



Press Release

Transition plans as a decisive lever for the sustainable transformation of the economy

February 12, 2024 - Transition plans are an essential tool to accompany companies on their path to greenhouse gas neutrality and to map the associated risks. This is the view of the German government's Sustainable Finance Advisory Committee (SFB) in the discussion paper "Added value and necessity of meaningful transition plans" published today. The paper brings together perspectives from the practical world and highlights numerous advantages of meaningful transition plans. Currently, the plans are focused on the financial market and its decisions on transition financing. However, the SFB also sees additional added value for the real economy and other stakeholders in civil society, science, supervision and politics.

"With transition plans, companies show a roadmap of how they are actually implementing the transformation towards climate neutrality and decarbonization. A roadmap that is comprehensible and transparent, both internally and externally, and that sets out the milestones with which the individual steps from coal to gas to climate-neutral hydrogen can be taken in electricity and heat generation, for example. But also, how environmental and climate changes can be better managed today and tomorrow with comprehensive risk analyses," explains Lothar Rieth, member of the SFB, co-author of the paper and Head of Sustainability at EnBW.

Creating a transition plan requires companies to commit to and manage specific decarbonization targets and measures. Although transition plans initially mean additional work for organizations, they increase their long-term competitiveness, for example by improving their creditworthiness and financing conditions. Transition plans divide the usually extensive projects of companies into clear units and map them in medium to long-term paths, thus helping to process and evaluate the tasks in a focused and rapid manner. In the medium term, valid and verifiable transition plans for the real economy will serve as a guide for the financial industry, enabling them to align their investments and serve as a basis for their own transition plans.

Due to various regulatory requirements, e.g. from the EU and international standards (IFRS/ISSB), various stakeholders are currently becoming more aware of transition plans. At the same time, national and international institutions are working on assistance for preparing and communicating transition plans (e.g. Science Based Targets Initiative, WWF / Pathways to Paris project or UK Transition Plan Task Force). From the SFB's point of view, there is a great need for an application-focused evaluation of existing frameworks and their coherent consolidation within uniform and binding regulations, especially on the part of the EU Commission, due to the wide range of approaches.

According to the SFB, in order to achieve optimum benefit, transition plans should

- (A) follow basic principles and coherent guidelines,
- (B) effectively bundle current EU reporting requirements,
- (C) have a clear benefit for investors and companies,
- (D) contain concrete measures and
- (E) be internationally compatible.

Nationally, the SFB recommends setting up substantial support structures for the creation of transition plans, especially for smaller companies that are either directly affected or indirectly affected by financial market or supply chain requirements.

"Transition plans are a tool that can help companies in the real and financial economies with risk analysis and the development and communication of net zero strategies. The publication of meaningful and credible transition plans supports the efficient allocation of capital in line with internationally agreed climate protection targets," comments Ulrich Volz, co-head of the Transition Plans working group at the SFB, Professor of Economics and Director of the Center for Sustainable Finance at SOAS University of London.

The full discussion paper can be viewed on the [website](#) of the Sustainable Finance Advisory Committee.

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The Sustainable Finance Advisory Committee

The German Sustainable Finance Advisory Committee advises the German Federal Government on sustainability aspects in the financial system. Consisting of 34 experts from the financial sector, the real economy, civil society and academia, and supported by 19 observers, it acts independently. It supports the German Federal Government in the implementation and further development of the German Sustainable Finance Strategy and advises relevant stakeholders on how to position themselves.