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To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union

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Delegations will find attached document C(2023) 3844 final.

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Brussels, 27.6.2023  
C(2023) 3844 final

ANNEX

**ANNEX**

*to the*

**COMMISSION RECOMMENDATION**

**on facilitating finance for the transition to a sustainable economy**

This Annex accompanies the Commission Recommendation on facilitating finance for the transition to a sustainable economy<sup>1</sup>. It complements the recommendations with more detailed considerations and illustrations to support the voluntary use of tools from the EU sustainable finance framework for transition finance. It displays various options and suggestions for undertakings and financial institutions to set transition targets, articulate and identify transition finance needs and projects as well as to raise or provide transition finance.

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<sup>1</sup> Commission Recommendation on facilitating the finance for the transition to a sustainable economy (C(2023) 3844).

## 1. Relationship between green and transition finance

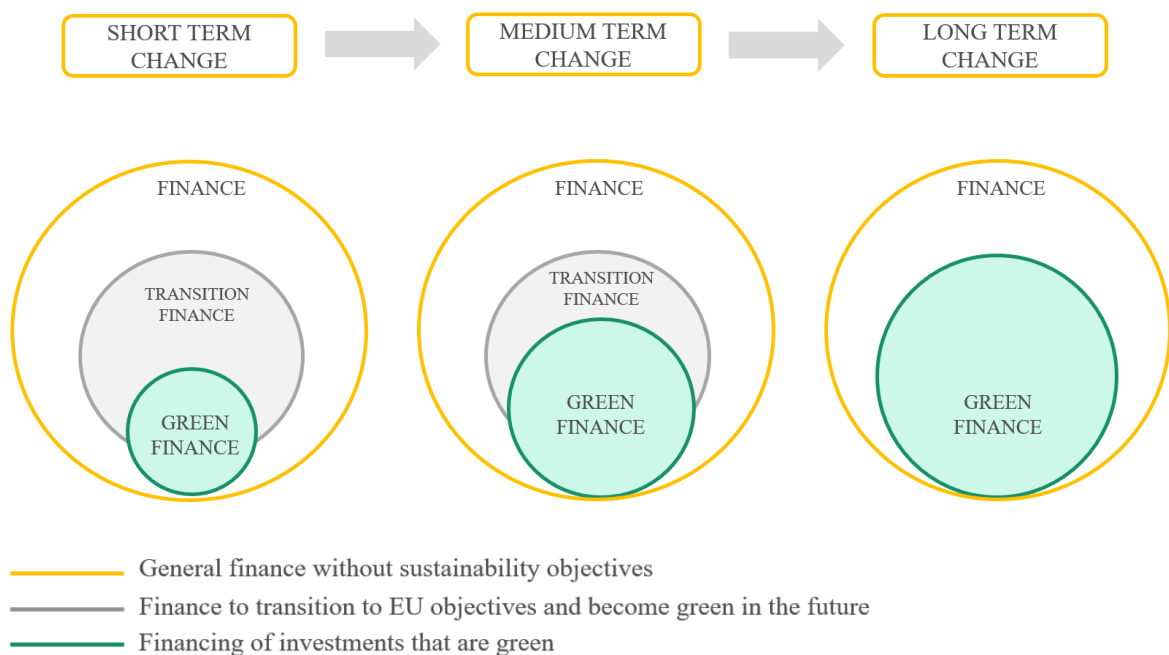
Sustainable finance is about financing both what is already environment-friendly and what is transitioning to such performance levels over time.

Figure 1 below shows how transition finance relates to general finance and green finance, and how these different forms of financing might evolve in the short-, medium- and long term.

*General finance*, which does not have any sustainability objectives can be distinguished from green finance and transition finance. Such general finance can currently include both highly impactful and low impact activities. Over time, as the economy transitions, high impact activities will have to transition to become low impact.

*Transition finance* aims to finance that transition. It can include both use-of-proceeds financing and general (corporate) purpose financing. In the short-term transition finance will often not result in improvements that meet green performance targets. In the long-term however transition finance needs to be aligned with climate and environmental objectives of the EU and will therefore be considered either green or low impact.

**Figure 1: Relationship between green and transition finance today and over time**



## 2. Considerations on how different types of impacts, risks and opportunities of an undertaking could be reflected in individual transition targets

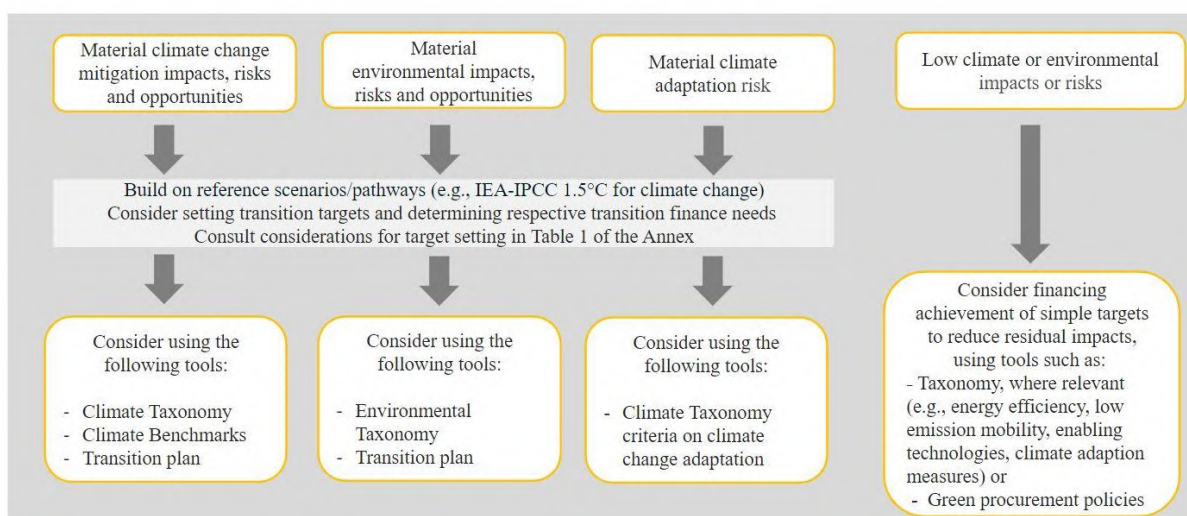
*This section relates to points 3 and 4 of the Commission Recommendation.*

Undertakings can consider their transition finance needs based on their sustainability impacts, risks and opportunities. These can be identified through a materiality assessment following the double materiality approach.

As part of this assessment, undertakings could use climate- and environment related scenario analysis to inform the identification and assessment of physical and transition risks and opportunities over the short, medium- and long-term time horizons. Based on the outcome of such a materiality assessment<sup>2</sup>, undertakings could set transition targets and determine transition finance needs and commitments, where relevant.

Figure 2 provides an overview of the tools that can be used for considering how to define transition finance needs in case of material impacts, and how to define finance needs to address low or residual impacts.

**Figure 2: How different types of impacts, risks and opportunities of an undertaking could be reflected in individual transition targets and subsequently transition finance needs**



<sup>2</sup> A sustainability matter is material from an impact perspective when it pertains to the undertaking's material actual or potential, positive or negative impacts on people or the environment over the short-, medium- and long-term time horizons. A material sustainability matter from an impact perspective includes impacts caused or contributed to by the undertaking and impacts which are directly linked to the undertaking's operations, products, and services through its business relationships. A material sustainability could also matter from a financial perspective, for instance if the sustainability risk materializes through stranded assets.

When planning their transition and defining transition finance needs, undertakings are encouraged to consider setting **transition targets** based on relevant **transition pathways** that are compatible with the transition, taking into account the type of impacts and other factors such as severity, scale, scope and irremediability of those impacts. Undertakings can draw on standards and guidance available under Directive (EU) 2022/2464 and its implementation for this purpose (Corporate Sustainability Reporting Directive).

Undertakings are encouraged to make the following considerations on how different impacts, risks and opportunities could be reflected in transition targets and related transition finance needs.

Table 1. General considerations for climate and environmental target setting in case of material impacts

1) Consider credible reference frameworks to inform the methodology used for this process, including:

- Science-based scenario analysis and global, EU or national sectoral 1.5°C pathways with no or limited overshoot referencing IPCC, IEA or other, credible and science-based private initiatives. Consider scenarios that reflect the undertaking's specific context in terms of geographical location and economic activities.
- The Union sustainable finance regulatory framework, including the Taxonomy Regulation and methodology for EU climate benchmarks (see sections 3 to 5 of this Annex).
- The Union Strategic environmental Action Plans for Circular Economy<sup>3</sup>, Biodiversity<sup>4</sup> and Zero Pollution<sup>5</sup>.
- Consult the Commission's qualitative EU Transition Pathways<sup>6</sup> for climate-related aspects when evaluating the transition challenges and available best-in-class technologies in a relevant sector.

2) Consider setting transition targets that are time-bound, science-based and actionable to ensure their credibility.

3) Consider a breakdown of these targets at activity and product level and identify key levers at activity level, including financial resources, to ensure the operationalisation of these targets.

4) Where relevant, in reference to point 3), consider specifying the expected decarbonisation levers and their overall quantitative contributions to achieve the GHG emission reduction targets as well as the key actions planned, including changes in the undertaking's product and service portfolio and its

<sup>3</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on A new Circular Economy Action Plan: For a cleaner and more competitive Europe. COM/2020/98 final.

<sup>4</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions EU biodiversity strategy for 2030 bringing nature back into our lives. COM/2020/380 final.

<sup>5</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Pathway to a Healthy Planet for All EU Action Plan: 'Towards Zero Pollution for Air, Water and Soil'. COM/2021/400 final.

<sup>6</sup> The Commission's EU Transition Pathways are available at: [https://single-market-economy.ec.europa.eu/industry/transition-pathways\\_en](https://single-market-economy.ec.europa.eu/industry/transition-pathways_en)

#### adoption of new technologies

- 5) Consider metrics against which to measure and monitor the implementation of the transition targets, such as the effectiveness of actions, progress made over time and stakeholder involvement.
- 6) Consider specifying how the business planning and financial planning processes and risk management framework take into account the transition targets.
- 7) Consider the overall environmental integrity of the transition targets, not trading off one target for another and consider using the principle of ‘do no significant harm’, in accordance with the Taxonomy Regulation for this purpose. Also consider respecting minimum safeguards regarding human and labour rights.
- 8) Consider taking measures to ensure the transparency of the targets and the basis upon which they have been set to encourage investors and financial intermediaries to consider these when providing transition finance. For instance consider articulating the targets as part of a credible transition plan to raise credibility around their achievement that reflects the external dependencies<sup>7</sup> across the sites where the undertaking operates.
- 9) Consider ensuring a robust governance process is in place to support the implementation and the oversight of the transition targets, including:
  - a) Approval of the transition targets by the undertaking’s administrative, management and supervisory bodies.
  - b) Establishing good internal controls including clear allocation of roles and responsibilities for the oversight and implementation of the actions related supporting the implementation of these transition targets.
  - c) Regular reporting to the management bodies on the transition targets’ implementation.
- 10) Consider where relevant using third-party verification and assurance to provide additional credibility of the transition targets and related target setting process and follow-up.

#### Table 2. Considerations for simple improvement targets in case of non-material impacts

- 1) In the case of undertakings where the main economic activity has low impacts, it might be possible to reduce residual impacts that may exist for example in support functions of that undertaking (e.g., energy efficiency of office buildings, emissions of transport or mobility, buying renewable energy, greening the food supply, etc.).
- 2) Where relevant, consider:
  - a) simple improvement targets to invest into the energy efficiency of buildings, significantly reducing emissions from use of electricity or heating, and similar investments, especially through enabling activities covered by Delegated Acts adopted under Regulation (EU) 2020/852 (the Taxonomy Regulation);
  - b) a procurement policy with a focus on sustainability considerations.

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<sup>7</sup> The undertaking’s dependency on external factors across geographies to achieve its entity level transition plan e.g. possible future policy, technology readiness, social acceptability, resource availability and physical climate impacts across the sites where it operates.

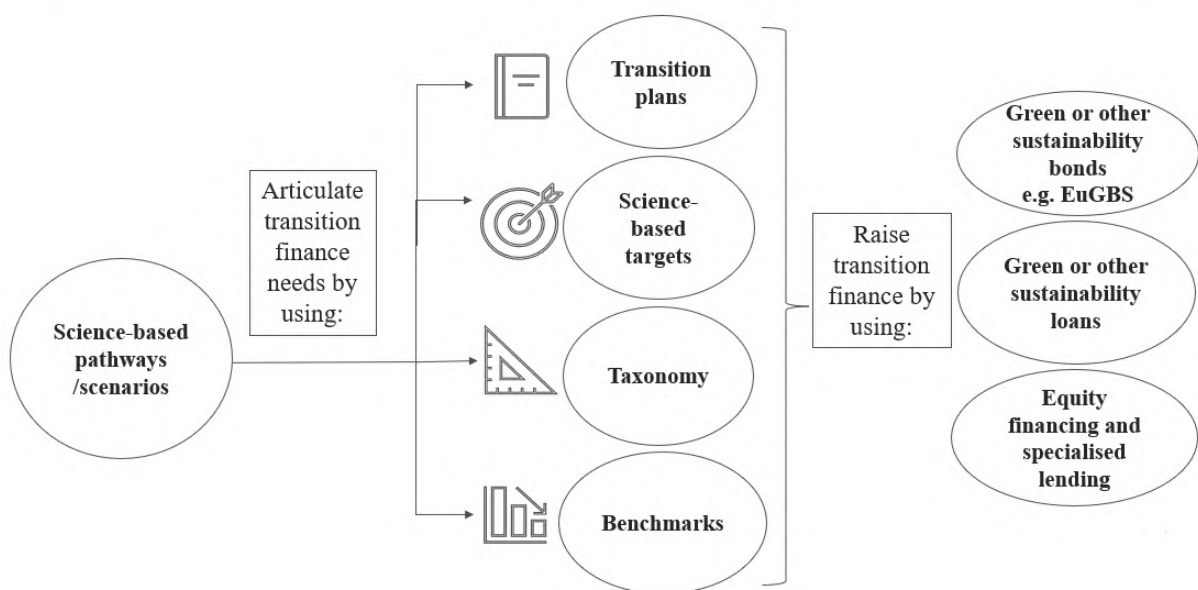


### 3. Overview of sustainable finance tools to articulate and determine transition finance needs

Sustainable finance tools, in particular the Taxonomy, or the EU climate benchmarks as well as credible transition plans can be used to support the definition of transition targets and articulate specific transition finance needs at the level of the undertaking and at the level of economic activities. Transition finance can then be raised through green- or sustainability linked bonds, loans, equity financing or specialised lending.

Figure 3 below provides an overview of the tools that can be used to articulate and raise transition finance.

**Figure 3: Options for articulating transition finance needs and raising transition finance**



#### 4. EU Climate benchmark methodologies

*This section relates to point 5 of the Commission Recommendation.*

Where sector-specific science-based pathways or roadmaps do not exist, undertakings could consider the methodologies of the EU climate benchmarks and use those in a way that ensures alignment with the 1.5 C scenario of the IEA or the IPCC.

Where sector-specific science-based scenarios and pathways exist, undertakings could consider whether using those allows them to meet also the minimum standards of EU climate benchmarks.

The capital market issuances of undertakings meeting the minimum standards of the climate benchmark methodologies and demonstrating it (for instance through a credible transition plan considering standards and guidance available under Directive (EU) 2022/2464 and its implementation), are more likely to be included in portfolios that follow the EU climate benchmarks.

##### Climate benchmark minimum standards

The EU climate benchmarks are based on a set of criteria aiming to ensure a transition path for portfolios that is compatible with the transition to a sustainable economy<sup>8</sup>. The minimum standards of climate benchmarks' decarbonisation target and trajectory requires an annual minimum 7 % reduction of GHG intensity or absolute GHG emissions target<sup>9</sup>.

For each year in which the targets are not achieved, missed targets should be compensated for, by upwardly adjusting the targets in the decarbonisation trajectory for the following year.

Where possible, consider demonstrating lower average emissions in comparison to peers and avoiding specific exclusion factors listed in Articles 9 to 12 of Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020.

##### Overweighting undertakings that set and publish GHG emission reduction targets

The capital market issuances of undertakings can be given a bigger weight in a benchmark that follows the EU climate benchmarks, if the issuing undertaking can demonstrate that it has set and published GHG emission reduction targets, where the following conditions are fulfilled:

- a) the issuer of the constituent securities publishes consistently and accurately their Scope 1, 2 and 3 GHG emissions;
- b) the issuer of the constituent securities has reduced their GHG intensity or, where applicable, their absolute GHG emissions, including Scope 1, 2 and 3 GHG

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<sup>8</sup> Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks, Articles 6-12.

<sup>9</sup> The minimum requirements are set out in Articles 7 to 9 of Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020.

emissions, by an average of at least 7 % per annum for at least three consecutive years.

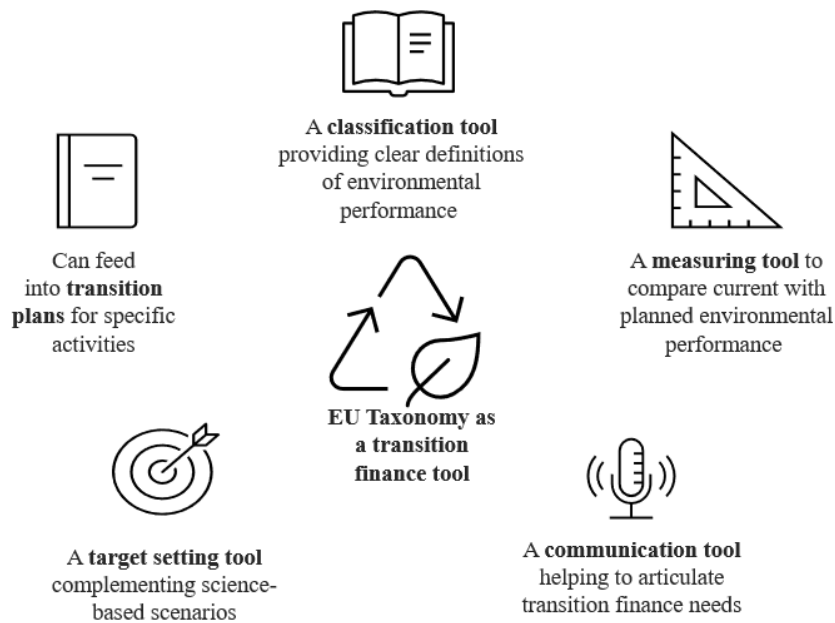
## 5. EU Taxonomy

*This section relates to point 6 of the Commission Recommendation.*

### 5.1. What the EU Taxonomy can be used for

Undertakings can use the Taxonomy as a transition finance tool, for planning the transition of their economic activities and earmarking needed transition investments. As such, it can be used for the classification of sustainable investments, the measurement of current and planned climate or environmental performance, target setting and communication, including articulating Taxonomy-linked targets in transition plans.

**Figure 4: What the Taxonomy can be used for**

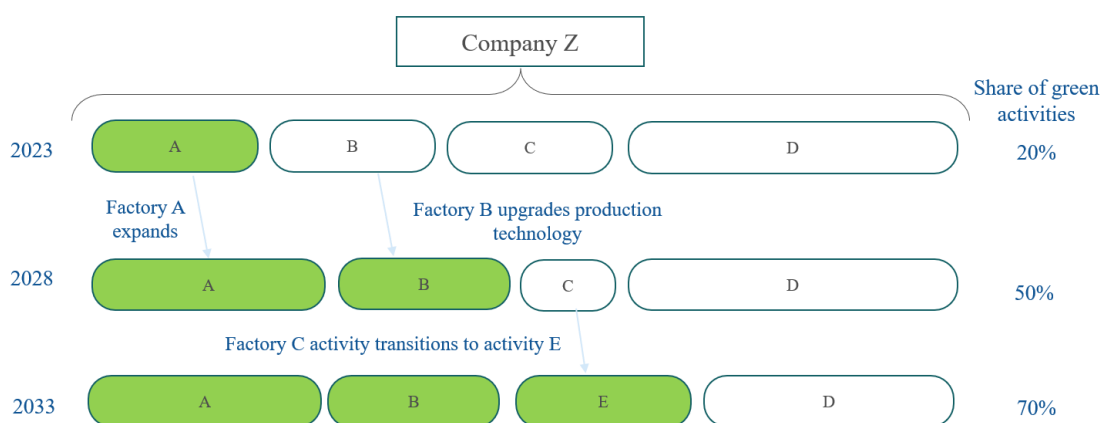


## 5.2. The Taxonomy as a transition tool

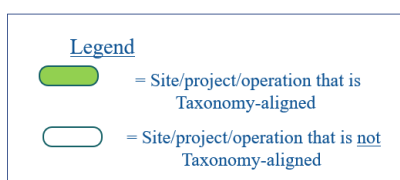
By defining environmentally sustainable economic activities, not undertakings, the Taxonomy enables undertakings to transition by gradually increasing their share of environmentally sustainable activities.

Figure 5 illustrates how an undertaking can gradually transition its activities, here activities performed in factories, and invest into their upgrades to increase the share of green activities in the future. Activity based transition plans can be the key part of an entity level transition strategy.

**Figure 5: Taxonomy as a transition tool**



Source: Platform on Sustainable Finance



\* The undertaking could raise transition finance at activity level (i.e. Taxonomy-aligned CapEx to upgrade its activities)

\*\* The undertaking could also raise transition finance at entity level (general corporate purpose finance) by showing how these upgrades, and their planned timeline, is aligned with the transition as defined in point 2.1 of the Recommendation (e.g. using science-based scenarios / pathways and explaining planned investments in a transition plan).

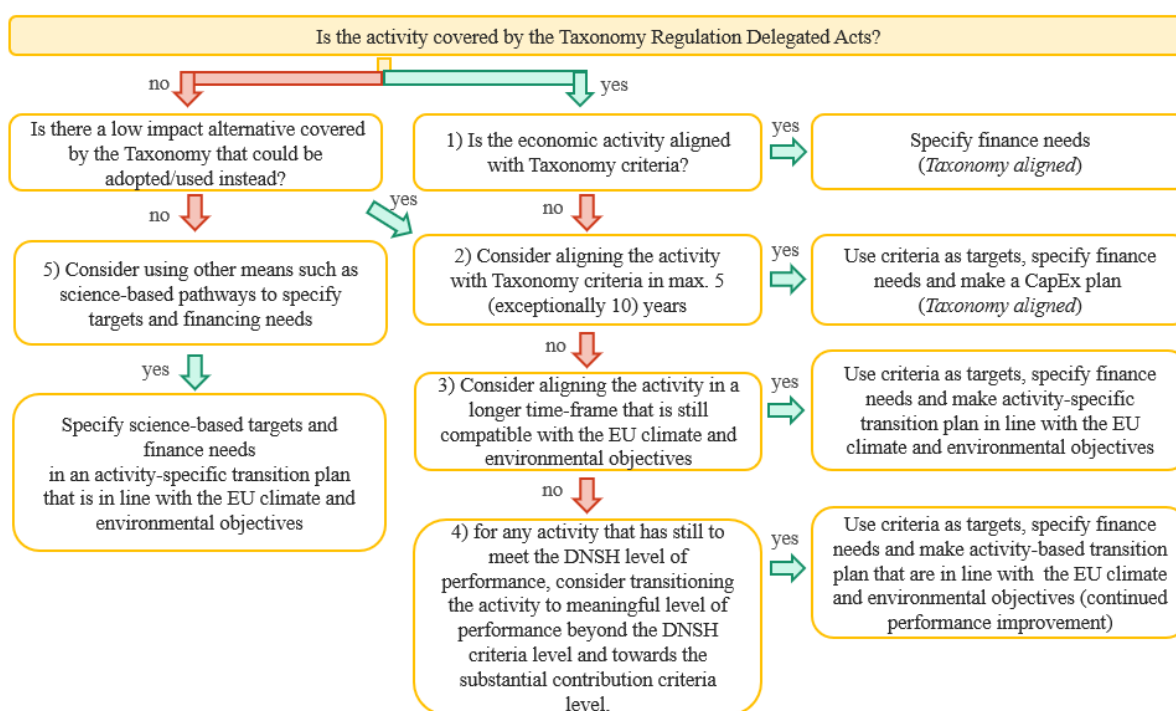
### 5.3. Options for using the Taxonomy to specify transition finance needs

Undertakings can use the Taxonomy to define their transition finance needs at activity level.

The Taxonomy does not prescribe the timeline by which an undertaking should align its activities with any of its criteria. Instead, it leaves flexibility to market actors to use the timetables of their own science-based transition paths. Undertakings can reference taxonomy criteria in their climate and environmental target setting and where those targets are aligned with the transition and their achievement is credible, they can raise transition finance for their implementation.

Figure 6 illustrates how the Taxonomy can be used for this purpose, providing options that can be considered in the given sequence, considering the feasibility of the more ambitious options first.

**Figure 6: Using the EU Taxonomy to specify transition finance needs**



#### 1) Financing already Taxonomy-aligned economic activities

Where an economic activity is already aligned with the Taxonomy, undertakings could consider any current and future financing needs for maintaining Taxonomy alignment also in the future.

#### 2) Investments aligned with the Taxonomy

Where an economic activity is eligible but not yet aligned with the Taxonomy, undertakings could consider aligning it with the technical screening criteria of the Taxonomy within 5

(exceptionally 10) years<sup>10</sup>. Specify the transition investment needed to reach these targets in a CapEx plan. Such capital expenditure is considered Taxonomy aligned investment.

### 3) Investment aligning with the Taxonomy over longer timeframe

Where Taxonomy alignment in 5 (exceptionally 10) years is not feasible, it is possible to consider aligning an asset or economic activity with the associated Taxonomy performance criteria over a longer time horizon that is still compatible with the transition. Transition investments that will only reach Taxonomy-alignment over a longer time frame than the 5 (exceptionally 10) years recognized under Delegated Regulation (EU) 2021/2178, those could be accompanied by an activity-specific transition plan that is compatible with the transition, justifying the longer time-horizon for reaching the targets<sup>11</sup> and showing how Taxonomy-alignment will be reached in subsequent step.

For environmental aspects, the targets could be aligned with international and Union environmental policy objectives and targets, including those related to the sustainable protection and restoration of water and marine resources, circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems.

### 4) Investments for transitioning beyond climate mitigation do-no-significant-harm levels in a first step

Undertakings with activities currently not meeting the DNSH criteria of the Taxonomy, where investments to reach the substantial contribution criteria in 5 (exceptionally 10) years is not currently feasible, could consider improving the environmental performance of those activities beyond performance levels defined by the ‘do no significant harm’ criteria within a timeframe that is short enough to be compatible with the transition.<sup>12</sup> For such transition investments that improve performance beyond do-no-significant-harm criteria of the Taxonomy as a first step in the transition, undertakings could consider accompanying those by an activity-specific transition plan that is compatible with the transition, justifying why this interim step is needed and how Taxonomy-alignment will be reached in subsequent step.

The plan could demonstrate (i) how the activity will transition with a meaningful performance improvement to beyond the DNSH criteria level and towards the substantial contribution criteria level, and (ii) how continuous climate or environmental performance improvement will ensure avoiding causing significant harm in the future, as the economy gets closer to climate neutrality, and tolerance levels for harm that is considered significant will also shift over time.

### 5) Investments specified by other means in activity-based transition plan

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<sup>10</sup> According to the Taxonomy Disclosures Delegated Act, the period to reach Taxonomy-alignment can exceed five years only where a longer period is objectively justified by specific features of the economic activity and the upgrade concerned, with a maximum of 10 years.

<sup>11</sup> The related capital expenditure is not considered taxonomy aligned, but it can be a meaningful step on the transition path towards higher levels of sustainability performance.

<sup>12</sup> The related capital expenditure is not considered taxonomy aligned, but it can be a meaningful step on the transition path towards higher levels of sustainability performance.

For highly impactful economic activities not yet covered by Taxonomy Delegated Acts and where there is no low-impact alternative covered by the Taxonomy Regulation, undertakings could consider using other means such as science-based pathways to specify targets and financing needs.

#### 6) Investments for transitioning activities with low environmental impacts

For low impact economic activities, which are therefore not covered by the Taxonomy, undertakings can consider using relevant Taxonomy criteria to address residual impacts e.g. through investments into energy efficiency of buildings, low emission mobility, enabling technologies, etc.

## 6. Financing instruments to raise transition finance

*This section relates to point 8 of the Commission Recommendation.*

Undertakings can consider using one, or a combination of several, transition-related financing instruments to raise transition finance, such as specific loan types or capital market issuances with specific features. Table 3 below provides illustrations for this purpose.

Table 3: Examples of loan or capital market financing instruments for raising transition finance	
<b>Green loans and other sustainability loans</b>	<p>1) Finance projects or investments through a <b>loan with a dedicated transition purpose</b> (use-of-proceeds) such as loans to upgrade assets or make new investments that will enable low carbon production or significantly improved environmental performance. For instance:</p> <ul style="list-style-type: none"> <li>- loans to finance transition projects that have a credible activity-based transition plan or are part of a credible entity level transition plan<sup>13</sup>;</li> <li>- loans to finance economic activities eligible under the Taxonomy and reaching Taxonomy alignment over a 5 (exceptionally 10) year time horizon;</li> <li>- credible science-based targets, where proportionate, that are supported by information ensuring integrity, transparency and accountability;</li> <li>- loans to finance other transition investments into activities referred to under point 2.2. of this Recommendation.</li> <li>- define robust environmental performance indicators to finance corporate investments that are included in a transition plan.</li> </ul> <p>2) Seek <b>general (corporate) purpose loan linked with improvements</b> in overall sustainability performance in line with the transition as defined under point 2.1. For instance:</p> <ul style="list-style-type: none"> <li>- loans with key performance targets to finance transition investments that are in line with science-based transition pathways;</li> <li>- loans with key performance targets to finance transition investments that are based on the overall share of Taxonomy alignment to be achieved;</li> </ul>

<sup>13</sup> As per Directive (EU) 2022/2464 and its implementation (Corporate Sustainability Reporting Directive).

	<ul style="list-style-type: none"> <li>- loans to finance transition investments that are based on a credible transition plan with key performance targets.</li> </ul>
<b>Green bonds and other sustainability bonds</b>	<p>1) Consider <b>issuing bonds for a specific transition purpose</b> by demonstrating the use-of-proceeds.</p> <ul style="list-style-type: none"> <li>- For instance, issue a bond in accordance with the European green bond Regulation to finance transition investments into economic activities eligible under the Taxonomy and reaching Taxonomy alignment within 5 (exceptionally 10) years.</li> </ul> <p>2) Consider issuing a <b>bond linked to a transition performance</b> target of the undertaking (e.g., a sustainability-linked bond) by using the Taxonomy, credible entity-level<sup>14</sup> and activity-level transition plans, or credible science-based targets where proportionate, and:</p> <ul style="list-style-type: none"> <li>- define key performance targets to finance material corporate investments that are included in a transition plan;</li> <li>- undertakings are invited to attach their sustainability requirements under a sustainability-linked bond to a Taxonomy- or an EU climate benchmark-related target;</li> <li>- this can include the financing of transition investments defined through targets based on the Taxonomy.</li> </ul> <p>3) Consider using the <b>voluntary disclosure template under the European Green Bond Regulation</b> to provide standardised information to investors and financial intermediaries for bond issuances not following the European green bond standard;</p>
<b>Equity financing</b>	Where <b>equity issuances</b> are an adequate financing instrument, consider using similar transition criteria to those mentioned above to specify key sustainability performance targets.
<b>Specialised financing</b>	Consider <b>specialised financing</b> such as leasing, structured finance solutions, project financing and blended finance instruments by using similar transition criteria to those mentioned above to specify key sustainability performance targets.

<sup>14</sup> As per Directive (EU) 2022/2464 and its implementation (Corporate Sustainability Reporting Directive).

## 7. Use of European Union sustainable finance tools by financial intermediaries and investors

*This section relates to point 9 of the Commission Recommendation.*

Financial intermediaries and investors willing to provide transition finance to support the real-economy’s transition could use sustainable finance tools to set portfolio targets and identify projects or undertakings to finance the transition. Table 4 below provides further illustrations in this regard.

**Table 4: how to use sustainable finance tools to set portfolio targets and identify projects or undertakings to finance the transition**

<p><b>Consider using EU climate benchmark decarbonisation methodologies to set portfolio transition targets and identify relevant companies:</b></p>	<p><b>Using EU climate benchmarks decarbonisation methodologies to set decarbonisation targets:</b></p> <p>Consider using the EU climate benchmarks to pursue decarbonization strategies and invest into a portfolio of undertakings with different climate targets and transition finance needs. Create financial products replicating the above benchmarks’ methodologies<sup>15</sup>;</p> <p>Benchmark administrators are encouraged to consider overweighting companies based on the decarbonisation targets set by companies;</p> <p>Consider using the methodologies of the benchmarks to systematically assess financing instruments and portfolios, and design portfolio pathways towards climate neutrality with minimum standards for year-on-year decarbonisation.</p> <p><b>Using EU climate benchmarks methodologies to identify undertakings for lending or investment:</b></p> <p>Consider using the EU climate benchmarks or other science-based ESG benchmarks to identify companies that transition in a way that is compatible with the transition to a sustainable economy; Consider using benchmarks that allow administrators to overweight undertakings with a science-based transition pathway and plan;</p> <p>Financial intermediaries and investors may use exclusion criteria from the methodologies of the EU climate benchmarks, where appropriate, to exclude environmentally or socially harmful economic activities or production methods, and those that</p>
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<sup>15</sup> The benchmarks require a baseline decarbonization requirement of 30% for the EU Climate Transition Benchmarks and 50% for the EU Paris-Aligned Benchmarks, 7% year-on-year decarbonization requirement, the inclusion of scope 3 emissions, equity allocation constraints to ensure the representation of industries corresponds to that of the parent benchmark (avoid industry bias);

	otherwise cause significant harm to any climate or environmental objectives.
<p><b>Consider using the Taxonomy to set portfolio level targets and identify relevant undertakings:</b></p>	<p><b>Using Taxonomy criteria to set climate and environmental portfolio targets:</b></p> <p>Consider using the Taxonomy criteria and disclosures to set targets and track progress over time at portfolio level and, in the case of asset owners, for overall asset allocation.</p> <p>Consider using the Taxonomy disclosures to track the proportion of investments eligible under the Taxonomy, the proportion of investments aligned with the Taxonomy, and progress towards aligning with Taxonomy criteria.</p> <p>Subject to data availability, consider using the green asset ratio and green investment ratio based on the Taxonomy to set sector-specific targets at portfolio level towards which the portfolio average can converge during the transition. For instance, banks may use the green asset ratio and absolute carbon emissions in relevant portfolios or average energy efficiency of a mortgage portfolio to develop emissions reduction targets or an energy efficiency target and milestones in between.</p> <p>Consider using the proportion of planned revenues, capital expenditure or operating expenditure related to transition of undertakings that will be aligned with the Taxonomy within 5 (exceptionally 10) years (but do not meet the conditions of Delegated Regulation (EU) 2021/2178 to be recognised immediately as Taxonomy aligned CapEx) as a future or planned green asset ratio, where they are supported by a credible transition plan.</p> <p>Similar metrics could also be designed for non-taxonomy eligible activities that are covered by a credible transition plan.</p> <p><b>Using the Taxonomy disclosures to identify undertakings for lending or investment:</b></p> <p>Consider using the Taxonomy disclosures by undertakings on taxonomy-eligible and taxonomy-aligned revenue, capex and where relevant OpEx, to complement other corporate data to identify transition projects</p> <p>In case of Taxonomy eligible projects, consider using mandatory - and where available voluntary - Taxonomy-related disclosures, in corporate disclosures or entity-level or activity-specific transition plans, to identify projects with transition finance objectives that set targets linked to:</p> <ul style="list-style-type: none"> <li>- taxonomy alignment, aiming to meet the Taxonomy criteria in steps or over a defined time horizon;</li> <li>- taxonomy criteria elements, such as do-no-significant-harm, ensuring significant performance improvements;</li> <li>- check whether activity-specific transition plans are in place, to ensure such projects' targets are aligned with the transition to a sustainable economy;</li> <li>- in case of economic activities not covered in delegated acts adopted under the Taxonomy Regulation, use the principles</li> </ul>

		of set out in Article 10(2) of the Taxonomy Regulation as a guide of minimum conditions for an activity to be considered for transition finance.
<b>Consider using corporate disclosures under the Corporate Sustainability Reporting Directive to select undertakings with specific transition objectives and needs:</b>		<p>Consider using <b>common metrics in transition plans</b>, both at entity and activity level, to systematically identify transition finance needs in certain sectors, based on the financial metrics and investment plans that corporates report, for example:</p> <ul style="list-style-type: none"> <li>- GHG emission reduction targets, for scope 1, scope 2 emissions, and to the extent possible also material scope 3 emissions;</li> <li>- Taxonomy alignment and plans to align for economic activities in high impact sectors;</li> <li>- CapEx to finance the transition steps with references to the key sustainability metrics used (e.g., taxonomy-based capital expenditure);</li> <li>- Credibility of the transition targets based on the actions and levers undertakings plan to use to achieve the targets, and their dependency on external factors,<sup>16</sup> expected costs of transition;</li> <li>- Transition risks and how potential transition targets can reduce such risks overtime;</li> <li>- Exposure to climate-related financial opportunities (e.g., as % overall portfolio/underwriting activity)</li> <li>- Current and planned financed emissions across sectors, geographical areas and timeframes;</li> <li>- Portfolio alignment metrics (e.g., weighted average carbon intensity, implied temperature rise, financed emissions relative to a commonly used science-based benchmark).</li> </ul> <p>Consider using <b>disclosures on transition plans</b> to identify specific undertakings or projects with clear decarbonization targets that currently operate with high emissions but have credible transition plans to reduce those over time, which will enable the portfolio to decarbonize at the same pace as the investee undertakings do.</p> <p>Consider using the <b>standards and guidance</b> under Directive (EU) 2022/2464 and its implementation (CSRD), where available, to consider an undertaking's climate and environmental performance, its starting point and individual transition path, to complement disclosures on transition targets, transition plans and financial reporting data.</p>
<b>Consider disclosures prospectuses accompanying the issuance of green, and transition and</b>		<p>Consider using <b>information provided by issuers of green bonds, sustainability-linked bonds or other bonds</b> with transition finance features to select investments with environmental integrity and the level of ambition an investor is looking for.</p> <p>Consider using the high degree of transparency provided by the <b>European Green Bond Regulation</b> to select projects for transition finance where the environmental integrity is ensured by the Taxonomy. The enhanced transparency on the use of proceeds increases the credibility and reliability of such investments, in particular if they are connected to sustainability</p>

<sup>16</sup> E.g. possible future policy, technology readiness, social acceptability, resource availability and physical climate impacts across the sites where it operates.

<b>sustainability-linked bonds or equity:</b>	<p>thresholds or targets set by the undertaking and disclosed in its corporate disclosures.</p> <p>Consider using the <b>high degree of transparency</b> provided by issuers <b>using the voluntary disclosure</b> templates for issuers using other standards than that provided by the European green bond Regulation to select projects for transition finance that are aligned with the transition to a sustainable economy.</p> <p>Consider using <b>information on transition objectives</b> or transition finance needs included in prospectuses for issuances by undertakings in transition to assess sustainability risks and features of an issuance together with other financial risks and benefits of the project<sup>17</sup>.</p>
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<sup>17</sup> The Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) 2017/1129, (EU) No 596/2014 and (EU) No 600/2014 to make public capital markets in the Union more attractive for companies and to facilitate access to capital for small and medium-sized enterprises, (COM/2022/762 final), contributes to the transparency by requiring the inclusion of sustainability information in prospectuses for issuances with sustainability claims.