

The transition plan under CRD VI:

From regulatory compliance to strategic resilience

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Entering a new era of prudential supervision

On 11 January 2026, a subtle yet profound shift will occur in the prudential supervision of European banks. Under the revised Article 76(2) of the Capital Requirements Directive VI⁽¹⁾, every EU credit institution will be required to prepare specific plans that include quantifiable targets and processes to monitor and address the financial risks arising in the short, medium and long term from environmental, social and governance (ESG) factors. These plans are usually referred to as the prudential transition plan.

This requirement, further elaborated in the EBA's 2025 Guidelines on the Management of ESG Risks, introduces a long-term perspective on prudential requirements, explicitly linking financial resilience with the short, medium and long-term transition to a climate-neutral economy. Unlike disclosure-oriented plans under the Corporate Sustainability Reporting Directive (CSRD) or Corporate Sustainability Due Diligence Directive (CSDDD) that focus more on decarbonization and alignment with climate goals and rather act as marketing or reputational instruments, the prudential transition plan is a supervisory tool that will be reviewed under the supervisory review and evaluation process (SREP) and that must withstand the same degree of scrutiny as capital and liquidity planning.

In effect, the EBA has placed the transition to a sustainable economy squarely within the scope of prudential regulation, a conceptual move that will redefine how banks think about risk, strategy and time.

Governance and the central role of the CRO

At the heart of the new regime lies governance. Recent publications issued by the EBA⁽²⁾ and the ECB⁽³⁾ detailing supervisory expectations in terms of internal governance are explicit: the management body bears ultimate responsibility for defining and approving the transition plan, ensuring that it aligns with the institution's risk appetite, business model and long-term viability. Yet, while the Board sets the tone, the Chief Risk Officer (CRO) becomes the conductor of this new prudential symphony.

From guardian to strategist

Traditionally, the CRO's mission has been to safeguard stability by quantifying and mitigating risks. According to EBA's proposed rules, that mandate expands. Today, the CRO is expected to link ESG transition dynamics with the bank's financial architecture, translating climate trajectories, regulatory pathways, and technological shifts into forward-looking implications for credit, market, and operational risk.

This means developing a comprehensive ESG risk taxonomy, mapping transition and physical risks to traditional categories, and designing the scenarios and methodologies that will underpin the plan. The risk function must define plausible orderly, disorderly, and delayed-transition scenarios, drawing on credible sources such as the Network for Greening the Financial System (NGFS), the International Energy Agency (IEA), or the Intergovernmental Panel on Climate Change (IPCC), and calibrating them over at least a



carried out to comply with this circular—which will be amended or replaced following the transposition EBA Guidelines—should be fully leveraged in the development of the transition plan.

Re-allocate: Aligning portfolios with transition pathways

The EBA guidelines require banks to embed long-term transition trajectories into strategic planning. In practice, this translates into portfolio realignment, such as "portfolio tilting" strategies: progressively increasing exposure to renewable energy, energy-efficient housing or electric mobility, while gradually reducing carbon-intensive lending. Scenario analysis enables banks to test how different allocation choices affect profitability and risk over time.

Re-invent: New products and client engagement

Transition planning also stimulates innovation. Banks can design "transition-linked" loans whose interest margins adjust to clients' emissions performance or provide advisory services helping SMEs to decarbonize. Such innovations convert regulatory obligation into commercial opportunity.

For large institutions, the prudential plan becomes a strategic instrumental way to differentiate competitive positioning by demonstrating that the business model itself is resilient in a 1.5°C world.⁽⁴⁾

Leveraging on other applicable sustainability reporting framework

The multiplicity of ESG regulations can easily lead to fatigue. Yet, when approached strategically, other applicable sustainability reporting frameworks can become powerful enablers of the prudential transition plan. The EBA encourages institutions to reuse data already collected under other sustainability reporting framework - including but not limited to CSRD, CSDDD and Pillar 3 disclosures - to support prudential objectives. As the CSRD and the EU Taxonomy is undergoing revision through the proposed Omnibus package, the near-term priorities for European banks will be the development of the prudential transition plan. Key elements such as emissions inventories can directly inform the transition plan's materiality assessment and key metrics. This approach creates a single, consistent data backbone enhancing both transparency and risk management.

Typical structure of a transition plan under CRD VI and the principle of proportionality

As per the guidelines of the EBA, the structure of the transition plan could be organized alongside the following five major domains.

Section	Purpose and key contents
1. Strategic objectives and roadmap	Defines purpose, scope, time horizon and governance. Demonstrates board oversight, committee structure and review cycles. Provides a high-level narrative linking ESG risk management to strategic vision.
2. Targets and metrics	Sets measurable objectives and interim milestones—such as financed-emissions reduction, Green Asset Ratio trajectory, exposure to transition-ready clients, and establishes early-warning indicators.
3. Governance	Describes methodology for identifying material ESG risk drivers, mapping them to exposures and business lines, and presents key findings (e.g. sectors contributing > 80 % of transition risk).
4. Implementation strategy	Outlines how the bank will achieve its strategic objectives across core banking activities in the short, medium, and long term, including targets related to risk management and decision-making
5. Engagement Strategy	Provides a description of the bank's policies for engaging with counterparties and stakeholders including the scope, frequency, actions and escalation.

ten-year horizon, as mandated by CRD VI. But the CRO is more than a modeler; the role must evolve into an enabler of strategic dialogue, leveraging insights from stress testing and scenario analysis to shape portfolio choices, pricing, capital allocation, and client engagement.

The important role of the other internal control functions

The compliance function, as the other key component of the second line of defense, ensures consistency between the transition plan and other sustainability-related public disclosures, guarding against "greenwashing by inconsistency." The internal audit function, meanwhile, is expected to perform independent assurance over the entire governance chain—from data lineage to model validation—confirming that ESG risk management is subject to the same rigor as credit and market risk.

Within the ECB's risk-culture framework, the transition plan becomes a litmus test of an institution's values. Boards and executives are expected to foster a culture where long-term resilience takes precedence over short-term yield. Incentives, training and tone-from-the-top will thus be decisive in determining whether the plan is lived or merely written.

Integrating transition planning with business strategy

A credible transition plan cannot be an annex to the risk framework; it must sit at the core of the business strategy. A three-step approach to build a strong transition plan, and turning ESG risk into strategic advantage is outlined below.

Diagnose: Understanding exposures and dependencies

The starting point is a complete materiality assessment. Banks must map their sectoral, geographical and counterparty exposures to transition and physical risk drivers. A Northern European lender, for instance, may find high exposure to manufacturing clients dependent on fossil-intensive supply chains. A Southern bank may be more vulnerable to physical climate shocks affecting agricultural portfolios. This diagnostic phase goes beyond quantitative analysis, it also assesses strategic dependencies by identifying which business segments are likely to grow, stagnate, or decline across different transition scenarios.

In Luxembourg, such an assessment was already required under CSSF Circular 21/773 on the management of climate-related and environmental risks. The work

What distinguishes a mature plan is not its length but its integration. The Transition Plan should be woven into the bank's existing management cycles—such as budgeting, ICAAP review, product planning—so that transition risk considerations inform decisions rather than follow them.

Yet, the principle of proportionality should apply as supervisory authorities recognize that not all institutions face the same materiality of ESG risks or possess equivalent resources.

For significant institutions (SIs)

Large, complex banks supervised directly by the ECB will be expected to implement comprehensive, quantitatively robust transition plans as from January 2026. Their transition plan should include multi-scenario modelling, granular sector-level analyses, and explicit integration into ICAAP and capital planning. They will likely be subject to on-site supervisory reviews, and the results could inform Pillar 2 capital guidance.

These institutions are also expected to demonstrate innovation: developing proprietary transition-risk models, integrating carbon pricing into credit decisions, and deploying advanced analytics to monitor client alignment.

For less significant institutions (LSIs)

Smaller banks are not exempt but may adopt a qualitative, proportionate approach. They also have more time: their transition plan should be in place by January 2027. Scenario analysis may focus on a single baseline and one adverse path. Instead of complex quantitative models, LSIs may outline qualitative processes for client engagement, policy limits, and exposure monitoring.

However, proportionality does not mean leniency. The EBA reminds that even small and non-complex institutions are not immune to ESG risks, particularly those concentrated in local economies or sectors vulnerable to climate shocks. Every institution must therefore be able to demonstrate awareness, governance and action commensurate with its risk profile.

Conclusion

The introduction of prudential transition plans marks an important milestone in European banking. For the first time, the regulatory framework explicitly recognizes that the sustainability of the economy and the soundness of the banking system are inseparable.

Banks that treat it as another reporting obligation may soon discover that the real risk is not regulatory but strategic. Those that embrace this reform will indeed find that it offers more than compliance; it provides a structured lens through which to anticipate change, manage uncertainty, and capture new growth opportunities.

1) Transposed in Luxembourg via the revised Article 53-12 of the Law on Financial Sector, as proposed of the Draft bill 8627.
2) EBA's revised Guidelines on Internal Governance (CP/2025/20)
3) ECB's Draft Guide on Governance and Risk Culture (2024)
4) A 1.5°C world refers to a future scenario in which global average temperatures have risen by no more than 1.5 degrees Celsius above pre-industrial levels. It's a central concept in climate policy and science, especially since the Paris Agreement (2015), where countries committed to limiting global warming to "well below 2°C" and to pursue efforts to keep it to 1.5°C.

Gilles Roth en mission financière à Londres :

« Connecter les marchés pour restaurer la compétitivité européenne »

Dans le cadre d'une mission financière organisée avec Luxembourg for Finance (LFF), le ministre des Finances, Gilles Roth, s'est rendu à Londres le 11 novembre.

Au cours de son déplacement, Gilles Roth a rencontré des représentants d'acteurs majeurs du secteur financier britannique afin d'échanger sur les enjeux de compétitivité et d'intégration des marchés financiers européens. Les entreprises rencontrées ont souligné leur intention de poursuivre et d'intensifier le développement de leurs activités européennes à partir du Luxembourg.

Le ministre a également participé à un dîner de haut niveau organisé par le Financial Times, en



partenariat avec LFF, rassemblant des décideurs internationaux du secteur.

Lors de son intervention, Gilles Roth a rappelé l'importance du partenariat entre le Luxembourg et le Royaume-Uni et a appelé à faire de la diversité européenne un véritable moteur de compétitivité à l'international. Il a insisté : « L'Europe ne manque ni d'idées, ni de talents, ni d'épargne. Ce qui lui manque, c'est l'échelle. Nous devons connecter nos marchés et permettre à l'innovation et au capital de circuler librement à travers les frontières ».

Le ministre a également souligné que la supervision centralisée n'est pas la bonne voie pour y parvenir. « Ce dont nous avons besoin, c'est de confiance, de cohérence et de convergence

des pratiques de supervision, et non de nouvelles couches de bureaucratie. L'objectif doit être d'élargir les marchés et de stimuler la croissance, pas d'alourdir les institutions ». Il a conclu en invitant à renforcer la confiance et l'intégration afin de restaurer la compétitivité et le leadership économique de l'Europe.

Au cours de la mission, le ministre a également participé en direct à l'émission « The Opening Trade » sur Bloomberg (cf. photo), où il a souligné l'urgence pour l'Europe de renforcer sa compétitivité face à des besoins d'investissement sans précédent—de la transformation numérique à la transition énergétique et à la défense. Il a mis en avant le rôle essentiel du centre financier international et transfrontalier du Luxembourg pour mobiliser ces capitaux.