



Assurance Procedures concerning Transition Plans

Presentation FRDO- CFDD
22 05 24



Agenda

- 1 → Introduction: Transition plan in the context of CSRD and ESRS requirements
- 2 → Transition plans – Focus from an assurance perspective



Introduction: Transition plans
in the context of CSRD and
ESRS requirements?

How does the CSRD deal with climate change?

Drafts published subject to editorial review

Coming later

Cross-Cutting Standards

ESRS 1
General requirements

ESRS 2
General disclosures

Sector-specific Standards

Small and Medium Sized Entities
Proportionate Standards

Topical sector-agnostic Standards

Environmental

Social

Government

ESRS E1
Climate change

ESRS S1
Own workforce

ESRS G1
Business conduct

ESRS E2
Pollution

ESRS S2
Workers in the value chain

ESRS E3
Water and marine resources

ESRS S3
Affected communities

ESRS E4
Biodiversity and ecosystems

ESRS S4
Consumers and end-users

ESRS E5
Resource use and circular economy



ESRS E1 is the only standard that is considered to be material by default, whatever the sector.

CSRD and external verification

1. What assurance level is required?

The assurance report on the sustainability reporting should be based on a limited assurance engagement.

2. What assurance standards are expected to be used?

The EC shall be empowered to adopt, by means of delegated acts, limited assurance standards before 1 October 2026. Meanwhile, Member States may apply national assurance standards, procedures or requirements.

3. What will be the scope of assurance engagements?



- Compliance with the CSRD reporting rules in Article 19a, including with the reporting standards adopted according to Article 29b or Article 29c accounting directive

- Process carried out by the company to identify the information reported according to those reporting standards, basically the DM assessment.

- Compliance with the requirement to mark-up sustainability reporting in accordance with Article 29d accounting directive (digitalization)

- Compliance with the reporting requirements of Article 8 EU Taxonomy Regulation
- (Regulation (EU) 2020/852)

Source: DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

CSRD: Limited assurance vs Reasonable assurance

	Limited assurance	Reasonable assurance (N/A UNTIL AT LEAST 2028)
Deliverable	Limited assurance report : the report expresses a conclusion.	Reasonable assurance report : the report expresses an opinion.
Structure of the assurance statement	Negative assurance formulation: "Based on the procedures performed and evidence obtained, nothing has come to our attention to cause us to believe that the sustainability information is not prepared or not fairly presented, in all material respects, in accordance with the applicable criteria."	Positive formulation "The sustainability information is prepared or fairly presented, in all material respects, in accordance with the applicable criteria."
Understanding the subject matter	Obtain an understanding of the subject matter through inquiry with key personnel. Important aspect includes assessing the appropriateness of the subject matter and the suitability or the criteria. No need to do a walkthrough.	Obtain an understanding of the subject matter, criteria, and of the significant reporting processes. A walkthrough will be performed for each process underlying a topic, sub-topic, or sub-sub topic, through a selection of a transaction and walking through each step of the process (from initiation to reporting) to confirm this understanding. Includes understanding of IT systems and processes.
Procedures	Obtaining sufficient evidence to obtain a conclusion - including analytical procedures and inquiry, and possibly including further substantive procedures as a test of detail when a specific risk has been identified. No test of controls.	Obtaining sufficient evidence to express an opinion – probing inquiries, substantive analytical procedures, substantive procedures and extensive test of details. Test of controls may be performed.
Level of aggregation of information	Already more disaggregated (site level, annual and monthly) but still high level	Highly disaggregated (facility level, weekly data, etc)
Scope	Sustainability statements (including EU Taxonomy)	Sustainability statements (including EU Taxonomy)

Level of certainty



How is climate change addressed by ESRS E1?

Key information <i>(16 complex metrics warrant a closer focus)</i>	Difficulty to put in place	Starting date	Current practice
1. Energy and GHG			
Energy consumption from renewable sources & breakdown (Incl. green tariff and guarantee of origin)		Year+0	✓
Gross Scope 2 GHG emissions (market-based)		Year+0	✓
Gross Scope 3 GHG emissions of significant categories and update the inventory every three years		Year+0	✓
2. Transition plan			
Net Zero Target: scope, methodologies, framework, neutralization plan		Year+0	✓
Cumulative locked-in GHG emissions associated with key assets and direct use-phase of sold products		Year+0	⚠
Decarbonization levers & impacts		Year+0	✓
Achieved and expected GHG emission reductions		Year+0	✓
GHG removals and storage from value chain		Year+0	⚠
GHG emission reductions or removals outside value chain		Year+0	⚠
Description of internal carbon pricing schemes		Year+0	✓
3. Adaptation			
Analysis of climate risks and opportunities, frameworks and scenarios used (incl. alignment on 1.5°C)		Year+0	✓
Assets at material physical/transitional risk & breakdown time horizon and type of risk & locations		from Year+1: qualitative information	⚠
% Assets addressed by climate adaption plan			⚠
Revenue at material physical/transitional risk		from Year+3: full disclosure	⚠
Liabilities (monetary amounts) that may have to be recognized in financial statements			⚠
Cost savings & market opportunities *			⚠

Low High

✓ Information disclosed

⚠ Information not disclosed

What is the mandatory information to be disclosed on the transition plan?

GOV-2

Incentive schemes

- Disclose whether the performance of members of the administrative, management and supervisory body has assessed GHG emission reduction targets

E1-1

Transition plan

- ⇒ In line with Paris Agreement and achieve carbon neutrality by 2050
- Explain how targets are aligned with the Paris Agreement
 - Explain decarbonization levers and actions planned
 - Explain the investments and funding to support the transition plan
 - Qualitative assessment of the potential locked-in emissions from assets and products
 - Explain the alignment of its activities with the EU Taxonomy
 - Explain if the undertaking is excluded or not from the EU Paris-aligned Benchmarks
 - Explain how the transition plan is aligned with overall strategy and top management/admin approval
 - Explain the progress in implementing the transition plan

E1-2

Policies related to mitigation

- Policies adopted to identify, assess and manage material impacts, risks and opportunities related to climate change mitigation

E1-3

Actions and resources

- Present mitigation actions by decarbonization lever
- Disclose achieved and expected GHG emissions reductions
- Relate significant CapEx and OpEx to financial statements, Taxonomy indicators, and CapEx Plan

E1-4

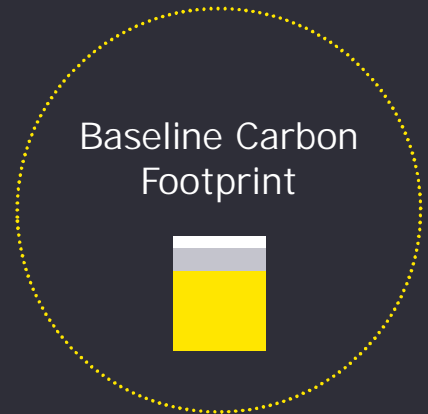
Targets related to climate change mitigation

- GHG absolute emission reduction targets (at least 2030)
 - Scope 1, 2, and 3
 - Share of target related to each scope
- Exclude GHG removals, carbon credits or avoided emissions
- Whether science-based and aligned with 1.5°C.
- Baseline year & baseline value
 - Before 2030: the base years = current base year or the first year of application of the CSRD
 - After 2030: every five years
- Expected reductions by decarbonization levers and their overall quantitative contributions

How to start with GHG reductions?

1 Measure emissions

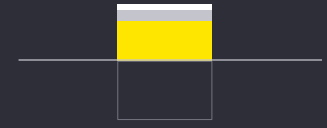
- ▶ Defining the base year
- ▶ Calculating Scopes 1, 2 and 3 emissions
- ▶ Understanding the results



2 Set a target



Science Based Target (SBT)
GHG reduction target compatible with Paris Agreement



Net Zero
SBT achieved and residual emissions = removals

3 Define levers

Decarbonization levers
Aim at reducing own GHG emissions
⇒ GHG emissions reduction in absolute and intensity terms

Enabling activities
Compatible with a low-carbon society
⇒ *Avoided emissions?*
⇒ *GHG emissions intensity metrics?*

Financial resources
Current and future, to be dedicated the transition plan
⇒ *CAPEX and OPEX?*

Carbon prices
To guide investment decisions

Human resources
Needed to carry out the project successfully, and who have the necessary expertise

The key role of governance in ensuring the success of the transition plan



Transition plan - Focus from an
Assurance perspective

Zoom #1 – target(s) setting

Description of key disclosed information

Ambition Level of Targets:

To limit global warming to 1.5°C with minimal overshoot, achieving global carbon neutrality through drastic GHG emission reductions is necessary. The pace must be quick enough to stay within the carbon budget for the 1.5°C target

Reduction Targets by 2030:

Emissions should be reduced by 42% to 50% compared to 2019 levels, with specific thresholds varying by industry.

Long-term and Short-term Goals:

Companies need to establish long-term decarbonization goals and short- to medium-term transition plans to meet these rapid reduction requirements.

Emission Reduction Priority:

The primary focus should be on reducing companies' gross GHG emissions. Carbon offsets and absorption should be secondary options for a very limited volume of residual emissions.

Scope of Objectives:

Transition plans must address all material GHG emissions, including those from upstream and downstream value chain activities (scope 3). This is in line with investor expectations, even though many companies face challenges in data acquisition and influencing their value chain



SBTi certification to give an indication of the ambition of the GHG emissions reduction targets.



- The **Science Based Targets initiative** (SBTi) helps companies set **scientifically validated emission reduction targets** to meet the 1.5°C climate goal, but this validation is not enough to fully endorse a company's climate transition plan.
- There are other initiatives as the **ACT initiative** in assessing the **overall quality and feasibility of a company's transition strategy**, including the actions, funding, and governance, with tailored methodologies for a wide range of industries, particularly those with significant decarbonization challenges.

Assurance aspects (not exhaustive)

- ▶ Review the approval date of the Transition Plan and whether the objectives and metrics set out in it have been implemented in accordance with the timelines;
- ▶ Assess whether the Transition Plan provides an understanding of the client's past, current and future mitigation efforts, and whether these efforts are aligned with its strategy and business model, as well as with the goal/target of limiting global warming to 1.5°C (in line with the Paris Agreement) and the goal of achieving climate neutrality by 2050;
- ▶ Check the timeline for targets - short term and long term;
- ▶ Check the completeness of the perimeter of the target - activities, geographies, BU's;
- ▶ Check the completeness of the GHG emissions coverage of the target - scope 1, 2 and scope 3
- ▶ if the company has a target but has not an SBTi-approved target, specific diligences are required to assess the compatibility with 1.5°C.
- ▶ if the entity has set an intensity-based target, check that the entity has disclosed an equivalent value in absolute terms ;
- ▶ Has the ACT initiative been used for assessing the overall feasibility of the action plans?

How to set a GHG emissions reduction target compatible with the Paris agreement?

Short-term Science Based Target

- ▶ 5-10 years in the future
- ▶ 1.5° C (4.2% pa) for Scopes 1 and 2
- ▶ WB2D (2.5% pa) for Scope 3
- ▶ Must follow sector-specific guidance

Net-Zero

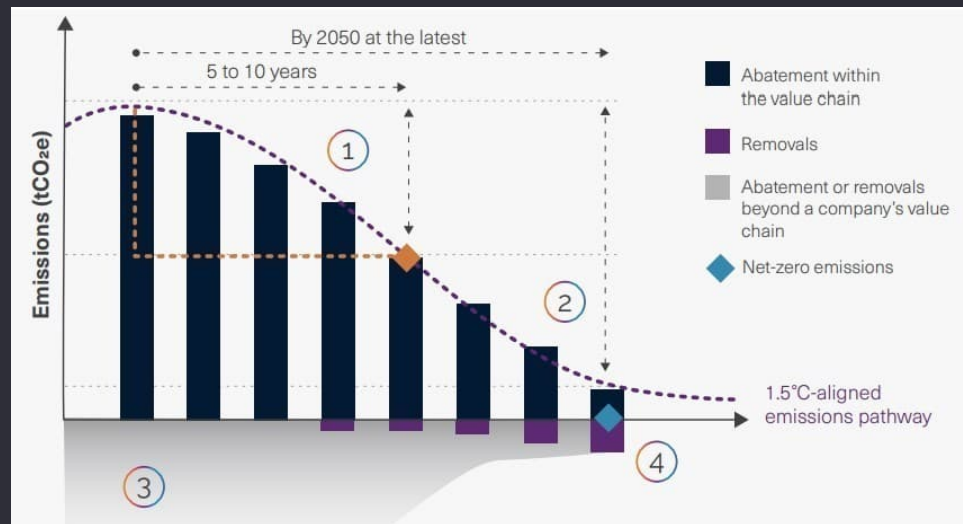
Long-term SBT

- ▶ By 2050 the latest
- ▶ Must cover >90% of Scope 3
- ▶ Must follow sector-specific guidance
- ▶ Contains little residual emissions (<10%)

Neutralization

- ▶ No offsetting
- ▶ Neutralization of residual emissions
- ▶ Permanent removal and storage

Key elements of Net-Zero



- 1 | Near-term SBT
- 2 | Long-term SBT
- 3 | Voluntary action outside of value chain
- 4 | Neutralization of residual emissions



SBTi as a common practice for validating a transition plan's level of ambition. However, other initiatives exist (e.g. ACT, Moody's)

Zoom #2 – baseline- references

Description of key disclosed information



The company must publish

- The **base year** and the reference value, and from 2030 onwards, update the base year for intermediate targets every 5 years.
- An **explanation of how it ensures that the reference value is representative** (activities covered or exogenous factors for the given year).

How to determine baseline

Prior to 2030 → a company's transition plan reference year **can be the year used for current targets or the first year of ESRS application.**

If using the ESRS application year, the reference year **must be recent**, not exceeding 3 years before the reporting year.

Ex: Companies expected to report in 2025 should select a reference year for their transition plan that falls **between 2022 and 2025**, in line with ESRS guidelines.

+ To ensure representativeness, the ESRS recommends using an **average of the last 3 years** as the base year.

How did the entity consider this?

- Exercise delicate in its evolution, especially in maintaining a level of data similar to the current fiscal year.
- + Many do not report an explanation of the calculation of the reference year or do not consider its evolution.

Assurance aspects (not exhaustive)

- ▶ Review the explanation of the calculation (scopes 1,2,3 emissions) of the reference year:
- ▶ Review the explanation in the modification of the reference value in the event of a significant change in the reporting scope through the recalculation of data related to the reference year;
- ▶ Identify the key factors used by the entity to estimate the emissions in the baseline scenario (e.g. revenue growth, acquisition/divestment, product mix change, treatment of existing decarb. actions already in place, treatment of exogenous factors (electricity emissions factors), treatment of locked-in emissions, etc.):
- ▶ Check the consistency of the emissions growth in the baseline with the company's business plan and long term financial planning;
- ▶ Investigate if the entity has performed some sensitivity analysis on the baseline calculation by varying certain factors to identify those factors have the highest influence in the baseline emissions.

Zoom #3 – locked-in emissions

Description of key disclosed information

Locked in emissions = “Estimates of **future GHG emissions** that are likely to be caused by a company **key assets or products sold** within their operating lifetime”

Exemple



Gas boiler I am planning to buy, which I am going to amortize over 10 years



A new product range (e.g. kettle) that I plan to update in 5 years' time

What would be the « locked-in emissions » in these use cases?

direct emissions from gas consumption

x

10 years

the kettle's use-phase emissions (from electricity consumption)

x

the kettle's estimated lifespan

x

expected sales over the next 5 years

Assurance aspects (not exhaustive)

- ▶ Review the qualitative assessment of the potential locked-in GHG emissions from the entity's key assets and products;
- ▶ Verify how the entity has considered its locked-in emissions in (i) its target setting, and (ii) the impact of the de-carbonization levers;
- ▶ Verify the mathematical accuracy of the locked-in emission calculations, including the completeness of the locked-in emissions estimated by the entity (e.g. investments with Capex already approved, emissions related to sold products according to the growth plan);
- ▶ Assess the calculation of the locked-in emissions (e.g. lifetime of assets, lifetime of sold products, activity data, emissions factors, assumptions);
- ▶ Check the consistency of the time horizon and growth rate of the locked-in emissions with the company's business plan and long term financial planning.

Zoom #4 – Decarbonization levers (1/2)

Description of key disclosed information

A **decarbonization lever** is a collective mitigation action, such as improving energy efficiency, transitioning to electrification, utilizing renewable energy, or switching fuels.

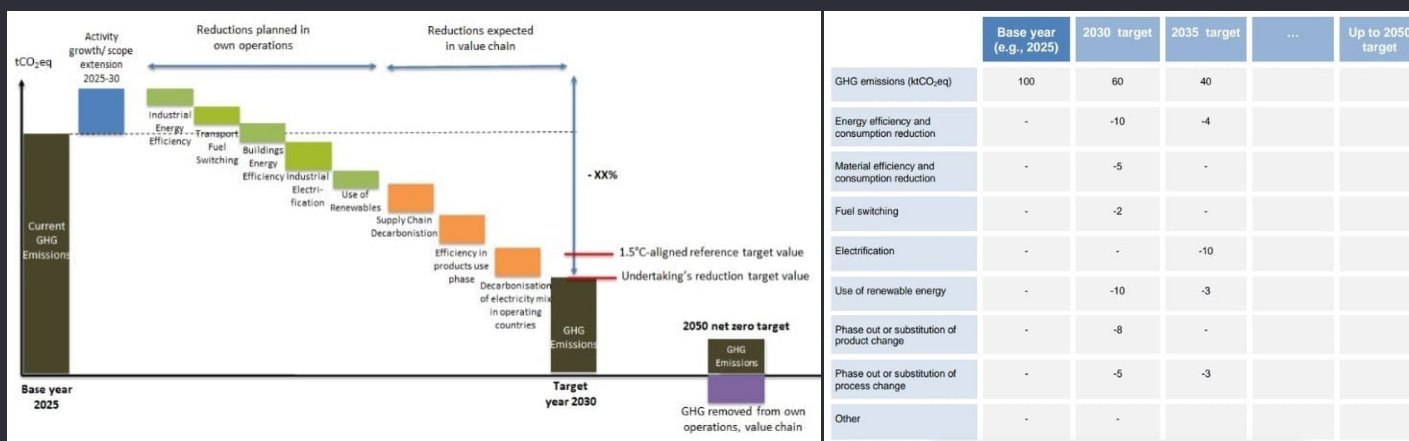
These levers pertain to:

- Changes made to the company's product and service offerings;
- The integration of new technologies in its own operations or throughout the supply chain;
- The implementation of nature-based solutions.

For instance, the "**supply chain decarbonization**" lever encompasses a range of measures like

- opting for different suppliers or products,
- cutting down on upstream transportation, and agreeing to supplier charters.

Decarbonization levers can be **internal**, affecting the company's direct activities (e.g., industrial electrification, altering the product mix), or **external**, influencing the broader value chain (e.g., improving product usage efficiency).



Assurance aspects (not exhaustive)

- ▶ Review if an explanation of the decarbonization levers is disclosed, including key actions planned, changes in the client's portfolio and its adoption of new technologies;
- ▶ Check the link between the de-carbonization levers and the entity's strategic plan (which should include also anticipated capex and opex investments);
- ▶ Review if the entity's investments support the implementation of the transition plan;
- ▶ Cross-check the financial means in terms of capex and opex, over time, to the entity's relevant disclosures in the financial statements;
- ▶ Sample per action for each lever.
- ▶ Check that the manner in which the entity presents the decarbonization trajectory differentiating baseline year, baseline emissions, decarbonization levers, emissions in the target year and % reductions);

Zoom #4 – Decarbonization levers (2/2)

Description of key disclosed information

A **decarbonization lever** is a collective mitigation action, such as improving energy efficiency, transitioning to electrification, utilizing renewable energy, or switching fuels.

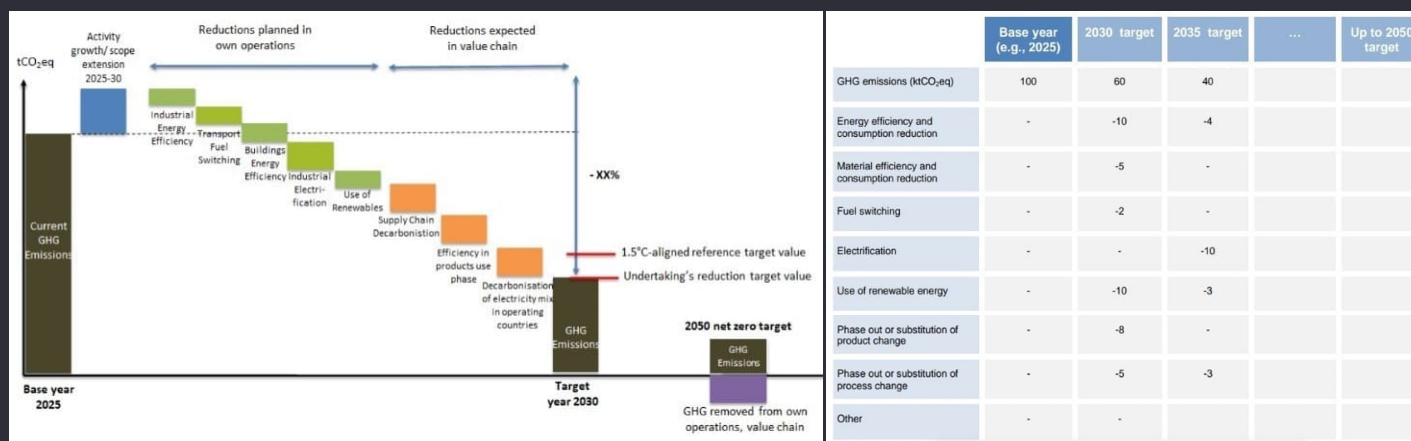
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Assurance aspects (not exhaustive)

- Check the completeness of the GHG emissions coverage of the decarbonization levers - scope 1, 2 and scope 3;
- If the company is a FLAG company, check if the company is including carbon removals in the value chain;
- Identify the categories of decarbonization levers (energy efficiency, fuel switching, process emissions) and assess if they are the one expected for the sector where the entity operates in;
- Assess the estimation of the carbon savings related to decarbonization levers;
- For the estimation of the resources (CAPEX and OPEX);
 - Obtain the annual average amounts spent regarding decarbonization actions;
 - Assess the reasonableness of the assumptions;
 - Check the consistency of the CAPEX and OPEX for the transition plan with the business plan and financial planning of the company
- For the presentation of the carbon reduction and costs related to the decarbonization levers
 - Check that the entity has disclosed the key supporting assumptions;

Conclusion

- ▶ There is no established rule yet within the profession for assessing the robustness of a transition plan;
- ▶ Having an SBTi certification, is a positive thing and auditors can take credit for this in terms the validation of the GHG emissions reduction targets;
- ▶ Specialist technical skills are needed to evaluate the target setting, the de-carbonization levers, the locked-in emissions, as well as off-set and removal strategies;
- ▶ Particular attention should be paid to consistency between the information in the transition plans with the financial statements and taxonomy reporting;
- ▶ Governance is key;
- ▶ Auditors have only limited assurance responsibility but will likely do more to anticipate market expectation with respect to comfort over sustainability information.



Q&A

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