Transition Investing:

Key Challenges and Opportunities

2024 Report

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

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Executive summary

The global financial landscape is increasingly focusing on transition investing, a strategic approach to channelling capital towards aspiring sustainable economic activities. This paper provides an overview of the current state, challenges, and opportunities in transition investing, with a particular emphasis on European markets and retail investor perspectives. BETTER FINANCE also assesses transition finance from the lens of financial institutions and industries, whereby a large disparity between investments in green, sustainable and transition tools can be observed. Some of the key findings in this paper include:

- **Market growth and potential in 2024**
  - EU climate benchmark funds grown by €135 billion
  - Taxonomy-aligned CapEx increased by €58 billion
  - EU accounts for 84% of global sustainable fund assets

- **Investor awareness and challenges**
  - While most investors are familiar with transition investing, approximately one-third remain unaware of the concept
  - Lack of commonly accepted transition definitions
  - Insufficient regulatory requirements
  - Risks of "transition-washing"
  - Inconsistent reporting by financial institutions

- **Recommendations from retail Investors**
  - Improve communication and clarity about transition investing
  - Develop a unified engagement mechanism
  - Introduce a dedicated transition category for financial products
  - Harmonize existing legislation to increase transparency and trust

Evolution of transition investing

The concepts of transition financing and transition investing are mainly connected with the financing or investing in projects and economic activities, which support the transition to a more sustainable economy, away from heavily polluting industries and activities. Electricity and heat production are some of the largest contributors to global greenhouse gas emissions (GHG), closely followed by transport, manufacturing, construction and agriculture.[1]

However, it is important to differentiate between high-emitting activities and companies, as well as the role they have in supporting the transition to a net-zero trajectory. For instance, fossil fuel power generation may not be compatible with a sustainable economic model, but the companies operating in the gas and oil sectors possess the financial means to invest in renewable infrastructure and become key drivers of transition, pending certain conditions.

In order for transition investing to become a truly effective tool which can transform economies, while remaining aligned with scientific principles and environmental goals, it should be coupled with credible transition plans, capital expenditure (CapEx) and GHG emission reduction targets, as well as compatibility with 1.5° climate goal.

According to the European Commission Recommendation[2], transition finance means "financing investments that are compatible with and contributing to the transition" while avoiding lock-in, including:

a) investments in portfolios tracking EU Climate Transition Benchmarks and EU Paris-Aligned Benchmarks ('EU climate benchmarks');

b) investments in Taxonomy-aligned economic activities, including: transitional economic activities for the climate mitigation objective, and investments geared to make economic activities becoming Taxonomy-aligned over a period of maximum five years (exceptionally 10);

c) investments in undertakings or economic activities with a credible transition plan at the level of the undertaking or at activity level;

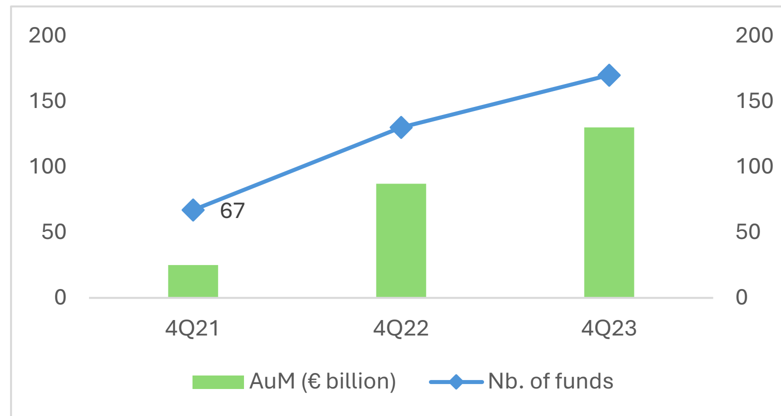
d) investments in undertakings or economic activities with credible science-based targets, where proportionate, that are supported by information ensuring integrity, transparency and accountability.

Since 2021, assets under management within EU equity and bond funds tracking EU climate benchmarks have grown by €135 billion in 2024.[3] The EU's Climate-Transition Benchmark (CTB) and the Paris-aligned Benchmark (PAB) jointly exceed €180 billion in assets under management (AUM) to date.[4]

Similarly, capital investments into Taxonomy-aligned activities have increased in 2024 compared to the previous year. In 2023, approximately 600 European companies reported capital investments into Taxonomy-aligned activities totalling €191 billion[5]. So far in 2024, companies have reported €249 billion, signalling a significant growth.[6]

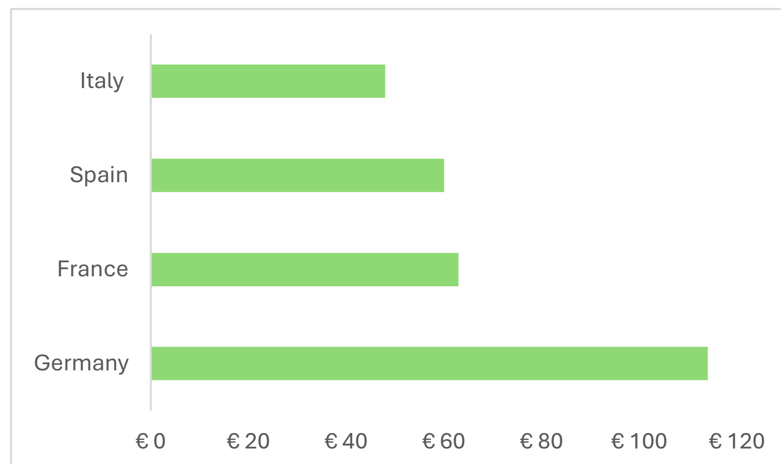
[1] IEA (2023), *CO2 Emissions in 2022*, IEA
[2] Commission Recommendation (EU)2023/1425 on facilitating finance for the transition
[3] ESMA (2024), TRV Risk Monitor, No.2
[4] Commission (2024), EU Taxonomy's uptake on the ground, Factsheet
[5] ibid.
[6] ibid.

Chart 1, Funds tracking EU climate benchmarks



Source: ESMA TRV 2024, own composition

Chart 2, EU Taxonomy-aligned investments of companies (bn)



Source: European Commission 2024, own composition

Over the last few years, funds tracking EU climate benchmarks have been growing at 94% in 2022 in comparison to the previous year, and 31% in 2023.[7] A climate benchmark is defined as an investment benchmark that incorporates specific objectives related to GHG emission reductions and the transition to a low carbon economy, based on the scientific evidence of the Intergovernmental Panel on Climate Change (IPCC). Both EU Climate Transition Benchmarks (EU CTB) and EU Paris-Aligned Benchmark (EU PAB), have the same criteria focussed on decarbonisation, but the thresholds are different. While there is no universally accepted definition for 'transition' funds, according to ESMA, there are currently 136 EU funds that have a reference to 'transition' in their name. Such funds have received €13mn more in net cumulative inflows over the last two years in comparison to 'green' funds.[8]

The recent European Commission factsheet showcases the market's uptake of the EU Taxonomy. Public entities and other market participants are increasingly using the EU's Taxonomy for their business strategies, transition planning and investing and lending activities. For example, around 20% of companies' capital investments are now aligned with the EU Taxonomy, where the utilities sector is leading the way. For financial years 2022 and 2023, companies located in Germany have reported the highest taxonomy-aligned investments, followed by France, Spain and Italy. However, despite such progress the EU Taxonomy remains underdeveloped and limited in scope. Additionally, despite the FAQs published by the European Commission, uncertainties regarding the interpretation of the Taxonomy Regulation are persistent and yet to be fully addressed.[9]

[7] ESMA, op. cit., p 32

[8] ibid.

[9] Commission (2024), Frequently asked questions on the EU taxonomy, FAQ

Credible science-based targets

As Europe strives to achieve climate neutrality by 2050, companies and financial institutions must prepare transition plans to meet net-zero objectives. While not yet mandatory, transition plans are becoming critical forward-looking tools that enable organisations to define their targets, required financing, milestones, activities, processes, and resources. These plans, as part of an organization's broader strategy, may also address transitions toward broader environmental goals.[10]

A transition plan's credibility can be enhanced if adopted by the organisation's management and includes a clear framework of short-, medium-, and long-term targets and actions. This should be accompanied by the allocation of resources needed to implement those targets effectively and consistently, while avoiding long-term reliance on greenhouse gas-intensive or environmentally harmful activities, considering asset lifetimes.

Organisations may also pursue science-based transition targets to secure transition finance without a formal transition plan. However, this approach requires proportionality to the company's size and must be backed by transparent and credible information to ensure the integrity of the targets and actions to achieve them.

In practice however, this means that companies present transition plans and their level of compatibility with the 1.5° climate target. Instead, companies should be encouraged to algin and not only communicate how their targets compare to the Paris Agreement's objectives, and ensure their approach is parallel to that of latest scientific developments.

Transition plan requirements in the EU...

Various EU legislations serve distinct yet complementary objectives vis-a-vis transition. A non-exhaustive list of such legislations covering transition plans include:

- The Corporate Sustainability Reporting Directive (CSRD) creates an obligation to companies to disclose non-financial information. Banks and insurers for example are required to report transition plans if they have them and provide explanations in cases where they do not have such plans yet. The CSRD is underpinned by the concept of 'double materiality' whereby an assessment is made by companies to determine which sustainability matters are 'material' and therefore reportable.

- The European Sustainability Reporting Standards (ESRS), developed by the European Financial Reporting Advisory Group (EFRAG), detail how companies must report on sustainability risks and impact to comply with the CSRD and aim to confirm details on the targets to be disclosed in transition plans and the progress made in implementing them.

- The Corporate Sustainability Due Diligence Directive (CSDDD) establishes a corporate due diligence duty. Among its provisions, it sets out an obligation for companies in scope to adopt a transition plan for climate change mitigation aligned with the 2050 climate neutrality objective of the Paris Agreement as well as intermediate targets under the European Climate Law.

[10] CBI (2023), Guidance to assess transition plans, Pathways

- The EU Taxonomy is a fundamental element of the EU's sustainable finance framework and a crucial tool for market transparency. It guides investments toward the economic activities essential for the transition, aligning with the objectives of the European Green Deal. Metrics provided by the EU Taxonomy, such as turnover, CapEx, and OpEx, reveal how climate mitigation plans are integrated into the company's financial planning. These metrics enable companies to demonstrate how investments and operational expenditures support alignment with climate change mitigation goals.

- The Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR) implement the global Basel III standards on bank capital into EU law, establishing a framework that enhances corporate governance arrangements and processes. These measures also set rules to elevate the role of risk management and ensure effective oversight by risk supervisors. Within this framework, the EBA proposed risk-based transition plans under CRD/CRR in its consultation paper on Draft Guidelines for ESG Risk Management.[11]

- The Solvency II Directive (SII) establishes the prudential framework for insurance and reinsurance undertakings in the EU, aiming to ensure sufficient protection for policyholders and beneficiaries. Although Solvency II does not require transition plans with specific emissions targets, it obligates European insurers to create prudential plans and targets that address climate change-related risks.

- The EU Green Bond Standard (EGBS) relies on the criteria of the EU taxonomy to define green economic activities. Issuers that want to label their green bonds as EuGB, have to follow a set of specific criteria and disclose information on their use of proceeds, as well as when they publish transition plans, how proceeds contribute to implementing and funding such plans.

- The Sustainable Finance Disclosure Regulation (SFDR) imposes mandatory ESG disclosure obligations for asset managers and other financial markets participants in relation to sustainability risks, the consideration of adverse sustainability impacts in their investment processes and the provision of sustainability-related information with respect to financial products.

    - *While the SFDR was originally intended as a disclosure requirement, to eliminate the risk of misuse as a label, the European Commission launched a targeted consultation in 2023, to assess the merits of the introduction of a formal categorisation system and/or an indicator of sustainability for financial products to allow for simplified disclosures that empower retail investors to better understand the underlying sustainability profile of financial products. One of the proposed categories in the revised SFDR refers to 'transition product', for products that invest in economic activities / assets that are not yet sustainable, but which improve their sustainability over time to become environmentally or socially sustainable.*

[11] EBA (2024), Consultation on draft Guidelines on the management of ESG risks, Closed

...and beyond

In October 2021, the UK government released the Greening Finance Roadmap[12], indicating its intent to enhance sustainability reporting requirements for companies, including the publication of climate transition plans. In response, the Transition Plan Taskforce (TPT)[13] was established to unite leaders from industry, academia, and regulators to develop best practices for transition plan disclosures in finance and the real economy. The TPT was also tasked with engaging non-UK governments and regulatory networks to support discussions on creating shared baselines and principles for transition planning. The International Sustainability Standards Board (ISSB)[14] has since taken on the TPT's disclosure-related materials and is exploring their integration into its sustainability disclosure standards.

The TPT Disclosure Framework and accompanying TPT Implementation Guidance offer a detailed set of tools to assist companies in creating and disclosing forward-looking transition plans. Additionally, in 2023, the UK Government's Green Finance Strategy announced plans for a market-led review to expand transition finance in the UK, aiming to help companies domestically and internationally secure the capital required to decarbonise and achieve net zero goals. In response, the Transition Finance Market Review[15] was initiated, identifying obstacles to scaling transition finance, including but not limited to lack of long-term regulatory and policy certainty, definitions of transition financing and risk of greenwashing and reputational damage linked with transition activities and entities, all of which are pertinent barriers to the global transition investing market.

In the US, the Securities and Exchange Commission (SEC)[16] has adopted final rules to improve and standardise climate-related disclosures by public entities and in public offerings, requiring climate risk disclosures in SEC filings such as annual reports and registration statements. A transition plan is a key element of an entity's climate risk management strategy, alongside tools like scenario analyses or internal carbon pricing, enabling entities to showcase their climate change mitigation or adaptation efforts.

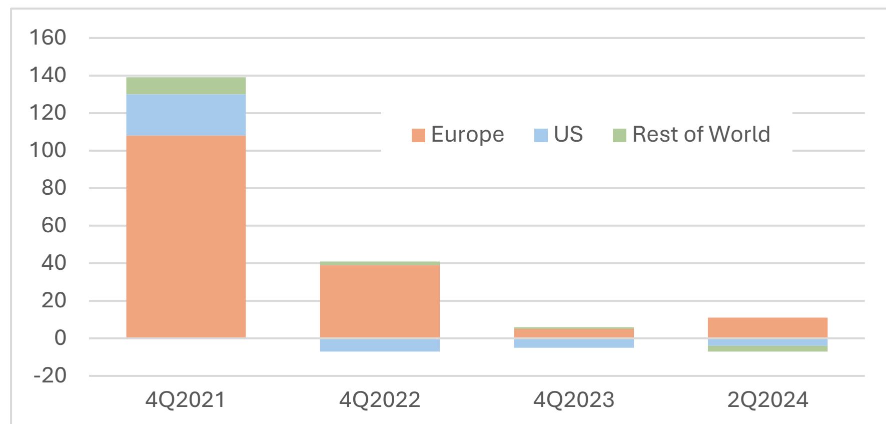
Under SEC rules, adopting a transition plan is optional, and no disclosure is required if a registrant does not have one. Additionally, the SEC does not mandate any specific climate-related risk practices, strategies, or tools. However, if an entity adopts a transition plan, disclosure of relevant information becomes mandatory to enhance the usefulness of the data for investors, enabling them to more consistently and predictably assess the plan's impact on operational outcomes and financial condition.

In 2023, CDP Worldwide reported that over 5,900 companies had a climate transition plan aligned with a 1.5°C target, marking a 44% increase from 2022.[17] In 2023, a record of more than 23,000 companies disclosed through CDP, up 24% over the prior year, and representing companies worth $67 trillion, or more than 66% of global market capitalisation. However, only a limited number of companies met the grade of disclosing information for all 24 key indicators CDP has judged as vital for a credible plan, which confirms the current gaps in action.

[12] HM Treasury (2021), Greening Finance, a roadmap to sustainable investing, Policy paper
[13] ITPN (2022), Transition plan taskforce, Legacy
[14] IFRS (2021), International Sustainability Standards Board, IFRS Sustainability
[15] TFMR (2024), Transition Finance Market Review, Report
[16] SEC (2024), Enhancement and standardization of climate-related disclosures, Final rules
[17] CDP (2024), Climate Transition Plan Disclosure, Report

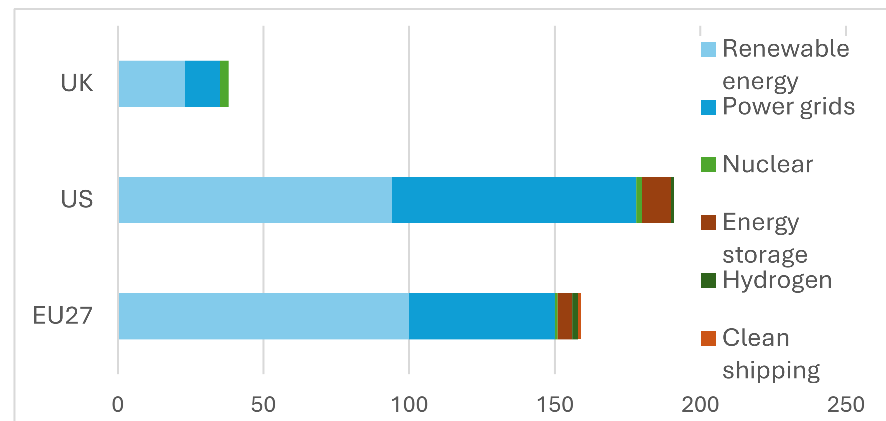
Global overview of sustainable and transition investing

Chart 3, Sustainable fund flows among regions (bn)



Source: Morningstar, ESMA 2024, own composition

Chart 4, Distribution of transition investments in energy 2023 (bn)



Source: BloombergNEF 2023, own composition

Sustainable finance holds significant potential to channel capital toward green and climate-related activities and markets worldwide, including in Europe, contributing to the global transition to climate neutrality. The global sustainable fund market includes open-end funds and exchange-traded funds that, as stated in their prospectuses or regulatory filings, prioritize sustainability, impact, or environmental, social, and governance (ESG) factors. This global market is divided into three regions: Europe, the United States, and the Rest of the World. Europe remains the largest market for sustainable funds, accounting for 84% of global sustainable fund assets, followed by the United States at 11%.[18] However, ESG investing and the growth of ESG markets has levelled off especially in comparison to previous years.

The US, alongside the EU, is one of the largest funding centers for energy transition technologies. However, to align with the Paris Agreement, annual investments in electrified transport, renewable energy, energy storage, and power grids must more than double from 2024 to 2030.[19] The energy transition involves a wide range of sectors and companies beyond pure-play clean energy firms. Utilities, banks, governments, and other corporations raise funds to support deploying clean energy assets, constructing manufacturing facilities, and advancing research and development. Financial institutions, particularly banks, play a key role in securing funds, often through labelled green debt, to lend to energy transition-focused clients, but despite their financial capacity and resilience, targeted policy measures are needed.[20]

[18] Morningstar (2024), Global ESG funds, Q3

[19] CAN Europe (2024), Wired for climate neutrality, Report

[20] ECB (2024), Can our financial system support the green transition when the going gets tough?, ECB blog

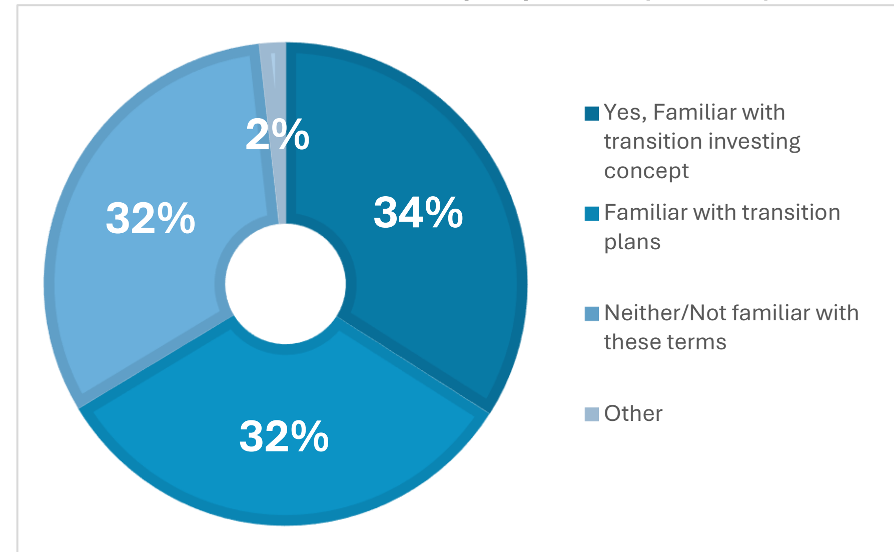
Retail investor perspectives on transition

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 a relatively new phenomenon for retail investors. With numerous studies[21][22] pointing 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.

Coupled with various transition finance frameworks and guidelines which bear no legal requirements, the financial sector and its users (citizens as long-term and pension savers and investors) are in desperate need of clarity regarding how to measure, compare and drive the net-zero targets forward.

Together with Place des Investisseurs, Deutsche Schutzvereinigung für Wertpapierbesitz and New Savers, BETTER FINANCE assessed retail investors' interest and support of transition plans through a large and independent individual investors' survey. Feedback from French, German and Italian retail investors, also extended to include perspectives from institutional investors, and proxy (representatives). The full report, detailing uptake of transition from financial institutions and retail investors will be available in January 2025.

Chart 5, Distribution of transition perspectives (FR,DE,IT)



Are you aware of what transition investing and transition plans mean?

In response to the first question of the survey, on aggregated level encompassing 1028 respondents, though a relative even split, most respondents felt familiar with transition investing and transition plans. However, a third of retail investors are still unaware of what those terms mean, which confirms some of the key obstacles to transition investing as a result - lack of clarity and not enough capital supporting transition activities. The evident need for improved engagement, coupled with the difficulty in clearly differentiating between transition investments vs investments made in high-emitting assets that are not transitioning, reinforces the claims linked to regulatory requirements being able to alleviate such barriers and prevent "transition washing".

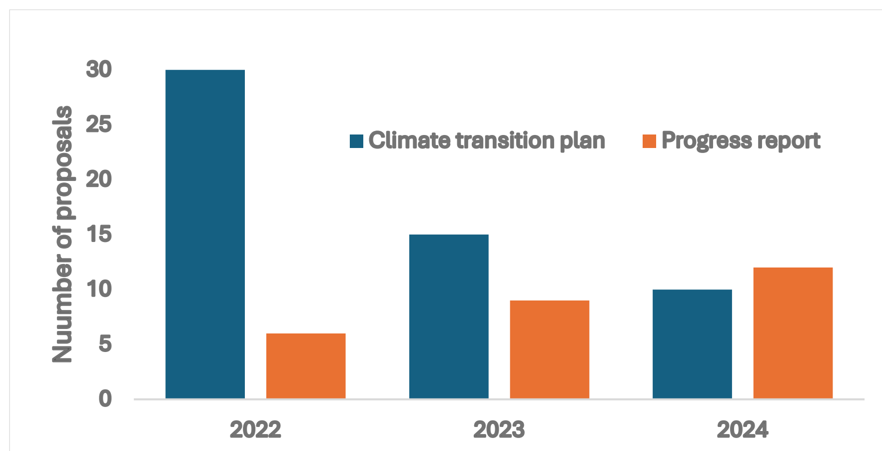
[21] 2investing initiative (2024), A changing climate…for investor engagement on transition plans, Report

[22] Bauer, Rob et al. (2023) Private Shareholder Engagements on Material ESG Issues, Financial Analysts Journal

Engagement and trends in European AGM season 2024

Engaging with companies provides investors with a means to improve their long-term investment performance by gaining deeper understanding of key ESG issues affecting these businesses. It also allows for an assessment of the strategies companies use to tackle these challenges. Engagement remains essential regardless of the topic, serving as a core tool for investors to influence company business models and align them with net-zero pathways. By leveraging strategies such as stewardship, capital allocation, and collaboration with policymakers, investors can drive meaningful changes in the practices and outcomes of companies and other assets. This approach can also influence the broader systems in which companies and investors operate, promoting more favourable sustainability outcomes and impacts.

Chart 6, Breakdown of Say on Climate Votes



Source: Georgeson 2024, own composition

Retail investors expect 'green' products to deliver green objectives and in a similar way those interested in transition assets, would expect transition to be the key outcome. Apart from having an important role towards the facilitation of clean energy transition, transition investing can allow companies in high-emitting sectors, like fossil fuels to access capital for investments that can reduce their environmental footprint. These investments could include funding for renewable energy projects, carbon capture and storage technologies, or research and development of cleaner production processes.

However, this is more challenging for retail investors to support directly, since their involvement with transition assets are driven mainly via asset managers and proxy representatives, who operate on their behalf and can engage directly with their investments with highly emitting companies and ultimately, influence the sustainability of the companies' business models. While there is an evident need for improved communication from companies towards asset managers, retail investors require more accessible explanations and increased frequency of discussions on climate and transition resolutions during general meetings for example.

The recent report conducted by Georgeson, identifies some of the key trends in 2024 European AGM season, whereby the quality of climate transition plans and progress reports provided by companies has decreased since 2022.[23] Similarly, there is a decline in number of Say on Climate resolutions submitted by European companies for a second year in a row. In addition, the number of environmental and social related shareholder proposals put forward by companies declined in comparison to previous years.

[23] Georgeson (2024), European AGM Season Review, Report

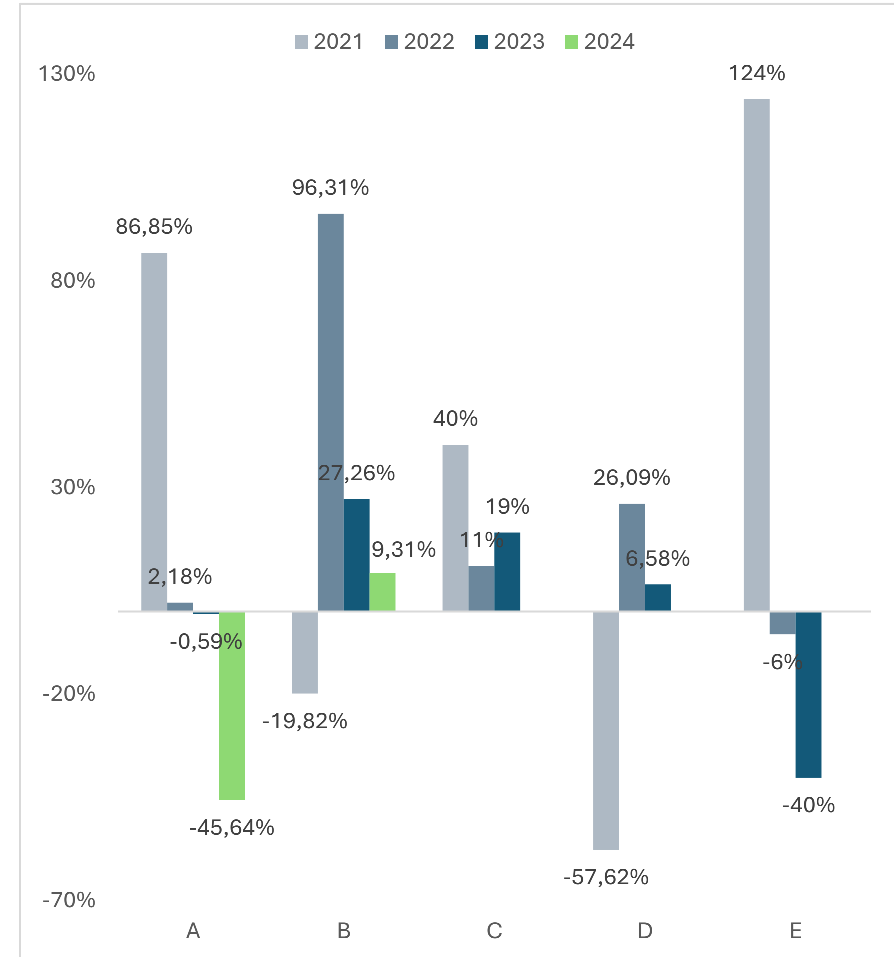
Transition of financial institutions and industries: case study

Looking at transition finance from the lens of financial institutions and industries, a large disparity between investments in green, sustainable and transition tools can be observed, which limits the scope of quantifying concretely what role and importance is attributed to transition finance by itself. To find out, we took a closer look at the reporting of 5 large companies encompassing banks, insurance providers and independent asset managers. The data used comes from annual reports and the respective home markets of these companies include the UK, Spain, France and Italy. The five companies were selected due to their geographical scope of operations as well as their top performance in terms of profits from within their respective industries.[24]

The companies under scope report on collective investments that encompass green, sustainability linked and transition financing and often refer to this type of investments as Socially Responsible Investments (SRI). Despite some of their reporting on specific transition tools, for example issuing of transition bonds, the majority of SRI investments are focused on the green element, which leaves limited scope for a fully developed strategy on financing the transition of highly emitting industries and sectors.

Company A reduced its SRI related investments by -45% in 2024 when compared to the previous year, while Company B's SRI related investments grew by over 9% for the same period. At the time of writing the remainder of the Companies in scope had not reported for 2024.

Chart 7, Changes in SRI related investments (%) per company



Source: Companies' Annual Reports 2021-2024, own composition

[24] The companies under scope include HSBC, Santander, AXA Group, Generali and Amundi. The A,B,C,D and E represent the companies (in no particular order). Annual reports, sustainability reports and any other reporting materials can be found online on their respective websites.

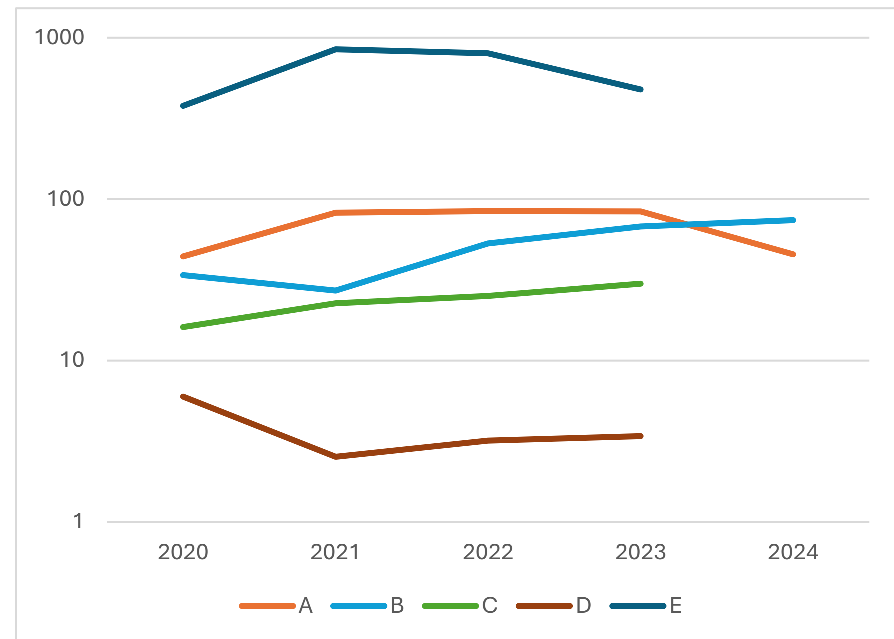
Scope of the case study research

The research of the five companies aims to provide insights into the trends of SRI related investments by some of the key players in the financial sector known for their international business operations. Analysing SRI related information from companies for the financial years 2020 – 2024, comes from dedicated sustainability reports as well as annual reports, where we focused primarily on the reported expenditures pertaining to green, sustainable, transition and responsible investments, under the umbrella term of SRI investments.

The main challenge linked to this research comes from the lack of consistency in the way SRI investments are reported from companies. While dedicated sustainability reports present the key figures of capital expenditure in such activities, the variety of interpretation of SRI is a key detriment in collecting and assessing all companies in scope in a proportionate approach. Company C for example, exclusively defines its SRI linked activities with the words of 'responsible', while Company A and E refer to 'sustainable' activities, with case studies pointing towards 'responsible' projects they are supporting in any given year.

While each company under scope has a different baseline for SRI related investments, for example ranging from as low as €5,9bn in one, to as high as €378bn in another in 2020, the figures in 2024 have a much smaller gap, where one reports on €46bn in such investments and the other €74bn. Since not all companies under scope have reported SRI investments in 2024 the findings are inconclusive for a comprehensive comparison, but shed light on the current declining trend of SRI investments from the institutional perspective. To support continued support and growth of SRI investments that come from the institutional investors and industries, policy makers should ensure further clarity and consistency with climate linked legislations in the years ahead.

Chart 8, Trends in SRI related investments per company (bn)



Source: Companies' Annual Reports 2020-2024, own composition

With the companies in scope (A-E), three invested greater capital in SRI related investments in 2021 in comparison to 2020, while the other two decreased amounts either slightly (Company B), or significantly (Company D). Similarly, between 2021 to 2023, three of the companies continued with increased SRI related investments, while the other two remained unchanged, with slight decrease as seen from Company E. Data availability for 2024 covers only two of the companies, which either increased (Company B) or decreased (Company A) their respective SRI related investments. While the baseline range for companies' SRI investments represents a large difference (billions to hundreds of billions), on aggregate level the trends represent positive insights for green, sustainable and transition investing, grouped as SRI.

Key barriers to transition investing

- **Lack of commonly accepted transition definitions**

Various definitions of transition finance have been put forth by governments and others, with the common denominator being that of keeping global warming to 1.5 °C. However, a globally accepted definition should also include transition pathways with a sectoral and regional perspectives without jeopardising levels of transition efforts.

- **Lack of long-term climate and transition uptake**

Both climate and transition capital are dependent on demand on one side and a policy landscape which incentivises and supports such investments on another. Policy frameworks create long-term commitments to green transition, but governments should abstain politicising such topics, to avoid extreme changes in policy actions.

- **Lack of assurance on transition plans**

Information in transition plan disclosures varies significantly. Independent third-party assurance can serve to support the consistency, comparability and reliability of transition plan information provided to the market, and in the context of investor and user demand for reliable climate-related disclosures, such assurance is key.

- **Lack of regulatory requirements on engagement practices**

Institutional investors can significantly influence corporate behaviour by using their voting rights and engaging with companies to guide the economy toward more sustainable practices. However, existing disclosure requirements lack comparability and do not sufficiently encourage active engagement, disadvantaging retail investors.

- **Lack of due diligence obligations for the financial sector**

The Paris Agreement recognises financial institutions as key contributors to the transition towards a carbon-neutral economy. However, the EU's CSDDD excludes financial institutions from due diligence obligations to identify, mitigate, and address potential adverse human rights or environmental impacts.

- **Risk of transition-washing, liability and reputational damages**

Concerns about liability risks impact the extent of forward-looking information that companies are willing to disclose, despite such information being considered by investors as particularly useful when assessing transition plans and climate strategies. Such hesitation could be overcome with guidelines and best practice templates.

- **Perceptions of decarbonisation vs CapEx**

The prevalent narrative of solely reducing emissions performance of a portfolio of activities, and how this evolves over time, could dampen positive outcome of capital expenditure towards green activities from companies in highly emitting sectors. However, both decarbonisation of core activities and CapEx in green assets are key drivers of net-zero.

- **Lack of regulatory labelling/requirements linked to transition**

One of the proposed categories in the revised SFDR refers to 'transition product', for products that invest in economic activities / assets that are not yet sustainable, but which improve their sustainability over time to become environmentally or socially sustainable. However, this legislation is not yet agreed and does not provide clarity on how it could link with other international transition labels for example.

Recommendations: retail investors’ perspectives

- **Transition investing clarity**

Retail investors require improved communication, explanations and increased frequency of discussions on transition finance and investing to stimulate demand, but also enable those interested retail investors to align their savings and investments with such transition assets.

- **Unified engagement mechanism**

Existing provisions on engagement practices remain underdeveloped, which hinders active engagement and retail investors’ long-term influence. Introducing a mandate for a unified engagement mechanism, would ensure common practices and evaluation of engagement, reduce greenwashing and enable timely phase-out of highly emitting sectors without risking creating stranded assets.

- **Transition category for financial products**

Retail investors struggle to understand the different sustainability objectives without minimum requirements and safeguards, thus introducing transition category for financial products encompassing investment funds, life insurance and pension products can enable retail investors to better understand the role of such investments.

- **Reviewing and harmonising existing legislation**

Ensuring consistency with existing pieces of legislation and the way transition plan requirements for companies are presented (for example common template), and the way categories of financial products are communicated to retail investors (for example ensuring Key Information Documents and MiFID II Guidelines on sustainability preferences), can increase trust and demand from the consumer side.

With a growing interest in transition finance, individual investors identify company’s reporting on sustainability practices, carbon footprint and commitments to reduce GHG emissions over time as important elements to their investment decisions.[25] There is an opportunity to offer individual savers and investors the chance of participating in the transition if they wish to do so, by allowing them to align all or part of their savings and investments with their personal preferences. Whether through retail savings accounts, or investment products, the incorporation of transition finance remains increasingly important to retail investors.

Annex I Transition plan requirements in the EU

- Corporate Sustainability Reporting Directive (CSRD)
- European Sustainability Reporting Standards (ESRS)
- Corporate Sustainability Due Diligence Directive (CSDDD)
- EU Taxonomy for sustainable activities (Taxonomy)
- Capital Requirements Directive (CRD)
- Capital Requirements Regulation (CRR)
- Solvency II Directive (SII)
- EU Green Bond Standard (EGBS)
- Sustainable Finance Disclosure Regulation (SFDR1)

[25] Morgan Stanley (2024), Sustainable signals: understanding individual investors' interests and priorities, Report

About BETTER FINANCE

BETTER FINANCE, the European Federation of Investors and Financial Services Users, is the public interest nongovernmental organisation advocating and defending the interests of European citizens as financial services users at the European level to lawmakers and the public in order to promote research, information and training on investments, savings and personal finances. It is the one and only European-level organisation solely dedicated to the representation of individual investors, savers and other financial services users.

BETTER FINANCE acts as an independent financial expertise and advocacy centre to the direct benefit of European financial services users. Since the BETTER FINANCE constituency includes individual and small shareholders, fund and retail investors, savers, pension fund participants, life insurance policy holders, borrowers, and other stakeholders who are independent from the financial industry, it has the best interests of all European citizens at heart. As such its activities are supported by the European Union since 2012.

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