

CIVIL SOCIETY STATEMENT ON EFRAG'S PUBLISHED DRAFT CLIMATE TRANSITION PLAN GUIDANCE

EFRAG has released its first draft of the Climate Transition Plan Guidance, which addresses the requirement for companies to report on GHG emission reduction targets' compatibility with the 1.5°C goal outlined in the Paris Agreement. The guidance recommends that companies assess their "level of compatibility" by comparing their targets to 1.5°C reference benchmarks and providing contextual information on their targets. However, no further guardrails are set to explain what "level of compatibility" would allow companies to be compliant with their CSRD obligations. This loose interpretation of the law would allow companies to set targets aligned with a 3°C scenario and still claim to be compliant with the CSRD requirements.

The current text creates a significant risk of greenwashing which the planet cannot afford. It is not consistent with the purpose of transparency and comparability central to the CSRD. In addition, it risks creating confusion that could compromise the objectives of EU legislation beyond the one it is mandated to provide orientation on - in particular the CSDDD. The current draft guidance suggests that companies could publish CSRD transition plans with targets that are not 1.5°C compatible, which would create an important loophole for the objectives of the CSDDD.

Along with 16 other civil society organisations, we ask to substantially improve the wording of the draft text, as it currently undermines the essential objectives of Climate Transition Plans and directly contradicts legally binding provisions under the CSRD that are important to the success of the EU Green Deal and the Sustainable Finance Framework. This misalignment endangers the EU's commitment to climate action and the consistency of EU's sustainability initiatives.

Climate Transition Plans developed and published in the coming years under the CSRD and CSDDD must be aligned with the 1.5°C goal of the Paris Agreement. We call on EFRAG to act decisively and reinforce the guidelines, rather than succumbing to a race to the bottom that jeopardises the rule of law, social and environmental standards, and the successful transition of European businesses.

Why is the issue of compatibility at the heart of discussions around climate transition plans?

- Several European laws require companies and financial institutions to publish and implement climate transition plans that are compatible with the objective of keeping global warming below 1.5°C. These include reporting obligations (CSRD) and implementation obligations (CSDDD).
- The definitions provided in the context of CSRD Climate Transition Plans on compatibility with 1.5°C are therefore likely to have an impact on the interpretation made around these same elements under interlinked legislations.

How would the current text undermine the broader Green Deal policy objectives?

- ESRS E1-4 asks companies that disclose GHG emission reduction targets to state whether their target is compatible with 1.5°C. However, a loose definition of compatibility in the EFRAG Guidance would not make it possible to clearly distinguish companies with ambitious targets that are truly compatible with 1.5°C from companies without such targets. This information is of particular importance to investors and financial institutions wishing to support companies committed to a transition in line with the 1.5°C objective.
- ESRS E1-1 Climate Transition Plan disclosures do not leave the same space for 1.5°C-incompatible targets. Therefore, companies publishing E1-1 transition plans without a clearly 1.5°C-compatible target may face legal greenwashing risks for communicating misleading information in their sustainability disclosures.
- Having a loose definition of compatibility would also threaten the ambition of the CSDDD. Indeed, the CSDDD explicitly exempts companies publishing a CSRD transition plan from adopting a transition plan under CSDDD. This could allow companies to declare themselves compliant with their CSDDD obligations when their targets are below the levels needed to justify their compatibility with the 1.5°C objective.

What are the next steps to reformulate the text?

- The text is now undergoing discussions at EFRAG's Technical Expert Group, and the reformulated text is expected to be published for public consultation in January 2025.
- Following repeated calls for a stronger and meaningful representation of public interest organizations at EFRAG structures, we appeal to EFRAG for a better consideration of scientific evidence and explicit policy objectives in the design of the Climate Transition Plan Guidance.
- Concretely, we recommend that the Guidance explicitly recommends companies to publish climate transition plans with 1.5°C compatible targets under paragraph 16 of the associated ESRS (E1-1), and to specifically disclose whether and when they will have such a plan under paragraph 17 if they do not have 1.5°C compatible targets.

Signed by:

1. Climate Strategy
2. ECOS
3. European Coalition for Corporate Justice (ECCJ)
4. Fair Finance International
5. Focus Association for Sustainable Development
6. Frank Bold
7. Friends of Earth Europe
8. Friends of the Earth Austria
9. Global Witness
10. Legal Center for the Protection of Human Rights and the Environment
11. Milieudefensie - Friends of the Earth Netherlands
12. Notre affaire à tous
13. Reclaim Finance
14. ShareAction
15. Transport & Environment
16. World Benchmarking Alliance
17. WWF European Policy Office

