Principles for Transition Investing

A Guide for Effective Engagement and Voting Practices for Transition-Linked Equity Investments in Listed Companies

Contents

Executive Summary 1

Principles for Transition Investing 2

Benefits for adopting the Principles 7

Way forward 8

Annex I: How the Principles were developed 9

Annex II: Principles for Transition Investing justifications and policy relevance 10

Annex III: Contributors and Working Group Members 17

Executive Summary

The set of Principles developed by BETTER FINANCE and its Working Group Members, aims at standardising transition engagement practices for listed equity across the EU. The Principles emphasise **transparency, active engagement, and the importance of evidence-based escalation strategies**, targeted towards professional investors/ /asset managers/pension funds and their management entities, who wish to consider the perspectives of individual investors and better reflect environmental transition.

The Principles are aimed towards professional investors when they engage directly or via their management entities or professional proxy advisers, with issuers in which they invest on behalf of clients, with a focus on the environmental transition of these companies. Individual investors interested in general engagement guidelines, can find them here: BETTER FINANCE Voting Guidelines | Informed Shareholder Decisions

The Principles make one part of a report produced by BETTER FINANCE on "Shareholder engagement and transition of capital flows". The report provides a comprehensive analysis of shareholder engagement for transition investing as well as assessment of transition investing barriers and uptake of transition plans from companies. It is structured across five key chapters, each addressing critical aspects of shareholder engagement into transition strategies. Coordinated efforts from policymakers, professional investors, and corporate issuers to address existing barriers and promote effective environmental transition investing are instrumental to achieving a positive change. The proposed policy and practical recommendations are also accompanied with a set of Principles for Transition Investing, serving as a roadmap for achieving greater alignment between shareholder interests and corporate sustainability objectives.

Principles for Transition Investing

A guide for effective engagement and voting practices for transition-linked equity in listed companies

Authors:
Mariyan Nikolov, European Federation of Investors and Financial Services Users (BETTER FINANCE)

Contributors:
Andrea Baranes, Fondazione Finanza Etica
Christiane Hölz, Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW)
Guillaume Prache, Fédération des Associations Indépendantes de Défense des Épargnants pour la Retraite (FAIDER)
Mauro Meggiolaro, Shareholders for Change (SfC)

Acknowledgements:
A special thanks to **Emma Traoret** for contributing and coordinating the meetings as well as the **Working Group Observers** representing two European national Financial Market Authorities for their participation and insights in the first meeting of the group.

Contents

1. Background..
2. Purpose..
3. Target scope..
4. Terminology (non-exhaustive list)..
5. Principles for Transition Investing Engagement....................

Principle 1: Transparency of professional investors' transition plans and strategies..

Principle 2: Commitment to active engagement on transition linked equity..

Principles 3: Commitment to detailed application and disclosure of outcomes on escalation activities..

1. Background

1.1 Investor Stewardship Codes encourage professional investors (institutional investors and asset managers among others) to be open about their investment practices, actively engage with publicly listed companies they invest in, and participate in voting at shareholder meetings. By 2020, a total of 35 Stewardship Codes have been issued across 20 jurisdictions on six continents, and their proliferation continues into 2024. The significant increase in the adoption of Stewardship Codes, at international or regional levels, reflects their attractiveness, despite associated complexities.

1.2 These codes are voluntary and typically require investors wishing to adopt them to establish policies for engagement and voting in investee companies, publish these policies on their websites, and provide periodic reports on how the policies and principles were implemented during the most recent financial year. In the European Union, certain provisions recommended by these codes, along with making them accessible to clients and pension plan participants online, have become legally mandatory, but remain limited as a standard for investor engagement.

1.3 The goal of an Investor Stewardship Code is generally centered around promoting long-term value of companies and by extension shareholders among others. Stewardship is relevant for both active and passive strategies encompassing social and environmental tenets and promoting active ownership and engagement ensures accountability/transparency, while guiding investment management to fulfil their fiduciary duties to clients and pension plan participants.

1.4 Active engagement with investee companies is a powerful tool to drive change and transition. Stewards' monitoring on transition issues can lead either to formal or informal engagement with issuers, changes in governance and/or board management or to escalation and divestment from the relevant company as a last resort.

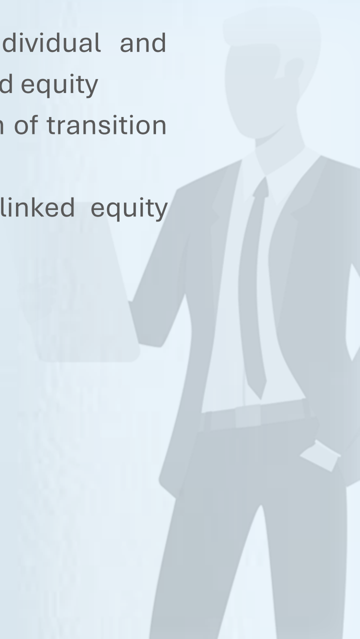
1.5 The Principles set forth in this document should be seen as an add-on of good practices focused specifically on transition-linked equity to existing codes that professional investors already apply. This would support a unified system which could better respond to individual and institutional investors' needs and preferences in relation to transition engagement activities and stimulate both professional investors and issuers' disclosure of transition efforts to a common standard.

2. Purpose

2.1 The Principles are set out as guidance for professional investors when they engage directly or via their management entities, with issuers in which they invest on behalf of clients, with a focus on the environmental transition of these companies. While it is possible to go beyond climate-related transition matters - by focusing on E S and G - the Principles set forth in this document do not encompass all sustainability-related issues. The Principles, cover topics in relation to transparency, engagement and voting, aiming to:

- promote active engagement for the interest of individual and institutional investors through the lens of transition-linked equity
- support investee transition plans and implementation of transition activities
- offer a unified engagement approach for transition-linked equity across the EU

3. Target scope



3.1 With the association of stewardship with engagement and voting, Investor Stewardship Codes have mostly been applied to professional holders/managers of listed equity. While it is possible to cover more asset classes than listed equity, the Principles set forth in this document do not go beyond that scope and only cover a small part of all possible practices needed to enhance long-term value for clients.

3.2 For the purposes of the Principles set forth in this document, “professional investors” includes investment firms (asset managers), life insurance and reinsurance companies and pension funds (IORPs in EU regulations). The possibility is left open for other entities, such as non-life insurance and reinsurance companies or other similar entities to also adopt the Principles if they so wish. In the case of occupational pension funds, the application of the Principles can be carried out through their management entities.

4. Terminology (non-exhaustive list)

4.1 Asset Manager

“asset manager” means an investment firm as defined in point (1) of Article 4(1) of Directive 2014/65/EU that provides portfolio management services to investors, an AIFM (alternative investment fund manager) as defined in point (b) of Article 4(1) of Directive 2011/61/EU that does not fulfil the conditions for an exemption in accordance with Article 3 of that Directive or a management company as defined in point (b) of Article 2(1) of Directive 2009/65/EC, or an investment company that is authorised in accordance with Directive 2009/65/EC provided that it has not designated a management company authorised under that Directive for its management;

4.2 Fiduciary relationship

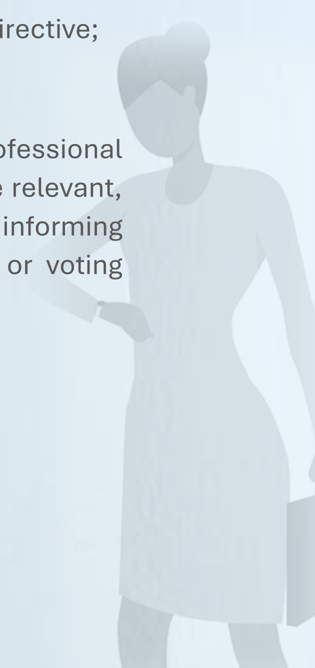
“fiduciary relationship” is not defined in a uniform way across EU law, however the concept often arises from common law traditions, and in this context it can be understood as a relationship between a person, the fiduciary, that holds someone else’s (the beneficiary) assets by means of trust or confidence. The fiduciary is required to act solely in that person's benefit and may not use the assets entrusted to it for its own purpose.

4.3 Institutional investor

“institutional investor” means: (i) an undertaking carrying out activities of life assurance within the meaning of points (a), (b) and (c) of Article 2(3) of Directive 2009/138/EC of the European Parliament and of the Council (***), and of reinsurance as defined in point (7) of Article 13 of that Directive provided that those activities cover life-insurance obligations, and which is not excluded pursuant to that Directive; (ii) an institution for occupational retirement provision falling within the scope of Directive (EU) 2016/2341 of the European Parliament and of the Council (****) in accordance with Article 2 thereof, unless a Member State has chosen not to apply that Directive in whole or in parts to that institution in accordance with Article 5 of that Directive;

4.4 Proxy adviser (‘professional proxy advisers’)

“proxy adviser” means a legal person that analyses, on a professional and commercial basis, the corporate disclosure and, where relevant, other information of listed companies with a view to informing investors’ voting decisions by providing research, advice or voting recommendations that relate to the exercise of voting rights;



5. Principles for Transition Investing Engagement

Principle 1: Transparency of professional investors' transition plans and strategies (asset managers/institutional investors, pension funds and their management entities)

Professional investors should be transparent towards their clients, pension plan participants and other beneficiaries with regards to their environmental and transition-linked plans, strategies and targets. As a minimum, they should:

a) Adopt and implement a transition plan and integrate it into investment strategies, policies and decisions.
b) Disclose how assets have been managed (ex post) in alignment with client/pension plan participant preferences regarding climate/transition in a timely manner.
c) Disclose an assessment of how investee companies and their directors should address their respective transition gaps.
d) Disclose how the integration of transition plan, strategies and targets informs monitoring and engagement efforts with investee companies.
e) Disclose whether an independent verification/audit of the transition plan/strategy has been implemented.

Principle 2: Commitment to active engagement on transition-linked equity

Professional investors should actively exercise their rights as shareholders in the companies in which they invest on behalf of their clients and pension plan participants. As a minimum, they should:

a) Develop and publish an engagement policy encompassing objectives on transition-linked equity with listed companies critical to the transition to a low-carbon economy.
b) Monitor investee companies' progress (short-, mid- and long-term) of transition goals/implementation of transition plans and science-based targets and enter dialogue with company's executive board when transition preferences and interests of clients and pension plan participants are considered to be at risk.
c) Exercise the right to vote at general meetings in line with own transition plan and engagement strategy, and when possible, consider utilising collaborative engagement with other investors.
d) Provide timely disclosure of voting positions to clients and pension plan participants, including rationale for the direction of the vote and how the voting policy has been applied on issues related to transition.
e) Disclose prominently the highest level of management responsible for the engagement practices and decisions.
f) Align own compensation structure or decision-making incentives with long-term transition outcomes with investee companies.
g) Consider abstaining or voting against management proposals/resolutions in cases where they are regarded as inconsistent with your own engagement policies and transition objectives.
h) Draft and submit proposals for AGMs encompassing material ESG and/or transition issues to align with clients and pension plan participants' interest.

Principle 3: Commitment to detailed application and disclosure of escalation policy, including outcomes on escalation activities.

Professional investors should adhere to escalation policy in a transparent and structured way when engagement does not result in sufficient company action, to enhance effective stewardship of clients and pension plan participants' interest. As a minimum, they should:

a) Provide a rationale for situations in which it is deemed appropriate to escalate the nature of actions vis-à-vis investee companies.
b) Develop and disclose an escalation plan including toolkit with each corresponding step, explaining how companies are selected for escalation, expected pace at which they will progress through escalation if there is no progress, and sanctioning measure such as capital allocation/reallocation and divestment as a last resort.
c) Disclose how escalation has differed among geographies or funds and report on outcomes of escalation activities.

Benefits for adopting the Principles

The 'Principles for Transition Investing Engagement' present a set of guidelines which contribute to setting a higher standard for engagement on transition within evolving European legislation. They merit adoption by professional investors and offer necessary flexibility in implementation to accommodate different professional investor capacities. For example, smaller professional investors should consider adopting at least two action points from Principle 1, four from Principle 2 and one from Principle 3 as a minimum, allowing scaling of implementation according to available resources.

The Principles are designed as an enhancement to existing stewardship codes rather than a replacement, acknowledging the established stewardship landscape (35 codes across 20 jurisdictions) while addressing the growing demand for transition-specific guidance. By positioning themselves as an "add-on," the Principles integrate seamlessly with existing structures, which in turn minimises additional administrative burdens.

The Principles help in creating a balanced approach that allows professional investors to demonstrate leadership, while maintaining compliance with existing requirements and enhancing preparedness to any new legislative requirements. Providing enhanced guidance on transition-specific matters, the Principles support evolving ESG and climate-related regulations in a structured approach. Adoption could also result in enhanced long-term value through reduced transition-related risks.

Enhanced standardisation of engagement practices for transition-linked equity contributes to greater market stability by creating clearer expectations and processes for transition-related discussions between companies and investors. This predictability helps companies plan for their transition and capital allocation decisions with greater confidence, while also supporting more stable relationships with their investor base. The result is a more efficient market for transition-focused investment and corporate adaptation to climate challenges, which in turn promotes sustainable business practices. By providing a clear path forward for professional investors seeking to enhance their approach to transition-related engagement, the Principles emphasise transparency and strengthens client relationships, providing lasting benefits that outweigh implementation costs, if any.

The business case for professional investor adoption of 'Principles for Transition Investing Engagement', can signal a commitment to long-term value creation through structured engagement, as well as enhance operational benefits and market positioning among others:

- Demonstrates proactive approach to transition risk, impacts and opportunities management
- Enhanced transparency and accountability to clients and pension plan participants, and other beneficiaries more broadly
- Structured approach to managing transition-related risks, impacts and opportunities
- Early identification of transition risks through active engagement
- Clear expectation for engagement, voting, escalation procedures, and interaction with investee companies
- Supports dialogue with clients about their transition objectives
- Demonstrates systematic approach to protecting clients' interests and those of wider beneficiaries
- Enhanced standardisation of approach to transition-linked equity engagement across the EU

The uptake of transition-linked equity guidance and best practices by professional investors can also positively affect issuers and their capital allocation. Companies may be faced with increasing pressure to maintain access to capital markets, but a standardised engagement framework for transition-linked equity creates predictability in investor expectations and requirements. When professional investors adopt consistent approaches to transition engagement, companies can better anticipate and prepare for information requests and develop more efficient processes for disclosure, engagement, and transition planning while maintaining market access.

A unified engagement mechanism helps companies better understand and manage transition risks. Clear expectations from investors regarding transition planning enable companies to develop more robust strategies and risk management approaches. The Principles' emphasis on structured escalation procedures also provides companies with a better understanding of potential consequences of inaction, supporting better strategic decision-making and resource allocation for transition initiatives.

As regulatory requirements for climate-related disclosure and transition plans evolve, professional investors that have already adapted to minimum standardised engagement practices for transition-linked equity will be better prepared to respond to mandatory requirements. The Principles' additional aim is setting a higher standard for engagement on transition and shaping potential future legislative enhancements across relevant laws (SRD II, SFDR, CSDDD, CSRD/ESRS). Aligning with the guidance for transition-linked equity can help both professional investors applying the Principles, as well as companies that engage with adoptees of the Principles, plan for the transition and stay ahead.

However, the 'Principles for Transition Investing Engagement' only cover transition-linked equity in listed companies and does not provide comprehensive stewardship practices that go beyond. As such, the Principles reflect guidance for only one type of asset class and only one type of transition-related consideration - climate. Other asset classes such as hedge funds, fixed-income instruments and private markets as well as non-investee stakeholders like policymakers, industry groups and others, present more comprehensive elements, which should be considered for an all-encompassing engagement practice that protects and enhances overall long-term value for clients and pension plan participants and supports sustainable transition

Way forward

Building upon the extensive work of the Working Group on 'Transition Investing Engagement', a clear path forward emerges for implementing and scaling the Principles across the European investment landscape. The first phases could focus on early adoptees among professional investors, who can demonstrate the practical application of the Principles and provide valuable insights for broader market adoption. In parallel, assessing how the Principles can inform and enhance existing and upcoming regulatory frameworks under SFDR, SRD II, CSRD/ESRS, and CSDDD, would help professional investors prepare for a balanced voluntary and mandatory regulatory requirement. To facilitate successful implementation, it is recommended to:

- Develop a monitoring system to track adoption rates and implementation challenges and a platform for sharing regular review and updates of the Principles based on market feedback and evolving best practices learned among adopters.
- Development of practical implementation guides tailored to different types and sizes of professional investors

Annex I: How the Principles were developed

Despite the great importance the EU attaches to corporate governance and shareholder engagement, the degree of interest towards transition planning and real economy impact is yet to materialise. This stems from the barriers to shareholder rights (voting, resolution filing, etc.) on one side and unsubstantiated, unclear and too vague transition plans from companies on another, as found from our report. While the EU legal framework and processes sought to facilitate shareholder engagement, and strengthen shareholders' rights as owners of companies, there are numerous instances where shareholders' rights are impaired or denied.

Although studies point towards the clear link between a successful transition to a net-zero trajectory and effective engagement, little exploration has so far been undertaken into the internal capacities of companies to make such progress, let alone the specific differences between direct (where the legal holder is also the economic or beneficial holder) and indirect (where the legal holder is not the economic one, but the one who manages the stock portfolios or supervises the managers of the stock portfolios) shareholder influence on developing transition plans.

Transition finance frameworks and guidelines often lack a unified engagement mechanism to assess and compare whether engagement practices have a correlation with the transitioning of companies' business models. BETTER FINANCE's research into the need for unified engagement practices is evidenced through interviews and focus groups between individual investors and asset managers across the EU. The analysis is centred around individual investor needs, regulatory challenges and opportunities as well as market uptake, particularly regarding engagement, encompassing "Say on Climate" and transition plans.

In response to the current research gap and preferences for better substantiated engagement practices, BETTER FINANCE also created a Working Group composed of Members and Observers, including individual investor representatives, NGOs, proxy representatives and institutional investor groups among national authorities for the financial markets.

The working group contributed expertise and knowledge to assist BETTER FINANCE with the objective identifying solutions to address the gap in unified engagement mechanisms, by articulating EU-level guidance. In the context of the European Commission's Transition Finance Recommendation, emphasising the importance of such investments for Europe's pursuit of environmentally conscious goals, transition finance remains as means of engaging Working Group provide a significant contribution.

The working group (WG) met between July 2024 and January 2025 to discuss engagement strategies, and escalation approaches, and to provide input to the Principles.

SRD II

The SRD was first introduced in 2007, aiming to improve shareholder engagement and transparency. This Directive establishes rules promoting the exercise of shareholder rights at general meetings of companies with registered offices in the EU and the shares of which are admitted to trading on a regulated market in the EU.

In 2017, SRD was revised to encourage long term shareholder engagement, that is to ensure that decisions are made for the long-term stability of a company and consider environmental and social issues. As such, SRD II defines the minimum requirements for the transmission of information to and from shareholders through intermediaries. These include how and when they should send information to clients.

Articles on Engagement

*Article **1*** **- Subject-matter and scope**

1. This Directive establishes requirements in relation to the exercise of certain shareholder rights attached to voting shares in relation to general meetings of companies which have their registered office in a Member State and the shares of which are admitted to trading on a regulated market situated or operating within a Member State. It also establishes specific requirements in order to encourage shareholder engagement, in particular in the long term. Those specific requirements apply in relation to identification of shareholders, transmission of information, facilitation of exercise of shareholders rights, transparency of institutional investors, asset managers and proxy advisors, remuneration of directors and related party transactions.

*Article **3a*** **– Identification of shareholders**

4. The personal data of shareholders shall be processed pursuant to this Article in order to enable the company to identify its existing shareholders in order to communicate with them directly with the view to facilitating the exercise of shareholder rights and shareholder engagement with the company.

Without prejudice to any longer storage period laid down by any sector-specific Union legislative act, Member States shall ensure that companies and intermediaries do not store the personal data of shareholders transmitted to them in accordance with this Article for the purpose specified in this Article for longer than 12 months after they have become aware that the person concerned has ceased to be a shareholder.

Member States may provide by law for processing of the personal data of shareholders for other purposes.

*Article **3g*** – **Engagement policy**

1. Member States shall ensure that institutional investors and asset managers either comply with the requirements set out in points (a) and (b) or publicly disclose a clear and reasoned explanation why they have chosen not to comply with one or more of those requirements.

(a) Institutional investors and asset managers shall develop and publicly disclose an engagement policy that describes how they integrate shareholder engagement in their investment strategy. The policy shall describe how they monitor investee companies on relevant matters, including strategy, financial and non-financial performance and risk, capital structure, social and environmental impact and corporate governance, conduct dialogues with investee companies,

exercise voting rights and other rights attached to shares, cooperate with other shareholders, communicate with relevant stakeholders of the investee companies and manage actual and potential conflicts of interests in relation to their engagement.

(b) Institutional investors and asset managers shall, on an annual basis, publicly disclose how their engagement policy has been implemented, including a general description of voting behaviour, an explanation of the most significant votes and the use of the services of proxy advisors. They shall publicly disclose how they have cast votes in the general meetings of companies in which they hold shares. Such disclosure may exclude votes that are insignificant due to the subject matter of the vote or the size of the holding in the company.

2. The information referred to in paragraph 1 shall be available free of charge on the institutional investor's or asset manager's website. Member States may provide for the information to be published, free of charge, by other means that are easily accessible online.

Where an asset manager implements the engagement policy, including voting, on behalf of an institutional investor, the institutional investor shall make a reference as to where such voting information has been published by the asset manager.

3. Conflicts of interests rules applicable to institutional investors and asset managers, including Article 14 of Directive 2011/61/EU, point (b) of Article 12(1) and point (d) of 14(1) of Directive 2009/65/EC and the relevant implementing rules, and Article 23 of Directive 2014/65/EU shall also apply with regard to engagement activities.

Article ***3i – Transparency of asset managers***

1. Member States shall ensure that asset managers disclose, on an annual basis, to the institutional investor with which they have entered into the arrangements referred to in Article 3h how their investment strategy and implementation thereof complies with that arrangement and contributes to the medium to long-term performance of the assets of the institutional investor or of the fund. Such disclosure shall include reporting on the key material medium to long-term risks associated with the investments, on portfolio composition, turnover and turnover costs, on the use of proxy advisors for the purpose of engagement activities and their policy on securities lending and how it is applied to fulfil its engagement activities if applicable, particularly at the time of the general meeting of the investee companies. Such disclosure shall also include information on whether and, if so, how, they make investment decisions based on evaluation of medium to long-term performance of the investee company, including non-financial performance, and on whether and, if so, which conflicts of interests have arisen in connection with engagements activities and how the asset managers have dealt with them.

CSDDD

The aim of this Directive is to foster sustainable and responsible corporate behaviour in companies' operations and across their global value chains. These rules will ensure that companies in scope identify and address adverse human rights and environmental impacts of their actions inside and outside Europe.

This Directive establishes a **corporate due diligence duty**. This duty requires companies to identify and address human rights and environmental impacts across their operations, subsidiaries, and value chains. In addition, the Directive sets out an obligation for large companies to implement a transition plan for climate change

mitigation aligned with the Paris Agreement's 2050 climate neutrality goal and intermediate targets under the European Climate Law.

The CSDDD defines "responsible disengagement" but excludes financial sector downstream activities like investing and lending. For now, the sector is limited to applying due diligence to their operations and upstream supply chains and must align business models with the Paris Agreement. A review may later expand their scope pending impact assessment.

The Directive, in force since July 2024, must be transposed into national law by 2026. Its rules will gradually apply from 2027, with full implementation by July 2029.

Articles on Engagement

Article ***5*** **– Due diligence**

1. *Member States shall ensure that companies conduct risk-based human rights and environmental due diligence as laid down in Articles 7 to 16 ('due diligence') by carrying out the following actions:*

   [...]

   (e) carrying out meaningful engagement with stakeholders in accordance with Article 13;

Article ***13*** **– Meaningful engagement with stakeholders**

1. Member States shall ensure that companies take appropriate measures to carry out effective engagement with stakeholders, in accordance with this Article.

2. Without prejudice to Directive (EU) 2016/943, when consulting with stakeholders, companies shall, as appropriate, provide them with relevant and comprehensive information, in order to carry out effective and transparent consultations.

Without prejudice to Directive (EU) 2016/943, consulted stakeholders shall be allowed to make a reasoned request for relevant additional information, which shall be provided by the company within a reasonable period of time and in an appropriate and comprehensible format. If the company refuses a request for additional information, the consulted stakeholders shall be entitled to a written justification for that refusal.

3. Consultation of stakeholders shall take place at the following stages of the due diligence process:

(a) when gathering the necessary information on actual or potential adverse impacts, in order to identify, assess and prioritise adverse impacts pursuant to Articles 8 and 9;

(b) when developing prevention and corrective action plans pursuant to Article 10(2) and Article 11(3), and developing enhanced prevention and corrective action plans pursuant to Article 10(6) and Article 11(7);

(c) when deciding to terminate or suspend a business relationship pursuant to Article 10(6) and Article 11(7);

(d) when adopting appropriate measures to remediate adverse impacts pursuant to Article 12;

(e) as appropriate, when developing qualitative and quantitative indicators for the monitoring required under Article 15.

4. Where it is not reasonably possible to carry out effective engagement with stakeholders to the extent necessary to comply with the requirements of this Directive, companies shall consult additionally

with experts who can provide credible insights into actual or potential adverse impacts.

5. In consulting stakeholders, companies shall identify and address barriers to engagement and shall ensure that participants are not the subject of retaliation or retribution, including by maintaining confidentiality or anonymity.

6. Member States shall ensure that companies are allowed to fulfil the obligations laid down in this Article through industry or multi-stakeholder initiatives, as appropriate, provided that the consultation procedures meet the requirements set out in this Article. The use of industry and multi-stakeholder initiatives shall not be sufficient to

Article ***19*** **– Guidelines**

1. In order to provide support to companies or to Member State authorities on how companies should fulfil their due diligence obligations in a practical manner, and to provide support to stakeholders, the Commission, in consultation with Member States and stakeholders, the European Union Agency for Fundamental Rights, the European Environment Agency, the European Labour Authority, and where appropriate with international organisations and other bodies having expertise in due diligence, shall issue guidelines, including general guidelines and sector-specific guidelines or guidelines for specific adverse impacts.

2. The guidelines to be issued pursuant to paragraph 1 shall include:

(a) guidance and best practices on how to conduct due diligence in accordance with the obligations laid down in Articles 5 to 16, particularly, the identification process pursuant to Article 8, the prioritization of impacts pursuant to Article 9, appropriate measures to adapt purchasing practices pursuant to Article 10(2) and Article 11(3), responsible disengagement pursuant to Article 10(6) and Article 11(7), appropriate measures for remediation pursuant to Article 12, and on how to identify and engage with stakeholders pursuant to Article 13, including through the notification mechanism and complaints procedure established in Article 14;

Articles on Transition

Article ***1*** **– Subject matter**

1.This Directive lays down rules on:

c) the obligation for companies to adopt and put into effect a transition plan for climate change mitigation which aims to ensure, through best efforts, compatibility of the business model and of the strategy of the company with the transition to a sustainable economy and with the limiting of global warming to 1,5 C in line with the Paris Agreement.

Article **6 – Due diligence support at a group level**

1.Member States shall ensure that parent companies falling under the scope of this Directive are allowed to fulfil the obligations set out in Articles 7 to 11 and Article 22 on behalf of companies which are subsidiaries of those parent companies and fall under the scope of this Directive, if this ensures effective compliance. This is without prejudice to such subsidiaries being subject to the exercise of the supervisory authority's powers in accordance with Article 25 and to their civil liability in accordance with Article 29.

2. The fulfilment of the due diligence obligations set out in Articles 7 to 16 by a parent company in accordance with paragraph 1 of this Article shall be subject to all of the following conditions: (a) the subsidiary and parent company provide each other with all the necessary information and cooperate to fulfil the obligations resulting from this Directive; (b)

the subsidiary abides by its parent company's due diligence policy accordingly adapted to ensure that the obligations laid down in Article 7(1) are fulfilled with respect to the subsidiary; (c) the subsidiary integrates due diligence into all its policies and risk management systems in accordance with Article 7, clearly describing which obligations are to be fulfilled by the parent company, and, where necessary, so informs the relevant stakeholders; (d) where necessary, the subsidiary continues to take appropriate measures in accordance with Articles 10 and 11 and to fulfil its obligations under Articles 12 and 13; (e) where relevant, the subsidiary seeks contractual assurances from a direct business partner in accordance with Article 10(2), point (b), or Article 11(3), point (c), seeks contractual assurances from an indirect business partner in accordance with Article 10(4) or Article 11(5) and temporarily suspends or terminates the business relationship in accordance with Article 10(6) or Article 11(7).

3. Where the parent company fulfils the obligation set out in Article 22 on behalf of the subsidiary in accordance with paragraph 1 of this Article, the subsidiary shall comply with the obligations laid down in Article 22 in accordance with the parent company's transition plan for climate change mitigation accordingly adapted to its business model and strategy.

*Article **19*** – **Guidelines**

1. In order to provide support to companies or to Member State authorities on how companies should fulfil their due diligence obligations in a practical manner, and to provide support to stakeholders, the Commission, in consultation with Member States and stakeholders, the European Union Agency for Fundamental Rights, the European Environment Agency, the European Labour Authority, and where appropriate with international organisations and other bodies having expertise in due diligence, shall issue guidelines, including general guidelines and sector-specific guidelines or guidelines for specific adverse impacts.

2. The guidelines to be issued pursuant to paragraph 1 shall include:

(b) practical guidance on the transition plan as referred to in Article 22;

*Article **22*** – **Combating climate change**

1.Member States shall ensure that companies referred to in Article 2(1), points (a), (b) and (c), and Article 2(2), points (a), (b) and (c), adopt and put into effect a transition plan for climate change mitigation which aims to ensure, through best efforts, 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 o C in line with the Paris Agreement and the objective of achieving climate neutrality as established in Regulation (EU) 2021/1119, including its intermediate and 2050 climate neutrality targets, and where relevant, the exposure of the company to coal-, oil- and gas-related activities.

The design of the transition plan for climate change mitigation referred to in the first subparagraph shall contain:

(a) time-bound targets related to climate change for 2030 and in five-year steps up to 2050 based on conclusive scientific evidence and, where appropriate, absolute emission reduction targets for greenhouse gas for scope 1, scope 2 and scope 3 greenhouse gas emissions for each significant category;

(b) a description of decarbonisation levers identified and key actions planned to reach the targets referred to in point (a), including, where appropriate, changes in the product and service portfolio of the company and the adoption of new technologies;

(c) an explanation and quantification of the investments and funding supporting the implementation of the transition plan for climate change mitigation; and

(d) a description of the role of the administrative, management and supervisory bodies with regard to the transition plan for climate change mitigation.

2. Companies that report a transition plan for climate change mitigation in accordance with Article 19a, 29a or 40a, as the case may be, of Directive 2013/34/EU shall be deemed to have complied with the obligation to adopt a transition plan for climate change mitigation referred to in paragraph 1 of this Article.

Companies that are included in the transition plan for climate change mitigation of their parent undertaking reported in accordance with Article 29a or 40a, as the case may be, of Directive 2013/34/EU, shall be deemed to have complied with the obligation to adopt a transition plan for climate change mitigation referred to in paragraph 1 of this Article.

3. Member States shall ensure that the transition plan for climate change mitigation referred to in paragraph 1 is updated every 12 months and contains a description of the progress the company has made towards achieving the targets referred to in paragraph 1, second subparagraph, point (a).

*Article **25*** **– Powers of supervisory authorities**

1. Member States shall ensure that the supervisory authorities have adequate powers and resources to carry out the tasks assigned to them under this Directive, including the power to require companies to provide information and carry out investigations related to compliance with the obligations set out in Articles 7 to 16. Member States shall require the supervisory authorities to supervise the adoption and design of the transition plan for climate change mitigation in accordance with the requirements provided for in Article 22(1).

*Article **36*** **– Review and reporting**

1. The Commission shall submit a report to the European Parliament and to the Council on the necessity of laying down additional sustainability due diligence requirements tailored to regulated financial undertakings with respect to the provision of financial services and investment activities, and the options for such due diligence requirements as well as their impacts, in line with the objectives of this Directive. The report shall take into account other Union legislative acts that apply to regulated financial undertakings. It shall be published at the earliest possible opportunity after 25 July 2024, but no later than 26 July 2026. It shall be accompanied, if appropriate, by a legislative proposal.

2. By 26 July 2030, and every three years thereafter, the Commission shall submit a report to the European Parliament and to the Council on the implementation of this Directive and its effectiveness in reaching its objectives, in particular in addressing adverse impacts. The report shall be accompanied, if appropriate, by a legislative proposal. The first report shall, inter alia, assess the following issues:

(e) whether the rules on combatting climate change provided for in this Directive, especially as regards the design of transition plans for climate change mitigation, their adoption and the putting into effect of those plans by companies, as well as the powers of supervisory authorities related to those rules, need to be revised;

SFDR

Under the EU's sustainable development agenda, the SFDR is intended to increase transparency on sustainability among financial institutions and market participants. By setting out how financial market participants have to disclose sustainability information, it helps investors to make informed choices and compare them when seeking to invest sustainably. The regulator's core focus is to protect investors from false or misleading statements on sustainability. The SFDR enables investors to assess sustainability risk integration in investment decisions, supporting the EU's goal of attracting private funding for a net-zero economy transition.

The Regulation requires financial market participants and advisers to disclose sustainability-related information for both ESG and non-ESG products. It introduces two key sustainable disclosure categories: Article 9 for highly sustainable products and Article 8 for other sustainability-related products. Entities must classify offerings into three categories: mainstream products, products promoting environmental or social characteristics, or products with sustainable investment objectives.

The EU Commission is assessing the SFDR framework, focusing on legal clarity, usability, and its role in addressing greenwashing. However, political uncertainty may delay its further development. Expected the review to be proposed Q2 2025.

Articles on Engagement

Article 4 – **Transparency of adverse sustainability impacts at entity level**

1. Financial market participants shall publish and maintain on their websites:

(a) where they consider principal adverse impacts of investment decisions on sustainability factors, a statement on due diligence policies with respect to those impacts, taking due account of their size, the nature and scale of their activities and the types of financial products they make available; or

(b) where they do not consider adverse impacts of investment decisions on sustainability factors, clear reasons for why they do not do so, including, where relevant, information as to whether and when they intend to consider such adverse impacts.

2. Financial market participants shall include in the information provided in accordance with point (a) of paragraph 1 at least the following:

(c) brief summaries of engagement policies in accordance with Article 3g of Directive 2007/36/EC, where applicable;

Annex III: Contributors and Working Group Members

- **Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW)** is Germany's leading shareholder association, representing the interests of private investors and promotes good corporate governance. With nine regional offices throughout Germany and about 30,000 members DSW provides investor education, supports shareholder engagement, works to strengthen investor influence in corporate decision-making and represents the interests of individual investors at roughly 600 AGMs per year. With the aim to foster a culture of responsible investment and improve financial literacy, DSW contributes to sustainable and well-functioning financial markets in Germany and beyond.

- **FAIDER—Fédération des Associations Indépendantes de Défense des Épargnants pour la Retraite** is a French federation representing savers, pensioners, and life insurance policyholders. It works to safeguard the rights and interests of individual savers by advocating for transparent, fair, and sustainable financial and insurance markets. FAIDER's work is focused on engaging with policymakers, promoting financial education, and supporting informed decision-making for individuals planning their financial futures.

- **Fondazione Finanza Etica** is a non-profit organization dedicated to promoting ethical and sustainable finance. Established by Banca Etica with the aim to promote ethical finance and social responsibility beyond the banking sector, Fondazione Finanza Etica conducts research, organizes campaigns, and fosters education to raise awareness about the social and environmental impacts of financial practices.

- **Shareholders for Change (SfC)** is a European network of institutional investors committed to promoting sustainable and responsible investment practices. Its goal is to drive positive change by engaging with companies on critical environmental, social, and governance (ESG) issues and advocating for greater corporate accountability. Shareholders for Change achieve its mission by engaging directly with companies on critical ESGs, fostering collaborative actions through its network, launching targeted campaigns, advocating to policymakers, and undertaking research of ESG topics.

About BETTER FINANCE

BETTER FINANCE, the European Federation of Investors and Financial Services Users, is the public interest nongovernmental organisation dedicated exclusively to representing the interests of European citizens as financial services users vis-à- vis legislators and the public, by promoting research, information and education on investments, savings and personal finances.

Through its member organisations, BETTER FINANCE represents over 4 million private, non professional investors and shareholders. BETTER FINANCE acts as an independent financial expertise and advocacy centre to the direct benefit of European financial services users. Its activities are supported by the European Union since 2012.

The writing and publication of this report is co-funded by the European Union. There is no implied endorsement by the EU or the European Commission of work carried out by BETTER FINANCE, which remains the sole responsibility of BETTER FINANCE.

BF BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers