

Insurance Europe views on EP sustainability amendments

The first part provides an **overview/assessment**, per topic, of the main amendments in the area of sustainability. For each topic, justification is provided as to why this amendment is considered (in)appropriate.

The following topics are included:

- Industry General approach on Sustainable finance (agreed during ecofin)
- General amendments regarding sustainable finance
- Transition plan/Risk Management
- Prudent Person Principle amendments
- ORSA/Climate change scenario analysis
- Capital requirements due to Fossil Fuel exposures
- EIOPA mandate for assessing a dedicated prudential treatment for certain exposures
- Reporting amendments (SFCR)
- Stress Tests
- Other amendments

Each amendment is labelled as **positive**, neutral, **mixed** or **negative**

In the **annex** members will find:

- Annex 1 - Examples of overlap between SII and other frameworks
- Annex II – Detailed comparison of MEP Amendments on transition plans

Overview/assessment of ECON Amendments

Industry General approach on Sustainable finance, (agreed during ecofin)

To generally avoid fighting against the push to put sustainability into Solvency II but to:

- push strongly for alignment with the industry's key positions on the other legislation on sustainability requirements (eg that requirements need to be set at consolidated level)
- identify any new requirements put forward that would be particularly difficult/expensive/unnecessary (eg non-risk-based capital add-ons) and to lobby strongly to get them out of any EP Solvency II compromise
- make clear that having similar requirements covered by both sector specific legislation (ie SII) and cross-sectorial legislation (eg CSDDD) will create problems of overlap and inconsistencies, including regarding scope/implementation timelines/proportionality aspects, and make clear that steps must be taken to avoid this

General amendments regarding sustainable finance

- **Removal of sustainability articles and recitals**, deletion of recital on European green deal. (Ferber, Zanni, Grant, Rinaldi – AMs 2, 3, 78, 79, 215, 217)
- **Insurance framework** to be **updated** to allow for climate and environmental risk mitigation and to reflect sustainability risks in underwriting and investment decisions. (Yon-Courtin, Boyer, Canfin, Durand – AMs 216, 219)

Justification

- The industry is supportive of the EC and council proposals in the area of sustainable finance, as long as the proposals are risk based and in line with the SII principles.

Transition plan/Risk Management

The amendments in this area emphasize the need for a **transition plan** to ensure business model/strategy is in line with sustainable economy as per Paris Agreement and also include amendments detailing further specifications in the risk management provisions.

- **Transition Plan (detailed analysis see annex II):**

- Requirement for transition plan to climate neutrality by 2050. Requirement for NSAs to approve the transition plans and to verify that the investment policy is aligned with the objectives and the targets defined. (Hahn – AM 297, 408)
- Requirement to have transition plan (Lalucq – AM 460; Hahn – AM 472; Tang – AM 293/473; Heinäluoma, Tang, Lalucq – AM 474; Yon-Courtin, Boyer, Canfin, Durand – AM 223/476).
- **Specifications regarding risk management:** Requirement to regularly assess underwriting, reserving and investment activities and ensure that undertaking's business strategy is aligned with climate neutrality target. (Lalucq, Heinäluoma, Tang, Yon-Courtin, Boyer, Canfin – AMs 455, 456, 457, 458, 459, 461, 462)
 - Undertakings to ensure that, in accordance with TP requirements, their business model and strategy for underwriting are aligned with climate neutrality¹ objective by 2050; their operations shall be compatible with transition to sustainable economy and with limiting global warming to 1.5° in line with Paris Agreement and with limited or no overshoot and pursuant to the latest IPCC recommendations and EU scientific advisory board on climate change. (Lalucq, Heinäluoma, Tang – AM 457)
 - Undertakings to ensure that, in accordance with TP requirements, their business model and strategy for underwriting are aligned with climate neutrality² objective by 2050 and an undertaking's operations it will have to reduce significantly by 2030 and eliminate by 2050 the supporting of economic activities that significantly harm environmental objectives³ (Tang – AM 458)
 - As regards underwriting and investment, insurers shall perform a regular assessment and ensure that their business model, strategy and activities for the underwriting portfolio and portfolio of assets are aligned with climate neutrality objective by 2050. (Lalucq – AM 456; Yon-Courtin, Boyer, Canfin -AM 459); MacManus also adds '*as regards to reserving, beyond underwriting and investment*' (MacManus – AM 455)
- EIOPA to **develop guidelines** on integration of sustainability risks into risk management systems. (MacManus – AM 788)

Justification

- The industry is supportive of transition plans. However, the SII directive, which is a prudential framework, is not the appropriate place, and it will be challenging to ensure and preserve consistency with the CSRD, the CSDDD and any other cross sectoral regulation where this is regulated. Overlapping regulation should be avoided.
- **One single definition for Transition Plans in one directive to avoid divergence in terms of scope, timeline, content and process and to keep transition plans meaningful and useful.**
 - CSDDD proposals already set out an extensive framework and provisions for the definition of transition plans, and including those elements might lead to divergence in terms of: scope, content, review process, NSAs revision of these elements, but also in terms of calendar and national transposition. Transition plans should be and should remain meaningful and useful, and to achieve this it is essential to keep one single consistent definition in one Directive, namely the CSDDD.
- The **proposed amendments are quite far reaching in terms of content, creating more obligations than the provisions in CSRD/CSDDD,**
 - They create an obligation of climate neutrality that has to be reached by 2050, based on "scientific" data and conclusions, while CSDDD only requires to have the transition plan aligned with Paris Agreement (ie. limiting to 1.5°). Additionally, investments and underwriting strategies have to be compatible to those objectives. This is significantly more prescriptive than the CSDD obligation to have emission reduction objectives in the TP only when climate

¹ 2021/1119 - European Climate Law

² 2021/1119 - European Climate Law

³ Art 17 - 2019/2088 - on the establishment of a framework to facilitate sustainable investment

change is identified as a principal risk for/impact of the company's own operations.

- Furthermore, supervisory approval of transition plans and the requirement to verify that the investment policy is aligned with the objectives and the targets defined would significantly shift the importance of the transition plans compared to CSRD and CSDDD, as currently there is no requirement for validation/alignment foreseen in the CSRD and in the EC's CSDDD proposals (Article 17 of the draft text gives NSAs a mandate to "supervise compliance" with the plan, not approve them).
 - **While cross references for transition plans may be included in the RSR, industry should be cautious about including these elements in the SFCR**, in particular when the scope of the minimum external audit requirements for the SFCR would be extended in line with some proposed MEP AMs. As this might lead to situations where the transition plans could be reviewed from a prudential perspective.
 - In addition, **the option to have a group transition plan should be foreseen**. Otherwise, each individual group entity will have to make its own transition plan and it will be nearly impossible to consolidate the individual plans into one group plan.
 - At this stage, there is **no need for guidelines on the integration of sustainability risks into risk management systems**.
- Requirement to **include sustainability risks in risk management system**. Risk management policy to also include sustainability factors and stewardship policy. (Lalucq, MacManus, Hahn, Tang, Heinäluoma, Yon-Courtin, Boyer, Canfin -, 463, 464, 465, 466)

Justification

- The industry supports the requirement to include sustainability risks in the risk management system, currently insurers are already required to do so in line with DA Art 260 (1a) "1a. *The insurance and reinsurance undertakings shall integrate in their policies referred to in points (a) and (c) of paragraph 1, and where relevant, policies on the other areas referred to in paragraph 1, sustainability risks.*"
 -
- Requirement for the **remuneration policy** to promote sound and effective risk management including the integration of sustainability risks in the risk management system (and the adverse impacts of the (re)insurer as referred to in regulation 2019/2088⁴). If a variable component is included in the remuneration policy, at least half of it shall be linked to the achievement of sustainability targets. EC to develop DA. (Hahn, Lalucq, MacManus, Heinäluoma, Tang – AMs 298, 467, 468, 469, 475, 477)

Justification

- The amendments currently proposed regarding the remuneration policy are very prescriptive. In addition, insurers are already required to do so in line with DA Art 275 (4) "The remuneration policy shall include information on how it takes into account the integration of sustainability risks in the risk management system.
- Remuneration policies are already included in SFDR ([here](#)):
 - **SFDR:** Art 5(1) Financial market participants and financial advisers shall **include in their remuneration policies information on how those policies are consistent with the integration of sustainability risks**, and shall publish that information on their websites.
- It should be noted that remuneration is already covered in CSDDD, and the amendments proposed go beyond the current CSDDD proposals ([here](#)).
 - **CSDDD:** MS shall ensure that companies duly take into account the fulfilment of the obligations referred to in paragraphs 1 and 2 (ie obligations to adopt a transition plan) when setting variable remuneration, if variable remuneration is

⁴ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector ([here](#))

linked to the contribution of a director to the company's business strategy and long-term interests and sustainability.

- Apart from that, does not seem to be proportionate to link at least 50% of the variable amount to the Transition Plan. DA Art. 275 only requires that financial and also non-financial criteria shall be taken into account when assessing an individual's performance.

Prudent Person Principle amendments

- **Removal of requirement to manage assets in best interest of policyholders** and deletion of requirements on asset characteristics. Investment strategy shall be set relative to customer sustainability preferences. (Heinäluoma, Tang, Lalucq - AM 657)

Justification

- This amendment would go against the very nature of SII, Undertakings have the duty to manage assets in the best interest of the policyholder, only taking into account customer sustainability preferences when investing would have detrimental consequences.
- The PPP applies to the whole general account and should not be partially cancelled due to sustainability preferences. Sustainability preferences must and can be implemented within the PPP
- Requirement to **consider impact of investment strategy on sustainability factors** and incorporate transition plan into investment decisions and the requirement for a written policy on stewardship (MacManus – AM 660, *negative for the written policy on stewardship*, neutral for the other requirement)
- NSA to verify undertaking's investment strategy alignment with transition plan. (Hahn – AM 668)

Justification

- The requirement to integrate transition plan into the investment strategy would significantly shift the importance of the transition plans compared to CSRD and CSDDD, as currently there is no approval/validation/alignment requirement foreseen in the CSRD and in the EC's CSDDD proposals. In addition, it is questioned whether NSAs would have the necessary knowledge to verify the alignment. Therefore, the investment strategy must remain the responsibility of the companies.
- The requirements in relation to transition plans should be consistent with the CSRD and the CSDDD and any other cross sectoral regulation where this is regulated. In addition, overlap should be avoided.
- Sustainability risks are already integrated in the Solvency II prudent person principle, DA Art 275a states:
 - *"1. When identifying, measuring, monitoring, managing, controlling, reporting and assessing risks arising from investments, as referred to in the first subparagraph of Dir Art 132(2), insurers shall take into account sustainability risks."*
 - *"2. For the purpose of para 1, insurers shall take into account the potential long-term impact of their investment strategy and decisions on sustainability factors and, where relevant, that strategy and those decisions of an insurers shall reflect the sustainability preferences of its customers taken into account in the product approval process referred to in Article 4 of Commission DR (EU) 2017/2358 (1)."*
- Introduce specific reference to climate change and pandemics into the EC's proposals for including macroprudential aspects to the PPP (MacManus, Heinäluoma, Tang, Lalucq, Hahn – AMs 661, 662, 663, 665, 666)

Justification

- The industry supports these changes as long as these are risk based and in line with the SII base principles.

- Extends EC's proposals for including macroprudential aspects into the prudent person principle by requiring undertakings to consider the cumulative impact of their own and other u/takings' investment strategy, and introduces specific references to climate change. (MacManus – AM 664)

Justification

- This amendment would require the undertaking to consider the impact of other undertakings investment strategy. It is unrealistic to require this from companies, as they will not have insights in the investment strategy of other undertakings, let alone in their impact.

ORSA/Climate change scenario analysis

- There are several **amendments on climate scenario analysis suggesting:**
 - **Changes to the scope of the climate change scenarios analysis** (Ferber, Zanni, Grant, Rinaldi, Hahn, MacManus – AMs 10, 99, 105, 243, 492, 244, 494, 245, 507)
 - **Changes to the proposed scenarios** in the context of the climate change scenarios analysis (MacManus, Hahn, Yon-Courtin, Boyer, Canfin – AMs 493, 495, 496, 497, 498, 499, 500, 501, 502, 503)
 - EIOPA to develop guidelines to facilitate common supervisory tools and specify the principles to be used when conducting long-term climate change scenario analyses (Yon-Courtin, Boyer, Canfin, Durand – AM 508)

Justification

- The industry is supportive of the requirement for insurers to include the impact of two long term climate risk scenarios in the ORSA, if climate risk is assessed as being material and as long as the scenarios are not too prescriptive.
- ORSA is and should remain an insurer's own risk and solvability assessment, therefore too much prescriptiveness should be avoided, and guidelines would contradict this.
- **CSDDD requirement (EC Proposal, under development - [here](#)):**
Article 15 Combating climate change
1. Member States shall ensure that companies referred to in Article 2(1), point (a), and Article 2(2), point (a), **shall adopt a plan to ensure that the business model and strategy of the company are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement.** This plan shall, in particular, identify, on the basis of information reasonably available to the company, the extent to which climate change is a risk for, or an impact of, the company's operations.
- **ESRS E1-3 ([here](#)):** The undertaking shall state whether the **GHG emission reduction targets are science-based and in line with limiting global warming to 1.5°C.** The undertaking shall state which methodology has been used to determine this, including the underlying climate and policy scenarios.
- **LRPU exemptions** for the climate change scenario analysis are proposed to be removed – (Heinäluoma, Tang, Lalucq, Yon-Courtin, Boyer, Canfin, Hahn – AMs 504, 505, 506)

Justification

- The principle of proportionality is key, and automaticity of proportionality is essential to make it work, removing the LRPU exemption would further hollow out the proportionality proposals.
- In the **ORSA**, macroeconomic and financial markets' developments should be considered cumulatively when combined with similar actions by other undertakings. (MacManus – AM 480)

Justification

- Insurance companies do not have information regarding similar actions by undertakings at their disposal, as such it would be impossible to incorporate this information in the ORSA
- In the **ORSA**, geopolitical and environmental developments should be included and assessed. In addition, biodiversity loss is also added as a factor that may affect insurers. (Heinäluoma, Tang, Lalucq, MacManus, Hahn, Yon-Courtin, Boyer, Canfin - AMs 478, 482, 483, 486, 487, 488, 489, 490)

Justification

- In their ORSA, undertakings are already required to properly identify and assess the risks it faces in the short and long term and to which it is or could be exposed, as such undertakings already have to assess their exposure to biodiversity risks.

Capital requirements due to Fossil Fuel exposures

- **Higher risk of fossil fuel exposures** should be reflected (Hahn - AM 220)
- **Capital add-ons** should be available for supervisors to apply if sustainability risks are not adequately managed and mitigated (Hahn - AM 426).
- **Market risk** shall **include sustainability risks** stemming from climate related impacts on the undertaking and its assets, especially **due to exposure on fossil fuel sectors**. (Lalucq, Tang, MacManus - AMs 615-622)
- **Delegated acts** to be adopted by EC on method and parameters for the **capital requirement** of climate-related financial risks in the case of **fossil fuel asset exposures**. (MacManus, Lalucq, Tang, - AMs 638-640)

Justification

- The proposed amendments are not risk based there is currently no unambiguous scientific evidence for higher riskiness of fossil fuel exposures.
- SII needs to remain risk and evidence based, and the outcome of EIOPA's assessment should be awaited.
- In addition, adding an explicit requirement to include physical and transition risks in market risk would create a binding requirement for the EC to define a specific prudential treatment for these risks, and therefore a potential green supporting factor/brown penalizing factor

EIOPA mandate for assessing a dedicated prudential treatment for certain exposures

- **EIOPA mandate for assessing the potential effects of a dedicated prudential treatment** of exposures related to assets and activities which are associated substantially with environmental and/or social objectives or which are associated substantially with harm to such objectives on the protection of policy holders and financial stability.
 - **Removal** of the EIOPA mandate (Ferber, Zanni, Grant, Rinaldi, Tang – AMs 22, 23, 199, 291, 299, 293 *proposes impact on capital requirements when insurers diverge significantly from their TP*)
 - Assessment should **also include biodiversity** loss and **fossil fuel related** asset exposures. (Castaldo, Hahn, Yon-Courtin, Boyer, Canfin, Durand – AMs 292, 294, 296, 782, 790, 791, 792)
 - Changed wording of the EIOPA mandate, eg EIOPA should assess the effects of a dedicated prudential treatment for '*insurance investments and underwriting activities*' (Heinäluoma, Lalucq, Hahn, MacManus – AM 783, 784, 785, 786,)
 - The EIOPA report should be updated every two years and should also assess impact of prudential changes on underwriting and investment, as well as the objective of climate neutrality by 2050. (MacManus – AM 787)
 - EIOPA to inquire sustainable investments' recovery rates and assess if these could be integrated in the MA/VA calculation. (Fernández – AM 295)

Justification

- The industry supports an EIOPA mandate for assessing the potential effects of a dedicated prudential treatment of exposures related to assets and activities, including the assessment of biodiversity risks and fossil-fuel related assets as long as the assessment is risk and evidence based and adhering to the SII principles. In addition, any proposed further next steps are risk and evidence based.
- At the same time EIOPA should have sufficient discretion on how to complete the mandate it received and too specific requirements should be avoided.

Reporting amendments (SFCR)

Proportionality

- LRPU may limit their sustainability reporting based on the simplified SME sustainability reporting standards. (Eroglu, Beer – [AM 305](#))

Justification

- It is important to have consistency regarding the scope across the various regulatory initiatives in this area.

Requirements Added to SFCR's Policyholders' part:

- A description of sustainability risks and the principal adverse impacts of sustainability factors and references to stewardship policy effects. This may be done by cross-referencing sections of the management report. (Heinäluoma, Tang, Lalucq, MacManus – [AMs 514, 515, 525](#))

Justification

- Overlap with SFDR (Principle adverse impact (PAI) entity level reporting) and European Sustainability Reporting Standards (ESRS), in particular regarding the description of sustainability risk.
- The suggested use of cross referencing is welcomed, but cross referencing is already explicitly allowed for in the SII Directive, Art 51(1)
- A description of the risk profile of sustainability risks as well as a description and an assessment of the adequacy of the system of governance (Lalucq, Hahn, Yon-Courtin, Boyer, Canfin, Durand – [AMs 247, 516, 517, 518](#))

Justification

- Overlap with ESRS, in particular on the description of sustainability risk and governance system
- A description of climate scenario analysis results and the implementation of the transition plan. (Yon-Courtin, Boyer, Canfin, Durand, MacManus, Heinäluoma, Tang, Lalucq – [AMs 519, 520, 521](#))

Justification

- Overlap with ESRS, in particular on the materiality assessment and overlap with CSDDD, on the obligation to have a transition plan

Requirements Added to SFCR's other market participants' part:

- A description of the system of governance with the role of the AMSB on sustainability risks. (MacManus, Heinäluoma, Tang, Lalucq, Hahn – [AMs 522, 523, 524, 536](#))

Justification

- No comment
- The strategy in respect of the sustainability risks that the undertaking is facing (Lalucq, MacManus, Heinäluoma, Tang – [AMs 533, 534, 535](#))

Justification

- Overlap with ESRS, in particular on the materiality assessment, and this proposed amendment is going beyond
- The results of a climate change scenario analysis and how the transition plan addresses the exposure to climate change (MacManus – AMs 537)

Justification

- Overlap with ESRS, in particular on the materiality assessment and overlap with CSDDD, on the obligation to have a transition plan
- Information on risk sensitivity including in relation to sustainability risks for undertakings relevant for the financial stability of the Union. (MacManus – AMs 527)

Justification

- This information goes beyond what is needed and creates unnecessary burden for companies.
- Climate and other sustainability targets and transition plan targets such as absolute carbon emission reduction targets etc. (Heinäluoma, Tang, Lalucq, MacManus – AMs 528, 529, 530)

Justification

- Overlap with CSDDD, in particular on the transition plan.
- Targets defined in the undertaking's transition plan. Adaptation of business model to cope with the sustainability risks (Hahn – AMs 531,532)

Justification

- Overlap with CSDDD, in particular on the transition plan.

Stress Tests

- Requirement for **ESG Stress tests** every 2 years, and ESAs shall develop joint guidelines (Yon-Courtin, Boyer, Canfin, AM 513)
- The 'Other Market Participants' part of the SFCR shall include the results of the latest Union-wide assessment of the resilience of financial institutions (stress test). (Hahn, AM 538)

Justification

- The focus should be to develop a robust and stable methodology for environmental/climate risk related stress tests, which are still in an exploratory stadium at the moment.
- In addition, a potential individual disclosure of the stress test results is opposed by the industry. Individual publication of stress test results will lead to confusion about what the actual solvency requirements are and will inevitably lead to the EIOPA stress tests setting additional capital requirements above those specified by Solvency II, as companies will be expected to "pass the stress test exercises"
 - According to the ESA regulation the core purpose of the EIOPA stress test exercise is to provide an evaluation of the potential for systemic risk that may be posed by financial institutions under situations of stress.
 - Solvency II already assesses individual solvency strength with an agreed and very extensive set of standardised stress tests, calibrated as 1 in 200-year events.

- Insurers already publicly disclose substantial financial data about their individual solvency position and risks as part of their annual Solvency and Financial Condition Report (SFCR) and other public reporting.
- There is no strong rationale for individual disclosure:
 - Individual disclosure will not create a more level playing field.
 - Individual disclosure is not needed to enhance market discipline.
 - Individual disclosure is not needed to get insurers committed to the EIOPA stress test exercises.

Other Amendments

- Added to '**other elements to take into account when calculating TP**': qualitative/quantitative estimates of risk of loss or adverse changes in liabilities resulting from inadequate pricing/provisioning assumptions due to external/internal factors, including sustainability risks. (Lalucq, Tang, Hahn, MacManus – AMs 597, 598, 599, 600)

Justification

- The value of TP shall be equal to the sum of a best estimate and a risk margin. The best estimate corresponds to the probability weighted average of future cash-flows which of course depend on expected future developments. In the best estimate, however, there is no room for additional surcharges justified with the risk of deviating from best estimate assumptions. Instead, risks are already captured in the risk margin and, in particular, by the SCR. This amendment is very broad and implies that NSAs could require undertakings to include anything in the calculation of the Technical Provisions, this would go against the systematic of the risk-based requirements of Solvency II.
- Several **specifications added to Delegated Acts** to be adopted by EC, such as: (MacManus, Tang, Lalucq, Hahn AMs 509, 510, 511, 512)
 - minimum standards and reference methodologies for the transition plans.
 - specific, measurable targets based on scientific evidence.
 - minimum standards and reference methodologies on how undertakings should integrate sustainability risks and adverse impacts on sustainability factors into their risk management systems.

Justification

- The provisions with regard to transition plans should remain consistent with the CSRD, the CSDDD and any other cross sectoral regulation in where transition plans are regulated.
- Further specifications regarding how to reflect sustainability risks into risk management, are not needed. DA EU 2021/1256, which came in force on 2 August 2022 already requires that insurers reflect sustainability risks in their risk management.

Annex I - Examples of overlap between SII and other frameworks

Topic	Solvency II	CSDDD (EC proposal)	CSRD / ESRS	SFDR
Remuneration policy	c. The remuneration policy shall promote sound and effective risk management including the integration of sustainability risks in the risk management system. If a variable component is included in the remuneration policy, at least half of it shall be linked to the achievement of sustainability targets. EC to develop DA.	Member States shall ensure that companies duly take into account the fulfilment of the obligations referred to in paragraphs 1 and 2 when setting variable remuneration, if variable remuneration is linked to the contribution of a director to the company's business strategy and long-term interests and sustainability.		Article 5 1. Financial market participants and financial advisers shall include in their remuneration policies information on how those policies are consistent with the integration of sustainability risks , and shall publish that information on their websites.
Transition plans	c. Undertakings to create transition plans to adhere EU's Climate Law and removal of EIOPA mandates. e. Requirement for transition plan to climate neutrality by 2050. Requirement to report the transition plan to NSAs	Member States shall ensure that companies referred to in Article 2(1), point (a), and Article 2(2), point (a), shall adopt a plan to ensure that the business model and strategy of the company are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement . This plan shall, in particular, identify, on the basis of information reasonably available to the company, the extent to which climate change is a risk for, or an impact of, the company's operations.	The level 1 text has been approved and EFRAG is working on the specific disclosure requirements under level 2 (ESRS) which they need to deliver by November. Disclosure of the company's transition plans is part of the proposed disclosures under the ESRS.	
Climate change scenarios	A description of climate scenario analysis results and the implementation of the transition plan. f. Increased the number of climate change scenarios which the undertaking shall specify from 2 to 3, inclusion of scenario with increase 3°C or ≥2°C, modelling a period of at least 30 years,		ESRS E1-3: The undertaking shall state whether the GHG emission reduction targets are science-based and in line with limiting global warming to 1.5°C. The undertaking shall state which methodology has been used to determine this, including the underlying climate and policy scenarios.	
Sustainability risk assessment (entity level)	A description of sustainability risks and the principal adverse impacts of sustainability factors and references to stewardship policy effects. This may be done by cross-referencing sections of the management report.		Sustainability Materiality assessment to be performed under ESRS	

Further details

Two pieces of legislation already introduce requirements on transition plans: the **Corporate Sustainability Reporting Directive (CSRD)** and the **Corporate Sustainability Due Diligence Directive (CSDDD)**:

CSRD

The level 1 text has been approved and EFRAG is working on the specific disclosure requirements under level 2 (ESRS) which they need to deliver by November. **Disclosure of the company's transition plans is part of the proposed disclosures** under the ESRS.

The current draft requirements regarding the transition plan for climate change mitigation can be found in the ESRS E1, disclosure requirement 1 ([here](#))

CSDDD (draft EC proposal [here](#))

The European Parliament and Council are still working on establishing positions. The EC proposal includes the following:

Article 15 Combating climate change

1. Member States shall ensure that companies referred to in Article 2(1), point (a), and Article 2(2), point (a), **shall adopt a plan to ensure that the business model and strategy of the company are compatible with the transition to a sustainable economy** and with the **limiting of global warming to 1.5 °C in line with the Paris Agreement**. This plan shall, in particular, identify, on the basis of information reasonably available to the company, the extent to which climate change is a risk for, or an impact of, the company's operations.

Annex II – Detailed comparison of MEP Amendments on transition plans

Aspect	AM	MEP	Requirement
Goal /Scope	<ul style="list-style-type: none"> a) 460 b) 461/474 c) 471 d) 472 e) 473 f) 476 	<ul style="list-style-type: none"> a) Lalucq b) Heinäluma, Tang, Lalucq c) MacManus d) Hahn e) Tang f) Yon-Courtin, Boyer, Canfin, Durand 	<ul style="list-style-type: none"> a) TP shall ensure that operations are compatible with the transition to a sustainable economy and with the limiting of global warming to 1,5 °C in line with the Paris Agreement with no or limited overshoot and pursuant to the latest recommendations of the IPCC and the European Scientific Advisory Board on Climate Change. b) TP, covering both underwriting and investment activities As regards investment aligned with climate law (2021/1119) as regards operations, and compatible with the transition to a sustainable economy and with the limiting of global warming to 1,5 °C in line with the Paris Agreement with no or limited overshoot and pursuant to the latest recommendations of the IPCC and the European Scientific Advisory Board on Climate Change." c) TP, covering both underwriting and investment activities, it shall insure that the undertaking's operations are compatible with the transition to a sustainable economy and with the goal of limiting global warming to 1.5°C with no or limited overshoot, in line with the Paris Agreement and pursuant to the latest recommendations of the IPCC and the European Scientific Advisory Board on Climate Change. d) The TPs shall adopt a holistic approach and cover all insurance activities, including investment and underwriting activities. e) covering both underwriting and investment activities f) In order to demonstrate alignment with the Green Deal and the objective of carbon neutrality by 2050 at the latest as established in Regulation (EU) 2021/1119(European Climate Law)
Content requirements	<ul style="list-style-type: none"> a) 460 b) 461/474 c) 471 d) 472 e) 473 f) 476 	<ul style="list-style-type: none"> a) Lalucq b) Heinäluma, Tang, Lalucq c) MacManus d) Hahn e) Tang f) Yon-Courtin, Boyer, Canfin, Durand 	<ul style="list-style-type: none"> a) should include specific, science-based short-term, medium- and long-term targets, including absolute emission reduction targets for operational and attributable GHG emissions for 2030 b) TP shall include specific science-based short-term, medium- and long-term targets, including absolute emission reduction targets for attributable GHG-emissions for 2025 and 2030, reviewed every year up to 2050. c) TP shall include specific science-based targets across the short-, medium- and long-term, including absolute GHG emission reduction targets for 2025 and 2030. d) specific plans and science-based quantifiable targets to monitor and address the risks arising in the short, medium and long-term from the misalignment of the business model, strategy and activities of the insurer, with the relevant Union policy objectives, including the objectives to:

			<ul style="list-style-type: none"> (i) achieve climate neutrality by 2050 at the latest, as set out in Regulation (EU) 2021/1119 of the, or broader transition trends towards a sustainable economy in relation to ESG factors; (ii) halt biodiversity loss, by achieving the goals of the UN Convention of Biological Diversity, and to align with the restoration objectives of the [nature restoration law 2022/0195 (COD)] . <p>The targets and measures included in the TPs shall take into account the latest reports and measures prescribed by the European Scientific Advisory Board on Climate Change.</p> <p>TP shall at least include all the following elements:</p> <ul style="list-style-type: none"> (i) A comprehensive strategy and operational actions to reach the objectives of the climate law [Regulation (EU) 2021/1119] and restore biodiversity; (ii) Specific, science-based intermediate quantifiable targets and milestones with horizons of 5 and 10 years. <p>e) (i) specific science-based short-term, medium- and long-term targets, including absolute emission reduction targets for attributable GHG emissions for 2025 and 2030, reviewed every year up to 2050 that are in line with the EU's ambitions under Regulation (EU) 2021/1119 (ii)The plans shall also outline the undertakings pathway to reduce and eliminate the financing of activities that cause significant harm to environmental objectives as outlined by Article 17 of Regulation (EU) 2019/852.</p>
Integration in: system of governance/risk management system	<ul style="list-style-type: none"> a) 460 b) 461/474 c) 471 d) 472 e) 473 f) 476 	<ul style="list-style-type: none"> a) Lalucq b) Heinäluma, Tang, Lalucq c) MacManus d) Hahn e) Tang f) Yon-Courtin, Boyer, Canfin, Durand 	<ul style="list-style-type: none"> a) N/A b) (i) integrate TP within underwriting and investment strategy and decisions. (ii) well integrated into the organisational structure and in the decision-making processes of insurer. The system of governance required under Article 41 shall include a clear allocation and appropriate segregation of responsibilities for implementing the TP and provide for proper consideration of the implementation of the TP by the persons who effectively run the undertaking or have other key functions. (iii) The TP shall be integrated into the risk management system required under Article 44, and particularly under Article 44 (2b) and 44 (2c), including by identifying, measuring, monitoring, managing and reporting matters that pose a risk to the successful implementation of the TP.' c) The TP shall be well integrated into the organisational structure and into the decision-making processes of insurer. The system of governance required under Article 41 shall include a clear allocation and appropriate segregation of responsibilities for implementing the

			<p>TP and provide for proper consideration of the implementation of the TP by the persons who effectively run the undertaking or have other key functions.</p> <p>The TP shall be integrated into the risk management system required under Article 44, including by identifying, measuring, monitoring, managing and reporting matters that pose a risk to the successful implementation of the TP.</p> <p>d) 4. The TP shall be integrated into the risk management system required under Article 44, and particularly by identifying, measuring, monitoring, managing and reporting matters that pose a risk to the successful implementation of the TP</p> <p>e) (i) integrate TP within underwriting and investment strategy and decisions. (ii)TP shall be well integrated into the organisational structure and in the decision-making processes of the insurer. The system of governance required under Article 41 shall include a clear allocation and appropriate segregation of responsibilities for implementing the TP and provide for proper consideration of the implementation of the TP by the persons who effectively run the undertaking or have other key functions. (iii) TP shall be integrated into the risk management system required under Article 44, and particularly under Article 44 (2b) and 44 (2c), including by identifying, measuring, monitoring, managing and reporting matters that pose a risk to the successful implementation of the TP.'</p> <p>f) N/A</p>
Review frequency	<p>a) 460</p> <p>b) 461/474</p> <p>c) 471</p> <p>d) 472</p> <p>e) 473</p> <p>f) 476</p>	<p>a) Lalucq</p> <p>b) Heinäluma, Tang, Lalucq</p> <p>c) MacManus</p> <p>d) Hahn</p> <p>e) Tang</p> <p>f) Yon-Courtin, Boyer, Canfin, Durand</p>	<p>a) Every 5 years (till 2050)</p> <p>b) Yearly</p> <p>c) Every two years</p> <p>d) Every 3 years</p> <p>e) Yearly</p> <p>f) Every two years</p>

Implementing actions	a) 460 b) 461/474 c) 471 d) 472 e) 473 f) 476	a) Lalucq b) Heinäluma, Tang, Lalucq c) MacManus d) Hahn e) Tang f) Yon-Courtin, Boyer, Canfin, Durand	a) implementing actions for the neN/At 5 years. b) with intermediate implementing actions c) For the next 5 years d) N/A e) with intermediate implementing actions f) with intermediate implementing actions
Implementation date	a) 460 b) 461/474 c) 471 d) 472 e) 473 f) 476	a) Lalucq b) Heinäluma, Tang, Lalucq c) MacManus d) Hahn e) Tang f) Yon-Courtin, Boyer, Canfin, Durand	a) No later than 1 year after CSRD b) N/A c) No later than 1 year after implementation of this directive d) N/A e) no later than [1 year after the date of the application of the Directive].
Approval	a) 460 b) 461/474 c) 471 d) 472 e) 473 f) 476	a) Lalucq b) Heinäluma, Tang, Lalucq c) MacManus d) Hahn e) Tang f) Yon-Courtin, Boyer, Canfin, Durand	a) AMSB b) AMSB (adapted in view of any significant changes affecting the TP or its implementation) c) AMSB d) AMSB (adapted in view of any significant changes affecting the TP or its implementation) e) AMSB (adapted in view of any significant changes affecting the TP or its implementation)
Disclosure	a) 460 b) 461/474 c) 471 d) 472 e) 473 f) 476	a) Lalucq b) Heinäluma, Tang, Lalucq c) MacManus d) Hahn e) Tang f) Yon-Courtin, Boyer, Canfin, Durand	a) The TPs prepared in line with paragraphs 2a, 2b and 2c shall be used to fulfil the disclosure obligations referred to in Article 19a or Article 29a of Directive 2013/34/EU [CSRD]." b) N/A c) The TPs prepared shall be used to fulfil the disclosure obligations referred to in Article 19a or Article 29a of Directive 2013/34/EU1a.' d) N/A e) N/A f) The plan shall be subject to the disclosure obligations referred to in article 19a and article 29a of the Directive amending Directive 2013/34/EU, Directive 2004/109/EC, Directive2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting.'