supervision; and their understanding of the key components of transition plans. Transition planning and transition plans are included in the work programmes of the FSB[48], BCBS[49], NGFS[50] and UN SIF[51].

Some jurisdictions' prudential supervisors have developed requirements or guidance for their financial institutions in relation to disclosure of transition plans.

In Malaysia the Central Bank issued the Climate Risk Management and Scenario Analysis (CRMSA) policy document requiring financial institutions to manage climate risk including *"committing to a transition strategy that is transparent, gradual and progressive when rebalancing the exposures that are vulnerable to climate-related risks."* Financial institutions are required to make annual climate-related disclosures in line with the TCFD recommendations, and will be able to use TCFD's guidance on transition plans for disclosure.

In Canada, Federally Regulated Financial Institutions (FRFI) should develop and implement a Climate Transition Plan. Internal metrics and targets such as GHG emissions are examples of how the FRFI could measure and assess progress against its transition plan.

In August 2023, the Hong Kong Monetary Authority (HKMA) issued a circular 'Planning for net-zero transition' that sets out high-level principles on planning

[48] https://www.fsb.org/2023/07/fsb-outlines-next-steps-on-climate-roadmap-following-the-finalisation-of-the-global-sustainability-disclosure-standards/

[49] https://www.bis.org/bcbs/bcbs_work.htm

[50] NGFS publishes a package of reports relating to Transition Plans | NGFS

[51] https://sustainableinsuranceforum.org/what-we-do/ and 2022 SIF internal paper *Do Supervisors have a role in the net zero transition?*

for the transition to a net-zero economy, with a view to assisting banks in maintaining safety and soundness in the transition. Clear objectives and targets aligned with a net-zero transition should be set by authorized institutions, and as the authorized institution's capacity for transition planning improves, it can set quantitative targets that are aligned with the goals of the 2015 Paris Agreement and based on science-based pathways. The transition plan disclosure requirements contained in IFRS S2 were referenced.

The European Banking Authority (EBA)[52] stated that by incentivising financial institutions to develop their strategic response to prudential risks related to the transition, and elaborate their plans, the EBA is supporting these financial institutions to meet their own transition plan related disclosure requirements such as the CSRD.

In January 2024, the EBA published a Consultation Paper on the management of ESG risks, which defines, among other things, minimum expectations for European banks [53] to develop Capital Requirements Directive-based [54] prudential transition plans, including methodologies, key risk metrics and targets. Some of the proposed transition plan metrics and information may eventually be disclosed under the EBA Implementing Technical Standards on Pillar 3 disclosures[55] alongside transition related metrics such as the Green Asset Ratio and Banking Book Taxonomy Alignment Ratio.

On a national level, France requires in-scope (beyond listed) financial institutions to disclose climate-related information such as Paris alignment strategies and targets and scenario analysis results, which could form components of transition plans.

[52] https://www.eba.europa.eu/sites/default/files/2024-01/c94fd865-6990-4ba8-b74e-6d8ef73d8ea5/Consultation%20papaer%20on%20draft%20Guidelines%20on%20ESG%20risks%20management.pdf

[53] Excluding Small and Non-Complex Institutions

[54] According to Article 76(2) of the CRD, credit institutions shall set out specific plans to monitor and address the financial risks stemming from ESG factors, including those arising from the process of adjustment and from transition trends in the context of the relevant Union and Member States' regulatory objectives and legal acts in relation to ESG factors, as well as, where relevant for internationally active institutions, third country legal and regulatory objectives.

[55] https://eba.europa.eu/publications-and-media/press-releases/eba-publishes-binding-standards-pillar-3-disclosures-esg

The increasing importance of transition plans for the financial sector and for prudential authorities from a risk management perspective further underpins the need for guidance on consistent and comparable transition plan disclosures by entities operating in the real economy.

Target audience/users of transition plan disclosure frameworks

The ISSB Standards define primary users of general purpose financial reports, i.e. existing and potential investors, lenders and other creditors, as the target audience for their sustainability and climate-related disclosures, which include disclosures about transition plans if an entity has one. By extension, this target audience could include capital market participants such as fund managers, credit rating agencies, as well as ESG rating and data providers and index providers who develop products and services for investors.

Double materiality based transition plan frameworks such as the ESRS cater to a multi-stakeholder based audience which includes the entity's business partners, trade unions, social partners, civil society and non-governmental organizations amongst others. Regulators and governments are mentioned or implied as users given the disclosure requirements are typically encapsulated in listing rules and jurisdictional Companies Acts which are legally binding.

In this context of different audiences, respondents stated that interoperability between disclosures will be key so that investors are able to understand and compare investor-focused transition plan information in different jurisdictions even though jurisdictional transition plan disclosure requirements and jurisdictional climate commitments may differ.

Reliability of transition plan disclosures

Finally, respondents noted the need for assurance to enhance the reliability of transition plan disclosures, and the current lack of an overarching global sustainability assurance standard. Both the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) are in the process of developing specific international standards for assurance and ethics (including independence), respectively, of sustainability information that are expected to be completed by late 2024 and/or early 2025.

At national and regional levels, some jurisdictions will require limited and/or reasonable assurance for all reported information over time which may include transition plans where relevant. Other jurisdictions currently limit assurance requirements to other aspects of sustainability disclosures, such as Scope 1 and 2 emissions, and do not require assurance over transition plan disclosures.

Assurance requirements

In the EU, from the first year of reporting under the CSRD (phased in starting from FY 2024), undertakings in scope will be required to obtain limited assurance over their compliance with the ESRS standards including the underlying materiality assessment process and disclosure related to transition plans, where relevant. The CSRD provides for the possibility of moving the assurance level from limited to reasonable assurance in the future. The assurance opinion will be delivered by a statutory auditor, or, where the Member State allows, an independent assurance service provider. The assurance opinion will be publicly disclosed with the sustainability statement.

In Singapore, ISSB-aligned climate-related disclosures will be made mandatory for listed entities and large non-listed entities with mandatory limited assurance on Scope 1 and 2 GHG emissions in due course. The Accounting and Corporate Regulatory Authority of Singapore will monitor the assurance implementation experience in more advanced jurisdictions and consult before progressing towards a reasonable assurance in the future, which may include expanding the scope of assurance beyond Scopes 1 and 2 emissions data.

Australia's disclosure legislation requires assurance of the 'sustainability report' on or before 2030, which would include climate-related disclosures and transition plans[56]. Given the timescale, interim targets relating to the period before 2030 will not be covered under the assurance requirements.

In Brazil, the CVM Resolution 193 requires sustainability-related financial disclosures based on requirements aligned with ISSB Standards to be subject to assurance in accordance with the standards issued by the Federal Accounting Council (Conselho Federal de Contabilidade), an independent non-governmental auditor legally responsible for public sector accounting standards.

[56] The Australian Accounting Standards Board (AASB) is the standard setter for the Australian climate-related financial disclosure regime for large businesses and financial institutions. The AASB has issued AASB S2: Climate-related Disclosure (AASB S2). The transition plan disclosure requirements in AASB S2 are identical to those in IFRS S2. The Australian Auditing and Assurance Standards Board is developing audit and assurance standards that will specify the extent to which a sustainability report must be audited.

The UK is intending to consult on strengthening transition plan disclosures with reference to the TPT Framework. The TPT Framework includes information about which aspects of the transition plan are subject to external assurance or verification, including the nature of the assurance or verification.

In Switzerland, the Federal Council decided that sustainability reporting, which is expected to include transition plan disclosures, should be subject to external assurance and this matter is within the remit of the Department of Justice and the Finance Department.

In the USA, the final climate rule envisages that issuers that are required to disclose Scope 1 and/or Scope 2 GHG emissions, will need to file an attestation report at the limited assurance level, and, following an additional transition period, at the reasonable assurance level for "large accelerated filers" [57].

[57] See FN 31. To the extent this Report discusses requirements of the Climate-Related Disclosure Rules, which are stayed pending judicial review of the rulemaking, it should not be interpreted to mean that those rules are effective or that registrants are required to comply with them while they are stayed.

Chapter 4.
Industry Practices & Developments

IOSCO engaged with market participants to understand i) their current use of transition plans when making decisions relating to the provision of financial resources to entities, including voting and engagement; and ii) the type of information they considered to be most decision useful. IOSCO has undertaken two global roundtables, a roundtable with its AMCC[58], and bilateral sessions with credit rating agencies and financial industry associations to gather insights from the buy side, sell side, lenders and insurance underwriters. The findings set out below are a summary of the range of diverse views of these participants.

Increased demand for transition plan disclosures

Participants indicated that there is increasing demand for transition plan disclosures, from both regulators and the markets. These participants consider transition plans to be ultimately part of an entity's strategy, and therefore essential to capital providers and market intermediaries for assessing an entity's performance and forming a view on its future prospects. As such, some shareholders are using shareholder meetings to call for enhanced disclosures of transition plan information. Taking insurance as an example, being a core aspect of enterprise risk management: the intensification of climate change-induced catastrophes may lead to higher insurance costs[59] for businesses and potentially an inability to operate in the absence of adequate insurance[60]. This will impact the financial feasibility of an entity's transition plan.

The two drivers of regulation and market demand are seen to be reinforcing each other. Climate reporting requirements, as detailed in Chapter 3, have partially arisen from the markets' need for consistent, comparable, and reliable

[58] For more details on IOSCO's AMCC see: https://www.iosco.org/v2/about/?subsection=display_committee&cmtid=2

[59] See Natural catastrophes in 2023: Swiss Re Institute

[60] See, for example, BIS: https://www.bis.org/fsi/publ/insights54.pdf

disclosures. In turn, market participants are responding to new and upcoming requirements, anticipating the information needed to comply with these regulations and supervisory expectations. For example, the EU Green Bond Standard requires issuers to include transition plan disclosures, and UK prospectus rules encourage the disclosure of forward-looking information.

The markets' demand for granular transition plan information, alongside the rise of climate reporting requirements, has led to some market participants creating proprietary tools to help investors assess entities' transition plans. These tools have seen a significant increase in uptake. As capital providers' needs mature, these tools will require more sophisticated information to assess the credibility of an entity's transition plan and its alignment with global and national climate commitments and transition pathways, as well as the resilience of the entity's business model and creditworthiness to transition risks. For example, some entities may have decarbonization strategies that are more ambitious than the national transition plans, if any, in their operating jurisdictions. In these instances, there could be implications on the financial return profile of lower carbon technologies that are not supported by national climate policies.

The lending banks and credit rating agencies with whom IOSCO engaged stated their need for publicly available transition plan disclosures despite being able to obtain privately disclosed information from counterparties. They relied on third party data providers for structured and comparable publicly disclosed information across a large number of entities and for benchmarking of entities against industry peers. Although privately disclosed information through tailored client questionnaires can be useful for deep-dive analyses into entities' transition plans, such information requests are resource-intensive and not typically feasible to expect of all clients. Some banks have indicated their preference for using public information to encourage their clients to adopt the good practice of disclosing transition plan-related information.

Some participants told IOSCO that whilst the current use of transition plans is nascent due to availability, comparability and reliability of the information, they are increasingly interested to use transition plans for their capital allocation, risk assessment, pricing, valuation, and decision-making processes. Investors can use well-articulated transition plan disclosures to assess the credibility of an entity's transition plan and therefore the feasibility and level of ambition of its longer-term climate strategy. Investors can also use such disclosures to analyse the resilience of an entity's business model in the global transition towards a lower-carbon, higher physical risk economy, while taking into account alignment to regional or national pathways and other factors.

These features of transition plan disclosures may contribute to investors' overall assessment of whether it remains viable to continue investing in an entity, and to support its transition efforts to mitigate the challenges ahead. For example, transition plans can affect real economy entities' access to financing and supply chains, which has implications for value creation and disclosure requirements for these entities' own supply chain partners. Over 50,000 entities[61] affected by the EU CSRD, including an estimate of over 10,000[62] non-EU entities scoped in through extra-territorial application, will be required to disclose transition plans. Investors are therefore increasingly seeing the development and disclosures of transition plans as a material business imperative.

For investors committed to financing the real-world transition, transition plans can support investment analysis and decision-making processes. Detailed transition plan information is especially important for financial institutions looking to allocate capital towards advancing the low-carbon transition in the real economy, instead of merely decarbonizing their portfolios through changes in the mix of underlying entities and/or sectors within the portfolio i.e., "paper decarbonization".

A well-articulated transition plan can help an entity, which may currently be a high carbon emitter, to craft a narrative that demonstrates to existing and potential investors that it can decarbonize ambitiously enough whilst remaining a profitable business with sufficient returns for the investor. Transition plan information can help investors to justify ongoing investments into higher-emitting entities, allowing them to focus on facilitating the real-economy transition in the long term, instead of a short-term focus on improving historical emissions-related metrics. This is especially vital for investors in emerging markets where the long-term transition is key to ensuring continued economic growth and where higher-emitting entities need the most capital to transition.

From the broader perspective of investors – even those without any environmental mandates or objectives – transition plan information is useful given the implications for changes in the entity's revenue streams, planned capex and supply chain resilience. Further, given the global operations of many entities, the transition plan information related to different regulatory requirements across their wider supply chains will be relevant for the assessment of the entity's overall business prospects.

[61] See https://www.europarl.europa.eu/news/en/press-room/20221107IPR49611/sustainable-economy-parliament-adopts-new-reporting-rules-for-multinationals

[62] See https://www.lseg.com/en/insights/risk-intelligence/how-many-non-eu-companies-are-required-to-report-under-eu-sustainability-rules

Retail investors are also asking for clear and concise transition plan-related information for informed decision-making, regardless of whether they have a green investment objective. Retail investors may need information on entities' GHG emission reduction targets and the plans to achieve these targets, backed up by the quantification of progress or other developments in relation to transition plans.

Transition plan disclosures that market participants flagged as most useful for their needs

Above all, participants called for consistency and comparability in transition plan disclosures. Some financial institutions noted that while the ISSB Standards incorporate high-level principle-based requirements for transition plan disclosures, more detailed and comparable information is needed. Further guidance on transition plan disclosures may help entities to disclose the required information.

In the absence of a standardized framework for transition plans, some financial institutions have turned to third parties for guidance, such as the ICMA *Climate Transition Finance Handbook*[63] on example transition-related metrics. As a result, participants were concerned about the current lack of standardization of transition plan disclosures. They found that entities use different definitions and reporting frameworks or standards – or none.

As this partially stems from a lack of global transition plan-specific disclosure guidance, either from regulators or standard setters, there was concern about fragmentation in light of upcoming developments in various jurisdictions. For example, EFRAG's ESRS transition plan guidance and the FCA's consultation as well as ongoing developments by private sector initiatives. There were also concerns that additional regulator guidance would exacerbate the trend by adding to the existing proliferation of private sector driven frameworks or guidance. One survey found that 3 in 4 financial market participants believe a lack of comparability in sustainability disclosures and transition plans is an obstacle to identifying opportunities to finance the transition[64].

[63] ICMA's Climate Transition Finance Handbook acts as additional guidance for issuers seeking to utilize green bonds, sustainability bonds or sustainability-linked bonds towards the achievement of their climate transition strategy.

[64] See https://www.oecd-ilibrary.org/environment/oecd-guidance-on-transition-finance_0d0146fe-en

As such, participants called for comparable transition plan disclosures and several suggested IOSCO could play a role in driving this forward. Over the course of IOSCO's engagements, participants repeatedly called for certain core components of transition plan disclosures that were most likely to be useful for decision-making, whilst noting the necessity for further engagement and research with regard to these components. Participants highlighted the following transition plan components:

1. **Ambition and targets**

- Whether an entity has set specific emission reduction targets, including in relation to scopes 1, 2 and 3 emissions, how these targets align with international climate goals and/or jurisdictional commitments, and whether they are science-based.
- The timeframe for achieving any such targets, and relevant short-, medium- and long-term milestones and/or interim targets.

2. **Decarbonization levers and action plan**

- How the entity plans to embed climate transition considerations into its strategy and decarbonize its operations[65], e.g. changes to business processes and identification of operational efficiencies, changes in products and services offered, the use of new technologies and energy sources, the adoption of energy efficiencies and responses to regulatory changes.
- The capital expenditures anticipated to accomplish the action plan and transform the entity's business model in line with performance and monitoring metrics.
- Whether carbon credits are being used[66].

3. **Governance and oversight**

- The role of the board and management for oversight and execution of the transition plan.
- The key performance indicators used to track progress toward achieving the transition plan and how these KPIs are incorporated into

[65] Depending on the entity's targets, e.g, in case of targets relating to Scope 3 GHG emissions, this may include actions on the entity's value chain.

[66] IFRS S2 requires disclosure on an entity's planned use of carbon credits to offset greenhouse gas emissions to achieve any net greenhouse gas emissions target, while ESRS-E1 requires disclosure on an entity's use of carbon credits but specifies that entities shall not include them as a means of achieving its own GHG emission reduction targets. The work of IOSCO's separate STF workstream covered vulnerabilities and other concerns in compliance and voluntary carbon markets.

performance evaluations and executive compensation decisions. The KPIs are expected to vary by sector and by entity.

4. Financial resources and human capital to deliver the transition plan

- The financing for planned operational and capital expenditures to ensure that execution of the transition plan is feasible.
- The policies and actions taken to ensure the entity is appropriately staffed to execute the transition plan and deliver on its targets.

5. Financial implications

- The financial implications of the transition plan over the short, medium, and long term, including potential costs and impacts on the entity's revenue streams, cash flows, assets and liabilities.
- How different climate scenarios will impact the entity's strategy, transition plan and financial performance.

Even as participants called for guidance on core transition plan components to be disclosed, they cautioned against overly prescriptive templates or regulations. Given the nascency of how transition plans are currently developed and disclosed, some participants were concerned that prescriptive regulations would result in transition plan disclosures becoming a "check the box" exercise, instead of being undertaken strategically.

Participants noted the importance of a common language for entities to communicate their climate strategies and progress, while allowing for flexibility to account for nuances in entities' operating contexts, especially in emerging markets. The relevant metrics to report depend on an entity's business activities, as well as the sector and geographical regions in which it operates. ICMA's various bond principles, for example, provide a baseline for comparison of fixed income offerings while allowing issuers flexibility based on their sector and geographical region.

Current use cases of transition plan-related information

This section focuses on different ways transition plans are used, rather than on the users themselves, and different ways the information disclosed feeds through the capital markets ecosystem – directly or indirectly via the lending market. This demonstrates the relevance of transition plan information and why it is of interest to securities regulators. IOSCO has found increasing demand for transition plan information in capital markets which covers a range of use cases by investors and capital market intermediaries. For example, institutional investors use transition plan information for various purposes such as capital allocation, portfolio construction, creditworthiness assessments and product design.

Capital allocation and portfolio construction

Institutional investors increasingly seek to use transition plan information for portfolio construction and capital allocation decisions when and where this information is available. They are looking to allocate capital to support the transition and entities that are making progress against credible transition plans will likely improve their risk-return profile as well as their contribution to portfolio value creation over time. The use of transition plan information in portfolio construction is present across both public and private markets, with some private equity investors able to take on more risk by investing into harder-to-abate sectors or higher emitting entities. Asset owners are also able to include transition-related parameters within investment mandates if such information is widely available.

Pricing instruments

Although most financial institutions do not currently use transition plans to price equity instruments, they noted that such information can influence demand for individual securities. For example, an issuer raising new equity capital can use its transition plan to supplement its growth narrative and articulate how the proceeds raised will be used to deliver this upside. Issuers need sound financial fundamentals and/or growth prospects to attract sufficient demand from mainstream investors, but those with high quality transition plan disclosures may be better able to attract additional investors with green or transition-related objectives.

Notwithstanding the usefulness of transition plan information for equity offerings, there was some concern about potential disincentives for entities to go public if there were to be onerous transition plan disclosure requirements in IPO prospectuses. Some participants suggested that such disclosures would be more appropriate for post listing ongoing reporting purposes to allow more lead time, as entities newly entering the public markets may likely be less experienced with climate-related financial reporting.

For bond instruments, investors currently use issuer transition plan disclosures as part of their considerations to exclude financing certain activities and/or issuers rather than as a direct input into pricing, which is based on issuer level fundamental credit analysis. Although with more specific transition plan information such as planned green or transition capital expenditure, investors can better analyze the business prospects and understand the associated risks.

Time horizon is a significant factor in determining the importance of transition-related information to pricing an instrument. For an instrument with a very long horizon, such as a 30-year bond, transition-related information would likely be more material. For example, information on how proceeds will be used to transition the entity's business model. Yet, this same horizon makes it difficult to accurately price in the effect of the transition plan which will most probably evolve over time. This is compounded by the increase in the level of uncertainty and discount factor over time.

Private credit markets (lending and unlabelled loans)

Listed lending banks which participated in IOSCO's outreach events use transition plan information for identifying financing solutions for clients, for pre-transaction due diligence and for post-financing client engagement. Some are analysing how best to use sector level transition plan information to inform their own balance sheet allocation and internal ESG risk limit setting. Bank participants indicated that they do not use transition plan information for pricing or lending decisions but incorporate it into the total mix of information used to assess potential risk exposures. There was concern expressed that simplistic assumptions that higher emissions equated higher credit risk or that having a transition plan equated lower credit risk would lead to misallocation of capital. It was noted that conditioning financing on the presence of the client having a transition plan may unfairly prejudice emerging markets' clients from obtaining financing.

As part of a more thorough approach to using transition plan information for climate-related credit risk assessment, some participating banks used proprietary questionnaires to assess the credibility of prospective and current clients' transition plans, focusing on implementation levers, targets and capital expenditures. Transition plan related red flags are escalated to the appropriate internal authorities as part of the credit risk assessment process. This allows banks to assess if their clients' transition plan capex activities generate sufficient returns on investment and therefore cashflows to repay the additional debt, taking into consideration other cashflow needs such as physical climate risk adaptation measures.

Insurance underwriting

Some insurers have indicated that they are not yet using transition plan information for risk assessment or pricing of premiums, as unaudited or unverified information was not reliable. Others have indicated that it is difficult for insurers to influence entities in their transition commitments through insurance policies or the creative design of insurance products.

Credit rating analysis

Credit rating agencies (CRAs) that IOSCO engaged with are increasingly focusing on climate transition risk as a potentially material factor for credit ratings, and have invested in new capabilities and tools e.g. Fitch Ratings' Corporate Climate Vulnerability Signals, S&P's Sustainable 1 Centre of Excellence, and Moody's Net Zero Assessment.

Assessment Methodology

CRAs analyse climate- and transition-related information to assess the potential impact of climate transition risks on the probability of default and creditworthiness. CRAs request detailed information from issuers, including non-publicly disclosed information on climate and transition factors where material to the business to model the potential impact on financial prospects. Some of these include capital expenditure and research and development invested in sustainable sources of energy, the entity's interim and longer term targets, as well as the entity's ability to overcome obstacles in achieving these targets. Climate risk is one of multiple material credit factors CRAs take into consideration.

CRAs have prioritized assessments of entities operating in high-emitting sectors with deep dives into sector-specific factors. CRAs ask entities specific questions about their transition plans, including how they intend to achieve the targets set; the profit margins for the lower carbon products; significant risks involved; implications of regional regulations; and detailed plans for capital expenditure and financing. In addition, CRAs conduct deep dives for specific sectors and geographical regions to identify the tipping point for each of these risks.

CRAs provided feedback that while some investors are keen to invest in an issuer's transition, others perceive such investments to be too risky, given the perceived increase in climate policy risks especially over longer term horizons. Investors are also concerned about potential reputation risk through their investments in higher emitting sectors or entities. Additionally, some investors find it challenging to hold issuers' debt instruments where the issuer is in an early stage of transition, as there may not be sufficient information to assess the likelihood of a successful transition.

In response to increased investor needs to manage longer term climate credit risk, CRAs are using scenario analysis to assess the longer term vulnerability of creditworthiness to climate transition risks up to 2050, with implications especially for longer maturity bonds. CRAs consider entities which start their transition later are likely to be disadvantaged as it may be more expensive for them to catch up with the earlier movers. This is a potentially slippery slope as lower rated entities may suffer from reduced access to capital to invest in decarbonization and adapt to climate risks, which would further worsen their longer term business viability.

CRAs require more granular transition plan-related information to assess potential implications of transition risk on an entity's cash flow generation, and creditworthiness. For example, CRAs analyse transition plans at product line level to assess the profitability margins and capex needed for any pivot to lower carbon alternatives. They noted, in some circumstances, the potential risk of lower returns on investment for some lower carbon alternatives versus incumbent technologies partly due to scale and less proven new technology. In addition, some CRAs are assessing the potential impact on cash flows due to requirements by some insurers for physical risk adaptive measures to maintain availability or affordability of insurance coverage.

Financial Institutions' own climate strategy, transition plans and reporting

Some listed banks are aligned to Net Zero Banking Alliance (NZBA) pathways and use transition plan information of clients in higher emitting sectors to monitor progress against the banks' own portfolio decarbonization targets. By assessing and comparing clients' emissions profiles and trajectories against the bank's own sector-based decarbonization pathways, banks ensure that their own transition plans and related targets communicated to shareholders can be achieved.

Product design of mainstream funds, labelled funds, and labelled bonds

Transition plan disclosures play a role in the creation of financial products, particularly those focused on sustainability and ESG criteria. Financial products such as green bonds may be designed based on the transition plans of the underlying assets or entities. In this case, the framework for a green or transition bond may align with the transition plan, for example where the proceeds raised from the bond offering should be used for decarbonization projects outlined in the entity's transition plan.

Participants stressed that if the underlying real-economy transition plan disclosures are reliable, comparable and use standardized metrics based on common methodologies, the investment products and instruments created using those transition plans will necessarily be more robust. This tackles greenwashing risk and enables the labelled instrument market to scale with integrity.

Use of transition plan disclosures to set KPIs and margin ratchets for Sustainability-linked bonds

Some banks see transition plan information as more pertinent for Sustainability-linked bonds (SLBs), which are viewed by the market as instruments to finance the low-carbon transition. Banks use transition plan information to assess whether the sustainability performance targets (SPTs) in an SLB are sufficiently ambitious and relevant, and whether the issuer is likely to achieve them. For example, some banks stipulate that the issuer's should set externally verified science-based decarbonization targets in order to be credible.

Some other participants indicated that the margin ratchets related to the SPTs do not currently have any meaningful impact on price, as they are not meant to reflect credit risks. While GHG emissions metrics are currently the most widely used KPIs, participants suggested transition plans can be used to inform other potentially more relevant and appropriate KPIs. This may support investor understanding of actual risk levels and interest rate step-ups as transition-related financial risks increase over time.

Use of transition plan disclosures by asset managers for product design, labelling and disclosures and entity level disclosures

Similarly, asset managers use transition plan information for product classification and labelling, and fund-level disclosures for client and regulatory reporting requirements. Portfolio entity transition plan information is used in the risk and opportunity identification process, which then feeds into how a product is designed, classified and potentially labelled, and the disclosures required by regulations. Participants noted the importance for real-economy transition plans to be substantive and granular enough to enable meaningful fund and asset manager entity level disclosures.

Participants cited the Swiss Climate Scores (SCS) as an example of a jurisdictional initiative that aims to use transition plan information to assess and benchmark investment products and portfolios based on the climate ambitions of the underlying portfolio entities.

Swiss Climate Scores (SCS)

The SCS, launched in June 2022, form a voluntary scorecard that aims to enhance transparency on the alignment of financial investments to the Paris Agreement objectives and the transition to net zero. This will foster efficient investment decisions which can also contribute to achieving these climate goals.

The SCS comprise a set of indicators and sub-indicators recommended by the Swiss Federal Council to assess financial investments and client portfolios as appropriate. These indicators are (i) Scope 1-3 GHG emissions, (ii) exposure to fossil fuel activities, (iii) investment strategy aligned with a consistent 1.5°C decarbonization pathway, (iv) share of entities in portfolio with verified commitments to net zero and credible interim targets, (v) credible climate stewardship strategy and level of portfolio coverage, and an optional (vi) portfolio Implied Temperature Rise.

To ensure continued relevance, the SCS will be regularly reviewed. The first review in 2023 introduced an additional mandatory indicator on exposure to renewable energy activities and optional questions on portfolio Paris alignment, to be effective from 1 January 2025.

Chapter 5. Challenges identified

Challenges relating to Transition Plan Disclosures

IOSCO heard several themes throughout its work regarding challenges relating to transition plan disclosures. These include:

i. The lack of a common definition for transition plans.
ii. The lack of global transition plan-specific disclosure guidance, including for financial institutions.
iii. Information gaps in existing transition plan disclosures preventing investors from assessing progress on climate strategies.
iv. Even where the information exists, the lack of a framework or standard that takes into account sectoral and jurisdictional differences for the assessment of transition plan – i.e., cannot apply "one size fits all" approach.
v. The lack of assurance on transition plan information.
vi. The uncertainty for entities around the disclosure of forward-looking information.

The lack of a common definition for transition plans

The lack of a common definition of transition plans for disclosure purposes has been a limiting factor so far. IOSCO's outreach showed that many financial institutions want to see material transition-related information integrated into an entity's overall strategy, with any effect on financials ideally expressed as quantitative metrics. However, transition plan disclosures are still largely narrative today and have yet to show their direct impact on the entity's financials. More conceptual common definitions, such as the definition of a hard-to-abate sector, are also lacking.

The lack of global guidance on transition plan disclosures

While many jurisdictions are moving towards mandatory requirements for climate-related disclosures, the lack of global guidance on transition plan disclosures could result in critical gaps in investors' core data sets. This may undermine the use of transition plans as a tool for investors to detect and mitigate greenwashing in relation to the achievability, ambition and accountability of an entity's climate strategy.

Information gaps in existing transition plan disclosures

The resulting information gaps seen in existing transition plan disclosures are broad and range from information about the costs of and barriers to transition, the challenges facing entities and methodologies used, through to information about adaptation measures to build resilience to the physical effects of climate change.

Where information is provided, there is a lack of consistency and comparability. Currently, transition plan disclosures tend to be more qualitative than quantitative and there is minimal disclosure on the financial impact of transition factors such as transition related capital and operating expenditure to bolster the qualitative disclosures. Where quantitative disclosures are provided, different metrics are used, resulting in a lack of comparability between entities' disclosures on capital expenditures, and research and development costs, among other items. The gaps and inconsistencies in disclosures can make it difficult for investors to assess how an entity is progressing in its transition journey, whether it is on track to meet its interim and longer-term climate targets and commitments and whether its business model is resilient in light of increasing climate risks.

In addition, there are variations in detail and presentation format of existing transition plan disclosures. Current reporting practices show varying levels of detail, with some entities providing more comprehensive transition plans and others sharing minimal and incomplete information. There is also no consistent presentation format for disclosing an entity's strategy and transition pathways. This may make comparisons across entities and sectors challenging. These issues with entities' transition plan disclosures are noted to cause difficulties for asset managers in providing meaningful fund level disclosures.

Investors and other users have expressed a need for standardization in transition plan disclosures. A clear framework on what transition plan information should be disclosed will clarify disclosure expectations for entities, subsequently providing investors and other users with more consistent, comparable and reliable disclosures.

Sectoral and jurisdictional sensitivities around the assessment of transition plans

The ability of entities to align to any specific transition pathway depends on the technological developments in their sector and the climate-related policy landscape (fiscal, industrial, etc) in their jurisdiction.

While participants were in favour of the development of more standardized guidance that would enhance comparability, they noted the considerations of jurisdictional, and sectoral differences in assessing the credibility of transition plans. They noted that further developments should have regard to the different contexts in which entities operate.

Jurisdictional considerations

Some financial institutions indicated that they require more clarity on regional and national decarbonization plans especially at the sectoral level to inform their assessment of entities' transition plans. Regional or national climate policies, commitments, and decarbonization pathways reflecting national and regional considerations affect an entity's operating environment, and therefore the credibility and feasibility of that entity's transition plan. This in turn informs a financial institution's own transition plan.

Investors have indicated that the inclusion of forward-looking information in entities' transition plans may meaningfully contribute to investment analysis and assessing the credibility of said transition plans. For example, an entity's projected emissions trajectory provides some indication of alignment with climate targets or decarbonization pathways. However, such assessment should be couched in the relevant context of the entity's jurisdiction. An entity operating in an emerging economy with a higher emitting economic and industrial structure would likely have a slower decarbonization trajectory.

Sectoral considerations

Investors have indicated the need for more sector-specific pathways to be developed by public policy makers or industry bodies to which entities can align their transition plans and targets. The entities can provide disclosures of these pathways where they exist as useful context for their transition plans. Sectoral pathways today tend to be created for more developed economies and are much less applicable to developing or emerging economies due to different socio-economic circumstances.

In high-emitting or hard-to-abate sectors such as steel and cement, viable technological solutions may not yet exist on a commercially feasible scale and require more time for further development. As such, some real-economy entities may be at a disadvantage if they invest too heavily and too early in lower carbon technologies which may have poorer risk-return profiles in the short term due to the lack of economies of scale.

Some transition plans, especially in harder-to-abate sectors, may rely on assumptions around technological breakthroughs, the feasibility of which is difficult for investors to assess. Such assessments may require deep sectoral knowledge in addition to the coverage of thousands of portfolio entities, which may stretch the internal resource limits of some asset managers. Some have turned to third-party organizations for verification of the targets, such as SBTi.

The lack of assurance on transition plan information

Both survey respondents and industry participants have expressed concern around the reliability of information in transition plan disclosures. Independent third-party assurance can serve to support the consistency, comparability and reliability of transition plan information provided to the market, enhancing trust in the quality of that information.

Global standards on sustainability assurance and ethics (including independence) will be important to facilitate this. Assurance serves several important purposes, which could include:

- Determining that transition plan disclosures are underpinned by accurate information, so that they are more reliable and decision-useful to investors;
- Promoting transparency by providing an independent assessment of the transition plan information; and
- Assessing the consistency of entities' transition plans with their public climate-related commitments.

There is significant investor and user demand for reliable climate-related disclosures. However, survey respondents and industry participants have noted that transition plan information is not typically assured at this point in time, unlike disclosures of GHG emissions for which many jurisdictions currently require assurance. This limits the usefulness of transition plans (see box on pages 33-35). This may change in the near future as jurisdictional requirements for assurance of climate-related disclosures increase (see end of chapter 3) and global frameworks for consistent, high-quality sustainability assurance and ethics (including independence) continue to develop to better facilitate assurance engagements.

Due to be finalized by late 2024 and/or early 2025, the IAASB's *Proposed International Standard for Sustainability Assurance* (ISSA) 5000*, General Requirements for Sustainability Assurance Engagements* and the IESBA's *Proposed International Ethics Standards for Sustainability Assurance (Including International Independence Standards) (IESSA) and Other*

Revisions to the Code Relating to Sustainability Assurance and Reporting are intended to serve as comprehensive, profession-agnostic, and framework-agnostic standards for sustainability assurance providers, supporting the consistent performance of high-quality sustainability assurance engagements.

Liability risks for reporting entities

Concerns about liability risks may have an impact on the extent of forward-looking information that entities are willing to disclose, despite such information being considered by investors as particularly useful when assessing transition plans and climate strategies. In addition, entities may be hesitant to include targets and other forward-looking information in both offering documents and periodic disclosures if they would be subject to due diligence or external review. There was a general view that regulatory clarification around forward-looking information would be helpful for entities.

Chapter 6. Role of IOSCO and future considerations

Both the survey responses received from jurisdictions and the feedback from industry participants point towards a series of coordinated actions for IOSCO and other stakeholders to consider in the future. They concern four main aspects: (i) encouraging consistency and comparability through guidance on transition plan disclosures, (ii) assurance, (iii) regulatory oversight, and (iv) the need for capacity building. Based on the key findings outlined in the previous chapters, the suggested matters for future consideration are set out below.

I. **Encourage consistency and comparability through guidance on transition plan disclosures**

Stakeholders emphasized the importance of increasing the **standardization** of investor-focused transition plan disclosures.

From an investor protection perspective, **comparable, consistent, and reliable disclosures on core components of transition plans** may have a positive effect on market participants' ability to make informed decisions. Inaccurate, misleading, inadequate or incomparable transition plan disclosures can lead to mispricing of assets and misallocation of capital. Several respondents advocated for clear, detailed and reliable disclosures on common core components of transition plans through the development of guidance to facilitate reporting against standards that have a high degree of alignment.

Existing sustainability reporting frameworks provide some high-level requirements for transition plan disclosures where entities have developed a plan. As mentioned earlier in the report, the ISSB Standards issued in June 2023 and subsequently endorsed by IOSCO already include certain requirements for transition plan disclosures. IOSCO endorsed the ISSB Standards as an effective and proportionate global framework for investor-focused disclosures.

However, stakeholders suggested additional guidance could clarify disclosure expectations and lead towards more standardization of information. The disclosures needed to support informed investment decisions will vary due to factors such as entity size and stage of development, jurisdiction, or sector and type of investment product being offered. Guidance could also address proportionality and scalability of transition plan disclosures in recognition of the different capabilities and capacities of entities. In June 2024, the ISSB announced they plan to support work to streamline and consolidate frameworks and standards for transition plan disclosures. They expect to begin with developing educational materials drawing from the disclosure materials developed by the TPT and in time, consider the need to enhance the application guidance within IFRS S2.

Respondents stated that alignment of guidance on transition plan disclosures will be key so that investors are able to understand and compare investor-focused transition plan information across different jurisdictions even though national transition plan requirements may differ.

These steps should address challenges i) to iv) as highlighted in chapter 5 of the Report.

Consideration 1: ISSB's development of transition plan disclosure guidance and IOSCO's engagement

In light of the ISSB announcement discussed above, IOSCO welcomes the IFRS Foundation's plan to develop educational material and, if needed, application guidance to support high-quality transition plan disclosures that provide investors with the information needed to make informed decisions about risks and opportunities.

The ISSB may want to take into account the suggestions by participants in IOSCO's outreach activities regarding the most useful components of transition plan disclosures, as set out in Chapter 4 above:

1. Ambition and targets
2. Decarbonization levers and action plan
3. Governance and oversight
4. Financial resources and human capital to deliver transition plan
5. Financial implications

IOSCO will continue to engage with the ISSB as it develops globally applicable educational material relating to transition plan disclosures and any additional guidance, providing feedback as and where appropriate. Feedback during this bilateral engagement process will take into account IOSCO's objectives of investor protection and market integrity as well as the criteria IOSCO used in its endorsement of the ISSB Standards.

IOSCO will then, where appropriate, support securities regulators' and other relevant authorities' consideration of transition plan disclosures.

Consideration 2: The ongoing need for interoperability

IOSCO encourages the ISSB to maintain a high level of interoperability of the IFRS Sustainability Disclosure Standards with key jurisdictional standards, such as the ESRS, as they develop educational material on transition plan disclosures. In that context, IOSCO recognizes the value of the ISSB's efforts to continue working closely with standard setters such as EFRAG.

II. Promoting Assurance of Transition Plan Disclosures

Assurance of transition plan disclosures may contribute to the consistency, comparability and reliability of sustainability-related information, including transition plan disclosures provided to the market.

IOSCO has set out key considerations to promote an effective global assurance framework for sustainability-related corporate reporting [67] and issued statements in support of the work to establish global sustainability assurance and ethics (including independence) standards[68].

This step should address challenge v) as highlighted in chapter 5 of the Report.

Consideration 3: Assurance for transition plan disclosures

As the landscape for sustainability assurance develops, IOSCO continues to support a timely finalization of the IAASB's and the IESBA's international

[67] See March 2023 "Report on International Work to Develop a Global Assurance Framework for Sustainability-related Corporate Reporting", available at: https://www.iosco.org/library/pubdocs/pdf/IOSCOPD729.pdf

[68] See IOSCO statements:

- September 2022: "IOSCO encourages standard-setters' work on assurance of sustainability-related corporate reporting"
- March 2023: "IOSCO sets out key considerations to promote an effective global assurance framework for sustainability-related corporate reporting"
- December 2023: "IOSCO Statement on the consultation on the Proposed International Standard on Sustainability Assurance (ISSA) 5000 and the related global outreach program"
- May 2024: "IOSCO Statement on the consultation on the Proposed International Ethics Standards for Sustainability Assurance (Including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting"

standards to promote an effective sustainability assurance framework for sustainability-related reporting.

IOSCO will continue engaging with the IAASB and IESBA on these matters.

III. Enhancing Legal and Regulatory Clarity and Oversight

Respondents stressed the importance of securing investor protection and investor confidence in the integrity of financial markets by augmenting regulatory oversight and enforcement mechanisms.

One challenge relating to transition plan disclosures by entities is what constitutes reasonable grounds to disclose specific forward-looking transition plan information. In line with IFRS S1[69], entities can report without disclosing commercially sensitive information about climate-related opportunities. Some stakeholders IOSCO has engaged with suggested there may be sense in allowing appropriate safeguards for preparers relating to these disclosures.

In addition, there remain questions about how financial institutions that fall within the scope of securities regulators' oversight are currently using and disclosing transition plan information at product-level and whether there are potential risks relating to greenwashing.

These steps should address challenge vi) as highlighted in chapter 5 of the Report.

Consideration 4: Guidance on forward-looking information

Given the challenges reporting entities continue to face with regards to disclosing forward-looking climate-related information, IOSCO encourages relevant standard setters to consider in due course providing markers on what would constitute forward-looking information, in accordance with their standards and governance processes.

[69] In accordance with IFRS S1 guidelines, entities are required to disclose information related to climate-related opportunities. However, recognizing the need to protect commercially sensitive information, entities may provide a description of climate-related opportunities without disclosing specific details that could compromise their competitive position.

IOSCO encourages preparers to engage with their relevant jurisdictional authorities if they consider appropriate safeguards are necessary to address potential liability risks for preparers.

Consideration 5: Exploring the formulation and use of transition plans by asset managers

In addition to those of issuers, IOSCO has previously announced it would explore emerging practices in the formulation and use of transition plans by asset managers[70]. This may be relevant to asset managers as they develop ESG investment strategies and prepare for risk management purposes. IOSCO will continue to explore this evolving landscape.

Consideration 6: Transition plans as a mitigating factor against greenwashing

As transition plan disclosures become more prevalent, IOSCO could work with its members to understand supervisory and enforcement approaches relating to these disclosures. On this front, IOSCO would focus on the quality and sufficient transparency of disclosures as well-prepared transition plans could serve as a mitigating factor against greenwashing.

IV. Capacity Building

Well-articulated transition plan disclosures can help to address greenwashing risk with regard to entities' climate strategies. Thus, stakeholders suggested capacity building for the whole ecosystem would be necessary. These capacity building initiatives would raise entities and verifiers' preparedness - including potential targeted initiatives for SMEs, developing and emerging markets - and investor education and awareness programs are deemed key to promote enhancements in climate-related disclosure and to foster an alert community.

Consideration 7: Capacity building support for supervisors

IOSCO has already established a capacity building program with an initial focus on building readiness among its members for the implementation of the ISSB's standards. IOSCO is exploring how to embed assurance into this program.

[70] Update to IOSCO 2023-24 Work programme; March 2024 – March 2025 Workplan https://www.iosco.org/library/pubdocs/pdf/IOSCOPD764.pdf

IOSCO will support its members in developing their capacity to identify potential benefits and challenges associated with transition plan disclosures through its ongoing capacity building program on sustainable finance.

Lastly, IOSCO will continue to act as a platform for supervisors to share experiences with the aim of tackling greenwashing risks in transition plan disclosures.

Consideration 8: Engagement with ISSB regarding educational materials

IOSCO calls on key stakeholders in the ecosystem, such as issuers, investors, and other capital markets participants, to engage with the ISSB in order to facilitate or contribute to the development of educational materials that will enhance the quality of transition plan disclosures.